



*Employment and  
Social Developments in Europe*

# **Sustainable growth for all:**

*choices for the future of  
**Social Europe***

*Thematic session 1*

*Economic sustainability:  
Enabling sustainable and  
inclusive growth*

27 September 2019, Brussels

**#ESDE2019**

Social Europe

In cooperation with the



European Economic and Social Committee

# Planetary boundaries being crossed..

*Increased or high risk of causing irreversible changes to earth as of today:*

- Biodiversity
- Use of land
- Climate change

...

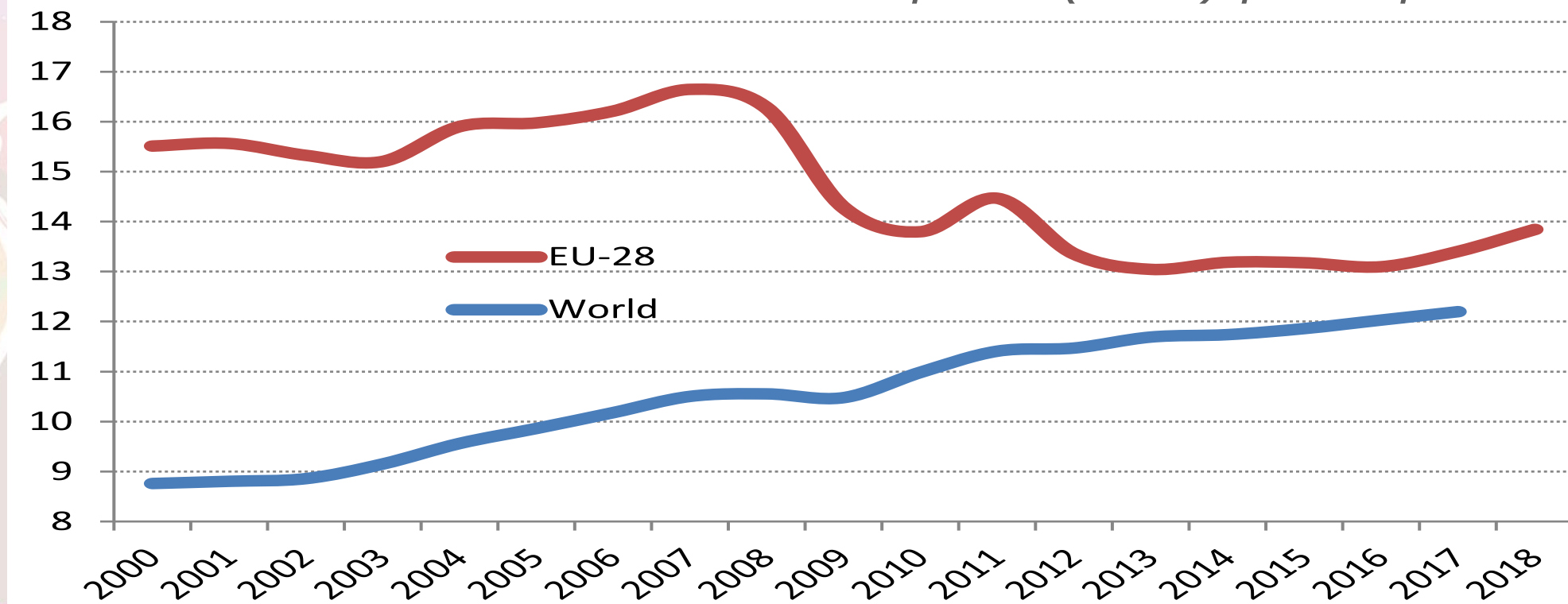
Source: Stockholm Resilience Centre, J. Lokrantz/Azote based on Steffen et al. 2015



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# .. we consider that economic growth can hardly trust on material consumption only

