Rivista Italiana di Economia Demografia e Statistica *Volume LXIX n.1 Gennaio-Marzo 2015*

THE MEDITERRANEAN ECONOMIC TRANSITION AND THE LIBERAL PERSPECTIVE

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1. Introduction

For centuries, the Mediterranean Sea has been one of the more important business and cultural hubs on the planet. As cross point of merchants coming from all around Europe, Africa and Middle East, it represented the emblem of international trading. In the 19th century, the famous naturalist Edward Forbes describes the Mediterranean after one of his long travels around Europe as followed: "All that concerns the Mediterranean is of the deepest interest to civilized man, for the history of its progress is the history of the development of the world" and "The science of the Mediterranean is the epitome of the science of the world" (The Natural History of the European Seas).

However, in the last decades, the Mediterranean influence became less significant. Innovation and economic competitiveness decelerate, as national governments were not able to effectively implement the reforms needed to keep the pace with other developed and developing countries worldwide. On the one hand this inability produced slow economic growth, high levels of unemployment and an inadequate amount of investments, resulting in high levels of unemployment and political uncertainty. On the other hand, countries that liberalized their economies focusing on the creation of a more favorable businesses environment characterized by less bureaucracy, clearer rules and better infrastructures ensured a brighter future for their fellow citizens.

In this paper, the authors will cluster the mayor economies located in the Mediterranean Sea in two groups: North Mediterranean Cluster (NMC) and South Mediterranean Cluster (SMC). These clusters will be carefully analyzed and compared with a third Cluster composed by liberal economies. Core economies from the British Commonwealth system will be used as a proxy for liberal economies (CLC). Using a conceptual framework, the purpose of this study is to evaluate the economic outcomes of policies applied in these clusters over time. Finally, the focus will shift to whether the economic region of the Mediterranean Sea should or should not start to implement more liberal policies and reforms.

2. Clustering Economies

Grouping countries is never an easy task. The risk of approximation and superficiality in the selection process is real. Nevertheless, is somehow easier to cluster economies when it comes to the Mediterranean area and liberal-oriented countries.

Northern Mediterranean Cluster (NMC)

Similar economic patterns can be found in the Southern European nations like Spain, Italy and France, where institutions and the law rely on similar civil-law system. As members of the European Union, they gave up their monetary sovereign and adopt the same currency, the EURO, over a decade ago. Furthermore, they share a common cultural and religious background that made them a compact economic block.

Southern Mediterranean Cluster (SMC)

SMC is composed by Morocco, Algeria, Tunisia, Libya, and Egypt. These countries are all located in the Northern part of Africa, with long shores bounding the Mediterranean Sea for over 2,000 km. Islam is the main religion and the way in which the society is managed comes from the Arabic tradition, with more autocratic regimes and rigid socials norms. Though with some degrees of diversity, the aforementioned elements are sufficient to cluster these nations together.

Commonwealth Liberal Cluster (CLC)

Create a collection of countries that could effectively embody liberalism principles, i.e. encouraging free market while minimalize bureaucracy, is troublesome. No economies can be considered categorically liberal, as there will always be some form of protectionism. However, for the sake of this study, the authors believe that core economies from the Commonwealth system could be a good proxy for liberal economies. In fact, United Kingdom, Canada, Australia, New Zealand, Hong Kong and Singapore demonstrated to be mostly pro market, common law based, sensible to private property and economic liberty.

Summary statistics

Table one shows key demographic and economic metrics for the three selected clusters. Having clusters with similar population size makes easier any kind of dimensional comparison in economics terms. CLC's is the smallest in terms of population, yet it represents the biggest economy out of the three clusters considered using both Nominal and PPP methodology; as a consequence, it also enjoys the highest GDP per capita. Remarkably, data for the Av. GDP Growth over time shows that SMC enjoyed the highest growth rate for the period 1980-2013.

However, this can be due to the fact that the rate of growth has obviously a numerator and a denominator. In real economic terms, the larger the denominator gets, the harder it becomes to make that ratio high. In fact, poorer economies tend to grow faster because they can adopt a "catch up" strategy where they can easily acquire technology by simply import it from more developed countries instead of having to develop it themselves, which is a much longer and expensive process.

