

## 4. GROWTH AND COMPETITIVENESS IN A CRISIS DIFFERENTLY AFFECTING THE EUROPEAN TERRITORIES

*Lidia Mierzejewska <mierzeja@amu.edu.pl>  
Institute of Socio-Economic Geography and Spatial Management  
Adam Mickiewicz University (Poznań, Poland)*

### 4.1. Introduction

Sustainable growth, in addition to smart growth and inclusive growth, is one of the three key priorities in the EU2020S. It is understood as promoting a resource-efficient economy which would be more eco-friendly and more competitive than in the 20<sup>th</sup> century. Therefore growth, defined in this way, is closer to the concept of development, although it is worth emphasising that development would be impossible without economic growth. For these reasons, economic growth continues to be one of the major objectives of various strategic documents drawn up at the EU, national, regional and urban level.

The socio-economic changes taking place in the world today which result from the processes of globalisation and integration of the global economy, require a new approach to economic growth. One such example is the competitiveness between the individual subjects, which is perceived as the main driving force of development, and which is the result of uniform global demand, gradual elimination of transfer barriers, uniform standards and norms, as well as progress in ITC technologies (Wdowicka, 2008).

The terms “competitiveness” and “competition” have been known for a long time, both in theory and in economic practices. The term “economic competitiveness” is used to refer to enterprises, industries, municipalities, regions and whole national economies. Simply speaking “competition” can be defined as a process of rivalry between economic entities seeking to achieve similar goals (Stankiewicz, 2001). The term competitive enterprise does not raise many controversies, as opposed to evaluating the competitiveness of a city, region or country, which probably stems from the different nature of competition (Golińska-Pieszyńska, 2008).

Competitiveness of the national economy is determined by the ability to create more wealth than that created by competitors in the global market. This ability results from the process of transforming the resources of a given

country (mostly natural resources) through economic processes (e.g. manufacturing), into economic effects (Jodkowski, 1995). The level of competitiveness is determined mainly by: (1) economic potential, (2) internationalisation of the economy, (3) economic policy, (4) financial system, (5) infrastructure equipment, (6) management, (7) the scientific and technological level and (8) human capital (Wdowicka, 2008).

The competitiveness of cities and regions is usually defined as the ability to adapt to the changing conditions, while paying special attention to maintaining or improving one's position in the ongoing rivalry between regions and cities (Komorowski, 2000; Chmielewski and Trojanek, 1999; Cybulski, 1999; Winiarski, 1999). This changeability is a distinctive feature of the contemporary world and it mainly concerns economic issues, such as the global crisis which has been present since 2008, but also social, cultural, political and technical issues as well. Rivalry takes place above all over: reaching a higher level of development, the importance in terms of space, having access to external benefits, financial resources, attracting the most efficient and most dynamic companies, investors or institutions, and human capital (Wdowicka, 2008). The measure of competitiveness is the ability to make use of the available production factors, and on their basis form such economic structures which will guarantee long-term and effective development to ensure a high level of income (Wdowicka, 2008; Klamut and Passella, 1999).

Worth noticing is the approach to competitiveness presented in the studies of the European Commission, where a competitive European economy is one, in which the society can maintain a growing standard of living, assuming of course that the balance of payments and the welfare of future generations are not threatened (Radło, 2003). This definition, therefore, emphasises the rising standard of living (wealth and also the level of prosperity of the population) and the welfare of future generations, which refers to the need for sustainable growth. Therefore, there is no doubt that the levels of economic growth and competitiveness are strongly connected to each other.

Since the beginning of economic sciences, there have been attempts to explain the phenomenon of unequal distribution of wealth in an economy and the reasons for these widening disparities, despite simultaneous increase in the absolute standards of living due to technological progress. The analysis of regional disparities of economic growth can be categorised as one of the main research trends within the framework of geography, and regional geography in particular. There are a number of different theories and models which attempt to explain the geographical diversification of economic growth and prosperity of societies. One example is F. Perroux's growth pole theory

which states that there are certain areas which are particularly privileged and favourable because of their conditions of development called centres or poles of growth, and areas which are still in a much worse situation (Parysek, 2006; Hermansen, 1974; Klaassen, 1974).

Another theory which attempts to explain the different levels of regional development is Friedmann's (1967) core and periphery model. This model is an outline of the spatial structure of the regional system based on the assumption of unequal development, and it describes the nature of the relative location of rich and poor regions in a given system. The main components of the regional system in this model are the core regions, which are characterized by high levels of socio-economic development, and the peripheral regions, which are adjacent to the core regions, yet they represent a low level of development. This perspective corresponds to Boudeville's concept of polarised regions, which lies within the category of nodal regions (Czyż, 2002).

