



Marek Dabrowski

Long-term factors and constraints of economic growth in Europe and in the world

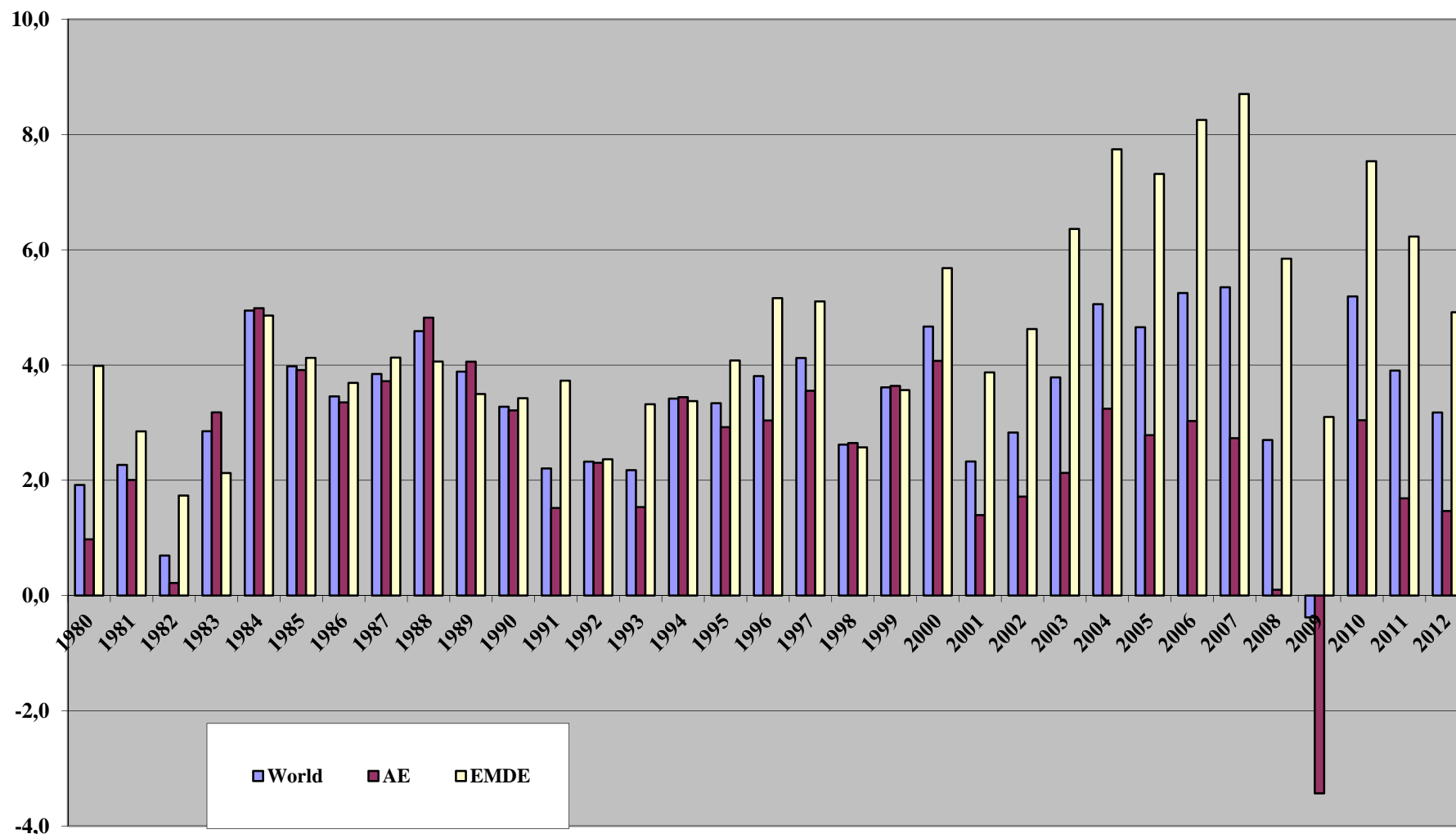
**Presentation at the 2015 EUROFRAME Conference on Economic Policy
Issues in the European Union “Challenges for Europe 2050”,
Vienna, June 12, 2015**

Danger of long-term stagnation?

- Deterioration of long-term growth dynamic in advanced economies, especially in Japan and Western Europe already before 2008-2009 crisis; after crisis it hit the entire EU
- Demand side vs. supply side explanations
- Demand side – actual growth below potential \Rightarrow necessity of countercyclical monetary and fiscal policies; it does not explain long-term slow down
- Supply side – analysis of growth potential based on a neoclassical growth theory (labor, capital, total factor productivity)



