

Philipp M Hildebrand: Where is productivity growth in Europe?

Summary of a speech by Dr Philipp M Hildebrand, Member of the Governing Board of the Swiss National Bank, to the Vereinigung Basler Ökonomen, Basel, 28 October 2004.

The complete speech can be found in German on the Swiss National Bank's website (www.snb.ch).

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Since 1996 the E.U. is lagging behind the U.S. in terms of productivity growth. This phenomenon has become more pronounced since 2001. The growth of GDP per work hour in the E.U. between the periods 1990-1995 and 1995-2002 is lower by two percentage points per year. This difference amounts to 2,8 percentage points per year if one compares the periods 1990-1995 and 2000-2005. Differences in GDP measurement account for roughly 0,5 up to a maximum of 1 percentage point of the productivity growth differential. The remaining difference is caused by two factors. On the one hand, total factor productivity growth has accelerated in the U.S. This was made possible by a wide-ranging restructuring of the U.S. economy which provided an optimal backdrop for the new information and communication technologies. On the other hand, capital deepening in Europe was lessened by employment growth. The productivity of this additional labour input has to be increased through strong educational efforts, open markets and additional investment. Labour market reforms remain indispensable in order to enhance the productivity of all workers. Product market reforms will be crucial in order to unleash the full productivity potential of the new technologies. Increasing productivity is the key to securing our welfare and the stability of our social security systems.