Discussion of Subacchi and Colagrossi (2016): The productivity puzzle: why improving labour productivity is critical for Europe’s economic (and political) stability

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Summary

• productivity puzzle in **UK**
  ➢ substitution between capital and labor due to low wage growth; labor hoarding (also due to migration)
• low – if not negative – labor productivity growth in **Italy**
  ➢ structural reasons, brain drain (emigration of high-skilled workers); no motivation for workers to improve their skills due to labor market reform in 2014/15
• Overall, this paper stresses the importance of labor quality (knowledge, skills) growth and migration as determinants of labor productivity growth
  ➢ For the US Bosler et al. (2016) stress the importance of labor quality (determined by the compensation share)
Policy statements of the authors (1)

• „incomplete reforms only succeeded in distorting incentives rather than causing a flexible allocation of the workforce“ – negative opinion regarding the labor market reform in Italy in 2014/15 (jobs act)

• Characteristics of this reform:
  ➢ easing of dismissal protection (right of reemployment)
  ➢ more flexibility by temporary contracts

• for discussion: How would efficient labor market reforms for Italy look like?
Policy statement of the authors (2)

- To increase investment in southern Europe: “a possible solution would be a direct intervention by the European Union, both via guarantees on private investments and via forthright infrastructural investments.“

- For discussions: What are the reasons why businesses in southern Europe have problems to attract capital? (may be problems in the banking sector?)

- Do you see risks for a missallocation of capital?
Policy statements of the authors (3)

• Outside the fiscal compact countries should be allowed to invest in human capital to foster productivity growth

➢ for discussion: Why is it not possible to finance additional expenditure for human capital with the existing public budget?

➢ Is a fiscal compact with assumptions a good compact?

➢ Do we think missing money for human capital is the main reason for Italy’s productivity problem?
Structural problems in Italy’s economy (maybe prejudices)

- international non-price competitiveness indicators in 2014 have shown:
  - poor state of institutions (e.g. efficiency of the state, regulation)
  - poor efficiency on the goods market (tax incentives on investment, tax rate on earnings)
  - poor efficiency on the labor market (hiring and firing conditions)
  - Low volume of R&D investment
Adjustment processes in the Euro-area, in particular in Italy, are not completed.
The issue of competitiveness in the Euro-area

- until the year 2008 we have seen diverging trends in labor productivity, wage growth and other inflations measures as well
- rise of imbalances (indebtedness, current account balances) due to capital flows between northern and southern Europe
- Major problems: high indebtedness in many countries, overcapacities in some areas (e.g. construction in Spain) and loss of competitiveness
- for the stability of the Euro-area it is important to address these issues (and their developments since 2008)
Low labor productivity growth tends to be a reason for low export growth in Italy; problem of diverging trends in productivity growth
Improvement in Italy’s current account balance due to decline in imports

no improvements in unit labor costs as nominal wage growth has a similar development like labor productivity growth
Small rises in labor productivity in Italy are primarily due to employment reductions for both the tradable and the non-tradable sector.