



Dipartimento
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EU Model for Inclusive and Sustainable Development Lessons for Asia

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***“Beyond the Global Crisis: A New Asian Growth Model?”
Kuala Lumpur, 18-20 October 2009***

Assignment: EU model of economic development

Different ways of looking at it:

- Country specific vs regional perspective
- Economic and institutional perspective
 - ✓ Market economy
 - ✓ Legal and Institutional framework
 - ✓ Social network and safety nets
- Historical prospective
 - ✓ Short run
 - ✓ Long run
 - ✓ Very long run



Outline

- Very long run perspective:
 - ✓ Look at (VLR) factors of growth
 - ✓ Population and GDP in the last 2000 years
 - ✓ Asia's future (and present)
- What does the EU model teach us?
- Not just one EU model but a set of models



What is a “model”?

What are the factors driving growth?

- ✓ Demography
 - ✓ Technology (capital intensity and quality)
 - ✓ Human capital
- Over a sufficiently long run economic performance and institutions are both endogenous
- What are the exogenous variables?
- ✓ Natural resources (per capita; technology)



In the long run, we are all part of society

- Looking at the very long run “...this topic has more to do with politics and history than with economics.”
(Gordon 2002)
- And we could add philosophy, biology, etc....
- We are left with variables of economic nature:
 - ✓ Growth
 - ✓ Productivity

