



Structural perspectives on European employment, productivity and growth in a global context

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Key messages

Prolonged weak demand has left many European economies with heavy public debt burdens, low investment and slow potential growth

Improved structural policies, in the context of active demand management, would address these challenges

Some structural policies could also help to contain inequality



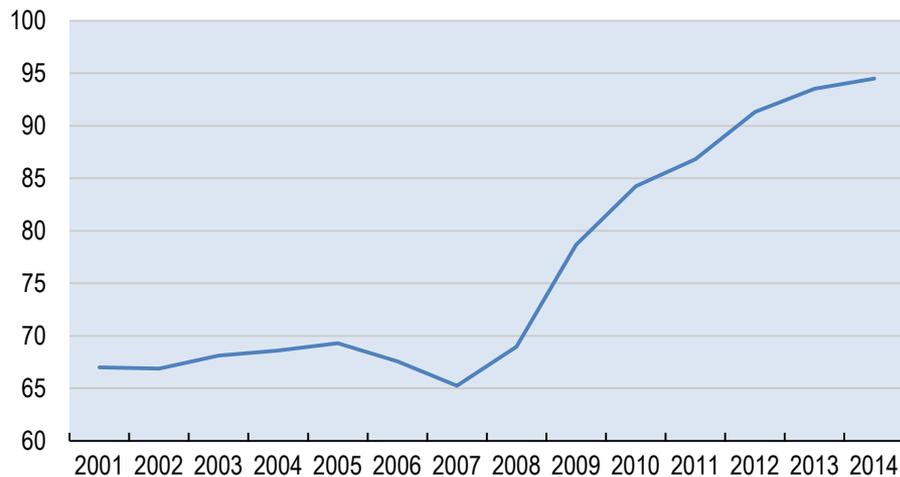
High public debt ratios are one legacy of the crisis

From the onset of the crisis, debt ratios were pushed up by higher deficits, financial rescue packages and slow (or negative) nominal GDP growth

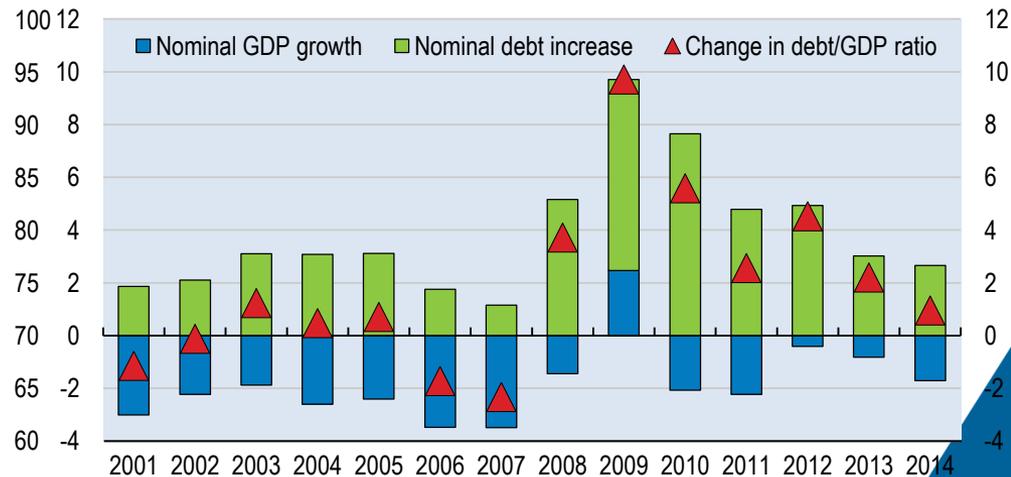
Bringing them back to prudent levels is among the challenges facing European economies

