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**“Destructive Creation”?**

**Some long-term Schumpeterian reflections on the Lisbon process**

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by

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*"The 'Social Policy Agenda' is the tool which the EU uses to work towards 'more and better jobs' and 'social cohesion', two sides of the Lisbon triangle of economic, employment and social policy reform. Our agenda is on track." - Anna Diamantopoulou, former Commissioner for Employment and Social Affairs, quoted in Tucker, 2003*

## Abstract

Starting from Professor Kornai's assertion about the necessity to focus on the long-term perspectives of the transformation process, we analyze in this paper the Lisbon performance of the countries of the European Union from such a **long-term, structural perspective**.

First, we present the 14 Eurostat "structural indicators" and their measurement deficits as well as a debate about the performance of the countries of the EU in geographical terms. We then analyze this Lisbon indicator performance by factor analytical means. Traditional methods of simply adding together the ranks of the different countries along the 14 structural indicators are insufficient, whereas modern multivariate methods like factor analysis are much more appropriate to arrive at conclusions about "combined" performances. We eliminate one of the 14 Lisbon structural indicators – regional dispersion of unemployment rates – from the further debate, because that indicator does not produce ANY data throughout the entire observation period for nine of the 27 EU member countries.

We then observe the contradictions between some of the remaining 13 indicators, chosen by the member governments and the European Commission, to measure the Lisbon progress. We conclude that only a **Schumpeterian vision of capitalism** as a process of "**creative destruction**" – or rather – "**destructive creation**" can explain these contradictions, which we empirically reveal in this analysis, and which beset the "Lisbon process" from the very beginning. European decision makers often seem to be unaware about these underlying contradictions, and our paper hopes to clarify the processes involved.

Our factor analysis and our correlation analysis, on which the mathematical construction of factors is based, tells us that "Lisbon" goes hand in hand with

- high comparative price levels 2005
- high freight transport, 2004
- high greenhouse gas emissions, 2003
- low business investment rates 2004
- low youth educational attainment levels (20-24)

**Contradiction number 2:** confronted with contradiction 1, we concluded that in reality we are faced with **four underlying and contradictory processes of the Lisbon reality**

1 a Lisbon productivity factor

- 2 the avoidance or existence of a high eco-social exclusion
- 3 the employment performance
- 4 the neo-liberal European model, which is not clearly and positively linked to the other factors

These factors interact in the following fashion with one another:

#### Correlation matrix of components

Component	1 Lisbon productivity factor	2 Eco-social exclusion	3 Employment performance
2 Eco-social exclusion	,118		
3 Employment performance	,372	-,005	
4 Neo-liberal European model	-,203	,189	-,064

For Schumpeter and his elitist-conservative visions of society, the decay of values in capitalist society was an all-important element in his pessimistic theory, developed in *“Capitalism, Socialism, and Democracy.”* For Schumpeter, the disappearance of the enterprising, male-dominated capitalist family was an all-important element in his theory. We of course strongly reject Schumpeter on this point, but his analysis about the **importance of family and household structures as such** for capitalist development enters, so to speak, the empirical analysis of European Union socio-political realities via the “back door.” It is not the disappearance of the enterprising capitalist family, which threatens the future of capitalism in Europe, but the often still existing **incompatibility of work and family life**, which explains more than **60% of Lisbon process failure**.

We then proceeded to analyze with multiple regression techniques the recent European Commission data on regional growth in Europe. Patterns of discrimination against the young and the elderly on the labor market are incompatible with long-run economic growth.

**Contradiction number 3:** the following four factors explain  $\frac{3}{4}$  of regional economic growth in Europe

- **regional convergence -> poorer regions grow faster**
- **research and development**, fulfilling the Lisbon agenda

- **regions with untapped labor reserves grow faster than other regions**
- **discrimination in employment against the young and the elderly work against growth**

**Schumpeter's observations** about the destructive creation inherent in the process of capitalist development, his observations about the sociological limits, which the formation and continuity of capitalist elites encounter in the long-run development of the "market economies" as well as his strong belief in the cyclical nature of capitalist development, are all relevant for the interpretation of our other empirical results. To this end, we analyzed economic growth and development patterns in the world system with UNDP data, using SPSS XIV advanced multiple regression techniques. For one, **economic growth** in the long run is today strongly determined by the long-run **positive effects of foreign direct investments per GDP of the host countries**. At the same time – and contrary to the traditional expectations of neo-classical economics – the more **short-term effects of heavy foreign direct investment inflows on the host countries of FDI** are – *ceteris paribus* –negative. **Transnational corporations do not like an environment of instability, and rather prefer the high-wage, high quality, and high-price economies of the typical West European countries**, where their penetration rates of the host countries are highest. The critique in the spirit of Stanford economist Pan Yotopoulos and other social scientists of the drive to lower the comparative international price level, which we discuss at length in this study, is strongly vindicated by our empirical results. **Low comparative international price levels, ARE *ceteris paribus* one of the most important impediments against long-run economic growth.**

At the same time, it is clear that **state sector influence** on the economy finds its limits in the post 1989 political economy of the world. However, it is not tax revenue and it is not public health expenditures per GDP, and it is not the priority of human development as a social policy goal over economic growth, but **public expenditures in education**, which yield the most robust **negative (!)** effect on the economic growth rate. Also, it can be shown, that public education expenditures are significantly related to high income inequality (differences in the incomes between the richest 20% and the poorest 20%, measured by the so-called quintile ratio).

In the post-1989 world, we have privatized airlines and railways, shipyards and steel works, we privatized government services, **but we did not privatize – or privatize to a very significant degree – education, especially higher education, which is one of the Achilles heels of the Lisbon realities.**

We show the relevance of such a reading of events also for the determination of gender empowerment, the UNDP Human development index, and life

expectancy. Public education expenditures are also, *ceteris paribus*, significantly and negatively connected to low life expectancies.

Our empirical, cross-national analysis, based on UNDP data, is also confirmed by our micro-analysis of University performance on a global scale. Indeed, we again show that one of the basic reasons for Europe's long-term failure to fulfill the Lisbon agenda is the **crisis of its public University system**. Evaluating the yearly University of Shanghai world university rankings, we conclude that there was a **noticeable shift in world university capacity away from Europe towards the US, some English-speaking countries, like Australia, Canada, South Africa and New Zealand, and towards Israel**.

Country	Number of leading Universities 2003	Number of leading Universities 2006	increase/decrease
USA	161	167	6
Commonwealth	44	47	3
EEA/EFTA	11	12	1
Israel	6	7	1
others	7	8	1
Russia	2	2	0
EU candidates	2	0	-2
Asia	68	64	-4
EU-27	199	193	-6
xx	500	500	xx

Thus, we can only confirm the Lisbon process analysis, put forward by the former British Prime Minister Tony Blair:

*"Let's be absolutely clear about the situation in Europe today. Our university sector is not competing in the way it needs to with America. **You have got China and India developing their university sector in an extraordinary way, and yet if you look at the overall, not just the spending on our university sector, our tertiary education sector, but also where we are getting the value added in the connection between business and university, we don't have anything like the same possibilities in Europe that they have in other parts of the world.**" (PM speech to the EU Parliament in Strasbourg, 26 October 2005, available at: <http://www.number-10.gov.uk/output/Page8384.asp>)*

*JEL Classification: C43 - Index Numbers and Aggregation, C21 - Cross-Sectional Models; Spatial Models; F15 - Economic Integration; R11 - Regional Economic Activity: Growth, Development, and Changes; F2 - International Factor*

*Movements and International Business; F5 - International Relations and International Political Economy*



## Glossary and conventions

The **Human Development Index (HDI)** measures the average achievements in a country in three basic dimensions of human development: a long and healthy life, knowledge and a decent standard of living. It is calculated for 177 countries and areas for which data is available. In addition, human development indicators are presented for another 17 UN member countries for which complete data was not available.

The **Gender Related Development Index (GDI)** is a composite index that measures human development in the same dimensions as the HDI while adjusting for gender inequality in those basic dimensions. Its coverage is limited to 136 countries and areas for which the HDI rank was recalculated. For a measure of gender inequality, one should refer to the difference between the HDI rank and the GDI rank

The **Gender Empowerment Measure (GEM)** is a composite indicator that captures gender inequality in three key areas: the extent of women's political participation and decision-making, economic participation and decision making-power and the power exerted by women over economic resources.

In all maps, “**bis**” is shorthand for “ranging from ... to”.

## 1. Introduction

Three years after European Union accession and almost two decades after transformation had begun; it is time to take a more systematic, global view on what has been achieved since 1989, and what problems might be ahead in East Central Europe and in the EU-27 as a whole. Is Eastern Europe really catching up with the West, and is the enlarged and transformed Europe really on its way to become by 2010 the most competitive region in the world economy?

That such a perspective is permitted, or even recommended in the scientific debate about the region and about the EU-27 is far from clear. Harvard Professor Janos Kornai, who experienced in his own life, which is so typical for the political experience of the region, a decade of authoritarian rule, followed by the horrors of the Nazi era and the Second World War, followed by more than five decades of Communism and less than two decades of freedom, democracy and a market economy, rightly pointed out that mainstream economics relinquishes, the profound criticism of the capitalist economy to *"those professing radical views"* (Kornai, 2005, final Chapter, Presidential address, International Economic Association). Kornai went on to say that even when the economic profession accepts the fact that there may be problems, it lulls itself into believing that these problems can be reassuringly resolved by applying appropriate measures. It denies, Kornai says, that the system may have **inborn, insurmountable genetic defects**. Compared to the rapid political and human rights transformation, which the region experienced, and which Kornai continues to call an "unparalleled success", all achieved in a climate of democracy and non-violence, one is at least permitted to speak about the negative sides as well – not in the form of a balance sheet, but as an agenda for future policy and research.

For Kornai, some of these main contradictions are:

1. the real income of a significant proportion of the population has remained unchanged, or even deteriorated
2. "a dramatic restructuring", which has taken place in the area of income distribution
3. the employment rate has significantly declined and open unemployment has appeared, and job security disappeared
4. public security was deteriorating
5. corruption
6. disorders in the political arena
7. *"it can be stated with certainty that capitalism gives birth to disparity. But tax policies favoring the rich while afflicting the impoverished, or poorly distributed state subsidies, can make matters even worse."* (Kornai, 2005)

But also in Western Europe, and not only in the "old Europe", such a perspective is necessary. Dissatisfaction with the "Lisbon process" of the European Union, initiated at the European Council meeting in Lisbon, March, 2000, to make Europe the most competitive economy of the world by 2010, is widespread, relevant optimistic recent voices from the Commission notwithstanding.

EU-Commission President José Manuel Barroso said on March 7, 2007:

*EU GDP growth was 2.9% in 2006 and is projected to remain around that value in 2007. Many of Europe's businesses are blossoming again. The drive for better regulation is paying off at both EU and national level. The latest Innovation Scoreboard shows the gap with the US beginning to close. Europe created three million jobs in 2006. Unemployment is down to around 7.5 %. That is still too high. But it is the lowest figure in more than a decade.*

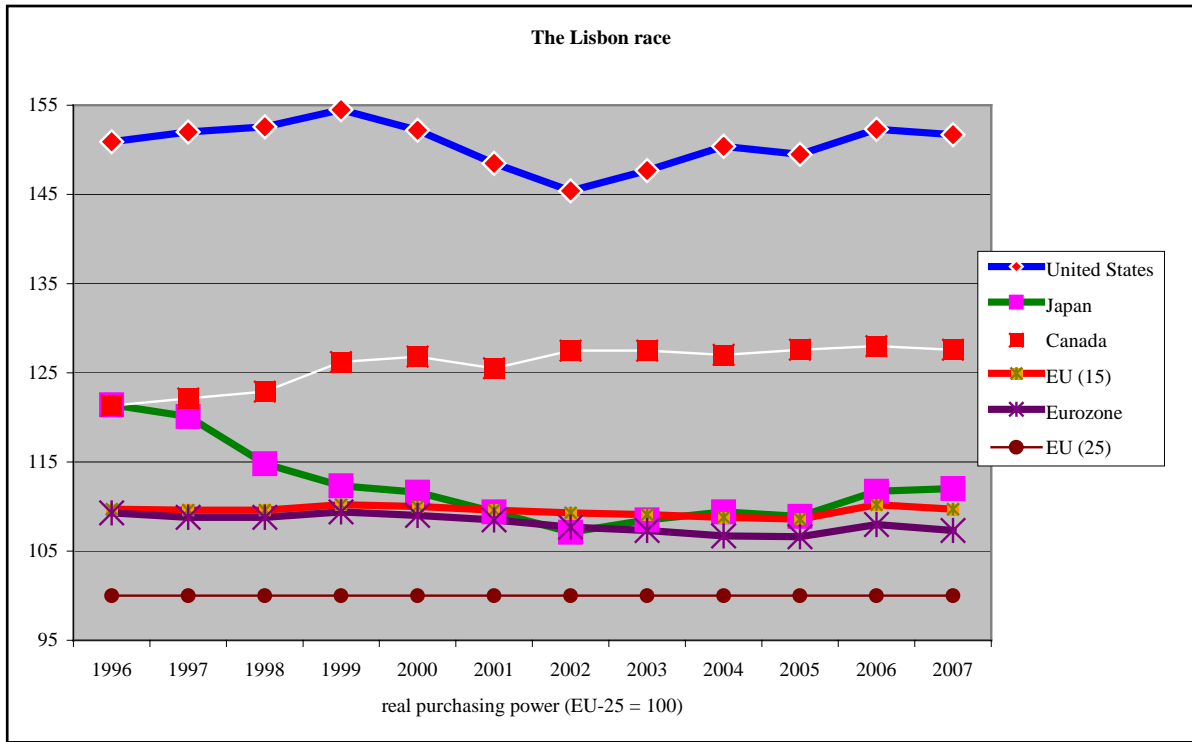
*Of course, the renewed Lisbon Strategy is not the only reason for the healthier outlook. But it is one reason. That is a fact that sometimes gets lost. It is only natural that national governments tend to present things in a national perspective.*

*But as the Lisbon Scorecard says: "there is hardly a European country that is not studying the Danish model of flexicurity, the Finnish success in higher education or the pros and cons of UK style utility liberalisation." More examples could be added – the French "pôles de compétitivité" the Dutch standard cost model, tax reforms in some new Member States. (Commission President J. M. Barroso, March 7, 2007, available at*

[http://ec.europa.eu/commission\\_barroso/president/pdf/speech\\_20070305\\_en.pdf](http://ec.europa.eu/commission_barroso/president/pdf/speech_20070305_en.pdf)

But Europe by far lags behind the US, it's main Lisbon process competitor:

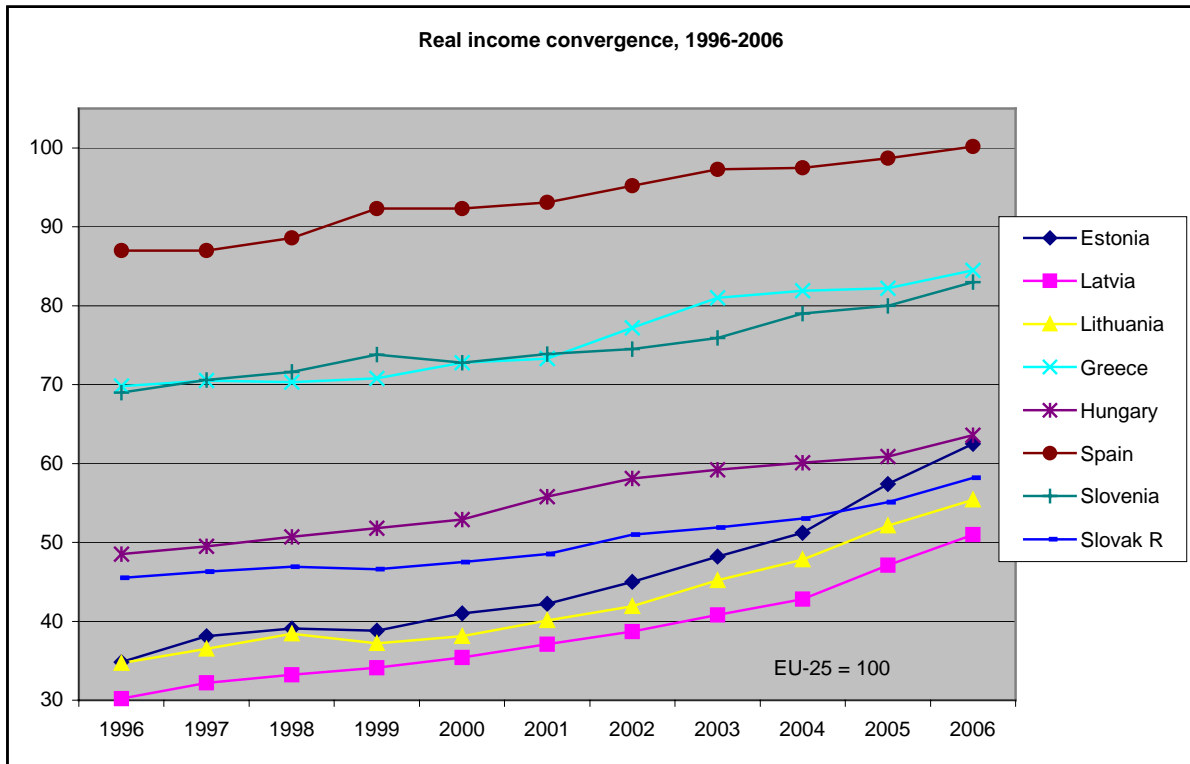
**Graph 1: Europe still lags behind in terms of real purchasing power**



Source: our own compilations from Eurostat, freely available at: [http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=1090,30070682,1090\\_33076576&\\_dad=portal&\\_schema=PORTAL](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090,30070682,1090_33076576&_dad=portal&_schema=PORTAL)

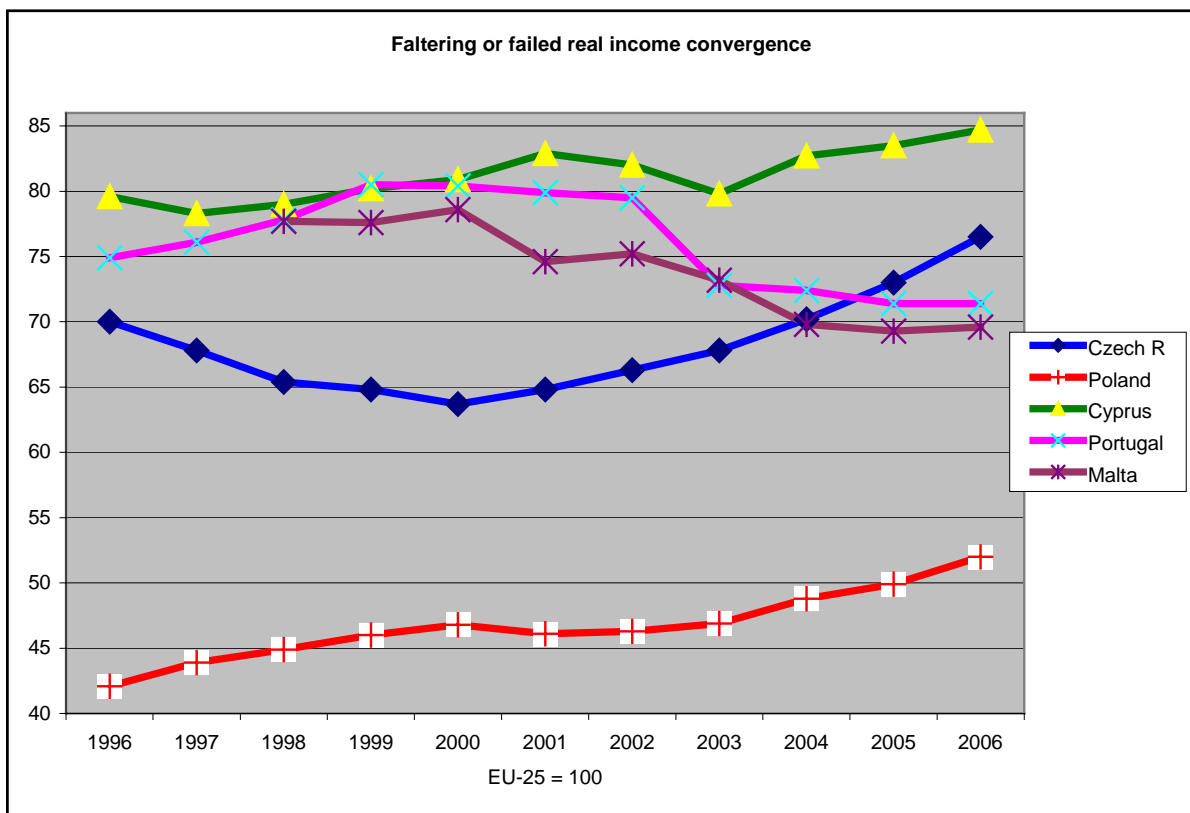
Only some, but not all countries from the big accession of the year 2004 achieved real income convergence during the process:

**Graph 2a: real income convergence or divergence in the new Europe?  
The success stories**



Source: our own compilations from Eurostat, freely available at: [http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=1090,30070682,1090\\_33076576&\\_dad=portal&\\_schema=PORTAL](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090,30070682,1090_33076576&_dad=portal&_schema=PORTAL)

**Graph 2b: Faltering or failed income convergence, 1996 - 2006**



Source: our own compilations from Eurostat, freely available at: [http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=1090,30070682,1090\\_33076576&\\_dad=portal&\\_schema=PORTAL](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090,30070682,1090_33076576&_dad=portal&_schema=PORTAL)

We will not shy away in this paper from taking a global, *“world systems theory perspective”* on the trajectory of events and performances since 1989. We will analyze the process of the European political economy at the level of the EU-27, at the level of the European regions, and at the level of the global political economic contest with advanced methods of quantitative political science and quantitative political economy.

The present author does not conceal from the outset that although he very much respects the scientific drive and integrity of much of mainstream economics, his approach is influenced by the question- writing by social scientists looking at the darker sides of capitalist development. Undoubtedly, an enormous deal was achieved since 1989 in political, economic, and social terms in Europe. The

victory of free markets over Communism – especially in this part of the world where this 17<sup>th</sup> Krynica Economic Forum takes place – above all also meant a definitive transformation of the political systems of the region. So, therefore, what can we still learn from “**critical political economy**”?

Authors like **Joseph Alois Schumpeter**, and later world system and dependency writers like **Samir Amin**, **Volker Bornschier**, **Fernando Henrique Cardoso**, **Raul Prebisch**, and **Osvaldo Sunkel**, were always aware of the crises, cyclical imbalances, regional shifts, and of the rise and decline of entire regions and even continents in the process of capitalist development. As we insinuate by the title of our paper, we return in a way to the “**old Galicia**” of 1909 to 1911, where Joseph Alois Schumpeter, the Harvard economist, gained valuable insights into the nature of world development. Schumpeter, as it is well-known, was then a professor at the then Austrian University of Czernowitz (a German-language university, now Chernivtsi University in Northern Bukovina, Ukraine). The young professor and Ph.D. from Vienna University could well observe at first hand this “**creative destruction**”, which capitalism constituted in the Galician periphery of the Empire. Several of his major works, like “*The Nature and Essence of Theoretical Economics*” (1908), “*The Theory of Economic Development: An inquiry into profits, capital, credit, interest and the business cycle*” (1911) were all heavily influenced by his early experiences at the outer rim, and not by the experience of the “center”.

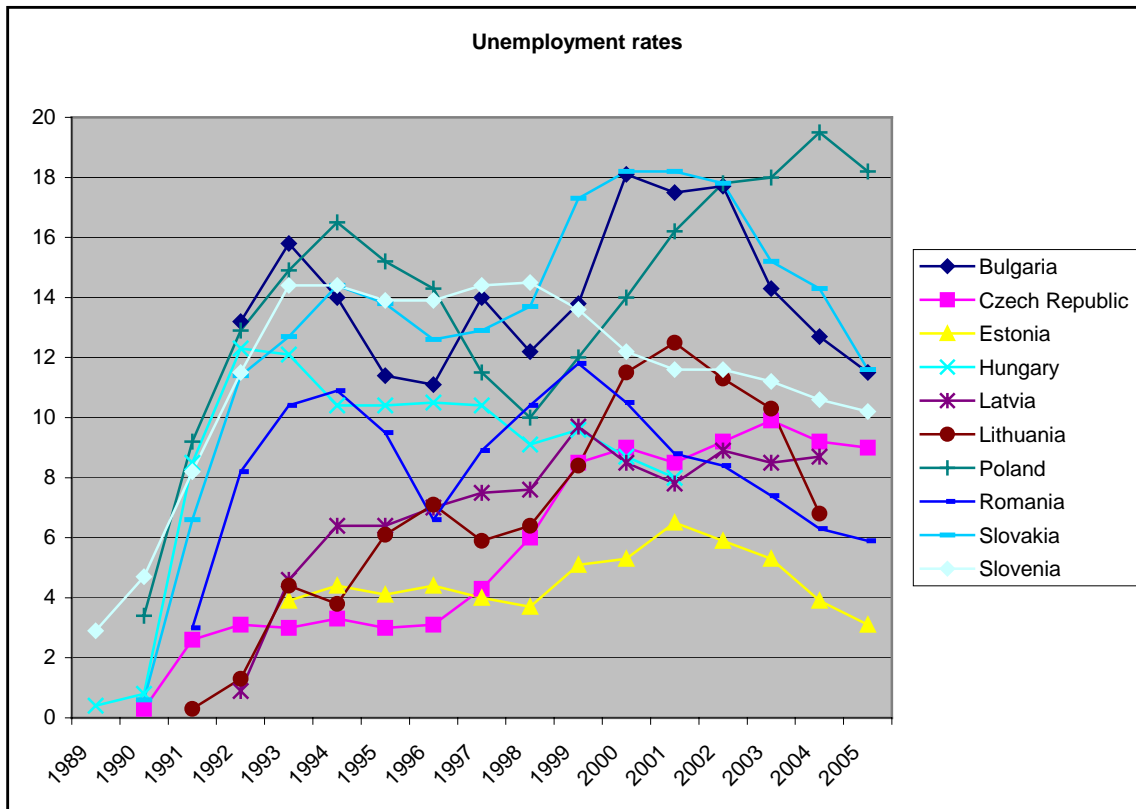
Like many other development theorists of the first generation of development economists after the Second World War, whose stars began to rise long after Schumpeter already went to America, Kurt Mandelbaum, Paul Narcyz Rosenstein-Rodan, and Hans Wolfgang Singer shared with Schumpeter the observation that capitalism never was a smooth equilibrium process.

Mandelbaum, Rosenstein-Rodan and Singer, and the dependency theorists in Latin America, which they so heavily influenced, were deeply convinced that capitalism is NOT the crisis-free growth, the full employment, the environmental sustainability and the end to social exclusion.

At the end of the day, a realistic and politically useful analysis of the “Lisbon process” has to be “Schumpeterian” in its **question writing** – not excluding the contradictions inherent in the process of capitalist development, which we witness since the year 1989 at the pan-European level.

Let us state here at the outset and in the spirit of the Kornai 2005 IEA Presidential address, that unemployment is still the most important single problem of the region, almost two decades after the transformation:

**Graph 3a: the human costs of the transformation process - unemployment**

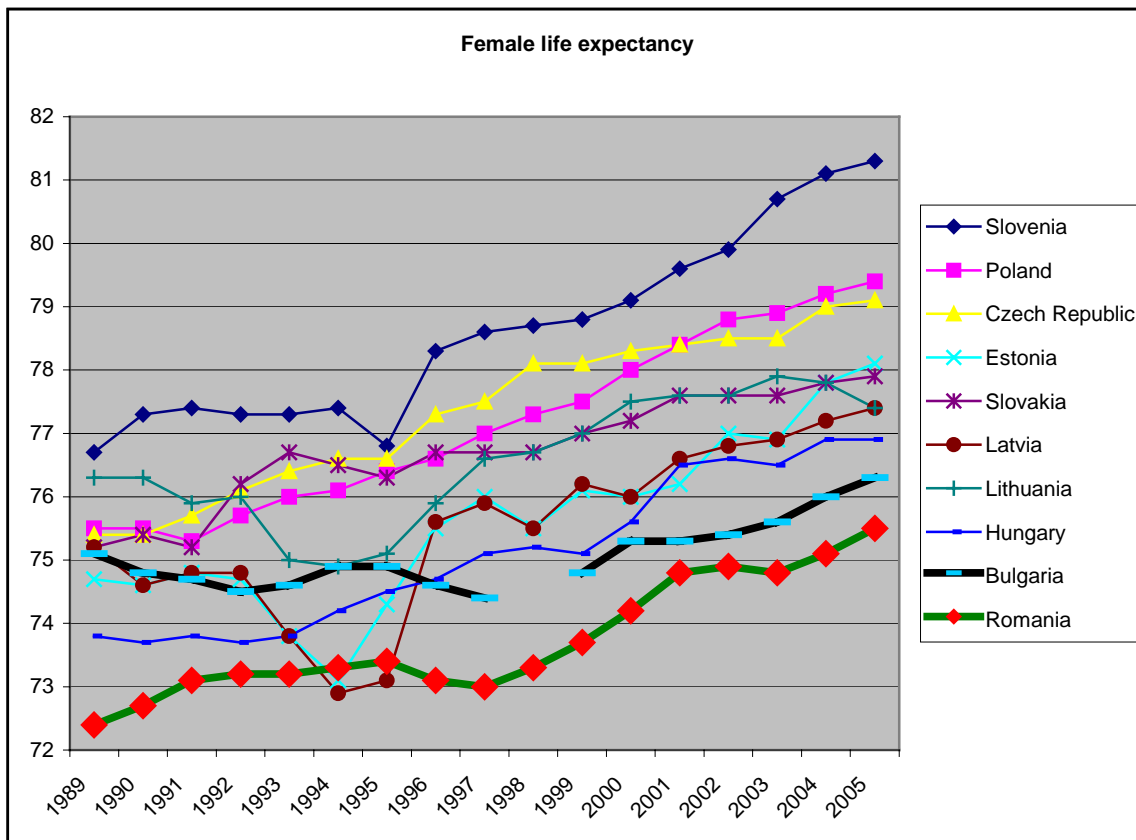


Source: our own calculations from UNICEF Trasmonee data base, freely available at <http://www.unicef-icdc.org/research/> Our data show the depth of the transformation crisis in East Central Europe.

The region still recovers from the great human toll, which the transformation meant – above all in terms of foregone female and male life expectancies, especially of the poorer strata of society:

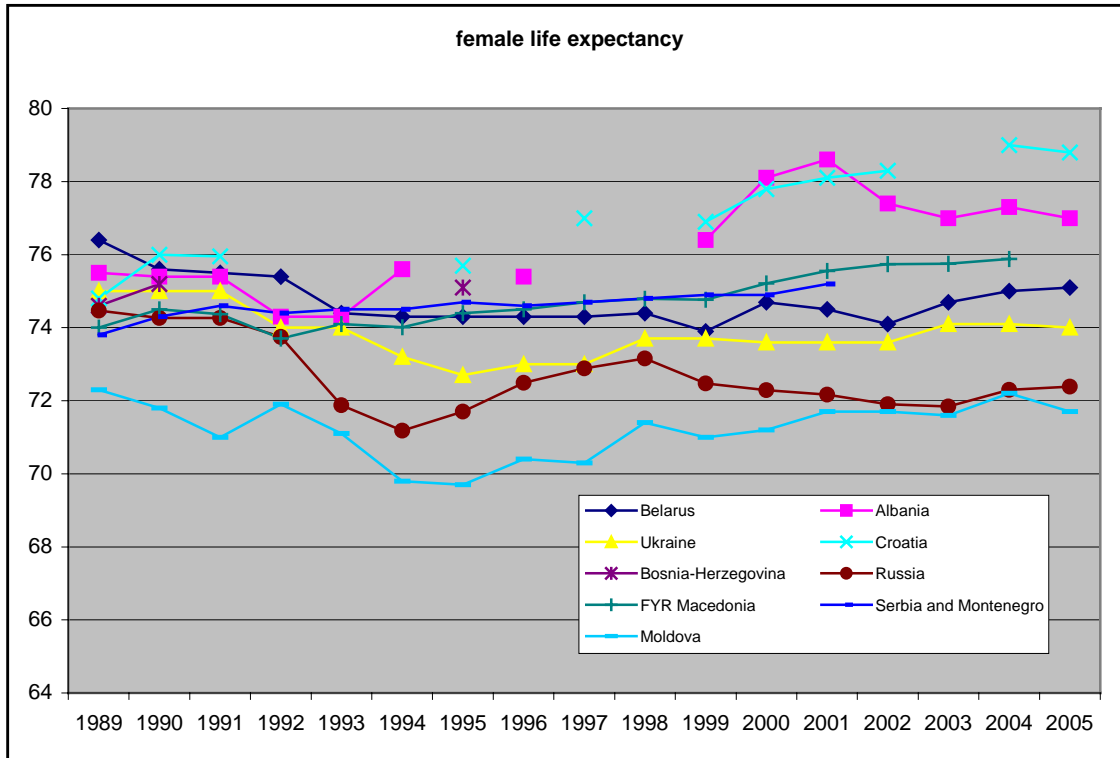


**Graph 3b: the human costs of the transformation process – female life expectancy in the new EU-member countries in Eastern Europe**



Source: our own calculations from UNICEF Trasmonee data base, freely available at <http://www.unicef-icdc.org/research/> Our data show the depth of the transformation crisis in East Central Europe.

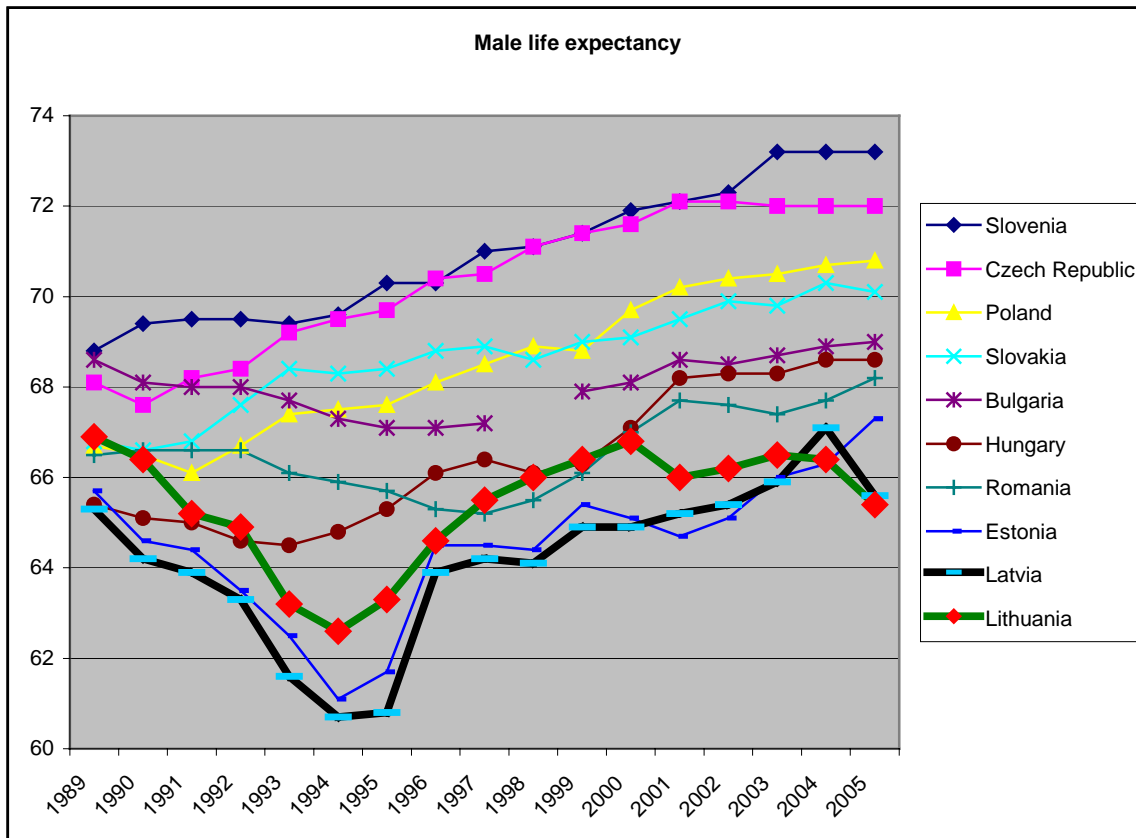
**Graph 3c: the human costs of the transformation process – female life expectancy in other Eastern European countries**



Source: our own calculations from UNICEF Trasmonee data base, freely available at <http://www.unicef-icdc.org/research/> Our data show the depth of the transformation crisis in East Central Europe.

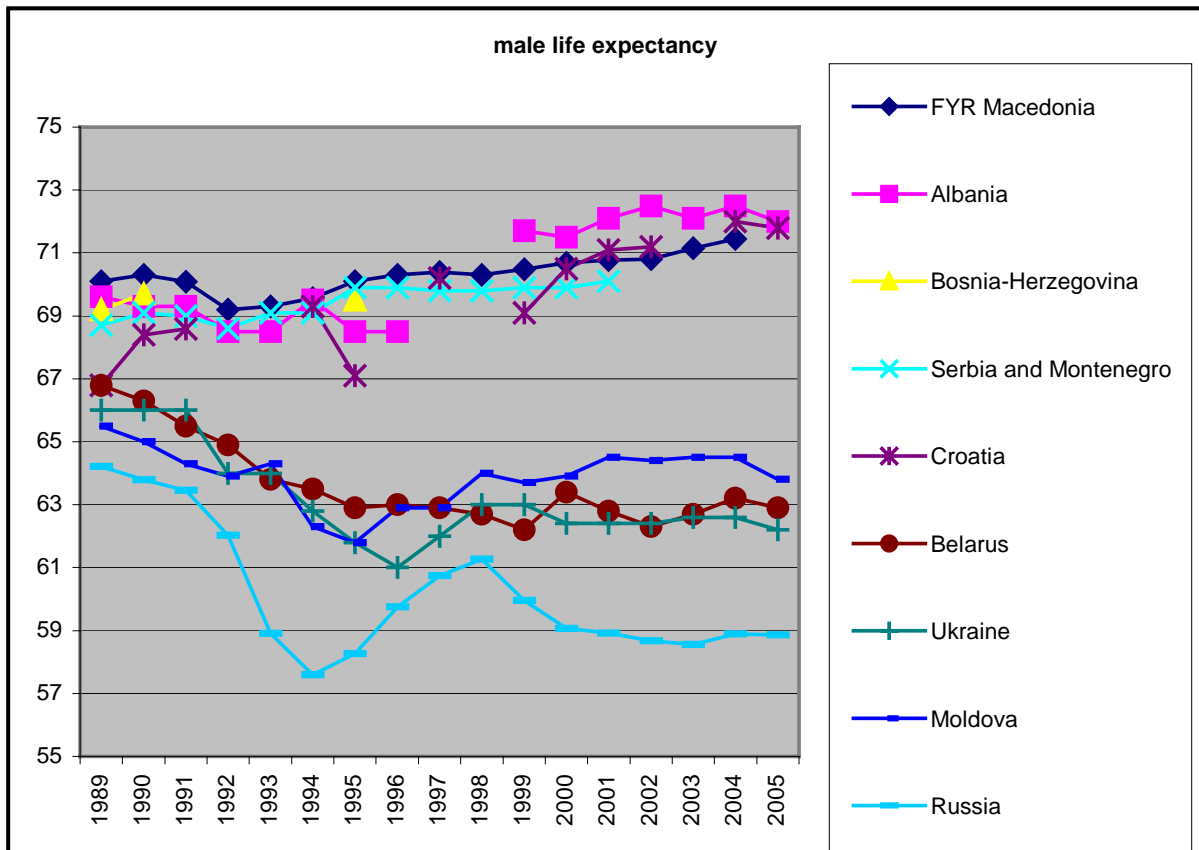
What is certainly most alarming, is the fact that male life expectancies in some countries are again heading in a downward direction even well after 2000:

**Graph 3d: the human costs of the transformation process – male life expectancy in the new EU-member countries in Eastern Europe**



Source: our own calculations from UNICEF Trasmonee data base, freely available at <http://www.unicef-icdc.org/research/> Our data show the depth of the transformation crisis in East Central Europe.

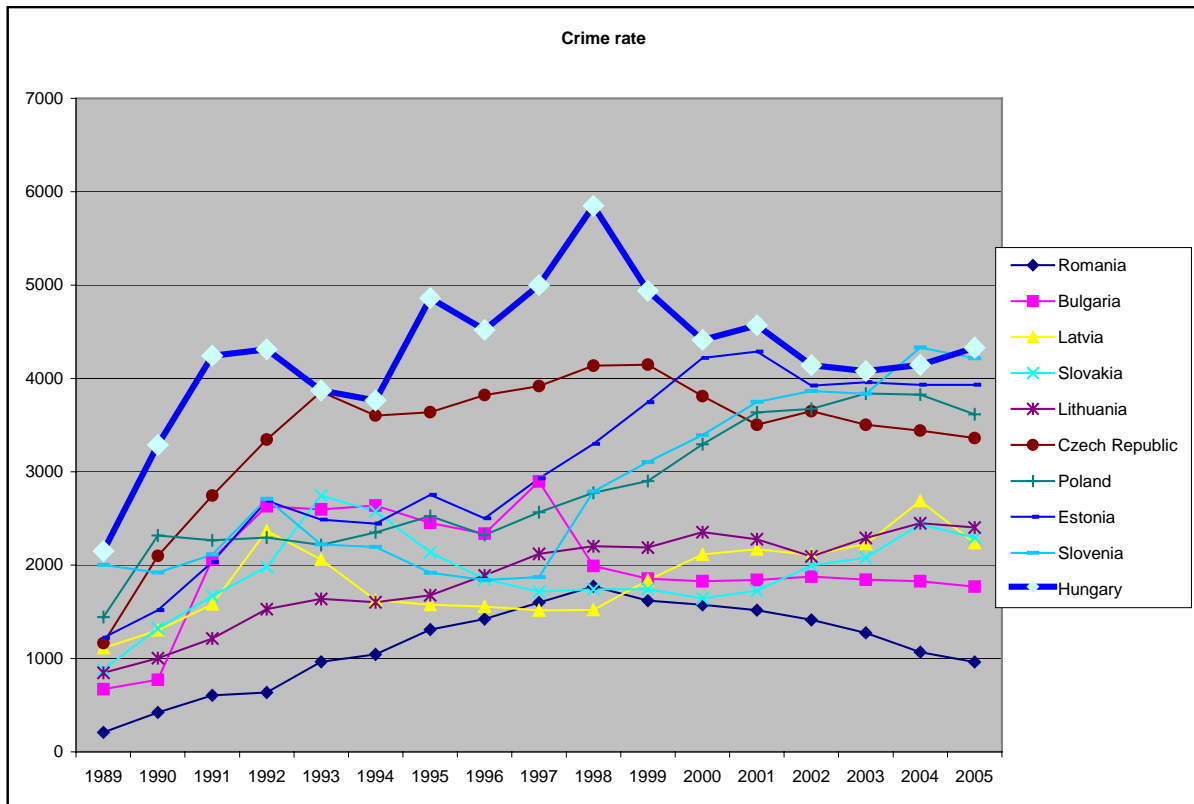
**Graph 3e: the human costs of the transformation process – male life expectancy in other Eastern European countries**



Source: our own calculations from UNICEF Trasmonee data base, freely available at <http://www.unicef-icdc.org/research/> Our data show the depth of the transformation crisis in East Central Europe.

Professor Kornai spoke in 2005 about the deterioration of public security in the region. Combatting crime is one of the major policy tasks of the years to come, indeed:

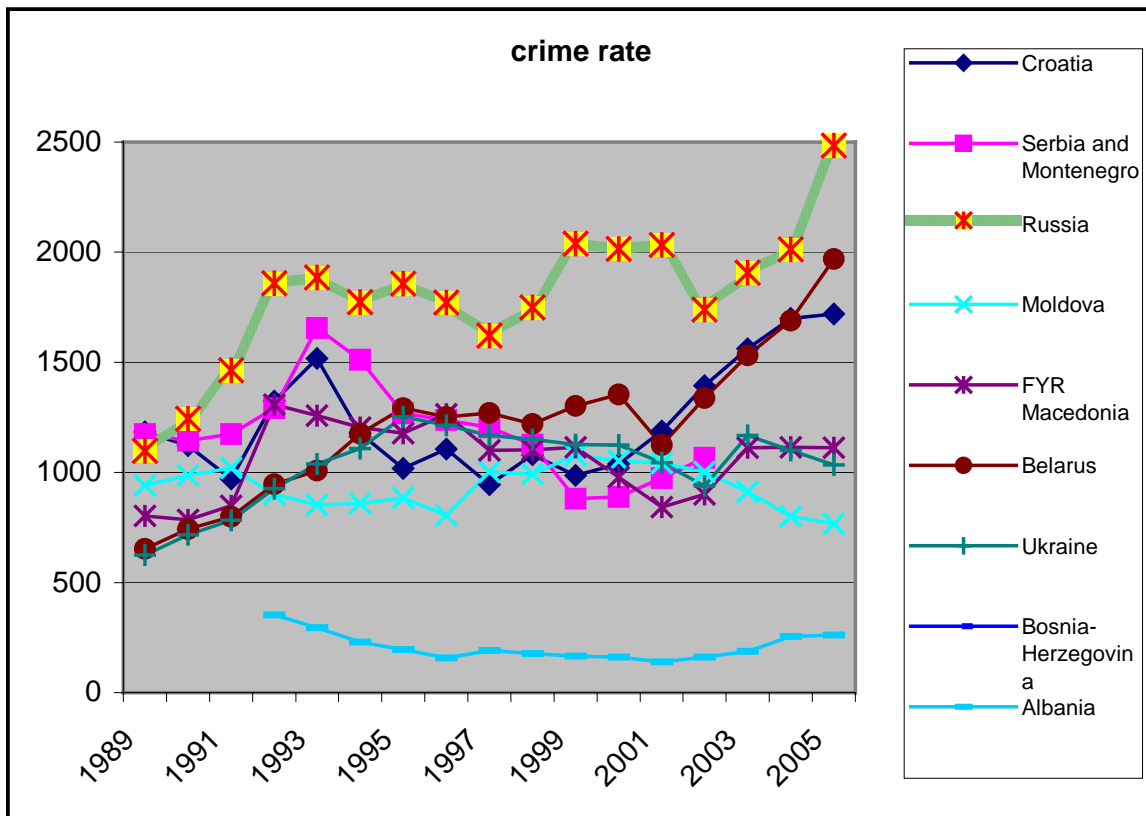
**Graph 4a: the human cost of the transformation in Eastern Europe – crime rates in the new EU-member countries in Eastern Europe**



Source: our own calculations from UNICEF Trasmonee data base, freely available at <http://www.unicef-icdc.org/research/> Registered crime rates per 100.000 population. Our data show the depth of the transformation crisis in East Central Europe.

A brief look into the statistics for the other countries reveals also that in several countries, including Russia, Belarus, and Croatia, crime rates still go up, thus reflecting the deficits in public security, about which Kornai spoke:

**Graph 4b: the human cost of the transformation in Eastern Europe – crime rates in other Eastern European countries**



Source: our own calculations from UNICEF Trasmonee data base, freely available at <http://www.unicef-icdc.org/research/> Registered crime rates per 100.000 population. Our data show the depth of the transformation crisis in East Central Europe.

In this paper we thus analyze the statistical relationships between the “Lisbon process” indicators and its “darker”, more conflict-oriented aspects on the one hand and underlying, more general processes of socio-economic development in the world system – especially the demographic process – on the other hand.

Although there is now a real flood of literature on the subject of the “Lisbon process”, a real through statistical investigation on the interrelationship and compatibility between the different “Lisbon indicators” and their possible causal relationships with other important socio-economic variables is rather scarce.

A “Google” English language advance Internet search and a “Google” “advance scholar” Internet search, carried out by July 30, 2007 highlights this **disproportion** in a dramatic way. There is a lot of talk on the **generalities of the “strategy”**, but the **hard statistical work of analyzing the indicators and their relationship only seems to attract roughly 5 to 10% of worldwide attention on the subject:**

**Table 1: Lisbon strategy, Lisbon process, Lisbon structural indicators – patterns of media and scholarly attention, worldwide**

	„Lisbon strategy” – number of internet sites specifically mentioning this term	„Lisbon process” – number of internet sites specifically mentioning this term	“Lisbon + “structural indicators”” – number of internet sites specifically mentioning these terms
Google advance search	1120000	142000	50300
Google scholar	3570	795	442

As it is well known, in March 2000, the EU Heads of States and Governments agreed to make the EU “*the most competitive and dynamic knowledge-driven economy by 2010*”. Although some progress has been made on innovating Europe's economy, there is growing concern that the reform process is not going fast enough and that the ambitious targets will not be reached<sup>2</sup>. As it is also widely known, the 14 main structural “Lisbon” agenda indicators, created to measure progress in meeting these Lisbon targets, play an important role in European policy-making<sup>3</sup>. The **Lisbon lists of indicators**, apart from the highly publicized debt-related **Maastricht criteria** of the European Monetary Union are perhaps the most important checklists for government success or failure in Europe today. They are omni-present in the public political as well as scientific debate.

It is assumed that a good performance on one indicator is causally linked to a good performance on the other indicators. Or in the words of Professor Romano Prodi, the former Commission President:

*“The Lisbon Strategy remains the right course for an enlarged European Union. It is the best way of delivering what concerns our citizens most - prosperity, more and better jobs, greater social cohesion and a cleaner environment - and making*

<sup>2</sup> for a short survey of the Lisbon process, see also: <http://www.euractiv.com/Article?tcmuri=tcm:29-117510-16&type=LinksDossier>

<sup>3</sup>[http://epp.eurostat.cec.eu.int/portal/page?\\_pageid=1133,1403427,1133\\_1403432&\\_dad=portal&\\_schema=PORTAL](http://epp.eurostat.cec.eu.int/portal/page?_pageid=1133,1403427,1133_1403432&_dad=portal&_schema=PORTAL)

*sure that they are achieved sustainably for future generations.”*  
([http://www.socialdialogue.net/en/en\\_lib\\_068.htm](http://www.socialdialogue.net/en/en_lib_068.htm))

However, is this true? Is this at least theoretically possible? **Maximizing all indicators** at once might be **desirable from the viewpoint of European decision makers**, but **we cannot be certain about** the all important **interrelationships and incompatibilities** between the **14 indicators**.

So:

- **First**, we analyze the **Lisbon performance** of European countries by **multivariate, quantitative means**, looking into the possible **contradictions** that might exist between the different components of the “Lisbon process”.
- **Secondly**, we analyze **regional performance** since the 1990s in order to know whether growth and development in Europe spread evenly among the different regions of the continent.
- **Thirdly**, we perform an analysis of the **trajectory of development in the world system since the 1990s** in order to ascertain, whether the contradictions, which might arise in Europe, are “systemic” and “global” in nature. Do they correspond to some deeper contradictions of the globalization process, or are they just spurious phenomena, and the results of more short-term policy failures?



## 2. On the Lisbon train - some second thoughts on the Eurostat approach, based on a single factor model

Our essay thus starts by taking a closer look at the 14 main structural indicators, which play such an important role in the internal EU-decision making process:

**Table 2: the 14 Lisbon structural indicators**

<i>GDP per capita in PPS</i>	Gross Domestic Product (GDP) in Purchasing Power Standards (PPS) (EU-25 = 100)
<i>Labour productivity per person employed</i>	GDP in Purchasing Power Standards (PPS) per person employed relative to EU-25 (EU-25 = 100)
<i>Employment rate*</i>	Employed persons aged 15-64 as a share of the total population of the same age group
<i>Employment rate of older workers*</i>	Employed persons aged 55-64 as a share of the total population of the same age group
<i>Gross domestic expenditure on R&amp;D (GERD)</i>	Gross domestic expenditure on R&D as a percentage of GDP
<i>Youth education attainment level*</i>	Percentage of the population aged 20 to 24 having completed at least upper secondary education
<i>Comparative price levels</i>	Comparative price levels of final consumption by private households including indirect taxes (EU-25 = 100)
<i>Business investment</i>	Gross fixed capital formation by the private sector as a percentage of GDP
<i>At-risk-of-poverty rate after social transfers*</i>	Share of persons with a disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median disposable income
<i>Dispersion of regional employment rates*</i>	Coefficient of variation of employment rates across regions (NUTS 2 level) within countries
<i>Long-term unemployment rate*</i>	Long-term unemployed (12 months and more) as a percentage of the total active population
<i>Total greenhouse gas emissions</i>	Index of greenhouse gas emissions and targets according to Kyoto Protocol / EU Council Decision for 2008-2012 (Actual base year = 100).
<i>Energy intensity of the economy</i>	Gross inland consumption of energy divided by GDP (at constant prices, 1995=100), measured in kgoe (kilogram of oil equivalent) per 1000 Euro
<i>Volume of freight transport relative to GDP</i>	Index of inland freight transport volume relative to GDP, measured in tonne-km / GDP (at constant prices, 1995=100)

[http://circa.europa.eu/Public/irc/dsis/structind/library?l=/general\\_information/annual\\_synthesis/2007\\_spring\\_council/february\\_statistical/\\_EN\\_1.0\\_&a=d](http://circa.europa.eu/Public/irc/dsis/structind/library?l=/general_information/annual_synthesis/2007_spring_council/february_statistical/_EN_1.0_&a=d)

We will **take the 14 indicators** at their **face value** and we will look into the existing relationships and underlying possible causations. Nevertheless, we have to voice a **note of caution at the outset**. Of the 14 key "structural" indicators, **one data series – dispersion of regional unemployment rates – does not**

**report any data** for any year since 1999 for **9 of the 27 EU member states**, even after the great EU-enlargement in 2004 - Denmark, Estonia, Ireland, Cyprus, Latvia, Lithuania, Luxembourg, Malta, and Slovenia, i.e. nine of the 27 EU member countries. We simply eliminated this indicator from our further calculations.

Another two indicators (green house gas emissions and freight transport) we had to accept only with great reservations – they measure **dynamic rates of increase/decrease**, and not **aggregate levels at a given time point** (as all the other 12 indicators). Thus, they do not inform us about **present achievements** or failures of EU-member countries, and about achievements in comparison with aggregate **US levels**. As it is well-known from any course “*Statistics 100*” at any University around the world, nations with **small aggregate levels** sometimes might exhibit **large rates of increase** in aggregate level indicator series over time, while the **aggregate levels really involved might still be moderate**. This is especially true for **environment and pollution indicators**. It is simply implausible, say, that heavy industrial Poland has a much better greenhouse gas emissions record than relatively rural Portugal. However, greenhouse-gas emissions decreased in Poland and increased in Portugal. For that reason, Poland performs well, while Portugal performs badly.

Equally, and again with special relevance to environmental standards, small improvements in the Eurostat data series might make big polluters look like environmental success stories, while in reality, they continue to contribute disproportionately to global green house gas emissions and global warming. Eurostat and the European decision makers, who drafted Eurostat’s work program in the first place, are well advised to present at least a list of 14 **aggregate** level data series and a list of 14 **dynamic rates of change** data series.

