

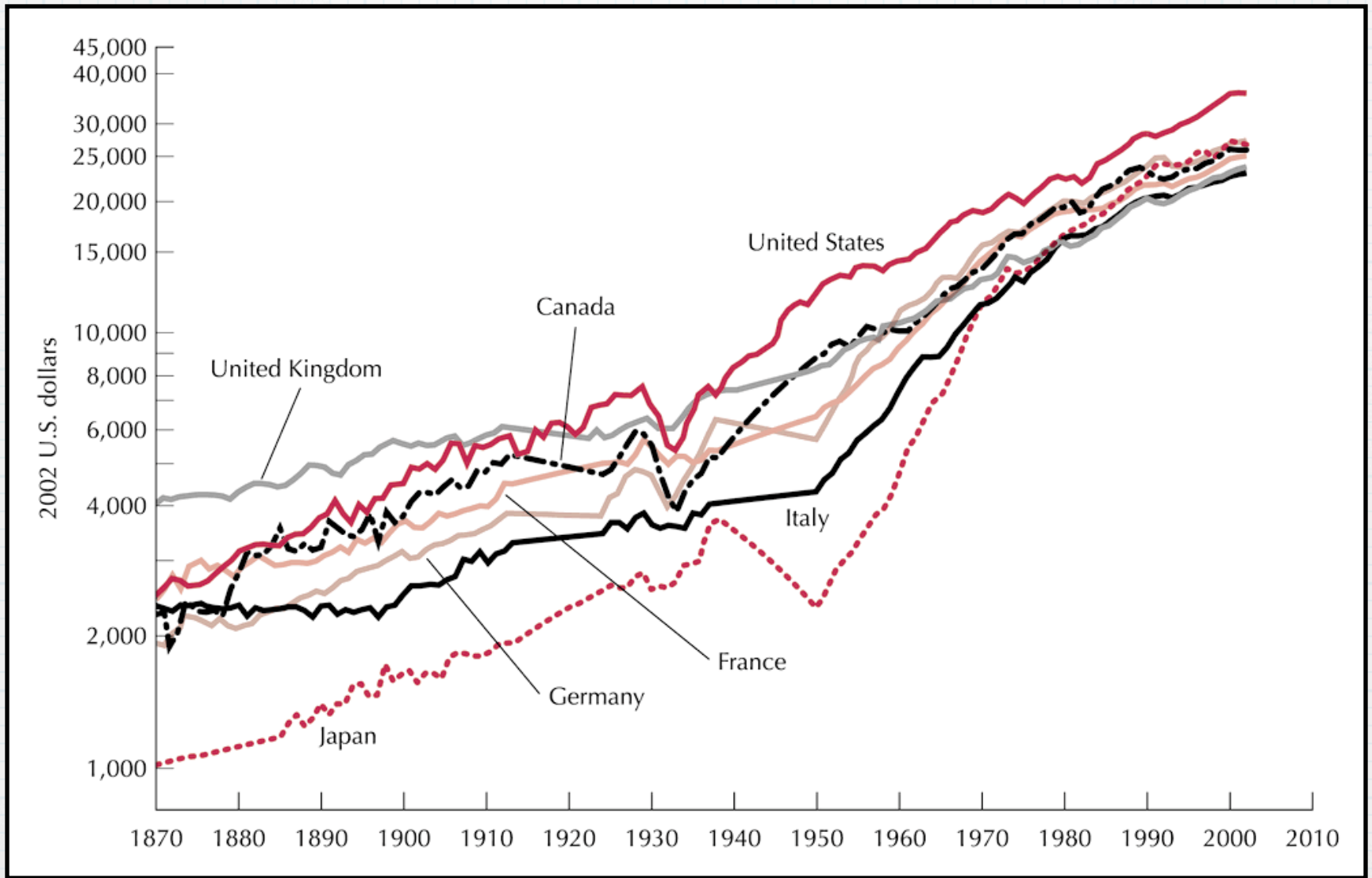
European Economic Reform: the Lisbon Agenda

