



Growth and Stagnation in Europe's Economies

Bart van Ark, Mary O'Mahony and Marcel Timmer
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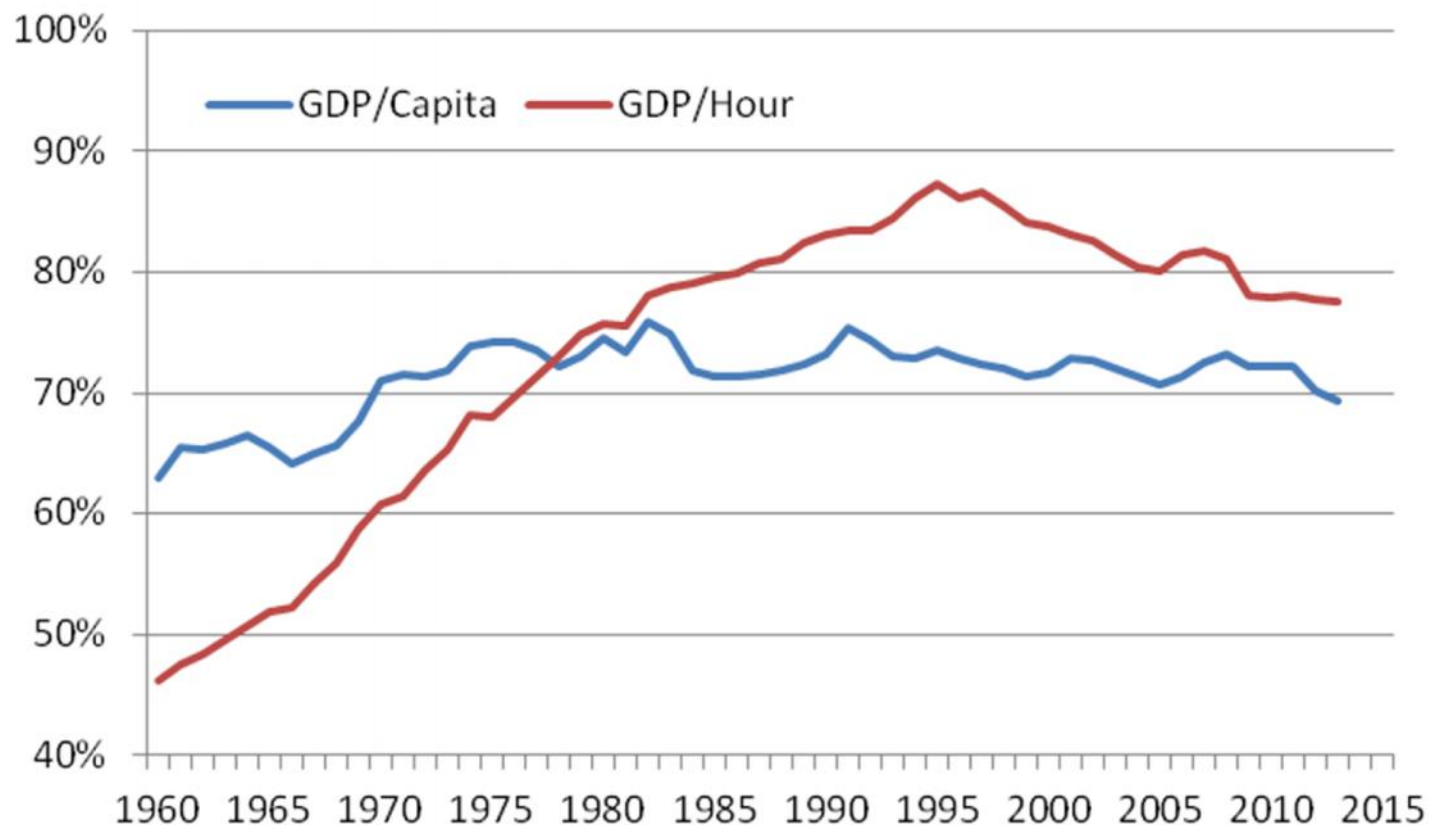
Paper builds on a body of work by the authors

- Bart van Ark, Mary O'Mahony and Marcel P. Timmer (2012), "Europe's productivity performance in comparative perspective: trends, causes and recent developments", in M. Mas and R. Stehrer, eds. , *Industrial Productivity in Europe, Growth and Crisis*, Edward Elgar Publishing, Inc., pp. 65-91
- Bart van Ark, Vivian Chen, Bert Colijn, Kirsten Jäger, Wim Overmeer and Marcel Timmer (2013), *Recent Changes in Europe's Competitive Landscape and Medium-Term Perspectives: How the Sources of Demand and Supply Are Shaping Up*, The Conference Board Report for DG ECFIN, European Economy Economic Papers 485, Brussels: European Commission.
- Bart van Ark (2014), *Productivity and Digitalisation in Europe: Paving the Road to Faster Growth*, Lisbon Council Policy Brief Vol. 8, No. 1, The Lisbon Council, Brussels



No further opening up of productivity gap between Europe and U.S?

GDP per capita and GDP per hour worked in EU-15 as % of the United States, 1960-2013