Public debt dynamics in the euro area¹

A. General government gross debt, Maastricht definition
Per cent of GDP



B. Components of annual change in debt-to-GDP ratio
Percentage points



1. Euro-area 15 countries.

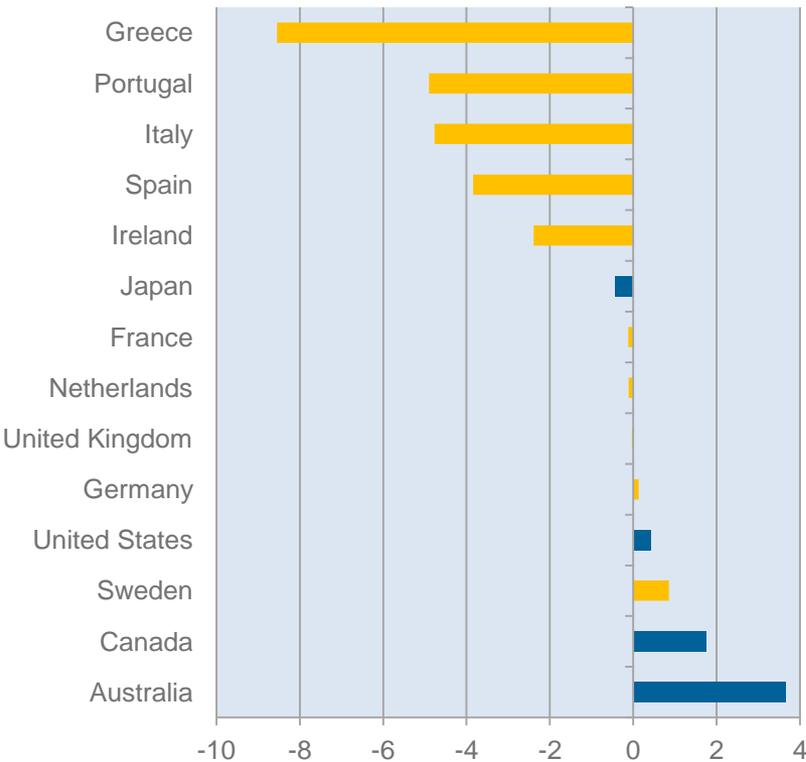
Source: Preliminary June 2015 OECD Economic Outlook database (STEP97).



Sluggish investment has been a factor preventing growth from reducing debt burdens

Non-residential fixed investment

Volumes, average annual percentage change from 2007 to 2014



Weak business investment post-crisis mostly explained by subdued demand

Economic/policy uncertainty has fallen, but still a drag on investment

Restrictive financing conditions pertained in some countries, especially early on in the crisis

OECD work finds that restrictive product market regulation hinders investment

Public investment, potential higher multipliers, has often been cut to meet fiscal consolidation objectives

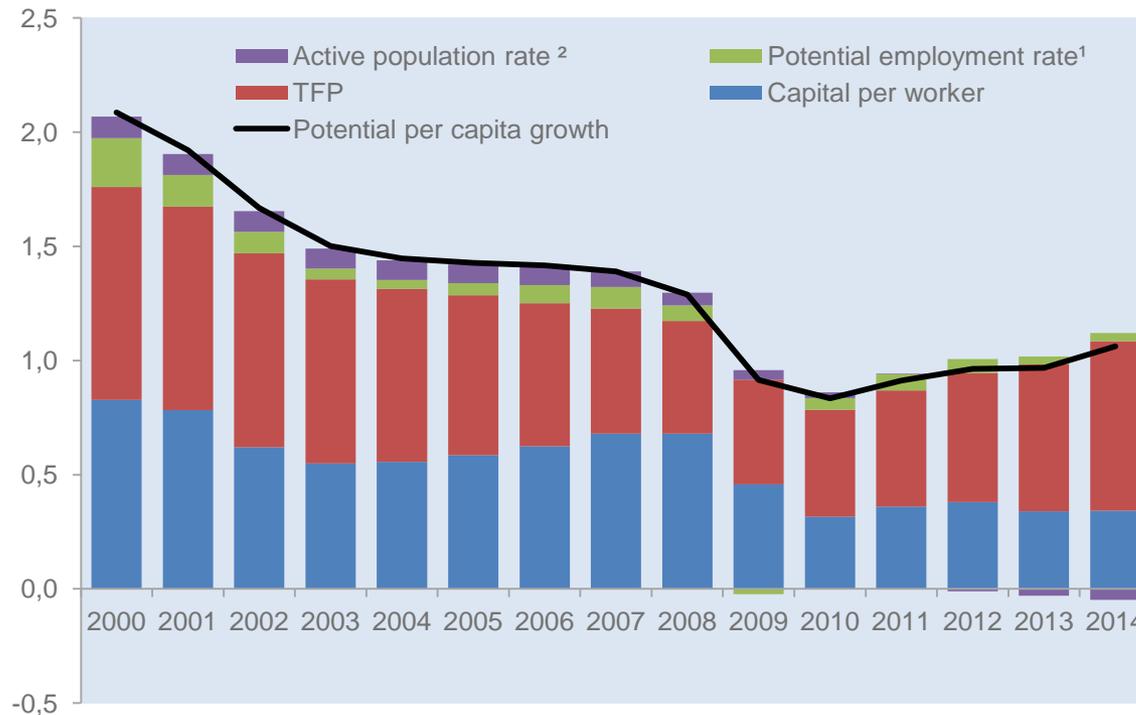
Note: Non-European countries in blue.

