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The Lisbon process, re-visited. A reality check of the European social model.

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by

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Abstract

This article portrays a bleak picture of European realities. Analyzing world social, gender, ecological and economic development on the basis of the main 9 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 first present results of 32 equations about development performance in 131 countries with available data. We come to the conclusion that while there is some confirmation for the “blue”, market paradigm as the best and most viable way of world systems governance concerning economic growth, re-distribution and gender issues, the “red-green” counter-position is confirmed concerning such vital and basic indicators as life expectancy and the human development index.

We also show that Europe’s crisis is not caused by what the neo-liberals term a “lack of world economic openness” but rather, on the contrary, by the enormous amount of passive globalization that Europe – together with Latin America – experienced over recent years. Our combined measure of the velocity of the globalization process is based on the increases of capital penetration over time, on the increases of economic openness over time, and on the decreases of the comparative price level over time: the United States, Mexico, larger parts of Africa and large sections of West and South Asia escaped from the combined pressures of globalization, while Eastern and Southern Latin America, very large parts of Europe, Russia and China were characterized by a specially high tempo of globalization.

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The “wider Europe” of the EU-25 is not too distantly away from the social realities of the more advanced Latin American countries. From the viewpoint of world systems theory such tendencies are not a coincidental movement along the historic ups and downs of social indicators, but the very symptom of a much more deep-rooted crisis, which is the beginning of the real re-marginalization and re-peripherization of the European continent.

We finally also show the relevance of these assumptions for the analysis of European regional inequality. Established economics teaches us that for economic 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”. But a reversal of what was once known as the Balassa/Samuelson effect has set in, with falling prices of non-tradables in the highly developed European center countries.

Our macro-quantitative calculations show that considering other important intervening factors, like development levels and human capital formation, the ultraliberal thinking inherent in the recent “Bolkestein directive” that should lead to a considerable lowering of price levels in the formerly “non-tradable” sectors of services in Europe would be certainly compatible with some aspects of growth and better employment (and thus also gender relations), but our three main other indicators of globalization, i.e. high foreign saving, “economic freedom” and high MNC penetration ratios, are still very systematically linked with severe deficits in the social sphere, whatever the research design chosen. And in addition, powerful forces of agglomeration propel Europe in the direction of further regional income concentration and inequality, thus blocking the hopes of the poorer segments of the East European new member countries. A process of catching up development seems under these conditions a very remote hope indeed.

JEL Classification: C21, D31, E30, F02

Key words: Cross-Section Models, Income Distribution, Prices, Business Fluctuations, and Cycles – General; International Economic Order, Inequality, Economic Integration: General

*Ai, esta terra ainda vai cumprir seu ideal
Ainda vai tornar-se um imenso Portugal*

*[Ai, this land is still going to accomplish its ideal
and will transform itself into an immense Portugal]*

Chico Buarque, Fado Tropical (1972)

1. Introduction

In this paper, a thorough re-analysis of the performance of the European social model existing in the EU-25 should be undertaken. The political background for such a “reality check” is clear. At the forceful start of the British EU-Presidency, PM Blair said in the European Parliament:

“What would a different policy agenda for Europe look like? First, it would modernize 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 20 million 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. (...). The purpose of our social model should be to enhance our ability to compete, to help our people cope with globalization, to let them embrace its opportunities and avoid its dangers. Of course we need a social Europe. But it must be a social Europe that works. (...). And we've been told how to do it. The Kok report in 2004 shows the way. Investment in knowledge, in skills, in active labor 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”.. (British Prime Minister Tony Blair, available at: <http://www.number10.gov.uk/output/Page7714.asp>)

After the negative results of the constitutional referenda in France and the Netherlands, it would be foolish to deny the existence of the crisis of the “European model”. But what are its causes? Too much globalization, too much distance from the average European citizen, or too heavy tax burdens, too much regulation? Or a shrinking demographic base and barriers to migration? Or the rigid policies of the European Central Bank and the Maastricht accords?

This article leaves behind the trodden paths of transatlantic comparison US-EU and looks at the real global issues that cause some nations to stagnate while others rush forward. Among these nations, you find today China, India, and the new industrial giants of East Asia that recover from the effects of the “Asian Crisis” years ago. This article studies the European crisis in a global, cross-national, quantitative and systematic way. A thorough, comparative method is needed to look at the underlying issues of faltering economic growth and rising income inequality as well as the stagnating employment situation on the European Continent.

Latin America, after more than two decades of neo-liberal economic policies, goes to the left, while Europe embarked on neo-liberalism in the 1990s and follows precisely such a course of policies that seem to have gone bankrupt in Latin America nowadays, ever since. So, is Latin America in reality the “mirror” of Europe’s own future? You name the Latin American countries that now follow other paths of development: Venezuela, Bolivia with its more radical movements against the status quo, Argentina, Brazil, Chile ... With every election in Latin America these days, the left, and not the neo-liberal right, seems to triumph, while in Europe powerful social forces still maintain “**the Washington Consensus**”.

John Williamson originally coined the phrase in 1990 “to refer to the lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries as of 1989.”² These policies were:

² Williamson, John. “Did the Washington Consensus Fail?” Outline of Remarks at CSIS. Washington DC: Institute for International Economics, November 6, 2002. and Williamson, John. “What Should the World Bank Think About the

- Fiscal discipline
- A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure
- Tax reform (to lower marginal rates and broaden the tax base)
- Interest rate liberalization
- A competitive exchange rate
- Trade liberalization
- Liberalization of inflows of foreign direct investment
- Privatization
- Deregulation (to abolish barriers to entry and exit)
- Secure property rights

Europe can learn a lot from Latin America. First of all, Latin America ever since the end of the era of import substitution in the mid 1960s and the early 1970s and the installation of harsh, right-wing oriented military regimes in such countries as Argentina, Brazil, Chile and Uruguay at that time was a real experimenting ground for neo-liberal economists (“the famous Chicago boys” in Chile), whose experiments were put in practice in Eastern Europe after the transition in the 1990s and whose experiments are now being increasingly implemented in Western Europe.

Starting from the mid 1980s, Europe began to attempt to outpace the rhythm of globalization in Latin America and the Caribbean, and today has larger capital inflows per GDP than Latin America.

The present article starts out from a systematic, cross-national methodology that has been presented in great detail in other recent publications written by the same author, and arrives also at new results hitherto unpublished in the literature.

2. Reviewing recently published cross-national evidence about the development capability of the EU

In earlier published research, it has already been shown that a rigorous quantitative analysis of the patterns of world development reveals only mixed results at best about the development capabilities of the European Union in the world society. One recent essay (Tausch, 2006) used 9 predictors of world development, which measure the already achieved development level as an important control variable for possibly diminishing returns on capital as well as 3 dimensions of globalization, economic freedom versus state interventions and two variables that measure possible counter-identities to the otherwise now “unified house of capitalism” – the membership of a country in the “house of Islam” (“Dar al Islam”) or membership in the European Union (EU-15). In that essay, the choice of the 131 countries was determined by the availability of a complete data series for these independent variables (if not mentioned otherwise, UNDP data):

- **(I-S)/GNP (calculated from UNDP 2000)**
- development level $\ln(\text{GDP PPP pc})$
- development level, square (maturity effects) $\ln(\text{GDP PPP pc})^2$
- EU-15-membership (EU member by the year 2000, dummy variable)

- Islamic conference membership (OIC website³)
- **MNC PEN 1995 (UNCTAD)**
- public education expenditure per GDP
- state interventionism (absence of economic freedom; Heritage Foundation and Wall Street Journal website for economic freedom⁴, 2000)
- **unequal transfer (calculated from UNDP, concept: ERDI, reciprocal value of comparative “price levels” (developed on the basis of the ERD-Index Yotopoulos et al.) (the Commission maintaining that a low price level is good result)**

The list of dependent variables to test the efficiency of the EU on cross-national level was long and multidimensional:

Democracy

Absence of democracy: political rights violations (Freedom House, 2000)

Environment

CO2 emissions per capita

ESI-Index ((Yale/Columbia environment sustainability index project website)

GDP output per kg energy use (“*eco-social market economy*”⁵)

Gender development and gender empowerment

female life expectancy

female share of life years

female share of suicide

female suicide rate per 100.000 inhabitants

female unpaid family workers as % of all unpaid family workers

gender empowerment (UNDP HDR 2005, data for 2003)

maternal mortality ratio

rapes per 100.000 women aged >15 y.

teen-age mothers as % of all mothers

Human development

% immunization against measles

% immunization against TB

% infants with low birth-weight

³ <http://www.oic-oci.org/> there the icon “members”. In our sample, the following countries were coded as OIC member nations: Albania, Algeria, Azerbaijan, Bahrain, Bangladesh, Benin, Burkina Faso, Chad, Côte d'Ivoire, Egypt, Gabon, Gambia, Guinea, Guyana, Indonesia, Iran, Islamic Rep. of, Jordan, Kazakhstan, Kyrgyzstan, Lebanon, Mali, Mauritania, Morocco, Niger, Nigeria, Pakistan, Saudi Arabia, Senegal, Syrian Arab Republic, Tajikistan, Togo, Tunisia, Turkey, Uganda, Uzbekistan, Yemen. It is to be noted that 5 former members nations of the Soviet Union are included in the sample.

⁴ <http://www.freetheworld.com/>; also: <http://www.heritage.org/research/features/index/>. We used the latter website as the source of our data. It has to be kept in mind that the “worst” countries on the economic freedom scale have the numerically highest values, while the best countries have the numerically lowest values. Lao People's Dem. Rep. – the economically “unfreest” country in our sample, has the numerical value 4.6, while the economically freest country, Singapore, scores 1.45. We thus decided to call our indicator “state interventionism”

⁵ This term is most probably an Austrian invention. The governing Conservative People's Party – to be precise, its former Chairman Dr. Josef Riegler – seems to have invented this term in the late 1980s. For more on that debate: <http://www.nachhaltigkeit.at/bibliothek/pdf/Factsheet11OekosozMarktw.pdf>; and Michael Rösch, Tübingen University at http://tiss.zdv.uni-tuebingen.de/webroot/sp/spsba01_W98_1/germany1b.htm. As an indicator of the reconciliation between the price mechanism and the environment we propose the indicator GDP output per kg energy use; the term ‘eco-social market economy’ neatly grasps all the aspects of this empirical formulation

% people not expected to survive age 60

Factor Social Development (Tausch, 2001b, calculated from 35 UNDP social indicators, SPSS factor analysis)

human development index

infant mortality rate

life expectancy, 1995-2000

TBC cases per 100.000 inhabitants

Human security

UNDP Conflict index (from UNDP Reducing Disaster Risk, 2004)

UNDP DR Index^{0, 5} (from UNDP Reducing Disaster Risk, 2004)

UNDP HIV index (from UNDP Reducing Disaster Risk, 2004)

Redistribution, growth and employment policies

economic growth 1990-2003

female economic activity rate as % of male economic activity rate

share of income/consumption richest 20% to poorest 20%

Sustainability of social structures

divorce rate as % of marriages

homicide rate

injuries and deaths from road accidents per 100.000 inhabitants and year

juvenile convictions as % of all convictions

In general terms, Tausch, 2006 explained development performance by the following standard multiple cross-national development research equation:

(Equation 1) development performance $_{1990 - \text{end } 1990s} = a_1 + b_1$ *first part curvilinear function of development level $+ b_2$ *second part curvilinear function of development level $+ b_3$. *stock of transnational investment per GDP (UNCTAD) $_{\text{mid } 1990s} + b_4$. *unequal exchange (ERDI) $+ b_5$. * foreign saving $+ b_6$. * public education expenditures per GDP $+ b_7$ * membership in the Islamic Conference $+ b_8$ * European Union membership $+ b_9$ * state interventionism

Now, if globalization is good for the poor, it must be clear that the more globalized countries produced 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 Tausch, 2006 it seems appropriate to recall here that Galtung's original 1969 essay that started the quantitative debate on dependency and development was all connected to his theory of "structural violence"⁶. Galtung at that time was not interested in economic growth, but in "structural violence" 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 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

⁶ see also the article by Professor George Kent from the University of Hawaii at Manoa at <http://www2.hawaii.edu/~kent/ANALYZ3.html>

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)

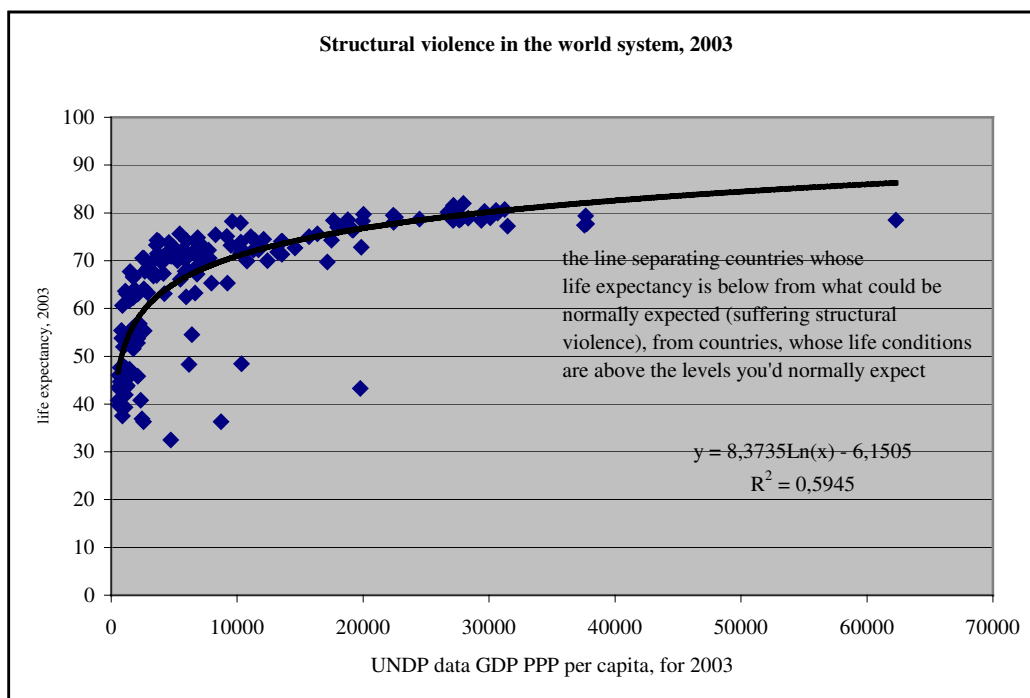
“Violence is present when human beings are being influenced so that their actual somatic and mental realizations are below their potential realizations (...) Violence is here defined as the cause of the difference between the potential and the actual, and that which impedes the decrease of this distance”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

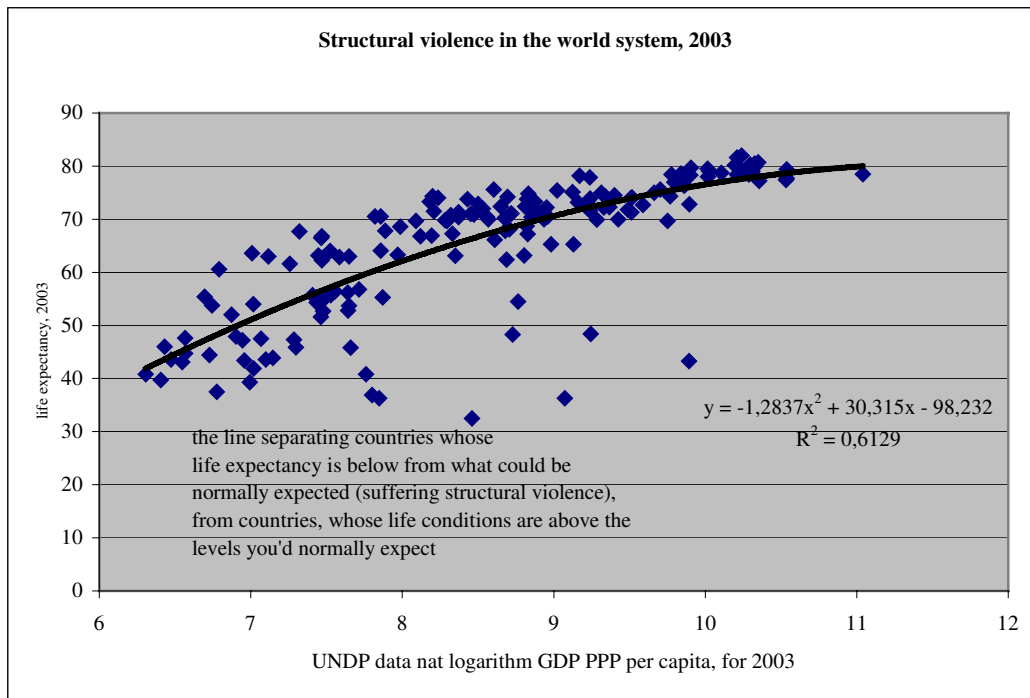
“The structural violence is the sum total of all the clashes built into the social and world structures and cemented, solidified so that unjust, inequitable outcomes are almost unchangeable”. (Professor Johan Galtung, on his website at <http://www.transcend.org/TRRECBAS.HTM>)

“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)

Graph 2.1 immediately follows from the above quotations:

Graph 2.1: structural violence in the world system and the plateau curve of basic human needs

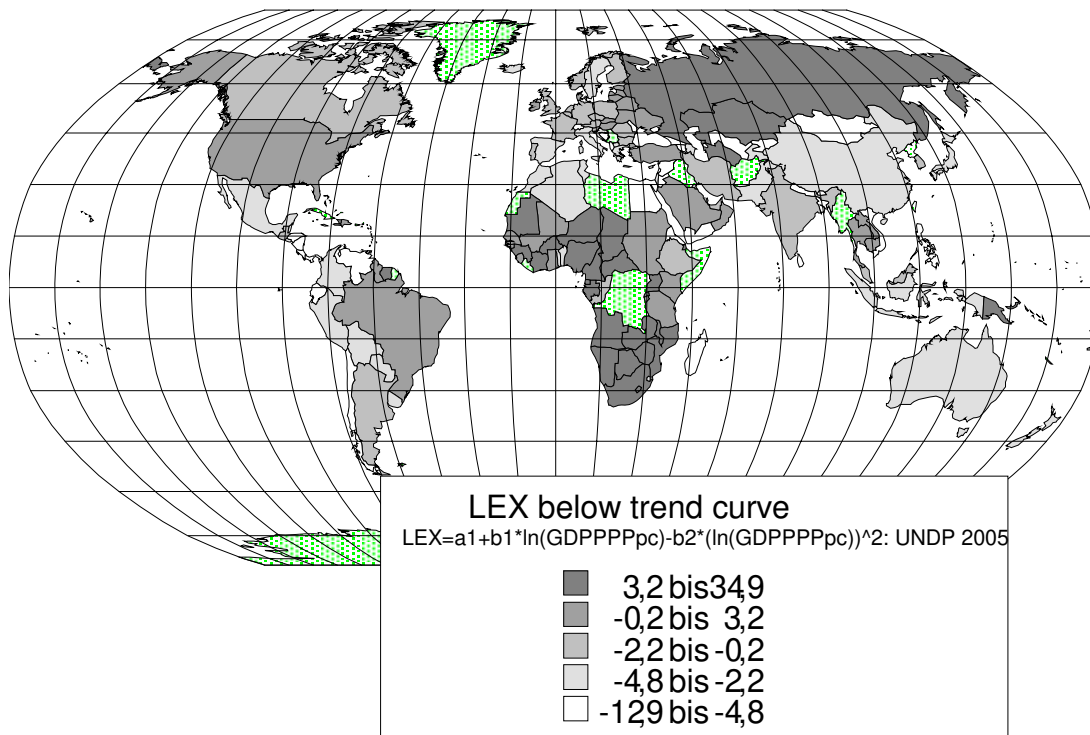




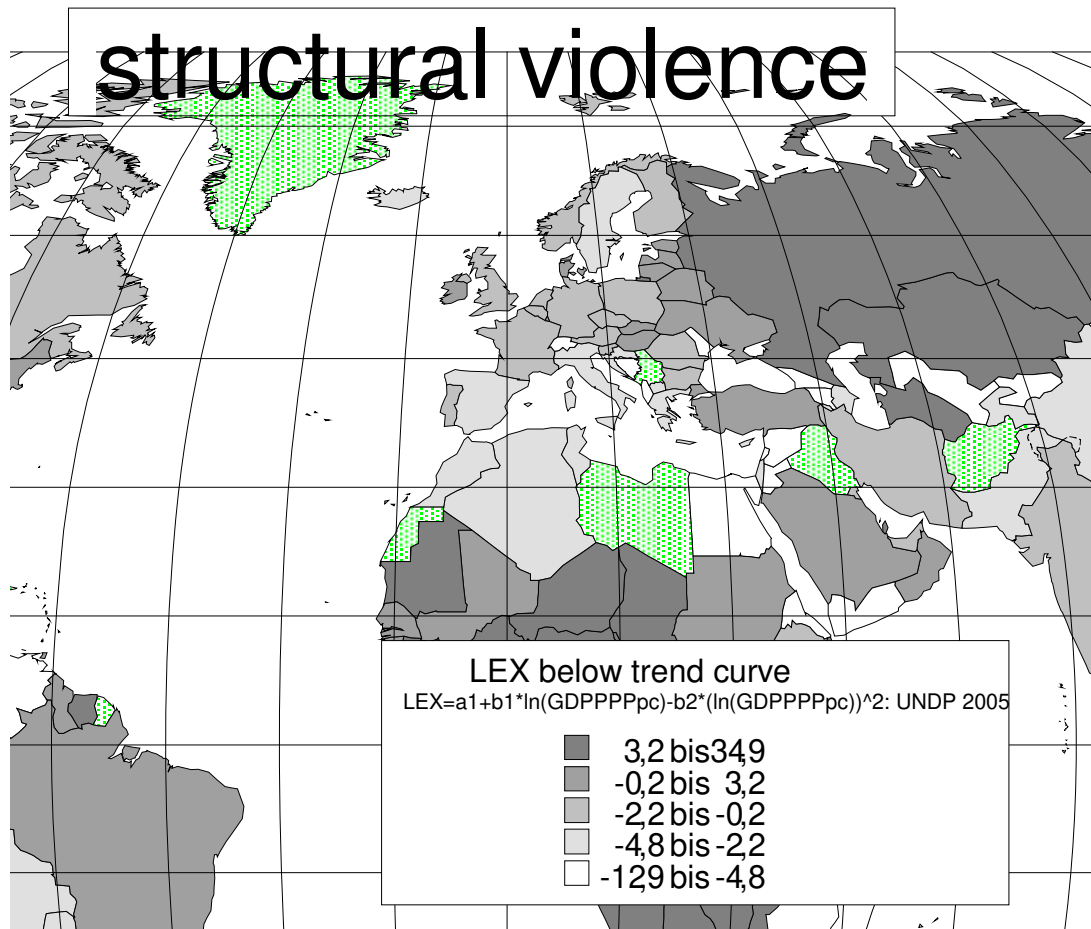
The gaps in life expectancy development in relation to the non-linear trade-off with the level of productive forces are distributed in the following fashion in the countries of the world system:

Map 2.1: structural violence in the world system

structural violence



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



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

Our argument precisely is that it is not European Union integration as such, but the pro-globalist policies of the Commission, which create social imbalances and social stagnation in Europe. 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 income redistribution, democracy, and sustainable development, irrespective of the development level achieved.**

Dependency and world system theory generally hold that poverty and backwardness in poor countries – like in Latin America and the Muslim world - are caused by the peripheral position that these nations have in the international division of labor. **Ever since the capitalist world system evolved, there is 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)

It seems to be important to emphasize that the three indicators of dependency presented in Tausch, 2006 measure three 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
- For dependency authors, **foreign savings** show the weight that foreign savings, mostly from the centers and richer semi-peripheries, have in the accumulation process of the host countries in the periphery and semi-periphery.

In Tausch, 2006, the following significant determinants of world development are mentioned:

Table 2.1.: the neoliberal and a “red-green” “neo-dependency” vision of global governance. The combined results from 9 predictors in 32 equations about development performance with complete data from 131 countries (t-values in the multiple regressions and directions of the influence)

Only results with an error probability < 10% for the entire equation and for each coefficient are reported here

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Variable name	Islamic conference	ln(GDP PPP pc)	ln (GDP PPP pc)^ 2	public education expenditure per GNP	EU-15-membership	(I-S)/GNP	State interventions	MNC PEN 1995	unequal exchange	F	R^ 2
human development index			1, 7982	-3, 9118		-3, 6062	5, 4932	-1, 8459		124, 51	91, 14
Factor Social Development			3, 8250			-2, 9753	4, 4823	-3, 4343		67, 94	83, 48
freedom from a high infant mortality rate				-2, 5287		-5, 2093	6, 6375	-2, 8128		59, 69	81, 74
gender empowerment	2, 1612			-4, 9143		1, 8106			2, 0601	30, 35	80, 84
female life expectancy	-2, 0437		2, 8556			-3, 0404	4, 2462	-2, 8861		36, 15	72, 89
life expectancy, 1995-2000	-1, 7768		2, 6329			-2, 8596	4, 0480	-2, 4462		36, 02	72, 82
freedom from high maternal mortality ratio			3, 2090			-2, 8784	3, 9088			25, 36	69, 32
freedom from a high % of people not expected to survive age 60	-2, 3239		2, 5138			-2, 9381	4, 0121	-1, 9224		26, 37	66, 23
GDP output per kg energy use	-1, 8417		1, 7083		-2, 3325	2, 6436	-2, 2948		1, 7276	17, 75	62, 46
freedom from CO2 emissions per capita						-4, 6178	3, 9324		2, 0448	20, 56	62, 09
freedom from political rights		-5, 1300	3, 0967	-4, 5592				-3, 8196		20, 33	60, 39

violations											
freedom from injuries and deaths from road accidents per 100.000 inhabitants and year			-2, 2598			-1, 8159				5, 95	59, 82
freedom from a high rate of teenage mothers as % of all mothers		1, 6687		3, 4025		2, 9077	-2, 4432			10, 15	56, 27
freedom from a high divorce rate as % of marriages	-2, 2914		1, 8029							2, 53	40, 08
% immunization against measles						-2, 7073	3, 2754	-1, 8790		8, 24	38, 80
ESI-Index	2, 4963			-2, 4736						7, 20	38, 63
freedom from a high UNDP HIV index	-4, 7276			2, 2912				-3, 1272		5, 91	35, 64
freedom from a high female share of suicide	2, 2924		2, 8284			-2, 8247	2, 9074	-1, 7986		3, 57	33, 76
freedom from a high rate of TBC cases per 100.000 inhabitants	-3, 2381		2, 4324	3, 5694				-3, 1397		6, 55	32, 75
freedom from a high income concentration - share of income/ consumption richest 20% to poorest 20%				2, 4895	2, 7717	2, 6718	-2, 4264	-2, 0050		4, 36	30, 34
female economic activity rate as % of male economic activity rate	1, 7849			-2, 1630	3, 0411	4, 6097	-4, 7873	-2, 2703		5, 44	28, 81
econ growth 1990-2003	-3, 8610							3, 9431		5, 1906	28, 36
% immunization against TB						-1, 8319	2, 1406	-1, 7454	-2, 6754	4, 20	27, 41
female share of life years			1, 9465			-1, 7262	2, 1694	-2, 4859		4, 52	25, 17
freedom from a high UNDP Disaster Risk Index^ 0.50					-1, 9033					3, 02	19, 26
Variable name	Islamic conference	ln(GDP PPP pc)	ln (GDP PPP pc)^ 2	public education expenditure per GNP	EU-15-membership	(I-S)/GNP	State interventions	MNC PEN 1995	unequal exchange	F	R^ 2

As one of the three main indicators of dependency, the reliance on **foreign savings** eases the distribution burden against the poorer segments of society during the accumulation process and it positively affects the gender relations in society and the efficiency of the eco-market economy, but it has several negative effects on a variety of other development processes, including the environment and human development.

State interventionism increases the performance of countries under the Kyoto process and leads towards an improved human development, but it fails to resolve three basic issues: sexism, inequality and the eco-market efficiency of the economy.

MNC penetration contributes to a higher economic growth, but it has negative consequences for human survival and life expectancy. In addition, an interesting phenomenon worthy of further research is the interconnection between decaying public services, decaying public transport and decaying public health services in the host countries of transnational investment on the one hand and the strategic policies of transnational corporations on the other hand, concentrated on the private sector, private transport, private medical services and the private automobile. The strengthening triple alliance between the MNCs, local capital and the state is a net result of the globalization process, and it still has dire social consequences – such as for social cohesion - as well.

