

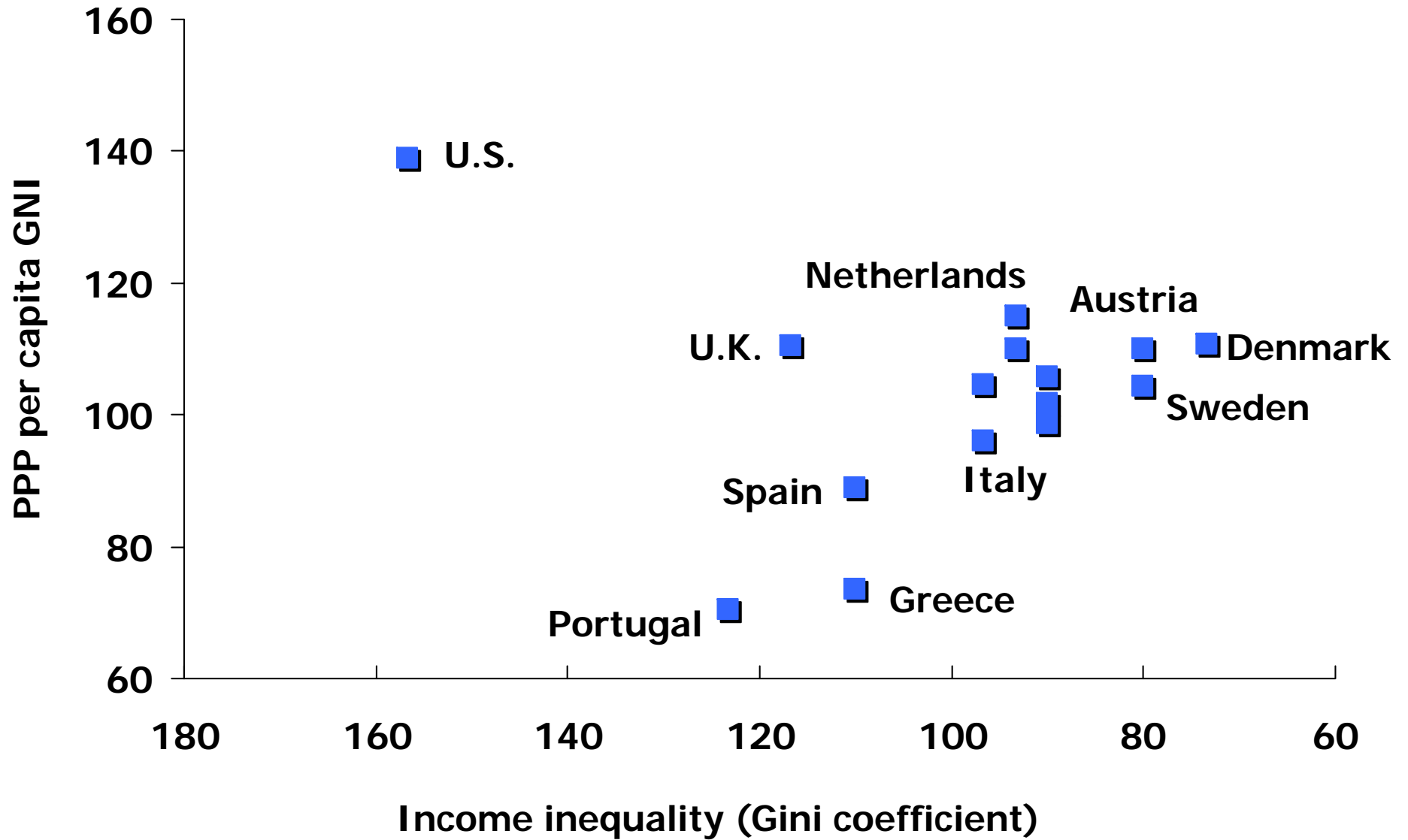


**2005 Ludwig Erhard Lecture
Revitalizing Reforms in Europe**

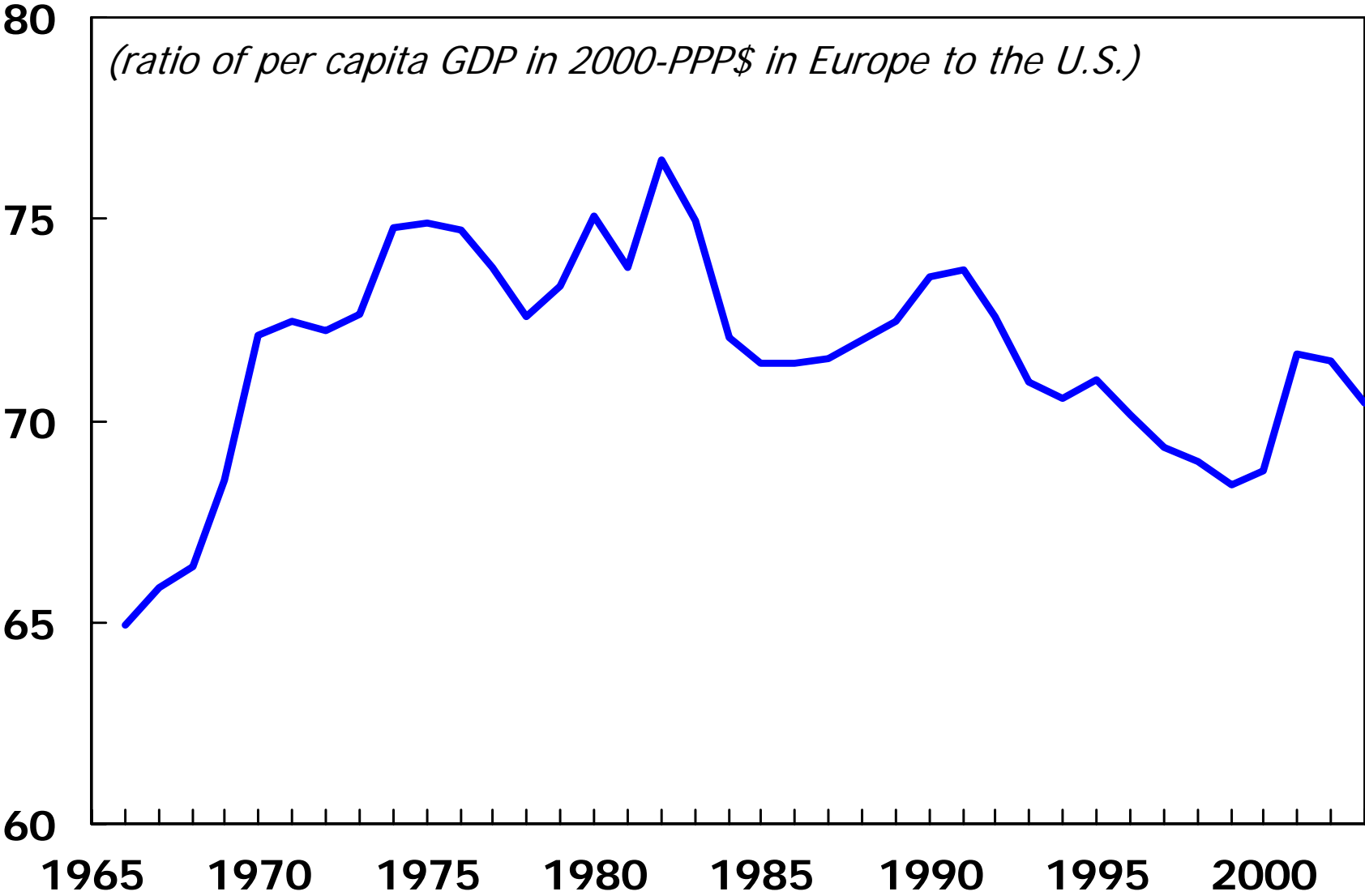
December 8, 2005

Income per Capita and Income Inequality

(EU-15 = 100)