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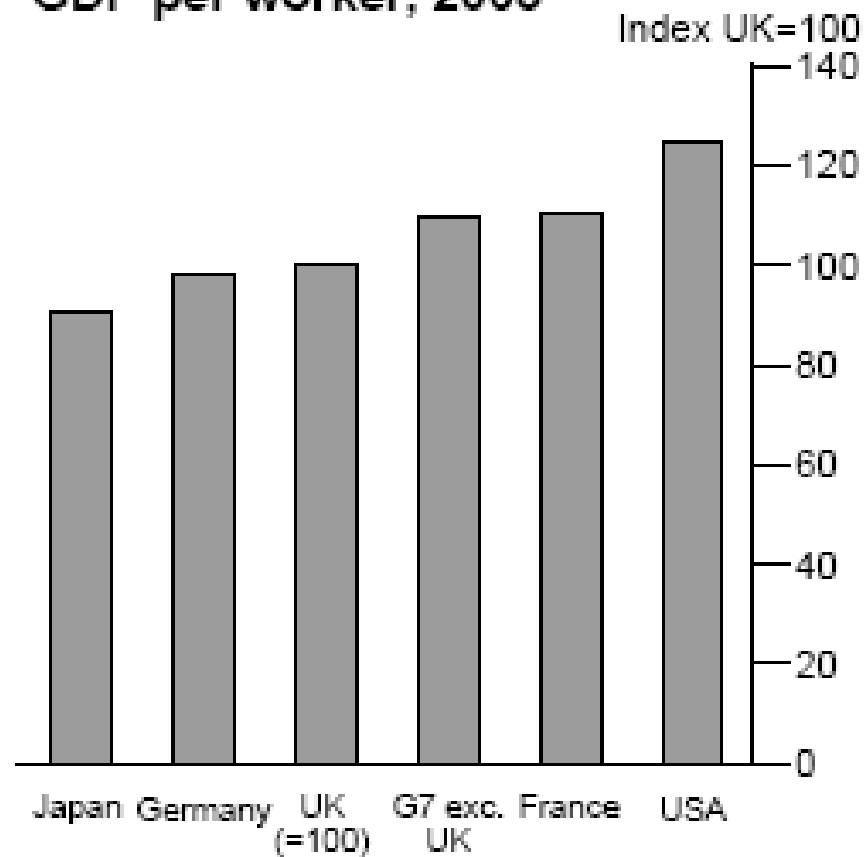
the Lisbon Agenda

- * Plan to make the EU 'the most dynamic and competitive knowledge-based economy in the world', by 2010.
- * Europe's relative performance:
 - National Income: Output per capita
 - Productivity: Output per hour worked
 - Employment: Hours per capita
- * Microeconomic Reforms
- * Employment Guidelines
- * Growth and Jobs



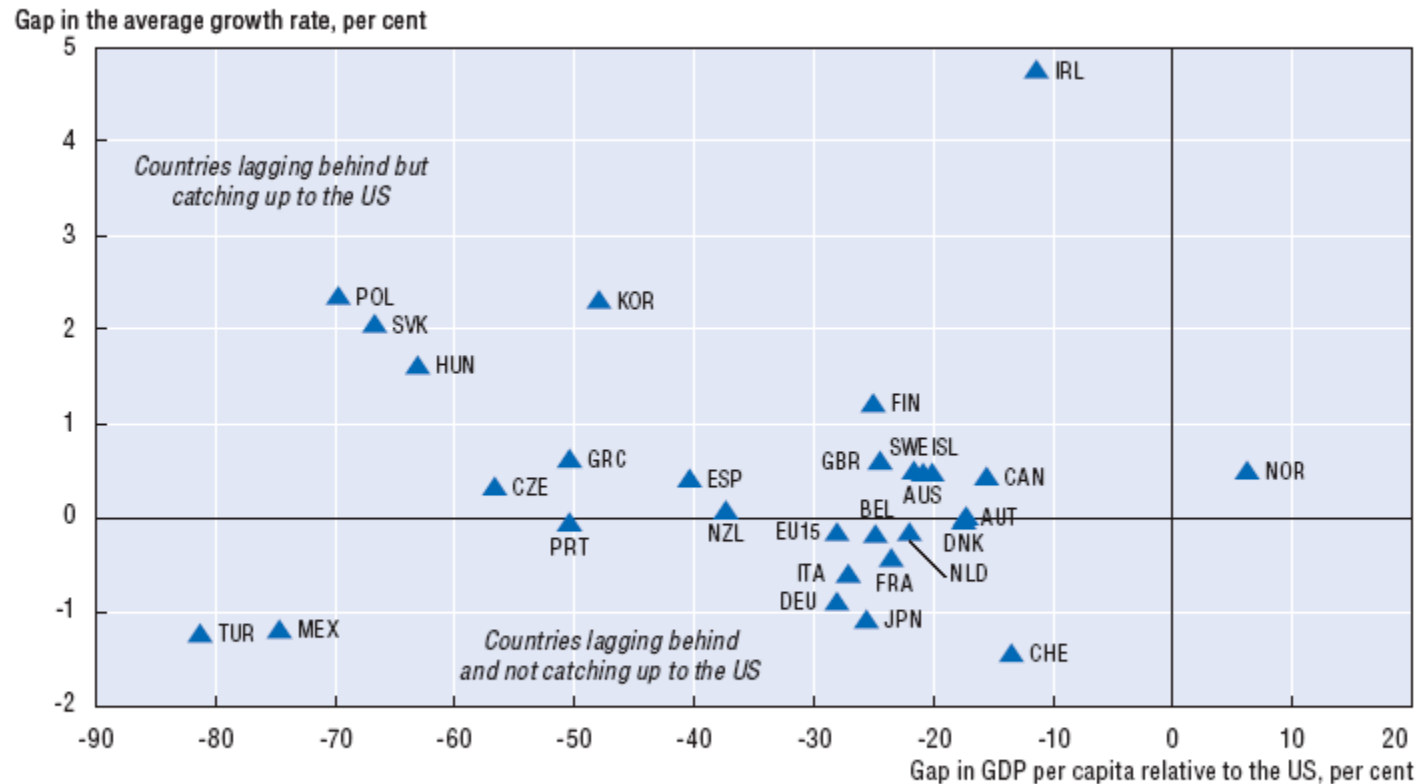
Source: Robert J Gordon (2005)

