

# theLisbonCouncil

making Europe fit for the future

## **The 2005 Ludwig Erhard Lecture**

The Honourable Raghuram Rajan  
Economic Counsellor, International Monetary Fund  
Residence Palace, Brussels  
08 December, 2005

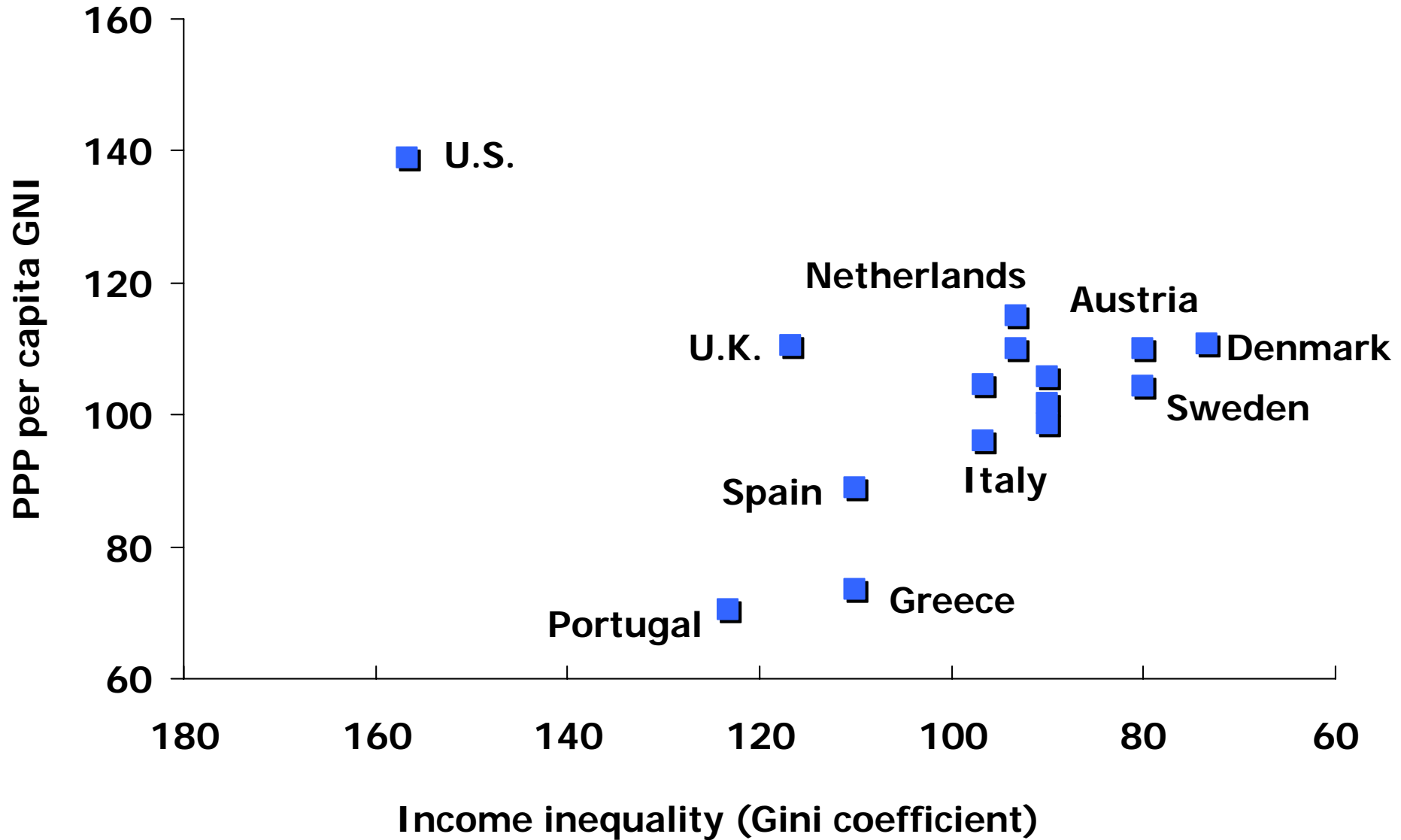


**2005 Ludwig Erhard Lecture  
Revitalizing Reforms in Europe**