*Domestic material consumption (DMC) per capita*



Sources: Eurostat  
and UN statistics



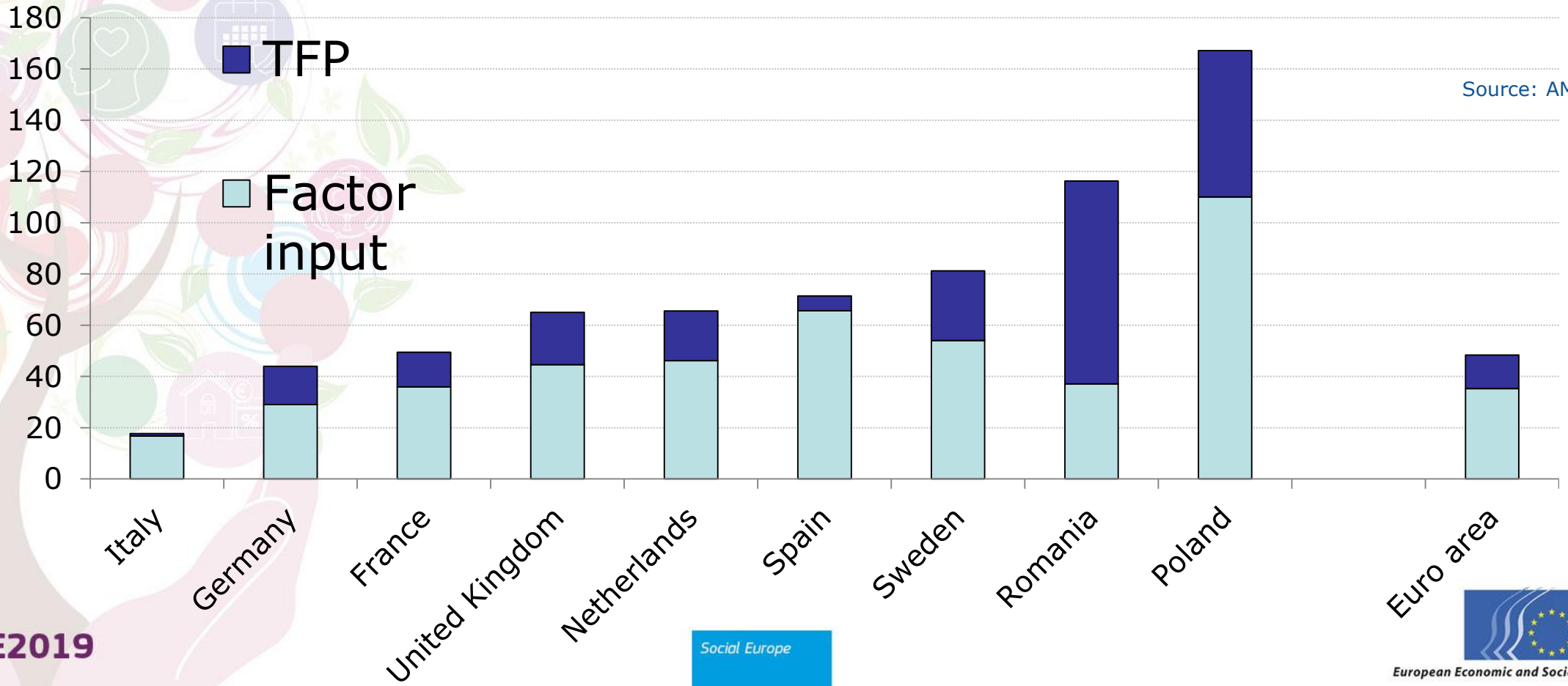


**The quantity of available resources is limited**

**Yet their efficient use is a resource in itself:**

$$\begin{aligned} & \textit{Growth of factor input (materials, labour)} \\ + & \textit{Efficiency gains (TFP)} \\ \hline = & \textit{Economic growth} \end{aligned}$$

