

**Interview with Pavle Sicherl in the Semanario Economico, Portugal
By Gisa Martinho**

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"It is not very likely that the EU would grow 0.5% faster than the US"

Professor Pavle Sicherl, University of Ljubljana and founder of SICENTER (Center for Socio-economic Indicators) prepared for the 2005 Spring Business Forum of Eurochambres (The Association of European Chambers of Commerce and Industry) a study 'Time for a fresh start – But time is not on our side'. The study presented a comparison of European and US economies based on time distances. It showed that for four economic indicators the EU is considerably lagging the US thus communicating the urgent need for reforms and strengthening the Lisbon strategy.

- 1. According to your study, Europe lags 20 years behind the USA in some economic indicators. Does it mean that the race for Europe to keep competing with the US is lost?*

I believe that in the Lisbon Strategy the underlying objective is raising the development dynamics and welfare in Europe, catching up with the US should be only one of the ways to express the degree of ambition of the targets in particular areas. Obviously, the situation in the USA is by no means the benchmark for Europe in many fields, nor are the ways and means used in the USA to achieve certain desirable targets the best solutions in specific conditions of other countries. There are two sides: desirability and feasibility.

One can decompose as an approximation the ratio of GDP per capita between the values for the US and the EU15 of 1.41 for 2003 into three components: the ratio for employment rate 1.11, for annual hours worked by employed 1.13 and for GDP per hour as an indicator of productivity 1.14. Based on the static measures it would look that all three components are of about equal importance in closing the relative gap. This is true in quantitative terms but not in terms of desirability and feasibility.

First, if the gap is expressed in terms of time distances the situation looks quite different. The time lag is 18 years for GDP per capita, 25 years for employment rate, 23 years for annual hours worked and only 5 years for GDP per hour. This new perspective indicates that the difference in employment rate and hours of work are much more difficult to change in a short period. Not that one would need 25 years to get to the employment rate of the US, this result is a accumulation of past performances. The future depends especially on the future European performance in providing jobs, but one should realise that the rate of growth of employment is usually much lower than that of productivity.

Second, in terms of desirability it may very well be that the difference in hours worked is a choice of preference for more free time and need not be eliminated at all. Following such an assumption then the ratio of 1.41 would drop to 1.25, so that 'the race for Europe to keep competing with the US' as you say would have to cover a smaller territory of employment rate and productivity improvements. Thus, the gap would be considerably smaller than in income measured by GDP per capita. Nevertheless, people should understand that working less means less income. In this decomposition, the largest quantitative factor in competing with the US is the ability of Europe to create more and better jobs.

2. Under the actual circumstances, do you regard it as possible for the EU to grow 0.5 % above US economy?

EU is also in economic terms not a homogenous entity. It means that some countries will outperform the US and some will not. At the moment the probability of the EU to grow 0.5% faster than the US is not very likely. Forecasts for structural indicators by Eurostat for the period 2004-2006 for GDP show higher values for the US than for the EU. I have no independent analysis that would substantiate a different conclusion. However, the probability that the growth in the US would slow because of the impact of the two large deficits in the US and the possible dollar crisis should not be eliminated completely.

3. Which steps should be given priority by the the EU president Barosso? Which would be one of the necessary steps?

I believe that president Barosso was right in putting the partnership for growth and jobs a top priority for his Commission and to put reform back at the top of political agenda. Obviously, the economy is the core problem if we wish to have a sustainable development for Europe. The purpose of my study for Eurochambres was to use presentation qualities of the time distance approach to raise the awareness and to influence public opinion by communicating the urgency and the need for change and thus to mobilize the support for the needed reforms. Europe needs both the measures to stimulate the champions of excellence, but even more important than that are the measures creating a development environment resulting in a tide that could lift all boats. For instance, the impact assessment of tax regulations and procedures with respect to clarity, simplification, consistency and stimulating effects can be such an example of action that can substantially increase the performance of citizens and enterprises in many countries.

4. Commissioner Verheugen recently said in an interview that a direct comparison between the USA and the EU is not fair, as there are health and education costs in the US, which are almost irrelevant in the EU. Does Europe have 20 years advance over USA in social areas?

The reliability and comparability of international data leave a lot to be desired. However, if the results displayed in our study would be questioned because of the reliance on international data sources like OECD and Eurostat, a much more important question appears. The OECD World Forum on Key Indicators in Palermo was examining the important connections between statistics, knowledge and policy as one of the fundamental issues both for policy makers and for citizens. Should we dismantle the much-needed existing general statistics without first providing a better alternative? For two of the social indicators presented in the graph below the advance

of Europe over the US is about 10 years. However, it is very important to realise that the precondition to keep up the advance of Europe over the US in these and other social areas is a much better economic performance and faster job creation.

Time distances in years between the USA and EU15 average for selected indicators for 2003 (- time lead, + time lag for the USA)