The transformation processes which have been taking place in Central Europe after the enlargement of the EU in 2004, seem to confirm the conclusions of the "centre-periphery" model according to which Western Europe is an attractive "centre" of economic and cultural strength which attracts "peripheries", i.e. the less developed countries in the immediate vicinity and those further away. The driving force of the EU's enlargement process is the assumption that membership in the integration group, naturally creates favourable conditions for reducing development disparities. This, in particular, results from the fact that the primary objective of the European Union is to equalize the level of development of its individual members. The convergence hypothesis suggests that under favourable conditions economic development in different countries may even out (Ptaszyńska, 2008).

In this paper the analysis focuses on differences and changes in the level of economic development and competitiveness of the EU member states and regions at the time of the world economic crisis. The crisis, triggered by the collapse of the subprime mortgage lending in the United States, started a heavy financial and banking crisis also in other parts of the world, including Europe, and spread on to other sectors of the economy.

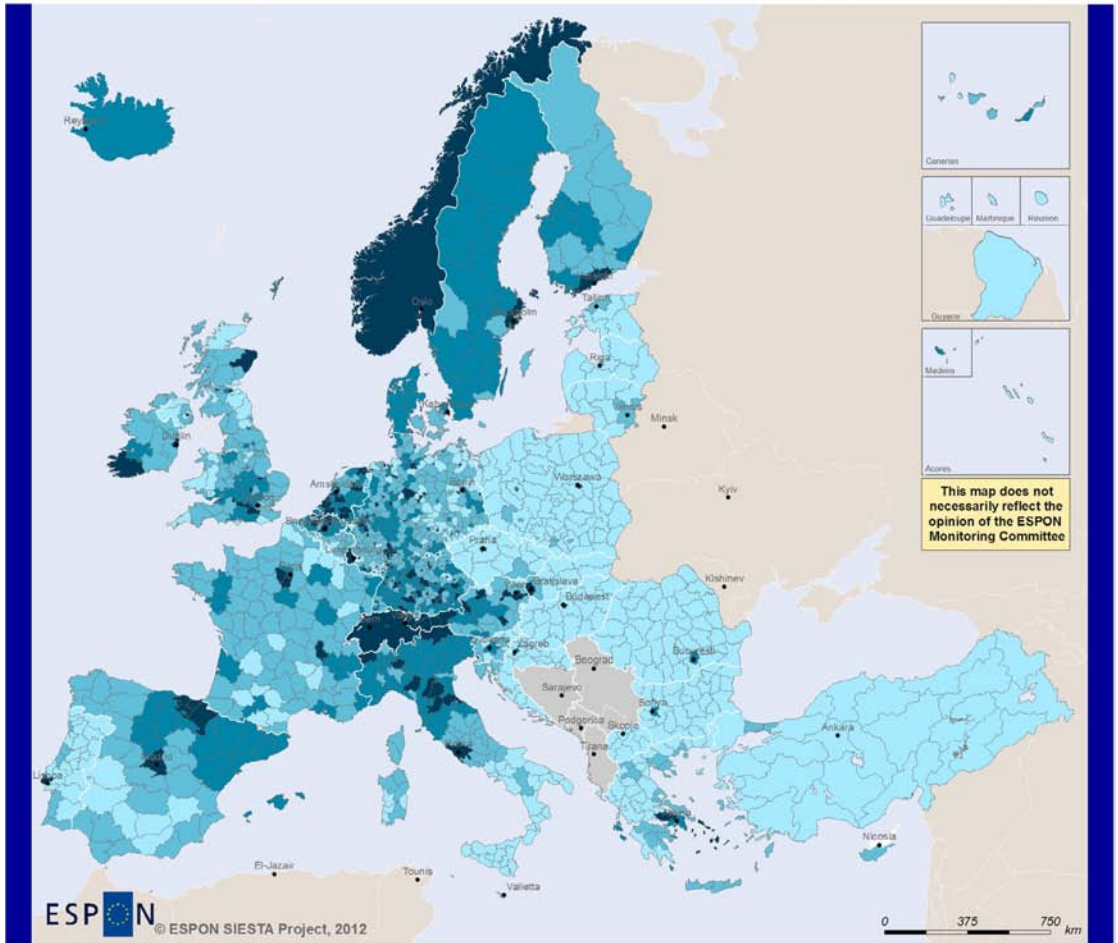
## **4.2. Gross Domestic Product per Capita**

One of the main indicators which shows the level of regional development and the wealth of societies is GDP per capita in pps eliminating the differences in price levels between countries, according to EUROSTAT regular calculations. It also enables to make interregional comparisons which are particularly rele-

vant when implementing the EU cohesion policy (convergence) and building European competitiveness in the global arena.