GDP per worker, 2003



Source: ONS (2005)

Figure 1.1. GDP per capita levels and growth rates:
Gap vis-à-vis the United States¹



Note: EU15, excluding Luxembourg.

1. The average growth rate of GDP per capita is calculated over the period 1994-2003 on the basis of volumes data from national accounts sources. The level of GDP per capita is for 2002 on the basis of 2000 PPPs.

Source: OECD (2005)

on measurement

- * Economists use a number of different measurements of national income and productivity.
- * The simplest is GDP per capita.
- * But we can also think about GDP per worker and GDP per worker hour.
- * These can be linked as follows:

$$\frac{\text{GDP}}{\text{Pop}} = \frac{\text{GDP}}{\text{Hours}} * \frac{\text{Hours}}{\text{Workers}} * \frac{\text{Workers}}{\text{Pop}}$$

Table 1.1:

Aggregate annual growth rates of real GDP, total hours and labour productivity,
1980-2002

	real gdp				total hours				gdp/hour			
	1980 -90	1990 -95	1995 -00	2000 -02	1980 -90	1990 -95	1995 -00	2000 -02	1980 -90	1990 -95	1995 -00	2000 -02
Austria	2.3	2.0	2.8	0.9	0.6	0.3	-0.5	0.1	1.7	1.8	3.2	0.8
Belgium	1.9	1.6	2.7	0.7	-0.4	-0.7	0.0	1.4	2.3	2.3	2.8	-0.7
Denmark	2.0	2.0	2.7	1.5	0.1	-0.4	1.1	0.0	1.9	2.4	1.6	1.5
Finland	3.1	-0.7	4.8	1.1	0.1	-3.4	1.9	-0.2	3.0	2.8	2.9	1.4
France	2.3	1.1	2.7	1.4	-0.6	-0.4	1.4	-0.2	2.9	1.4	1.3	1.7
Germany	2.2	2.0	1.8	0.4	-0.3	-1.9	-0.3	-0.9	2.5	4.0	2.2	1.3
Greece	1.6	1.2	3.4	4.0	0.6	0.7	0.6	-0.2	1.0	0.6	2.8	4.2
Ireland	3.6	4.7	9.8	4.7	-0.4	1.1	3.9	1.4	4.1	3.6	5.7	3.2
Italy	2.2	1.3	1.9	1.1	0.3	-1.0	1.0	1.2	2.0	2.3	1.0	-0.1
Netherlands	2.2	2.1	3.7	0.7	0.2	0.7	3.1	0.4	1.9	1.4	0.6	0.3
Portugal	3.2	1.7	3.9	1.0	1.4	-1.8	0.8	1.0	1.7	3.5	3.1	0.1
Spain	2.9	1.5	3.8	2.2	-0.1	-0.7	4.2	2.6	3.0	2.3	-0.3	-0.4
Sweden	2.0	0.7	3.3	1.5	0.9	-1.3	1.0	-0.5	1.1	2.0	2.2	2.0
United Kingdom	2.6	1.8	2.9	1.7	0.5	-1.2	1.0	0.7	2.2	3.0	1.8	1.1
European Union	2.4	1.6	2.7	1.3	0.1	-1.0	1.1	0.4	2.3	2.6	1.5	0.8
United States	3.2	2.4	4.0	1.3	1.7	1.2	2.0	-0.4	1.4	1.1	2.0	1.7
Japan	4.0	1.4	1.4	-0.7	1.0	-0.4	-0.9	-0.9	3.0	1.8	2.3	0.2

Note: Germany 1980-90 refers to West Germany only; EU 1980-90 excludes Eastern Länder of Germany

Source: GGDC/The Conference Board, Total Economy Database (June 2003)

Source: O'Mahony and Van Ark (2003)

Table 1.5

Contributions of member states to EU-15 annual labour productivity growth 1979-2001

	1979-1990	1990-1995	1995-2001
Total economy			
Belgium	0.08	0.09	0.03
Denmark	0.04	0.05	0.02
Germany	0.59	0.68	0.22
Greece	0.01	0.02	0.05
Spain	0.18	0.15	0.22
France	0.40	0.27	0.22
Ireland	0.02	0.04	0.10
Italy	0.27	0.36	0.18
Luxembourg	0.01	0.01	0.01
Netherlands	0.14	0.13	0.11
Austria	0.07	0.09	0.04
Portugal	0.02	0.02	0.04
Finland	0.05	-0.01	0.04
Sweden	0.06	0.03	0.06
UK	0.31	0.38	0.39
EU-15	2.26	2.31	1.72

Source: O'Mahony and Van Ark (2003)

microeconomic reforms

- * The Lisbon Agenda argues that the 'knowledge economy' is vital to the future of Europe.
- * It proposes that the EU should aim to spend 3 per cent of GDP on R&D.
- * But EU problems not just in the high-technology sector.