Comparative “price levels” are, the Eurostat definition goes, the ratio between GDP at purchasing power parities (PPPs) and GDP at market exchange rates for each country. To quote Eurostat:

“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 (EU-25 = 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.” (Quotation from Eurostat website, April 6, 2005, at:

http://epp.eurostat.ec.eu.int/portal/page?_pageid=1133,1406352,1133_1406373&_dad=portal&_sc_hema=PORTAL

“Comparative price levels”, measure nothing else than the reciprocal value of our variable “unequal exchange” (ERDI). A country, following the Commission’s price reform strategy, is a country with a low international price level and a high ERDI.

The empirical results for the effects of **price reform** are: a low international price level has positive effects on the Kyoto process and the eco-market efficiency of the economy, and a negative trade-off with the immunization against TB indicator for public health.

As the Marxist classics and dependency theory have reminded us, capitalism is interested in appropriating the surplus value, and that means at higher stages of development always “the relative surplus value”. That means a standard of living that might be above absolute poverty levels, but that is still a polarized social structure that puts the needs of capital ahead of the needs of those millions of human beings around the globe that struggle for shelter, for freedom from qualitative and quantitative hunger, from oppression, and marginalization. Apart from that capital does not abolish all these contradictions that are deepening, like in the late 19th Century during its globalization, the politically highly conflictive international landscape of our globe.

In the research design, presented in Tausch (2006), the most considerable positive effects by the **European Union** as such, not its present pro-globalization policies are the ones on the female employment share and on social cohesion, once you control for the other intervening variables.

- female economic activity rate as % of male economic activity rate
- freedom from a high income concentration - share of income/consumption richest 20% to poorest 20%

The negative effects of the European Union are on the 2 social-environmental dimensions, the UNDP Disaster Risk Index and the eco-market economy:

- freedom from a high UNDP Disaster Risk Index
- GDP output per kg energy use

It was shown in the analysis about world development since the 1980s, presented by Tausch (2006) that uncontrolled globalization leads to no end of the problem of **structural violence**. If we really want to achieve long-lasting breakthroughs in our quest for a “European social model”, we have to re-consider the theoretical and practical implications of the **“CEPAL/ECLAC” - alternative approach to global governance**, and **not** simply **rely** on the forces of **“world economic openness”**. The synthesis of our empirical research results allows the hypothesis that the **mobilization of internal savings** and an **active and stronger state**, and **less uncritical reliance on direct foreign investments**, as was correctly foreseen by the early CEPAL/ECLAC-school (Flehsig St., 1984, Flehsig St., 1994, Flehsig St., 2000, Prebisch R., 1983, Prebisch R. 1986, Prebisch R. 1988a, Prebisch R. 1988b, Singer P. I. 1971), are still the most efficient tools of “global governance”.

High foreign savings increase the foreign control over the economy, with **disastrous effects** for the well-being of nations. We tested this proposition is successfully with our equations on

freedom from a high infant mortality rate
freedom from CO2 emissions per capita
human development index
female life expectancy
Factor Social Development
freedom from a high % of people not expected to survive age 60
freedom from high maternal mortality ratio
life expectancy, 1995-2000
freedom from a high female share of suicide
% immunization against measles
% immunization against TB
freedom from injuries and deaths from road accidents per 100.000 inhabitants and year
female share of life years

We also have shown that **state sector controls** have **good effects** for

freedom from a high infant mortality rate
human development index
Factor Social Development
female life expectancy
life expectancy, 1995-2000
freedom from a high % of people not expected to survive age 60
freedom from CO2 emissions per capita
freedom from high maternal mortality ratio
% immunization against measles
freedom from a high female share of suicide
female share of life years
% immunization against TB

A **high foreign capital penetration** increases the foreign control over the economy, with **disastrous effects for the well-being of nations**, i.e. on:

freedom from political rights violations
Factor Social Development
freedom from a high rate of TBC cases per 100.000 inhabitants
freedom from a high UNDP HIV index
female life expectancy
freedom from a high infant mortality rate
female share of life years
life expectancy, 1995-2000
female economic activity rate as % of male economic activity rate
freedom from a high income concentration - share of income/consumption richest 20% to poorest 20%
freedom from a high % of people not expected to survive age 60
% immunization against measles
human development index
freedom from a high female share of suicide
% immunization against TB

A **high exchange rate deviation index** constitutes a precondition for unequal exchange which has **disastrous effects on**

% immunization against TB

3. Globalization and development – some second thoughts about the basic pro-globalization strategy of the EU

Challenging conventional pro-globalist EU-Commission thinking, we start by the certainly provocative assertion that a thorough re-analysis of existing data suggests that development by free trade is a myth. Much of the re-ascent of Europe and Japan after 1945 was due to import substitution. When that ended, Europe and Japan began to slide back again vis-à-vis the United States, thus re-affirming the old wisdom of development history research in contrast to “pure” free trade economic theory (Senghaas, 1985). Senghaas’ analysis of the development history of European states today finds its confirmation in global development statistics summarized by the United Nations (2002). Indeed, one of the most important legitimate points of critique against the current neo-liberal consensus should be that the history of capitalist development must not remain in darkness, and that its recurrent crises and depressions and wars should always be kept present.

Much of the free trade 19th Century and the first half of the 20th Century witnessed a European decline vis-à-vis the US, and only the import substituting and regulated postwar period after 1945 saw a relative closing the gap that began to widen again after 1973.

The late Andre Gunder Frank has implied for a long time that Europe’s quest to catch up with the US by 2010 has to be seen in the larger perspective of Asia’s re-ascent in the world system. The United Nations Economic Commission for Latin America, ECLAC/CEPAL, in its essay “*Globalización y desarrollo*” (2002)⁷ provided estimates that support such a view that stresses the simultaneousness of the ascent of Asia from the 1950s onwards with the decline of Europe after 1973 in the world system:

Table 3.1.: The evolution of the gap between Europe and the US since 1820 (real GDP per capita, United States = 100 for each year since 1820)

GDP per capita in ...	1820	1870	1913	1950	1973	1990	1998
Western Europe (in % of the US, AUS, NZ, CND)	102, 60	81, 20	66, 10	49, 50	71, 30	71, 50	68, 50
United States, Australia, NZ, CND	100, 00	100, 00	100, 00	100, 00	100, 00	100, 00	100, 00
Japan (in % of the US, AUS, NZ, CND)	55, 70	30, 30	26, 40	20, 70	70, 70	84, 00	78, 10
Asia (excl. Japan) (in % of the US, AUS, NZ, CND)	47, 90	26, 50	12, 20	6, 80	7, 60	9, 50	11, 20
Latin Amer & Car. (in % of the US, AUS, NZ, CND)	55, 40	28, 70	28, 70	27, 50	28, 00	22, 60	22, 20
Eastern Europe + former USSR (in % of the US, AUS, NZ, CND)	55, 50	37, 70	28, 60	28, 00	35, 40	28, 80	16, 70
Africa (in % of the US, AUS, NZ, CND)	34, 80	18, 30	11, 10	9, 20	8, 40	6, 20	5, 20

7

<http://www.eclac.cl/cgi-bin/getProd.asp?xml=/publicaciones/xml/6/10026/P10026.xml&xsl=/tpl/p9f.xsl&base=/MDG/tpl/top-bottom.xsl>

Source: our own calculations from CEPAL/ECLAC

Usually, world systems theories maintain that the present ongoing era of globalization already has its parallel in the 19th Century. The UN CEPAL/ECLAC data neatly demonstrate that these epochs of globalization in the 19th Century and after 1973 shifted incomes relatively away from Western Europe, Eastern Europe and Japan and in favor of the United States and the “dominions”, while the era of regulation after 1945 (Arrighi, 1995) clearly re-allocated relative incomes to the West Europeans, to the East Europeans and the Japanese. Latin America also gained during the era of import substitution from around 1930 to around 1973.

It is to be expected that Western and Eastern Europe, Latin America, and also Japan that all owed their relative ascent in global society after 1945 to their import substitution strategies, will be the main losers during the ongoing globalized decades. Re-analyzing existing ILO data for the 1990s also clearly shows that the winners and losers of globalization were indeed distributed very unevenly around the globe:

Table 3.2: The social effects of globalization, 1990 – 1999

<u>absolute and relative values</u>	Millions of people < 1 \$ a day 1990	% pop < 1 \$ a day 1990	Millions of people < 1 \$ a day 1999	% pop < 1 \$ a day 1999
East Asia and Pacific	486	30, 5	279	15, 6
Eastern Europe and Central Asia	6	1, 4	24	5, 1
South Asia	506	45	488	36, 6
Latin America and Caribbean	48	11	57	11, 1
Middle East and North Africa	5	2, 1	6	2, 2
Sub-Saharan Africa	241	47, 4	315	49
Total	1292	29, 6	1169	23, 2
<u>absolute and relative values</u>	Millions of people < 2 \$ a day 1990	% pop < 2 \$ a day 1990	Millions of people < 2 \$ a day 1999	% pop < 2 \$ a day 1999
East Asia and Pacific	1114	69, 7	897	50, 1
Eastern Europe and Central Asia	31	6, 8	97	20, 3
South Asia	1010	89, 8	1128	84, 8
Latin America and Caribbean	121	27, 6	132	26
Middle East and North Africa	50	21	68	23, 3
Sub-Saharan Africa	386	76	480	74, 7
Total	2712	62, 1	2802	55, 6
<u>1990 = 100</u>	Millions of people < 1 \$ a day	% pop < 1 \$ a day	Millions of people < 2 \$ a day	% pop < 2 \$ a day
East Asia and Pacific	57, 4	51, 1	80, 5	71, 9
Eastern Europe and Central Asia	400	364, 3	312, 9	298, 5
South Asia	96, 4	81, 3	111, 7	94, 4
Latin America and Caribbean	118, 8	100, 9	109, 1	94, 2

Middle East and North Africa	120	104, 8	136	111
Sub-Saharan Africa	130, 7	103, 4	124, 4	98, 3
Total	90, 5	78, 4	103, 3	89, 5
<i>changes since 1990</i>	Millions of people < 1 \$ a day	% pop < 1 \$ a day	Millions of people < 2 \$ a day	% pop < 2 \$ a day
East Asia and Pacific	-207	-14, 9	-217	-19, 6
Eastern Europe and Central Asia	+18	+3, 7	+66	+13, 5
South Asia	-18	-8, 4	+118	-5
Latin America and Caribbean	+9	+0, 1	+11	-1, 6
Middle East and North Africa	+1	+0, 1	+18	+2, 3
Sub-Saharan Africa	+74	+1, 6	+94	-1, 3
Total	-123	-6, 4	90	-6, 5

Legend: based on Tausch, 2004 – 2005, calculated with ILO data. Source: our own calculations from ILO sources, 2003 (Report of the Director-General: “Working out of Poverty”. International Labor Conference 91st Session 2003, ILO, Geneva)

Thus, the final balance of globalization since 1990 was the income impoverishment of Eastern Europe and the Muslim world in the Middle East and North Africa. The wave of global politics and economics in the 1990s negatively affected the social balances in many countries. In a significant portion of the countries of the globe, inequality and globalization – the inflow of foreign direct investments per host country GDP - are on the increase since 1980, as the present author could confirm in his recent works based on the data series of the ILO, the UTIP project at the University of Texas, and the World Bank. These analyses of the dynamics in the world system calculated the time series correlations 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).

Table 3.3: the success and failure of globalization since 1980 on a global level

globalization and its effects – world sample with complete data	states that fulfilled the criterion	states that did not fulfill the criterion	total number of states with complete data	% of states meeting the promises of globalization
rising foreign direct investment inflows	78	10	88	88, 6
sinking comparative price levels ⁸	66	25	91	72, 5
accelerating economic growth	60	28	88	68, 2
sinking unemployment	38	53	91	41, 8
sinking inequality	19	69	88	21, 6

⁸ always defined here as 1/ERDI (ERDI is the exchange rate deviation index, being equal to GDP PPP/ GDP exchange rate)

the success and failure of globalization since 1980 on the level of the EU-25

globalization and its effects – EU-25 sample with complete data	states that fulfilled the criterion	states that did not fulfill the criterion	total number of EU-25 states with complete data	% of states meeting the promises of globalization
sinking comparative price levels	21	2	23	91, 3
rising foreign direct investment inflows	21	2	23	91, 3
accelerating economic growth	19	4	23	82, 6
sinking unemployment	10	13	23	43, 5
sinking inequality	5	18	23	21, 7

Legend: based on Tausch, 2004 – 2005, calculated with World Bank, ILO, and UTIP data

4. Why a new “Vienna Consensus” is necessary. Europe after the French riots and the Latin Americanization of the “old continent”.

In this Chapter, we show that Europe’s crisis is not caused by what the neo-liberals term a “lack of world economic openness” but rather, on the contrary, by the enormous amount of passive globalization that Europe – together with Latin America – experienced over recent years.

4.1. Introduction – the lost Lisbon race

On all accounts, the EU-25 is the most important formalized regional bloc in the world economy:

Table 4.1: The comparative shares of Europe, the US and Japan in world economic activities

	EU-25	USA	Japan
% of world population	7, 2	4, 6	2
% of world GDP	22	21	7
% of world trade	19, 5	17, 4	6, 7
% of world inward investments	25, 7	31, 3	1, 3
% of world outward investments	46, 1	24, 8	5, 3
economic openness (foreign trade with third countries as % of GDP)	14, 6	8, 8	9

Source: Eurostat Press Releases, Publications Office European Commission, Economist Country

Briefings

For years, Europe is engaged in the so-called Lisbon process (named after the European Summit in 2000 at which these policy measures were discussed) to catch up with the US and to become by 2010 the most advanced, technology and science-based economy in the world. The failure to meet these Lisbon goals has now been generally recognized. But the time-perspective tells us another and very different story.

Table 4.2: changes in shares of world GDP, measured in real purchasing power parities, 1980 – 2003 according to ECOFIN 14954/05 of November 25th, 2005

Country grouping	Share in world GDP, 1980 in %	Share in world GDP, 2003 in %	% DYN in 23 years	% DYN p.a.
Other states	34	25	-9	-0, 692
EU-25	26	22	-4	-0, 308
Russia	4	3	-1	-0, 077
Japan	7	7	0	0, 000
Brazil	3	3	0	0, 000
USA	20	21	1	0, 077
India	3	6	3	0, 231
China	3	13	10	0, 769

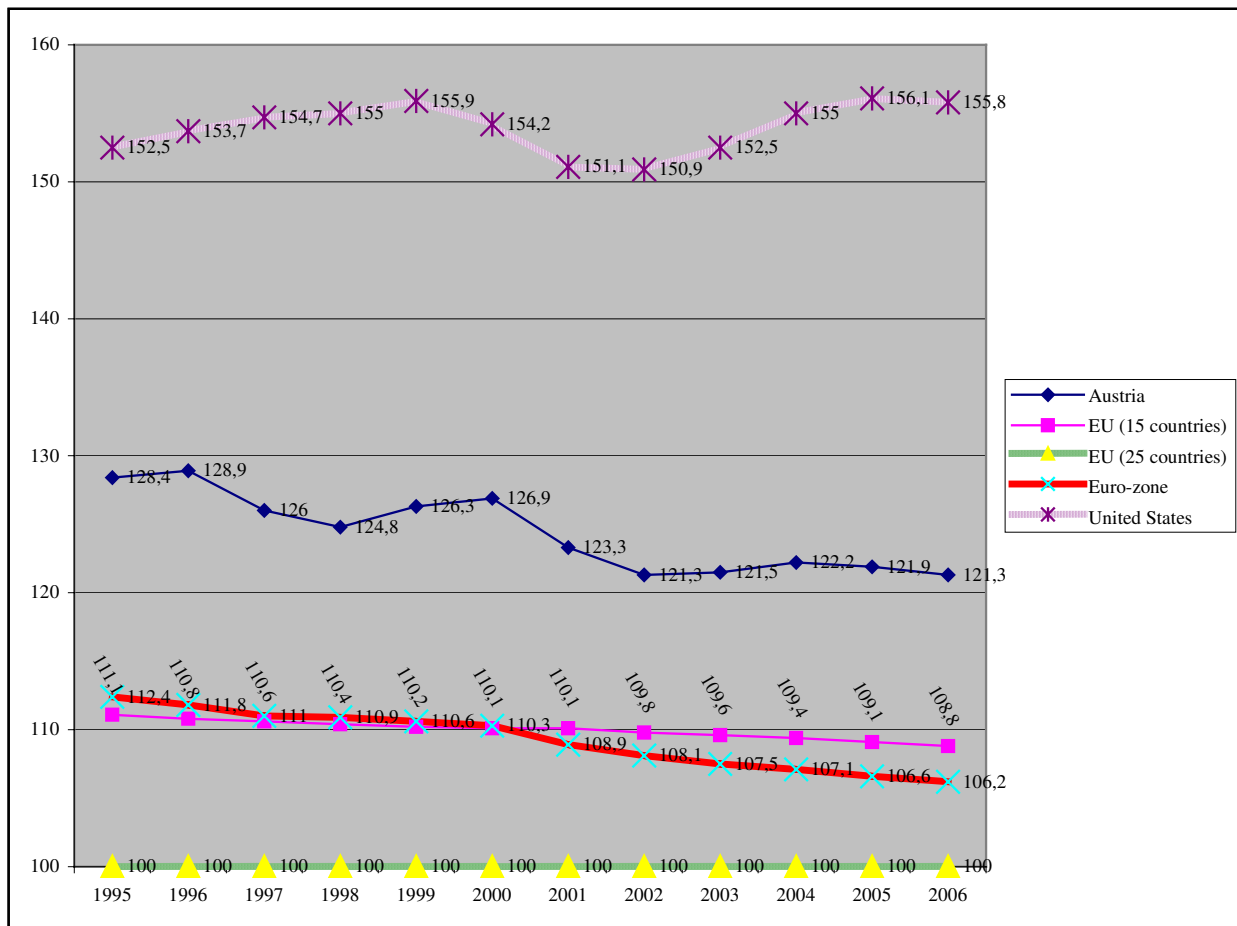
Over the last quarter of a Century, the EU-25, together with Russia and a great number of smaller and medium powers in Latin America, Africa, and West Asia lost shares of world GDP in the global race, while China, India, and the United States were on the winning side, and Japan and Brazil kept their shares. **Europe has grown bigger only by extension**, adding more and more members to the original community of 6 countries, while at the same time the share of today's 25 nations faced a rather sharp decline in their share of world GDP since 1980. Undoubtedly, there was some convergence within the EU-25 group, but the group as a whole is in dramatic decline.

Eurostat, the statistical apparatus of the European Commission, closely monitors these developments in the framework of the "Lisbon process" but – as European decision makers increasingly concede today – the results of this race up to now were rather dismal for the Europeans, especially the countries of the Euro-zone, comprising the 12 European Union nations that introduced a joint, single Currency.

Our following empirical calculations are all based on Eurostat and its website at http://epp.eurostat.ec.eu.int/portal/page?_pageid=1090,30070682,1090_33076576&_dad=portal&_schema=PORTAL.

Graph 4.1 shows the results of this lost race as measured by real purchasing power:

Graph 4.1: The “Lisbon race” for Europe to catch up by 2010 with the United States – real purchasing power



GDP per capita in PPS

GDP per capita in Purchasing Power Standards (PPS), (EU-25 = 100)

By now, practically all European decision makers are well aware of these facts. In their diagnosis as to how to cure these ills, most of them would assume that Europe, in order to catch up, must further globalize and flexibilize its labor and product markets. However, a thorough re-analysis of the existing data shows that America, paradoxically enough, did not globalize as rapidly as the EU-25 over the last 10, 15 years. It was Europe that radically globalized over the last decade and a half, with rather mixed results in terms of growth, jobs, and “social cohesion” at best, and an increasing stagnation and social polarization at worst.

The following graphs and tables analyze the trajectory of rapid globalization in Europe over the last decades by international comparison.

Our combined measure of the velocity of the globalization process, presented for the first time in Tausch, 2006, is of a UNDP-Indicator type, combining three different dimensions on a uniform scale, ranging from 0 (lowest value) to 1 (highest value). It is based on the increases of capital penetration over time, on the increases of economic openness over time, and on the decreases of the comparative price level over time i.e. multiplying the three dimension/component indices by 1/3 in the calculation of the final index and adding them together, and calculating each dimension index by the formula:

$$(1) \text{ dimension index} = \frac{\text{Actual value} - \text{minimum value}}{\text{Maximum value} - \text{minimum value}}$$

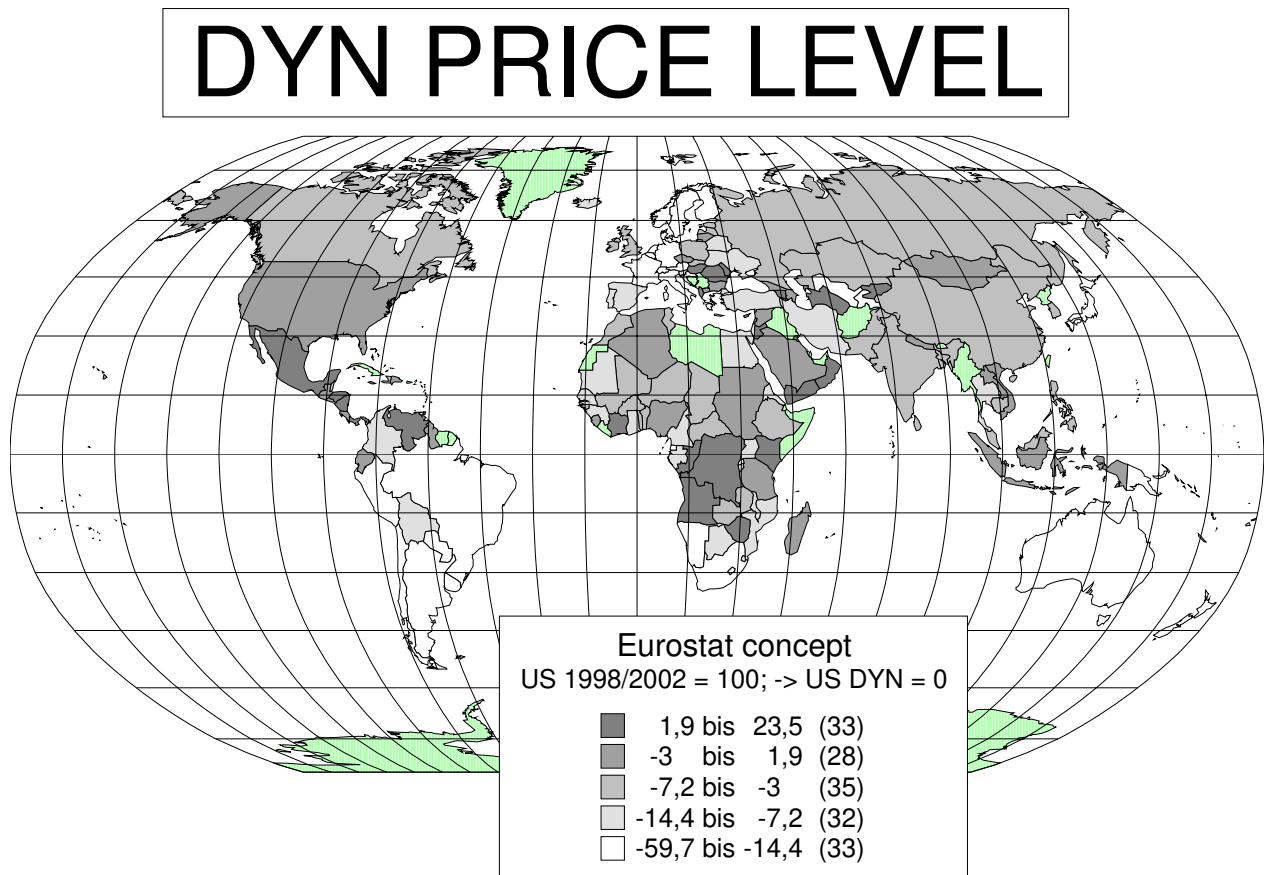
$$(2) \text{ globalization index} = 1/3 * (\text{DYN capital penetration index}) + 1/3 * (\text{DYN openness index}) + 1/3 (\text{DYN Price Level index})$$

In Tausch, 2006, the **Dyn Capital Penetration Index** is based on the **residuals** of the standard OLS linear regression of the UNCTAD shares of cumulated foreign direct investment per GDP in 2000 on those in 1995; the **Dyn Openness Index** is based on the **residuals** of the standard OLS linear regression of the UNDP foreign trade shares in 2003 on those in 1993, and the **DYN Price Level Index 1998 – 2002** is based on the changes in the Eurostat Price level indicator. For the aims of this analysis, we compared market exchange rate GDPs and purchasing power parities GDPs across the globe using UNDP HDR data for 1998 (US = 100) and 2002 (US = 100).

The following map on world price levels (US = 100), shows dramatically how the US remained to be a high price level country, while the Europeans took the message of globalization very seriously and radically reduced comparative price levels in comparison to the United States of America.

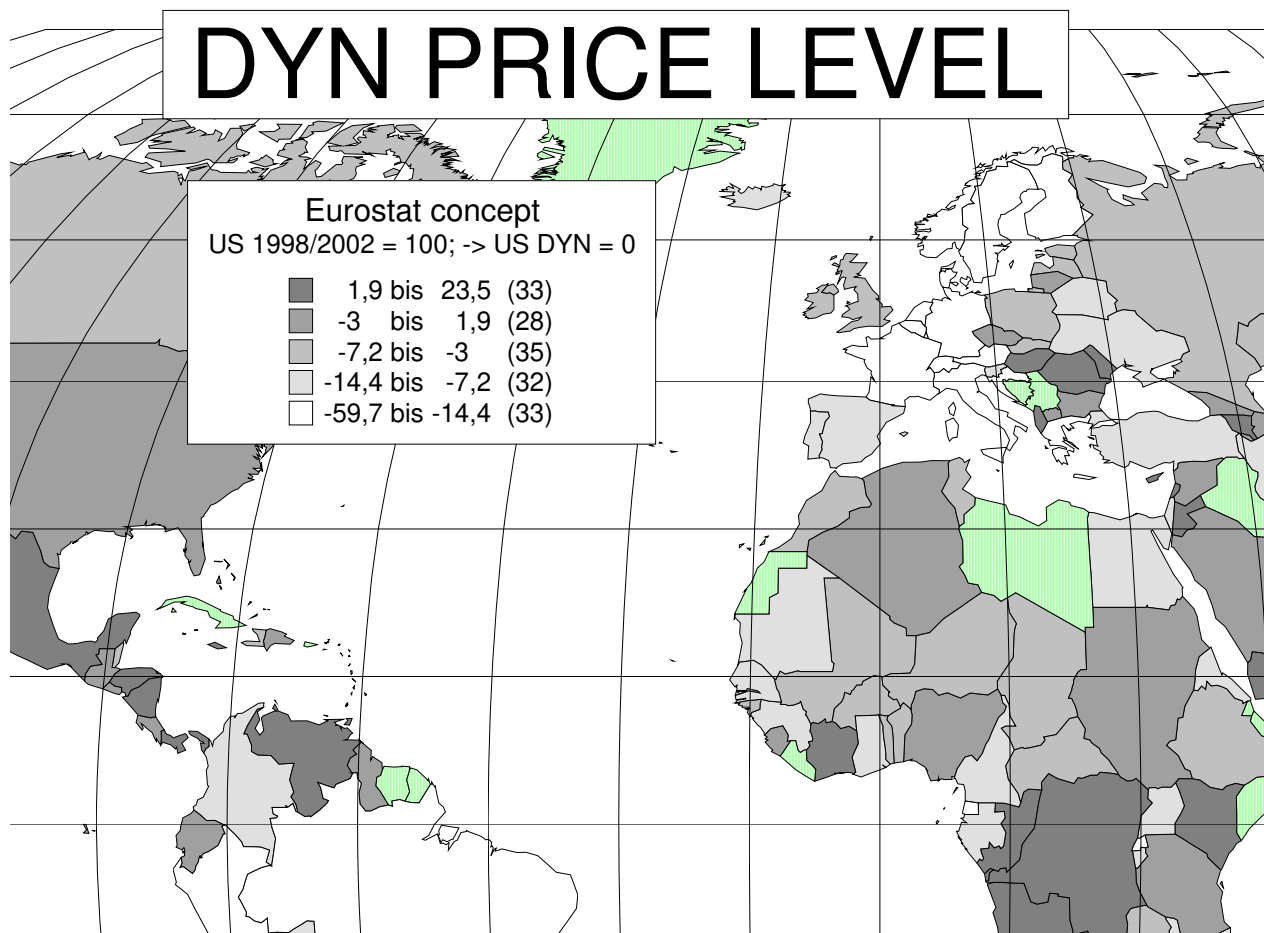
The ratio for the US in 1998 and in 2002 was fixed at 100 each. Countries **moving towards the status of high price countries**, like Mexico or Eastern Europe, are plotted in **dark colors**, while countries **becoming rapidly low price countries** (like most of the European nations or Latin America) are plotted in **light colors**.