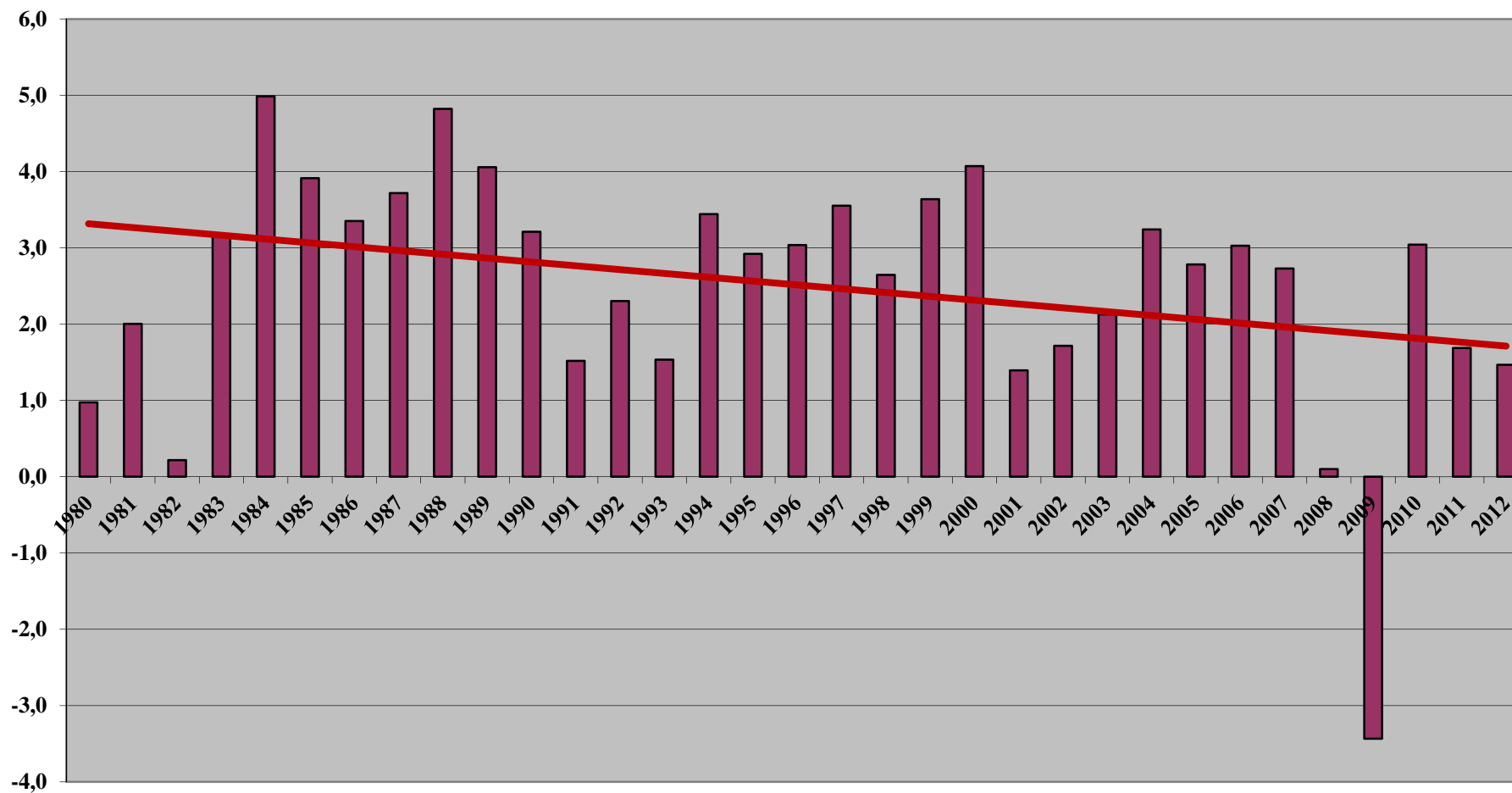
GDP in constant prices, annual change in %, country groups, 1980-2012



