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STATE AID IN THE NORDIC COUNTRIES AS ONE OF THE FACTORS ENSURING SOCIAL SECURITY

Introduction

The Nordic countries are characterized by high living standards and the low number of people at risk of poverty or social exclusion. Comparing the statistics in this regard with the average indicators for the European Union the high position of Denmark, Sweden, Finland - as members of the EU and EFTA can be easily noticed. Similar indicators are characteristic for Norway and Iceland, which, together with the European Union member states form the European Economic Area (EEA). In these countries both the high living standards and the high level of social care are the result of the welfare state policy. One of the tools of this particular policy is providing the citizens with social aid, which is expected to produce the long-term positive results.

1. The socio - economic situation in the Nordic countries in the context of social security

Providing social security is one of the challenges facing Europe today. The term of social security is in the literature defined in many ways. However, individual authors draw attention to the much broader context of this concept than just social security issues. In addition to providing material support for individuals, the state and non-governmental organizations should ensure both appropriate living standards and acceptable quality of life as well as offer the citizens

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opportunities to realize their aspirations².

The need to increase attention to the problems resulting from insufficient levels of social security in economically developed countries has been highlighted as a result of the financial and economic crisis in the first two decades of 21st century. The gradual deterioration of the labour market and thus the increase in the risk of poverty and/or social exclusion have become particularly palpable. The negative effects of the crisis coincided with the adoption of the European Union Strategy for Europe 2020 - a strategy for smart, sustainable and inclusive growth³.

These priorities are fully implemented in the Nordic countries, regardless of whether they are members of the EU or EFTA. As far as social security issues are concerned, particular attention should be paid to the priority of inclusive growth. For this reason, this paper presents the analysis, which covers the situation on the labor market and the threat of poverty and / or social exclusion.

The global unemployment rate in all of these countries is much lower compared to the EU average. The only exception in this regard is youth unemployment in Sweden, which is equal to the EU average in this category. A very low unemployment rate in Iceland and Norway (see table 1) should be pointed out. The analysis of the presented data leads to the conclusion, that in spite of the gradual deterioration shown by socio-economic indicators for the EU, the situation has improved in all the Nordic countries since the adoption of the Strategy Europe 2020.

Table 1: Unemployment rate for the total population and the youth unemployment rate in the Nordic countries in the years 2006-2013 compared with the European Union.

	Unemployment	2006	2008	2010	2013
UE -28	total	8,2	7,0	9,6	10,8
	youth	17,6	15,8	21,1	23,4
Denmark	total	3,9	3,5	7,5	7,0
	youth	7,7	8,1	13,9	13,0
Iceland	total	2,9	3,0	7,6	5,4
	youth	8,2	8,2	16,2	10,7
Finland	total	7,7	6,4	8,4	8,2
	youth	18,7	16,5	21,4	19,9
Norway	total	3,4	2,5	3,6	3,5
	youth	8,8	7,3	9,2	9,1
Sweden	total	7,1	6,2	8,6	8,0
	youth	21,5	20,2	24,8	23,4

Source: author's own compilation based on Eurostat database.

² Theoretical aspects of social security see, i.a. in: J. Gierszewski, *Bezpieczeństwo społeczne. Studium z zakresu teorii bezpieczeństwa narodowego*, Warszawa 2013; M. Leszczyński, *Bezpieczeństwo społeczne wobec wyzwań XXI wieku*, Warszawa 2011; A. Skrabacz, *Bezpieczeństwo społeczne. Podstawy teoretyczne i praktyczne*, Warszawa 2012.

³ See: European Council Conclusions, Brussels, 17 June 2010 (EUCO 13/10); European Commission, Communication from the Commission, Europe 2020 strategy for smart, sustainable and inclusive growth, Brussels, 3.3.2010 COM (2010) 2020.