When analysing the spatial distribution of GDP per capita in pps in 2009, a division is evident between the East and the West which remarkably follows the Iron Curtain pre-1989 (Map 4.1). The poorest regions are located in Eastern countries such as Bulgaria, Romania or Macedonia, where GDP per capita in PPS is 50% or less of the EU27 average. The fact that most of these Eastern countries are now members or candidate countries of the EU provides an opportunity for closing the gap with Western Europe. These are mostly countries of the former so-called Eastern Bloc, where the communist regime and the ideology of socialism acted as a brake on economic and social development, and whose economies, which operated within a command-and-quota system were, and still are difficult to adapt to the requirements of free market economy. The mentality of people brought up on the ideology of real socialism is probably not without significance. According to the Friedmann's (1967) theory, this area can be included to the periphery of EU.

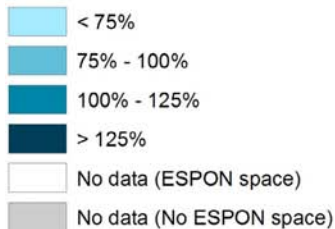
The highest level of economic development and prosperity of the population in relation to the average of the EU27 in 2009 is represented mainly by regions of Western countries of the EU, in particular, the sparsely populated regions of Norway, which in fact, is not a member of the EU, some big and medium-sized metropolitan regions of central Europe and the predominantly moderate mountainous regions of the Alps, but also the regions of Western Germany and the Benelux countries, where GDP per capita in PPS is higher than 125% of the EU27 average. The richest regions in the EU27 countries and EU candidate countries are the metropolitan regions in highly developed countries, such as: (1) the United Kingdom, where the Inner West London region has the highest level of economic growth and prosperity of the population of almost 6 times higher than the EU27 average; (2) Germany, where there are as many as 5 out of the 10 most developed regions in the EU27 (Munich, Frankfurt am Main, Düsseldorf, Schweinfurt, Regensburg); (3) France, where a particularly high level of economic growth is represented by the following regions: Hauts-de-Seine and Paris; and (4) Luxemburg. These are all regions where there are numerous universities, research and developmental centres, technological parks and financial institutions. It is these regions that increasingly develop their economy based on knowledge, and since they offer a high standard of living they attract the creative class, which today is regarded as one of the most important factors of urban development (Stryjakiewicz, 2010; Kopel, 2007; Florida, 2005). Metropolitan regions can be treated as growth poles of the EU.



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**PPS per inhabitant in % of EU average (EU=100) at current market prices, 2009.**



Notes:  
Data for ES and TR are shown for 2008  
TR is shown at NUTS2 level.  
IS, NO and CH are shown at country level.

*Map 4.1. Regional GDP per head measured as purchasing power standard in percentage of the EU average (EU=100), 2009.*