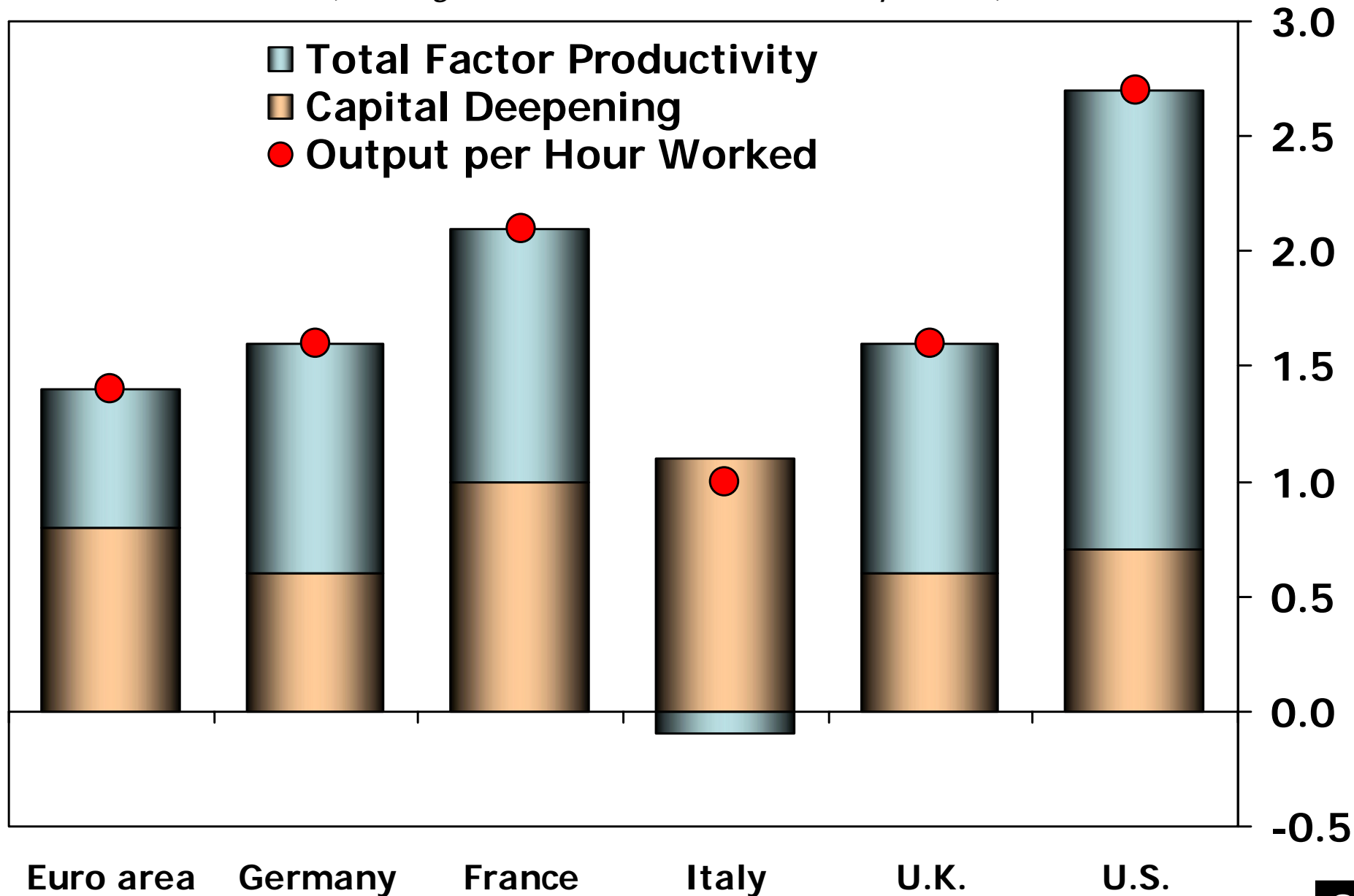
Europe: Per Capita GDP Relative to the U.S.



Source: OECD Economic Outlook.

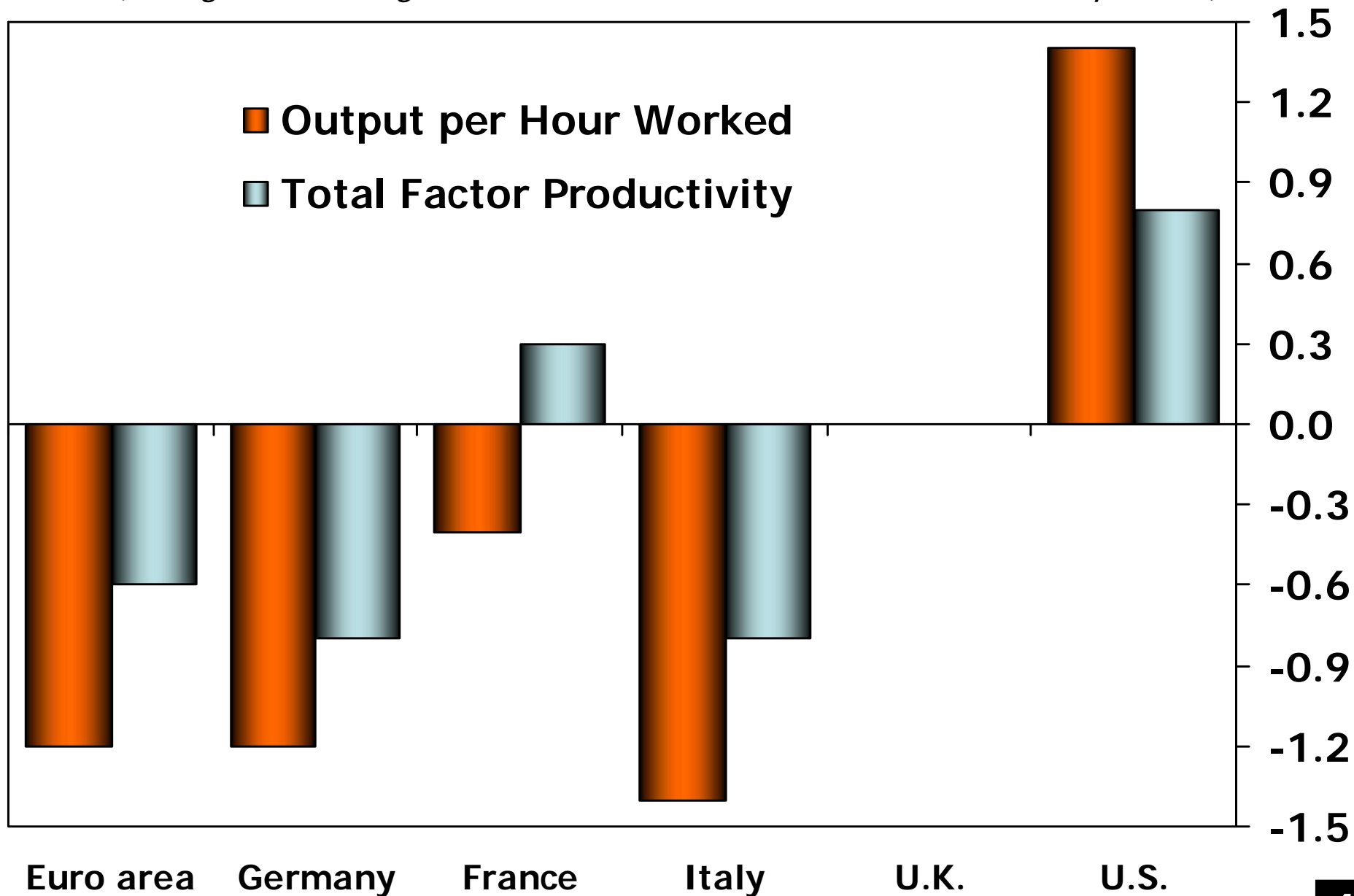
Labor Productivity and Total Factor Productivity

