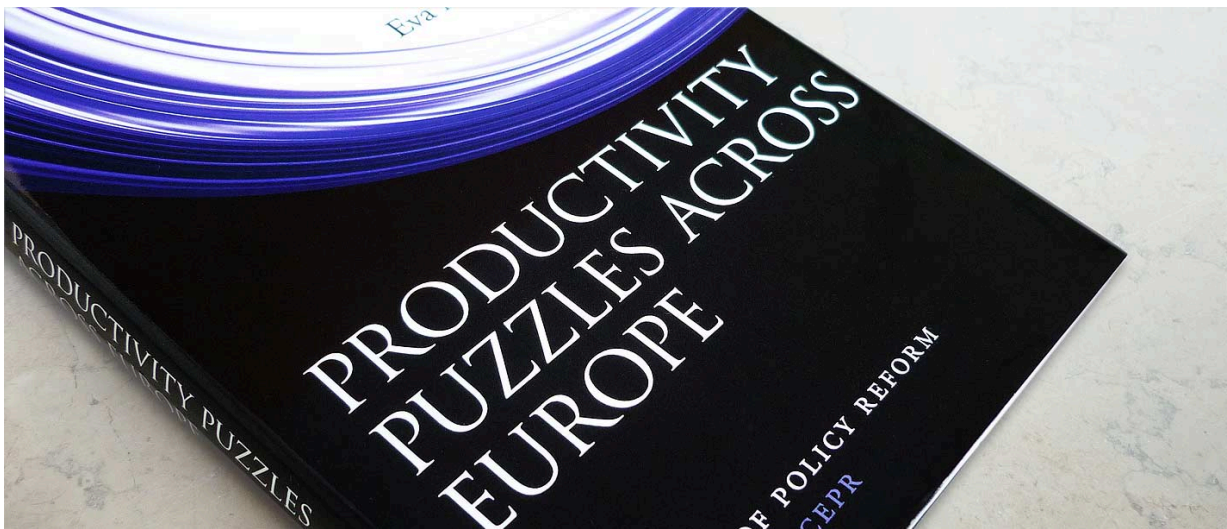


## Online Magazin IAB-Forum

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### Recent book publication: Productivity Puzzles Across Europe

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The economic shock of the financial crisis rivalled that of the Great Depression following the Wall Street Crash of 1929 in terms of the decline in economic output across the world. However, the duration of the crisis seems to be much shorter, because governments reacted quite strongly to the crisis because of the existence of institutions such as the short-time work allowance scheme in Germany. Thus, the observed heterogeneity of the major European economies in terms of the impact of the 2008/2009 financial crisis provided the starting point of the study conducted by an international research team supported by the Centre for Economic Research and its Applications (CEPREMAP), Paris which was recently published in the Studies of Policy Reform series of Oxford University Press titled “Productivity Puzzles across Europe”.

Thus, the similarities and differences between Germany, France, the UK and Spain are explored not only because together they account for roughly 60 per cent of the EU’s gross domestic product (GDP), but also because they constitute contrasting cases: The UK is not part of the EURO area, but

its economy was severely damaged by the Great Recession and its recovery has been very slow. The slight drop in Germany's unemployment figures contrasts with the persistent two-digit unemployment rate in France and Spain.

## Country-specific adjustment patterns

Fresh empirical results presented by scholars from Germany, France, the UK and Spain share common hypotheses and methodology. The latter includes the exploration of unique databases at the workplace or firm level for each country with a particular focus on the labour market. The findings of this original research are commented by Tito Boeri, president of the Italian social security administration (INPS), and by Dan Andrews, head of the Productivity Workstream in the Economics Department of the OECD. Microdata are mainly used to test whether the facts that are visible at the aggregate level also hold at the individual firm level. These chapters are preceded by three contributions from leading researchers that focus on over-arching themes

- Bart van Ark (Conference Board) writes about Europe's productivity slowdown in comparison with the U.S.
- Nicholas Crafts (University of Warwick) revisits Europe's productivity slowdown; and
- Marcel Timmer (University of Groningen) adopts a global value chain approach in order to understand the development of productivity and employment in a fragmenting economy.

