

# **MEE Policies for Growth**

## **An Agenda for Sustainable Growth**

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Arbets- och näringsministeriet

# Growth challenge



In the next ten years  
**Finland must grow** nearly  
**twice as fast** as Sweden to  
bridge the gap that  
emerged after 2008.

# The case for resilience

Comparison of impact of great recessions and crisis in Finland and Sweden



	Loss of GDP, cumulative % from top year,		Consumption loss, Cumulative % from top year	
	Finland	Sweden	Finland	Sweden
<b>WWI</b>	135	44	128	6
<b>1930ies recession</b>	14	3	62	-24
<b>WWII</b>	30	32	131	74
<b>1990ies recession</b>	48	14	56	29
<b>2009-2016</b>	57	-6	-5	-39

# Growth challenge imperative



- **Sustainable growth in a common endeavour for the government, and not only for this one but for several succeeding this one.**
- **It has dawned for most that there is no magic upswing that would fix the problem but a painful structural adjustment process is needed**
- **All ministries have agreed to contribute**
- **The overall policy configuration has been enlarged to sustainable growth agenda**
- **MEAE carries the main responsibility for economic growth, and the government as a whole for the social and environmental dimensions**
- **This summary presentation will focus on economic growth**
- **Europe is central for our growth challenge**

# Growth policy in a nutshell



Globalisation

Sustainable development and energy transition

Population ageing

Digitalisation

Urbanisation

## Macroeconomic balance

- General government financial balance
- Inflation
- Credit ratings

### Markets

- Product and service market
- Labour market
- Financial market

- Creation of new markets
- Market liberalisation
- Addressing market failures

### Knowledge

- Higher education
- Science and business collaboration
- Prevalence of technology
- R&D&I investments (private and public)
- Ecosystem functioning
- Innovations and their deployment
- Creation of intangible value and development of value added

Enabling infrastructure  
incl. road, energy and digital networks,  
basic education and healthcare,  
well-functioning institutions



# **We are constructing an operating environment conducive of growth – working life and functioning markets are key**



- **We are preparing an operating model for industrial policy**
- **We sharpen our labour market outlook**
- **We prepare for Finnish EU Presidency in fall 2019 and focus on e.g. functioning internal markets and external economic relations**

**We strive at know-how, innovation and renewal**



**We renew partnership models, making national strategic choices**

**We implement innovation policy across departmental boundaries**

**We strengthen financing and its efficiency: we increase incentives and risk sharing**

# **We support growth in regions**



**We implement growth enhancing operating model in regions**

**We promote emergence of growth service markets**

**We outline a role for cities as growth engines**

**We draft and implement cross governmental entrepreneurial strategy**

# **We will make use of energy transition opportunity**



- **Emission reduction targets call for increase of renewable energy and low-carbon production capacity**
- **Developing low carbon energy technology and new operating models offer new growth opportunities globally**
- **We have a number of strengths:**
  - Smart grid and smart metering
  - Combined heat and power knowhow
  - Biofuels
  - Nuclear safety and nuclear waste management
- **R&D investment, experimentation and co-operation platforms**

# Productivity issues and related Country-Specific Recommendations by EU (EPC)

## FINLAND

The crisis years and the setback faced by the electronics sector have considerably reduced the expected contribution of total factor productivity to potential growth in the years to come. After several years of decline, total factor productivity growth has eventually turned positive. The negative or stagnating productivity growth over the last decade remains, however, one of the main challenges for Finland's competitiveness. Beyond the fall in exported volumes, the shift from high-tech goods towards medium-tech goods reduced market power and mark-ups. Value added, and thereby productivity, was further affected.

