

## CASE Session 2

# Is Europe Going to Repeat a Japanese-Style Stagnation Trap?

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“We could see the risk of what some commentators are already calling the lost decade”

Beijing, Nov 9, 2011,

## Structural Policies that will be key to avoiding stagnation

- Trade in Europe – the big driver
- Finance flowing the right way
- Productivity growth as the source of export and economic growth
- Balancing aging with workforce participation
- Skills and education

# Is Growth History Really Poor?

Table S1.1: Relentless growth in the United States, a miracle in Europe,  
and resurgence in Asia, 1820-2008  
(Average annual compound growth rates, USD 1990 Geary-Khamis PPP estimates)

Year	Western Europe	Southern Europe	Eastern Europe	(Former) Soviet Union	United States	Japan	East Asia	Latin America
1820-70	1.0	0.6	0.6	0.6	1.3	0.2	-0.1	0.0
1870-1913	1.3	1.0	1.4	1.1	1.8	1.5	0.8	1.9
1913-50	0.8	0.4	0.6	1.8	1.6	0.9	-0.2	1.4
1950-73	3.9	4.7	3.8	3.3	2.5	8.1	2.4	2.6
1973-90	1.9	2.3	0.5	0.8	2.0	3.0	0.6	0.7
1990-2008	1.6	2.3	2.6	0.8	1.7	1.1	3.0	1.8

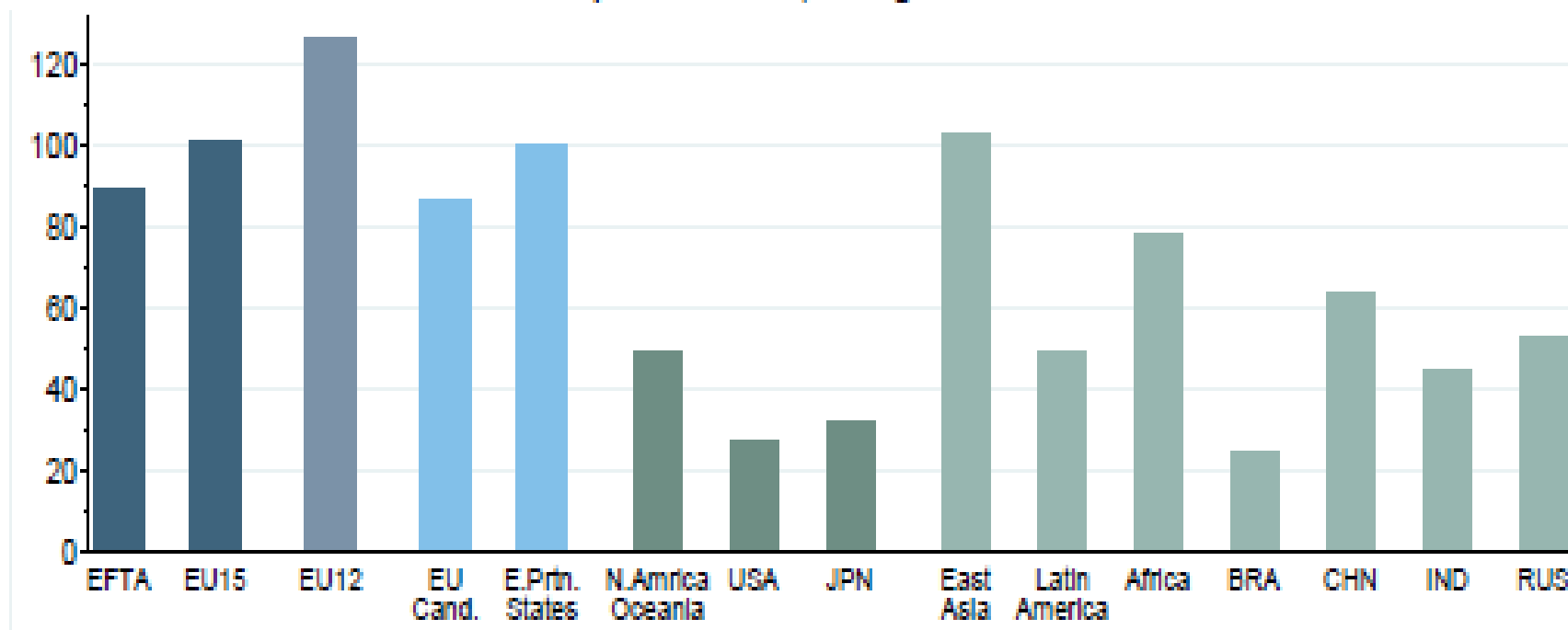
Note: Regional aggregates are population weighted. Western Europe is used here to refer to Austria, Belgium, Denmark, Finland, France, West Germany, Italy, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom. Eastern Europe refers to Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, and Yugoslavia. Southern Europe refers to Greece, Ireland, Spain, and Turkey. After 1989, West Germany becomes Germany and the data reflect the newly independent countries in Eastern Europe that emerge from Czechoslovakia and Yugoslavia.