Since the onset of the Great Recession, labour productivity in France has declined along with a relatively low but persistent increase in the unemployment rate. Recent empirical results from REPONSE data presented by Philippe Askenazy (French National Centre for Scientific Research and Ecole Normale Supérieure) and Christine Erhel (University Paris 1 Panthéon-Sorbonne) reveal that high-involvement work practices such as employee shareholding and organized employee voice are not associated with enhanced productivity after the crisis of 2008/2009. Furthermore, the increased use of "contrats à durée déterminée" (CDD – short-term contracts) and the higher churning rate hinder productivity in some activities but boost profits.

On the one hand, similar to the situation in France, labour productivity has fallen in the UK in the years since 2008. On the other hand, although employment was lower in the quarters after the crisis, the decline was similar to that experienced in the recessions of the 1980s and 1990s. Furthermore, employment recovered more quickly. Alex Bryson (University College London) and John Forth (National Institute of Economic and Social Research in London) use the British Workplace Employment Relations Surveys (WERS) to shed light on these developments. Their analyses reveal widespread pay freezes and cuts that help to explain the decline in real wage growth in the aftermath of the 2008/2009 crisis. According to their study, immigration may have played a role as

well. The authors find evidence of labour hoarding, especially of high-skilled labour. Their analysis does not reveal a discernible impact of the crisis on either the number of human resource management practices workplaces invested in, nor their returns on those investments.

Using the IAB-Establishment Panel Survey, Lutz Bellmann (University of Erlangen-Nuremberg and Institute for Employment Research Nuremberg), Hans-Dieter Gerner (University of Applied Sciences Koblenz and Institute for Employment Research Nuremberg) and Marie-Christine Laible (Institute for Employment Research Nuremberg) explore the phenomenon of “Germany’s job miracle” which highlights the exceptional stability of Germany’s labour market during the Great Recession. The authors argue that the multi-level bargaining system with a cooperative social partnership was key in Germany’s successful coping with the crisis. On this basis, previously implemented institutions such as short-time work and company-level pacts for employment could easily be made use of during the crisis.

Laura Hospido (Bank of Spain) and Eva Moreno Galbis (University of Aix-Marseille and Catholic University of Louvain) demonstrate that the productivity gains in Spain can be regarded as the result of massive job destruction, especially of temporary jobs, rather than efficiency improvements in production processes. The evolution of gross fixed capital investment and technological progress has been decreasing continuously over the past years. Furthermore, the authors present evidence that the gap in terms of productivity between larger companies and the rest has increased since the onset of the Great Recession.

## Reasons for productivity slowdown

Mainstream economists regard productivity as the ultimate engine of growth in the global economy. The diagnosis focuses on the obstacles to knowledge diffusion. Here, the Spanish economy provides a good example. The book at hand discusses measurement issues, the macroeconomic context and long-term trends in technological change as potential candidates for the observed slowdown in productivity. The role of policies and institutions is also examined. In Germany as well as in France, governments reacted quite strongly to the crisis by supporting firms and helping to maintain employment through various subsidies or by promoting internal flexibility (encouraged by specific schemes such as short-time work). These policies may have contributed to the productivity decline by making it easier for firms to hoard labour. Moreover, by injecting massive liquidity, central banks may foster “zombie” firms capable of surviving despite producing little, leading to limited cleansing effects. Such reasoning may serve as rationales for the British, French, and German productivity slowdown as well as for the relative improvement in Spain. However, the contribution of

Bellmann/Gerner/Laible reveals that the establishments in the German manufacturing sector were particularly hit by the Great Recession, but recovered very quickly after 2009.

For additional Information, please visit the website: <http://www.oxfordscholarship.com>

## Zitationshinweis

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## Lizenzhinweis

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