The problem of unemployment should be considered not only in terms of the state, but also regionally. This is particularly important in countries characterised by diverse economic and social potential. The characteristic feature of the Nordic area is a low, not exceeding 10%, unemployment rate in all the regions. In 2013 differences in the unemployment rate ranged from 1 percentage point in Denmark to 3 percentage points in Sweden⁴. Moreover, the lowest level of long-term unemployment (lasting at least 12 months)⁵ is another common feature of the Nordic countries. It should be emphasized here, that a large part of the territories of the Nordic countries have been classified as sparsely populated areas, which naturally makes unemployment indicators higher⁶.

The unemployment rate is only one of the factors indicating the situation in the labour market. Equally important, indicating the actual number of people in work, is the employment rate. In this context, the EU Commission recommended that 75% of the population aged 20-64 should be employed. Staying within this demanding target is a great challenge for many of the EU Member States, as some of them have set the target of employment rate at a lower level. This problem does not occur in the Nordic countries, except for Finland, where the employment rates are constantly maintained above 75% (see graph 1). It is estimated, that by 2020 the minimum employment rate in the Nordic countries belonging to the EU will have grown to 78% in Finland, - 80% in Denmark and even above 80% in Sweden⁷.

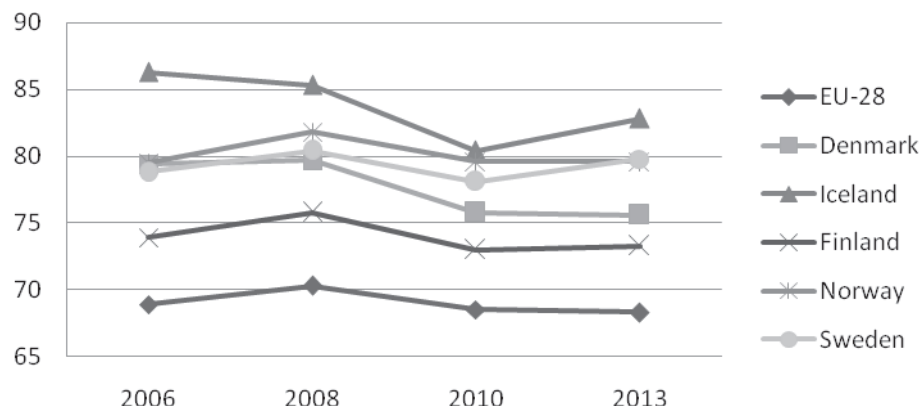
The unemployment rate, both on a national and regional scale, has a direct impact on living standards and the associated negative economic and social effects. In the Nordic countries, the policy of the active involvement of the state is one of the factors ensuring much higher rates of social security levels compared to the average rates in the European Union (see graph 2).

⁴ In Iceland, only two NUTS level 3 regions have been distinguished. In the individual Nordic countries, the unemployment rate was as follows (NUTS level 2): in Denmark between 6.4% in the region of Nordjylland and 7.4% in Hovedstaden, Finland - Helsinki-Uusimaa (6.7%) - Pohjois- I Itä-Suomi (9.9%), Sweden - Stockholm (6.7%) and Sydsverige (9.9%) and Norway - Trøndelag - 2.6% and Oslo og Akershus - 3.9%, based on: *Unemployment in the EU28 Regions in 2013 Regional Unemployment Rates Ranged from 2.6% in Oberbayern to 36.3% in Andalusia*, „Eurostat News Release”, No. 60/2014 of 15 April 2014, pp. 4-10.

⁵ In 2013, the level ranged between 17.7% in Sweden and 25.5% in Denmark. With the EU average of 47.5%, only the rates in Austria were comparable (24.3%). Out of the 11 regions with the lowest level of long-term unemployment 10 were Nordic, on the basis of: *ibidem*, pp. 2-10.