Table 14b

Annual labour productivity growth, EU-15 and US

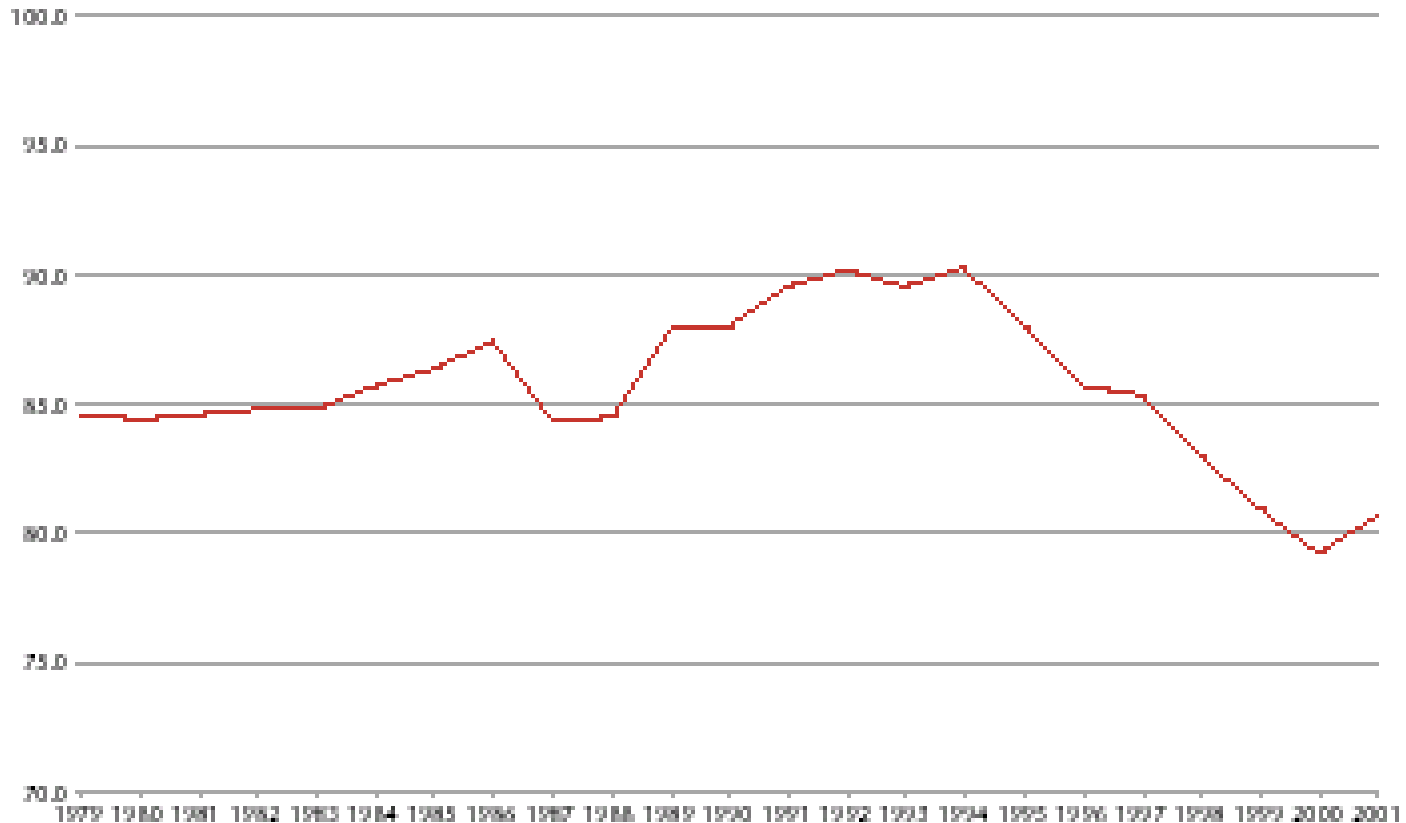
	EU-15			US		
	1979-90	1990-95	1995-01	1979-90	1990-95	1995-01
Total Economy	2.2	2.3	1.7	1.4	1.1	2.3
Agriculture, Forestry and Fishing	5.2	4.8	3.3	6.4	1.7	9.1
Mining and quarrying	2.9	13.1	3.5	4.4	5.1	-0.2
Manufacturing	3.4	3.5	2.3	3.4	3.6	3.8
Electricity, gas and water supply	2.7	3.6	5.7	1.1	1.8	0.1
Construction	1.6	0.8	0.7	-0.8	0.4	-0.3
Distributive trades	1.3	1.9	1.0	1.8	1.5	5.1
Transport	2.8	3.8	2.3	3.9	2.2	2.6
Communications	5.2	6.2	8.9	1.4	2.4	6.9
Financial Services	2.2	1.0	2.8	-0.7	1.7	5.2
Business Services*	0.7	0.7	0.3	0.1	0.0	0.0
Other community, Social and Personal Services	-0.3	0.4	0.3	1.2	0.9	-0.4
Public Administration, Education and Health	0.6	1.1	0.8	-0.4	-0.8	-0.6