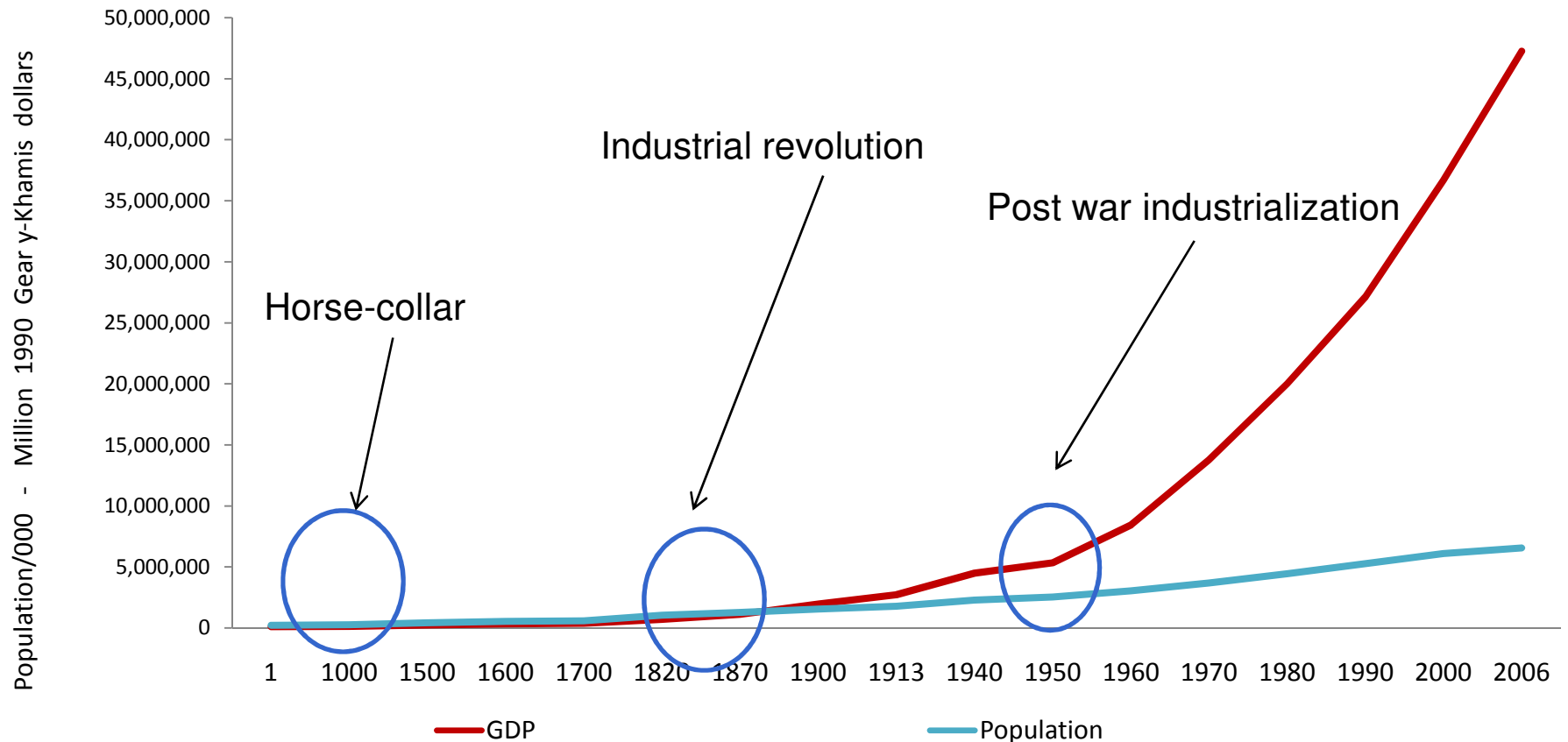


Happiness is ... a warm G

- Typical metric for development is GDP, in absolute terms and per-capita (Market exchange rates vs PPP)
- GDP is an imperfect measure of quality of life and social progress. It does not take into account relevant elements, such as:
 - ✓ Income distribution
 - ✓ Environment
 - ✓ Health, life expectancy
- Alternative measures of GDP: Stiglitz-Sen-Fitoussi Report – at least two Nobel prizes deem relevant investigating the topic



GDP and Population go hand in hand until....

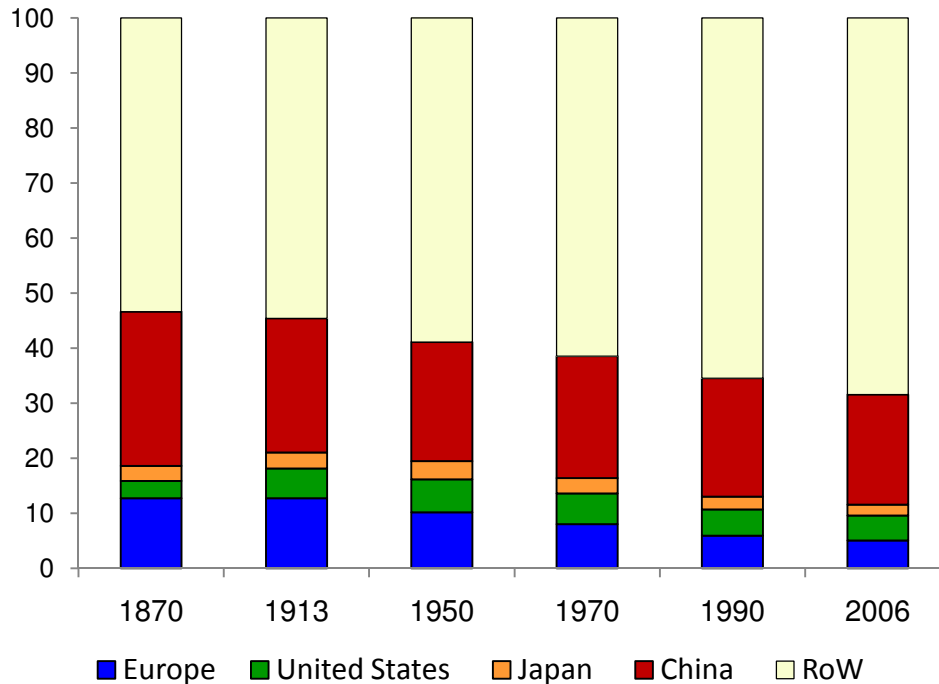


Source: A. Maddison database

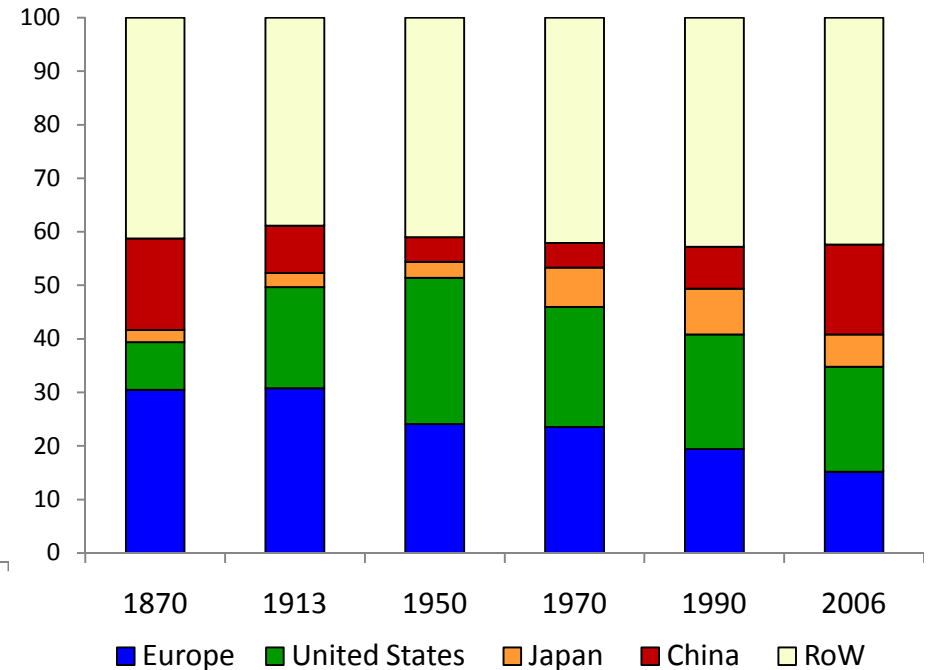
For most of economic history GDP and population growth virtually coincide. The industrial revolution marks the structural break. In the post war period productivity growth accelerates.

