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The UK: better than the eurozone – but worse than other Anglophone economies

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INTRODUCTION

The UK's economy has grown well over the past 12 years. But its performance compared with the other developed economic groupings has been mixed. This Perspective, firstly, assesses the EU's economy and then compares it with the UK. The UK's performance compared with the Anglophone economies is then considered. Finally, a few references are made to international competitiveness rankings.

THE EU'S ECONOMY

There is little doubt that the EU's economy (taken as a unit) is under-performing when compared with other major economic blocs. As Ian Milne points out,[1] over the period 1996 to 2005, China will have grown by an estimated annual average of 8¼%, India by 6%, the USA by 3½% and the EU-15 by under 2½%.

It is, moreover, instructive to note that the new President of the EU Commission, José Manuel Borroso is making the revitalisation of the EU economy the top priority in his programme.[2] He has said that he will focus on jobs, research and growth. EU targets on social policy and the environment will, therefore, accordingly take a back seat. Whether Mr Borroso's proposals will be any more successful than the Lisbon agenda (dating from March 2000), which has now been recognised as making little if any progress, only time will tell. But one thing is certain. And that is that a radical policy approach to the EU economy is required if the EU is to have any chance of catching up with the economic growth rates experienced in any of the other global economic blocs. If radical reform does not occur, then the EU or, more specifically, the eurozone economies will remain stuck in the slow lane.

THE EUROZONE COMPARED WITH THE UK

Within the EU, growth rates have been very variable. Ireland, a relatively small economy, has performed impressively. But the "big three" eurozone countries – Germany, France and Italy – have grown much less well, especially since 2000.[3] The "big three" countries dominate the eurozone, accounting for nearly 70% of total GDP (see Annex Table 1). As is shown in Table 1 below, the growth of Germany and Italy is estimated to have been especially weak over the period 1996 to 2005,

TABLE 1: AVERAGE ANNUAL GDP GROWTH RATES, 1996 TO 2005, AND DIFFERENTIAL GROWTH RATES BETWEEN THE UK AND THE EUROZONE

	France	Germany	Italy	The "big three"*	Eurozone	UK
1 Average growth rate (%)	2.2	1.3	1.5	1.6	2.0	2.7
2 Differential growth rates (%) (UK minus row 1)	0.5	1.4	1.2	1.1	0.7	Na
3 GDP in 2005 (1995=100)	124.5	114.1	115.9	117.9	122.1	131.0

* Weighted average.

Source OECD, *Economic Outlook*, Volume 2004/1, June 2004. 2004 was part forecast and 2005 was fully forecast.

French growth has been better. But the UK, outside the eurozone, has performed better still. The Table also shows the differential growth rates between the UK and various eurozone entities. The difference between average British growth and average German growth is particularly striking.[4] Table 1 also includes, for each entity, the GDP in index form in 2005 (1995=100).

In Table 2, hypothetical "lost output" for the UK is calculated, if the UK had experienced the estimated growth rates of the various eurozone entities instead of the actual growth over the period 1996 to 2005. If, for example, the UK had grown at the same rate as Germany over this period, GDP would have been £142 billion (in 2001 prices) lower in 2005 than it actually was. It is not surprising that Germany's unemployment has recently hit 5 million.

If the UK had grown at the same rate as Germany between 1996 and 2005, UK GDP would have been £142 billion lower in 2005 than it actually was.

THE UK COMPARED WITH OTHER ANGLOPHONE ECONOMIES

Before there is too much complacency about the British economy's performance compared with that of the rest of the EU, it is salutary to compare the UK with the other Anglophone economies. While the UK has outperformed the big three eurozone countries, it has under-performed the other major Anglophone

TABLE 2: HYPOTHETICAL "LOST GDP OUTPUT" FOR THE UK IF IT HAD ACHIEVED GROWTH RATES OF THE EUROZONE ENTITIES (1996 TO 2005)

	If achieved French growth	German growth	Italian growth	Growth, the "big three"*	Eurozone growth	UK
UK GDP in 2005 (1995=100)	124.5	114.1	115.9	117.9	122.1	(131.0)
Ratio of hypothetical to actual growth (%)	95.0	87.1	88.5	90.0	93.2	(100)
Estimated GDP £bn (2005)+	1,045	958	973	990	1,025	(1,110)
Lost output (£bn)	55	142	127	110	75	(0)

+ Reference year 2001 ("at 2001 prices").
* Weighted averages.