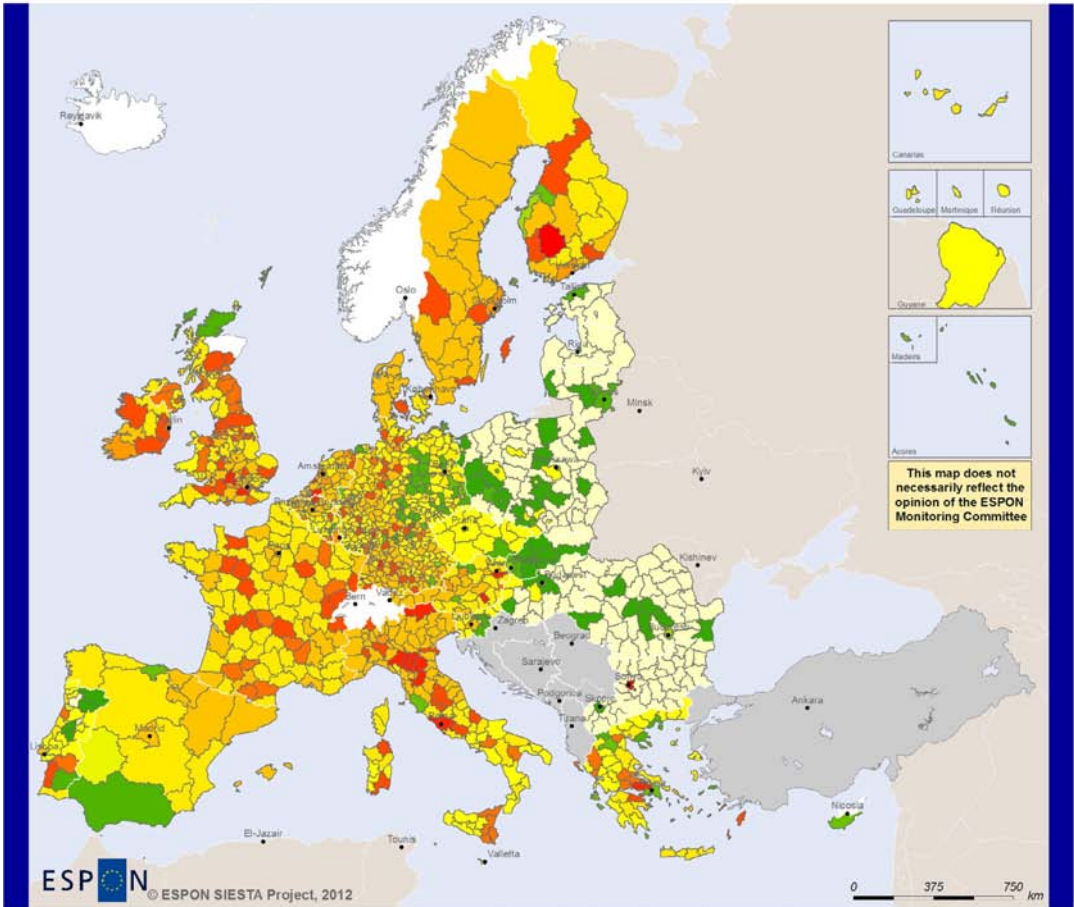
The spatial distribution of the highly developed regions refers to the so-called European Banana (Blue Banana, Hot Banana), which was identified in the 90s of the 20<sup>th</sup> century, and stretched from England through the Benelux countries, Western Germany, Switzerland to Northern Italy. This area can be treated as

the core of EU development. In addition, other nearby regions to this “blue banana” are wealthy in comparative terms, for instance the North-East quarter of Spain (all of them above the 100% average of EU27) or particular parts of Ireland or Scotland, these latter denoting that not necessarily a peripheral location means lower economic levels. Apart from the urban character of regions, significant and positive correlations can be traced between those regions being in a better situation in economic terms and the specialisation in scientific, technological, ICT and financial activities. This shows that the development of advanced services explains a wealthier status and that this might be the appropriate strategy for the regions lagging behind.

### **4.3. Growth Measured as Gross Domestic Product per Capita Variation**

A somewhat different situation can be observed looking at the map presenting changing in GDP per capita (expressed as a percentage) in 2000-2009. To a large extent, it illustrates how individual regions were affected by fluctuations in the global economic situation, or how well they coped at the beginning of the crisis, which is still going on. One notable aspect is a clear division into two groups (Map 4.2):

- The first group includes Eastern countries, most notably Romania, whose regions displayed a very dynamic growth of GDP per capita (some regions even doubled the pace of economic growth in the examined period), and Slovenia, Lithuania, Latvia, Estonia, Poland, Slovakia, Bulgaria, and the Czech Republic. With few exceptions, these managed to achieve economic growth. It should be noted that the countries are newcomers to the EU and in most cases use their own currencies rather than the euro.
- The other group of states is all the remaining ones in the examined area, i.e. all EU states not listed above, where GDP per capita changes in 2000-2009 were minor or negative. The most seriously affected regions were located in Central and Western Europe, in particular in France, Italy, and Greece, but also the UK, Ireland, Sweden, Belgium, the Netherlands, Denmark, Portugal, Austria and Germany. The group includes mostly well developed economies, including Eurozone members.



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**Change of GDP per capita, 2000 - 2009.**

		2009				
		<50	50-75	75-100	100-150	>150
2000	<50					
	50-75					
	75-100					
	100-150					
	>150					

□ No data (ESPON space)    □ No data (No ESPON space)

Notes:  
DK change is shown for 1999 - 2009.  
ES is shown at NUTS2 level.  
Regional data are not available for  
NO, CH, IS, TR, MK, ME, XK, BA, AL, RS, UKM62 and UKM50.