GDP and Population now: a different story

WORLD POPULATION SHARE



WORLD GDP SHARE

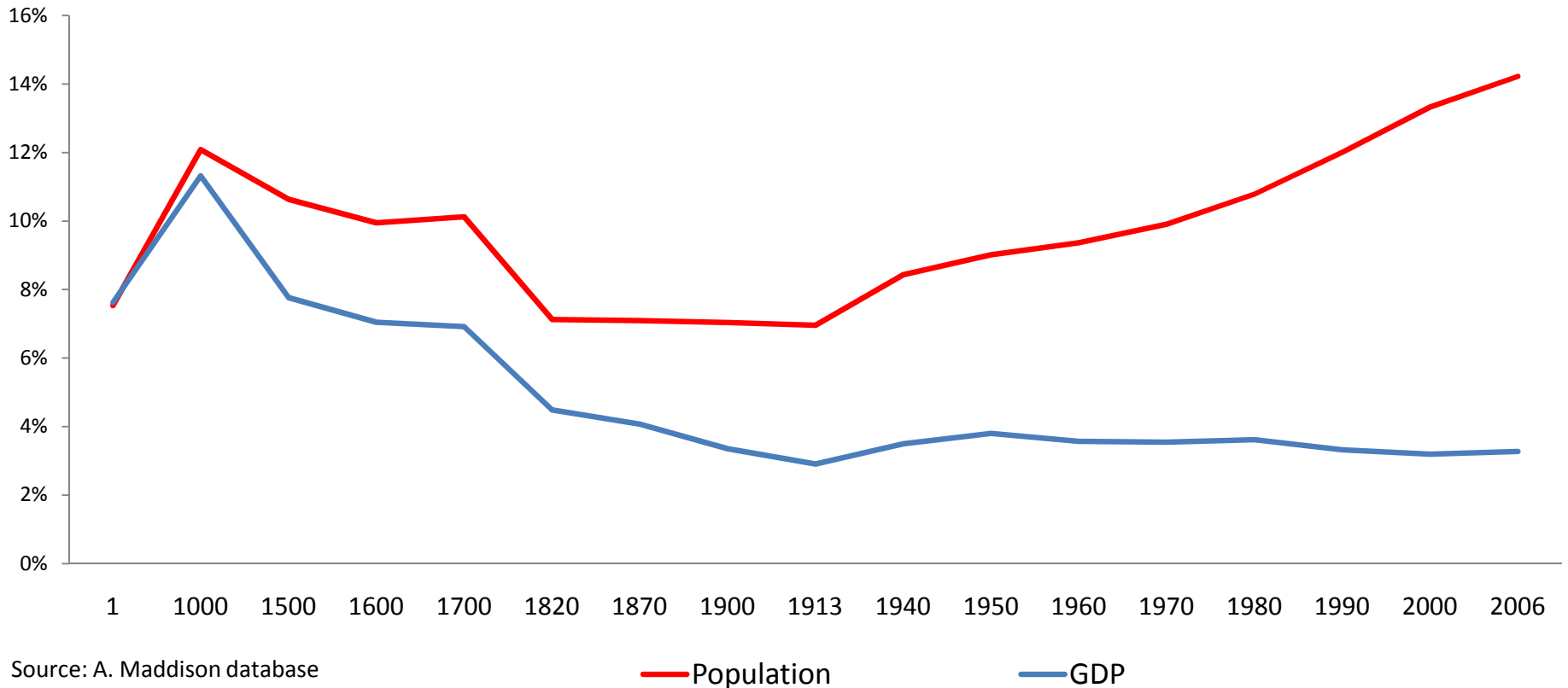


Source: A. Maddison database

In 1870 EU population was 13% of world producing 30% of world GDP

In less than one and a half centuries EU population share declined by 2/3 (around 5%) while the GDP share only halved