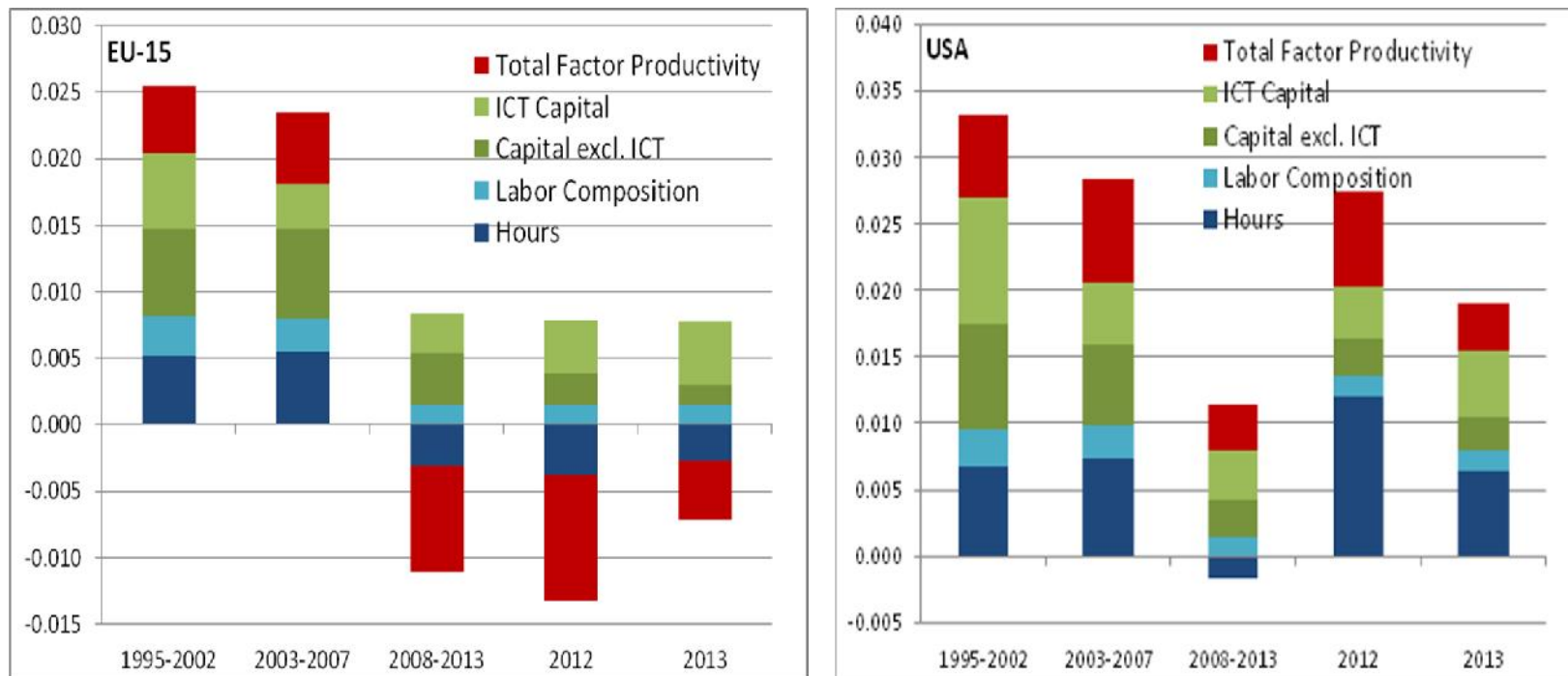


Source: The Conference Board Total Economy Database (<http://www.conference-board.org/data/economydatabase/>)



Demographics and productivity clearly continue to work against Europe relative to the United States

Sources of GDP growth in EU-15 and the United States, 1995-2013

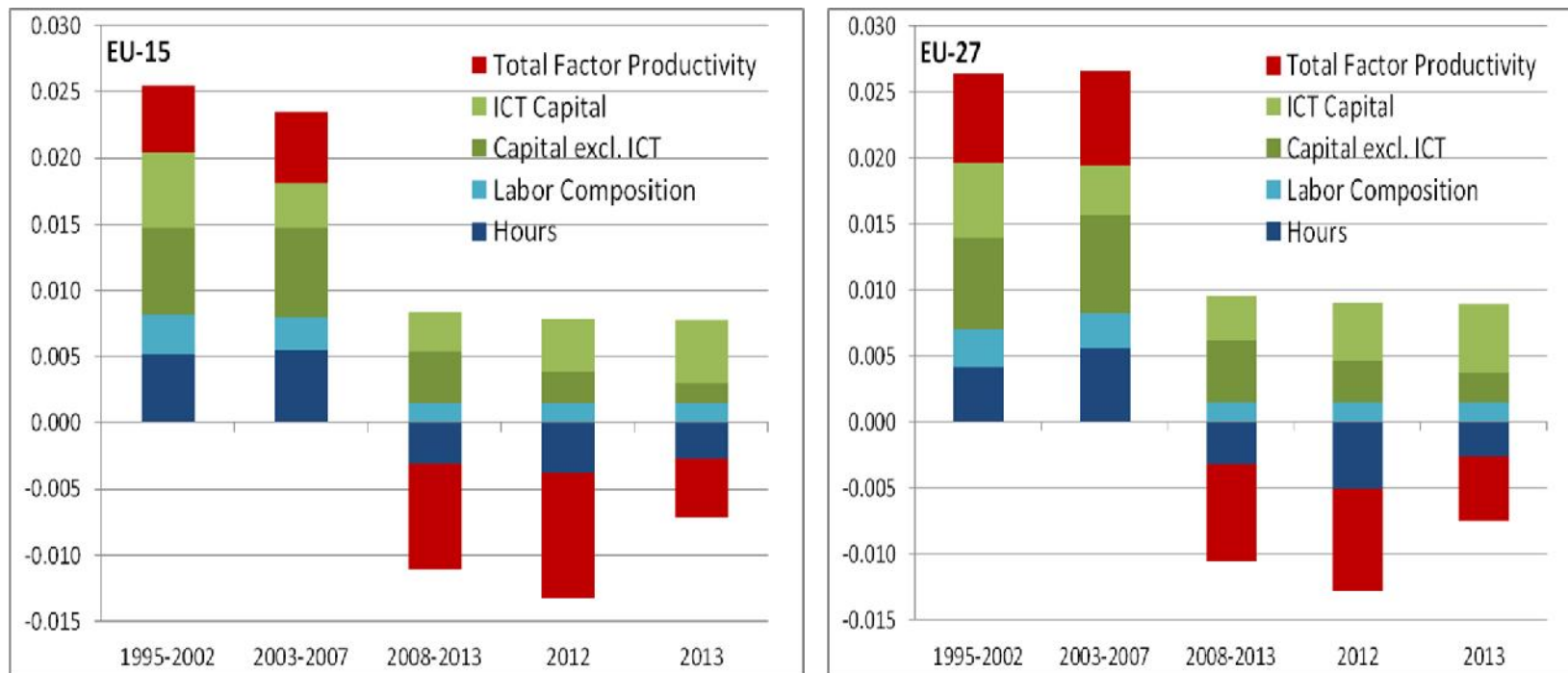


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Extending EU-15 to EU-27 tells a somewhat different story on productivity pre-2008, but not since 2008

