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Finding the Keys to National Prosperity

Through a process of institutional borrowing and creative adaptation, successful economic institutions and cutting-edge technologies spread around the world, and thereby boost global growth. Today, too, there are some great opportunities for this kind of “policy arbitrage,” if more countries would only take the time to learn from other countries’ successes.

For example, while many countries are facing a jobs crisis, one part of the capitalist world is doing just fine: northern Europe, including Germany, the Netherlands, and Scandinavia. Germany’s unemployment rate this past summer was around 5.5%, and its youth unemployment rate was around 8%—remarkably low compared with many other high-income economies.

How do northern Europeans do it? All of them use active labor market policies, including flex time, school-to-work apprenticeships (especially Germany), and extensive job training and matching.

Likewise, in an age of chronic budget crises, Germany, Sweden,
and Switzerland run near-balanced budgets. All three rely on budget rules that call for cyclically adjusted budget balance. And all three take a basic precaution to keep their entitlement spending under control: a retirement age of at least 65. This keeps costs much lower than in France, and Greece, for example, where the retirement age is 60 or below, and where pension outlays are soaring as a result.

Comments

In an age of rising health-care costs, most high-income countries – Canada, the European Union’s Western economies, and Japan – manage to keep their total health-care costs below 12% of GDP, with excellent health outcomes, while the US spends nearly 18% of GDP, yet with decidedly mediocre health outcomes. And, America’s is the only for-profit health system of the entire bunch. A new report by the US Institute of Medicine has found that America’s for-profit system squanders around $750 billion, or 5% of GDP, on waste, fraud, duplication, and bureaucracy.

Comments

In an age of rising oil costs, a few countries have made a real difference in energy efficiency. The OECD countries, on average, use 160 kilograms of oil-equivalent energy for every $1,000 of GDP (measured at purchasing power parity). But, in energy-efficient Switzerland, energy use is just 100 kg per $1,000 of GDP, and in Denmark it is just 110 kg, compared with 190 kg in the US.

Comments

In an age of climate change, several countries are demonstrating how to move to a low-carbon economy. On average, the rich countries emit 2.3 kg of CO2 for every kg of oil-equivalent unit of energy. But France emits just 1.4 kg, owing to its enormous success in deploying safe, low-cost nuclear energy.

Comments

Sweden, with its hydropower, is even lower, at 0.9 kg. And, while Germany is abandoning domestic production of nuclear energy for political reasons, we can bet that it will nonetheless continue to import electricity from France’s nuclear plants.

Comments

In an age of intense technological competition, countries that combine public and private research and development (R&D) financing are outpacing the rest. The US continues to excel, with huge recent breakthroughs in Mars exploration and genomics, though it is now imperiling that excellence through budget cuts. Meanwhile, Sweden and South Korea are now excelling economically on the basis of R&D spending of around 3.5% of GDP, while Israel’s R&D outlays stand at a remarkable 4.7% of GDP.

Comments

In an age of rising inequality, at least some countries have narrowed their wealth and income gaps. Brazil is the recent pacesetter, markedly expanding public education and systematically attacking remaining pockets of poverty through targeted transfer programs. As a result, income inequality in Brazil is declining.

Comments

And, in an age of pervasive anxiety, Bhutan is asking deep questions about the meaning and nature of happiness itself. In search of a more balanced society that combines economic prosperity, social cohesion, and environmental sustainability, Bhutan famously pursues Gross National Happiness rather than Gross National Product. Many other countries – including the United Kingdom – are now following Bhutan’s lead in surveying their citizenry about life satisfaction.

Comments

The countries highest on the ladder of life satisfaction are Denmark, Finland, and Norway. Yet there is hope for those at lower latitudes as well. Tropical Costa Rica also ranks near the top of the happiness league. What we can say is that all of the happiest countries emphasize equality, solidarity, democratic accountability, environmental sustainability, and strong public institutions.

Comments

So here is one model economy: German labor-market policies, Swedish pensions, French low-carbon energy, Canadian health care, Swiss energy efficiency, American scientific
curiosity, Brazilian anti-poverty programs, and Costa Rican tropical happiness.