Source: IMF WEO Database, October 2013



GDP in constant prices, annual change in %, advanced economies, 1980-2012



Source: IMF WEO Database, October 2013



EU: Annual growth in real GDP, in %, 2005-2014

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014est
Austria	2.4	3.7	3.7	1.4	-3.8	1.8	2.8	0.9	0.3	1.0
Belgium	1.8	2.7	2.9	1.0	-2.8	2.3	1.8	-0.1	0.2	1.0
Bulgaria	6.4	6.5	6.4	6.2	-5.5	0.4	1.8	0.6	0.9	1.4
Croatia	4.3	4.9	5.1	2.1	-6.9	-2.3	-0.2	-2.2	-0.9	-0.8
Cyprus	3.9	4.1	5.1	3.6	-1.9	1.3	0.4	-2.4	-5.4	-3.2
Czech Rep.	6.8	7.0	5.7	3.1	-4.5	2.5	1.8	-1.0	-0.9	2.5
Denmark	2.4	3.4	1.6	-0.8	-5.7	1.4	1.1	-0.4	0.4	1.5
Estonia	9.5	10.4	7.9	-5.3	-14.7	2.5	8.3	4.7	1.6	1.2
Finland	2.8	4.1	5.2	0.7	-8.3	3.0	2.6	-1.5	-1.2	-0.2
France	1.6	2.4	2.4	0.2	-2.9	2.0	2.1	0.3	0.3	0.4
Germany	0.9	3.9	3.4	0.8	-5.1	3.9	3.4	0.9	0.5	1.4
Greece	2.3	5.5	3.5	-0.2	-3.1	-4.9	-7.1	-7.0	-3.9	0.6
Hungary	4.0	3.9	0.1	0.9	-6.8	1.1	1.6	-1.7	1.1	2.8
Ireland	5.7	5.5	4.9	-2.6	-6.4	-0.3	2.8	-0.3	0.2	3.6
Italy	0.9	2.2	1.7	-1.2	-5.5	1.7	0.5	-2.4	-1.9	-0.2
Latvia	10.1	11.0	10.0	-2.8	-17.7	-1.3	5.3	5.2	4.1	2.7
Lithuania	7.8	7.8	9.8	2.9	-14.8	1.6	6.0	3.7	3.3	3.0
Luxembourg	5.3	4.9	6.6	-0.7	-5.6	3.1	1.9	-0.2	2.1	2.7
Malta	3.6	2.6	4.1	3.9	-2.8	4.3	1.4	1.1	2.9	2.2
Netherlands	2.2	3.8	4.2	2.1	-3.3	1.1	1.7	-1.6	-0.7	0.6
Poland	3.6	6.2	6.8	5.1	1.6	3.9	4.5	2.0	1.6	3.2
Portugal	0.8	1.4	2.4	0.0	-2.9	1.9	-1.3	-3.2	-1.4	1.0
Romania	4.2	7.9	6.3	7.3	-6.6	-1.1	2.3	0.6	3.5	2.4
Slovakia	6.7	8.3	10.5	5.8	-4.9	4.4	3.0	1.8	0.9	2.4
Slovenia	4.0	5.7	6.9	3.3	-7.8	1.2	0.6	-2.6	-1.0	1.4
Spain	3.6	4.1	3.5	0.9	-3.8	-0.2	0.1	-1.6	-1.2	1.3
Sweden	3.2	4.3	3.3	-0.6	-5.0	6.6	2.9	0.9	1.6	2.1
UK	3.2	2.8	3.4	-0.8	-5.2	1.7	1.1	0.3	1.7	3.2
Eurozone	1.7	3.3	3.0	0.4	-4.5	2.0	1.6	-0.7	-0.4	0.8
EU	2.3	3.6	3.4	0.7	-4.4	2.0	1.8	-0.3	0.2	1.4

Source: IMF WEO, October 2014



НАЦИОНАЛНИЙ ИССЛЕДОВАТЕЛЬСКИЙ
УНИВЕРСИТЕТ

Supply-side constraints

- Population decline and aging
- Declining investment rate
 - Investment climate/ competitiveness
 - Declining gross saving rate (partly result of fiscal imbalances) despite excess of saving in some countries
- Slower growth in TFP (result of various systemic rigidities, especially labor market, and insufficient innovativeness)

