



Growth and Productivity in the European Union

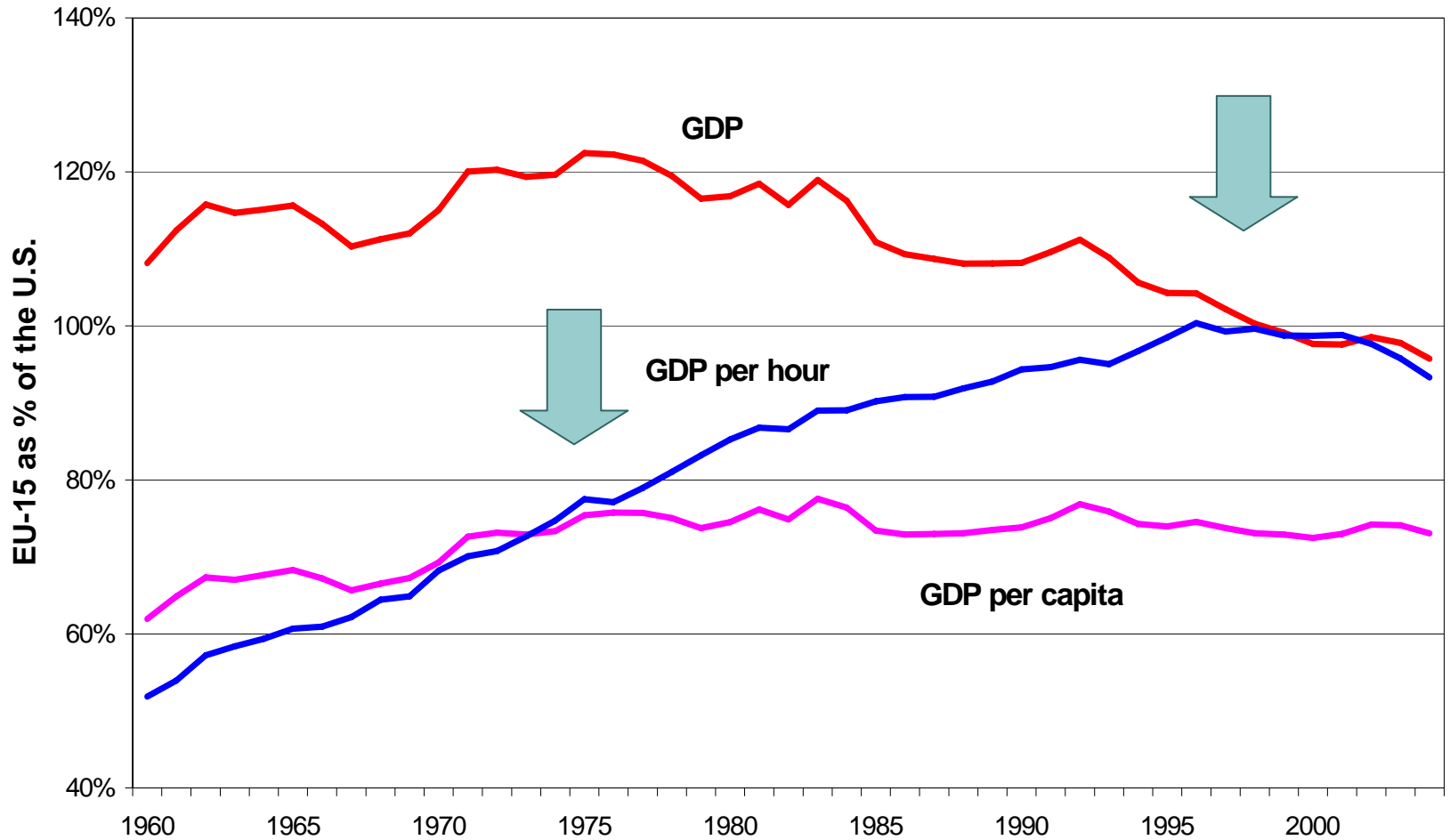
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EU 15 as % of US, Breakpoints

