

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

presented at the Nomura Foundation's 2016 Conference  
“Productivity, Technology, and Growth“

Steffen Elstner  
16th November 2016, Nomura Foundation, Tokyo

# 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

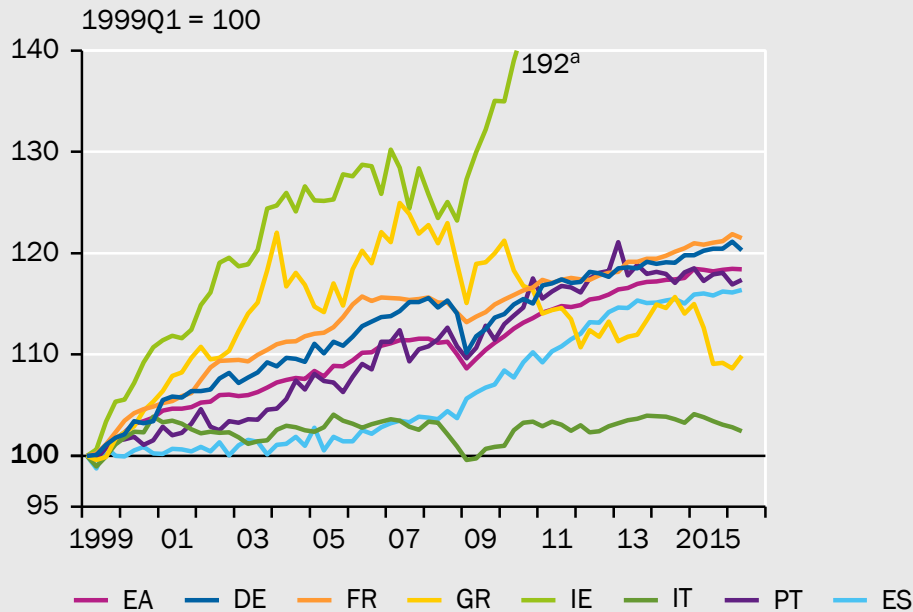
# The issue of competitiveness in the Euro-area

- 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)

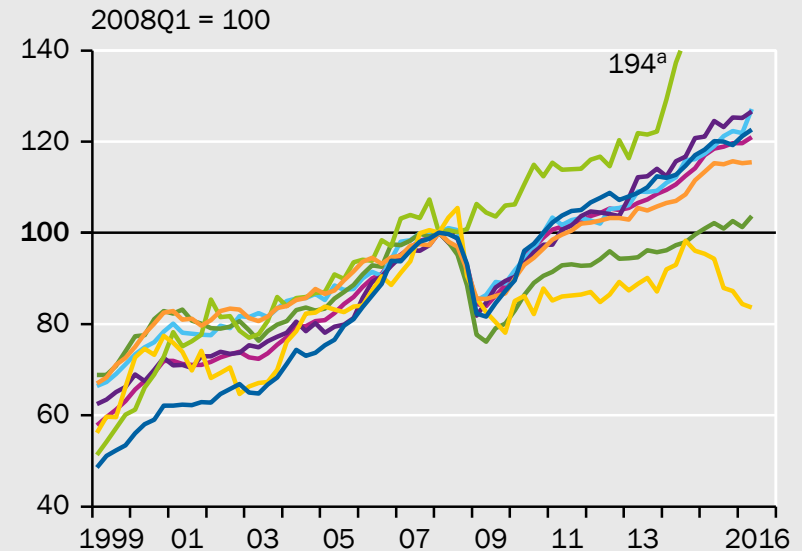


# Low labor productivity growth tends to be a reason for low export growth in Italy; problem of diverging trends in productivity growth