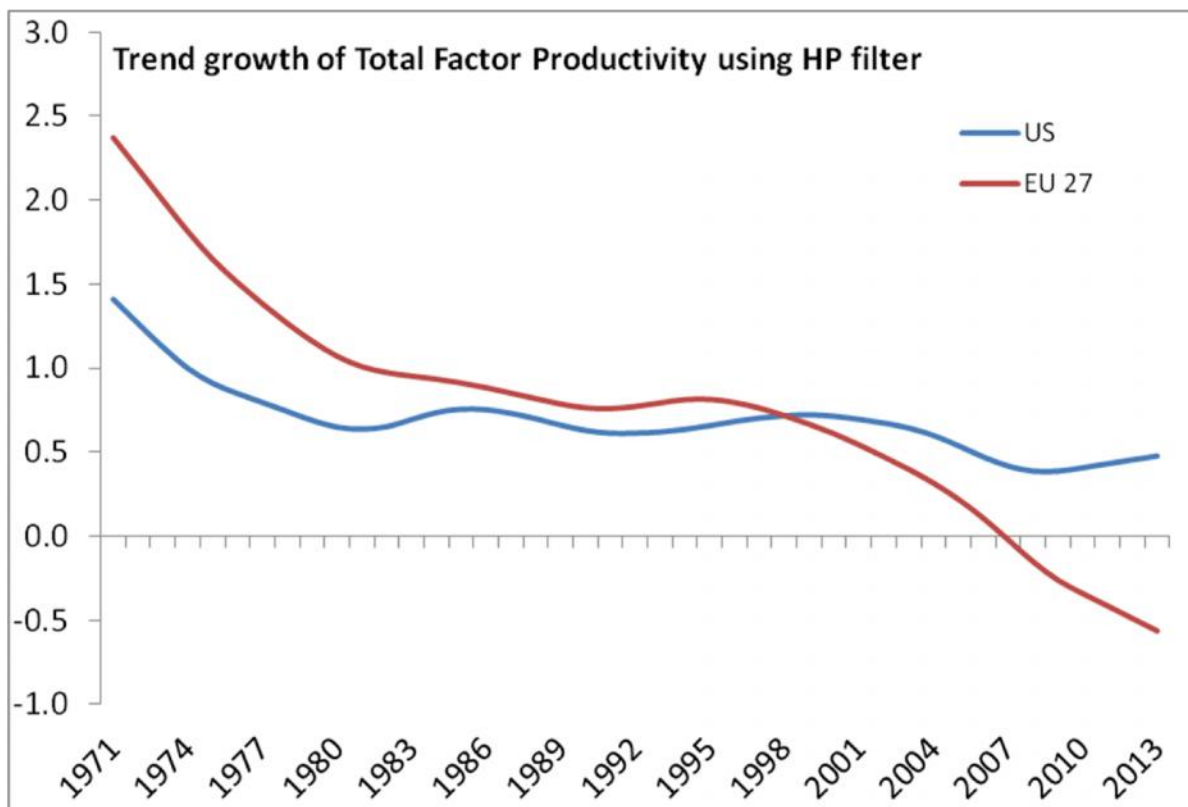
Sources of GDP growth in EU-15 and EU-27, 1995-2013



Source: The Conference Board Total Economy Database (<http://www.conference-board.org/data/economydatabase/>)



The story of a declining total factor productivity trend remains of major concern

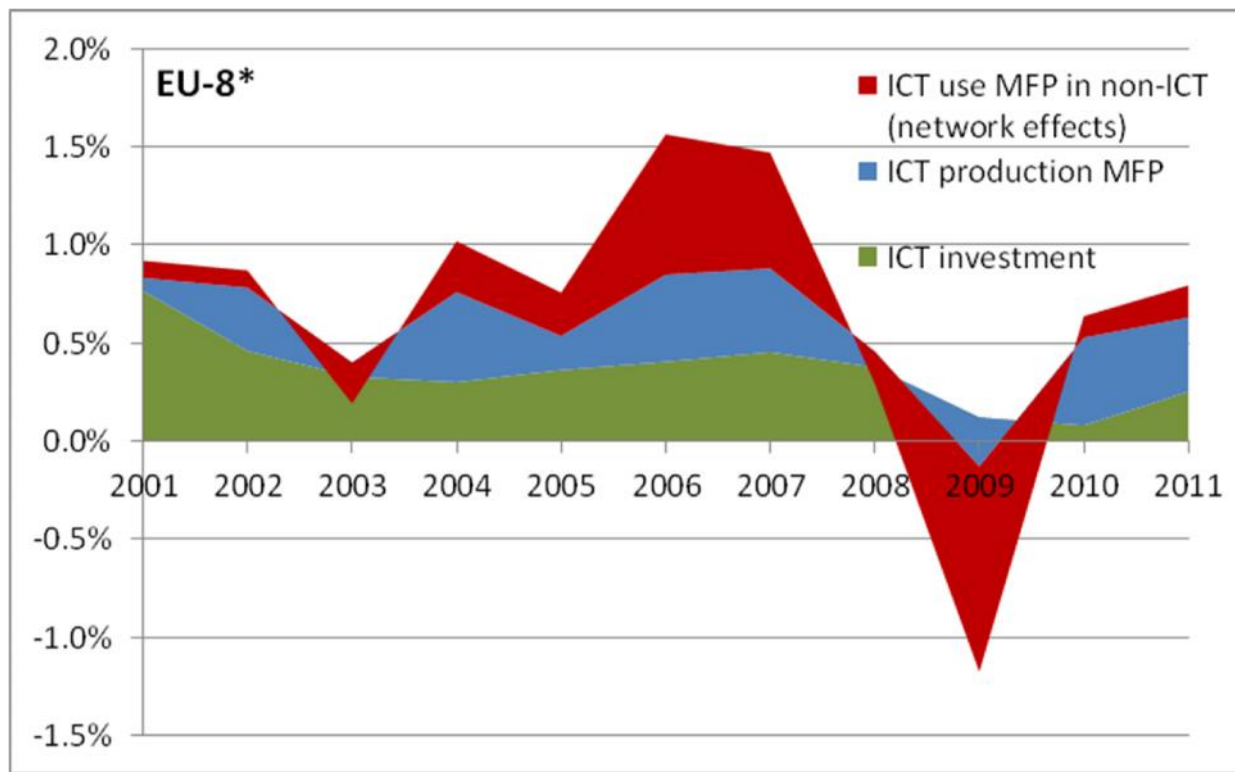


Source: The Conference Board Total Economy Database (<http://www.conference-board.org/data/economydatabase/>)



The ICT sector didn't do much to prevent TFP growth from declining even further

Growth Contributions from ICT Production, Investment and Use in Non-ICT sector, 2001-2011

