



EUROPEAN CENTRAL BANK

EUROSYSTEM

# **Economic Performance, Institutions and Human Values**

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**European Central Bank**

**Second International Symposium on Universal Values:**

**“Science, Technology and Human Values”**

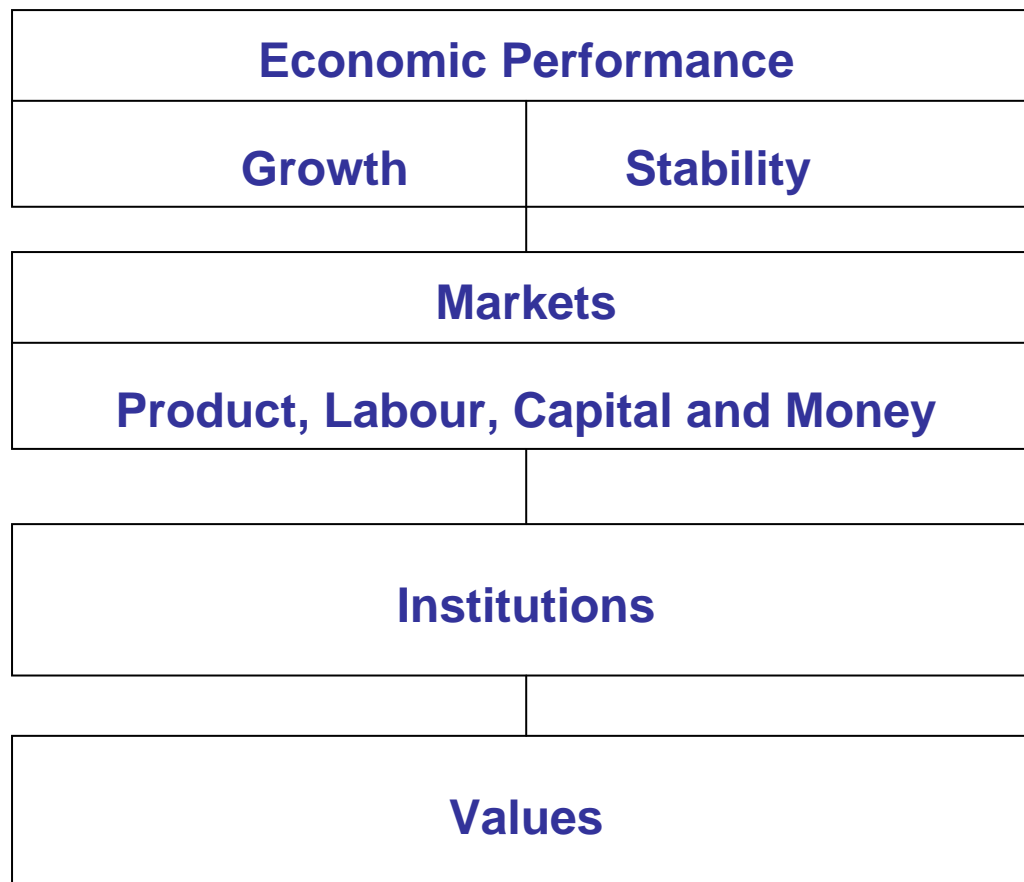
**The Academy of Athens**

**Athens, 2 May 2007**

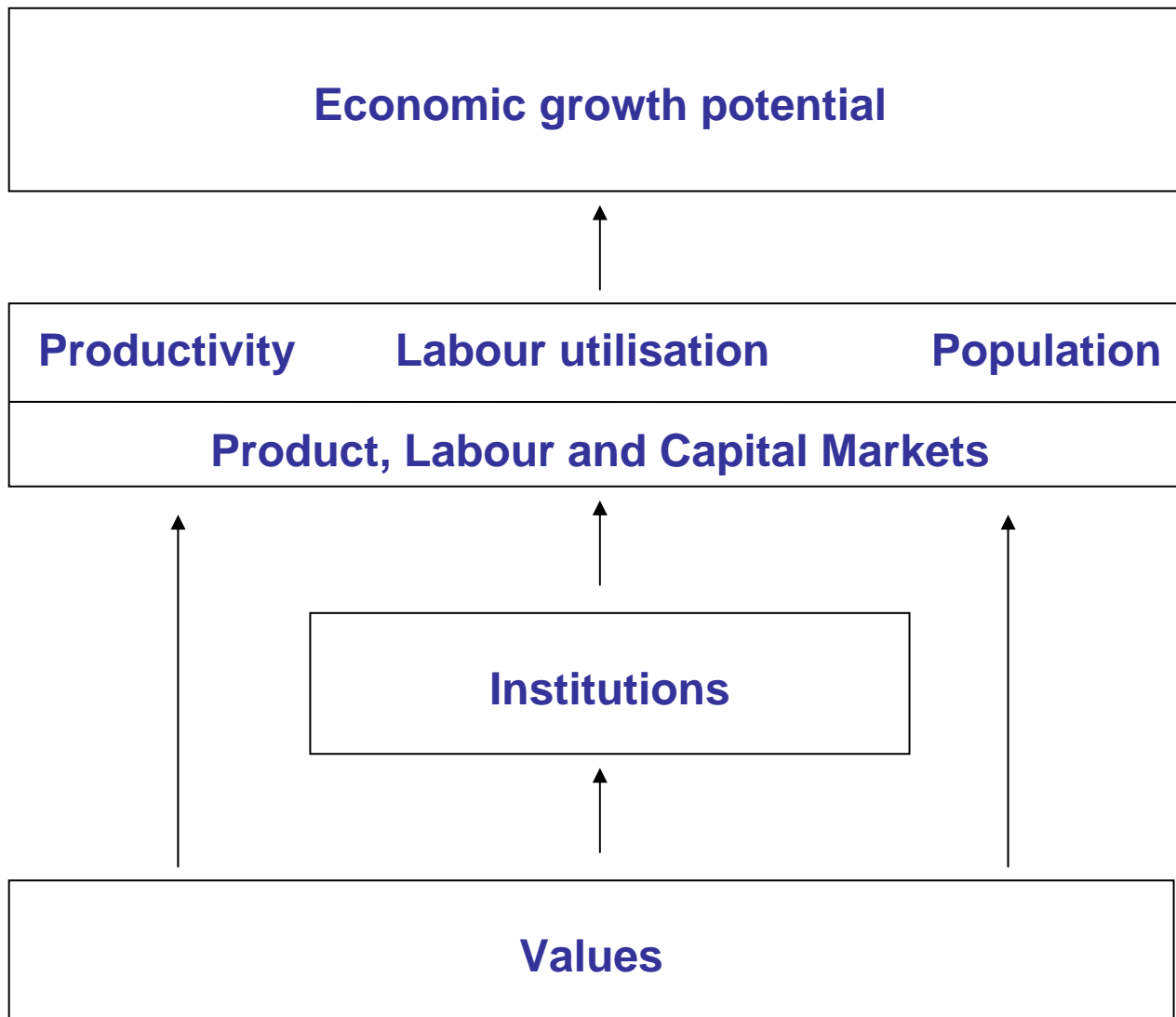
# Outline

- I. Introduction**
- II. Economic performance, markets, institutions and values:  
a conceptual framework**
- III. Economic growth in Europe and the United States:  
the contribution of productivity, labour utilisation and population**
- IV. Economic growth in Europe: the role of institutions and values**
- V. Economic performance of European countries:  
the influence of social values and economic culture**
- VI. Price stability: the institutional framework for central banks  
and fiscal policy**
- VII. Concluding remarks**