Africa: the Drifting Continent

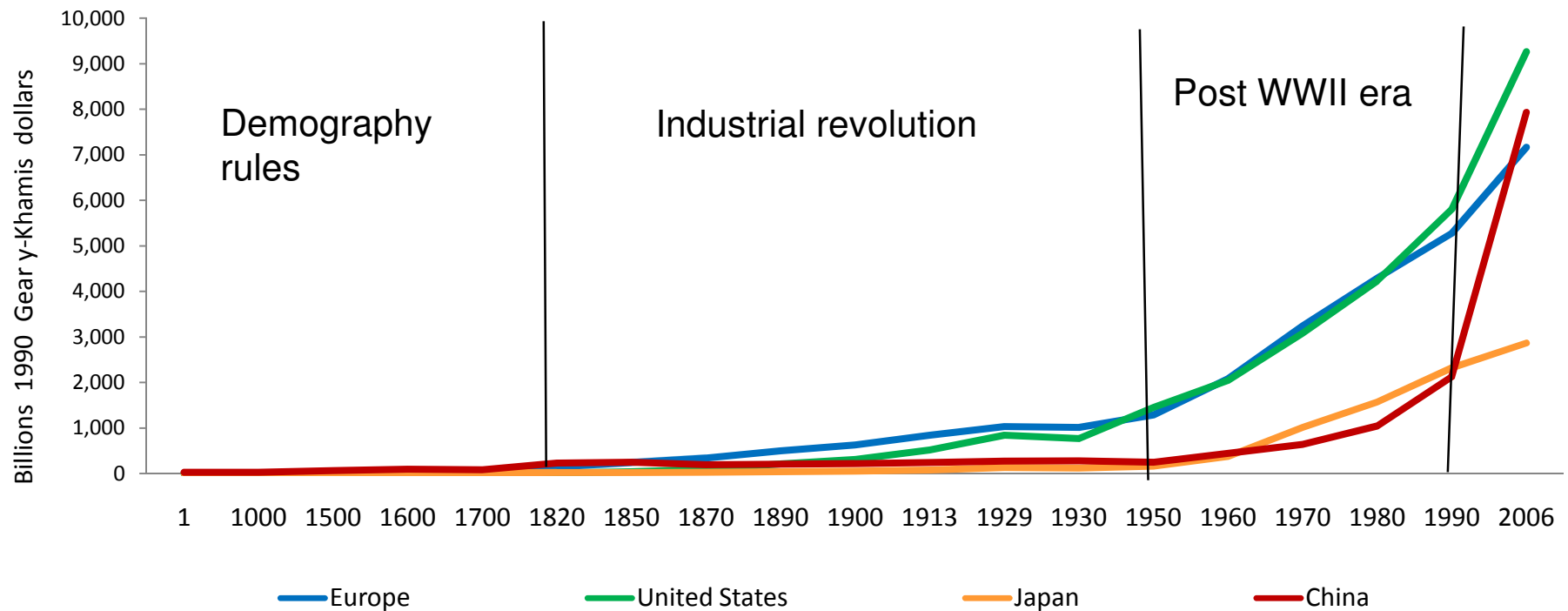


Africa: a sad economic performance for the cradle of homo sapiens

African population has doubled in the 1900s, while GDP share remains flat



Is Asia's tomorrow, today?