TABLE 3: AVERAGE ANNUAL GDP GROWTH RATES, 1996 TO 2005, AND DIFFERENTIAL GROWTH RATES BETWEEN THE UK AND OTHER ANGLOPHONE COUNTRIES

	Australia	Canada	New Zealand	US	UK
1 Average growth rate (%)	3.7	3.4	3.0	3.5	2.7
2 Differential growth rates (%) (UK minus row 1)	-1.0	-0.7	-0.3	-0.8	Na
3 GDP in 2005 (1995=100)	144.0	139.2	134.5	140.5	131.0

Source: OECD, *Economic Outlook*, Volume 2004/1, June 2004.

TABLE 4: HYPOTHETICAL "GAINED GDP OUTPUT" FOR THE UK IF IT HAD ACHIEVED GROWTH RATES OF THE OTHER ANGLOPHONE COUNTRIES (1996 TO 2005)

	If achieved Australian growth	Canadian growth	New Zealand growth	US growth	UK
UK GDP in 2005 (1995=100)	144.0	139.2	134.5	140.5	(131.0)
Ratio of hypothetical to actual growth (%)	110.0	106.3	102.7	107.3	(100)
Estimated GDP £bn (2005)+	1,210	1,169	1,130	1,180	(1,110)
Gained output (£bn)	110	69	30	80	(0)

+ Reference year 2001 ("at 2001 prices").

economies. Tables 3 and 4, modelled on the two previous Tables, show this clearly. They show how the UK has fallen behind Canada, and even New Zealand, as well as Australia and the USA.

INTERNATIONAL COMPETITIVENESS

Behind all these differing economic performances lies the international competitiveness of the individual economies. Two well-respected sources of data are the International Institute of Management Development (IMD) and the World Economic Forum (WEF). The main data for the years 1997 to 2004 are shown in Annex Table 2 (for the IMD) and Annex Table 3 (for the WEF).

Both the IMD and the WEF, with one or two aberrations, conclude that the Anglophone countries are, on the whole, more competitive than the "big three" eurozone countries (the "aberration" being the WEF's ranking of Germany). The USA's position at or very near the top of both sets of Tables is striking. In addition, the IMD Tables indicate quite clearly that the competitiveness rankings have been slipping for the eurozone countries but have tended to improve for the Anglophone countries (except New Zealand and the UK). The WEF Tables are less clear-cut. Their assessment that Germany's competitive position has improved over the period, in particular, does not seem to be supported by other analyses of the German competitive position.

All in all, these Tables do broadly provide further support for the view that the eurozone economies are stuck in the "slow lane" and will continue to be out-performed by the Anglophone countries – unless, of course, President Borroso and the respective national governments can reform their economies. But it is disappointing (and ominous) to see the UK's slippage down the Tables, especially down the IMD Table. However, this deterioration in competitiveness is not surprising given the significant increases in the tax burden and the weight of regulations (many from the EU) on UK businesses since 1997. British policy-makers take heed.

REFERENCES

1. Ian Milne, *Four Economic Blocs*, CPS Perspective, February 2005.

2. Andrew Gowers and George Parker, "Growth is at the top of Borroso's programme", *Financial Times*, 2 February 2005.

3. The European Forecasting Network (EFN), *The euro area and the Lisbon strategy*, EFN, Autumn 2004, concluded for 2004 "...world growth has been strong this year, but the euro area still lags behind." The EFN is a research group of European Institutions, founded in 2001 and co-financed by the European Commission.