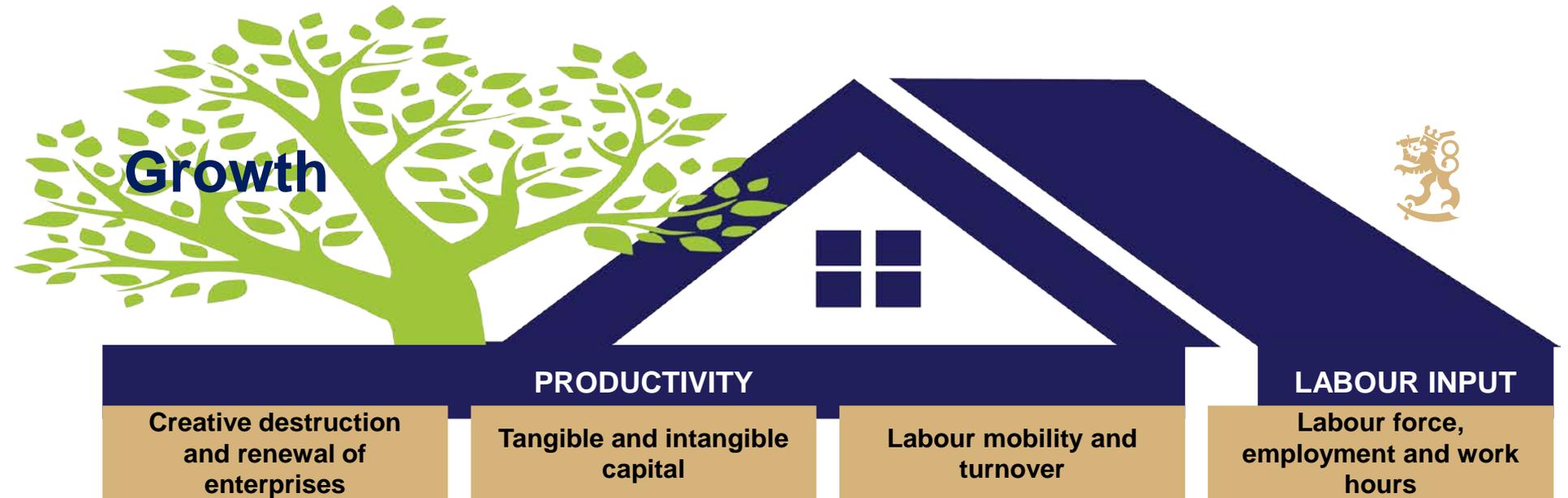
There are large differences in patterns from firm to firm. The most productive firms, and to a lesser extent the least productive, experienced a catching-up process, with robust productivity gains in previous years, notably in manufacturing. However, since the start of the crisis the vast majority in the middle of the distribution had meagre growth rates or even negative rates in the case of services. This has led to an increasing polarisation of the productivity performance of Finnish firms, highlighting a relative lack of policies for increasing the speed of structural change. These policies should aim at spreading innovation, targeting higher public investment in R&D and in other intangible assets and stronger science-business links. This would ensure wider companies participation in innovation, sustaining upwards convergence towards higher-productivity activities.



# Growth

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- Growth policy aims to ensure long-term economic growth.
  - Economic growth builds on productivity and labour input.
  - The longer the time span, the greater the role of productivity growth; when the time span is very long, productivity can grow much faster than labour input.
  - However, it is easier to influence labour input than productivity growth by means of policy making.
  - Labour input still has a significant impact on potential growth and thereby on the sustainability of public finances.