GDP, GDP per capita and labour productivity, EU-15 as % of US



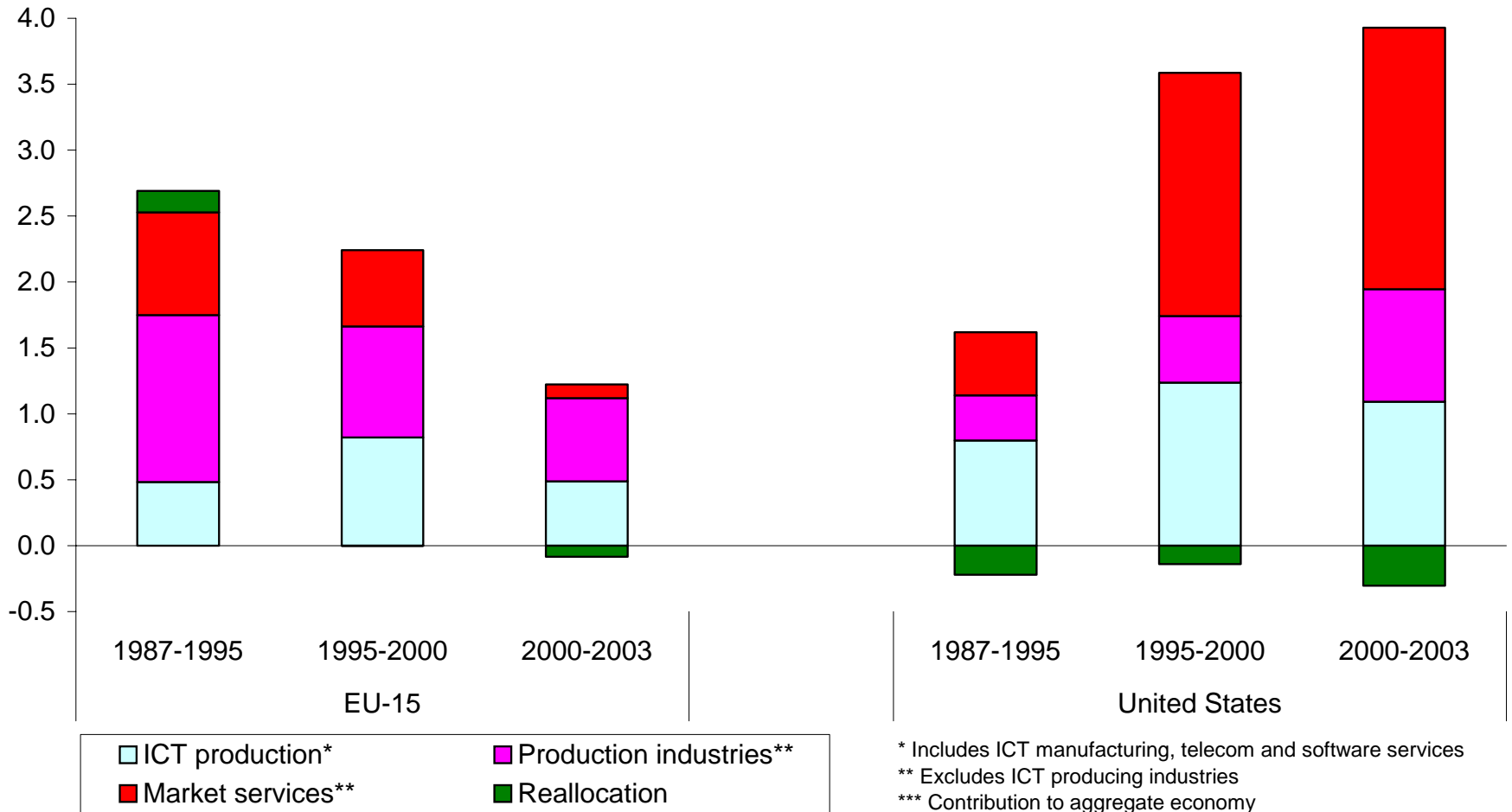
End of European Catch-up Process in 1990s: Why?