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

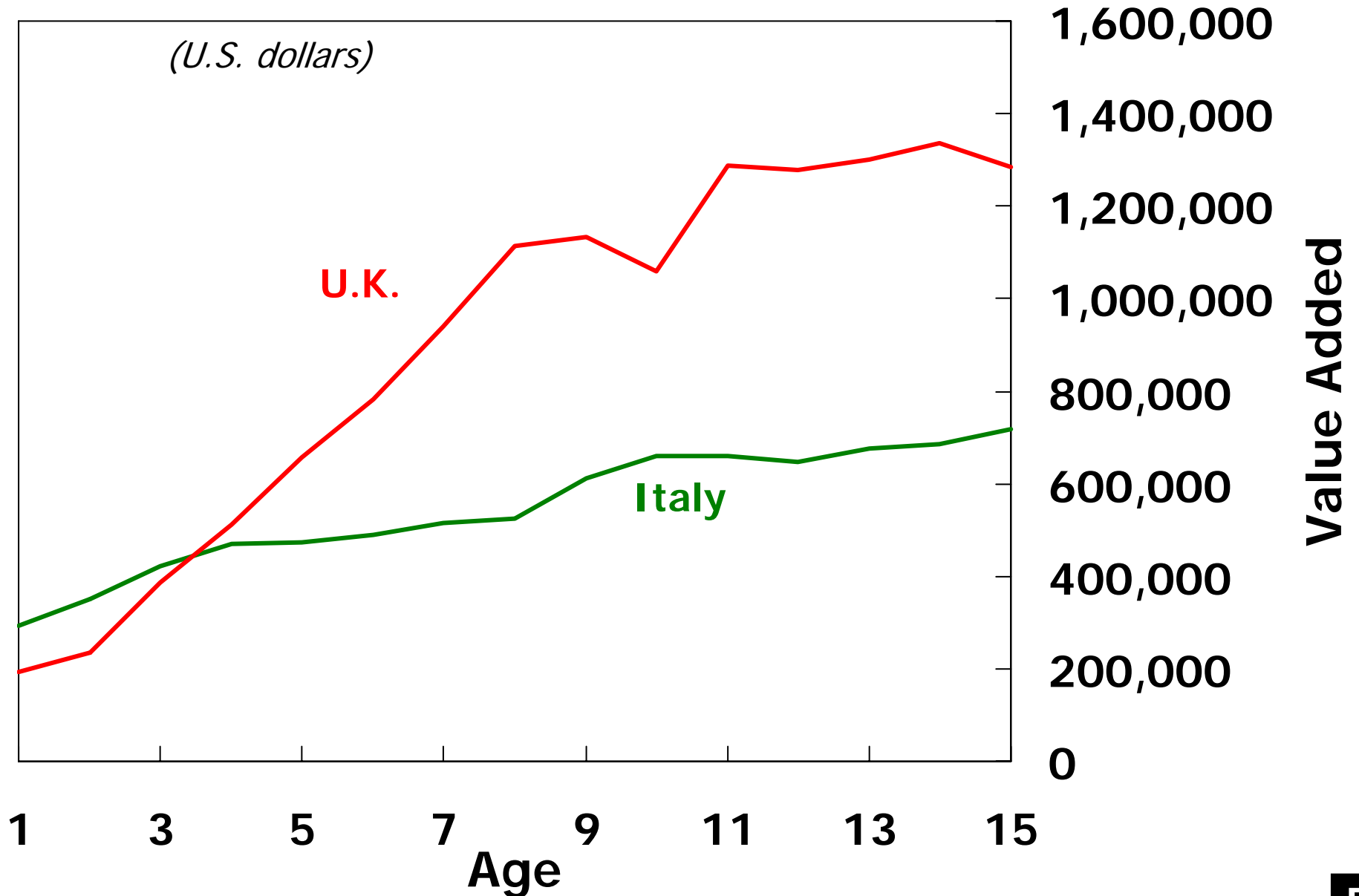


Labor Productivity and Total Factor Productivity

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

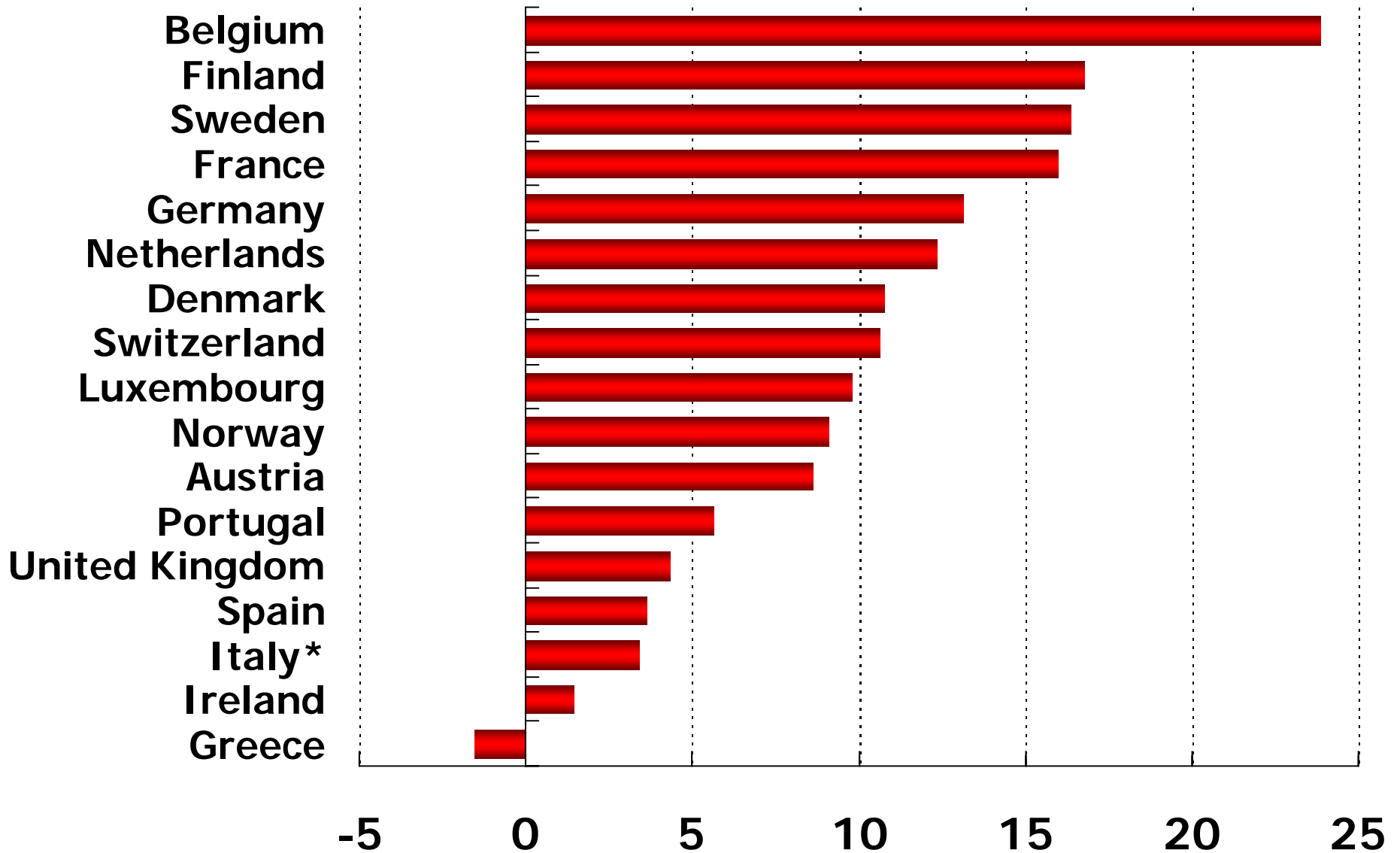


Italy and U.K.: Comparison of Firms' Age and Size



Unemployment Rates of Foreigners and Nationals