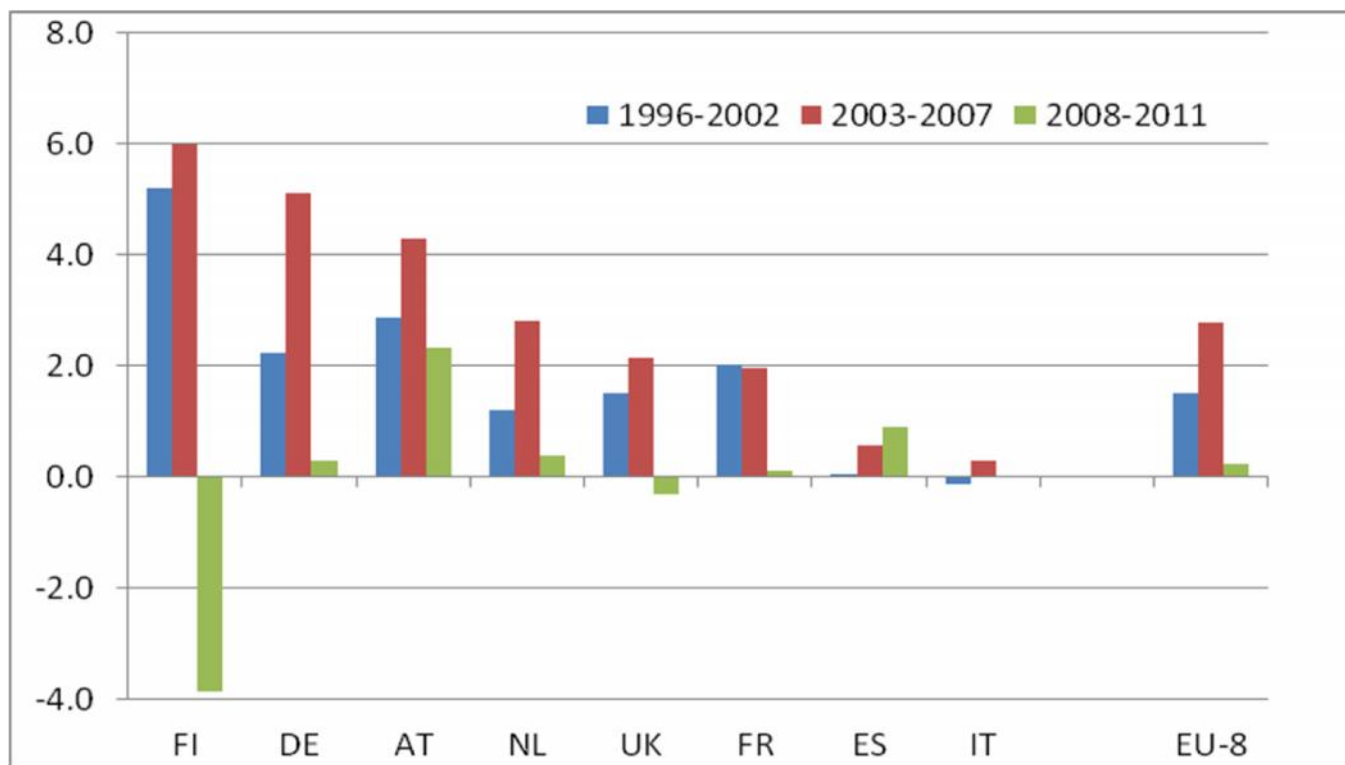


Source: Corrado and Jaeger, *The Conference Board*.



The slowing productivity growth trend is not primarily a manufacturing story ...