$$\text{Growth} = \text{PRODUCTIVITY} \times \text{LABOUR INPUT}$$



# Growth

## PRODUCTIVITY

## LABOUR INPUT

**Creative destruction and renewal of enterprises**

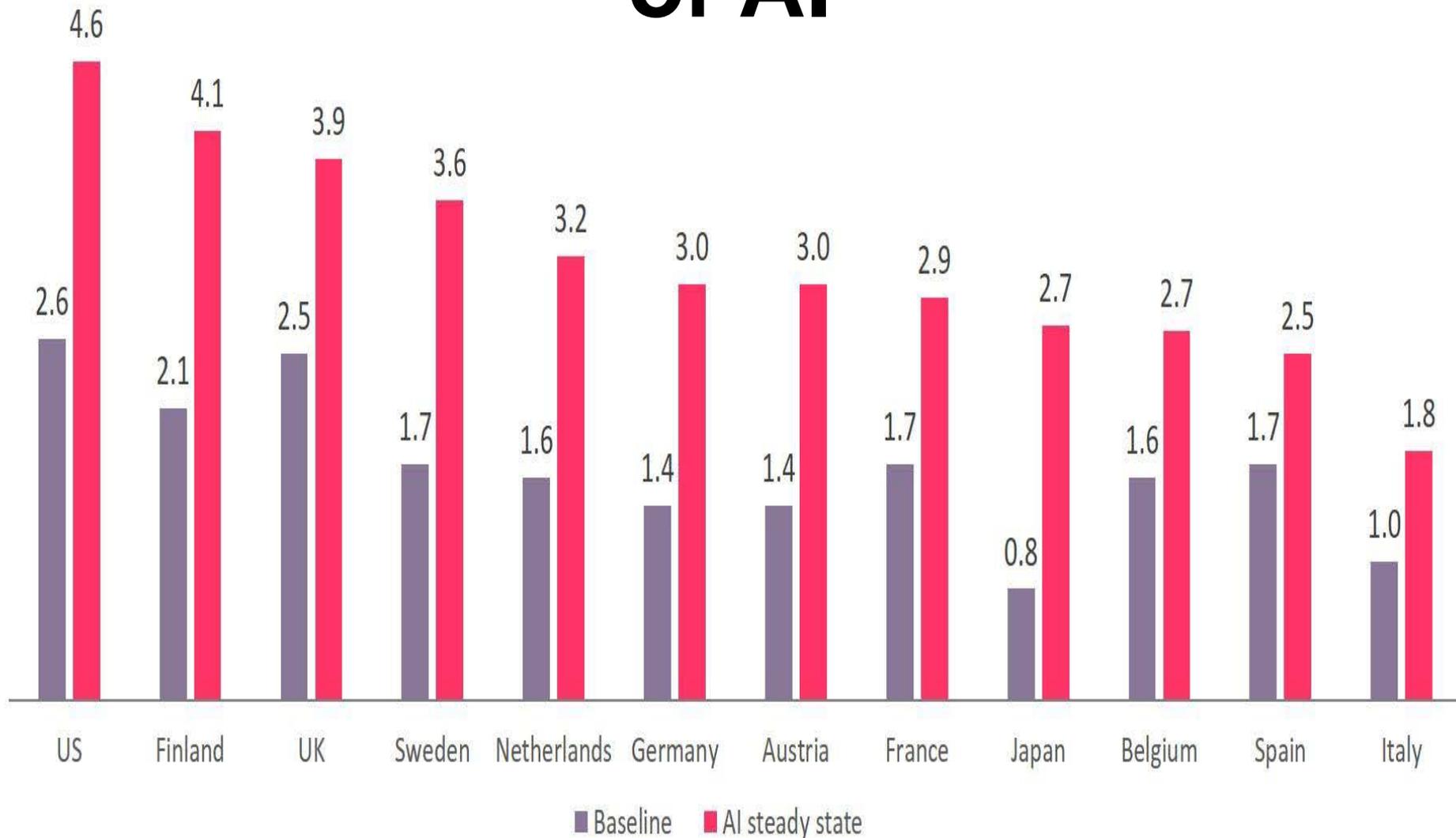
**Tangible and intangible capital**

**Labour mobility and turnover**

**Labour force, employment and work hours**

- **Creative destruction** (=renewal at business-branch, enterprise and task levels)
- **Työmarkkinoiden liikkuvuus ja vaihtuvuus** (= how well labour force moves between regions, vocations, enterprises and tasks) is a crucial factor affecting productivity.
- **Tangible and intangible capital** are crucial.
- How big or small is the **growth potential**.
- **Labour input** is affected by the size of working-age population, participating rate, employment rate and hours worked per those working.