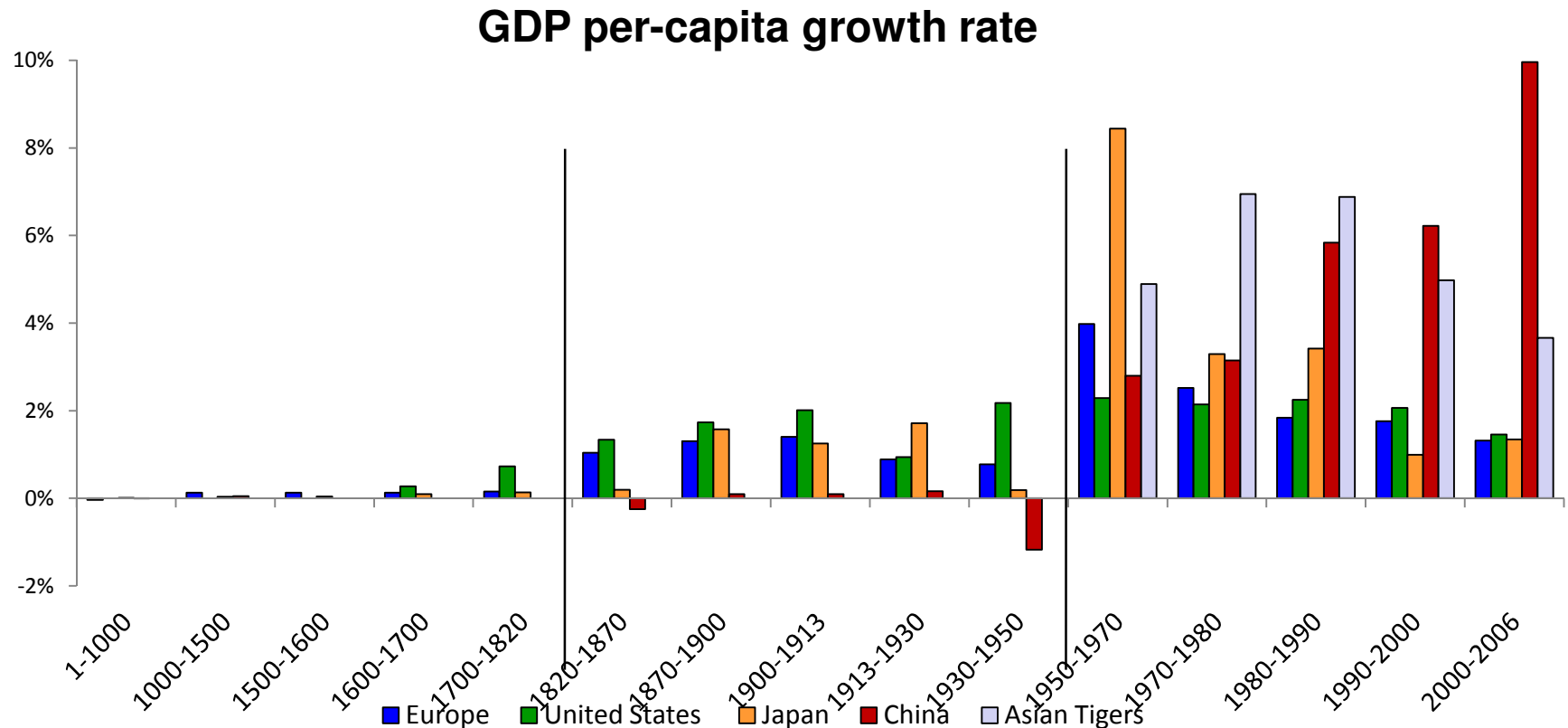


Source: A. Maddison database

In the 19th century only US and EU show marked economic growth

Asia catches up in the post-war period with an impressive performance of China in the last 20 years

Asia: rich, richer, richest?



Source: A. Maddison database

Asian Tigers: Hong-Kong, Singapore, Taiwan and South Korea

The story is even more evident looking at GDP per-capita. China has been growing at 10% a year in per-capita terms in the last decade: a growth rate never seen before

Productivity boost at one special time

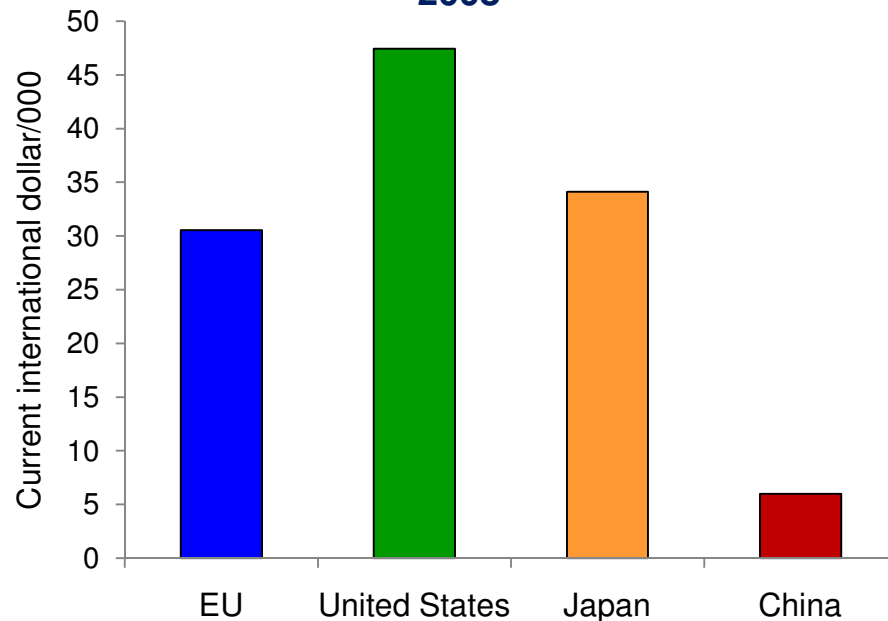
- History of each country has a particular moment where workforce shifts from agriculture to manufacturing.
- This gives a boost to productivity in its economic development
- Time of switching shapes the development path of the country

Will the move from manufacturing to services, with large use of ICT, be the new boost to productivity?