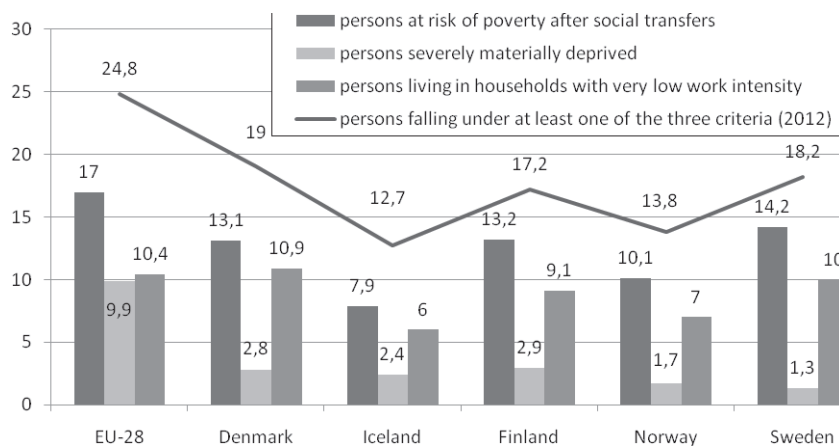
⁶ The issue is dealt with in section 2.2 in the section relating to regional aid.

⁷ Indicators for national headline targets proposed in the Europe 2020 Strategy, see: http://ec.europa.eu/europe2020/targets/national-targets/index_en.htm, [22.05.2014].



Graph 1. The level of employment in the Nordic countries in the age group 20-64 against the background of the situation in the European Union (per cent).

Source: author's own compilation based on Eurostat database.



Graph 2. National at-risk-of-poverty threshold or at risk of social exclusion in the Nordic countries compared with the European Union in 2012 (per cent).

Source: compilation based on: In 2012, a quarter of the population was at risk of poverty or social exclusion at: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-05122013-AP/EN/3-05122013-AP-EN.PDF. At risk of poverty or social exclusion in the EU28. Eurostat newsrelease, no. 184/2013, 5.12.2013r., p. 2.

Comparing the living standards in the EEA is possible by establishing a common framework for the systematic development of the Union statistics on income and living conditions (EU-SILC), pursuant to Regulation No. 1177/2003⁸. The following three indicators: poverty risk, the risk of severe material deprivation and the number of people living in households with low work intensity, were developed within the Europe 2020 Strategy⁹.

Taking into account the statistical data on the risk of poverty or social exclusion, it should be emphasized, that the rate did not exceed 20% in any of the Nordic countries. Only the figures representing a few EU countries are comparable¹⁰. As the high risk of poverty rate results from the differences in income levels across the country, this factor cannot be used to compare the living standards in different countries. Relatively low rates of the population severely materially deprived should be pointed out. The share of those severely materially deprived varied significantly among Member States whereas the share of people living in households with very low work intensity in the Nordic countries belonging to EU was very similar to the average of the European Union.

2. Public aid in the Nordic countries

One of the tools used by the state in order to stimulate economic activity as well as to exert impact on the labour market, and thus on the social and economic situation of its residents is public aid. It can be defined as social support offered by the state addressed at some groups. These can be individuals, businesses, various sectors of the economy. Support from public funds may also be directed to specific regions, characterized by specific features affecting their less competitive position.

Although providing material assistance may be considered incompatible with the principles of competition, it is permitted under certain rules. It should be emphasized, that both the lack of regulation in this matter, allowing the state freedom in this area, and very restrictive approach to the possibility of granting funds to beneficiaries contribute to a number of adverse factors related to the functioning of the state. Taking into account the social dimension of public aid, it should be stressed, that the lack of highly targeted support from the authorities