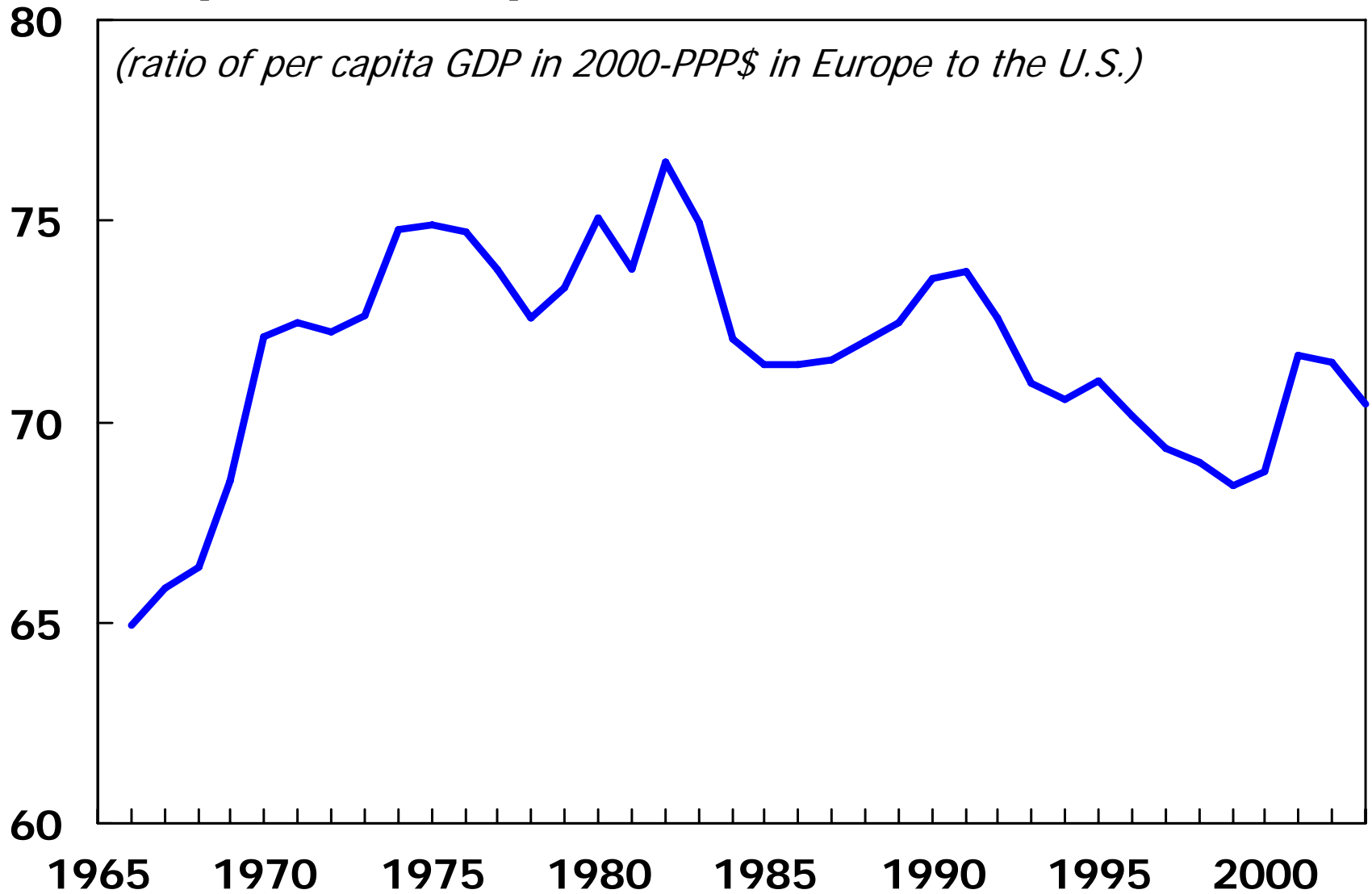
**December 8, 2005**

# Income per Capita and Income Inequality

*(EU-15 = 100)*



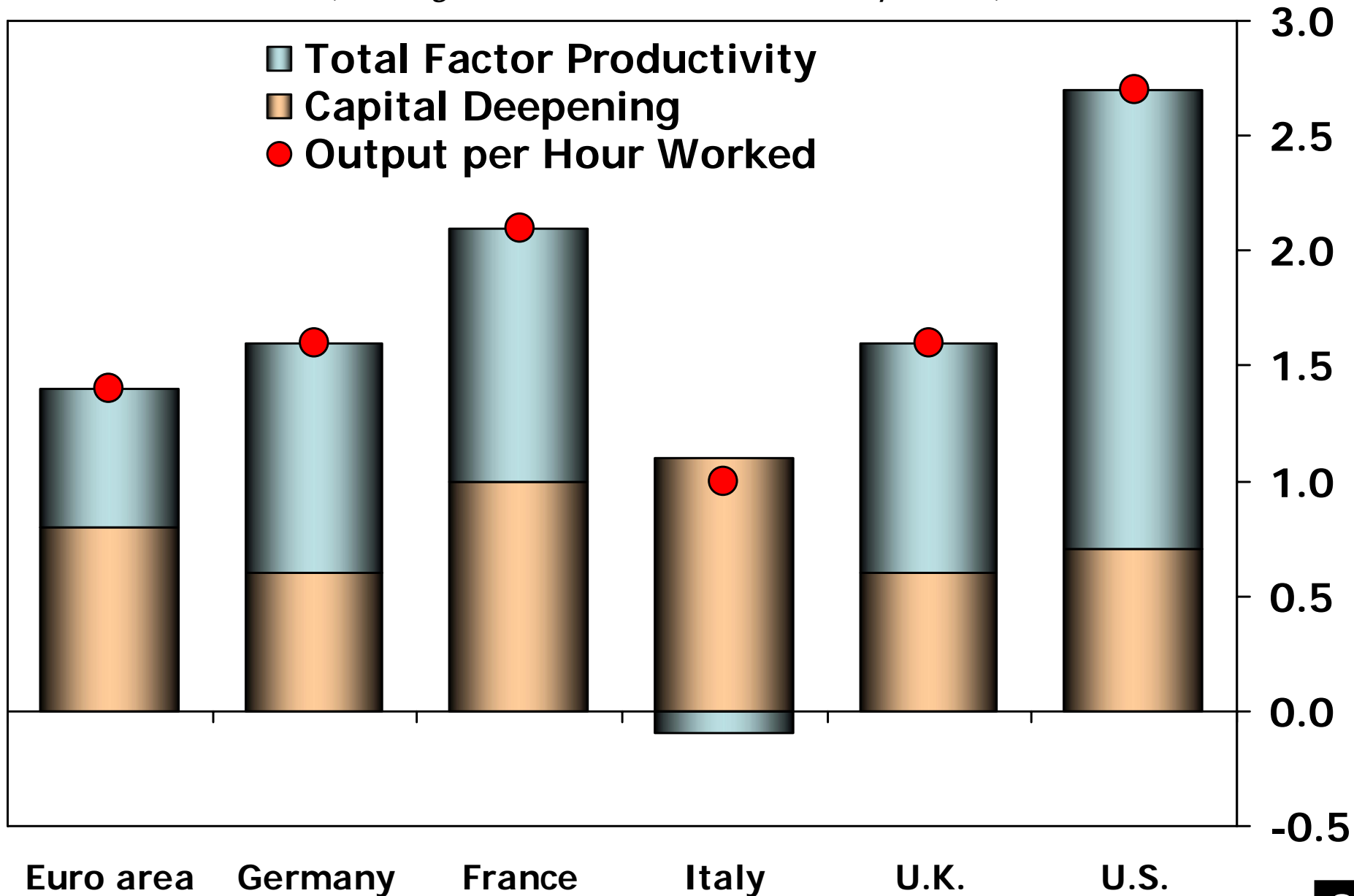
# Europe: Per Capita GDP Relative to the U.S.



Source: OECD Economic Outlook.

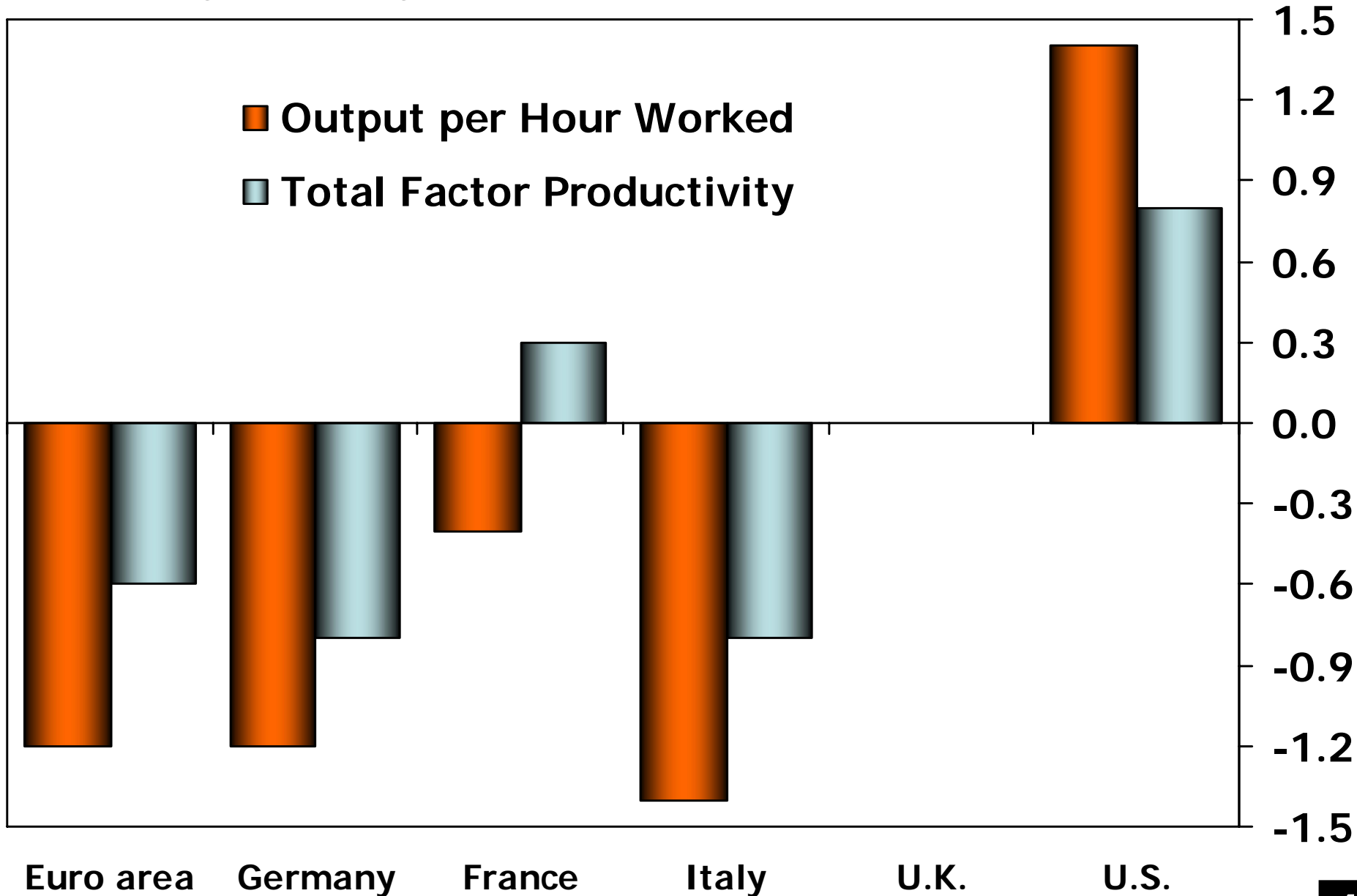
# Labor Productivity and Total Factor Productivity