4. Dominic Wilson and Roopa Purushothaman, *Dreaming with BRICs: the path to 2050*, Goldman Sachs, Global Economics paper number 99, October 2003, projected differential growth rates for the BRICs (Brazil, Russia, India and China) and G6 (France, Germany, Italy, Japan, UK, US) to 2050. They concluded the size of the British economy could equal Germany's by 2035 and could have pulled ahead by 2040.

ANNEX

ANNEX TABLE 1: GDP WEIGHTS OF SELECTED OECD COUNTRIES INCLUDING THE EU-15

	% of OECD area	% of eurozone area
Eurozone countries:		
Austria	0.83	3.05
Belgium	0.98	3.60
Finland	0.49	1.80
France	5.68	20.89
Germany	7.56	27.80
Greece	0.65	2.39
Ireland	0.39	1.43
Italy	5.28	19.42
Luxembourg	0.08	0.29
Netherlands	1.59	5.85
Portugal	0.65	2.39
Spain	3.00	11.03
Total eurozone	27.19	[99.94]*
"Big three" share of eurozone GDP		**68.11**
Non-eurozone countries (EU-15):		
Denmark	0.56	
Sweden	0.87	
UK	5.50	
Total non-eurozone (EU-15)	6.93	
Total EU-15	**34.12**	
Japan	12.17	
USA	36.36	
Total OECD	**100.00**	

Source: OECD, *Economic Outlook*, Volume 2004/1, June 2004. These weights are based on 2000 GDP at purchasing power parities (PPPs). The 10 new "accession" EU countries have a combined weight similar to that of the Netherlands.

* Non-addition due to rounding errors.

ANNEX TABLE 2 IMD (INTERNATIONAL INSTITUTE OF MANAGEMENT DEVELOPMENT) WORLD COMPETITIVENESS RANKINGS

	1997	1998	1999	2000	2001	2002	2003	2004	Change, 1997 to 2004
Eurozone & the UK									
France	22	22	23	22	25	25	23	30	+8
Germany	16	15	12	13	13	17	20	21	+5
Italy	39	31	30	32	33	34	41	51	+12
UK	9	13	19	15	17	16	19	22	+13
Anglophone									
Australia	15	12	11	11	12	10	7	4	-11
Canada	6	8	10	8	9	7	6	3	-3
New Zealand	11	17	17	20	21	18	16	18	+7
UK	9	13	19	15	17	16	19	22	+12
USA	1	1	1	1	1	1	1	1	0

Sources: IMD competitiveness yearbook 2004 (for the years from 2000 to 2004). Rankings as of April 2001 from website: www.imd.ch (for the years 1997 and 1999). Back data are subject to revision. The number of countries tends to increase over time. There were 60 in 2004. The lower the number the higher the ranking.

ANNEX TABLE 3 WORLD ECONOMIC FORUM (WEF) GROWTH COMPETITIVENESS INDEX (GCI) RANKINGS

	1997	1998	1999	2000	2001	2002	2003	2004	Change, 1997 to 2004
Eurozone & the UK									
France	23	22	23	21	20	30	26	27	+4
Germany	25	24	25	14	17	14	13	13	-12
Italy	39	41	35	29	26	39	41	47	+8
UK	7	4	8	8	12	11	15	11	+4
Anglophone									
Australia	17	14	12	11	5	7	10	14	-3
Canada	4	5	5	6	3	8	16	15	+12
New Zealand	5	13	13	19	10	16	14	18	+13
UK	7	4	8	8	12	11	15	11	+4
USA	3	3	2	1	2	1	2	2	-1

Sources: *Global Competitiveness Report 2004-2005* (for 2003 and 2004; website: www.weforum.org), *World competitiveness reports* (for 1997 to 2002; from website: www.maaw.info). Back data are subject to revision. The Growth Competitiveness Index (GCI) (referred to as the Competitive Index prior to 2000) is based on estimates of each country's ability to grow over the next five to ten years. Please note the number of countries considered tends to increase over time. There were 104 in 2004. The lower the number the higher the ranking.

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