

BRUSSELS ECONOMIC FORUM

26.5.2010

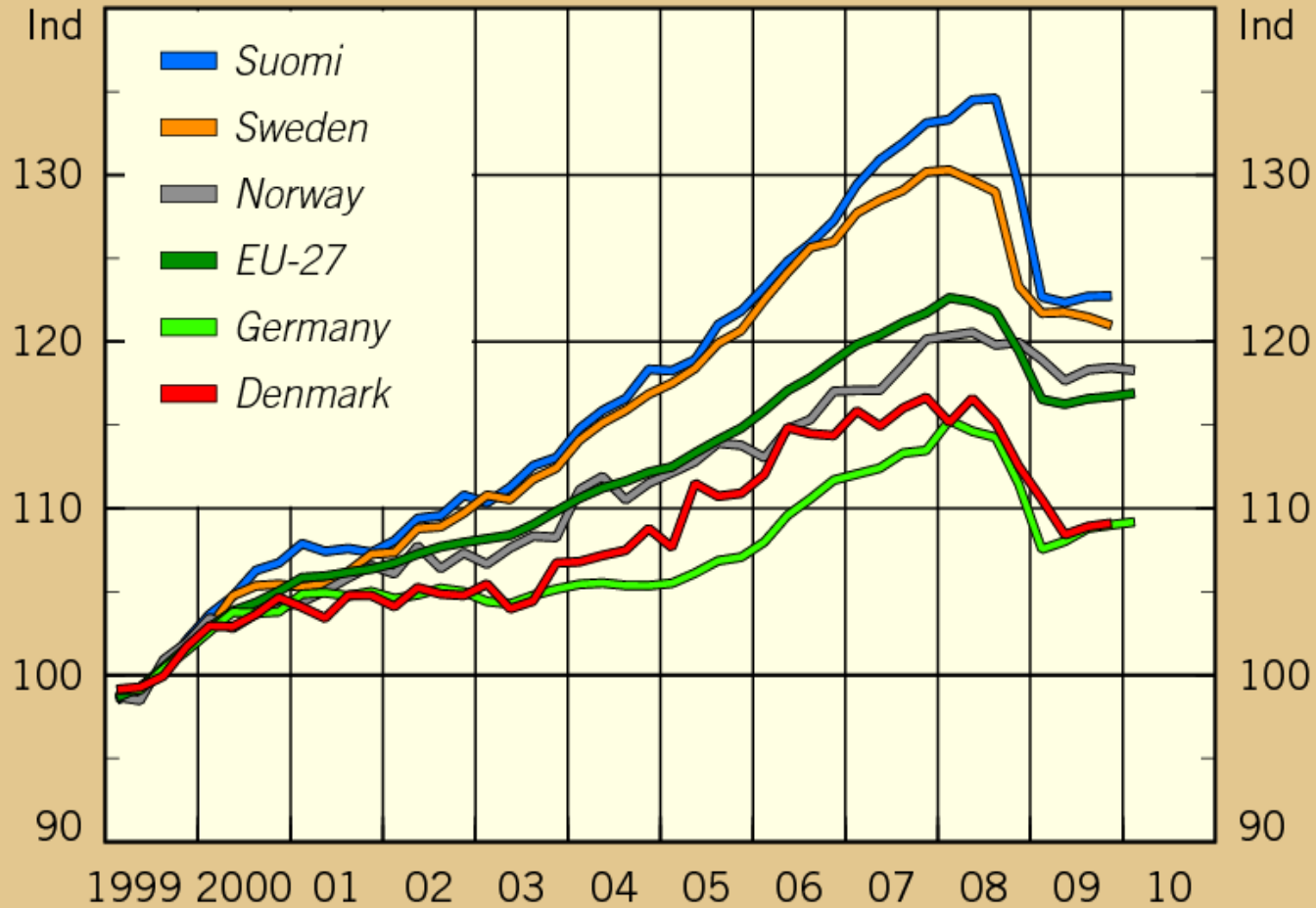
Session III: Exit the crisis – building the economic future of Europe

Part 2: ensuring Europe's economic future – ways of raising Europe's growth potential, creating more jobs and becoming more innovative

Sixten Korkman: A Nordic perspective



GDP at constant prices, 1999=100



Analysis of the Nordic experiences (ETLA-reports):

