Articles & Commentaries

p-Watch — Europe

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Lessons from Small European Countries

The 'small' countries of the European Union have, generally speaking, been experiencing better productivity and employment growth performances than the larger ones. So much so that the large continental economies have been looking at what they could learn not just from Scandinavia, but also Austria, Ireland and the Netherlands. Only Spain accepts that the United Kingdom, with its neo-liberal policies, could be playing a 'model' role in this respect.

It is interesting that few of these smaller countries have swallowed the 'medicine' advocated by the OECD to make their economies more dynamic, like full product and labor market flexibility and deregulation, reduced scale of the public sector, and so on. Rather, the success of their 'social market economies' (countries having a broad welfare net) would appear to be based to a significant extent on two factors, namely their re-espousal of labor-management cooperation rather than confrontation, and their full adoption of the market rules of the European Union.

Social partnerships

The re-emergence of labor-management cooperation began in these smaller countries a decade or more ago. At a critical point in their history, employers and trade unions came together to work out how 'social partnership' could be improved to achieve sustainably enhanced productivity and competitiveness. The first agreement, the Dutch 'Wassenaar Agreement' in 1982, was followed by Denmark's 'Declaration of Intent,' Ireland's 'Program for National Recovery,' Norway's 'Solidarity Pact,' and Finland's 'National Productivity Program.'

These agreements-sometimes laconic, sometimes detailed-declare that in times of frenetic economic 'Europeanization' (trade between members of the European Union represents almost 90% of their total foreign trade), all the 'stakeholders' of a 'social market economy' benefit from espousing change. For by joining forces the cake of national wealth can be expanded, which is a far better approach than squabbling about how to maintain or divide up differently the existing 'cake.' An important result, albeit little emphasized, of this return to 1950s 'corporatism' has been to relate income policy more closely with productivity increases.

Social partnership has to be a long-term act of faith; trust between the parties does not emerge overnight. Each must recognize the need to give up some of its 'holy cows' for the benefit of society as a whole. Thus the Dutch trade unions accepted, rather reluctantly, that 'atypical' work has become...typical. The Netherlands is now a world leader in employing part-time and temporary workers. But, as a result of their own flexibility on such issues, the unions have been instrumental in having parliament pass a law (1998) ensuring the employment security of such flexible workers.

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Most dramatic of all 'turnarounds' have been in Ireland and Finland. In Ireland, a series of national 4-year agreements have fostered a boom in which unemployment of 18% has been reduced to 5% (the country now faces serious labor shortages), income has grown 33% in 5 years, and Europe has been given a new model: the Celtic tiger economy. Moreover, Irish private sector developments have gone hand in hand with the emergence of partnership approaches in public administration, fostered by government on the basis of financial incentives.

Finland's success has been hugely boosted by one company which represents some 2% of GDP, Nokia, which re-created itself into a world-class IT company a decade ago. But national policies have also played an important role, not just in its programs for productivity, workplace development, and coping with an ageing workforce, but also in its campaign to encourage everyone to become more entrepreneurial. Finland is in the middle of a 'decade of entrepreneurship.'

The labor-management social partnership agreements are not, of course, magic potions. Not only do they take several years to come to fruition, hiccups do occur along the way as well. One of Europe's most prosperous and cozy states, Norway, experienced a national strike this spring when workers considered the proposed high pay increases and a fifth week's annual paid vacation to be insufficient!

Nor can clear-cut lessons be drawn of the value of small size. For instance, Austria is considered by the World Economic Forum to be the most difficult place in the developed world to start a new business (Japan is in the penultimate position); and only the Netherlands and Finland are much nearer to the global trendsetter, the USA. And looking at the cost, time and charter capital required to set up a private company, only Ireland and Finland of the 'little countries' rank high in performance. To complicate matters further, the Global Entrepreneurship Monitor indicates that Finland still lags behind the world's leading entrepreneurial nations: USA, Canada and Israel.

The European dimension

If definitive lessons from the benefits of a country being small are hard to draw, it is nevertheless clear that they are under no real disadvantages within the European Union. In fact, they have clearly benefited from unequivocally accepting the rules and regulations of competition, which is the driving force for innovation and, hence, productivity improvement. More so than their big neighbors, they have taken advantage of the freedom of movement of persons, services, goods and capital, rather than hide behind trade barriers and state subsidies. And they tend to espouse these challenges, seeking out new opportunities rather than trying to maintain traditional stances and positions. This is important at a time when 'Europe' is considerably strengthening its combined powers at the 'expense' of individual member states.

All member states are bound by the Treaty of Amsterdam (which has now superseded 'Maastricht') and membership (or potential membership) of Euroland, the common currency, which requires member governments to reduce their levels of debt and inflation. Thus, although it is up to employers and trade unions or, increasingly, individuals, to negotiate changes in compensation, working conditions, etc., governments must subsequently correct any 'errors' they may have made through legislative changes. Sticks almost always accompany carrots.

At their spring 2000 summit, European Union governments decided on further joint measures which clearly shift the overall European 'social market economy' towards requiring more responsibility of the individual. Europe's leaders set highly ambitious aims for the forthcoming decade: to make Europe the world's most dynamic economy with an employment rate of 70 per cent (from today's 61 per cent!) by means of 'new economy' measures; to boost innovation through a 'European research area'; to enhance entrepreneurship through reducing constraints on small companies; to complete the single market; to improve the efficiency of financial markets; and to 'build an active welfare state.'

Clearly, European integration still has a long way to go, but the further it goes the more it will benefit all economies and enterprises which take up its changing challenges.

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