

# The BCCA Policy Forecast Report



## Policy for growth

According to the Summit.

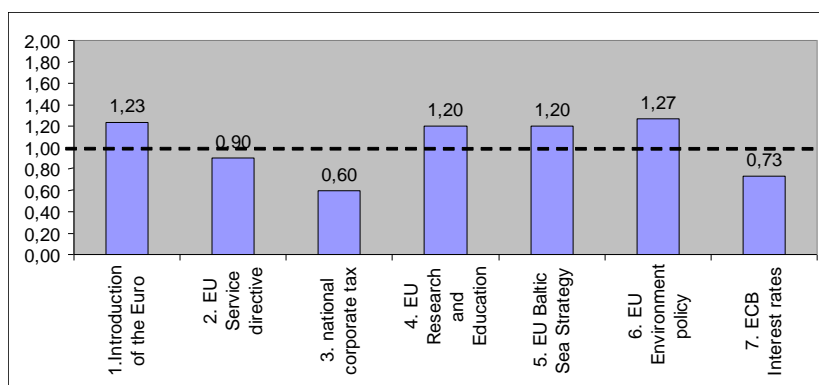
Results from a survey of the participants  
of the Baltic Development Forum 2009

# 1. Executive Summary

The BCCA policy forecast survey is attempt to profit from the distributed expertise gathered among the participants at the Baltic Development Forum 2009. Just like seminars and speakers provide qualitative contributions to the issues, the aggregated views of the participants should be seen as qualitative input. The aim has not been to make a traditional opinion poll. Comments on the method are enclosed below.

The BCCA asked summit participants to grade the importance of seven policy areas for long term growth. The result is a hint on what areas are important to focus on. The scale is interpreted such that values above 0 indicate importance and values above 1 indicate very important impact for growth.

## Policy importance for long term growth



There are four areas which stand out as more important than the others. The winner is environmental policy, followed closely by introduction of the Euro to the whole region. Tied on third place comes EU education and research efforts and the new Baltic Sea Region Strategy of the EU.

The Service directive only gets a mildly enthusiastic reception.

Interestingly, the monetary policy is not seen as a great growth determinant and is possible interpreted more as a reflection of the state of affairs rather than a driver of it.

The bottom position is occupied by national corporate taxes. Apparently this is not seen as a key issue.

Policy areas impact on long term growth.							
	1. Introduction of the Euro	2. EU Service directive	3. National corporate tax	4. EU Research and Education	5. EU Baltic Sea Strategy	6. EU Environment policy	7. ECB Interest rates
Mean	1,23	0,90	0,60	1,20	1,20	1,27	0,73
SD (Variance)	0,84	1,01	1,02	0,60	0,95	0,89	1,00

*The scale is 0 for neutral impact, 1 for important and 2 for very important influence on long term growth*

*The Variance (SD) is an expression for how large agreement there is on each issue. Small variance means high agreement.*

But the variance (SD) also carries important information as it reflects the level on agreement on a certain rank. Here the story is that research and education policy stands out as the winner. There is much more general backing for this policy area than any other making this the overall winner of the survey. Unsurprisingly there is more division on the rank of corporate tax, but notably a fair degree of agreement on the high importance of the Euro.

This survey has been analysed and authored by Dr. Per Tryding, secretary general of The Baltic Sea Chambers of Commerce Association and is not an official policy statement of this organisation.

## 2. Determinants for long term growth: Policy by policy

### a. Introduction of the Euro in the whole BSR. Rank: 2 of 7 ( $M=1.23$ , $SD=0.84$ )

The 2009 state of the region report correctly points out that the Baltic Sea Region has no real role to play in the financial crisis as a political platform. Instead national policy and its international coordination takes centre stage in handling the current economic issues. However the Euro has the potential to bring the BSR economies even closer and given the high degree of economic integration in the region, the need for coordination of national policy in a BSR context will grow with the Euro properly implemented in all countries (i.e. EU member states and candidates).

The scenario is an unlikely one in the short term. Current events however underline the importance of it and the degree of interdependence in the region. Scandinavian EU-members have been active in supporting the pegging of the Lat to the Euro through the recent downturn. This is to some degree for selfish reasons. Devaluation would clearly have meant more efforts to bail out bad debts in Scandinavian banks. Keeping the Euro track means hard sacrifice upfront in the Latvian real economy. A way to accommodate this burden would potentially lie in the terms of accession to the Euro. But the middle roads of a quick entry or of offering a modified entrance rate for the Lat into the Euro seems closed. The issue illustrates the economical and political interdependence in the region.

The summit audience clearly think that introduction of the Euro would assist future long term growth a lot. There also a relatively high agreement on this, given the relatively low variance of answers.