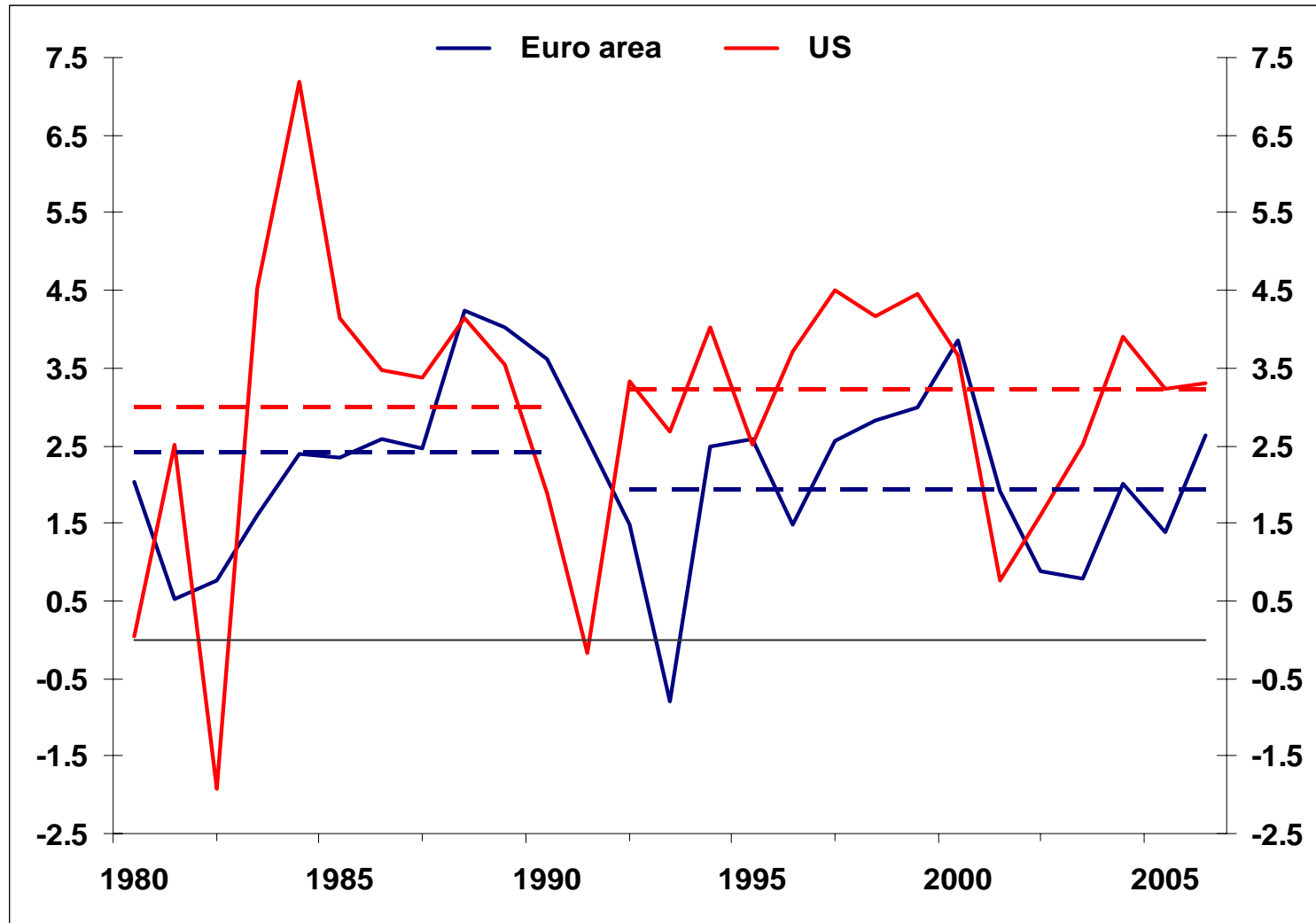
# Economic Performance, Markets, Institutions and Values