*Map 4.2. Change in regional GDP per head measured as purchasing power standard in percentage of the EU average (EU=100), 2000-2009.*

Among the ten most dynamically developing European regions in 2000-2009 as many as seven were regions of Romania. The highest rate of economic growth was recorded for the Romanian regions of Ilfov (228.57%), and Timiș, Sibiu, Prahova, Argeș, Brăila, and Giurgiu, for Southern Ostrobothnia in Finland, and for the South-Western Region and Sofia City in Bul-

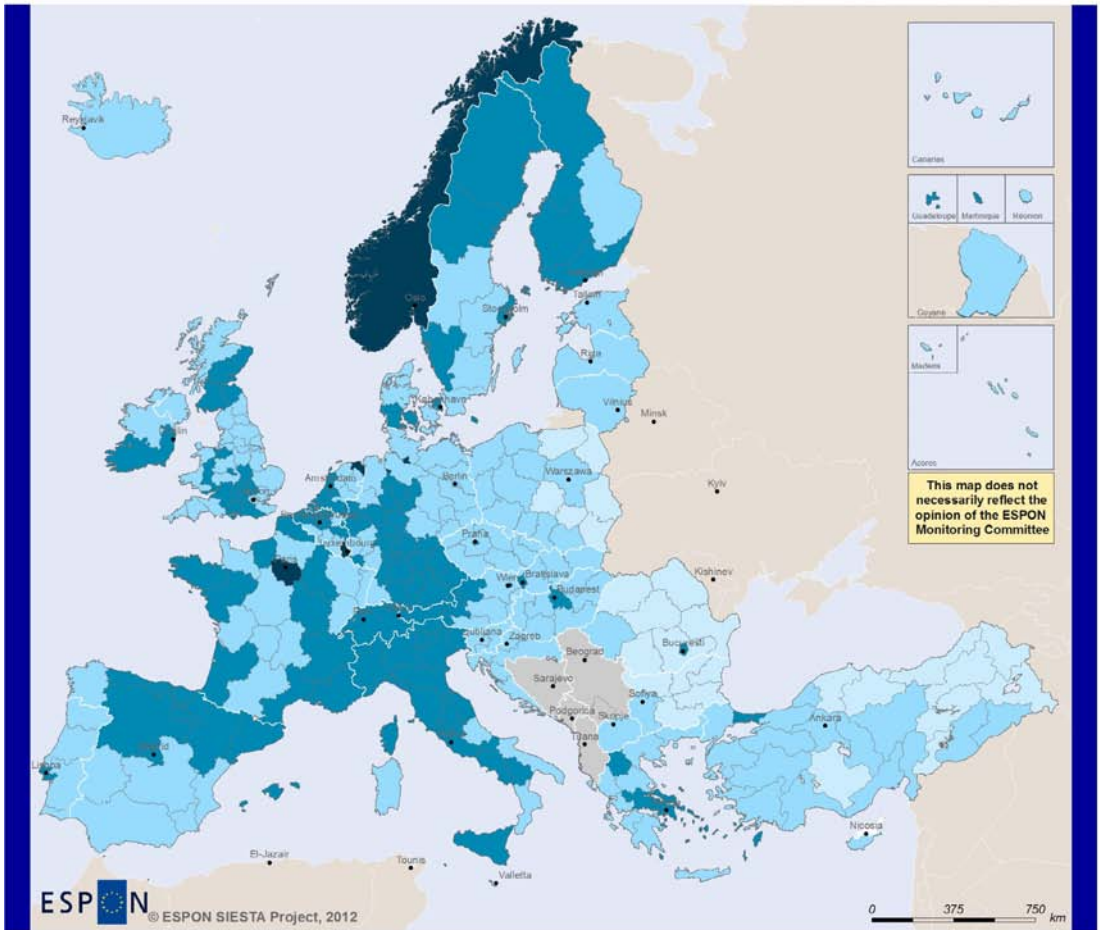
garia. In all these regions GDP per capita grew by at least 100%. The regions most hit by the crisis were ones commonly considered to be economically well-developed, including Pirkanmaa in Finland, with the most severe negative growth of GDP per capita, amounting to -67.97%; Arrondissement of Virton in Belgium, Leverkusen; Heilbronn in Germany; Powys, Swindon, Coventry and Sefton in the United Kingdom; and Korinthia and Voiotia in Greece. The growth of GDP per capita there was negative and amounted to less than -25%.