* includes real estate

Source: O'Mahony and Van Ark (2003)

Figure III.5

Labour productivity in the EU-15 in manufacturing industries relative to the US, 1979-2001 (US=100)



Source: O'Mahony and Van Ark (2003)

Table II.14

Labour productivity levels in manufacturing, EU countries relative to the US (US=100)

	1979-81	1994-96	1999-01
Belgium	87.2	117.9	115.7
Denmark	114.0	94.3	88.5
Germany	100.3	92.7	82.7
Greece	45.7	30.7	27.4
Spain	60.5	73.5	62.1
France	103.9	104.3	101.6
Ireland	34.3	90.6	169.8
Italy	90.8	91.1	78.9
Netherlands	94.2	110.2	99.4
Austria	62.4	76.9	79.0
Portugal	37.1	33.4	34.3
Finland	73.7	102.6	101.8
Sweden	93.5	99.3	86.6
UK	63.3	81.9	75.3
EU-14	84.6	88.0	80.3
US	100.0	100.0	100.0

Note: Labour productivity is measured as value added per hour worked

Source: O'Mahony and Van Ark (2003)

Table III.5

Contributions of industry groups to differences between EU-15 and US aggregate annual labour productivity growth

	Productivity growth differential EU15 over US		
	Average annual percentage points		
	1979-1990	1990-1995	1995-2001
Total economy	0.99	1.19	-0.54
ICT Producing Industries	-0.13	-0.25	-0.45
<i>ICT Producing Manufacturing</i>	-0.31	-0.29	-0.60
<i>ICT Producing Services</i>	0.08	0.04	0.15
ICT Using Industries	0.38	0.44	-0.61
<i>ICT Using Manufacturing</i>	0.19	0.18	0.14
<i>ICT Using Services</i>	0.19	0.26	-0.75
Non-ICT Industries	0.73	0.99	0.44
<i>Non-ICT Manufacturing</i>	0.27	0.01	0.24
<i>Non-ICT Services</i>	0.41	0.88	0.32
<i>Non-ICT Other</i>	0.06	0.10	-0.11

Source: O'Mahony and Van Ark (2003)