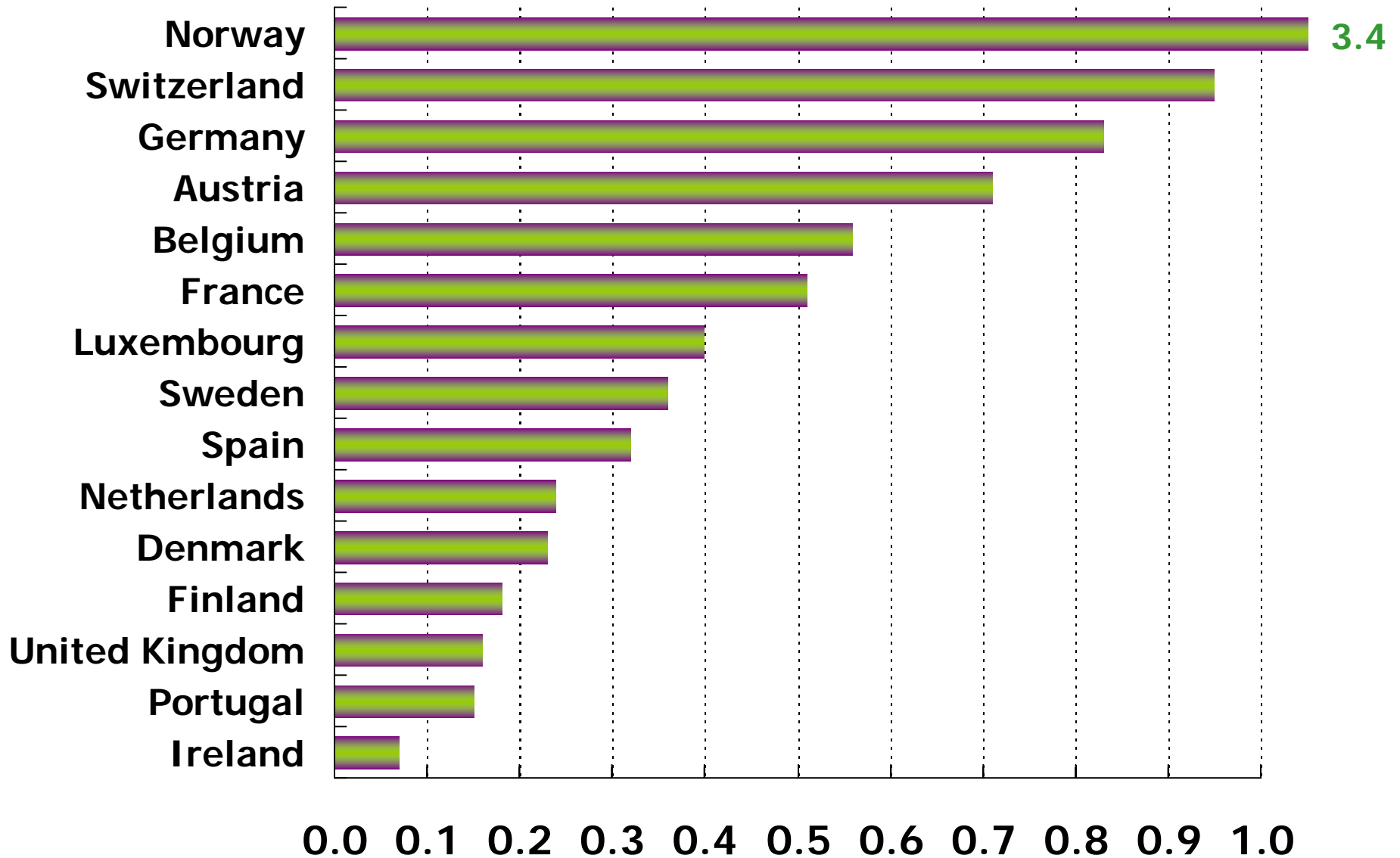
(differences in unemployment rates between foreigners and nationals; 2004-2005; in percent)



* Data for 2000-2001.

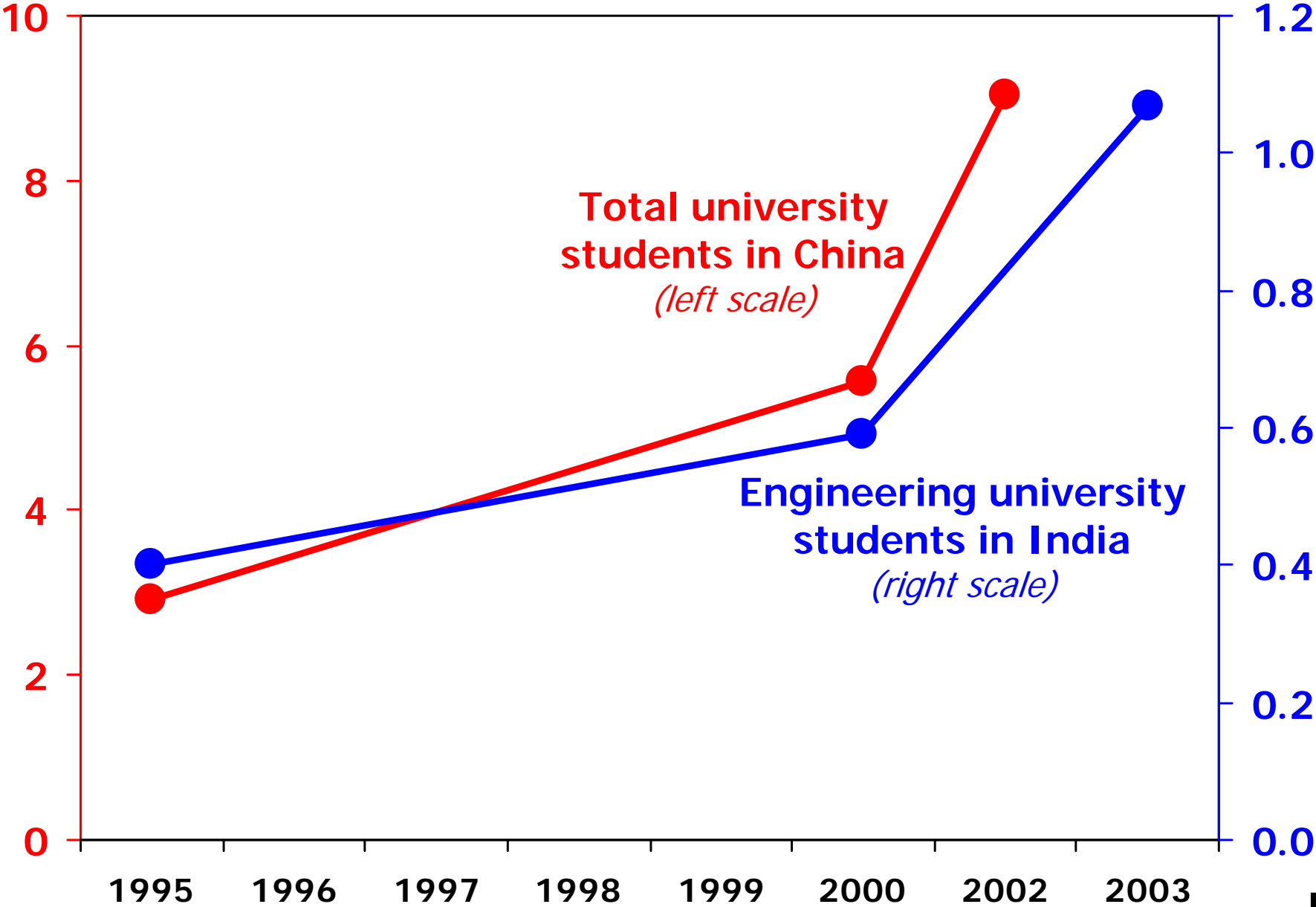
Number of Jobs to Be Created to Absorb the Discrepancy

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



University Enrollment: China and India

(in millions of people)