EU rich, old and happy

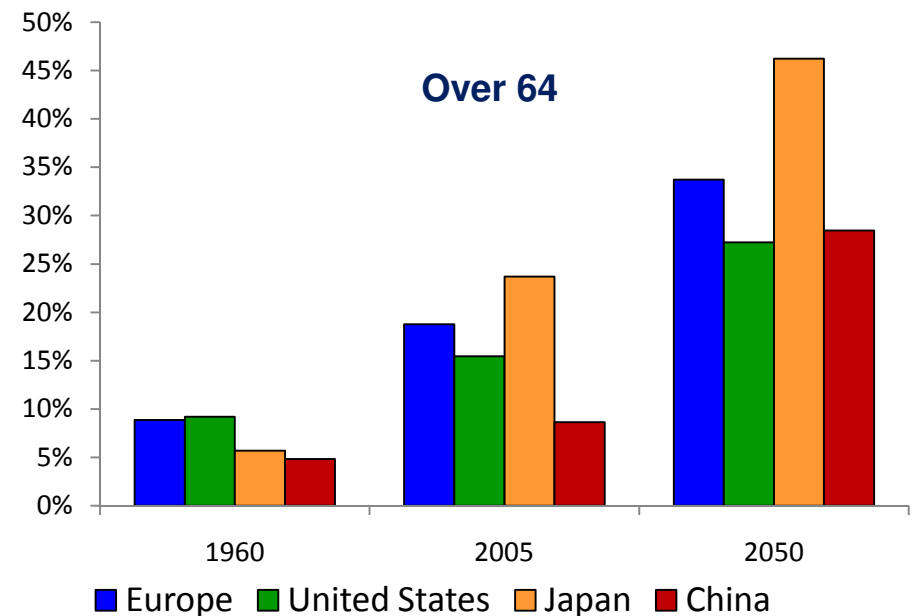
Per Capita GDP (PPP)
2008



China still has a long way to go to fill the gap in per-capita terms ... and population is ageing as well

Source: IMF

Where are we now and where are we going?
EU is rich but is getting older and older



Source: United Nation

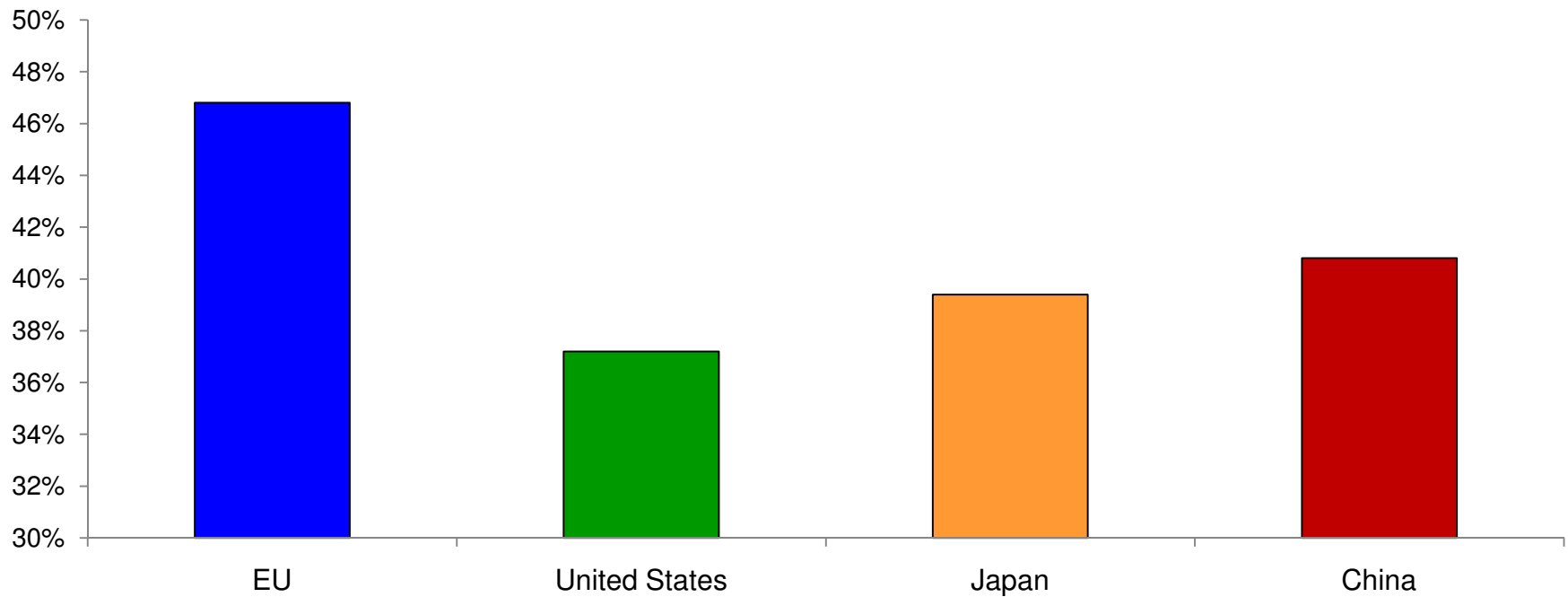
What does the EU model teach us?