The clear trend of several of the regions in less developed member states to converge, together with the fact that disparities are slowly being reduced, is an indicator that territorial cohesion is occurring. However, the uncertainty around the EU cohesion policy post-2013 poses major threats to this trajectory.

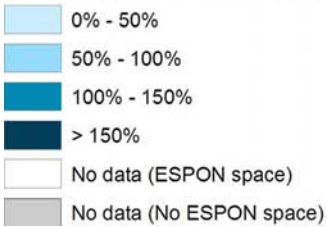
#### **4.4. Labour Productivity**

An important factor determining both the efficiency and competitiveness of the economy is labour productivity. Improving labour productivity in individual regions, as well as attracting investors is attributed to the fundamental importance of improving economic performance and helping underdeveloped regions catch up (Laissy, 2008). However, this requires the ability to use the synergy that exists between labour productivity and labour quality, and the level of employment.

When analysing the spatial distribution of labour productivity in European regions in 2008, certain regularity can be easily noticed (Map 4.3). Thus not surprisingly an overall East/West divide (with the former in a worse situation than the latter) is perceptible. In addition, both share higher levels in metropolitan and urban than in rural areas. In the Eastern part there are regions of very low labour productivity (less than 50% of the EU27 average) and low labour productivity (50-75% of the EU27 average). These are generally regions of the countries which joined the EU in 2004 or later and the candidate countries. The worst situation is in the Eastern regions of Poland, Turkey, and in almost all of Romania and Bulgaria. The situation is slightly better in this respect in Lithuania, Latvia, Estonia, in the Western regions of Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Macedonia and the Western regions of Turkey. Only some regions of this part of Europe have obtained an average level of labour productivity (75-125% of the average productivity of the EU27), or a level even higher than the average level of labour productivity and these are mainly the areas of capital cities (e.g. Prague, Bratislava, Bucharest, Sofia).



**Percentage of EU27 average (%), 2008.**



Notes:  
Labour productivity per person employed was calculated as the ratio of the regional GDP in millions of PPS between the total number of employees.

*Map 4.3. Regional labour productivity expressed in relation to the EU27 average (EU27=100), 2008.*

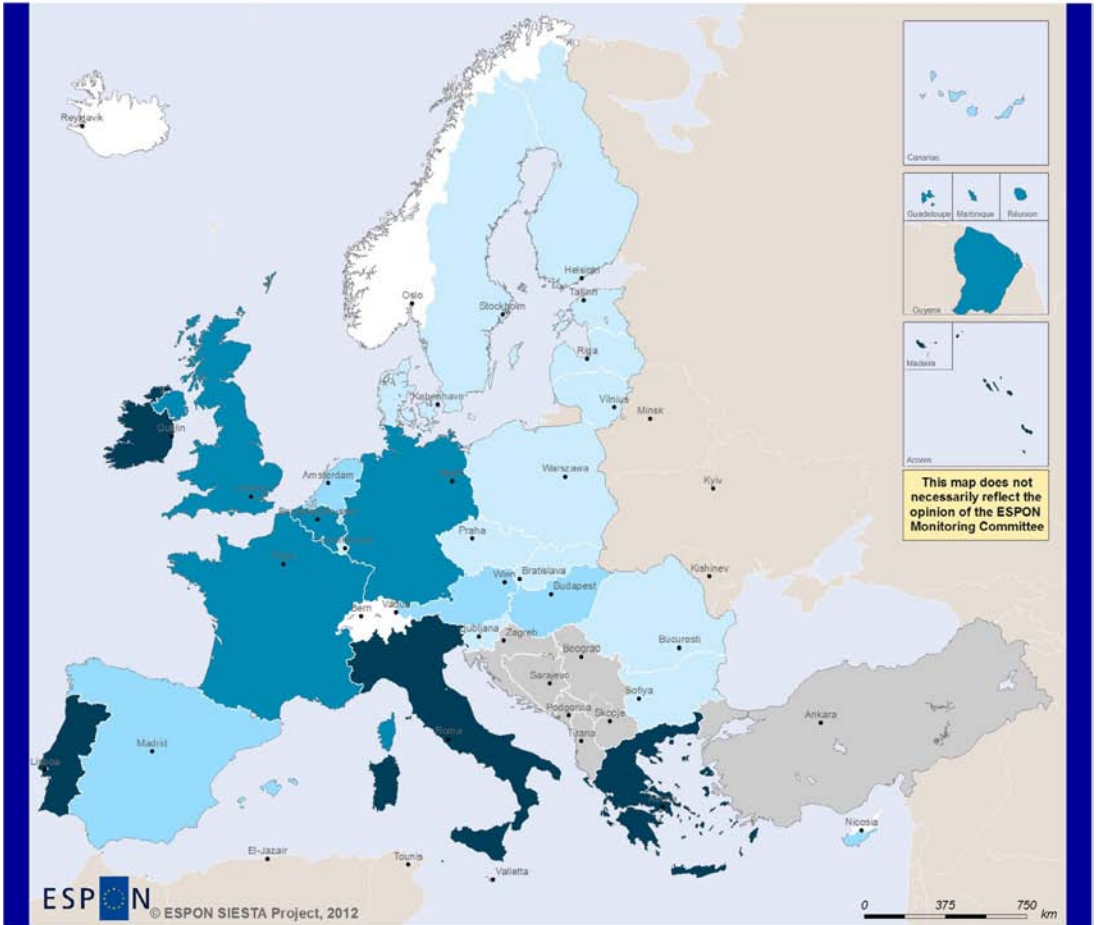
A significantly higher level of labour productivity is represented by Western and Northern parts of the analysed regions which belong to the former EU15 countries, although even among these regions there is certain variation. A significantly lower level of productivity (50-75% of the EU27 average) is present in the westernmost regions of Europe, especially in Northern and Western parts