- *Nordics in Global Crisis: Vulnerability and Resilience*

by T. Gylfason, B. Holmström, S. Korkman, H. Söderström, V. Vihriälä

- *The Nordic Model: Embracing Globalization and Sharing Risks*

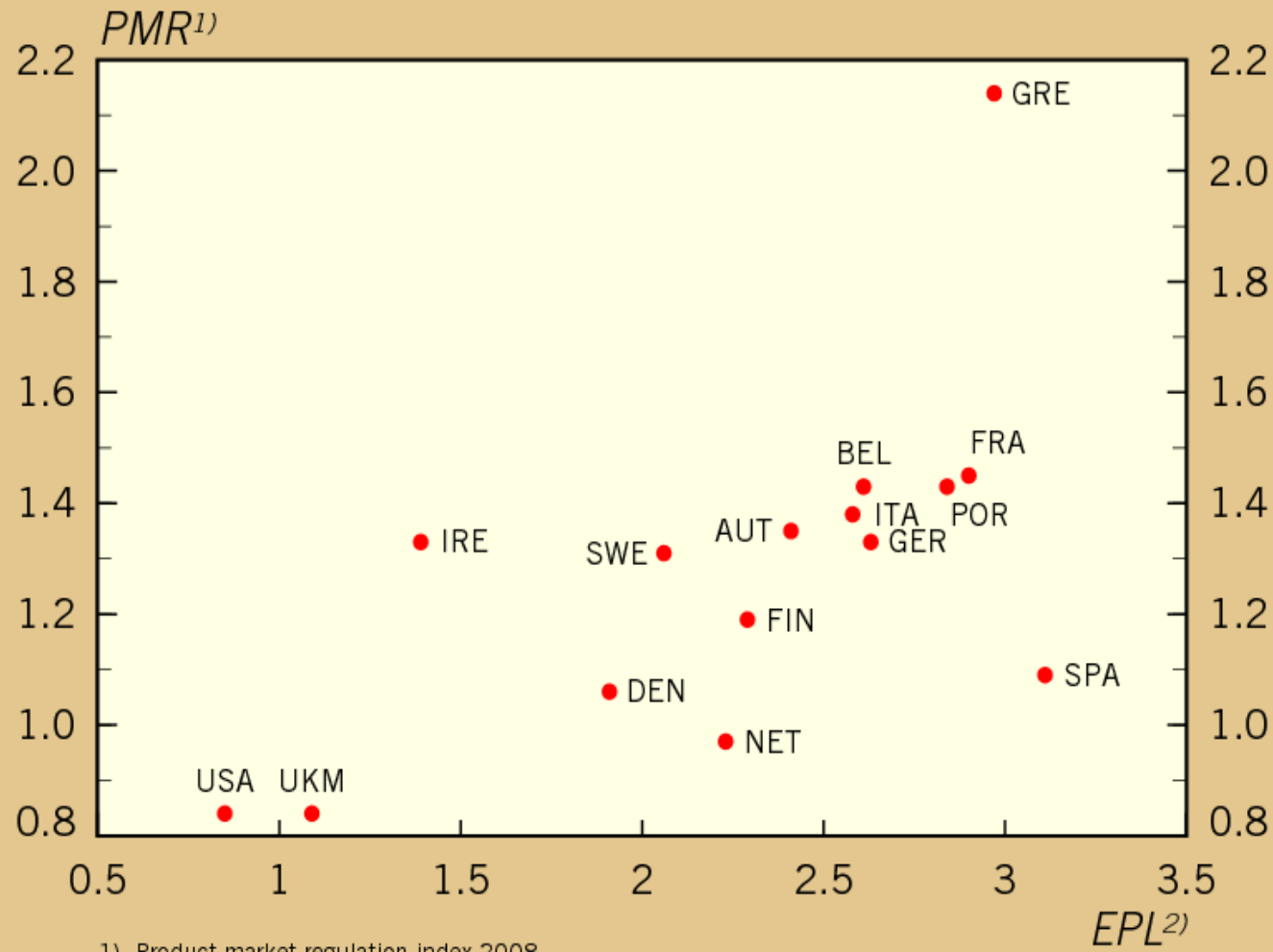
by T. Andersen, B. Holmström, S. Honkapohja, S. Korkman,
H. Söderström, J. Vartiainen

The Nordic Model: essential characteristics

- *labour market institutions*
 - negotiations by organizations rather than tight legislative employment protection
- *collective safety nets*
 - comprehensive risk sharing supports acceptance of globalization and change
- *investment in human capital*
 - a well-educated labour force can better adapt to structural change



Strictness of regulation



1) Product market regulation index 2008.