- Large public sector, but often relatively low income inequality (although increasing since the '70s):
 - ✓ high level of taxation and progressivity
 - ✓ high spending on social welfare
 - ✓ universal coverage of health and education
- Good working conditions and leisure time, ... but relatively high unemployment rates:
 - ✓ high level of labour market protection
 - ✓ Long education
- Good quality of life:
 - ✓ Public and private provision of social services
 - ✓ Still generous pension systems and social protection
 - ✓ Inclusive social and economic life



EU public sector: just for growth or more equality?

Per cent of GDP



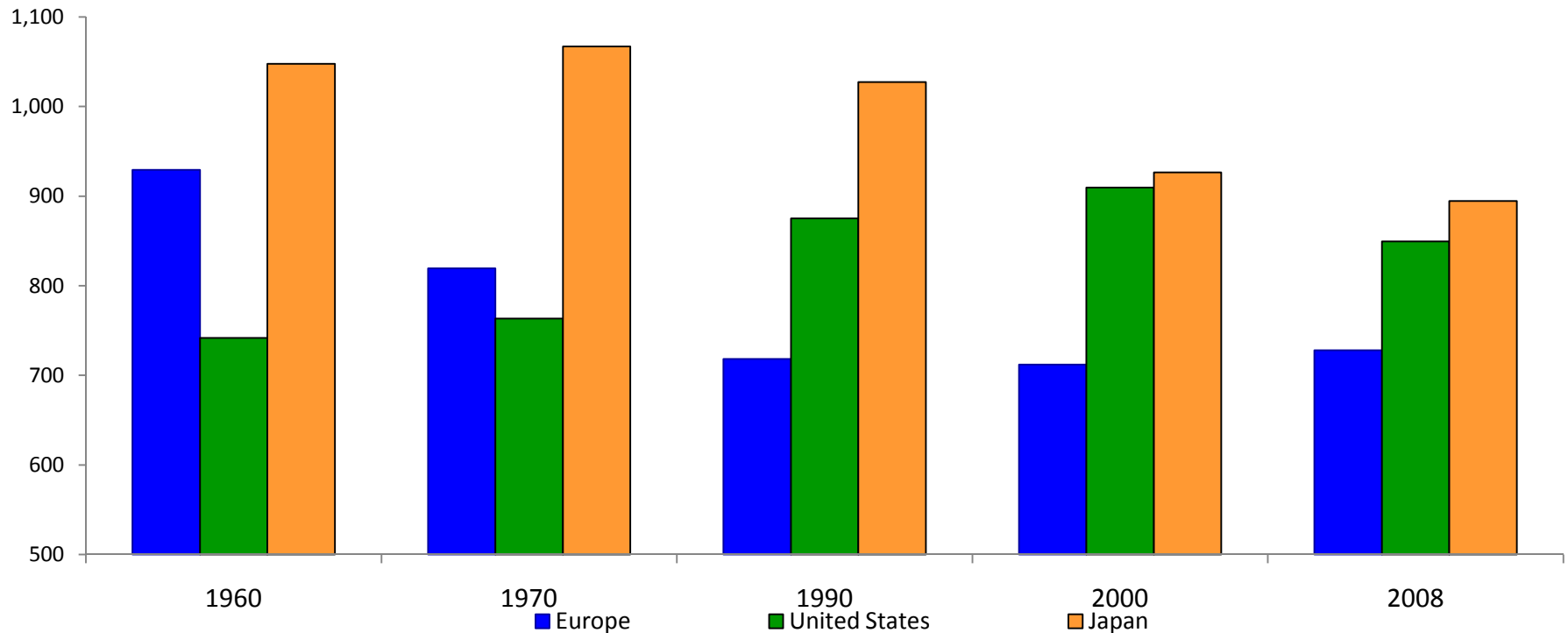
Source: CE, OECD

2007

In EU almost 1/3 of public spending is social transfers.
In China around 80 per cent is capital expenditure.