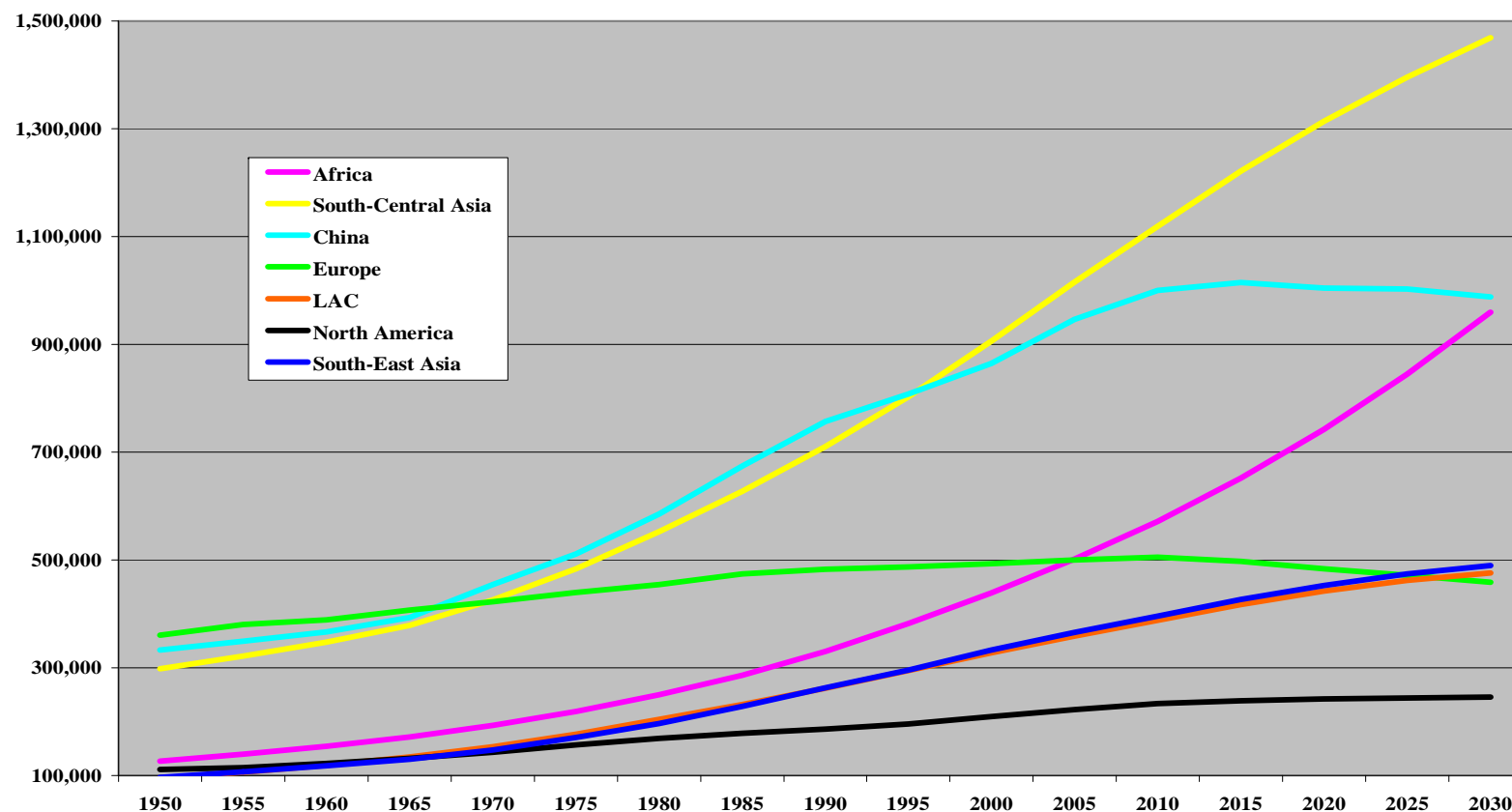


Labor resources

- Demographic crisis in advanced economies and part of middle-income economies
- In the next 20 years more emerging-market economies will face demographic barriers
- Excessive labor resources will remain mainly in Africa, Middle East and South Asia
- Barriers of migration



Working age (15-64) population by regions, in thousands, 1950-2030

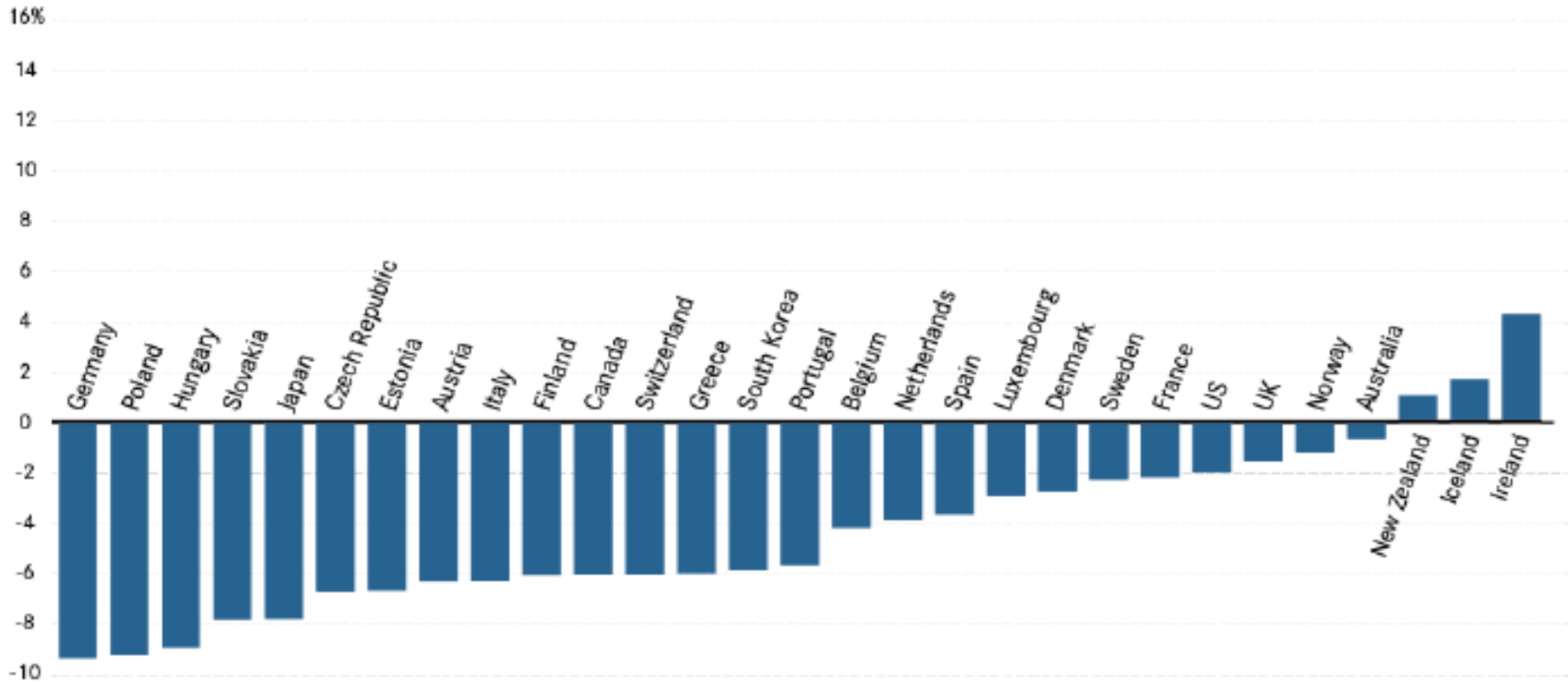


Note: for 2015-2030 Medium Variant Projection; LAC – Latin America and Caribbean

Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2012 Revision, <http://esa.un.org/unpd/wpp/index.htm>



Percent change, natural working-age population growth: 2015-2025*



* "Natural" refers to growth in population excluding migration.