Total Factor Productivity Growth in Goods-Producing Sector, 1996-2011

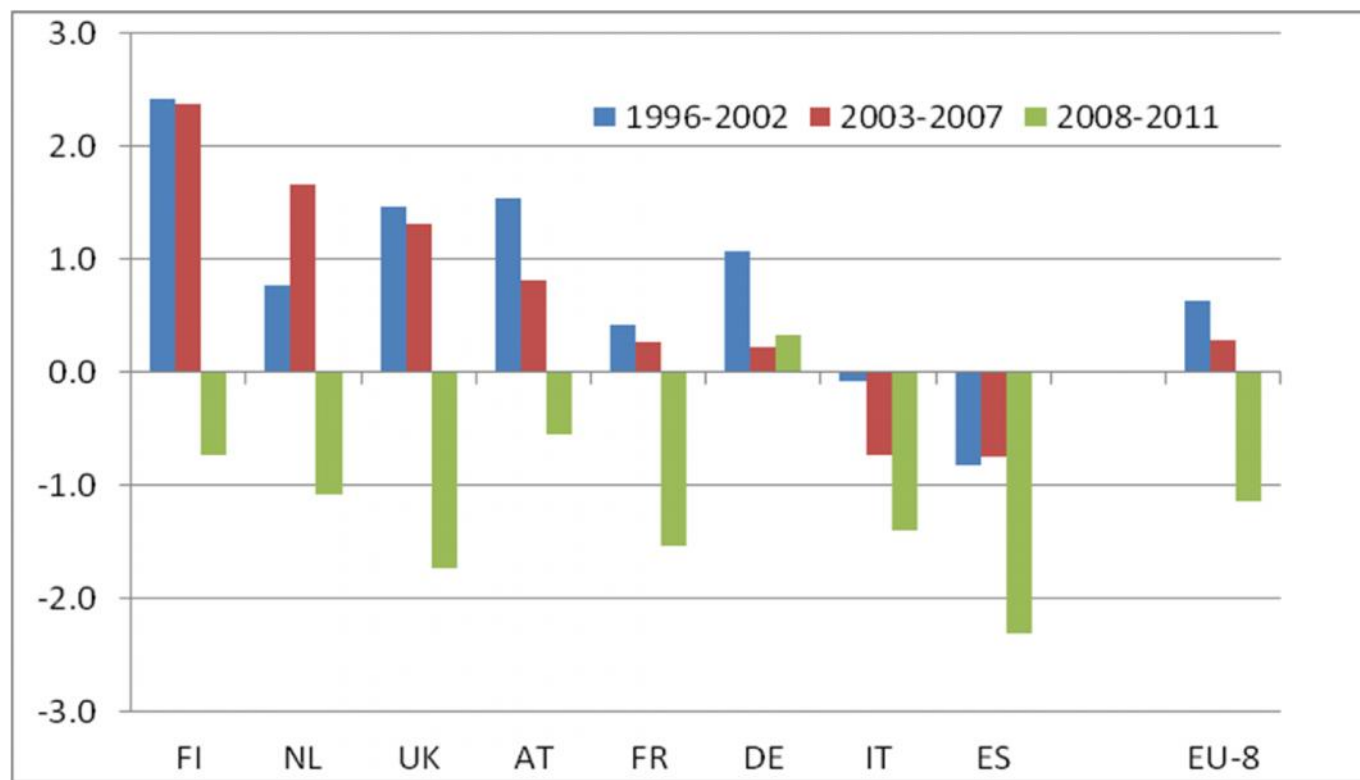


Source: EUKLEMS, updated to 2011 by The Conference Board



... but remains largely a services sector story

Total Factor Productivity Growth in Market Services Sector, 1996-2011

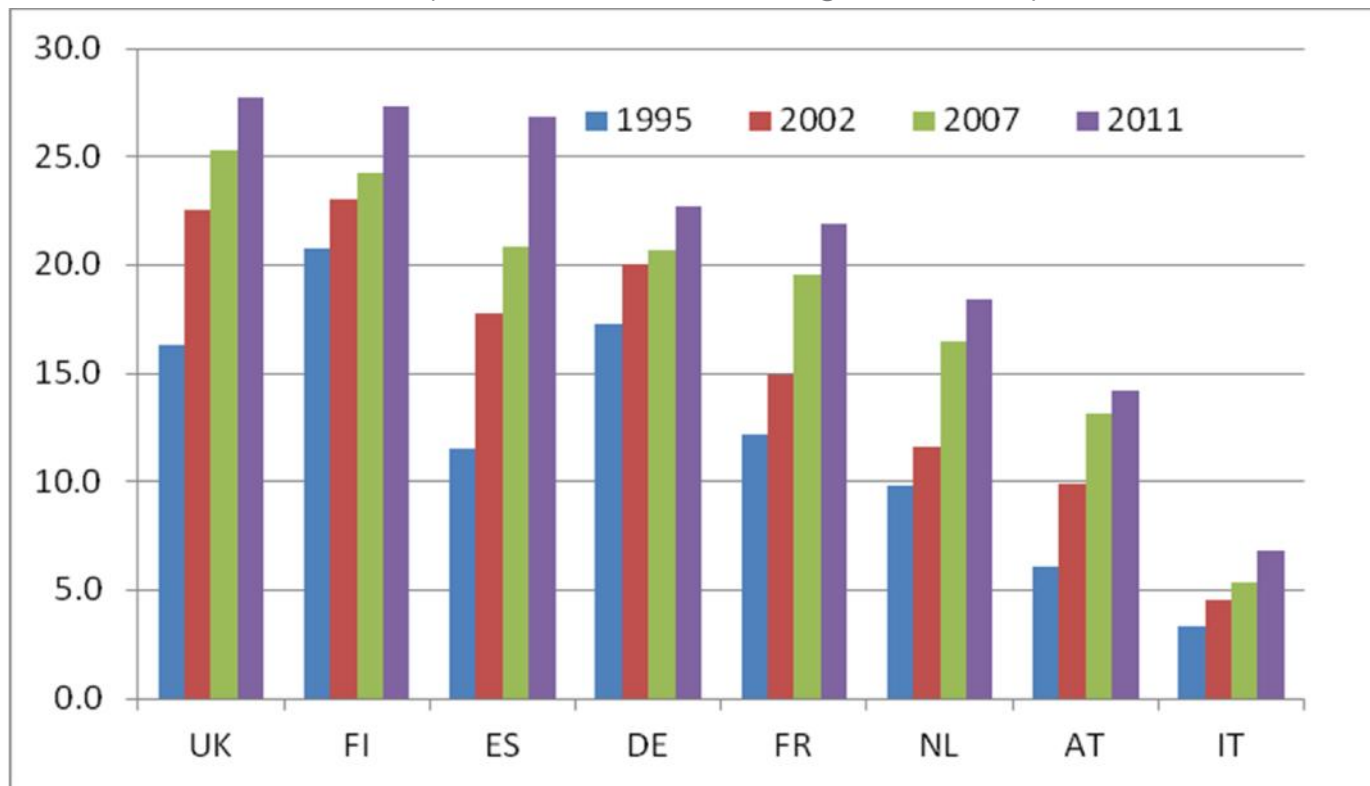


Source: EUKLEMS, updated to 2011 by The Conference Board



Skills levels have not been the main cause of slowing TFP – they increased even during the recession

Percent of the workforce in the highest skill group in the goods producing sector (ISCED levels 5-6, college education)