Map 4.1: movements in comparative price levels, 1998 – 2002. The Europeans, Latin Americans, Australians, Japanese and South Africans were the “best pupils” in the “globalization classroom”



Legend: countries with missing values are marked in green colors

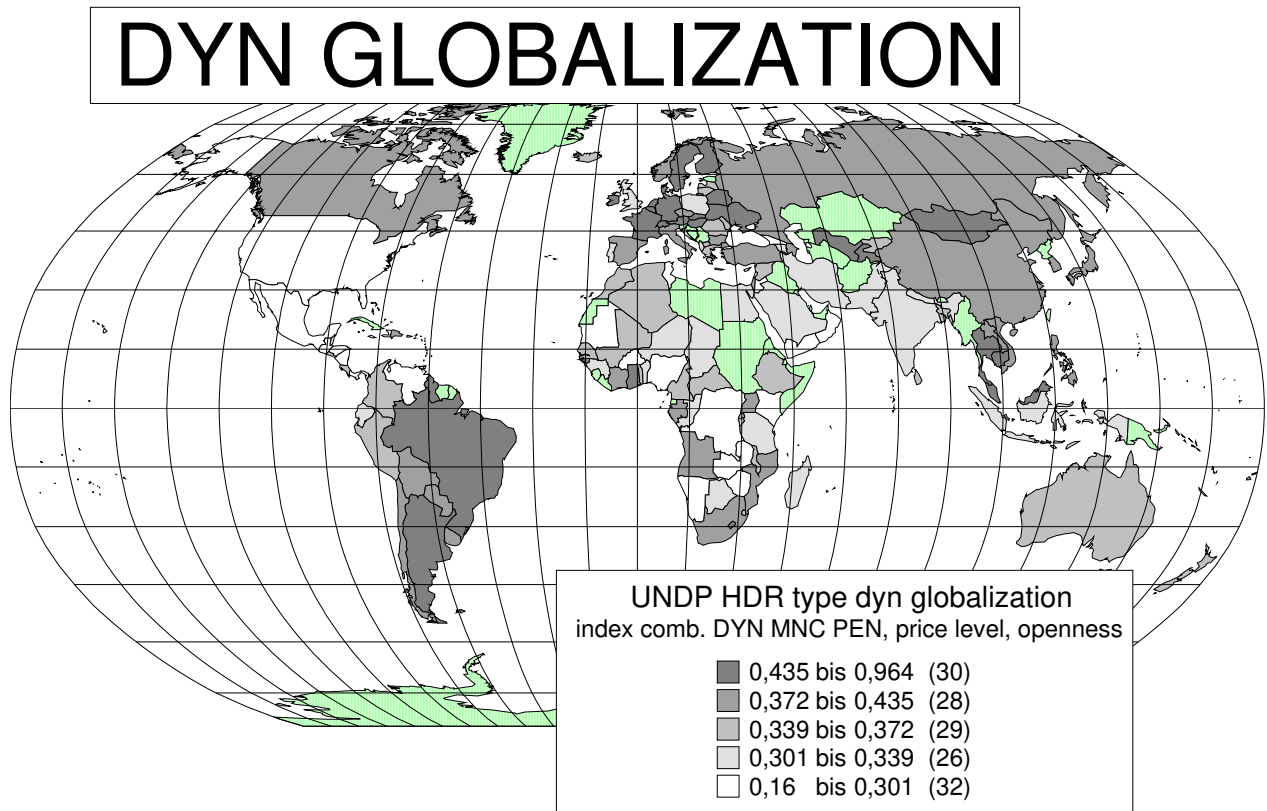
Map 4.1 (continued): movements in comparative price levels, 1998 – 2002. The Europeans, Latin Americans, Australians, Japanese and South Africans were the “best pupils” in the “globalization classroom”



Legend: see maps above

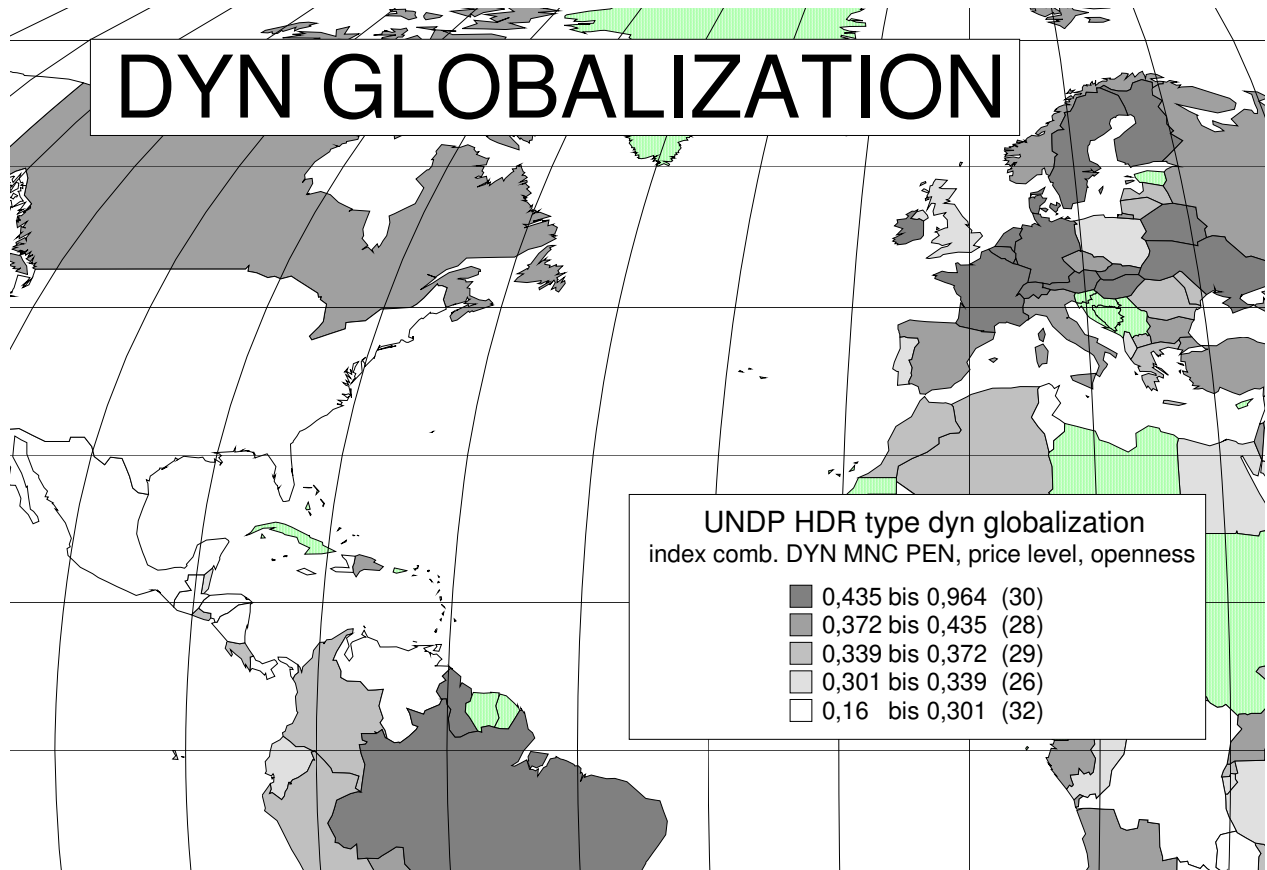
Properly taking into account that rises in the price level are a movement away from globalization, and falling price levels are a movement towards globalization, Tausch (2006) finally interprets the combined indicator results about the velocity of globalization in the following way: the United States, Mexico, Venezuela, larger parts of Africa and large sections of West and South Asia escaped from the combined pressures of globalization, while Eastern and Southern Latin America, very large parts of Europe, Uzbekistan, Mongolia, Thailand and Malaysia, Russia and China were characterized by a specially high tempo of globalization.

Map 4.2: The velocity of globalization: the combined effects of core capital penetration increase, 1995 – 2000, openness increase, 1993 – 2003 and the lowering of international price levels as compared to the United States, 1998 - 2002



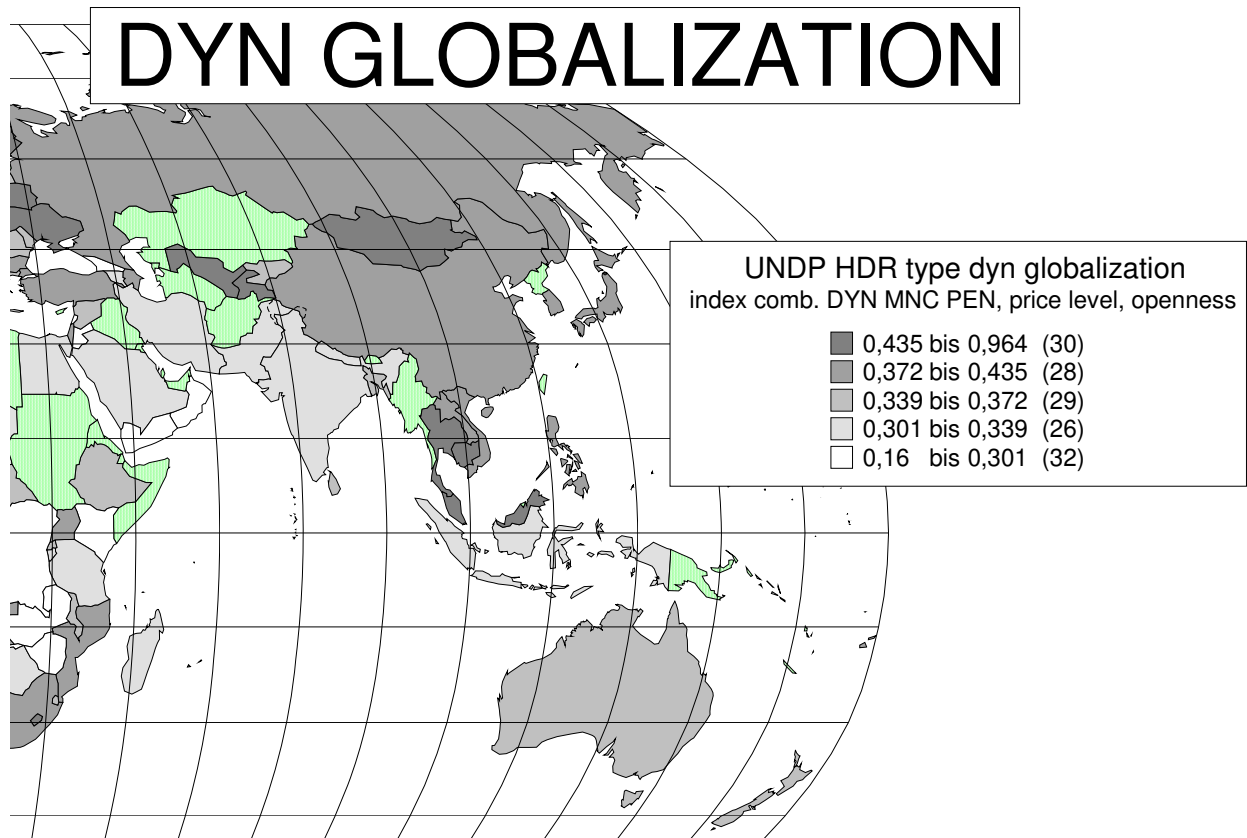
Countries with missing values are marked in green colors

Map 4.2 (continued): The velocity of globalization: the combined effects of core capital penetration increase, 1995 – 2000, openness increase, 1993 – 2003 and the lowering of international price levels as compared to the United States, 1998 - 2002



Countries with missing values are marked in green colors

Map 4.2 (continued): The velocity of globalization: the combined effects of core capital penetration increase, 1995 – 2000, openness increase, 1993 – 2003 and the lowering of international price levels as compared to the United States, 1998 - 2002



Countries with missing values are marked in green colors

4.2. Europe's social performance by global and Latin American standards

In the face of such challenges, it is small wonder that European politicians call for a radical, far-reaching debate. To quote the Social Affairs Minister of the Council Presidency nation during the first part of the second half of 2005, United Kingdom, David Blunkett⁹:

The European social model does not have to be abandoned but it must be adapted to meet the challenges of the 21st century, David Blunkett said today. The work and pensions secretary said it was vital that the EU "learn the lessons of change" if it was to meet the economic challenge posed by India and China and the problems posed by a shrinking working age population and the subsequent pension problems. Speaking in the wake of last week's meeting of employment and social affairs ministers in Belfast, Mr. Blunkett said this meant getting people into work and raising the skills and productivity of the working population. At the start of Britain's six-month presidency of the EU, foreign secretary Jack Straw said the government was committed to finding a way to reconcile economic progress and social justice, denying there needed to be a choice between the two. Today Mr. Blunkett restated this idea, urging European ministers to enter a wide-ranging debate on how the social model could be

⁹ Secretary David Blunkett has meanwhile resigned. At the time of writing this analysis (November 2005), the new Secretary is the Rt. Honourable John Hutton M. P.

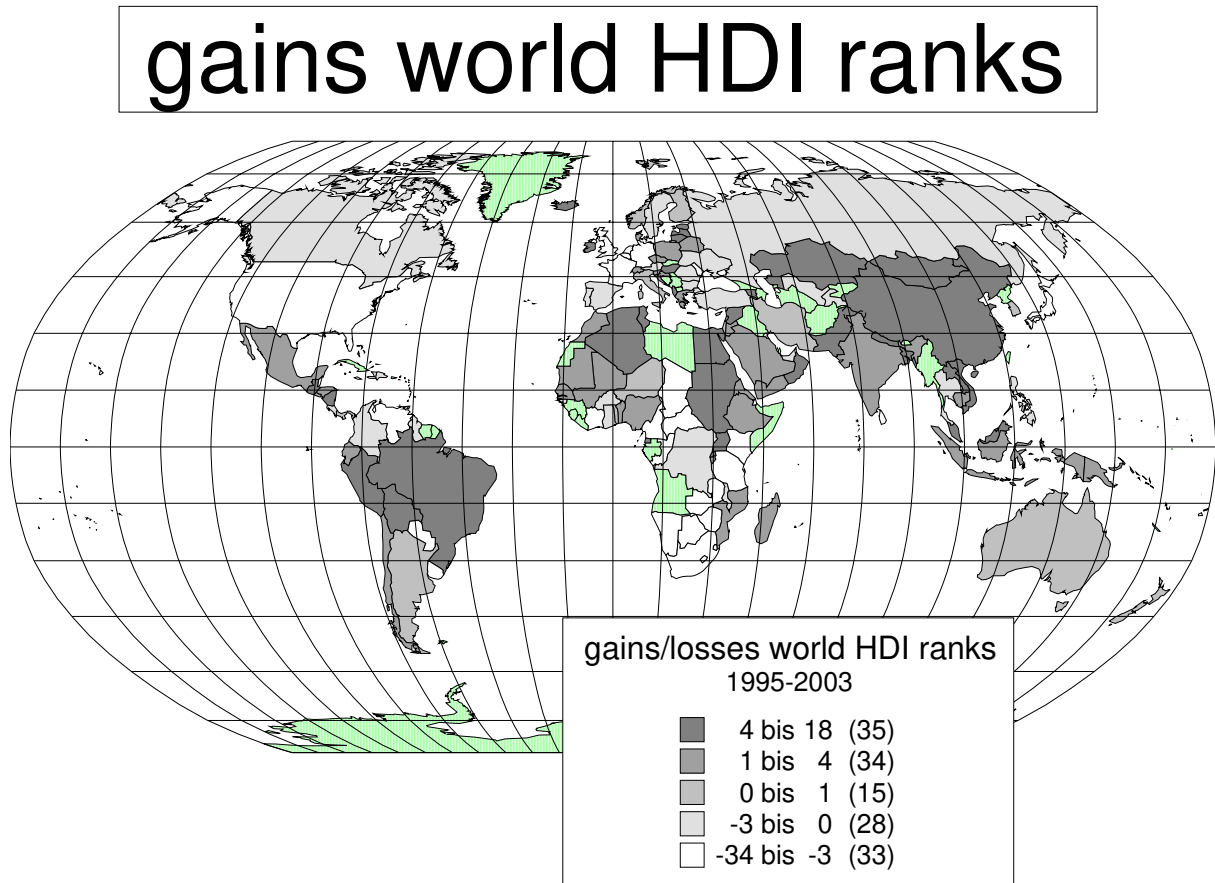
*modernised in the run-up to a special European council meeting in the autumn. "We do not want to abandon the European social model, but if it is to be sustained it must meet the challenges of the 21st century, particularly those of **demography** and **globalisation**, " he said. "We need to learn the lessons of change and manage the process to deal with people's fears and **recognise the challenges** we face such as those of **India** and **China**." ([http://www.politics.co.uk/foreign-policy/blunkett-eu-social-model-must-reform-\\$16137621.htm](http://www.politics.co.uk/foreign-policy/blunkett-eu-social-model-must-reform-$16137621.htm))*

Although many different attempts to quantify social developments have been published in the past, no single, globally available measure is as common today as the United Nations "Human Development Index" (HDI). The last data series with far reaching implications for the European social policy debate was released in the global "*Human Development Report*", 2005. Comparing the performances of the nations of the world, as measured by the UN Human Development Index, we arrive at a picture which fairly supports the logic referred to above in the political statement by the former British Work and Pensions Secretary, the Rt. H. David Blunkett, M.P.

The human development index (HDI), as it is well-known, measures the average achievement of a country in basic human capabilities. The HDI indicates whether people lead a long and healthy life, are educated and knowledgeable and enjoy a decent standard of living. The HDI examines the average condition of all people in a country: distributional inequalities for various groups of society have to be calculated separately. The HDI is a composite of three basic components of human development: longevity, knowledge and standard of living. Longevity is measured by life expectancy. Knowledge is measured by a combination of adult literacy (two-thirds weight) and mean years of schooling (one-third weight). Standard of living is measured by purchasing power, based on real GDP per capita adjusted for the local cost of living (purchasing power parity, or PPP) (<http://www.adb.org/Statistics/Poverty/H.asp#hdi>).

To rigorously assess the European social performance, Tausch (2006) compared the performances of the nations of the world from 1995 to 2003. Map 4.3 presents the results about the changes in the world HDI ranks, 1995 – 2003. This map gives an insight into the dynamics of world social development during the period of intensive globalization. There were thus impressive gains for the world semi-periphery and equally impressive losses for some countries of the world center:

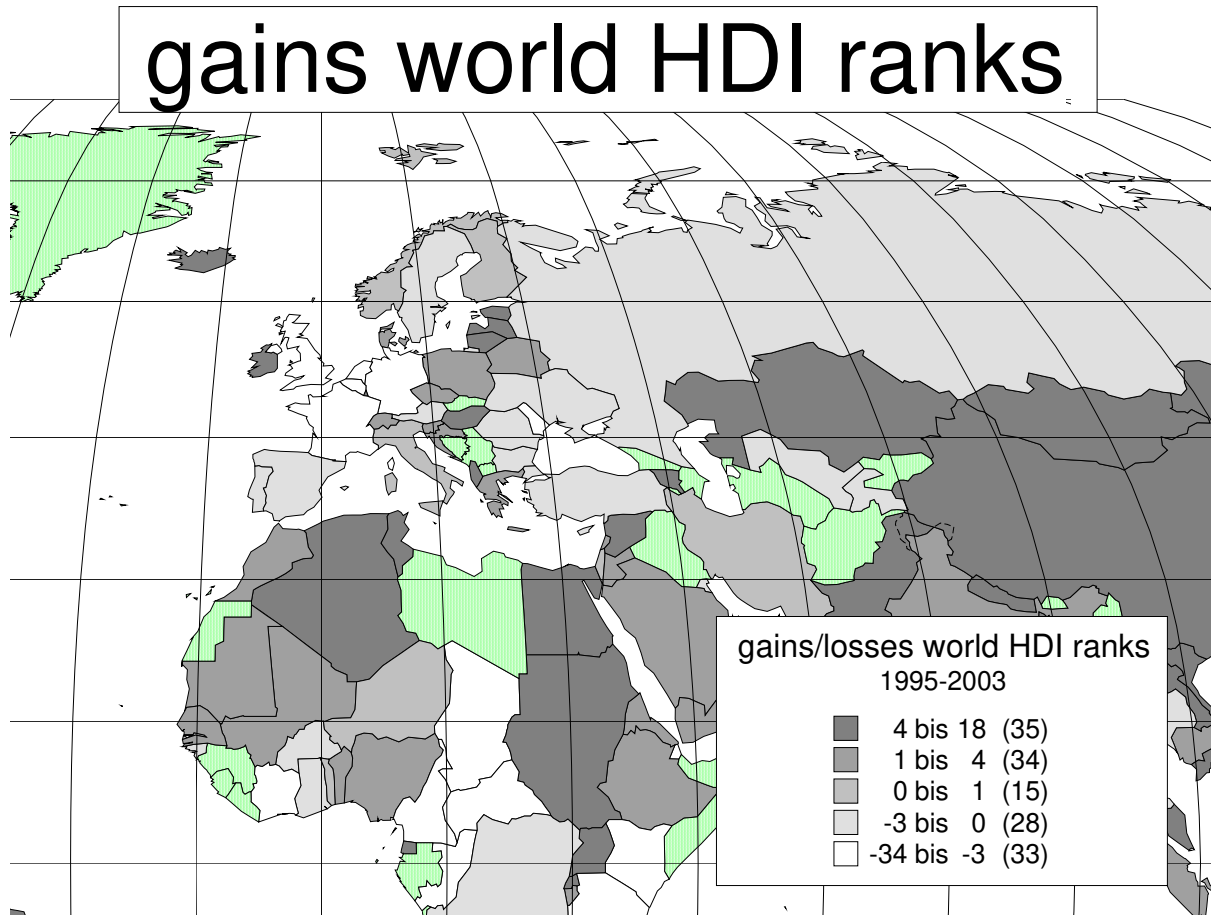
Map 4.3: gains in world human development ranks, 1995 - 2003



Legend: “bis” shorthand for “ranging from ... to”. Nations marked in green color, like Greenland, Libya, Angola, Somalia and Iraq, have missing data. Dark shades indicate a good performance.

Both the United States as well as several “old European” nations lost (as well as many nations in Africa), while China, South-East Asia, several Middle Eastern and North African countries, as well as several Latin American countries considerably improved their performance during the period 1995 – 2003.

Map 4.3 (continued): gains in world human development ranks, 1995 – 2003 (gains in world human development ranks in the “wider Europe”, 1995 – 2003)

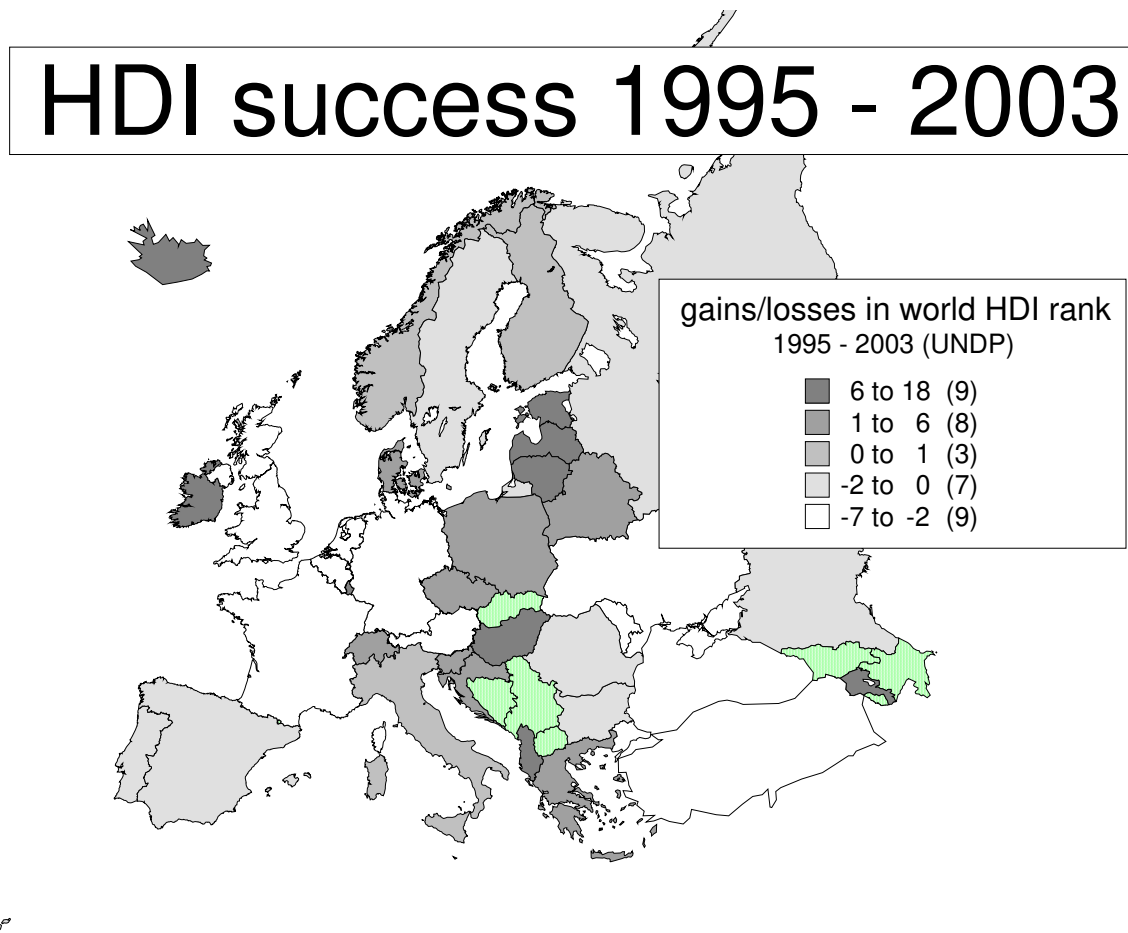


Legend: see map above. Dark shades indicate a good performance. “bis” shorthand for “ranging from ... to”.

Nations on the **geographical periphery of Europe**, like Iceland, Ireland, and several new East European member countries of the European Union improved their position over the last 8 years, while the “**old center**” of the **European Union** and the United Kingdom had a very unsatisfactory performance.

For the special purposes of European Union, Council of Europe and Organization of Security and Cooperation in Europe policy making, we re-arranged the evidence of Table 4.3 in a new map that was drawn only at the level of European states:

Map 4.4: gains in world human development ranks in Europe, 1995 - 2003



Legend: see maps above. Dark shades indicate a good performance.