Source: Bart van Ark 'Stumbling into the Gap. Stagnation, Labor, Investment and Productivity in Europe', The Conference Board Inc., 2014 based on UN Population Division Forecast



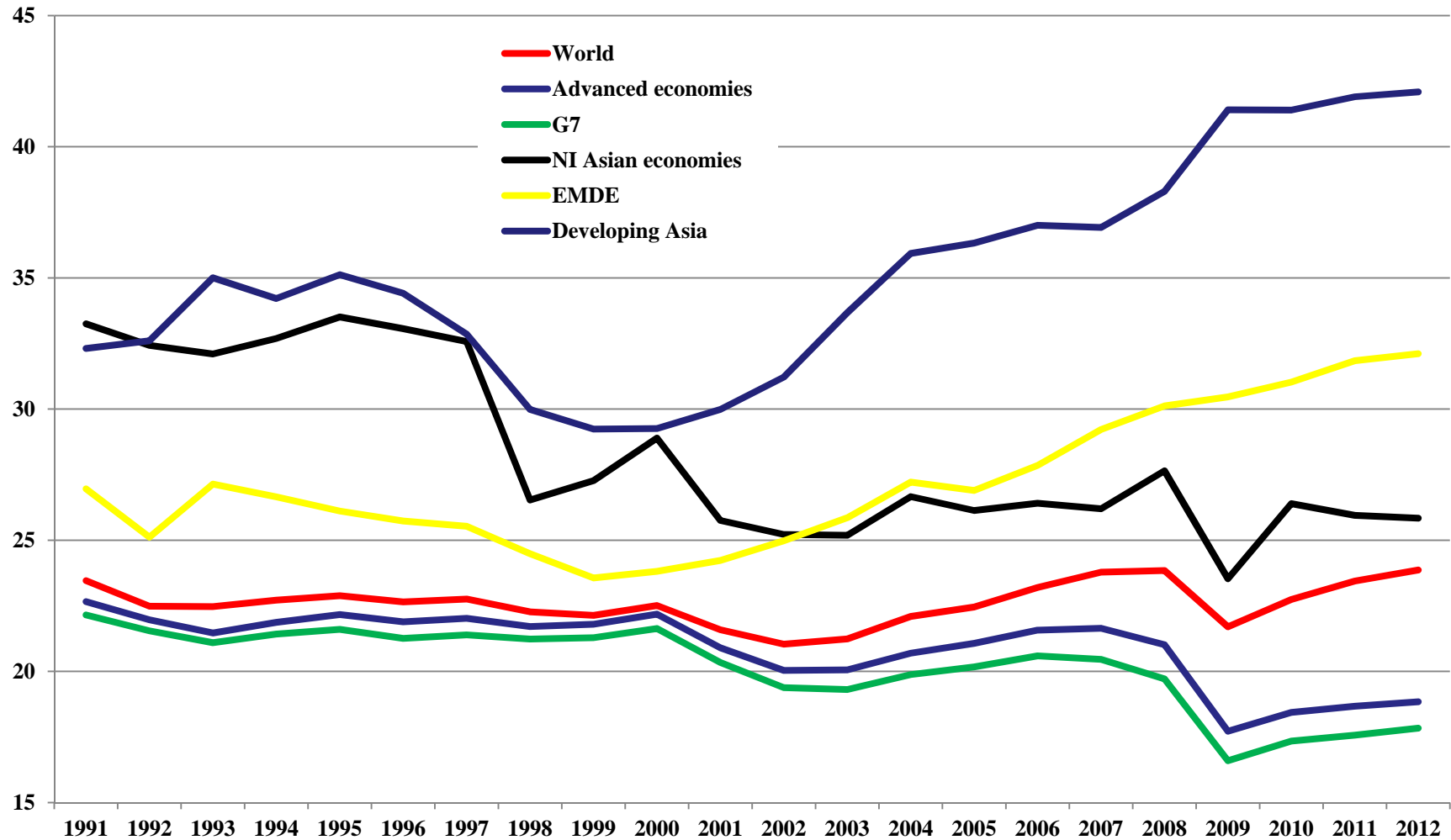
НАЦИОНАЛЬНЫЙ ИССЛЕДОВАТЕЛЬСКИЙ
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Deficit of labor resources in advanced economies – how to fix it?

- Migration
- Increasing retirement age
- Increasing labor market participation rate