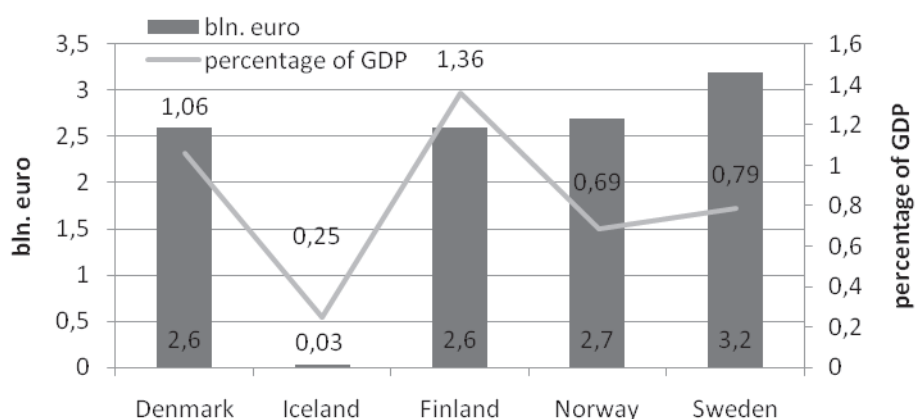
⁸ Regulation (EC) No. 1177/2003 of the European Parliament and of the Council of 16 June 2003, concerning Community statistics on income and living conditions (EU-SILC) (OJ EU L 165, 3.07.2003r.).

⁹ See details in: European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, the European Platform against Poverty and Social Exclusion: A European framework for social and territorial cohesion, Brussels, 16.12.2010, COM (2010) final, pp. 26-28.

¹⁰ The highest at-risk-of-poverty rates were observed in Greece and Romania (both 23%), Spain (22%), Bulgaria and Croatia (both 21%), and the lowest in the Czech Republic and the Netherlands (both 10%), Denmark, Slovakia and Finland (all 13%), based on : *At risk of Poverty or Social Exclusion in the EU28. In 2012, a Quarter of the Population Was at Risk of Poverty or Social Exclusion. Corresponding to around 125 Million Persons*, „Eurostat newsrelease”, no 184/2013, 5.12.2013, p. 2.

could result in the marginalization of certain social groups or regions of the country .

Public aid in the Nordic countries, against the background of average indicators for the European Union¹¹, is a widely used indicator showing the impact of a state on the economy. Except for Iceland, an average level of support for EU Member States is far exceeded (see graph 3).



Graph 3. The amount of state aid in the Nordic countries (in billions Euros and per cent of GDP) in 2012.

Source: author's own compilation based on: http://ec.europa.eu/competition/state_aid/scoreboard/non_crisis_en.html and EFTA Surveillance Authority State Aid Scoreboard for 2012 for the European Economic Area EFTA States, Brussels 2014.

The indicator of the amount of state aid does not reflect the real importance of this form of state intervention both for economic development, as well as the impact on social security. Funding assistance programs should be associated with the implementation of specific, long-term objectives, so that the invested public funds could fuel the economy, and thus contribute to an increase in the number of jobs and wealth of society. These policies are successfully implemented in the Nordic countries¹².

2.1. The legal basis

State aid which distorts or threatens to distort competition by favoring certain organizations or the production of certain goods is incompatible with the internal

¹¹ In 2012 the amount of state aid in the EU-27 was 0.52% of GDP, as cited at: http://ec.europa.eu/competition/state_aid/scoreboard/non_crisis_en.html, [25.05.2014].

¹² See section 2.2.

market to the extent, in which it affects trade between Member States¹³. As far as legal activities in the area of state aid are concerned, Members of the European Union have to meet the criteria stipulated by the provisions of Articles 107-109 of the Treaty on the Functioning of the European Union (TFEU). The Articles define acceptable forms of support, supervision of compliance of aid with EU law and the possibility of introducing secondary legislation defining the application of the law in this regard. On the basis of the Agreement on the European Economic Area (EEA) members of EFTA adopted substantial part of EU standards in the field of the internal market. This also applies to the issue of granting state aid. This is reflected in the Articles 61-64 of the EEA Agreement¹⁴.