Of course, back in the real world, most countries will not achieve such bliss anytime soon. But, by opening our eyes to policy successes abroad, we would surely speed the path to national improvement in countries around the world.

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1. Commented

   **Guy Bragge @Guy Bragge** 2 days ago

   Mr Sachs, correctly points out how many countries have learned from others, who achieved economic growth before them. This very different to choosing lessons and to pick their originators, from being told what lessons need to be learnt and to be told who is going to teach them. Maybe there is a lesson to be learnt there?
**Lyle Sykora 26 November 2012**

Without a study of how oil equivalents are determined I wonder if it is correct to compare Switzerland’s small geography and small high value production with the United States continental sized geography and transportation costs with in many cases its low value high volume output such as wheat and corn.

Additionally, I wonder if Russia and Japan consider nuclear energy safe and clean. Nuclear energy is anything but clean and safe. It is dirty from mining uranium ore to the disposal of used fuel rods which must be constantly cooled to be safe which is still a problem bedeviling the nuclear industry. Moreover, building and disposing of nuclear plants cannot be done without great costs using more energy.

**John Brian Shannon @@JBSCanada 2 November 2012**

Hi Jeffrey,

Great piece. Common-sense, logical and cogent argument. Expectedly so.

In any event, I would like to cover a topic somewhat related to your fine post, free minor (as opposed to major) health care for lower-income U.S. workers.

**Timothy Williamson @contractingcorp 30 September 2012**

Obviously well-paid workers do not need this sort of coverage, I’m talking about lower income workers. Let’s just say lower paid workers (possibly supporting a large family) might fall under $50,000 gross income per year.

Many otherwise productive work days become 'sick days' for lower-income workers -- such levels of illness related time off work are unheard of in the highest 50% of American workers, as they are well and able to afford the best medicine, treatment and preventative maintenance.

**Train Train 27 September 2012**

As far as I can see, far too many people endure so many more days per year (compared to their $50,000/year counterparts) because they feel they cannot afford the 2 hours off work to see a doctor to get treatment and pay for a prescription/treatment or advice to avoid a much longer illness or hospital stay.

**Joseph Concordia 27 September 2012**

Jeffrey: Are there keys to prosperity powerful and large enough to overcome the impacts of structural changes in the US？

Better and cheaper the treatment is, resulting in that many more productive work days, for lower-income workers! It’s as simple as that.

Jeffrey: Are there keys to prosperity powerful and large enough to overcome the impacts of structural changes in the US？

1. Commented
2. Expand
3. Expand
4. Expand
5. Expand
6. Expand
7. Expand
Jeffrey Sachs raises all the right points and indeed there are so many excellent examples in the world where 4.5% GDP growth of 2% or less, fiscal and monetary policies that balance and allow prosperity has already taken shape and in spite of the current problems of growth there is still so much in the various degrees of capitalistic and socialist elements. I believe it may be possible to achieve a reasonable level of "Gross National Happiness" in such an environment, but it will take a big change in popular ideologies to implement such a program. But I have still a sound at odds some of the best examples that the Swiss tradition could teach are not easily replicable anywhere else. For example the sense of equity and equanimity within the community (Gemainde) which allows every household to be engaged in a quest for the sharing of gains and pains, do not find takers in the other communities. Instead of creating wide roads leading to the city (Zurich for example) the roads are narrower and parking spaces very limited; the purpose is not to incentivize more cars into the city, but to limit them as part of the process of designing the highest quality. There is no concept of a low cost housing, which according to the Swiss could actually harm the environment by destabilizing the process of movement of people. The punishments for traffic violations are the highest when for getting a driver's license one has to struggle the hardest in the world (no wonder the number of traffic violations are the lowest). The prisons are empty and the country has no permanent military, while the police are on the spot at the fastest possible time; the country averages eleven minutes for any accident to happen on the road and the arrival of the ambulance, which includes those that happen in the ski resorts on the top of Alps. Could a Sophist come up with a more all meaning phrase that sounds good?!