To make matters worse, the Lisbon process was designed from the very beginning as a process of catching up and even overtaking the United States of America<sup>4</sup>, while the following chosen indicator series do not mention any data for any year for the United States of America at all for the variables<sup>5</sup>:

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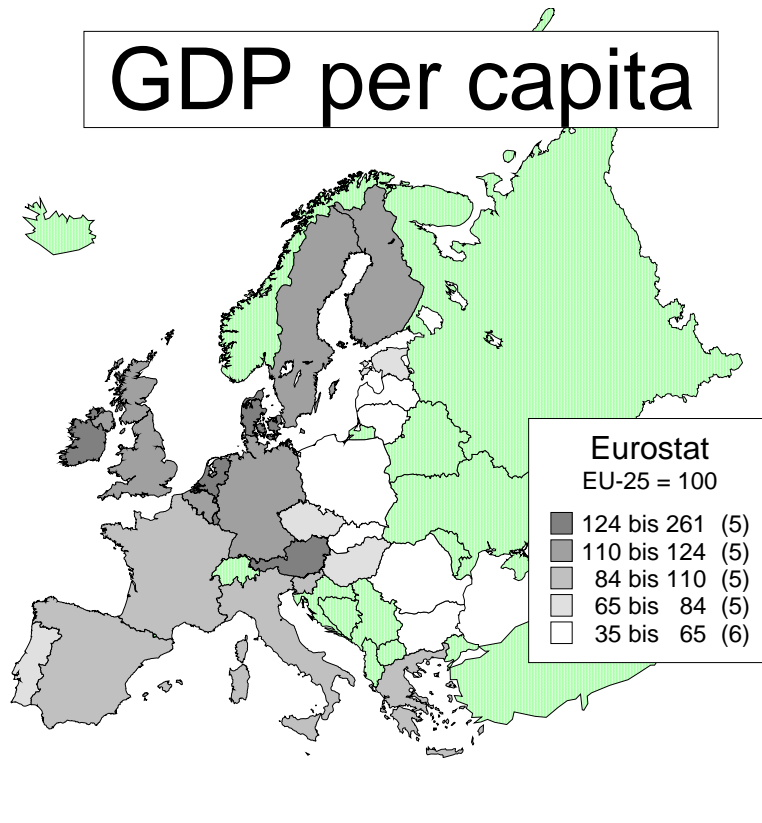
<sup>4</sup> „The European Commission tacitly admitted yesterday that plans agreed on at the European Union’s Lisbon summit five years ago to overtake the United States by 2010 as the world’s best-performing economy have been unsuccessful. Instead, the gap in the economies of the EU and the United States continues to grow, it admitted. The president of the European Commission, Jose Manuel Barroso, has unveiled a more modest blueprint that seeks to boost economic growth and job creation through an emphasis on innovation and a better business climate.” (Radio Free Europe/Radio Liberty at <http://www.rferl.org/featuresarticle/2005/02/9d6b0dc8-95de-4584-ac9d-dbf08932d27.html> )

<sup>5</sup> But Liechtenstein appears, all of a sudden, in the Table on greenhouse gas emissions, without serving as a comparison country anywhere else

- Youth education attainment level - total
- Business investment
- At-risk-of-poverty rate after social transfers - total
- Dispersion of regional employment rates - total

As a look at the most recent indicator performance in the form of statistical tables might be somewhat misleading, we chose here to present **maps** for the 13 remaining indicators instead. Clearly, the gap in GDP per capita incomes in Europe clearly correspond to a north-west/south-east divide:

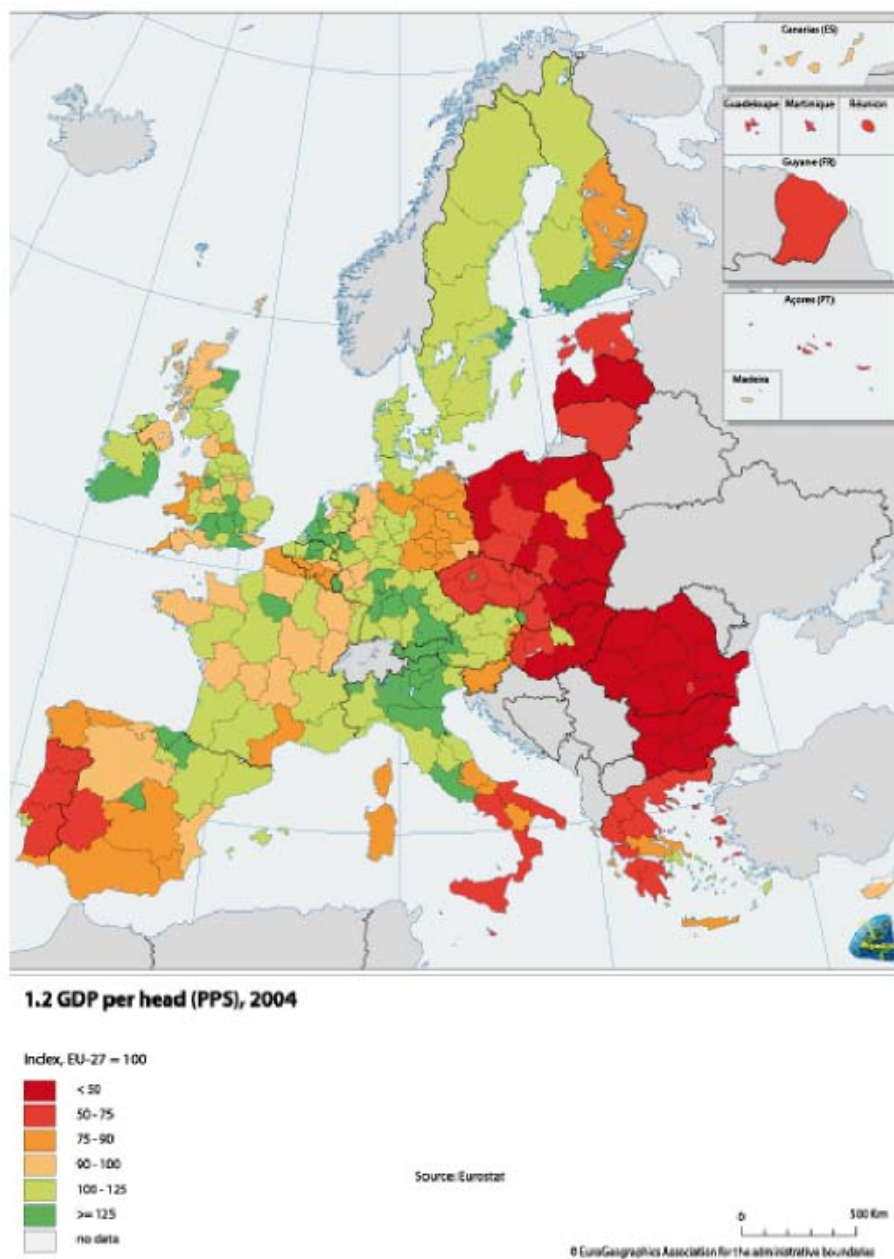
**Map 1a: GDP per capita on a national level**



Source: our own map from Eurostat data

The recent European Commission Report (2007) further highlights this center-periphery structure:

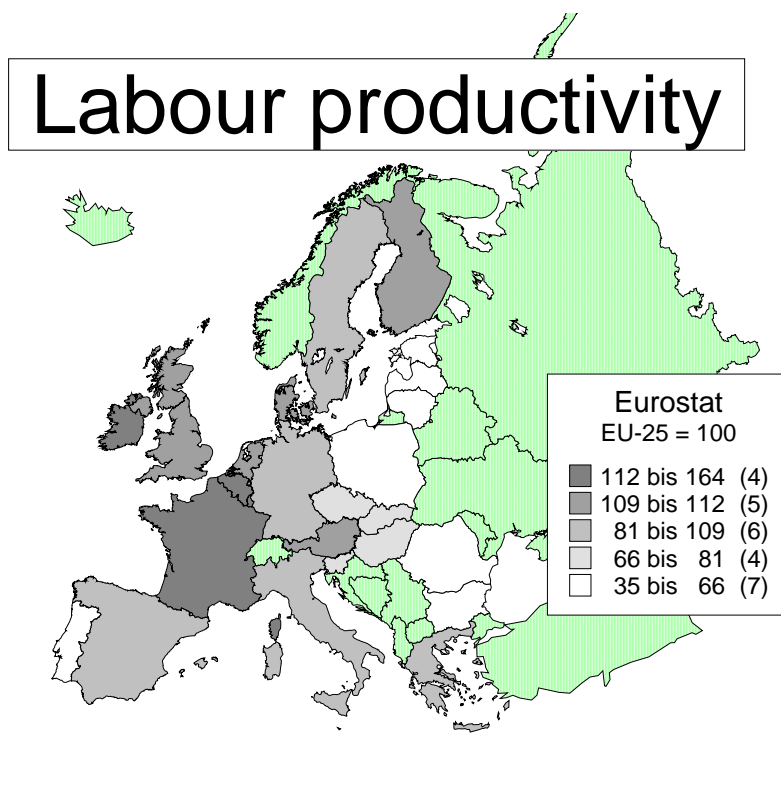
**Map 1b: GDP per capita PPP at a regional level**



Source: European Commission (2007)

The gaps in labor productivity again correspond to this well-known center-periphery structure:

Map 2: Labor productivity

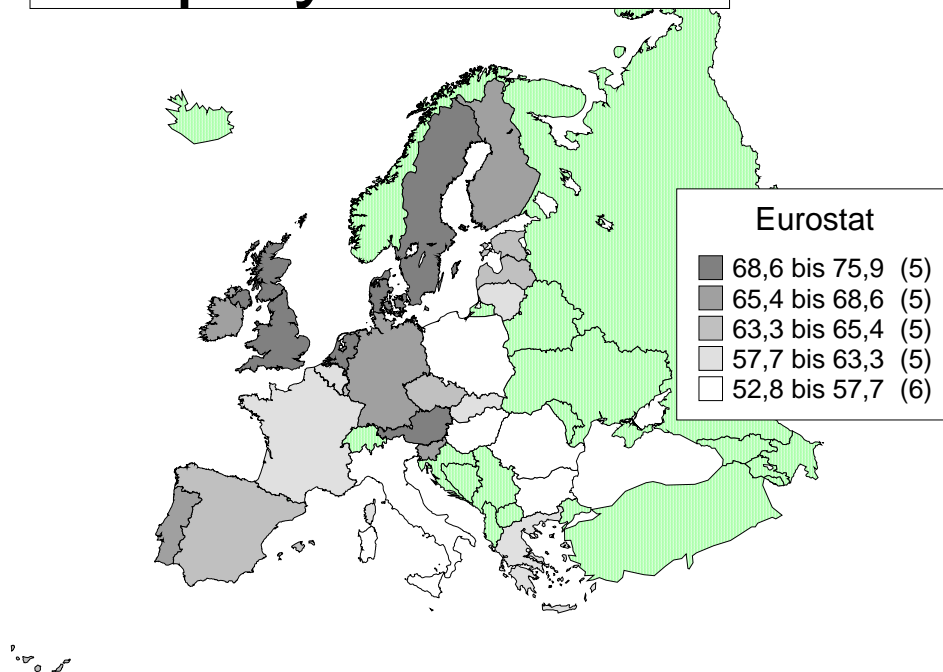


Source: our own map from Eurostat data

Employment rates in Eastern Europe and Southern Europe are generally much lower than in the north-west European, especially Protestant democracies:

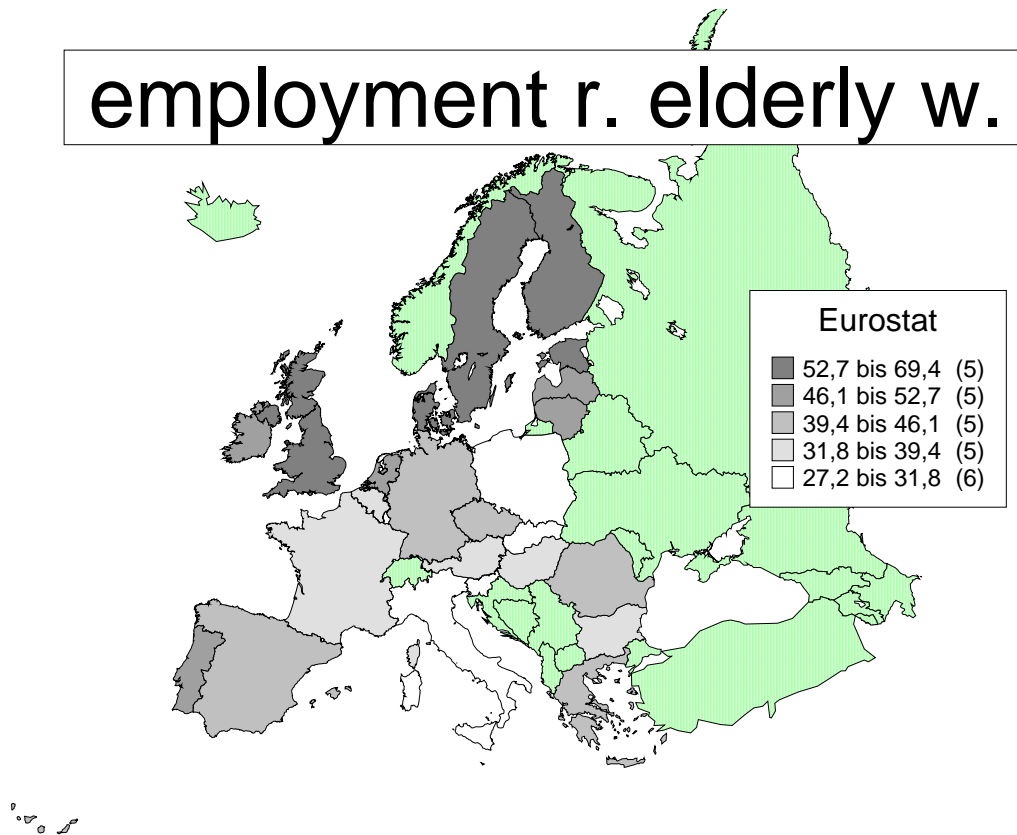
**Map 3: employment rate**

# employment rate



Source: our own map from Eurostat data

The employment rates of elderly workers are very deficient in many European states. Only in the UK and in Scandinavia, performances are satisfactory. Among the new member countries, Estonia is rather on a "Scandinavian performance path" here:

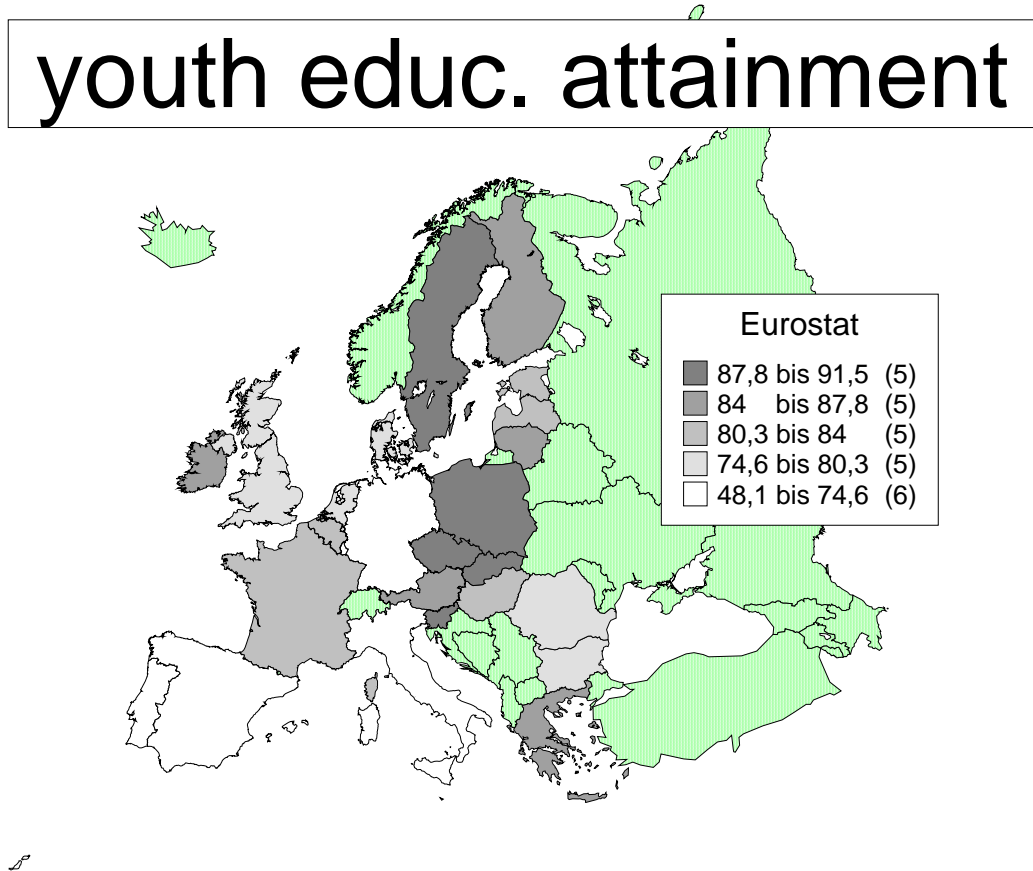
**Map 4: employment rate of older workers**

Source: our own map from Eurostat data

Youth educational attainment levels in Southern Europe often reveal staggering deficits. The national aggregate statistics are somewhat misleading, because they conceal the huge discrepancies in youth educational attainment levels existing in Europe:



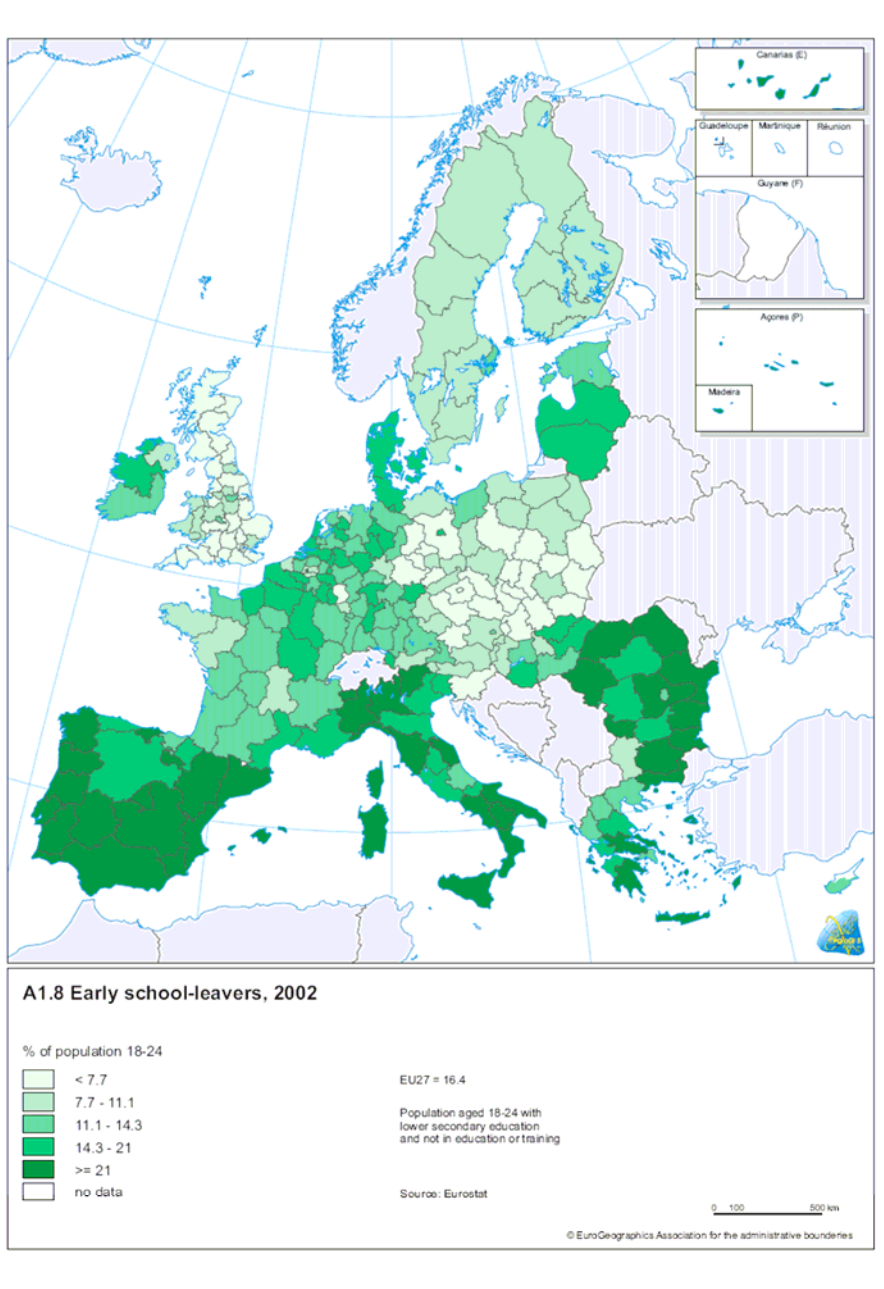
Map 5a: youth educational attainment rate



Source: our own map from Eurostat data

These deficits are reflected at the level of the regions:

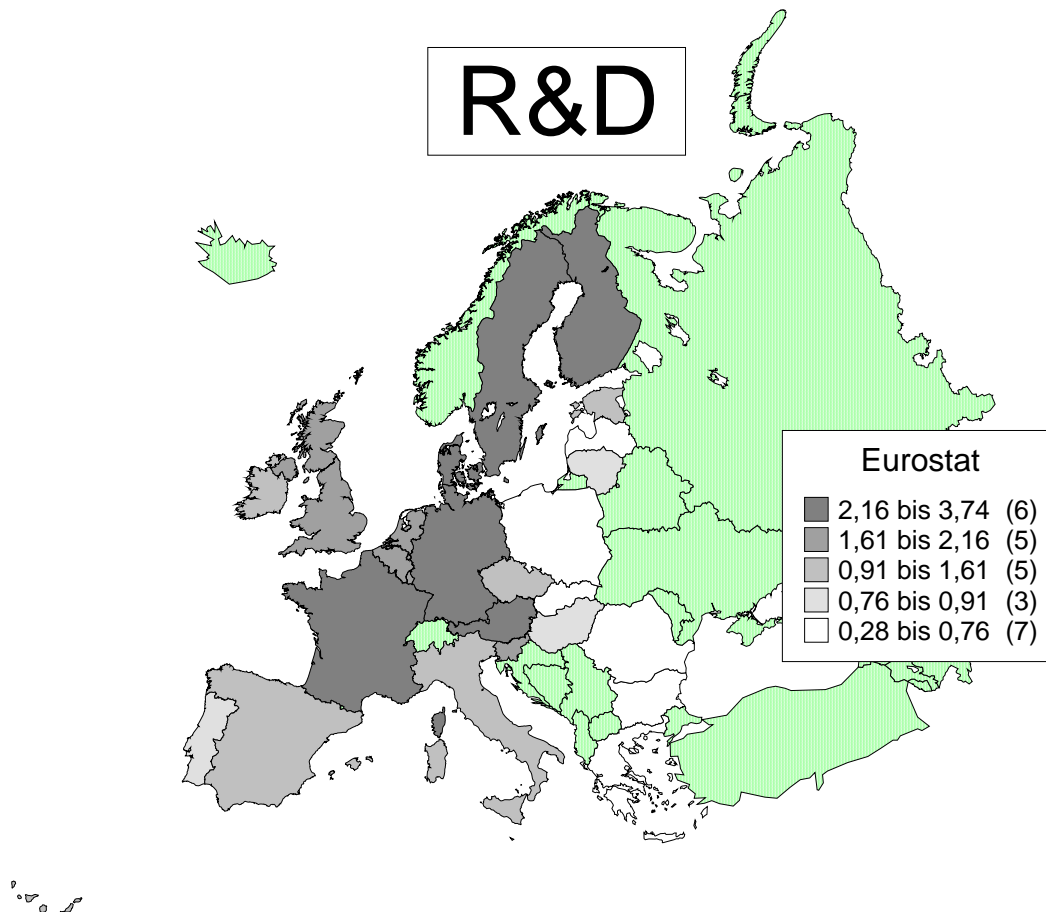
**Map 5b: early school leavers**



Source: EU Commission, available at:  
[http://europa.eu.int/comm/regional\\_policy/sources/docgener/studies/study\\_en.htm](http://europa.eu.int/comm/regional_policy/sources/docgener/studies/study_en.htm)  
[http://europa.eu.int/comm/regional\\_policy/sources/docoffic/official/repor\\_en.htm](http://europa.eu.int/comm/regional_policy/sources/docoffic/official/repor_en.htm) and  
[http://europa.eu.int/comm/regional\\_policy/sources/slides/slides\\_en.htm](http://europa.eu.int/comm/regional_policy/sources/slides/slides_en.htm)

In addition, the national aggregate statistics reveal a still very high research and development deficit in the European peripheral regions in the South and East:

### Map 6: research and development



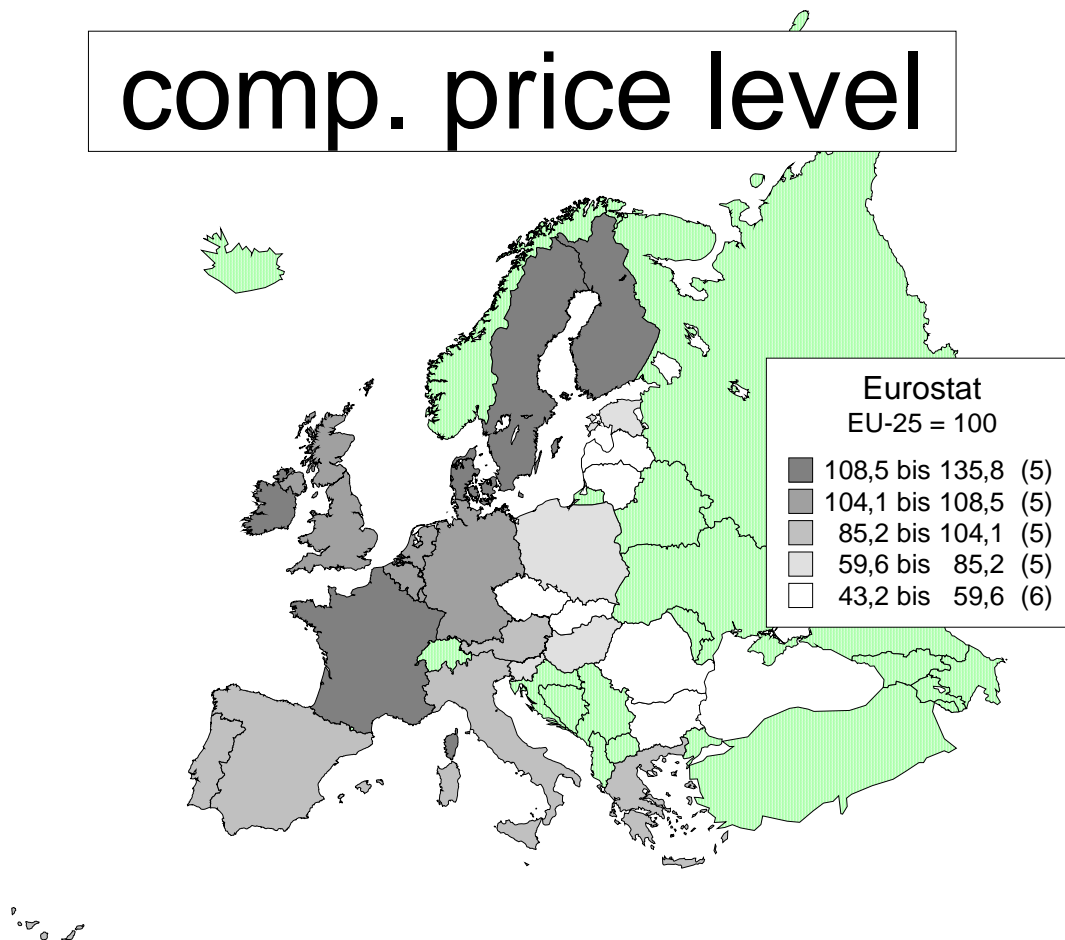
Source: our own map from Eurostat data

Certainly, one of the most controversial indicators is the Lisbon structural indicator: comparative price levels. Eurostat defines the indicator as:

*"Comparative price levels Comparative price levels of final consumption by private households including indirect taxes (EU-25 = 100)*

*Please be aware that this indicator has been rescaled, i.e. data is expressed in relation to EU-25 = 100. Thus, they are not comparable with previous releases based on EU-15 = 100. Comparative price levels are the ratio between Purchasing power parities (PPPs) and market exchange rate for each country. PPPs are currency conversion rates that convert economic indicators expressed in national currencies to a common currency, called Purchasing Power Standard (PPS), which equalises the purchasing power of different national currencies and thus allows meaningful comparison. The ratio is shown in relation to the EU average (EU25 = 100). If the index of the comparative price levels shown for a country is higher/ lower than 100, the country concerned is relatively expensive/cheap as compared with the EU average. "(Eurostat at [http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=1996,39140985&\\_dad=portal&\\_schema=PORTAL&screen=detailref&language=en&product=EU\\_strind&root=EU\\_strind/strind/ecoref/er011](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=EU_strind&root=EU_strind/strind/ecoref/er011) )*

The landscape of comparative price levels in Europe is the following. It is clear at first sight already, that countries commonly regarded as good overall Lisbon process performers, **perform very badly** on this indicator, while the **poorer countries of the European periphery** have a much lower, and for Eurostat, the Commission and the member states, desirable price level:

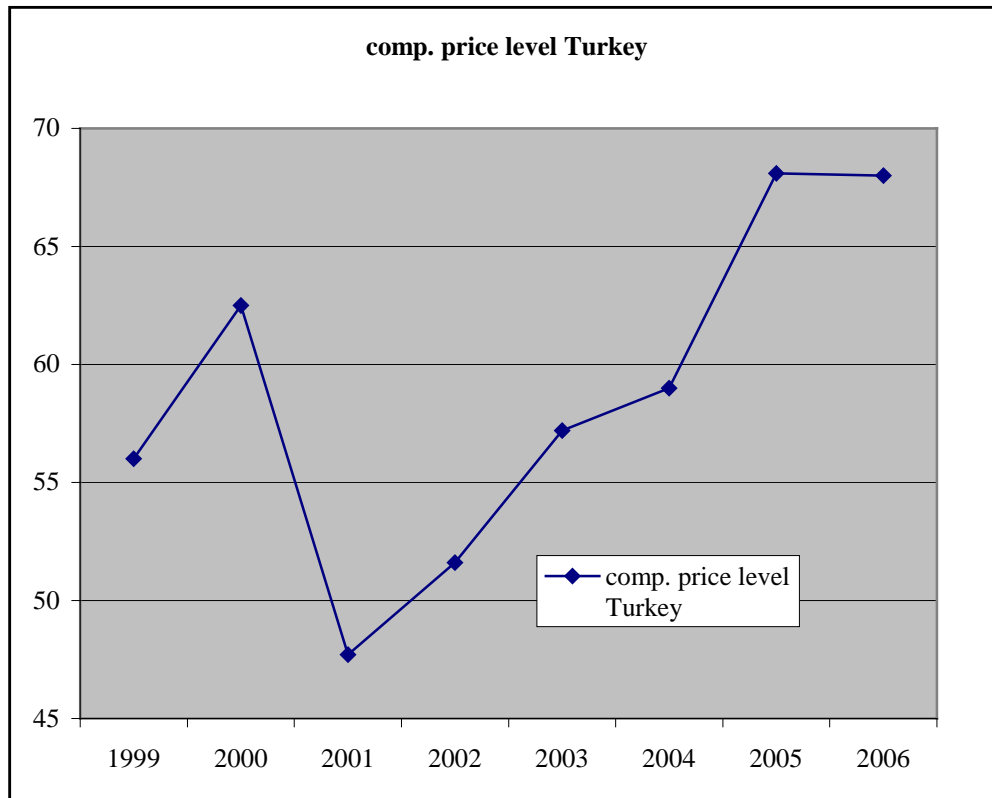
**Map 7: comparative price level**

Source: our own map from Eurostat data

There are two aspects, which deserve further attention here. For one, the comparative price level indicator has the absurd consequence that if the economic policy makers and the central bankers of a country *x*, let's say, Sweden, Denmark or the UK, send, by bad luck, wrong policies, or even stupidity or, forbid, malicious design, their currency crashing, and if the Swedish Krona, the British Pound, or the Danish Krone dramatically diminish in value, the ratio of GDP measured in exchange rates to GDP, measured in purchasing power parities, dramatically diminishes as well, with the **comparative price level**

going down (and thus economic reform being implanted). A currency crisis thus might be the precondition of “economic reform”. The Eurostat time series comparative price levels for Turkey shows this absurdity in all detail:

**Graph 5a: comparative price level Turkey**



Source: data from Eurostat

The profound currency crisis of the year 2001 would have been an appropriate measure to achieve a lower price level and thus, economic reform. No critical reports then from Uğur Mumcu Cad, the venue of the EC-Delegation to Turkey in Ankara, to Brussels, but a pat on the shoulder: in 2001, you made it, the crash of the Turkish Lira is a decisive step in the direction of economic reform and lowering the price level!

**Secondly**, established economics teaches us that for income gaps to be bridged, a process of convergence sets in that was described by Bela Balassa and Paul Samuelson, independently from each other more than 4 decades ago, and which is called ever since the “**Balassa-Samuelson effect**” (see Falkinger, 2006). Components of, say, electricity plants in rich and poor countries will be traded on

the world market at about the same, high world market prices, while a haircut in a rich country will be much more expensive than a haircut in a poor country. For economists, these huge differences of price levels in the non-tradable sectors, especially services, are usually interpreted as the real reason of the welfare differences between the rich and the poor countries. Under these conditions, Balassa and Samuelson observed, the poor country has one main possibility: **raising the level of wages in the non-tradable sector**. Since a large part of the non-tradables depend in one way or the other on the government (**social services etc.**), a rising budget deficit will be one of the main negative consequences of the catching-up process. The **real appreciation** of the currency of the poor country will indeed take place, but the real appreciation of the currency will be confronted by a general macro-economic constraint in the economy, i.e. the worsening budget situation.

This **Keynesian** observation by Balassa and Samuelson (catching up is possible, but at the price of a rising budget deficit in the periphery and semi-periphery country, which will be manageable if growth is strong enough) is of course familiar to the economics departments of **Central Banks** the world over. The Balassa/Samuelson effect is often debated in the context of the €-accession of the new EU-member countries.

It is surprising that European policymaking now completely changed the **roadmaps of what must be achieved**. By institutionally now **demanding** from EU-member states in the so-called 14 politically binding "Lisbon structural indicators" that EU-member countries henceforth should have a **low international price level**.

Largely unnoticed in the European political debate, **this constitutes a 180 degree reversal of the direction of European economic policy since the postwar period in the name of "economic reform"** (let's repeat - **low comparative price levels, the Eurostat Lisbon list of indicators informs us, are an indicator of "economic reform"**). The Keynesian argument, proposed by Balassa and Samuelson, corresponded to the basic consensus of the structuralist and mildly state interventionist economic policies of the early postwar years. Balassa/Samuelson always implied that the periphery and semi-periphery country will catch up with richer regions, and will become a high-price country itself one day.

As already stated, one of the political **absurdities** of the **price level indicator** is that countries **suffering from currency crises** are performing well on the price level indicator, while countries with a sound real appreciation of their currency – in the tradition of Balassa/Samuelson – **are performing badly according to Eurostat**. Let us again recall here that the Commission first defines that comparative "price levels" are the ratio between GDP at purchasing power parities (PPPs) and GDP at market exchange rates for each country. To quote once more from Eurostat:

*“If the index of the comparative price levels shown for a country is higher/ lower than 100, the country concerned is relatively expensive/cheap as compared with the EU average.” (Quotation from Eurostat website, April 6, 2005, at: [http://epp.eurostat.ec.eu.int/portal/page?\\_pageid=1133,1406352,1133\\_1406373&\\_dad=portal&\\_schema=PORTAL](http://epp.eurostat.ec.eu.int/portal/page?_pageid=1133,1406352,1133_1406373&_dad=portal&_schema=PORTAL))*

As is well known, the EU-25 member governments use the „structural indicators“ to monitor their progress towards reaching the famous Lisbon agenda use. Eurostat says on its website that the

*“shortlist allows for a more concise presentation and a better assessment of achievements over time vis-à-vis the Lisbon agenda. In keeping with the recent streamlining of procedures in the wider context of the Lisbon strategy, it is foreseen to keep this list stable for three years”.*

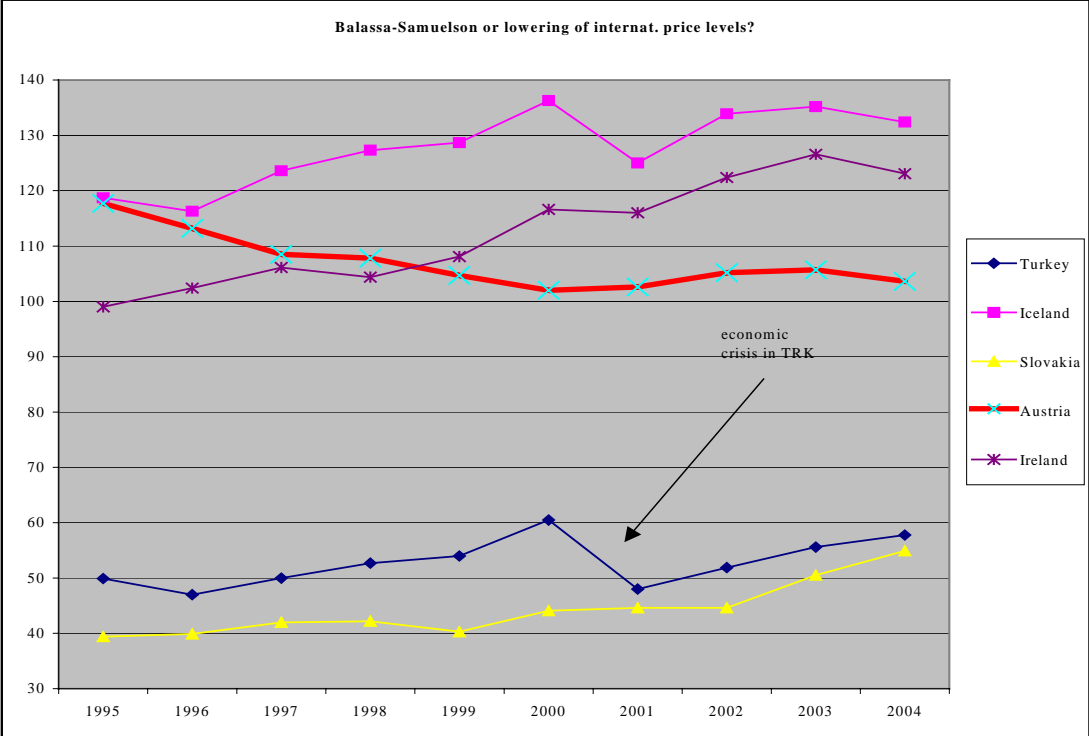
For our next comparative data series, we have chosen the following countries:

- **Turkey** (that suffered a severe economic crisis at the turn of the millennium),
- **Iceland** (a typical EEA high-price country),
- the **Slovak Republic** (that practiced the “Balassa/Samuelson” effect)
- **Austria** (that considerably lowered its international price level and according to Eurostat/Commission was a good performer) and
- **Ireland** (Europe’s economic miracle country – it had rising international price levels and was, according to Eurostat and the Commission, a bad performer on the price front).

In Graph 5.b, we show the latest Eurostat price level data and their changes from 1995 to 2004 (yearly decreases of the international price level (according to Eurostat/Commission a good performance) and yearly increases of the international price level (according to Eurostat/Commission a bad performance)):

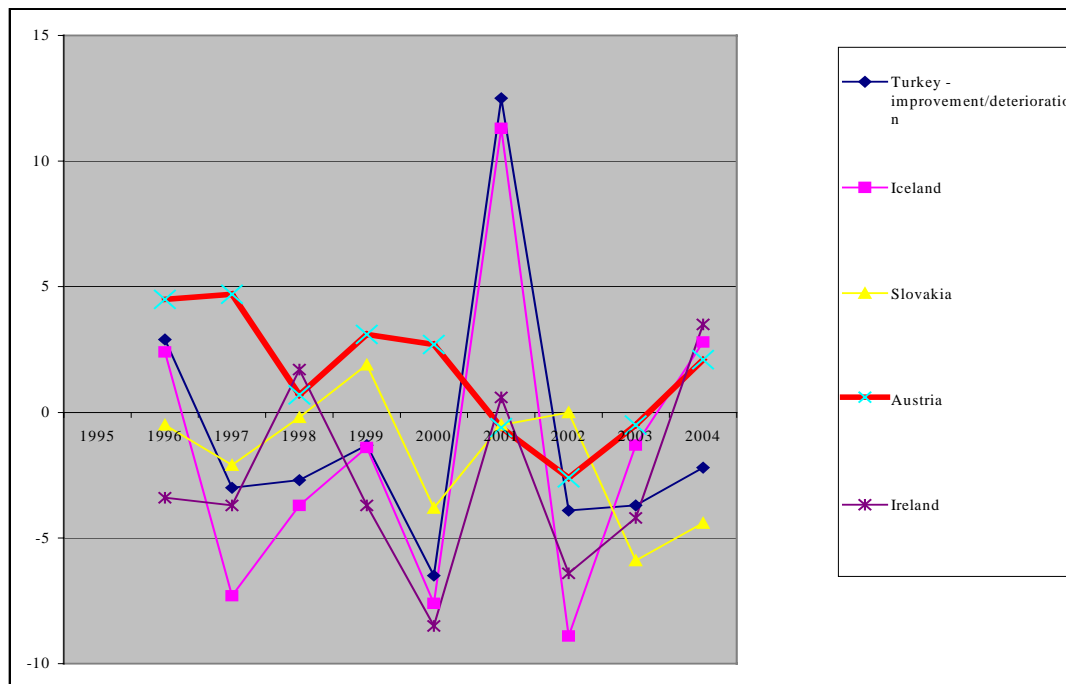


**Graph 5b: what is a "good" international price level? Turkey's economic crash in international perspective**



Source: our own graph from Eurostat data

**Graph 5c: what is a “good” international price level? Turkey’s economic crash in international perspective – yearly decreases of the international price level (according to Eurostat/Commission a good performance) and yearly increases of the international price level (according to Eurostat/Commission a bad performance)**



Source: our own graph from Eurostat data

As we stated, Balassa and Samuelson assumed that rising international price levels for the periphery country are a good thing. The ultraliberal underlying assumptions<sup>6</sup> of the current Commission, member governments, and Eurostat thinking on the subject, were already described by Rao, who mentioned in a UNDP paper, back in 1998 **that neo-liberal economics sustains the extreme expectation of a growing price convergence from growing globalization (Rao J. M., 1998: 14-15). Falling relative price levels in countries like Germany over the last years would suggest in the neo-classical argument that the price of the non-tradables in the German economy decreased dramatically over time. Structuralist economists, like Stanford Professor emeritus Pan Yotopoulos, usually warn the weaker countries of the periphery that**

<sup>6</sup> Or let's rather say perhaps: the negligence of successive Commissions, the Brussels bureaucracy, the member states and also the European Parliament to this phenomenon

*“Currency substitution represents an asymmetric demand from Mexicans to hold dollars as a store of value, a demand that is not reciprocated by Americans holding pesos as a hedge against the devaluation of the dollar!” (Yotopoulos and Sawada, 2005)*

Their argument, which they established in a 1999 paper, refined in their 2005 analysis, was the so-called **Y-Proposition**, and this Y-position is very relevant today:

*“in free currency markets hard currencies fluctuate, while soft currencies depreciate systematically (...) The alternative scenario deprives devaluation of any of its remedial properties that in the conventional view lead to a process of stable interactions and equilibrium....”*

Their argument might be relevant for the continuing low international price level of countries like Turkey after the currency crisis of recent years. They think that the basic problem of international currency markets is **asymmetric reputation**. This process of asymmetric reputation of the periphery deepens the cycle of underdevelopment:

*“Mexico cannot service its foreign debt from the proceeds of producing nontradables. These are traded in pesos. It has instead to shift resources away from the nontradable sector to produce tradable output in order to procure the dollars for servicing the debt (...) The process (...) can create a negative feedback loop that leads to resource misallocation in soft-currency countries (...) This shift of resources represents misallocation and produces inefficiency and output losses (...) Distortions inherent in free currency markets lead to a systematic devaluation of soft currencies – to „high“ nominal exchange rates. Devaluation of the exchange rate means increasing prices of tradables and leads to increased exports. But not all exports are a bargain to produce compared to the alternative of producing nontradables (...) Countries graduate from being exporters of sugar and copra to exporting their teak forests, and on to systematically exporting nurses and doctors, while they remain underdeveloped all the same. If this happens, it may represent competitive devaluation trade as opposed to comparative advantage trade.”*

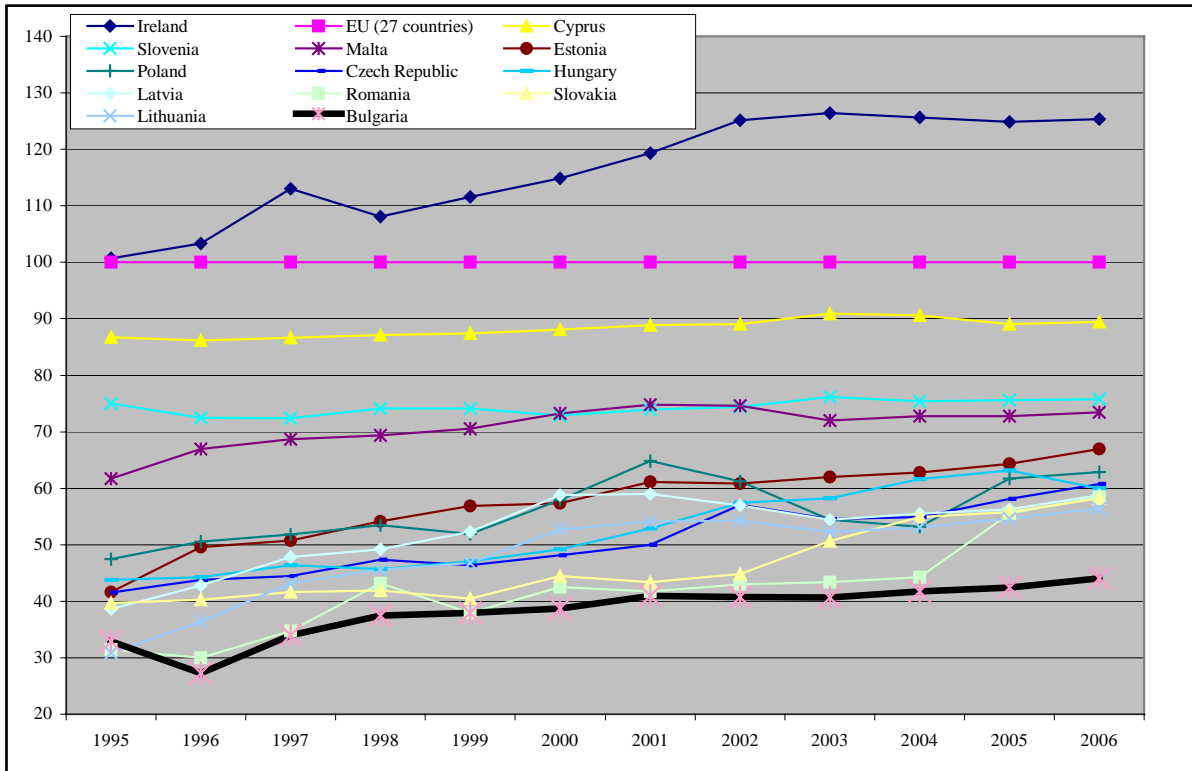
The authors further explain their ideas by an econometric analysis of economic growth rates in 62 countries from 1970 onwards that shows how this process of competitive devaluation trade leads to stagnation. They also present an economic model in the tradition of Paul Krugman that shows how currency substitution triggers financial crises. In their 2005 paper, the authors show the relevance of their theories with time series data from 153 countries. Thus, if they are correct, a high ratio between purchasing power and GDP at exchange rates, i.e. an **under-valued currency, will lead to stagnation**.

**The countries with the strongest currencies, like Denmark, the UK, Sweden, are typical centers of the capitalist world economy with a favorable ratio of tradables to non-tradables, while the countries with a Eurostat “good” low price level, like Turkey, are countries with an unfavorable relation between tradables and non-tradables, suffering from what neo-Marxists like to call “unequal transfer” or “unequal exchange” (price reform/low international price level).**

The nature of the **comparative price-level indicator, which runs counter to almost anything else what the European Union believes in**, is also revealed in a time series analysis of the development of this indicator in the new member countries since 1995. Had the new members had no credible commitment to **“economic reform”**, the Commission and the member governments surely could not honestly have decided to let the new members join in. **But** the comparative price level time series suggests that all the countries – Romania, Lithuania, and Hungary strongest, and Slovenia, Cyprus and Malta, which already had a relatively higher comparative price level in 1995, weakest, all developed **away** from such path of economic reform (= low comparative price levels). Economic reform would have meant a further **decrease** in comparative price levels.

Well, in reality, as everybody knows, the accession countries practiced with good reason the **“Balassa/Samuelson effect”** of **rising prices in their non-tradable sectors, just like Greece, Portugal and Spain, before them**. In addition, these countries during their pre-accession path made – and must have made – a credible effort at **stabilizing their currencies**, or else, the Commission and the member governments would have made a terrible mistake of letting the “new ones” in. Again – the only country, **which would have corresponded to the ultra-liberal concept of falling comparative price levels and diminishing external currency values** is Turkey during its terrible currency crisis 2001.

**Graph 5.d: The Balassa/Samuelson effect of rising price levels under economic growth in periphery and semi-periphery countries. Comparative price levels of final consumption by private households including indirect taxes (EU-27 = 100)**

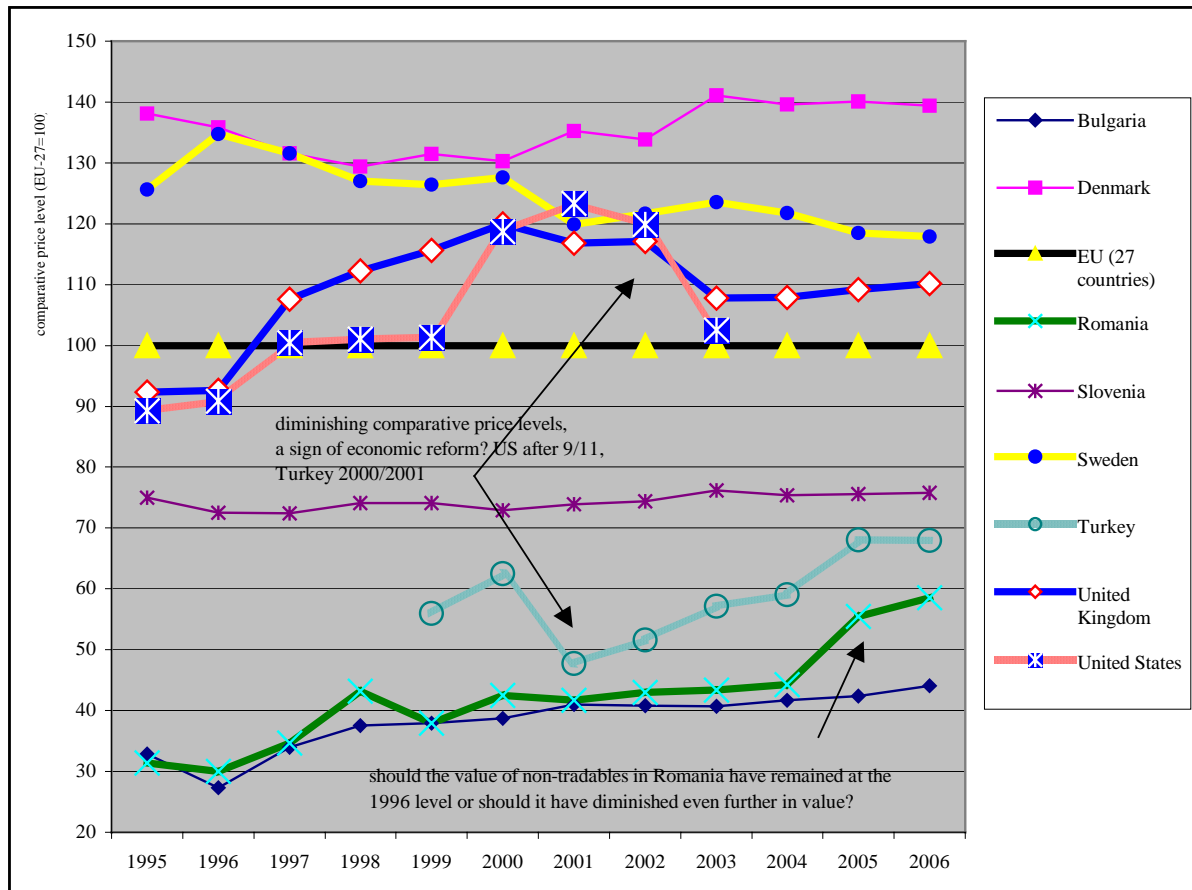


	Estimated strength of the Balassa/Samuelson effect (slope in the linear regression analysis for the time series of comparative price levels, 1995 - 2006)
Ireland	2,42
Romania	2,13
Lithuania	2,00
Hungary	1,93
Estonia	1,93
Slovakia	1,72
Czech Republic	1,69
Latvia	1,53
Bulgaria	1,19
Poland	1,11
Malta	0,83
Cyprus	0,38
Slovenia	0,25
EU (27 countries)	0,00

Our own EXCEL estimates for the linear regression slopes for Graph 5.d, above  
 Source: compiled from Eurostat. Our estimates of the size of the Balassa/Samuelson-effect:

Graph 5.e now analyzes another aspect of this intricate problem, i.e. the relatively high price level of the Lisbon reference country, the United States of America, and the relationship of the exchange rate between the US \$ and the € (based on Yahoo Finance). A strong \$ makes America appear a high price country, while a weaker \$ makes America appear a low-price country. Again – and Frankfurt should listen here – weak € (or for that matter, Forint, Zloty, TRK Lira...) is good for the price level, while a **strong €** (or for that matter, Forint, Zloty, TRK Lira...) is – according to this logic – **bad for the price level indicator!**

**Graph 5.e: Comparative price levels. Comparative price levels of final consumption by private households including indirect taxes (EU-27 = 100)**



Source: our own graph from Eurostat data

These assertions are also supported by our analysis of the US \$ - € exchange rate, 2003 - 2007:

**Graph 5.f: The US \$ - € - exchange rate, 2003 - 2007**

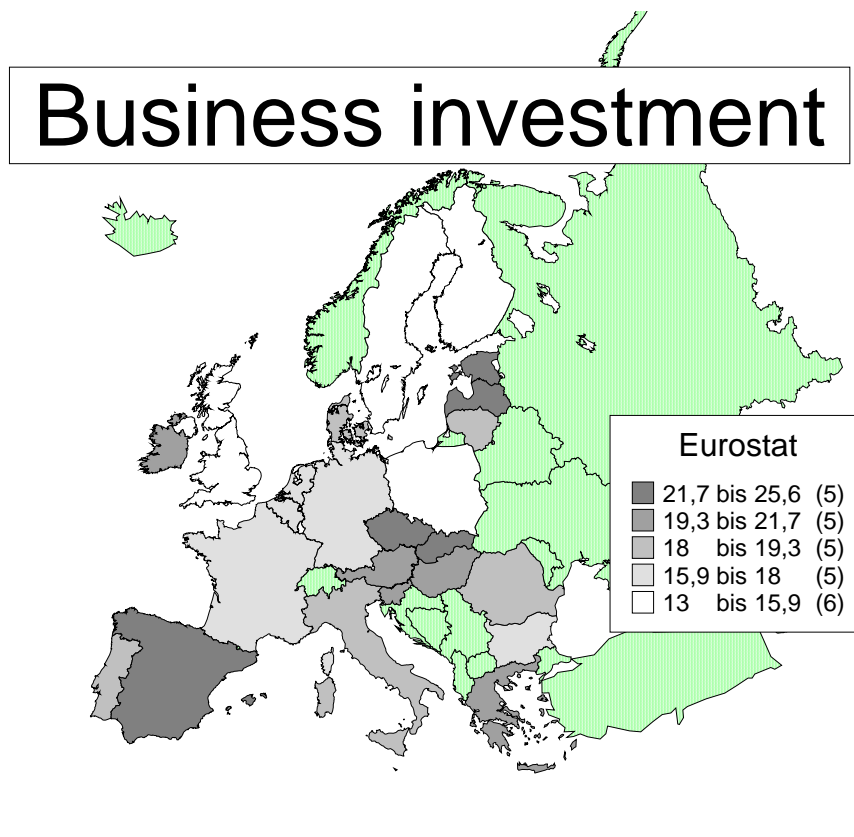
Source: compiled from Yahoo Finance

**Following this logic, countries like Poland always should remain a soft currency zone, and to keep international price levels low, the real appreciation of the Polish Zloty vis-à-vis the € which is evident since 2004 should be stopped and even reversed!**

The next Lisbon indicator on the list is **business investments**. The UK, Sweden, and Finland perform very poorly on this indicator, while especially good performances are recorded in Spain, the Czech Republic, Slovakia, Latvia, and Estonia.



## Map 8: Business Investment

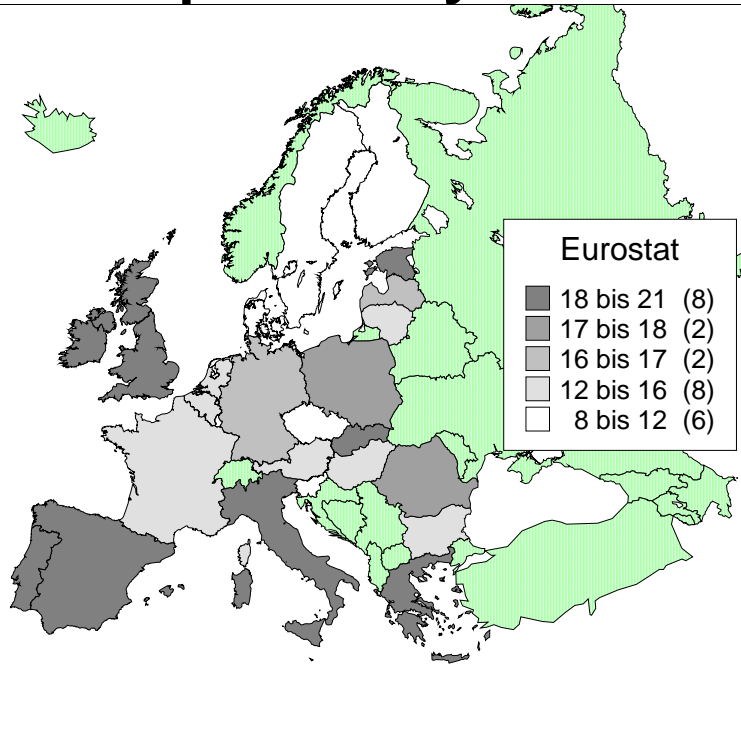


Source: our own map from Eurostat data

The next indicator, **risk of poverty after social transfers**, is not without controversies, either. We will show here that the indicator performance is heavily dependent on national development levels, which makes cross-country comparisons highly problematic. Are substantial groups of people in, say, Bulgaria, really less poor than the poorest strata of the population in, say, the Irish Republic? Isn't the Eurostat poverty measure in reality a measure of relative income distribution and relative income inequality, and not so much of poverty?

**Map 9a: poverty risk: poverty defined in terms of the percentage of population, receiving less than 60 % of the national median income - Eurostat**

## risk of poverty after tr.



Source: our own map from Eurostat data

Following the very important research, published by Fahey (2005), we can compare the data following the Eurostat concept with another, alternative one, provided by Fahey: poverty as defined as all the people falling under 60 % of the European-wide median income. Especially in view of the prime Lisbon target to overcome by 2010 the United States of America, the national-level poverty comparison is **absolutely useless**, since it is the logic of the common market and even more so the common currency area to gradually make obsolete such artificial statistical drawing of national border lines, when in reality the four

freedoms of goods, services, capital and labor characterize life in Europe to an ever increasing extent. No one in his/her minds would start to collect poverty statistics in the US, based exclusively on **state median incomes** (Alabama, Alaska, ...) of the member states of the Federation **without at the same time calculating national poverty rates in terms of national median incomes.**

**Table 3: Poverty in the EU-27 according to the new criterion: poverty = below 60 % of the EU-25 wide median income, based on the EQLS data of the EU's "Dublin Foundation"**

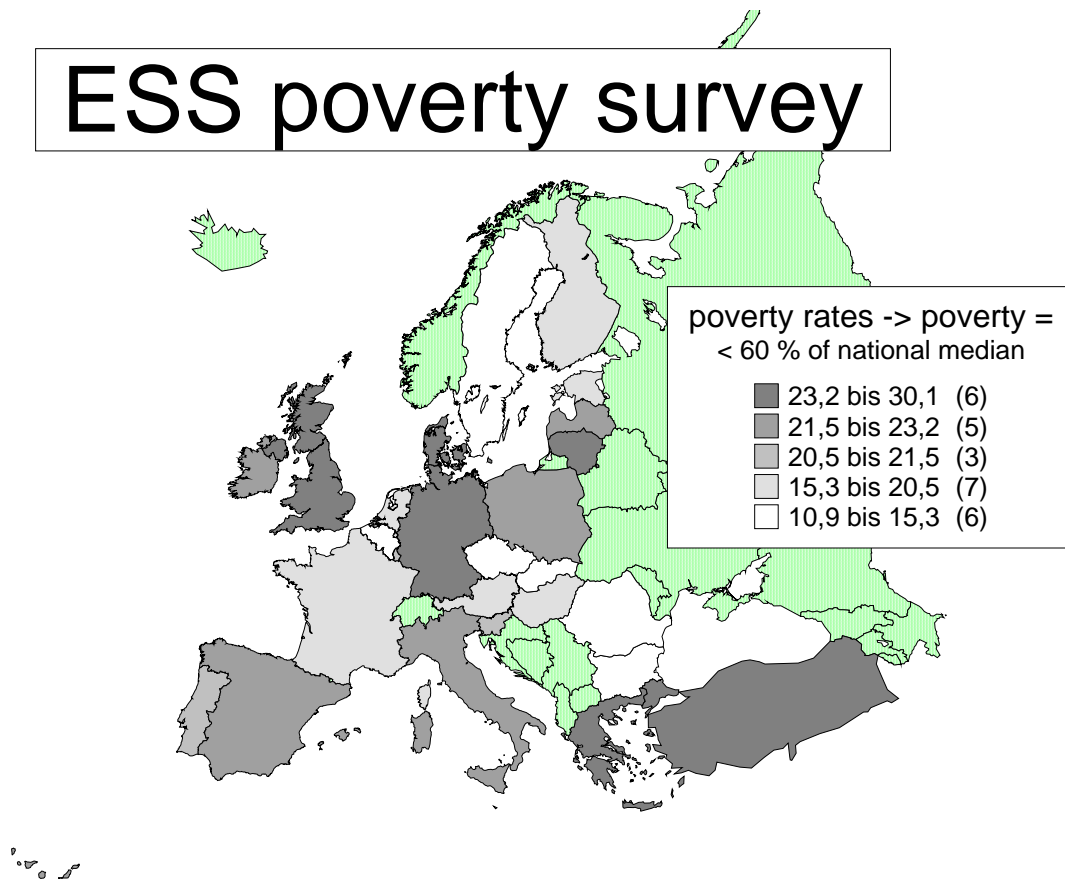
	%pop.< 60% of national median	%pop.< 60% of EU- 25 median	implicit measurement bias [over- or underestimation of poverty in % of the total population]
Bulgaria	10,9	88	-77,1
Romania	15,2	85,9	-70,7
Lithuania	29,4	78,5	-49,1
Turkey	24	73,5	-49,5
Latvia	22,9	70,5	-47,6
Poland	21,6	66,6	-45
Estonia	17,5	58,1	-40,6
Slovakia	11	40,3	-29,3
Portugal	20,7	39,1	-18,4
Hungary	18,6	38,4	-19,8
Greece	23,8	28,2	-4,4
Germany	29,1	25,5	3,6
Cyprus	26,1	20,8	5,3
Slovenia	20,5	20,2	0,3
Spain	22,3	19,8	2,5
Czech Rep	15,2	17,8	-2,6
Malta	18,2	16,7	1,5
UK	30,1	11,9	18,2
Denmark	23,2	7,9	15,3
Luxembourg	21,4	7,7	13,7
Finland	18,5	7,7	10,8
Italy	21,5	7,3	14,2

Belgium	14,7	7,3	7,4
Ireland	22,6	5,9	16,7
France	17,7	5,4	12,3
Austria	15,3	5	10,3
Netherlands	18,6	4,4	14,2
Sweden	14,6	2	12,6

Source: calculated from the data provided by Fahey et al. (2005). Professor Fahey kindly put the original EXCEL-spreadsheet at our disposal.

As is to be expected, the data in Map 9b reflect income concentration and not comparable poverty rates:

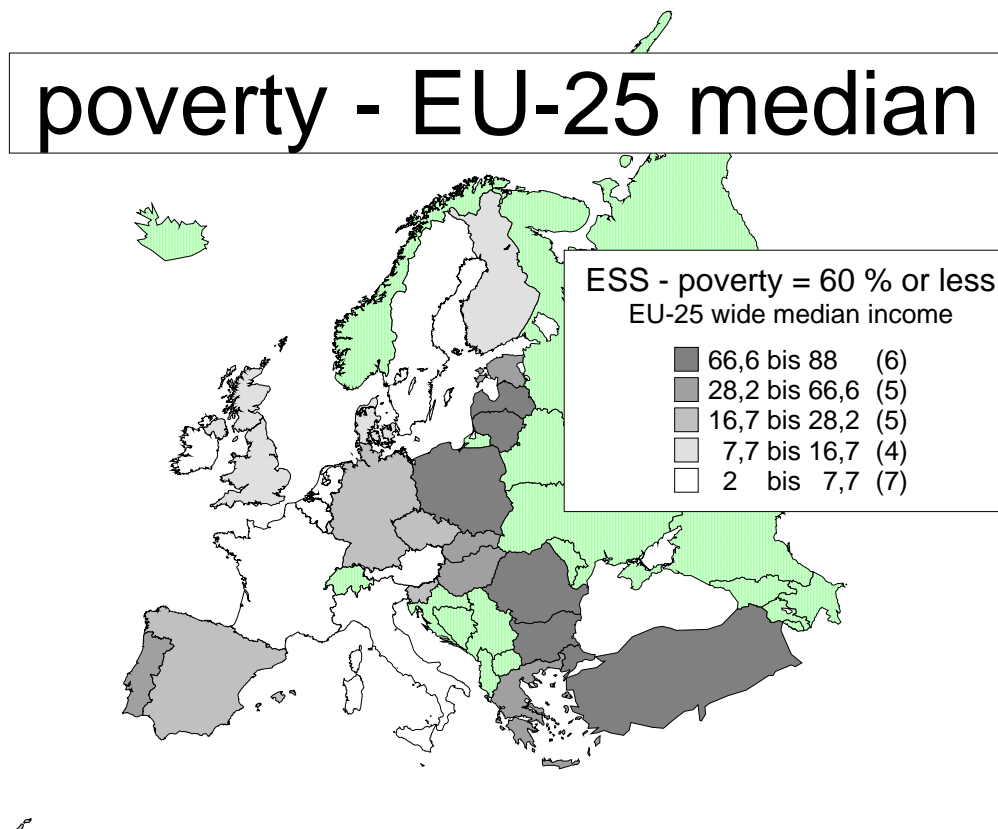
**Map 9b: poverty risk: poverty defined in terms of the percentage of population, receiving less than 60 % of the national median income - ESS**



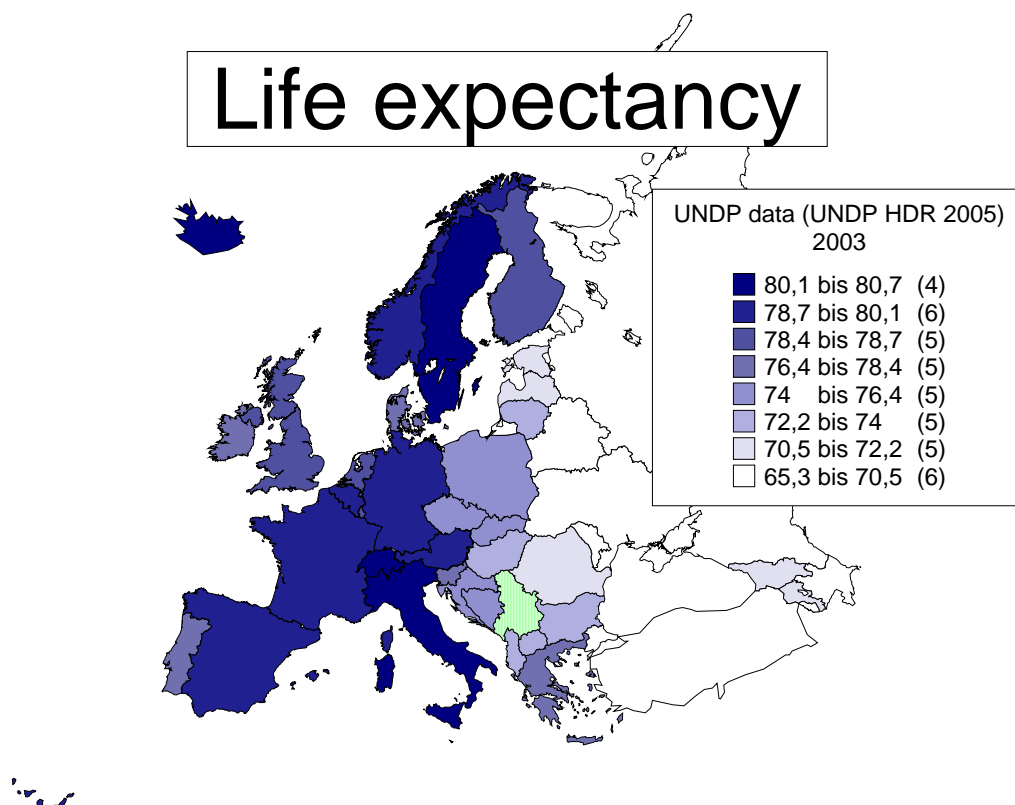
Source: our own map from Dublin Foundation data (Fahey, 2005)

The data in Map 9c, based on the Fahey method, are very plausible indeed, also in comparison to the UNDP 2003 life expectancy data, reproduced in Map 9d. It is impossible that life expectancy is high in a country of very high absolute poverty, and vice versa.

**Map 9c: poverty risk: poverty defined in terms of the percentage of population, receiving less than 60 % of the EU-25 median income - ESS**



Source: our own map from Dublin Foundation data (Fahey, 2005)

**Map 9d: Life expectancy in 2003 (UNDP data)**

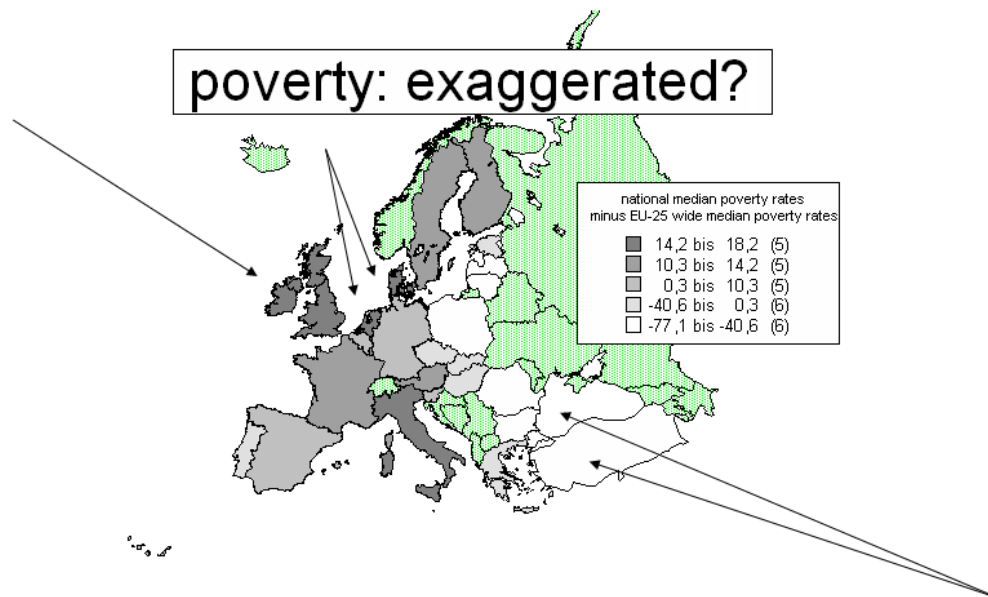
Source: our own map from UNDP HDR 2005

Thus, we must uphold the assumption that the official national median-based Eurostat poverty statistics grossly underestimate poverty in countries with low national incomes and absolutely exaggerate poverty in the richer EU-countries. Our map 9e, based on Table 3, confirms this hypothesis.