# Since 1995, less than 1/3 of Europe's growth came from TFP..



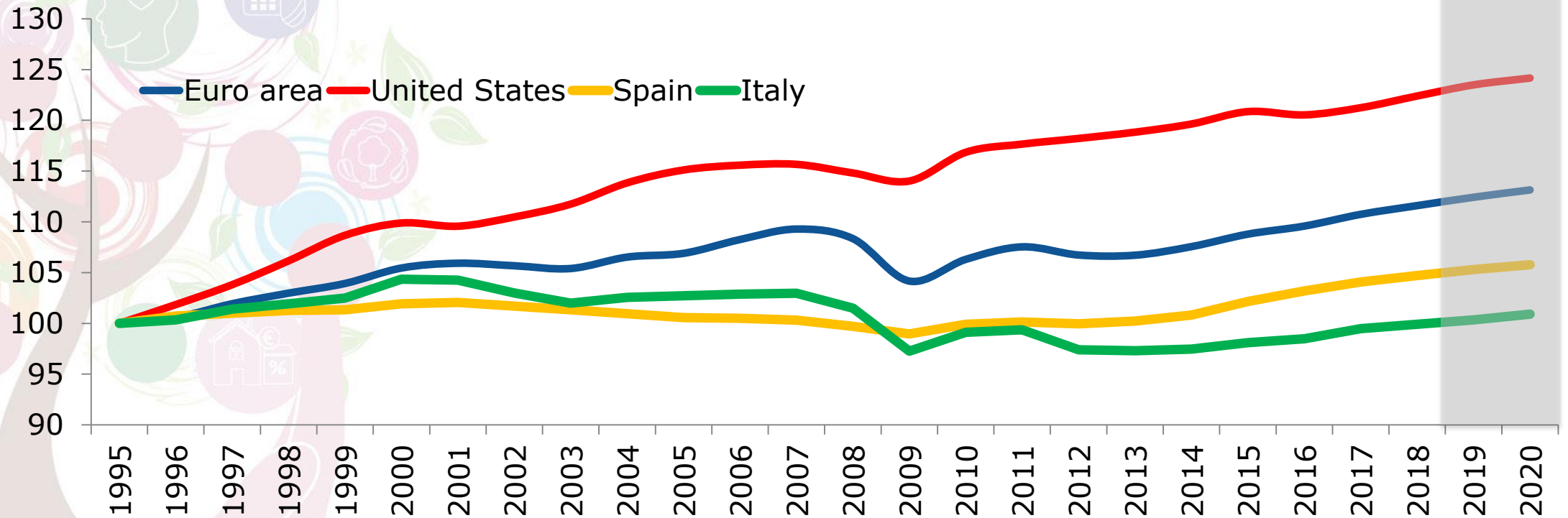
Source: AMECO



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# TFP: Europe has not kept up with the US recently..