Source: Preliminary June 2015 OECD Economic Outlook database (STEP97).



Low investment explains much of the post-crisis slowdown in potential growth

Growth of OECD potential output per capita
Contribution of components in percentage points



1. Potential employment as a share of the working-age population (15-74).

2. Share of the population of working age in total population.

Source: Preliminary June 2015 OECD Economic Outlook database (STEP97).



In the context of weak investment, the Juncker Plan could be a useful initiative

Constructive collective action with regulatory harmonisation would generate positive externalities

- Recent OECD work suggests that cutting the heterogeneity of product market regulation by one fifth could increase intra-EU FDI by about 20%

The Plan offers common vocabulary and spending

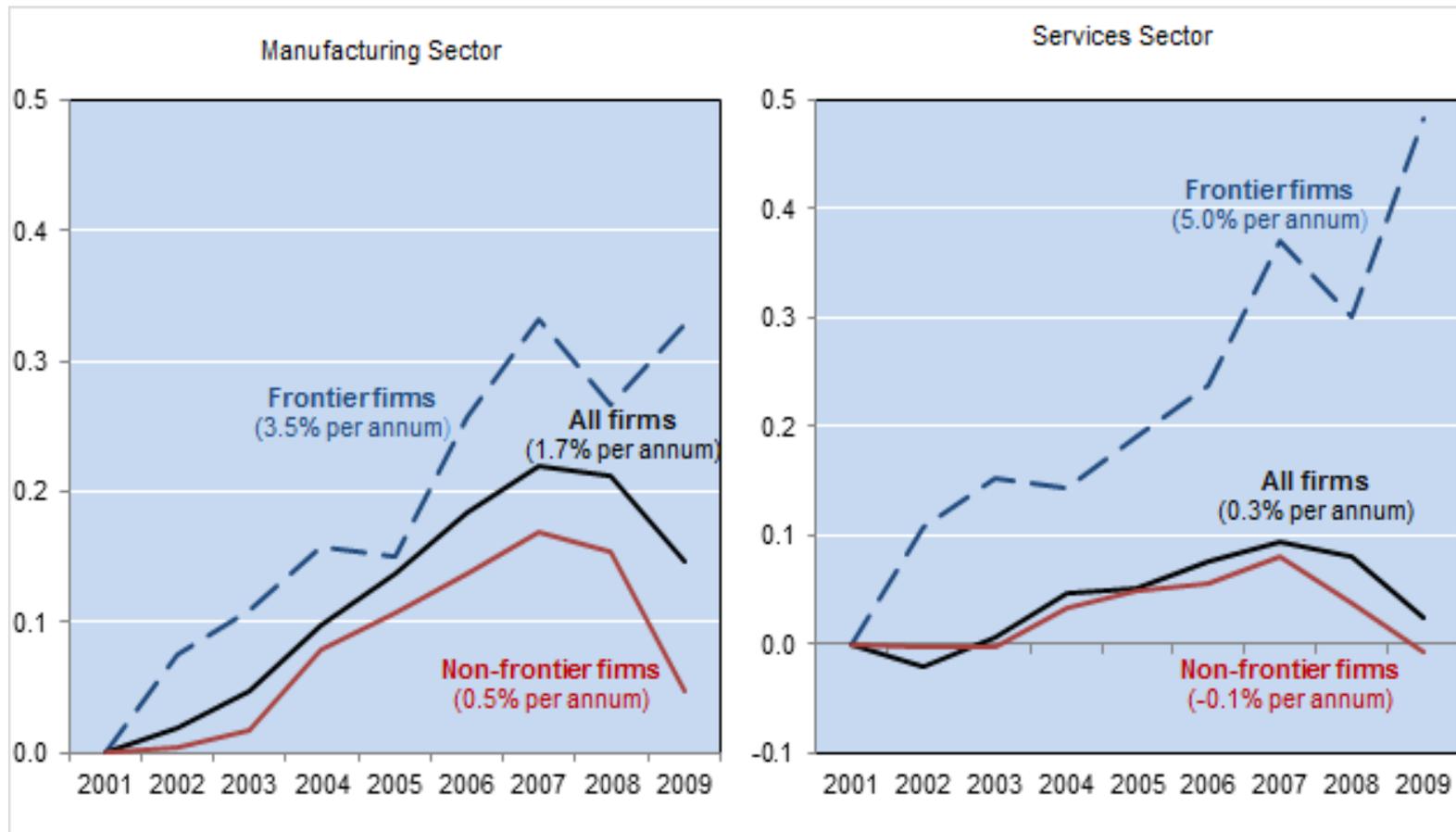
- Acts on supply and demand sides
- Outlays by national governments to the European Fund for Strategic Investment (EFSI) not counted under deficit rules