# Economic Growth



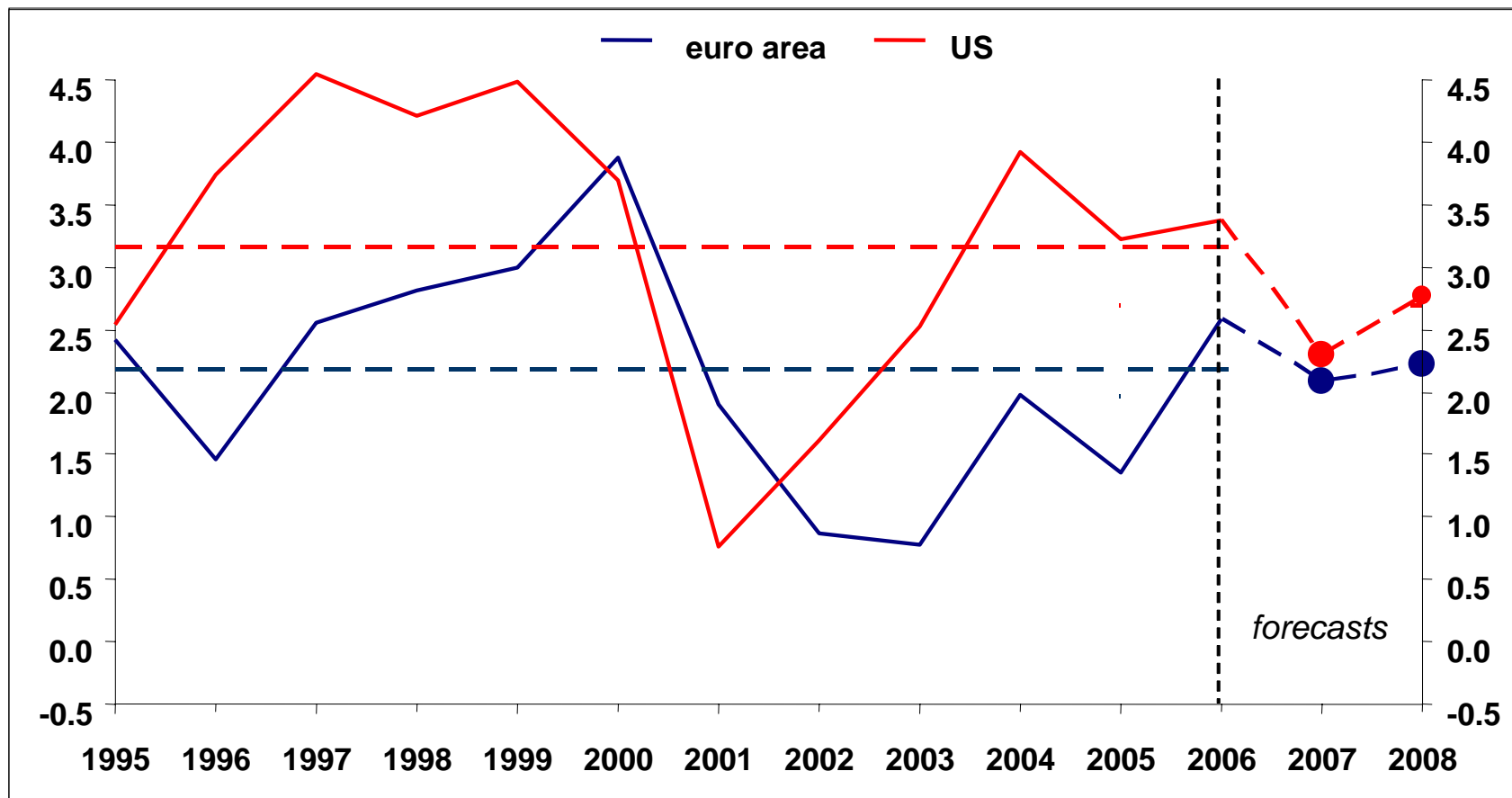
# Chart I: The gap in real GDP growth between the United States and the euro area has widened



Source: European Commission (AMECO database).

# Chart 2: The gap in real GDP growth over the past decade

real GDP at 1995 prices, annual percentage changes



Source: European Commission (AMECO database). Commission Forecasts Autumn 2006.

# Table I: Decomposition of real GDP growth in the euro area and the United States, 1996 – 2005

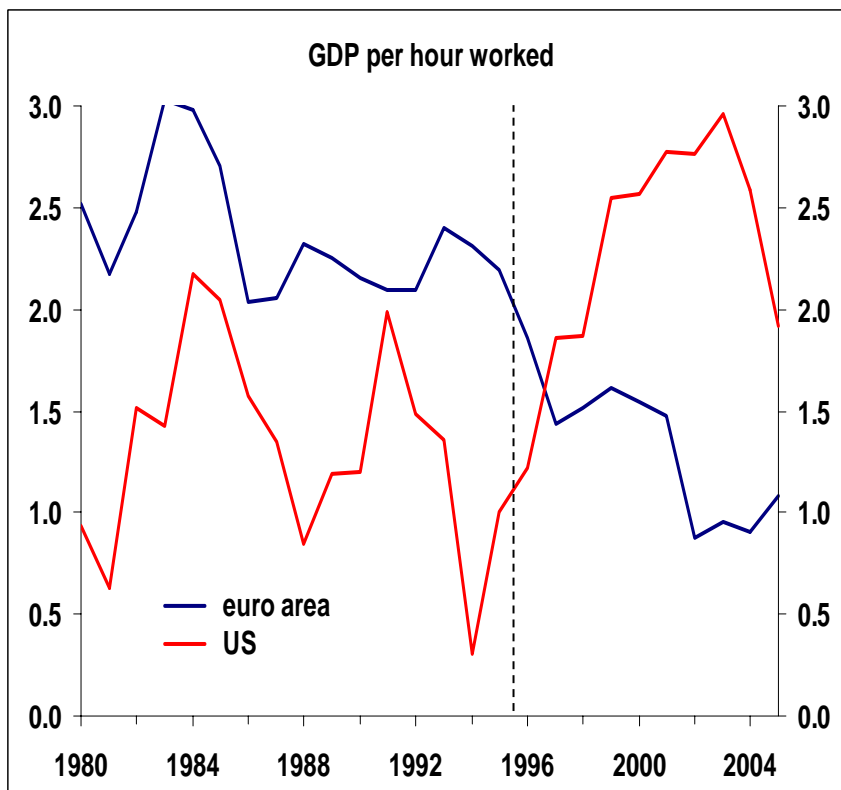
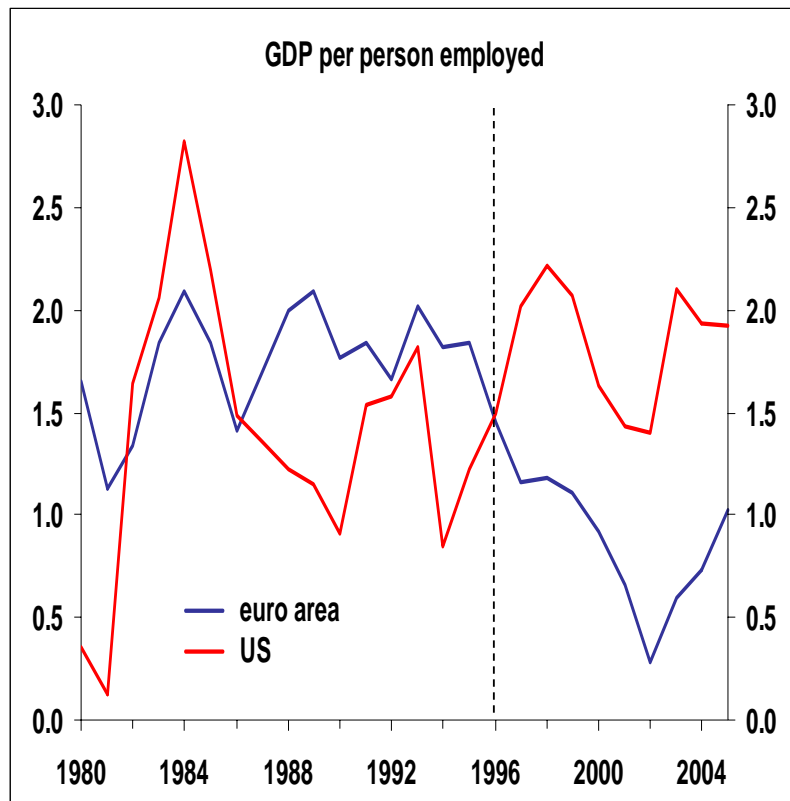
*Percentage changes and percentage points per annum*