**Map 9e: measurement bias in poverty risk data: poverty defined in terms of the percentage of population, receiving less than 60 % of the national median income minus ESS poverty defined in terms of the percentage of population, receiving less than 60 % of the EU-25 median income - ESS**

Eurostat, by using its untenable national median income poverty thresholds,

- 1) grossly overestimates poverty in such Lisbon process model countries as Ireland, NL and Denmark
- 2) grossly underestimates the depth of poverty in East Central Europe
- 3) and is really unable to grasp the full scale of the poverty problem in Bulgaria, Romania, and Turkey



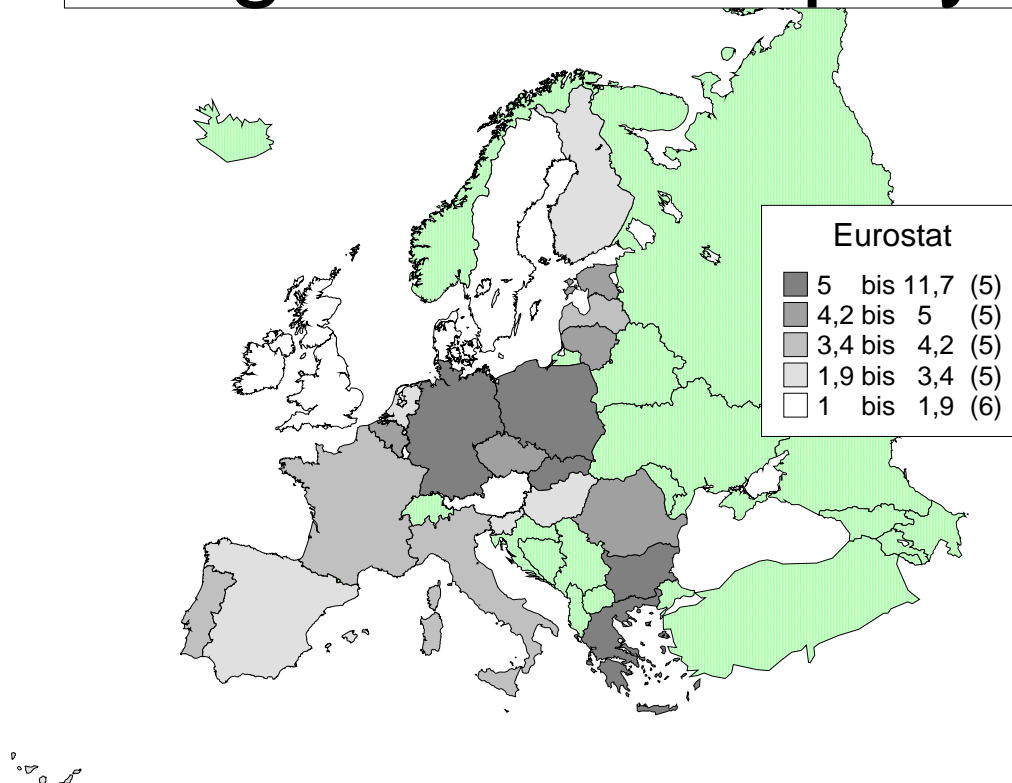
Source: our own map from Dublin Foundation data (Fahey, 2005)

The Eurostat indicator **long-term poverty** is less problematic, and is presented in Map 10:



## Map 10: long-term unemployment

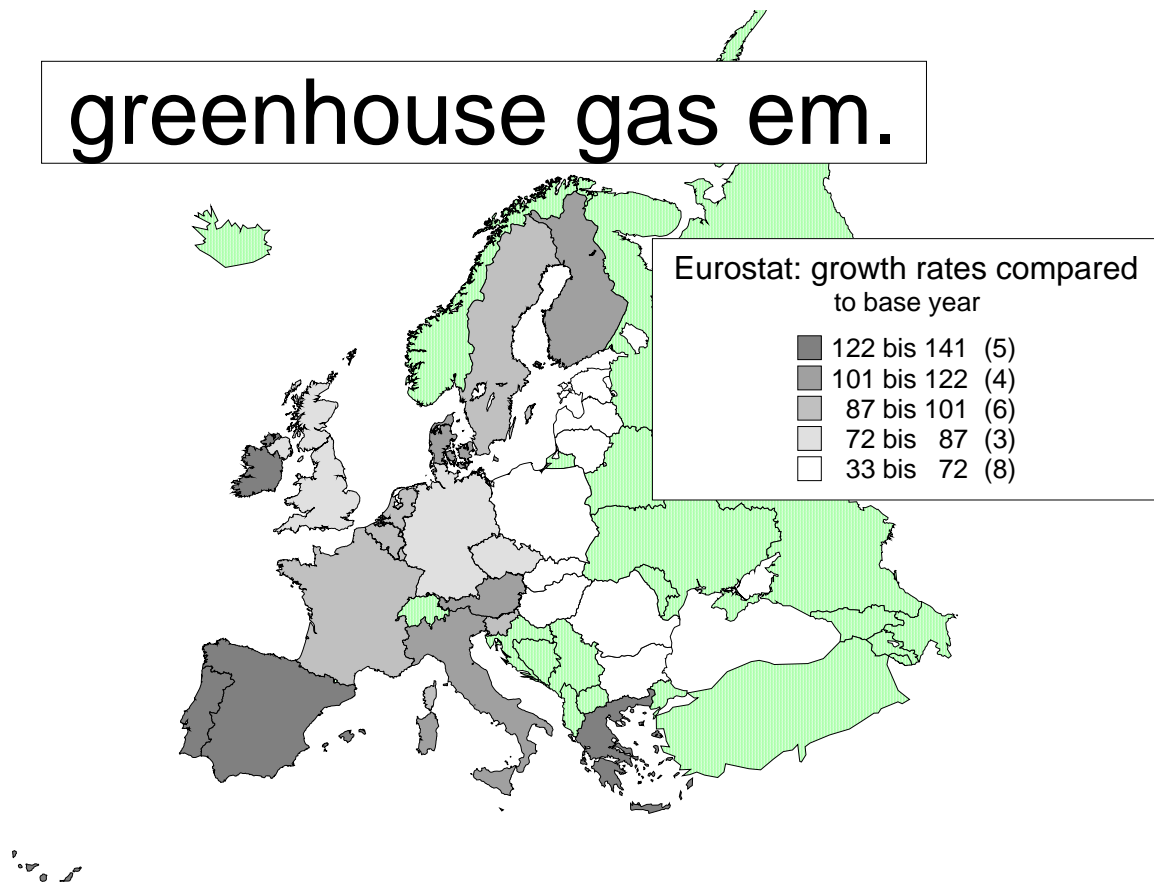
# long-term unemploym.



Source: our own map from Eurostat data

The next three Lisbon structural indicators are dedicated to measuring the environment. However, two of them, **greenhouse gas emissions** and **freight transport**, are not, as we already mentioned, based on **aggregate levels**, but on rates of increase; and only the third one, **energy intensity**, measures **aggregate levels**. The basic critique against such a mixing up of aggregates and growth rates is that, not unlike under Communism, **percentage increases** might conceal the **dire realities of aggregate substantial scarcities and bad performances**.

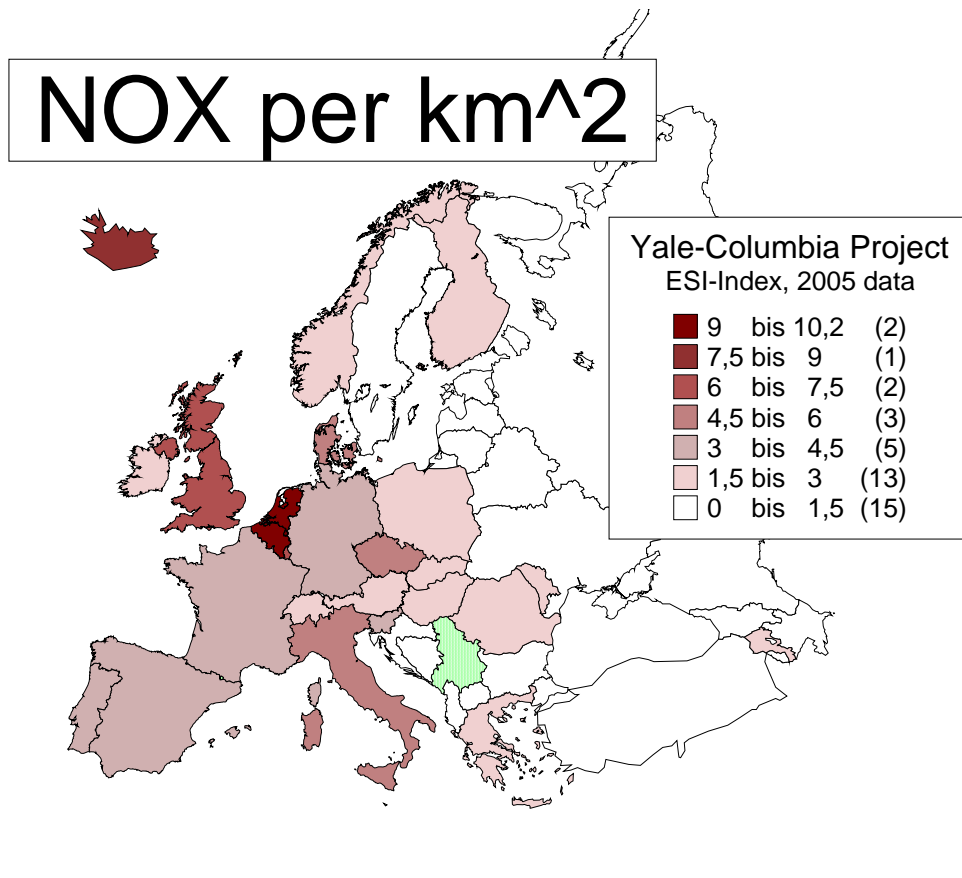
Map 11a: greenhouse gas emissions (growth rates)



Source: our own map from Eurostat data

We cross-check this assertion by using the arguably best and coherent comparative environment data of the world, provided by the Yale/Columbia ESI (Environment Sustainability Indicator) Project, which is freely available on the Internet and updated each year ([http://sedac.ciesin.columbia.edu/es/esi/2005ESI\\_DataCoverage.xls](http://sedac.ciesin.columbia.edu/es/esi/2005ESI_DataCoverage.xls)). The first indicator is NOx emissions:

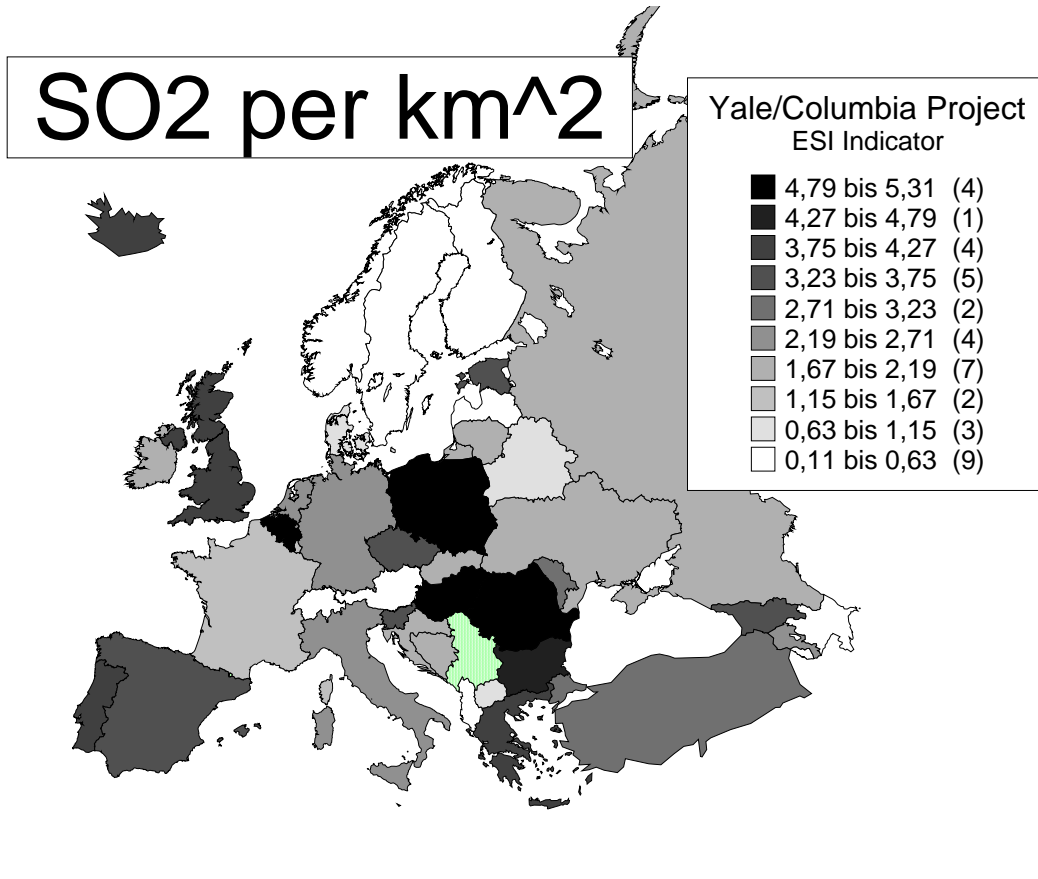
Map 11b: NOX emissions per km<sup>2</sup> (ESI Yale Columbia Project data)



Source: our own map from Yale/Columbia ESI Project, available at [http://sedac.ciesin.columbia.edu/es/esi/2005ESI\\_DataCoverage.xls](http://sedac.ciesin.columbia.edu/es/esi/2005ESI_DataCoverage.xls)

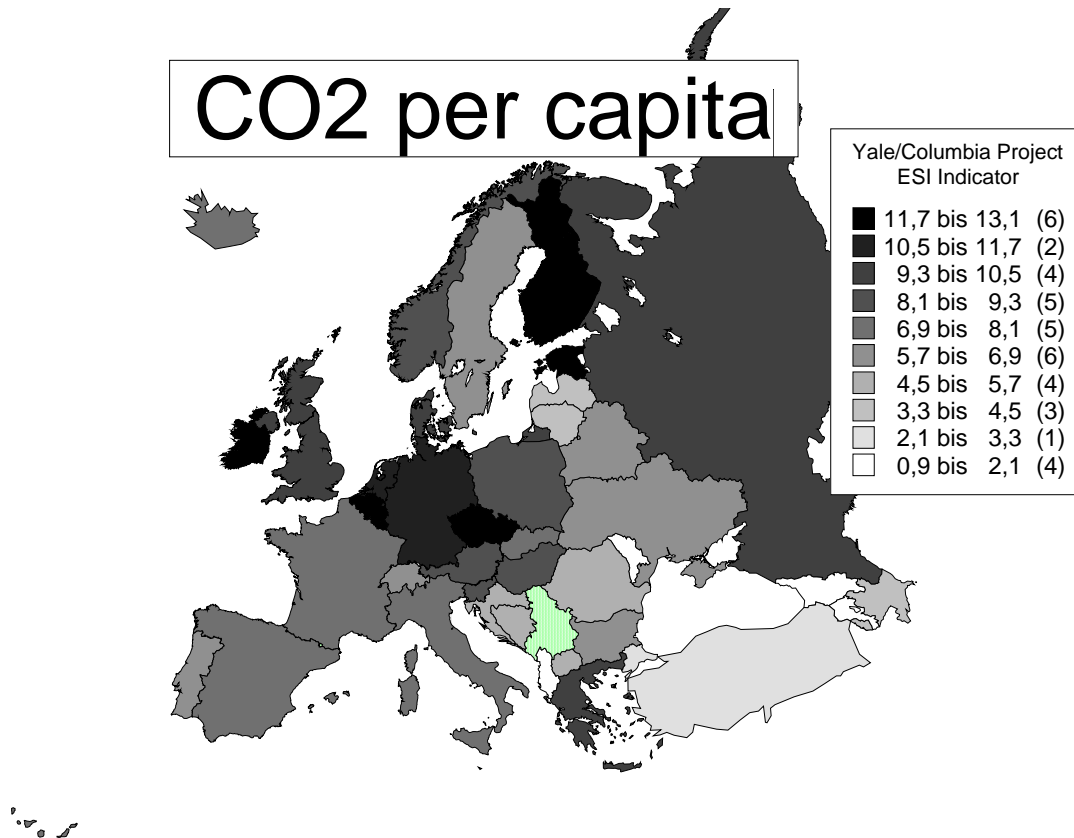
The second indicator is SO<sub>2</sub> emissions:

Map 11c: SO2 emissions per km<sup>2</sup> ((ESI Yale Columbia Project data)



Source: our own map from Yale/Columbia ESI Project, available at [http://sedac.ciesin.columbia.edu/es/esi/2005ESI\\_DataCoverage.xls](http://sedac.ciesin.columbia.edu/es/esi/2005ESI_DataCoverage.xls)

The third indicator is CO2 emissions. The Yale/Columbia data series does not provide a sufficiently complete data series for CO2 emissions per square kilometer, so we had to use the CO2 emissions per capita data series instead:

**Map 11d: CO2 emissions per capita ((ESI Yale Columbia Project data)**

Source: our own map from Yale/Columbia ESI Project, available at [http://sedac.ciesin.columbia.edu/es/esi/2005ESI\\_DataCoverage.xls](http://sedac.ciesin.columbia.edu/es/esi/2005ESI_DataCoverage.xls)

The next Lisbon indicator, **energy intensity**, corresponds much better to the realities, as mirrored in the Yale/Columbia ESI data set, than the two dynamic measures, contained in the Lisbon structural indicator data set. The combined Yale/Columbia **environment sustainability index**, which combines all available Yale/Columbia indicators at once has the following values on a global scale. With these data it is possible to make Lisbon process comparisons about the state of the environment world-wide. Our Table 4 and our maps 11e and 11f summarize the evidence:

**Table 4: The Lisbon race for a good environmental policy: Environment sustainability index, Yale/Columbia University, 2005**

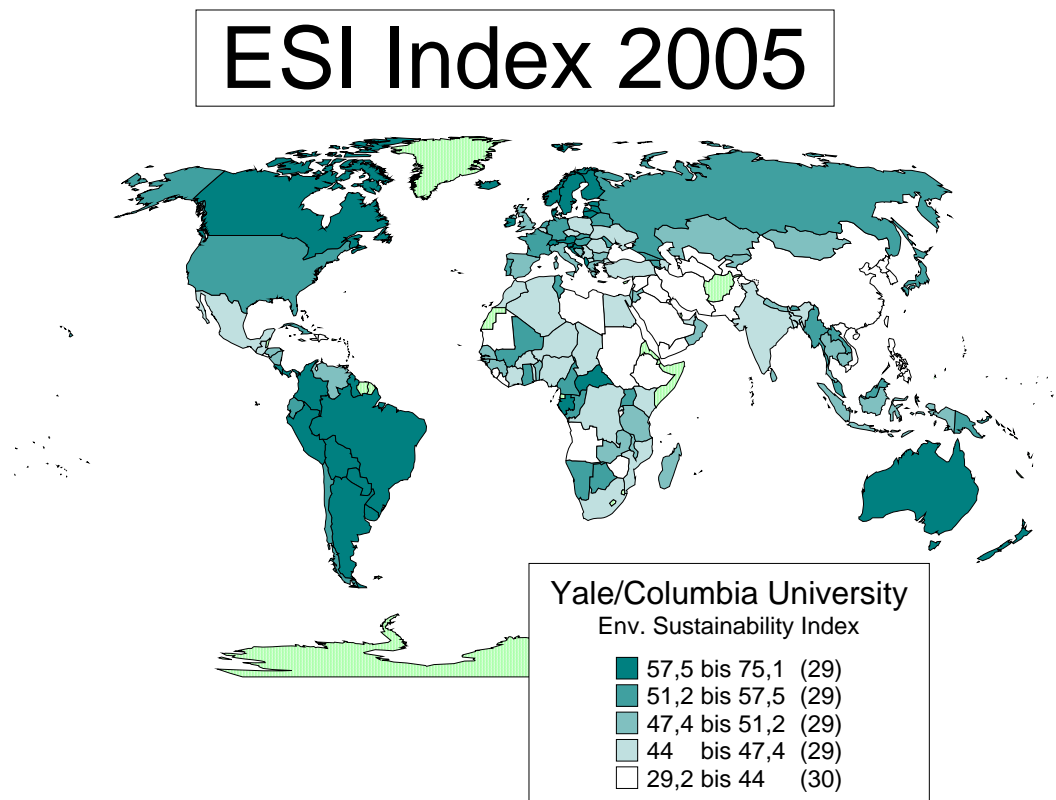
	ESI-Index
Finland	75,1
Norway	73,4
Sweden	71,7
<b>Iceland</b>	<b>70,8</b>
<b>Canada</b>	<b>64,4</b>
<b>Switzerland</b>	<b>63,7</b>
Austria	62,7
<b>Australia</b>	<b>61</b>
<b>New Zealand</b>	<b>61</b>
Latvia	60,4
<i>Croatia</i>	<i>59,5</i>
Ireland	59,2
Lithuania	58,9
Denmark	58,2
Estonia	58,2
Slovenia	57,5
<b>Japan</b>	<b>57,3</b>
Germany	57
France	55,2
Portugal	54,2
Netherlands	53,7
<b>United States</b>	<b>53</b>
Slovakia	52,8
Hungary	52
United Kingdom	50,2
Greece	50,1
Italy	50,1
Bulgaria	50
Spain	48,8
Czech Rep.	46,6
<i>Turkey</i>	<i>46,6</i>
Romania	46,2
Poland	45
Belgium	44,4

Note: high values are a sign of a good environmental performance, low values of a bad environmental performance

Source: our own compilations from the Yale/Columbia data series, available at: [http://sedac.ciesin.columbia.edu/es/esi/2005ESI\\_DataForESICountries.xls](http://sedac.ciesin.columbia.edu/es/esi/2005ESI_DataForESICountries.xls). At this point, we would like to remind our readers about the Yale/Columbia Environment Sustainability Index construction procedure, described in our statistical appendix

The graphical presentation of the Yale/Columbia data on a map is the following:

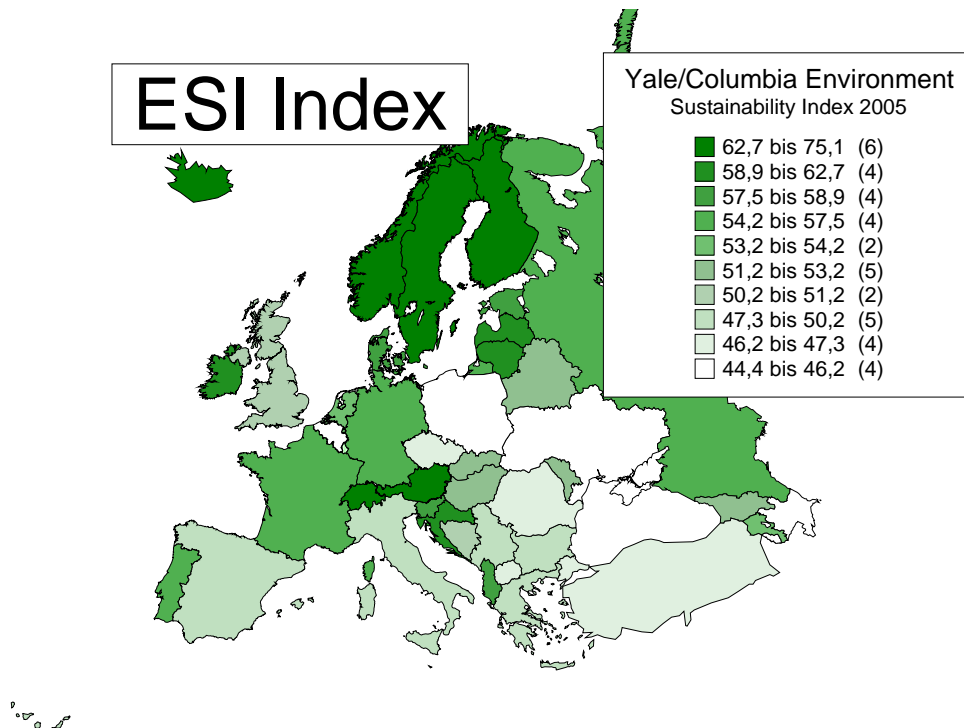
**Map 11e: The Yale/Columbia ESI Index, 2005**



Source: our own map from Yale/Columbia ESI Project, available at [http://sedac.ciesin.columbia.edu/es/esi/2005ESI\\_DataCoverage.xls](http://sedac.ciesin.columbia.edu/es/esi/2005ESI_DataCoverage.xls). Note: high values are a sign of a good environmental performance, low values of a bad environmental performance

For the European countries, the ESI Yale/Columbia indicator has the following values:

**Map 11f: The Yale/Columbia ESI Index, 2005 in Europe**

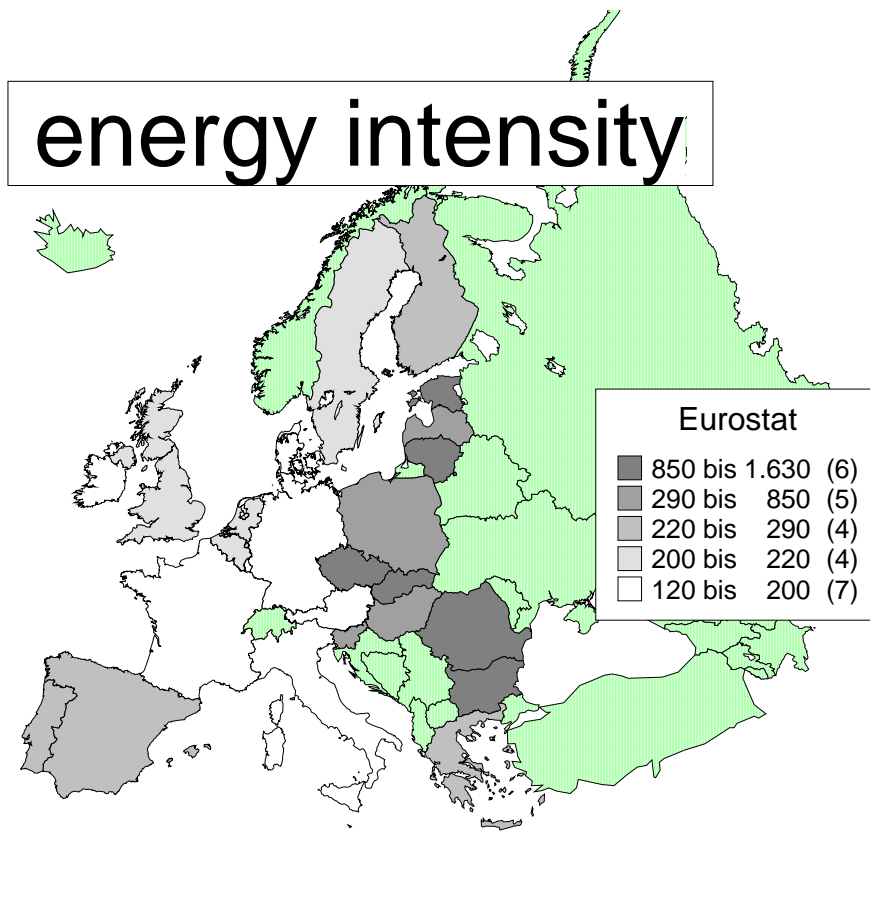


Source: our own map from Yale/Columbia ESI Project, available at [http://sedac.ciesin.columbia.edu/es/esi/2005ESI\\_DataCoverage.xls](http://sedac.ciesin.columbia.edu/es/esi/2005ESI_DataCoverage.xls) Note: high values are a sign of a good environmental performance, low values of a bad environmental performance

The Eurostat energy intensity index has the following values:

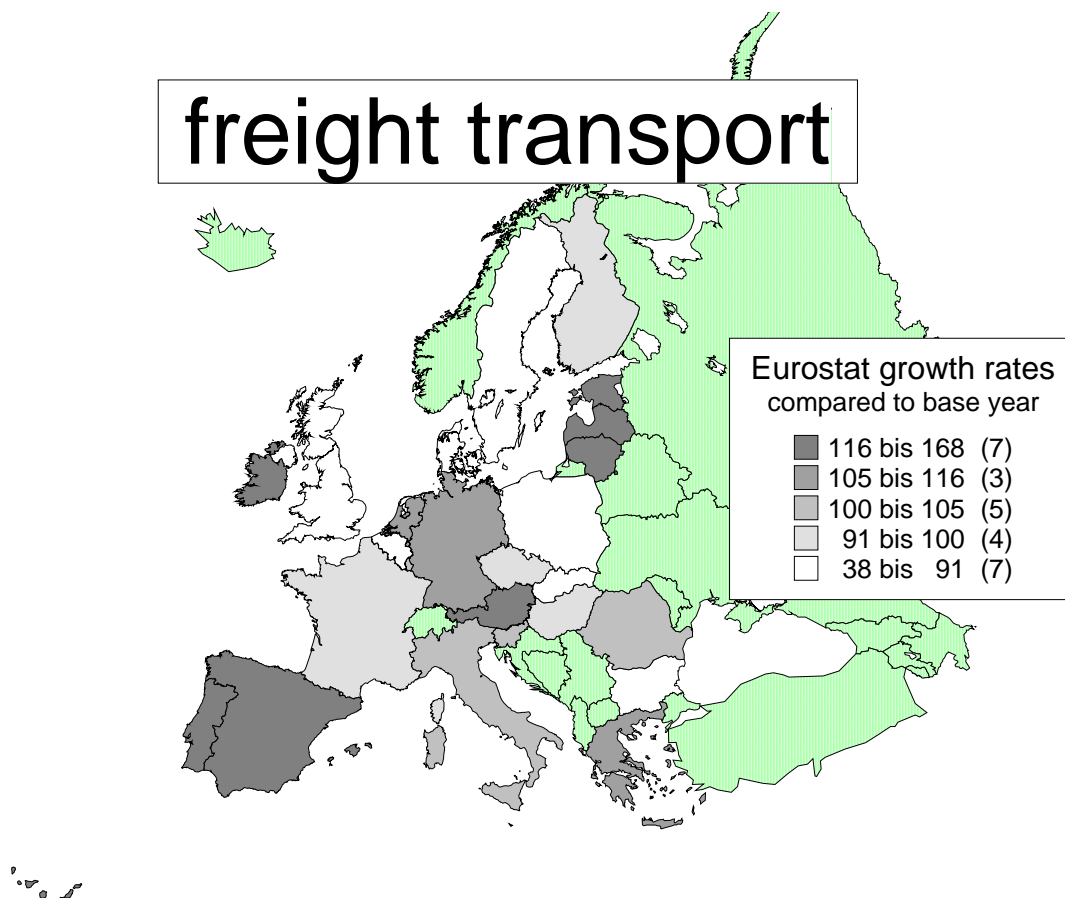


**Map 12: energy intensity**



Source: our own map from Eurostat data. Note: **high** values are a sign of a **bad** environmental performance, **low** values of a **good** environmental performance

Finally, the map for the last measure, **freight transport**, is the following:

**Map 13: freight transport (rates of increase)**

Source: our own map from Eurostat data

As our simple graphical analysis already indicated, there is a **surprising variety of Lisbon process best practice countries and worst practice countries**, and there is a wide array of methodological shortcomings in the indicators used.

As a next step in our exercise, we submitted the latest Eurostat data to the very powerful statistical tool of **“factor analysis”**<sup>7</sup>. Factor analysis is a **mathematical way of complexity reduction and dimension reduction in**

<sup>7</sup> For a brief and readily available introduction, this article might suffice: [http://en.wikipedia.org/wiki/Factor\\_analysis](http://en.wikipedia.org/wiki/Factor_analysis), as well as Clauss and Ebner (1978). For a more thorough treatment of the subject, see the classical presentations of this methodology by Jim and Mueller, 1978a and 1978b; Ueberla, 1968/1971. For an advanced treatment of factor analysis, see Jackson and Borgatta (1981).

**the social sciences**, and is especially strong when the task is to **reduce items** from a larger test series to an underlying new variable or variables, which mathematically reproduce “the realities” (i.e. most of the time, the correlation matrix between the original variables) in an optimal fashion. Exactly this is the case here – 14 (13) Lisbon indicators must be tested as to their underlying “factor(s)” or “dimension(s)”, and the Lisbon indicators must be reduced to a single or few single processes, interacting in the one and single process. Standard statistical procedures, available to contemporary social science, to perform a factor analysis include today the SPSS package (Standard Statistical Package for the Social Sciences), available today at many Universities around Europe<sup>8</sup>. Factor analysis reduces the dimensions of an analysis by analyzing the **underlying correlation matrix** between all the variables of a model, and projects the newly and mathematically derived “indicators”, which optimally reproduce the correlations between the model variables onto a new, and simplified scale. Thus the technique is often used to create new, composite indicators in the advanced social sciences. Such a mathematical indicator construction is far superior to the usual, simple adding together of variables onto a new, composite indicator, using average rank performances of countries.

Specifying that only **one factor should be extracted**, which represents the underlying correlation matrix in an optimal fashion, the following results are achieved:

**Table 4: communalities of the Lisbon structural indicators after extraction of 1 factor (=Lisbon process) in a statistical factor analytical model**

Lisbon process structural indicator	SPSS variable number	communalities, after Extraction (percentage of total variance of the respective variable explained by the factor analytical model)
<b>comparative price levels 2005</b>	VAR00013	0,910
<b>Labor productivity</b>	VAR00001	0,730
<b>Energy intensity of the economy, 2004</b>	VAR00009	0,688
<b>GDP per capita in PPS</b>	VAR00006	0,646
<b>R&amp;D expenditures per GDP, 2004</b>	VAR00007	0,590
<b>Employment rate</b>	VAR00004	0,573

<sup>8</sup> Our version is version 14, August 2007

<b>Long-term unemployment rate, 2005</b>	VAR00011	0,570
Greenhouse gas emissions, 2003	VAR00008	0,385
Employment rate of older workers, 2005	VAR00003	0,176
Business investment rate 2004	VAR00012	0,163
At risk-of-poverty rate after social transfers	VAR00002	0,099
Freight transport, 2004	VAR00010	0,025
Youth educational attainment (20-24)	VAR00005	0,013

Extracting only one factor, the following variables are "highly determined" and important in the model:

- comparative price levels 2005
- Labor productivity
- Energy intensity of the economy, 2004
- GDP per capita in PPS
- R&D expenditures per GDP, 2004
- Employment rate
- Long-term unemployment rate, 2005

**These variables really "hold the key" for the Lisbon process, as defined by the 14/13 structural indicators. The other variables, among them the methodologically criticized indicators "greenhouse gas emissions", "at risk of poverty rate" and "freight transport" receive only little confirmation in our factor analysis.**

Thus, the variables

- **Greenhouse gas emissions, 2003**
- Employment rate of older workers, 2005
- Business investment rate 2004
- **At risk-of-poverty rate after social transfers**
- **Freight transport, 2004**
- Youth educational attainment (20-24)

**are statistically not very well explained by the "Lisbon Process" factor.** This newly extracted "**Lisbon process factor**" explains 42.836 % of the total variance of all the 13 used Lisbon indicators:

**Table 5a: explained total variance of the factor analytical “Lisbon” model****Explained total variance**

Component	Initial Eigenvalues			Sum of squared factor loadings for extraction		
	Total	% of Variance	cumulated %	Total	% of variance	Cumulated %
1	5,569	42,836	42,836	5,569	42,836	42,836
2	2,156	16,588	59,425			
3	1,777	13,670	73,095			
4	1,021	7,854	80,948			
5	,825	6,345	87,294			
6	,581	4,472	91,766			
7	,369	2,841	94,607			
8	,249	1,918	96,524			
9	,172	1,327	97,851			
10	,120	,921	98,772			
11	,100	,767	99,539			
12	,039	,303	99,842			
13	,021	,158	100,000			

Extraction method: principal components.

The all-important factor loadings on the so-called “matrix of components” now tell us about the real structure of this newly extracted factor: “Lisbon process”, which explains almost half of the total variance of all the 13, used structural Lisbon indicators. As was to be expected from our above quotations from the literature, which was highly critical of the indicator: **low comparative price levels**, it even emerges in our calculations that **high comparative price levels**, and what “social Keynesians” call “**high wage- and high quality social and state sector services**” are, statistically speaking, **the most important *sine qua non* of the entire Lisbon process.**

Traditional variables, which all belong to the classic neo-liberal policy canon, either have very low factor loadings with this new factor “Lisbon process” or even present loadings, which run absolutely counter to traditional Lisbon strategy thinking (like the loading for “business investments”). In addition, several other assumptions of a social-ecological type, inherent in much of the policy pronouncements of European decision makers, have to be abandoned in view of our results: there IS at present a positive trade-off between the dynamic rates of

increases of Greenhouse gas emissions, freight transport, and the overall Lisbon process<sup>9</sup>.

**Table 5b: Matrix of components for the factor analytical "Lisbon" model**

	Factor loadings, matrix of components: "Lisbon process"
<b>comparative price levels 2005</b>	<b>0,954</b>
<b>Labor productivity</b>	<b>0,854</b>
<b>GDP per capita in PPS</b>	<b>0,804</b>
<b>R&amp;D expenditures per GDP, 2004</b>	<b>0,768</b>
<b>Employment rate</b>	<b>0,757</b>
Greenhouse gas emissions, 2003	0,62
Employment rate of older workers, 2005	0,42
Freight transport, 2004	0,158
Youth educational attainment (20-24)	-0,114
At risk-of-poverty rate after social transfers	-0,314
Business investment rate 2004	-0,404
<b>Long-term unemployment rate, 2005</b>	<b>-0,755</b>
<b>Energy intensity of the economy, 2004</b>	<b>-0,829</b>

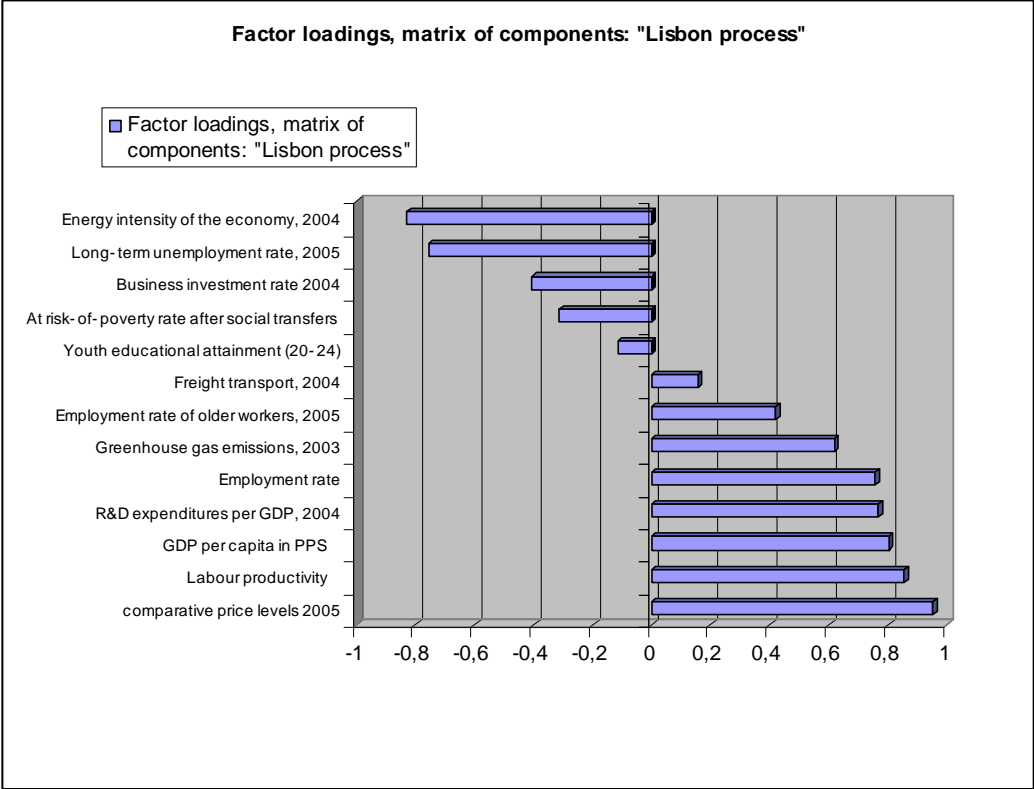
Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

Note: factor loadings range from +1 (very high positive influence) to - 1 (very high negative influence). Extraction method: principal components.

The exact structure of these factor loadings emerges from our Graph 6:

### **Graph 6: the factor loadings of the general Lisbon performance factor**

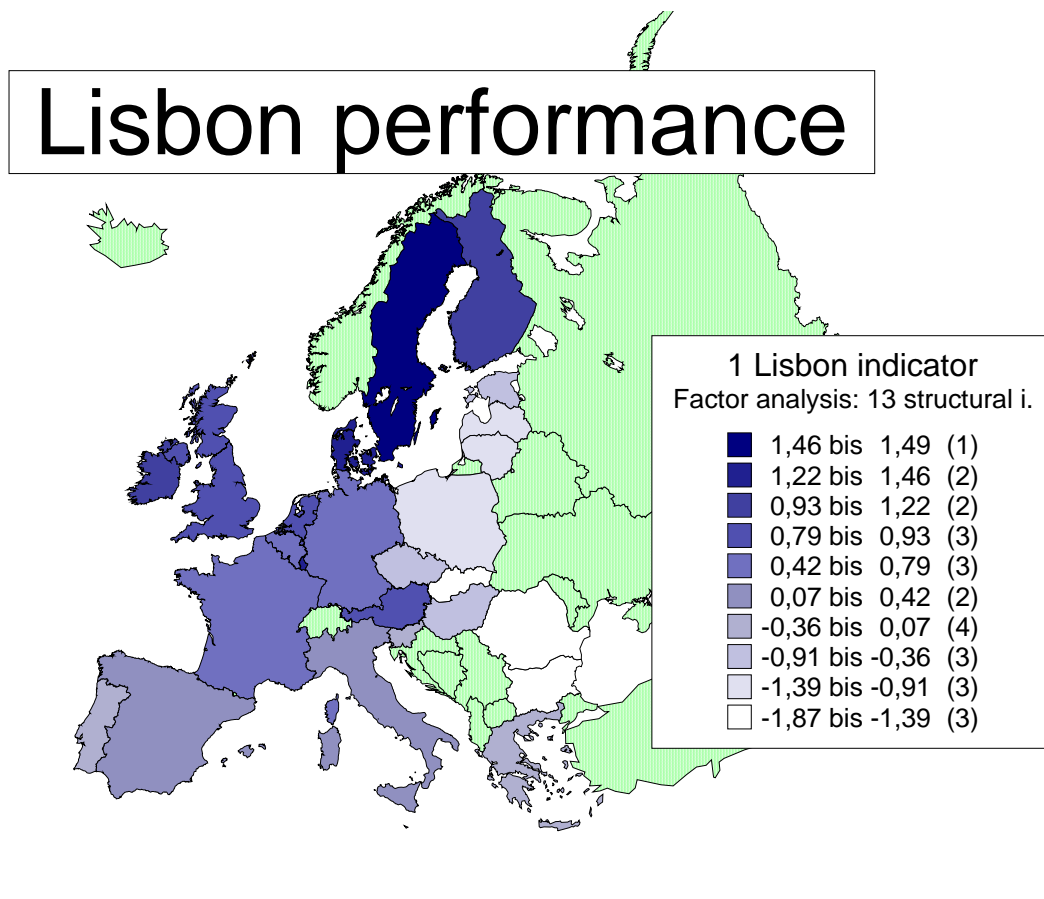
<sup>9</sup> For the social policy makers, it would be important to base their calculations of poverty in Europe on European-wide poverty rates, an exercise, already performed by colleague Tony Fahey from the Ireland.



Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

The final map of the overall Lisbon performance is the following:

**Map 14a: Lisbon performance – according to a factor analytical model, based on one factor, optimally combining the 13 Lisbon structural indicators with complete data**

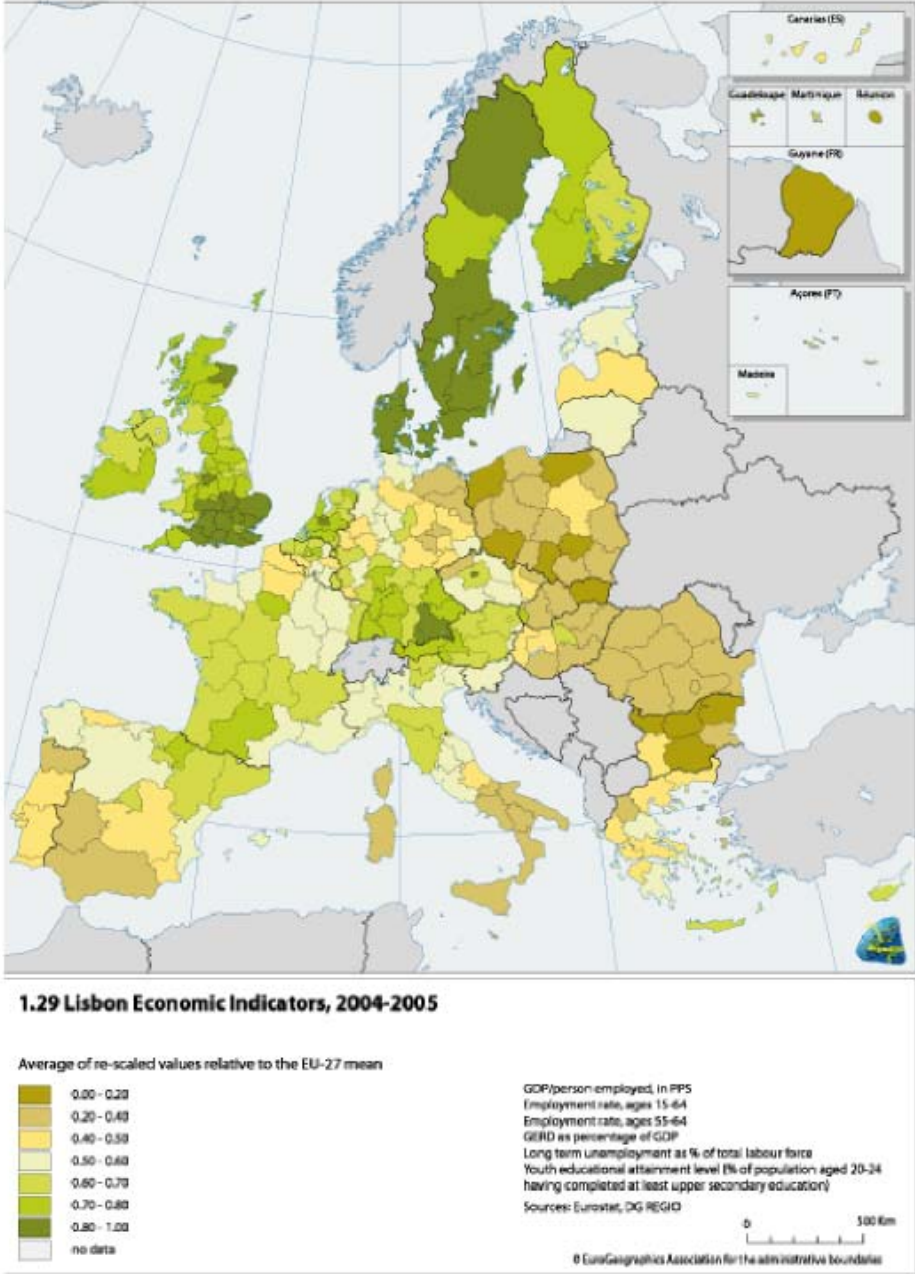


Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

This result neatly corresponds to the analysis, put forward recently by the European Commission (2007), based on their analysis of the regional performance in the EU-27 member countries:



Map 14b: The Lisbon Index – a regional perspective



Source: European Commission (2007)

### 3. Is there no single Lisbon process at all? A four-factor model

Even the most coherently and ardently expressed wishes of politicians, or, for that matter, heads of government of an entire continent cannot block the winds of change and the tidal waves of reality in the end. For the empirical political scientist, just as for the econometrician or the empirical sociologist, it is **utterly** irrelevant that a political class **decided** that 14 variables (or rather 13 Lisbon variables), represent **one** process. As we have shown already, performances on the 14/13 indicators vary very widely, **and it is perfectly thinkable that the relationships between the variables do not correspond at all to the implicit causal triangle, often talked about by European decision makers.**<sup>10</sup>

Let us quote here at length on what the Presidents of the EU Commission at the time of the decisive Lisbon Council in 2000, when the strategy was first announced, had to say about the implied causal mechanisms at work:

---

<sup>10</sup> The Berkeley-based political scientist Christopher Tucker made an excellent point by saying (emphasis Arno Tausch):

*„First, there is nearly universal agreement that political ideologies must have coherence (i.e. consistency/constraint). This implies that they must contrast with external ideologies, or the general political culture, and that they have over time shown stability. In contrast to opinions, causal beliefs, norms, or interest group platforms, ideologies are characterized by a hierarchical ordering of thought capped off with higher levels of abstractions concerning politics, power, and the related domains of social life. **For example, a cornerstone of Lisbon is that it rejects neo-liberal models of economic growth in the US, which is often used as the benchmarks for what the EU wants (competitiveness) and does not want (social inequality, low quality jobs etc.). Lisbon proffers a synthetic strategic plan that conceptualizes social cohesion, employment, and economic growth as mutually interdependent sides (i.e. the Lisbon triangle) in a knowledge-based economy. From this abstraction, more specific attitudes are derived from higher order abstractions, like inclusion policies, and activating social policies.**“ („The Lisbon Strategy and the Open Method of Coordination: A New Vision and the Revolutionary Potential of Soft Governance in the European Union“. Department of Political Science, University of California, Berkeley, 2003, available at:*

[http://ec.europa.eu/growthandjobs/pdf/pdf\\_groups/Table\\_4/Tucker/cTucker\\_Lisbon%20ideology\\_OMC\\_APSA\\_paper.pdf](http://ec.europa.eu/growthandjobs/pdf/pdf_groups/Table_4/Tucker/cTucker_Lisbon%20ideology_OMC_APSA_paper.pdf)

Tucker also correctly points out in his electronic paper that:

*„it appears that the most powerful committee of experts (i.e. the EFC) is farthest away from the Lisbon ideology, both substantively and procedurally. It appears that they think that the other two sides (employment & social) other than the economic side of the Lisbon triangle is **“pollution.”** This may raise doubts that the “softer” sides of Lisbon Strategy are likely to be able to counter the **“hard” side of economic integration.**“*

**President Prodi's main quotes  
(implied causations are printed  
in bold letters)**

*'Economic and Monetary Union needs rules that are clear and effective to ensure stability and growth. **The Stability and Growth Pact lays down these rules and is therefore essential for the stability of the Euro and the health of the European economy.** The Pact has been effective. In stark contrast with the fiscal profligacy and high interest rates of past decades, the Pact has brought stability and historically low interest rates. And this has given the Euro area a better foundation for growth.'*

*Conference on EMU and economic governance, Brussels, 28 September 2004*

*'As the **single market** is for the most part already in place, we need to **incorporate related policies into the broader context of a strategy for growth.** This is a very important proposal. We are now in a position to encourage the competitiveness of **European companies** by exploiting the fact that they are **already operating in a market with no internal borders.** I say again that the only way to **increase competitiveness is through quality, technological development, research, and innovation. And, in a broader sense, by investing in human resources.** It is absolutely essential that we develop a common European strategy to link up our research centres and produce the best scientists and the best academics in the world. **We need to open up the world of education to lifelong learning.'***

*Building our future together, European Parliament, Strasbourg, 10 February 2004*

*'Our recent Growth Initiative focuses on **investments in European networks and research.** The Spring Report stresses the urgent need to put this strategy into action, especially as regards the Quick-Start Programme. The Programme covers transnational projects that can be set moving at very short notice in the transport, energy, communications and research fields. The Initiative's basic objective is to give a new boost to investments, **using the Union's financial and political resources to draw in private capital.'** Spring Report, Conference of Presidents of the European Parliament, Brussels, 21 January 2004*

*One of the most complex **challenges facing the Union in the next few years is the rising age of its population.** This issue affects all EU countries to different degrees and has far-reaching consequences for the economy and society. To meet that challenge, we must develop a policy to **extend working life,** involving measures at various levels. First, **the structure of the pension systems** often encourages workers to opt out of the labour market at an age when they still have a lot to contribute to society. Secondly, businesses, trade unions and governments must review their objectives and organisational models so they can offer **employees more flexible conditions** at the end of their active working lives. This will facilitate the switchover to retirement and will mean we can draw on older workers' knowledge and experience more effectively. Most importantly, though, the stress must be laid on **lifelong learning.** Currently, employees and enterprises do not invest enough in **training.** This means workers gradually lose contact with the working world and there is a growing tendency on the part*

*of both employees and firms to cut short their working lives.*

*Spring Report, Conference of Presidents of the European Parliament, Brussels, 21 January 2004*

*'Now, looking forward, one of my biggest concerns for the future is to maintain prosperity across the enlarged EU. It was back in spring 2000 that EU Heads of State and Government set out an ambitious agenda - nothing less than to make the EU the most dynamic place to do business on the planet by the end of the decade. The "Lisbon Process" has brought **liberalisation to new areas of the EU economy energy, telecommunications, intellectual property law and so on.** Lisbon was also about benchmarking EU Governments learning from one another. The economic dream for any European country would surely be to achieve both **Britain's high levels of employment and the best of continental productivity levels.** The process of peer review is still continuing. The third aspect of Lisbon was about improving the mechanisms for developing effective common **EU legislation** so often dismissed as "red tape" in many quarters, but absolutely necessary for a working single market and for the **necessary productivity growth.**'*

*Europe: adding value, changing quickly, London School of Economics, London, 19 January 2004*

*'The spring Council will continue along the route mapped out in the Lisbon strategy, which remains the only course that can enable Europe and its economy to maintain its prosperity, security and*

*social justice in a globalised world. The Commission will make its proposals and the Council will take its decisions. However, nothing will actually happen until these decisions become policies at national level. The Union's key priorities must be **knowledge and innovation. Investment in education, lifelong learning and research are not abstract problems; they are an objective that must be pursued now because our international competitors are overtaking us or have already done so.** We must step up our efforts to become a knowledge economy.'*

*Looking to the future, Inauguration of the Irish Presidency, Strasbourg, 14 January 2004*

*'Increasing public investment means **energy, telecommunications and transport markets that can function better. This would lead to greater competitiveness, more and better jobs and less congestion.**'*

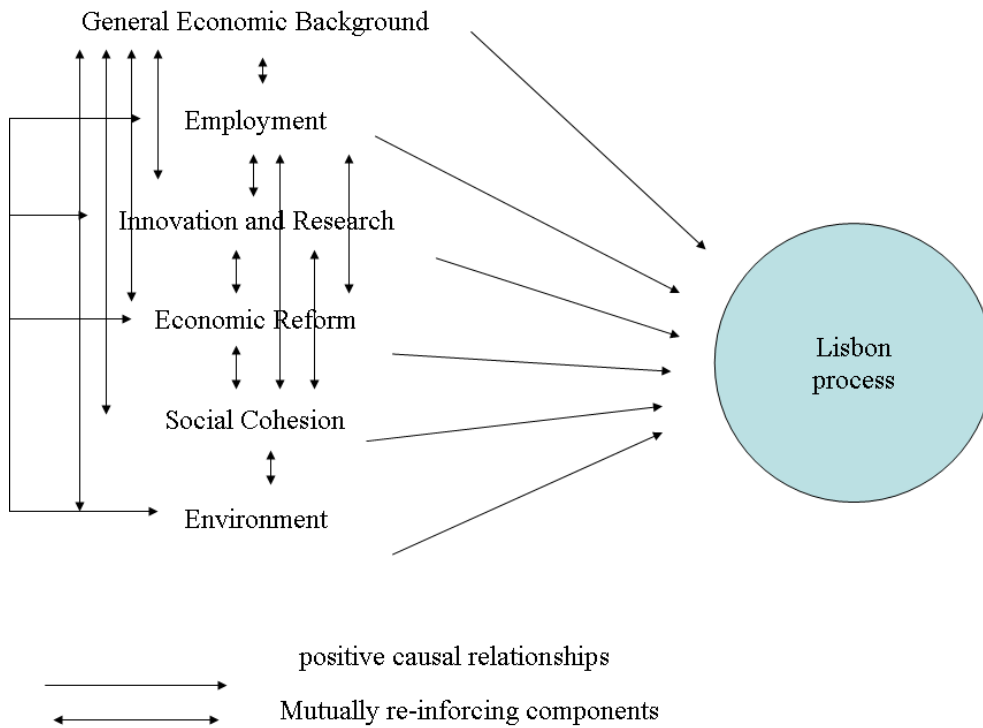
*Growth Initiative, Press conference, Brussels, 1 Octobre 2003*

*'I am convinced the Lisbon Strategy is the best way, even in the current circumstances, to bring our fellow citizens greater prosperity and quality jobs, greater social cohesion and a healthy natural environment. It is also the only strategy that can bring a strong recovery and ensure these benefits are sustainable for future generations.'*

*Growing and thriving in a knowledge society, European Parliament, Strasbourg, 12 February 2003*

Implicitly, European decision makers started from the following causal assumptions:

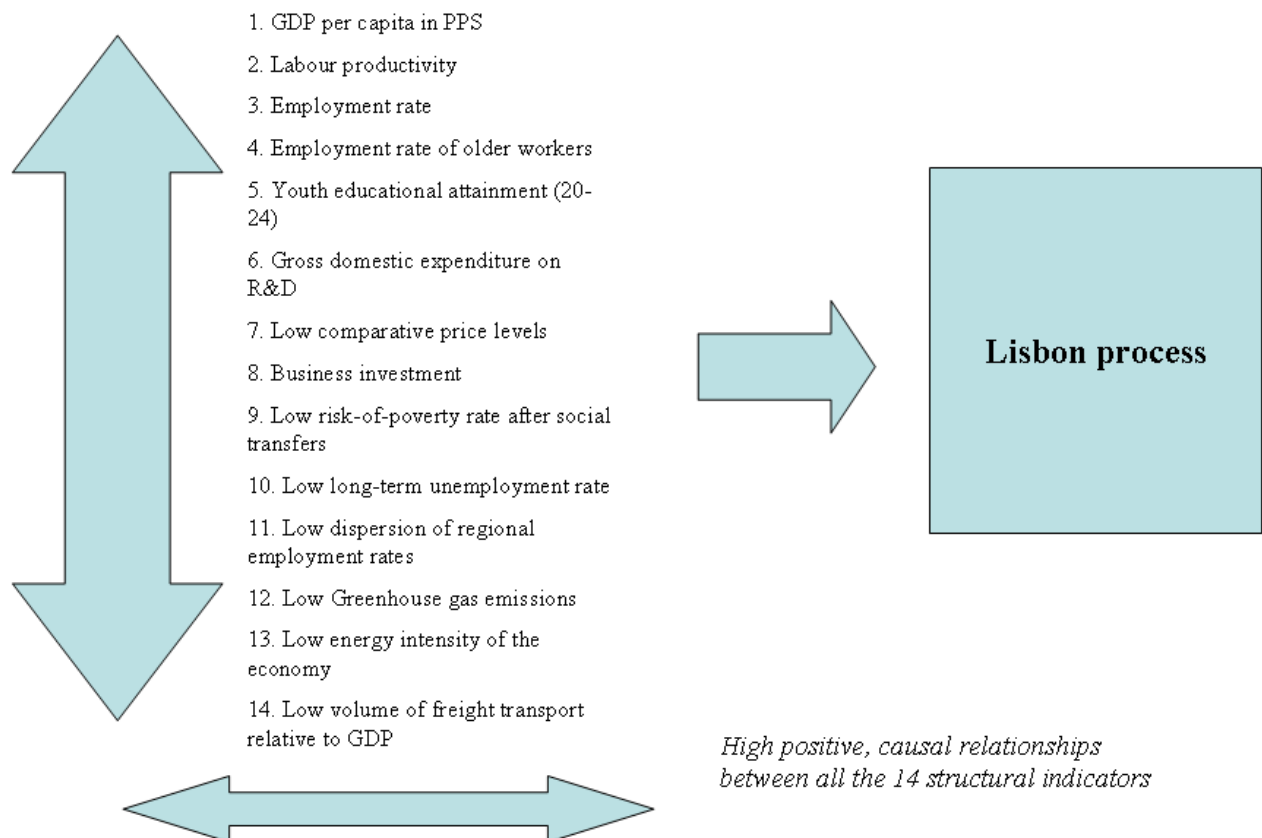
**Diagram 1a: The implied Lisbon strategy logic according to the decision making of the European political class**



Source: our own projections

This scheme could also be represented by the following diagram:

**Diagram 1b: The implied Lisbon structural indicator logic according to the decision making of the European political class**



Source: our own projections

We believe however that such a model is utterly wrong, at least judged from the relationships between the 14 indicators, which the member governments and the Commission had chosen to monitor the “Lisbon process”. Who tells us that the six dimensions, mentioned by Eurostat:

- General Economic Background (GDP per capita in PPS)

- Labour productivity
- Employment
- Innovation and Research
- Economic Reform
- Social Cohesion
- Environment

really go hand in hand? Rather, we tend to think that **productivity** and **employment** will emerge as highly positively interrelated factors, and that the **neo-liberal dimension** of some of the Eurostat structural Lisbon indicators will be rather neutral or even negative in terms of the overall success balance of the Lisbon process. We also think that there is good reason to believe that social exclusion will be negatively related to the employment and productivity dimension, and that social exclusion will be increased – at least in the short run – by governments following the neo-liberal agenda.

These assertions of course are only preliminary hypotheses. We also predict that one of the main reasons for social exclusion is the partial inability to grasp new, environmentally safe technologies. We predict that this process is stronger in the European periphery than in the European center.