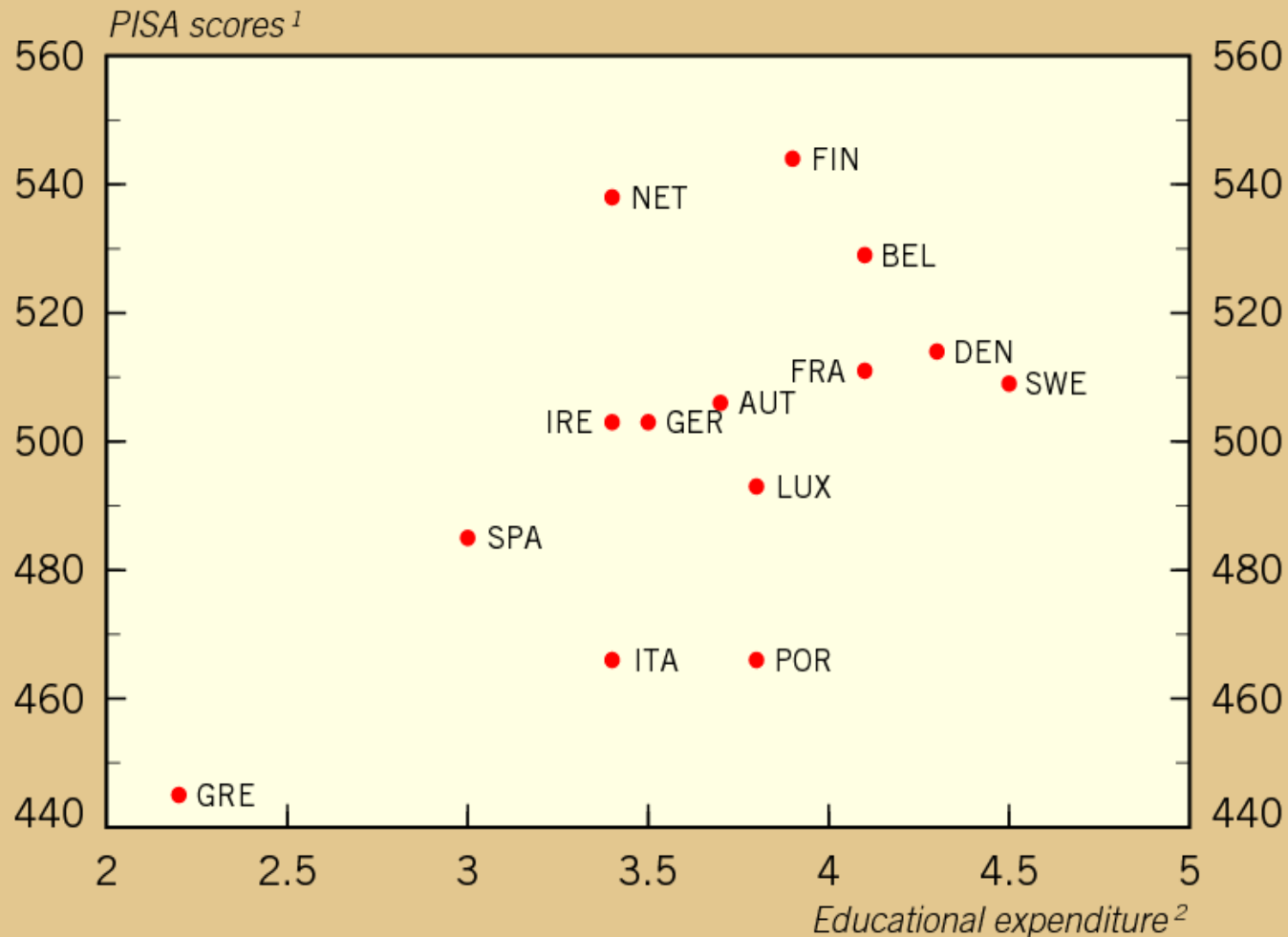
2) Employment protection legislation index 2008.