- **US perspective:**
 - ICT-revolution (lagging vs. structural)
 - ICT-production
 - ICT-investment
 - Application of ICT in services

- **European perspective:**
 - Depletion: end of catch-up in “old” technologies
 - Changes in labour markets: employment – productivity trade-off

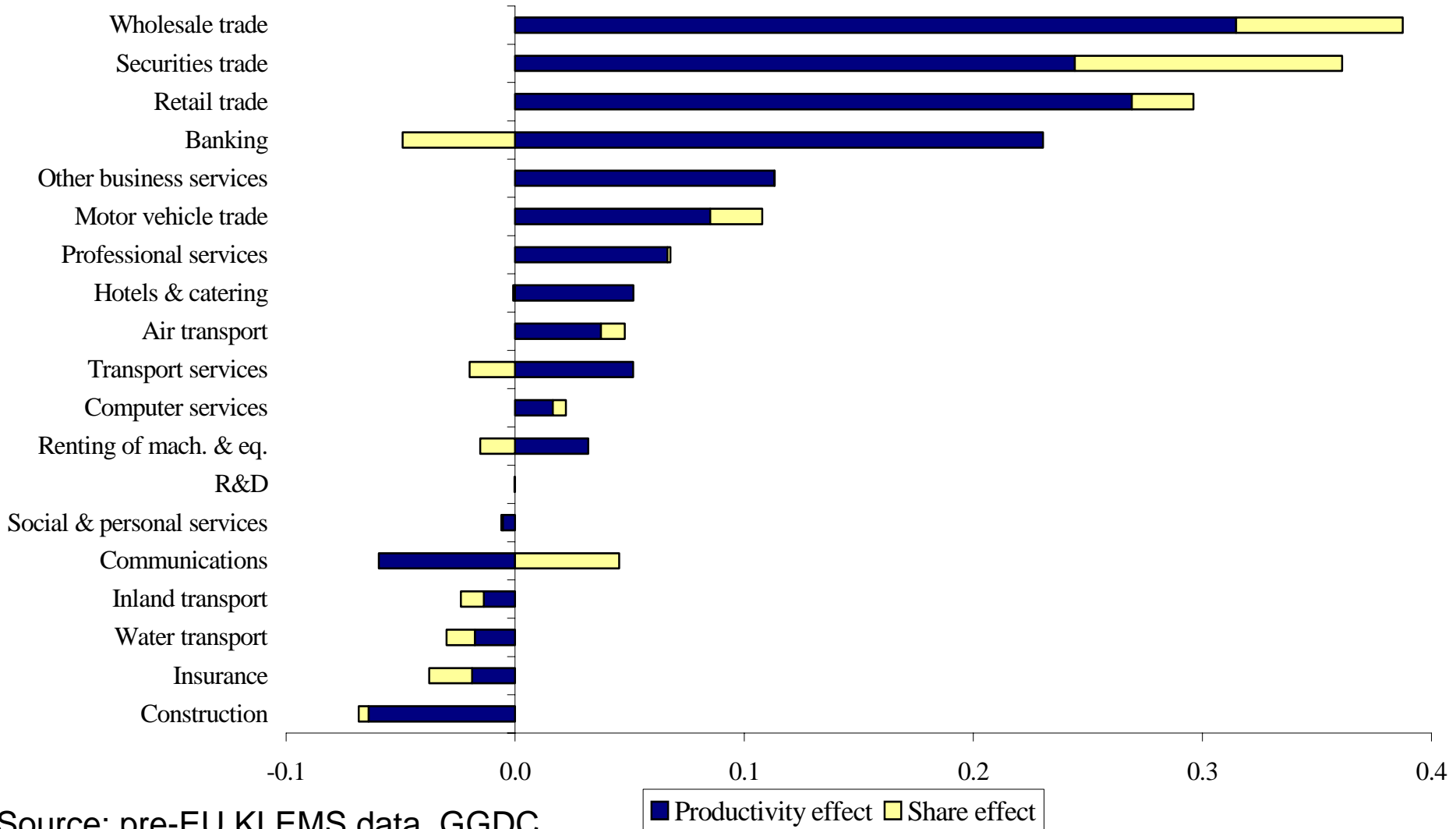
Market services industries are key to aggregate labour productivity growth

Industry contributions to market sector labour productivity growth
EU-15, Japan and U.S., 1987-2003