EU model: leisure luxury good or labour expensive input?

Hours Worked per Capita



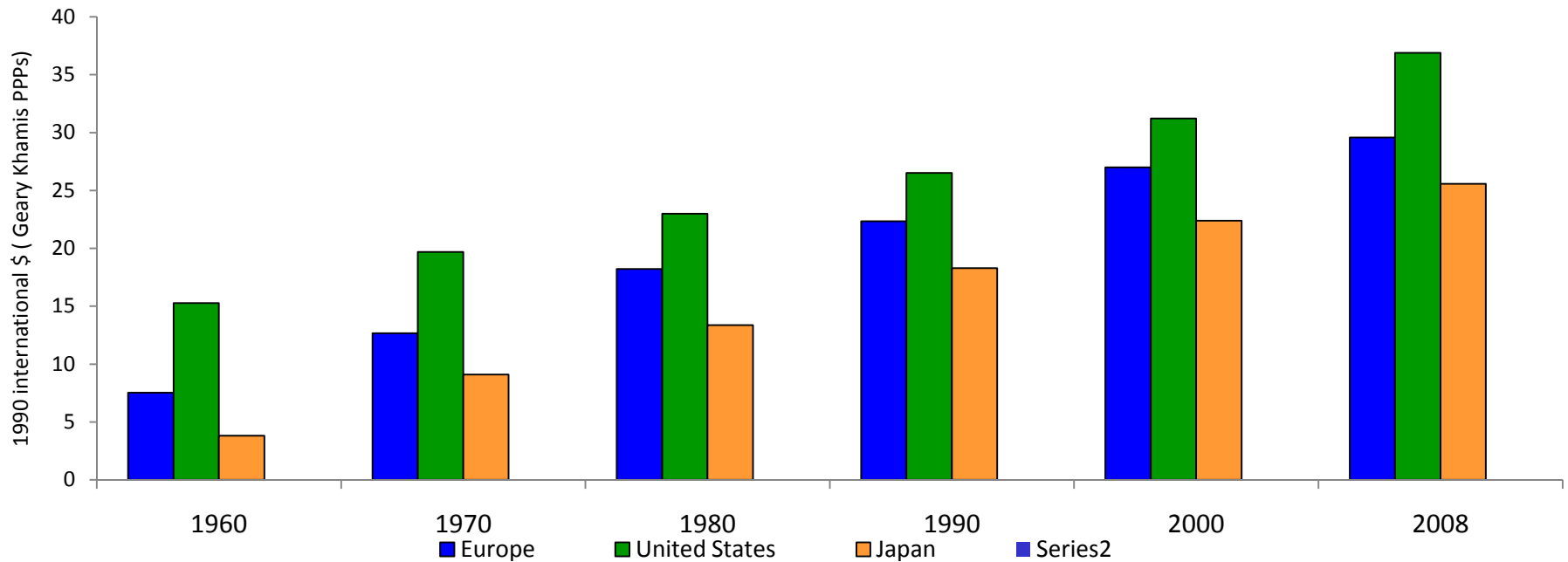
Source: The Conference Board and Groningen Growth and Development Centre

EU reduced working time by 200 hours in the last 50 years to 730 hours, this includes lower hours per worker as well as a reduced number of employees.



EU model: Avoiding the joyless economy

GDP per Hour Worked



Source: The Conference Board and Gronigen Growth and Development Centre

Leisure time is affordable with high labour productivity, but for how long?
EU labour productivity has decelerated in the last decade, while it has accelerated in the United States.

The EU model: not one but a set of models

Five different models coexist in the EU:

- The Anglo-Saxon model (UK+EI): based on deregulation
- The Scandinavian model (FI, SE, DK and NL): large social protection combined with labour reforms (protect the worker not the job)
- The Mediterranean model (IT, SP, PT, and GR): relatively inflexible and over-regulated
- The Franco-German model (FR, GE and AT): somewhere in the middle
- Emerging EU countries: highly unregulated markets, low (social and labour) protection and high capital inflows



Conclusions

- For thousands of years there was only one development model driven by population.
- A small set of structural breaks shape different development paths.
- More recently Asia's catch up is impressive
- EU can provide useful benchmarks in terms of institutions and quality of life