Source: OECD.

ETLA SIXTEN/strictness_of_regulation



Educational expenditure and student performance



1) Mean score for student performance in mathematics according to the PISA 2003 evaluation.

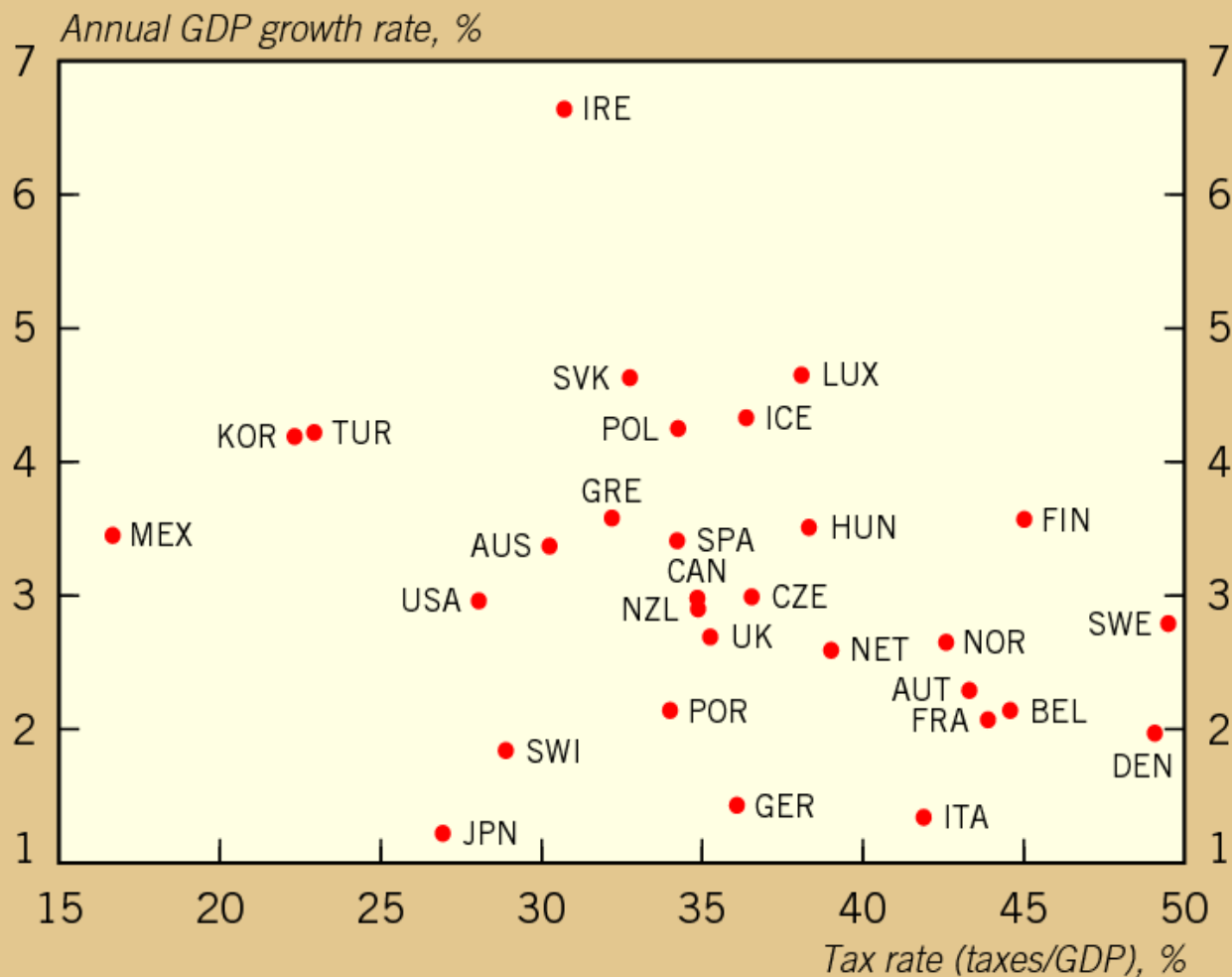
2) Primary, secondary and post-secondary non-tertiary education in 2004, per cent of GDP.

Source: OECD 2007, Education at a Glance.