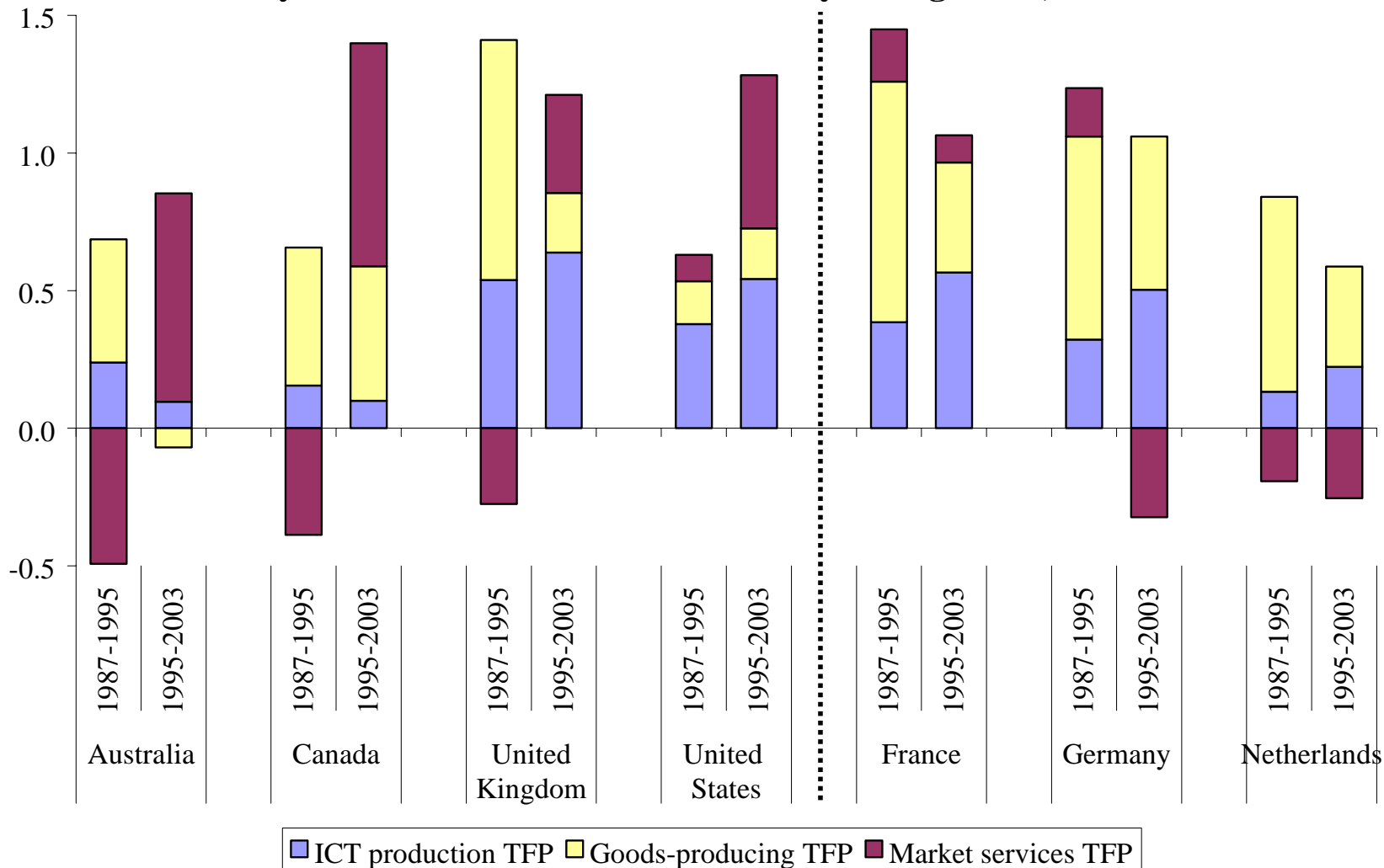
Much variation between service industries