4.3. The end of social cohesion in Europe and Latin America as we know it

Provocative, as such comparisons might be it can also be shown that especially the “wider Europe” of the EU-25 is not too distantly away from the social realities of the more advanced Latin American countries. Table 4.3 shows the results of such a UNDP-indicator-oriented comparison EU-25, Latin America and the Caribbean and the MEDA partner countries of the European Union:

Table 4.3: Social cohesion in the EU-25, in Latin America and the Caribbean, and in the MEDA partner countries of the European Union

critierion	Which Latin American and Caribbean countries outperform worst performing EU nation?	Which Arab MEDA EU-partner countries outperform worst performing EU nation?	worst EU-25 nation	value for worst EU-25 nation	value for the US
human development index	Barbados, Argentina, Chile, Uruguay, Costa Rica		Latvia	0, 836	0, 944
inequality between richest 20 % and poorest 20 %	Jamaica	Egypt, Jordan, Algeria, Morocco, Tunisia	Portugal	8	8, 4
life expectancy at birth	Costa Rica, Chile, Cuba, Dominica, Uruguay, Mexico, Barbados, Panama, Argentina, Ecuador, Antigua and Barbuda, Venezuela, Colombia, Saint Lucia, Belize	Libya, Tunisia, Syria, Lebanon	Latvia	71, 6	77, 4
probability at birth of surviving to age 65, female	Chile, Costa Rica, Cuba, Uruguay, Panama, Argentina, Mexico, Venezuela, Ecuador	Tunisia, Syria, Libya	Latvia	81, 9	86, 7
probability at birth of surviving to age 65, male	Costa Rica, Cuba, Chile, Panama, Mexico, Barbados, Uruguay, Ecuador, Argentina, Venezuela, Belize, Saint Lucia, Paraguay, Colombia, Saint Vincent, Peru, Jamaica, El Salvador, Nicaragua, Trinidad & Tobago, Honduras, Suriname, Brazil, Bahamas, Dominican Republic, Bolivia, Guatemala	Syria, Tunisia, Algeria, Lebanon, Jordan, Morocco, Egypt	Estonia	57, 2	79, 1
ratio of estimated female to male earned income	Jamaica, Bahamas, Barbados, Uruguay, Panama, Colombia, Trinidad and Tobago, Nicaragua, Bolivia, El Salvador, Brazil, Venezuela, Guyana, Chile, Mexico, Honduras, Costa Rica, Argentina, Dominican Republic	Morocco, Tunisia	Austria	0, 35	0, 62
real income of the poorest 20 % in purchasing power parities	none		Latvia	3749	10142
gender development index	Barbados, Argentina, Chile, Uruguay		Latvia	0, 834	0, 942
gender empowerment measure	Bahamas, Costa Rica, Argentina, Trinidad and Tobago, Barbados, Mexico, Panama, Dominican Republic, Bolivia, Peru, Uruguay, Colombia, Ecuador		Malta	0, 486	0, 793

Pretty much the sample results emerge from a systematic comparison of the data contained in the **University of Texas Inequality Project (UTIP)**¹⁰. The time series correlations for the years 1980 – 99 from the data base about the Theil Index of Inequality, 1963 – 99 show that in the majority of the countries of the European Union there was a sharp increase in inequality rates from the 1980s onwards. The UTIP data collections contain, among others, two very important data series for the study of international economic inequalities. **UTIP- UNIDO** is a global data set that calculates the industrial pay-inequality measures for 156 countries from 1963-1999. It has a total of 3194

¹⁰ <http://utip.gov.utexas.edu/>

observations based on the UNIDO Industrial Statistics. The **EHI data base** from the UTIP project (Estimated Household Income Inequality Data Set (EHI)) - is a global dataset, derived from the econometric relationship between UTIP-UNIDO, other conditioning variables, and the World Bank's Deininger & Squire data set. The data set EHI2 has 3, 179 observations, while the data set EHI4 has 3, 126 observations. 18 of the 25 member countries of the European Union have a time series correlation of 0.75 or higher between the Theil coefficient of inequality (multiplied by 100) and the time axis, i.e. inequality rises very sharply with time.

On its website, the European Commission states:

“Following the introduction by the Amsterdam Treaty (Article 136 and 137) of the fight against social exclusion among the Union Objectives, the Lisbon European Council of March 2000 asked Member States and the European Commission to take steps to make a decisive impact on the eradication of poverty by 2010. Building a more inclusive European Union was thus considered as an essential element in achieving the Union's ten year strategic goal of sustained economic growth, more and better jobs and greater social cohesion” (quotation from the GD Employment, Social Affairs and Equal Opportunities, available at http://europa.eu.int/comm/employment_social/social_inclusion/index_en.htm)

The quantitative evidence however points into quite another direction, i.e. Europe is characterized by often extremely rising income inequality rates and the **disappearance of social inclusion** in all European Union member countries, candidate and accession countries except **Lithuania** and **Denmark**:

Table 4.4: rising and falling inequality in the world system

Europe (EU-29)

	rising inequality	falling inequality
Gini > 50	none	none
Gini 40 - 49.9	Turkey, Greece	none
Gini 30 - 39.9	Finland, Hungary, Portugal, Poland, Slovakia, United Kingdom, France, Netherlands, Luxembourg, Ireland, Bulgaria, Sweden, Spain, Belgium, Malta, Austria, Italy, Croatia, Cyprus	Lithuania, Denmark
Gini < 29.9	Latvia, Romania, Slovenia, Czech R.	none ¹¹

Entire world system

	rising inequality	falling inequality
Gini > 50	Gabon, Cameroon, Congo, Papua New Guinea, Mozambique, Malawi, Burundi, Guatemala, Kuwait, Lesotho, Trinidad & Tob., Jamaica, Qatar, Ghana, Mongolia, Oman, Armenia	Liberia, Uganda, Togo

¹¹ the discontinued data series for the two parts of Germany were not interpreted here

Gini 40 - 49.9	Yugoslavia, Bahamas, Bangladesh, Ecuador, Burkina Faso, Gambia, Nigeria, South Africa, Venezuela, Panama, Egypt, U.S.S.R./ Russia, Mexico, Azerbaijan, Suriname, Iraq, Philippines, Zambia, Tunisia, Central African Rep, Brazil, Uruguay, Greece, Puerto Rico, Pakistan, Cote d'Ivoire, Turkey, Colombia, Albania, Argentina, Israel, Ethiopia, Tanzania, El Salvador, Zimbabwe, Barbados, Honduras, Botswana, Bolivia, Peru, Madagascar, Senegal, Kyrgyz Rep, Rwanda, Syrian Arab Republic, Myanmar (Burma), Yemen, Rep., Dominican Rep.	Eritrea, Nicaragua, Swaziland, India, Morocco, Chile, Tonga, Haiti, Fiji, Jordan, Thailand, Malaysia, Afghanistan, Costa Rica, Nepal, Kenya, Sri Lanka, Mauritius, Indonesia
Gini 30 - 39.9	Australia, Finland, Hungary, Portugal, China, Hong Kong, Poland, Slovakia, United Kingdom, France, Ukraine, Netherlands, New Zealand, Moldova, Luxembourg, Ireland, Bulgaria, Canada, Macedonia, Sweden, Spain, Belgium, Malta, Austria, Japan, Norway, United States, Seychelles, Italy, Algeria, Croatia, Iran, Taiwan, Cyprus	Lithuania, Denmark, Singapore, Korea, Iceland, Cuba
Gini < 29.9	Latvia, Romania, Slovenia, Macao, Czech R.	none

Closely connected to the tendencies of **rising inequality** is the trend towards **rising unemployment**. Only Cyprus, Denmark, Honduras, Iceland, Ireland, Korea Republic, Malaysia, Mexico, Netherlands, Portugal, Thailand, United Kingdom, and the United States had a low unemployment rate (< 5 %) that still fell over time, while Albania, Algeria, Argentina, Colombia, Croatia, Ecuador, Estonia, Greece, Nicaragua, Panama, Poland, Slovakia, South Africa, Spain, Trinidad&Tob., Tunisia, Ukraine, Uruguay, and Venezuela all had an unemployment rate of 10 % or above that rose over time.

Table 4.5: unemployment - tendencies in the world system

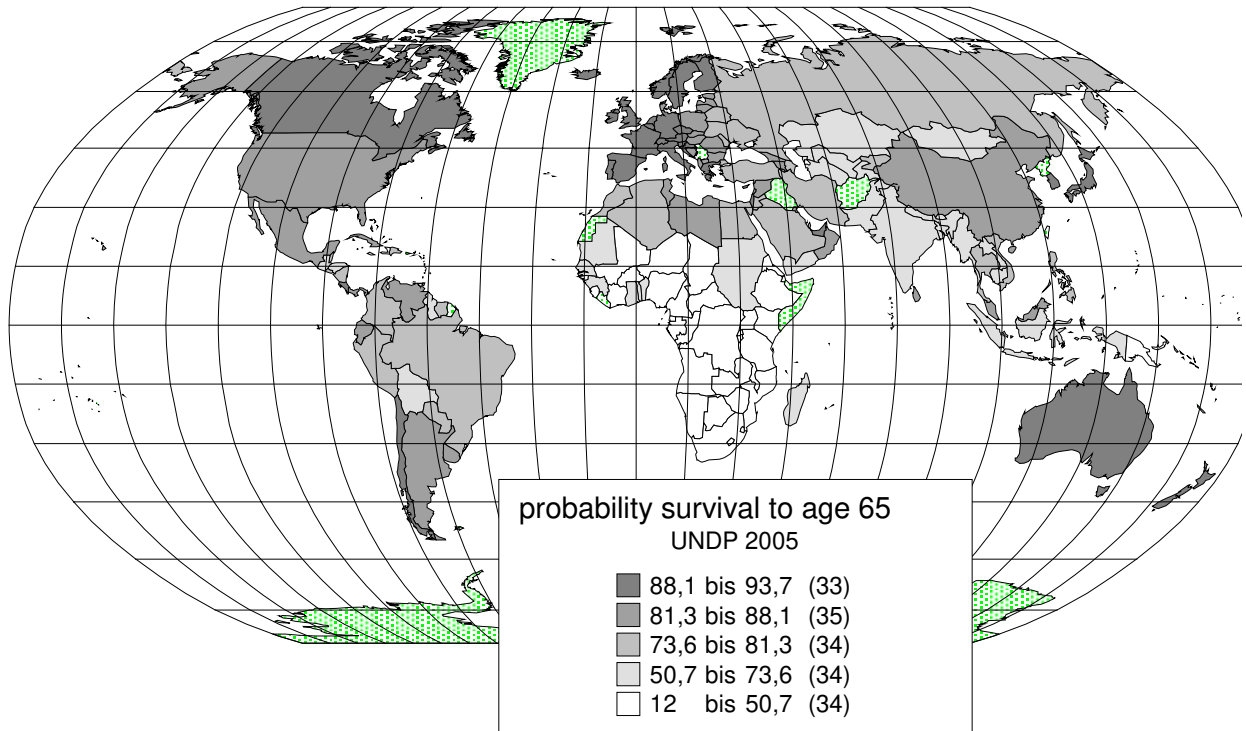
EU-29 unemployment	unemployment rising over time, 1980-2001	unemployment falling over time, 1980 - 2001
below 5 %	Austria, Sweden, Luxembourg	Cyprus, Denmark, Netherlands, Ireland, United Kingdom, Portugal
5 % to 10 %	France, Germany, Italy, Finland, Czech Republic	Hungary, Turkey, Slovenia, Belgium, Romania
10 % to 15 %	Spain, Greece, Estonia	Latvia
15 % to 20 %	Poland, Slovakia, Croatia	Bulgaria, Lithuania
> 20 %	none	none
LAC unemployment		
below 5 %	none	Mexico, Honduras
5 % to 10 %	Belize, Peru, Brazil	El Salvador, Chile, Costa Rica, Barbados
10 % to 15 %	Trinidad&Tob., Colombia, Panama, Venezuela, Nicaragua, Ecuador	none
15 % to 20 %	Uruguay, Argentina	none
> 20 %	none	none
European Neighbors unemployment		

below 5 %	Azerbaijan, Belarus	none
5 % to 10 %	Russian Fed., Egypt	Moldova
10 % to 15 %	Ukraine	Morocco, Georgia, Serbia
15 % to 20 %	Tunisia, Albania	none
> 20 %	Algeria	none
other countries unemployment		
below 5 %	Singapore, China, Switzerland, Norway	Malaysia, United States, Iceland, Thailand, Korea Republic
5 % to 10 %	New Zealand, Australia, Israel, Japan, Indonesia	Canada
10 % to 15 %	none	none
15 % to 20 %	none	none
> 20 %	South Africa	none

Our world maps clearly support the view that in terms of human survival, Europe for a long time has ceased to be a “center” country, and long ago has started to re-become a periphery. From the viewpoint of world systems theory, especially from the angle of the “Re-Orient” sub-school, initiated by the late Andre Gunder Frank, this is not a coincidental movement along the historic ups and downs of social indicators, perhaps to be explained in addition by the devastating long-term effects of the social transformation crisis in the East, but the very symptom of a much more deeper-rooted crisis, which is the beginning of the real re-marginalization and re-peripherization of the European continent [after the interval of European ascent, which according to Andre Gunder Frank only lasted from 1750 to the last quarter of the 20th Century, and which interrupted the millennia of Chinese dominance in the world economy]:

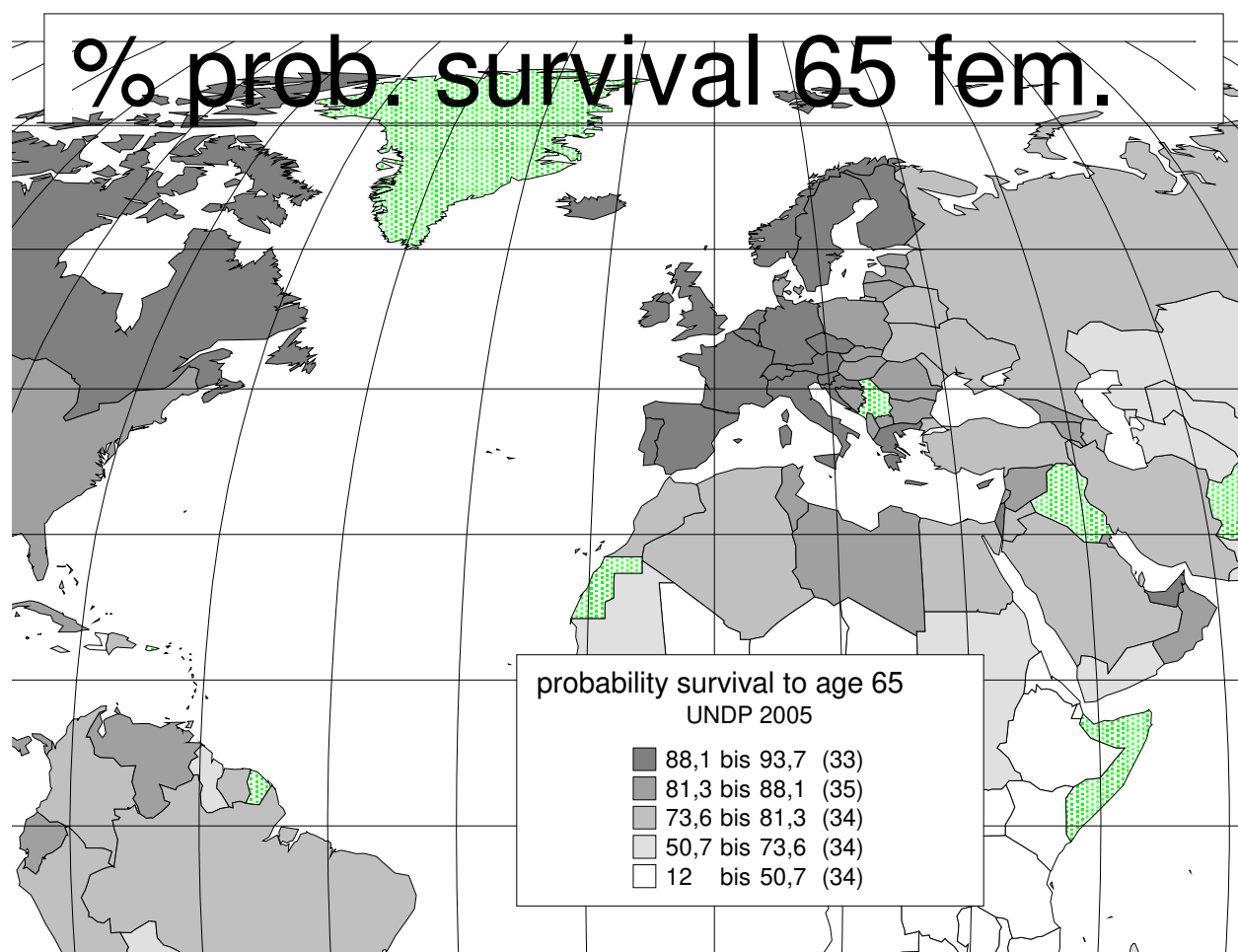
Map 4.5: female survival probability to age 65

% prob. survival 65 fem.



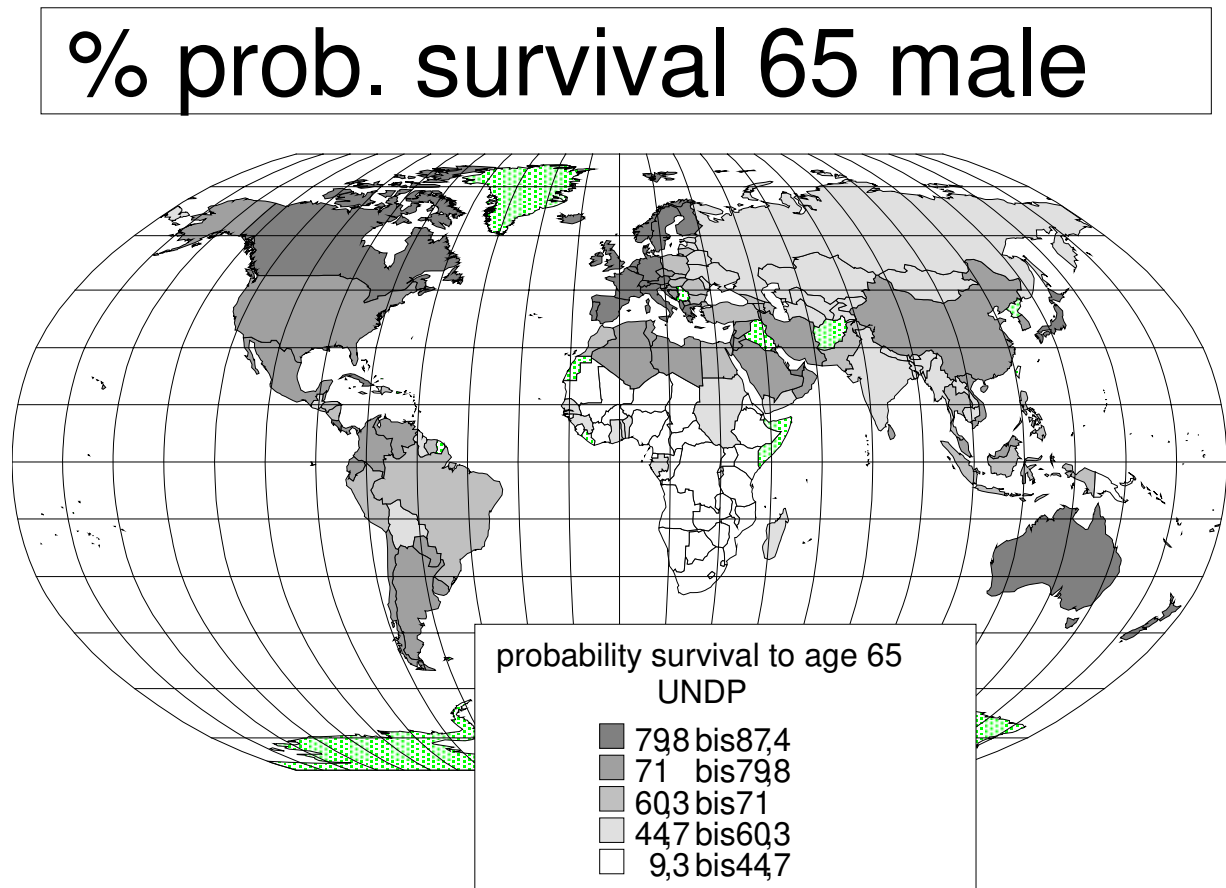
Legend: dark shades indicate a good performance. “bis” shorthand for “ranging from ... to”.

Map 4.5 (continued): female survival probability to age 65



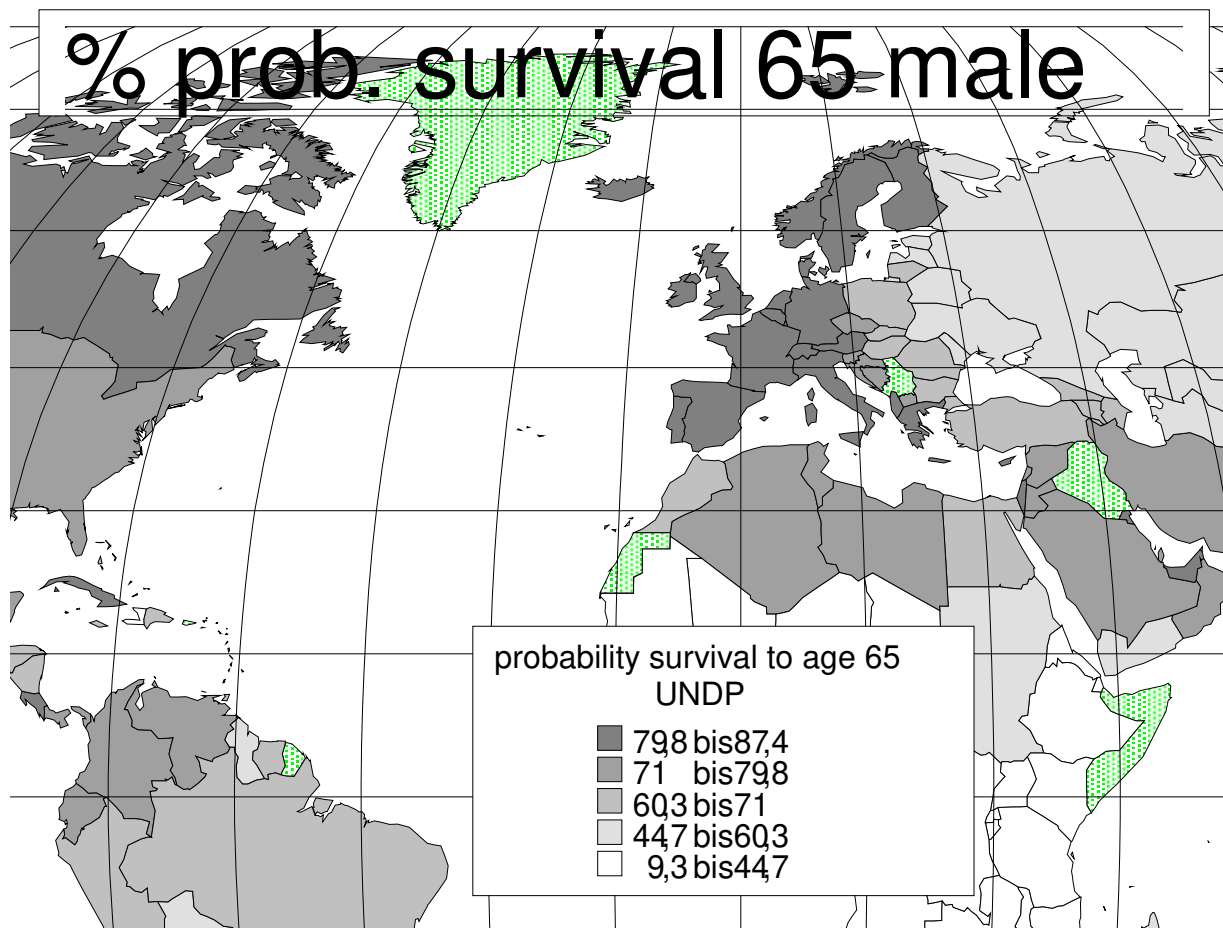
Legend: dark shades indicate a good performance. “bis” shorthand for “ranging from ... to”.

Map 4.6: male survival probability to age 65



Legend: dark shades indicate a good performance. “bis” shorthand for “ranging from ... to”.

Map 4.6 (continued): male survival probability to age 65



Legend: dark shades indicate a good performance. "bis" shorthand for "ranging from ... to".

The most visible and clear-cut indicators of mass poverty are the gender-specific **probabilities at birth of surviving to age 65**. The UNDP neatly documents these two data sets on its statistical website (<http://hdr.undp.org/statistics/data/>). While 90 % or more **female persons** in Hong Kong (China (SAR), best placed territory of the world), Japan, Spain, Italy, Switzerland, Cyprus, Australia, Greece, Israel, Sweden, Iceland, Finland, France, Austria, Canada, Singapore, Norway, Germany, Belgium, Malta, Korea, Rep. of, Portugal, and the United Arab Emirates survive to age 65, the United States ranks only 41 among 170 countries of the world, and Chile, Costa Rica, Cuba, Uruguay, Panama, Argentina, Mexico, Venezuela, Ecuador outperform the worst placed country of the present EU-25, **Latvia** (rank 64 of global society). Also the Mediterranean partner countries of the EU, i.e. Israel, Syria, Tunisia, Algeria, Lebanon, Jordan, Morocco, and Egypt, easily outperform Latvia.

Even worse, **male survival rates** to age 65 in many EU-25 countries really correspond to those of developing countries. While 80 % or more of male persons in Iceland (best placed country of the

world), Hong Kong (China (SAR)), Sweden, Japan, Australia, Israel, Switzerland, Malta, Canada, United Arab Emirates, Norway, Brunei Darussalam, Italy, Singapore, Cyprus, New Zealand, United Kingdom, Netherlands, Ireland, Kuwait, Luxembourg, Belgium, Austria, Germany, Spain, Greece, Costa Rica, Denmark, Finland, France, Albania, and Cuba survive to age 65, the US is ranked only 35th of world society, and the worst ranked EU-25 country, Estonia, is only placed 116th of all 170 classified countries of the world. Other very poor performances in the EU-25 are reported from Poland (rank 72), the Slovak Republic (rank 73), Romania (rank 88), Hungary (rank 89), Lithuania (rank 101), and Latvia (rank 104). Costa Rica, Cuba, Chile, Panama, Mexico, Barbados, Uruguay, Ecuador, Argentina, Venezuela, Belize, Saint Lucia, Paraguay, Colombia, Saint Vincent, Peru, Jamaica, El Salvador, Nicaragua, Trinidad & Tobago, Honduras, Suriname, Brazil, Bahamas, Dominican Republic, Bolivia, Guatemala often easily outperform the worst-ranked EU-25 country, **Estonia**, just as the Mediterranean partner countries Israel, Syria, Tunisia, Algeria, Lebanon, Jordan, Morocco, and Egypt outperform Estonia.

If our line of argument, which applies Andre Gunder Frank's reasoning about a long-term structural crisis of Europe, is correct, then other indicators should support the argument as well. And indeed they do. Materials, presented in Tausch, 2006, show that

- **combined ratios of trends towards human misery** (unemployment, inequality, stagnation) are very **strong in most European countries**
- **absolute poverty rates in the US and in Europe are comparable**
- **poverty rates in the European periphery** cannot be measured in **relative terms alone** (i.e. the famous Eurostat measure which specifies the risk-of-poverty rate as defined by the share of persons with an equivalized disposable income below the risk-of-poverty threshold, which is set at 60% of the **national** median equivalized disposable income (after social transfers)). Bringing in **absolute income levels (see point above)**, it indeed emerges that poverty in the US and in the European periphery is comparable

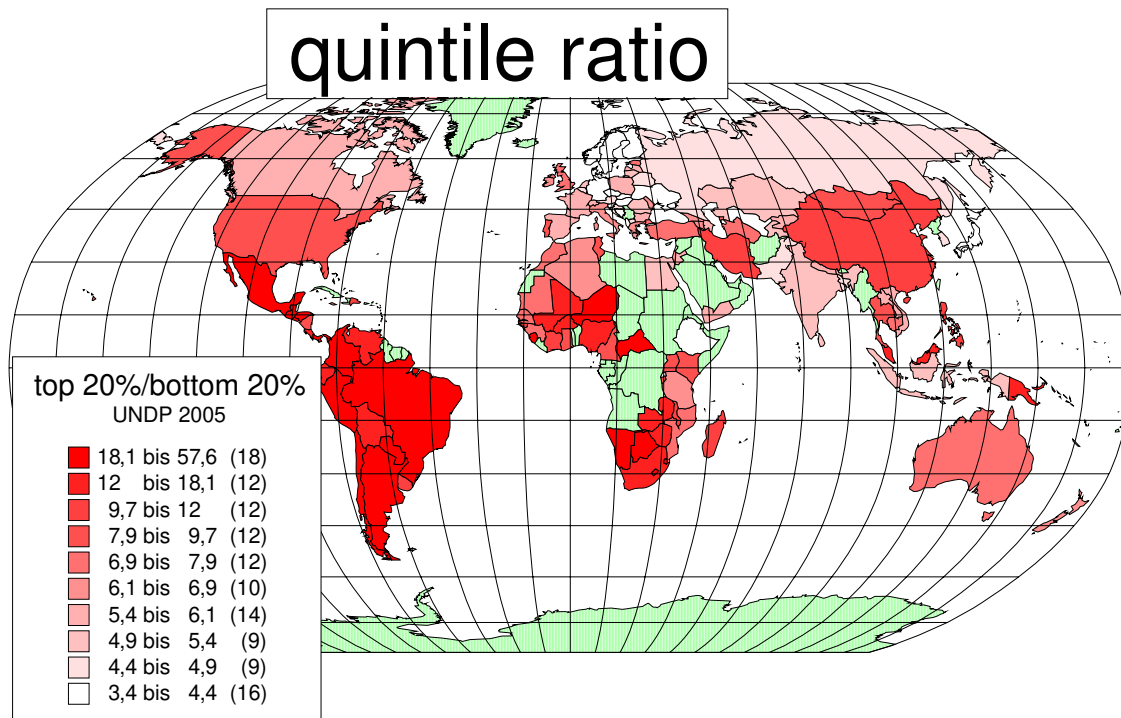
The next question, which arises in such a context then is the question as to whether figures on income inequality and economic growth do support the arguments, just explained. Is there a tendency towards stagnation, and towards inequality, which supports the argument put forward by Andre Gunder Frank about a more long-term structural crisis of the "European model"?