Our “**confirmatory factor analysis**” by and large confirms these hypotheses and revealed the following structures. We started, as we stated from the assumption that the Lisbon process variables in reality measure four processes:

- 1 Lisbon productivity factor
- 2 Eco-social exclusion
- 3 Employment performance
- 4 Neo-liberal European model

We assumed that the **four processes correlate with one another**, so we chose the **oblique rotation** method, i.e. we **allowed for stronger correlations between the processes**. Indeed, the empirical results confirmed that these structures **are** underlying the Lisbon process variables. First, we reproduce the determination of the variables of the model:

**Table 6a: Factor analytical properties of the four-factor model – the determination of the variables of the model**

	Extraction
Labor productivity	0,949

comparative price levels 2005	0,916
Employment rate	0,877
Employment rate of older workers, 2005	0,862
Business investment rate 2004	0,862
Energy intensity of the economy, 2004	0,848
Freight transport, 2004	0,821
GDP per capita in PPS	0,803
R&D expenditures per GDP, 2004	0,795
Youth educational attainment (20-24)	0,767
Greenhouse gas emissions, 2003	0,722
Long-term unemployment rate, 2005	0,704
At risk-of-poverty rate after social transfers	0,598

Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

Secondly, we inform our readers about the explained total variance:

**Table 6b: Factor analytical properties of the four-factor model – explained total variance**

**Explained total variance**

Component	Initial Eigenvalues			Sum of squared factor loadings for extraction			Rotated sum of squared loadings (a)
	Total	% of variance	Cumulated %	Total	% of variance	Cumulated %	Total
1	5,569	42,836	42,836	5,569	42,836	42,836	4,961
2	2,156	16,588	59,425	2,156	16,588	59,425	1,888
3	1,777	13,670	73,095	1,777	13,670	73,095	3,514
4	1,021	7,854	80,94	1,021	7,854	80,948	2,077

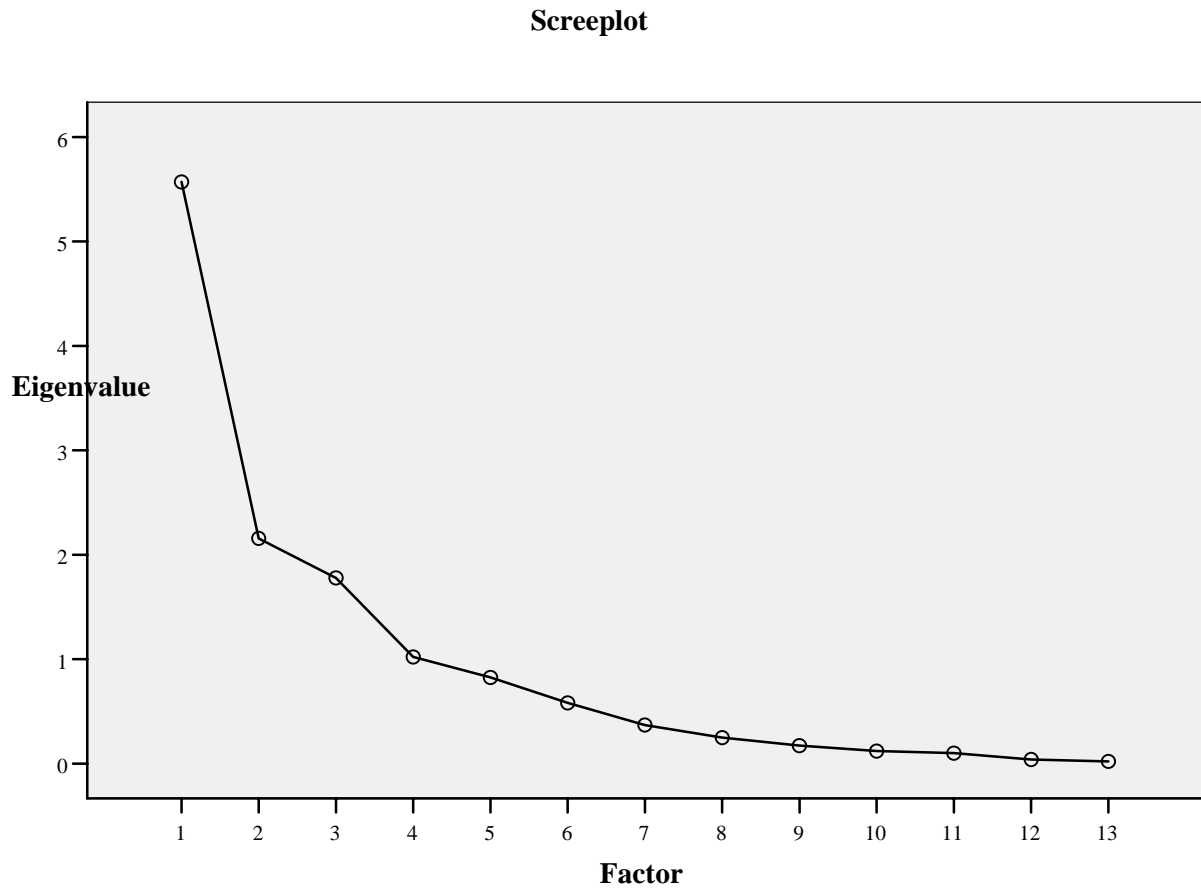


			8				
5	,825	6,345	87,29				
			4				
6	,581	4,472	91,76				
			6				
7	,369	2,841	94,60				
			7				
8	,249	1,918	96,52				
			4				
9	,172	1,327	97,85				
			1				
10	,120	,921	98,77				
			2				
11	,100	,767	99,53				
			9				
12	,039	,303	99,84				
			2				
13	,021	,158	100,0				
			00				

Extraction method: principal components.

Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

Thirdly, the scree-plot lists the *Eigenvalues* of the model. Four factors are above the crucial Eigenvalue 1 threshold.

**Graph 7: Screeplot for the four-factor model**

Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

The factor loadings are the following:

**Table 7: the most important relationships****Factor pattern matrix, factor loadings**

	1 Lisbon productivity factor	2 Eco-social exclusion	3 Employment performance	4 Neo-liberal European model
Labor productivity	0,965	0,022	0,279	-0,202
<b>At risk-of-poverty rate after social transfers</b>	<b>-0,205</b>	<b>0,549</b>	<b>-0,327</b>	<b>0,547</b>
Employment rate of older workers, 2005	0,092	0,015	0,889	0,061
Employment rate	0,521	-0,083	0,908	-0,075
Youth educational attainment (20-24)	-0,083	-0,872	-0,04	-0,114
GDP per capita in PPS	0,882	-0,047	0,321	-0,189
R&D expenditures per GDP, 2004	0,646	-0,306	0,632	-0,452
Greenhouse gas emissions, 2003	0,652	0,616	0,234	-0,054
Energy intensity of the economy, 2004	-0,889	-0,342	-0,332	0,138
Freight transport, 2004	0,141	0,398	0,295	0,784
Long-term unemployment rate, 2005	-0,579	-0,177	-0,764	0,065
Business investment rate 2004	-0,332	-0,126	-0,133	0,873
comparative price levels 2005	0,907	0,149	0,599	-0,268

Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University. Loadings for the variable: social exclusion are printed in red letters.

These factors show the following correlations among one another:

**Correlation matrix of components**

Component	1 Lisbon productivity factor	2 Eco-social exclusion	3 Employment performance
2 Eco-social exclusion	,118		

<b>3 Employment performance</b>	,372	-,005		
<b>4 Neo-liberal European model</b>	-,203	,189	-,064	

Extraction method: principal components.

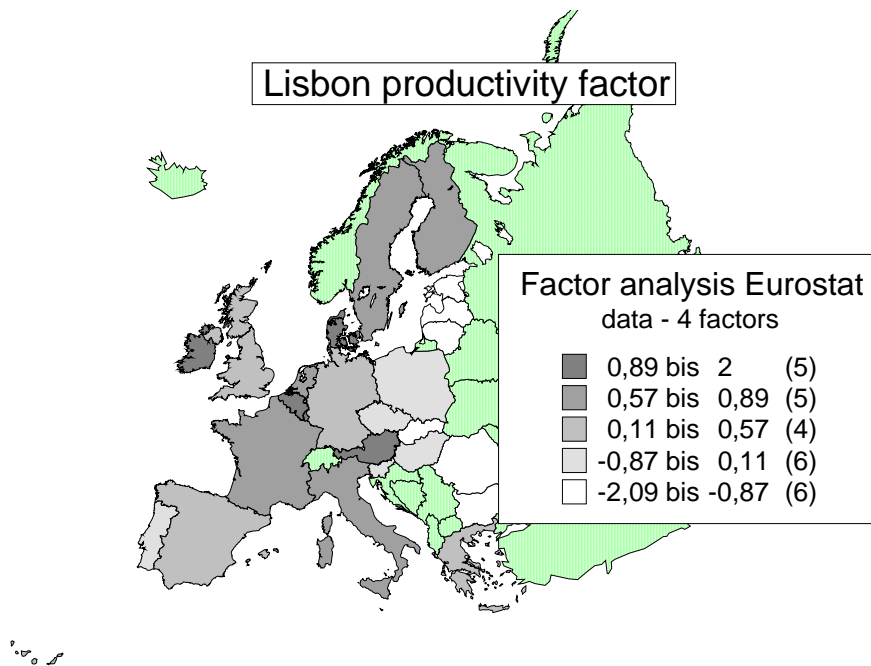
Rotation method: Oblimin with Kaiser-Normalization

Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

In the following, we list the loadings of the different factors and project the factors onto maps of European Lisbon performance. The first factor is Lisbon productivity:

### Map 15: Lisbon productivity factor

empirically determined, factor analytical definition of the factor (factor pattern matrix, factor loadings, ranging +1 to -1))	Lisbon productivity factor
Labor productivity	0,965
comparative price levels 2005	0,907
GDP per capita in PPS	0,882
Greenhouse gas emissions, 2003	0,652
R&D expenditures per GDP, 2004	0,646
Employment rate	0,521
Freight transport, 2004	0,141
Employment rate of older workers, 2005	0,092
Youth educational attainment (20-24)	-0,083
At risk-of-poverty rate after social transfers	-0,205
Business investment rate 2004	-0,332
Long-term unemployment rate, 2005	-0,579
Energy intensity of the economy, 2004	-0,889



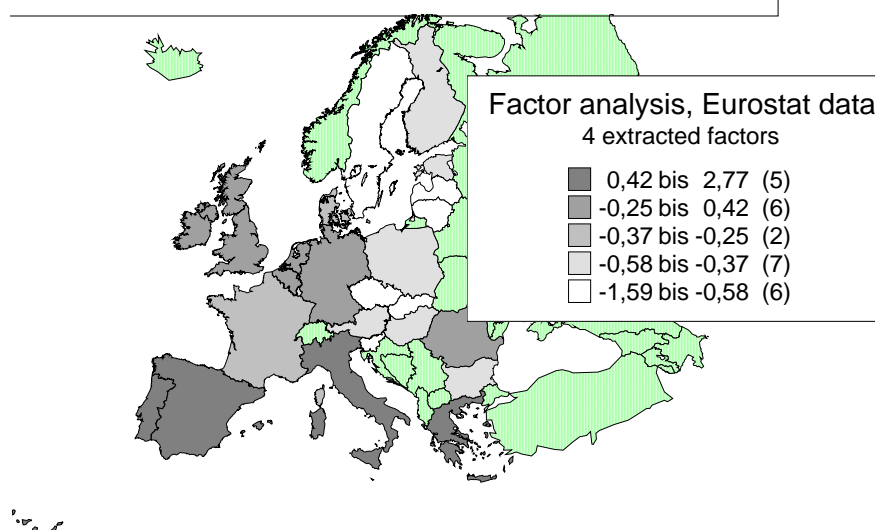
Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

The next factor is social exclusion and ecological crisis:

**Map 16: Eco-social exclusion**

empirically determined, factor analytical definition of the factor (factor pattern matrix, factor loadings, ranging +1 to -1))	<b>Eco-social exclusion</b>
Greenhouse gas emissions, 2003	0,616
At risk-of-poverty rate after social transfers	0,549
Freight transport, 2004	0,398
comparative price levels 2005	0,149
Labor productivity	0,022
Employment rate of older workers, 2005	0,015
GDP per capita in PPS	-0,047
Employment rate	-0,083
Business investment rate 2004	-0,126
Long-term unemployment rate, 2005	-0,177
R&D expenditures per GDP, 2004	-0,306
Energy intensity of the economy, 2004	-0,342
Youth educational attainment (20-24)	-0,872

# eco-social exclusion

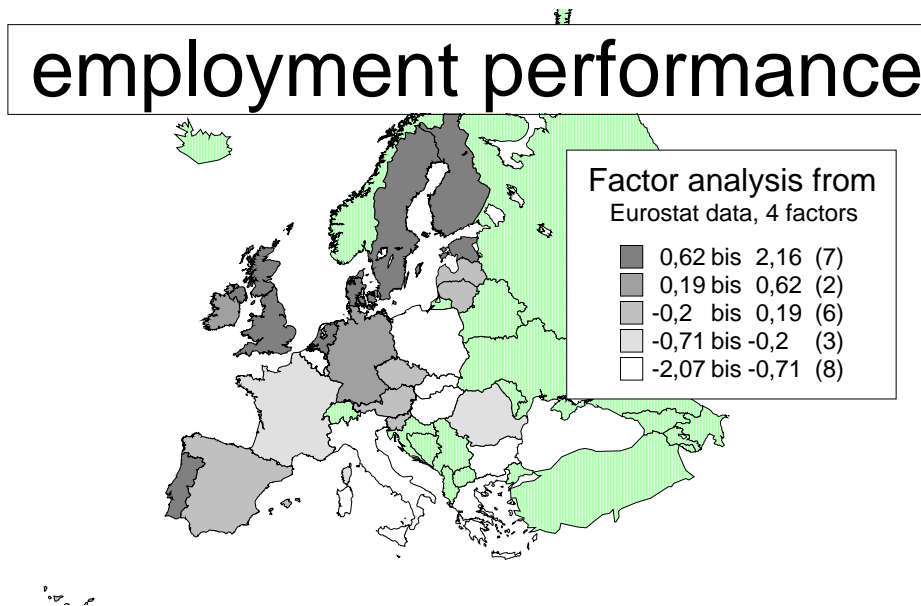


Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

The next factor measures employment performance:

**Map 17: employment performance**

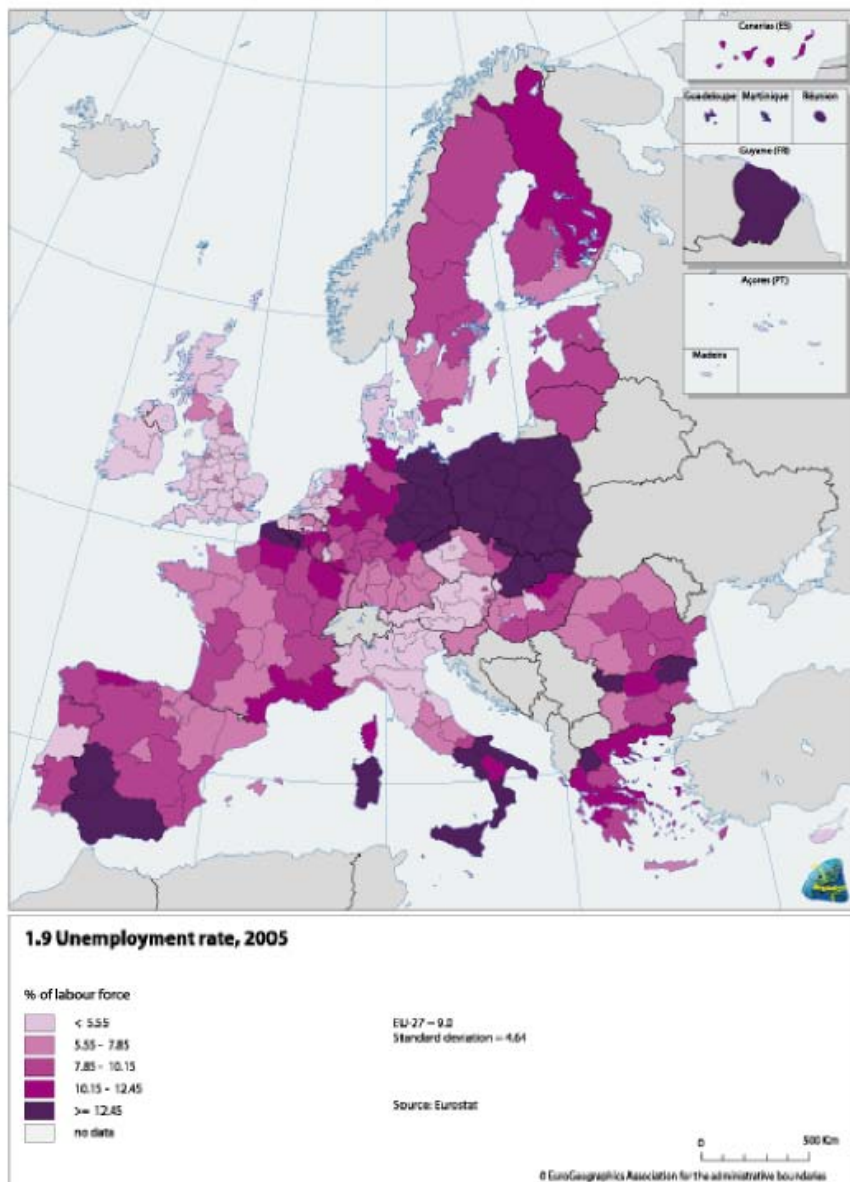
empirically determined, factor analytical definition of the factor (factor pattern matrix, factor loadings, ranging +1 to -1))	<b>Employment performance</b>
Employment rate	0,908
Employment rate of older workers, 2005	0,889
R&D expenditures per GDP, 2004	0,632
comparative price levels 2005	0,599
GDP per capita in PPS	0,321
Freight transport, 2004	0,295
Labor productivity	0,279
Greenhouse gas emissions, 2003	0,234
Youth educational attainment (20-24)	-0,04
Business investment rate 2004	-0,133
At risk-of-poverty rate after social transfers	-0,327
Energy intensity of the economy, 2004	-0,332
Long-term unemployment rate, 2005	-0,764



Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

This factor well corresponds to the results of the surveys, recently published by the European Commission (2007, GD Regional Policy):

**Map 18: unemployment – the regional aspect in Europe**



Source: European Commission (2007)

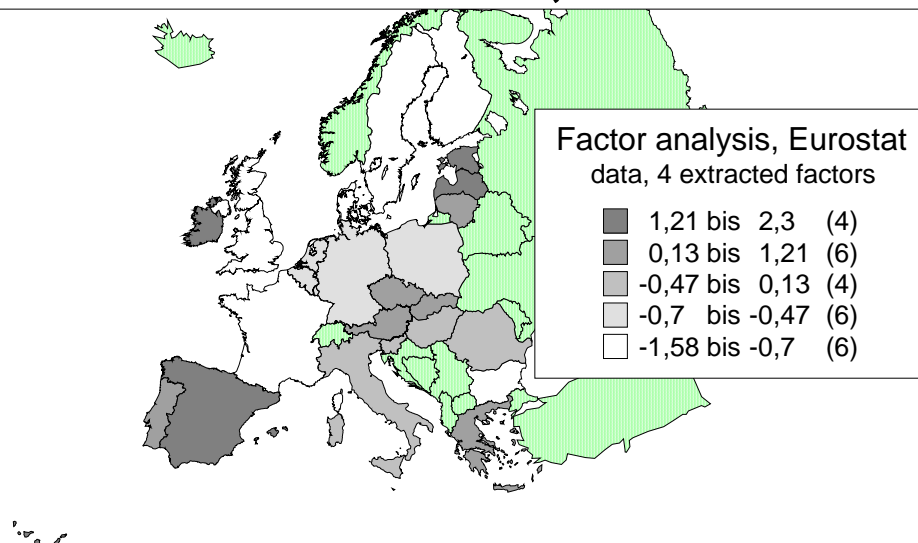


The neo-liberal components of the original thinking behind the 14 Eurostat structural indicators reflect themselves very well in the following factor. However, the European neo-liberal model has serious disadvantages:

### Map 19: neo-liberal European model

empirically determined, factor analytical definition of the factor (factor pattern matrix, factor loadings, ranging +1 to -1))	<b>Neo-liberal European model</b>
Business investment rate 2004	0,873
Freight transport, 2004	0,784
At risk-of-poverty rate after social transfers	0,547
Energy intensity of the economy, 2004	0,138
Long-term unemployment rate, 2005	0,065
Employment rate of older workers, 2005	0,061
Greenhouse gas emissions, 2003	-0,054
Employment rate	-0,075
Youth educational attainment (20-24)	-0,114
GDP per capita in PPS	-0,189
Labor productivity	-0,202
comparative price levels 2005	-0,268
R&D expenditures per GDP, 2004	-0,452

# Neo-liberalism, 2000-2005



Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

#### 4. Some notes on the causality of the Lisbon process on the European level

In the following, we offer some thoughts on the causality of the processes involved. We maintain that the Lisbon process can be neatly explained by the factor of “**balancing work and family life**”, which has become an important catchword in the EU-jargon nowadays. Countries, which fail in that process, will fail in achieving the overall Lisbon targets, while countries, which manage to balance work and family life, also fulfill the Lisbon targets well.

A vast literature now exists on the economic effects of **aging populations**. We maintain that balancing work and family life is the factor, which best explains Lisbon performance; and that European states have a policy option to counter the aging process. European decision makers seem to have taken these often dire warnings by the economic profession pretty seriously [European Commission, 2007, furthermore, just to quote some titles: An C. B. and Jeon S. H. (2006), Azarnert L. V. (2006), Bloom D. and Canning D. (2004), Bloom D. et al. (2003), Bovenberg A. L. (2005), Cervellati M. and Sunde U. (2005), Cousins C. R. , Tang N. (2004), Cutler et al. (1990), Futagami K. and T. Nakajima (2001), James E. (1998), Kotlikoff L. J., K. Smetters, and J. Walliser (1999), Kotlikoff L. J., K. Smetters, and J. Walliser (2001), Laurence J. Kotlikoff L. J. and Burns Sc. (2007), Leff N. H. (1969), Lindh T. and Malmberg B. (1999), Ludwig A. (2005), Luehrmann M. (2005), Miyazawa et al. (2000), Nyce S. A. and Schieber S. J. (2005), Ono T. (2003), Pecchenino R. and Pollard P. (2002), Pecchenino R. and Utendorf K. (1999), Ruggeri J. and Zou Y. (2007), Schieber S. J. and Shoven J. B. (1997), Schieber S. J. and Shoven J. B. (1999), Siegel, J. J. (2005), Soares R. R. (2005), Sunden A. (2006), Tamura R. (2006), Zhang J. et al. (2001), Zhang J. et al. (2003)]. “**Balancing work and family life**” is seen by many as a way out to increase fertility rates and employment rates in the long run. Overlooking the necessity to balance work and family life would constitute a fatal conceit.

Of course, the use of the gender-politically progressive concept “**balancing work and family life**” in this largely **Schumpeterian framework** might risk incurring criticism from the feminist camp, which will inevitably raise the question of Schumpeter’s often very prejudiced approach to questions of gender and, for that matter, ethnic issues. As was pointed out by Kreisky (2007), and the author of the present paper (Tausch, 1987), Schumpeter was an extreme male-chauvinist disciple of the society of the late 19<sup>th</sup> Century Austria, which surrounded him. Schumpeter’s talk about gender issues and ethnic minorities would have brought the Harvard Professor today, with justification into severe conflict with the law in many Western democracies a Century later. However, Schumpeter’s **question** about the importance of households and household structures for the future of the market economies, which he raised with his ultra-

conservative visions, most clearly pronounced in *“Capitalism, Socialism, and Democracy”* deserves some further thought. **Demography matters**, we could say in the jargon of the early 21<sup>st</sup> Century, and without balancing between work and family life, economic growth in Europe indeed has no future.

The traditional answer, proposed by the World Bank and an entire phalanx of neo-liberal economists, to avoid the old age crisis, is to talk about a **pension system**, based on pension funds. To neglect pension funds in investigations about the capitalist world economy would be misleading. Private pension funds already amount to 44 % of current world GDP, with countries like the United States; Japan; United Kingdom; Netherlands; Canada; Switzerland; Australia; Sweden; Ireland; Finland; and Denmark taking the lead in fund development either via the introduction of a “World Bank” three pillar pension model or simply via a strong element of private pensions (“the third pillar”) besides the first, traditional PAYGO pillar (like presently in the United States of America). Slow pension fund development in most countries of the €-zone determines that the overall share of private pension funds from the €-zone is just over 2 % of world GDP. If Europe wants to fulfill its Lisbon agenda of catching up with the United States, it must, the argument runs, overhaul its pension systems, and introduce some form or other of private pension funds, which are a major force in financing technological advance in the capitalist world economy today. Tausch (2004) showed that World Bank pension reforms are associated in a positive way with the rates of change of a country’s social performances. Our quantitative research indicated that pension reforms of the World Bank style are compatible with economic growth, full employment and the redistribution of incomes. The same positive effects are also at work in explaining economic growth, full employment, and reductions of unemployment over time in Europe’s over 300 different regions. The European regions, whose countries realized a three-pillar pension model, developed more rapidly and had – *ceteris paribus* – a better employment record than regions in non-reforming countries. Persistent non-reform, as the German example at the beginning of the new millenium especially dramatically showed, can lead to a *circulus viciosus* of stagnation and unemployment under the conditions of globalization [see also, just quoting a few titles here, European Roundtable of Industrialists, ERT (2001), Holzmann R. (2000a), Holzmann R. (2000b), Holzmann R. (2004), Holzmann R. (2005), Holzmann R. (Ed.)(2001), Holzmann R. (Ed.)(2002), Holzmann R. et al. (1999)]. Also neo-Keynesian economists, like the late Nobel laureate Franco Modigliani, joined this debate, stressing the crisis-prone character of the Bismarckian “pay as you go” pension system [see also Modigliani F. (1985), Modigliani F. and Muralidhar A. (2004), Modigliani F., Ceprini M.L., and Muralidhar A. (2000); for an anylsis of the various approaches see also Tausch A. (2004b), and Tausch A. (Ed.)(2003)]. The integration of the pension reform variable with the research design presented here would be an important task for the future. In this essay, however, we concentrate ourselves on the effects of development levels, the aging process, globalization, and state intervention on world development.

As we already briefly spelt out, in the empirical social policy literature now abound dire warnings about the consequences of failure to balance work and family life. Among the empirical contributions to the subject, we present here the results published by Ludwig (2005) and by An C. B. and Jeon S. H. (2006), which largely influenced our own empirical investigations.

Ludwig could show that the **effects of demographic change** on economic growth are substantial. Initially, and if countries maintain their currently generous public pension systems, the dynamics of capital accumulation dominate the decrease in labor supply caused by demographic change in most regions but in Japan. Therefore, per capita GDP and income (GNP) growth rates are initially above steady levels in these countries. Therefore, says Ludwig, per capita incomes - expressed in terms of today's purchasing power - initially increase as well. However, in around 2010, per capita income growth rates are projected to decrease in the US, the France-Germany-Italy region and other OECD countries. The overall population aging-induced decrease of growth rates is up to 0.5 percentage points. While per capita incomes fall below the constant trend growth path in the France-Germany-Italy region by around 2020, the United States' per capita incomes are projected to remain above (on) the constant trend growth path for the entire projection period (until 2050).

Ludwig says that these substantial international differences reflect the differences in the speed and the extent of demographic change across countries. While the US experiences declining but positive population growth until 2050, population growth rates are negative in Japan and the France-Germany-Italy region. The even stronger decreases in the growth rates of the labor force lead, Ludwig says, to the decreases of per capita outputs and incomes. While the growth rates of labor supply are initially slightly higher than population growth rates for the US, the France-Germany-Italy region and other OECD countries, respectively, labor supply growth is significantly lower than population growth in Japan. The relative decrease in capital accumulation due to dis-saving by the baby-boom cohorts adds to these demographic and labor supply effects. Ludwig concludes that what he calls a fundamental pension reform - a shift from a pure *"pay as you go"* structure, financed by partially funded pensions - is found to *"unambiguously increase capital accumulation and labor supply in the reform countries"* (Ludwig, 2005). An about seven (eleven) percentage points decrease in pension system contribution rates relative to the model's status quo of a "pure PAYG" pension system in the year 2050 leads, Ludwig says, to an increase of per capita income growth rates of up to 0.18 (2) percentage points in the France-Germany-Italy region (in Japan). Consequently, per capita incomes in the France-Germany-Italy region are shown to be substantially higher than without the reform.

Flexible labor markets play, according to Ludwig, also an important role. Until 2050, the increase in age-specific labor supply rates in the "pure PAYG" pension system scenario leads to an increase of aggregate labor supply of about 2

percentage points relative to a scenario with constant age-specific labor supply rates. Without this increase, per capita output levels would be about 3 to 4 percentage points lower. These findings by Ludwig highlight that both capital accumulation on the international capital market as well as flexible labor supply adjustments are important mechanisms to “*master the macroeconomic consequences of demographic change*” (Ludwig, 2005).

An and Jeon, for their part, start from the observation that most empirical studies on the economic consequence of demographic change including Cutler et al. (1990), and Bloom et al. (2000), find little cross-country evidence to support the assertions about the effects of declining demographic growth rates on economic growth. As was already shown by Bloom et al. (2003), the debate involves three positions, such that demographic change (or population growth) restricts, promotes or is independent of economic growth, representing the “Pessimistic,” “Optimistic,” and “Neutralist” theories respectively.

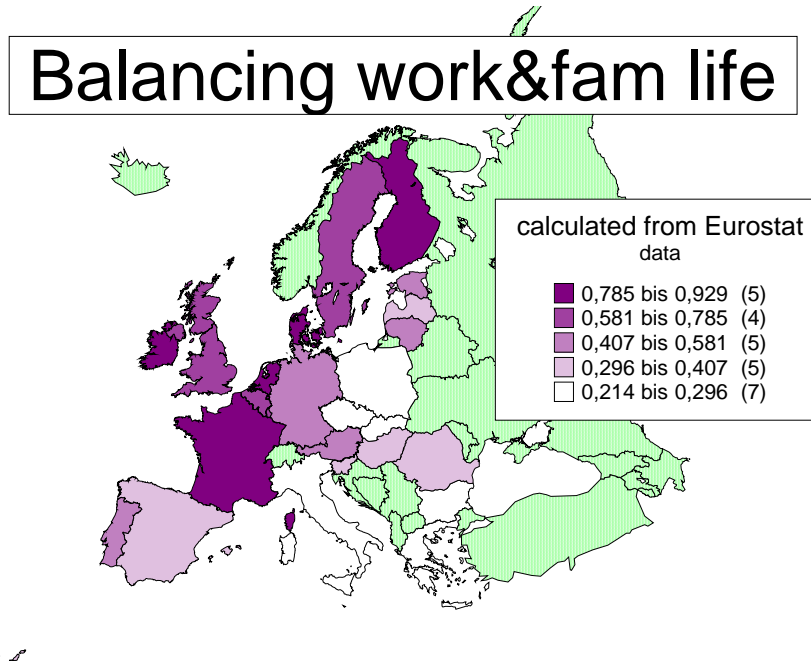
An and Jeon worked with panel data from 25 OECD countries over a 41 year period (1960–2000) to test the **relationship of economic growth to demographic change**. Among the OECD countries, the authors excluded Luxembourg, Hungary, Poland, Slovak Republic, and Czech Republic, as they do not have continuous annual series for most variables. The dependent variables were taken from Penn World Table version 6.1, while the demographic variables were from the World Development Indicators published by World Bank. Average schooling years came from Barro and Lee (2000). Economic growth was measured by log GDP per capita growth rate.

The first estimate presented by the authors is the simple cross-country regression using the pooled data covering 25 countries over the period 1960–2000. The specification for the cross-country regression is based on the dependent variable **PGDPGR**, which is **log GDP per capita growth rate** and the **explanatory variables** **LPGDPINI**, **INVR**, **OPEN**, **EDU**, and **AGESTR**, which are the **logarithm of initial GDP per capita**, **the total investment per GDP**, **import and export per GDP**, **average schooling years of the population aged 15 and over**, and **the age structure** respectively.

The authors used four different variables for the age structure; the ratio of the old population aged 65 and over (**P65R**), old age dependency rate (**OAGDEP**), the ratio of young population aged between 0 and 14 (**P014R**), and the young age dependency rate (**YDEP**). The quadratic specifications in their Spec.2 and Spec.5 show, as An and Jeon correctly stress, a “**significant inverted-U shape relationship**”, implying that the **per capita GDP growth rate initially increases then decreases as either the ratio of the population aged 65 and over or old age dependency ratio rises**.

To further test these hypotheses, we constructed a Eurostat data balancing work and family life indicator, optimizing female employment rates and fertility rates.

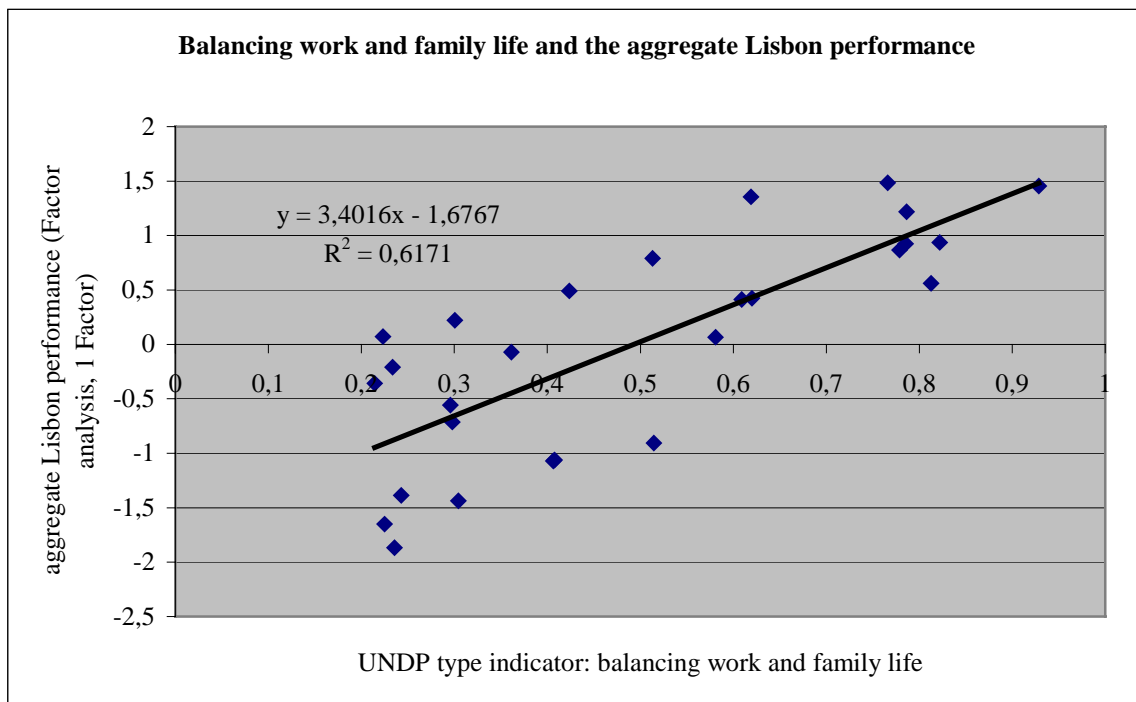
**Map 20: Balancing work and family life in Europe**



Source: our own calculations from Eurostat data. The indicator measures, like a UNDP development indicator, female employment rates and fertility rates and projects them on a scale, ranging from 0 to 1 (highest value = 1.0, lowest value = 0). The new indicator is the average of the two component indicators.

Indeed, balancing work and family life is very clearly related to overall Lisbon performance:

**Graph 8: the causally interpreted relationship between balancing work and family life and aggregate Lisbon performance (based on a principal component analysis of the 13 structural Lisbon indicators with complete data)**

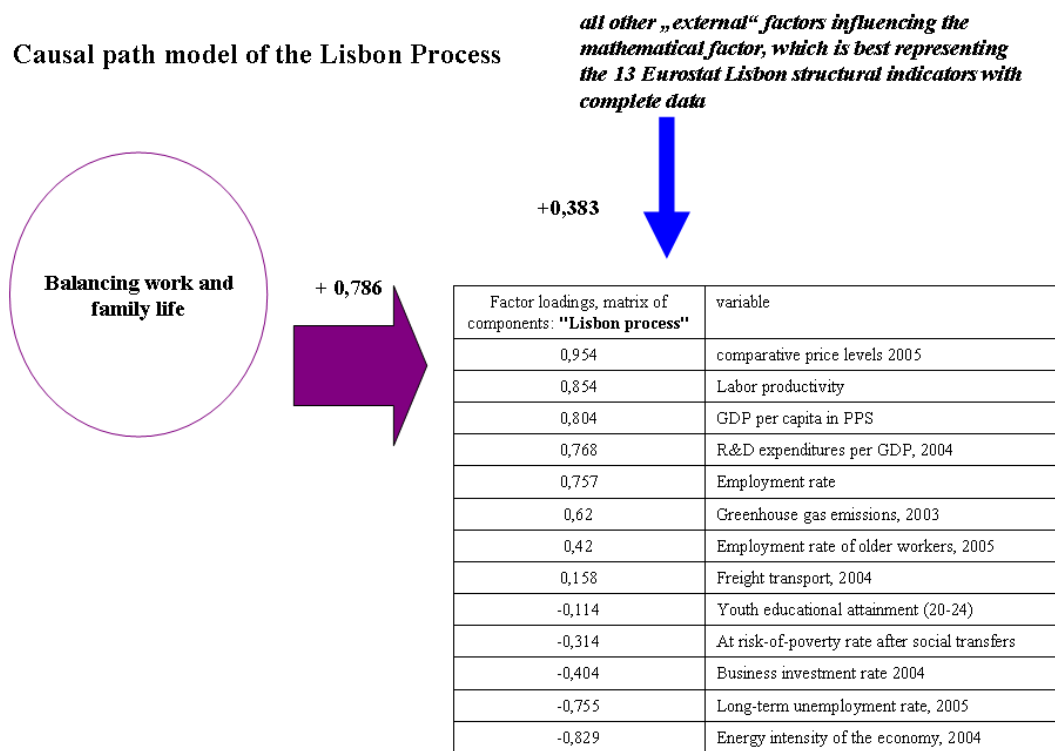


Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

**Balancing work and family life explains 61.71% of the Lisbon performance of the EU-member countries.** The causal path diagram is the following:



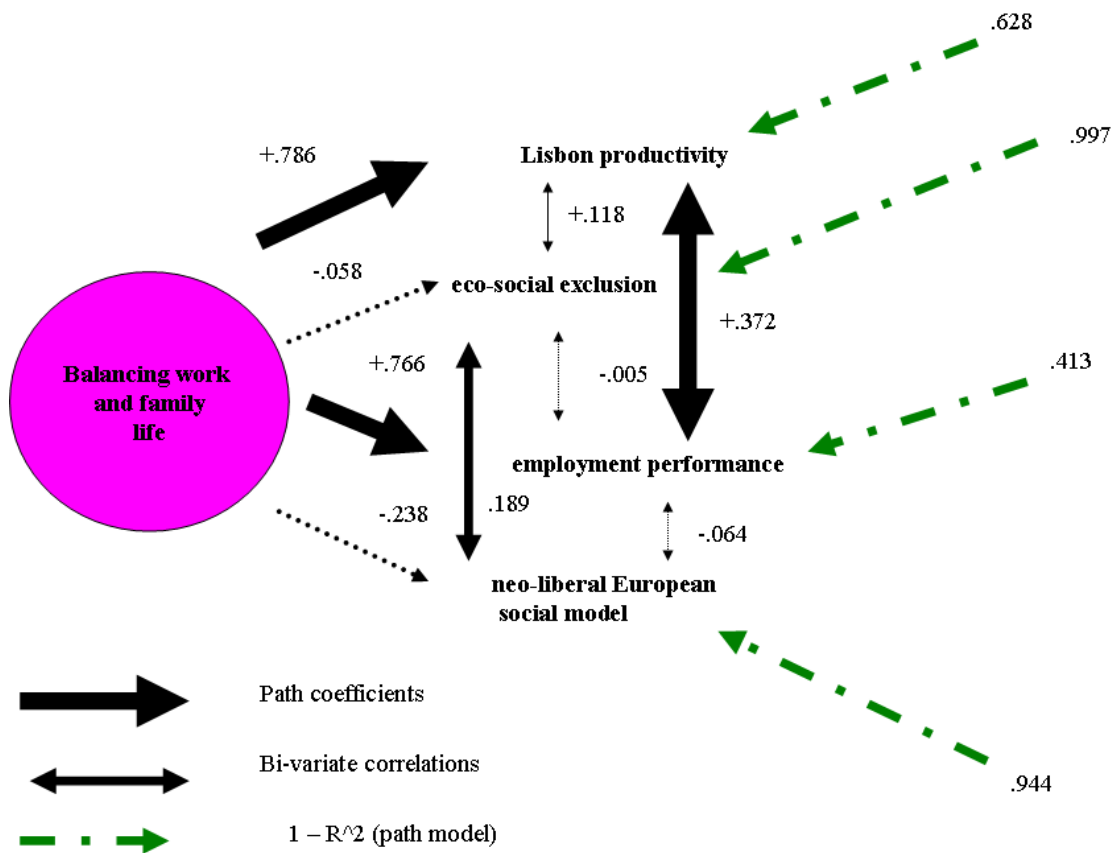
**Diagram 2: A causal path model of the Lisbon process – 1 Lisbon Process factor, best representing the correlation matrix between the 13 structural Lisbon indicators with complete data**



Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

Our causal path diagram for the four-factor Lisbon process model again supports our assertion about the necessity to come to terms with the problem of balancing work and family life in Europe:

**Diagram 3: A causal path model of balancing work and family life and the Lisbon process, represented by four oblique factors, best representing the correlation matrix between the 13 Lisbon indicators with complete data**



Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

In the following Chapter, we will now try to test our general approach with an analysis of economic growth in Europe's regions.

## 5. Economic growth and the European regions

Our general approach receives a qualified support by our study about economic growth in the European regions. The general argument will be that neo-classical economic theory is of course right in claiming that **significant reserves of labor are attracting economic growth**, and that population growth (and inward migration!) matters, and that research and development expenditures are of importance in determining economic growth rates. Of course, there is a process of convergence taking place from the poor to the richer regions. Neoclassical economic theory is also vindicated by the fact that there is a **"saturation effect"** of industrialization.

However, our analysis also shows the relevance of the following phenomena, which rather belong to the agenda of a "social Europe", as explained in the annex to this paper (declaration of the ten European ministers for social affairs):

- **keeping the young unemployed does not pay off in terms of growth**
- **keeping the old in unemployment or in the labor reserve, does not pay off in terms of growth**

So, let us rejoice at the fact that finally, after 5 decades of European integration, there is now a real convergence taking place in Europe. While the *Italian mezzogiorno* lagged behind the rest of Europe for decades, and thus marred the performance balance sheet of EU-regional policy from the late 1950s to the mid 1980s, the side of the leaf now seems to have finally turned.

Thus, poorer regions today (i.e. in the decade after 1995) grew much faster than the rich ones. In addition, the Lisbon agenda of increasing research and development, and of making Europe's regions prepared for the Lisbon agenda, worked out very well in terms of economic growth. The discrimination mechanisms and blockades against employment of the young and elderly, which manifest themselves in high unemployment rates of the young and of the elderly, are today an important and absolute impediment against regional economic growth.

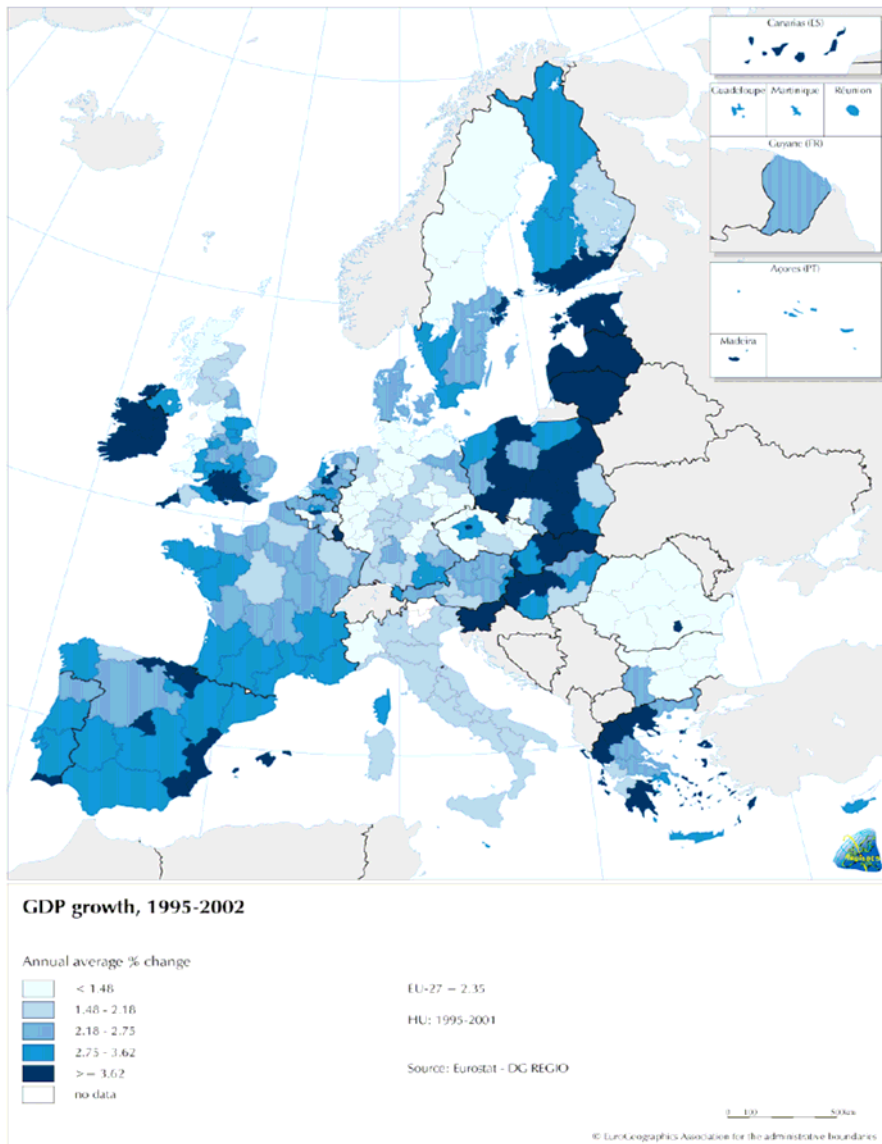
Thanks to the data gathering efforts of the European Commission, world scholarship has now been offered this unique opportunity to study the process of income and social convergence in Europe on an empirical basis. These freely available data (European Commission, 2007) now contain an EXCEL file with the following regional data:

- % population above age 65 +
- Ages 55-64 unemployment rate
- Economic Lisbon Indicators (average of re-scaled values relative to the EU27 mean), 2004-2005
- economic growth (in real terms, 1995 – 2004)
- employment in Agriculture
- employment in Industry
- Employment rate (%), 2005
- Female 15-64 unemployment rate
- GDP/head in PPS (Index, EU27=100), 2004
- Long-term unemployment (% of total unemployment)
- Low educational attainment rate
- Population density (inh./km<sup>2</sup>), 2004
- Population growth (average annual % change), 1995-2004
- R&D expenditure (% of GDP), 2004
- Total population (1000 inhabitants), 2004
- Unemployment rate (%), 2005
- Young (15-24) unemployment rate

For reasons of simplicity, we decided to run an **explanatory SPSS XIV multiple regression** of the economic growth rate on all the other variables as explanatory variables. Which regions really benefited from economic growth, and which regions were the latecomers? What are the main results?

In general, terms, economic growth shifted from Europe's center regions to the geographical European periphery. In the first part of the first decade of the 21<sup>st</sup> Century, **several French regions became the real "sick man on the Bosphorus"**, while the beginning B-phase of the long economic cycle (see below) certainly was an additional driving force to "outsource" economic growth into the periphery and the semi-periphery:

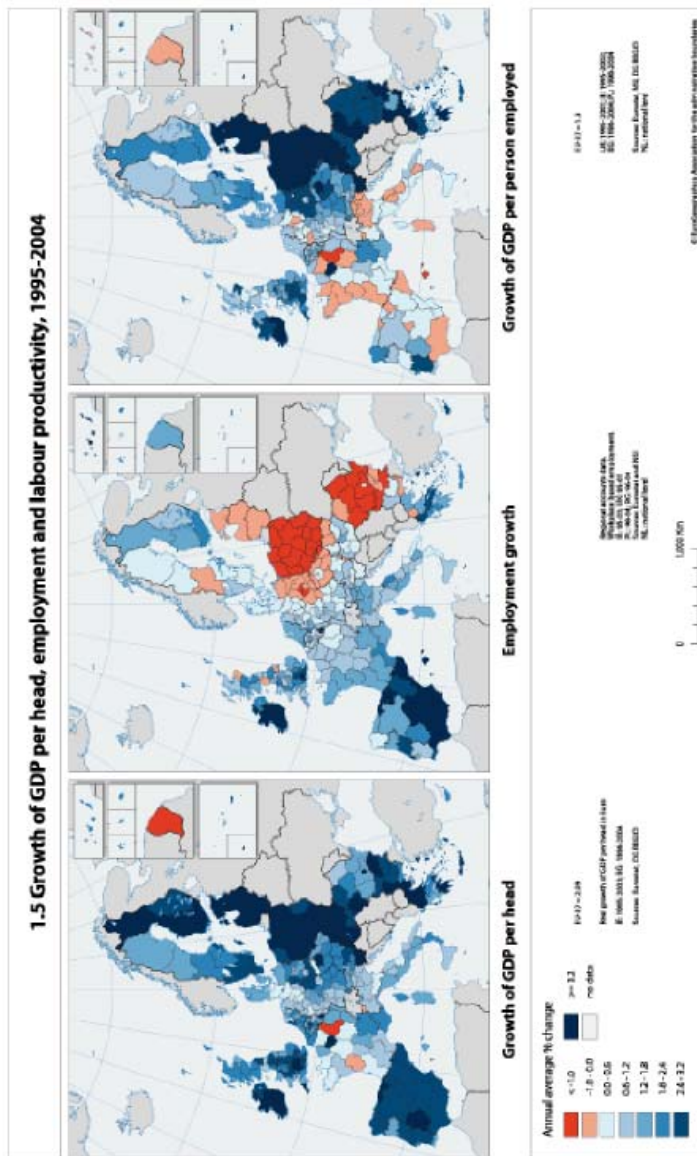
**Map 21a: economic growth in Europe's regions – 1995 - 2002**



Source: European Commission (2007)

The picture for the period 1995 – 2004 is even more dramatic:

Map 21b: economic growth in Europe's regions – 1995 - 2004

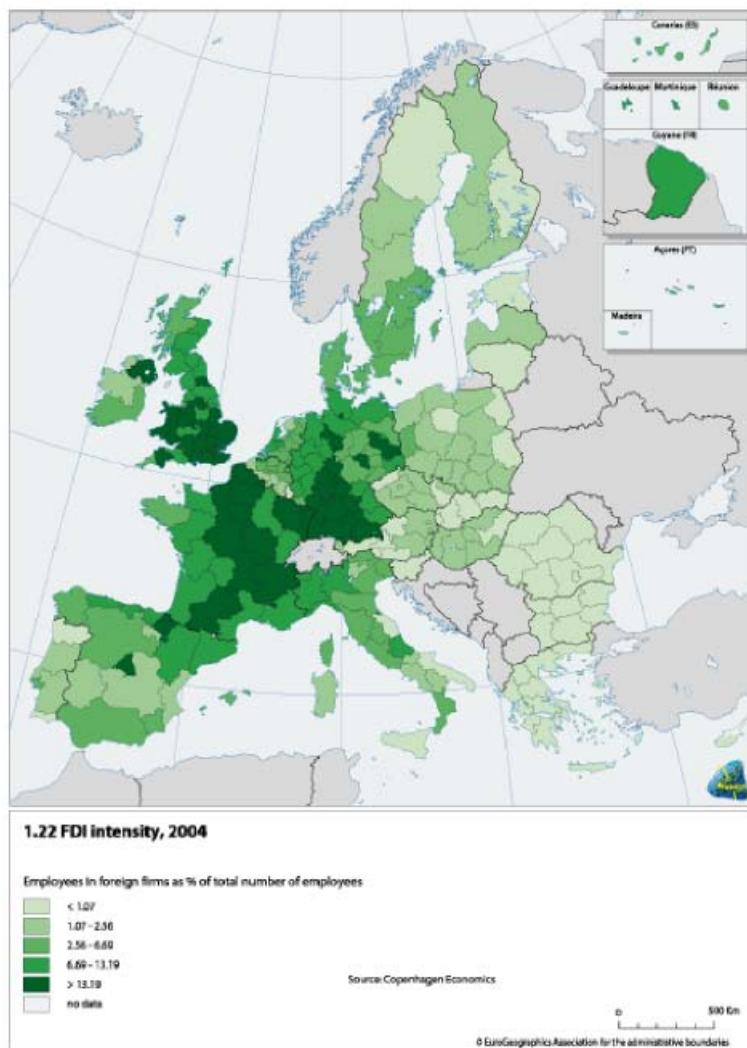


Source: European Commission (2007)

However, the rich and powerful transnational corporations remain to be “anchored” mainly in the center, with very little evidence suggesting that a real shift in their regional presence is under way. This empirical

result is perhaps very surprising, and will be discussed at length in the next Chapter, dedicated to the study of the growth and development determinants on a global scale. **It is suggested that the multinational corporations, in reality, are interested in the high-wage and high comparative-price level environments of Western Europe, with a few exceptions to be reported from Northern Ireland, Northern England, Wales and East Germany, where the MNCs seemed to have cashed in on state and regional investment money:**

**Map 21c: transnational corporations investment in Europe**



Source: European Commission (2007)

Our final regional growth equation shows that there is indeed a process of regional convergence taking place in Europe. **Significant positive predictors of the economic growth rate** were:

- Economic Lisbon Indicators (average of re-scaled values relative to the EU27 mean), 2004-2005
- Female 15-64 unemployment rate
- Long-term unemployment (% of total unemployment)
- Population growth (average annual % change), 1995-2004
- R&D expenditure (% of GDP), 2004
- Total population (1000 inhabitants), 2004
- Unemployment rate (%), 2005

**Significant negative predictors** were:

- Young (15-24) unemployment rate
- GDP/head in PPS (Index, EU27=100), 2004
- Ages 55-64 unemployment rate
- employment in Industry
- Employment rate (%), 2005
- % population above age 65 +

Large **reserves of labor**, like existing high female unemployment, a high population reserve, and a high population growth rate, all worked in favor of economic growth. In the same fashion, we can say that already saturated labor markets in terms of high employment in industry, and a high employment rate, all worked against a high economic growth rate. Interestingly enough, however, there is a fourth phenomenon at work, and which also intervenes in the regional development equation – the **discrimination mechanisms and blockades** against employment of the **young** and **elderly**, which manifest themselves in high unemployment rates of the young and of the elderly (and discrimination against immigrants) are today an important **impediment** against regional economic growth. Therefore, we can say that the **following four factors explain ¾ of regional economic growth in Europe**

- **regional convergence** -> poorer regions grow faster
- **research and development**, fulfilling the Lisbon agenda
- **regions with untapped labor reserves** grow faster than the others
- **discrimination in employment against the young and the elderly work against growth**

The empirical results are:



**Table 8a: the determinants of economic growth in Europe, 1995 – 2004 at a regional level**

	Beta	t	error p
<b>Female 15-64 unemployment rate</b>	0,321	<b>3,111</b>	0,002
<b>Economic Lisbon Indicators (average of re-scaled values relative to the EU27 mean), 2004- 2005</b>	0,305	<b>6,092</b>	0
<b>Long-term unemployment (% of total unemployment)</b>	0,182	<b>2,054</b>	0,041
<b>R&amp;D expenditure (% of GDP), 2004</b>	0,163	<b>3,489</b>	0,001
<b>Unemployment rate (%), 2005</b>	0,087	<b>1,783</b>	0,075
<b>Population growth (average annual % change), 1995-2004</b>	0,081	<b>2,813</b>	0,005
<b>Total population (1000 inhabitants), 2004</b>	5,00E-02	<b>1,874</b>	0,062
<i>Population density (inh./km<sup>2</sup>), 2004</i>	<i>0,035</i>	<i>1,353</i>	<i>0,177</i>
<i>Low educational attainment rate</i>	<i>-0,049</i>	<i>-1,036</i>	<i>0,301</i>
employment Agriculture	-0,173	-5,295	0
<b>Young (15-24) unemployment rate</b>	-0,275	<b>-4,803</b>	0
<b>GDP/head in PPS (Index, EU27=100), 2004</b>	-0,289	<b>-5,143</b>	0
<b>Ages 55-64 unemployment rate</b>	-0,366	<b>-4,493</b>	0
<b>employment Industry</b>	-0,388	<b>-8,905</b>	0
<b>Employment rate (%), 2005</b>	-1,196	<b>-6,867</b>	0
<b>% population above age 65 +</b>	-1,504	<b>-8,56</b>	0
Constant		6,683	0

Adj. R<sup>2</sup> = 76.9%, df. = 362; F = 76.512, error probability = .000

Source: our own calculations from Info Regio sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

In a way, our results are also confirmed by the recent study on behalf of the Commission, written by a team of the Copenhagen Economics Institute under the leadership of Magnus Blomström:

**Table 8b: the determinants of foreign direct investment intensity in Europe at a regional level, according to Copenhagen Economics (2006)**

**Table 3.1: The effect of national characteristics on attracting FDI**

Explanatory variables	Definition	EU27 model 1	EU27 model 2
National market size	National GDP in latest available year (source: Eurostat)	+	+
Level of development	National GDP pr capita in latest available year (source: Eurostat)	+	+
Differences between Eastern Europe and the rest of EU27	Dummy variable: take the value one if a country is placed in Eastern Europe and zero otherwise		+
Specific effect for Eastern Europe countries of national market size	National GDP if country is placed in Eastern Europe, zero otherwise		-
Specific effect for Eastern European countries of the level of development	National GDP pr capita if country is placed in Eastern Europe, zero otherwise		Ins-
Corporate tax	The national standard rate of taxation on corporate income (source: European Commission)	-	-
Proficiency in English	Percentage of population that speak English (source: Eurobarometer)	+	+
Unemployment rate	National unemployment rate measured as number of unemployed as percentage of total labour force (source: Eurostat)	-	+
Countries with related languages	Dummy variable: takes the value 1 if language of host and home country are the same for some part of the countries; zero otherwise. See appendix B for further information	+	+

Source: Copenhagen Economics

Note: The table represents the sign and significance of estimated coefficients. + (green) means positive and significant; ins- (light green) stands for positive and insignificant; ins- (light red) for negative and insignificant, and - (red) for negative and significant

For detailed estimation information see Appendix C Stata output 1. The dependent variable is the host region of FDI

Source: Copenhagen Economics in cooperation with Professor Magnus Blomström (2006). The reported effects are the results of multiple regression analyses, predicting FDI intensity by the explanatory variables mentioned in the Table. The units of analysis are European regions. Only significant results are reported

## 6. Balancing work and family life and global development – the theory

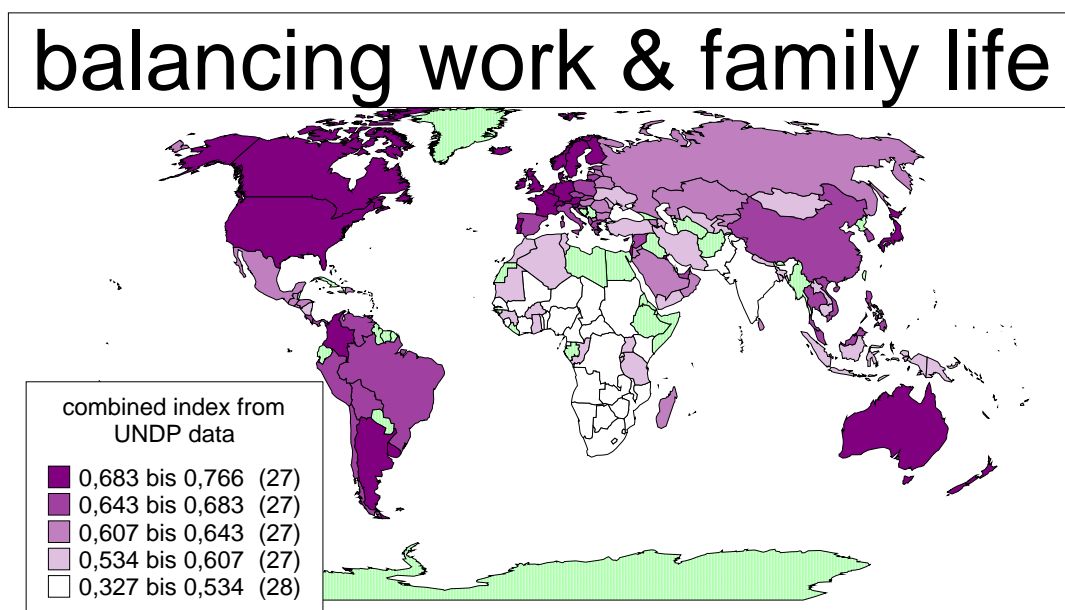
In this section of our paper, we will try to explain theories, which link growth and development processes on a global level to explanatory variables. We try to confront traditional theories of development, explaining growth and development indicators across the globe, with the new approach, which emphasizes the **demographic perspective** and its influence on socio-economic development, and which we explained in Chapter 4.

Our world level balancing work and family life index is constructed in a way, quite similar to the UNDP Human Development Index: it is calculated by a UNDP/Sen-type of index, built after the model of the human development index, composed of the sub-indices, ranging from 0 (worst value) to 1.0 (best value) for:

- Female economic activity (ages 15 and older), 2004;
- Probability at birth of surviving to age 65 female, 2004;
- TFR04 (total fertility rate 2004);
- under-five mortality rate 2004.

All the data sources are based on UNDP Human Development Report Office, online-statistics, 2006.

The geographical distribution of the performances according to this index is the following:

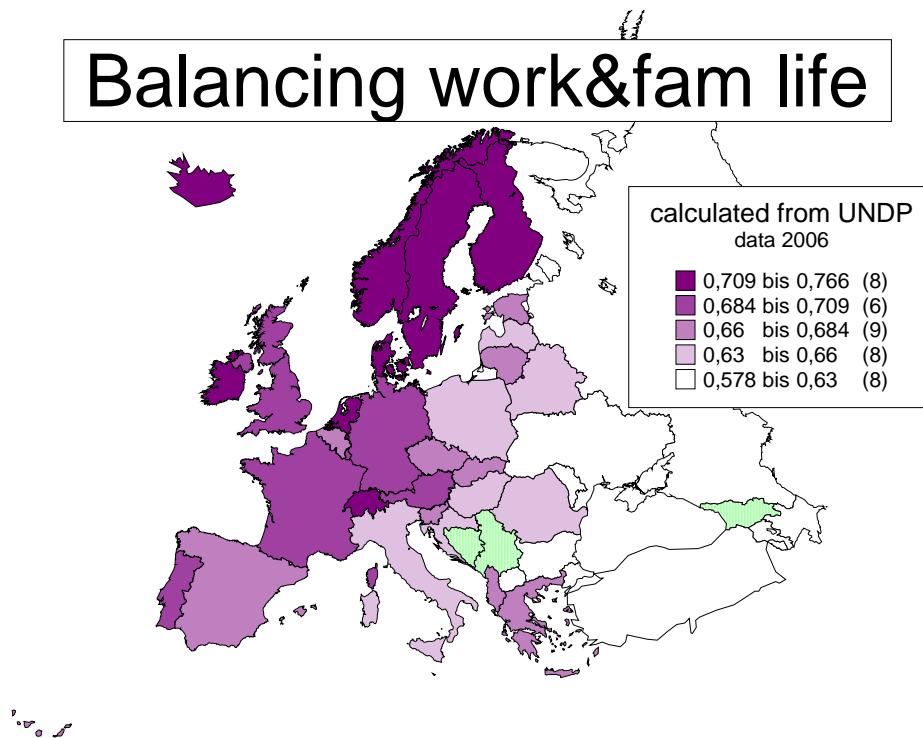
**Map 22a: Balancing work and family life on a global level**

Source: our own calculations from UNDP data. To control for the effects of high female employment rates in very agricultural societies, the balancing work and family life index on a global scale does not only include female employment rates and fertility rates (as in the case of the EU-27, above), but combines in the style of the UNDP Human Development Index the following variables of *qualitative population growth*:

- Female economic activity (ages 15 and older), 2004;
- Probability at birth of surviving to age 65 female, 2004;
- TFR04 (total fertility rate 2004);
- under-five mortality rate 2004 (high numerical values on this indicator are associated with a bad development performance)

The countries, represented in our map in dark color, best performed on this index, while the countries in white color are the worst performers.

Map 22b: Balancing work and family life in Europe



Source: our own calculations from UNDP data. See above.

We will compare the effects of balancing work and family life with more traditional approaches of cross-national "growth and development accounting". For us, development performance will be determined by the following factors:

**THE DEVELOPMENT LEVEL AND ITS NON-LINEAR TRADE-OFFS WITH  
DEVELOPMENT PERFORMANCE**

**THE DIMENSION OF GLOBALIZATION**

**THE DIMENSION OF STATE SECTOR INTERVENTION IN THE ECONOMY**

**THE DIMENSION OF BALANCING WORK AND FAMILY LIFE**

The term “**creative destruction**”, introduced by **Schumpeter**, describes the process of transformation that accompanies radical innovation<sup>11</sup>. Innovative entry by entrepreneurs is the force that sustains long-term economic growth, even as it destroys the value of established companies that enjoyed some degree of monopoly power. We, however, see the process, in the light of our empirical evidence, somehow in reverse, and prefer to speak about the “**destructive creation**”, which was brought about by the last two decades after the downfall of Communism in East Central Europe on a global scale.