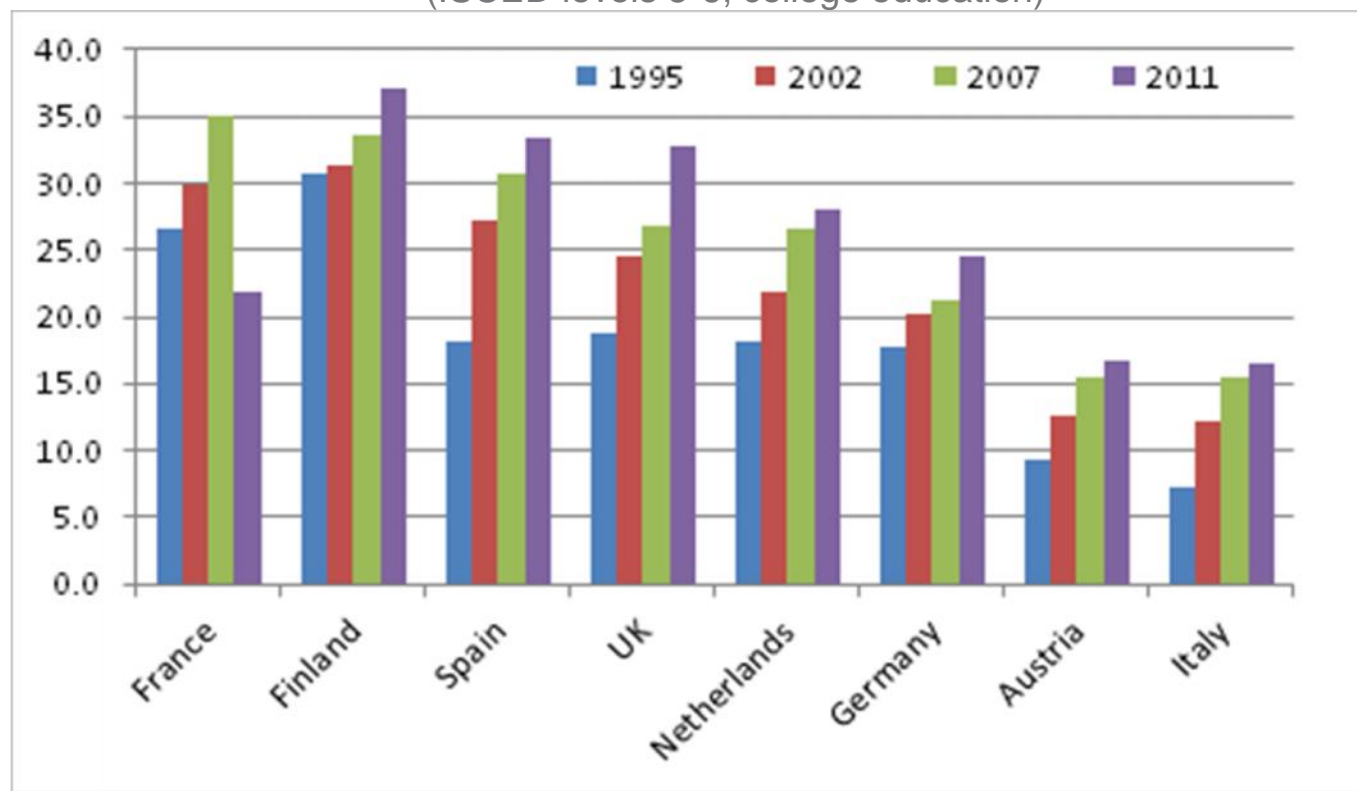


Source: EUKLEMS, updated to 2011 by The Conference Board



Skills levels in market services even higher than in goods producing sector

Percent of the workforce in the highest skill group in the goods producing sector (ISCED levels 5-6, college education)



Source: EUKLEMS, updated to 2011 by The Conference Board



The main story is the increased diversity across the European economies

1. Integrated value chain

- Germany and Central & Eastern Europe (incl. Austria) have created a strong value chain amongst themselves, and tied into global value chain, providing potential for strong innovation
- But demographics are projected to be weak and growth is coming from external sector.

2. Global niche players: an arc of small economies in northwestern Europe

- Nordic, Baltic and Benelux countries and Ireland have narrow but highly competitive export sectors, but more strength in services sector of economy



Four groups of countries emerging from productivity and value chain estimates

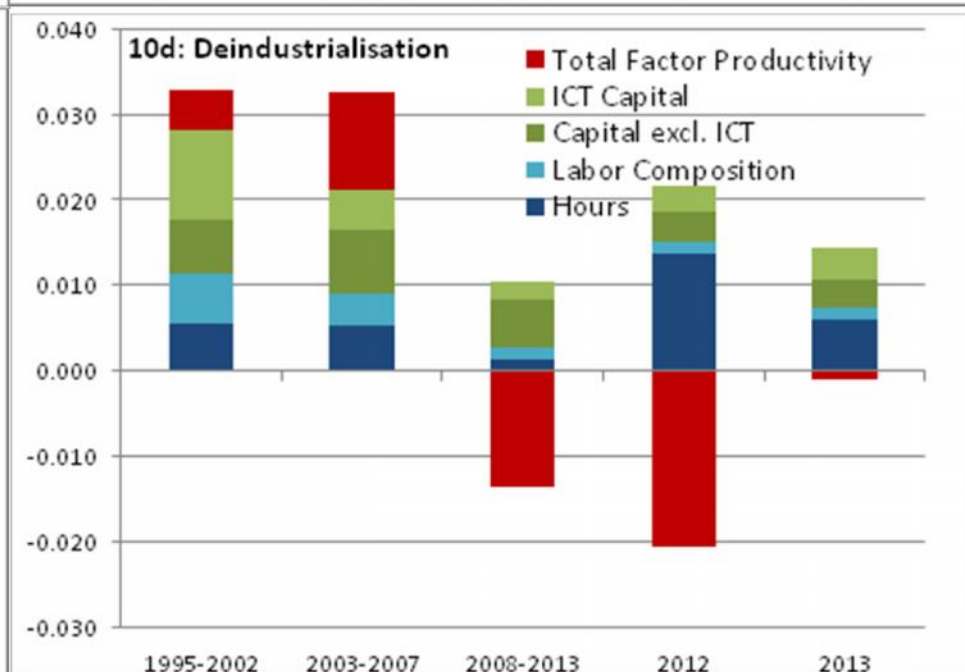
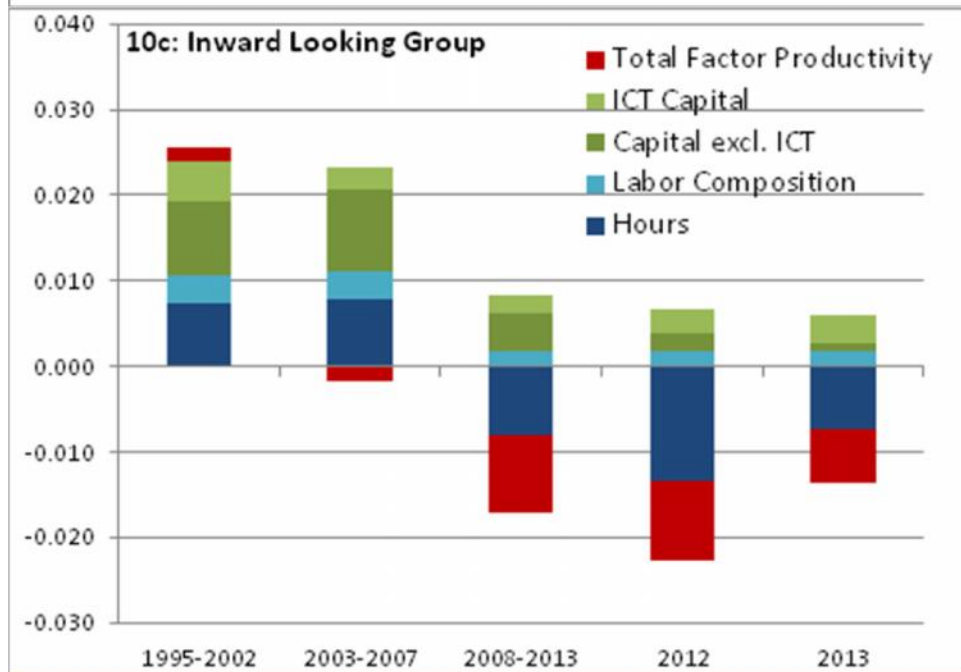
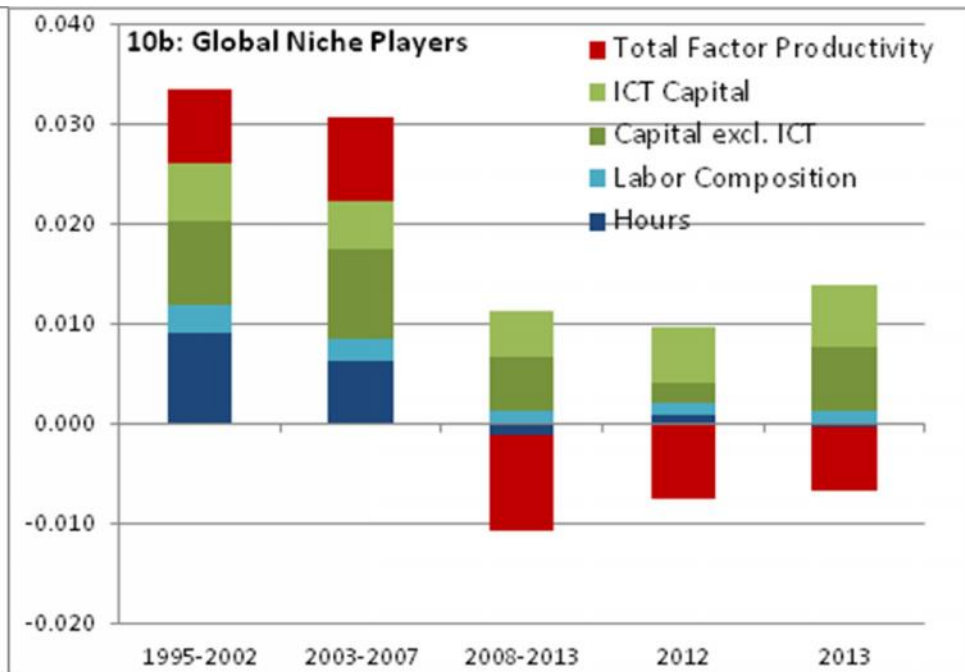
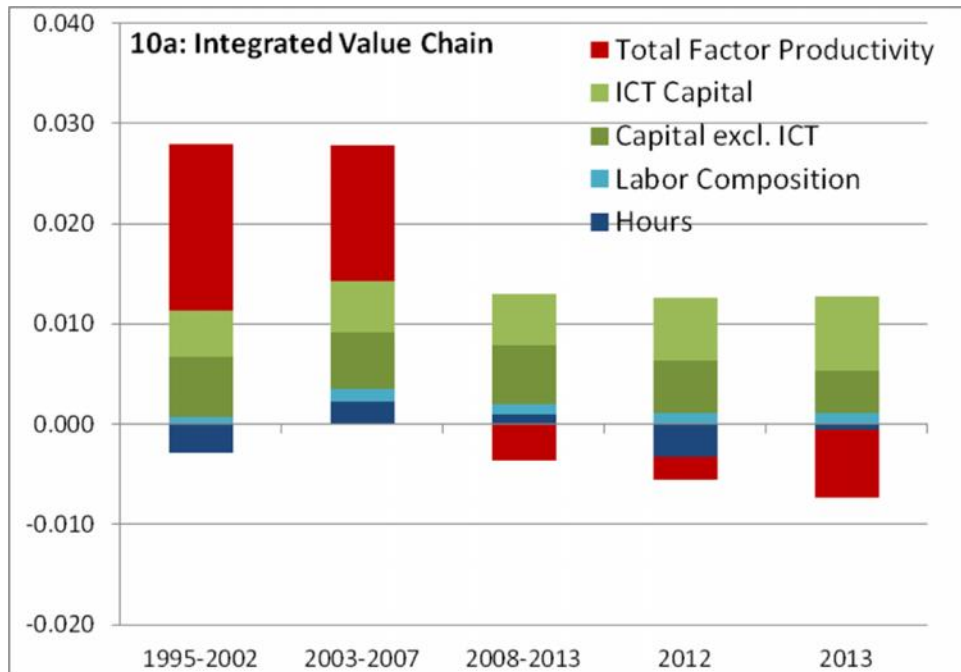
3. Deindustrialisation model: the United Kingdom