	<b>GDP</b>	<b>GDP per hour worked</b>	<b>Labour utilisation</b>	<b>Total Population</b>
	sum (a) to (c)	(a)	(b)	(c)
<b>(1) euro area</b>	<b>2.3</b>	<b>1.3</b>	<b>0.5</b>	<b>0.5</b>
<b>(2) United States</b>	<b>3.4</b>	<b>2.2</b>	<b>0</b>	<b>1.2</b>
<b>(2) - (1)</b>	<b>1.1</b>	<b>0.9</b>	<b>-0.5</b>	<b>0.7</b>

Source: European Commission (AMECO database), OECD (Economic Outlook database) and ECB calculations.

Note: Figures may not add up due to rounding.

# Chart 3: Turnaround in labour productivity performance between the euro area and the US since the mid-1990s



Source: European Commission (AMECO database), and Groningen Growth and Development Centre Total Economy Database and ECB calculations. Data shown are three-year centred moving averages.



## Table 2: Decomposition of labour utilisation growth in the euro area and the United States (1996 – 2005)

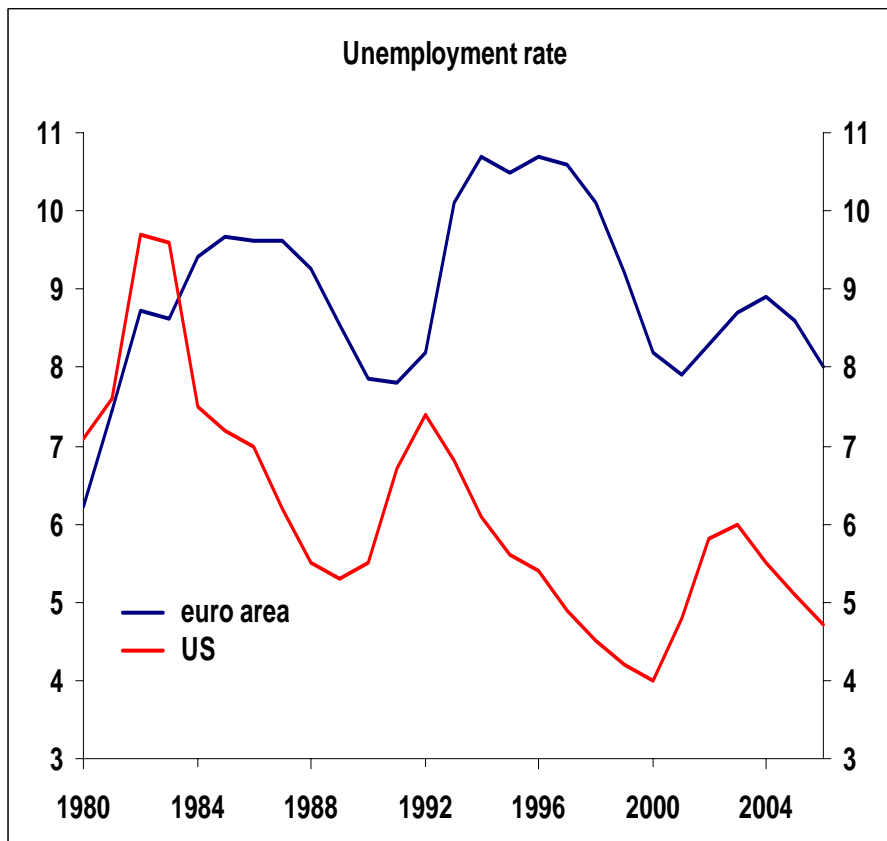
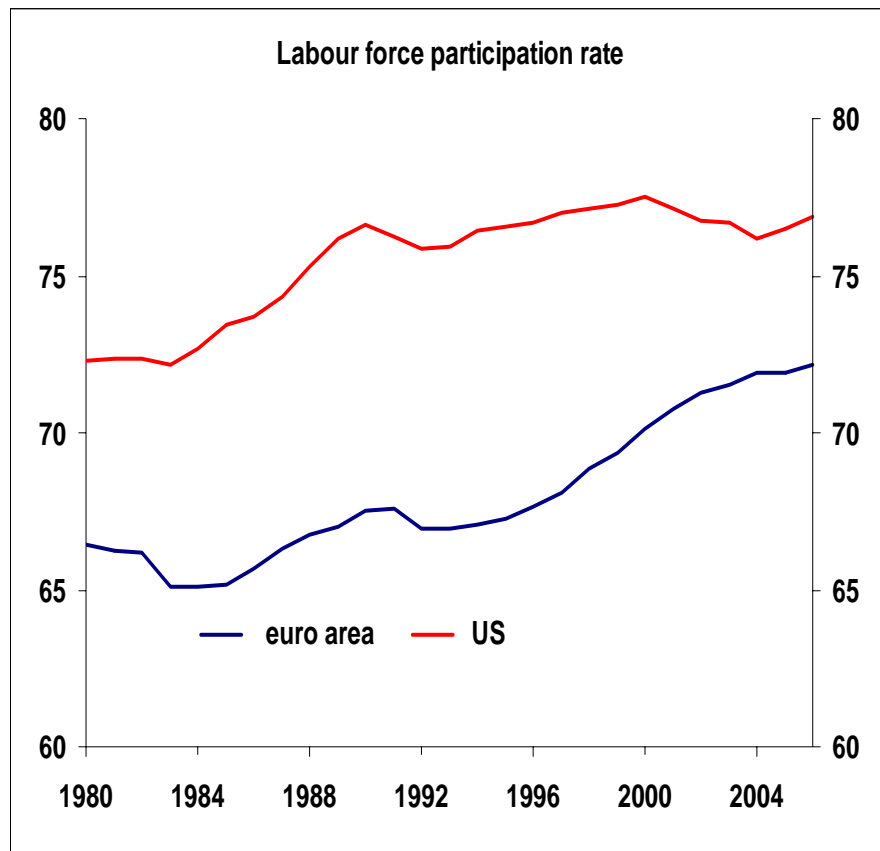
*percentage changes and percentage points per annum*

	Labour utilisation	Labour force participation rate	Unemployment rate	Average hours worked per person employed	Share of working age population in total population
	sum (a) to (d)	(a)	(b)	(c)	(c)
<b>Euro area</b>	<b>0.5</b>	<b>0.7</b>	<b>0.3</b>	<b>-0.4</b>	<b>-0.1</b>
<b>United States</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>-0.3</b>	<b>0.2</b>

Source: European Commission (AMECO database), OECD (Economic Outlook database) and ECB calculations.