forecast

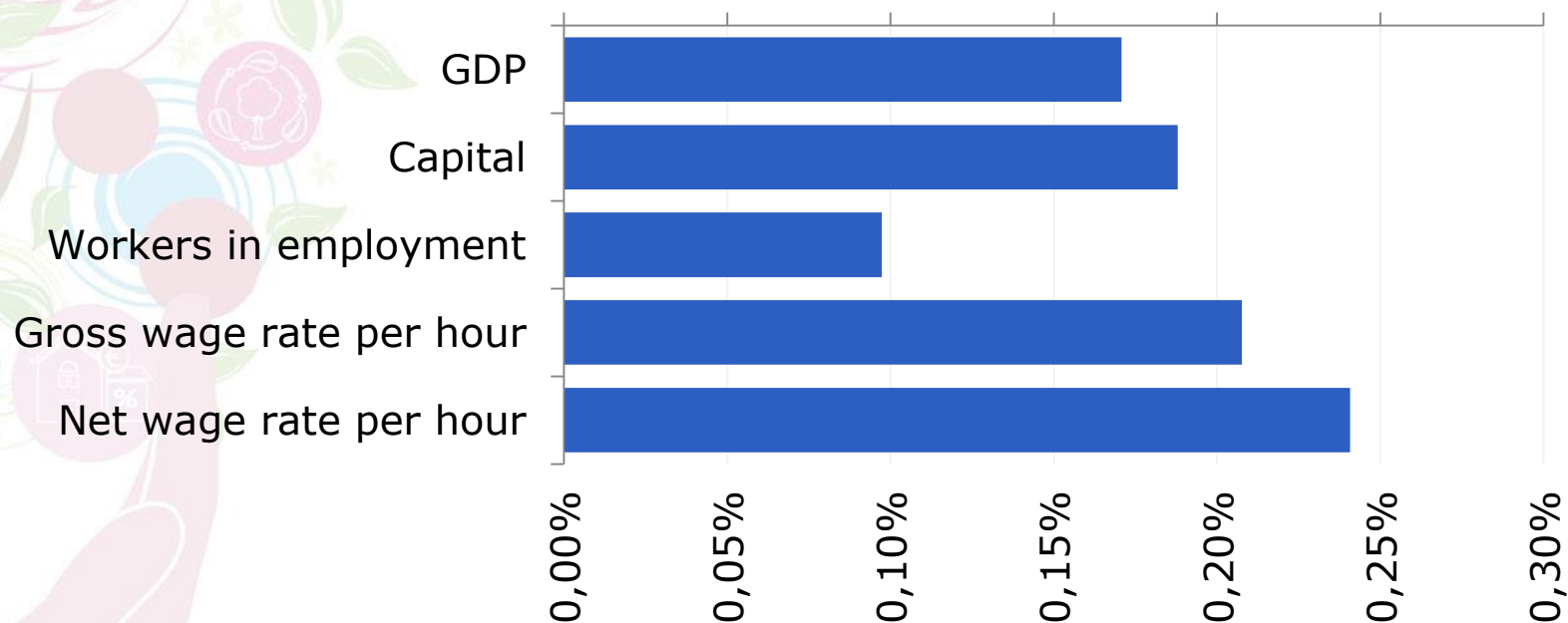




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## Productivity through investment in human capital - a training subsidy: 0.1% of GDP in Belgium -