Sources: Maddison, A (1996) "Macroeconomic Accounts for European Countries," in B van Ark and N Crafts (eds) *Quantitative Aspects of Post-War European Economic Growth*, Cambridge University Press, Cambridge; and Groningen Growth and Development Centre and The Conference Board (2011) *Total Economy Database*.

# Europe is Most Open Area in the World

*Draft – Not for Citation*

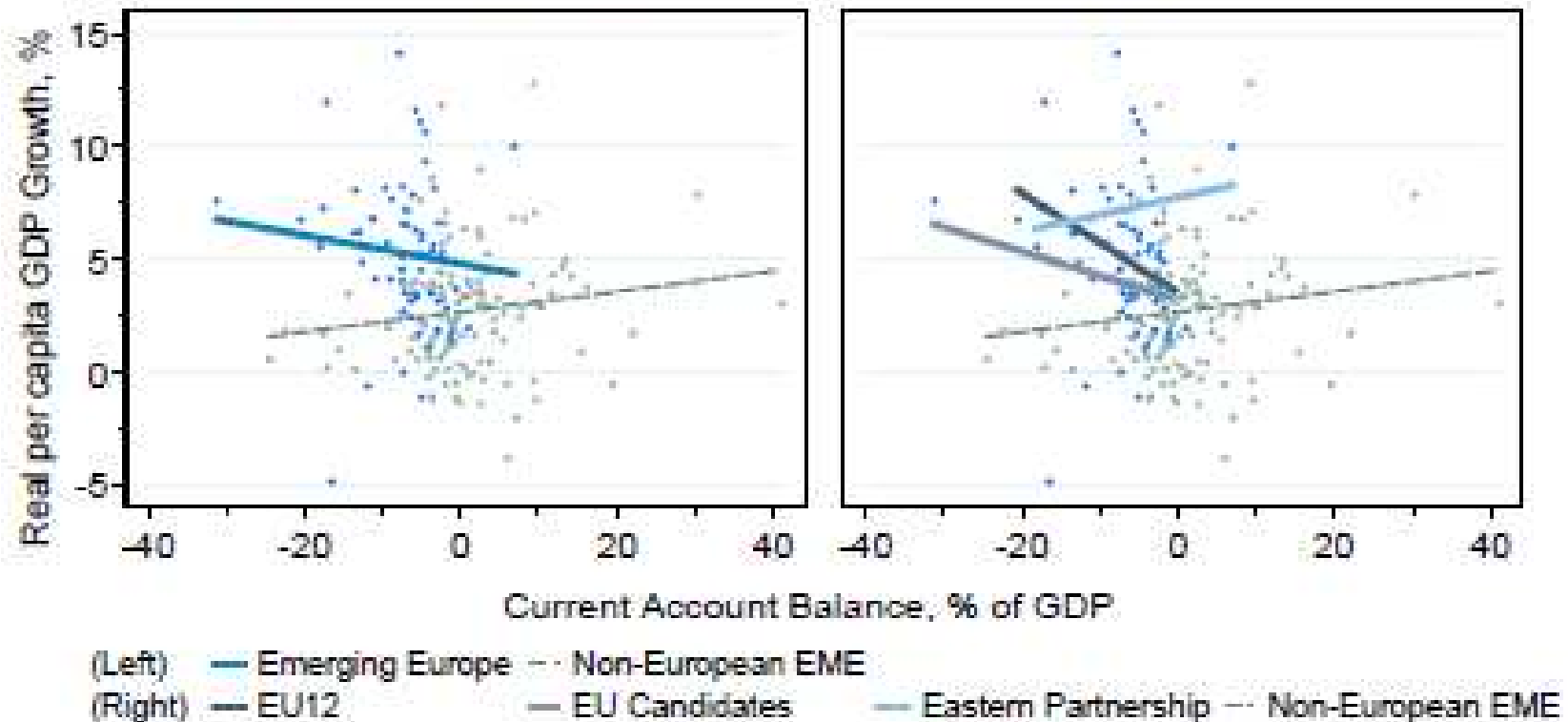
Figure 1: Europe is the most open region in the world  
Trade as percent of GDP, average of 2005-2009



Source: World Bank staff calculation based on World Development Indicators.