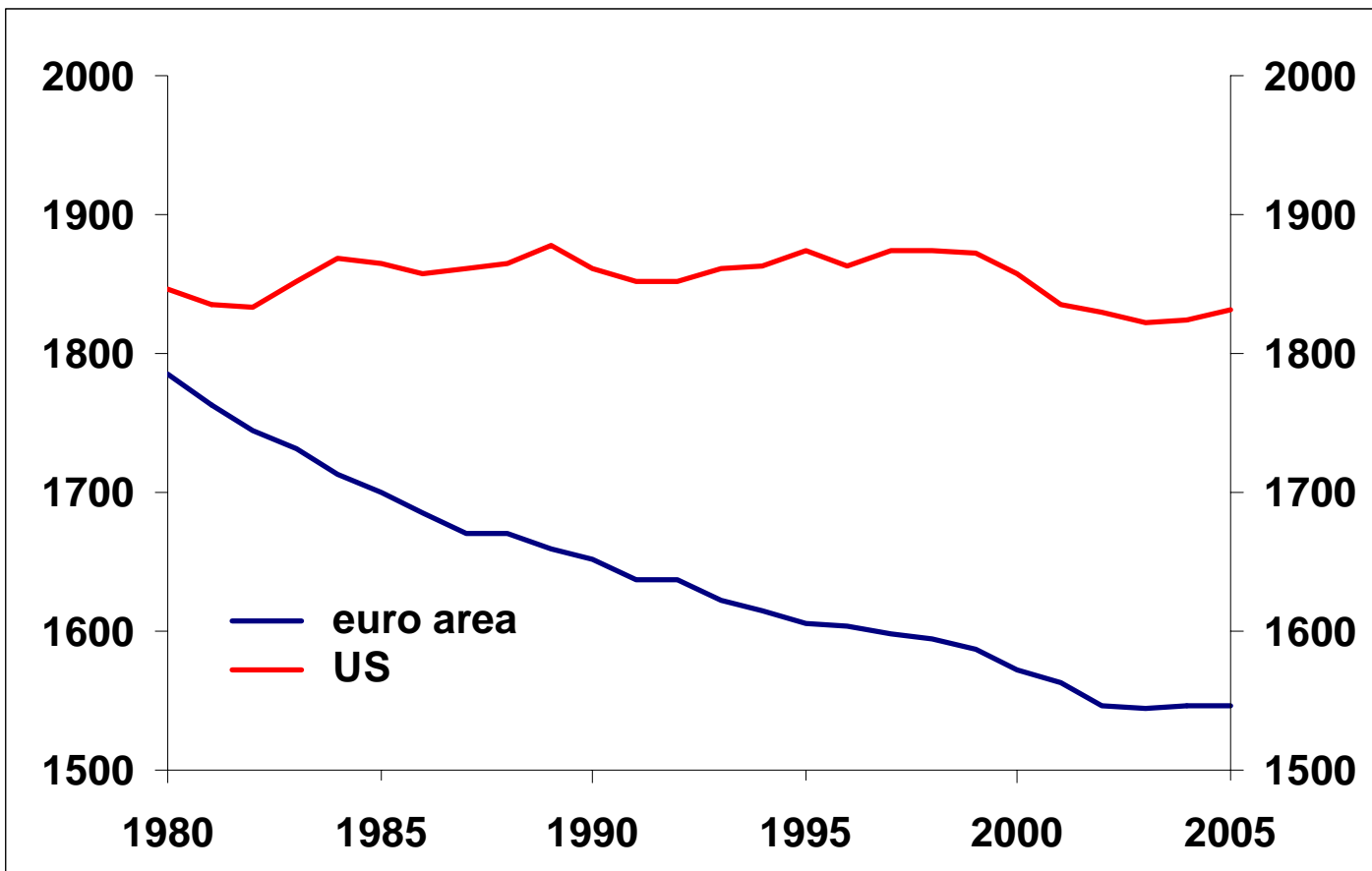
Note: Figures may not add up due to rounding. Positive contributions from unemployment reflect a decline in unemployment rate.

# Chart 4: Labour utilisation determinants (I): participation and unemployment rates (in % terms)



Source: European Commission (AMECO database). The labour force participation rate is defined as the ratio of the total labour force (employment and unemployment) to the working age population.

## Chart 5: Labour utilisation determinants (II): average hours worked

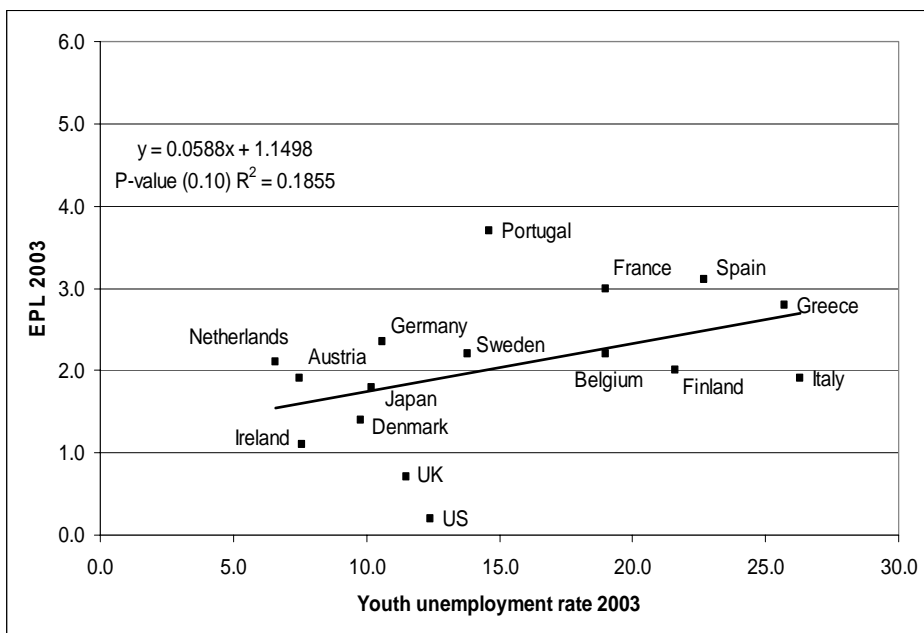


Source: OECD Economic Outlook Database.