On a global economy level, **neo-liberal authors** like Barro; Barro and associates; Crafts; Dadush and Brahmabatt; Dollar and Kraay and Weede generally tend to think that with the establishment of “**economic freedom**” positive patterns of development will prevail in practically all countries of the globe, irrespective of their development level. Especially the painful experience of the neo-liberal transformation process in Eastern Europe after the end of Communism is however a warning sign to decision-makers and scholars alike that “economic freedom” plus “world economic openness” alone cannot be for themselves the only necessary, let alone the sufficient condition for a successful capitalist development [for such a perspective, see, above all, Kornai (2005); furthermore Amsden A. H. et al. (1994), Angresano J. (1994), Barta V. and Richter S. (1996), Bauer P. (1998), Bhaduri A. and Laski K. (1996), Borocz J. (1996), Borocz J. (1999), Borocz J. and Kovacz M. (Eds.) (2001), Borocz J. and Sarkar M. (2005), Borocz J. and Smith D. A. (1995), Chase-Dunn Ch. K.

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<sup>11</sup> [http://en.wikipedia.org/wiki/Joseph\\_Schumpeter](http://en.wikipedia.org/wiki/Joseph_Schumpeter)

(1992b), Chase-Dunn Ch. K. (Ed.), Cornia G. A. (Ed.)(1993), Cornia G. A. (Ed.)(1994), Cornia G. A. and Panizza R. (Eds.)(2000), Deacon B. (1992a), Deacon B. (1992b), Frank A. G. (1990), Gierus J. (1998), Goldfrank W. L. (1982), Havlik P. (1996), Hettne B. (1994), Hickmann Th. (1994), Hofbauer H and Komlosy A. (1994), Hofbauer H and Komlosy A. (2000), Holmes L. (1999), Holtbruecke D. (1996), Huber P. (1999), Huber P. (1999), Huebner K. (1994), Inotai A. (2001a), Inotai A. (2001b), Inotai A. and Hettne B. (1999), Inotai A. and Hettne B. (2000), Inotai A. and Hettne B. (2001), Inotai A. and Sander H. (2002), Juchler J. (1986), Juchler J. (1992a), Juchler J. (1992b), Juchler J. (1992c), Juchler J. (1992d), Juchler J. (1994), Juchler J. (1995), Juchler J. (2001), Juchler J. (2003), Juchler J. (2004), Linnemann H. and Sarma A. (1991), Morawetz R. (1991), Nolte H. H. (1989), Orenstein M. A. (1996), Orłowski L. T. (1996), Spiesberger M. (1998), Srubar I. (1994), Tausch A. (1991), United Nations Development Programme, Regional Bureau for Europe and the CIS (1999)]. Thus, selective intervention by the state seems to be the development lesson of East and South-East Asia as well as Scandinavia during the last decades.

A recent very thorough liberal globalist flagship synopsis of the quantitative peace- and development research evidence over the last decades by de Soysa and Gleditsch (2002) maintained by contrast that globalization, especially openness to trade and foreign direct investment, lead towards

- a) increased democracy
- b) development
- c) less inequality
- d) a better environment
- e) peace.

Analyzing world social, gender, and economic development on the basis of the main 6 predictors, compatible with the majority of the more than 240 published studies on the cross-national determinants of the "human condition" around the globe, we present the results of 6 equations about development performance from over 170 countries, which might in a way challenge the empirical consensus, presented by de Soysa and Gleditsch.

De Soysa and Gleditsch centered their analysis about globalization and the human condition on the indicator "*world economic openness*", which in a way is biased. Conventional wisdom of the "**Washington Consensus**" has it that it is always the periphery or semi-periphery country that got it all wrong during a crisis, like in East Asia, Russia or recently in Turkey and that a good combination of economic freedom, privatization, tight monetary policies and above all private foreign direct investment will "fix" it, once the forces of the market are properly at work (see also Raffer in Tausch, 2003). Literature, supporting the "**Washington Consensus**" now abounds, **highlighting pro-market policies and world economic openness as strategies for social and economic**

**well-being**, social justice and economic growth, and a peaceful world [Barro R. J. (1991), Barro R. J. (1994), Barro R. J. (1996a), Barro R. J. (1996b), Barro R. J. (2000), Barro R. J. (2001), Barro R. J. (2003), Barro R. J. (2004a), Barro R. J. (2004b), Barro R. J. and Grilli V. (1994), Barro R. J. and McCleary R. M. (2003a), Barro R. J. and McCleary R. M. (2003b), Barro R. J. and McCleary R. M. (2004), Barro R. J. and Sala-i-Martin X. (1991), Barro R. J. and Sala-i-Martin X. (1995/98), Barro, R. J. and Sala-i-Martin X. (1992), Becker G. (1993), Betcherman G. (2002), Bhagwati J.N. (1989), Carroll E. (2000), Dollar D. (2005), Dollar D. and Kraay A. (2000), Dollar D. and Kraay A. (2001a), Fukuyama F. (1991), Gholami R., Lee S. Y. T and Heshmati A. (2003), Haouas I; Yagoubi, M; and Heshmati A (2002a), Haouas I; Yagoubi, M; and Heshmati, A. (2002b), Harss C. and Maier K. (1998) Heshmati A. (2003a), Heshmati A. (2003b), Heshmati A. and Addison T. (2003), Kearny A.T. (2001), Klein M. et al. (2001), Moore M. (2003), Nederveen-Pieterse J. (1997), Olson M. (1982), Olson M. (1986), Olson M. (1987), Weede E. (1990), Weede E. (1992), Weede E. (1993a), Weede E. (1993b), Weede E. (1996a), Weede E. (1996b), Weede E. (1997), Weede E. (1999a), Weede E. (2002) Weede E. (2003), Weede E. (2004a), Weede E. (2004b), Weede E. (2004c), Weede E. (2004d), Weede E. (2005), Weede E. and Muller E. N. (1998)].

But ever since Kurt Rothschild's famous article in the *Economic Journal* in 1944, it is known that the share of imports – or also of exports - per GDP is a function of the size of nations. Per se, small and open economies tend towards social compromise, and are in fact the subject of an important, today mostly neglected debate about “**small states in the International System**”. To this one must add that corporatism, high union density, social coherence, and other characteristics of these small, world economically open democracies interact [Katzenstein P. (1974), Rothschild K. W. (1963), Rothschild K. W. (1966), Rothschild K. W. (1984), Rothschild K. W. (1985), Wallerstein M. (1989)]. Such characteristics would be assumed to be typical for countries like Austria, the Irish Republic, the Netherlands, and Switzerland, but certainly not all neo-liberally oriented countries of the world.

Even with adjustments, the **openness-indicator** is heavily dependent upon the **size of a nation**. It emerges from the Dollar/Kraay data set that the highest openness over the last decade was to be found in Estonia, Norway and Saint Lucia. From their data set it also emerges that among the 30 most open economies of the entire world economy were small territory and country cases like Hong Kong, Luxembourg, Saint Lucia, Slovenia and Switzerland. Also we find the two nations Communist Bulgaria before the transformation and Belarus under the Lukashenka regime. The heavily social democratic “Consociational Democracies” Austria, Denmark, the Netherlands and Sweden in the 1980s and 1990s, and social democratic Norway, are also all among this subgroup. If anything, thus the Dollar and Kraay results demonstrate either (what Kraay certainly did not intend) that Communism, Bulgarian (1964) or Lukashenka-style is **the** model of world economic openness, **or** that there is some truth in



Professor Peter Katzenstein's theory about small states, the need for social compromise and social partnership in such states, and redistribution and development in such nations and their ascent in the international system<sup>12</sup>.

For neo-liberal theories of development, **foreign investments** are also a solid **pre-condition of growth**. A **reliance on foreign savings** would **not necessarily exclude rapid economic growth and income redistribution** in a world of liberalized financial markets (for an overview of these debates, see Kendall P., 2000; for a dependency-theory oriented counter-position Ghose A. K., 2005). Following the neo-liberal literature on the subject, there would be absolutely no need for **"financial repression"**. Shaw (1973) and McKinnon (1973) believed that "financial repression" [i.e. what neo-liberals term as such, for example capital convertibility controls etc.] had retarded the growth of many less developed countries (LDCs). Interest rate policy, which resulted in the imposition of below market rates, created a disincentive to save. The results, they say, are a shortage of investible resources and growth retardation. Shaw and McKinnon are thus in favor of interest rate liberalization. Roubini and Sala-i-Martin (1992) as well as Barro (1991) maintained that "financial repression" contributed to slow growth in Latin America during 1960 to 1985. The question whether or not foreign savings "crow out" domestic savings might be hotly contested (see Ghose A. K., 2005), but for the neo-liberals it is certain that free flows of global savings and investments contribute to global and national economic and social well-being. Since capital is abundant in the centers and scarce in the periphery, the return on investment is much higher in the periphery than in the center, and capital should flow from the centers to the peripheries. In addition, neo-liberal authors, starting with Michael Lipton, have attacked **"exchange rate overvaluation"** in the developing countries, thus diametrically **contradicting** the approach by Yotopoulos and other adherents of theories of **"unequal exchange"**, presented above.

Price levels have risen faster than world price levels for the rich countries while the reverse has been the case for the poor countries. **Evidence over several**

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<sup>12</sup> see especially: "Corporatism and Change: Austria, Switzerland and the Politics of Industry" (Ithaca: Cornell University Press, 1984; paperback edition 1987; Spanish translation 1987). In that context, it is worthwhile to analyze the top 30 "globalizers" according to Dollar and Kraay. We showed in a recent book (Tausch and Ghymers, 2007) the results of sorting their original data with the EXCEL "sort" routine. It seems that except for the cases of communist Bulgaria in the 1980s and postcommunist Belarus, and the then Crown Colony Hong Kong, all other "top globalizers" support rather Katzenstein's small state theory and not Dollar and Kraay's own interpretation. The top globalizers according to Kraay and associates in alphabetical order are (at given years in their development history): Austria, Bulgaria, Belarus, Switzerland, Denmark, Estonia, Hong Kong, Ireland, Saint Lucia, Luxemburg, Netherlands, Norway, Slovenia, Sweden.

The top anti-globalizers according to Kraay and associates are: Argentina, Burundi, Bangladesh, Brazil, China, Ethiopia, India, South Korea, Mozambique, Nepal, Pakistan, and Rwanda at given years in their development history.

**decades thus fails to sustain, Rao says, the expectation of growing price convergence from growing globalization. However, neo-liberals would argue that the leveling of world price levels is beneficial for world system and country economic growth rates.**

By contrast, the **“Keynesian”** legacy should not be under-estimated. “Keynesians” would expect **positive trade-offs** to hold between **“government intervention” and the human condition**, and not the other way around. Major Keynesian analyses include nowadays Baran P. A. (1957), Corden W. M. (1987), Cornwall J. and Cornwall W. (2001), Galbraith J. K. (1995), Kalecki M. (1972), Kalecki M. (1979), Modigliani F. (1987), Schmidt M. G. (1983), Schmidt M. G. (1986), Schwartz H. (2000), Stack St and Zimmerman D. (1982), Stack St. (1978), Stack St. (1980), Therborn G. (1985), Therborn G. (1986), and Vickrey W. (1996). Apart from that, current literature, formulating counter-positions to the neo-liberal dogma, suggests that the state is not or not always a “villain”, with only some neo-liberally inspired studies postulating a general negative trade-off between age of democracy, state sector strength and economic performance, most notably in the works of the German sociologist Erich Weede [for a survey of the debate, see also Almond G. (1991), Apter D. (1987), Axtmann R (2004), Balibar E. (1991), Barnes S. H. et al. (1979), Bollen K. A. and Jackman R. W. (1985), Dixon W. J. (1994), Esping - Andersen G. (1985), Gwartney J. et al. (1998), Jackman R.W. (1975), Korpi W. (1985), Korpi W. (1996), Korpi W. and Palme J. (2000), Kothari R. (1986), Lipset S.M. (1994), London B., Bradshaw Y. and Kim Y. J. (1993), Midgal J. S. (2001), Moeller St. et al. (2003), Weede E. (1986a), Weede E. (1986b), and Weede E. (1989)]. **“Industrial policy”**, and **“active adoption to the changing structures of the international division of labor”**, and not pure economic freedom seems to be their catchword [Chan St. (1989), Chan St. and Clark C. (1992), Chow P. C. Y. (2002), Cox R.W. (1994), Gereffi G. and Miguel Korzeniewicz M. (1994), Haddad M. (2002), Kiljunen K. (1987), Kiljunen K. (1988), Kiljunen K. (1992), Kiljunen K. (Ed.)(1989), Kiljunen K. (Ed.)(1990), Kiljunen K. and Avakov R. M. (Eds.)(1991), Landesmann M. (1996), Landesmann M. and Burgstaller J. (1997), Landesmann M. and Rosati D. (Eds.)(2004), Landesmann M. and Székely I. (Eds.)(1995) Landesmann M. et al. (Eds.)(2003), Liemt G. van (1992), McCallum C. (1999), Piore M. (1990), Raffer K. (1996), Tausch A. (2002b), Tausch A. (2003), and Tausch A. (2005a)].

But while the Keynesians generally did not pay much importance to “world market position”, other schools of social science did. The in a way **neo-Schumpeterian dependency theory** from the world periphery and semi-periphery never accepted the hypotheses of the smoothness of the march of modernization in the poorer regions of the world economy. The Chilean social scientist **Oswaldo Sunkel**, whose work is closely connected with the United Nations Economic Commission for Latin America (CEPAL/ECLA) first proposed in his *‘Transnational capitalism and national disintegration (in Latin America)’* the still provocative thought that transnational investment and integration might go

hand in hand, under certain conditions, with an increasing relative social polarization between rich and poor in the host countries of the evolving transnational system and on the international level. At that time, Sunkel said:

*'The interpretation so far advanced suggests that the international capitalist system contains an internationalized nucleus of activities, regions and social groups of varying degrees of importance in each country. These sectors share a common culture and 'way of life', which expresses itself through the same books, texts, films, television programs, similar fashions, similar groups of organization of family and social life, similar style of decoration of homes, similar orientations to housing, building, furniture and urban design. Despite linguistic barriers, these sectors have a far greater capacity for communication among themselves than is possible between integrated and marginal persons of the same country who speak the same language (...) Modernization implies the gradual replacement of the traditional productive structure by another of much higher capital intensiveness (...) On the one hand, the process of modernization incorporates into the new structures the individuals and groups that are apt to fit into the kind of rationality that prevails there; on the other hand, it expels the individuals and groups that have no place in the new productive structure or who lack the capacity to become adapted to it. It is important to emphasize that this process does not only prevent or limit the formation of a national entrepreneurial class, as indicated by Furtado, but also of a national middle class (...) and even a national working class. The advancement of modernization introduces, so to speak, a wedge along the area dividing the integrated from the segregated segments (...) In this process, some national entrepreneurs are incorporated as executives into the new enterprises or those absorbed by the TRANCO (i.e. transnational corporations), and others are marginalized; some professionals, forming part of the technical staff and the segment of employees are incorporated, and the rest are marginalized; part of the qualified labor supply and those that are considered fit to be upgraded are incorporated, while the remainder are marginalized.*

*The effects of the disintegration of each social class has important consequences for social mobility. The marginalized entrepreneur will probably add to the ranks of small or artisanal manufacture, or will abandon independent activity and become a middle class employee. The marginalized sectors of the middle class will probably form a group of frustrated lower middle class people trying to maintain middle class appearance without much possibility of upward mobility and terrorized by the danger of proletarianization. The marginalized workers will surely add to the ranks of absolute marginality, where, as in the lower middle class, growing pools of resentment and frustration of considerable demographic dimension will accumulate (...) Finally, it is very probable that an international mobility will correspond to the internal mobility, particularly between the internationalized sectors (...) The process of social disintegration which has been outlined here probably also affects the social institutions which provide the bases of the different social groups and through which they express themselves.*

*Similar tendencies to the ones described for the global society are, therefore, probably also to be found within the state, church, armed forces, political parties with a relatively wide popular base, the universities etc.'* (Sunkel, 1972: 18-42).

**Dependency authors** generally explain backwardness and stagnation by the ever-growing dependent insertion of these countries into the world economy. Starting with the writings of Perroux, Prebisch, and Rothschild in the 1930s, their leading spokespersons all would stress the unequal and socially imbalanced nature of development in regions that are highly dependent on investment from the highly developed countries. Short-term spurts of growth notwithstanding, long-term growth will be imbalanced and unequal, and will tend towards high negative current account balances. In the empirical studies by the present author on Eastern Europe after the transformation, exactly such a perspective was offered, thus contradicting the Washington-Consensus oriented reconstruction theories (Kornai, 2005; Tausch and Herrmann, 2001).

Dependency and world system theory generally hold that poverty and backwardness in poor countries – like in Latin America, Eastern Europe and the Muslim world - are caused by the peripheral position that these nations always had in the **international division of labor**. **Ever since the capitalist world system evolved, there is, the argument goes, a stark distinction between the nations of the center and the nations of the periphery**. Fernando Henrique Cardoso summarized the quantifiable essence of dependency theories as follows:

- there is a financial and technological penetration by the developed capitalist centers of the countries of the periphery and semi-periphery
- this produces an unbalanced economic structure both within the peripheral societies and between them and the centers
- this leads to limitations on self-sustained growth in the periphery
- this favors the appearance of specific patterns of class relations
- these require modifications in the role of the state to guarantee both the functioning of the economy and the political articulation of a society, which contains, within itself, foci of inarticulateness and structural imbalance (Cardoso, 1979)

Already the **classics of political economy** provided a framework of quantifiable dependency theory. Let us recall that for Marx and his labor theory of value, total product consists of constant capital,  $c$ , variable capital (labor),  $v$ , and surplus,  $s$ . Rate of surplus value,  $s'$ , the organic composition of capital,  $q$ , and the profit rate,  $p$ , are hence:

$$(1) P = c + v + s$$

$$(2) s' = s/v$$

$$(3) q = c/(c+v)$$

(4)  $p = s/(c+v)$ ; hence, after some transformations:

$$(5) p = s'(1-q)$$

Class relationships of a rising power of labor in the centers determine that, in the end, long-term fluctuations notwithstanding, **cheaper raw materials and exploitation of the periphery become one of the cornerstones of a strategy to halt the fall in the profit rate**. Among others, mass migration, unequal exchange, and a new international division of labor are key elements to increase, at least temporarily,  $s'$ .

The Polish economist **Michal Kalecki**, whose work was closely connected to the United Nations Economic Commission for Europe, adapted political economy to the age of monopolization. Let gross production be  $P$ ,  $W$  are wages,  $M$  are the payments for raw materials. The monopolization factor is  $k$ . We are in a situation of less than full employment. Costs for wages,  $W$ , and raw materials  $M$ , are multiplied by a factor of  $k$  ( $k > 1$ ) to arrive at prices. The gross value of production of an enterprise is thus

$$(6) P = k * (W + M)$$

if  $M/W$  denote the terms of trade,  $j$ , between the raw material producing sector of the economy and the rest, then we arrive for the determination of the share of wages,  $w$ , by the following formula:

$$(7) w = 1/(1+(k-1)*(j+1))$$

**A rising degree of monopolization in the leading center countries over time determines, that, in order to keep the share of wages at least constant, a rising exploitation of the raw material producers sets in to offset the balance.**

Other formulations of dependency insisted on '**unequal exchange**', which, according to one such formulation, hampers development if **double factorial terms of trade** of the respective country are  $< 1.0$  (Raffer, 1987, Amin, 1975). **Labor in the export sectors of the periphery is being exploited, while monopolistic structures of international trade let the centers profit from the high prices of their exports to the world markets in comparison to their labor productivity**. Since double factorial terms of trade are simply net barter terms of trade weighted by productivities ( $F$ ) of  $X$ , **exports**, and  $M$ , **imports**, the formula

$$(8) ((PX * FX)/(PM*FM)) = 1$$

denotes the conditions of 'equal' exchange as opposed to **unequal exchange**:

$$(9) ((PX * FX)/(PM*FM)) = < 1.0$$

while nations with

$$(10) ((PX * FX)/(PM*FM)) = > 1.0$$

are the countries that **benefited from unequal exchange**.

Losses or gains from unequal transfer are calculated as the difference between a "fair value" of exports/imports and the "actual (unfair) value" of exports/imports. The estimation formula, proposed by Koehler is:

$$(11) T = d*X - X$$

where

(12) d = the exchange rate deviation index (also designated as "ERD" or "ERDI" in the literature)

X = the volume of exports from a low- or middle-income country to high-income countries (valued at the actual exchange rate)

T = the unrecorded transfer of value (gain or loss) resulting from unequal transfer

The transfer of value from the peripheries to the center, according to this reasoning, is truly gigantic:

### **Unequal transfer 1965 and 1995, by Center/Periphery**

	Unequal transfer	
	Gain (+)	Loss (-)
	CENTER	PERIPHERY
	(% of OECD GDP)	(% of NON-OECD GDP)
1965	+1.4%	- 1.8 %
1995	+8 %	-24 %

(Number of countries: OECD N=19 (1965) and N=22 (1995); NON-OECD N=88 (1965) and N=97 (1995)) [See Kohler/Tausch, 2002, further literature on unequal exchange as a development bloc includes today Emmanuel, A. (1972), Köhler G. (1998a), Köhler G. (1998a), Köhler G. (1999a), Köhler G. (1999b),

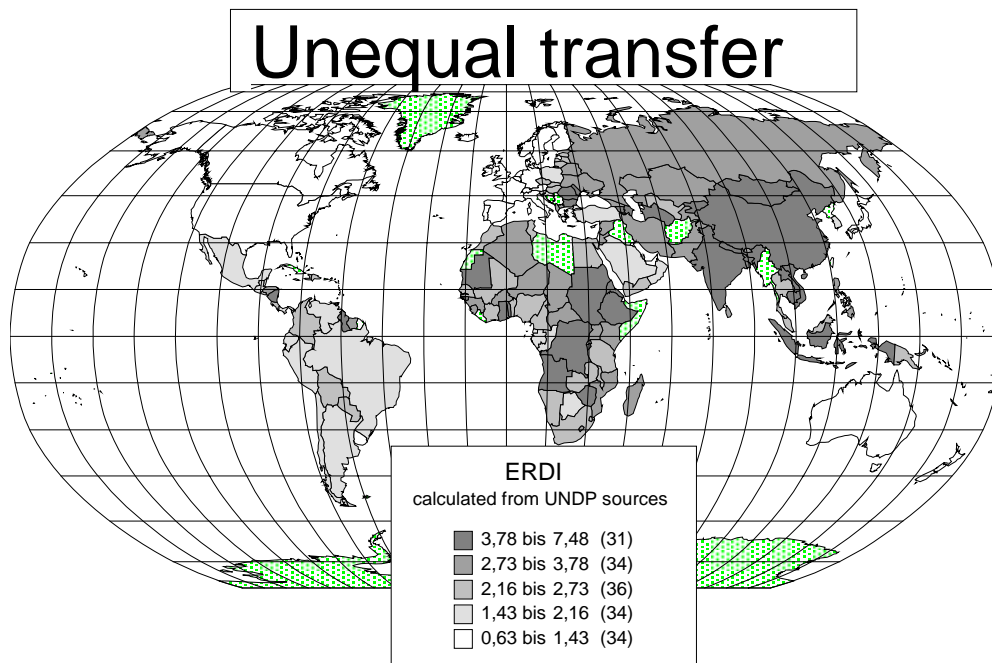
Raffer K. (1987b), Raffer K. (1995), Raffer K. and Murshed S. M. (1993), Raffer K. and Singer H. W. (1996), Raffer K. and Singer H. W. (2001), Sawada Y. and Yotopoulos P. A. (1999), Sawada Y. and Yotopoulos P. A. (2002), Yotopoulos P. A. (1996), Yotopoulos P. A. (1997a), Yotopoulos P. A. (1997b), Yotopoulos P. A. and Floro S. L. (1992), Yotopoulos P. A. and Lin J. Y. (1993), Yotopoulos P. A., Nugent J. B. (1976), and Yotopoulos P. and Sawada Y. (2005)].

Above, we already hinted at the fact that low comparative price levels are nothing but unequal exchange.

A country, following the Commission's price reform strategy, is a country with a low international price level and a high ERDI.

Our geographical presentation of our own variables used in the analysis will be kept to a minimum. Among the independent variables, we just mention **MNC penetration** and **unequal transfer** as the two "master variables" of dependency. **Unequal transfer** is strongest in the periphery, and weakest in the centers, with the semi-periphery showing medium levels of exposure to unequal transfer. Our map might be even termed to be an update of this Wallersteinian concept to the realities of the turn of the Century and Millennium, with the centers having values that correspond to the zones of lighter color, the semi-peripheries in grey colors, and the peripheries in dark colors.

### Map 23: unequal transfer (low comparative price levels) in the world system



Source: our own calculations from UNDP and UNCTAD sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

Legend: "bis" is the shorthand for "ranging from" "to". Countries marked in green color: missing values

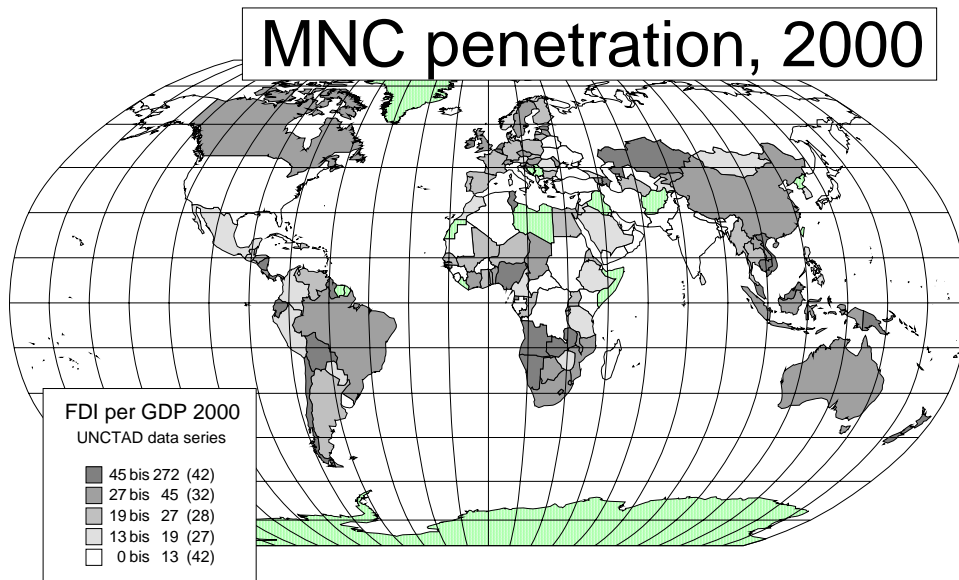
The abundant research literature on the semi-periphery highlights the non-permanent character of the semi-peripheral position, with historic strong upward and downward movements, but a stability of the structure as such. While some semi-peripheries rise, the others stagnate, almost suggesting that one semi-periphery rises at the cost of the other [Arrighi G. et al. (1991), Arrighi G. et al. (1996c), Arrighi G., Hamashita T. and Selden M. (Eds.)(2003), Chase-Dunn Ch. K. and Hall Th. D. (1997), Inglehart R. and Carballo M. (1997), Martin W. and Wallerstein I. (Eds.)(1990), Tausch A. (1993), Vaeyrynen R. (1997)].

In general, terms, we observe today high levels of MNC penetration in the "dominion economies" like Australia and Canada, in Western Europe, in some



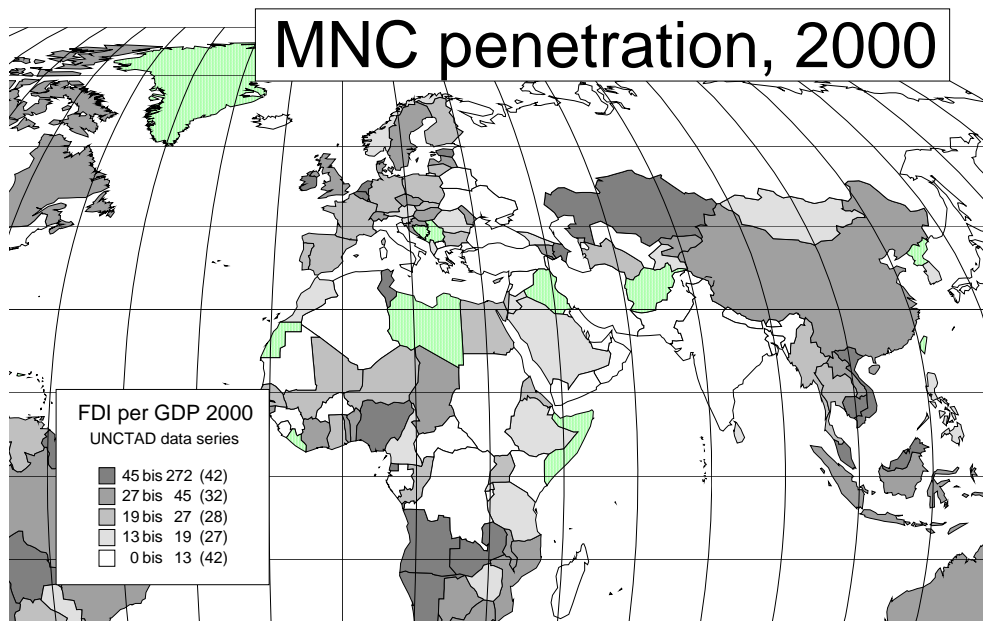
parts of Eastern Europe, in Central Asia, other parts of the former USSR, in many parts of Latin America, Southern and Western Africa, in Egypt, in Tunisia, and in China and Southeast Asia:

**Map 24a: MNC penetration in the world system, 2000**



Source: our own calculations from UNDP and UNCTAD sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

Legend: missing values for Greenland, Suriname, French Guyana, West Sahara, Bosnia/Herzegovina, Serbia, Montenegro, Libya, Iraq, Somalia, Afghanistan and North Korea. "bis" is the shorthand for "ranging from" "to". Countries marked in green color: missing values

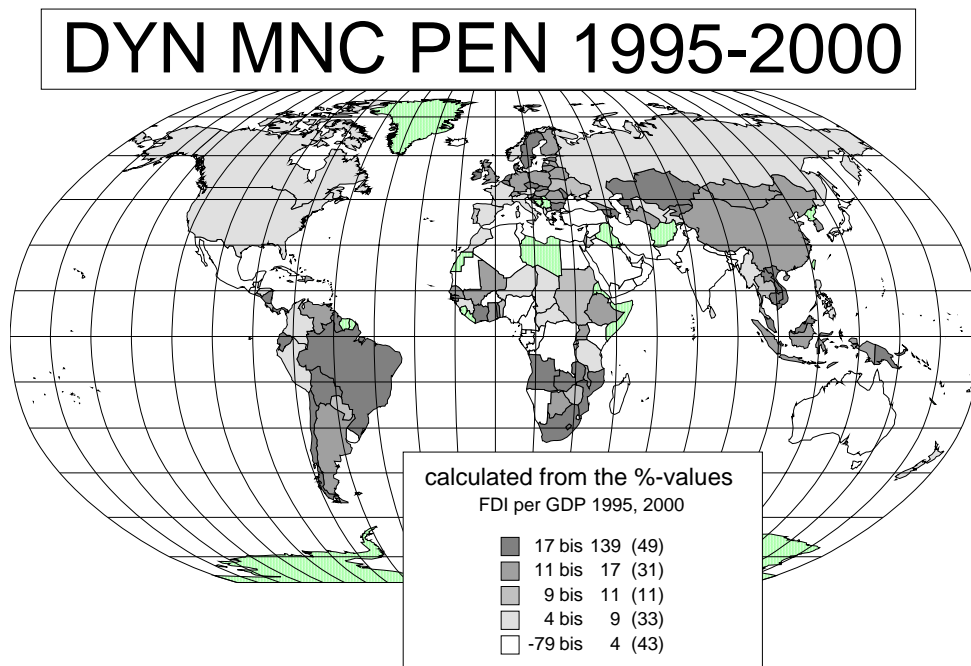
**Map 24b: MNC penetration in Europe, 2000**

Source: our own calculations from UNDP and UNCTAD sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

MNC penetration received a vast attention in the published titles of the comparative research literature of the last 3 decades, among them Bailey P.; Parisotto A. and Renshaw G. (1993), Bornschieer V. (1976), Bornschieer V. and Heintz P., reworked and enlarged by Th. H. Ballmer - Cao and J. Scheidegger (1979), Bornschieer V. et al. (1980), Dixon C. J., Drakakis-Smith D. and Watts H. D. (1986), Gosh P. K. (1984), International Labor Office and United Nations Centre on Transnational Corporations (1988), International Labour Office (2000), Jenkins R. (1987), Nollert M. (2005), Robinson R. D. (1987), Twomey M. J. (1993), United Nations Centre on Transnational Corporations (1983), United Nations Conference on Trade and Development (current issues), and Wheelwright T. (2001). While different authors disagree on the direction of the influence of MNC penetration on the human condition, they would all underline the **strong influence** of MNC penetration on employment, economic growth, income distribution, and overall development.

During the 1990s, penetration by transnational capital dramatically increased in many parts of Europe (especially in what was described by Donald Rumsfeld<sup>13</sup>, former US Secretary of Defense as “the new Europe”); in eastern Latin America, in Southern Africa, in Central Asia and in South and Southeast Asia. However, there was a **dramatic decrease of MNC penetration in most countries of the Arab world** during the second half of the 1990s:

**Map 25: the increase/decrease of MNC penetration in the world system, 1995 - 2000**



Source: our own calculations from UNDP and UNCTAD sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

Legend: “bis” is the shorthand for “ranging from” “to”. Countries marked in green color: missing values

As to the **causality** of the **process of destructive creation**, perhaps one of the clearest paragraphs to be found in the current literature is to be encountered in the essay written by L. Beer in 1999. Let us quote from this essay at some length:

<sup>13</sup> See also: <http://www.rferl.org/nca/features/2003/01/24012003172118.asp>

### **Linda Beer on the causal mechanisms of dependency and underdevelopment**

*"As opposed to Modernization theory's emphasis on the internal dynamics of economic growth, World-System and Dependency theories are neo-Marxist perspectives that focus on the global structure of the capitalist world economy.*

*(...) This approach argues that national economic growth, inequality and sociopolitical change can only be understood through the analysis of a nation's relative position in the spacioeconomic hierarchy of the world system. That is, the relationship between economic growth and income inequality within any single nation is dependent on that society's relational position in the world division of labor and global power structure. It is asserted that the dynamics of capitalist accumulation in developing countries are different than the processes observable in core nations.*

*(...) The issue that World-System/Dependency analyses point our attention to is not the lack of economic growth in developing nations, but the type of growth their dependent status affords them and its consequences.*

*(...) In the World-System/Dependency perspective, capitalist development is dependent on social and material inequality and this inequality is in turn a result of incorporation into the world system. National economic growth and income distribution are in large part*

*determined by growth potentials of productive activities in the larger global structure. Therefore, this approach hypothesizes that stratification of income will correspond with the world division of labor and position in the world economy.*

*(...) There are variants to the World-System/Dependency approach regarding the creation of income inequality, some of which emphasize concentration of land ownership (...) or national export-structure. (...) Many empirical studies of this relationship have confirmed a significant association between foreign corporate penetration.*

*(...) In the World-System/Dependency perspective there are three mechanisms that are hypothesized to link foreign investment and social inequality.*

*(...) . First, foreign investment in developing countries generates large sectoral disparities in the national economy, creates labor aristocracies and results in the underutilization of indigenous labor. Second, transnational corporations operating in developing nations accrue a disproportionate share of local sources of credit and repatriate profits rather than reinvesting them in the local economy. Finally, the governments of these nations, motivated by the necessity (generated by their incorporation into the capitalist world economy) of attracting and maintaining foreign investment, implement policies and strategies that decrease the power of*

*labor and inhibit vertical mobility. These include tax concessions, guarantees of profit repatriation, and labor laws unfavorable to workers.*

*(...) Scholars in the World-System/Dependency tradition argue that the relationship between foreign investment and internal income inequality has different effects on various sectors of the economy, but in all segments it creates and sustains income inequality in the national population.*

*(...) Foreign capital investment in the agricultural sector destroys traditional production processes and leads to unemployment and overurbanization through its capital intensive means of organization (i.e. labor shedding, land enclosure). In the extractive sector of the economy, foreign investment benefits only a small portion of the national population and thereby increases income inequality. This is because TNC penetration in this sector creates only a small well-paid labor force and because ownership of natural resources is typically concentrated.*

*(...) World-System theorists argue that foreign investment in the manufacturing sector has the most harmful effect on national income distribution. National economies in non-core nations with large manufacturing sectors have high levels of income inequality because profits in this sector are increased by the maintenance of a large, surplus low-wage labor force. Therefore, high rates of income inequality are in the interest of transnational corporations*

*and national elites who benefit from foreign investment; they have little incentive to take action to distribute income more equitably. Contrary to the hypotheses of Modernization theorists, the World-System perspective argues that the uneven development of highly penetrated developing economies benefits transnational corporations in that the only segment of the population which can afford to buy these manufactured goods is the wealthy elite.*

*(...) Domestic demand for these goods depends on the concentration of wealth and high levels of income inequality. Although redistribution of wealth and the resultant expansion of markets may be in the long term interest of foreign corporations, they are driven primarily by the short-term profit logic of capitalism.*

*(...) Furthermore, there is a convergence of interests between transnational corporations and the wealthy elite segments of the national population in maintaining income inequality which creates barriers to the "trickle-down" effect of industrialization predicted by Modernization theories. In addition to the incentives for inequity for foreign investors discussed above, the national elite strive to maintain their power and higher income so as to maintain privileged consumption patterns and access to status symbols. A common international class interest in the persistence of high levels of inequality thus link foreign investors and indigenous elites, leading these powerful groups to support (and in some cases*

*attempt to increase) the existing unequal income distribution and to coopt and repress opposition from other segments of the population (...)*  
(Beer, 1999: 4 - 7)

**Giovanni Arrighi** proposed in his provocative analysis of the *'Long 20th Century'* (1995) the thought that the logic of accumulation on a world-scale is governed by the ups and downs in the succession of regulation and deregulation, starting from the Venetian (regulatory) and Genoese (deregulated) era of capitalism, followed by the Dutch (regulatory) and British (deregulated) era, and the US hegemony, which - after 1945 - was a regulatory model. From the late 1970s, however, we witness, Arrighi's argument goes on, again the renewed rise of a deregulated model of world capitalism. The often-bemoaned end of the Keynesian era has its real basis; Arrighi's argument goes, in the shifting accumulation pattern of world capitalism. We agree with Arrighi that the rise of financial capitalism and the decline of productive capitalism are always connected to major shifts in the location of the centers of world capitalism, first from Venice to Genoa, followed by the shift from Genoa to Amsterdam, from Amsterdam to London, from London to New York, and from there on to the capitalist archipelago of East Asia of yesterday, perhaps to be followed by South Asia today (Arrighi, 1995). Arrighi also introduced the important notion, that there is a certain coexistence in the time-perspective between the 'different logics', so that elements of the waning and elements of the emerging order might coincide for years. Arrighi's sequential model of world capitalism is also a historic interpretation of the old Marxist notion of

financial expansion - > material expansion- > financial expansion (MCM'),

which moreover, as such radically challenges the notion of 'unchanging' general laws of rise and decline. Following Arrighi, we postulate that regulatory strategies might have been well compatible with growth under the rise of the Venetian, Dutch, and American era, while at the time of the rise of 'deregulation', such deregulatory strategies and not 'big government' will be conducive to economic growth.

**World system analyses** - that started with the writings of the Austro-Hungarian socialist Karl Polanyi after the First World War - tended to confirm and expand this dependency argument. Capitalism in the periphery, like in the center, is characterized by strong cyclical fluctuations, and there are centers, semi-peripheries, and peripheries. The rise of one group of semi-peripheries tends to be at the cost of another group, but the unequal structure of the world economy based on unequal transfer tends to remain stable. Authors from the world system approach tended to discard the "culturalist" explanations, offered by Huntington, and rather would support the argument that world economic position, and not culture, determines conflict. The massive world systems literature continues to be a stream of the scientific debate subsisting at the major Universities, publishing houses and scholarly journals around the world, the near complete global triumph of the neo-liberal theory notwithstanding [Arrighi G. (1989), Beaud M. (1990), Chase-Dunn Ch. (1999), Chase-Dunn Ch. K. (1991), Chase-Dunn Ch. K. (1992a), Chase-Dunn Ch. K. (2000), Chase-Dunn Ch. K. and Grimes P. (1995), Denmark R. A., Modelski G., Gills B. K. and Friedman J. (2000), Dunaway W. A. and Wallerstein I.

(Eds.)(2003), Frank A. G. (1978a), Frank A. G. (1978b), Frank A. G. (1980), Frank A. G. (1981), Frank A. G. (1983), Frank A. G. (1992), Frank A. G. (1994), Frank A. G. (1998), Frank A. G. and Frank - Fuentes M. (1990), Frank A. G. and Gills B. (Eds.)(1993), Goldfrank W. L. (1978), Goldfrank W. L. (1990), Hettne B. (1989), Hettne B. (1995a), Hopkins T. K. (1982), Hopkins T. K. and Wallerstein I. et al. (1982), Oddone and associates, 2004 - 2005; Polanyi, K. (1979), Polanyi K. (1957), Ray J. L. (1983), Ross R. J. S. and Trachte K.C. (1990), Wallerstein I. (1974), Wallerstein I. (1976), Wallerstein I. (1978), Wallerstein I. (1979a), Wallerstein I. (1979b), Wallerstein I. (1980), Wallerstein I. (1982), Wallerstein I. (1983a), Wallerstein I. (1983b), Wallerstein I. (1984), Wallerstein I. (1986), Wallerstein I. (1989a), Wallerstein I. (1989b), Wallerstein I. (1990), Wallerstein I. (1991a), Wallerstein I. (1991b), Wallerstein I. (1997), Wallerstein I. (1998), and Wallerstein I. (2000)]

The German/Swiss sociologist **Volker Borschier**, throughout the 1970s, 1980s, and beyond, has been a critical voice on the long-run detrimental effects of transnational penetration on the host countries in world capitalism. He thought that, on the basis of his thorough quantitative studies, the transnationals are dynamizing the host countries of transnational foreign investment only in the short run, but that they are leading towards inequality and stagnation in the long run. Borschier enormously enriched earlier work on dependency theories, pioneered by the Swiss sociologist Peter Heintz and the Latin American "dependency school". His theoretical and empirical developments made "dependency theory" truly global and linked it up to the evolving world system school, and by his networking and collaboration – especially with Christopher Chase Dunn from the University of California at Riverside – firmly entrenched the "quantitative approach" in the world system school. His later work, related to the long cyclical fluctuations in the world economy, has shown that instability is also an overwhelming element in the historical evolution of capitalism, and that the world would need a new social contract similar in its encompassing nature to the one that shaped the world after the Great Depression in the 1930s. Borschier, as a true European and citizen of this world, has always asked himself what the alternatives are, and he put high hopes into the European Union as an alternative, more "social" pole in the world economy.

**Globalization critics**, environmentalists, liberation theologians of all denominations, and - most recently - dissidents from the once homogeneous neo-liberal camp all would hold that unfettered globalization increases the **social gaps between rich and poor both within countries as well as on a global scale**. Most of the adherents of this camp would share the view proposed by Cornia and Kiiski that income distribution in the world system has worsened during the period of globalization. Indeed, the challenge by dependency theory to the neo-classical consensus is a real one – especially in a time of growing stagnation in the centers and social polarization in many countries of the periphery. It has been established fairly well enough that there is a continuing phenomenon of world poverty. However, what beyond that? Is



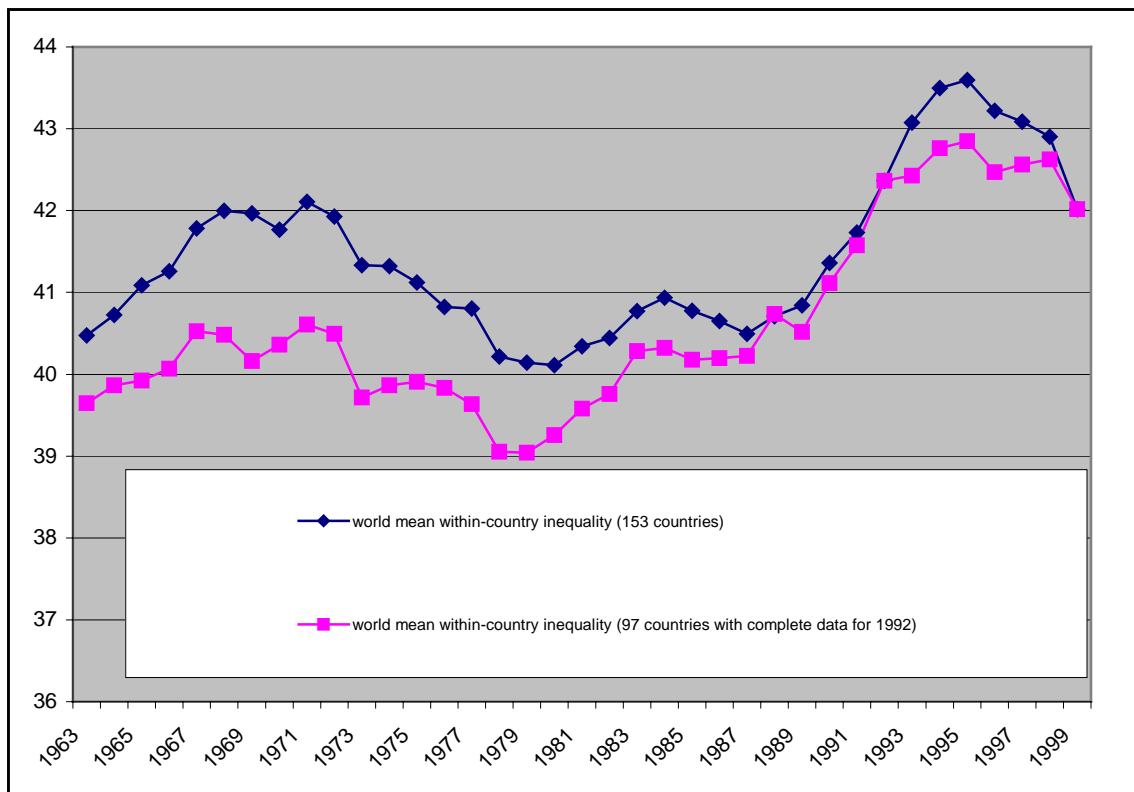
globalization really the cause of world poverty? Or is rather the absence of globalization and foreign investment to blame for the continued misery in countries, say, like Myanmar, while outward-looking policies dramatically increased the lot of wide strata of the population in countries like China, Thailand and India over the last decades?

This growing international controversy on globalization and social inequality can be neatly portioned in two camps – scholars maintaining that world inequality is increasing during globalization, and scholars, maintaining that world inequality is decreasing over time during globalization. Much of the confusion rests on the fact that most globalization - > increasing inequality studies deal with world incomes measured at *exchange rates*, while world income distribution and world social equity, measured in *purchasing power parities* or “hard” basic human needs indicators, tended to become more egalitarian over recent decades.

Flagship studies, permitting a **pessimistic interpretation** now include Arrighi G. (1991), Arrighi G. et al. (1996b), Babones S. J. (2005), Bergesen A. J. and Bata M. (2002), Berry A. et al. (1981), Bornschier V. (2002), Breedlove W. L. and Patrick N. D. (1988), Caminada K. and Goudswaard K. (2000), Chase-Dunn Ch. K. (1984), Cornia G. A. (Ed.)(2004), Cornia G. A. and Kiiski S. (2002), Cornia G. A., Addison T. and Kiiski S. (2003), Galbraith J. K. (2002), Galbraith J. K. and Berner M. (2001), Galbraith J. K. and Kum H. (2005), Galbraith J. K. and Pitts J. W. (2002), Gradstein M and Milanovic B. (2004), Korzeniewicz R. P. and Moran T. P. (1997), Milanovic B. (2002), Milanovic B. (2003a), Milanovic B. (2003b), Milanovic B. (2005), Nollert M. (1990), and Schultz T. P. (1998). Especially the thorough methodological criticism voiced by the very well known US economist James K. Galbraith should be mentioned here. His freely available UTIP (*University of Texas Inequality Project*) **global inequality data base** <sup>14</sup> documents wage inequality (inequality of wages in 21 economic sectors) for over 150 countries on a time series base from 1960 onwards. This massive research project then estimates the econometric relationships between these inequality data and the often-deficient World Bank data series and projects GINI coefficients of estimated income inequality over time since 1960 in dozens of countries that concentrate the large majority of world population within their borders. Galbraith and his team claims to show that based on such data, **global inequality** is increasing under globalization.

### **Graph 9a: global inequality according to the University of Texas Inequality data set**

<sup>14</sup> <http://utip.gov.utexas.edu/>

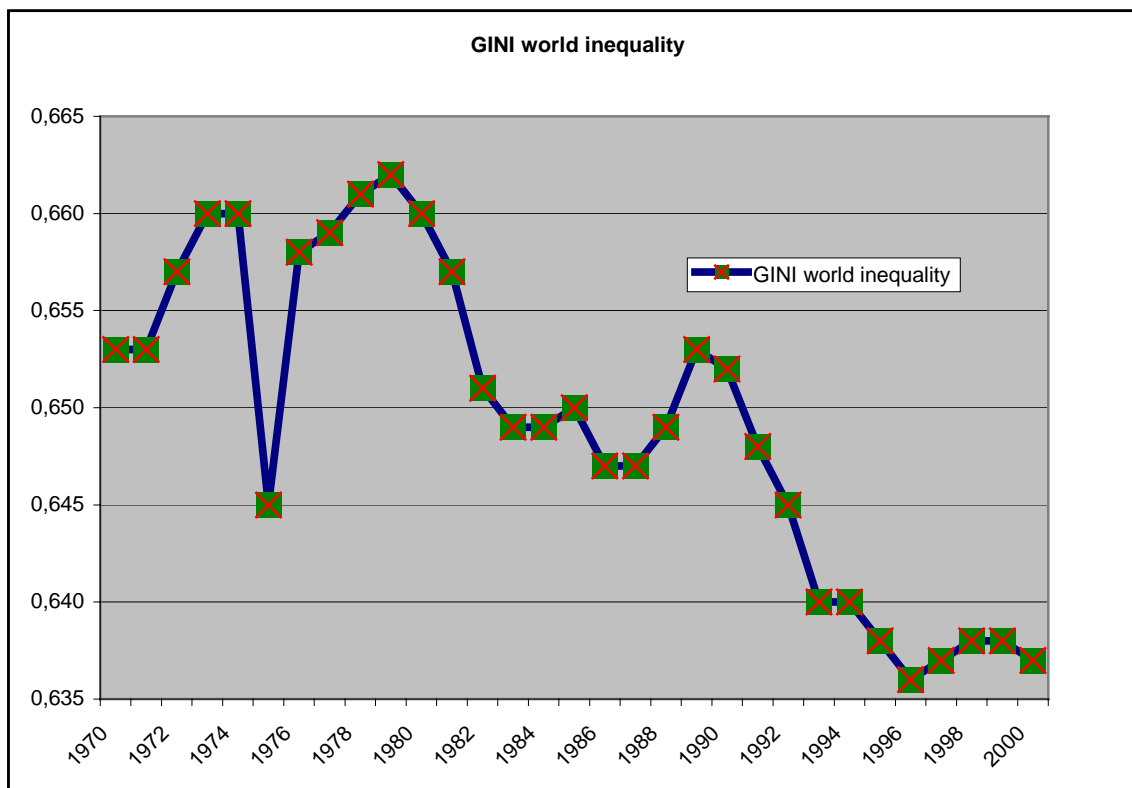


Compiled from UTIP, <http://utip.gov.utexas.edu/> **153 countries:** Afghanistan, Albania, Algeria, Angola, Argentina, Armenia, Australia, Austria, Azerbaijan, Bahamas, Bahrain, Bangladesh, Barbados, Belgium, Belize, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, Burkina Faso, Burundi, Cameroon, Canada, Cape Verde, Central African Rep, Chile, China, Colombia, Congo, Costa Rica, Cote d'Ivoire, Croatia, Cuba, Cyprus, Czech, Denmark, Dominican Rep., Ecuador, Egypt, El Salvador, Equatorial Guinea, Eritrea, Ethiopia, Fiji, Finland, France, Gabon, Gambia, Germany, East, Germany, West, Ghana, Greece, Guatemala, Haiti, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Iran, Iraq, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kenya, Korea, Kuwait, Kyrgyz Rep, Latvia, Lesotho, Liberia, Libya, Lithuania, Luxembourg, Macao, Macedonia, Madagascar, Malawi, Malaysia, Malta, Mauritania, Mauritius, Mexico, Moldova, Mongolia, Morocco, Mozambique, Myanmar (Burma), Namibia, Nepal, Netherlands, Netherlands Antilles, New Zealand, Nicaragua, Nigeria, Norway, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Puerto Rico, Qatar, Romania, Rwanda, Samoa, Saudi Arabia, Senegal, Seychelles, Sierra Leone, Singapore, Slovakia, Slovenia, Somalia, South Africa, Spain, Sri Lanka, St. Vincent and the Grenadines, Sudan, Suriname, Swaziland, Sweden, Syrian Arab Republic, Taiwan, Tanzania, Thailand, Togo, Tonga, Trinidad & Tob., Tunisia, Turkey, U.S.S.R./ Russia, Uganda, Ukraine, United Arab Em., United Kingdom, United States, Uruguay, Venezuela, Yemen, Rep., Yugoslavia, Zambia, Zimbabwe. **97 countries:** Algeria, Angola, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Barbados, Belgium, Belize, Bolivia, Botswana, Brazil, Bulgaria, Cameroon, Canada, Cape Verde, Central African Rep, Chile, Colombia, Costa Rica, Croatia, Cyprus, Denmark, Ecuador, Egypt, Ethiopia, Fiji, Finland, France, Gabon, Germany, West, Greece, Guatemala, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Iran, Iraq, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kenya, Korea, Kuwait, Kyrgyz Rep, Lesotho, Lithuania, Luxembourg, Macao, Macedonia, Malawi,

Malaysia, Malta, Mauritius, Mexico, Mongolia, Morocco, Mozambique, Myanmar (Burma), Netherlands, New Zealand, Nigeria, Norway, Panama, Peru, Philippines, Poland, Puerto Rico, Qatar, Romania, Senegal, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Suriname, Swaziland, Sweden, Syrian Arab Republic, Taiwan, Tonga, Trinidad & Tob., Turkey, Ukraine, United Kingdom, United States, Uruguay, Venezuela, Zimbabwe

Neo-liberal scholars, most notably Columbia Professor Xavier Sala-i-Martin, responded by showing that duly considering international and intra-country inequalities, the world GINI coefficient of inequality has dramatically decreased since the 1970s.

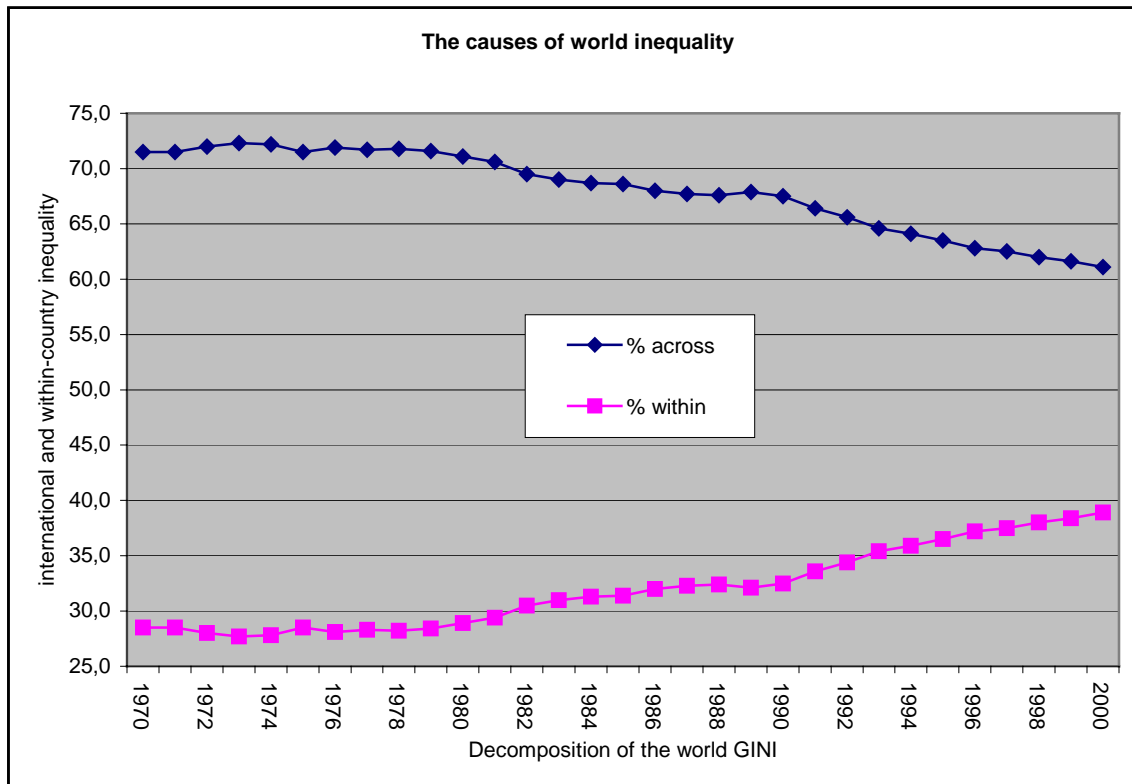
**Graph 9b: Falling world income inequality? The Sala-i-Martin study (2005)**



Source: our own compilations from Sala-i-Martin, 2005

Due to the enormous economic growth of the population giants India and China, the picture of world inequality and world poverty dramatically improved, Sala-i-Martin says. The most important studies that support the hypothesis that world **income inequality decreases with globalization** today include Australian Treasury (2001), Crafts N. (2000), Dowrick, S. and Akmal M. (2001b), Firebaugh G. (1999), Firebaugh G. (2000), Firebaugh G. (2002), Firebaugh G. (2003), Firebaugh G. and Goesling B. (2004), Goesling B. (2001), Goesling B. and Firebaugh G. (2004), Melchior A., Telle, K., and Wiig, H. (2000), and Rodas-Martini P. (2001). An important question for future research could be the relationship between intra-country and international income inequality, which, in a way, resolves the apparent disputing hypotheses inherent in our Graphs 9a and 9b.

**Graph 9c: decomposition of the trends of world inequality – percentages of world inequality caused by international inequalities and by intra-country inequalities**



Source: ou own compilations from Sala-i-Martin, 2005

For the **globalization -> poverty reduction school** to be maintained, it must be shown that **several indicators of globalization**, and not just the indicator *"share of foreign trade by GDP"*, **are significantly and systematically linked to a series of indicators of national and social well-being, including economic growth, the human development index, life expectancy and income redistribution, irrespective of the development level achieved.**

Today, a truly massive cross-national research literature exists whose results are often diametrically opposed to one another, with dependency scholars claiming that **dependency has adverse affects on the 'human condition'** (economic growth, income equality, human well-being, gender relationships), while **neo-liberal scholars** claiming the **opposite**. In view of the massive, contradictory evidence, often based on smaller samples of countries and equally limited number of indicators, a new approach is taken here, trying to show the effects of the major available indicators for a sufficient number of countries (> 170 nations) on key available international indicators.

We try to do justice to some 240 quantitative studies that are contained in our bibliography, and try to present in this theoretical overview those determinants of the "human condition" that are sufficiently available for more than 170 nations [see also Tausch and Ghymers, 2007, for a complete bibliography].

It seems to be important at this point to emphasize that our two indicators of dependency measure two different types of "dependent development":

- **MNC penetration** measures the different degrees of weight that foreign capital investments have in the host countries
- **Unequal exchange** (ERDI) measures the degree to which globalization has contributed to lowering the international price level of a country; i.e. it is an indicator about the openness of the price system vis-à-vis the pressures of globalization. The result of this is an unequal transfer from the peripheries to the centers, which used to be high-price countries

Ever since the writings of Colemann (1965), also education should be mentioned among the determining variables of the development performance of a country. **Education and human capital formation** figure prominently in the *"Human Development Reports"* of the United Nations Development Programme as variables, which determine positively the development outcome. For the UNDP it has been self-evident over the last decade that gender empowerment and the re-direction of public expenditures away from defense will positively contribute to a positive development outcome. However, neo-liberal thought would caution against such premature conclusions. Erich Weede (2002) has shown that standard indicators of human capital endowment - like literacy, school enrollment ratios, or years of schooling - suffer from a number of defects. They are crude. Mostly, they refer to input rather than output measures of human capital formation. Occasionally, Weede and Kaempf believe, they produce implausible effects. They are not robustly significant determinants of growth. They replaced them by average intelligence. This variable consistently outperforms the other human capital indicators in spite of suffering from severe defects of its own. Weede and his associates maintain that the immediate impact of institutional improvements, i.e., more government tolerance of private enterprise or economic freedom, on growth is in the same order of magnitude as intelligence effects are.

**Public education expenditures** are still public expenditures, and it is entirely conceivable that in the end public education expenditures might negatively affect the development chances of a society, not because they are education expenditures, but because they are still public expenditures. For such a theoretical understanding, **University reform and University privatization** would be important political steps to achieve a more viable development. The UNDP has devoted considerable energies into developing its own kind of human capital and human development approach that quoted large amounts of statistics how much different countries devoted to their "unproductive" military efforts and how little they devoted to the "good" public education expenditures. Such number games, however much they were linked to the

generally laudable effort to document world poverty and the lack of basic human needs satisfaction, suffered from a major scientific handicap by evading the vital question to statistically show that – development levels constant – high shares of public education expenditures contribute uniformly to a good development performance, measured by indicators of growth, human rights, social justice, gender empowerment and ecological well-being, while the “bad” military expenditures contribute to the opposite [see Dasgupta P. (1995), Griffin K. (1987), Griffin K. and Knight J. (Eds.)(1990), O’Neill H. (1997), United Nations Development Programme (1998a); United Nations Development Programme (1998b), United Nations Development Programme (2004), United Nations Development Programme (2005a), United Nations Development Programme (2005b), United Nations Development Programme (current issues), United Nations Development Programme, Arab Fund for Economic and Social Development (2002), and Yunker J. A. (2000)]. In our macro-quantitative research design, we did not include anymore the well-documented “butter versus guns” dimension [see also Bullock B. and Firebaugh G. (1990), Chan St. and Mintz A. (1992), Deshingkar G. (1989), Kentor J. D. and Woo J. (2000), Kick E. L. et al. (1990), Köhler G. (1978a), Köhler G. (1980a), Köhler G. (1980b), Shin M and Ward M. D. (1999), Tausch A. (1986), and Tausch A. (1989a)], because the availability of military expenditure data would have limited our sample with countries with complete data for the independent variables to less than 120 nations. However, the effects of public education on development are not uniformly positive.

The well-known **acceleration** and **maturity** effects of development have to be also qualified in an important way. Ever since the days of Simon **Kuznets**, development researchers have applied curve-linear formulations in order to capture these effects. The curve-linear function of **growth**, being regressed on the natural logarithm of development level and its square, is sometimes called the 'Matthew's effect' following Matthew's (13, 12):

*'For whosoever hath, to him shall be given, and he shall have more abundance: but whosoever hath not, for him shall be taken away even that he hath'*

Social scientists interpreted this effect mainly in view of an acceleration of economic growth in middle-income countries *vis-à-vis* the poor countries and in view of the still widening gap between the poorest periphery nations ('have-nots') and the 'haves' among the semi-periphery countries (Jackman, 1982).

## 7. Balancing work and family life and global development – the research design

The almost unlimited number of empirical studies on **peripheral capitalism and development** on a world level in the B-phase of the Kondratieff cycle from 1965 onwards go back, in a way, to the classic essay published by Johan Galtung in the *Journal of Peace Research* (Galtung, 1971). For Galtung, income inequality, and hence, relative poverty in the nations of the world system is linked to trade partner concentration of the peripheral country and a trade structure that relies on the exports of raw materials and the imports of finished products. Bornschier, Chase-Dunn, and their school later on reformulated the argument: not only income inequality, but also long term economic growth are being negatively determined by dependency from transnational capital, to be measured by a weighted share of transnational investment penetration per the economic and demographic size of a nation. Later essays extended the argument to other indicators of human well-being, the environment, as well as democratic stability.

