THE **NON** COMPETITIVENESS OF THE EUROPEAN UNION

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Introduction

Today, one mentions frequently **the failure** of the Lisbon Agenda, that is the European Union Prime Ministers meeting in Lisbon (2000), which “decided” to make of Europe the most competitive world region, within ten years.

We shall **divide the numbers** of such failure into three categories:

- the **result** (gross domestic product per capita)
- the **immediate causes**; and
- the **initial/original** causes (the causes of the causes).

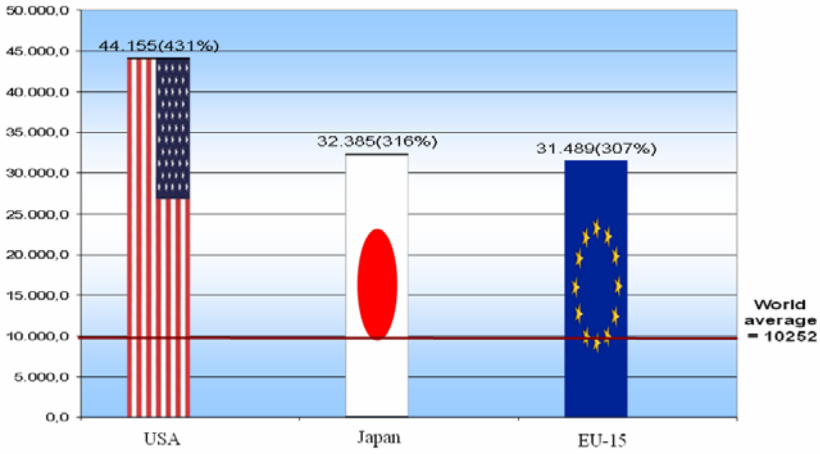
The result

Figure one presents the Gross Domestic Product *(GDP) per capita* of the three major economic blocks: U.S.A.; E.U.; and Japan.

While the world average is 10252 dollars, the EU average is more than 3 times (307%) that value; Japan is 316% and the USA is 431% (4,3 times).

Figure One – Gross Domestic Product per capita (2006) [1]

dollars



Note: values in brackets = GDP(PPP) per capita of each geographical area / World average GDP per capita (PPP) x 100

Source: World Bank September 2007

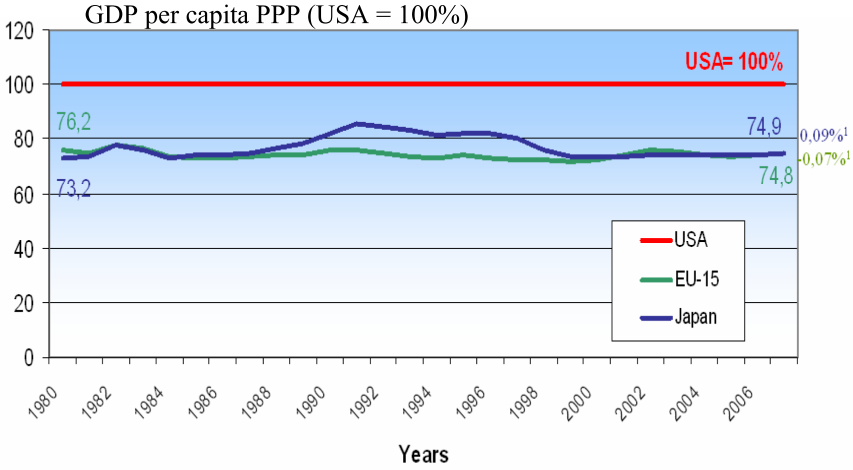
[1] Purchasing Power Parities

Thus, as figure two shows, the EU per capita is 25,2% below the USA level and Japan is 25,1% **below**. So Japan is per capita only 0,1% better off than Europe.

There are further bad news for Europe: at the rates of growth of the last 27 years (1980-2007), Europe will

Figure Two – Time for convergence of the EU-15 and Japan with the USA (in GDP per capita; USA = 100%)

GDP per capita PPP (USA = 100%)



Time for convergence with	The USA
EU 15	Divergence
Japan	321

Source: Statistical Annex of European Economy – Autumn 2007, European Commission
Note: (1) Annual growth rate

never converge with, that is reach, the USA average: for the simple reason that it grows yearly less than the USA.

And Japan, given the last 27 years, will take over 3 centuries… to reach the level of USA prosperity. Provided, of course, that the rates of growth of the last 27 years are indicative of the future growth.

So, not only are Europe and Japan poorer than the USA, but also they will never, or require over 3 centuries, to catch up with the USA.

Why? To find the causes, let's first look into the immediate causes.

<u>The (immediate) causes</u>

The Gross Domestic Product *(GDP) per capita* is the product of four variables:

1 – The GDP per hour (*productivity per hour*); multiplied by

2 – The *number of hours worked*; multiplied by

3 – *How many people* are in the labour market (either working or looking for a job: the active population); and multiplied by

4 – The *rate of employment* (100% minus the rate of unemployment).