of Great Britain, and Portugal. The remaining regions of the European countries represent a level similar to that of the EU27 average level of labour productivity. A detailed analysis of regional productivity presents itself as follows: Inner London (302%) is at the head of the 10 regions with the highest labour productivity, more than three times the average of the EU27. Luxemburg (298.96%) has a slightly lower level of labour productivity. Then, there is the following order: Brussels, East Groningen, Hamburg, Paris, Bremen, Vienna and Prague. Norway is also included in this group. Therefore, the greatest labour efficiency is obtained in large cities and metropolises of continental and world level, which is confirmed by the fact, that cities play a fundamental role on the economic map of the world, as they are a source of economic growth, innovation, creativity and competitiveness (Parysek, 2005).

The improvement of productivity in lagging regions (mainly located in Eastern Europe) should come by increasing the level of technological progress and improving the quality of human capital, which are closely related factors. In this respect, it is evident that advances in competitiveness are quite dependent on the pillar of smart growth (innovation and education). However, technological progress may increase labour productivity, at the same its associated reaction may be job losses. In this respect, there are complex relations between labour productivity and (un)employment.

#### **4.5. General Government Gross Debt (Maastricht Debt)**

A high level of government gross debt is an indicator of a poor financial condition of a given country and is usually considered a threat to its economic and social development. Government debt in EU is measured according to the Maastricht criterion. The Maastricht criterion stipulates that the debt-to-GDP ratio in both member states and candidate countries cannot exceed 60% and the deficit-to-GDP ratio can be no higher than 3%. The analysis of those ratios allows comparing the performance of the member states and identifying countries failing in the struggle against the crisis and requiring appropriate actions to be taken to sustain their development in compliance with the EU2020S. The EU2020S itself does not focus on debt, but the reports aiming to assess the EU2020S fulfilment among countries (so-called Annual Growth Surveys) do contain a specific section devoted to debt, as this is understood to be a macro-economic condition with important effects and it is even considered a kind of “pre-requisite for growth”.



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**% of GDP, 2011.**

- < 60%
- 60% - 80%
- 80% - 100%
- > 100%
- No data (ESPON space)
- No data (No ESPON space)

*Map 4.4. Public gross debt (Maastricht debt) represented as percentage of GDP, 2011.*

In 2011 the level of government debt varied from 5% to as much as 165.80% of GDP across the EU countries (Map 4.4). It can be assumed that the countries in the South and West of the EU recorded a higher level of government debt than the countries in the North and East, including the newly

joined ones (Map 4.4). Estonia is the least debt-laden EU country, with Maastricht debt at 5.8% of GDP. It is simultaneously the sole member state whose level of government debt is below 10% of GDP. In 2011 Estonia was followed by Bulgaria and Luxembourg with government debt ratios lower than 20% of GDP, and Romania, Sweden and Lithuania with the figures below 40% of GDP. The highest level of debt to GDP was recorded in Greece at over 165% of GDP. The state of Greece's public finances is the worst in the EU. Slightly better off are Italy with 120.7% of GDP, Ireland (104.6% of GDP) and Portugal (100.9% of GDP). In the rest of the EU countries the level of government debt was lower than GDP, but in Belgium, France, the United Kingdom and Germany it remained very high, standing above 80% of GDP. What makes the situation all the more alarming is that the highest debt to GDP ratio is recorded in highly economically developed countries, mostly the Eurozone members.