*(trend growth rates; 1996-2004; in percent)*

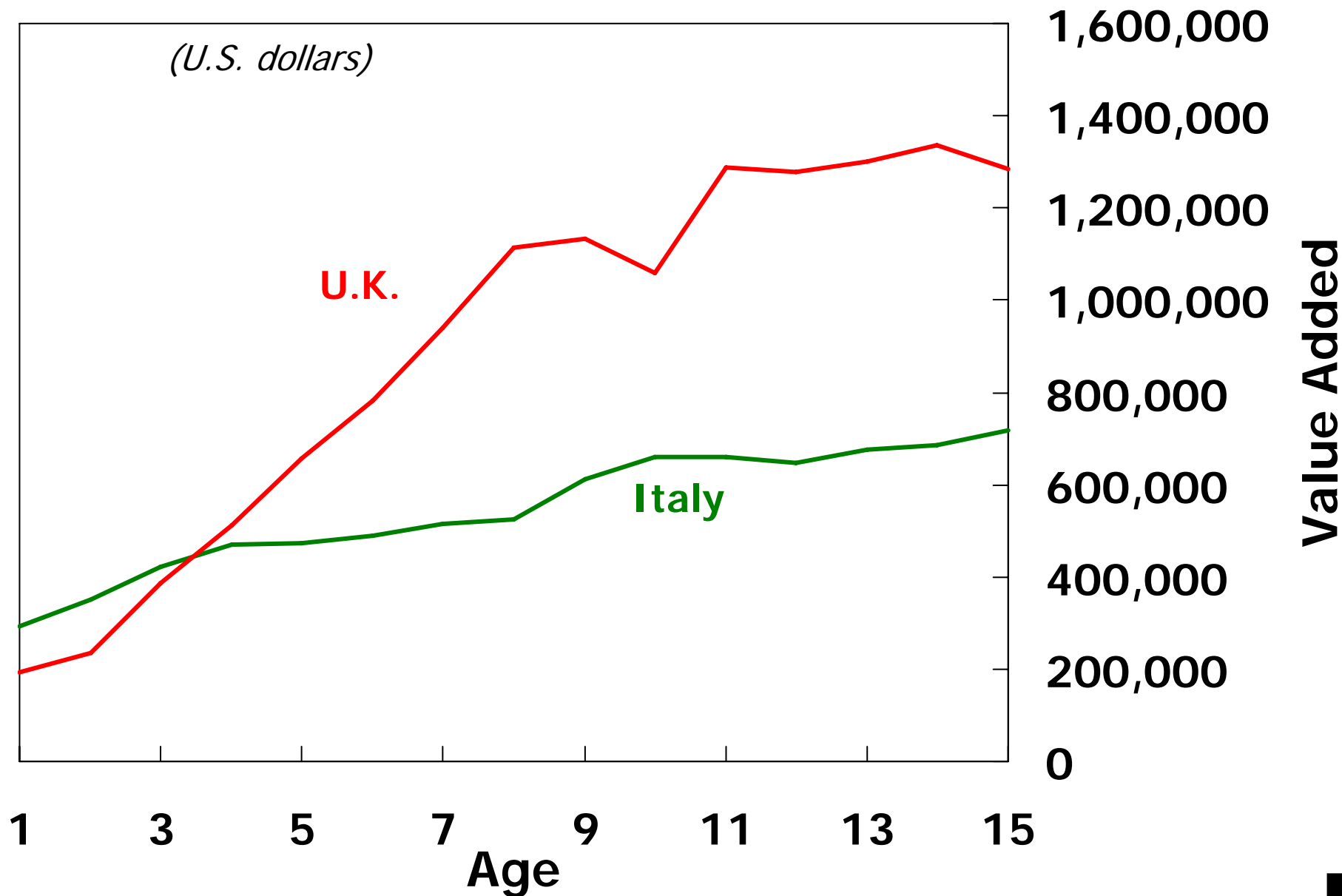


# Labor Productivity and Total Factor Productivity

*(changes in trend growth rates from 1986-95 to 1996-2004; in percent)*

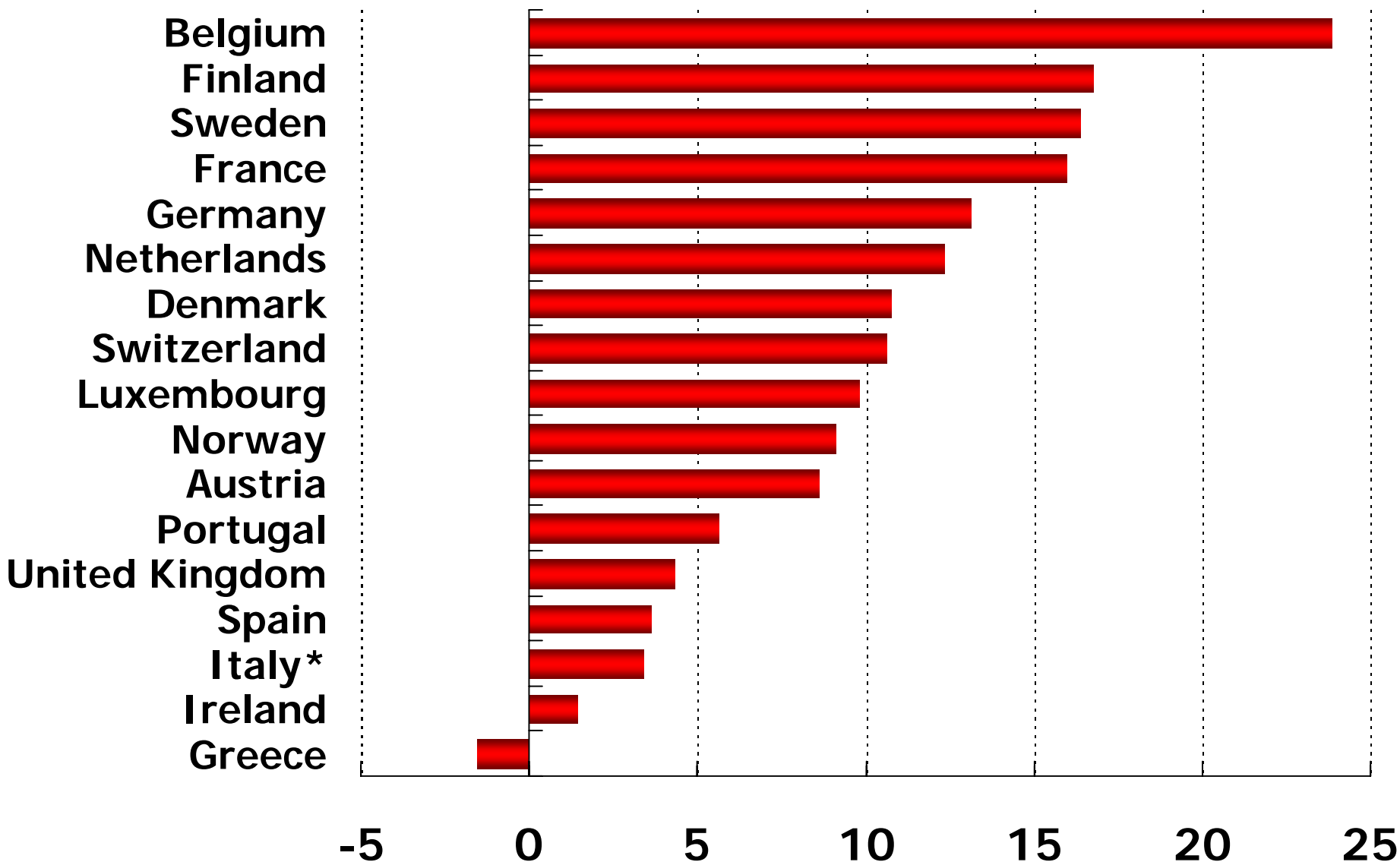


# Italy and U.K.: Comparison of Firms' Age and Size



# Unemployment Rates of Foreigners and Nationals

*(differences in unemployment rates between foreigners and nationals; 2004-2005; in percent)*