### b. EU Service Directive. Rank 5 of 7 ( $M=0.90$ , $SD=1.01$ )

The pre-ambles of the EU service directive boast that 70% of EU GDP consists of services. But then follows pages of exceptions and the real economic impact of the directive concerns a much smaller share of GDP.

The Summit participants have realised this and rank the importance of the service directive as less important than other issues.

### c. National corporate tax policy. Rank 7 of 7. ( $M=0.60$ , $SD=1.02$ )

In budget terms, the EU is a light weight agent with less than 1 % of EU GDP in its command as an organisation, or just above 2% of Europeans public spending. Clearly national fiscal policy will carry a lot of weight and the tax issue is at the heart of this policy. The economic crisis will partly have to be handled with lowering expense and increased fiscal income or combinations of these. Unlike other economic actors, governments can work very long term and some of the debate implies planning horizons of several decades to clean up the books. Not least the Danish finance minister underscored this in his statement during the Summit. He also added that broadened tax bases, such as climate taxes, are likely to be part of the solution.

The issue here concerned the corporate tax rather than total tax pressure. Here the spread is large with many different opinions perhaps reflecting the great variety of background of the summit audience – all are not representing businesses. However the mean opinion is that corporate tax levels have relatively little impact for growth. This is perhaps recognition of the fact that these taxes are paid only if there are profits to tax in the first place. We are not there yet.

**d. Research and education policy of the EU. Rank 3 of 7. ( $M=1.20$ ,  $SD=0.60$ )**

It is unsurprising that the research and education policy of the EU is ranked high. More interesting is the low variance in the answers. Apparently there is wide agreement that this is of large importance for growth in the long term. This makes this policy area the overall winner of the survey.

If you ask the summit audience, this is where to put the money.

**e. Baltic Sea Strategy of the EU. Rank 3 of 7. ( $M=1.20$ ,  $SD=0.95$ ).**

The common BSR strategy of the EU has been long in the coming and much in demand, not least by the BCCA, who called for a consolidated strategy since its foundation in 1992. That it now exists is alone a step forward in this sense.

The summit audience also places great hopes that it will be helpful in achieving growth, even if there are many who are sceptical which is evident from the relatively high variance at 0.95.

**f. Environment policy of the EU. Rank 1 of 7. ( $M=1.27$ ,  $SD=0.89$ )**

Sweden's PM Fredrik Reinfeldt warned that some leaders tend to view climate action as a cost, something for which economic compensation is needed. By contrast, Mr Reinfeldt saw climate policy and growth as complementary forces. The Summit audience agrees with him. Environment and growth are not opposites. This is underscored with great emphasis in the survey which point to the environmental policies as the single most important determinant for growth long term. Mr Rifkin will be pleased.

**g. European Central Bank interest rates. Rank 6 of 7. ( $M=0.73$ ,  $SD=1.00$ )**

This issue reflects several things. First, the level of impact of monetary policy over fiscal and European public affairs. Secondly, the current importance of the Euro in a region which has many trade currencies. Thirdly there is the view that interest rates are a compounded "executive summary" of the whole economy.

From the floor, the summit does not view this as the great determinant of long term growth. Perhaps they are of the school that sees rates as a mirror of policy rather than a maker of it.

### **3. A word on method**

The BCCA Policy forecast survey is based on the notion of distributed knowledge. In a world with a high level of education and many knowledge workers, the model of many asking an enlightened elite for advice has limited merit. At modern conferences there is often just as much knowledge in the audience as on stage.

There are many models to exploit distributed knowledge on a certain topic. One is the Delphi forecasting technique. This is based on asking a number of experts on a topic (5-20 preferably with different forms of access to the issue) to make estimates and collect these via a moderator. The moderator summarises and distributes the answers in several rounds to the experts. Over time this kind of iteration results in a consensus. Some research shows that the Delphi model has higher predictability than other methods. Many organisations use variations of Delphi forecasting in budgeting and other activity. A simple and related notion is used in the media when simply averaging the forecasted growth predictions of several banks.

A related notion is popularised in the book *The Wisdom of Crowds* which exemplifies that in certain circumstances a collective of amateurs are better at prediction than a few experts.

The condition for all these is that there is real independence (and anonymity) between those taking part, real diversity of knowledge and decentralisation of information.

This survey is not necessarily fulfilling all these criteria and is not based on iteration of several rounds of guesses from the same people as in Delphi forecasting. Some of the issues of the survey are also hard to frame in this context. Caution is therefore prudent in interpreting the results.

The survey is however done to underline the importance of considering that knowledge is distributed not least regarding international policy issues such as these discussed in the Baltic Sea Region. It also seeks to exploit the expertise gathered at the Baltic Development Forum 2009 beyond the invited speakers.

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