HOW THE ECONOMY GROWS

CONSUMPTION ORIENTATION

GREAT BRITAIN
Consumption-oriented growth model
- High current account deficit: imports exceed exports
- High consumer spending
- High demand for services, also from moderately skilled and low skilled providers

GROWTH IN GDP
(represented with an initial value of 100 for 1994)

The years between 1994 and 2007 saw the longest period of sustained growth in the OECD since the beginning of the oil crisis in 1974/75.

EXPORT SHARE OF GDP
(in percentage of GDP)

Exports are price-sensitive, particularly when industrial products are involved. This means that an export-oriented economy profits from low wages.

ITALY
Growth model neither consumption-oriented nor export-oriented
- Small export sector, specialization in labor-intensive goods
- Real Euro exchange rate too high in relation to economic performance
- Low consumption

Important economic factors
- Tourism
- Footwear and fashion
- Wine
- Furniture

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Until about 30 years ago, growth in Europe was fueled by rising wages and growing consumption. However, national and international developments started undermining this model in the 1990s. Since then, Germany has strengthened its reliance on exports, while Britain, Sweden and Italy have branched out onto other paths. Lucio Baccaro from the Max Planck Institute for the Study of Societies in Cologne has been analyzing the various possibilities.

**SWEDEN**

Consumption-oriented and export-oriented growth model

- Simultaneous growth in export and consumption
- Price-insensitive exports: particularly IT services
- Wage growth in industry and the service sector

**GERMANY**

Export-based growth model

- Sustained current account surpluses: exports exceed imports
- Real Euro exchange rate too low in relation to economic performance
- Growing inequality by due to low wages in the service sector

The majority of economic performance still depends on private household consumption and consequently on disposable income.

Borrowing boosts spending and consequently economic growth. However, this type of “growth on credit” is also viewed critically.