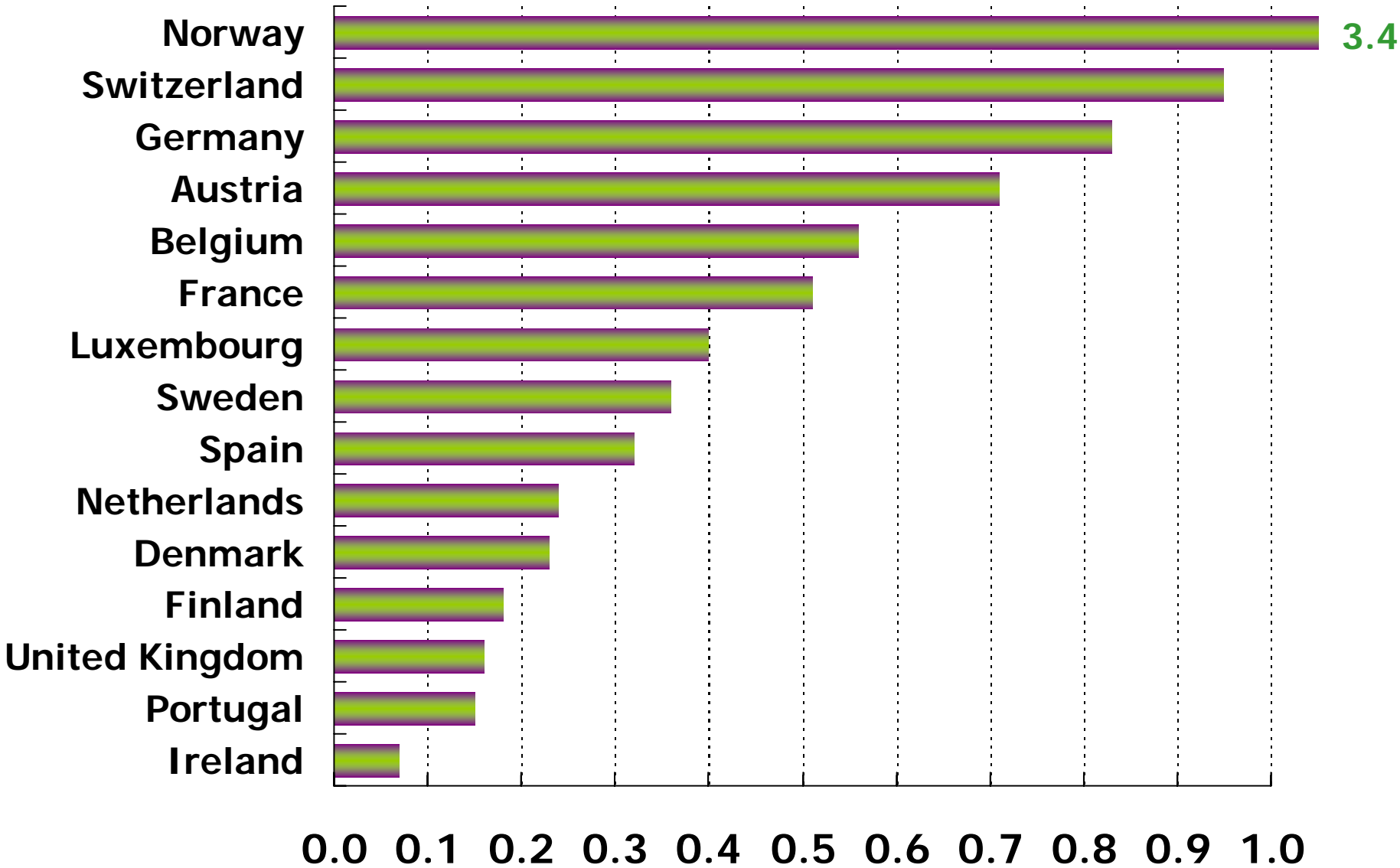


\* Data for 2000-2001.



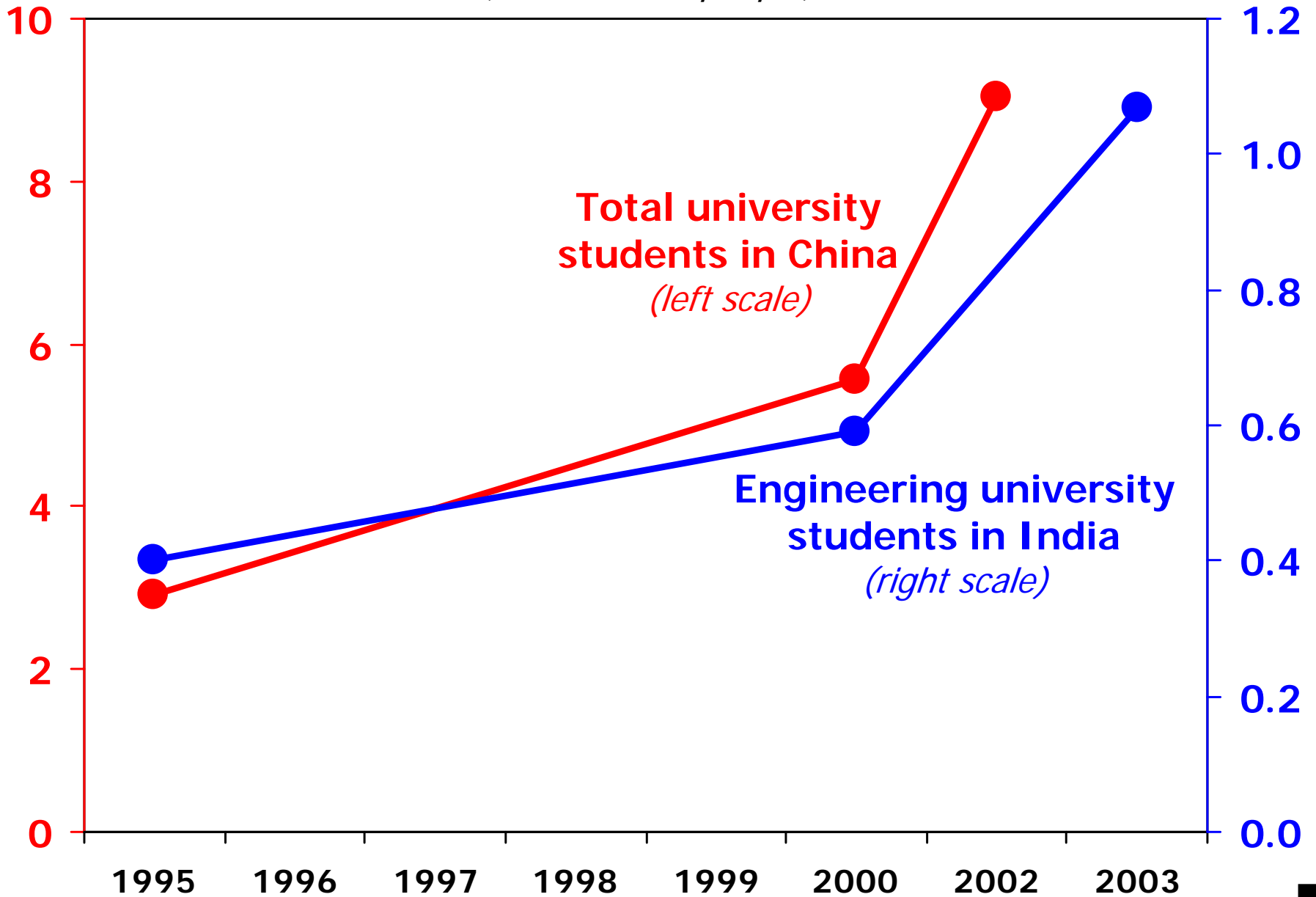
# Number of Jobs to Be Created to Absorb the Discrepancy