*Long-term impact in % compared with 'do nothing'*



Own calculations based on DG EMPL's Labour  
Market Model

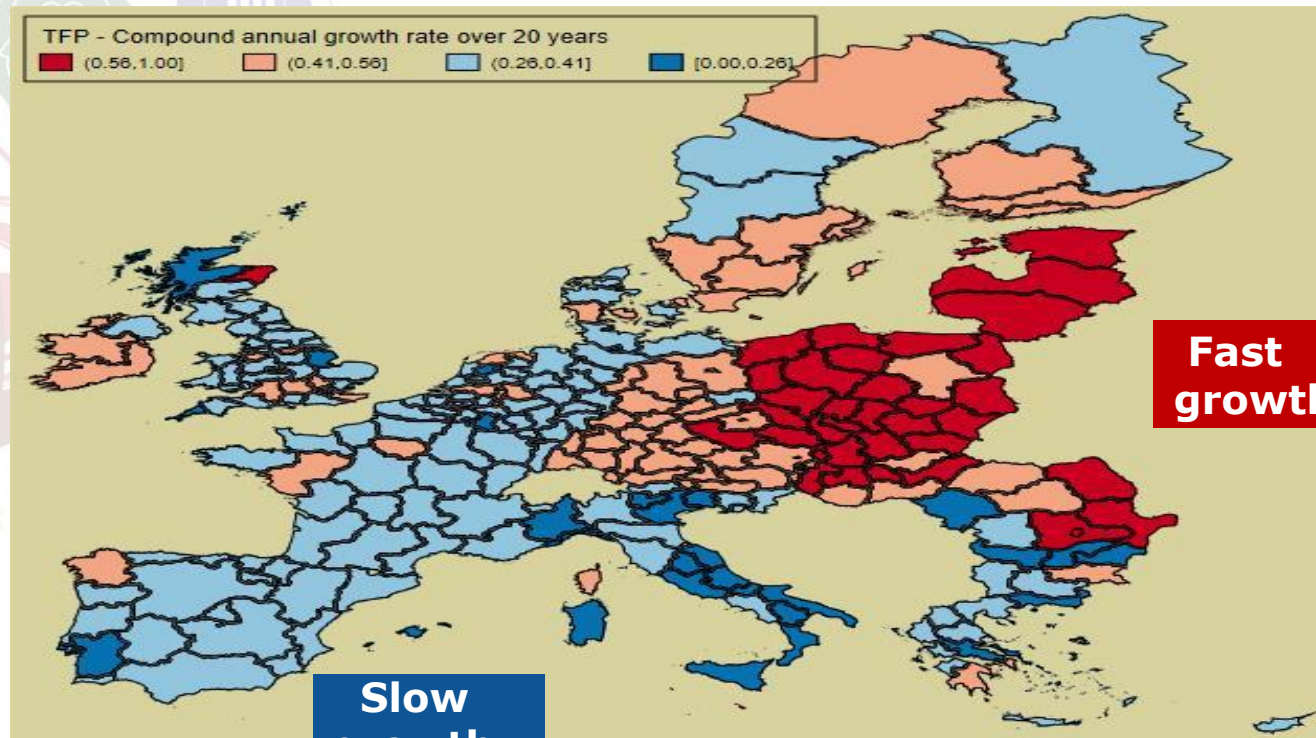




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# Yet within the EU, TFP across regions has been converging

*TFP growth between 1995 and 2015*



**Fast  
growth**

**Slow  
growth**

Source: DG EMPL calculation based on Eurostat,  
Cambridge Econometrics,  
EU-KLEMS and national sources



# The drivers of TFP between 1995 and 2015 in 262 EU regions

*Impact on TFP of variable:*

*Model 1* .....

**Human capital**

**TFP:** 

**Human capital** **×** **Gap to tech. frontier** **TFP:** 

**Coefficients significant below 1%**

Effects of country-specific differences and the year of observation are controlled for. N=4.172

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**Workers' innovative power**

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# The drivers of TFP between 1995 and 2015 in 262 EU regions

*Impact on TFP of variable:*

**Workers' innovative power**

*Model 1* .....