# Capital Flows the Right Way

Figure 2: In much of Europe, capital flows to high growth countries  
Capital inflows (current account balance) and per capita GDP growth, 1997-2008

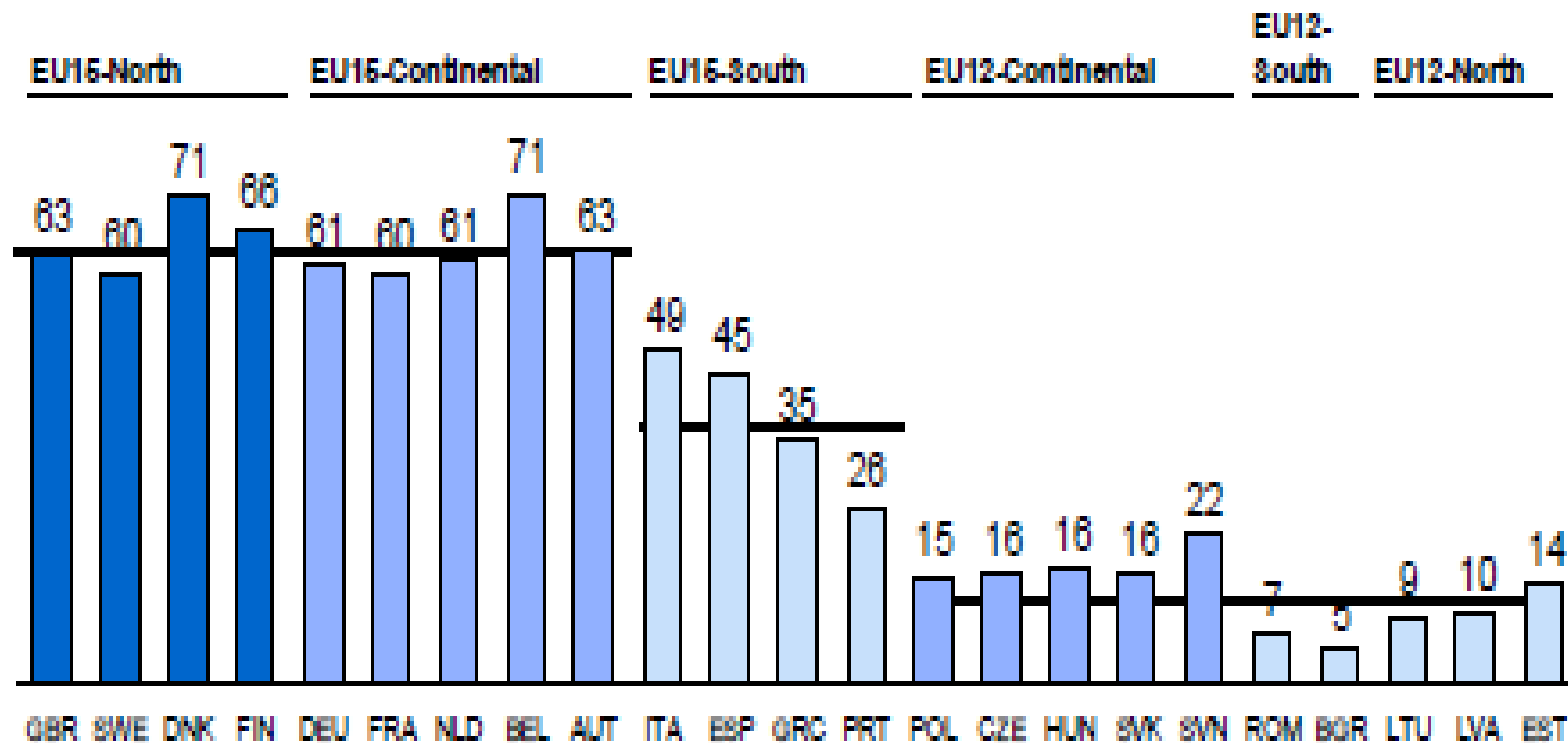


Source: World Bank staff calculations based on IMF

Note: Each dot represents a four-year average during the period covered: 1997-2000, 2001-2004, and 2005-2008.