What happens is that the **USA are better off than Europe, regarding all four variables**. Indeed, Americans:

1 – Produce *more* per hour;

2 – Work *longer* hours;

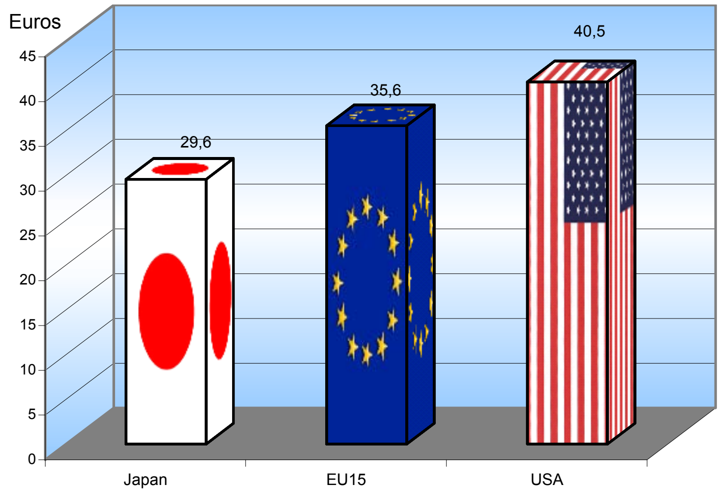
3 – Have a *higher % of its population* in the labour market; and enjoy

4 – *Lower* rates of unemployment.

And so, it is the joint effect of **all four variables** that make americans enjoy a standard of life 34% superior to europeans.

Indeed, in terms of *productivity per hour* (figure three), europeans are 12,1% less productive than americans and Japanese are 26,9% below.

Figure Three – Productivity (GDP) per hour (in euros-2006)

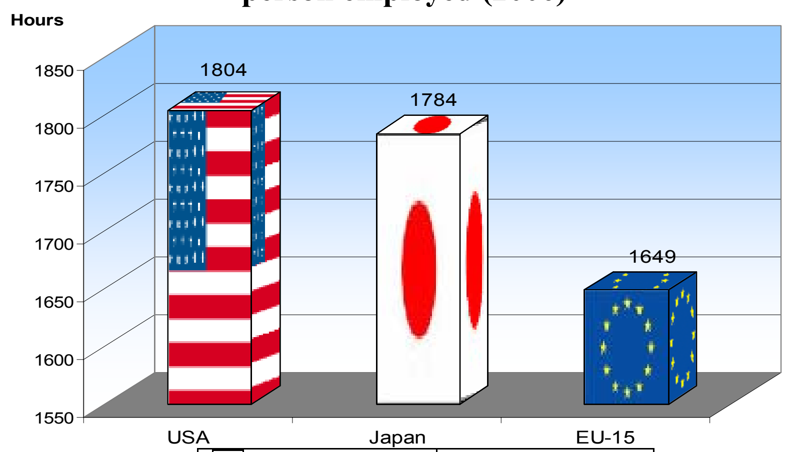


% of / compared to	USA
EU15	87,9%
Japan	73,1%

Sources: Statistical Annex of European Economy – Autumn 2007, European Commission; OECD Employment Outlook 2007.

Then, not only do americans produce more per hour, but also they work *longer hours* (figure four): 1804 per year against 1649 in the EU, less 9% in average.

Figure Four – Annual number of hours worked per person employed (2006)

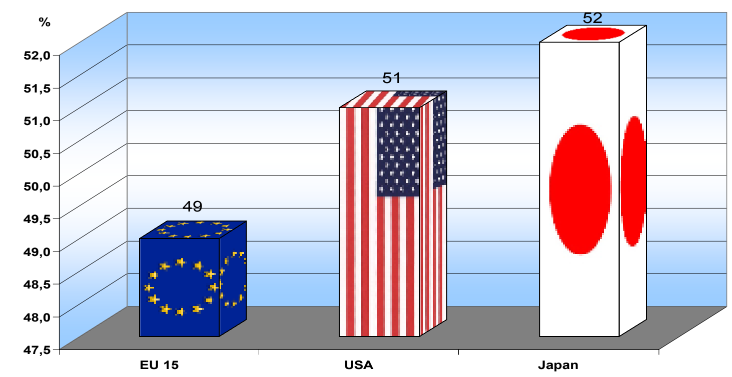


% of / compared to	USA
EU15	91%
Japan	99%

Source: OECD Employment Outlook 2007.

But, then the USA benefits still from a *larger % of working force*: 51% against 49% in Europe. The champion here is Japan (52%): figure five.

