

EMBARGO UNTIL THURSDAY 15 MARCH 2007, 14.00 HOURS, BRUSSELS

TIME



Productivity Slowdown in Europe Hides Cross-country Variation

The slowdown in the growth of labour productivity in the European Union since the mid-1990s can be largely traced to the collapse of productivity growth in Italy and Spain and the more moderate slowdown in France and Germany. The productivity slowdown in the United Kingdom has been very limited, and in some smaller economies (Greece, Ireland, and the Netherlands) productivity growth even accelerated, at least in the market sector of those economies. Productivity growth in most new member states of the European Union has been much faster as these countries have been catching up on the productivity levels of 'old' EU-15, but this has often gone together with a sharp contraction in employment.

These results are among those obtained from a new data source on measures of economic growth and productivity for the European Union, which also includes corresponding data for the United States and Japan. The database will be released by the EU KLEMS consortium, a group of 16 research institutes and universities across Europe, in Brussels, on Thursday 15 March 2007. The EU KLEMS project is funded by the European Commission, Research Directorate General as part of the 6th Framework Programme, Priority 8, 'Policy Support and Anticipating Scientific and Technological Needs'.

The key results for the **Central and East European New Member States (NMS)**, which have been prepared by *The Vienna Institute for International Economic Studies (wiiw)*, can be summarized as follows:

CZECH REPUBLIC: CAPITAL INPUT DRIVEN JOBLESS GROWTH

- *Growth of gross value added was high only in two sectors (Electrical machinery, post and communication and Distribution), otherwise lower than in other new member states.*
- *Slow growth in value added went together with a decline in labour input growth and high labour productivity growth.*
- *The largest part of value added growth can be explained by the contribution of capital and a small – and in some industries negative – contribution of multifactor productivity growth.*

HUNGARY: STABLE AND BALANCED GROWTH LARGELY DRIVEN BY MULTIFACTOR PRODUCTIVITY

- *The stable and – compared to other new EU member states – relatively high growth of gross value added in Hungary was nearly balanced across industries with the exception of very high growth in ‘Electrical machinery, post and communication’.*
- *Gross value added growth went together with labour productivity growth and labour input growth and thus declining unemployment.*
- *Half of gross value added growth in Hungary can be attributed to multifactor productivity growth whereas capital input and labour input account for the remaining part.*

POLAND: MULTIFACTOR PRODUCTIVITY DRIVEN GROWTH IN MANUFACTURING AND CAPITAL INPUT DRIVEN GROWTH IN SERVICES

- *Labour productivity growth was higher than value added growth and the demand for labour declined despite already high unemployment rates.*
- *Employment increased significantly only in ‘Finance and business services’ but this only had a small impact on overall employment due to its low share.*
- *Gross value added growth was mainly driven by multifactor productivity in goods producing industries and by capital inputs in services.*
- *About half of labour productivity growth can be explained by goods producing industries with distribution services accounting largely for the remaining part.*

SLOVAK REPUBLIC: GROWTH DRIVEN BY GOODS PRODUCING INDUSTRIES

- *All manufacturing industries were performing quite well in terms of labour productivity but only ‘Electrical machinery, post and communication’ succeeded in combining high output and employment growth.*
- *Within the services sectors, productivity growth rates were substantial only in personal and non-market services with these sectors showing declines in employment.*
- *Strong employment growth in market services (distribution, finance and business services) was reflected in low productivity growth in these industries.*
- *The overall labour productivity growth in the market economy sector was mainly driven by goods producing industries.*

SLOVENIA: GROWTH DRIVEN BY MULTIFACTOR PRODUCTIVITY IN MANUFACTURING

- *High growth in manufacturing industries and in finance and business services underlies the smooth transition towards EU membership.*
- *Labour productivity growth was mainly driven by goods producing industries.*
- *Multifactor productivity was the main contributor to growth in manufacturing industries; non-ICT capital was the most important contributor to growth in market services.*
- *ICT capital input explains a large part of growth in ‘Electrical machinery, post and communication’.*

The EU KLEMS database, which also includes growth and productivity measures at a detailed industry level, identified the market services sector as the weakest point of the growth performance in many European countries. The strong productivity growth advantage of the United States over Europe can be largely traced to industries in the distribution services (trade and transport) and financial and business services sectors. Nevertheless, some European countries, such as the Netherlands and the United Kingdom, have performed much better in market services than other EU member states.

While most EU-15 countries have enjoyed faster employment growth over the past ten years as compared to the previous period, the contribution of improvements in labour composition to growth has stagnated. Still the overall skill level of the workforce has continued to increase significantly. It also turns out that the shift towards intensive use of ICT capital (computer hardware, communication equipment and software) has been slower in Europe than, for example, in the United States.

It is difficult to predict which industries will be the most productive in the future, as technology and innovation trends are inherently difficult to forecast. But the consortium argues that the future of productivity growth in the EU will strongly depend on the capability of making more productive use of skilled labour and of instigating market reforms that facilitate the shift of capital and other resources to the most productive industries in the economy, as well as on improvements in the innovative capacity of firms.

Information

The EU KLEMS launch meeting will take place in Brussels, on 15 March 2007, at the Albert Borschette Centre, rue Froissart 36, 1040 Brussels.

Information on the EU KLEMS project as a whole can be obtained from Prof. Dr. Bart van Ark, University of Groningen (tel. +31 50 363 3674 or +31 6 2189 4241).

Specific information on Central and East European NMS can be obtained from wiiw (Peter Havlik: havlik@wiiw.ac.at; Robert Stehrer: stehrer@wiiw.ac.at; Monika Schwarzhappel: schwarzhappel@wiiw.ac.at; Sebastian Leitner: leitner@wiiw.ac.at; Hermine Vidovic: vidovic@wiiw.ac.at).

Programme Public Release EU KLEMS Database

Thursday 15 March (location Albert Borschette Centre)

- 14.00-14.15: Opening words by Hervé Carré (Eurostat) and Marco Buti (ECFIN)
- 14.15-14.30: Presentation of EU KLEMS project and results by Bart van Ark (University of Groningen)
- 14.30-14.45: Presentation by Dale Jorgenson (Harvard University) on EU in World Economy
- 14.45-15.00: Presentation on France, Germany and UK by Mary O'Mahony (NIESR and University of Birmingham)
- 15.00-15.20: Questions and discussion led by Wolfgang Munchau (Financial Times)
- 15.20-15.40: Intervention by EU Commissioner Joaquín Almunia (to be confirmed)
- 15.40-16.00: Break
- 16.00-17.15: Policy Panel chaired by Wolfgang Munchau (Financial Times) with Michel Fouquin (CEPII), Bernd Görzig (DIW), Peter Havlik (wiiw), Matilde Mas (IVIE), Jürgen Kröger (ECFIN), Pierre Valette (RTD) and Andrew Tank (TCB)
- 17.15-17.35: Closing remarks by EU Commissioner Janez Potocnik (to be confirmed)