Many would agree with the opinion that budget balance cannot be treated as a mandatory and key criterion when evaluating the fiscal and economic situation of a country (Owsiak, 2006). But it must be remembered that creating a deficit and government debt as its consequence requires a great deal of prudence, and that the deficit amount should be well grounded in reality, justified by social and economic benefits and in consideration of the future burden for the budget (Kozioł, 2010). It is of utmost importance in a situation where sustainable growth, central to the concept of intergenerational equity, is one of the pillars of EU2020S.

#### **4.6. Conclusions**

Undoubtedly, the scale of the negative economic changes that have affected European regions for the last few years, including a clear economic slowdown, as well as a drop in the level of consumption and level of affluence of the society, is an effect of the global banking and economic crisis that started in 2007 with the sub-prime mortgage crisis in the United States. The real economic slump, a product of the financial market crisis, spread from the United States to many a part of the world. Its effects were particularly adverse for European countries. Stock exchange tumbles and falling property prices dramatically reduced the valuation of household assets, particularly in the most developed countries, which contributed to a major reduction in consumer spending. The financial crisis hampered businesses' access to borrowing and increased its price, which had a particularly adverse effect on large companies using this form of funding. Falling property prices, in turn, led to a slump in the construction sector, the more severe, the stronger the earlier housing

construction boom. All the above contributed to increased unemployment and consequently worsened consumer moods, reflected in reduced consumption (Orłowski *et al.*, 2010). Therefore, the causes of the crisis in European regions and entire countries may be traced back to both external (global) and internal factors (within the EU).

When analysing changes occurring on the global scene, particular attention is paid to the following (Socha *et al.*, 2009): (1) dramatic changes in the balance of economic power in the world and the accompanying instability, (2) rapid globalisation processes, (3) rapid demographic changes, (4) rapid development of the derivatives market, (5) rapid development of financial markets, and (6) disastrous economic policy mistakes (especially of the US, but not only).

In terms of endogenous factors, the following are considered to be the main causes of the economic problems of European regions and countries (Orłowski, 2011): (1) demographics (the ageing Western European societies require new workers to sustain growth), (2) the problem of cultural identity and limited capacity to absorb immigrants into the society, (3) the attachment of citizens to the idea of the great welfare state, ensuring a level of social security unseen in other parts of the world, (4) troubles in the Eurozone, an effect of inability to cooperate effectively or act together, and (5) the inability to remain competitive and sustain a satisfying level of economic growth.

At the same time, it is stressed that Europe was not able to cope with globalisation or fully take advantage of the mechanisms of economic growth based on knowledge and intensive use of human capital, which made it the continent with the lowest growth rate, losing its position to new superpowers emerging in Asia (Orłowski, 2011; OECD, 2003). Some researchers believe that one of the causes of the crisis in the EU was paradoxically its enlargement, which made the club a far less homogenous aggregate of states and problems, whose political energy was from then on focused on ensuring just any cohesion (Kuźniar, 2011). Also a paradox, the crisis affected most strongly the countries of the old fifteen members (EU15), which make up the core of the monetary union (the Eurozone). According to some authors, one of the most important problems of the Eurozone is a misconceived institutional system (Arestis and Sawyer, 2011; Grosse 2011). One of its features is the centralisation of the monetary policy on the union level, with the decentralisation of fiscal policy on the level of member states (Grosse, 2011; Oreziak, 2009; Dyson 2008). The EU lacks proper financial instruments to allow for structural changes in the Eurozone economy on the one hand and to react to critical situations in the individual Eurozone countries on the other. It is also

pointed out that the joint monetary policy in the Eurozone increases the differences between fiscal policies, which are the basic instrument for spurring the economy. This diversity is additionally an effect of differences in the social and economic institutions in place in each country and in the phases of the business cycle (Grosse, 2011).

In any case, today's Europe, especially Western Europe, has had a rather rough experience with the effects of the crisis and is anything but an economic and social paradise. Still, in many areas it remains a power able to compete for a leading position in the world. To overcome the current, unfavourable trends it needs both decisive action and self-confidence (Orłowski, 2011).

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