Macroquantitative analyses modeled around the dependency/world system school generally claimed to have confirmed dependency arguments. According to these quantitative data analyses, there are powerful influences at work, which cause inequality and external imbalances in the periphery. Flagship essays and book publications of this school include nowadays over 50 studies, published internationally in leading peer-reviewed journals of social science, dealing with dependency, economic growth and or income inequality [Alderson A. and Nielsen F. (1999), Alderson A. S., Beckfield J. and Nielsen F. (2005), Babones S. J. (2002), Beer L. (1999), Beer L. and Boswell T. (2002), Bergesen A. and Fernandez R. (1999), Bornschier V. and Ballmer-Cao, T. H. (1979), Bornschier V. and Chase-Dunn Ch. K (1985), Bornschier V., Chase-Dunn Ch. and Rubinson R. (1977), Boswell T. and Dixon W.J. (1990), Bradshaw Y. and Huang J. (1991), Breedlove W. L. and Armer J. M. (1996), Caporaso J. A. (1978), Chase-Dunn Ch. K. (1975), Crenshaw E. M. (1991), Crenshaw E. M. (1992), Crenshaw E. M. (1993), Crenshaw E. M. and Ansari A. (1994), Delacroix J. and Ragin Ch. (1981), Dixon W. J. and Boswell T. (1996b), Evans P. B. and Timberlake M. (1980), Fiala R. (1992), Galtung J. (1971), Galtung J., Chase-Dunn, Ch. K. et al. (1985), Johnson R. B. (1986), Kentor J. D. (1998), Kentor J. D. (2005), Kentor J. D. and Boswell T. (2003), Kick E. L. and Davis B. L. (2001), Kohli A. et al. (1984), Krahn H. and Gartrell J. W. (1985), London B. (1987), London B. and Ross R. J. S. (1995), London B. and Smith D. A. (1988), Moaddel M. (1994), Muller E. N. (1988), Muller E. N. (1993), Nielsen F. (1995), Nolan P. D. (1983), Prechel H. (1985), Rubinson R. (1976), Russett B. (1983a), Russett B. (1983b), Shandra J. M., Ross R. J. S., London B. (2003), Shandra J. M.; London B.; Whooley O. P; Williamson J. B. (2004), Shandra J. M.; Nobles, J. E.; London B.; Williamson, J. B. (2005), Shandra J., London B, Whooley O. P., et al. (2004), Suter Ch. (2005), Tausch A. (1998a), Tausch A. (1998b), Tausch A. (2005b), Timberlake M. and Kantor J. (1983), Trezzini B.



and Bornschier V. (2001), Tsai P-L. (1995), and Wimberley D. W. and Bello R. (1992)].

There has been a tendency in more recent cross-national research to focus not only on such variables as economic growth, income inequality and a few other indicators of social well-being, but to interpret "well-being" more widely to include also democracy, demographic transition, freedom from crime, freedom from structural imbalances in the economy, gender equality, political stability, respect for human rights, the environment. Research results by these scholars in general terms indicate that there is reason to believe that the march of global capitalism not only negatively affects the distribution of economic values in the world system, but also of democracy, human development, gender equality and the quality of the environment. These 70 or more studies were published, as their counterparts on the detrimental effects of dependence on economic growth and income inequality, with leading scholarly journals or publishing houses, thus publicizing a scholarly well-founded "globalization critique" [Bradshaw Y. (1987), Bradshaw Y. W. and Schafer M. J. (2000), Bradshaw Y. W., Noonan R; and Gash L. (1993), Breedlove W. L. and Armer J. M. (1997), Burns T. J. et al. (1994), Burns T. J., Kentor J. D. and Jorgenson, A. (2002), Burns T. J., Kick E. L. and Davis B. L. (2003), Chase-Dunn Ch. K. (2005), Clark R. (1992), Clark R. et al. (1991), Crenshaw E. M. (1995), Crenshaw E. M. and Jenkins J. C. (1996), Crenshaw E. M. and Oakey, D. R. (1998), Crenshaw E. M.; Ameen A. Z.; and Christenson. M. (1997), Crenshaw E. M.; Christenson M.; Oakey D. R. (2000), Dixon W. J. (1984), Ehrhardt-Martinez K.; Crenshaw E. M.; and Jenkins J. C. (2002), Fain H. D. et al. (1997), Frey R. S. and Field C. (2000), Gartner R. (1990), Ghobarah H. et al. (2001), Gissinger R. and Gleditsch N. P. (1999), Goldfrank W. L. (1999), Gore A. (1994), Grimes P. and Kentor J. (2003), Hadden K. and London B. (1996), Hertz E. et al. (1994), Huang J. (1995), J. Timmons Roberts J. T., Grimes P. E. and Jodie L. Manale J. L. (2003), Jenkins J. C. and Scanlan S. J. (2001), Jorgenson A. K. and Rice J. (2005), Kasarda J. D. and Crenshaw E.M. (1991), Kent G. (1991); Kentor J. D. (2001), Kentor J. D. and Jang J. S. (2004), Kick E. L. et al. (1995), Kick E. L., Davis B. L. and Burns T. J. (1998), Kick E. L., Davis B. L. and Burns T. J. (2000), Lena H. F. and London B. (1993), London B. (1988), London B. (1990), London B. and Robinson T. (1989), London B. and Williams B. A. (1988), London B. and Williams B. A. (1990), Miller C. D. (1999), Miller M. A. L. (1995), Mittelman J. (1994), Moon B.E. and Dixon W.J. (1992), Munasinghe M., Miguel: de and Sunkel O. (2001), Neapolitan J. L. and Schmallegger F. (1997), Nollert M. (1994a), Ragin C. C. and Bradshaw Y. W. (1992), Ram R. (1992), Robinson T.D. and London B. (1991), Shandra J. M., London B. and Williamson J. B. (2003), Shandra J. M.; London B.; Williamson J. B. (2003), Shandra J. M.; Nobles J.; London B.; Williamson J. B. (2004), Shen C. and Williamson J. B. (2001), Shin M. E. (1975), Shin M. E. (2002), Smith D. A and London B. (1990), Smith D. A. (1994), Smith D. A. (1996), Stack St. (1998), Stokes R. and Anderson A.(1990), Tausch and Prager, 1993, Ward K. B. (1984), Wickrama K. A. S. and Mulford Ch. L. (1996), Wimberley D. W. (1990), and Wimberley D. W. (1991)].

Our empirical investigation is well within the tradition of this type of cross-national, macro-political, and macro-sociological research, published since the 1970s in the world's leading peer-reviewed social science journals. The fundamental literature on the methodological issues and recent highlights in the relevant methodological debate are assumed to be known here [Achen Ch. H. (1982), Berry W. D. and Feldman S. (1985), Bollen K. A. (1980), Clauss G. and Ebner H. (1978), Davis B. L., Kick E. L. and Burns T. J. (2004), Deininger K. and Squire L. (1996), Deutsch K. W. (1960), Deutsch K. W. (1966), Deutsch K. W. (1978), Deutsch K. W. (1979), Deutsch K. W. (1982), Dixon W. J. and Boswell T. (1996a), Goldstein J. S. (1985a), Haller M. (2003), Haller M. (Ed.)(1990), Kriz J. (1978), Krzysztofiak M. and Luszniwicz A. (1979), Kuznets S. (1955), Lewis - Beck M. S. (1980), Lundberg M. and Squire L. (2001), Nielsen F. and Alderson A. (1997), Opp K.D. and Schmidt P. (1976), Paukert F. (1973), Puchala D. J. (2003), Russett B. (1967), Tellis A. J. et al. (2001), and Whitehouse E. (2000)].

Analyzing world social, gender, and economic development on the basis of the main 6 predictors, compatible with the majority of the more than 240 published studies on the cross-national determinants of the "human condition" around the globe, we present the results of 6 equations about development performance from over 170 countries.

Our empirical concept of dependence that we will use in our cross-national equations at least includes two dimensions:

- unequal transfer
- MNC penetration

Now, if globalization is good for the poor in Eastern Europe, it must be clear that the more globalized countries produced on a global scale a better and more egalitarian development than the laggards in globalization, irrespective of the development level achieved.

At this point and in view of the results confirmed in the present work it seems appropriate to recall here that Galtung's original 1969 essay was all connected to his theory and terminology of "structural violence"<sup>15</sup>. Galtung at that time was not interested in economic growth, but in "structural violence". We can approach the subject by looking more closely at what Peadar Kirby today calls "vulnerability", which is occurring when life conditions of a partner in a systematic interaction are below levels which might be potentially experienced in a different, and more just global social order (i.e. the large majority segments of population living in poverty in the periphery, referred to in "critical peace research" as the "periphery of the periphery", are subjected to a relationship of domination, wielded by the small and powerful elites in the Third World, which is part and parcel of the domination structure, commanded

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<sup>15</sup> see also the article by Professor George Kent from the University of Hawaii at Manoa at <http://www2.hawaii.edu/~kent/ANALYZ3.html> Galtung's 1971 article has become one of the most often quoted pieces of literature in the social sciences, *en par* with with other classics

by the elites of the center over the entire global structure). The term *"potential realizations"*, introduced by "critical peace research" in the late 1960s and early 1970s is also important here, for it links life conditions to the level of development of the productive forces in society. We interpret this as nothing else but the residuals from the "plateau curve of basic human needs", introduced by Joshua Goldstein in his article in "World Development", 1985. Let us re-analyze in this context Galtung's famous definition:

*"(...) the basic idea is that there is such a concept as "premature death." This we know, because we know that with some changes in social structure, in general and health structure in particular, life expectancy can be improved considerably. More particularly, it may be possible to give to the whole population the life expectancy of the class enjoying appropriate health standards, that is, the "upper classes." The level enjoyed by them would be an indicator of the potential possibility to "stay alive" in that society; for all but the upper classes that would be above the actual possibility to stay alive. The difference when avoidable, is structural violence". (Galtung, 1969)*

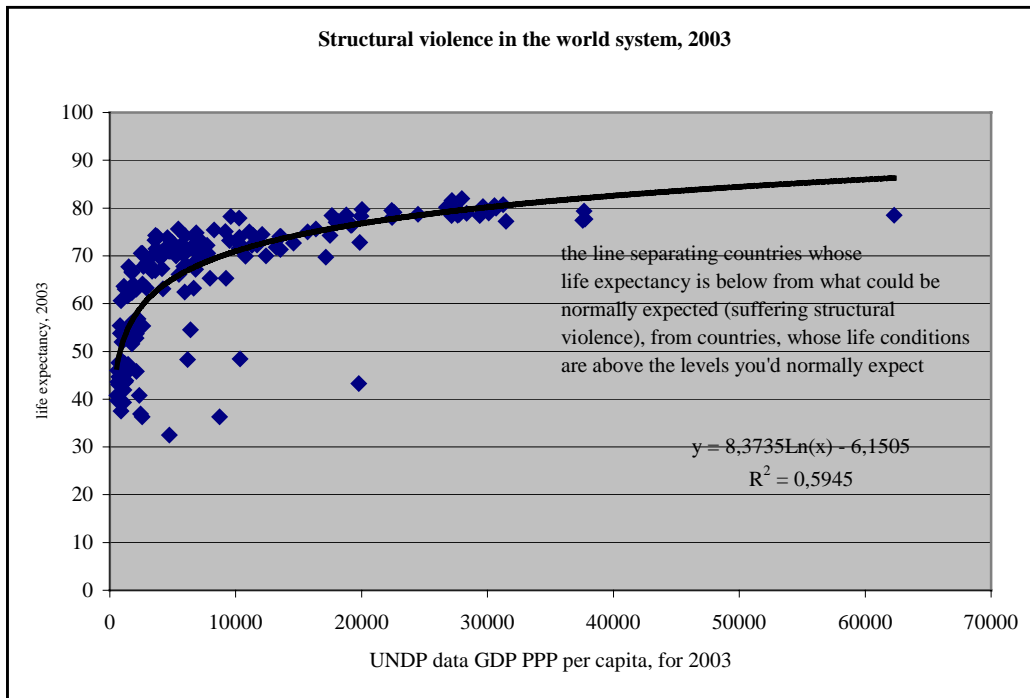
*"Violence is present when human beings are being influenced so that their actual somatic and mental realizations are below their potential realizations (...) Violence is here defined as the cause of the difference between the potential and the actual, and that which impedes the decrease of this distance" (Galtung, 1969)*

*"The structural violence is the sum total of all the clashes built into the social and world structures and cemented, solidified so that unjust, inequitable outcomes are almost unchangeable". (Professor Johan Galtung, on his website at <http://www.transcend.org/TRRECBAS.HTM>)*

*"violence as avoidable insults to basic human needs, and more generally to life, lowering the real level of needs satisfaction below what is potentially possible" (Wikipedia, the free Encyclopedia, article on "Structural violence" [http://en.wikipedia.org/wiki/Structural\\_violence](http://en.wikipedia.org/wiki/Structural_violence))*

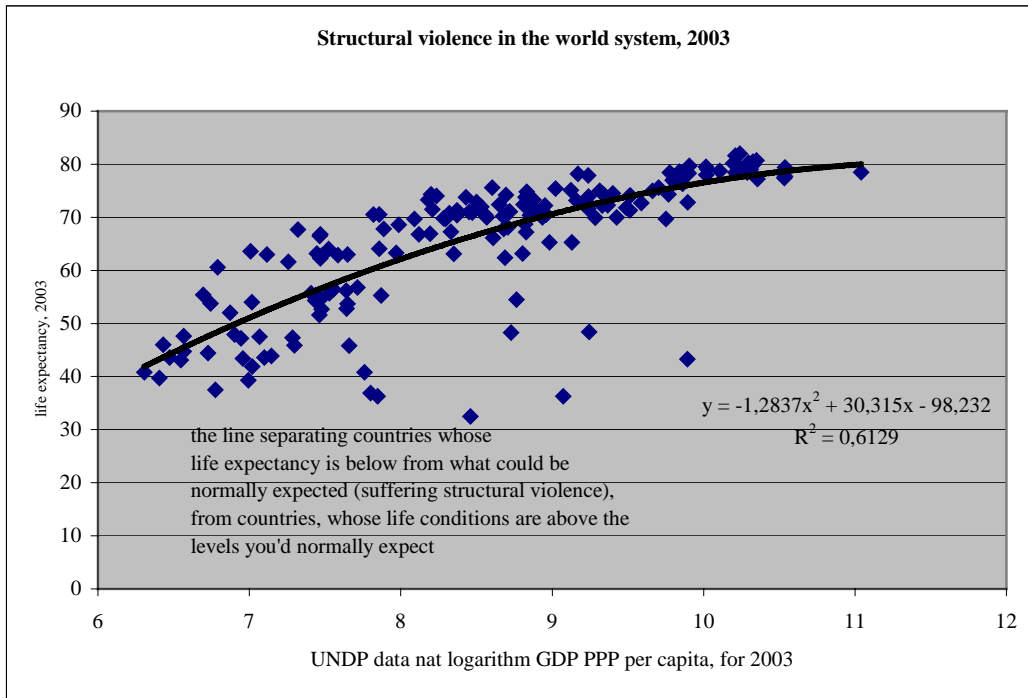
Graph 10 immediately follows from the above quotations:

**Graph 10: structural violence in the world system and the plateau curve of basic human needs – the actual somatic and mental realizations of the citizens of the countries of the world are below their potential realizations**



Source: our own calculations from UNDP and UNCTAD sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

**Graph 10, continued:**

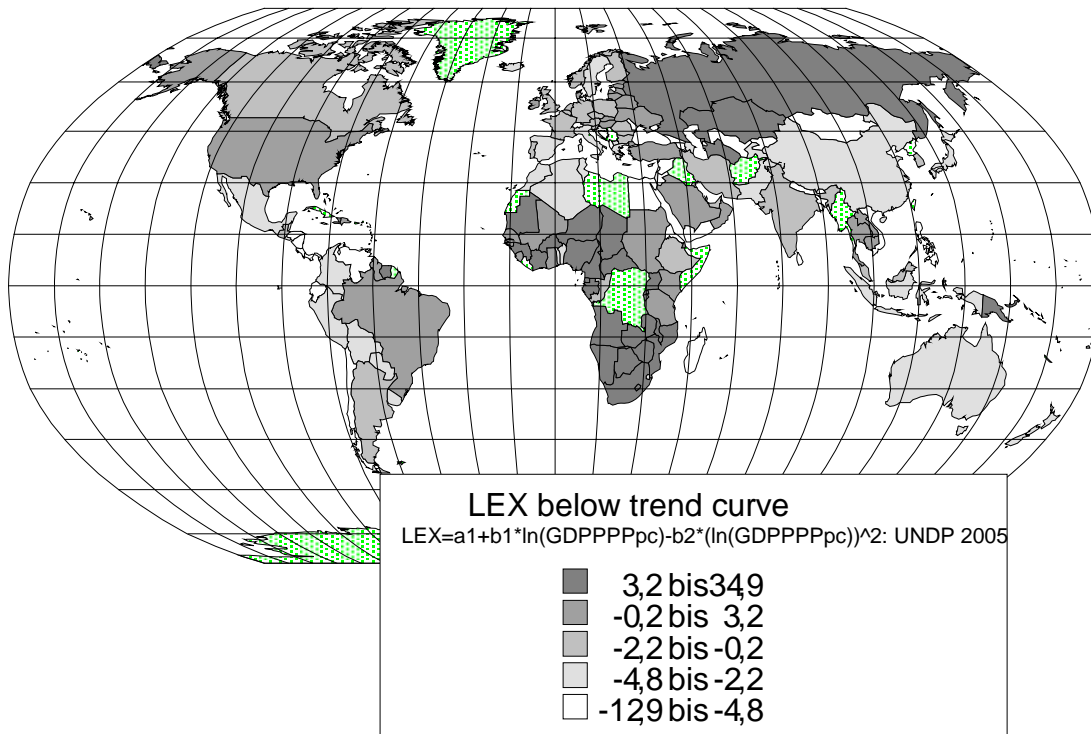


Source: our own calculations from UNDP and UNCTAD sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

The gaps in life expectancy development in relation to the non-linear trade-off with the level of productive forces are distributed in the following fashion among the countries of the world system:

Map 26: structural violence in the world system

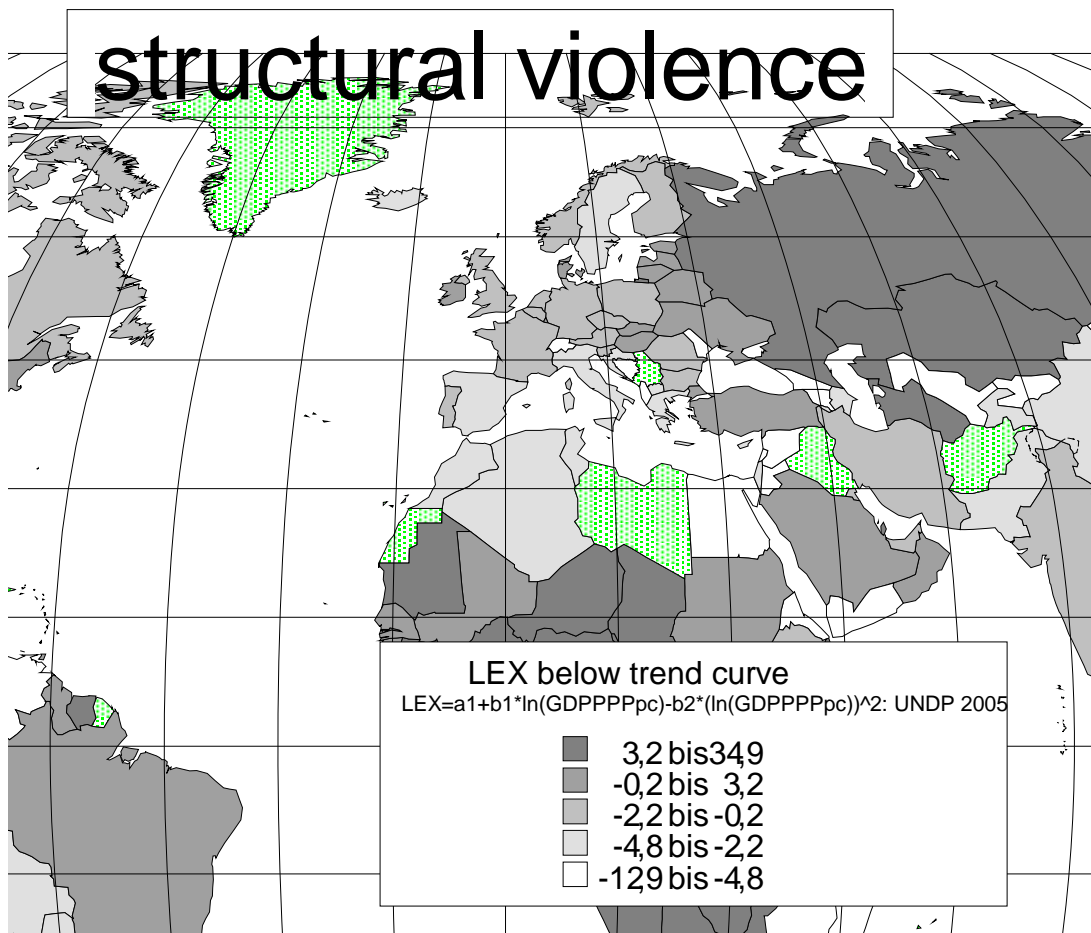
# structural violence



Source: our own calculations from UNDP and UNCTAD sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

Legend: "bis" is the shorthand for "ranging from" "to". Countries marked in green color: missing values

Map 27: Structural violence in Europe



Source: our own calculations from UNDP and UNCTAD sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

Legend: "bis" is the shorthand for "ranging from" "to". Countries marked in green color: missing values

The 15 predictors in our equations measure the already achieved development level as an important control variable for possibly diminishing returns on capital as well as 4 variables of globalization, 4 variables measuring state sector influence in the economy, and 4 variables measuring demography and balancing work and family life.

**The choice of the 173 countries was determined by the availability of a complete data series for these independent variables (if not mentioned otherwise, UNDP data):**

### Independent variables

1	TRF04^2 total fertility rate, squared, 2004 (UNDP, 2006)
2	MNC PEN 1995 MNC penetration per GDP (UNCTAD)
3	DYN MNC PEN (increase MNC penetration, 1995 – 2000, UNCTAD)
4	public education expenditure per GNP, 1998 (time-lagged) (UNDP, 2000)
5	public health expenditure per GDP, 2003/2004 (UNDP, 2006)
6	tax revenue as % of GDP, 1998 (time-lagged) (UNDP, 2000)
7	age6504 percentage of people above 65 per total population, 2004 (UNDP, 2006)
8	EXP 90 exports per total GDP, 1990 (time-lagged) (UNDP, 2006)
9	female economic activity rate as % of male rate 2004 (UNDP, 2006)
10	GDP per capita (PPP US\$) rank minus HDI rank (priority of human development as a social policy goal over economic growth; UNDP, 2006)
11	ln GDP natural logarithm of GDP per capita in real purchasing power parities, 2004 (UNDP, 2006)
12	ln GDP^2 natural logarithm of GDP per capita in real purchasing power parities, squared, 2004 (UNDP, 2006)
13	comparative price level – low comparative price level: GDP PPP/GDP exchange rate, 1998 (time-lagged, calculated from UNDP 2000)
14	TFR04 total fertility rate, 2004 (UNDP, 2006)
15	UNDP type Balancing work and family life index (calculated by a UNDP/Sen-type of index, built after the model of the human development index, composed of the sub-indices, ranging from 0 (worst value) to 1.0 (best value) for: Female economic activity (ages 15 and older), 2004; Probability at birth of surviving to age 65 female, 2004; TFR04 (total fertility rate 2004); under-five mortality rate 2004, all based on UNDP 2006)

The list of our dependent variables is the following. We claim to present with this analysis a fairly comprehensive synopsis of the logic of post-1989 development and its effects on the “human condition”:



## Dependent variables

16	GDPPC90-2004, GDP per capita growth, 1990 – 2004 in real terms, UNDP 2006
17	GDPPC75-2004, GDP per capita growth, 1975 – 2004 in real terms, UNDP 2006
18	GDPPC90-2004, GDP growth, 1990 – 2004 in real terms
19	Gender empowerment index, UNDP 2006 (A composite index measuring gender inequality in three basic dimensions of empowerment—economic participation and decision-making, political participation, and decision-making and power over economic resources. 0 – worst value, 1.0 best value)
20	Human development index (HDI) value 2004, UNDP 2006
21	Life expectancy at birth 2000/2005, UNDP 2006
22	RAT2020 Quintile ratio – differences in real incomes between the top 20% and the bottom 20% in society, UNDP 2006

In general, terms, we explain development performance by the following standard multiple cross-national development research equation:

**(Equation 1) development performance**  $_{1990 - 2004} =$

$a_1$

### DIMENSION DEVELOPMENT LEVEL AND ITS NON-LINEAR TRADE-OFFS WITH DEVELOPMENT PERFORMANCE

$\pm b_1$ \*first part curvilinear function of **development level**  $\pm b_2$ \*second part curvilinear function of **development level**

### DIMENSION GLOBALIZATION

$\pm b_{3..}$  \***stock of transnational investment per GDP** (UNCTAD)  $_{mid\ 1990s}$   $\pm b_{4..}$  \***unequal exchange** (ERDI, low comparative price levels)  $\pm b_{5..}$  \* **DYN MNC penetration**  $\pm b_{6..}$  \* **world economic openness** (exports per total GDP, time-lagged)

### DIMENSION STATE SECTOR INTERVENTION IN THE ECONOMY

$\pm b_{7..}$  \* **public education expenditures per GDP** (state sector variable 1)  $\pm b_8$  \* **public health expenditures per GDP** (state sector variable 2)  $\pm b_9$  \* **tax revenue** as an indicator of **state interventionism** (state sector variable 3)  $\pm b_{10}$  \* **priority of human development** as a social policy goal over economic growth (state sector variable 4)

### DIMENSION BALANCING WORK AND FAMILY LIFE

+ -  $b_{11}$  \* first part **curvilinear** function of **fertility rates** +-  $b_{12}$ \*second part **curvilinear** function of **fertility levels** +-  $b_{13..}$  \* share of people above 65 per total population (**aging process**) +-  $b_{14..}$  \* **balancing work and family life** +-  $b_{15..}$  \* **female economic activity rate as % of male rate**

For all equations, missing values were substituted by the mean.

## 8. "Destructive creation" and global development – presenting and interpreting the new empirical evidence

**Schumpeter's observations** about the **destructive creation** inherent in the process of capitalist development, his observations about the sociological limits, which the formation and continuity of capitalist elites encounter in the long-run development of the "market economies" as well as his strong belief in the cyclical nature of capitalist development, are all relevant for the interpretation of our empirical results.

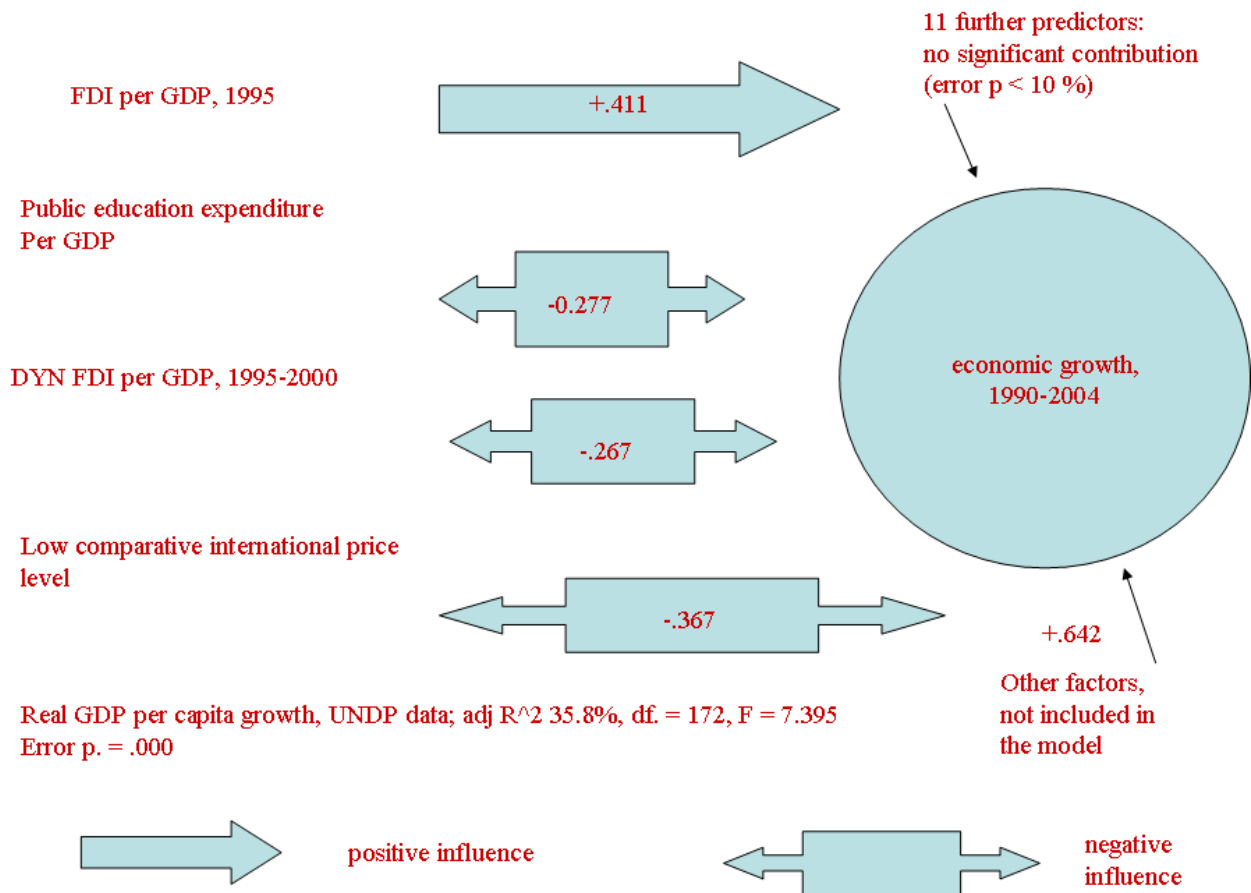
For one, **economic growth** in the long run is today strongly determined by the **long-run positive effects of foreign direct investments per GDP of the host countries**, while at the same time – and contrary to the traditional expectations of neo-classical economics – the more **short-term effects of heavy foreign direct investment inflows on the host countries of FDI** are – *ceteris paribus* – and this is an important qualification – **negative**. Transnational corporations do not like, it seems, an environment of instability, and rather prefer the **high-wage, high quality, and high-price economies of the typical West European countries**, where their penetration rates of the host countries are still highest. Readers of this paper are again referred to the dramatic results recently published by the GD for Regional Policy at the EU-Commission (Map 21c of this work).

The critique in the spirit of Yotopoulos and other social scientists of the drive to lower the **comparative international price level**, which we already debated at great length above, is strongly vindicated by our empirical results. Unequal exchange, or low comparative international price levels, **ARE** *ceteris paribus* one of the most important impediments against long-run economic growth.

At the same time, it is clear that **state sector influence** on the economy finds its limits in the post 1989 political economy of the world. However, it is not tax revenue and it is not public health expenditures per GDP, and it is not the priority of human development as a social policy goal over economic growth, but **public expenditures in education**, which yield the most robust **negative (!)** effect on the economic growth rate.

In the post-1989 we have privatized airlines and railways, shipyards and steel works, we privatized government services, but we did not privatize – or privatize to a very significant degree – education, while in the leading countries of world capitalism, which again and again are quoted in the context of the Lisbon process, large sectors of the education system, especially at the tertiary level, are private. Chapter 9 of our work will be entirely dedicated to this subject.

**Diagram 4a: a causal path/regression model of economic growth in the world system, 1990 – 2004**

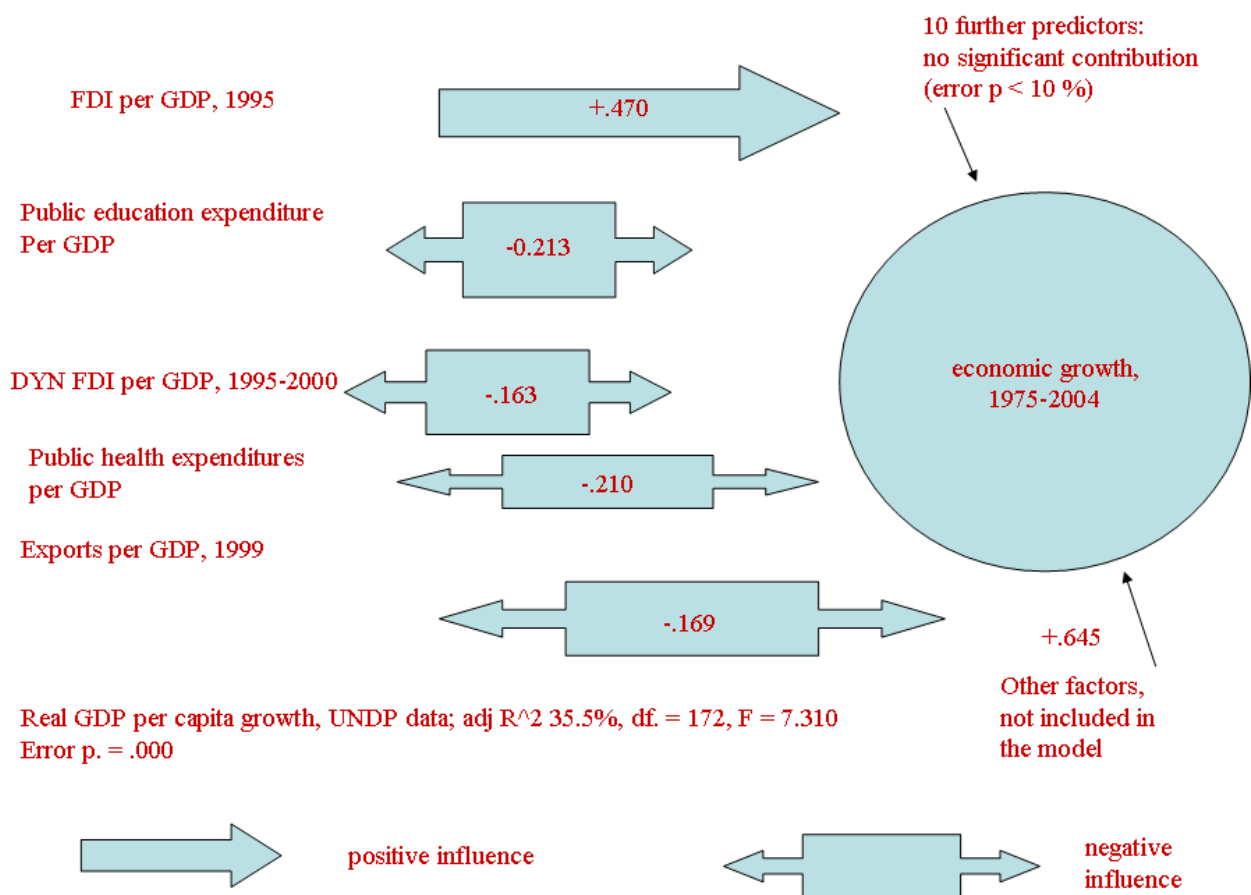


Explanation: the numbers are beta-weights in multiple regressions. PIN = .05; POUT = .10, mean substitution of missing values. Source: our own calculations based on UNDP data 2000 – 2006, and UNCTAD data (World Investment Survey). SPSS version 14, August 2007, provided by Innsbruck University. Error p < 10 %: the 11 insignificant predictors were not significant at the 10% error probability level.

For the explanation of **economic growth over the very long period (what the present author once called the “development marathon”)**, in addition to the above-mentioned processes, the negative effects of the (rising) **public health costs per GDP** are evident as one of the main **negative determinants of economic growth**. In addition, the negative, long run effects of the **globalization** process, as measured by low comparative prices or unequal exchange, are now being taken over by the **export share per**

**GDP.** Contrary to dozens of analyses, written by neo-classical economists, the **long-run negative effects of very radical pro-globalization policies on economic growth are clear.** As we stated already above, **transnational corporations** are interested above all in **stable and growing home-markets**, fuelled by mass-demand and high-quality services, and they are not at all interested in the **long run** in “**republics for export**” with no stable and large home markets. Bad for the neo-liberals, but also bad for populists and conventional left-wing radicals, **transnational corporations are not interested in “superexploitation”, but in quantity and quality markets.**

**Diagram 4b: a causal path/regression model of economic growth in the world system, 1975 – 2004**



Explanation: the numbers are beta-weights in multiple regressions. PIN = .05; POUT = .10, mean substitution of missing values. Source: our own calculations based on UNDP data 2000 – 2006, and UNCTAD data (World Investment Survey). SPSS version 14, August 2007, provided by Innsbruck University. Error  $p < 10\%$ : the 10 insignificant predictors were not significant at the 10% error probability level.

Now, the fact has to be explained that at present economic growth in East Central Europe and in the European periphery in general is currently faster than in the center. The negative effects of the “destructive creation” element of rising FDI are **smaller** than the **positive** effects of the still lower public expenditures in education and health in the periphery and semi-periphery. Another point for the explanation of rapid growth in Eastern Europe over the last years is that, contrary to the implicit recommendations to achieve a low Lisbon target comparative price level, the European periphery practiced the **“Balassa/Samuelson-effect”**: **rising wages in the non-tradable sector, especially in state sector services, financed by the state budget**. Another point to be kept in mind is the **difference in the phases of the long economic cycles, existing between the cycles of the center and the cycles of the periphery**.

This idea we have to discuss more in detail. Long-run economic cycles can also be traced back to **Schumpeter**, although it originated from **Nicolai Kondratiev**. **Schumpeter took up Kondratiev’s ideas about long cycles in the world economy enthusiastically**.

**This has also profound implications for the research agenda of the transformation process for today**. For one, Nicolai Kondratiev’s work and personality now received due international attention. **Kondratiev** never yielded to pressure put on him by the Stalinist regime of his time to renounce his ideas, and **was killed 1938 in the GULAG**. Although many contemporary economists treat the legacy of Kondratiev with utter contempt, Louçã could show that several **major figures of economics** of the 20<sup>th</sup> Century, **among them Economic Nobel Prizewinners**, were deeply impressed by Kondratiev’s research. It suffices to mention here not just Joseph Alois Schumpeter and also in a way **Simon Kuznets**, but **Ragnar Frisch; Gottfried Haberler; Alvin H. Hansen; Walt Rostow; and Jan Tinbergen**. The **revival of Kondratiev research** in the 1960s and beyond is linked to the simulation efforts of **Jay Forrester** at the MIT in the context of his world modeling for the **Club of Rome**. IIASA developed a highly sophisticated debate on the issue, centered mainly on the works of the **physicist Cesare Marchetti** and the **Portuguese systems scientist Tesselano Devezas**. Devezas’ research is particularly noteworthy here, because it combines sociological insights into values and generations with the mathematics of cyclical swings in economics and demography. **Forrester** reproduced a 50-year pattern for the US-economy, based on his System Dynamics National Model (NM-model), which is

based on 15 sectors. Marchetti moved the debate away from price series to physical quantities, including production and energy consumption. Unfortunately, as sophisticated and statistically satisfying as this IIASA debate might sound, it has been rather overlooked by both the mostly Marxist and world system supporters of Kondratiev waves and by their economist detractors.

Early on, the **United States Central Intelligence Agency** commissioned a research paper by Ehud Levy-Pascal in the 1970s on Kondratiev cycles, and it was published in 1976. The Swiss world system sociologist Volker Bornschier also carried out quantitative sociological surveys of Kondratiev type of waves, studying long data series of social conflict and social deviance. In addition, a decisive breakthrough in the entire debate was the Ph. dissertation by Joshua Goldstein at the Massachusetts Institute of Technology under supervision of Hayward Alker Jr., which was published in 1988. **NATO's** interest in the entire question has an obvious background – long cycle theory allows long-term predictions that are important for military and political contingency planning. Finally yet importantly, **Kondratiev's native Russia fully rehabilitated one of her greatest social scientists of all times and now devotes a state research institute to scientific investigation in his memory.**

**Nikolai Dmytriyeovich Kondratiev** (1892-1938) worked in the Agricultural Academy and Business Research Institute in Moscow. He analyzed **wholesale prices** and then **interest rates, wages** and **foreign trade** in the leading western economies, the **United States, Britain, Germany, and France**. Finally, he also analyzed data on the **production and consumption of coal, pig iron, and lead**. He adjusted production figures to allow for population change and used a **moving average (nine years)** to remove statistical *'noise.'*

Kondratiev downswings were always particularly severe in the Russian periphery of the world system, and the vicissitudes of reform and the re-centralization of government are closely linked to the Kondratiev cycle. The cyclical swings in the periphery are by far more pronounced than in the center and the depressions more severe. The level of inequality is historically higher in the periphery than in the center, but inequality also increases in the centers. Such comparisons clearly suggest three tendencies:

- a) first, a faster growth in the peripheries during the beginning B-phase of the Kondratiev cycle
- b) a more severe depression in the peripheries than in the center
- c) a belated recovery in the periphery

The very logic of industrial processes and basic innovations, as well as the societal models, connected with them, would suggest building cyclical fluctuations into more general theories of development (Amin, 1997). Blast furnaces and other important components of the industrial process, too, have a certain life cycle, comparable with the Juglar and Kuznets cycle, just as

technical innovations are scattered in a non-random fashion along time, coinciding with the Kondratiev cycle (Bornschiefer, 1988 and 1995; for a very comprehensive summary Scandella, 1998). There are short term instabilities of **3 to 5 years duration (Kitchin cycles)**, **8-11 years duration (Juglar cycles)**, **18-22 years duration (Kuznets waves)**, and longer, **40-60 year Kondratiev waves**. Our following dating scheme could be suggested in the light of the Schumpeterian theory tradition (Scandella, 1998). Global capitalism since 1740 had the following **Kuznets cycles** (our calculations based on the untransformed rates of global industrial production growth, 1740 - 2004), based on polynomial expressions of the sixth order:

1741-1756;  $R^2 = 23.5 \%$   
 1756-1774;  $R^2 = 36.1 \%$   
 1774-1793;  $R^2 = 34.8 \%$   
 1793-1812;  $R^2 = 39.7 \%$   
 1812-1832;  $R^2 = 16.4 \%$   
 1832-1862;  $R^2 = 25.7 \%$   
 1862-1885;  $R^2 = 36.3 \%$   
 1885-1908;  $R^2 = 56.2 \%$   
 1908-1932;  $R^2 = 44.2 \%$   
 1932-1958;  $R^2 = 19.1 \%$   
 1958-1975;  $R^2 = 60.9 \%$   
 1975-1992;  $R^2 = 75.8 \%$

We tended to analyze the period between **1756 and 1832** as the **first Kondratiev cycle** of the industrial age, the period between **1832 and 1885** as the **second Kondratiev cycle**, the period between **1885 and 1932** as the **third Kondratiev cycle**, and the period between **1932 and 1975** as the **fourth Kondratiev cycle**. Therefore, according to this logic, we are now in the **fifth Kondratiev cycle** of the industrial age; with one Kuznets cycle after the depression of the mid-1970s already well behind us, and the second Kuznets cycle since 1992 pointing in a downward direction.

For Bornschiefer, there are the following phases in the K-cycle:

Upswing  
 Prosperity  
 Prosperity-recession  
 Crisis  
 Temporary recovery  
 Depression

Our tests, which we reported in full elsewhere in our current publications, show that our Bornschiefer dating scheme much better corresponds to the structure of world production data than the alternative, proposed by Goldstein. This



scheme is in line with the dating scheme proposed by Phil O'Hara, and Ernest Mandel, among many others. However, this dating scheme might very well correspond to the movement of prices.

For us **1756, 1832, 1885, 1932** and **1975** are the beginnings of new **Kondratiev waves**, while **1756, 1774, 1793, 1812, 1832, 1862, 1885, 1908, 1932, 1958, 1975, and 1992** are the **turning points (troughs) of the Kuznets cycles**.

It also should be noted that the hypothesis about B-phases of the Kondratiev waves – a very strong linear or non-linear down-ward swing of about 20 years duration, - receives at least some direct confirmation from the untransformed, original new world industrial production growth data, based on Goldstein (1740 – 1974 and UNIDO Statistical Office, 1975 – 2004). Working with a polynomial expression of the third order, we arrive at the following  $R^2$  for our B-phases of the Kondratiev waves.

For all 20-year periods before our measurement points, the B-phase-hypotheses are confirmed:

pre-1756	12, 8 %
pre-1832	6, 5 %
pre-1885	8, 9 %
pre-1932	41, 8 %
pre-1975	28, 4 %

There is indeed compelling reason to believe that the **rhythm** of stop-go movements in the **world economy will shorten**, thus living out one of the basic predictions of Marxian economic thought: during the *belle époque* of world capitalism in the 19<sup>th</sup> Century, a time difference of 23 or more years between the troughs of one Kuznets cycle and the next one was very common, while today we seem to be heading towards time periods of 17 years.

Now, one of the most intriguing features of contemporary capitalism is the fact that vigorous upswings need to be supported by a **tightly organized new world political hegemonic order**, while the **strength of the downswings and the severity of the depressions always are a function of the waning world political order**. Like a little ship that is out there in rough seas, with very strong tidal waves pushing the ship away from the coast. All real major depressions in the world system were **hegemonic transition phases**, and all these major crises thus had the character of what the present author calls a **"Tsunami wave" of world politics** that each time was also connected with terrible social upheavals, depressions and the onsets of major power wars, like the great crash of the early 1340s, which marked the beginning of the Genoese age (Arrighi) or Portuguese and Genoese age (Modolski), the crash of the 1560s, which marked the beginning of the Dutch era, the depression of the 1750s and 1760s, which marked the beginning of

the British era, and the Great Depression in the 1930s, which was the terminal crisis of British world capitalist dominance (Arrighi, 1995).

By re-analyzing latest conflict data (great power battle fatalities from all wars, Goldstein, 1988 and COW/PRIO, 2005, from 1495 to 2002 and as yet unpublished UNIDO data about the growth of world industrial production 1740 – 2004 we could show in Tausch/Ghymers, 2007 that the **long Kuznets and Kondratiev swings and cycles of capitalist world development** that play such an important role in the analysis of global war since 1495 **have indeed not ended** after the end of Communism, and that instability, and not stability, characterize the world economy, and that there is an indented “W” shaped pattern of global conflict since 1495 that did not end with the end of the Cold War. To this effect, we presented in other works new conflict data for the involvement of the Great Powers (from 1945 onwards UN Permanent Security Council members + Germany, before 1945 definition Goldstein 1988, based on the works of Levy, see page 235 in Goldstein 1988) in wars (annual battle fatalities) for the entire period 1945 – 2002, based on standard peace research data (PRIO Oslo, Correlates of War data).

World hegemonies, which characterize the workings of world capitalism, arise and they end. As it is well known in world system research, especially from the works of Arrighi and Silver, there are signal crises of world capitalism (the usual Kondratiev depressions), and there are terminal crises of the world system, when hegemonies end. Peaceful transitions from one hegemony to the other are among the most intricate questions of peace research and peace policy of our time. These moments of world hegemony transformation, as Arrighi and Silver and as Boswell (1999), have shown, are especially dangerous culminations of world depressions, and are characterized by a subsequent fight for world hegemony. Regulation can be successful, like after 1560, and 1930, and deregulation can be successful, like after 1340, 1760, and - most probably - the 1980s (compiled from Arrighi, 1995).

At any rate, the contemporary geographic and systemic **selective retreat** of the respects **for civil rights** around the globe – an average positive trend development 1995 – 2003 notwithstanding -, suggests that **freedom is on the retreat precisely in those regions, where there were gains in freedom and human rights owing to the transformations of 1989 and the second and third wave of democratization of the 1980s and 1990s**, thus partially contradicting the liberal globalist optimism inherent in the analysis by Soysa and Gleditsch (2002). The **retreat of democracy and human rights will most probably go hand in hand with a more conflict-oriented foreign policy in years to come**. Under the weight of globalization and the openings of markets, the weak economies and societies of the former communist world and several democracies of the South witness a real retreat of civil liberties, exacerbated by the recent wave of increasing and lamentable human rights abuses in the context of the *“global war on terror”*.

At this stage, it is again important to look into the cycles of reform and regime tightening in the ex-USSR. Just as during the world depression of the 1930s democracy could not survive in the region (Polanyi, 1944), today the danger arises that instability, and not democratization will triumph in the end, especially in countries like those of the former USSR. The turning points in the long waves between the ascents and decline phases (B-phases) were always the beginnings of political decay in the region, while the ascent phases were associated with authoritarian modernization; time lags between the Western cycle and the Eastern semi-periphery and periphery have to be taken into account. The decisive-*kairos*-years are (dates before 1756 from Goldstein, 1988):

1509  
1539  
1575  
1621  
1689  
1756  
1832  
1885  
1932  
1975

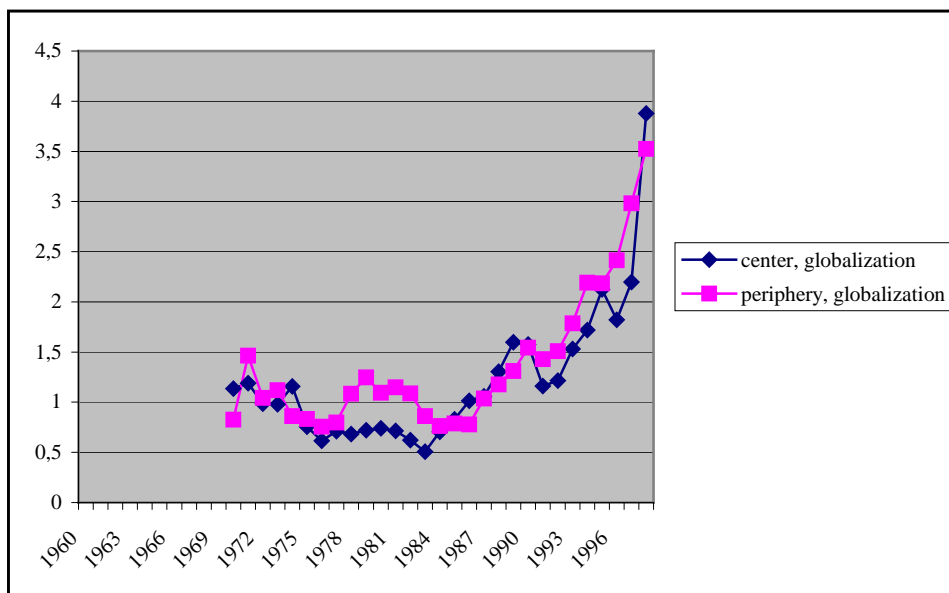
The former hegemonic contenders from earlier global wars slowly slide into a non-acceptance of their status in the international system. The real power struggle erupts already soon after the great hegemonic war, and through the vicissitudes of the history of the system evolves slowly into the hegemonic challenge. Seen in such a way, not 1989, but Korea and Vietnam could become rather the benchmarks of the future W-structure of conflict in the international arena.

Apart from the well-known data on conflicts per decade in the world system over the last 500 years (Brecke, 1999) that show no secular trend towards peace under globalization, we are especially preoccupied about the economic growth and war intensity connection that seems to have evolved in the world system, if not earlier, than at least since 1946. It is entirely possible that a military Keynesian consensus will emerge in the world system, but that will be a consensus towards rising international tensions.

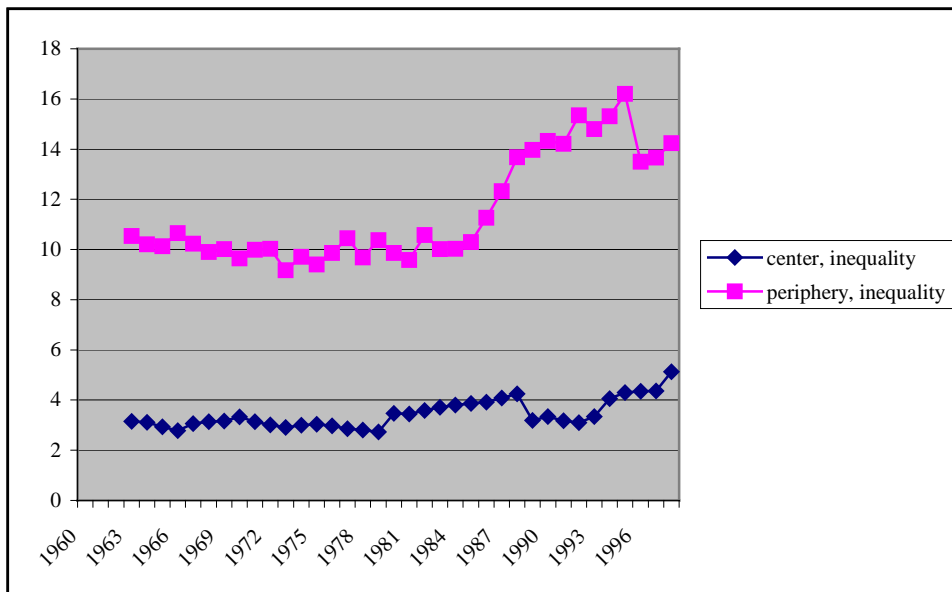
The combination of factors that favor war and not peace in the world system could not be more adverse for the new democracies of Eastern Europe: the relationship between declining world political order (as measured by the Attinà defense pact index), declining world economic growth (as measured by the rates of world industrial production growth), rising war intensity (that only leveled off in the 1990s in order to increase anew, see above) and rising world inequality (as measured by the rising world GINI inequality index, calculated by Schultz) have to be reconsidered.

In this context, it should be emphasized that the recent Russian re-reading of N. D. Kondratiev also touches on the **nature of waves in the center and in the periphery**. Especially the contemporary Russian economist Aleksandr Bobrovnikov put forward an interesting frame of reference, in fact linking the Kondratiev cycle debate with *dependencia* theory. **Bobrovnikov makes the point that transnational capital flows during the beginning downswing in the center to the periphery, where the belated cycle still allows huge profits; during the belated periphery depression, transnational capital again flows to the center, thus exacerbating the debt crisis in the periphery.** A stylized comparison between the cycle of the center (17 center countries) and 61 periphery countries with reasonable complete data show the relevance of this point:

**Graph 11: globalization in 17 center countries and 61 periphery countries since 1960**



**Graph 12: inequality in 17 center countries and 61 periphery countries since 1960**



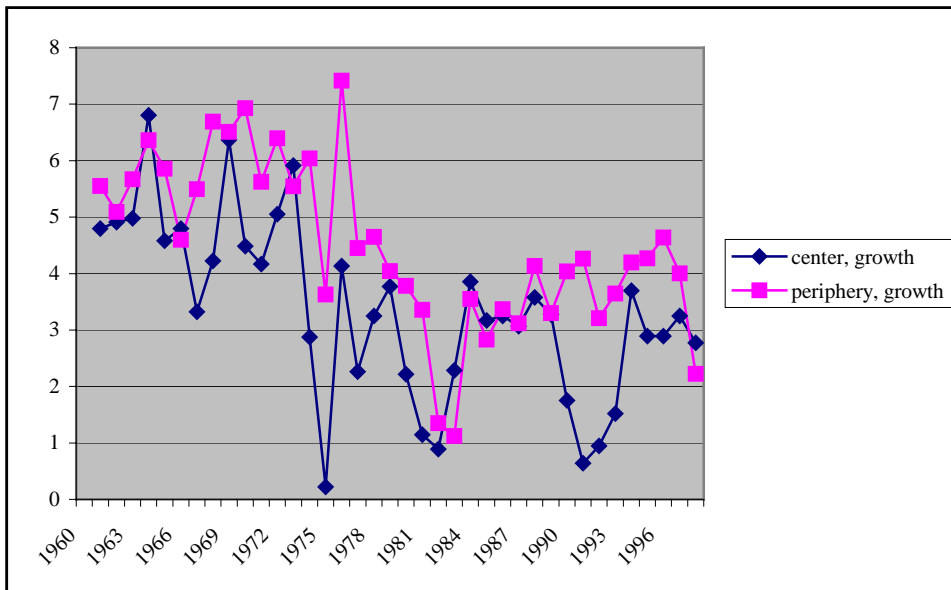
Legend and sources for all three graphs: based on data published by the ILO, the UTIP project at the University of Texas, and the World Bank. These analyses of the dynamics in the world system used the time series of globalization, economic growth (Global Development Network Growth Database, William Easterly, and Mirvat Sewadeh, World Bank), unemployment (Laborsta ILO), and inequality (UTIP, University of Texas Inequality Project, Theil indices of inequality, based on wages in 21 economic sectors) since 1980. In the global comparison, the following countries were compared: **17 countries of the center:** Australia, Austria, Belgium, Canada, Denmark, Finland, France, Iceland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Sweden, United Kingdom, United States. **61 countries of the periphery:** Bangladesh, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cote d'Ivoire, Ecuador, Egypt Arab Rep., El Salvador, Fiji, Gabon, Ghana, Greece, Guatemala, Haiti, Honduras, Hong Kong, China, Hungary, India, Indonesia, Iran, Islamic Rep., Ireland, Israel, Jamaica, Jordan, Kenya, Malawi, Malaysia, Malta, Mauritania, Mauritius, Mexico, Morocco, Nepal, Nicaragua, Nigeria, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Portugal, Saudi Arabia, Senegal, Singapore, South Africa, Spain, Sri Lanka, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Uruguay, Venezuela, RB, Zambia, Zimbabwe; see also Tausch and Ghymers, 2007

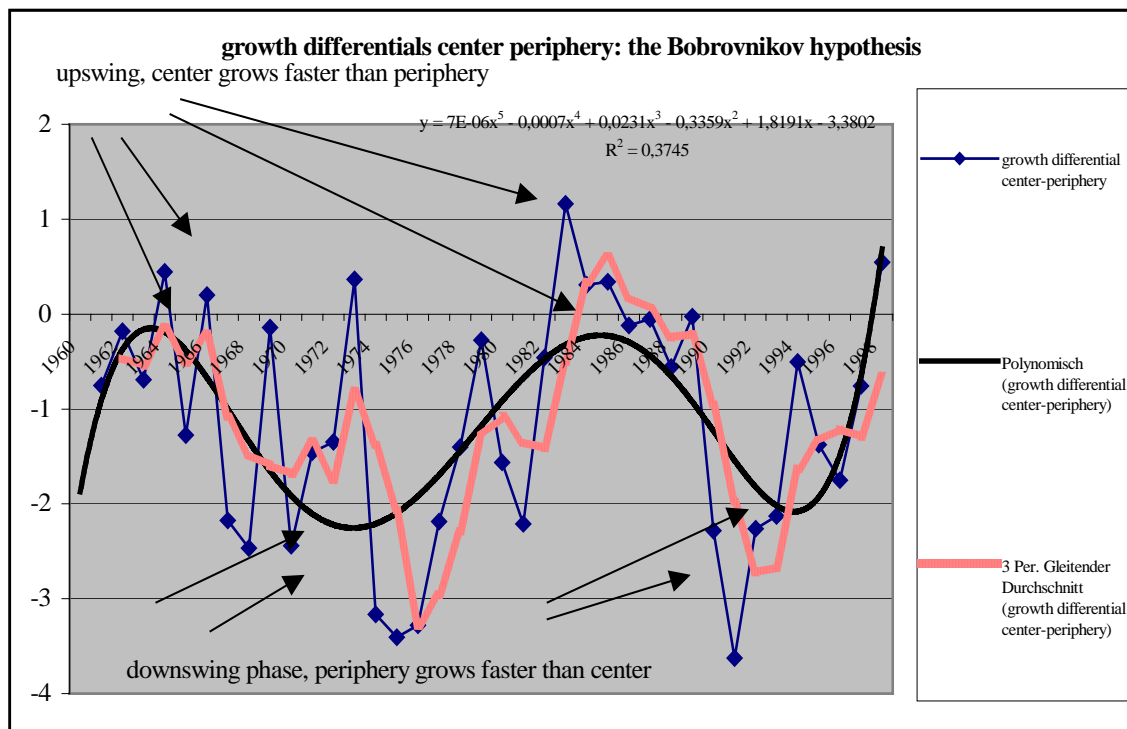
Kondratiev downswings were always particularly severe in the Russian periphery of the world system, and the vicissitudes of reform and the re-centralization of government are closely linked to the Kondratiev cycle. Looking at the growth and development differentials, Bobrovnikov's such important point for world systems governance receives a dramatic illustration. **The cyclical swings in the**

periphery are by far more pronounced than in the center and the depressions more severe. The level of inequality is historically higher in the periphery than in the center, but inequality also increases in the centers. Such comparisons clearly suggest three tendencies:

- a) first, a faster growth in the peripheries during the beginning B-phase of the Kondratiev cycle
- b) a more severe depression in the peripheries than in the center
- c) a belated recovery in the periphery

**Graph 13: growth differentials center – periphery, 1960 – 2000**





Legend: 3 Per. gleitender Durchschnitt = 3 year sliding average. Based on data published by the ILO, the UTIP project at the University of Texas, and the World Bank. These analyses of the dynamics in the world system used the time series of globalization, economic growth (Global Development Network Growth Database, William Easterly, and Mirvat Sewadeh, World Bank), unemployment (Laborsta ILO), and inequality (UTIP, University of Texas Inequality Project, Theil indices of inequality, based on wages in 21 economic sectors) since 1980. Again, note the point made by Professor Aleksandr Bobrovnikov in Moscow: transnational capital flows during the beginning downswing in the center to the periphery, where the belated cycle still allows huge profits; during the belated periphery depression, transnational capital again flows to the center, thus exacerbating the debt crisis in the periphery. In the global comparison, the following countries were compared: **17 countries of the center:** Australia, Austria, Belgium, Canada, Denmark, Finland, France, Iceland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Sweden, United Kingdom, United States. **61 countries of the periphery:** Bangladesh, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cote d'Ivoire, Ecuador, Egypt Arab Rep., El Salvador, Fiji, Gabon, Ghana, Greece, Guatemala, Haiti, Honduras, Hong Kong, China, Hungary, India, Indonesia, Iran, Islamic Rep., Ireland, Israel, Jamaica, Jordan, Kenya, Malawi, Malaysia, Malta, Mauritania, Mauritius, Mexico, Morocco, Nepal, Nicaragua, Nigeria, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Portugal, Saudi Arabia, Senegal, Singapore, South Africa,

Spain, Sri Lanka, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Uruguay, Venezuela, RB, Zambia, Zimbabwe; see also Tausch and Ghymers, 2007

**It is also possible that the belated character of the periphery cycle pushed countries like Russia into their military-driven technological cycles.** The world systems approach maintains that without effective world systems governance and peace mechanisms, the world system would threaten to drift back into deadly cycles of hegemonic challenge and global wars. History did not end in 1989, thus, only flags have changed, the world systems approach would say. According to Goldstein's empirical analysis in particular (1988), the capitalist world system tends continuously towards wars and violent conflicts.