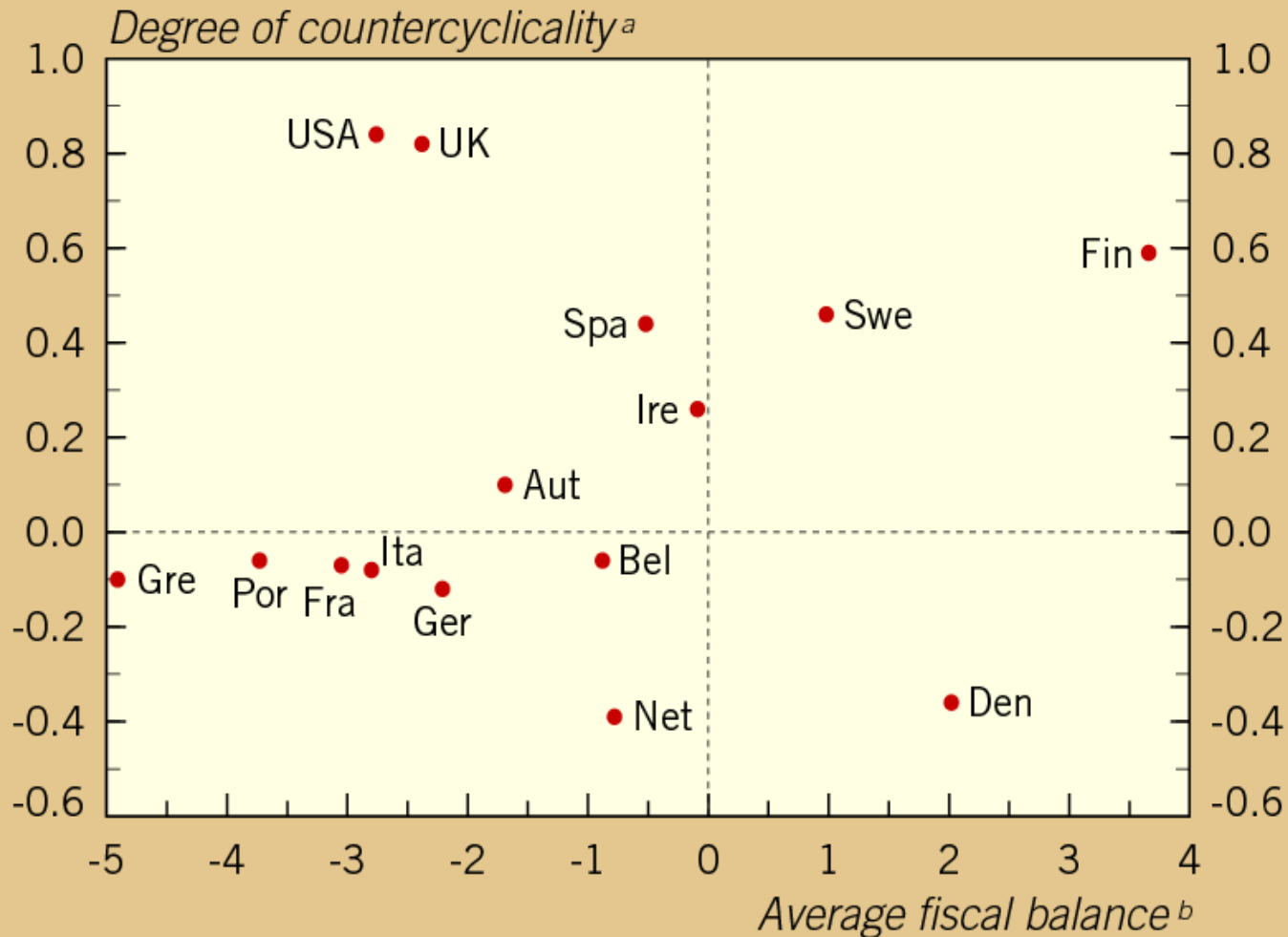
ETLA EXTRAT/educational_expenditure



GDP growth and total tax rates in