This is prosperity. I would go one step further.

In the political health care costs government controlled systems effectively control costs by rationing, denial, prioritizing choices of drugs, higher cancer death rates, and medical tourism by their upper classes. 8.000 Swiss could actually harm the environment by destabilizing the process of movement of people. The punishments for traffic violations are the highest when for getting a driver's license one has to struggle the hardest in the world (no wonder the number of traffic violations are the lowest). The prisons are empty and the country has no permanent military, while the police are on the spot at the fastest possible time; the country averages eleven minutes for any accident to happen on the road and the arrival of the ambulance, which includes those that happen in the ski resorts on the top of Alps. Could a Sophist come up with a more all meaning phrase that sounds good?!

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I love the catch-all-phrases that can allow almost any type of action imaginable.

It's a surprise appearance as part of the current Europe in the 4th paragraph. Why? And parking spaces very limited; the purpose is not to incentivize more cars into the city, but to limit them as part of the process of designing the highest quality. There is no concept of a low cost housing, which according to the Swiss could actually harm the environment by destabilizing the process of movement of people. The punishments for traffic violations are the highest when for getting a driver's license one has to struggle the hardest in the world (no wonder the number of traffic violations are the lowest). The prisons are empty and the country has no permanent military, while the police are on the spot at the fastest possible time; the country averages eleven minutes for any accident to happen on the road and the arrival of the ambulance, which includes those that happen in the ski resorts on the top of Alps. Could a Sophist come up with a more all meaning phrase that sounds good?!

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Native American guides here and there they are. I could relate and such a place to be in place. The alternative is a realistic long term strategy that accepts new standards for economic performance and makes new management models for satisfactory economic viability. Models that accommodate such things as: higher levels of unemployment than 4.5% GDP growth of 2% or less, fiscal and monetary policies that balance and allow prosperity has already taken shape and in spite of the current problems of growth there is still so much in the various degrees of capitalistic and socialist elements. I believe it may be possible to achieve a reasonable level of "Gross National Happiness" in such an environment, but it will take a big change in popular ideologies to implement such a program. But I have still a sound at odds some of the best examples that the Swiss tradition could teach are not easily replicable anywhere else. For example the sense of equity and equanimity within the community (Gemainde) which allows every household to be engaged in a quest for the sharing of gains and pains, do not find takers in the other communities. Instead of creating wide roads leading to the city (Zurich for example) the roads are narrower and parking spaces very limited; the purpose is not to incentivize more cars into the city, but to limit them as part of the process of designing the highest quality. There is no concept of a low cost housing, which according to the Swiss could actually harm the environment by destabilizing the process of movement of people. The punishments for traffic violations are the highest when for getting a driver's license one has to struggle the hardest in the world (no wonder the number of traffic violations are the lowest). The prisons are empty and the country has no permanent military, while the police are on the spot at the fastest possible time; the country averages eleven minutes for any accident to happen on the road and the arrival of the ambulance, which includes those that happen in the ski resorts on the top of Alps. Could a Sophist come up with a more all meaning phrase that sounds good?!

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I love the catch-all-phrases that can allow almost any type of action imaginable.
The fact that Dr. Sachs attempts to compare the infrastructure and the energy needed to run the widely disparate transportation systems in the population dense compact European nations and the vast, sprawling United States endangers his considerable credibility.

Is Dr. Sachs suggesting the U.S. build more dams? He better check with the Salmon fisheries first. The German Interior Ministry just sent an official warning that electric bills will increase by 30%.

The only reason that oil costs are soaring is because of currency devaluation and the strict limits on drilling. There is no shortage of cheap oil outside of a government imposed shortage.

Does Dr. Sachs suggest that the West move to much more expensive economies that control carbon while China and India build massive economies based on cheap carbon energy that more than makes up for our reductions with enormous emissions increases?

In point after point Dr. Sachs supplies a terribly subjective view of the keys to national prosperity that don't seem to stand up to the most basic challenges.