*(in percent of total labor force; 2004-2005; in percent)*



# University Enrollment: China and India

*(in millions of people)*

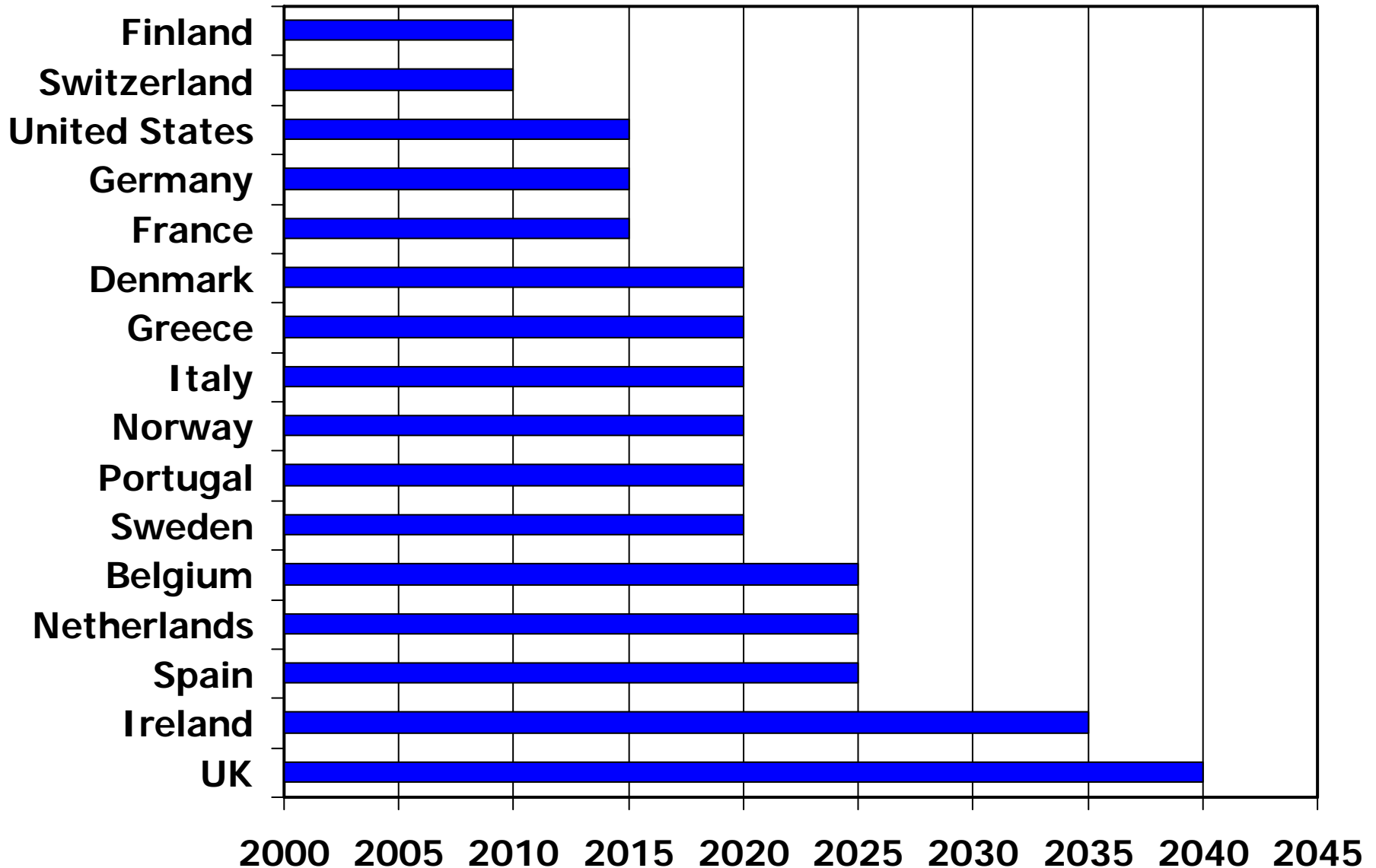


# Tata Avia Car



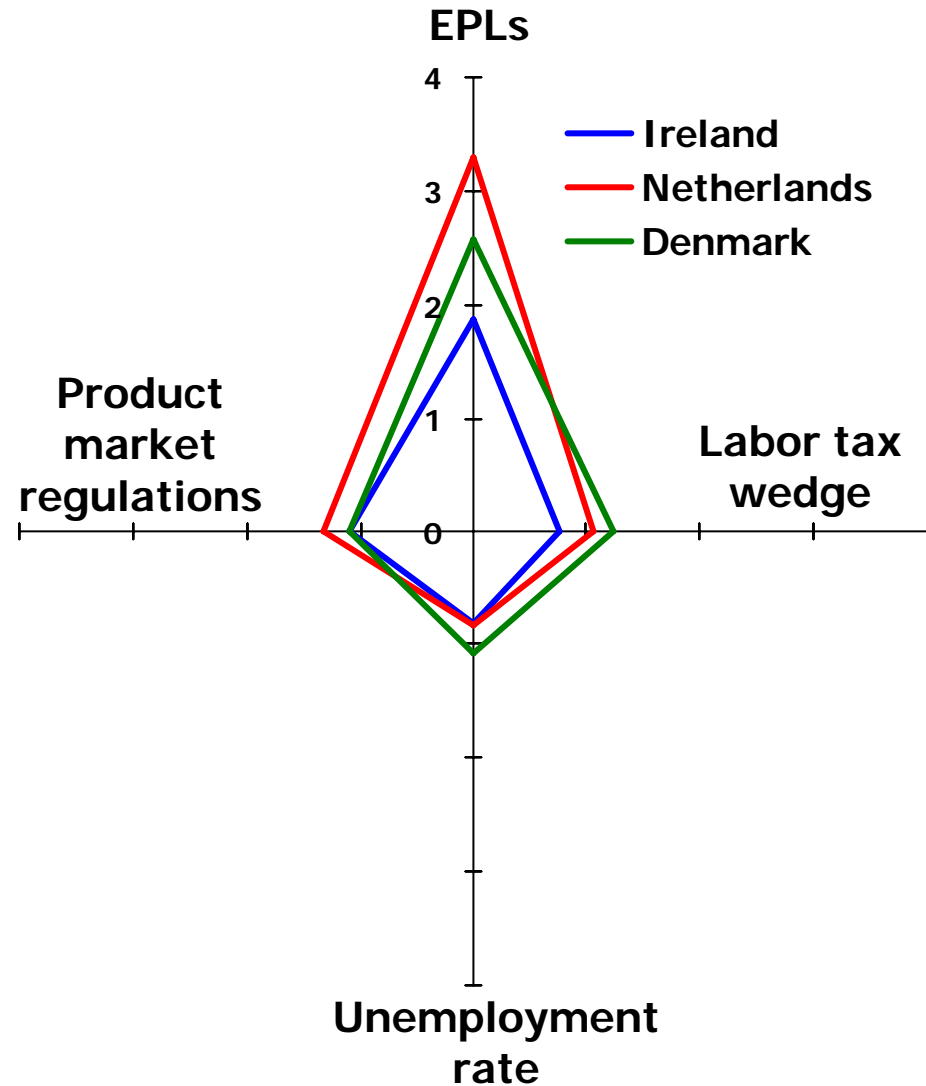
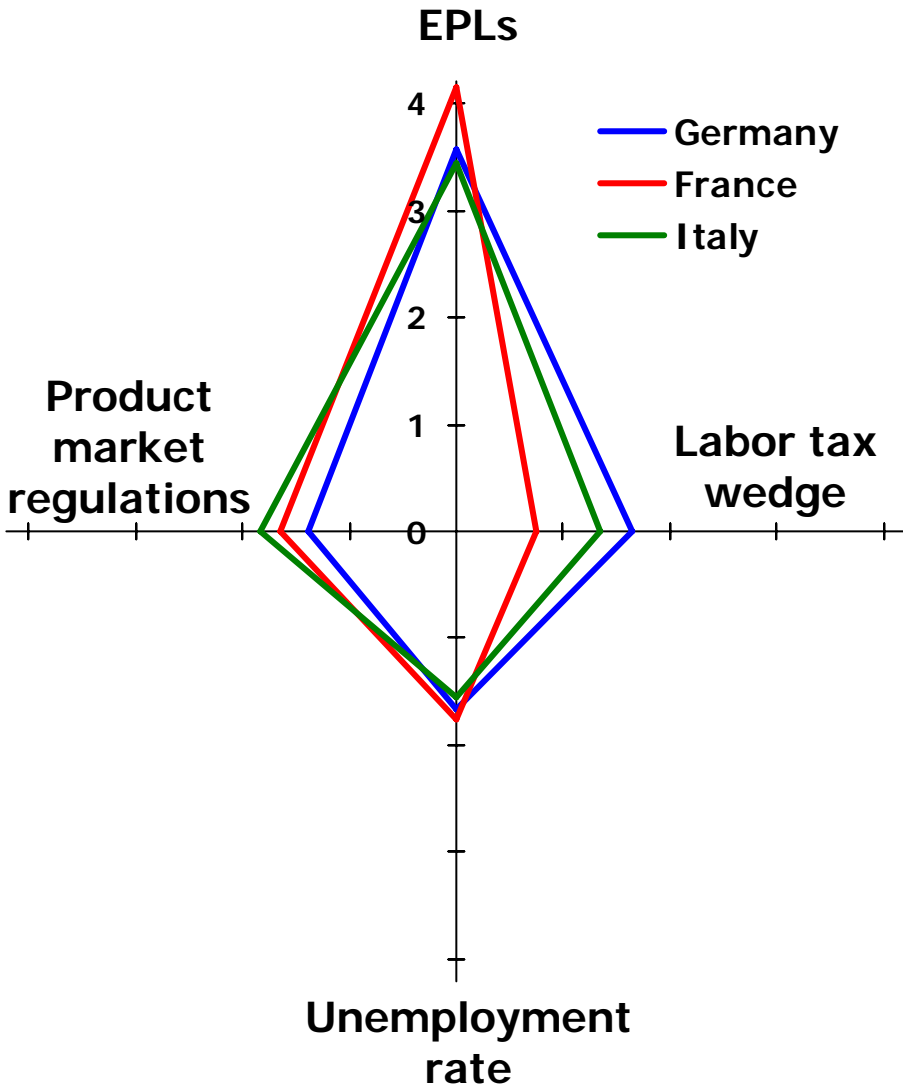
# The Last Train for Pension Reform Departs on...