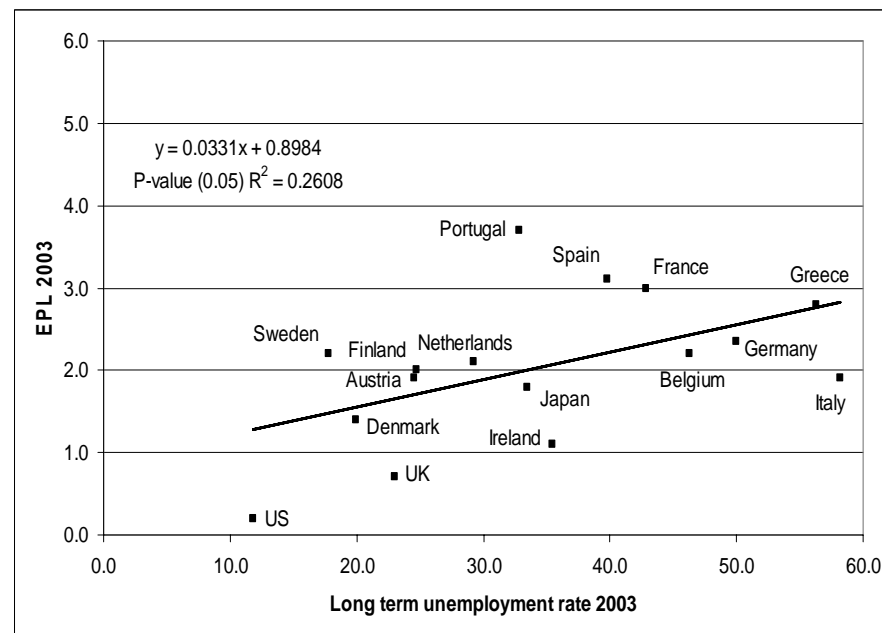
# Chart 6: The impact of labour market institutions: Employment protection legislation and labour market outcomes

Strictness of employment protection legislation (EPL)  
(aggregate measure: value 0 to 6 = low to high EPL) and the rate of:

**youth unemployment**



**long-term unemployment**

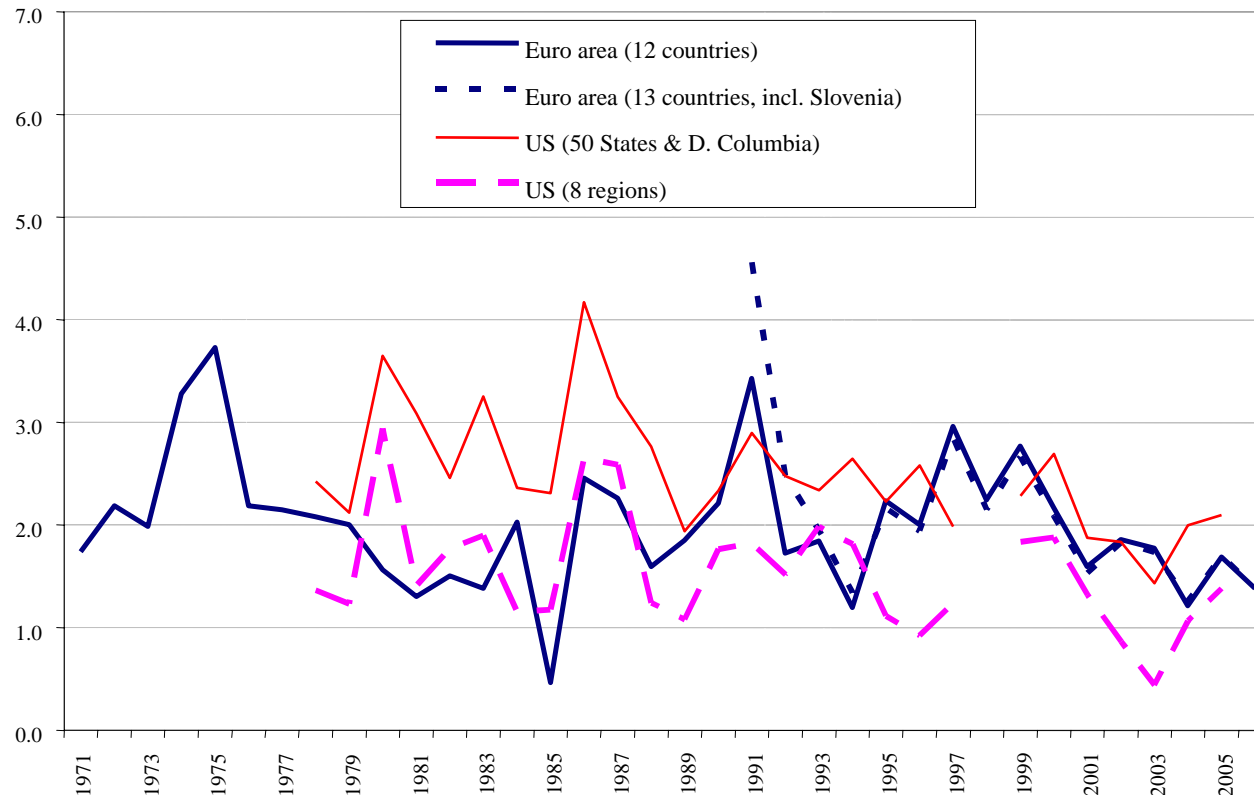


Source: Source: OECD (2004, 2005) Employment Outlook, OECD (1994), The OECD Jobs Study

Note: The equations show the fit and significance (p-value) of the regression line