**TFP:** 

**Workers' capacity to absorb innovation**

**TFP:** 

**Coefficients significant below 1%**

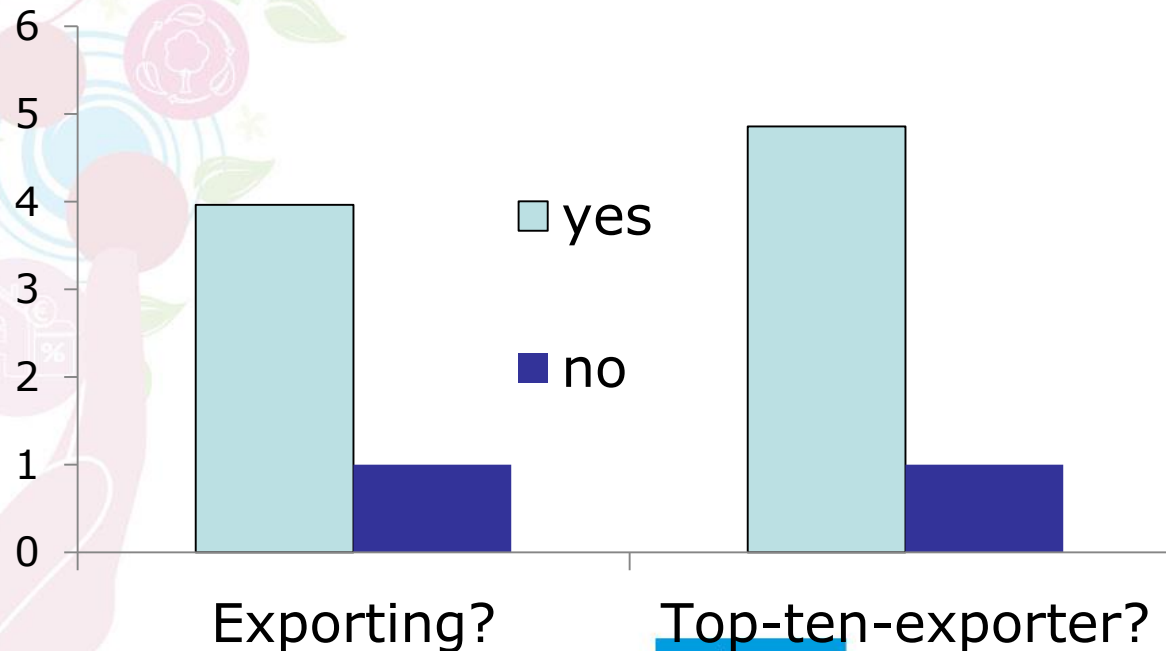
Effects of country-specific differences and the year of observation are controlled for. N=4.172



# Completing the Single Market helps boost TFP

➔ Exposure to (fair) competition

*Odds of having higher TFP*



Controlled for:

- Crisis/Non-crisis year
- Firm Size
- Labour Cost per Worker

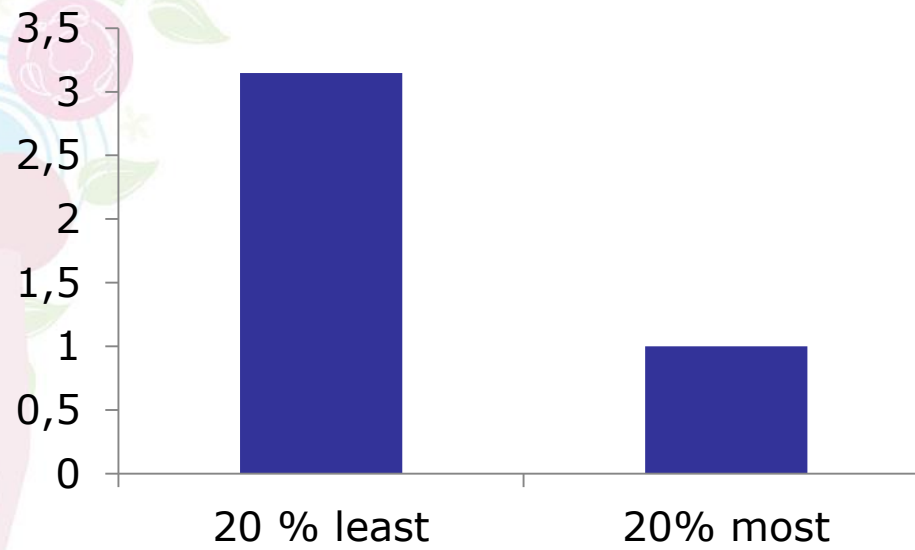


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# Complete the Single Market

➔ **Reduce market imperfections**

*Odds of having higher TFP*



exposure to labour market imperfections

- Controlled for:
- Crisis
  - Firm Size
  - Labour Cost per Worker

# Main messages



**Planetary boundaries limit factor input in production: Focus on TFP**

**The EU has not closed the TFP-gap vis-a-vis the US**

**Human capital (and R&D) spurs innovation in regions.**

**Human capital (and R&D) accelerates *absorption* of innovative technologies developed in other regions.**

**Completing the Single Market helps firms increase TFP: diffusion of new technologies through fair competition: fight LM imperfections**



# Lunch



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