In methodological terms, our re-formulation of Bornschier's dating scheme (1996, 1988), which is also based on sociological long-term data, received a relative confirmation (Tausch/Ghymers, 2007). Although we date the trough in the 1830s earlier than Bornschier, we coincide with his analysis of the 19<sup>th</sup> Century and large sections of the 20<sup>th</sup> Century. Having been written originally in the late 1980s, Bornschier's work is somewhat unclear about the crisis in the last part of the 20<sup>th</sup> Century. We always believed that the Reagan boom of the 1980s and the Clinton period boom overcame the culmination point of the stagnation from 1973 onwards. We somewhat differ with other world system scholars on the dating game, for sure:



**Table 9: The Kondratiev cycle dating game****a) untransformed original data**

	O'Hara	Tausch	Dates suggested by sliding correlation method
1st Kondratiev	1779-1847	1756-1832	1756-1819
2nd Kondratiev	1847-1893	1832-1885	1819-1862
3rd Kondratiev	1893-1931	1885-1932	1862-1918
4th Kondratiev	1931-1992	1932-1975	1918-1954
5th Kondratiev	1992-	1975-	1954-1993
R <sup>2</sup> 1st K	2, 59	3, 25	<b>4, 43</b>
R <sup>2</sup> 2nd K	4, 68	1, 5	<b>15, 77</b>
R <sup>2</sup> 3rd K	24, 66	<b>28, 71</b>	7, 39
R <sup>2</sup> 4th K	8, 01	<b>9, 34</b>	5, 59
R <sup>2</sup> 5th K	<b>33, 7</b>	6, 32	23, 14

**b) 9-year sliding averages**

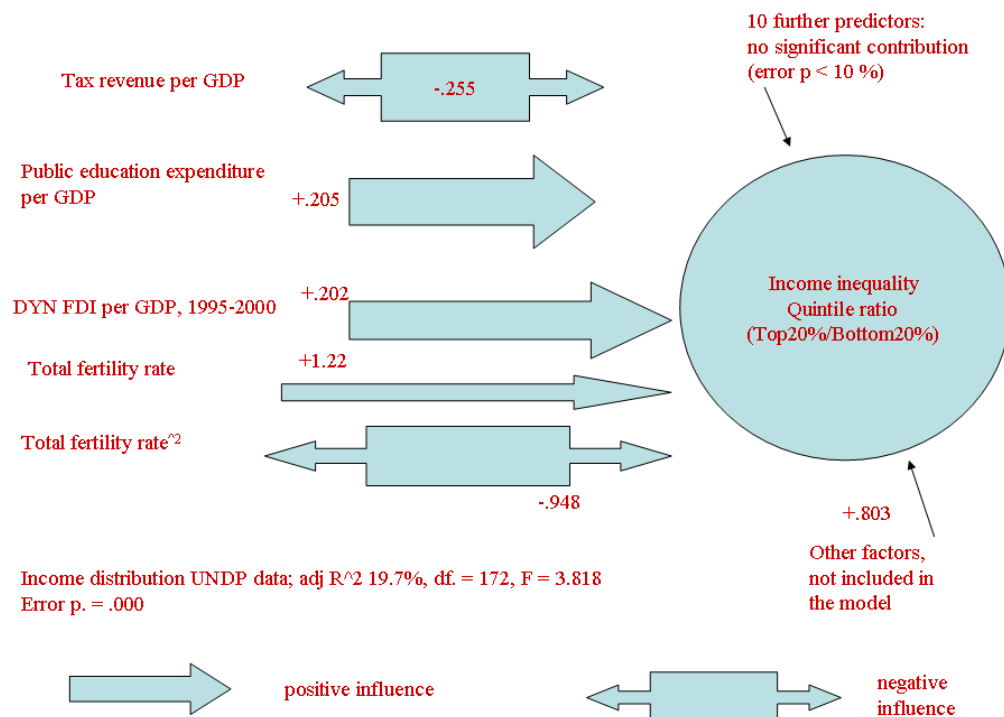
	O'Hara	Tausch	Dates suggested by sliding correlation method
1st Kondratiev	1779-1847	1756-1832	1756-1819
2nd Kondratiev	1847-1893	1832-1885	1819-1862
3rd Kondratiev	1893-1931	1885-1932	1862-1918
4th Kondratiev	1931-1992	1932-1975	1918-1954
5th Kondratiev	1992-	1975-	1954-1993
R <sup>2</sup> 1st K	32,6	41,3	<b>45,6</b>
R <sup>2</sup> 2nd K	25,2	15,3	<b>27,2</b>
R <sup>2</sup> 3rd K	50,0	43,8	<b>65,6</b>
R <sup>2</sup> 4th K	27,7	<b>39,6</b>	32,7
R <sup>2</sup> 5th K	91,9	70,2	<b>92,0</b>

Source: Tausch and Ghymers, 2007

So, while the “fall” and “winter” of the periphery destroys with the force of tropical cyclones the weak social structures at the margins of the world system, the present – outgoing – phase of high growth in Eastern Europe is nothing but an *“Indian summer”*.

Our analysis of the process of inequality only partially confirms the earlier research results, discussed by quantitative sociology. Especially taxes reduce income inequality to a considerable extent, while state sector expenditures in education in reality still increase existing inequalities, basically, because only the upper and the middle income classes are the real beneficiaries of capital intensive education outlays, especially on the tertiary level. There is a typical **“Kuznets” process** of first rising and then shrinking inequality, but this process is not so much driven by the log of income levels and their square – as traditionally assumed in the literature, but by fertility rates and their square. I.e. at rising fertility, rates are associated with higher income inequality, but very high levels of fertility rates work in the opposite direction. As expected by dependency theory, heavy inflows of foreign capital do create additional inequalities, highly rewarding scarce skills, which are not available on the labor market, and making redundant unskilled labor by the high capital intensity of foreign direct investments.

**Diagram 4c: a causal path/regression model of economic inequality in the world system**

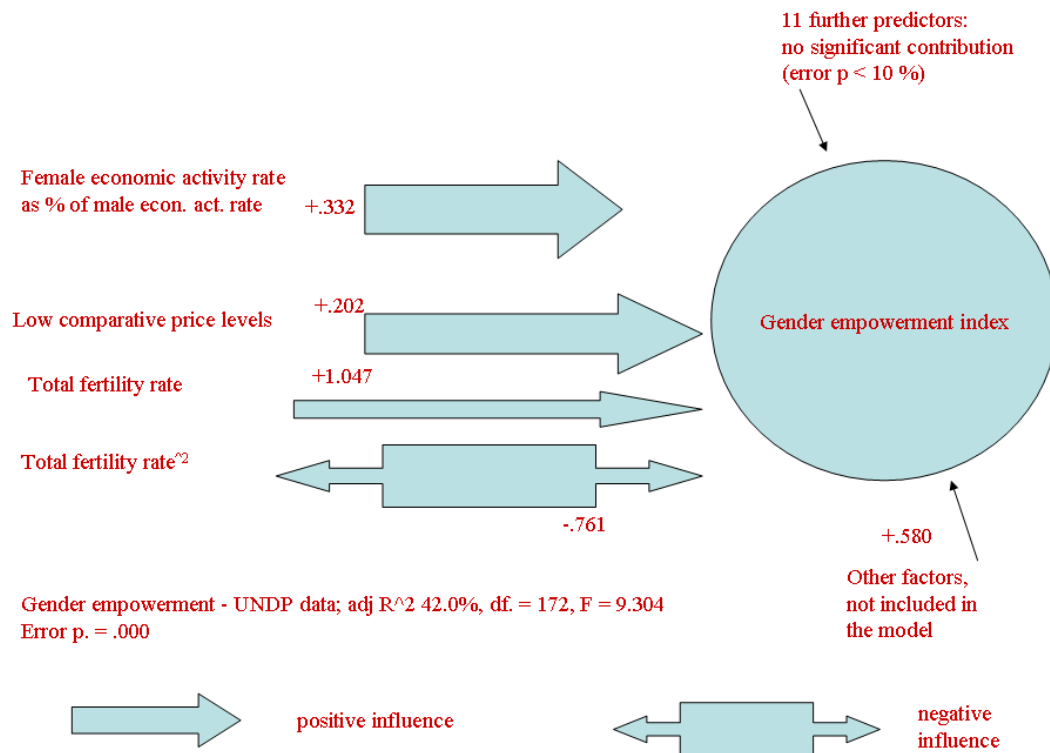


Explanation: the numbers are beta-weights in multiple regressions. PIN = .05; POUT = .10, mean substitution of missing values. Source: our own calculations based on UNDP data 2000 – 2006, and UNCTAD data (World Investment Survey). SPSS version 14, August 2007, provided by Innsbruck University. The Beta-weight >1.0 indicates that there is a high collinearity between the models of the variable. Error p < 10 %: the 10 insignificant predictors were not significant at the 10% error probability level.

Gender empowerment is determined by **high female economic activity rates**; and in addition, **low comparative price levels** – as implicitly foreseen by neo-classical economics – level-off the “*playing field*” in the gender contest for incomes, prestige and power, and indeed work in favor of gender empowerment and work against male privileges in society. **Gender empowerment** rises – as inequality rates do – with **rising** fertility rates, and only at **very high levels of fertility rates gender empowerment is reduced**. This is an important finding in the context of the demographic debates in Europe – very low fertility rates

actually are closely connected to lesser gender empowerment and higher male privileges, and gender empowerment is not only compatible, but also a precondition of “balancing work and family life”:

**Diagram 4d: a causal path/regression model of gender empowerment in the world system**



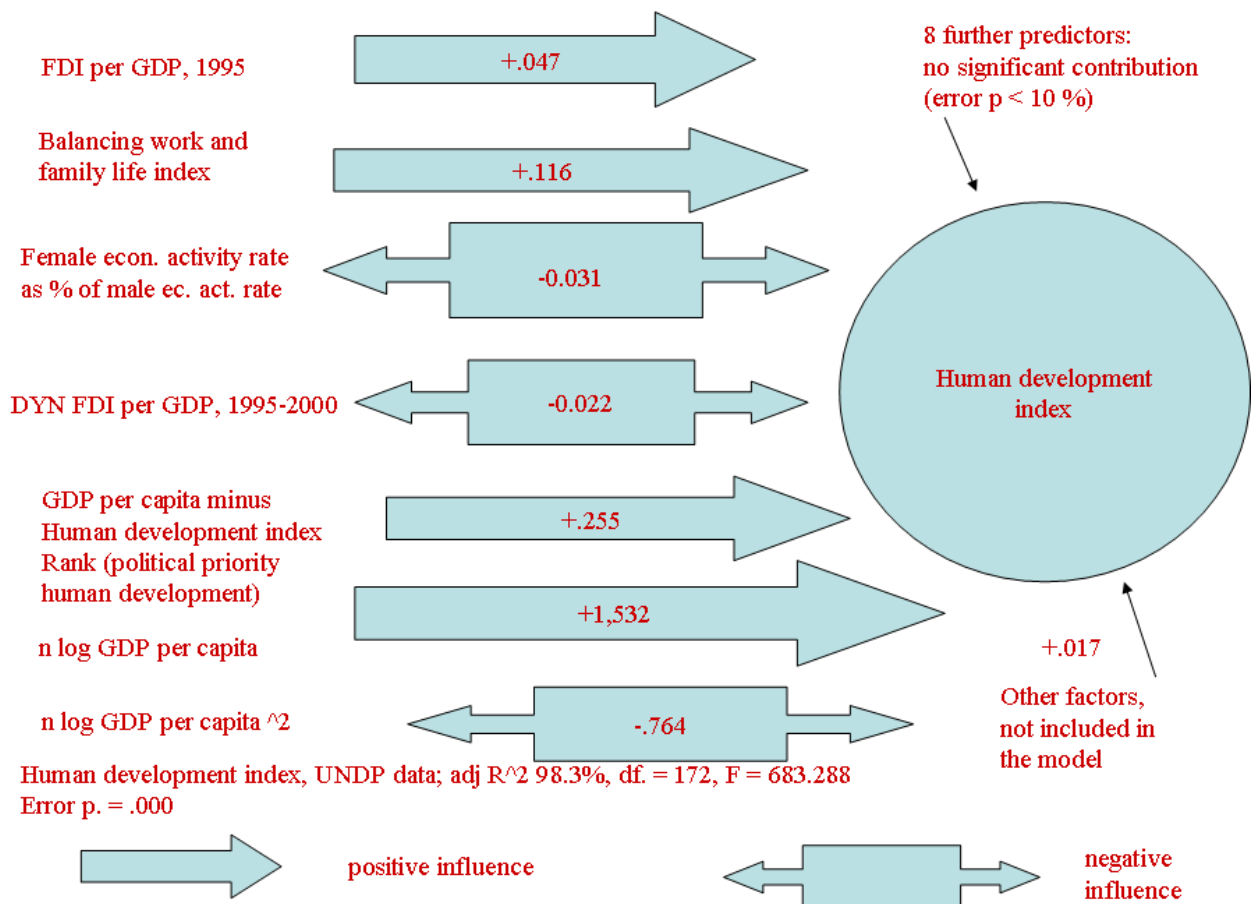
Explanation: the numbers are beta-weights in multiple regressions. PIN = .05; POUT = .10, mean substitution of missing values. Source: our own calculations based on UNDP data 2000 – 2006 and UNCTAD data (World Investment Survey). SPSS version 14, August 2007, provided by Innsbruck University. Error p < 10 %: the 11 insignificant predictors were not significant at the 10% error probability level.

Our next and most probably most encompassing test result is our analysis of the determinants of the **UNDP Human development index**. The UNDP HDI is a real master indicator for the social situation of countries, and is very closely correlated with all available composite measures of the Lisbon performance of a country. **Balancing work and family life** significantly increases the Human development index. **Time lagged foreign direct investment per GDP is closely connected to the human development performance, while fresh inflows of foreign direct investment, by the very nature of the "destructive creation process" first of all increase existing inequalities and also existing human development deficits.** As correctly foreseen by Schumpeter, **capitalism is not that smooth transition phase** and above all has nothing to do with the neat equilibrium worlds of neo-classical equilibrium economics. It is a process of oligopolistic competition, where the power of transnational corporations interacts with the power of national elites and national governments. Latin American sociology of the 1960s and 1970s was very explicit about these structures of inequality, power, and unequal interaction. Fernando Henrique Cardoso, Pablo Gonzales Casanova, Celso Furtado, Osvaldo Sunkel and many others predicted the hardening of these structures and the next to impossibility for the countries of the semi-periphery and periphery to overcome these structures.

In addition, a **strong government social policy orientation in favor of human development is logically very significantly related to the human development outcome.**

There is of course a curve-linear **Kuznets-type of interaction between development levels and the human development index**. There IS a definite possibility of **social decay**, foreseen in our quantitative results, which is or might be a real threat to the European "center". In addition, the center HAS to come to terms with the demographic challenge and with high female economic activity rates. The capitalist work process, which makes dual work in the classically gendered household necessary, **MUST** offer the appropriate institutions, which make the balancing of work and household life necessary.

**Diagram 4e: a causal path/regression model of human development in the world system**



Explanation: the numbers are beta-weights in multiple regressions. PIN = .05; POUT = .10, mean substitution of missing values. Source: our own calculations based on UNDP data 2000 - 2006, and UNCTAD data (World Investment Survey). SPSS version 14, August 2007, provided by Innsbruck University. Error p < 10 %: the 8 insignificant predictors were not significant at the 10% error probability level.

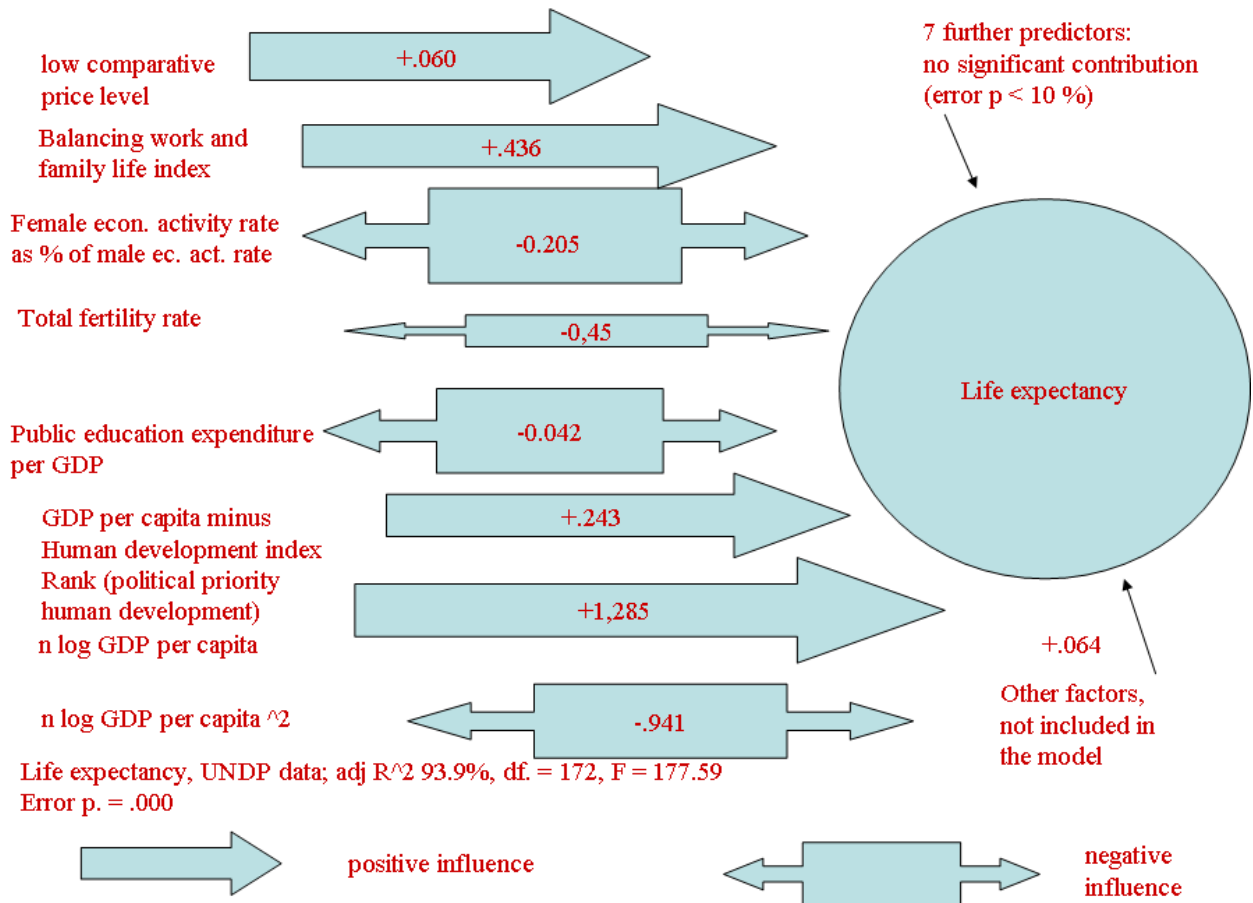
Our last test result is our analysis of the determinants of the UNDP data on **life expectancy**. Again, **balancing work and family life** significantly increases life expectancy.

Again, a **strong government social policy orientation** in favor of human development is logically very significantly related to the life expectancy outcome. **Low comparative price levels, *ceteris paribus***, are positively related to life expectancy, most probably because in aging societies, **cheap social sector services and cheap state sector services** are well compatible with the **24-hour care needs of the very elderly persons**.

There is of course again a curve-linear **Kuznets-type of interaction** between **development levels** and life expectancy. Again, there IS a definite possibility of social decay, foreseen in our quantitative results. The first part of the social Kuznets curve this time is taken up by the indicator "**fertility rates**", indicating that with falling fertility rates in poor countries, life expectancy is rising, and vice versa. The **second**, decay-oriented part of the life expectancy "Kuznets curve", based on incomes per capita in real purchasing power, yields significant results as well. **High public education expenditures** are negatively related to life expectancy, most probably indicating a crowding-out situation between public education expenditures and health and care expenditures for the elderly.

Again, it is shown that the **capitalist work process**, which makes dual work in the classically gendered household necessary, **MUST** offer the appropriate institutions, which make the balancing of work and household life necessary. **Female economic activity rates** are negatively related, under the present conditions of the often to be encountered incompatibility between work and family life, to life expectancy.

**Diagram 4f: a causal path/regression model of life expectancy in the world system**



Explanation: the numbers are beta-weights in multiple regressions. PIN = .05; POUT = .10, mean substitution of missing values. Source: our own calculations based on UNDP data 2000 – 2006, and UNCTAD data (World Investment Survey). SPSS version 14, August 2007, provided by Innsbruck University. Error  $p < 10\%$ : the 7 insignificant predictors were not significant at the 10% error probability level.



## 9. Titanic 2007 – the University system, R&D, the prolonged workbench and that other Lisbon race

In the preceding Chapter, we could show that public education expenditures, *ceteris paribus*, are significantly and negatively related to the performance of any given country in terms of

- Economic growth
- Socio-economic equality
- Life expectancy

The public University system, which on a global scale is above all the continental European University system, is in a **deep crisis**. Like any state socialist system, it produces waiting queues (*“the numerus clausus”*), it produces inefficiencies (see below), and it produces privileges and underprivileged strata; and, like under state socialism, the bureaucracies, which benefit from the system, argue that “social justice” is the main motivation for the existence of the system.

By **“University privatization”**, the present author above all suggests the creation of a market-driven **competitive environment** via a sufficient number of private Universities on the market as well as a **process of free selling and buying of the products of Universities** – above all the core product of a University system - courses for students. The present system in most European countries, the so-called **“Bologna-process”** of coordinating higher education in Europe notwithstanding, could be well characterized by Kornai’s description of a shortage: general shortages, frequent, intensive, chronic, etc. **Tuition fees** are a step in the right direction (see appendix), and also the admission of private Universities to the market are a necessary step. A recent Wikipedia list<sup>1</sup> about **private Universities** around the world should not be considered as exhaustive:

- Australia
- Austria
- Bangladesh
- Chile
- Germany
- Hungary
- Hong Kong
- India
- Lebanon
- United Kingdom
- United States

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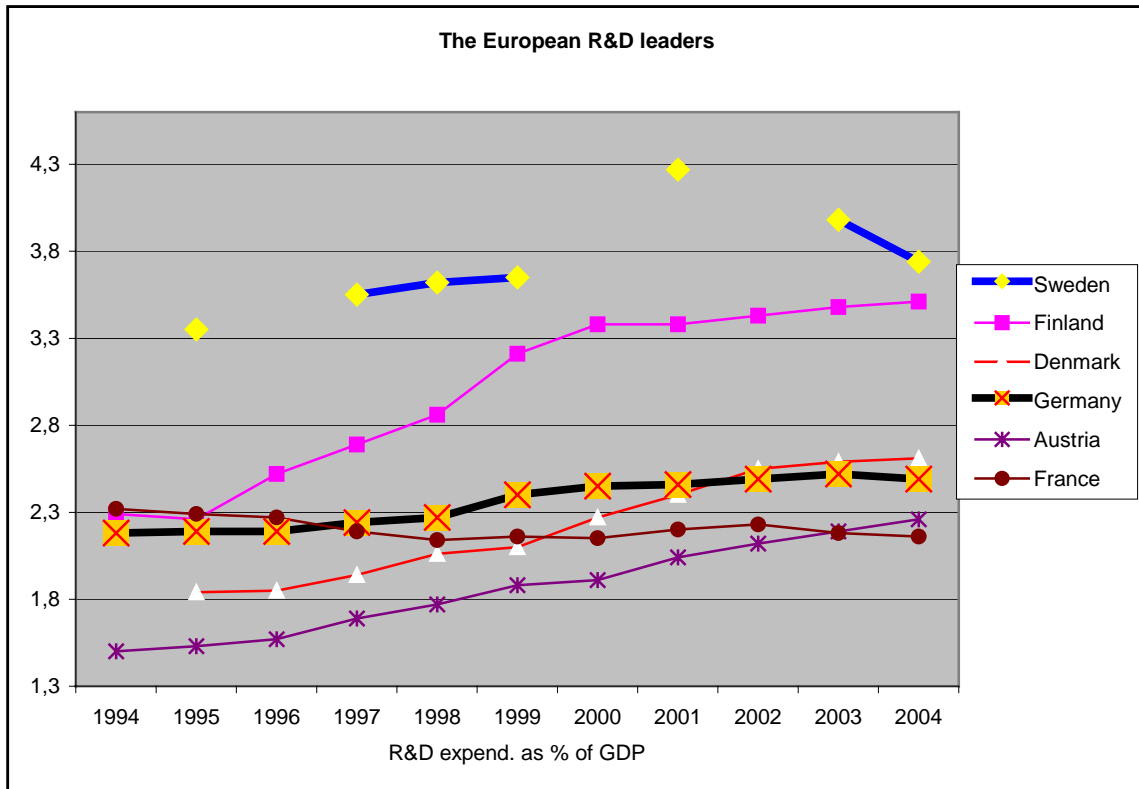
<sup>1</sup> [http://en.wikipedia.org/wiki/Private\\_University](http://en.wikipedia.org/wiki/Private_University)

But also, there is another, more regional aspect in the European University system balance. The **dire predictions** of the preceding chapter are *that "destructive creation"* in the "new Europe" could end up in transforming the Central European region into a **prolonged workbench** of global capitalism, the process of Balassa/Samuelson-inspired catching-up during the recent years notwithstanding.

That **Central Eastern Europe** could become such a peripheral zone of a *"prolonged workbench"* is not just the product of the "wild imagination" of left-wing and Marxist economists, Trozkyists, populists and hard-core nationalists of all sorts. The analysis of the real threat of this to happen emerges also from a serious and detailed analysis of the re-distribution of world scientific power in the early 21<sup>st</sup> Century. This analysis will be the task of the present Chapter. To make a long story short – Eastern Europe did not visibly benefit, it seems, in its international University standing from EU-accession in 2004, and even worse, instead of increasing, it de-creased its numbers of world class, top 500 Universities during the period 2003 – 2006. Especially Poland and Slovenia were affected by this process, with the other East European countries, which before still had ranking Universities among the world's leading top 500, the Czech Republic and Hungary, just kept their position, and the other 2004 accession countries not even entering the arena at all. In terms of science, enlargement then, it seems, up to now was a single large and big "flop"; and the East Central Europeans, it seems, would be well advised to increase their cooperation with the Anglo-American science compound (to which the Netherlands and Scandinavia also belongs) instead of keeping to near to the slowly sinking European University "Titanic".

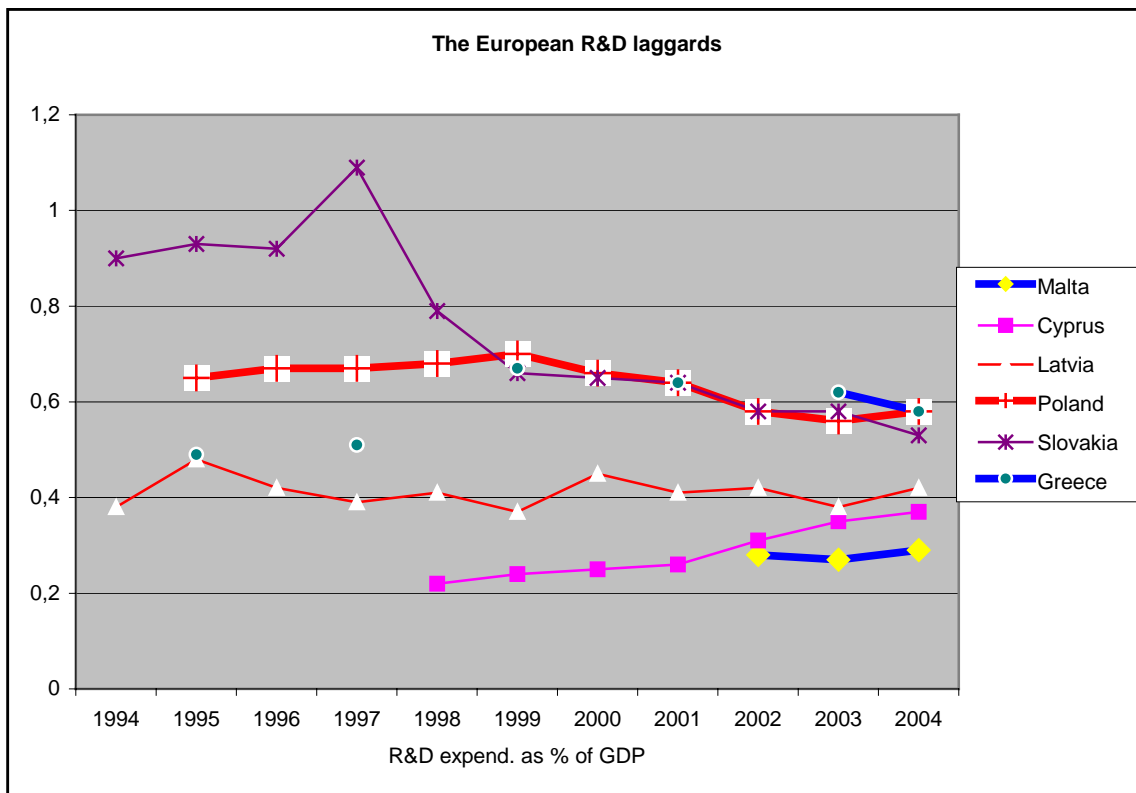
The overall R&D performance, European decision makers have re-iterated again and again, is unsatisfactory.

**Graph 14: the European R&D leaders and laggards**



Source: our own compilations from Eurostat, freely available at: [http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=1090,30070682,1090\\_33076576&\\_dad=portal&\\_schema=PORTAL](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090,30070682,1090_33076576&_dad=portal&_schema=PORTAL)

**Graph 15: the European R&D leaders and laggards**



Source: our own compilations from Eurostat, freely available at: [http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=1090,30070682,1090\\_33076576&\\_dad=portal&\\_schema=PORTAL](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090,30070682,1090_33076576&_dad=portal&_schema=PORTAL)

Seriously talking about the Lisbon process presupposes to analyze another "Achilles heel" of European society, the **University system**.

Without a competitive research and development sector, Europe will never be able to fulfill the ambitious Lisbon targets, formulated in 2000.

One of the few decision makers of our time, who seemed to have grasped what is at stake, was British Prime Minister Tony Blair. In two of his important speeches, he said:

## Prime Minister Tony Blair on the European University Crisis

"Let's be absolutely clear about the situation in Europe today. Our university sector is not competing in the way it needs to with America. **You have got China and India developing their university sector in an extraordinary way, and yet if you look at the overall, not just the spending on our university sector, our tertiary education sector, but also where we are getting the value added in the connection between business and university, we don't have anything like the same possibilities in Europe that they have in other parts of the world.** Our proposal is that we task the Commission specifically on coming back and reporting to the European Council next year on the challenge facing European universities, how we compete with the United States, how we get more public-private partnership into sustaining them, and more graduate schools, linking business and the academic world across the European Union." (PM speech to the EU Parliament in Strasbourg, 26 October 2005, available at: <http://www.number-10.gov.uk/output/Page8384.asp>)

"Just reflect. The Laeken Declaration which launched the Constitution was designed "to bring Europe closer to the people". Did it? The Lisbon agenda was launched in the year

2000 with the ambition of making Europe "the most competitive place to do business in the world by 2010". We are half way through that period. Has it succeeded? (...) What would a different policy agenda for Europe look like? (...) First, it would modernise our social model. Again some have suggested I want to abandon Europe's social model. But tell me: what type of social model is it that has 20m unemployed in Europe, productivity rates falling behind those of the USA; that is allowing more science graduates to be produced by India than by Europe; and that, on any relative index of a modern economy - skills, R&D, patents, IT, is going down not up. India will expand its biotechnology sector fivefold in the next five years. China has trebled its spending on R&D in the last five. (...) **Of the top 20 universities in the world today, only two are now in Europe.** (...) Investment in knowledge, in skills, in active labour market policies, in science parks and innovation, in higher education, in urban regeneration, in help for small businesses. This is modern social policy, not regulation and job protection that may save some jobs for a time at the expense of many jobs in the future. (...) And since this is a day for demolishing caricatures, let me demolish one other: the idea that Britain is in the grip of some extreme Anglo-Saxon market philosophy that tramples on the poor and disadvantaged. The present British Government has introduced the new deal for the unemployed, the largest jobs programme in

*Europe that has seen long-term youth unemployment virtually abolished. It has increased investment in our public services more than any other European country in the past five years. We needed to, it is true, but we did it. We have introduced Britain's first minimum wage. We have regenerated our cities. We have lifted almost one million children out of poverty and two million pensioners*

*out of acute hardship and are embarked on the most radical expansion of childcare, maternity and paternity rights in our country's history. It is just that we have done it on the basis of and not at the expense of a strong economy. (Tony Blair's speech to the European Parliament on 23 June 2005, available at: [http://news.bbc.co.uk/2/hi/uk\\_news/politics/4122288.stm](http://news.bbc.co.uk/2/hi/uk_news/politics/4122288.stm))*

What are the Lisbon process realities? Has there been really a closing of the gap with America and other world economic competitors? Since Eurostat does not publish any statistics on international University rankings, we have to work here with the well-established data series published by the University of Shanghai in China.

The "Lisbon" performance could not be more dismal:

**Table 10: The World's leading Universities - statistics by Region (2006)**

Region	Top 20	Top 100	Top 200	Top 300	Top 400	Top 500
North and Latin America	17	58	98	137	164	196
Europe	2	34	78	122	171	207
Asia/Pac	1	9	24	40	63	92
Africa				1	2	5
<b>Total</b>	<b>20</b>	<b>101</b>	<b>200</b>	<b>300</b>	<b>400</b>	<b>500</b>

Source: University of Shanghai world university ranking, available at: <http://ed.sjtu.edu.cn/ranking.htm>

The US share among the leading 20 and among the leading 100 is really without a parallel:

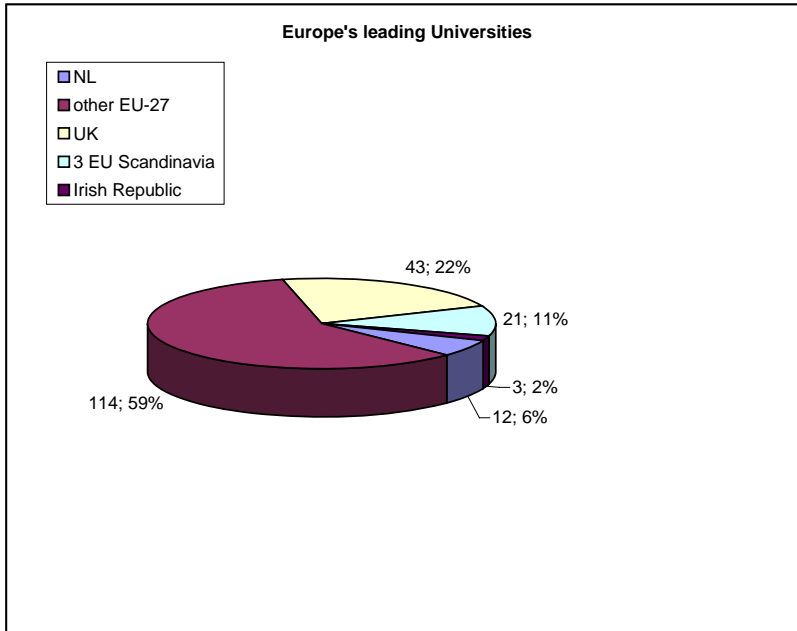
**Table 11: Europe's share in the global University contest**

	Europe's share in the world's top Universities	USA share	Asia/Pacific	others
Top 20	10,00	85,00	5,00	0,00
Top 100	33,66	53,47	8,91	3,96
Top 200	39,00	43,50	12,00	5,50
Top 300	40,67	39,33	13,33	6,67
Top 400	42,75	35,00	15,75	6,50
Top 500	41,40	33,40	18,40	6,80

Source: calculated from University of Shanghai World University ranking, available at: <http://ed.sjtu.edu.cn/ranking.htm>

These results become even more dismal, when the special role of the "*anglo-irish-dutch-scandinavian*" "scientific enclaves" in the EU is taken into account. Europe's share in the world's top 500 universities is a considerable **207** Universities or **41.4%** of the total, but of these 207 Universities, a larger number – **12** – are located in **Norway** and **Switzerland**, while **193** are located in the EU-27. **Only 59%** of the leading EU-Universities – **114** – are located outside the "*anglo-irish-dutch-scandinavian*" "compound", while the anglo-irish-dutch-scandinavian "gang of the North" makes up 41% of Europe's excellent research and teaching potential!

**Graph 16: Europe’s top-level University, increasingly a UK, and Irish, Dutch and Scandinavian “affair”**



Source: calculated from University of Shanghai World University ranking, available at: <http://ed.sjtu.edu.cn/ranking.htm>

In addition, it is particularly sad to note that the new EU-member countries could not improve or even lost the small position, which they still had after the transformation during the first years as full members of the Union.



**Table 12: Europe's declining share in the world's leading Universities, 2003 – 2006**

Country	Number of leading Universities 2003	Number of leading Universities 2006	increase/decrease
USA	161	167	6
Australia	13	16	3
Austria	4	7	3
New Zealand	3	5	2
Egypt	0	1	1
Israel	6	7	1
Italy	22	23	1
Norway	3	4	1
South Korea	8	9	1
Sweden	10	11	1
UK	42	43	1
Argentina	1	1	0
Belgium	7	7	0
Brazil	4	4	0
Chile	1	1	0
China	14	14	0
China-tw	5	5	0
<b>Czech</b>	<b>1</b>	<b>1</b>	<b>0</b>
Greece	2	2	0
<b>Hungary</b>	<b>2</b>	<b>2</b>	<b>0</b>
Ireland	3	3	0
Mexico	1	1	0
Netherland	12	12	0
Russia	2	2	0
Singapore	2	2	0
South Africa	4	4	0
Switzerland	8	8	0
Denmark	6	5	-1
Finland	6	5	-1
France	22	21	-1
India	3	2	-1
<b>Poland</b>	<b>3</b>	<b>2</b>	<b>-1</b>
Portugal	1	0	-1
<b>Slovenia</b>	<b>1</b>	<b>0</b>	<b>-1</b>
Canada	24	22	-2
Germany	42	40	-2
<b>Turkey</b>	<b>2</b>	<b>0</b>	<b>-2</b>
Japan	36	32	-4

Spain	13	9	-4
	500	500	

Source: calculated from University of Shanghai World University ranking, available at: <http://ed.sjtu.edu.cn/ranking.htm>

As our table above showed, the following EU member or candidate countries witnessed a real deterioration in their number of top 500 world universities:

- Denmark
- Finland
- France
- Germany
- Poland
- Portugal
- Slovenia
- Spain
- Turkey

A world-level comparison quickly reveals that the successful US, Commonwealth, EEA/EFTA and Israeli models of higher education share many common features, basically characterized by considerable tuition fees, as well as a considerable state and private sector involvement in the process, combined with a competitive climate in the University sector.

**Table 13: The fallouts from a wrong University policy?**

**a) the absolute numbers**

Country	Number of leading Universities 2003	Number of leading Universities 2006	increase/decrease
USA	161	167	6
Commonwealth	44	47	3
EEA/EFTA	11	12	1
Israel	6	7	1
others	7	8	1
Russia	2	2	0
<b>EU candidates</b>	<b>2</b>	<b>0</b>	<b>-2</b>

Asia	68	64	-4
<b>EU-27</b>	<b>199</b>	<b>193</b>	<b>-6</b>
	500	500	

Source: calculated from University of Shanghai world university ranking, available at: <http://ed.sjtu.edu.cn/ranking.htm> "Commonwealth" is defined here as Australia, Canada, New Zealand, South Africa

## b) the relative numbers

Country	% of number of leading Universities 2003	% of number of leading Universities 2006	increase/decrease
<b>EU-27</b>	<b>39,8</b>	<b>38,6</b>	<b>-1,2</b>
USA	32,2	33,4	1,2
Asia	13,6	12,8	-0,8
Commonwealth	8,8	9,4	0,6
EEA/EFTA	2,2	2,4	0,2
others	1,4	1,6	0,2
Israel	1,2	1,4	0,2
Russia	0,4	0,4	0
<b>EU candidates</b>	<b>0,4</b>	<b>0</b>	<b>-0,4</b>
xx	500	500	xx

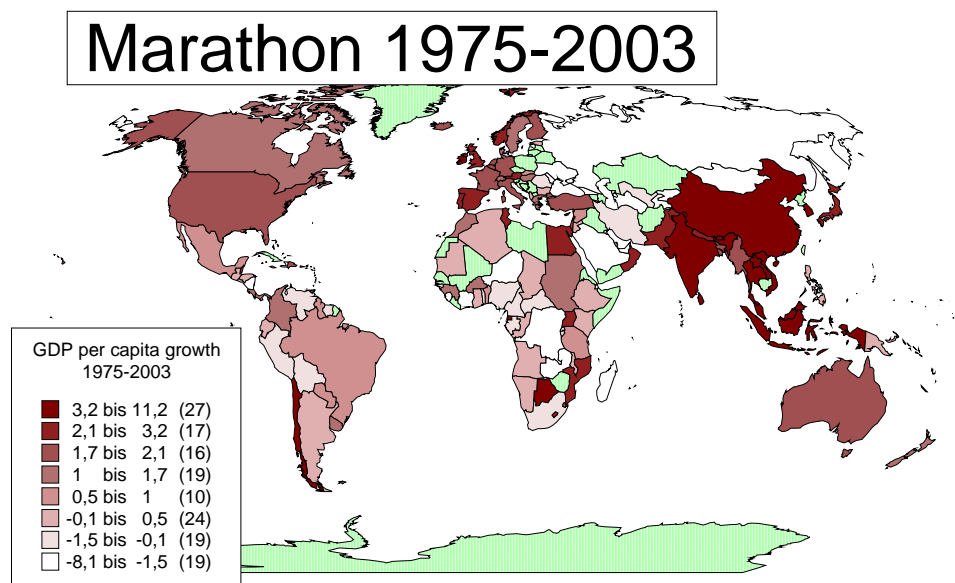
Source: calculated from University of Shanghai world university ranking, available at: <http://ed.sjtu.edu.cn/ranking.htm> "Commonwealth" is defined here as Australia, Canada, New Zealand, South Africa

Without a thorough University reform, Europe will dismally fail the Lisbon targets.

## 10. Political perspectives and conclusions

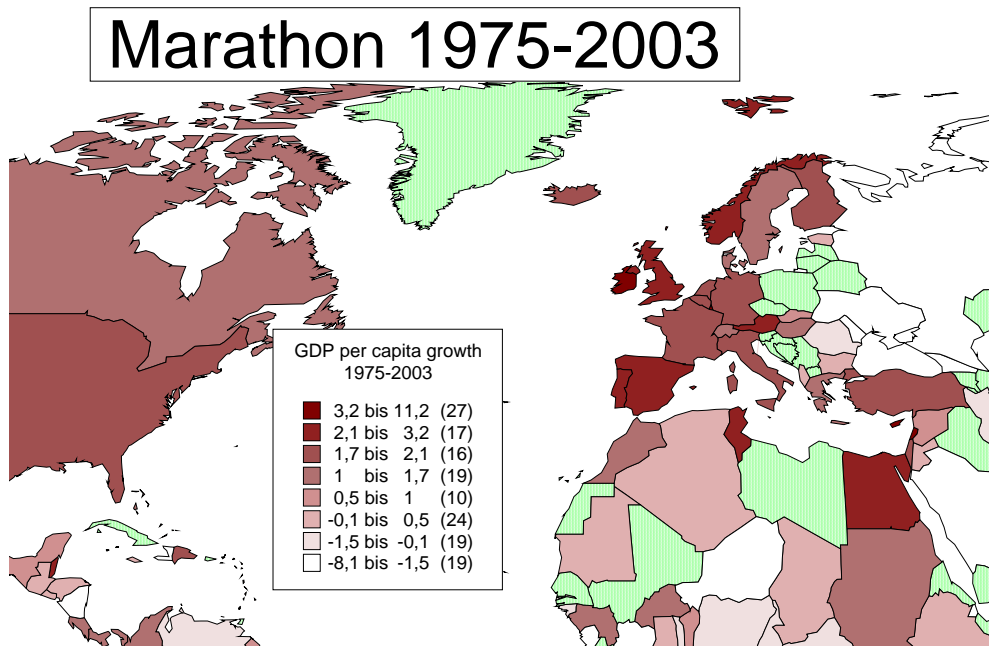
First of all, we cannot but re-iterate that the entire Lisbon discourse increasingly would have to take into account the "Asia/Pacific"-dimension as well. The landscape of the economic growth marathon, 1975 – 2003 is clear enough, it is even dramatic: East and South-east Asia are the real growth engines of the world economy:

**Map 28: The development marathon, 1975 – 2003 on a global scale**



Source: our own calculations from the United Nations Human Development Report Statistics data base, freely available under: <http://hdr.undp.org/hdr2006/statistics/> The map shows real economic growth rates for the "marathon" period 1975 – 2003. "Bis" is shorthand for: ranging from ... to ..... Countries with missing values are marked in green colors.

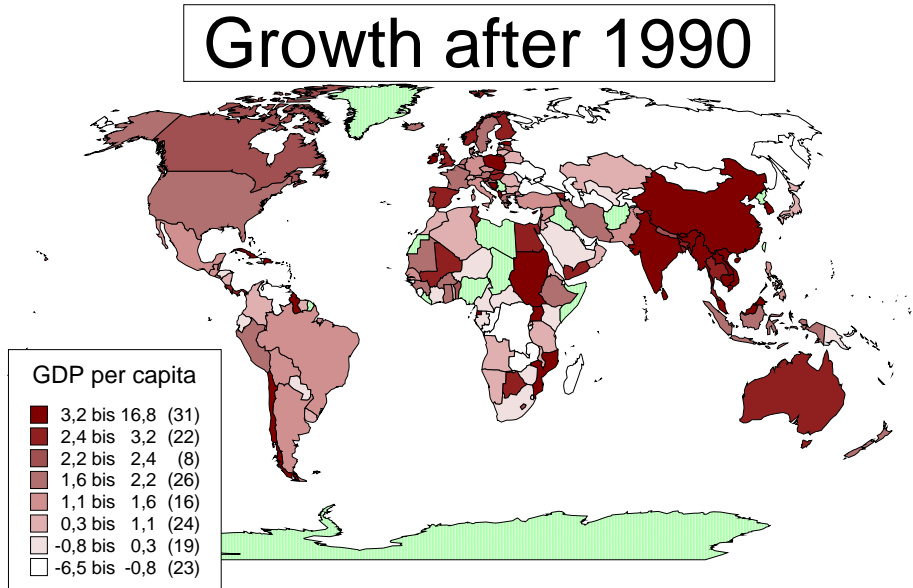
**Map 29: The development marathon, 1975 – 2003 in the Atlantic arena**



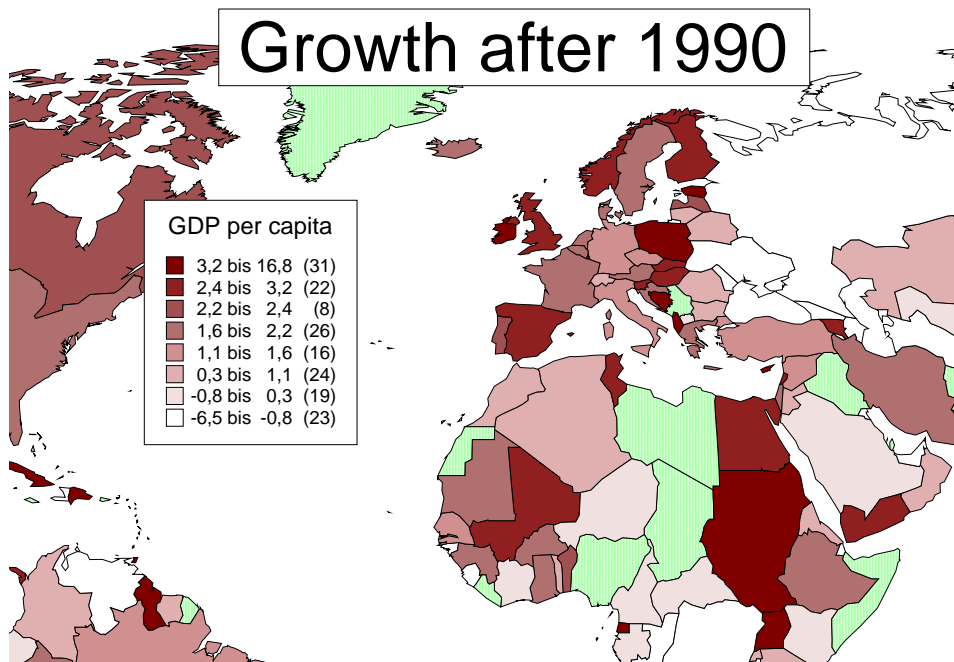
Source: our own calculations from the United Nations Human Development Report Statistics data base, freely available under: <http://hdr.undp.org/hdr2006/statistics/> The map shows real economic growth rates for the “marathon” period 1975 – 2003. . “Bis” is shorthand for: ranging from ... to ..... Countries with missing values are marked in green colors.

The period after 1990 meant a continuation of this general trend, with a welcome shift of the growth potential in Europe from the centers away to the peripheries:

**Map 30: development after 1989 on a global scale**



Source: our own calculations from the United Nations Human Development Report Statistics data base, freely available under: <http://hdr.undp.org/hdr2006/statistics/> The map shows real economic growth rates for the period after the downfall of the Berlin Wall and the end of Communism in East Central Europe. Contrary to the assumptions of the European policy makers, who at the European Council meeting in Lisbon in 2000 planned to overtake the US by 2010, the United States is not "Miss world" in terms of real economic growth rates. "Bis" is shorthand for: ranging from ... to ..... Countries with missing values are marked in green colors.

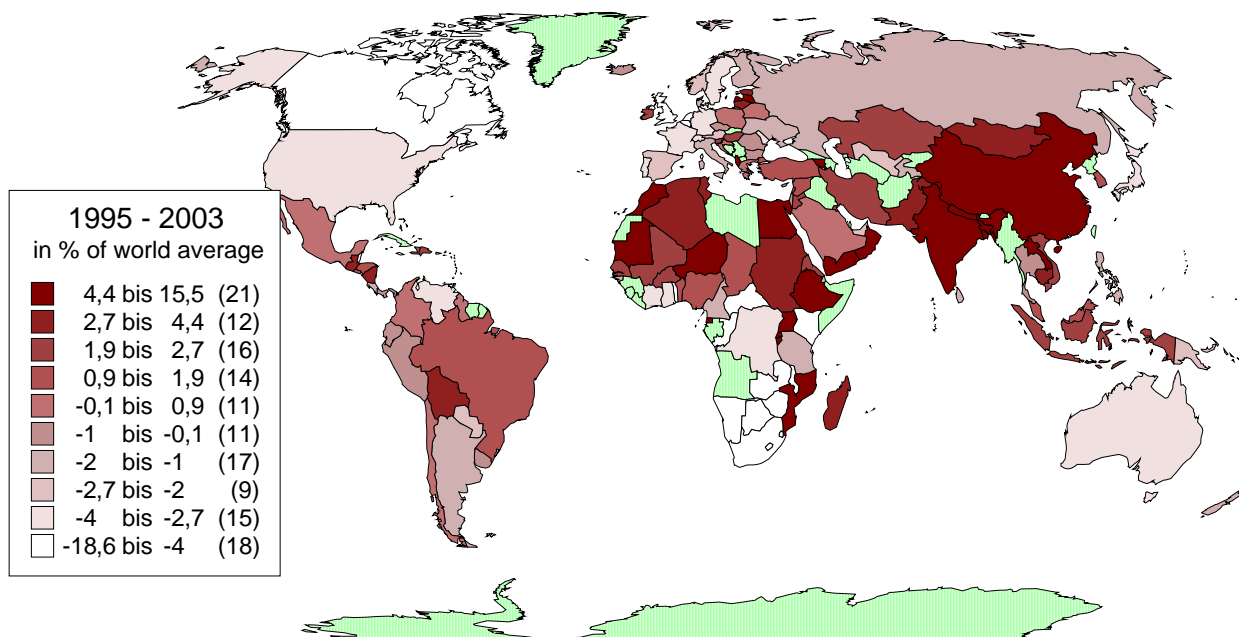
**Map 31: development after 1989 in the Atlantic arena**

Source: our own calculations from the United Nations Human Development Report Statistics data base, freely available under: <http://hdr.undp.org/hdr2006/statistics/> The map shows real economic growth rates for the period after the downfall of the Berlin Wall and the end of Communism in East Central Europe. The map clearly shows the deficiency of growth in several European countries, including Germany. . "Bis" is shorthand for: ranging from ... to .... Countries with missing values are marked in green colors.

At the same time, and largely unnoticed by the international scientific and media community, was a dramatic convergence of the real life conditions around the globe in favor not only of Asia, but also in favor of the larger European periphery – i.e. the countries of the European Mediterranean partnership, which has become one of the most important and fundamental policy areas of European foreign policy for years to come (see also Tausch and Herrmann, 2005). Instead of "fixing" European economic and social policy targets at the "best practice" country United States, decision makers would be well advised to consider the often very heterodox development lessons of the ascending Asian giants – which were much more selective in their policy orientation *vis-à-vis* globalization than many, less successful countries and regions:

## Map 32: the process of human development convergence/divergence in the world system

# convergence of HDI

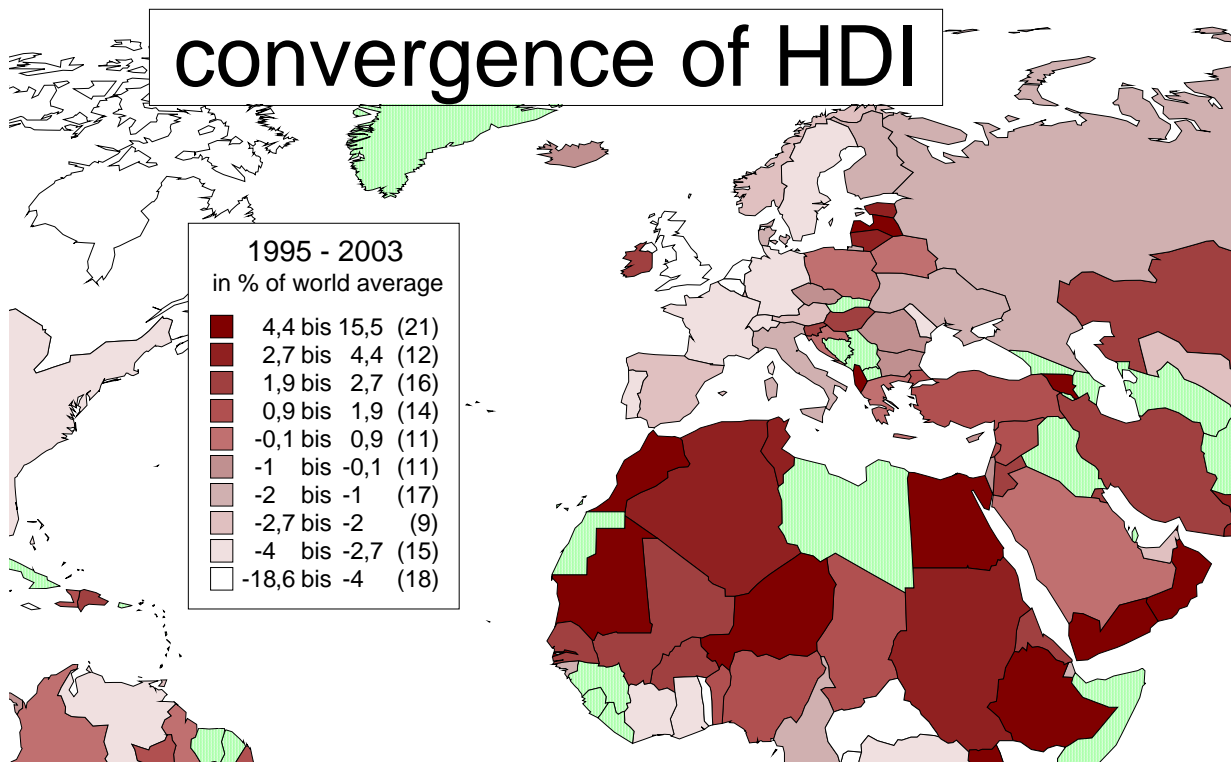


Source: our own calculations from the United Nations Human Development Report Statistics data base, freely available under: <http://hdr.undp.org/hdr2006/statistics/> The map compares the convergence of human development indices for the period 1995 - 2003. The world average, unweighted by the population factor, is taken as 100 for each period, i.e. 1995 and 2003, and the percentage increases are calculated. The best country increased its level of the UNDP Human Development Index by 15.5 %, and the worst country decreased its Human Development level by 18.6 %, compared to the world average. The human development index ranges from 0 (worst performance) to 1 (best performance) and combines life expectancy, education and real income. For a more detailed description of the UNDP methodology, see <http://hdr.undp.org/hdr2006/statistics/indices/> Our map clearly shows the stagnation of human development in Sub-Saharan Africa, the surge of Asia and the dynamics in many Muslim countries, which cannot be explained by Huntington's pessimistic theories. In many highly-developed western democracies, human development is stagnating, largely reflecting the tendencies also described in the recent UNICEF Report on child poverty in the advanced countries, *Child Poverty in Perspective: An Overview of Child Well-Being in Rich Countries*. Series: Innocenti Report Cards, 7 Date of Publication: 2007 Pages: 52, ISBN: 88-89129-43-3 freely available under: <http://www.unicef-icdc.org/publications/>.



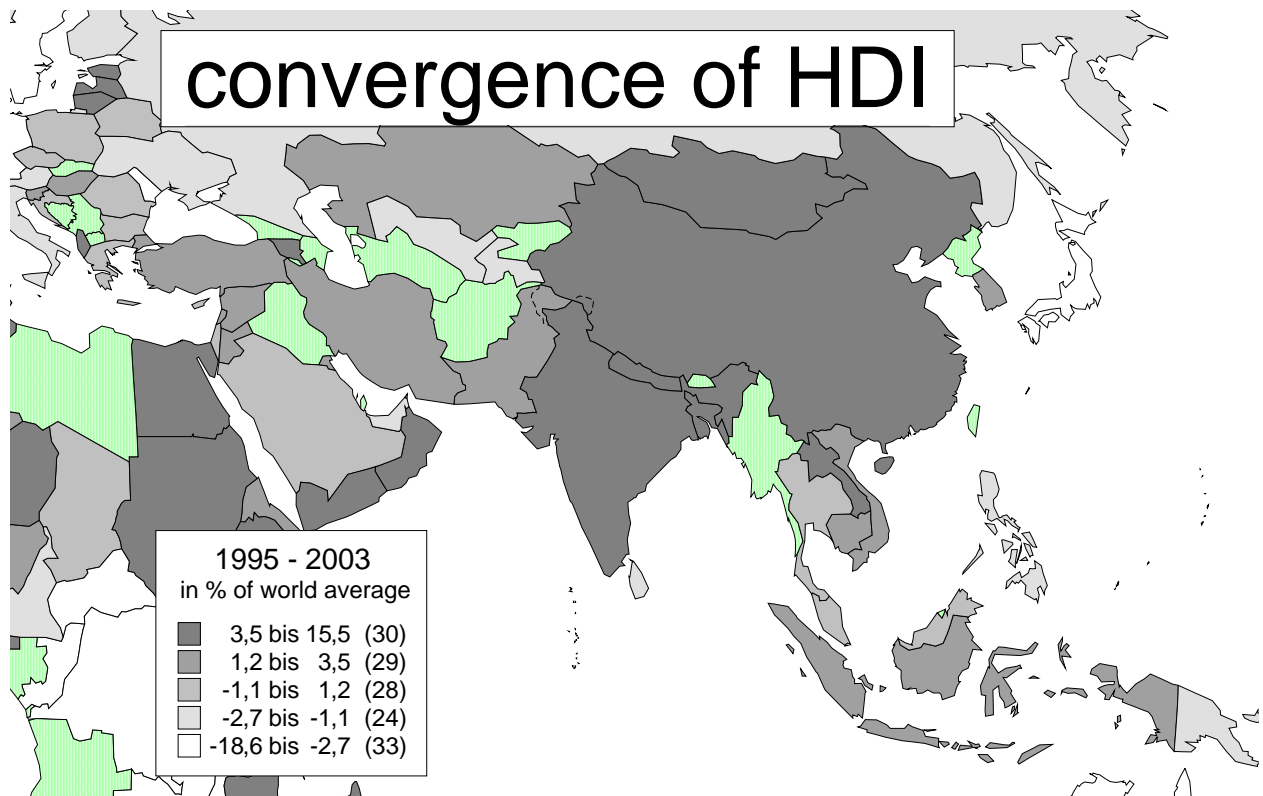
For East Central Europe, see also the Trasmonee data series, freely available : <http://www.unicef-icdc.org/research/> . "Bis" is shorthand for: ranging from ... to ..... Countries with missing values are marked in green colors.

**Map 33: the process of human development convergence/divergence in the Atlantic arena**



Source: our own calculations from the United Nations Human Development Report Statistics data base, freely available under: <http://hdr.undp.org/hdr2006/statistics/> The map compares the convergence of human development indices for the period 1995 - 2003. The world average, unweighted by the population factor, is taken as 100 for each period, i.e. 1995 and 2003, and the percentage increases are calculated. The best country increased its level of the UNDP Human Development Index by 15.5 %, and the worst country decreased its Human Development level by 18.6 %, compared to the world average. The human development index ranges from 0 (worst performance) to 1 (best performance) and combines life expectancy, education and real income. For a more detailed description of the UNDP methodology, see <http://hdr.undp.org/hdr2006/statistics/indices/> . "Bis" is shorthand for: ranging from ... to ..... Countries with missing values are marked in green colors.

### Map 34: the convergence of human development performance on a global scale – the case of Asia



Source: our own calculations from the United Nations Human Development Report Statistics data base, freely available under: <http://hdr.undp.org/hdr2006/statistics/>. The map compares the convergence of human development indices for the period 1995 - 2003. The world average, unweighted by the population factor, is taken as 100 for each period, i.e. 1995 and 2003, and the percentage increases are calculated. The best country increased its level of the UNDP Human Development Index by 15.5 %, and the worst country decreased its Human Development level by 18.6 %, compared to the world average. The human development index ranges from 0 (worst performance) to 1 (best performance) and combines life expectancy, education and real income. For a more detailed description of the UNDP methodology, see <http://hdr.undp.org/hdr2006/statistics/indices/>. "Bis" is shorthand for: ranging from ... to .... Countries with missing values are marked in green colors.

As highlighted by a very recent declaration of the social affairs ministers of Austria, Belgium, Bulgaria, Cyprus, France, Greece, Hungary, Italy, Luxembourg, and Spain, the dimension of the *“European social model”* is not dead. Our ample quantitative suggested that economic growth is strongly connected to high-quality and high-wage “non-tradables”, absolutely incompatible with the ultra-neoliberal agenda to push the comparative price levels in Europe downwards. In this sense, the ministers from the ten mentioned countries are correct in emphasizing that the *“European social model”* is represented by common principles and values - social justice, equality, and solidarity - that inspire national social systems, despite their differences.

Their quest that the Council, the European Parliament and the Commission elaborate together a vision for the future of Social Europe, promoting with a balanced approach reforms and adaptations related to globalization, industrial restructuring, technological innovations, demography and migration, has to keep in mind many of the contradictions that beset the “Lisbon agenda”. In this essay, we concluded that only a Schumpeterian vision of capitalism as a process of “creative destruction” – or rather – “destructive creation” could explain the contradictions, which we empirically revealed in this analysis.