- Larger range of services activities that isn't making up for the smaller impact of growth from manufacturing
- Low share of employment dedicated to foreign production

4. Inward looking: the Mediterranean group

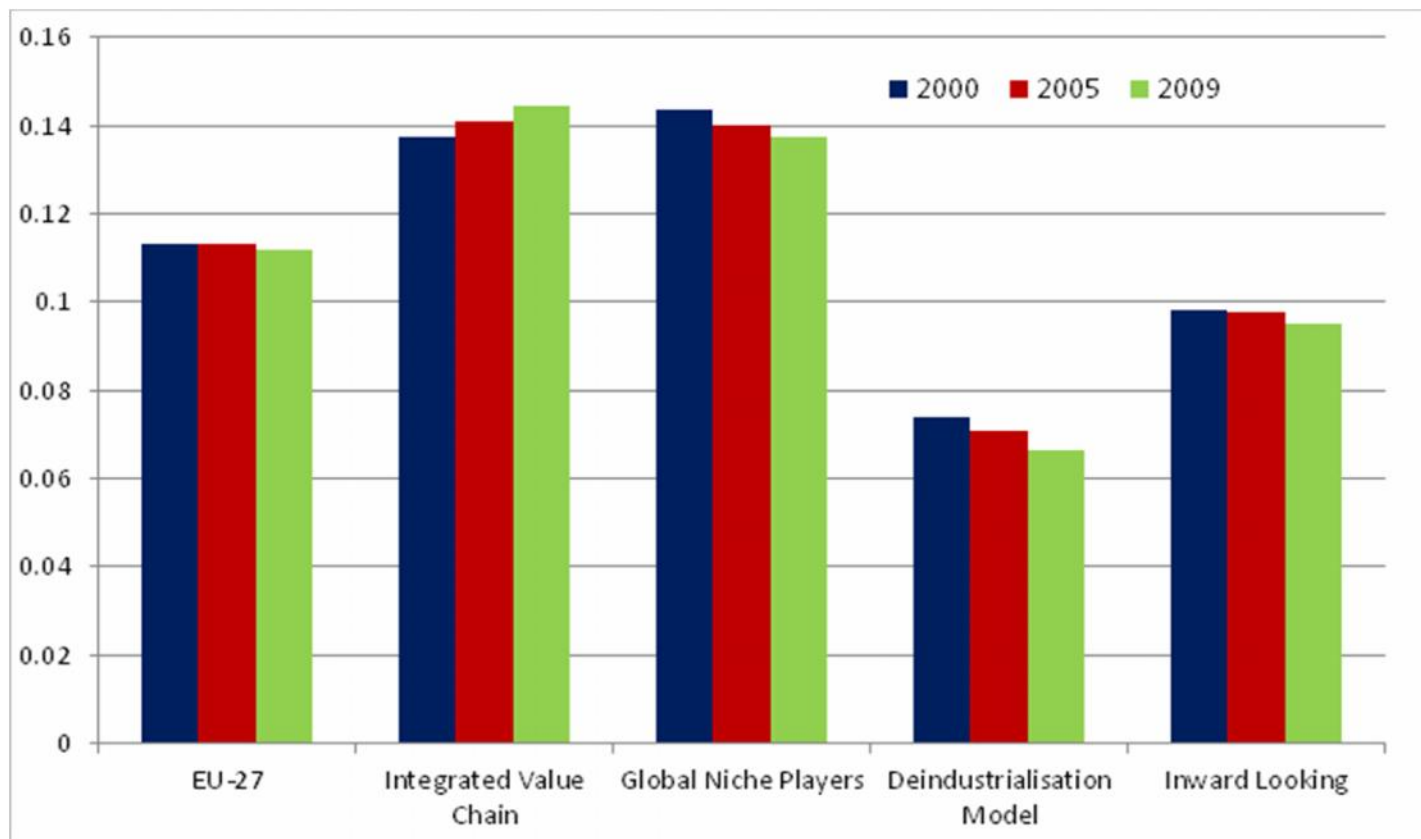
- Mediterranean economies (France, Italy, Spain, Portugal, Greece) are more dependent on slower growing domestic economies
- Faster demographics and domestic sector are main drivers of growth but slow productivity will create consistently slower growth environment