OECD-countries in 1995-2007



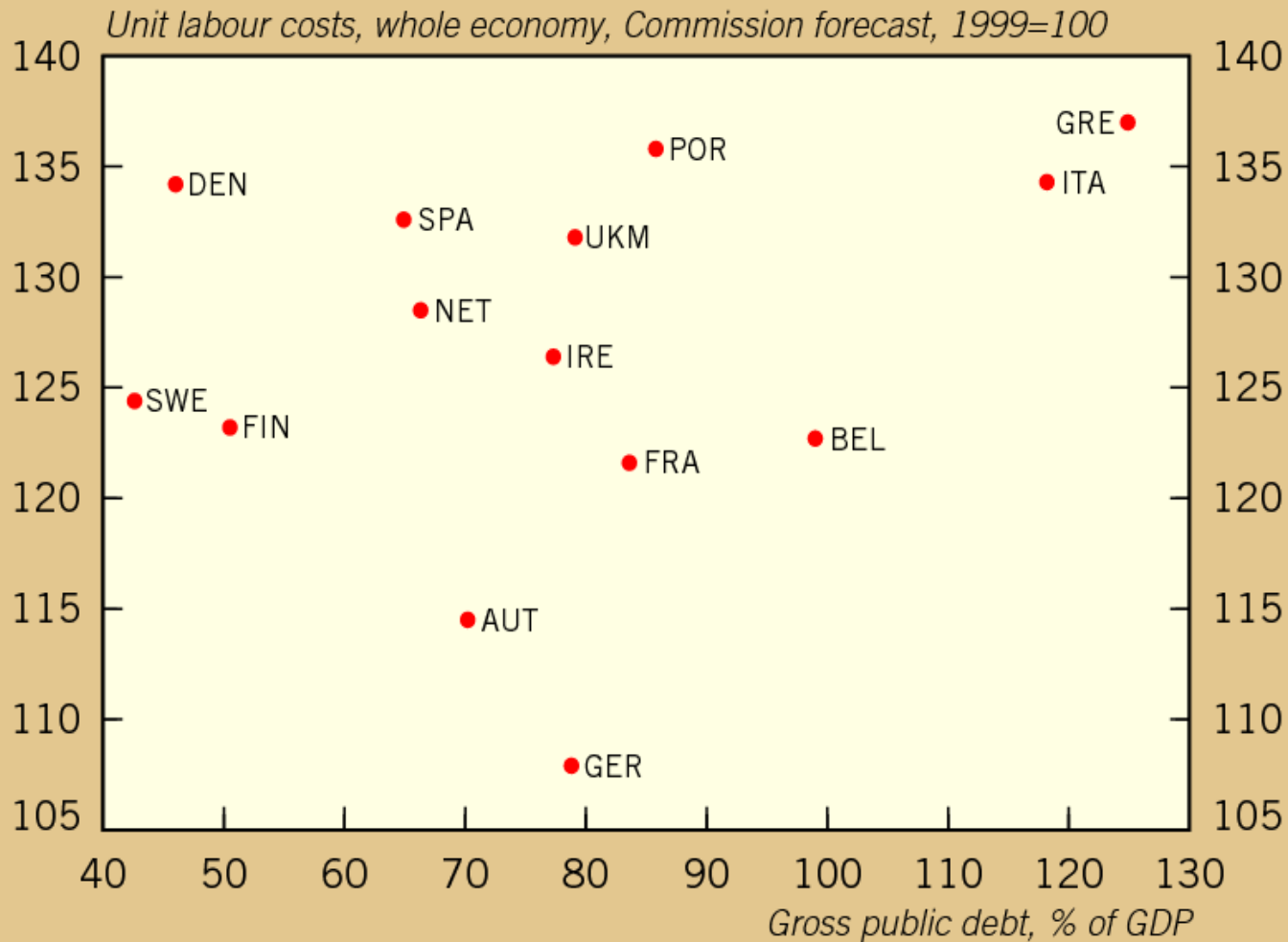
Fiscal policy and consolidation 1999-2008