€21 billion in guarantees from EC and EIB for €60 billion in EIB bond issuance to seed the EFSI; target of €315 billion of new investment over 3 years



TFP growth has also slowed, with diffusion one apparent problem

Solid growth at the global productivity frontier but spillovers disappoint
Labour productivity; index 2001=0

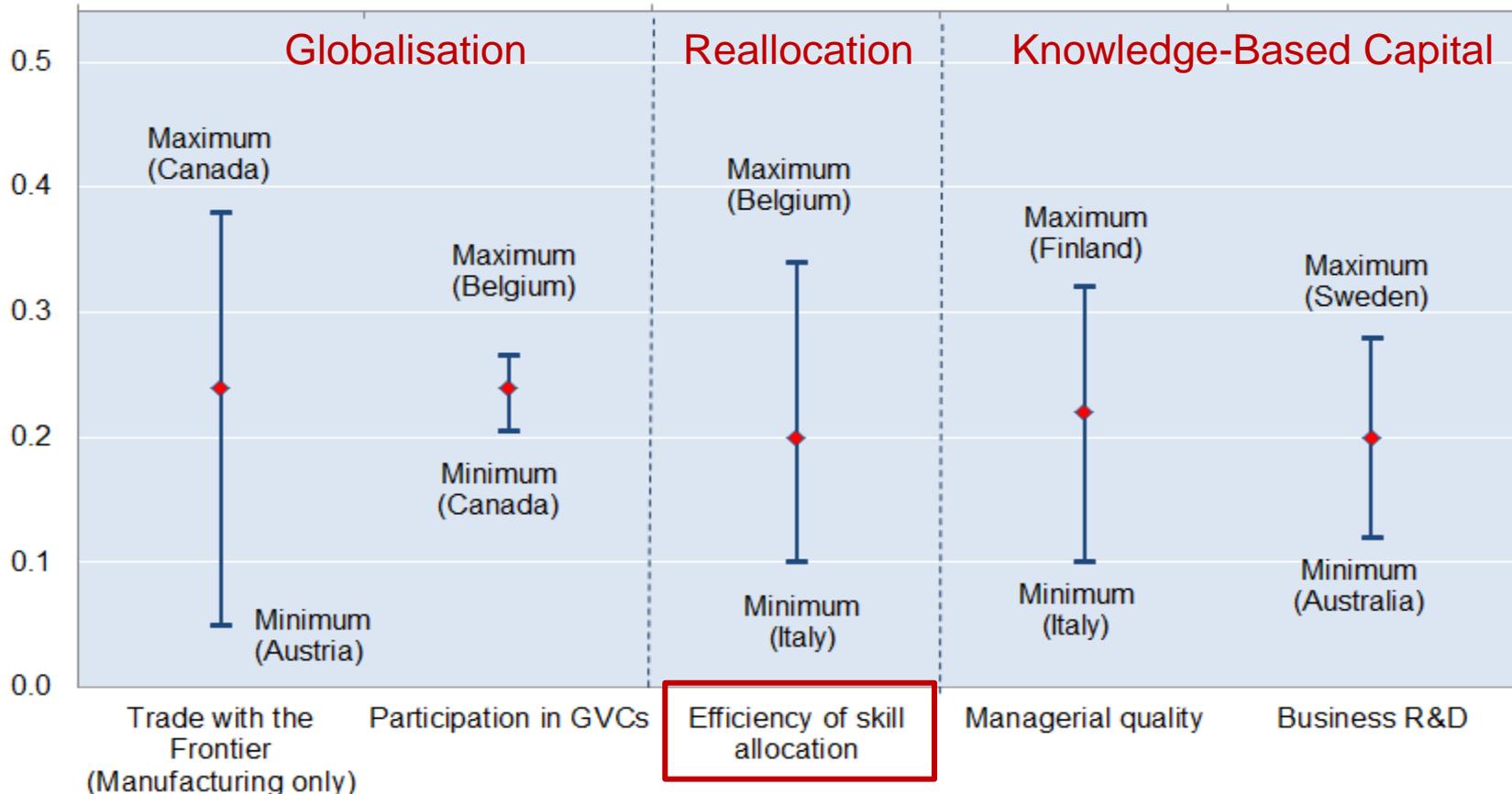


Source: Andrews, D. C. Criscuolo and P. Gal (2015), "Frontier firms, technology diffusion and public policy: micro evidence from OECD countries" forthcoming OECD Working Paper.