**Real labour productivity per hours worked**

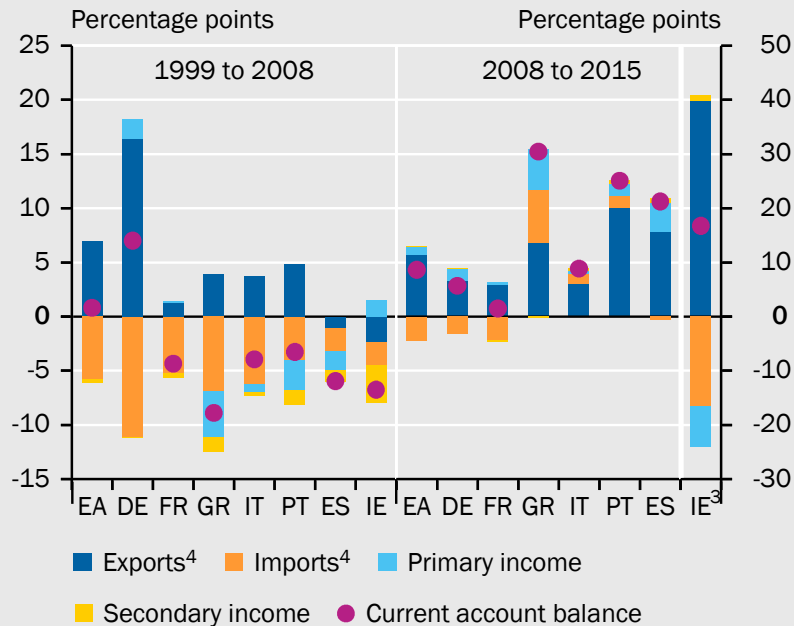


**Real exports<sup>4</sup>**

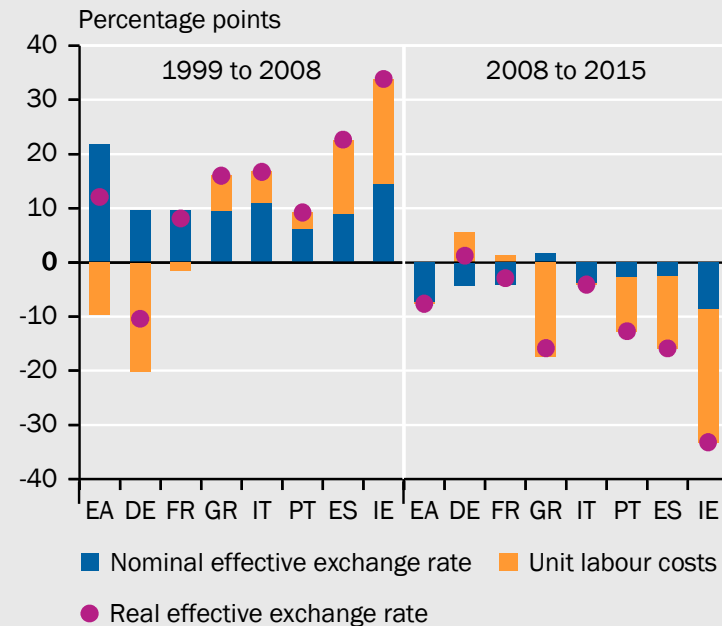


# Improvement in Italy's current account balance due to decline in imports

Change of current account balances<sup>2</sup>



Change of real effective exchange rates<sup>5</sup>

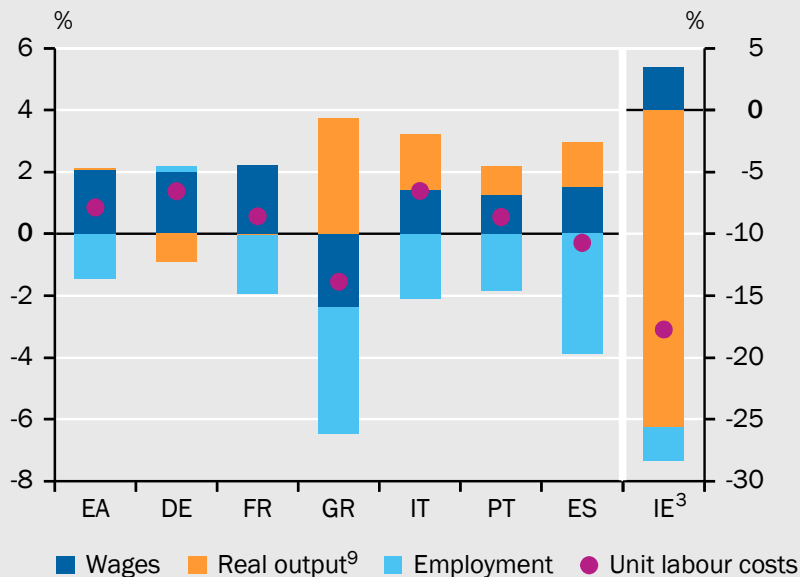


no improvements in unit labor costs as nominal wage growth has a similar development like labor productivity growth

# Small rises in labor productivity in Italy are primarily due to employment reductions for both the tradable and the non-tradable sector

Average change of unit labour costs and its components since 2008Q1<sup>6</sup>:

Economic sectors with tradeable goods<sup>7</sup>



Economic sectors with non-tradeable goods<sup>8</sup>