**Difference in labour productivity contribution in market services,
U.S.-EU-15, 1995-2003**



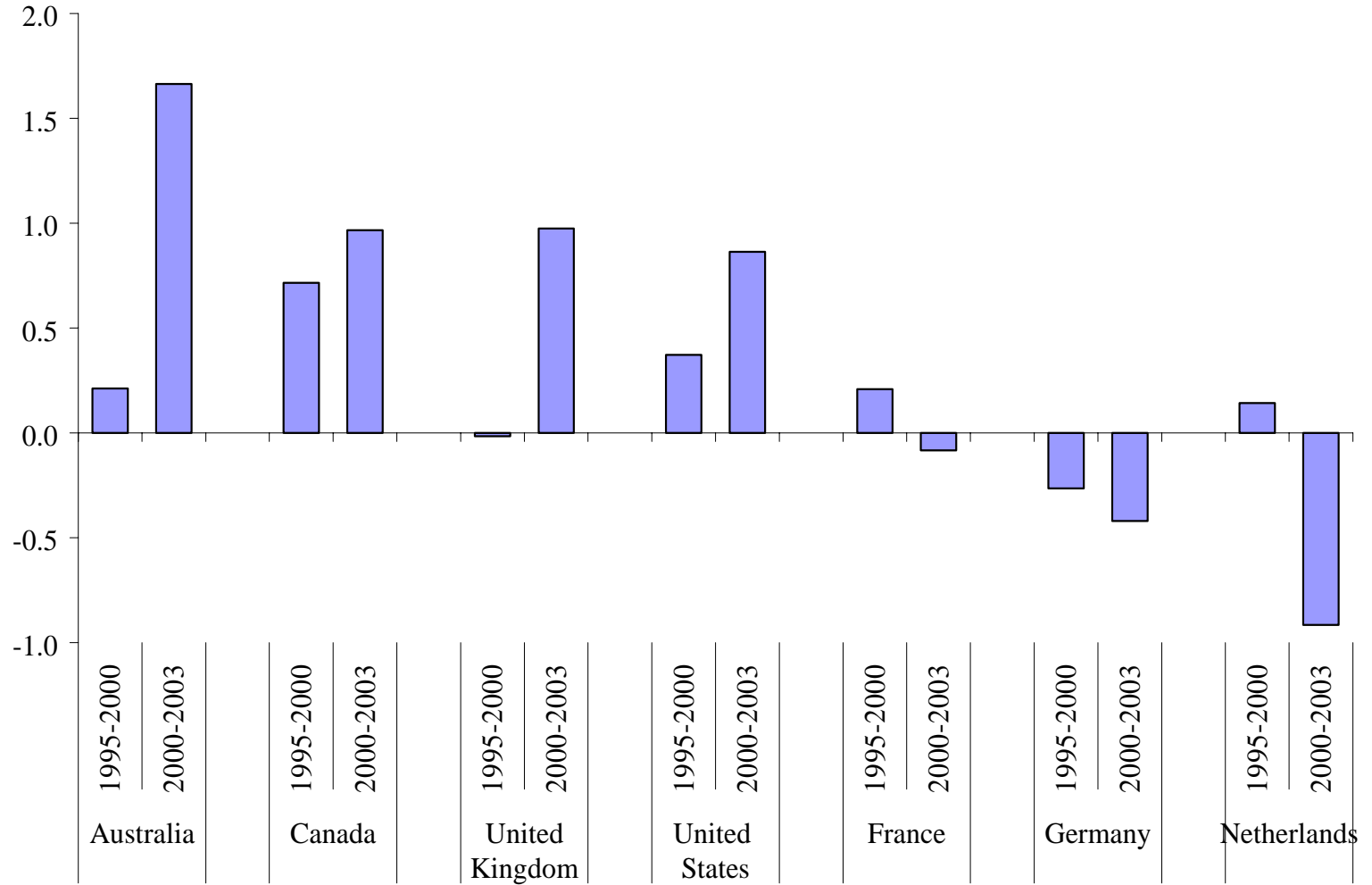
Low TFP contribution from market services