# Potential growth contribution of AI





# Digital platform potential

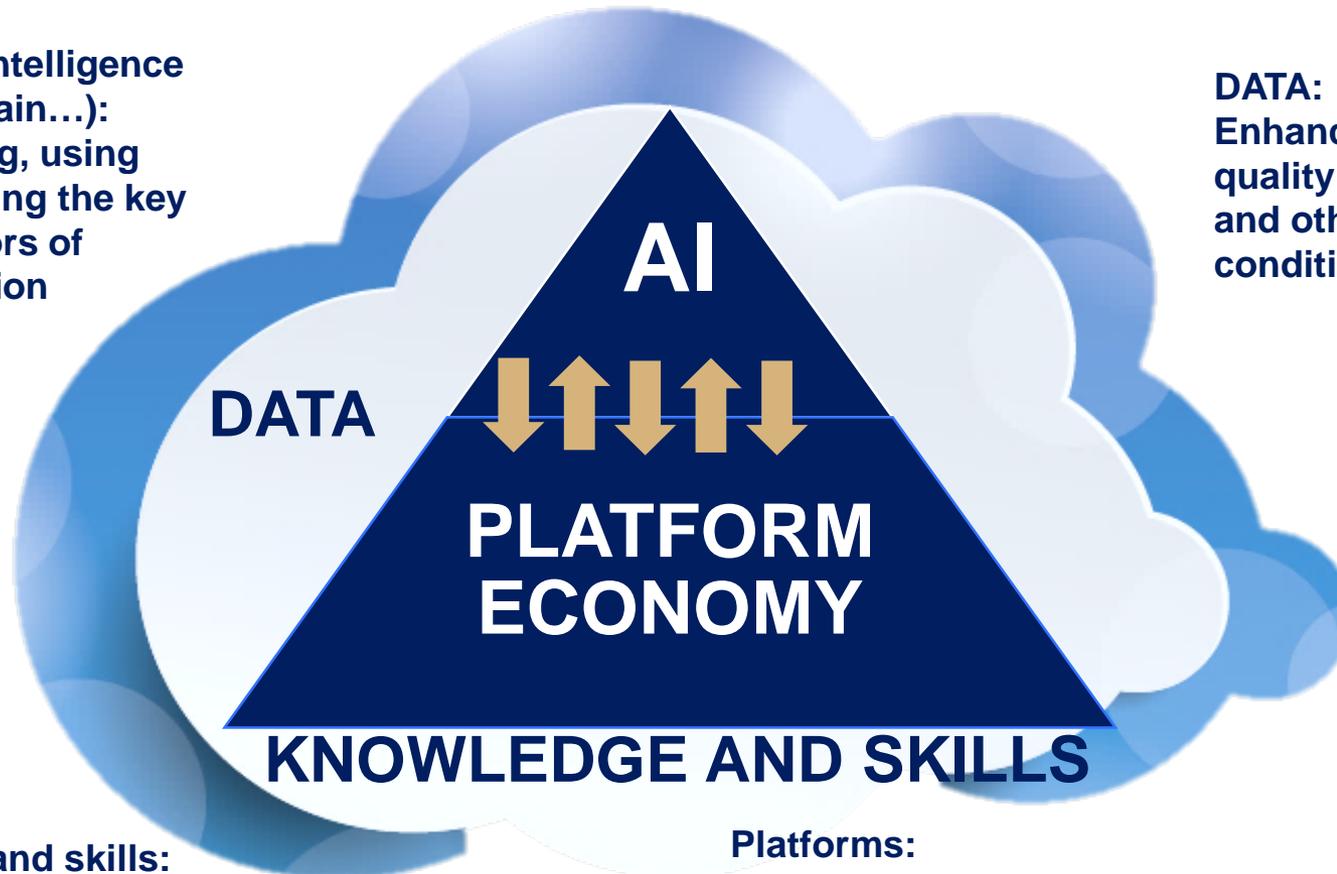
- Digital platforms in Europe are approaching a total market value of **EUR 4 trillion**
- **Europe is bleeding digital value of the order of 1500 – 3000 billion annually**
- **We need to have a predictable legal framework but that alone will not be all that is needed for a competitive digital platform performance in Europe**