4.4. A tale of inequality and growth

Well, first of all we have to analyze in this context the hypothesis of a **growing** semi-peripherization of the European continent by looking at the **aggregate** figures of economic inequality and stagnation for the contemporary period. Although **levels of present-day inequality** in Latin America and in Europe are still different from one another, it has to be noted that the gap between the rich and the poor (the top 20 % and the bottom 20 %) in the following European nations is already **5.0** or bigger: Lithuania, Netherlands, Romania, Spain, Poland, France, Latvia, Bulgaria, Switzerland, Ireland, Greece, Israel, Italy, Estonia, United Kingdom, Turkey, and Portugal. In **Portugal**¹², this gap is already **8.0**, while in the US it is now at **8.4**. In historical terms (see below) both most of the European nations and the US moved away from the welfare capitalism of the 1960s. An interesting point for world system theory debates is of course, whether or not China, under global capitalism and enormous foreign capital inflows, repeats the experience of Brazil in the late 1960s and early 1970s – an economic "miracle" combined with increasing economic and social inequalities.

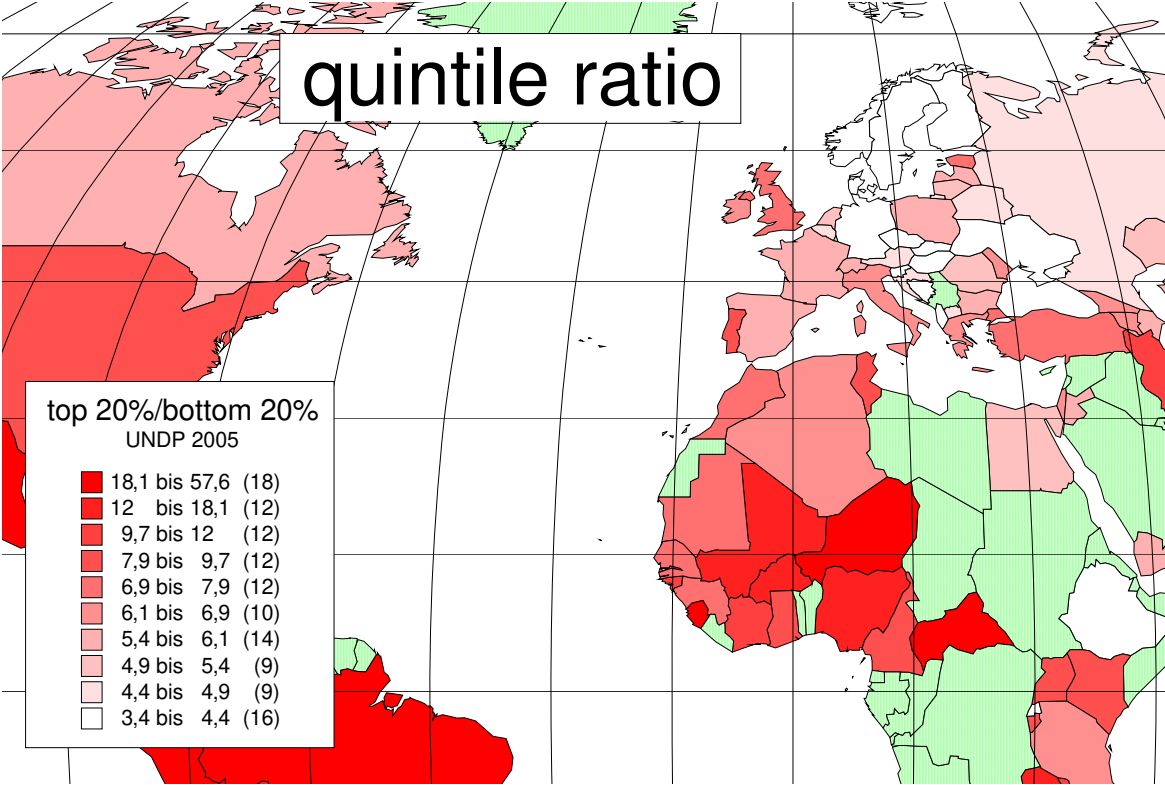
¹² Portugal is the country of origin of the actual President of the European Commission, José Manuel Durao Barroso. Before becoming Commission President, he was the Prime Minister of his home country. Generally, his policies as Prime Minister were associated with neo-liberal economic reforms.

Map 4.7: quintile ratios in the world system



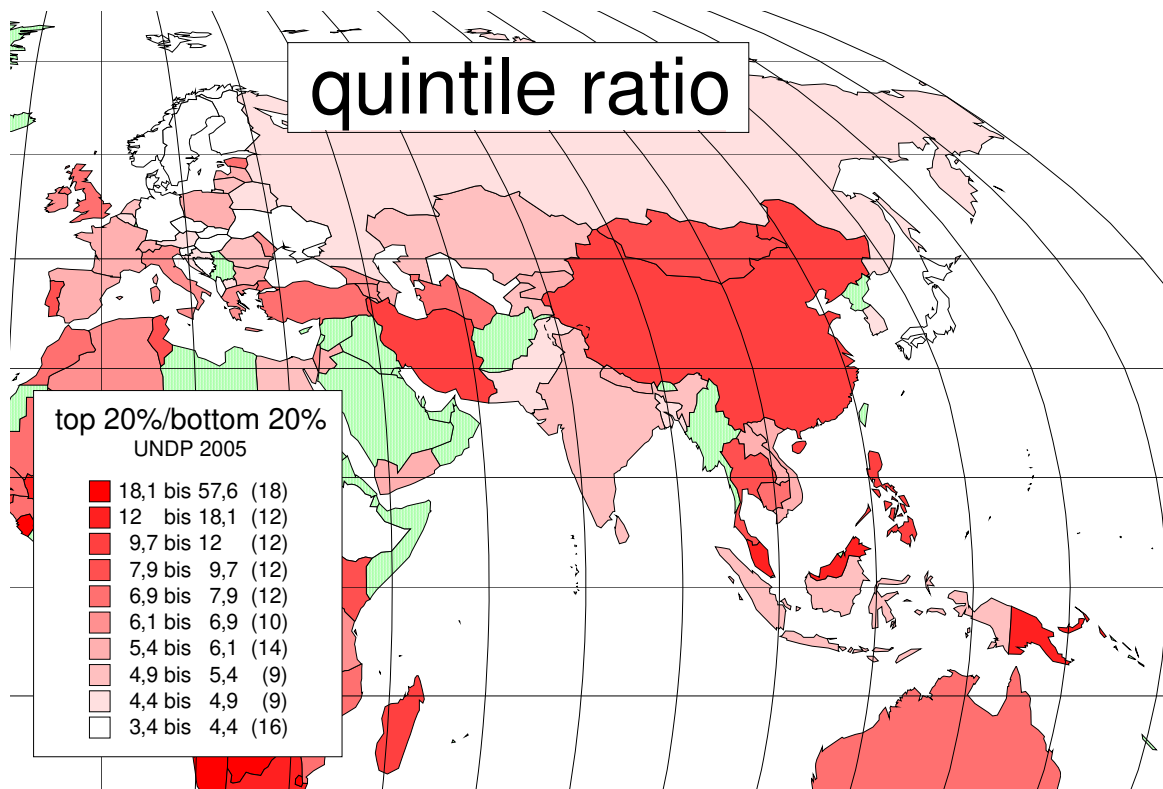
Legend: dark shades indicate a bad performance. “bis” shorthand for “ranging from ... to”.

Map 4.7. (continued): quintile ratios in the world system



Legend: dark shades indicate a bad performance. “bis” shorthand for “ranging from ... to”.

Map 4.7 (continued): quintile ratios in the world system



Legend: dark shades indicate a bad performance. “bis” shorthand for “ranging from ... to”.

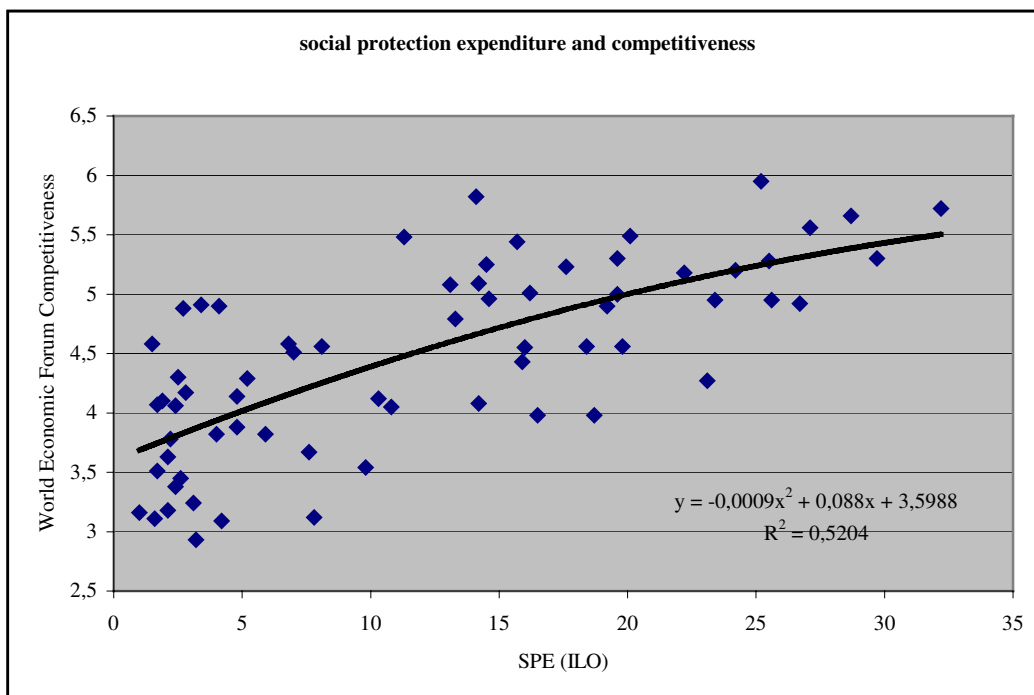
It is evident that the very essence of the “European social model” that meant a high living standard, and high prices in the tradable and non-tradable sector, is increasingly at risk. The absolute center of the debate about the “European social model” is the social-Keynesian conviction that was perhaps best formulated by the former Minister of Finance of Sweden and General Director of Social Policies at the European Commission, Dr. Allan Larsson, and now President of the University of Lund in his home country. Dr. Larsson reiterated on many occasions his belief (for example at <http://www.globalprogress.org/ingles/seminarios/larsson.html>) that

- Europe’s current account surplus at that time was a sign of economic strength; while America has a secular current account deficit
- high gross social expenditures provide an ideal framework for subsequent high productivity growth rates; i.e. Europe with its strong social safety nets has ideal chances for faster productivity growth than the United States

There are different ways to look at the empirical record. While there are those who maintain that most recent developments have pulled away the carpet beneath such beliefs, there is strong counter-evidence to the contrary. The Eurostat data series on social protection levels and productivity already confirm this; there is a positive correlation which explains more than 16 % of productivity levels between social protection and productivity (Tausch, 2006). Critics might say that this does not take into account global changes in productivity that disproportionately favor the Asian economies. Social Keynesians would now argue that these relationships also hold on a global level (our own compilations, based on ILO and World Economic Forum. These data are downloadable from: http://www.weforum.org/pdf/Gcr/Growth_Competitiveness_Index_2003_Comparisons and <http://www.ilo.org/public/english/protection/soctas/research/stat/table14.htm>).

The contrary of what critics of the social welfare state assume is true: social protection levels and world economic competitiveness have a clear positive trade-off, and the correlation between the two variables is extremely high, in fact social protection levels explain more than ½ (i.e. 52 %) of world economic competitiveness:

Graph 4.2: social protection levels and world economic competitiveness



The empirical realities suggest that Europe, more and more, leaves behind these preconditions of successful economic development. The intensive globalization that Europe experienced points in the direction of globalization not leading to more equality, at least as suggested by the available new evidence under survey here. Available indicators indicate that the European continent experienced over the last years a real radical neo-liberal globalization and transformation, while the benefits of this transformation are rather mixed. In our following Table, EU-25 member countries are underlined.

Table 4.7: EU-25 – global best practice in globalization, global worst practice rates of decreasing social well-being?

“Best practice” globalizers: European among the world’s top 30 globalizers (correlation over time of the rates of inflows of foreign direct investment per GDP)

Poland; France; Portugal; Costa Rica; Croatia; Pakistan; China; Israel; Latvia; Uganda; Moldova; Russian Federation; Slovak Republic; Romania; Lithuania; Mongolia; India; Chile; Azerbaijan; Honduras; Mexico; Nicaragua; Austria; Belgium; Denmark; Turkey; Armenia; Hungary; Venezuela; RB; Nepal; Germany

“Best practice” reduction of the comparative price level (US=100): Europeans among the world’s top 30 reducers of the price level (see Chapter below)

Luxembourg; Equatorial Guinea; Argentina; Singapore; Brazil; Switzerland; Denmark; Germany; Austria; France; Uzbekistan; Hong Kong; China (SAR); Uruguay; Belgium; Japan; Netherlands; Sweden; Finland; Italy; Croatia; Paraguay; Australia; Lesotho; Rwanda; Greece; Norway; New Zealand; South Africa; Tajikistan; Peru; Chile

But worst practice rises in inequality: European among the world’s top 30 increases in inequality

China; Slovak Republic; Nigeria; Czech Republic; Bangladesh; Gambia; The; Spain; Hungary; Panama; Australia; Latvia; Romania; Egypt; Arab Rep.; Gabon; Mexico; Venezuela; RB; Philippines; Moldova; Bulgaria; Pakistan; New Zealand; Netherlands; Japan; Slovenia; Tunisia; Turkey; Azerbaijan; Ireland; Portugal; Poland; Malawi

Worst practice long-term tendency towards stagnation: Europeans among the world’s top 30 in slow long-term economic recovery; measured by the time series correlation of economic growth rate over time

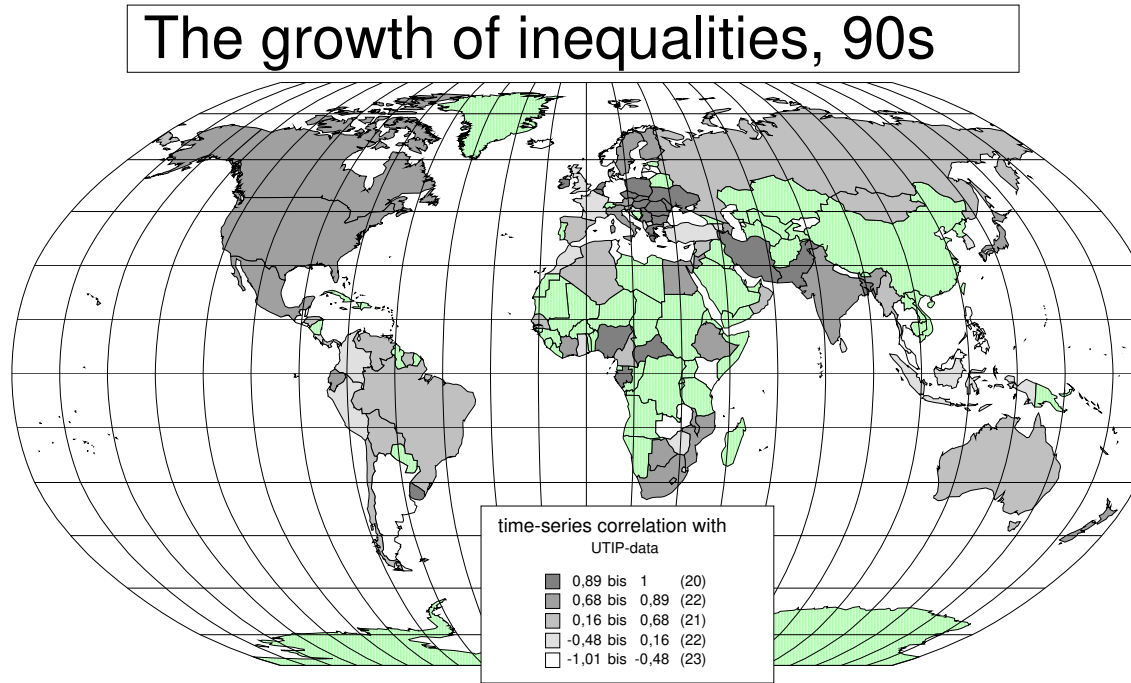
Pakistan; Burundi; Japan; Moldova; Russian Federation; Bulgaria; Egypt; Arab Rep.; Romania; Indonesia; Mongolia; Zimbabwe; Kenya; Thailand; Jordan; Italy; Cyprus; Colombia; Latvia; Malaysia; Algeria; South Africa; Gambia; The; Kyrgyz Republic; Singapore; Brazil; Zambia; Lithuania; Turkey; New Zealand; Norway; Czech Republic

Worst practice tendency towards unemployment: Europeans among the world’s top 30 with unemployment is rising over time (time series correlation of ILO Laborsta unemployment rates over time)

Mauritius; Haiti; South Africa; Tajikistan; Azerbaijan; Estonia; Croatia; Indonesia; Namibia; Algeria; Argentina; Greece; Czech Republic; Ukraine; Saudi Arabia; Brazil; Luxembourg; Philippines; Bangladesh; Pakistan; Japan; Uzbekistan; Slovakia; Albania; Uruguay; Egypt; Ecuador; Nicaragua; Russian Federation; Finland; Israel

Using the University of Texas Inequality Project data series on inequality in the world system since the 1960s, based on solid pay data, we arrive at the following world map of time series correlations with inequality. The real explosion of pay inequality in the European East has to be noted. Still, the share of the poorest 20% in total incomes in the US is lower than in most European countries (except in the former USSR, see our data based on UNDP sources). **Eastern Europe** was the region which **most rapidly globalized** and which had the most **rapid tendency towards inequality at the same time**:

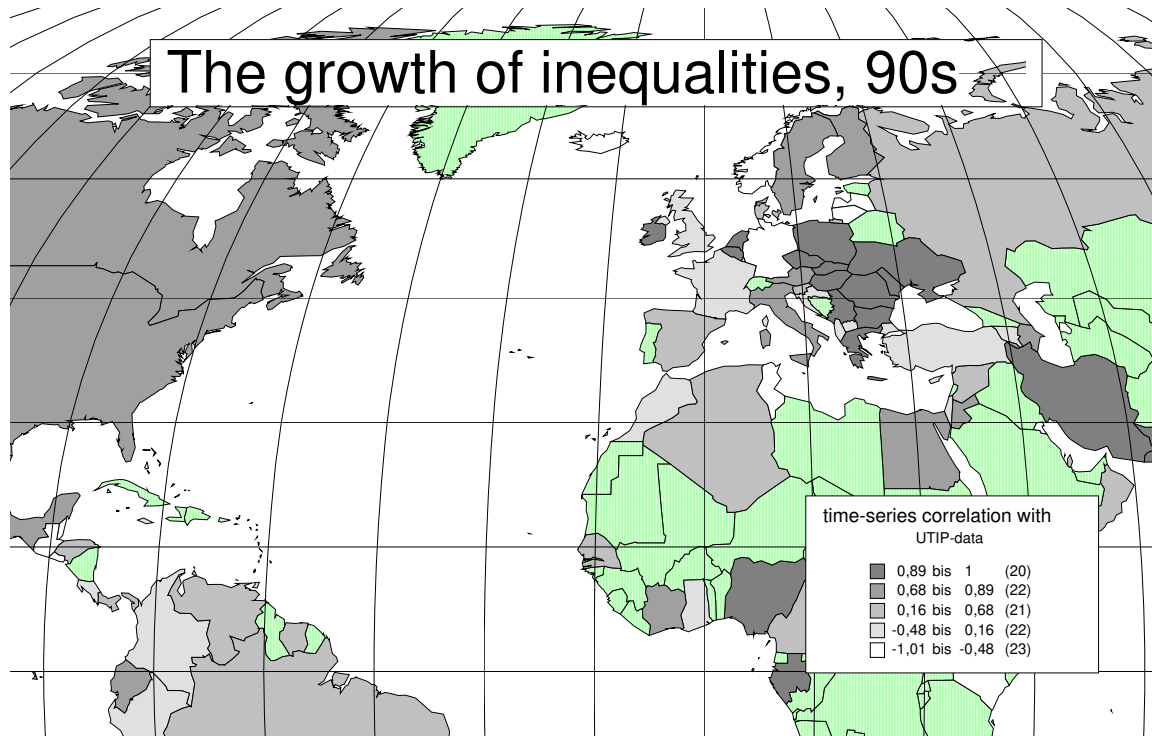
Map 4.8: the growth of inequalities in the 1990s in the world system and in the wider Europe



Source: our own calculations from UTIP¹³. In this and in all other maps in this work, “bis” is the shorthand for “ranging from ... to”. Countries painted in green color: missing data. Dark colors indicate a bad performance

¹³ <http://utip.gov.utexas.edu/>

Map 4.8 cont.: the growth of inequalities in the 1990s in the world system and in the wider Europe



Source: our own calculations from UTIP¹⁴. In this and in all other maps in this work, “bis” is the shorthand for “ranging from ... to”. Countries painted in green color: missing data. Dark colors indicate a bad performance

These tendencies are also responsible for the very high extent of absolute poverty to be encountered on the European periphery and semi-periphery. As we already mentioned, the usual Eurostat measures of poverty that fix poverty levels at national relative poverty lines (i.e. poor = < 60 % of median equivalent per capita income of national societies) do not tell us much about the absolute income levels of the poor. If we define **poverty** as an **equivalent income** which is below the level of **60 %** or less of the **median** equivalent income of the entire EU-15, we already are confronted with the following staggering poverty rates on the outer rims of the EU-15:

¹⁴ <http://utip.gov.utexas.edu/>

Table 4.8: poverty in Europe (EU-15)

a) % of people living in poverty, 2001:

	EUROZONE-12	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EU15T
2001	19	8	5	7	44	31	13	22	28	1	11	7	50	16	14	14	17
2000	18	8	5	7	41	32	14	25	24	1	8	6	49	16	14	15	17
1999	18	7	4	7	43	36	11	23	25	2	8	8	49	14	11	16	17
1998	19	8	4	8	44	38	11	23	27	1	8	8	52	11	12	15	18
1997	20	8	3	8	45	39	13	27	28	1	9	8	51	10	10	14	18
1996	20	8	4	8	46	39	12	27	28	1	11	7	51	9	:	15	19
1995	21	9	4	11	46	39	12	29	28	2	10	7	51	:	:	16	20

Legend: our own compilations from unpublished Eurostat surveys

b) Changes in the percentage of people, living in poverty, EU-15, 1997 - 2001

	2001	1997	Increase/decrease of poverty rates 1997-2001
	Below 60% of EU-15-median 2001 – 8253€	Below 60% of EU-15-median 1997 – 6789 €	
FIN	16	10	6
S	14	10	4
DK	5	3	2
NL	11	9	2
B	8	8	0
F	13	13	0
I	28	28	0
L	1	1	0
UK	14	14	0
D	7	8	-1
EL	44	45	-1
A	7	8	-1
P	50	51	-1
EU15	17	18	-1
EUROZONE12	19	20	-1
IRL	22	27	-5
E	31	39	-8

Legend: our own compilations from unpublished Eurostat surveys

Our materials all confirm the broader picture – that poverty in Europe emerges as a much more serious problem, when we abolish the incorrect assumption that absolute income levels do not matter. Another

way to look methodologically correctly at these dynamics is to compare the absolute real per capita purchasing power level of the poorest 20 % across the globe:

Table 4.9: World poverty (n = 124 countries with complete UNDP 2005 data)

real per capita income, poorest 20 % in \$ and PPP in 2003	EU-29	European Neighborhood Program	Balkan	LAC	Western democracies	other countries
< 1000 \$		Georgia, Uzbekistan, Kyrgyzstan, Moldova, Rep. of, Tajikistan		Brazil, Nicaragua, Colombia, Panama, Peru, Venezuela, El Salvador, Ecuador, Guatemala, Bolivia, Paraguay, Honduras		Botswana, Vietnam, Pakistan, Bangladesh, Cambodia, Guinea, Lao People's Dem. Rep., Swaziland, Ghana, Rwanda, Cameroon, Papua New Guinea, Zimbabwe, Mauritania, Nepal, Senegal, Mongolia, Gambia, Namibia, Uganda, Côte d'Ivoire, Mozambique, Yemen, Ethiopia, Kenya, Burkina Faso, Nigeria, Mali, Tanzania, U. Rep. of, Madagascar, Lesotho, Guinea-Bissau, Burundi, Malawi, Zambia, Central African Republic, Niger, Sierra Leone
1000 - 2000		Turkmenistan, Egypt, Jordan, Azerbaijan, Morocco, Armenia		Uruguay, Argentina, Dominican Republic, Chile, Mexico, Jamaica		South Africa, Iran, Islamic Rep. of, Sri Lanka, Indonesia, India, China, Philippines
2000 - 3000	Romania, Bulgaria, Turkey	Kazakhstan, Belarus, Ukraine, Tunisia, Algeria	Macedonia, TFYR, Bosnia and Herzegovina, Albania	Trinidad and Tobago, Costa Rica		Thailand, Malaysia
3000 - 4000	Latvia	Russian Federation				
4000 - 5000	Lithuania, Croatia, Poland, Estonia					
5000 - 6000	Slovakia, Portugal					
6000 – 7000	Hungary				Israel	Singapore
7000 – 8000	Greece				New Zealand	Hong Kong, China (SAR), Korea, Rep. of
> 8000 \$	Ireland, Finland, Denmark, Austria, Sweden, Germany, Belgium, Netherlands, France, Italy, Slovenia, Czech Republic, Spain, United Kingdom				Norway, Japan, Canada, Switzerland, United States, Australia	

Legend: our own compilations from UNDP Human Development Report, 2005

These differences in real purchasing power of the poorest 20 % in the different groups of countries deserve our further attention – with the integration of the European Periphery into the larger European “whole”, Europe becomes more and more similar to the developing regions, especially in Latin America and the Muslim Mediterranean. The radical consequence to be drawn from such comparisons is that European social policies more and more have to become “European development policies”.

4.5. Multivariate results about the global Lisbon contest

It is no wonder then that debates in Europe intensify. More government, less government, more privatization, less privatization, more globalization, less globalization? Who, in the end, is to blame for this crisis? With the Social Keynesian European consensus **politically** in retreat, a new catchword has entered the European political scene – **globalization**. Is globalization to blame for the supposed ills of the “European Model?” As Roger Cohen put it in the *International Herald Tribune* on August 24, 2005:

*“In no major European country have politics remained as frozen since the Cold War's end as in France, where the old guard has proved largely impervious to the remaking of the world. Britain got New Labour and Tony Blair with their slick market-oriented makeover of a tired socialism. In Spain, Felipe González's elegant refashioning of the left helped lay the basis for post-Franco democracy. (...) (...) Mitterrand deployed the rhetoric of the left to mobilize his Socialist Party and then operated largely from the center. Chirac's Gaullism has similarly placed suspicion of the market and the United States at the heart of his discourse, and led him to govern from a nebulous centrist perch. The result is a paradox: a country more attached to ideological debate than any other in Europe, yet operating in an environment where "left" and "right" are often almost meaningless labels and where governance tends to consist of saying one thing - the state is a force for good - while trying to do another - privatize. Running France is above all a conjuring trick. It is perhaps because the art of the illusionist has lain at the center of French politics since 1945 - beginning with the depiction of wartime events and the Vichy regime - that it has been easier to maintain the various illusions that have preserved this country's strange political status quo. But, as the political season begins again in France after the summer break, there are signs of increasing strain. To the left and right, pressures are growing for clearer political positions that would offer the French at least the semblance of a real choice between distinct ideas. (...) Michel Rocard, a former Socialist prime minister, put the situation bluntly in a recent interview with *Le Nouvel Observateur*, saying it was time to "cast Marxist dialect into the trash can" and calling a growing leftist force in the country, the antiglobalization movement known as Attac, "a monument to economic and political stupidity." His comments had a ring to them. But the fact is Attac has attracted 30, 000 members in its seven years of existence. Its message that American-driven capitalism, known here as neo-liberalism, is making the world more unequal and more unjust has proved compelling. If the "Non" campaign triumphed in the referendum on a European constitution, it was partly because Attac and the forces of the left around it managed to portray the document as a paean to neo-liberalism. This coalition of the "Non" continues to hold sway, ensuring that the looming battle to define French socialism will not naturally lead down the same market-oriented path adopted by other European parties of the left. "The experience of hundreds of millions of people has been the failure of globalization and Anglo-Saxon capitalism, which has accentuated inequalities, dismantled systems of social protection and increased unemployment, " said Jacques Nikonoff, the president of Attac. "These processes can be reversed." (Roger Cohen, *International Herald Tribune*, available at: <http://www.iht.com/protected/articles/2005/08/23/news/globalist.php>)*

Our final multivariate model takes both the possible short-term dynamic effects of the increases of foreign direct investment and the long-term stagnation effects of MNC penetration into account. In addition to the quantitative effects of the dependent variables used in Chapter 2 of this study, we introduce DYN MNC PEN, 1995 – 2000, into the equations. We test the effects of these independent variables on DYN Human Development, the increases or decreases of world Human Development ranks and economic growth.