In this area, control over the compliance of the activities of the Member States with the EU legislation rests with the European Commission and the Court of Justice of the EU, which, in this regard, deals with appeals against decisions of the Commission. As far as EFTA countries are concerned, analogous responsibilities lie with, EFTA Surveillance Authority (ESA) and the EFTA Court (Court of Justice)¹⁵, established under Article 108 of the EEA Agreement¹⁶.

In addition to the Treaty provisions for the regulation of state aid, secondary legislation has been introduced, which governs the possibility of its use, in particular in relation to the standards of Article 107 (3) of TFEU. The regulations apply to both individual as well collective proceedings.

In the most economically developed countries the main form of support for entrepreneurs is horizontal aid. It is aimed at achieving specific economic and social objectives, regardless of the economic sector and place of business. The main legal instrument in this regard is Regulation No. 994/98¹⁷. On its basis, the European Commission has introduced regulations, declaring certain categories of aid compatible with the internal market and not subject to the declaration referred to in Article 108 TFEU. Among the purposes of the support from the public funds specified by the Council, which are directly or indirectly associated with social security issues, the following should be mentioned:

- for small and medium-sized enterprises;
- research, development and innovation;

¹³ The rules on state aid, which does not fall within the scope of EU law is the responsibility of national competition protection authorities.

¹⁴ Agreement on the European Economic Area, (OJ No L 1, 3.1.1994, p. 3; and EFTA States' official gazettes).

¹⁵ Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice, (OJ L 344, 31.1.1994, p. 3; and EFTA States' official gazettes).

¹⁶ Article 108 (1): The EFTA States should establish an independent supervising body (EFTA Surveillance Authority), as well as procedures similar to those in the Community, including procedures which ensure compliance with the obligations of the Agreement and control by the EFTA Surveillance Authority over the compliance with competition law.

¹⁷ Council Regulation (EC) No 994/98 of 7 May 1998. Concerning the application of Art. 107 and 108 of the Treaty on the Functioning of the European Union with regard to certain categories of horizontal State aid (OJ L 142 of 14.05.1998), As amended by Council Regulation No 733/2013 of 22 July 2013 (OJ EU L No 204 31.07.2013).

- the protection of the environment;
- employment and training¹⁸.

The regulation also lists regional aid compatible with the map approved by the Commission for each Member State as well as the de minimis aid¹⁹.

The practical component of this regulation has been the European Commission's regulations, declaring certain categories of aid compatible with the common market²⁰ and the de minimis, which define the minimum amount of aid, that needs to be notified to the Commission²¹. The purpose of these legal norms was to simplify the system of granting assistance in situations conducive to the development of competitiveness in the absence of adverse effects on other market participants. The former introduces a detailed list of horizontal aid schemes allowed by EU law. Here preferential treatment for small and medium-sized enterprises should be pointed out. The latter defines the forms of aids, which may be granted without the necessity to notify the European Commission. The total de minimis aid granted to any one undertaking must not exceed €200,000 over any period of three fiscal years.

2.2. Horizontal aid in the Nordic countries

There is no conclusive data on the impact of the state aid on the above indicators of economic and social situation compared to other applicable instruments. However, the importance of state aid in more or less direct social security cannot be undervalued. In the Nordic countries, aid schemes are allocated almost exclusively to support horizontal aid. Depending on the country, only priority expenditures may vary (see table 2).

In the list presented in Table 2 much emphasis on issues related to funding programs on research, development and innovation activities to protect the environment can be observed. These programs support the long-term effects, which cannot be directly reflected within a short period of time. They contribute uniquely to the international growth of the competitiveness of the Nordic region, which has immediate impact on both the public finances and the creation of new jobs, which is a direct factor contributing to the decline in poverty and social exclusion.

The legal standards governing the granting of aid meet the provisions stipulated by Article 174 of TFEU concerning the necessity of promoting economic, social and territorial cohesion of the EU. Variation in the level of economic development, and thus the diverse social situation of citizens of the Member States

¹⁸ The list is not exhaustive, see: art. 1 (a) of Regulation No 994/98.