*(Year in which voters aged 50 and older comprise at least 50.1% of all voters)*



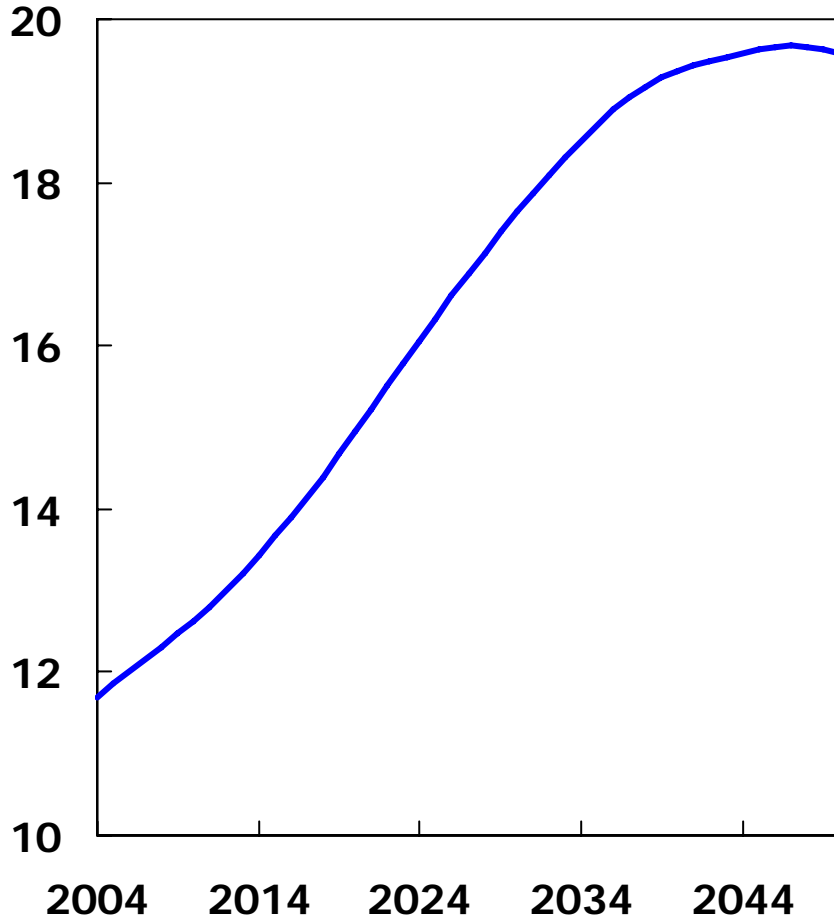
# Labor Markets and Structural Reforms

*(structural indicators relative to the U.S.; U.S. = 1)*

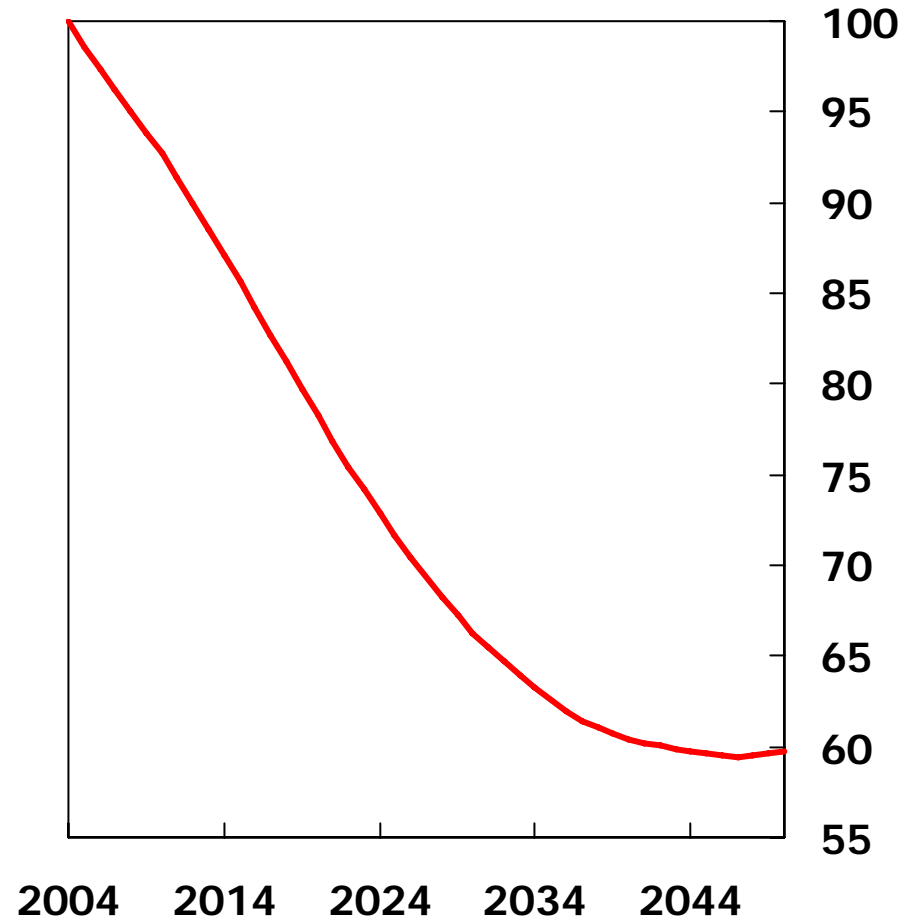


# Euro Area: Public Finances

**Pension Spending-GDP Ratio  
Assuming Full Passthrough of  
Population Aging to Spending**

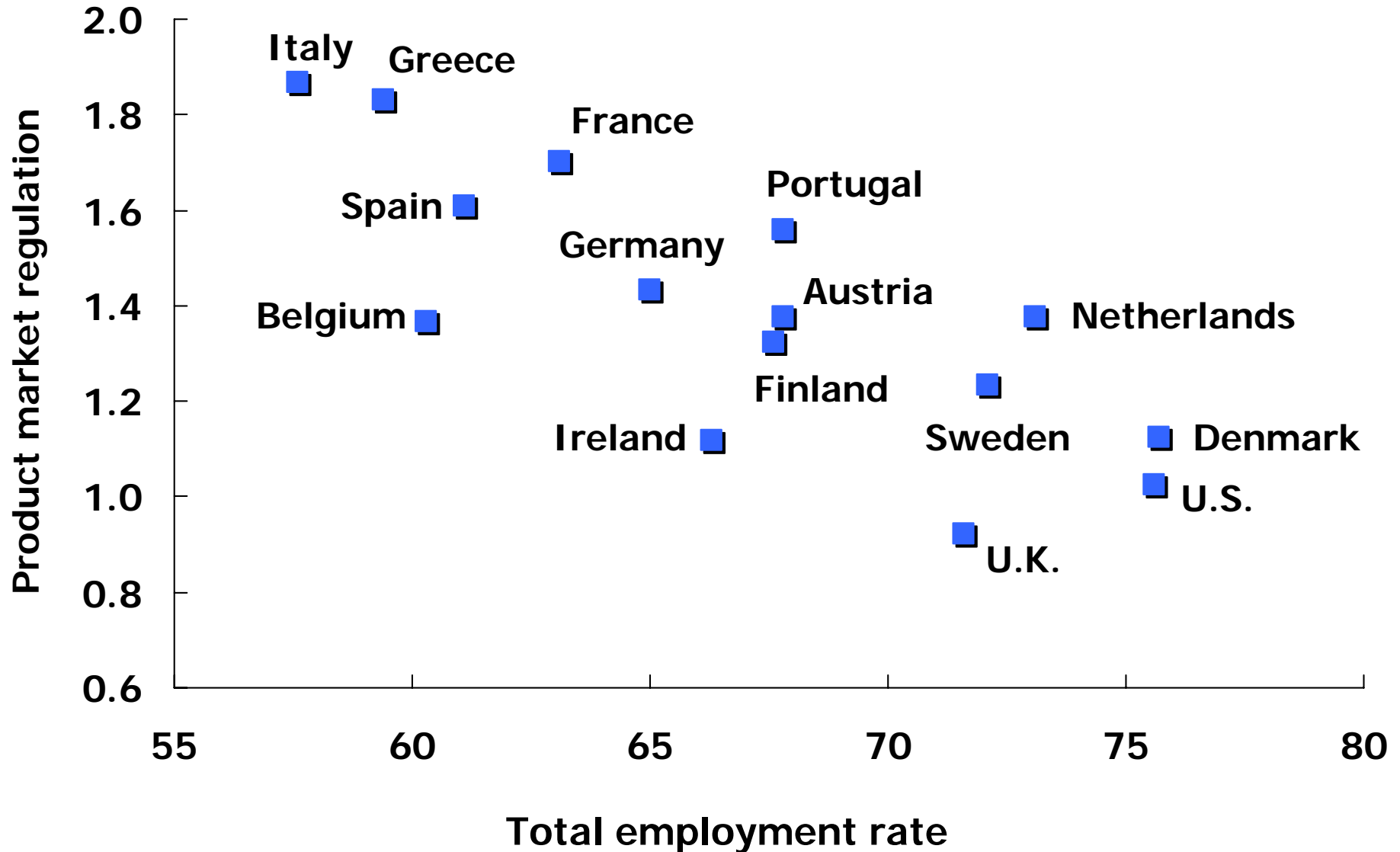