To correct for trends in the entire world economy, we calculated the increases/decreases of the human development index (DYN HDI, 1995 – 2003) by the residuals from the linear OLS regression predicting the HDI 2003 on the HDI 1995 (Tausch, 2006).

In order to test the **dynamic** relevance of the dependency model proposed by Volker Bornschier and Chris Chase Dunn in 1985, based on MNC penetration and its increases over time, we calculated our multiple regressions for 3 development dimensions – economic growth, DYN Human Development ranks in global human development performance, and the volatility of growth rates compared for the period 1975 – 2003 and 1990 – 2003 (simple differences):

(2) development performance = $a_1 + b_1$ *first part curvilinear function of development level + b_2 *second part curvilinear function of development level + b_3 ***stock of transnational investment per GDP (UNCTAD)** mid 1990s + b_4 ***unequal exchange (ERDI)** + b_5 * **foreign saving** + b_6 * **public education expenditures per GDP** + b_7 * **membership in the Islamic Conference** + b_8 * **European Union membership** + b_9 * **state interventionism** + b_{10} * **DYN transnational investment per GDP (UNCTAD)** 1995-2000

Our final multivariate model takes both the possible short-term dynamic effects of the increases in the reliance on foreign direct investment and the long-term stagnation effects of MNC penetration into account. In addition to the quantitative effects of the dependent variables, we introduced DYN MNC PEN, 1995 – 2000, into the equations. We test the effects of these independent variables on DYN Human Development (increases or decreases of world human development ranks, 1995 - 2003), the vulnerability of economic growth (formulation real per capita income economic growth rate 1975 – 2003 minus real per capita income economic growth rate 1990 - 2003) and economic growth 1990 – 2003.

The original expectation expressed by Volker Bornschier throughout his quantitative work that MNC penetration leads to short-term dynamics and long-term stagnation, is by and large confirmed again by Table 4.10. Peadar Kirby’s expectation that globalization increases the vulnerability and volatility of the development process is fully vindicated in our study:

Table 4.10: the dynamic aspects of dependence, DYN MNC penetration and world development – Bornschier re-vindicated

	(I-S)/GNP	State intervention s	EU-membership	Islamic conference	MNC PEN 1995	public education expenditure per GNP	unequal exchange	ln(GDP PPP pc)	ln (GDP PPP pc)^ 2	DYN MNC PEN (residuals)	constant
growth 1990-2003	-0,0285	-0,0645	2,2035	0,3817	-0,4643	0,0346	-0,1252	0,8993	-0,0194	0,0315	-11,76867
	0,0077	0,1774	2,8575	0,2399	0,1034	0,0084	0,4717	0,6969	0,4417	0,0161	11,2294
	0,3808	1,9820									
	6,8269	111,0000									
	268,1884	436,0516									
t-test and direction of influence	-3,6803	-0,3634	0,7711	1,5913	-4,4913	4,1038	-0,2655	1,2904	-0,0440	1,9520	
t-test and direction of influence^ 2	13,5447	0,1321	0,5947	2,5324	20,1722	16,8413	0,0705	1,6651	0,0019	3,8105	
t-test and direction of influence^ 0,5	3,6803	0,3634	0,7711	1,5913	4,4913	4,1038	0,2655	1,2904	0,0440	1,9520	
degrees of freedom	111,0000	111,0000	111,0000	111,0000	111,0000	111,0000	111,0000	111,0000	111,0000	111,0000	
error probability	0,0004	0,7170	0,4423	0,1144	0,0000	0,0001	0,7911	0,1996	0,9650	0,0535	
F equation	6,8269	6,8269	6,8269	6,8269	6,8269	6,8269	6,8269	6,8269	6,8269	6,8269	
error probability, entire equation	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	
	(I-S)/GNP	State intervention s	EU-membership	Islamic conference	MNC PEN 1995	public education expenditure per GNP	unequal exchange	ln(GDP PPP pc)	ln (GDP PPP pc)^ 2	DYN MNC PEN (residuals)	constant
better or worse HDI rank, 1995-2003	-0,0014	0,8054	-10,5959	1,4887	-1,4662	-0,0506	3,6557	-0,0257	0,1754	0,1169	33,108373
	0,0252	0,5671	9,1382	0,7796	0,3282	0,0273	1,5239	2,2738	1,4275	0,0525	35,9264
	0,2506	6,4690									
	3,8131	114,0000									
	1595,6909	4770,6611									
t-test and direction of influence	-0,0548	1,4201	-1,1595	1,9096	-4,4672	-1,8568	2,3989	-0,0113	0,1229	2,2270	
t-test and	0,0030	2,0166	1,3445	3,6467	19,9558	3,4476	5,7547	0,0001	0,0151	4,9597	

direction of influence^ 2											
t-test and direction of influence^ 0 ,5	0,0548	1,4201	1,1595	1,9096	4,4672	1,8568	2,3989	0,0113	0,1229	2,2270	
degrees of freedom	114,0000	114,0000	114,0000	114,0000	114,0000	114,0000	114,0000	114,0000	114,0000	114,0000	
error probability	0,9564	0,1583	0,2487	0,0587	0,0000	0,0659	0,0181	0,9910	0,9024	0,0279	
F equation	3,8131	3,8131	3,8131	3,8131	3,8131	3,8131	3,8131	3,8131	3,8131	3,8131	
error probability, entire equation	0,0001	0,0001	0,0001	0,0001	0,0001	0,0001	0,0001	0,0001	0,0001	0,0001	
	(I-S)/GNP	State interventions	EU-membership	Islamic conference	MNC PEN 1995	public education expenditure per GNP	unequal exchange	ln(GDP PPP pc)	ln (GDP PPP pc)^ 2	DYN MNC PEN (residuals)	constant
vulnerable growth (diff 1975-2003 minus 1990-2003)	0,0121	-0,0017	-0,0581	-0,2628	0,0883	-0,0014	-0,4006	-0,6093	0,1485	-0,0261	0,3160713
	0,0051	0,1204	1,9608	0,1592	0,0681	0,0056	0,3163	0,4459	0,3098	0,0105	7,8322
	0,2093	1,2445									
	2,5154	95,0000									
	38,9583	147,1358									
t-test and direction of influence	2,3893	-0,0138	-0,0297	-1,6505	1,2972	-0,2603	-1,2667	-1,3662	0,4795	-2,4702	
t-test and direction of influence^ 2	5,7086	0,0002	0,0009	2,7241	1,6827	0,0678	1,6044	1,8666	0,2299	6,1019	
t-test and direction of influence^ 0 ,5	2,3893	0,0138	0,0297	1,6505	1,2972	0,2603	1,2667	1,3662	0,4795	2,4702	
degrees of freedom	95,0000	95,0000	95,0000	95,0000	95,0000	95,0000	95,0000	95,0000	95,0000	95,0000	
error probability	0,0189	0,9891	0,9764	0,1021	0,1977	0,7952	0,2084	0,1751	0,6327	0,0153	
F equation	2,5154	2,5154	2,5154	2,5154	2,5154	2,5154	2,5154	2,5154	2,5154	2,5154	
error probability, entire equation	0,0064	0,0064	0,0064	0,0064	0,0064	0,0064	0,0064	0,0064	0,0064	0,0064	
	(I-S)/GNP	State interventions	EU-membership	Islamic conference	MNC PEN 1995	public education expenditure per GNP	unequal exchange	ln(GDP PPP pc)	ln (GDP PPP pc)^ 2	DYN MNC PEN (residuals)	constant

Legend: In this and in all following tables, very small decimal numbers are abridged according to established mathematical conventions, contained in the EXCEL routine. For example, a number **0,000141972** will be abridged to **1E-04**, i.e. a decimal number rounded to 0,0001 and starting at the fourth number after the decimal point with three zeros after the comma. A number 9E-10 equals thus a decimal number with 9 zeros after the comma, i.e. 0,0000000009. All our EXCEL 7.0 calculations are from UNDP and other data sources, quoted above. As in all EXCEL 7.0 outprints, first row: un-standardized regression coefficients, second row: standard errors, second last row: t-Test and direction of the influence; last row: error probability. The values immediately below the standard errors are R^2 (third row, left side entry), F, and degrees of freedom (fourth row). Below that: ss_{reg} ; ss_{resid} , i.e. the sum of squares of the regression and the sum of squares of the residuals. The right-hand entry in the third row is the standard error of the estimate y .

5. The explosive issue of regional inequality in Europe, the “Bolkestein” (services) directive and the reversal of the Balassa/Samuelson effect

Ongoing analyses shatter the belief that Europe is a world apart from the rising poverty and inequality that many people associate with American capitalism. While undoubtedly there is poverty and inequality on a rising scale in many countries of the world system, it would be wrong to attribute these tendencies to any specific “*American/Americanized character*” of the US or the European economy. It might be true that 70 percent of all of the income growth in the United States during the 1980s went to the richest 1 percent of all families (Michael Yates¹⁵, *Monthly Review*, February 2004). In terms of

¹⁵ <http://www.monthlyreview.org/0204yates.htm>

real income development however, evidence presented by Deborah Reed from the Public Policy Institute California seems to suggest¹⁶ that only in California there was an absolute impoverishment of the bottom 25%, while the other 49 US states saw a real increase in the incomes of even the poorest 25% from 1969 to 2002. Most recent analyses in many European countries, including Austria, on the other hand seem to suggest that from 1992 to 2004 even the real median worker and employee incomes have decreased, in Austria from 1444 € (1808 \$) in 1992 to 1370 € in 2004 (1716 \$; Prof. Alois Guger, Austrian Institute for Economic Research, as quoted by Michael Bachner, *Der Standard, Print-Ausgabe*, 31.7. /1.8.2004).

Serious comparisons of the **inequality of personal incomes in Europe** and in the **United States** always maintained that even for the EU-15, the level of income inequality is quite high, when we take the huge income differences between the European states **and** intra-country or inequality between the regions into account at the same time. Summing up the results of the famous “*Sapir Report*” that for a time was available from the website of the European Commission under http://europa.eu.int/comm/lisbon_strategy/pdf/sapir_report_en.pdf we arrive at the following figures:

Table 5.1a GINI Income Inequality in the EU-15 and in the United States of America, duly considering intra- and inter-national income inequality in Europe and intra- and inter-state inequality in the United States of America

	1985		1995	
	GINI before Taxation	GINI after Taxation	GINI before Taxation	GINI after Taxation
EU	0,381	0,279	0,408	0,294
USA	0,415	0,337	0,421	0,342

Source: our own calculations from „Sapir Report“ on behalf of the European Commission

The **regional concentration** (GINI-coefficient) of value added in the **EU-15** in mid 1990s was, according to Aiginger and Leitner, **0.5106** and **0.5374 in the US**, with very a slight decrease of regional inequality taking place between 1987 and 1995 in both systems. The same holds true for **employment**, where the **GINI coefficient** was **0.4762 in Europe** and **0.5232 in the United States**. No such calculations exist for the EU-25 as yet.

Table 5.1b GINI Inequality measures in the EU-15 and in the United States of America, duly considering intra- and inter-national income inequality in Europe and intra- and inter-state inequality in the United States of America

	EU-15	US	US inequality above EU inequality in %
GINI incomes after taxes	0,2940	0,3420	16,33
GINI regional employment	0,4762	0,5232	9,87
GINI regional	0,5106	0,5374	5,25

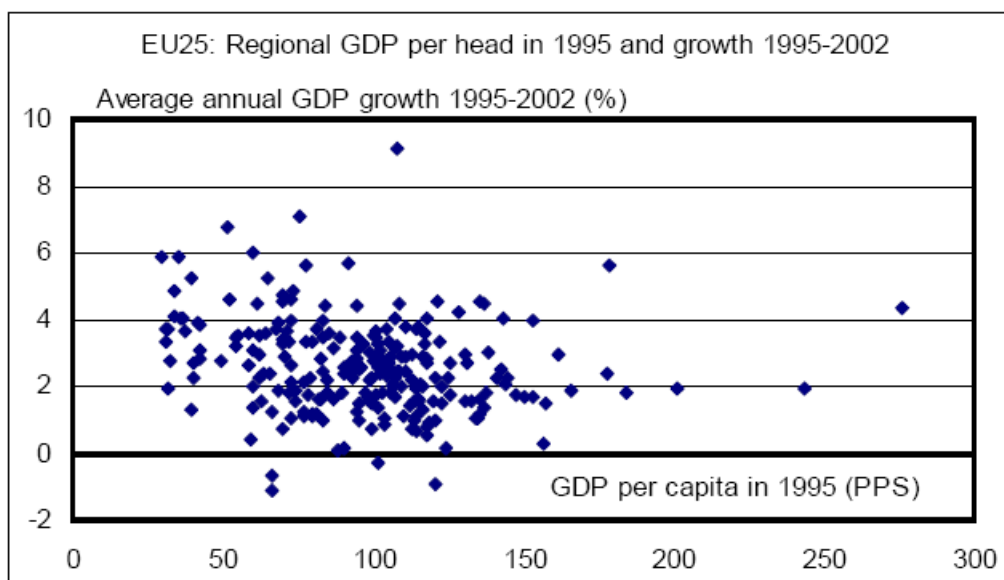
¹⁶ http://www.ppic.org/content/pubs/CC_204DRCC.pdf

incomes			
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Source: see text above

Normally, neo-classical economics would expect a leveling-off process to take place between the poorer and the richer regions in a common market area. The richer the region, the slower the economic growth rate, while poorer regions should rush ahead and grow more rapidly than the rich ones. Ideally, economic growth should be an inverse function of income per capita. But the latest data from InfoRegio, the Commission's regional planning bureau, dispel such an assumption as a myth:

Graph 5.1a: There is no real convergence between rich and poor regions - The Commission graph

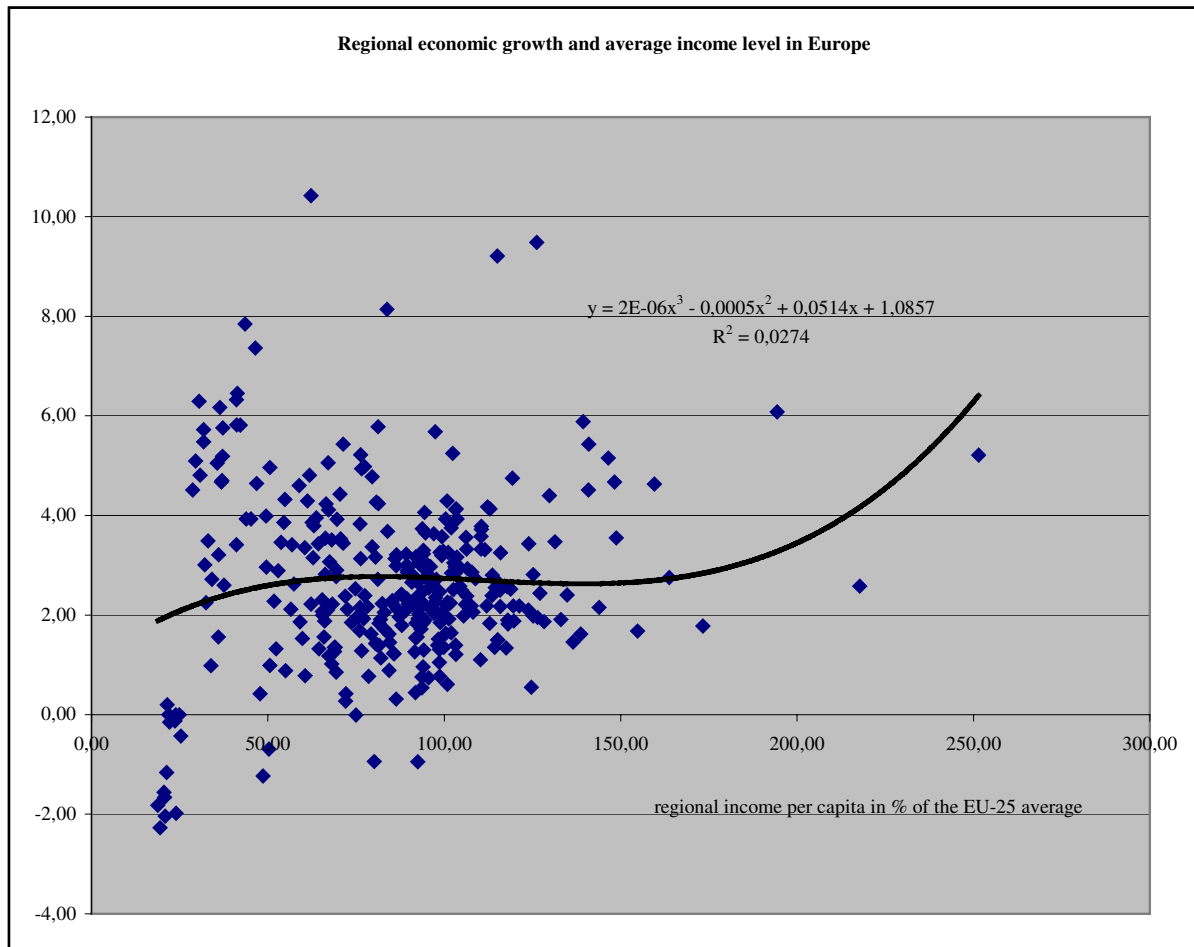


Source: quoted from

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 and
http://europa.eu.int/comm/regional_policy/sources/slides/slides_en.htm

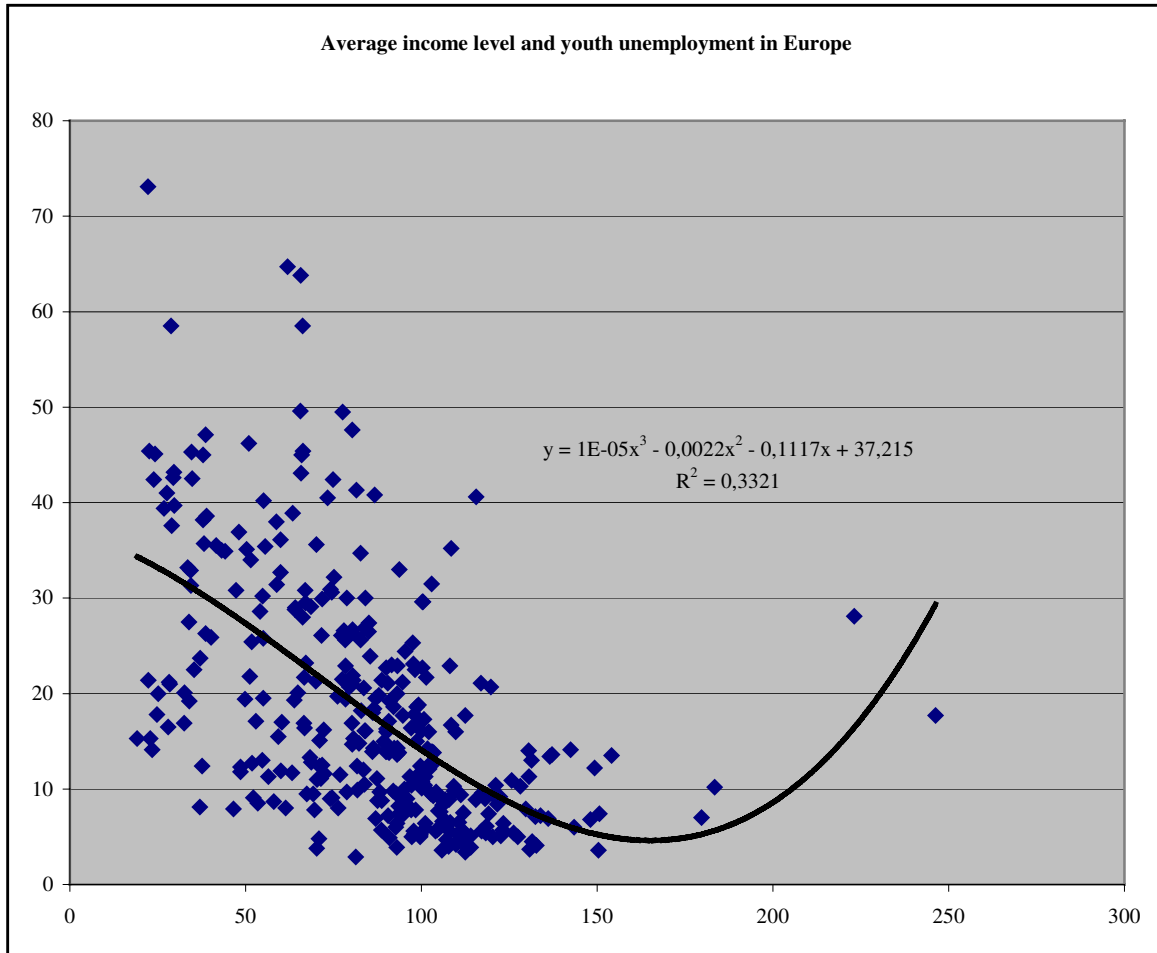
If anything, **economic growth increases with levels of regional per capita income**. Youth unemployment decreases with income per capita levels, but the function is not linear. The R^2 explained is 33 %.

Graph 5.1b: There is no real convergence between rich and poor regions – our own graph with Commission data



Source: calculated from the EXCEL regional data file, provided by InfoRegio, European Commission. Please note that here the x-axis is the **AVERAGE** income level for the 1990s and the early 2000s (regional income per capita in % of the EU-25 average).

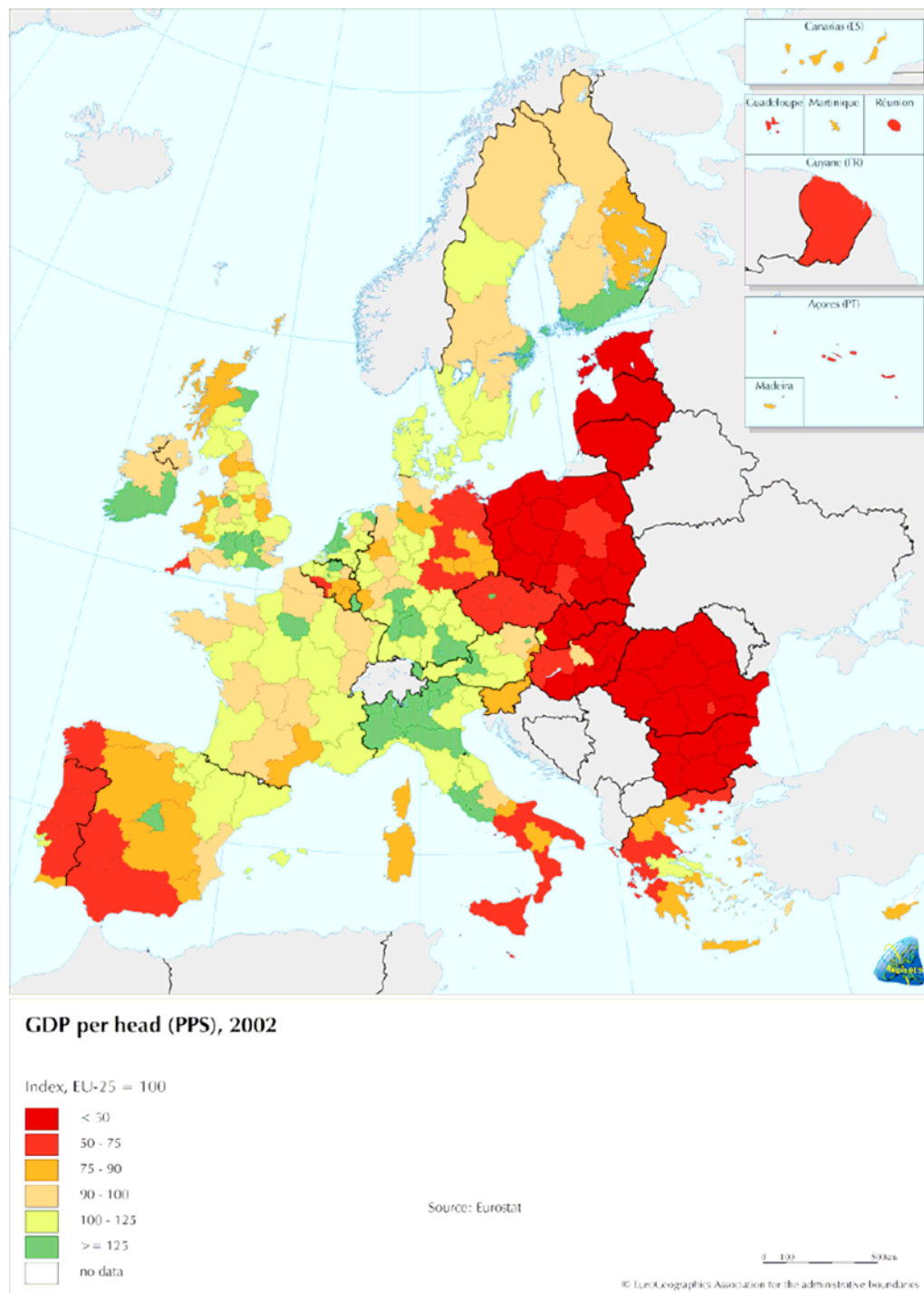
Graph 5.1c: There is no real convergence between rich and poor regions – average income level and youth unemployment according to Commission data



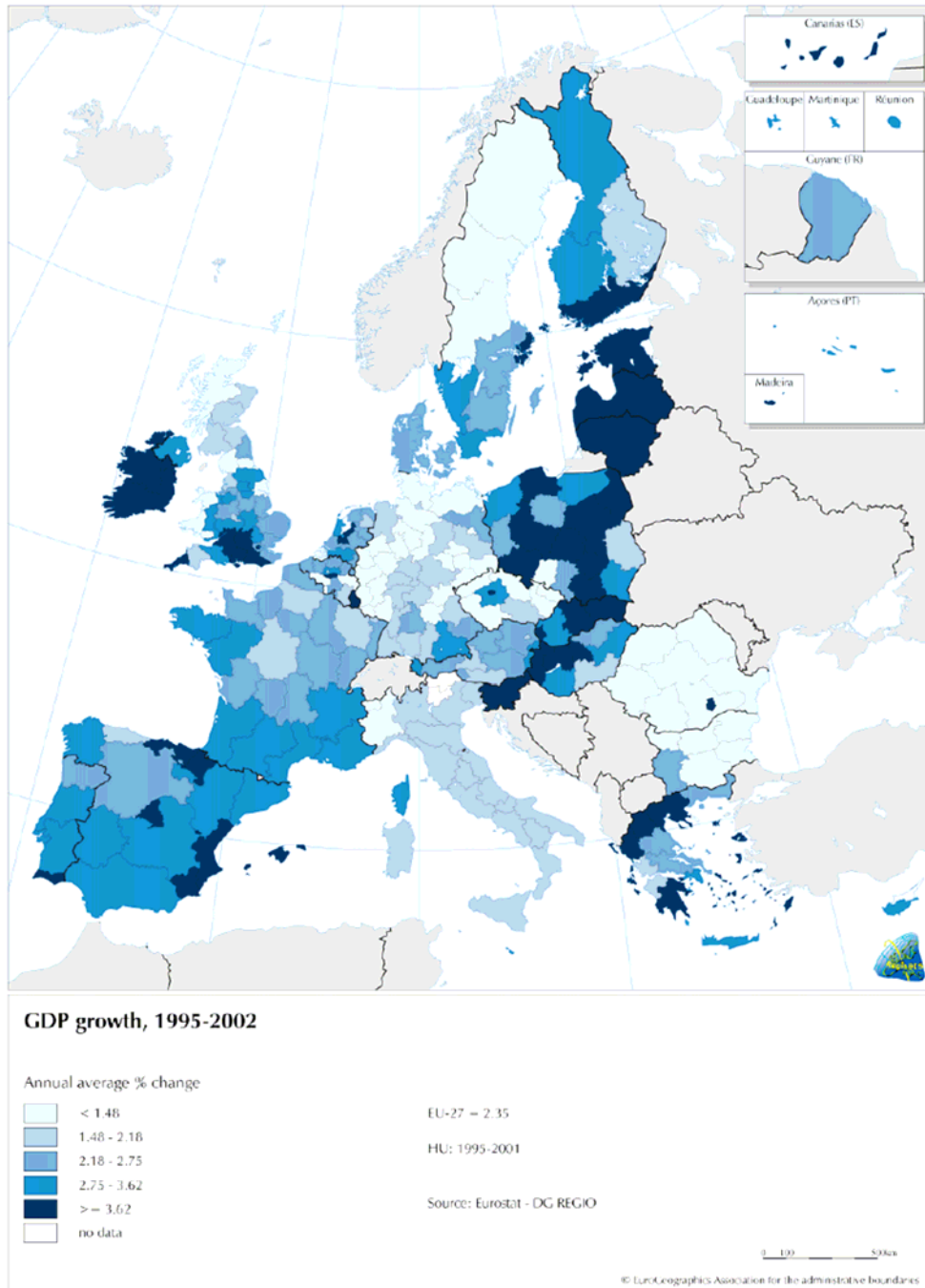
Source: calculated from the EXCEL regional data file, provided by InfoRegio, European Commission. Please note that here the x-axis is the **AVERAGE** income level for the 1990s and the early 2000s (regional income per capita in % of the EU-25 average).