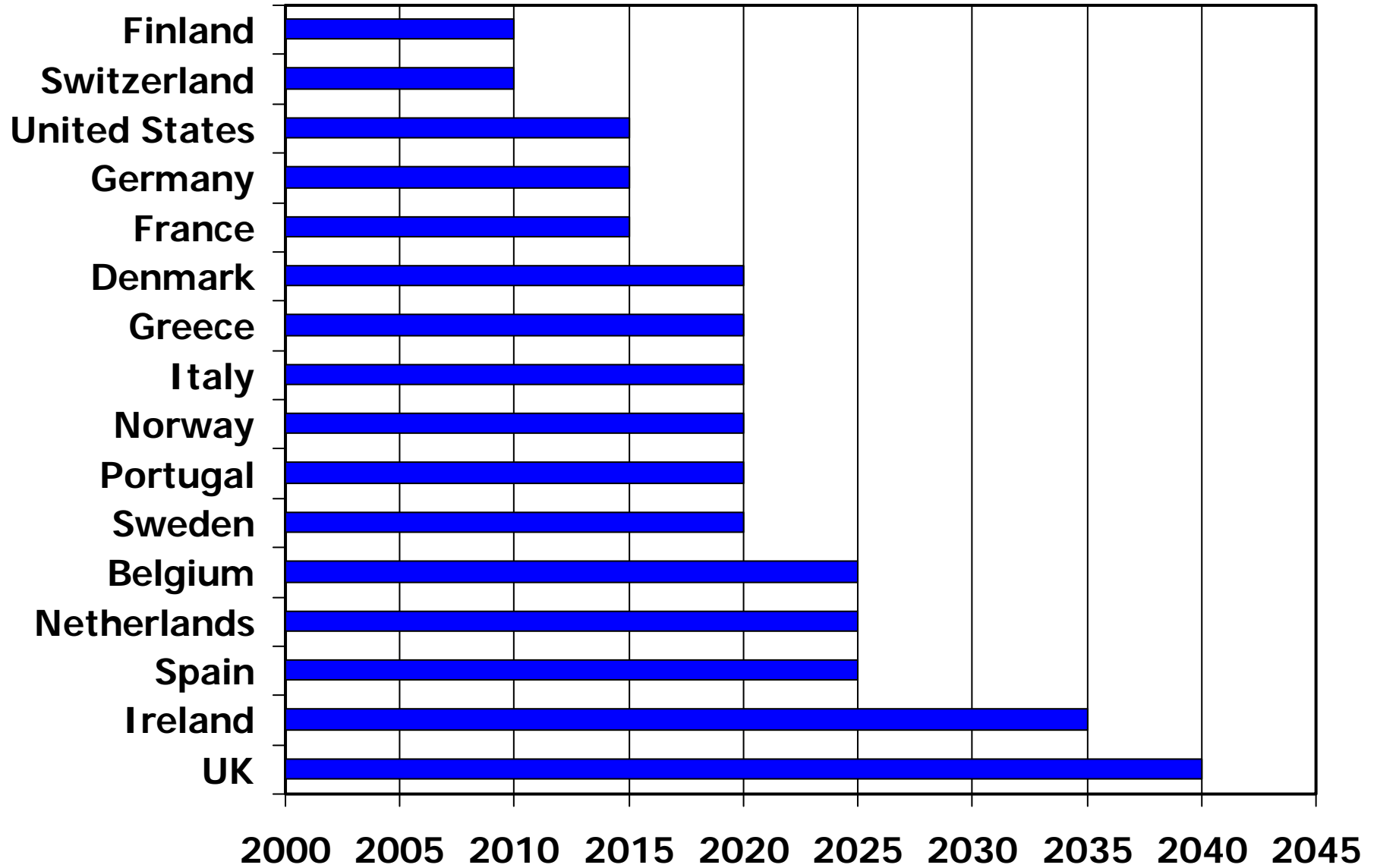


Tata Avia Car



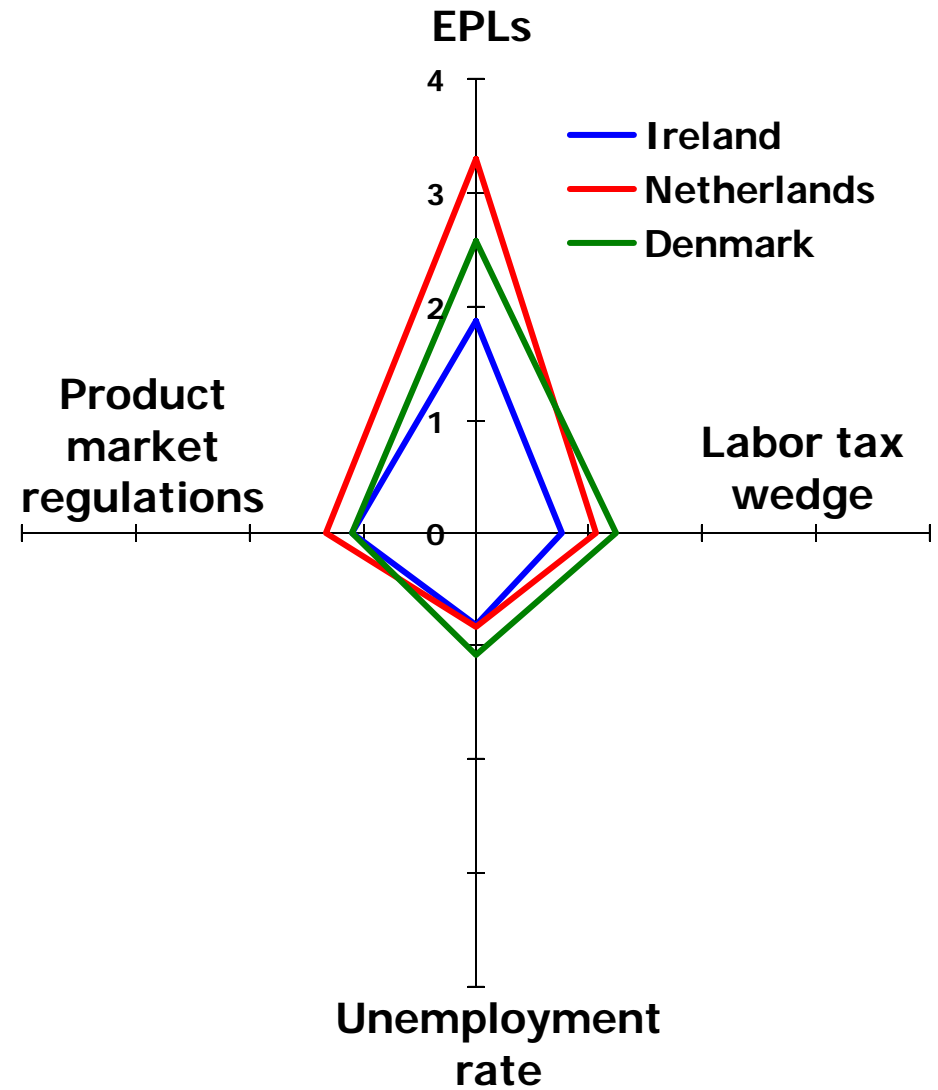
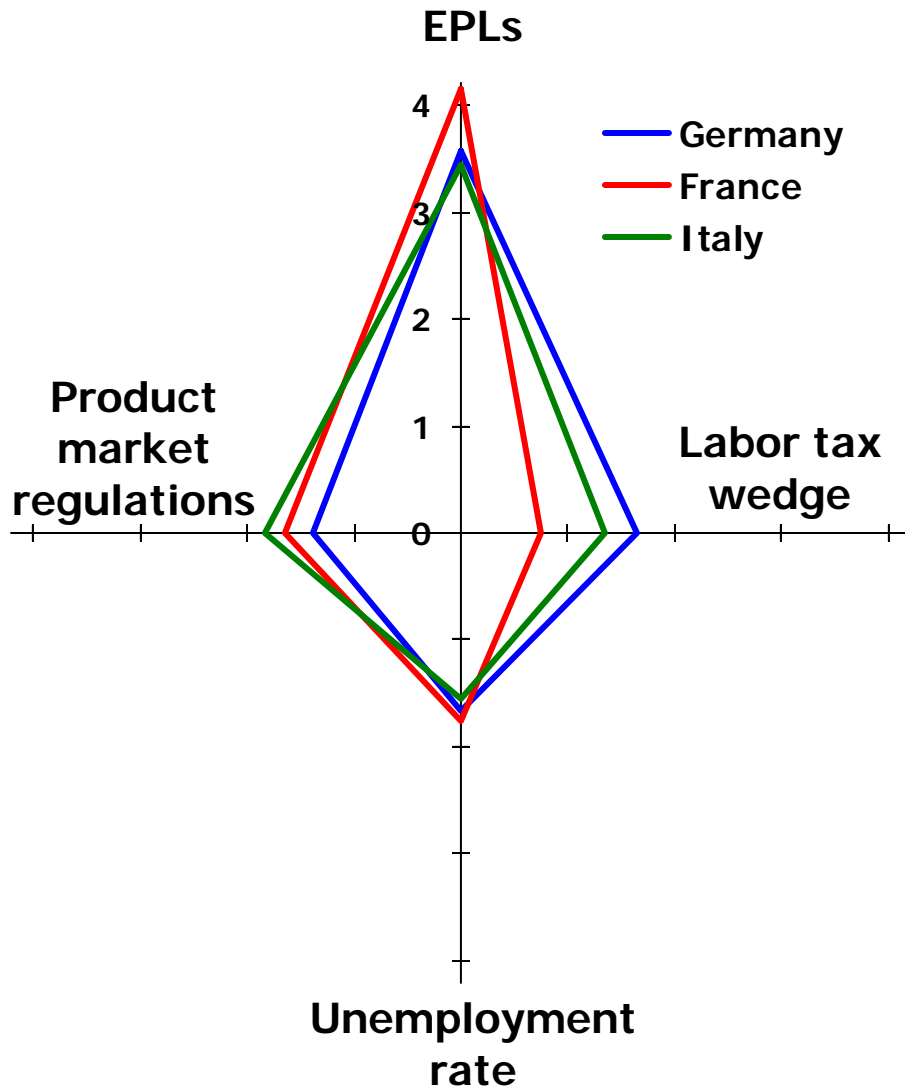
The Last Train for Pension Reform Departs on...