Figure Five –Activity Rate (2006)

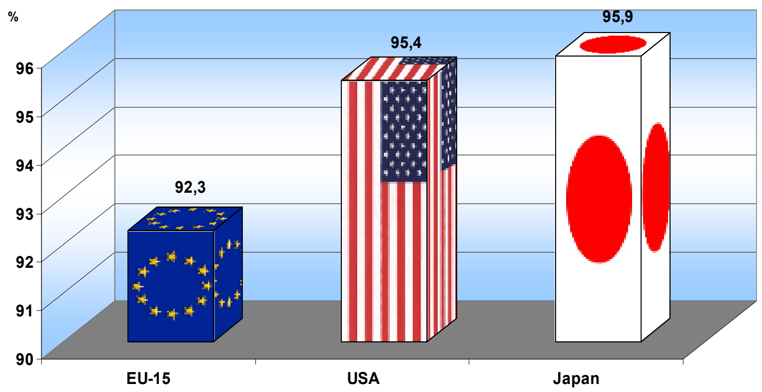


% of \ compared to	USA
EU15	96%
Japan	102%

Sources: Statistical Annex of European Economy – Autumn 2007, European Commission; Labor Force - Ameco 2007.

And finally (figure six) the *rate of unemployment* is lower in the USA (4,6% = 100% - 95,4%), than in Europe (7,7 % = 100% - 92,3 %). Again, it is minimal in Japan: 4,1 %.

Figure Six – Rate of employment (100% - the rate of unemployment): 2006



% of \ compared to	USA
EU15	96,8%
Japan	100,5%

Source: Statistical Annex of European Economy – Autumn 2007, European Commission

So, *when we ask ourselves*: why are the USA so much better off than Europe, the answer must be: because America

1st – Is <u>more</u> productive per hour;

2nd – Works <u>more</u> hours; and

3rd – Has <u>more</u> people working (due to both a higher % of active population and lower % of unemployment).

Here arises a new question. Why is it so? Does this happen by accident, or are there some root (initial) causes? And in such a case, which are they? The answer respects to the initial causes.

<u>The initial (original) causes</u>

No, it is no accident that the USA works better and more than Europeans. The reasons are immersed in US society and can be found in the fabrics of its population and culture.

Let us concentrate in just a few.

First: Americans are **younger** than Europeans. The median average is 36 years against 40 years in Europe and 43 years in Japan.

Second: a larger % of women are in the active (working) population in the USA than in Europe or Japan (46,4% against 44,5% and 41,4%). That is important. It happens that women are different (not better, not worse) from men. So they bring to the working place different attitudes and qualities. And diversity is a source of wealth.

Third: then, the American mind is… different. That is what Alexis de Tocqueville in the 19th century called: the *American excepcionalism*.

Americans are more **motivated**. When asked (by the Pew Research Centre): are you very proud of your nationality? 80% of Americans answer yes.

The British? Only 50%. The French? 38%. Italians? 25%. Germans? Less than 20% (one in five). This is obviously important. It is harder to be motivated, when you believe you were born in the wrong place.

Fourth: Americans believe in themselves. They have self-confidence. When asked (again, by the Pew Research Centre): does your success depend upon yourself?, 65% of Americans answer yes. But in Europe only 39% agree (59% say it all has to do with forces "outside" their control). So, Americans are **inner directed**. Europeans are **outer directed**.

Fifth: the USA enjoys more **freedom**. *Commercial* freedom. *Fiscal* freedom (lower taxes). *Investment* freedom (openness to foreign investment). *Market* freedom (lower regulation and lower black market). *Property* freedom (stronger property laws). *Banking and prices* freedom.

And freedom is at the root of economic development. ***The Heritage Foundation*** (in Washington) prepares a ranking of the countries with more and less **economic freedom**.

The *IMD* (in Switzerland) has another ranking, this time of the more and less economically competitive countries.

How both rankings compare? Not surprisingly the countries which top one list, also top the other: Singapore; Hong Kong and of course the USA; also countries at the bottom in the both the economic freedom list and the competitiveness list tend to be the same. The statistical correlation is +0,83 (significant at a 0% level), indicating that beyond any doubt: **freedom works**.

As it happens, some European Union countries are well placed in both lists (Luxembourg; Denmark; Holland. But then others destroy the average: France, Italy, and of course, Greece and Portugal).

The only variable where Europe is better is in yearly migration (% of immigration minus emigration in the total population): 0,45% in Europe, against 0,35% in the USA and –0,03% in Japan. But that is a recent phenomenon due to recent restrictions in entering the USA related to the international situation.

In short, it is (among other variables) the conjunction of A) *youth*; B) *diversity* (higher in women but lower in migration); C) *motivation;* D) *self-reliance*; and E) *freedom,* which explains that Americans are nearly 12% more productive than Europeans (the GDP per capita is 34% above – figures two and three before).

Conclusion

The creation of the Euro currency raised the expectations regarding the Competitiveness of the European Union. That was further enhanced by the Lisbon Summit in 2000 when the Prime Ministers of all EU-15 countries announced their aim of making of Europe, within 10 years, the world most competitive region.

Reality however is far different from, either the citizens expectations, or the governments announcements.

Indeed, not only is Europe far from the USA, in terms of competitiveness, but also (what is far more serious for Europe), it is not closing the gap (figure two).

And so, **if the past (1980-2007) is prologue**, never will the EU 15 GDP per capita reach that of the USA.

What that means? Basically that more of the same is not the solution for Europe. And so, structural reforms are necessary. Even because, the best guarantee of a strong social protection system, are *high levels of productivity.*