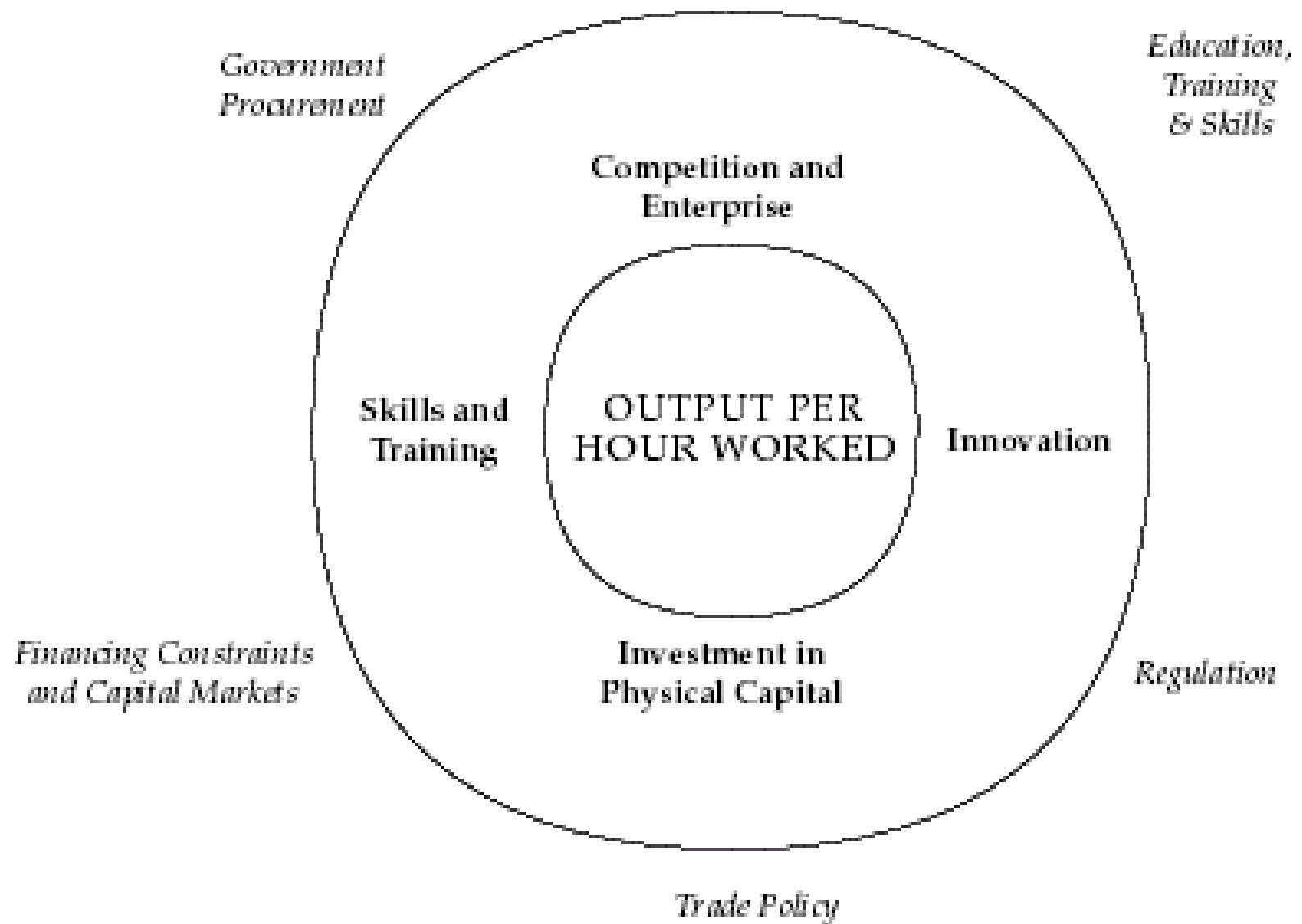
Table II.7

Value added shares, 1999, ICT-7 taxonomy

	ICT Producing Manufacturing	ICT Producing Services	ICT Using Manufacturing	ICT Using Services	Non-ICT Manufacturing	Non-ICT Services	Non-ICT Other
EU-15	1.3	4.9	6.9	23.3	13.6	38.3	11.7
US	2.7	5.0	5.1	29.5	10.6	36.5	10.6
Belgium	0.9	4.8	4.0	28.6	14.5	37.9	9.3
Denmark	1.2	4.1	7.0	22.9	10.6	42.6	11.7
Germany	1.6	4.5	8.4	23.6	15.1	36.6	10.2
Greece	0.3	3.9	4.1	20.7	8.7	41.6	20.7
Spain	0.7	3.8	4.9	19.1	14.3	41.4	15.9
France	1.6	4.6	5.6	23.1	13.3	40.8	11.0
Ireland	6.6	5.9	7.7	22.0	19.8	25.4	12.6
Italy	1.0	4.3	7.6	25.5	14.5	35.6	11.6
Luxembourg	0.3	7.4	2.3	44.4	9.4	27.6	8.6
Netherlands	1.4	4.6	5.2	26.2	11.1	38.5	13.1
Austria	1.8	3.5	6.2	24.2	14.3	35.5	14.6
Portugal	0.9	4.1	4.7	25.0	13.2	37.2	14.8
Finland	5.3	5.0	7.2	17.1	15.2	37.2	13.0
Sweden	2.4	5.8	6.5	19.5	14.8	41.4	9.6
United Kingdom	1.6	5.7	6.9	23.2	11.4	40.3	11.0

Source: O'Mahony and Van Ark (2003)