**Required Cuts in Average Pension  
(2004=100) to Stabilize Pension  
Spending-GDP Ratio at 2004 Level**



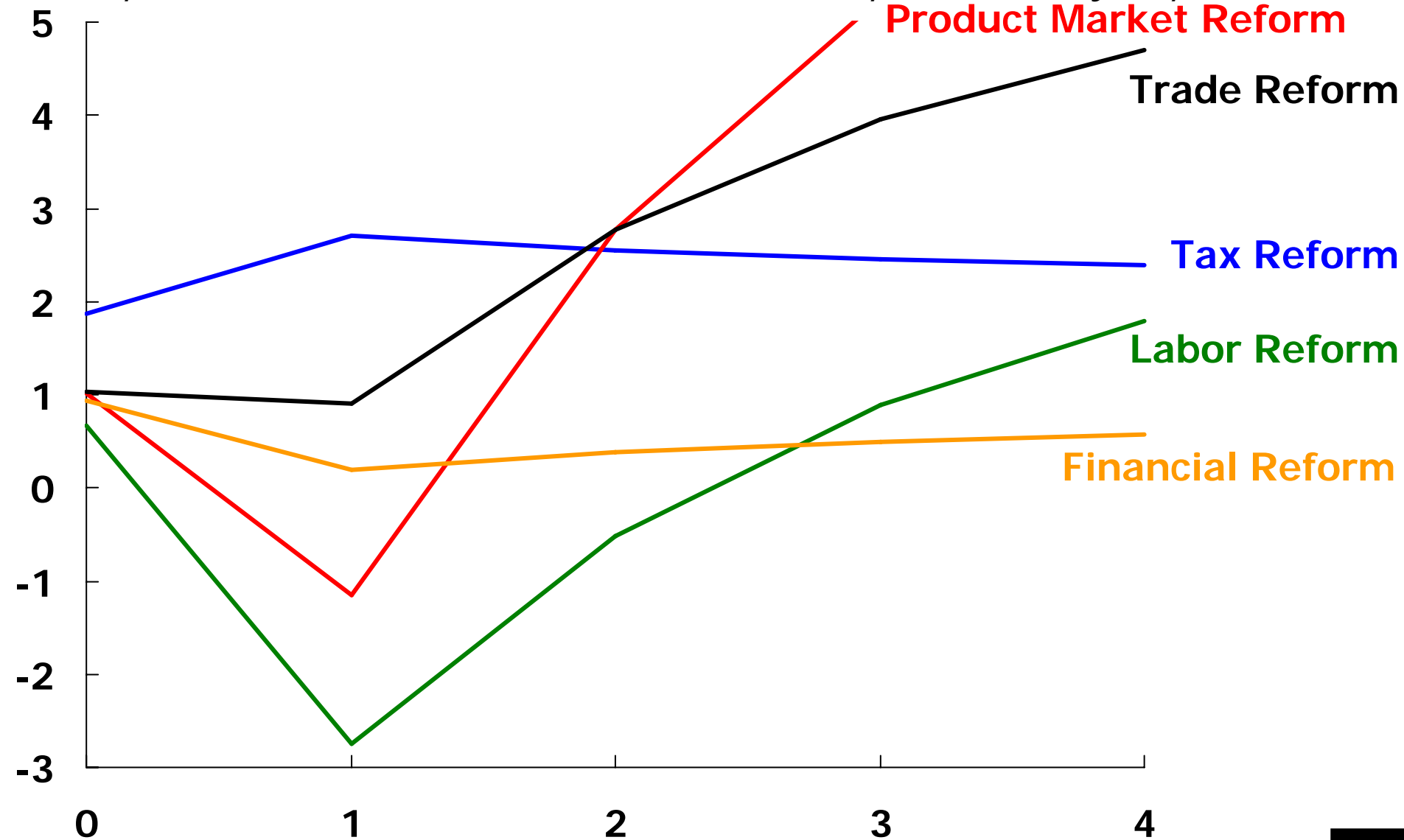
# Employment and Product Market Regulations

*(EU-15 = 100)*



# Response of Real GDP Per Capita to a One-Standard-Deviation Increase in Reform Indicators

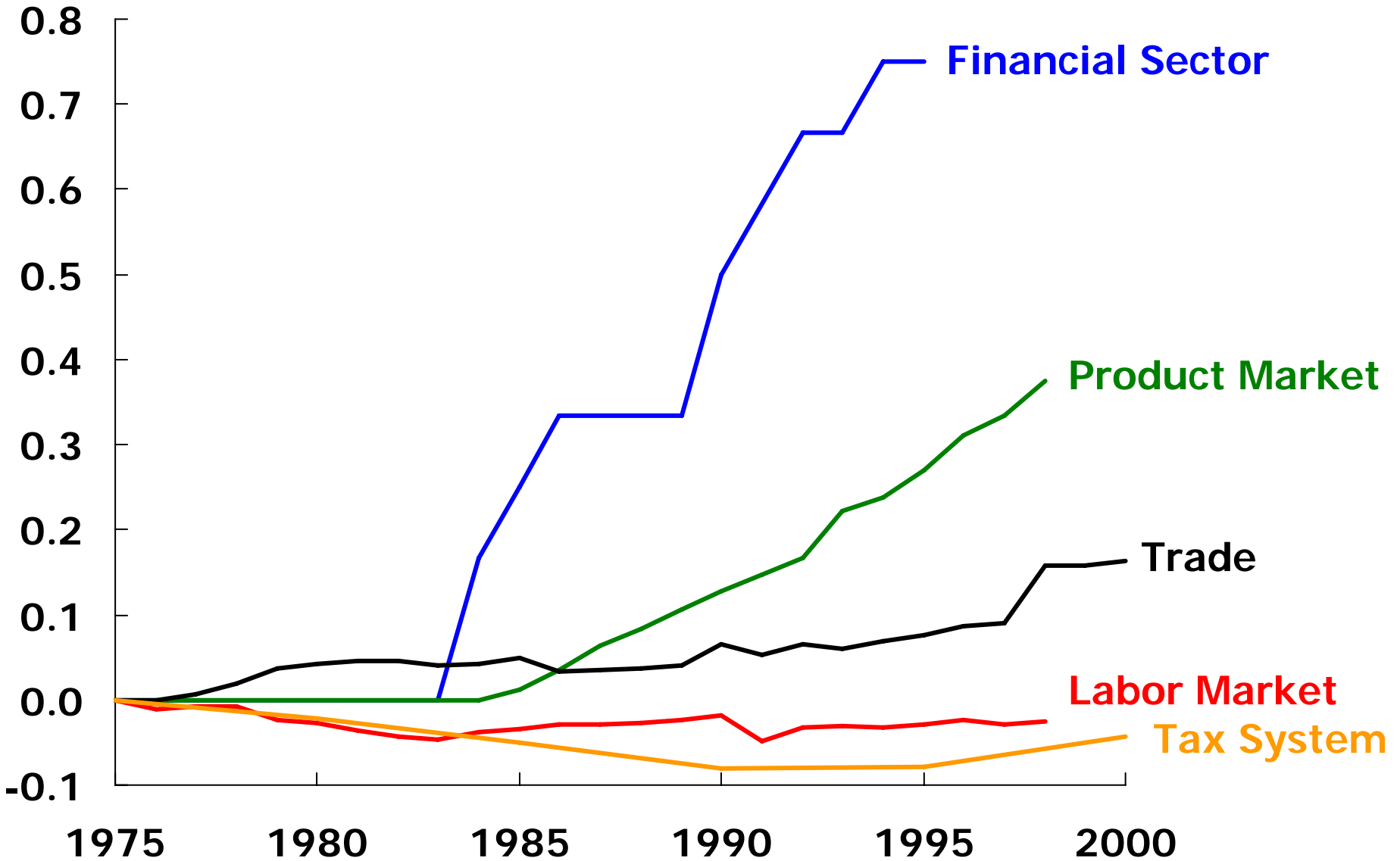
*(percent; cumulative effects; x-axis time units represent three-year periods)*