Furthermore, It has to be noticed that the spread in annual GDP growth terms between SMC and CLC is a mere 0.4 %. This can be significant if considered over 30 years-span however is not impressive at all considering that SMC is composed by the so called "developing economies" while CLC is constituted by more mature and developed economies that should growth to a much slower pace.

Table 1 – *Economic Clusters: Summary statistics.*

Metrics	NMC	SMC	CLC
Population	169,955,000	171,943,000	139,521,000
GDP $Billion	$ 6,168.00	$ 697.68	$ 6,616.87
GDP Per Capita	$ 36,291.96	$ 4,057.62	$ 47,425.62
GDP (PPP) $Billion	$ 5,477.18	$ 1,197.18	$ 5,783.76
GDP (PPP) Per Capita	$ 32,227.24	$ 6,962.66	$ 41,454.40
Annual Av. GDP Growth (1980-2013)	4.3	5.8	5.4
Av. Unemployment Rate (1980-2013)	11.7	10.9	6.1

Data from IMF 1980-2013 and UN 2013

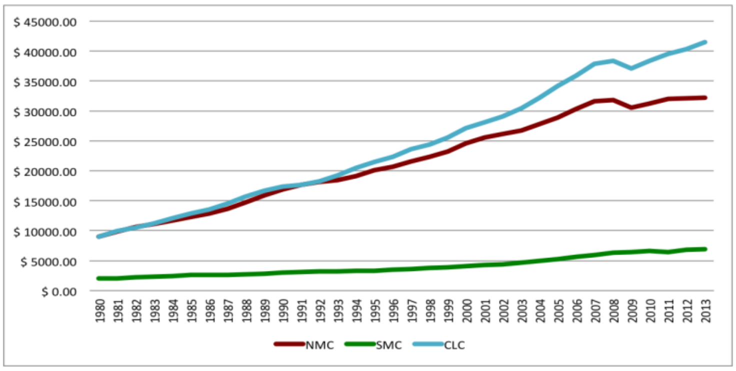
Surprisingly, NMC comes at the top when looking at unemployment, with an average unemployment rate of 11.7 %. While CLC was able to keep the unemployment rate low thanks to a more flexible and better organized job market, NMC struggled to create new jobs for its citizens, with unions playing a major role in the political and social sphere. The situation was different for SMC: Even if they manage to keep the employment rate lower than that one in NMC, the structure of the labor market presents distinctive features. For instance, it has a much higher concentration of people employed in the agriculture and manufacturing sector. Hence, the lower unemployment rate is due to a large availability of low-skilled, unsophisticated jobs that leads to a lower GDP and GDP per capita.

3. Clusters Comparison

3.1. Socio-economic performance

Figure one shows the growth of GDP PPP per Capita over the last 33 years. The PPP methodology is preferred in this case because the aim is not to directly compare one economy to the other but rather understand how policies applied over time translate into economic growth, ultimately improving the local standard of living, therefore using the purchasing power parity seems more appropriate. NMC and CLC started from pretty much the same base back in the late 70's. To be precise GDP per capita was a bit higher in NMC than in CLC. The relation between the two was steady during the 80's. However, after CLC cached up NMC in early 90's, the two started to diverge. Policymakers in CLC countries implemented liberal economic and social reforms; deregulation, liberalisation and privatisation were all policies used by politician to open up their economies to competition even in sectors that historically belonged to the state. With a better management of actual firms while encouraging the creation of new ones CLC countries grow faster than the NMC countries. However, Liberal reforms came with a price. Due to cuts in the government spending, welfare state programs were compress at best and workers lost some of their rights in term of job stability and treatment. Yet, today, CLC's GDP per Capita is roughly 30% higher than in the NMC and it was also able to recover faster after the Global Financial Crisis 2007-2008. As will be showed later on, this is also consistent with a loss of competitiveness and dynamism by NMC countries.