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



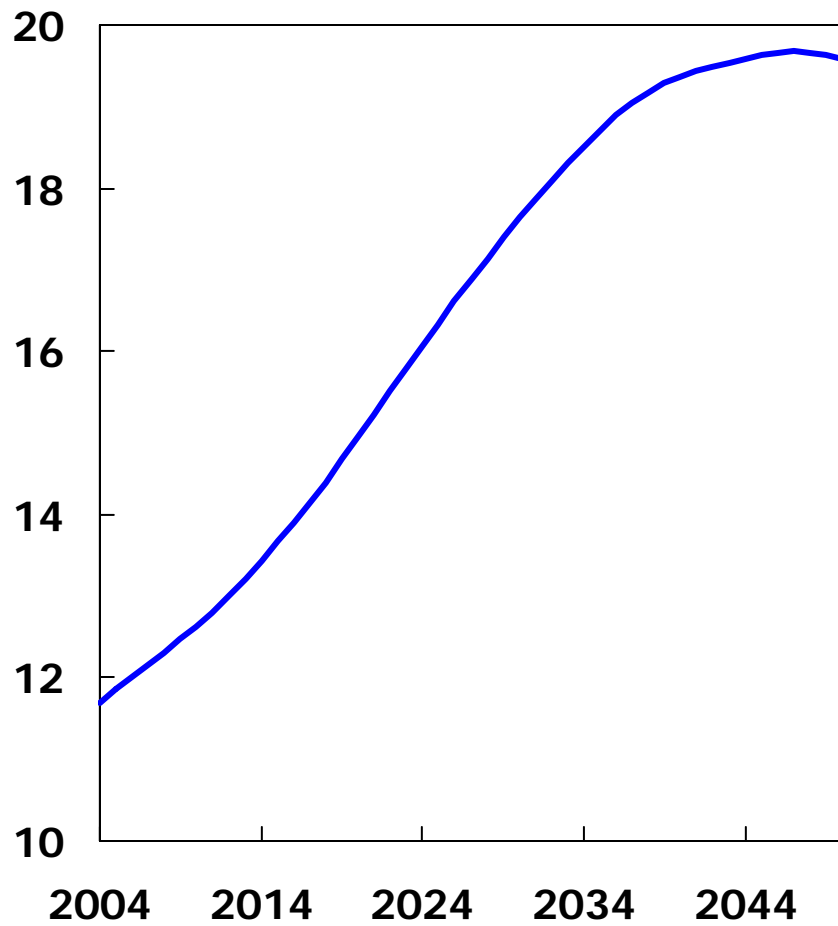
Labor Markets and Structural Reforms

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

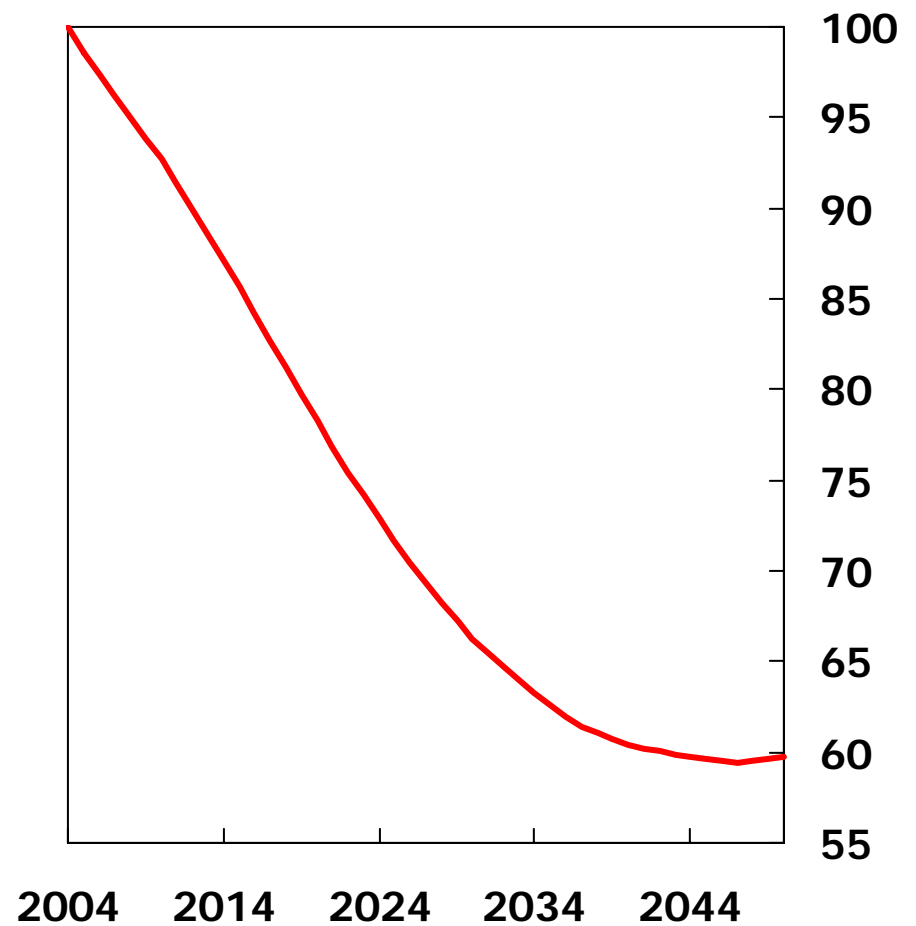


Euro Area: Public Finances

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

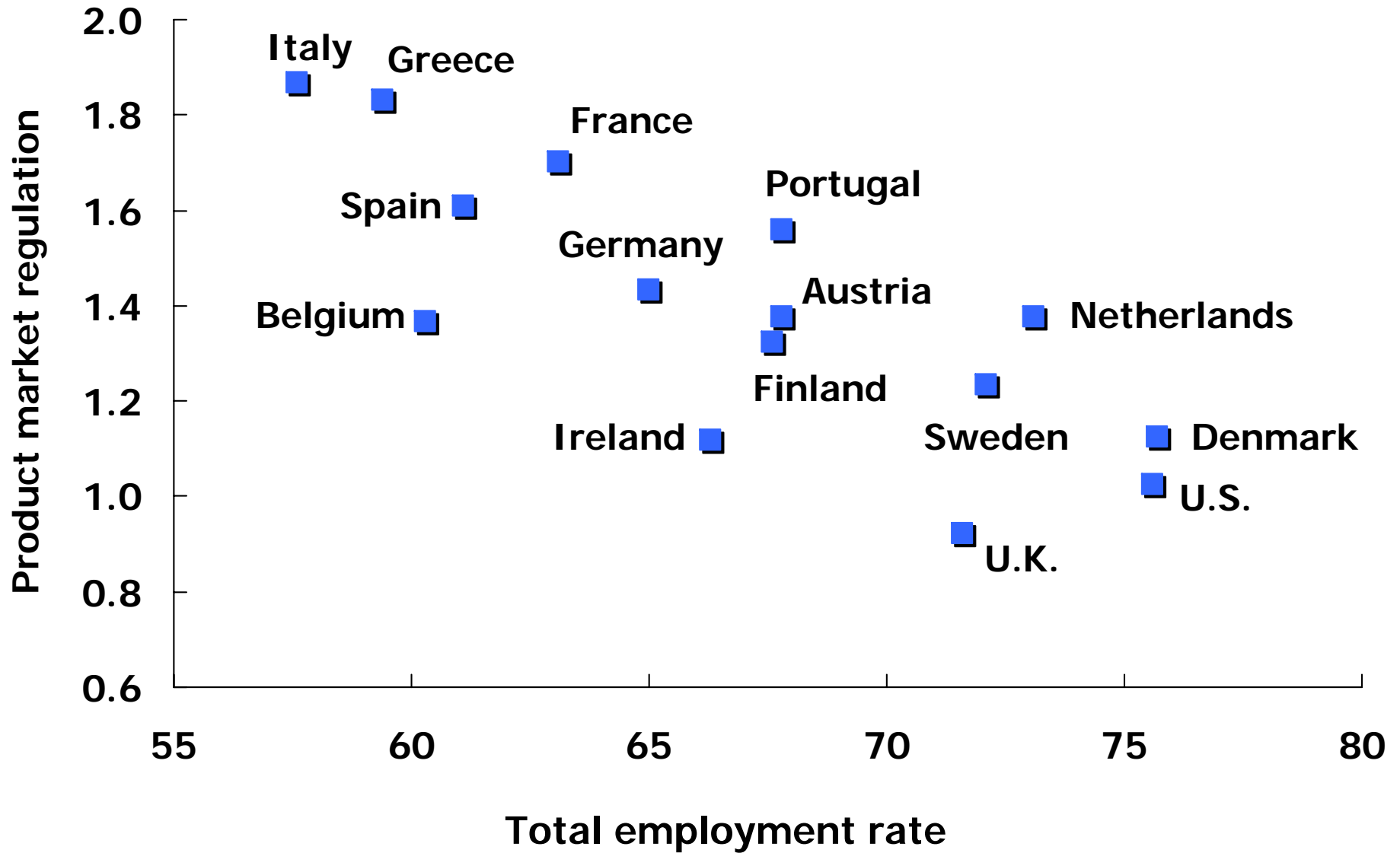