OUTPUT GROWTH – PILLARS AND POLICY LEVERS



employment guidelines

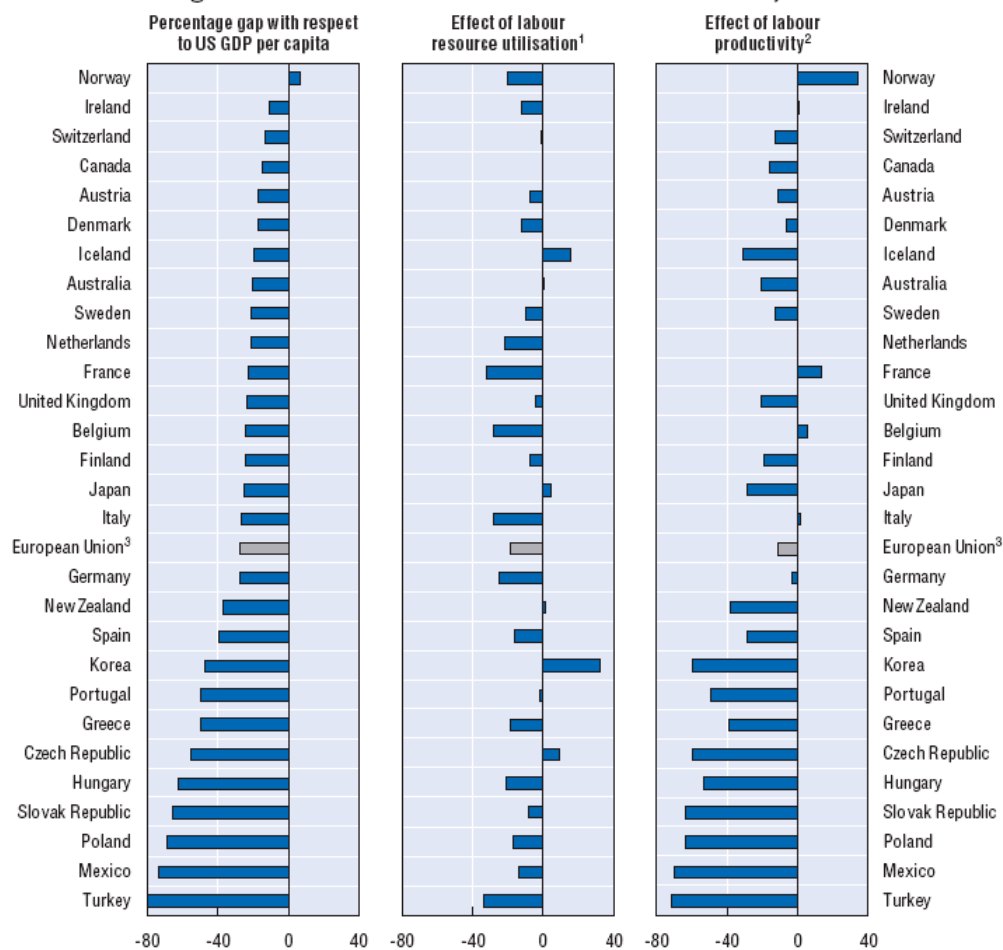
- * 'Unemployment is high in the four largest economies of Continental Europe, namely, France, Germany, Italy and Spain. Exclude these four countries and the famous European unemployment problem more or less disappears', Professor Stephen Nickell.
- * Not all labour market institutions lead to worse outcomes but some do!
 - high levels of benefits paid indefinitely;
 - low spending on active employment policies;
 - high levels of unionisation with little co-ordination of wage bargaining;
 - minimum wages combined with high payroll taxes and high levels of unskilled workers.
- * Active labour market policies along the lines of the Danish 'flexicurity' model may help.

labour resource utilisation

- * Labour utilisation is captured by two broad elements.
- * Labour intensity is the number of hours worked per worker.
- * Employment rate is the proportion of the population that is in work.
- * Government policies can affect both of these, for example, by setting maximum working hours or by making hiring & firing more costly.

$$\frac{\text{Workers}}{\text{Pop}} = \frac{\text{Workers}}{\text{Active}} * \frac{\text{Active}}{\text{Labour Force}} * \frac{\text{Labour Force}}{\text{Pop}}$$