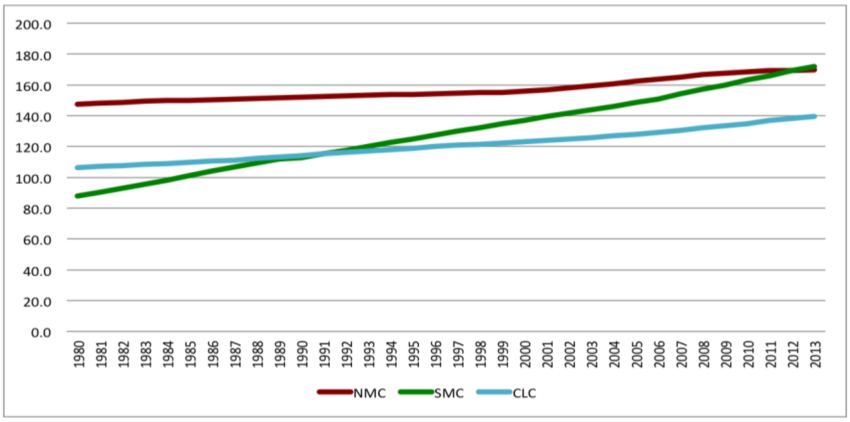
Figure 1 – *Clusters GDP (PPP) Per Capita*



Data from IMF: 1980-2013

The SMC started out from a much lower base. Still it manages to more than triple its GDP per Capita, which is a positive results giving all the political and social turmoil that affected Northern African countries in the last few decades. Furthermore it seems that SMC countries were less affected by the Global Financial Crisis of 2007-2008 than CLC and NMC countries. However, as it is clearly showed in figure two, SMC went through a demographic boom that had and will continue to have an enormous impact on the socio-economic order of these nations. In the last decade governments from both sides of the Mediterranean Sea pretended to don't' see or reduce the magnitude of the problem, which worsen recently with the so-called "Arab Spring". If politics will not be able to handle this demographic tsunami this will impact not only SMC countries but also other Mediterranean countries. Considering the current economic debate in Europe, immigration policies should be on the top of the priority list, as this will profoundly reshape the continental demographics. Clearer rules or immigration schemes implemented by some of the CLC countries could be a good point of start.

Figure 2 – *Clusters Population Growth*

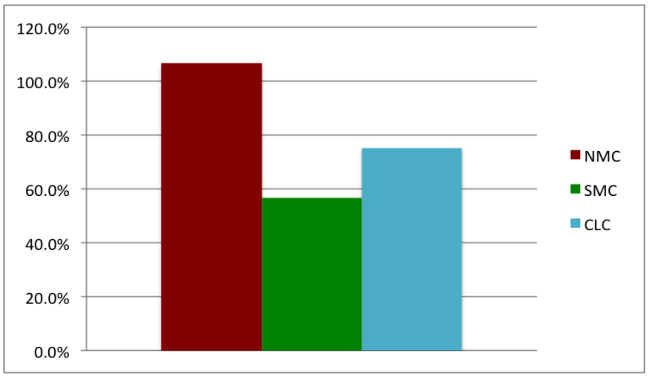


Data in millions from IMF: 1980-2013

3.2. Government Debt

A final economic metric to be included in the analysis is government debt. Economic Growth can be easier if it fueled by debt, but at the same time this cannot be sustained in the longer run. For the sake of this study, cluster's government debt is calculated by taking the weighted average of the gross government debt in percentage of the GDP (the weights used are the share of the national GDP on the total Cluster GDP for 2013). Government Gross Debt is taken instead of Net Debt because the definition of Net Debt is not identical for all countries. Hence not all governments include the same type of financial assets in it. In addition, governments need to refinance all their gross debt and not only the net part, so in terms of flows, it is the gross debt that matters most. As showed in figure three, CLC managed to come out from the Global Financial Crises with a relatively high yet tolerable debt to GDP rate. SMC's debt remains acceptable as well. The main problem comes from the NMC countries. In fact, they experience a strong rise of the debt to GDP ratio. There are several reasons for this happening, including financial speculators targeting profit opportunities on weaker European countries. Financial turmoil are making really expensive for these countries to issue new debt and even refinancing the old one. Austerity measures imposed by Europe in recent years, though necessary to enforce and incentive fiscal discipline to selected countries, made the situation even worst creating a negative loop that produced recessions across NMC countries. Even today, they are still trying to recover from these hard measures.

