The High Road to Overcoming the Economic and Social Aftermath of the Financial Crisis

EANPC Position Paper

Executive summary

The recent global economic recession has been both severe and long-lasting. Though there are some signs of recovery, this recovery is by no means secure or certain.

Long-term, sustainable economic growth has always been built on increasing productivity – arising from technological and organisational change together with improved business systems and processes. (This also involves the adoption of a sustainable productivity model such as the SEE model of the World Confederation of Productivity Science which suggests that long-term sustainability requires regions, nations and organisations to address all of social productivity, environmental productivity and economic productivity.)

The role of government is to provide the policy framework, macroeconomic environment and the infrastructure elements that create the potential for high productivity companies; organisations can then exploit those underpinning factors as the basis of their own competitiveness and innovation.

However, current approaches to escaping (or surviving) the current economic downturn seem to rest on austerity and 'good husbandry', conscious of the ever-expanding credit environment that was a major factor in the 'meltdown'. Though there is clearly a need for improved financial prudence, this approach is fundamentally flawed.

It does not create growth, it does not add value and it does not create jobs … jobs that are needed to provide further economic stimulus.

Whilst not advocating unbridled investment / expenditure on 'job creation', the EANPC understands that it is necessary in times of caution, to prepare for expansion by re-examining, and where necessary re-building or expanding, the 'productivity infrastructure.

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This paper outlines a number of measures to help build an appropriate European productivity infrastructure, culminating in three primary recommendations.

1. The development of a European-wide programme of productivity development which can serve as an over-arching framework for regional and national initiatives.

2. To create and support additional national or sub-regional productivity development agencies whose main roles would be:

   - *capacity building (to improve productivity)*
   - *catalysing (motivating and supporting individuals and organisations)*
   - *co-ordinating (bringing together stakeholder groups with an interest in, and a commitment to, the raising of productivity)*

3. To design and implement a European productivity research & development programme in order to:

   - *advance knowledge on current and future productivity concepts relating to both the private and public sectors*
   - *bring together appropriate agencies (such as EANPC, EU OSHA, Eurofound) to help connect social, environmental and economic productivities to form an integrated approach to sustainable and equitable economic development*

We are convinced that productivity development is the key (and the only key) to long-term sustainable growth and feel that modest investment leading to the development of the European productivity infrastructure will pay rich dividends in terms of social, environmental and economic well-being.

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EANPC, the European Association of National Productivity Centres, issues this paper to express and support an extended economic policy approach to overcoming the economic and social aftermath of the financial crisis in Europe.

A Productivity Perspective on the Crisis

With regard to the crisis' causes and consequences the European Commission (2009) refers to it as preceded by "a long period of rapid credit growth, low risk premiums, abundant availability of liquidity, strong leveraging, soaring asset prices and the development of bubbles in the real estate sector. Over-stretched leverage positions rendered financial institutions extremely vulnerable to corrections in asset markets. As a result a turn-around in a relative small corner of the financial system (the US subprime market) was sufficient to topple the whole structure."

Though this analysis is undoubtedly true, it omits a crucial factor. During this period of credit-craziness, the world (and, of course, developed nations in particular) forgot that wealth has to be created before it can be distributed. The 'wealth' of this credit boom was fictitious, merely the moving of assets from one place to another. There has been a growing gap between production and demand because wages have not been rising in line with production (though, curiously – well, perhaps not – the remuneration levels of senior executives have risen at a rate well above that of increased production). To create the demand for additional goods and services, credit was extended – to (as we have seen especially in the US) unsustainable levels.

Only increasing productivity can provide a 'high road' to wealth – when the gains from increased productivity (which creates additional value and additional wealth) are shared equitably amongst all key stakeholders; this is why productivity development must be at the forefront of any sustainable recovery.

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The Current Situation

We – the Western nations – are now slowly climbing out of recession but wary of a 'double dip' slide. We have, perhaps chastened by our recent record of unlimited spending based on increasing debt, entered a period of austerity – at individual and at national levels. This recession has placed further pressure on consumer demand; the banks, wary of incurring the wrath of policy-makers, are maintaining tight reins on credit and thus underfunding any growth-led recovery. The result is at best very slow growth over the next few years. This approach is welcomed by the global economic and financial agencies such as the International Monetary Fund and the World Bank eager to see us return to the situation where we only spend money we have earned.