Figure 1.2. The sources of real income differences, 2002



1. Labour resource utilisation is measured as total number of hours worked divided by population.

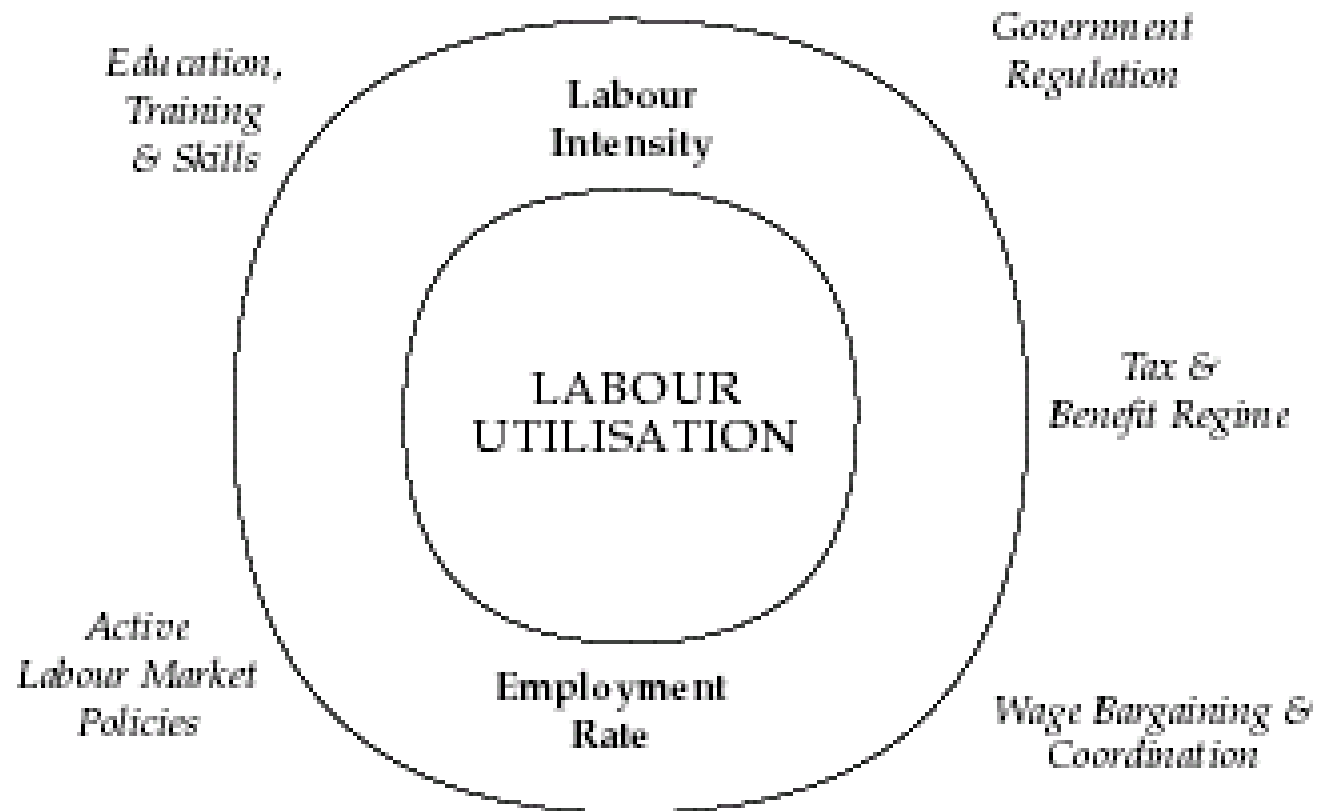
2. Labour productivity is measured as GDP per hour worked.

3. Excluding Luxembourg.

Source: OECD, National Accounts of OECD Countries, 2004; OECD Labour Force Statistics, 2004 and OECD Economic Outlook, No. 76.

Source: OECD (2005)

LABOUR RESOURCE UTILISATION – DRIVERS AND POLICY
LEVERS



Structural policies and performance: proposed priorities (cont.)

Performance areas		
	Labour utilisation	Labour productivity
France	<p>Stimulate hiring by cutting the costs of EPL for regular workers.</p> <p>Stimulate labour demand for youth and low-skilled by allowing for a relative decline in the minimum cost of labour.</p> <p>Reduce implicit tax on continued work at older ages by reforming early retirement pathways.</p>	<p><i>Accelerate reforms aimed at lowering barriers to entry in network industries.</i></p> <p><i>Promote greater competition in retail distribution by reviewing regulation concerning retail outlet locations and pricing rules.</i></p>
Germany	<p>Strengthen work incentives by reducing the tax wedge on labour income.</p> <p><i>Reduce disincentives to work at older ages by removing preferential unemployment benefit eligibility conditions for older workers.</i></p>	<p>Improve secondary education achievements to raise efficiency of the workforce.</p> <p>Liberalise professional services by phasing-out binding fee schedules in specific professions.</p> <p><i>Raise competition in government procurement to increase public spending efficiency.</i></p>
United Kingdom	<p>Refocus invalidity pension schemes to encourage work by those with substantial work capacity.</p> <p>Strengthen employment prospects for low-skilled workers by improving vocational education at the upper-secondary level.</p>	<p>Improve public infrastructure, especially for transport to further reduce bottlenecks.</p> <p><i>Raise public-sector efficiency by strengthening incentives to pursue performance targets in publicly-funded services.</i></p> <p><i>Enhance competition in some service sectors by reviewing planning restrictions.</i></p>
Italy	<p>Strengthen work incentives by reducing the tax wedge on labour income.</p> <p><i>Promote greater flexibility in wage bargaining by decentralising wage-setting arrangements in the public sector.</i></p>	<p>Reduce the scope of public ownership by allowing for more competition in the provision of public local services.</p> <p>Raise overall human capital by improving access to, and graduation rates from, upper-secondary and tertiary education.</p> <p><i>Improve corporate governance by strengthening directors' independence and minority shareholder rights.</i></p>

Source: OECD (2005)

growth and jobs

- * Recent European economic performance has been weak.
- * This is particularly the case for labour utilisation.
- * But also increasingly true for productivity growth.
- * Weakness especially in agriculture, manufacturing, distribution and financial services.
- * Strong in utilities, construction, communications.
- * Suggested Lisbon agenda remedies too focussed on high-tech.
- * Too little on low tech and job creation.
- * European workers, especially the unskilled, women, youths and older workers need pathways to work.

syndicate topics

- * What are the relative strengths and weaknesses of French, German and Italian industry?
- * Which labour market rigidities affect hiring and firing the most?
- * What is the relative importance of the following drivers of productivity growth for your industry: investment, competition, enterprise, innovation, and skills?