Journal of Applied Economics. Vol XX, No. 1 (May 2017), 141-168

IS GERONTOCRACY HARMFUL FOR GROWTH? A COMPARATIVE STUDY OF SEVEN EUROPEAN COUNTRIES

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Submitted October 2014; accepted July 2016

We study the relationship between gerontocracy and aggregate economic performance in a simple model where growth is driven by human capital accumulation and productive government spending. We show that less patient élites display the tendency to underinvest in public education and productive government services, and thus are harmful for growth. The damage caused by gerontocracy is mainly due to the lack of long-term delayed return on investments, originated by the lower subjective discount factor. An empirical analysis using public investment in Information and Communication Technologies (ICT) is carried out to test theoretical predictions across different countries and different economic sectors. The econometric results confirm our main hypotheses.

JEL classification codes: J1, O4

Key words: gerontocracy, economic growth and aggregate productivity, education, ICT

I. Introduction

Over the last twenty years, per capita income growth rates have ceased to converge across OECD countries, and there has been a surge of academic research and policy attention about the causes underlying differences in economic growth performance

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across these countries. While productivity has accelerated in emerging economies and, most notably, in the United States, it has substantially slowed down in continental Europe and Japan (OECD 2004). Focusing on Europe, it is easily observed that, since the mid-1990s, economic performance has experienced a significant contraction compared to earlier periods. The economic literature developed so far has provided various explanations for such a sclerosis (Blanchard 2002; Gordon 2004). The most commonly cited causes of the slow growth concern the rigidity of the European economic model, the burden of taxation, the strict dependency of citizens on the welfare system, and the evidence that Europe has used some of the past productivity improvements to increase leisure rather than income. In particular, a wide consensus has been reached among researchers regarding the "European model", which, despite its successes during the post-war era, is proving to be inadequate now that economic development is increasingly based on innovation, and national firms can no longer be protected from foreign competition. Moreover, several researchers point out that the adoption of important general purpose technologies associated with the Information and Communication Technologies (ICT) revolution has been hindered or impeded in Europe by an excessively regulated labor market and an insufficient level of competition (van Ark et al. 2008). Although this productivity crisis is a common feature of a number of European economies, remarkable differences emerge from cross-country comparisons.[1]

Most recently, a new strand of literature has emerged, proposing that a large share of the heterogeneity in productivity growth across countries (and within Europe in particular) could be attributed to the economic and political élites' capacity of managing a country (Caselli and Morelli 2004; Mattozzi and Merlo 2007). Along these lines of thinking, the élites' responsibilities, with respect to the institutional, social, and technological delays accumulated in the recent past, have become an issue in the European economic panorama.

In contrast to this literature, our claim in this paper is that the élites' responsibility does not exclusively derive from their simple tendency to maintain the status quo. It is also due to their inability to seize the opportunity offered by new technologies and to implement the best choice for the economy as a whole, which is a direct consequence of the obsolescence of their personal human capital. Indeed, as pointed out by Messner and Polborn (2004), many political or economic reforms resemble

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[1] For example, OECD (2004) reports that, compared with the previous decade, hourly labor productivity picked up in a group of economies, including Norway, Portugal, Germany, Finland, and Sweden, while it remained stable or reduced in the others.

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