Slowing Productivity Growth in Europe: An Overview of the Issues

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European productivity growth: A long downward trend

- Financial crisis (2008–9) and European debt crisis (2011–3) were bad but not persistent.
- Recovery is (still) slow

NB: PWT still based on capital stocks, but see next session for work on capital services at a global scale for cross-country growth and level comparisons.
Widespread slowdown of productivity growth

1975–1995

1995–2014

Source: Penn World Table 9.0, Feenstra, Inklaar and Timmer (AER, 2015)
European slowdown hypotheses

1. End of convergence
2. Slower growth at the frontier “Are ideas getting harder to find?” (Bloom et al. 2017)
   - Incentives for innovation
   - Improved measurement of gains from digital services
   - ‘Outsourced productivity gains’: functional specialisation
3. Losing ground to the frontier “The best versus the rest” (Andrews et al. 2016)
   - Increased market power
   - Increased intangibility
   - Increased misallocation
Slower frontier growth and divergence

**US growth:**
1.1% before 2005 ⇒ 0.2% after 2005

**European growth:**
0.4% before 2005 ⇒ 0.0% after 2005

Rising cross-country productivity dispersion


Notes: European countries covered are Austria, Belgium, Finland, France, Germany, Italy, Netherlands, Spain, Sweden and UK. Red area indicates the range of productivity levels and the solid red line is the weighted average European productivity level.
Until 2005: Market services TFP growth main distinguisher between strong & weak growth

The ‘original EU KLEMS story’ (Timmer et al. 2010)

Source: EU KLEMS 2017, combined with EU KLEMS 2012.
Notes: ICT sector covers ICT goods and services, Bubble sectors are finance and construction.
Since 2005: Anemic growth with no clear distinguisher

Source: EU KLEMS 2017, combined with EU KLEMS 2012.
Notes: ICT sector covers ICT goods and services, Bubble sectors are finance and construction.
Market power: increase in apparent profits in many countries

Profitability: Internal rate of return on fixed assets minus government bond yields 1995–2015

Steady rise in intangible investment

Source: INTAN-Invest Database, Corrado et al. (2016).
Notes: European countries covered are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and UK. Red area indicates the range of investment rates and the solid red line is the weighted average European productivity level.
A European productivity research agenda

• Improved data collection, compilation & assessment:
  – Up-to-date industry productivity data, tracing growth and relative levels
  – Integrated measurement of productivity, production fragmentation, intangible investment, and the workforce composition
  – Consideration and comparison of measurement practices & problems

• The right story for the right country
  – Misallocation, market power, measurement problems, etc. vary across countries
  – Industry-level analysis will be crucial