**Required Cuts in Average Pension
(2004=100) to Stabilize Pension
Spending-GDP Ratio at 2004 Level**



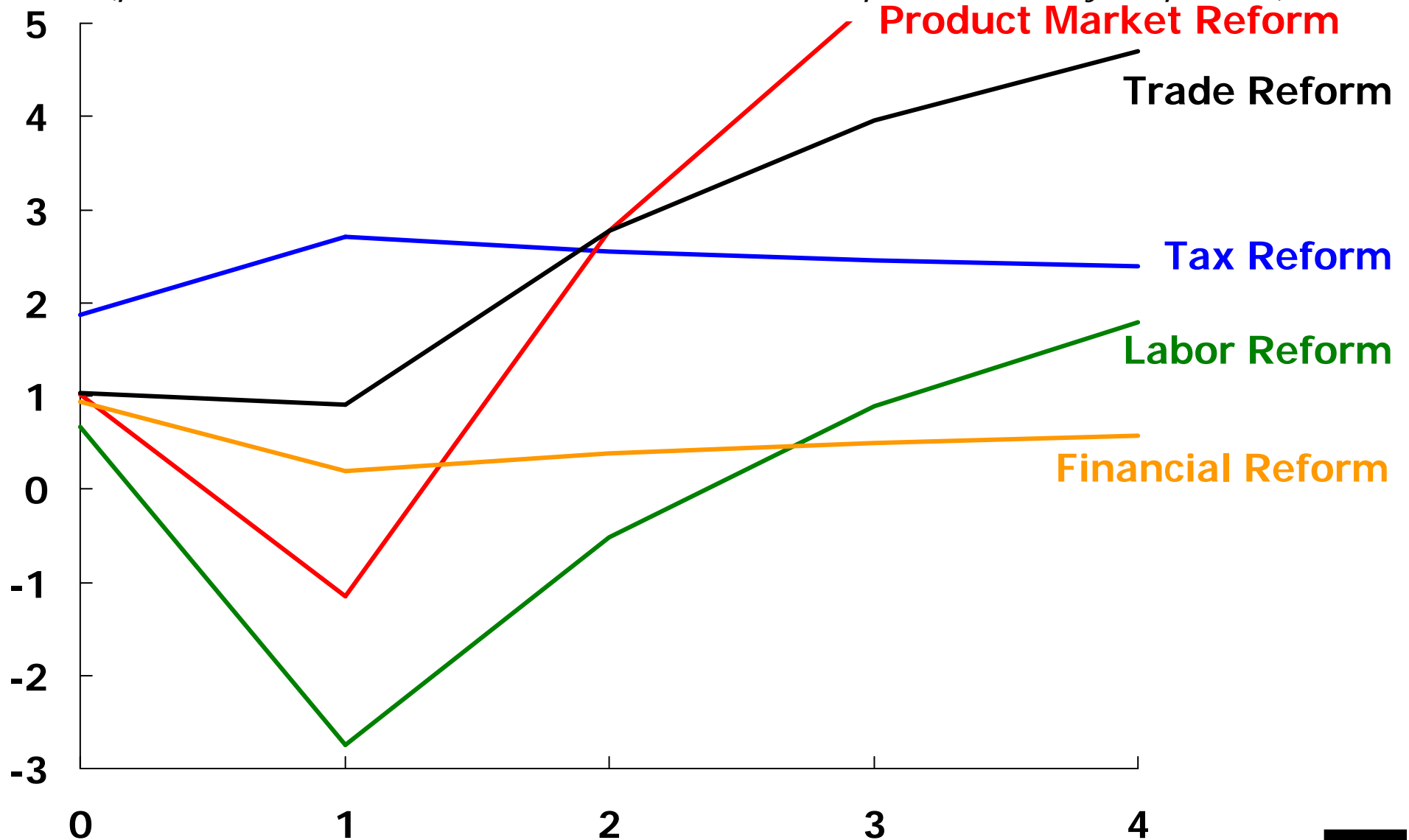
Employment and Product Market Regulations

(EU-15 = 100)



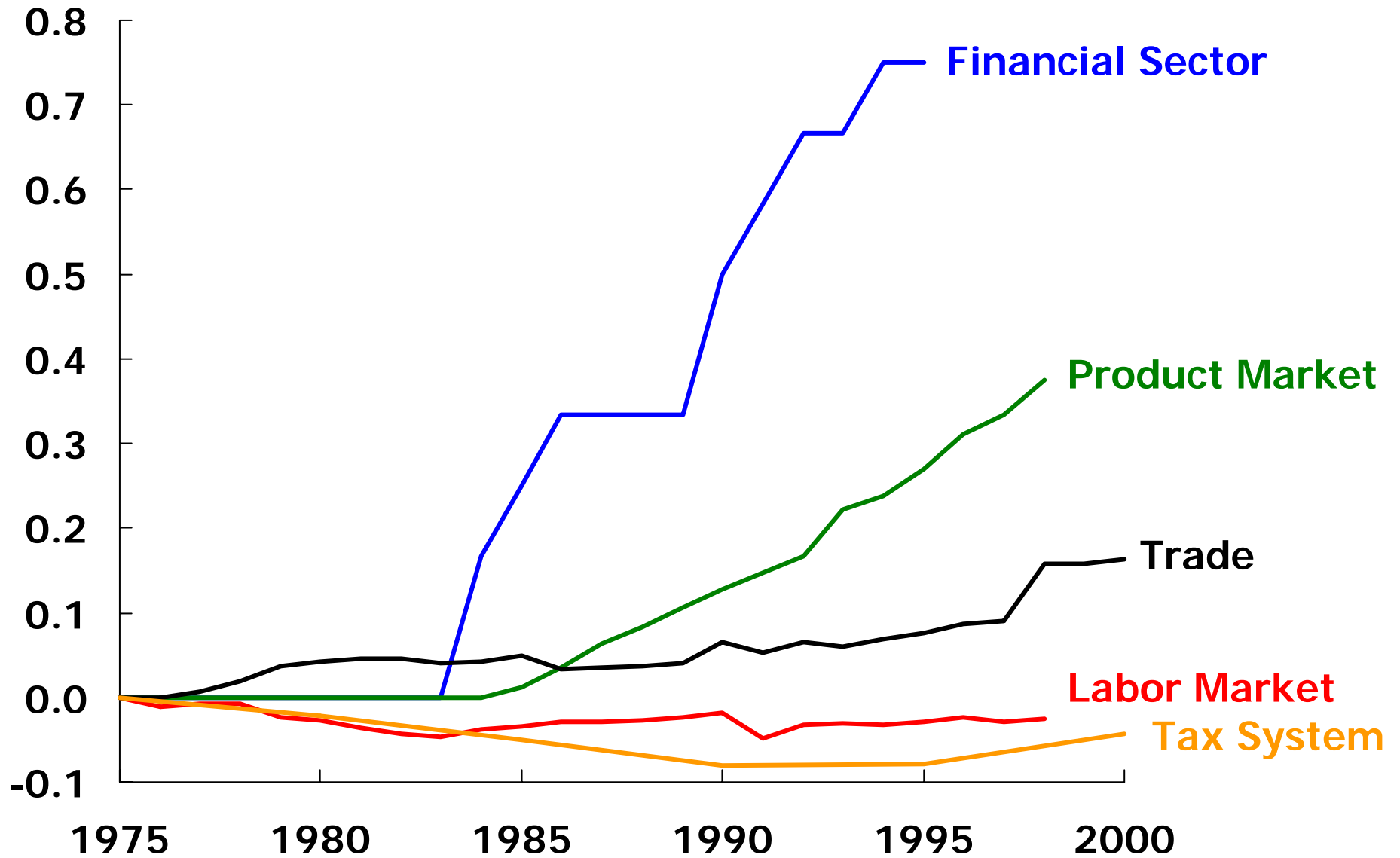
Response of Real GDP Per Capita to a One-Standard-Deviation Increase in Reform Indicators