# Chart 7: Dispersion of growth rates across euro area countries and the United States

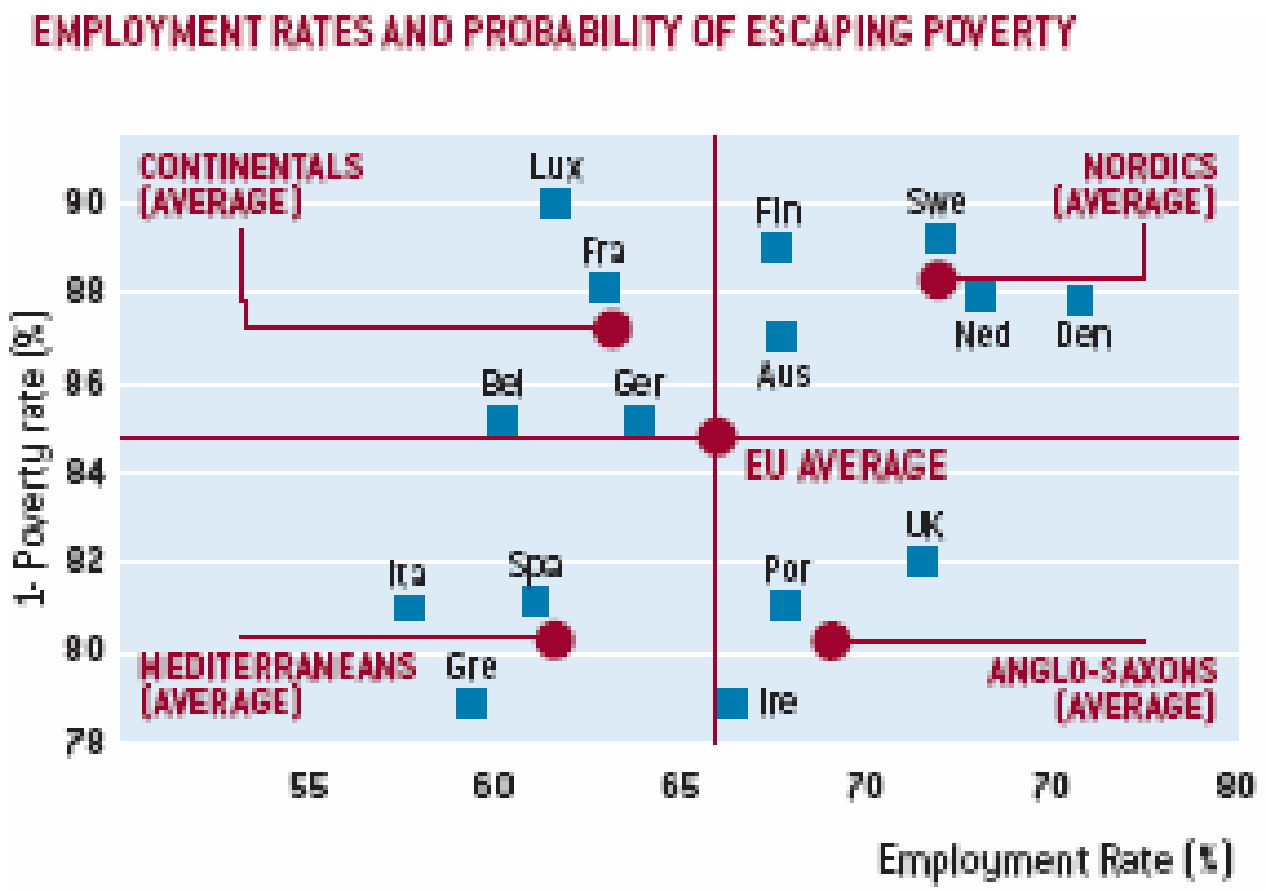
*annual averages - unweighted standard deviation in percentage points \*)*



Sources: European Commission (Ameco database) and US Bureau of Economic Analysis (BEA).

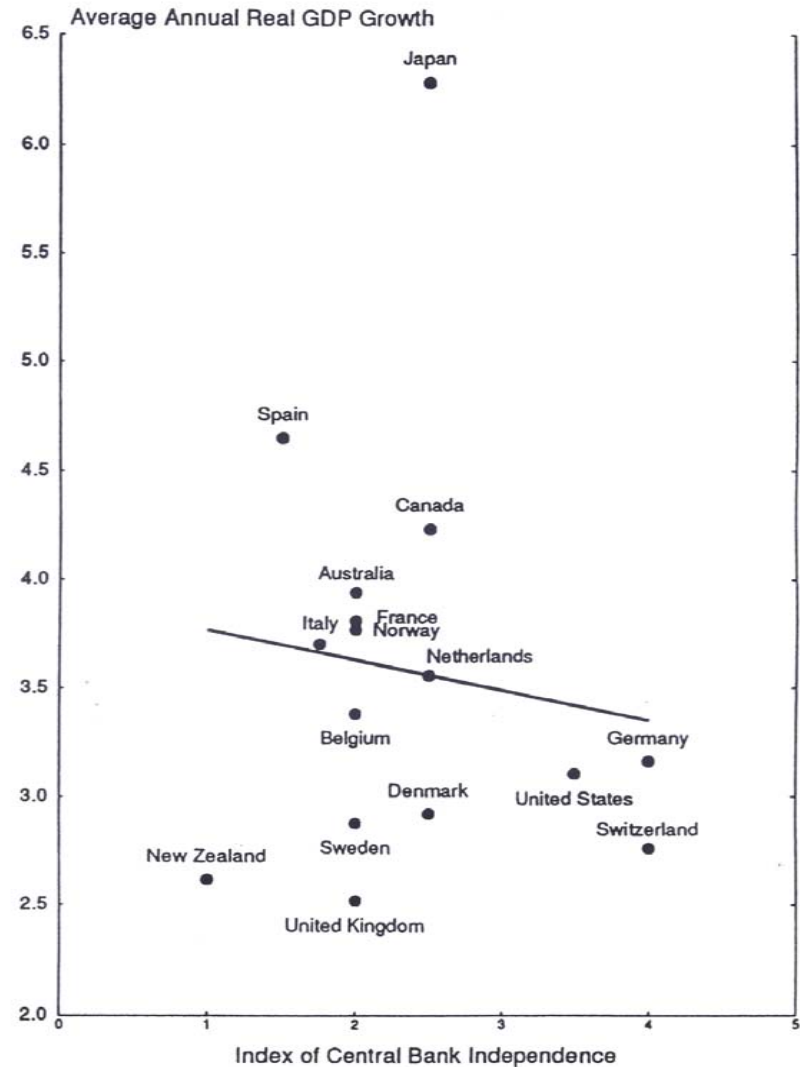
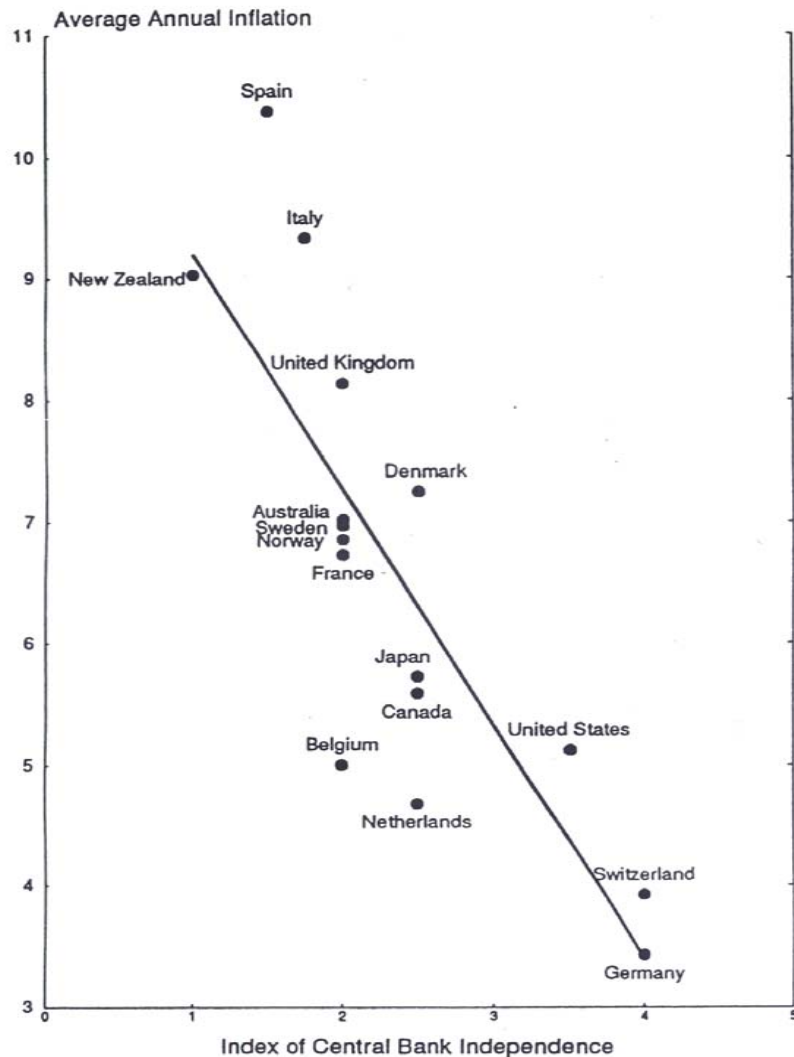
\*) There is a statistical break in the US regional data in 1998. In the states and regions of the US, the data refer to Gross State Product (GSP). The 8 regions are defined by BEA covering the whole country. Data for Slovenia start in 1991.