**Contradiction number 1:** Lisbon decision makers assume that the Lisbon Process consists of maximizing/minimizing a

**Contradiction number 2:** “Lisbon” means in reality four different processes:

- 1 a Lisbon productivity factor
- 2 a rising eco-social exclusion on the continent
- 3 the often unsatisfactory employment performance
- 4 a neo-liberal European model

These factors are related in the following fashion with one another:

#### Correlation matrix of components

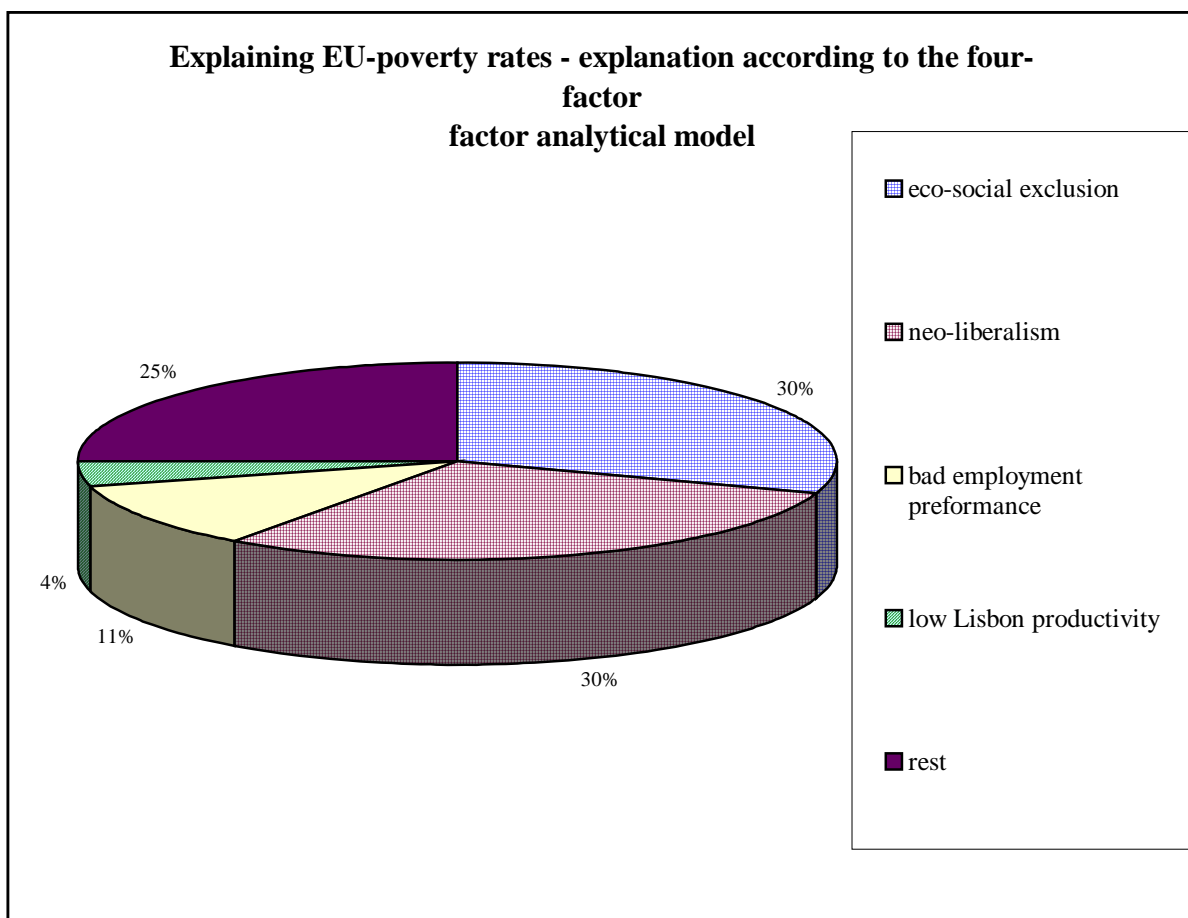
Component	1 Lisbon productivity factor	2 Eco-social exclusion	3 Employment performance	
2 Eco-social exclusion	,118			
3 Employment performance	,372	-,005		
4 Neo-liberal European	-,203	,189	-,064	

<b>model</b>		
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Source: from our work, above

We could show in the present paper that social exclusion in Europe cannot be debated without properly referring to the dominant neo-liberal political models, which govern the realities in the majority of the EU member countries:

**Graph 17: the determinants of EU-poverty rates**



Source: see Chapter 3, Table 7 of this work. The percentages are squared factor loadings \* 100

We could show that especially taxes reduce **income inequality** to a considerable extent, while state sector expenditures in education in reality still increase existing inequalities, basically, because only the upper and the middle income classes are the real beneficiaries of capital intensive education outlays, especially on the tertiary level. There is, we explained, a typical “**Kuznets**” process of first rising and then shrinking inequality, but this process is not so much driven by the log of income levels and their square – as traditionally assumed in the literature, but by fertility rates and their square. I.e. at rising fertility, rates are associated with higher income inequality, but very high levels of fertility rates work in the opposite direction. As expected by dependency theory, heavy inflows of foreign capital do create additional inequalities, highly rewarding scarce skills, which are not available on the labor market, and making redundant unskilled labor by the high capital intensity of foreign direct investments. As to the **gender aspects of inequalities**, our analysis showed that gender empowerment is determined by **high female economic activity rates**. In addition, we could establish that **low comparative price levels** – as implicitly foreseen by neo-liberal economics – level-off the “*playing field*” in the gender contest for incomes, prestige and power, and indeed work in favor of gender empowerment and work against male privileges in society. **Gender empowerment** rises – as inequality rates do – with **rising** fertility rates, and only at **very high levels of fertility rates gender empowerment is reduced**. This is an important finding in the context of the demographic debates in Europe – very low fertility rates actually are closely connected to lesser gender empowerment and higher male privileges, and gender empowerment is not only compatible, but also a precondition of “balancing work and family life”.

For Schumpeter and his elitist-conservative visions of society, the decay of values in capitalist society was an all-important element in his pessimistic theory, developed in “*Capitalism, Socialism, and Democracy*.” For Schumpeter, the disappearance of the enterprising, male-dominated capitalist family was an all-important element in his theory. We of course strongly reject Schumpeter on this point, but his analysis about the importance of family and household structures as such for capitalist development does matter. It is not the disappearance of the enterprising capitalist family, which threatens the future of capitalism in Europe, but the often still existing **incompatibility of work and family life**, which explains more than 60% of Lisbon process failure.

The UNDP HDI is a real master indicator for the social situation of countries, and is very closely correlated with all available composite measures of the Lisbon performance of a country. We could show in this work that **balancing work and family life** significantly increases the Human development index. **Time lagged foreign direct investment per GDP is closely connected to the human development performance, while fresh inflows of foreign direct investment, by the very nature of the “destructive creation process” first of all increase existing inequalities and also existing human development deficits**. As correctly foreseen by Schumpeter, **capitalism is not**

**that smooth transition phase** and above all has nothing to do with the neat equilibrium worlds of neo-classical equilibrium economics. It is a process of oligopolistic competition, where the power of transnational corporations interacts with the power of national elites and national governments. Latin American sociology of the 1960s and 1970s was very explicit about these structures of inequality, power, and unequal interaction. Fernando Henrique Cardoso, Pablo Gonzales Casanova, Celso Furtado, Osvaldo Sunkel and many others predicted the hardening of these structures and the next to impossibility for the countries of the semi-periphery and periphery to overcome these structures. In addition, a **strong government social policy orientation in favor of human development is logically very significantly related to the human development outcome**. There is of course a curve-linear **Kuznets-type of interaction between development levels and the human development index**. There IS a definite possibility of **social decay**, foreseen in our quantitative results, which is or might be a real threat to the European "center". In addition, the center HAS to come to terms with the demographic challenge and with high female economic activity rates. The capitalist work process, which makes dual work in the classically gendered household necessary, MUST offer the appropriate institutions, which make the balancing of work and household life necessary.

We proceeded to analyze with multiple regression techniques the recent European Commission data on regional growth in Europe. Discrimination against the young and the elderly on the labor market is incompatible with long-run economic growth.

**Contradiction number 3:** the following four factors explain  $\frac{3}{4}$  of regional economic growth in Europe

- regional convergence -> poorer regions grow faster
- research and development, fulfilling the Lisbon agenda
- regions with untapped labor reserves grow faster than other regions
- discrimination in employment against the young and the elderly work against growth

Schumpeter's observations about the destructive creation inherent in the process of capitalist development, his observations about the sociological limits, which the formation and continuity of capitalist elites encounter in the long-run development of the "market economies" as well as his strong belief in the cyclical nature of capitalist development, are all relevant for the interpretation of our other empirical results.

Economic growth in the end is today strongly determined by the long-run positive effects of foreign direct investments per GDP of the host countries, while at the same time – and contrary to the traditional expectations of neo-classical economics – the more short-term effects of heavy foreign direct investment

inflows on the host countries of FDI are – *ceteris paribus* –negative. Transnational corporations do not like, an environment of instability, and rather prefer the high-wage, high quality, and high-price economies of the typical West European countries, where their penetration rates of the host countries are still highest. The critique in the spirit of Stanford economist Pan Yotopoulos and other social scientists of the drive to lower the comparative international price level is strongly vindicated by our empirical results. Unequal exchange, or low comparative international price levels, ARE *ceteris paribus* one of the most important impediments against long-run economic growth.

At the same time, it is clear that state sector influence on the economy finds its limits in the post 1989 political economy of the world. However, it is not tax revenue and it is not public health expenditures per GDP, and it is not the priority of human development as a social policy goal over economic growth, but public expenditures in education, which yield the most robust negative (!) effect on the economic growth rate.

In the post-1989 world, we have privatized airlines and railways, shipyards and steel works, we privatized government services, but we did not privatize – or privatize to a very significant degree – education, especially higher education, which is one of the Achilles heels of the Lisbon realities.

Finally, we could show that one of the basic reasons for Europe's long-term failure to fulfill the Lisbon agenda is the crisis of its largely state-owned University system. Our macro-level development analysis already informed us that public education efforts are detrimental to economic growth, increase inequalities, and impair life expectancy development. This is quite a heavy ammunition, we concede, but the evidence about the separate effects of public education expenditures leave no other interpretation.

The call for University privatization in Europe is also supported by our performance analysis of the University systems around the globe, 2003 – 2006. Evaluating the yearly University of Shanghai world university rankings, we concluded that there was a noticeable shift in world university capacity away from Europe towards the US, some English-speaking countries, like Australia, Canada, South Africa and New Zealand, and towards Israel.

The ministers from the 10 countries are correct in emphasizing that a Social Europe will offer a real added value for working people and for citizens, namely those more vulnerable to restructuring and globalization.

The ministers from the ten countries call that in order to help the achievement of a more equitable and balanced globalization, it is necessary to generalize the social clauses in the Union's trade agreements with Third Countries; to encourage, at multilateral level, the consideration of fundamental principles and rights at work as defined by ILO. Our own empirical evidence produced very

pessimistic results about the traditional "export for growth" development paths and our results paradoxically enough for conventional neo-liberal economics – particularly contradict the assumptions of the export share as an engine of growth. Our results cautiously support the recent hypotheses by Copenhagen Economics (2007) on behalf of the Commission, all showing that transnational corporations rely on an environment of stability and quality. Thus, the minister's call for a mid-term review of the Social Agenda, looking forward to the improvement of quality of work and to the safeguard of professional paths, in order to fulfill equal opportunities at work, receives qualified support.

Our results also support the demands of those, who are favoring the access of young people to the labor market through qualifying training, first employment programs and start up promotion, to allow their better integration in the labor market. Favoring the increase of the activity rate of older workers is one of the most important social policy tasks of years to come. Discriminations on the labor market are counter-productive in terms of economic growth.

One of the most important consequences of our essay for the political strategies to be discussed at the European level is that balancing work and family life is not only important for itself, but for the overall success or failure of the Lisbon process.

Thus:

- Supporting the increase of the female employment rate
- Developing policies for work-life balances, both for women and men
- Ending unequal treatments between men and women at work, including wages and careers
- Strengthening tax and social policies to support families and childhood, including an adequate network of nursery

will always be compatible with a pro-growth policy mix.

However, "old Europe", in order to start its path into the 21<sup>st</sup> Century, must be prepared to say good-bye to old forms of governance, especially for its academic and University system, where the success of the private US-Anglo-Saxon model becomes ever more evident. Alternatively, in the words of Tony Blair, quoted already above:

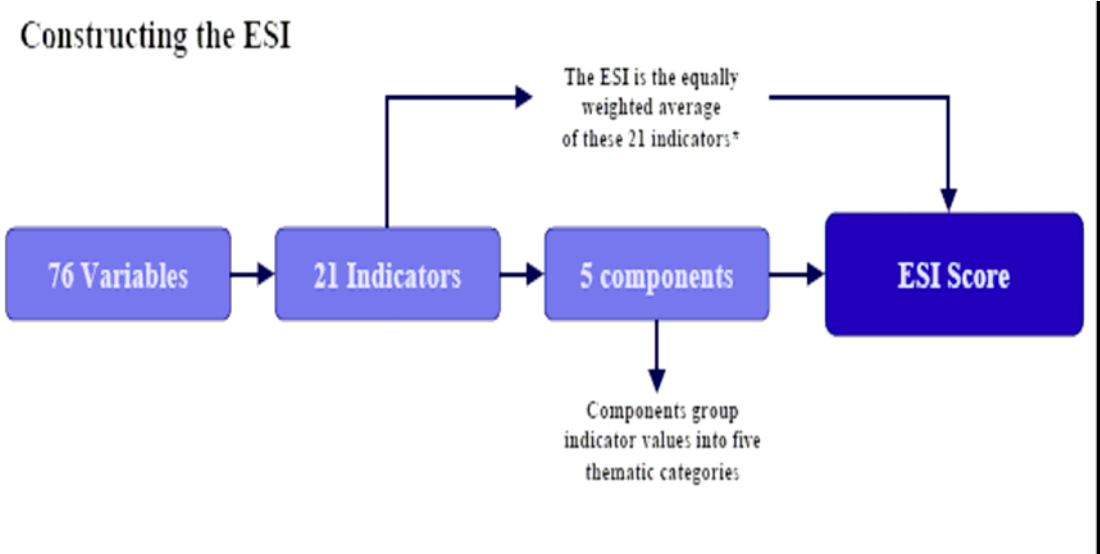
*"Our university sector is not competing in the way it needs to with America. You have got China and India developing their university sector in an extraordinary way, and yet if you look at the overall, not just the spending on our university sector, our tertiary education sector, but also where we are getting the value added in the connection between business and university, we don't have anything like the same possibilities in Europe that they have in other parts of the world. Our proposal is that we task the Commission specifically on coming back*



*and reporting to the European Council next year on the challenge facing European universities, how we compete with the United States, how we get more public-private partnership into sustaining them, and more graduate schools, linking business and the academic world across the European Union.”*

### Statistical Appendix

The Yale/Columbia environment sustainability index (quoted from [http://www.yale.edu/esi/ESI2005\\_policysummary.pdf](http://www.yale.edu/esi/ESI2005_policysummary.pdf))



76 Variables		21 Indicators	5 Components
-Nitrogen dioxide concentration -Sulfur dioxide concentration	-Particulate concentration -Indoor air quality	Air Quality	Environmental Systems
-Ecoregions at risk -Threatened birds -Threatened mammals	-Threatened amphibians -National Biodiversity Index	Biodiversity	
-Wilderness area	-Developed area	Land	
-Dissolved oxygen -Electrical conductivity	-Suspended solids -Phosphorus concentration	Water Quality	
-Surface water availability	-Groundwater availability	Water Quantity	
-Coal consumption -Nitrogen oxide emissions -Sulfur dioxide emissions	-VOC emissions -Vehicles in use	Reducing Air Pollution	Reducing Environmental Stresses
-Forest cover change	-Acidification	Reducing Ecosystem Stresses	
-Population growth	-Total fertility rate	Reducing Population Growth	
-Ecological Footprint -Waste recycling rates	-Hazardous waste generation	Reducing Waste & Consumption Pressures	
-Industrial organic effluents -Fertilizer consumption	-Pesticide consumption -Area under water stress	Reducing Water Stress	
-Overfishing -Sustainably managed forests -Market distortions	-Salinization due to irrigation -Agricultural subsidies	Natural Resource Management	
-Deaths from intestinal infectious diseases -Child mortality rate	-Child mortality due to respiratory infections	Environmental Health	Reducing Human Vulnerability
-Malnutrition	-Safe drinking water supply	Basic Human Sustenance	
-Casualties due to environmental disasters	-Environmental Hazard Exposure Index	Reducing Environment-Related Natural Disaster Vulnerability	
-Gasoline price -Corruption -Government effectiveness -Protected land area -Environmental governance -Strength of rule of law -Local Agenda 21 initiatives	-Civil and political liberties -Sustainable development data gaps -International environmental engagement -Environmental knowledge creation -Democratic institutions	Environmental Governance	Social and Institutional Capacity
-Energy consumption / GDP	-Renewable energy production	Eco-Efficiency	
-Corporate sustainability (Dow Jones) -Corporate sustainability (Innovent) -ISO 14001 certified companies	-ISO 14001 certified companies -Private sector environmental innovation -Participation in Responsible Care Program	Private Sector Responsiveness	
-Innovation capacity -Digital Access Index -Female primary education	-University enrollment -Research scientists	Science and Technology	
-Intergovernmental environmental activities -Role in international environmental aid	-Participation in international environmental agreements	Participation in International Collaborative Efforts	Global Stewardship
-Greenhouse gas emissions / GDP	-Greenhouse gas emissions / capita	Greenhouse Gas Emissions	
-Transboundary sulfur dioxide spillovers	-Polluting-goods imports	Reducing Transboundary Environmental Pressures	

(quoted from [http://www.yale.edu/esi/ESI2005\\_policysummary.pdf](http://www.yale.edu/esi/ESI2005_policysummary.pdf))

**The Balancing Work and Family Life Index**

a) from Eurostat data

	Eurostat/UNDP 2004 TFR	Eurostat female employment rate	UNDP/Sen fertility index	UNDP/Sen female employment index	balancing work and family life index (=means from the composite index 1 and 2)
Austria	1,4	62	0,28571429	0,7408377	0,51327599
Belgium	1,7	53,8	0,71428571	0,52617801	0,62023186
Bulgaria	1,2	51,7	0	0,47120419	0,23560209
Cyprus	1,6	58,4	0,57142857	0,64659686	0,60901272
Czech Republic	1,2	56,3	0	0,59162304	0,29581152
Denmark	1,8	71,9	0,85714286	1	0,92857143
Estonia	1,4	62,1	0,28571429	0,7434555	0,51458489
Finland	1,7	66,5	0,71428571	0,85863874	0,78646223
France	1,9	57,6	1	0,62565445	0,81282723
Germany	1,3	60,6	0,14285714	0,70418848	0,42352281
Greece	1,3	46,1	0,14285714	0,32460733	0,23373224
Hungary	1,3	51	0,14285714	0,45287958	0,29786836
Ireland	1,9	58,3	1	0,64397906	0,82198953
Italy	1,3	45,3	0,14285714	0,30366492	0,22326103
Latvia	1,3	59,3	0,14285714	0,67015707	0,40650711
Lithuania	1,3	59,4	0,14285714	0,67277487	0,40781601
Luxembourg	1,7	53,7	0,71428571	0,52356021	0,61892296
Malta	1,5	33,7	0,42857143	0	0,21428571
Netherlands	1,7	66,4	0,71428571	0,85602094	0,78515333
Poland	1,3	46,8	0,14285714	0,34293194	0,24289454
Portugal	1,5	61,7	0,42857143	0,73298429	0,58077786
Romania	1,3	51,5	0,14285714	0,46596859	0,30441286

Slovakia	1,2	50,9	0	0,45026178	0,22513089
Slovenia	1,2	61,3	0	0,72251309	0,36125654
Spain	1,3	51,2	0,14285714	0,45811518	0,30048616
Sweden	1,6	70,4	0,57142857	0,96073298	0,76608078
United Kingdom	1,7	65,9	0,71428571	0,84293194	0,77860883

Source: our own calculations from Eurostat sources. The calculations were performed with SPSS, version 14, August 2007, provided by Innsbruck University

## b) from UNDP data

aaaaacountrycode	Female economic activity (ages 15 and older)	Probability at birth of surviving to age 65 female	TFR04	under-five mortality rate 2004	UNDP Balancing work and family life index	UNDP fem survival	UNDP Female Work Index	UNDP Fertility Index	UNDP GDIVA LUE	UNDP under 5 mortality index
Albania	49,4	87,6	2,3	19	<b>0,666</b>	0,925	0,48	0,2	0,78	0,943
Algeria	34,8	78,4	2,5	40	<b>0,585</b>	0,813	0,301	0,229	0,713	0,868
Angola	73,8	33	6,8	260	<b>0,478</b>	0,257	0,779	0,843	0,431	0,082
Antigua and Barbuda	„	„	„	12					„	0,968
Argentina	52,2	84,9	2,4	18	<b>0,685</b>	0,892	0,514	0,214	0,859	0,946
Armenia	48,1	81,7	1,3	32	<b>0,607</b>	0,853	0,464	0,057	0,765	0,896
Australia	56,1	91,5	1,7	6	<b>0,719</b>	0,973	0,562	0,114	0,956	0,989
Austria	49,3	91	1,4	5	<b>0,689</b>	0,967	0,479	0,071	0,937	0,993
Azerbaijan	59,6	76	1,9	90	<b>0,591</b>	0,783	0,605	0,143	0,733	0,689
Bahamas	64,5	73,6	2,3	13		0,754	0,665	0,2	„	0,964
Bahrain	29,2	84,6	2,5	11	<b>0,634</b>	0,889	0,232	0,229	0,849	0,971
Bangladesh	52,9	63,7	3,2	77	<b>0,549</b>	0,633	0,523	0,329	0,524	0,736
Barbados	64,6	86,7	1,5	12		0,914	0,666	0,086	„	0,968
Belarus	52,5	79,3	1,2	11	<b>0,63</b>	0,824	0,518	0,043	0,793	0,971
Belgium	43,4	90,4	1,7	5	<b>0,683</b>	0,96	0,406	0,114	0,943	0,993
Belize	42,4	80,9	3,2	39		0,843	0,394	0,329	„	0,871
Benin	54	52,9	5,9	152	<b>0,526</b>	0,501	0,536	0,714	0,412	0,468
Bhutan	44,3	65,3	4,4	80		0,652	0,417	0,5	„	0,725
Bolivia	62,1	68	4	69	<b>0,643</b>	0,685	0,636	0,443	0,687	0,764
Bosnia and Herzegovina	57,9	85,2	1,3	15		0,896	0,584	0,057	„	0,957
Botswana	45,7	16,5	3,2	116	<b>0,394</b>	0,055	0,434	0,329	0,555	0,596
Brazil	56,3	77,7	2,3	34	<b>0,649</b>	0,804	0,564	0,2	0,789	0,889
Brunei Darussalam	44,3	87,9	2,5	9		0,929	0,417	0,229	„	0,979
Bulgaria	41,9	84,5	1,2	15	<b>0,618</b>	0,887	0,388	0,043	0,814	0,957
Burkina Faso	77,6	41,7	6,7	192	<b>0,536</b>	0,364	0,826	0,829	0,335	0,325
Burundi	91,8	33,1	6,8	190	<b>0,563</b>	0,258	1	0,843	0,38	0,332
Cambodia	74,4	61,5	4,1	141	<b>0,587</b>	0,606	0,787	0,457	0,578	0,507
Cameroon	51,8	36,1	4,6	149	<b>0,462</b>	0,295	0,509	0,529	0,497	0,479
Canada	60,2	90,7	1,5	6	<b>0,72</b>	0,963	0,612	0,086	0,947	0,989
Cape Verde	34,1	79,8	3,8	36	<b>0,626</b>	0,83	0,292	0,414	0,714	0,882
Central African Republic	70,4	24,5	5	193	<b>0,427</b>	0,153	0,737	0,586	0,336	0,321
Chad	65,5	35,1	6,7	200	<b>0,487</b>	0,283	0,677	0,829	0,35	0,296
Chile	36,4	88,5	2	8	<b>0,649</b>	0,936	0,32	0,157	0,85	0,982
China	69,2	81,3	1,7	31	<b>0,67</b>	0,848	0,723	0,114	0,765	0,9
Colombia	60,5	81	2,6	21	<b>0,685</b>	0,845	0,616	0,243	0,787	0,936
Comoros	57,8	66,5	4,9	70	<b>0,626</b>	0,667	0,583	0,571	0,55	0,761
Congo	56,4	43,5	6,3	108	<b>0,573</b>	0,386	0,566	0,771	0,519	0,625
Congo, Dem. Rep. of the	61,2	34,4	6,7	205	<b>0,477</b>	0,274	0,625	0,829	0,378	0,279
Costa Rica	43,7	88,4	2,3	13	<b>0,668</b>	0,935	0,41	0,2	0,831	0,964
Côte d'Ivoire	39	38,5	5,1	194	<b>0,399</b>	0,324	0,352	0,6	0,401	0,318
Croatia	44,7	88,1	1,3	7	<b>0,648</b>	0,931	0,422	0,057	0,844	0,986

Cuba	43,8	86,2	1,6	7		0,908	0,411	0,1	„	0,986
Cyprus	53	91,6	1,6	5	<b>0,698</b>	0,974	0,524	0,1	0,9	0,993
Czech Republic	51,7	88,2	1,2	4	<b>0,672</b>	0,933	0,508	0,043	0,881	0,996
Denmark	59,4	87	1,8	5	<b>0,716</b>	0,918	0,602	0,129	0,94	0,993
Djibouti	53,1	48,1	5,1	126		0,442	0,525	0,6	„	0,561
Dominica	„	„	„	14					„	0,961
Dominican Republic	45,5	75,1	2,7	32	<b>0,621</b>	0,772	0,432	0,257	0,745	0,896
Ecuador	58,9	82,6	2,8	26		0,864	0,596	0,271	„	0,918
Egypt	20,1	79,3	3,3	36		0,824	0,12	0,343	„	0,882
El Salvador	46,7	77,7	2,9	28	<b>0,634</b>	0,804	0,447	0,286	0,725	0,911
Equatorial Guinea	50,5	33	5,9	204	<b>0,477</b>	0,257	0,493	0,714	0,639	0,282
Eritrea	58,2	45,5	5,5	82		0,41	0,588	0,657	„	0,718
Estonia	52,2	83,9	1,4	8	<b>0,661</b>	0,88	0,514	0,071	0,856	0,982
Ethiopia	70,9	40,7	5,9	166		0,351	0,744	0,714	„	0,418
Fiji	51,4	72,2	2,9	20		0,737	0,504	0,286	„	0,939
Finland	56,9	91,2	1,7	4	<b>0,719</b>	0,969	0,572	0,114	0,943	0,996
France	48,2	91,2	1,9	5	<b>0,702</b>	0,969	0,465	0,143	0,94	0,993
Gabon	61,5	48,9	4	91		0,452	0,628	0,443	„	0,686
Gambia	59,3	54,3	4,7	122		0,518	0,601	0,543	„	0,575
Georgia	51,1	83	1,5	45		0,869	0,501	0,086	„	0,85
Germany	50,4	90,5	1,3	5	<b>0,686</b>	0,961	0,492	0,057	0,928	0,993
Ghana	70,5	52,9	4,4	112	<b>0,576</b>	0,501	0,739	0,5	0,528	0,611
Greece	42,7	91,5	1,3	5	<b>0,668</b>	0,973	0,398	0,057	0,917	0,993
Grenada	„	„	„	21					„	0,936
Guatemala	33,7	73,5	4,6	45	<b>0,615</b>	0,753	0,287	0,529	0,659	0,85
Guinea	79,4	52,6	5,9	155	<b>0,59</b>	0,497	0,848	0,714	0,434	0,457
Guinea-Bissau	60,9	38,8	7,1	203		0,328	0,621	0,886	„	0,286
Guyana	43,3	65,7	2,3	64		0,657	0,405	0,2	„	0,782
Haiti	55,2	41,3	4	117		0,359	0,551	0,443	„	0,593
Honduras	52,2	70,1	3,7	41	<b>0,633</b>	0,711	0,514	0,4	0,676	0,864
Hong Kong, China (SAR)	52,9	93,7	0,9	„		1	0,523	0	„	
Hungary	42,1	83,7	1,3	8	<b>0,635</b>	0,878	0,39	0,057	0,867	0,982
Iceland	70,9	91,4	2	3	<b>0,766</b>	0,972	0,744	0,157	0,958	1
India	34	67,4	3,1	85	<b>0,516</b>	0,678	0,291	0,314	0,591	0,707
Indonesia	50,7	72,1	2,4	38	<b>0,605</b>	0,736	0,496	0,214	0,704	0,875
Iran, Islamic Rep. of	37,2	79,2	2,1	38	<b>0,587</b>	0,823	0,33	0,171	0,736	0,875
Ireland	51,9	89,7	1,9	6	<b>0,709</b>	0,951	0,51	0,143	0,951	0,989
Israel	49,7	91,5	2,9	6	<b>0,731</b>	0,973	0,483	0,286	0,925	0,989
Italy	37	92,2	1,3	5	<b>0,659</b>	0,982	0,328	0,057	0,934	0,993
Jamaica	54,8	73,4	2,4	20	<b>0,634</b>	0,752	0,546	0,214	0,721	0,939
Japan	48,5	93,3	1,3	4	<b>0,692</b>	0,995	0,469	0,057	0,942	0,996
Jordan	27	77,7	3,5	27	<b>0,608</b>	0,804	0,205	0,371	0,747	0,914
Kazakhstan	65	71,9	2	73	<b>0,617</b>	0,733	0,671	0,157	0,772	0,75
Kenya	69,3	31,8	5	120	<b>0,524</b>	0,242	0,724	0,586	0,487	0,582
Korea, Rep. of	50,1	90,2	1,2	6	<b>0,677</b>	0,957	0,488	0,043	0,905	0,989
Kuwait	48	87,9	2,4	12	<b>0,688</b>	0,929	0,463	0,214	0,864	0,968
Kyrgyzstan	55,1	76	2,7	68	<b>0,612</b>	0,783	0,55	0,257	0,701	0,768
Lao People's Dem. Rep.	54	53,1	4,8	83	<b>0,571</b>	0,503	0,536	0,557	0,545	0,714
Latvia	49,1	81,9	1,3	12	<b>0,64</b>	0,856	0,476	0,057	0,843	0,968
Lebanon	31,7	81,7	2,3	31		0,853	0,263	0,2	„	0,9
Lesotho	46,3	18,6	3,6	82	<b>0,422</b>	0,081	0,442	0,386	0,486	0,718
Libyan Arab Jamahiriya	30,8	82,5	3	20		0,863	0,252	0,3	„	0,939

Lithuania	51,8	85,2	1,3	8	<b>0,66</b>	0,896	0,509	0,057	0,856	0,982
Luxembourg	44,1	89,9	1,7	6	<b>0,684</b>	0,953	0,415	0,114	0,949	0,989
Macedonia, TFYR	40,9	84,6	1,5	14	<b>0,62</b>	0,889	0,375	0,086	0,791	0,961
Madagascar	78,9	54,1	5,4	123	<b>0,616</b>	0,515	0,842	0,643	0,507	0,571
Malawi	85,2	24,5	6,1	175	<b>0,519</b>	0,153	0,919	0,743	0,394	0,386
Malaysia	46,1	83,5	2,9	12	<b>0,673</b>	0,875	0,439	0,286	0,795	0,968
Maldives	46,1	67,5	4,3	46		0,679	0,439	0,486	„	0,846
Mali	72,4	44,8	6,9	219	<b>0,516</b>	0,401	0,762	0,857	0,329	0,229
Malta	32,5	90,3	1,5	6	<b>0,635</b>	0,958	0,272	0,086	0,869	0,989
Mauritania	54,3	50,7	5,8	125	<b>0,551</b>	0,474	0,54	0,7	0,478	0,564
Mauritius	42,2	80,9	2	15	<b>0,628</b>	0,843	0,391	0,157	0,792	0,957
Mexico	39,9	84	2,4	28	<b>0,636</b>	0,881	0,363	0,214	0,812	0,911
Moldova, Rep. of	56,6	74,3	1,2	28	<b>0,595</b>	0,763	0,568	0,043	0,692	0,911
Mongolia	53,9	67,6	2,4	52	<b>0,588</b>	0,681	0,535	0,214	0,685	0,825
Morocco	26,7	78,9	2,8	43	<b>0,553</b>	0,819	0,201	0,271	0,615	0,857
Mozambique	84,7	30,5	5,5	152	<b>0,53</b>	0,226	0,913	0,657	0,387	0,468
Myanmar	68,2	63,5	2,5	106		0,63	0,71	0,229	„	0,632
Namibia	47	36,7	4	63	<b>0,521</b>	0,302	0,45	0,443	0,622	0,786
Nepal	49,7	61	3,7	76	<b>0,547</b>	0,6	0,483	0,4	0,513	0,739
Netherlands	55,8	89,7	1,7	6	<b>0,712</b>	0,951	0,558	0,114	0,945	0,989
New Zealand	59,8	89,1	2	6	<b>0,726</b>	0,944	0,607	0,157	0,932	0,989
Nicaragua	35,5	74,9	3,3	38	<b>0,596</b>	0,77	0,309	0,343	0,684	0,875
Niger	71,2	40,2	7,9	259	<b>0,494</b>	0,345	0,747	1	0,292	0,086
Nigeria	45,6	33,2	5,8	197	<b>0,429</b>	0,259	0,433	0,7	0,443	0,307
Norway	63,1	90,6	1,8	4	<b>0,739</b>	0,962	0,648	0,129	0,962	0,996
Oman	21,9	84,2	3,8	13	<b>0,638</b>	0,884	0,142	0,414	0,785	0,964
Pakistan	32	65,6	4,3	101	<b>0,514</b>	0,656	0,266	0,486	0,513	0,65
Panama	49,9	85,1	2,7	24	<b>0,674</b>	0,895	0,486	0,257	0,806	0,925
Papua New Guinea	71,8	46,6	4,1	93	<b>0,567</b>	0,424	0,755	0,457	0,521	0,679
Paraguay	64,2	79,8	3,9	24		0,83	0,661	0,429	„	0,925
Peru	58,2	77,1	2,9	29	<b>0,667</b>	0,797	0,588	0,286	0,759	0,907
Philippines	53,8	78,6	3,2	34	<b>0,666</b>	0,815	0,534	0,329	0,761	0,889
Poland	47,9	87	1,3	8	<b>0,656</b>	0,918	0,461	0,057	0,859	0,982
Portugal	55,2	90,2	1,5	5	<b>0,698</b>	0,957	0,551	0,086	0,902	0,993
Qatar	35,7	81,2	3	21		0,847	0,312	0,3	„	0,936
Romania	50,7	82,9	1,3	20	<b>0,633</b>	0,868	0,496	0,057	0,804	0,939
Russian Federation	54,3	76,3	1,3	21	<b>0,623</b>	0,787	0,54	0,057	0,795	0,936
Rwanda	80,4	35,5	5,7	203	<b>0,514</b>	0,288	0,86	0,686	0,449	0,286
Saint Kitts and Nevis	„	„	„	21					„	0,936
Saint Lucia	53,4	77	2,2	14		0,796	0,529	0,186	„	0,961
Saint Vincent and the Grenadines	53,5	81,3	2,3	22		0,848	0,53	0,2	„	0,932
Samoa (Western)	39,6	78,4	4,4	30	<b>0,669</b>	0,813	0,36	0,5	0,77	0,904
São Tomé and Príncipe	29,6	68,6	4,1	118		0,693	0,237	0,457	„	0,589
Saudi Arabia	17,3	81,2	4,1	27	<b>0,61</b>	0,847	0,086	0,457	0,744	0,914
Senegal	56,5	54,6	5	137	<b>0,529</b>	0,521	0,567	0,586	0,451	0,521
Seychelles	„	„	„	14					„	0,961
Sierra Leone	56	36,2	6,5	283	<b>0,395</b>	0,296	0,561	0,8	0,317	0
Singapore	50,8	90,7	1,4	3		0,963	0,497	0,071	„	1
Slovakia	51,9	86,8	1,2	9	<b>0,66</b>	0,916	0,51	0,043	0,853	0,979



Slovenia	53,4	88,9	1,2	4	<b>0,683</b>	0,941	0,529	0,043	0,908	0,996
Solomon Islands	54,4	62	4,3	56		0,612	0,541	0,486	„	0,811
South Africa	46,4	38,1	2,8	67	<b>0,49</b>	0,319	0,443	0,271	0,646	0,771
Spain	44,2	92,8	1,3	5	<b>0,678</b>	0,989	0,416	0,057	0,933	0,993
Sri Lanka	35	85,6	2	14	<b>0,614</b>	0,901	0,303	0,157	0,749	0,961
Sudan	23,7	55,4	4,4	91	<b>0,475</b>	0,531	0,164	0,5	0,492	0,686
Suriname	33,1	77,3	2,6	39		0,799	0,28	0,243	„	0,871
Swaziland	31,5	12	4	156	<b>0,327</b>	0	0,26	0,443	0,479	0,454
Sweden	58,8	91,5	1,6	4	<b>0,723</b>	0,973	0,595	0,1	0,949	0,996
Switzerland	60,1	91,9	1,4	5	<b>0,719</b>	0,978	0,611	0,071	0,944	0,993
Syrian Arab Republic	38	83,2	3,5	16	<b>0,648</b>	0,871	0,34	0,371	0,702	0,954
Tajikistan	46,5	69,4	3,8	118	<b>0,56</b>	0,703	0,444	0,414	0,648	0,589
Tanzania, U. Rep. of	86	35,8	5	126	<b>0,559</b>	0,291	0,929	0,586	0,426	0,561
Thailand	65,4	80,3	1,9	21	<b>0,674</b>	0,836	0,676	0,143	0,781	0,936
Togo	50,5	53,8	5,4	140	<b>0,527</b>	0,512	0,493	0,643	0,476	0,511
Tonga	46,3	78,2	3,5	25	<b>0,671</b>	0,81	0,442	0,371	0,809	0,921
Trinidad and Tobago	46,6	76,1	1,6	20	<b>0,615</b>	0,785	0,445	0,1	0,805	0,939
Tunisia	27,9	84,9	2	25	<b>0,586</b>	0,892	0,216	0,157	0,744	0,921
Turkey	27,8	77,9	2,5	32	<b>0,578</b>	0,807	0,215	0,229	0,745	0,896
Turkmenistan	60,4	69,8	2,8	103		0,707	0,615	0,271	„	0,643
Uganda	79,7	34,4	7,1	138	<b>0,605</b>	0,274	0,852	0,886	0,498	0,518
Ukraine	49,9	76,4	1,1	18	<b>0,604</b>	0,788	0,486	0,029	0,771	0,946
United Arab Emirates	37,4	90,2	2,5	8	<b>0,666</b>	0,957	0,333	0,229	0,829	0,982
United Kingdom	55	89,4	1,7	6	<b>0,707</b>	0,947	0,548	0,114	0,938	0,989
United States	59,6	86,7	2	8	<b>0,721</b>	0,914	0,605	0,157	0,946	0,982
Uruguay	55,7	85,9	2,3	17	<b>0,692</b>	0,905	0,557	0,2	0,847	0,95
Uzbekistan	56,2	72,9	2,7	69	<b>0,605</b>	0,745	0,563	0,257	0,694	0,764
Vanuatu	79,3	75,2	4,2	40		0,774	0,847	0,471	„	0,868
Venezuela	55,9	82,8	2,7	19	<b>0,681</b>	0,867	0,56	0,257	0,78	0,943
Viet Nam	72,4	78,4	2,3	23	<b>0,682</b>	0,813	0,762	0,2	0,708	0,929
Yemen	29,4	61	6,2	111	<b>0,534</b>	0,6	0,234	0,757	0,462	0,614
Zambia	66,1	18,5	5,7	182	<b>0,441</b>	0,08	0,685	0,686	0,396	0,361
Zimbabwe	64,2	15,5	3,6	129	<b>0,425</b>	0,043	0,661	0,386	0,483	0,55

**A path model world growth and social development**

explaining economic growth, 1990 – 2004	var number	B	Standard error B	Beta	t	error p
MNC PEN 1995	VAR00002	0,05	0,009	<b>0,411</b>	5,294	0
public education expenditure per GNP	VAR00004	-0,485	0,129	<b>-0,277</b>	-3,768	0
DYN MNC PEN comparative price level	VAR00003	-0,034	0,01	<b>-0,267</b>	-3,349	0,001
	VAR00013	-3,727	1,092	<b>-0,367</b>	-3,412	0,001
ln GDP <sup>2</sup>	VAR00012	0,322	0,221	2,026	1,457	0,147
EXP 90	VAR00008	-0,017	0,012	-0,113	-1,396	0,165
GDP per capita (PPP US\$) rank minus HDI rankd	VAR00010	-0,023	0,019	-0,137	-1,233	0,219
tax revenue as % of GDP	VAR00006	0,045	0,037	0,114	1,228	0,221
ln GDP	VAR00011	-4,093	3,894	-1,496	-1,051	0,295
	(Constant)	14,508	17,539		0,827	0,409
public health expenditure per GDP	VAR00005	-0,107	0,158	-0,067	-0,68	0,498
UNDP Balancing work and family life index	VAR00015	2,928	5,081	0,071	0,576	0,565
TRF04 <sup>2</sup>	VAR00001	-0,049	0,102	-0,201	-0,482	0,631
age6504	VAR00007	0,036	0,106	0,057	0,343	0,732
female ec activity rate as % of male rate 2004	VAR00009	-0,003	0,015	-0,017	-0,223	0,824
TFR04	VAR00014	0,186	0,946	0,098	0,197	0,844

Adj R<sup>2</sup> = 35.8%, df. = 172, F = 7.395, error probability = .000

<b>explaining economic growth, 1975 – 2004</b>	var number	B	Standard error B	<b>Beta</b>	t	error p
<b>MNC PEN 1995</b>	VAR00002	0,044	0,007	<b>0,47</b>	6,039	0
<b>public education expenditure per GNP</b>	VAR00004	-0,286	0,099	<b>-0,213</b>	-2,895	0,004
<b>public health expenditure per GDP</b>	VAR00005	-0,258	0,121	<b>-0,21</b>	-2,124	0,035
<b>EXP 90</b>	VAR00008	-0,019	0,009	<b>-0,169</b>	-2,077	0,039
<b>DYN MNC PEN</b>	VAR00003	-0,016	0,008	<b>-0,163</b>	-2,041	0,043
tax revenue as % of GDP	VAR00006	0,043	0,028	0,141	1,518	0,131
comparative price level	VAR00013	-0,941	0,84	-0,121	-1,12	0,264
ln GDP <sup>2</sup>	VAR00012	0,153	0,17	1,254	0,9	0,37
GDP per capita (PPP US\$) rank minus HDI rankd	VAR00010	-0,011	0,015	-0,087	-0,78	0,436
UNDP Balancing work and family life index	VAR00015	2,937	3,905	0,092	0,752	0,453
ln GDP	VAR00011	-1,732	2,993	-0,825	-0,579	0,564
TRF04 <sup>2</sup>	VAR00001	-0,042	0,078	-0,223	-0,533	0,595
1	(Constant)	4,81	13,481		0,357	0,722
age6504	VAR00007	0,012	0,082	0,024	0,143	0,887
TFR04	VAR00014	0,086	0,727	0,059	0,118	0,906
female ec activity rate as % of male rate 2004	VAR00009	-0,001	0,011	-0,006	-0,072	0,943

Adj. R<sup>2</sup> = 35.5%, df. = 172, F = 7.310, error probability = .000

explaining the quintile ratio (top 20%/bottom 20%)	var number	B	Standard error B	Beta	t	error p
public education expenditure per GNP	VAR00004	0,92	0,368	<b>0,205</b>	2,498	0,014
tax revenue as % of GDP	VAR00006	-0,261	0,106	<b>-0,255</b>	-2,463	0,015
DYN MNC PEN	VAR00003	0,067	0,029	<b>0,202</b>	2,272	0,024
TFR04	VAR00014	5,939	2,707	<b>1,22</b>	2,194	0,03
TRF04^2	VAR00001	-0,59	0,291	<b>-0,948</b>	-2,03	0,044
UNDP Balancing work and family life index	VAR00015	-23,592	14,546	-0,222	-1,622	0,107
MNC PEN 1995	VAR00002	0,043	0,027	0,14	1,608	0,11
EXP 90	VAR00008	-0,045	0,035	-0,118	-1,306	0,193
GDP per capita (PPP US\$) rank minus HDI rankd	VAR00010	-0,042	0,054	-0,096	-0,769	0,443
comparative price level	VAR00013	-2,042	3,127	-0,079	-0,653	0,515
public health expenditure per GDP	VAR00005	0,247	0,452	0,06	0,547	0,585
ln GDP	VAR00011	3,866	11,149	0,552	0,347	0,729
age6504	VAR00007	0,09	0,304	0,054	0,295	0,768
female ec activity rate as % of male rate 2004	VAR00009	0,011	0,042	0,022	0,255	0,799
ln GDP^2	VAR00012	-0,135	0,632	-0,332	-0,213	0,831
1	(Constant)	-9,883	50,211		-0,197	0,844

Adj. R<sup>2</sup> = 19.7%, df. = 172, F = 3.818, error probability = .000

Gender empowerment index (UNDP measure)	var number	B	Standard error B	Beta	t	error p
female ec activity rate as % of male rate 2004	VAR00009	0,002	0	<b>0,332</b>	4,532	0
TFR04	VAR00014	0,07	0,032	<b>1,047</b>	2,215	0,028
comparative price level	VAR00013	0,072	0,036	<b>0,202</b>	1,976	0,05
TRF04^2	VAR00001	-0,007	0,003	<b>-0,761</b>	-1,917	0,057
ln GDP^2	VAR00012	0,012	0,007	2,077	1,572	0,118
1	(Constant)	0,769	0,585		1,314	0,191
ln GDP	VAR00011	-0,165	0,13	-1,72	-1,272	0,205
tax revenue as % of GDP	VAR00006	0,001	0,001	0,104	1,183	0,239
public health expenditure per GDP	VAR00005	0,006	0,005	0,106	1,135	0,258
GDP per capita (PPP US\$) rank minus HDI rankd	VAR00010	0,001	0,001	0,103	0,975	0,331
age6504	VAR00007	0,003	0,004	0,133	0,849	0,397
MNC PEN 1995	VAR00002	0	0	0,038	0,521	0,603
UNDP Balancing work and family life index	VAR00015	-0,05	0,17	-0,035	-0,298	0,766
EXP 90	VAR00008	-9,23E-05	0	-0,018	-0,228	0,82
DYN MNC PEN	VAR00003	4,36E-05	0	0,01	0,127	0,899
public education expenditure per GNP	VAR00004	0	0,004	-0,007	-0,096	0,924

Adj. R<sup>2</sup> = 42.0%, df. = 172, F = 9,304, error probability = .000

explaining the human development index (UNDP measure)	var number	B	Standard error B	Beta	t	error p
1	(Constant)	-0,896	0,159		-5,644	0
<b>MNC PEN 1995</b>	VAR00002	0	0	<b>0,047</b>	3,811	0
<b>GDP per capita (PPP US\$) rank minus HDI rank</b>	VAR00010	0,002	0	<b>0,255</b>	14,304	0
<b>In GDP</b>	VAR00011	0,237	0,035	<b>1,532</b>	6,708	0
<b>UNDP Balancing work and family life index</b>	VAR00015	0,27	0,046	<b>0,116</b>	5,87	0
<b>In GDP<sup>2</sup></b>	VAR00012	-0,007	0,002	<b>-0,764</b>	-3,424	0,001
<b>female ec activity rate as % of male rate 2004</b>	VAR00009	0	0	<b>-0,031</b>	-2,532	0,012
<b>DYN MNC PEN</b>	VAR00003	0	0	<b>-0,022</b>	-1,694	0,092
TFR04	VAR00014	-0,012	0,009	-0,116	-1,456	0,148
age6504	VAR00007	-0,001	0,001	-0,034	-1,28	0,203
public health expenditure per GDP	VAR00005	0,001	0,001	0,016	1,018	0,31
TRF04 <sup>2</sup>	VAR00001	-0,001	0,001	-0,065	-0,965	0,336
comparative price level	VAR00013	-0,007	0,01	-0,012	-0,721	0,472
public education expenditure per GNP	VAR00004	0,001	0,001	0,007	0,634	0,527
EXP 90	VAR00008	-6,80E-05	0	-0,008	-0,619	0,537
tax revenue as % of GDP	VAR00006	0	0	-0,006	-0,43	0,668

Adj. R<sup>2</sup> = 98.3%, df. = 172; F = 683.288; error probability = .000

<b>explaining life expectancy</b>	var number	B	Standard error B	Beta	t	error p
<b>female ec activity rate as % of male rate 2004</b>	VAR00009	-0,152	0,018	<b>-0,205</b>	-8,624	0
<b>GDP per capita (PPP US\$) rank minus HDI rankd</b>	VAR00010	0,161	0,023	<b>0,243</b>	7,088	0
<b>UNDP Balancing work and family life index</b>	VAR00015	70,083	6,07	<b>0,436</b>	11,545	0
<b>ln GDP</b>	VAR00011	13,628	4,653	<b>1,285</b>	2,929	0,004
<b>TFR04</b>	VAR00014	-3,321	1,13	<b>-0,45</b>	-2,94	0,004
<b>ln GDP^2</b>	VAR00012	-0,579	0,264	<b>-0,941</b>	-2,196	0,03
<b>public education expenditure per GNP</b>	VAR00004	-0,285	0,154	<b>-0,042</b>	-1,857	0,065
<b>comparative price level</b>	VAR00013	2,357	1,305	<b>0,06</b>	1,806	0,073
<b>TRF04^2</b>	VAR00001	0,197	0,121	0,209	1,626	0,106
<b>age6504</b>	VAR00007	-0,204	0,127	-0,082	-1,612	0,109
1	(Constant)	-31,073	20,954		-1,483	0,14
<b>public health expenditure per GDP</b>	VAR00005	-0,078	0,188	-0,013	-0,414	0,679
<b>tax revenue as % of GDP</b>	VAR00006	0,018	0,044	0,012	0,405	0,686
<b>DYN MNC PEN</b>	VAR00003	0,004	0,012	0,009	0,358	0,721
<b>MNC PEN 1995</b>	VAR00002	-0,003	0,011	-0,007	-0,298	0,766
<b>EXP 90</b>	VAR00008	-0,001	0,014	-0,001	-0,06	0,952

Adj. R<sup>2</sup> = 93.9%, df. = 172, F = 177.59, error probability = .000

## **Enhancing Social Europe**

We, Labour Ministers of Belgium, Bulgaria, Greece, Spain, France, Italy, Cyprus, Luxembourg, Hungary

Persuaded, 50 years after the Rome Treaty, that the social dimension stands as one of the vital elements of the European integration.

Welcome the German Presidency for setting the social dimension to the heart of its programme priorities and we hope to bring a positive contribution in this direction.

State the need to strengthen the European social model, represented by common principles and values - social justice, equality, solidarity - that inspire national social systems, despite their differences, and are reflected in the Treaties.

Recognize that the European Union has so far achieved considerable results on the road of social progress by means of common objectives and instruments established by the Treaties. Therefore a link between enhancing Social Europe and a new impetus of institutional process is needed.

Consider necessary, with this aim, that the Council, the European Parliament and the Commission elaborate together a vision for the future of Social Europe, promoting with a balanced approach reforms and adaptations related to globalization, industrial restructuring, technological innovations, demography and migration. Thus in order to strengthen growth, employment and work quality, while ensuring social rights and protections enshrined in the European tradition.

State that the fight against unemployment has to remain a fundamental axis of the economic and social policy of the Member States and of the Union.

Remind that, in the perspective of the renewed Lisbon Strategy achievement, social policies are also a development and competitiveness factor, helping productivity improvement, job creation and social cohesion.

Reaffirm the need to strengthen economic and social convergence throughout the Union so as to promote job creation, equal opportunities in the labour market, lifelong learning, modernisation of social protection. The Social Europe will offer, by this way, a real added value for working people and for citizens, namely those more vulnerable to restructuring and globalization. To that end, the Union may count on different tools at its disposal (coordination, legislation, social dialogue, programs).

Underline the key role that, in this context, social partners, social dialogue and collective bargaining at different levels are called to play.

Consider that EU-27 cannot just be a free trade zone but shall guarantee the necessary balance between economic freedom and social rights, so that internal market could be regulated also at the social level. The completion of the internal market is inseparable



from the real achievement of social “acquis”, of the workers’ equal treatment principles and of the application of national labour law in the framework of freedom of services.

Recommend that the European Union be engaged in promoting principles and values of its social model at the international level. In order to help the achievement of a more equitable and balanced globalization, it is necessary to generalise social clauses in the Union’s trade agreements with Third Countries; to encourage, at multilateral level, the consideration of fundamental principles and rights at work as defined by ILO; to support world campaign for a decent work for all.

Suggest that the next Social Reality Report of the European Union can lead to a mid-term review of the Social Agenda, looking forward to the improvement of quality of work and to the safeguard of professional paths, in order to fulfil equal opportunities at work.

Trust that this need to develop Social Europe, as a strong element for any rapprochement of the citizens to the European project, may be endorsed in the Presidency’s Conclusions of the forthcoming European Councils.

Signatures  
Annex

Some hints for future work

## 1. Employment and flexicurity

- Fighting precarious work and favoring employment stabilisation and quality of work.
- Investing in lifelong learning, allowing workers to respond to changing labour markets also through the recognition of an individual right to training.
- Ensuring, in a dynamic market, the safeguard of professional paths through professional re-qualification, maintain of rights and support to income during the transition.
- Favours access of young people to the labour market through qualifying training, first employment programs and start up promotion, to allow their better integration in the labour market.
- Favours the increase of the activity rate of older workers.
- Improving health and safety at work, taking into account new technologies on risk prevention.
- Developing, on the basis of the acquis, the European labour law by setting minimum social standards applicable throughout the European Union.
- Fighting undeclared work and favoring its emersion.
- Guaranteeing work mobility in the European Union through measures aimed at a more integrated European labour market.

## 2. Social Cohesion

- Engaging so that reforms of social security systems will be oriented to financial sustainability as well as to the need of guaranteeing their social goals and their universal and solidarity character.
- Guaranteeing measures of social protection and a network of services responding to not self-sufficient people's needs.
- Fighting poverty and social exclusion by establishing a minimum of resources for EU citizens and specific initiatives for less favoured or vulnerable people like young people, women, older workers, migrant workers and Rom.
- Eliminating all discriminations in the labour market.
- Developing policies for professional and social integration of migrant workers and their families.

### 3. Equal opportunities

- Supporting the increase of the female employment rate.
- Developing policies for work-life balances, both for women and men.
- Ending unequal treatments between men and women at work, including wages and careers.
- Strengthening tax and social policies to support families and childhood, including an adequate network of nursery.

### 4. A better European social governance

- Guaranteeing the full and proper implementation of the European social acquis.
- Strengthening the coordination among social and labour inspection services.
- Establishing a European framework to assess the social impact of all Union policies.
- Promoting collective bargaining, expanding social consultation at all levels and supporting European social dialogue.
- Examining Union's various tools in the field of social policies (legislation, open method of coordination, social dialogue) in view to assessing their relevance and effectiveness in each different areas.

**The other Lisbon race: the Shanghai University Ranking of the World's top 500 Universities (quoted from (<http://ed.sjtu.edu.cn/rank/2007/ranking2007.htm>))**

The Shanghai University world University ranking report (and all earlier versions - <http://ed.sjtu.edu.cn/rank/2007/ranking2007.htm>) works with the following methodology:

For each indicator, the highest scoring institution is assigned a score of 100, and other institutions are calculated as a percentage of the top score. The distribution of data for each indicator is examined for any significant distorting effect; standard statistical techniques are used to adjust the indicator if necessary.

Scores for each indicator are weighted as shown below to arrive at a final overall score for an institution. The highest scoring institution is assigned a score of 100, and other institutions are calculated as a percentage of the top score. An institution's rank reflects the number of institutions that are above it.

Criteria	Indicator	Code	Weight
Quality of Education	Alumni of an institution winning Nobel Prizes and Fields Medals	Alumni	10%
Quality of Faculty	Staff of an institution winning Nobel Prizes and Fields Medals	Award	20%
	Highly cited researchers in 21 broad subject categories	HiCi	20%
Research Output	Articles published in Nature and Science*	N&S	20%
	Articles in Science Citation Index-expanded, Social Science Citation Index	SCI	20%
Size of Institution	Academic performance with respect to the size of an institution	Size	10%
<b>Total</b>			100%

\* For institutions specialized in humanities and social sciences such as London School of Economics, N&S is not considered, and the weight of N&S is relocated to other indicators.

**Alumni.** The total number of the alumni of an institution winning Nobel Prizes and Fields Medals. Alumni are defined as those who obtain bachelor, Master's or doctoral degrees from the institution. Different weights are set according to the periods of obtaining degrees. The weight is 100% for alumni obtaining degrees in 1991-2000, 90% for alumni obtaining degrees in 1981-1990, 80% for alumni obtaining degrees in 1971-1980, and so on, and finally 10% for alumni obtaining degrees in 1901-1910. If a person obtains more than one degrees from an institution, the institution is considered once only.

**Award.** The total number of the staff of an institution winning Nobel prizes in physics, chemistry, medicine and economics and Fields Medal in Mathematics. Staff is defined as those who work at an institution at the time of winning the prize. Different weights are set according to the periods of winning the prizes. The weight is 100% for winners in 2001-2006, 90% for winners in 1991-2000, 80% for winners in 1981-1990, 70% for winners in 1971-1980, and so on, and finally 10% for winners in 1911-1920. If a winner is affiliated with more than one institution, each institution is assigned the reciprocal of the number of institutions. For Nobel prizes, if a prize is shared by more than one person, weights are set for winners according to their proportion of the prize.

**HiCi.** The number of highly cited researchers in broad subject categories in life sciences, medicine, physical sciences, engineering and social sciences. These individuals are the most highly cited within each category. The definition of categories and detailed procedures can be found at the website of Institute of Scientific Information.

**N&S.** The number of articles published in Nature and Science between 2002 and 2006. To distinguish the order of author affiliation, a weight of 100% is assigned for corresponding author affiliation, 50% for first author affiliation (second author affiliation if the first author affiliation is the same as corresponding author affiliation), 25% for the next author affiliation, and 10% for other author affiliations. Only publications of article type are considered.

**SCI.** Total number of articles indexed in Science Citation Index-expanded and Social Science Citation Index in 2006. Only publications of article type are considered. When calculating the total number of articles of an institution, a special weight of two was introduced for articles indexed in Social Science Citation Index.

**Size.** The weighted scores of the above five indicators divided by the number of full-time equivalent academic staff. If the number of academic staff for institutions of a country cannot be obtained, the weighted scores of the above five indicators is used. For ranking 2007, the numbers of full-time equivalent academic staff are obtained for institutions in

USA, UK, Japan, South Korea, Czech, China, Italy, Australia, Netherlands, Sweden, Switzerland, Belgium, Slovenia, New Zealand etc.

## Shanghai University world University rankings - statistics by country

	Country	Top 20	Top 100	Top 200	Top 300	Top 400	Top 500
	<b>Total</b>	<b>20</b>	<b>101</b>	<b>200</b>	<b>300</b>	<b>400</b>	<b>500</b>
1	USA	17	54	87	118	140	167
2	UK	2	11	22	33	37	43
3	<b>Germany</b>		<b>5</b>	<b>15</b>	<b>22</b>	<b>36</b>	<b>40</b>
4	Japan	1	6	9	12	20	32
5	<b>Italy</b>		<b>1</b>	<b>6</b>	<b>7</b>	<b>14</b>	<b>23</b>
6	Canada		4	8	16	19	22
7	<b>France</b>		<b>4</b>	<b>6</b>	<b>12</b>	<b>17</b>	<b>21</b>
8	China			3	9	15	19
9	Australia		2	6	9	11	16
10	<b>Netherlands</b>		<b>2</b>	<b>7</b>	<b>9</b>	<b>12</b>	<b>12</b>
11	<b>Sweden</b>		<b>4</b>	<b>4</b>	<b>9</b>	<b>11</b>	<b>11</b>
12	South Korea			1	3	6	9
13	<b>Spain</b>			<b>1</b>	<b>3</b>	<b>5</b>	<b>9</b>
14	Switzerland		3	6	7	7	8
15	Israel		1	4	4	6	7
16	<b>Belgium</b>			<b>4</b>	<b>6</b>	<b>7</b>	<b>7</b>
17	<b>Austria</b>			<b>1</b>	<b>3</b>	<b>5</b>	<b>7</b>
18	<b>Denmark</b>		<b>1</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>5</b>
19	<b>Finland</b>		<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>5</b>
20	New Zealand				2	2	5
21	Norway		1	1	2	3	4
22	Brazil			1	1	3	4
23	South Africa				1	2	4
24	<b>Ireland</b>				<b>1</b>	<b>2</b>	<b>3</b>
25	Russia		1	1	1	2	2
26	Singapore			1	1	2	2
27	<b>Greece</b>					<b>2</b>	<b>2</b>

28	<b>Hungary</b>					<b>2</b>	<b>2</b>
29	<b>Poland</b>					<b>2</b>	<b>2</b>
30	India					<b>1</b>	<b>2</b>
31	Argentina			<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
32	Mexico			<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
33	<b>Czech</b>				<b>1</b>	<b>1</b>	<b>1</b>
34	Chile						<b>1</b>
35	Egypt						<b>1</b>

Country	Number of leading Universities 2003	Number of leading Universities 2006	increase/decrease	Lisbon competition category
South Korea	8	9	1	Asia
China	14	14	0	Asia
China-tw	5	5	0	Asia
Singapore	2	2	0	Asia
India	3	2	-1	Asia
Japan	36	32	-4	Asia
Australia	13	16	3	Commonwealth
New Zealand	3	5	2	Commonwealth
South Africa	4	4	0	Commonwealth
Canada	24	22	-2	Commonwealth
Norway	3	4	1	EEA/EFTA
Switzerland	8	8	0	EEA/EFTA
Turkey	2	0	-2	EU candidates
Austria	4	7	3	EU-27
Italy	22	23	1	EU-27
Sweden	10	11	1	EU-27
UK	42	43	1	EU-27
Belgium	7	7	0	EU-27
Czech	1	1	0	EU-27
Greece	2	2	0	EU-27
Hungary	2	2	0	EU-27
Ireland	3	3	0	EU-27
Netherlands	12	12	0	EU-27
Denmark	6	5	-1	EU-27
Finland	6	5	-1	EU-27
France	22	21	-1	EU-27
Poland	3	2	-1	EU-27
Portugal	1	0	-1	EU-27
Slovenia	1	0	-1	EU-27
Germany	42	40	-2	EU-27
Spain	13	9	-4	EU-27
Israel	6	7	1	Israel
Egypt	0	1	1	others
Argentina	1	1	0	others
Brazil	4	4	0	others
Chile	1	1	0	others
Mexico	1	1	0	others
Russia	2	2	0	Russia
USA	161	167	6	USA



## **Data Sources**

.Nobel laureates. <http://www.nobelprize.org>.

Fields Medals. <http://www.mathunion.org/medals/>.

Highly cited researchers. <http://www.isihighlycited.com>.

Articles published in Nature and Science. <http://www.isiknowledge.com>.

Articles indexed in Science Citation Index-expanded, Social Science Citation Index, and Arts & Humanities Citation Index. <http://www.isiknowledge.com>

## Tuition fees in the European Union

Source:

[http://209.85.129.104/search?q=cache:v3ho\\_7KwLOIJ:europa.eu/rapid/pressReleasesAction.do%3Freference%3DMEMO/07/183%26format%3DPDF%26aged%3D1%26language%3DEN%26q%3Dtuition+fees+portugal+poland+ireland+italy+spain+greece+france&hl=de&ct=clnk&cd=7&gl=at](http://209.85.129.104/search?q=cache:v3ho_7KwLOIJ:europa.eu/rapid/pressReleasesAction.do%3Freference%3DMEMO/07/183%26format%3DPDF%26aged%3D1%26language%3DEN%26q%3Dtuition+fees+portugal+poland+ireland+italy+spain+greece+france&hl=de&ct=clnk&cd=7&gl=at)

MEMO/07/183

Brussels, 10 May 2007

**Bologna process: FAQ on the social dimension of  
higher education in Europe**

Admission to full-time studies for a first qualification may be regarded as free of charge in a dozen countries.

*In three countries – Finland, Sweden and, in the public sector, Norway – only subscriptions to student organisations are required; in Denmark, no contribution is required. As a result, in these Nordic countries, access may be regarded as free. The situation is similar for all programmes in Ireland, Cyprus, Greece, Slovenia, the United Kingdom (Scotland) and, in the case of students with a subsidised place, Latvia (around 25%). The same also applies to long theoretical programmes in the Czech Republic and to short vocational programmes in Spain.*

**Fourteen countries** require students to make a contribution towards tuition costs (tuition fees). In most of them, the annual contributions vary between PPS EUR 200 and PPS EUR 1 000<sup>3</sup>. Institutions are often free to set the amount but with a maximum upper limit.

*In Italy and in the private government-dependent sector in Norway, institutions are completely free to set the amount. Where an upper limit is set, it can reach more than PPS EUR 6 000 in the public sector for students without a state-subsidised place in Latvia and in some programmes in Portugal. Since 2006/07 in the United Kingdom (England and Northern Ireland), institutions have been able to determine tuition fees without exceeding the fixed maximum of PPS EUR 4 031.*

Fifteen countries have shown their determination to limit the time students take to complete their studies by requiring them to pay increased contributions if they study for longer than a certain fixed period. The precise amounts are often left to the discretion of their institutions.

*Contributions are increased in this way in Spain, Italy, Portugal and Turkey. It is only in six countries, namely the Czech Republic (long theoretical programmes), Ireland, Hungary, Romania, Slovenia and the United Kingdom (Scotland) as well as in six German Länder, that their students may be required to pay contributions if they fall behind. However, free tuition is maintained in Denmark, Greece, Spain (short vocational programmes), Cyprus, Malta, Sweden, Finland and in the public sector in Norway.*

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