# Roadmap for New Digital Europe



**Artificial intelligence (+blockchain...):**  
Developing, using and applying the key accelerators of digitalisation

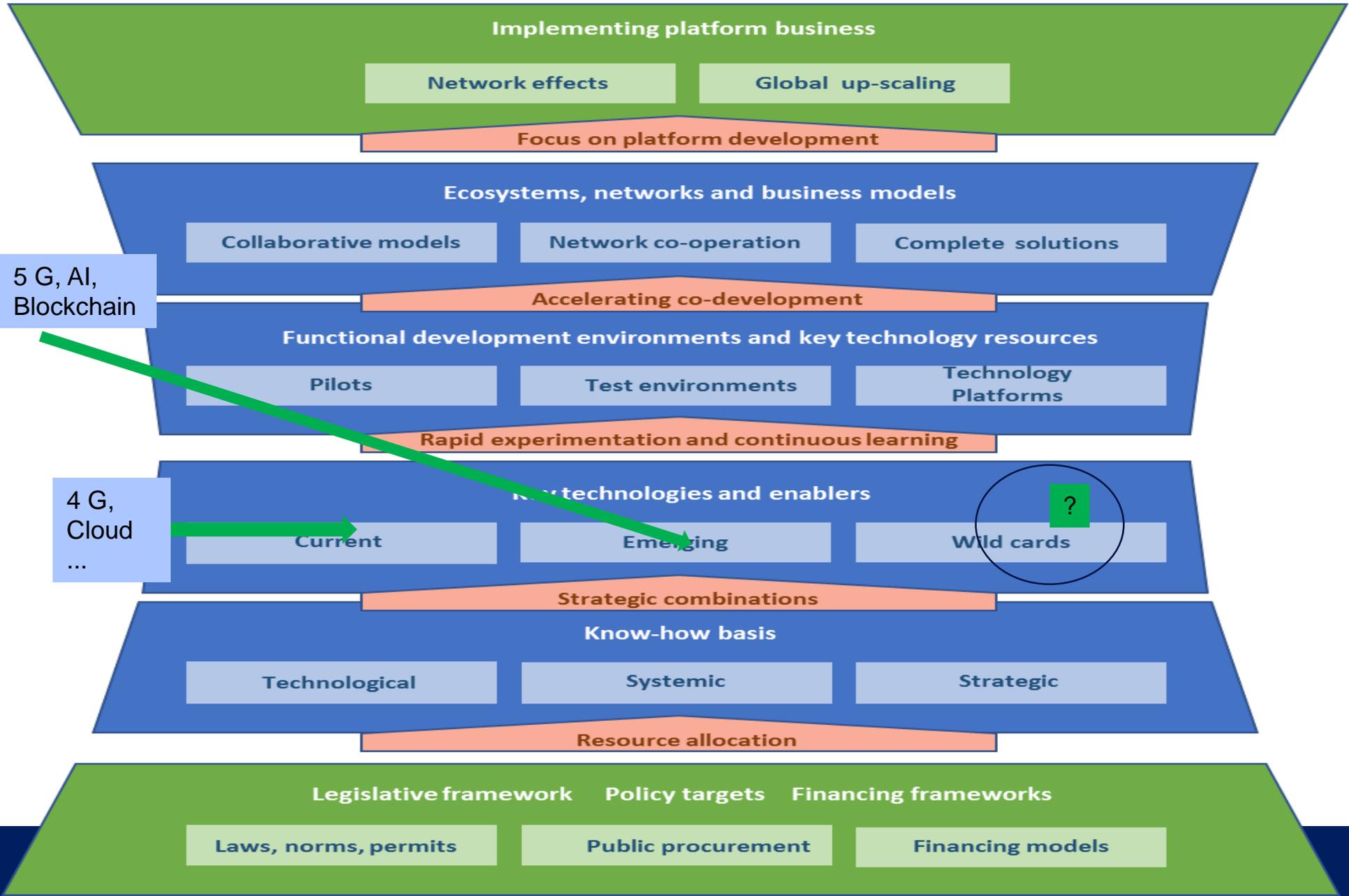
**DATA:**  
Enhancing mobility, quality and use of data and other framework conditions