Only “Integrated Value Chain”-group has managed to raise employment in goods sector for foreign production

Employment Share in Good Sectors in Producing for Foreign Demand, 2000-2009
(proportion of total employment)

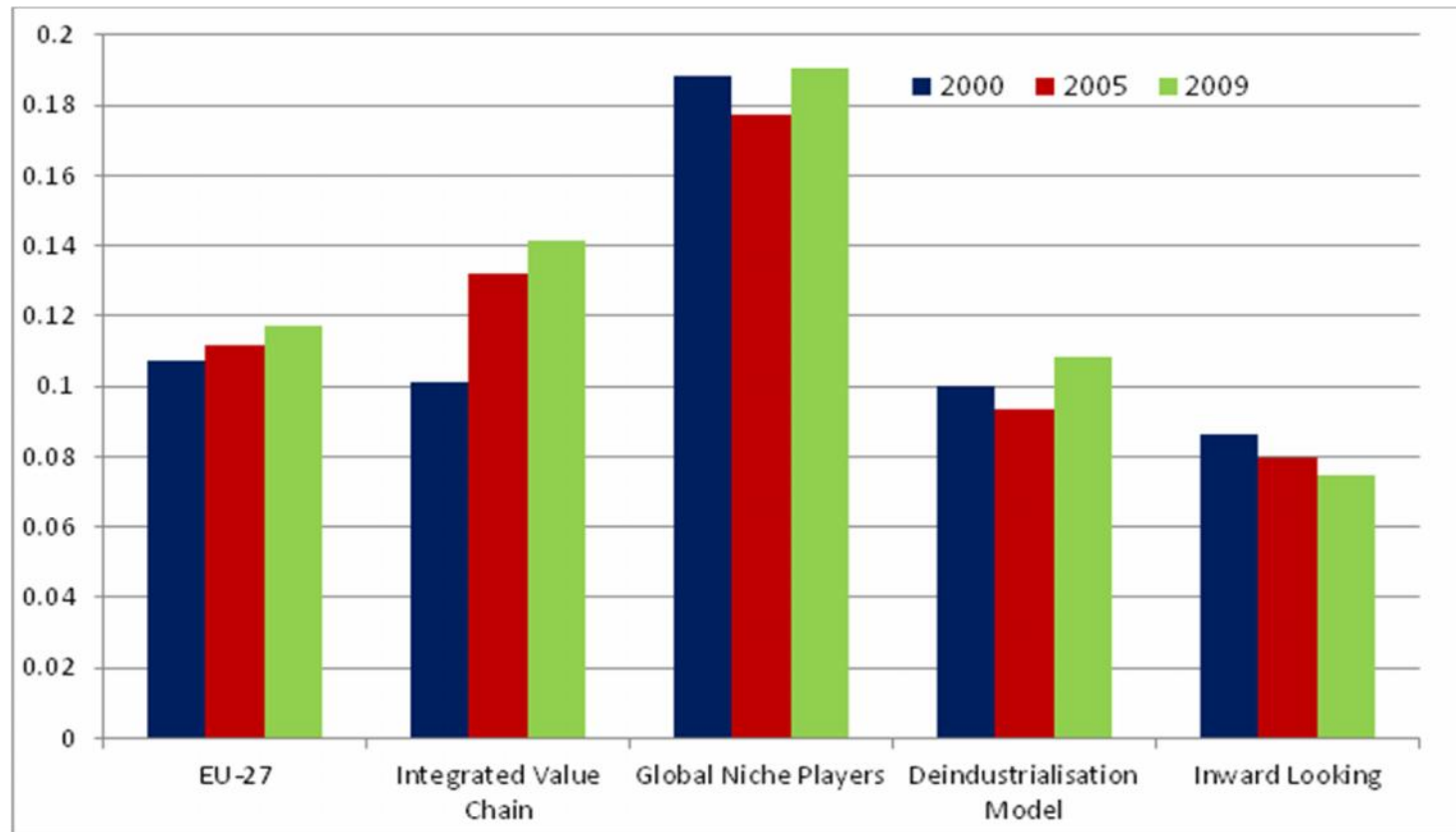


Source: World Input-Output Database (WIOD)



“Global Niche”-group has highest employment share in non-goods sector, but “Integrated Value Chain” is catching up

Employment Share in Non-Goods Sector in Producing for Foreign Demand, 2000-2009
(proportion of total employment)



Source: World Input-Output Database (WIOD)



Divergence in growth performance between European increased

- Aggregate (and sectoral) growth accounts show that Europe's productivity problem has worsened big time
- TFP growth, rather than investment, is key problem
- Is it just the recession ...?
- ... or is a multi-tiered Europe emerging?
 - Integrated value chain group (incl. Germany, Austria and CEE countries) are optimizing supply chain in manufacturing and market services and recovering on TFP
 - Global niche economies (Baltic/Nordic/Benelux/ and Ireland) have ability to recover in less rigid labor and product markets
 - Inward-looking economies are more dependent on their domestic economies