So we have a current situation where we are managing slow growth, putting strong downward pressure on wage levels and cutting public expenditures to 'balance our books'.

Yet there are clear dangers in such a 'sensible' and cautious approach. There are other nations – China, India and so on – which continue to grow. Though they are clearly affected by a drop in demand from the West, they have large, growing internal markets, and there are markets that have escaped the worst excesses of the credit boom. There is a significant danger that we simply cede economic primacy to these nations.

What options do we have?

We have asserted here that wealth can only be sustainably grown through productivity development.

In a technical sense productivity measures how efficiently and effective goods and services are produced, i.e. it measures the efficiency and effectiveness by which the process of producing goods or services transforms inputs (resource) into outputs (goods or services). Productivity increases if output growth is higher than input growth

It, therefore, makes sense to explore a productivity-fuelled recovery – one where we adopt political and economic strategies that foster productivity growth AND at the same time ensure that the fruits of this productivity growth are more evenly distributed throughout society.

A Wider view of Productivity

The EANPC espouses a view of productivity that involves taking the 'high road' to enhanced performance – improving the quality of the factors of production and the ways in which they are used, having the medium- and long-term development of the enterprise in mind - rather than the 'low road' of unthinkingly economising on the use of the factors of production for the benefit of short-term profit (unfortunately still prevalent in many economies).

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Increasingly informed and sophisticated consumers now expect the organisations that serve them to be environmentally and socially aware as well as economically active.

If we are to be sustainable in the longer-term (and avoid the kinds of short-term thinking that characterised the recent credit boom) we have to make our productive activities environmentally bearable, socially equitable and economically viable.

What Can We Do?

There is little point in using simple exhortation to drive increased productivity … that would merely leave any productivity-driven recovery to chance.

We believe that Europe needs an over-arching productivity development strategy that consists of 3 major elements.

1. The development of a European-wide approach to productivity development informed by the issues raised above which can serve as an over-arching framework for regional and national initiatives.

2. The creation of national productivity development initiatives, within this overarching strategy framework, operated by national productivity support agencies (many of which exist; some of which need to be created) able to create national focus and build commitment.
   The Guide "Improving National Productivity" published by the World Confederation of Productivity Science (WCPS) offers a range of helpful suggestions for the establishment of national, regional and sub-regional productivity organisations covering aims, roles, competitors, structure, legal status, methods, funding and management. (WCPS, 2005)

   The primary roles can be summarised as:

   - *co-ordinating (bringing together the various stakeholder groups that have an interest in, and an influence upon, the raising of productivity)*
   - *catalysing (motivating and supporting individuals and organisations in their search for higher productivity)*
   - *capacity building (ensuing that those individuals and organisations have the requisite knowledge and skills to deliver higher productivity).*

3. The development of a productivity-oriented research & development program which will:

   - *advance knowledge on current and future productivity concepts relating to both the private and public sectors*
   - *bring together appropriate agencies (such as EANPC, EU OSHA, Eurofound) to help connect social, environmental and economic productivities to form an integrated approach to sustainable and equitable economic development*

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About EANPC

EANPC, the European Association of National Productivity Centres, was established in 1966 and is headquartered in Brussels. It is an association of national bi- or tripartite bodies which contribute, each in its own country, to the enhancement of productivity, innovation, the quality of working life and employment within companies and the economy overall.

Its member organisations represent Austria, Belgium, Cyprus, the Czech Republic, Finland, France, Ger-many, Italy, Luxembourg, the Netherlands, Poland, Romania, Slovakia, Turkiye and the United Kingdom.

Through its support of productivity enhancement, the EANPC and its national member organisations contribute to improving living and working conditions and the economic and social development, on national and European level, in the interest of fair competition. Since productivity is the only way of increasing the “size of the cake” (rather than re-distributing it), it is essential that future prosperity and well-being is built on a sound foundation of increased productivity.

The organisation operates mainly by facilitating and increasing exchanges of information and experience, and by arranging co-operation amongst the member organisations (and third parties).

Important examples of EANPC activities are the publication of the EANPC Productivity Memorandum (2005) and the regular hosting (since 2006) of the European Productivity Conference.

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