**Knowledge and skills:**  
Focusing on innovation readiness, social adaption and leading the change in worklife and society

**Platforms:**  
Strengthening European ecosystems to create and capture value from new technologies in global platform economy

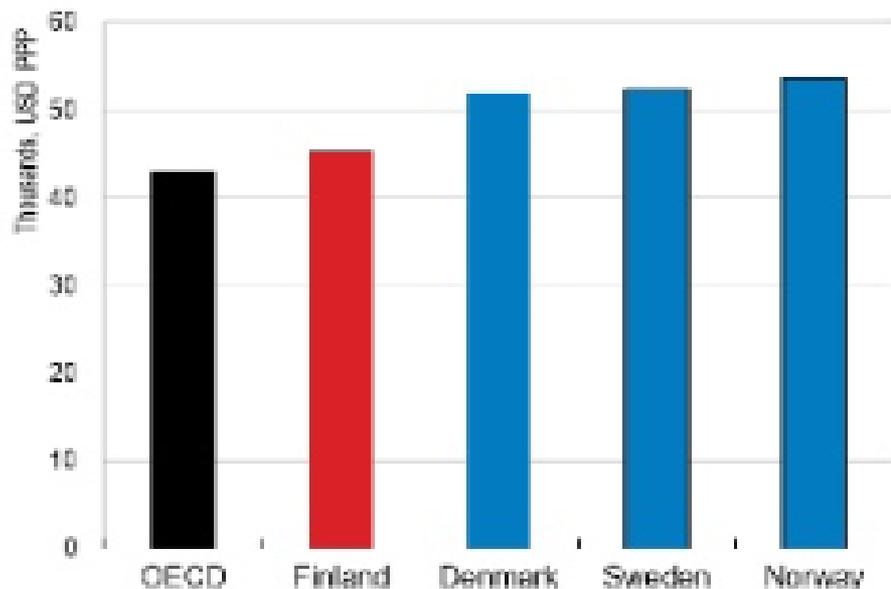
# Platform economy policy environment



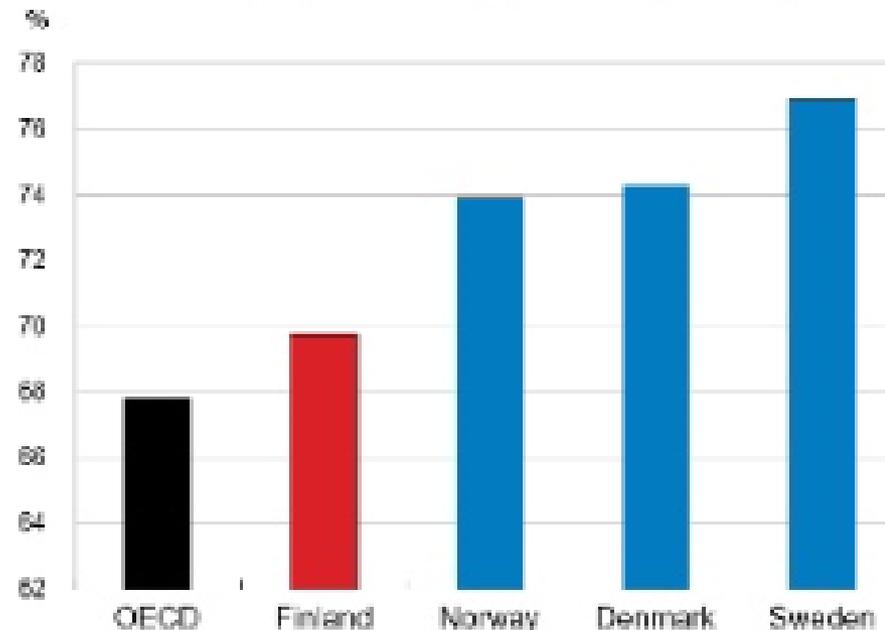


# GDP per capita and employment rate are below the other Nordics

A. GDP per capita (2017Q3 or latest)



B. Employment rate, aged 15-64 (2017Q3)





**Growth policy is a craft.  
Always looking for  
dialogue and inspiration**

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