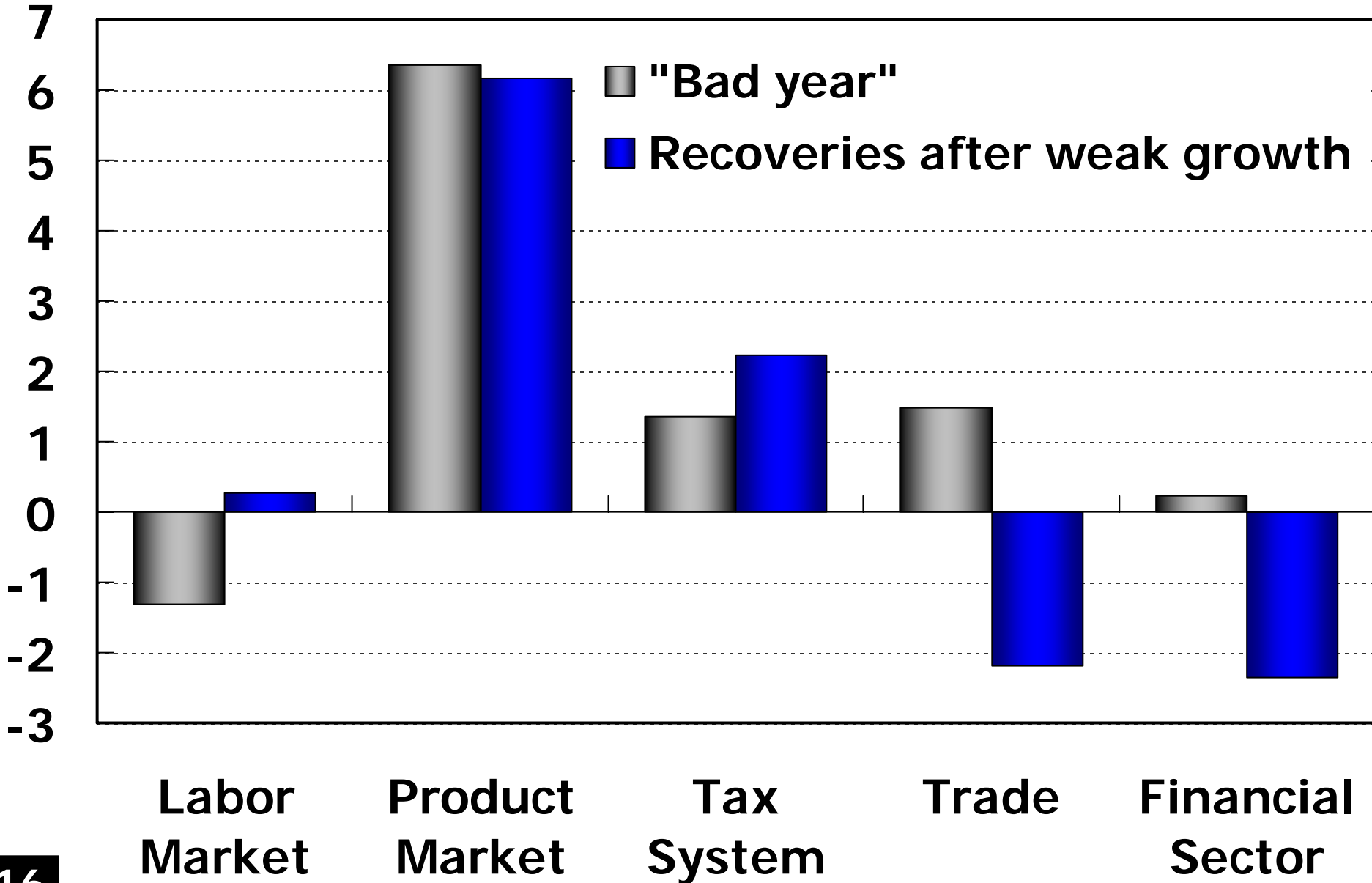
# Cumulative Reform Efforts Across Sectors

*(cumulative changes in structural policy indicators from 1975)*



# More Reforms in Bad Times?

*(average reforms in bad times minus reforms in good times multiplied by 1000; 1982-98)*

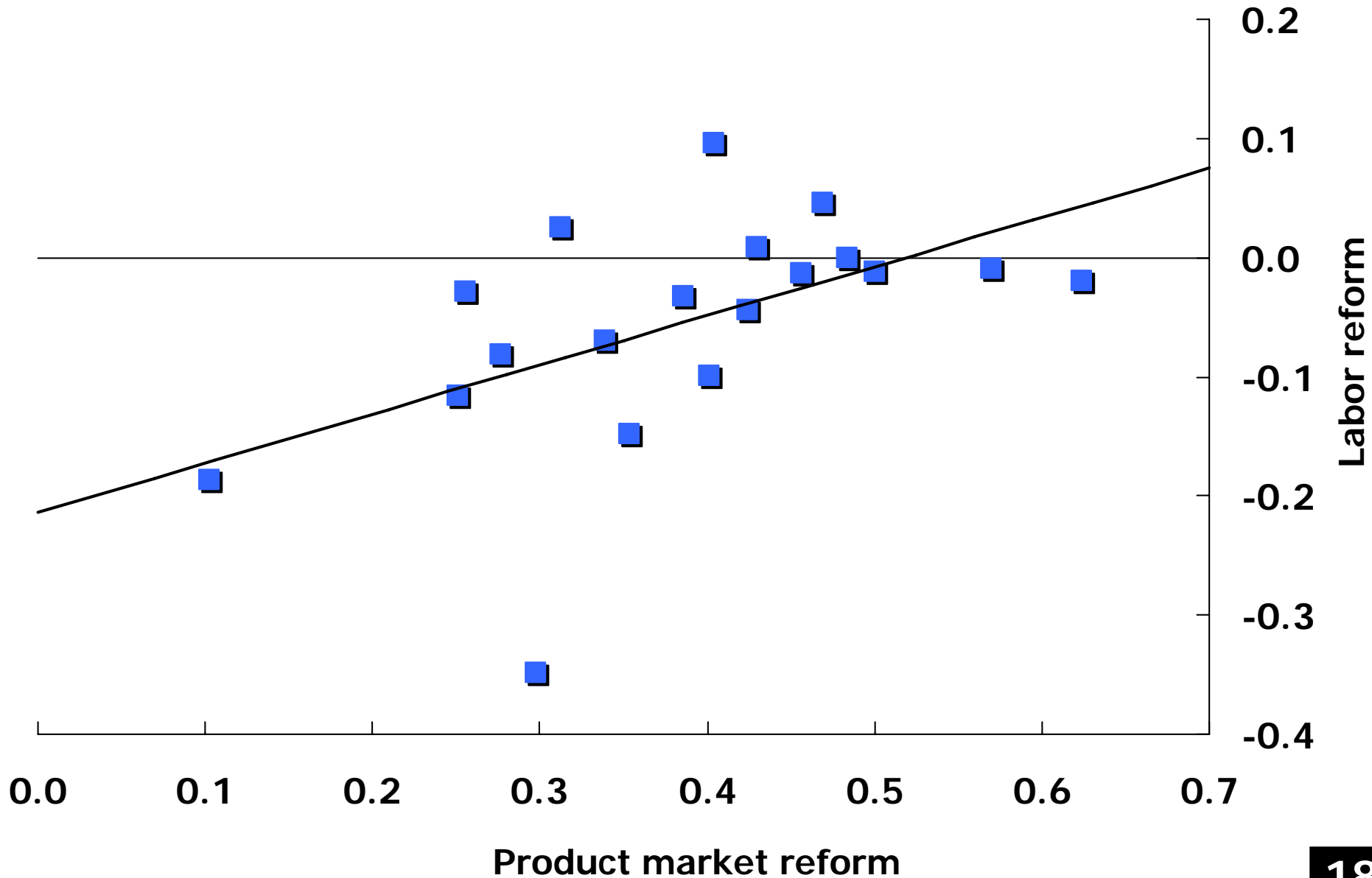


# Lessons

- 1. Bad times are good times for reforms**
- 2. Government money helps**
- 3. Build commitment through external fora**
- 4. Preannounce**
- 5. The easiest path between two points is not a straight line**

# Product and Labor Market Reforms

*(changes in structural policy indicators; 1982-98)*



# Lessons

6. **Protect the worst affected**
7. **Get the camel's nose under the tent**
8. **Involve the middle class**
9. **If it is to be done, do it early**
10. **Don't let short term policy be the enemy of long term structural change**