# Chart 8: The four types of “Social Models” and their employment and poverty prevention performance



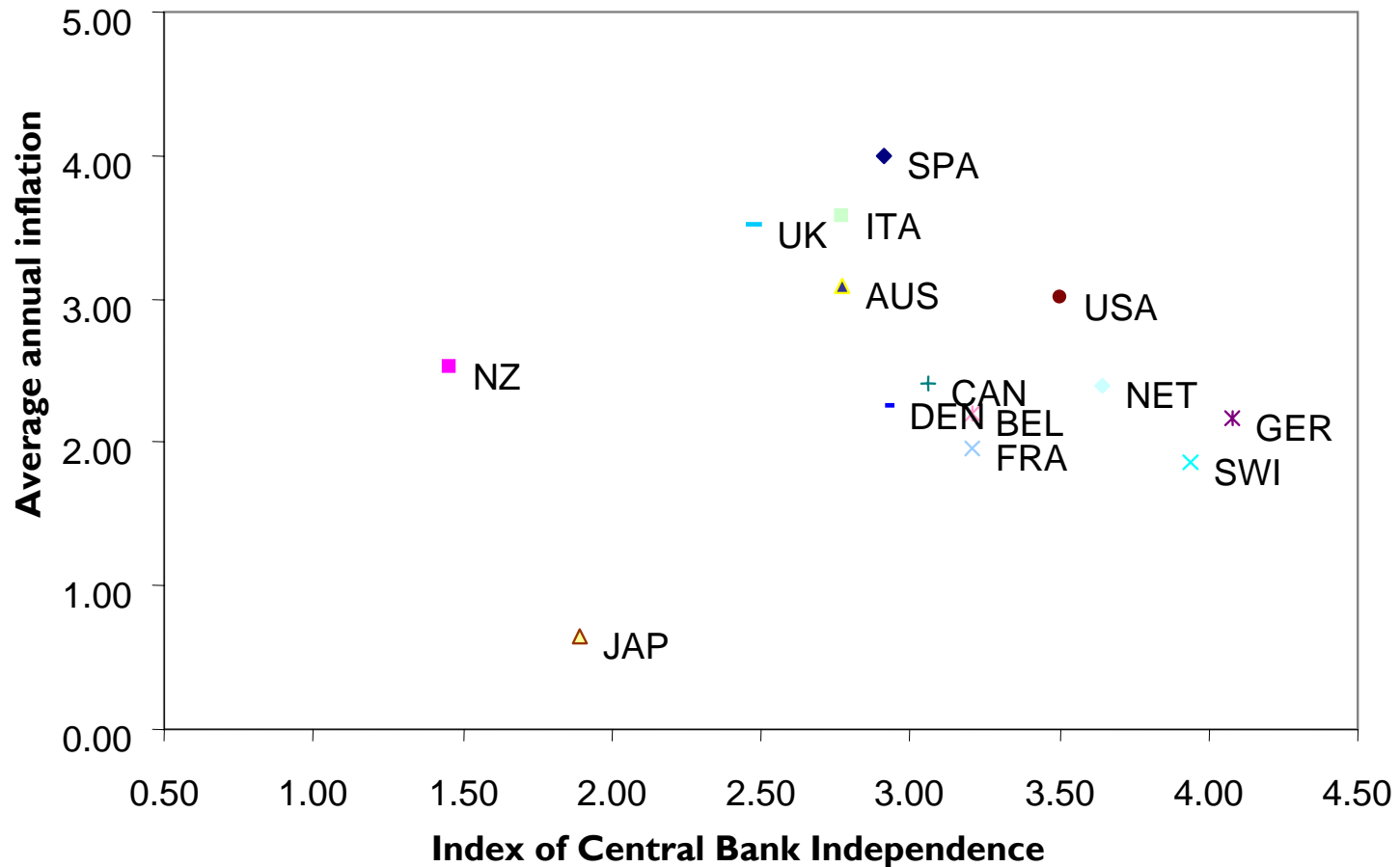
Source: Sapir (2005)

# Chart 9: Central Bank independence and inflation and growth performance (1961 – 1990)



Source: Blinder (1998), "Central Banking in Theory and Practice", The MIT Press, Cambridge, Mass.

# Chart 10: Central Bank independence and inflation performance: recent evidence (1989 – 2006)



Source: ECB calculations for 1989-2006; based on Alesina and Summers (1993) – see P. Moutot, F. Mongelli, A. Jung, “The Eurosystem: Monetary Policy Preparation, Decision-Making, and Enlargement - Selected Issues”, ECB Occasional Paper, forthcoming.