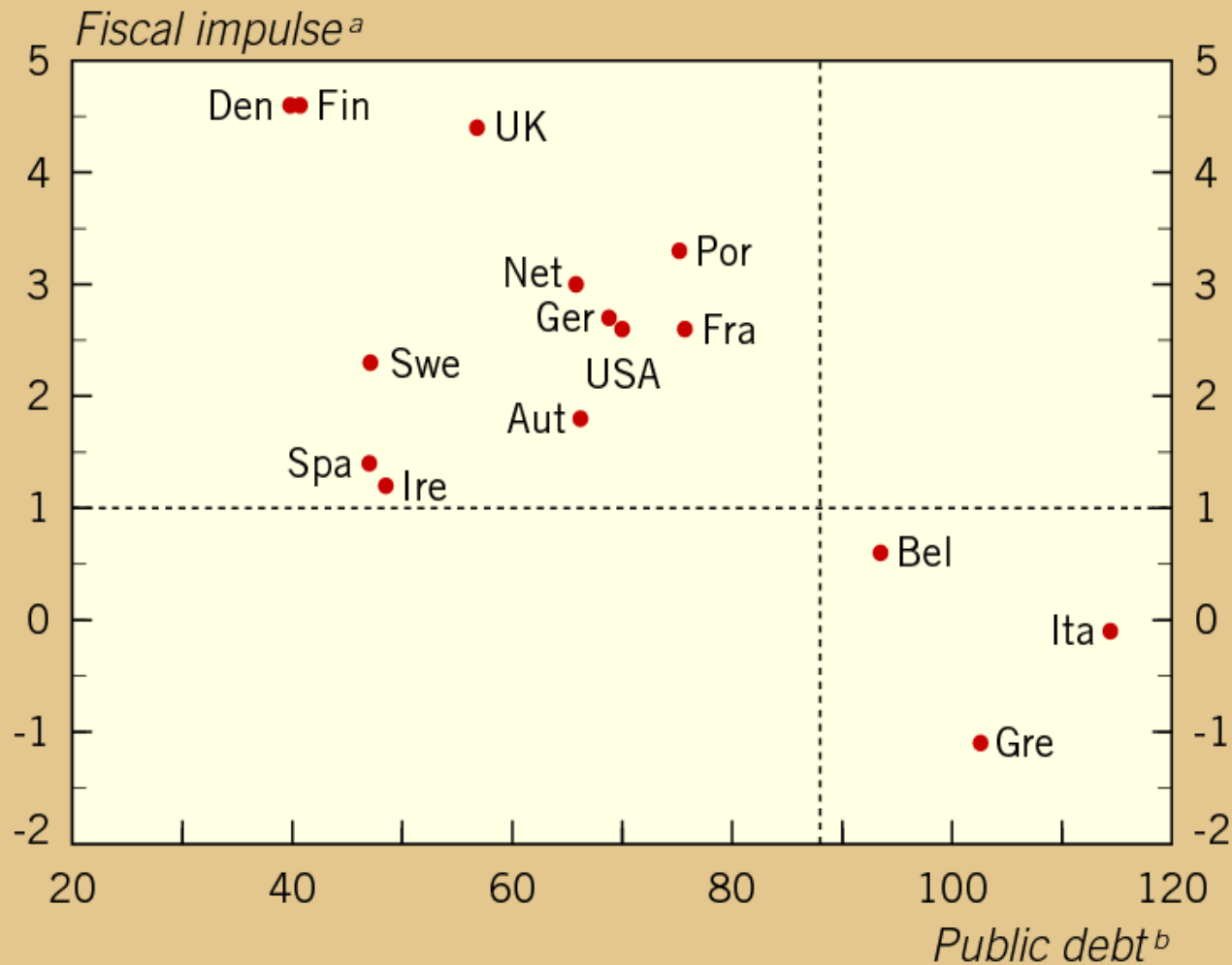
a = Correlation coefficient of output gap and fiscal impulse measured by change in cyclically-adjusted budget balance, % of GDP.

b = General government financial balance on average in the period, % of GDP.