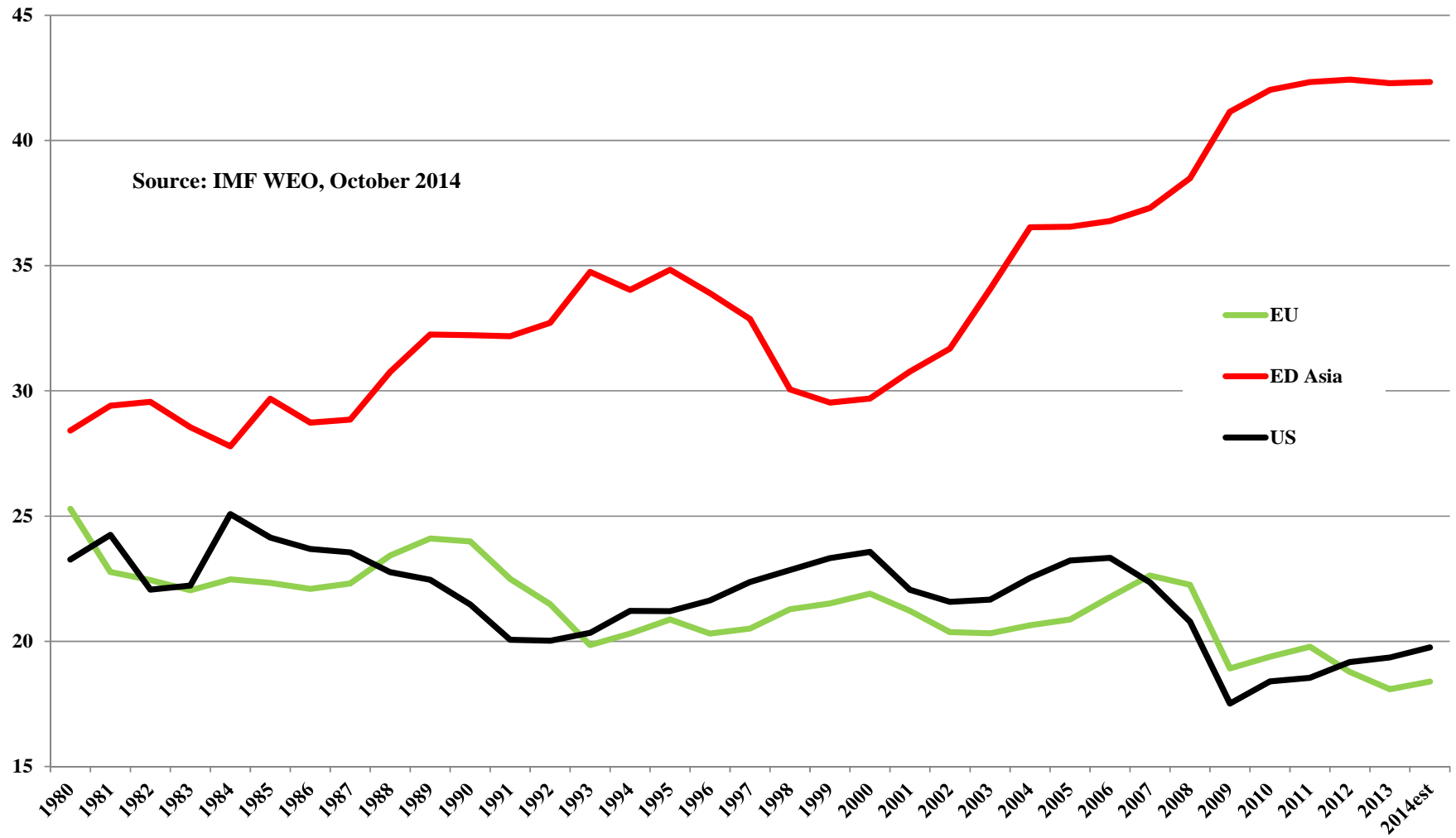


Investment as % of GDP



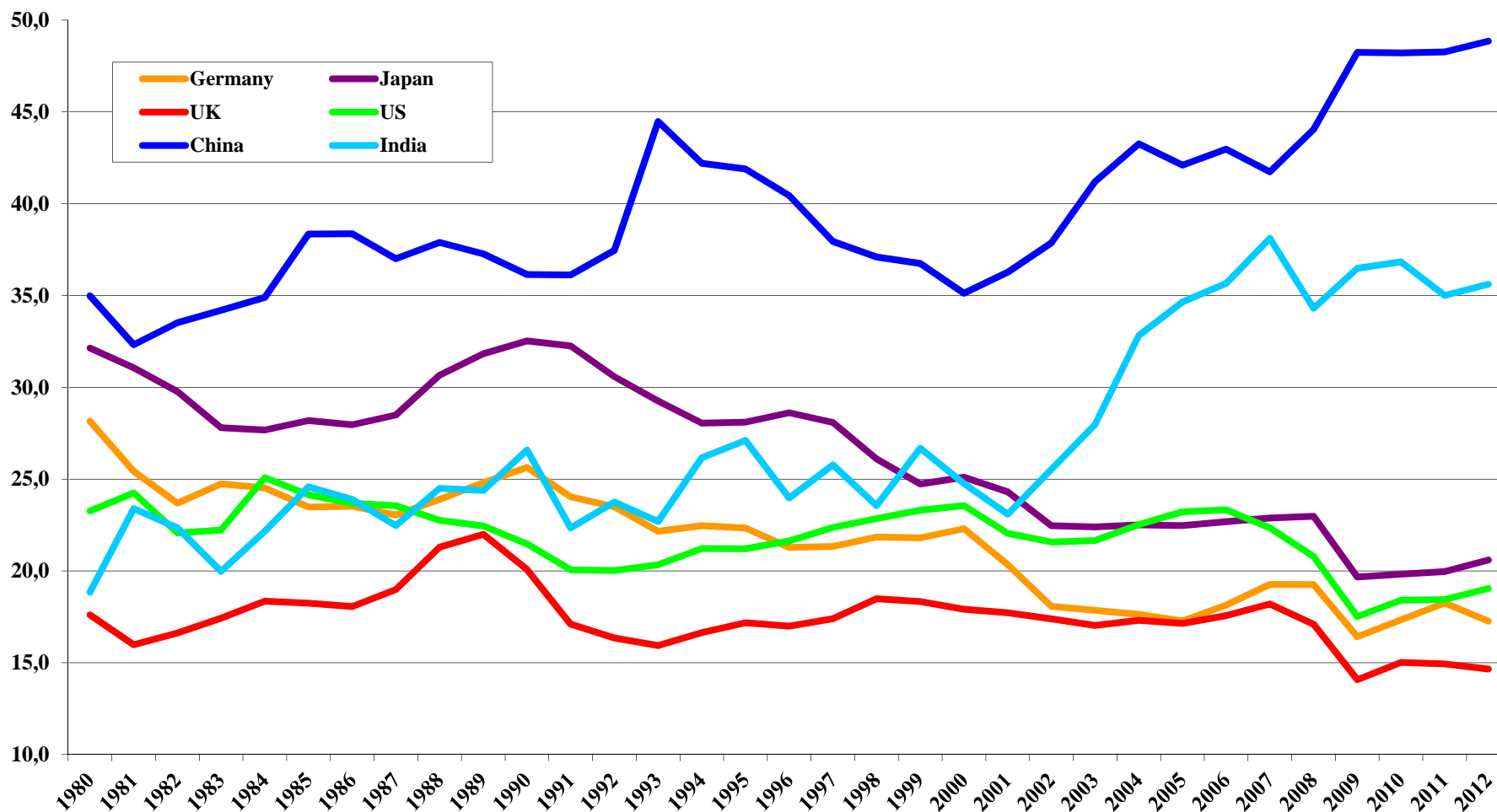
Investment as % of GDP, 1980-2014

Source: IMF WEO, October 2014



НАЦИОНАЛЬНЫЙ ИССЛЕДОВАТЕЛЬСКИЙ
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Investment as % of GDP, largest economies, 1980-2012