# Productivity Levels are as Expected

Figure 4: Productivity levels were low in the South and lower still in the East  
Average productivity in 2002, thousands of 2005 US\$

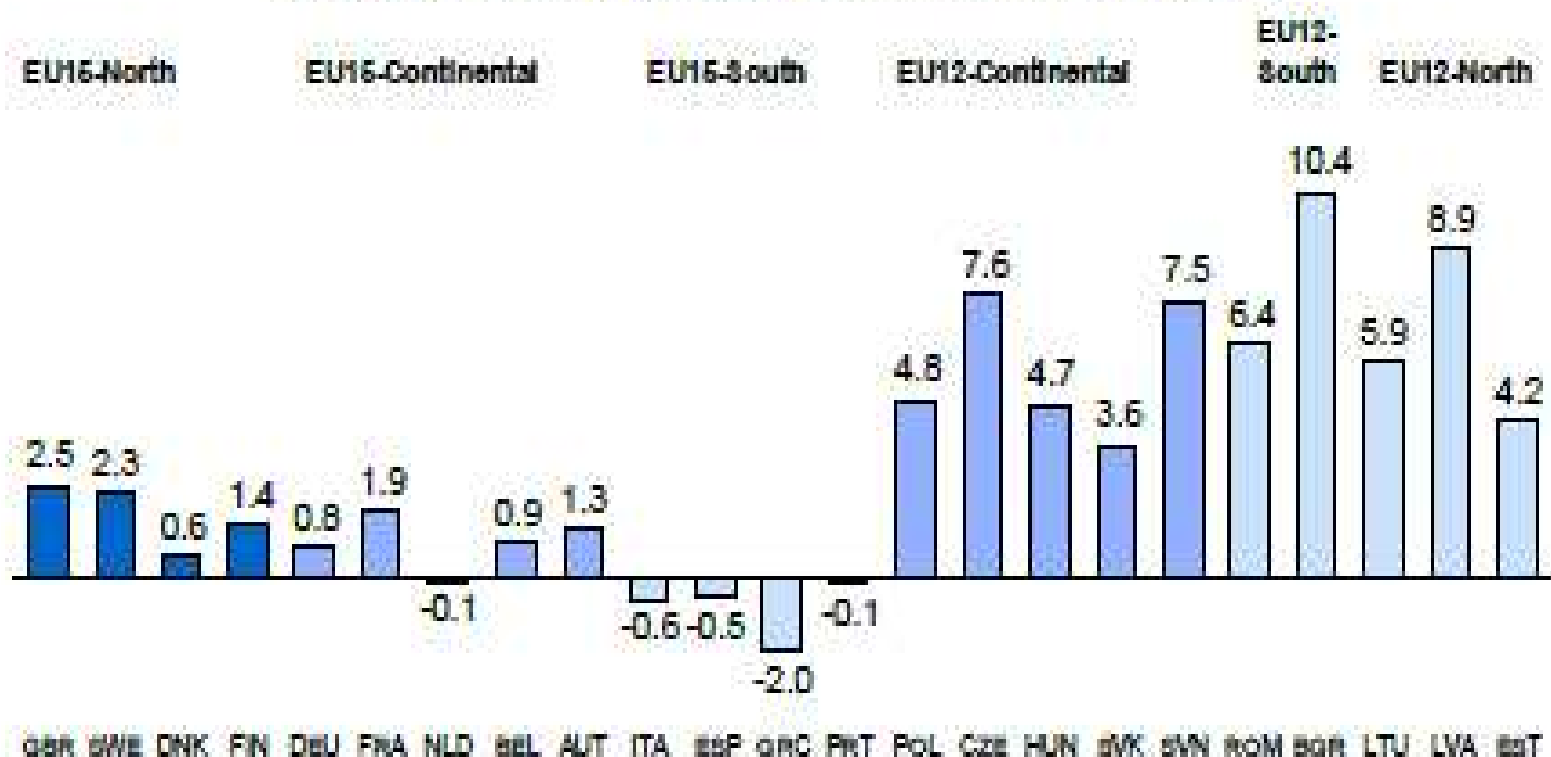


Source: World Bank staff calculations based on Eurostat.

\* For Belgium and Greece, productivity levels refer to 2003 year.