¹⁹ See: art. 1 (b) and 2 of Regulation No 994/98.

²⁰ Commission Regulation (EU) No 651/2014 of 17 June 2014. Declaring certain categories of aid compatible with the common market in application of Articles. 107 and 108 of the Treaty (OJ EU L No L 187, 26.06.2014).

²¹ Commission Regulation (EU) No 1407/2013 of 18 December 2013. On the application of Art. 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid (OJ EU L No. 352 of 24.12.2014).

have required legal action to enable the introduction of the measures to counteract the increasing disparities between the regions. One of such measures is regional aid. It is granted on the basis of Article 107 (3) (a) and (3) (c) of TFEU²². Detailed arrangements for the possibility to grant regional aid in the EEA for the years 2014 - 2020 are governed by the guidelines on regional aid. Such guidelines have been issued in the EU²³, and developed on their basis in the EFTA²⁴. The European Commission or the EFTA Surveillance Authority approve regional maps for each of the Member States for the seven-year periods, which take account of the changes, both within the EEA, as well as within Member States.

Table 2. The amount of horizontal aid in the individual Nordic countries by individual goals in 2012 excluding the aid to combat the effects of the financial crisis (in millions of euro).

Purposes of horizontal aid	Denmark	Finland	Iceland	Norway	Sweden
R&D&I	211,5	230,5	14,85	436,9	119,8
Environmental protection and energy saving	604,2	944,8	-	986,12	2627,2
MSP	1,6	39,3	-	19,42	0,2
Employment and training	1343,0	77,2	0,43	60,51	26,4
Regional development	72,5	56,3	7,21	991,5	82,6
Other horizontal aid	40,5	56,8	3,69	183,19	122,2
Total (in mln. euro)	2273,0	1404,9	26,18	2924,83	2978,4

Source: author's own compilation based on:

http://ec.europa.eu/competition/state_aid/scoreboard/non_crisis_en.html as well as <http://www.eftasurv.int/press--publications/press-releases/state-aid/nr/2178>.

Only the most deprived regions of NUTS can apply for regional aid under Article 107 (3) (a) of TFEU. None of the regions of the Nordic countries meets the criteria established in this regard. Each of the Member States of the EEA is, however, entitled to be granted regional aid under the latter of these legal norms, which allows for regional aid for „areas of a Member State, which are disadvantaged in relation to the national average”²⁵. This area is defined in the adopted regional maps, which indicate the proportion of the national population

²² Articles 61(3)a and 61(3)c of Agreement on EOG, respectively.

²³ European Commission, Guidelines on regional aid for the period 2014 - 2020 (OJEU C 209 23.07.2013), hereinafter referred to as the Guidelines.

²⁴ EFTA Surveillance Authority State Aid Guidelines, Guidelines on state aid for regional 2014-2020 with 23.10.2013, hereinafter referred to as the State Aid Guidelines.

²⁵ See point 153 of the Guidelines of the European Commission.

eligible for the assistance (see table 3). It seems, that the only circumstance, which entitles the Nordic region to regional grant is a large number of sparsely populated areas (pre-defined areas „c”)²⁶.

Table 3. Percentage share of the population in the Nordic countries eligible for regional aid in the years 2014-2020.

	Denmark	Finland	Iceland	Norway	Sweden
Pre-defined areas “c”	-	24,18	36,5	25,51	12,26
Not pre-defined areas c”	7,97	1,85	-	-	-
Total	7,97	26,03	36,5	25,51	12,26

Source: Author’s own compilation based on national regional maps aid for the Nordic countries for the years 2014-2020.