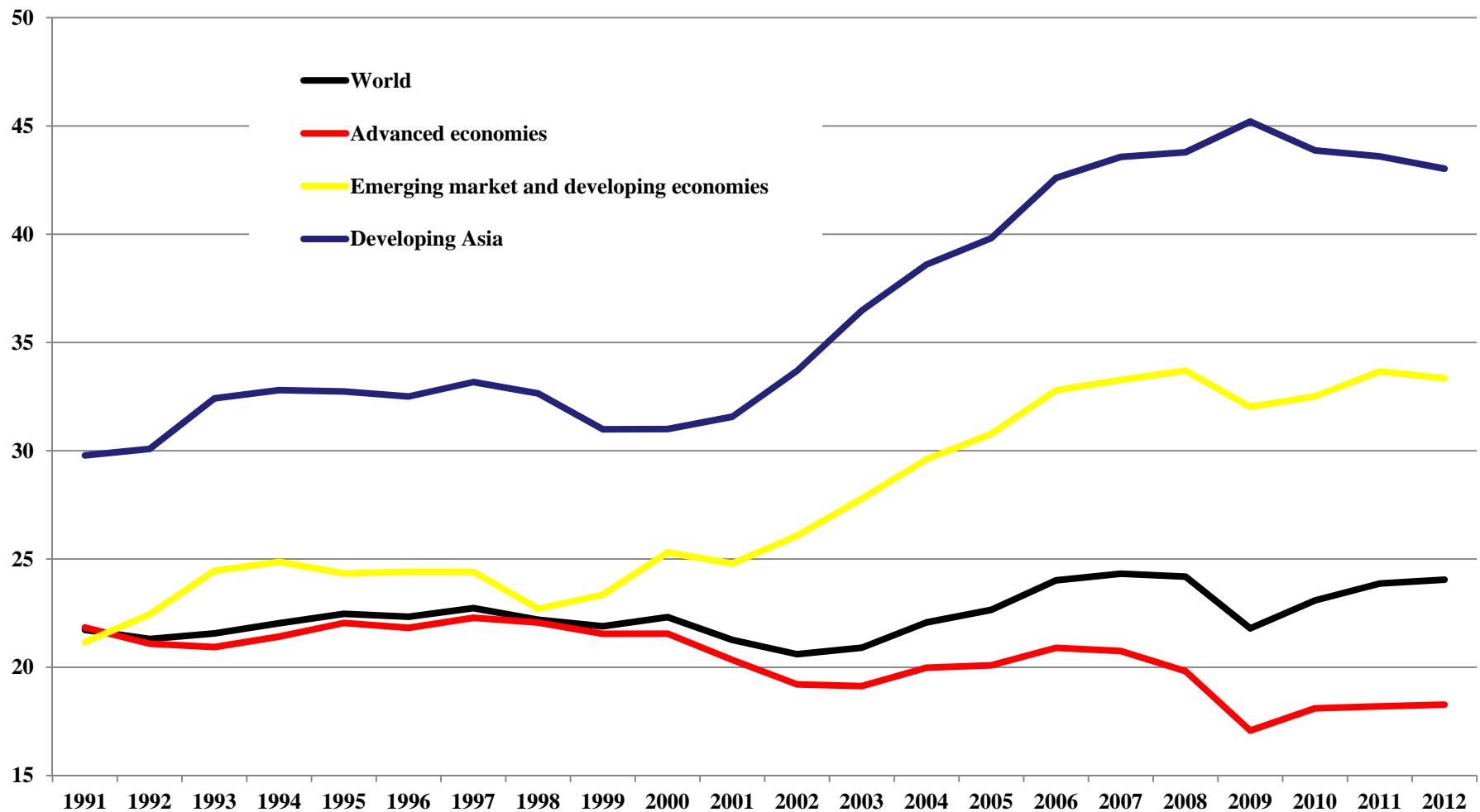


Source: IMF WEO Database, October 2013

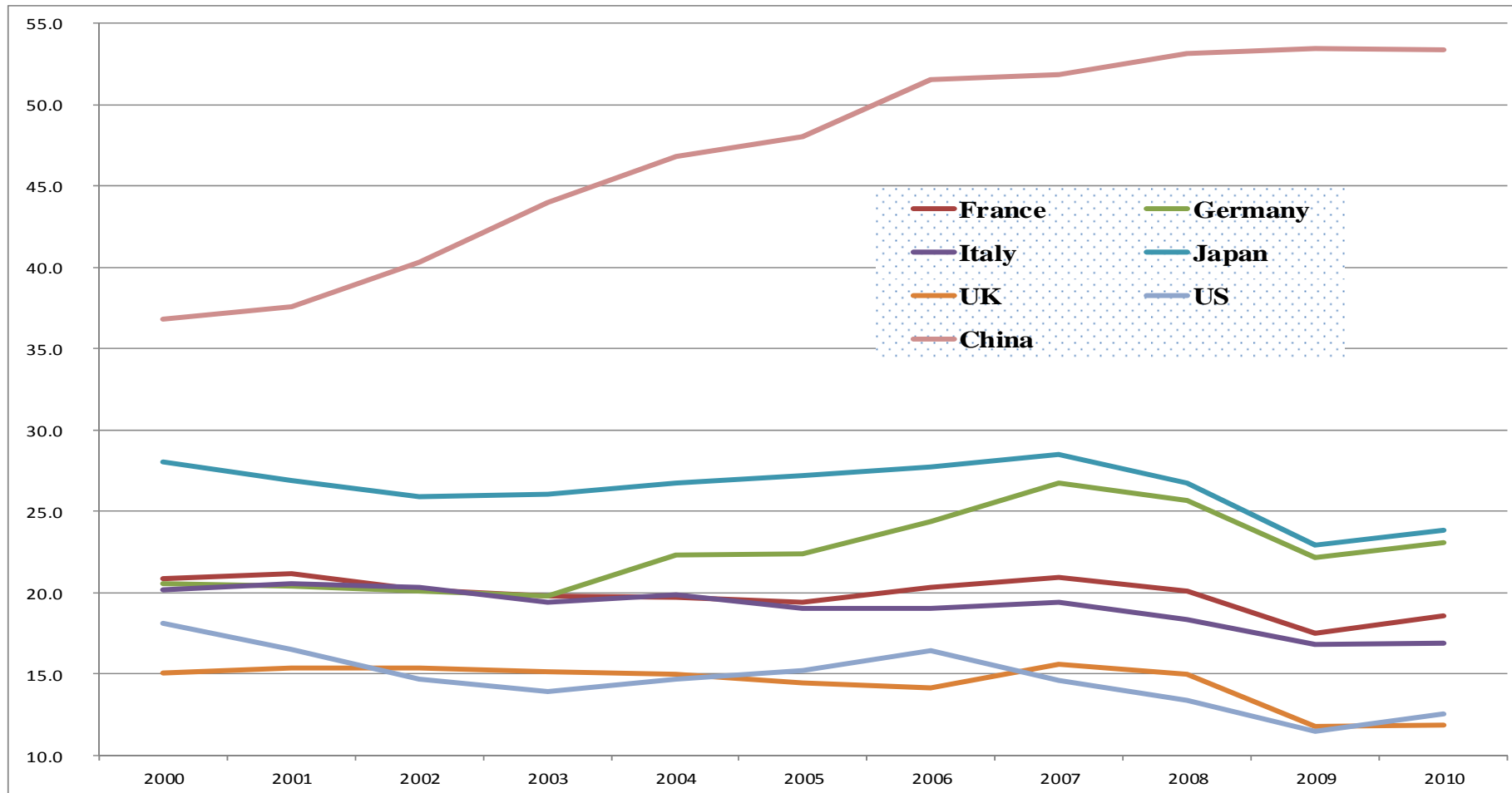


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Gross national saving, % of GDP: interregional comparison, 2001-2012



Gross national savings, % of GDP



Investment rate in advanced economies - questions

- Investment in intangibles (statistical problem)
- Investment and labor market flexibility (labor costs)
- Demographic trends vs. saving and investment



Factors of rapid TFP growth in 1990s/ early 2000s

- Trade liberalization
- Liberalization of capital movement
- Market-oriented reforms in many regions
(China, India, Latin America, CEE/CIS)
- ICT revolution
- Peace dividend



Factors which can impact TFP in a near future

- Trade liberalization impasse; perhaps TPP and TTIP
- Liberalization of capital movement completed; danger of reversal
- Some reforms in the EU economies and (perhaps) Japan
- New technological revolution?
- Peace dividend partly reversed
- Aging and productivity



Conclusions

- Growth potential in advanced economies the next 15-20 years – most likely more limited than before 2008-2009 crisis
- They may continue to grow in per capita terms (depending on TFP growth) but it does not solve some problems (e.g. debt burden)
- Importance of demography going beyond labor supply (also investment and TFP)
- Migration and liberalization of markets may provide some help