# But not moving as expected everywhere

Figure 5: Southern Europe has been falling behind  
Average productivity growth in EU27, annual rates, 2002-2008



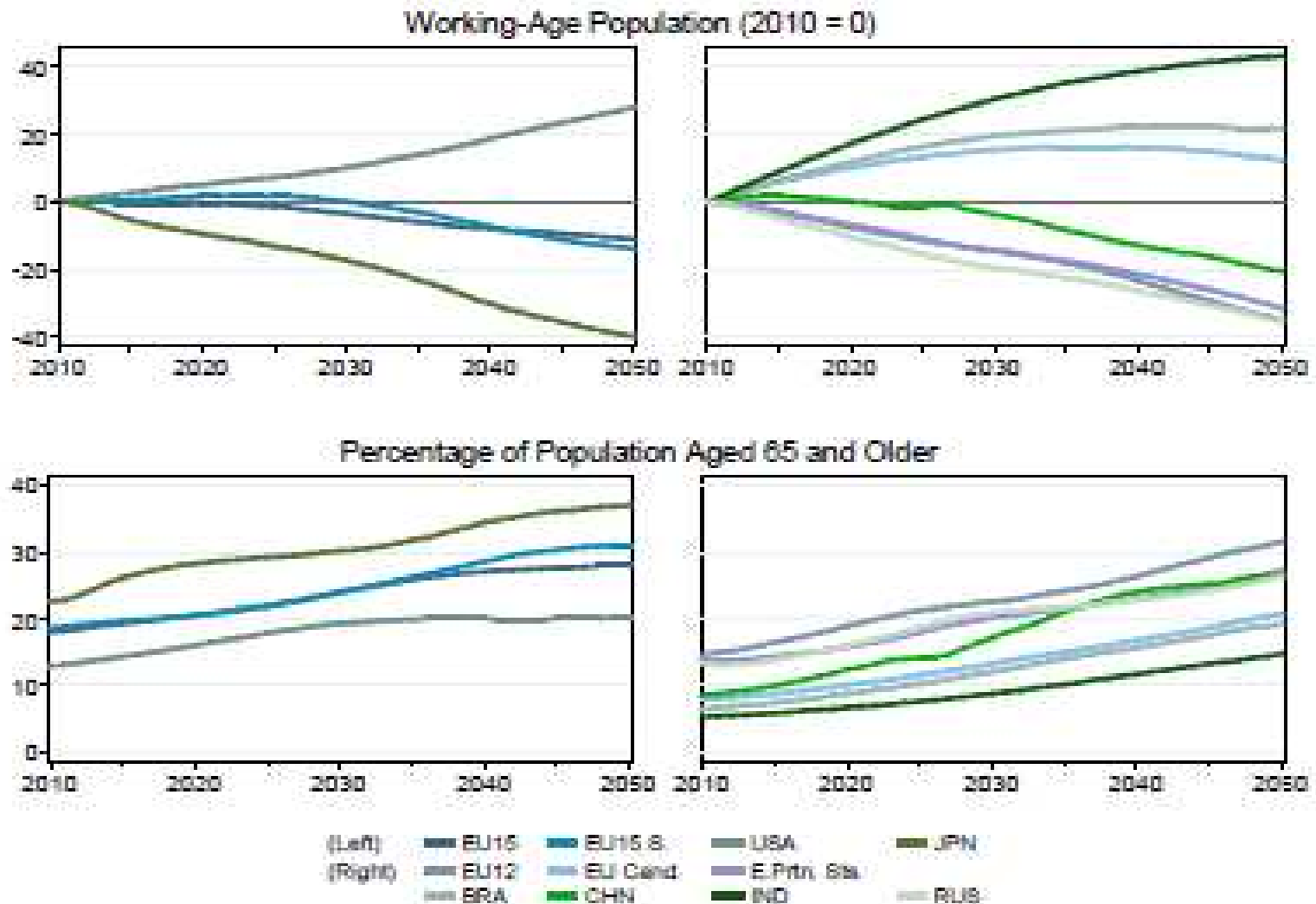
GBR SWE DNK FIN DEU FRA NLD BEL AUT ITA ESP GRC PRT POL CZE HUN SVK SVN ROM BGR LTU LVA EST  
Source: World Bank staff calculations based on Eurostat.