Figure 3 – *Government gross debt in percent of the GDP per cluster*



Weighted average, Data from IMF 2013

3.3. International Rankings and indices

Besides basic economic metrics that were analyzed so far, it is interesting to dig deep into the analysis by looking at some of the more significant economic related rankings and indices published by eminent institutions such World Bank, WEF and UN. This can be a suitable way to further extend and broader this empirical research in order to ultimately grasp a better understanding of the three clusters analyzed. The results are summarized in Table 2: per each cluster it was taken the simple average of the position attributed by the ranking or index to each country included in the cluster (in case the resulting number was not an integers, it was rounded up). In this way they are represented "as if" they were one country. The selected indices integrate the macroeconomic and the micro/business aspects of the economy combing them with the more social aspects, like corruption and inequality. Table 2 is used as an instrument to assess the ability for countries within the cluster to provide high levels of prosperity to their citizens. The difference among the three clusters is quite astonishing, with the CLC that would be in the top 15 for basically all the indices considered. The worst performer is again the SMC that would be ranked not even in the top 100 except for Economic Competitiveness.

Even though CLC seems to dominate the economic and business scene, there is an element of discontinuity: Social inequality. In fact, the HDI can only be viewed as an index of "potential" human development or the maximum IHDI that could be achieved if there were no inequality while the Inequality-Adjusted HDI is the actual level of human development. The latter is the only index studied in which the NMC outperforms CLC. Even considering a certain degree of heterogeneity within data regarding each of the clusters', it is clear how NMC countries were able to put in place better policies related with healthcare, welfare, standards of living, and quality of life. However, CLC countries are undoubtedly business-oriented, corruption free and innovation-driven countries, and these elements create an ideal environment, which will guarantee long-term prosperity to their citizens.

Table 2 – *Cluster Comparison: Average ranking in selected indices*

Indices	NMC	SMC	CLC
WEF - Economic Competitiveness	34	97	12
World Bank - Easy to do business	50	102	7
Heritage Foundation - Index of Economic Freedom	51	107	6
INSEAD/Cornell - Global Innovation Index	25	102	11
UNDP - Human Development Index (HDI)	0.886	0.689	0.907
UNDP - Inequality-Adjusted HDI	0.795	0.480	0.726
Transparency Int. - Corruption Perception Index	43	109	9

Data for 2012-2013 reports

4. Conclusion

In this paper the authors analyzed and compared the major Mediterranean economies by clustering them in two blocks: South Mediterranean Cluster (SMC) and North Mediterranean Cluster (NMC). These two clusters were compared with a third cluster used as a proxy for liberal economies: Commonwealth Liberal Cluster (CLC). CLC is a fair representation of the economic results achieved by a more liberal view of the economy when compared with the other two. Through the initial study of key economic statistics, followed by the analysis of GDP per capita, population growth and government debt, it seems that government choices are key to economic performance. In fact, countries that in the analyzed period have pursued free-market policies, in particular trade liberalization and the maintenance of secure property rights along with a lean bureaucracy and low government spending have greatly outperformed the others.

Having achieved economic prosperity, CLC countries represent a successful case of economic development. The findings of this study are consistent with works previously conducted on similar topics. Finally, to get the full picture of the results, various international economic and social related rankings and indices were examined. It turned out that indeed CLC economies performed better than the peers except for one key aspect: Social inequality. In fact, NMC countries were able to put in place on average better policies that enhanced standards of living and quality of life. Nevertheless, by showing the overall results achieved by CLC countries in terms of economic prosperity and development, this study shows clearly that they were able to use their available resources more efficiently and effectively. Hopefully, Mediterranean countries will learn the lesson and will stop to indulging in policies that had led to slower growth and higher unemployment over time, protecting the interest of few part of the society at best. In other words, it is the right time for the Mediterranean Sea to adopt a more liberal view.

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SUMMARY

The Mediterranean economic transition and the liberal perspective

The Mediterranean countries are experiencing an era of profound changes in the economic, cultural and political sphere. In the "Global Competitiveness Report 2013", published by the World Economic Forum, no country bordering the Mediterranean Sea appears to be in the top 20. Once emblem of international trading and commerce, the Mediterranean is gradually losing its relevance. The reasons for this decline have to be found in the implementation of wrong policies that led to low competitiveness, high levels of corruption and problems in doing business. These elements slowed down the creation of new jobs and had a dramatic impact on society. The objective is to demonstrate empirically how countries that in the last few decades implemented liberal reforms have been able to generate prosperity while ensuring economic development. These clusters are compared from an economic as well as a social standpoint. Furthermore, by clustering countries with a different geographical or social background but with similar reform agenda, this study confirms also that institutions and politicians represent a major obstacle to liberal reforms rather than differences in culture. In times of profound changes, this study could serve as an initial thought for anyone who wants to bring back development and prosperity in one of the oldest trading centers of the World.

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