Structural factors shape diffusion

Estimated frontier spillover (% p.a.) associated with a 2 percentage point increase in MFP growth at the global productivity frontier

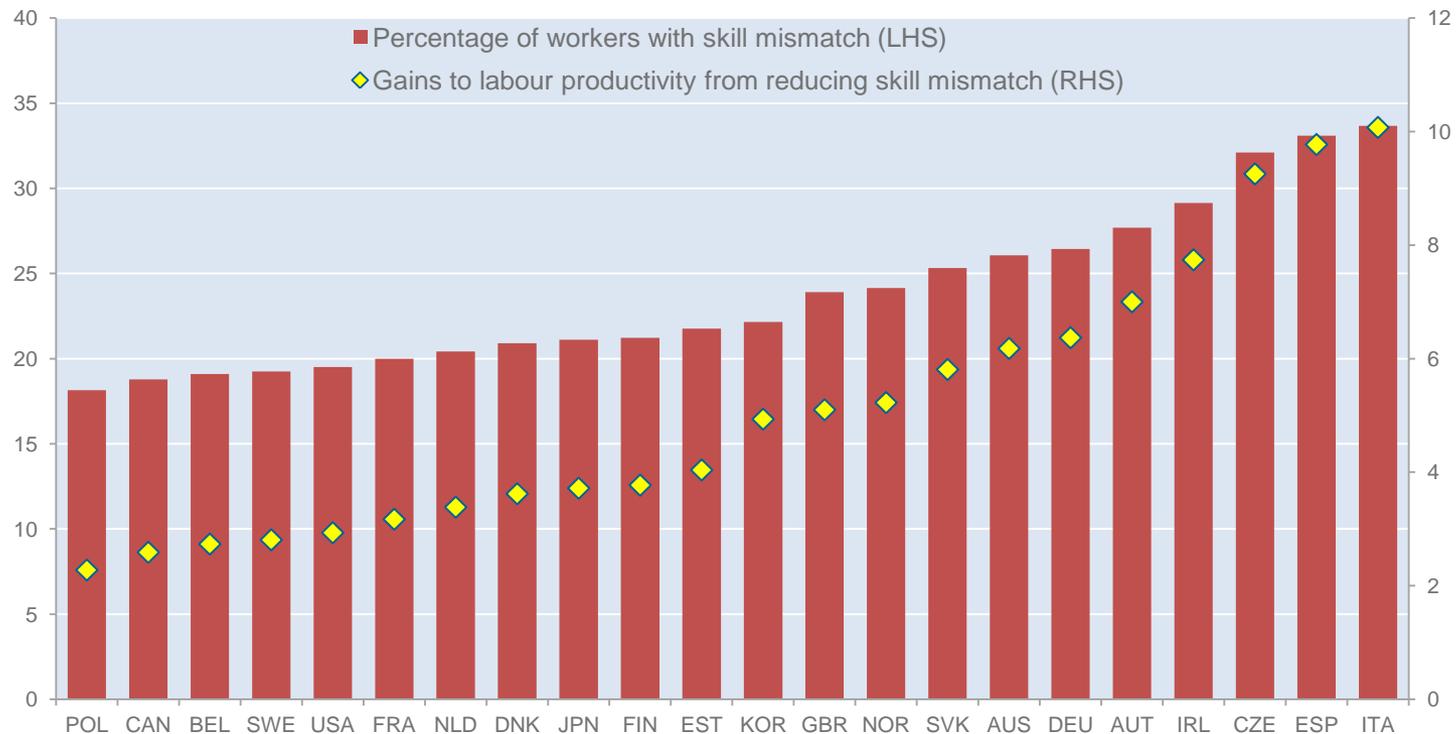


Source: Saia, A., D. Andrews and S. Albrizio (2015), "Public Policy and Spillovers From the Global Productivity Frontier: Industry Level Evidence", OECD Economics Department Working Papers, forthcoming.