There is a large group of people inhabiting the areas, eligible for regional aid in each of the Nordic countries, excluding Denmark. The only circumstance of placing these areas on the regional aid map is the low level of population. Comparing the data in Table 2, one can observe a special emphasis on the development of these areas in Norway. An important instrument in this regard is a program²⁷ dedicated to support entrepreneurs²⁸. Its aim is either to increase the population or to prevent the depopulation of the most sparsely populated regions of Norway by stimulating employment. The support is a form of operating aid and is based on reducing labour costs. The degree of the cost reduction is dependent on the location of companies in one of the five geographical areas and ranges from 0 to 12.4%²⁹.

Conclusion

The Nordic countries, particularly Iceland, Finland, Norway and Sweden are situated on the periphery of the map of the European Economic Area. Despite significantly worse competitive position in view of the geographical factor these countries are classified as very high in the rankings of economic and social development. One of the instruments used for this purpose is state aid. It plays

²⁶ Sparsely populated areas: NUTS 2 regions where the population density is less than 8 inhabitants per km², or NUTS 3 regions, where the population density is less than 12.5 inhabitants per km² (according to the Eurostat data, with a population density of 2010). Countries may also be part of these areas or neighboring areas, provided, however, that meet the above criteria, and a total share of areas eligible for assistance does not exceed the set for a given country, the Guidelines, Section 158 - 161 and State Aid Guidelines, p. 149 .

²⁷ State Aid – notification of the Norwegian scheme for regionally differentiated social security contributions, 13.03.2014.

²⁸ Employers social security contributions (employers SSC).

²⁹ Detailed information about the program, including the degree of aid intensity, the origin of aids and a group of businessmen excluded from support, see: *ibidem*.

a crucial role in ensuring social security. Measures aimed at creating new jobs as well as improving the living standards and the quality of life are reflected on the one hand in the amount of resources allocated to this aid and on the other - in the statistics, locating the countries of the Nordic region at the forefront of countries with the highest rates of employment, and the lowest rates of the risk of poverty and social exclusion.

In this regard, the Nordic countries pursue the policy aimed at fuelling the economy, particularly by means of programs offering support in the area of research and development. Their implementation is not effective in a short period of time. It is focused on the long-term objectives, as well as ongoing efforts to create new jobs and gaining professional qualifications. In addition to the economic results, these activities also lead to strengthening the existing social potential and minimizing the risks associated with the lack of employment or low standards of living. Moreover, the activities aimed at the activation of sparsely populated areas should be highlighted. Without support, these areas could significantly weaken their competitive position, which would eventually produce measurable effects on the possibilities to provide social security to people living there.

Among the activities, which are aimed at promoting economic development, different forms of financial support are a frequently used tool in the Nordic countries. Such policy not only produces much better results but it also ensures much more efficient use of the public funds, than in the case of short-term goals. Allocating funds for specified horizontal aid is beneficial both economically and socially.

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Abstract

The Nordic countries (except for Iceland) belong to the EEA countries, which use different forms of state aid extensively. The most common form of public aid is properly targeted horizontal financial support provided in order to achieve long-term economic goals. The results not only produce positive outcome in the field of economy, but they are also reflected in the capacity to provide social security for the citizens. In the Nordic countries there is a very high employment rate. At the

same time, the indicators on the risk of poverty and social exclusion are at much lower level, compared to the EU average.

Pomoc publiczna w państwach nordyckich jako jeden z elementów zapewnienia bezpieczeństwa społecznego

Państwa nordyckie (poza Islandią) należą do krajów EOG, które bardzo szeroko wykorzystują możliwości stosowania pomocy publicznej. Główny strumień wydatków kierowany jest na długofalowe cele gospodarcze poprzez właściwie ukierunkowaną pomoc horyzontalną. Osiągnięte efekty dotyczą nie tylko sfery gospodarki lecz także mają swoje odzwierciedlenie w możliwościach zapewnienia bezpieczeństwa społecznego swoich obywateli. W państwach nordyckich występuje bardzo wysoki stopień zatrudnienia, na znacznie niższym w porównaniu do średniej UE znajdują się wskaźniki dotyczące zagrożenia ubóstwem i wykluczeniem społecznym.

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