Industry contributions to market economy TFP growth, 1987-2003

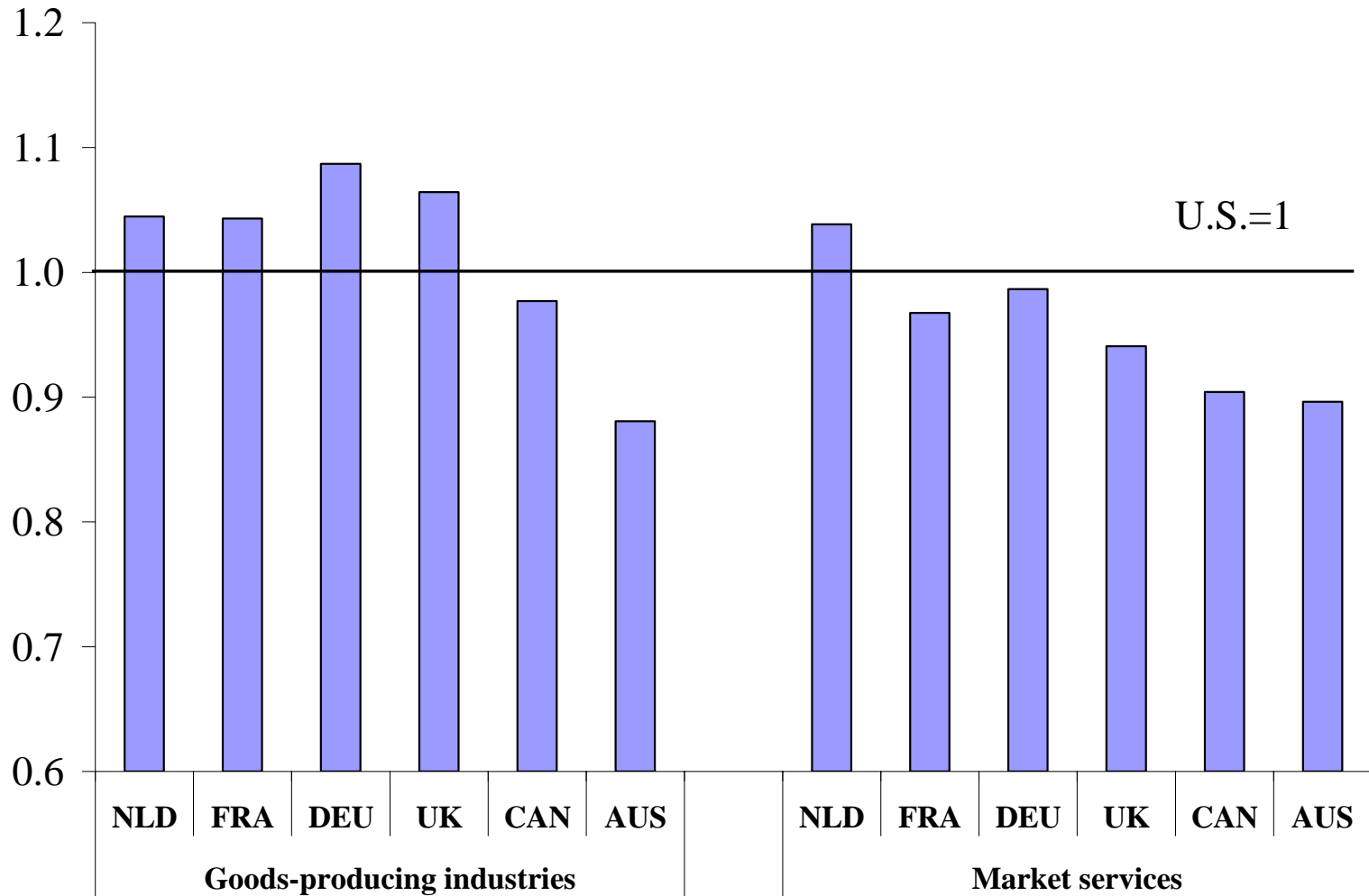


Post-2000 growth even stronger

Contribution of market services TFP growth, 1995-2003

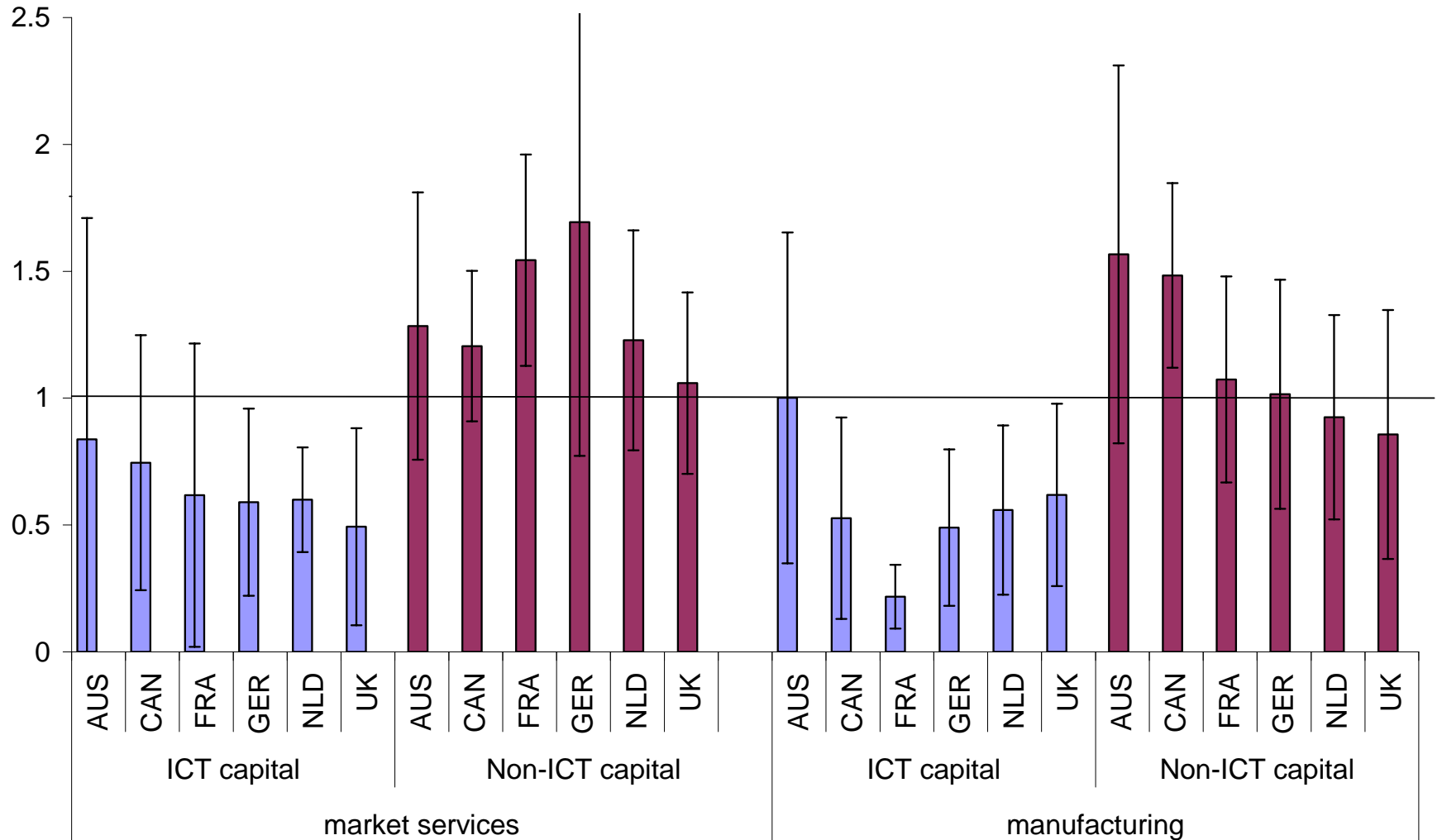


Goods- and services TFP levels, 1997



U.S. most ICT intensive; Non-ICT capital intensity in Europe still larger

Industry average capital input per unit of output, 1997, US=1.0



Europe's productivity is stagnating, but at high levels

- **European productivity levels are on par with U.S. in mid 1990s**
- **Strong labour productivity growth after 1995 in Anglo-Saxon countries (not just U.S.), much slower growth in Continental Europe**
- **Small differences in size ICT-producing sector,**
- **ICT-capital levels clearly lagging.**
- **Decline in non-ICT capital intensity.**
- **But TFP growth differences most important factor, especially in market services**

Does Europe need a Productivity Agenda?

- End of catching up in 1990s. US spurs ahead, Europe is lagging.
- **Optimistic** view: just lagging in ICT investment
- **Qualified optimistic**: conditional on
 - Market deregulation (product/labour)
 - Intangibles
- **Pessimistic view**: previous productivity growth was artificial.
- Current EU Initiatives:
 - Lisbon Agenda (R&D, Education),
 - Services Directive