Reducing skill mismatches is a promising avenue for boosting productivity

Potential gains from reducing skill mismatch



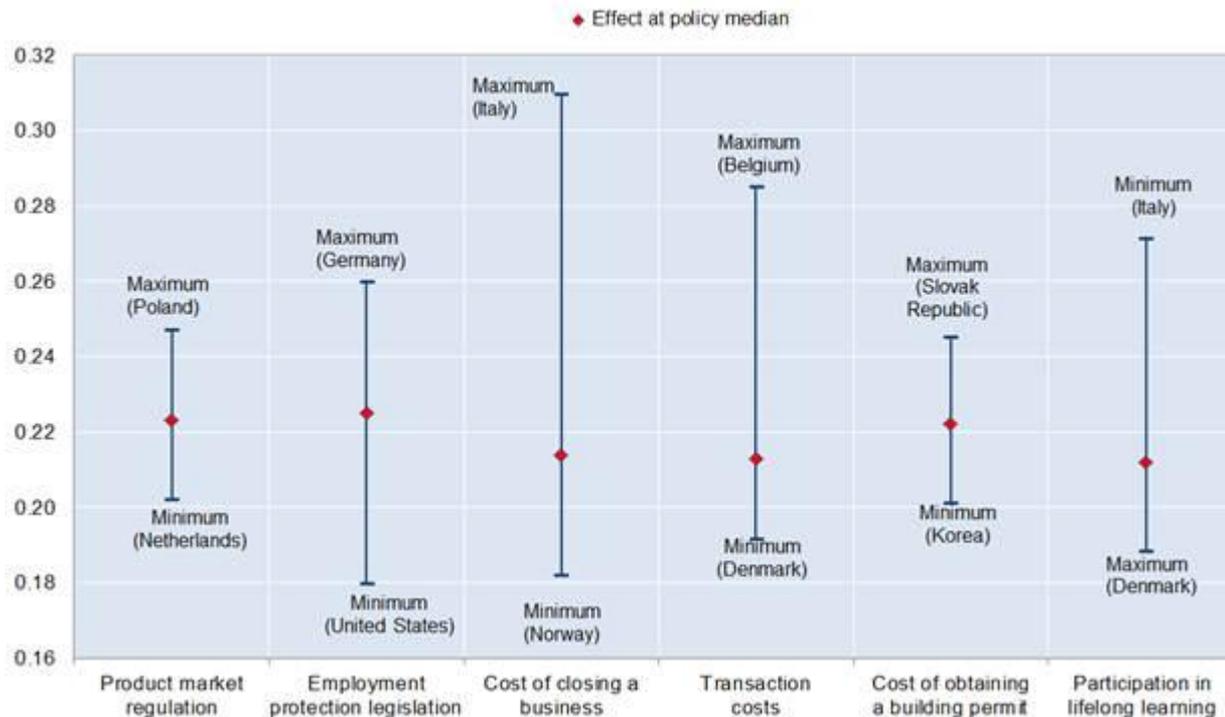
Note: The figure shows the percentage of workers who are either over- or under- skilled and the simulated gains to allocative efficiency from reducing skill mismatch in each country to the best practice level of mismatch. The figures are based on OECD calculations using OECD Survey of Adult Skills (2012).

Source: M. Adalet McGowan and D. Andrews (2015), "Labour Market Mismatch and Labour Productivity: Evidence from PIAAC Data" OECD Economics Department Working Paper No. 1209.