Competitiveness and gross public debt in 2010



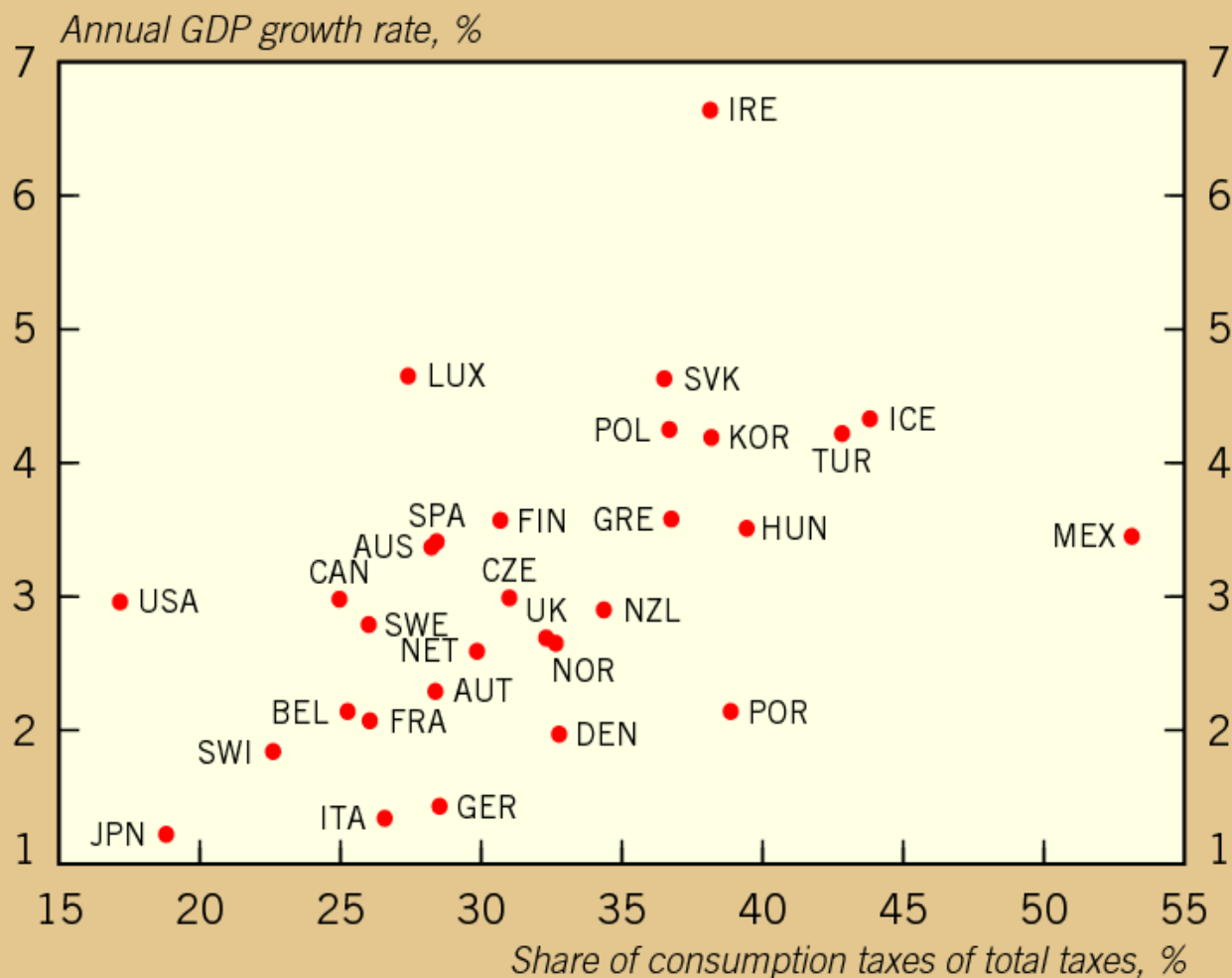
Fiscal stimulus and public debts



1) General government cyclically-adjusted deficit, % of GDP, forecast, change from 2008 to 2010.

2) General government gross financial liabilities, % of GDP, end of 2008.

GDP growth of OECD-countries and share of consumption taxes of total tax revenues in 1995-2007



Fiscal policy for consolidation and growth

- the Nordic Model is predicated on strong public finances for both equity (intergenerational fairness, ability to respect the “social contract”) and efficiency reasons (to achieve stability and maintain high employment)
- the government needs to formulate a fiscal plan with a view to cutting deficits as recovery takes hold and achieving fiscal sustainability in due time
- main problem is consequences for public finances of aging populations, and main solution is to *prolong working careers and raise the participation rate*
- (“make work pay”)
- *efficiency in the provision of public services* can be enhanced over time by outsourcing, by exploiting ICT, by defining more clearly the “social contract” (the limits of public responsibility) by improving incentives for efficiency
- *the tax system should be twisted in a growth-friendly fashion*: lower taxes on labour and companies, higher on consumption and real estate.