# Participation and Education

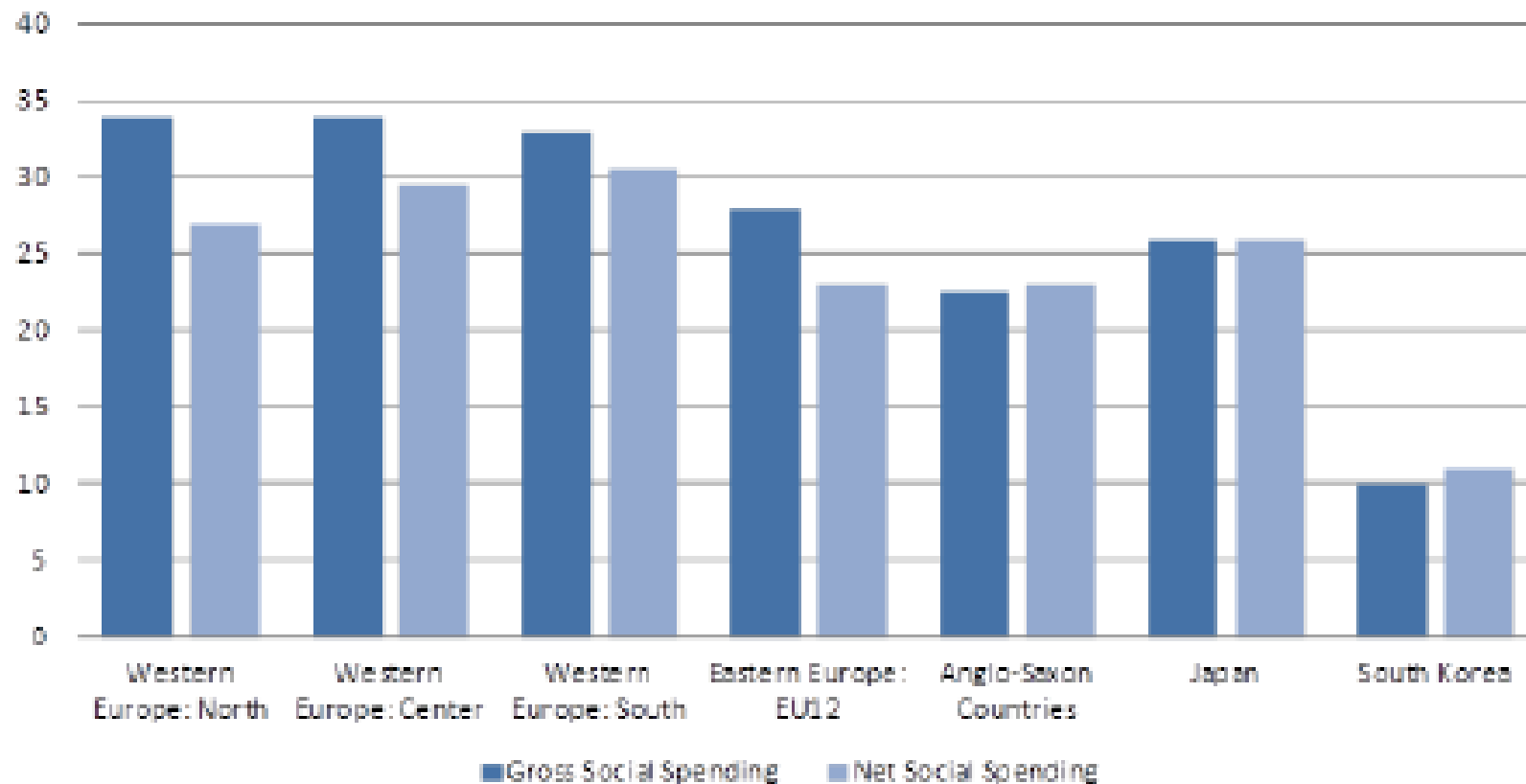
- Employment rate for 55-64 yr olds (%)
  - Japan 65.2      US 60.3      Europe 46.3
- Employment rate of women (%)
  - US 62.4      Japan 60.1      Europe 58.2
- Youth unemployment rate (%)
  - Japan 9.3      US 18.4      Europe 21.1

# Changing Face of Population



# Europe Spends More on Pensions than Any Other Region

Figure 10: The highest social spending is in Southern Europe, not the North  
Percent of GDP at factor cost, median in 2007



Source: World Bank staff, based on OECD data.

# So Can The Trap Be Avoided

- We need more Europe not less – deepening trade especially in services
- Cross border financing must be preserved -- avoiding the “home bias”
- Productivity growth will be critical for all which means deep thought on innovation policies
- Address aging – essentially the incentives for participation in the workforce and pension reform is key to this, as it is also key to the size of government. Migration policies.