Skill matching affected by structural policies and business environment

Framework policies and the probability of skill mismatch



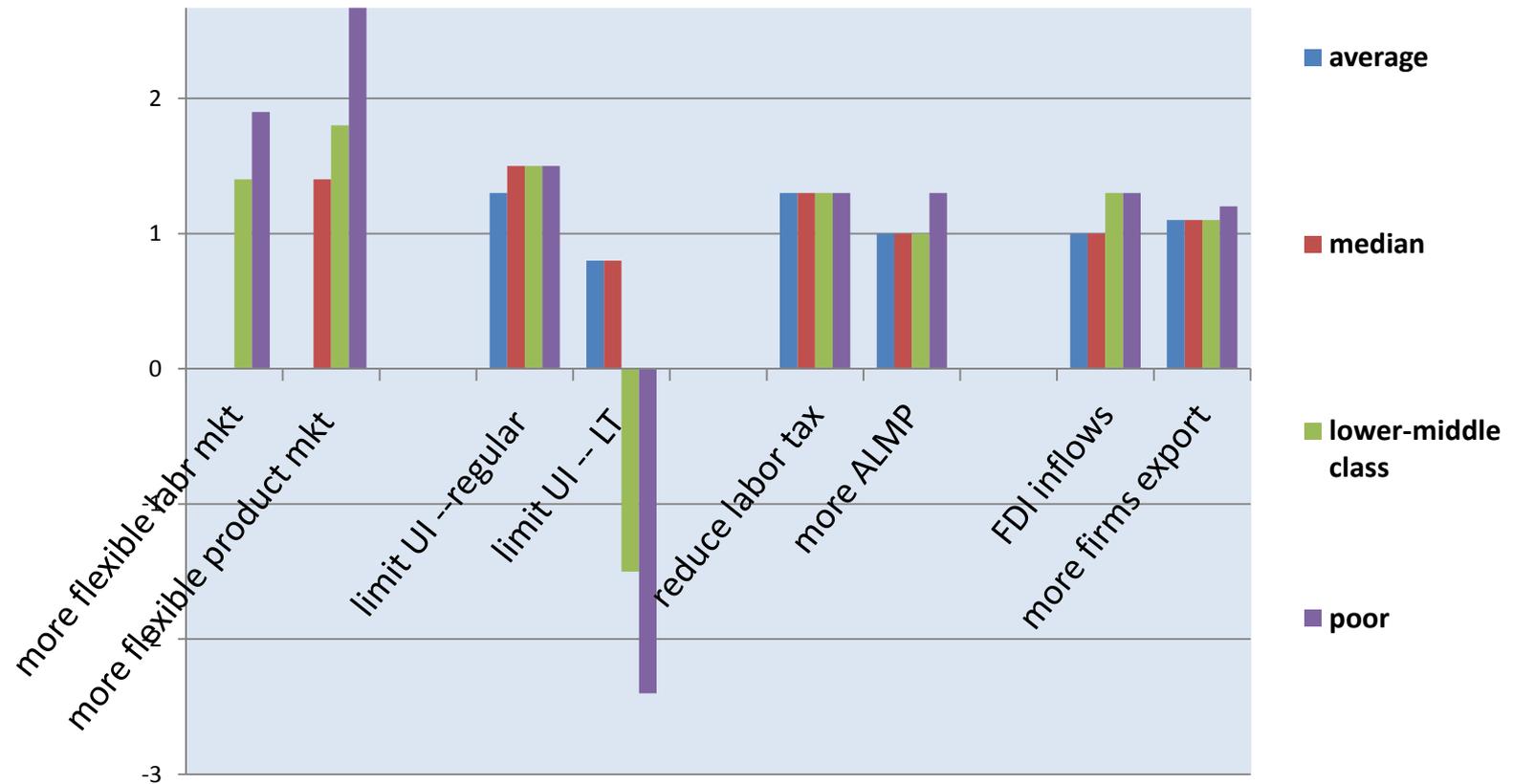
Note: The dot is the average probability to have mismatch evaluated at the median level of the policy and individual characteristics. The distance between the Min/Max of the relevant policy indicator and the median is the change in the probability of skill mismatch with the respective policy change.

Source: M. Adalet McGowan and D. Andrews (2015), "Labour Market Mismatch and Labour Productivity: Evidence from PIAAC Data" OECD Economics Department Working Paper No. 1209.



Structural policy choices also affect inequality

Structural reforms and change in household disposable income
Scaled relative to 1pp increase in GDP per capita in the long run



Source: OECD Economics Department Working Paper 1180. Can pro-growth policies lift all boats? An analysis based on household disposable income by Orsetta Causa, Alain de Serres and Nicolas Ruiz.



Summing up

Mutually reinforcing macro and structural policies in Europe are needed to revive investment, employment and TFP growth

Collective action by the EU/EA could generate positive externalities

Choosing the right pro-growth structural policies can mitigate inequality as well