Our following maps, all based on InfoRegio, portray the dynamics of regional underdevelopment in Europe after the accession and enlargement process already took place. There were certain shifts in economic growth, to be sure, that corrected the initial center-periphery structure, but these shifts were not general, and they were accompanied by a tremendous employment problem and by a very considerable marginalization among young people, negatively shaping the life perspectives of parts of an entire generation:

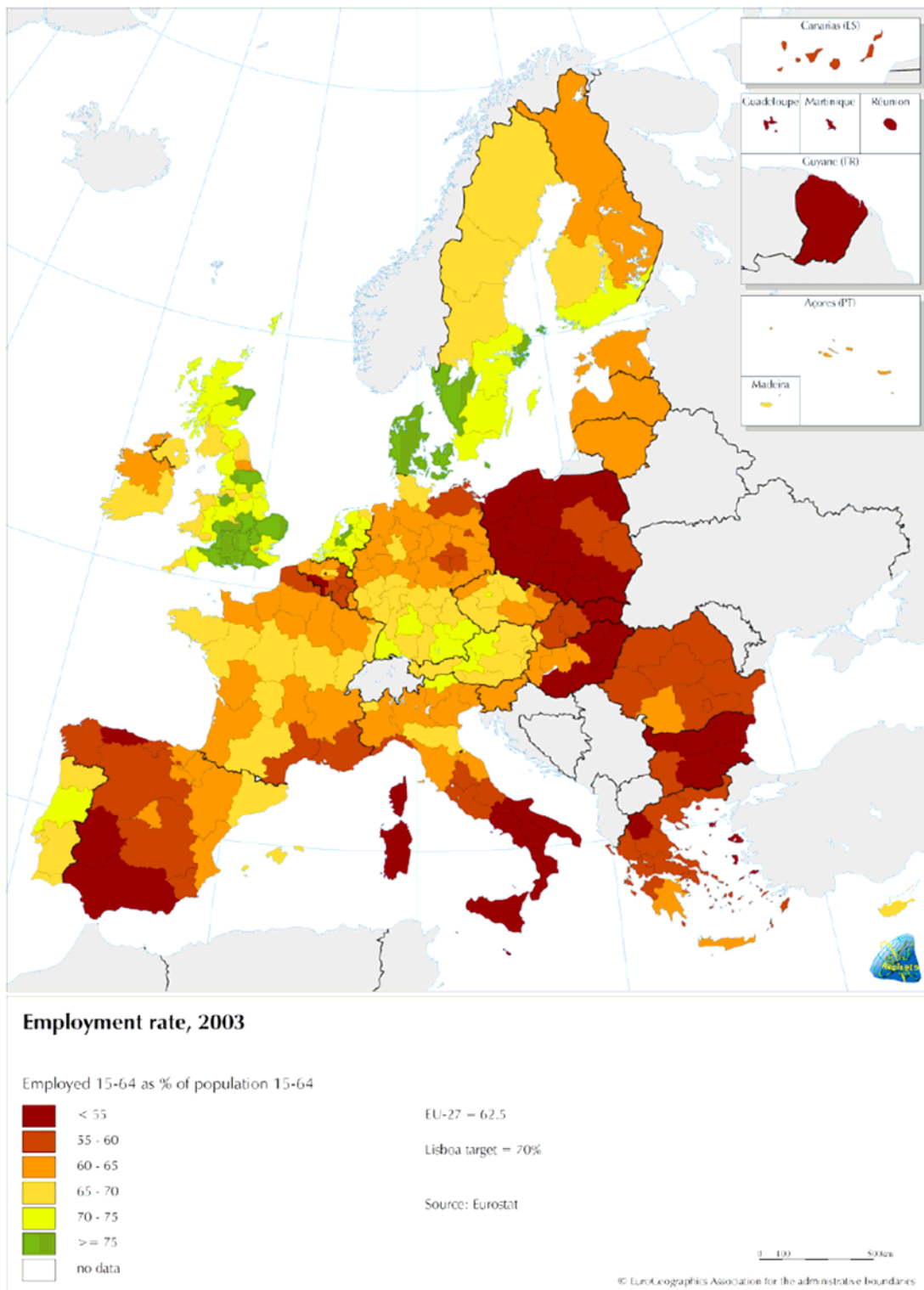
Map. 5.1: Huge differences in real purchasing power



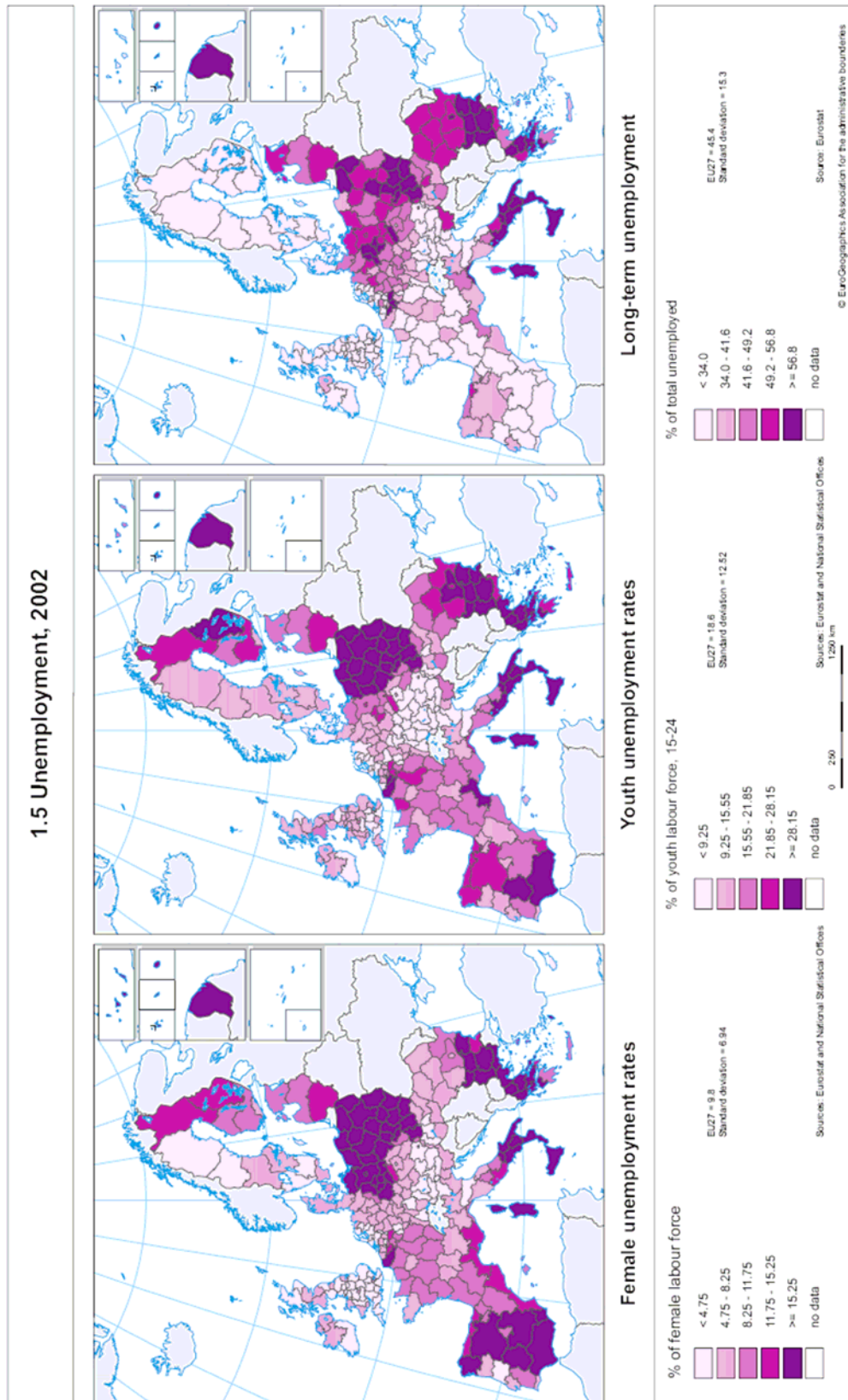
Map 5.2: Apart from the centers Ireland, S-England, Stockholm, Helsinki, Amsterdam, Brussels, Madrid and the Basque Country: economic growth clearly shifts to the some dynamic centers in the European semi-periphery



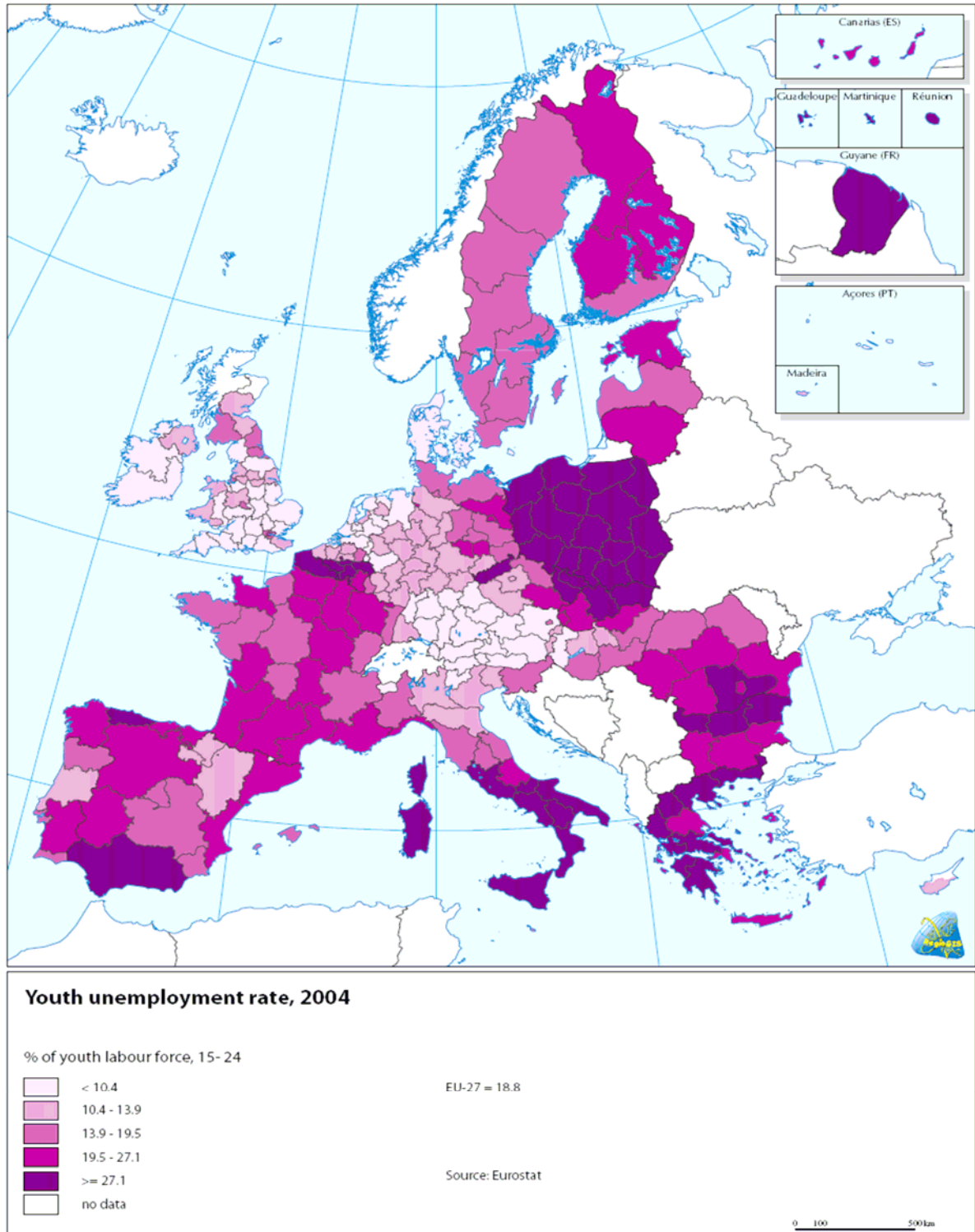
Map 5.3: There is no real convergence between rich and poor regions - The Lisbon employment targets – far away



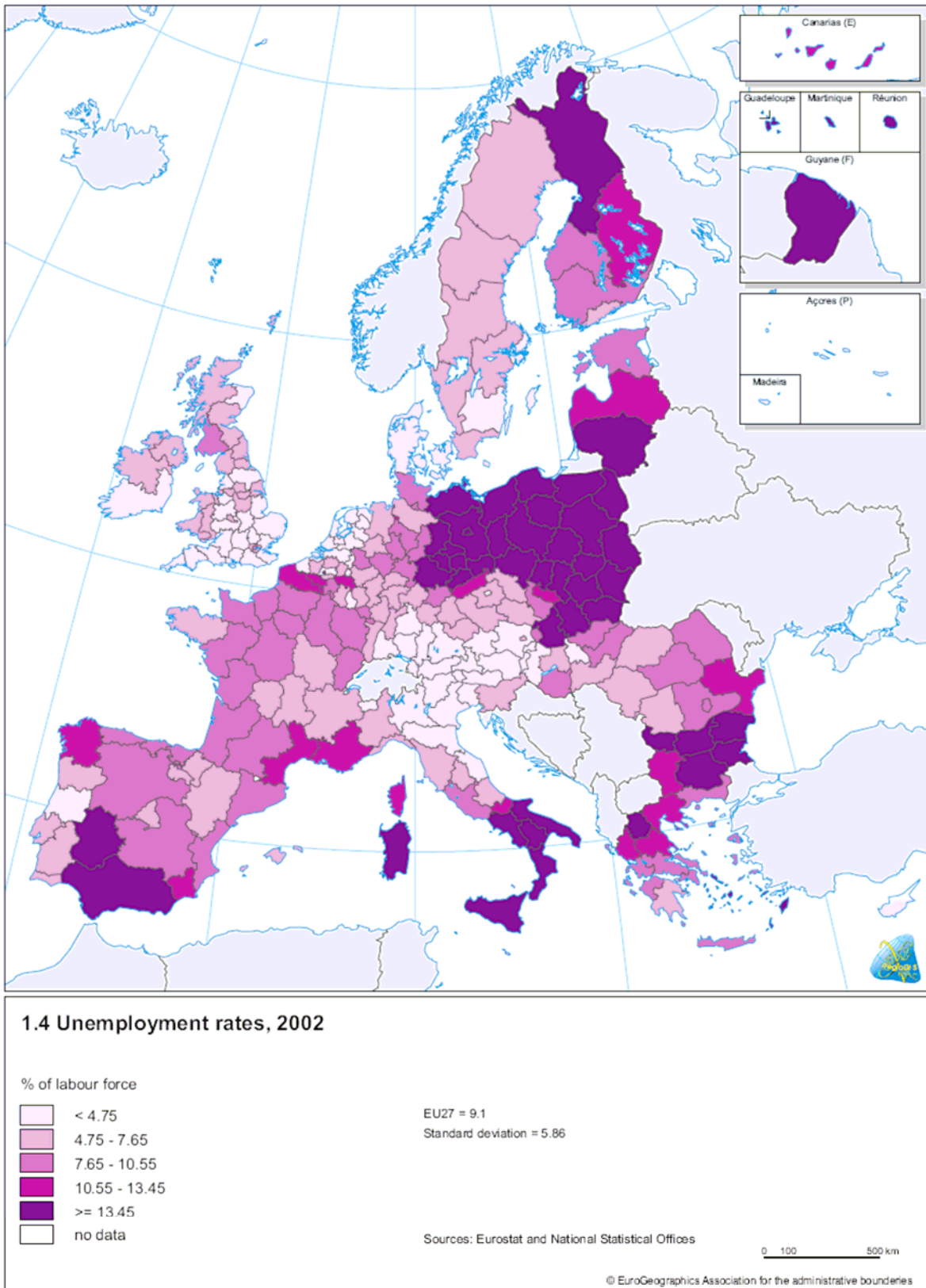
Map 5.4: Unemployment – the biggest challenge to the European social model



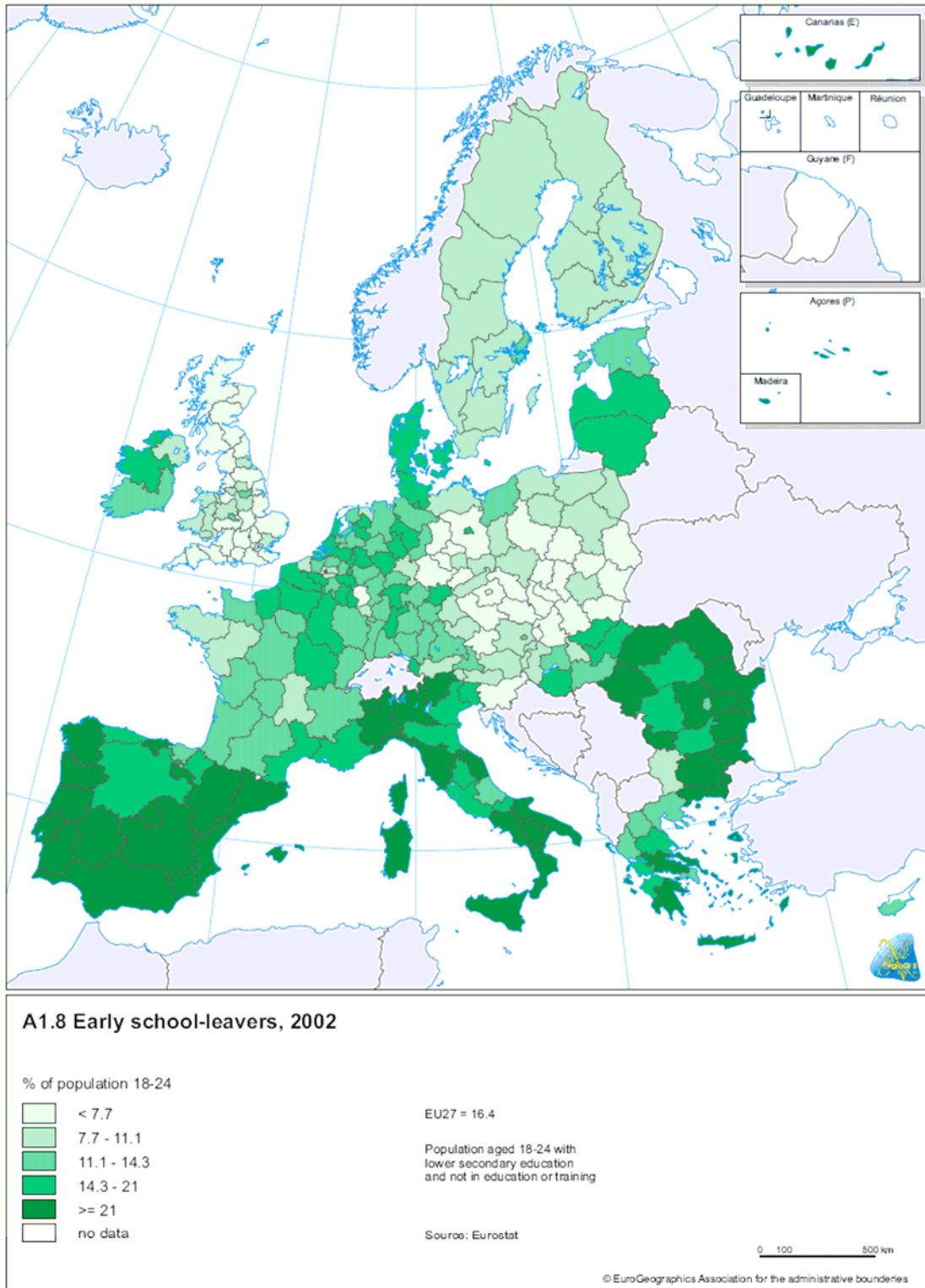
Map 5.5: Youth unemployment in Europe



Map 5.6: Unemployment rates



Map 5.7: Early school leavers



Established economics teaches us that for such 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 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) 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 really **surprising** that European policy making now completely changed the roadmaps of what should 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** and also low price levels in the non-tradable sectors, **European economic policy completely reverses Balassa/Samuelson.**

Largely unnoticed in the European political debate, this constitutes a 180 degree reversal of the direction of European economic policy since the postwar period. 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.

That the **agenda of lowering international price levels** is not just a coincidence, contained somewhere in 14 Lisbon structural indicators, also emerges from the recent very **controversial services directive (“Bolkestein directive”)**. The very essence of the directive is now to have a single European market with fierce competition in the sector, which was formerly regarded as the “non-tradable sector”, and to bring about unified low price levels for these “non-tradables” all over Europe. **This fundamental revision of the Balassa/Samuelson catching-up process and its inherent logic has gone largely unnoticed**, and yet it is a fundamental aspect of the international political economy. The main thrust of the catching-up process, described by Balassa and Samuelson, has been considered up to now as inherently economically sound and rational, and after all, catching up was the main argument for the “big” southward and eastward extensions of the European Union in the 1980s and in 2004.

One of the political **absurdities** of the Commission’s **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.cec.eu.int/portal/page?_pageid=1133,1406352,1133_1406373&_dad=portal&_schema=PORTAL

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

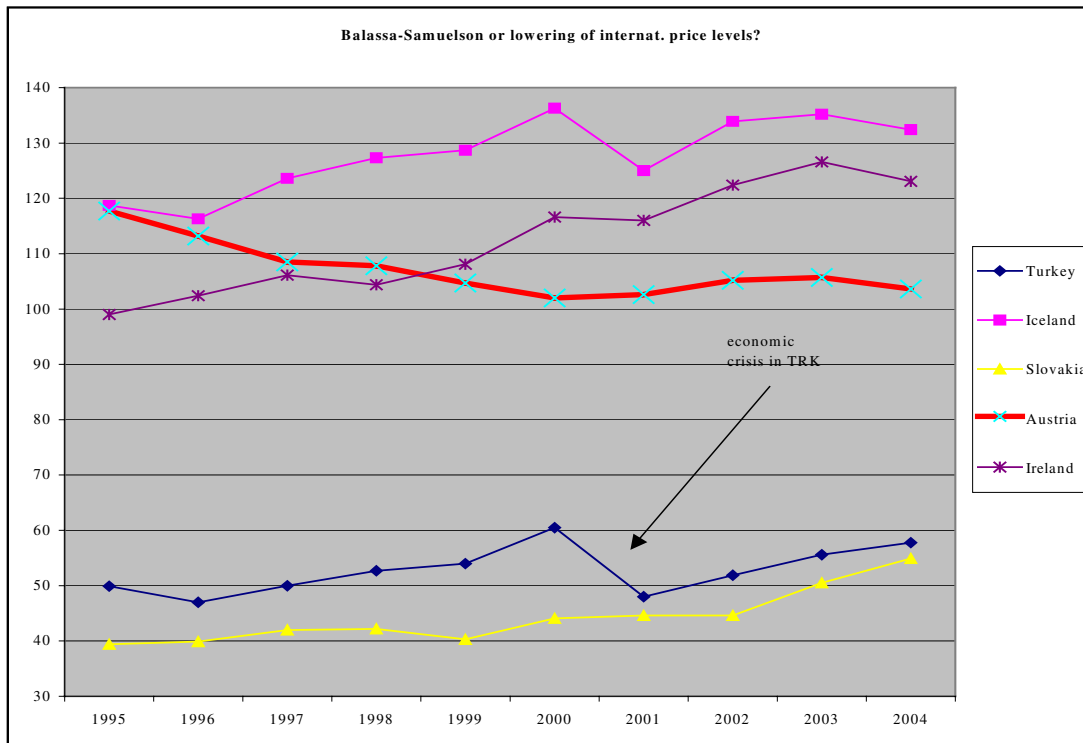
“shortlist allows for a more concise presentation and a better assessment of achievements over time vis-à-vis the Lisbon agenda. In keeping with the recent streamlining of procedures in the wider context of the Lisbon strategy, it is foreseen to keep this list stable for three years”.

The short-listed indicators are:

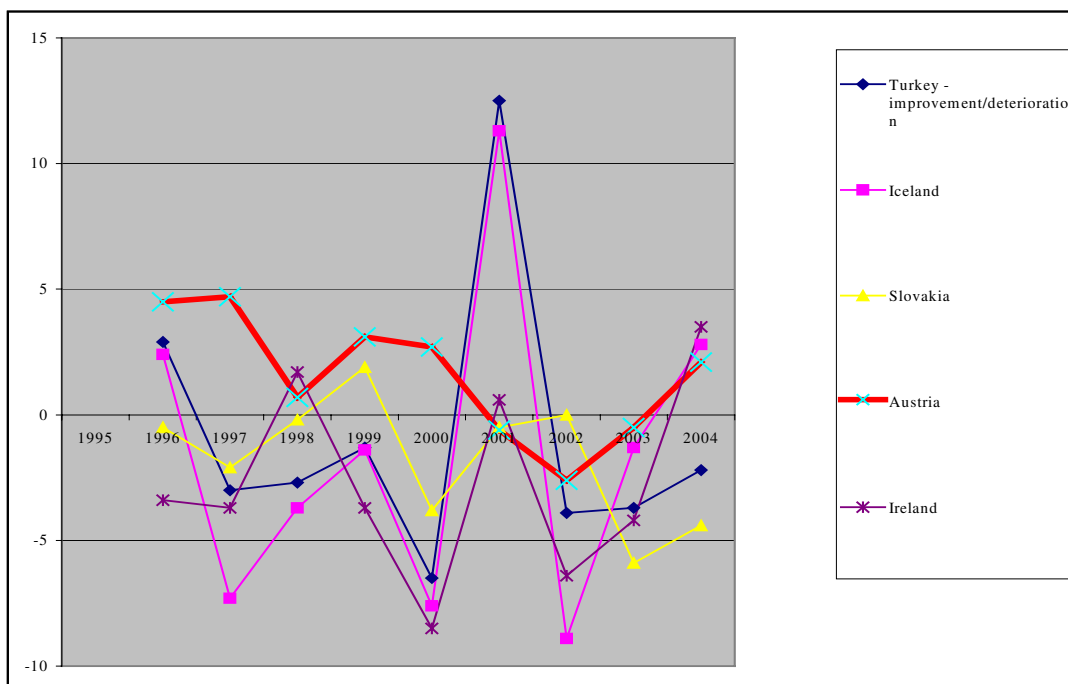
GDP per capita in PPS
Labor productivity
Employment rate
Employment rate of older workers
Educational attainment (20-24)
Research and Development expenditure
Comparative price levels
Business investment
At risk-of-poverty rate
Long-term unemployment rate
Dispersion of regional employment rates
Greenhouse gas emissions
Energy intensity of the economy
Volume of freight transport

For our comparative data series, we have chosen 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 5.2, 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 5.2a: what is a “good” international price level? Turkey’s economic crash in international perspective



Graph 5.2b: 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)



Balassa and Samuelson assumed that rising international price levels for the periphery country are a good thing. The ultraliberal underlying assumptions 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 sustain the 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

“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, but 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:

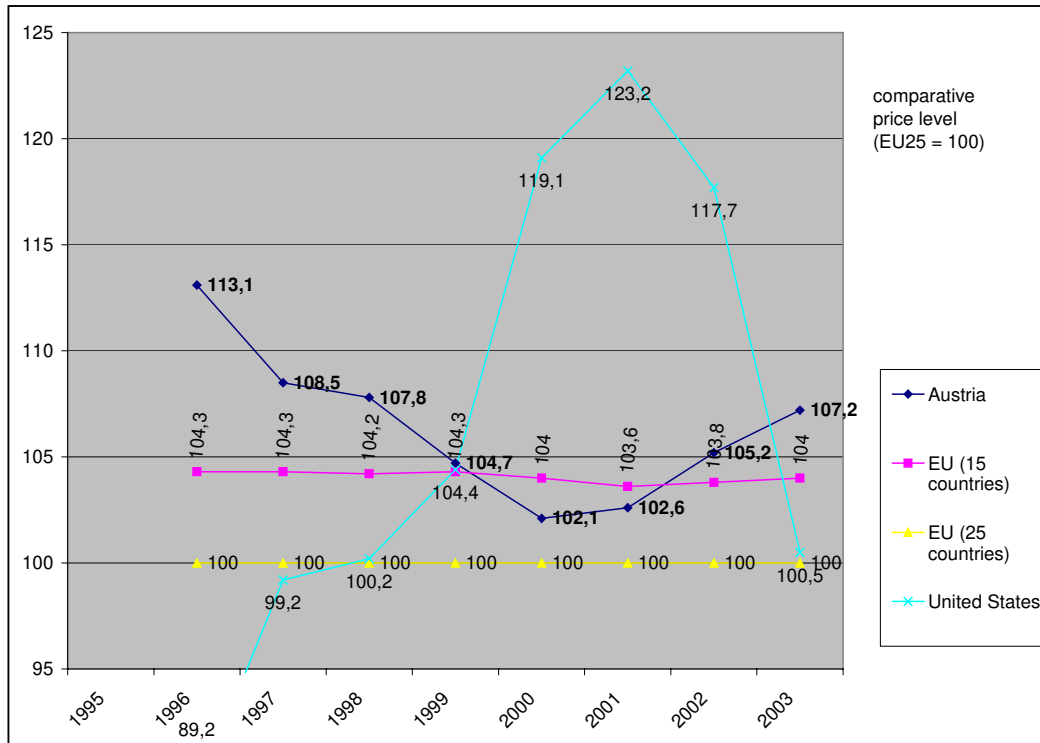
“Mexico cannot service its foreign debt from the proceeds of producing nontradables. These are traded in pesos. It has instead to shift resources away from the nontradable sector to produce tradable output in order to procure the dollars for servicing the debt (...) The process (...) can create a negative 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).