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



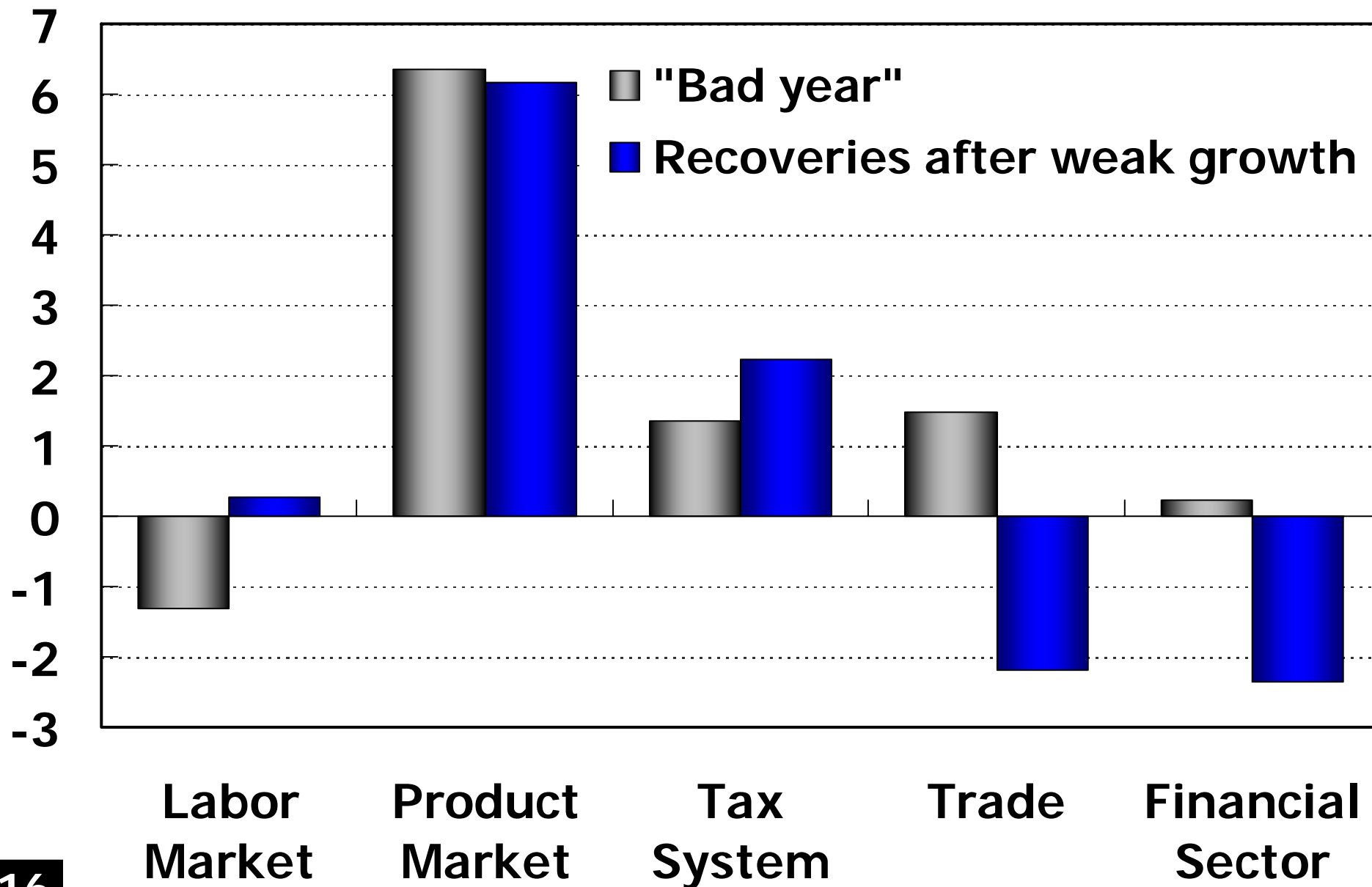
Cumulative Reform Efforts Across Sectors

(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)

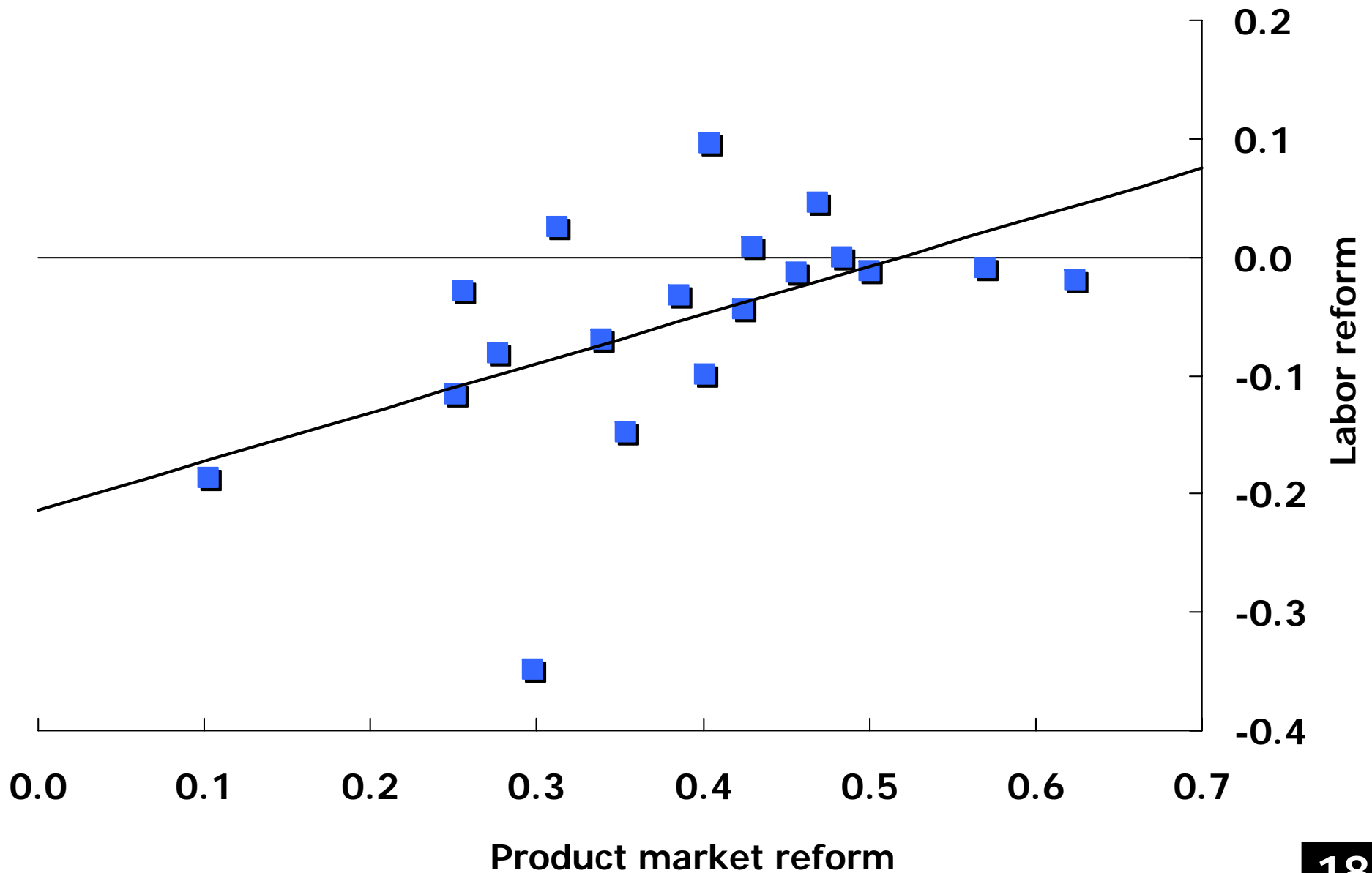


Lessons

- 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**