Graph 5.3 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. A 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 5.3a: Comparative price levels. Comparative price levels of final consumption by private households including indirect taxes (EU-25 = 100)



Graph 5.3b: The US \$ - € - exchange rate, 2001 - 2006



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 € that is evident since 2004 should be stopped and even reversed:

Graph 5.3c: The € - Polish Zloty exchange rate, 2001 - 2006



A good world system proxy for the “comparative price level” proposed by Eurostat could be simply to calculate internationally, for each country of the world, GDP per capita exchange rates/GDP per capita PPP and then fix the value for the United States of America as 1. High numerical values, under any specification, using the Eurostat method or proxy methods, will correspond, as in the Eurostat statistic, to countries like Norway, and low values will correspond to countries like Romania. A lowering of the indicator will, according to the underlying Eurostat logic, mean “price reform”, while a hypothetical movement upwards on the indicator (in our Table for Turkey from, say, 55 to 110) will mean a “setback”. However, a closer look at the underlying logic immediately tells us that such a “setback” could be brought about the appreciation of the Turkish Lira over time, while Turkey under this logic, for all purposes, “wonderfully performed” during the disastrous currency crisis of 1994 and 2001 which impoverished large strata of the population. The relationship between GDP per capita at PPP and undervalued/overvalued exchange rates was introduced, among others in the classic article by Kravis, Heston and Summers, available freely online at: <http://www.roiw.org/1981/339.pdf>. Ever since the famous Kravis, Heston and Summers study, the relationship between the real GDP per capita income level and the ratio GDP PPP/GDP per capita has been thought to be an inverse one. Kravis, Heston and Summers say on page 344 of their famous article:

“That is, the exchange-rate-converted estimates of GDP tend to understate the real GDPs of poor countries relative to the GDPs of the US and Europe. The systematic relationship between the ICP estimates and the exchange-rate-derived figures may be clearly seen by arranging the countries in order of increasing real GDP per capita; it can then be seen clearly that the ratio of real GDP per capita to exchange-rate converted GDP per capita – the “exchange rate-deviation index” – falls as per capita real GDP rises (..). A systematic association between the exchange-rate-deviation index and the level of real GDP per capita is a basic structural feature of the world economy” (Kravis, Heston and Summers, op. cit. p. 344, emphasis added)

The richer you are, the lesser you are confronted with the factor GDP PPP divided by GDP exchange rates. A movement of countries over time on the “price reform” front could be brought about (with other things being equal), by a sharp decline in the external value of the currency or by an increase in the purchasing power at home, or by drastic declining prices in the non-tradable sectors. Precisely this „Bolkestein“ process seems to be taking place in Western Europe, because according to the Eurostat

statistics, Slovenia, Greece, Cyprus, Norway, Poland, Turkey, Bulgaria, Portugal, United States, Iceland, Czech Republic, Slovakia, United Kingdom, Italy, Hungary, Latvia, Estonia, Ireland, Lithuania, Romania, and Malta had a rising international price level, but **Japan, Switzerland, Austria, Germany, Finland, France, Belgium, Luxembourg, Netherlands, Sweden, Euro-zone (12 countries), Denmark, EU (15 countries), and Spain** had a sometimes dramatically **sinking international price level**. Most economists would tend to interpret an upward movement of the price level as a manifestation of the “Balassa/Samuelson” effect, but for the “negative” Balassa/Samuelson effect now taking place in Europe, there is hardly any explanation available:

Table 5.2: The Balassa-Samuelson effect at the national level in Western European democracies, 1998 - 2002

	dyn price level – time series correlation with Eurostat data	dyn price level (conventional increase)
Japan	-0,371111	-49,1
Switzerland	-0,518831	-21,1
Austria	-0,791631	-14,1
Germany	-0,789294	-13,1
Finland	-0,646796	-12,2
France	-0,837372	-10,7
Belgium	-0,852605	-10,1
Luxembourg	-0,662598	-9,5
Netherlands	-0,330481	-5,2
Sweden	-0,701363	-4,4
Euro-zone (12 countries)	-0,616534	-3,8
Denmark	0,0227029	-2,5
EU (15 countries)	-0,762661	-0,4
Spain	-0,470168	-0,4
EU (25 countries)		0
Slovenia	0,4550081	0,1
Greece	-0,359111	1,6
Cyprus	0,7211103	2,5
Norway	0,6431858	3,8
Poland	0,6203526	6,4
Turkey	0,5669177	7,9
Bulgaria	0,9224584	10,7
Portugal	0,6860582	10,8
United States	0,7435605	13,2
Iceland	0,8200233	13,7
Czech Republic	0,9696909	14,1
Slovakia	0,8820571	15,5
United Kingdom	0,5793369	16,6
Italy	0,8363308	16,6
Hungary	0,952679	18,4

Latvia	0,8952075	18,5
Estonia	0,9513549	20,9
Ireland	0,9672517	24,1
Lithuania	0,9448067	24,2
Romania	0,402612	43,2
Malta	0,526698	74,9

In the following, we will now try to look into the consequences of the Balassa/Samuelson-effect and its reversal in the enlarged European Union. To this end, we predicted in multiple regressions the regional performance of regions in Europe (according to Info Regio, Commission) on the following predictors:

average level of **per capita incomes**, 1999-2000-2001, EU15 = 100

average level of per capita income²

Country wide dyn price level conventional method

country-wide dyn price level correlation method (time series correlation **national** price level with time axis, Eurostat structural indicators data)

dummy: until 1989 **communist government**

per cent of the population with **low levels of education**

per cent of the population with **medium education**

Population **density** (inh./km²), 2001

population **size**

Share of **agriculture** in total employment

Share of **industry** in total employment

Share of population **<65+**

All the data are available on the Internet; the sources are given in the bibliography to this article. Recent quantitative studies about regional development in Europe (Heidenreich, 1997 – 2004) rediscovered mathematical formulations originally published by the American scholar George Kingsley Zipf¹⁷ (1902-1950), who started as a philologist but came to describe himself as a statistical human ecologist. He was for twenty years a Lecturer at Harvard. Leaving aside his flirtation with Nazism and fascism in Europe, his quantifiable prediction is that the **European central regions** will **lose in demographic and economic importance** *vis-à-vis* the “**lesser**” centers, ranking next in the national hierarchies of cities. Heidenreich simplified the mathematics and formulated:

(3) **Zipf’s law:** $\ln \text{Population} = a - b \ln \text{rank of a city among the cities of a country}$

Applied to our macro-quantitative setting, Heidenreich’s hypothesis could be compared with the other hypotheses and theories published in the literature:

¹⁷ http://www.cut-the-knot.org/do_you_know/zipfLaw.shtml. In more analytical terms, the law is the observation that the frequency of occurrence of some event (P), as a function of the rank (i) when the rank is determined by the above frequency of occurrence, is a power-law function $P_i \sim 1/i^a$ with the exponent a close to unity (1).

Table 5.3: different hypotheses of different theories to explain regional growth and the alleviation of (youth) unemployment in Europe – a schematic presentation

predictor/Heidenreich's implied model	influence on regional development (+ on growth, + on the alleviation youth unemployment)
average level of per capita incomes, 1999-2000-2001, EU15 = 100	yes
average level of per capita income ²	no
Country wide dyn price level conventional method	no
country-wide dyn price level correlation method (time series correlation national price level with time axis, Eurostat structural indicators data)	no
dummy: until 1989 communist government	
per cent of the population with low levels of education	yes
per cent of the population with medium education	
Population density (inh./km ²), 2001	no
population size	no
Share of agriculture in total employment	yes
Share of industry in total employment	no
Share of population <65+	
predictor/neoclassical model	influence on regional development (+ on growth, + on the alleviation youth unemployment)
average level of per capita incomes, 1999-2000-2001, EU15 = 100	yes
average level of per capita income ²	no
Country wide dyn price level conventional method	yes
country-wide dyn price level correlation method (time series correlation national price level with time axis, Eurostat structural indicators data)	yes
dummy: until 1989 communist government	yes
per cent of the population with low levels of education	no
per cent of the population with medium education	yes
Population density (inh./km ²), 2001	
population size	
Share of agriculture in total employment	yes
Share of industry in total employment	
Share of population <65+	no
predictor/ultraliberal model	influence on regional development (+ on growth, + on the alleviation youth unemployment)
average level of per capita incomes, 1999-2000-2001, EU15 = 100	yes
average level of per capita income ²	no
Country wide dyn price level conventional method	no
country-wide dyn price level correlation method (time series correlation national price level with time axis, Eurostat structural indicators data)	no
dummy: until 1989 communist government	yes

per cent of the population with low levels of education	
per cent of the population with medium education	
Population density (inh./km ²), 2001	
population size	
Share of agriculture in total employment	
Share of industry in total employment	
Share of population <65+	
predictor/regional agglomeration + dependency model	influence on regional development (+ on growth, + on the alleviation youth unemployment)
average level of per capita incomes, 1999-2000-2001, EU15 = 100	no
average level of per capita income ²	yes
Country wide dyn price level conventional method	yes
country-wide dyn price level correlation method (time series correlation national price level with time axis, Eurostat structural indicators data)	yes
dummy: until 1989 communist government	no
per cent of the population with low levels of education	no
per cent of the population with medium education	yes
Population density (inh./km ²), 2001	yes
population size	yes
Share of agriculture in total employment	no
Share of industry in total employment	yes
Share of population <65+	

The empirical results are the following:

Table 5.4: the multivariate determinants of economic growth and youth unemployment in Europe's regions

	growth t-test and direction of influence	growth error probability	youth unemployment error probability	youth unemployment error probability
average level of per capita income ²	3,456	0,001	-0,320	0,749
average level of per capita incomes, 1999-2000-2001, EU15 = 100	-4,903	0,000	2,226	0,027
Country wide dyn price level conventional method	-0,292	0,771	0,499	0,618
country-wide dyn price level corr method	-1,345	0,180	1,834	0,068
dummy: until 1989 communist government	-3,022	0,003	4,295	0,000

per cent of the population with low levels of education	-7,137	0,000	3,224	0,001
per cent of the population with medium education	3,829	0,000	-3,601	0,000
Population density (inh./km ²), 2001	6,351	0,000	-3,720	0,000
population size	-5,724	0,000	-1,983	0,048
Share of agriculture in total employment	-2,902	0,004	1,498	0,135
Share of industry in total employment	2,942	0,004	-0,100	0,920
Share of population <65+	-2,301	0,022	-6,232	0,000

This yields the following results:

Table 5.5: a schematic representation of the causal effects

causal influence on regional development in Europe	significant effects on growth	significant effects on the alleviation of youth unemployment
Share of population <65+	-	+
Population density (inh./km ²), 2001	+	+
per cent of the population with medium education	+	+
population size	-	+
average level of per capita income ²	+	
Share of industry in total employment	+	
Country wide dyn price level conventional method		
Share of agriculture in total employment	-	
country-wide dyn price level corr method		-
average level of per capita incomes, 1999-2000-2001, EU15 = 100	-	-
per cent of the population with low levels of education	-	-
dummy: until 1989 communist government	-	-

These results fit in with the theoretical assumptions, explained in Table 5.3 above, in the following way:

Table 5.6: the explanatory power of different theories to explain regional development in Europe. A summary of our politometric results

causal influence on regional development in Europe	significant effects on growth	Heidenreich explanation of growth	neoclassical explanation of growth	ultraliberal explanation of growth	regional agglomeration + dependency model - growth
average level of per capita incomes, 1999-2000-2001, EU15 = 100	-	rejected	rejected	rejected	confirmed
average level of per capita income ²	+	rejected	rejected	rejected	confirmed
Country wide dyn price level conventional method			rejected	rejected	rejected
country-wide dyn price level corr method			rejected	rejected	rejected
dummy: until 1989 communist government	-		rejected	rejected	confirmed
per cent of the population with low levels of education	-	rejected	confirmed		confirmed
per cent of the population with medium education	+		confirmed		confirmed
Population density (inh./km ²), 2001	+	rejected			confirmed
population size	-	confirmed			rejected
Share of agriculture in total employment	-	rejected	rejected		confirmed
Share of industry in total employment	+	rejected	rejected		confirmed
Share of population <65+	-		confirmed		
causal influence on regional development in Europe	significant effects on the alleviation of youth unemployment	Heidenreich explanation of youth unemployment	neoclassical explanation of youth unemployment	ultraliberal explanation of youth unemployment	regional agglomeration + dependency model - youth unemployment
average level of per capita incomes, 1999-2000-2001, EU15 = 100	-	rejected	rejected	rejected	confirmed
average level of per capita income ²		rejected	rejected	rejected	rejected
Country wide dyn price level conventional method			rejected	rejected	rejected
country-wide dyn price level corr method	-		rejected	confirmed	rejected
dummy: until 1989 communist government	-		rejected	rejected	confirmed
per cent of the population with low levels of education	-	rejected	confirmed		confirmed
per cent of the population with medium education	+		confirmed		confirmed
Population density (inh./km ²), 2001	+	rejected			confirmed
population size	+	rejected			confirmed
Share of agriculture in total employment		rejected			rejected
Share of industry in total employment		rejected			rejected
Share of population <65+	+		rejected		

In the final analysis, these results compare with the following main results, reported in the other Chapters of this study, in the following fashion. In order to be able to properly interpret the different results, we already took care of the many different implicit directions of the indicators etc. Significant t-values from our multiple regressions, supporting the **pro-globalist policies of the Commission**, are printed in **blue bold letters**, while results, clearly supporting the **anti-globalization movements**, are printed in **red, bold, and indented letters**.

Considering other important intervening factors, like development levels and human capital formation, the ultraliberal thinking inherent in the **Bolkestein directive** that should lead to a considerable **lowering of price levels** in the formerly “non-tradable” sectors of services in Europe would be certainly **compatible with some aspects of growth and better employment** (and thus also gender relations), but our three main other indicators of globalization, i.e. high foreign saving, “economic freedom” and high MNC penetration ratios, are still very systematically linked with severe deficits in the social sphere, whatever the research design chosen. And in addition, powerful forces of agglomeration propel Europe in the direction of further regional income concentration and inequality, thus blocking the hopes of the poorer segments of the East European new member countries. A process of catching up development (“Balassa/Samuelsón”) seems under these conditions a remote hope.

Table 5.7: the main economic policy conclusions of our study – t-values and direction of significant predictors in multiple regressions

determination of ... by (static formulation) – nation states, world system (R² in brackets)	by foreign saving	economic freedom	MNC PEN	low international price level	EU-15 membership
human development index (91.14 %)	-3,61	-5,49	-1,84		
freedom from a high infant mortality (81.74 %)	-5,21	-6,64	-2,81		
gender empowerment (80.84 %)	+1,81			+2,06	
life expectancy (72.82 %)					
freedom from high CO2 emissions (62.09 %)	-2,86	-4,05	-2,45		
economic growth (28.36 %)			3,94		
determination of ... by (dynamic formulation) – nation states, world system (R² in brackets)	by foreign saving	economic freedom	MNC PEN	low international price level	DYN MNC PEN
dyn rank human development index (30.77 %)			-4,47	+2,40	+2,23
economic growth (38.08 %)	-3,68		-4,49		+1,95
determination of ... by (dynamic formulation) – Europe’s regions (R² in brackets)	population density	population size	free from communist past	Downward flexibility of price levels, corr method	industrial employment
economic growth (36.25 %)	6,3	-5,7	3		2,9
alleviation of youth unemployment (46.28 %)	3,7	2	4,3	1,8	

Table 5.8: The multivariate results for regional development in Europe, talking changes in the price level properly into account: the multiple regressions

Economic growth	Population size	Population density (inh./km ²), 2001	Agriculture	Industry	average 1999-2000-2001, EU15 = 100	65+	Education low	education medium	communist government until 1989	average income^2	dyn price level corr method	dyn price level conventional method	constant
	-0,0797	1,7818	-0,0002	1,1681	-0,0721	-0,0319	-0,2457	0,0536	-0,0450	0,0578	-0,0002	0,0000	8,9716
	0,0139	0,2806	0,0001	0,3971	0,0147	0,0139	0,0344	0,0140	0,0149	0,0167	0,0001	0,0000	1,4148
	0,3625	1,4225											
	14,9721	316,0000											
	363,5396	639,4020											
t-test and direction of influence	-5,7238	6,3510	-2,9018	2,9417	-4,9028	-2,3006	-7,1373	3,8292	-3,0218	3,4563	-1,3453	-0,2915	6,3413
t-test and direction of influence^2	32,7623	40,3354	8,4205	8,6534	24,0376	5,2927	50,9416	14,6626	9,1310	11,9463	1,8097	0,0850	40,2118
t-test and direction of influence^0,5	5,7238	6,3510	2,9018	2,9417	4,9028	2,3006	7,1373	3,8292	3,0218	3,4563	1,3453	0,2915	6,3413
degrees of freedom	316,0000	316,0000	316,0000	316,0000	316,0000	316,0000	316,0000	316,0000	316,0000	316,0000	316,0000	316,0000	316,0000
error probability	0,0000	0,0000	0,0040	0,0035	0,0000	0,0221	0,0000	0,0002	0,0027	0,0006	0,1795	0,7708	0,0000
F equation	14,9721	14,9721	14,9721	14,9721	14,9721	14,9721	14,9721	14,9721	14,9721	14,9721	14,9721	14,9721	14,9721
error probability, entire equation	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000

Legend: In this and in all following tables, very small decimal numbers are abridged according to established mathematical conventions, contained in the EXCEL routine. For example, a number 0,000141972 will be abridged to 1E-04, i.e. a decimal number rounded to 0,0001 and starting at the fourth number after the decimal point with three zeros after the comma. A number 9E-10 equals thus a decimal number with 9 zeros after the comma, i.e. 0,0000000009. All our EXCEL 7.0 calculations are from UNDP and other data sources, quoted above.

As in all EXCEL 7.0 outprints, first row: un-standardized regression coefficients, second row: standard errors, second last row: t-Test and direction of the influence; last row: error probability. The values immediately below the standard errors are R² (third row, left side entry), F, and degrees of freedom (fourth row). Below that: ss_{reg}; ss_{resid}, i.e. the sum of squares of the regression and the sum of squares of the residuals. The right-hand entry in the third row is the standard error of the estimate y.

Youth unemployment

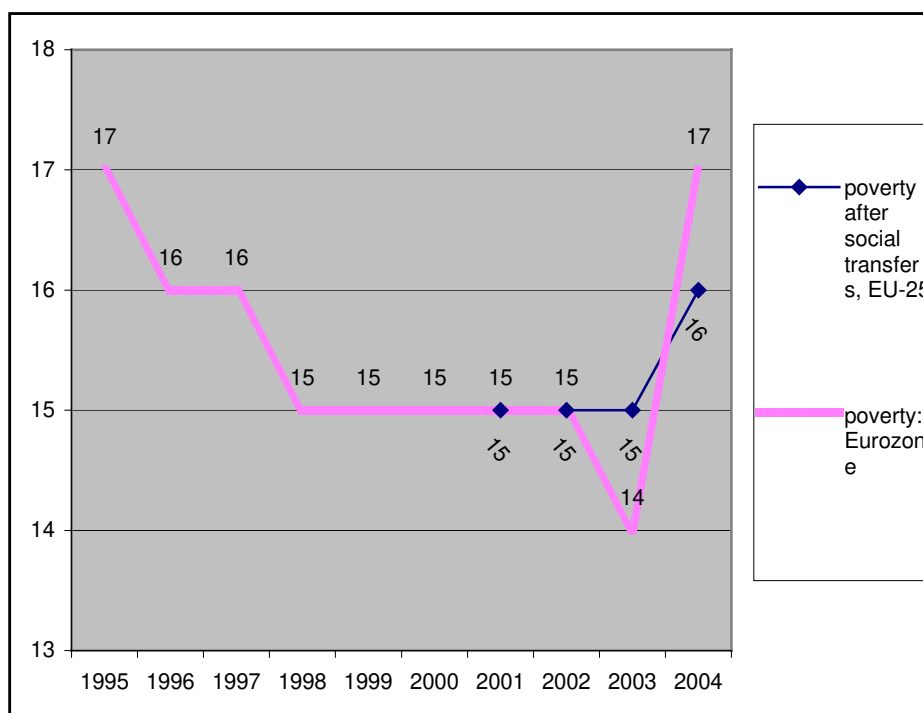
Country	average level of per capita incomes, 1999-2000-2001, EU15 = 100	average level of per capita income^2	country-wide dyn price level corr method	Country wide dyn price level conventional method	Share of agriculture in total employment	Share of industry in total employment	per cent of the population with medium education	population size	Population density (inh./km ²), 2001	per cent of the population with low levels of education	dummy: until 1989 communist government	Share of population <65+	constant
	0,5381	-1,0662	0,1670	0,0005	0,0001	-0,0101	-0,3480	-0,2121	-0,3600	6,4617	0,0020	-0,6482	56,6600
	0,2418	3,3295	0,0910	0,0010	0,0001	0,1010	0,0966	0,1070	0,0968	2,0040	0,0005	0,1040	9,7003
	0,4628	9,4393											
	22,2576	310,0000											
	23797,7535	27620,9319											
t-test and direction of influence	2,2256	-0,3202	1,8344	0,4993	1,4977	-0,1003	-3,6011	-1,9832	-3,7196	3,2244	4,2950	-6,2316	5,8411
t-test and direction of influence^2	4,9533	0,1025	3,3651	0,2493	2,2431	0,0101	12,9676	3,9330	13,8353	10,3970	18,4470	38,8329	34,1179
t-test and direction of influence^0,5	2,2256	0,3202	1,8344	0,4993	1,4977	0,1003	3,6011	1,9832	3,7196	3,2244	4,2950	6,2316	5,8411

degrees of freedom	310,0000	310,0000	310,0000	310,0000	310,0000	310,0000	310,0000	310,0000	310,0000	310,0000	310,0000	310,0000	310,0000
error probability	0,0268	0,7490	0,0675	0,6179	0,1352	0,9202	0,0004	0,0482	0,0002	0,0014	0,0000	0,0000	0,0000
F equation	22,2576	22,2576	22,2576	22,2576	22,2576	22,2576	22,2576	22,2576	22,2576	22,2576	22,2576	22,2576	22,2576
error probability, entire equation	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000

6. Conclusion – learning from Latin America

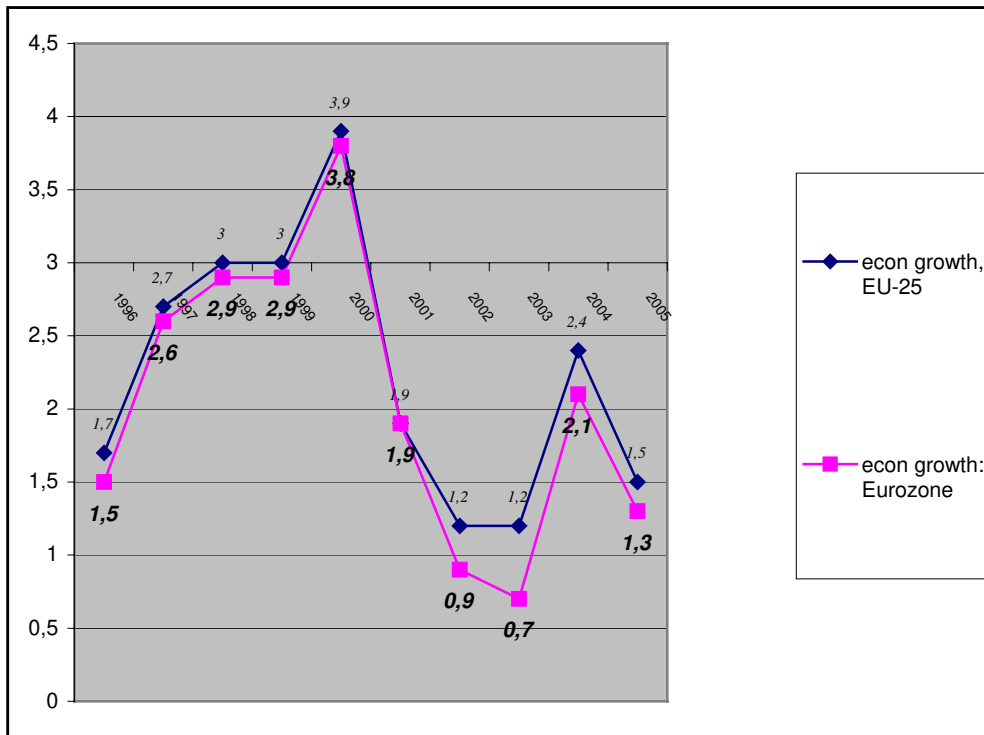
Based upon solid quantitative evidence, this essay has shown the profound development crisis that the European continent is facing. The quantitative evidence presented both at a cross national level as well as the massive data presented in this work on increasing globalization and increasing inequality all seem to conform to the original Bornschierean paradigm that the long-term effects of MNC PEN are very negative, short-term spurts of growth notwithstanding. The latest Eurostat-data confirm our analysis both for the EU-25 as well as the Euro-zone. From the very start, Europe, and especially the Euro-zone, dismally fails the Lisbon agenda:

Graph 6.1: the growing polarization in Europe according to Eurostat, 2006



Legend: based on Eurostat, structural indicators, February 2, 2006, available at:
http://epp.eurostat.ec.eu.int/portal/page?_pageid=1133,47800773,1133_47803568&_dad=portal&_schema=PORTAL

Graph 6.2: the growing stagnation in Europe according to Eurostat, 2006



Legend: based on Eurostat, structural indicators, February 2, 2006, available at:
http://epp.eurostat.ec.eu.int/portal/page?_pageid=1133,47800773,1133_47803568&_dad=portal&_schema=PORTAL

In many ways, it can be suggested that Latin America holds the mirror to Europe's future, and that Europe now seems to undergo the very same neo-liberal shock treatments that failed in Latin America.

With the late Andre Gunder Frank, we are inclined to predict a more thorough development crisis of the European continent, that seems to correspond to much more long-term shifts in the capitalist world economy, that bring back the dynamics of the entire system back to Asia, from these dynamics shifter by around 1750.

It is to be hoped that European decision makers find the courage to go back to the beginnings of the successful European development model – i.e. social reform, mass demand, import substitution and social protection.

There is a lot that Europe can learn from Latin America, and there is also a lot Europe can learn from all the economic theories in the wake of the contributions by the great Raul Prebisch.

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Sources provided by the ILO, the UTIP project at the University of Texas, and the World Bank were used in this essay. These analyses of the dynamics in the world system calculated the time series correlations 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, Their indices of inequality, based on wages in 21 economic sectors) since 1980.

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