

STRUCTURAL PERSPECTIVES ON EUROPEAN EMPLOYMENT: THE ROLE OF INNOVATION AND GROWTH

Christopher Pissarides

London School of Economics and

University of Cyprus

Themes

- What market conditions are conducive to more innovation and growth?
- How does more innovation influence the dynamics of employment?
- Innovation and growth can benefit all sections of society but policy is often needed to give extra incentives and help reintegrate any losers in the new economy.

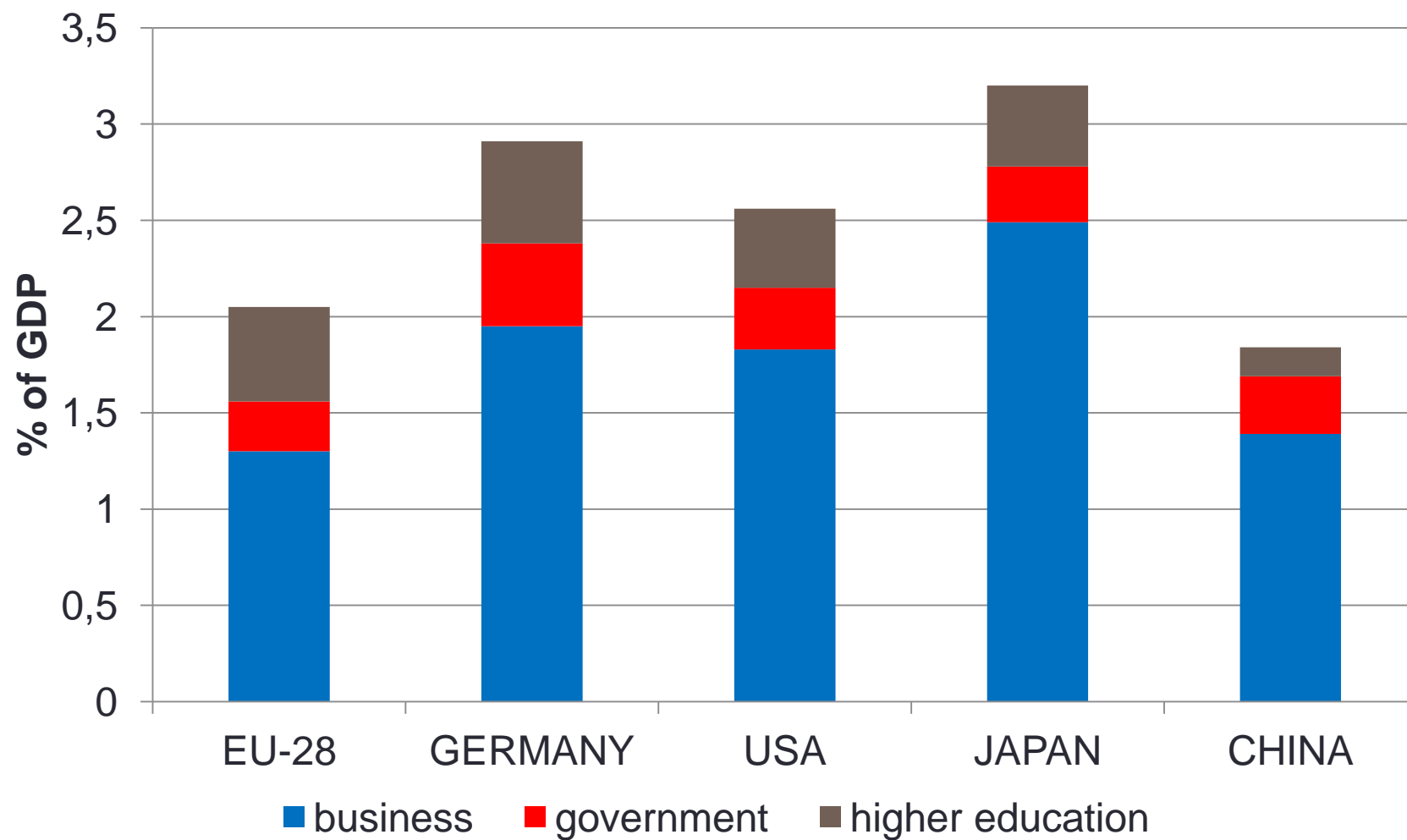
Factors that contribute to innovation

- A well-trained labour force to generate and apply the discoveries
- Investment to enable the replacement of old and unproductive capital equipment
- A market environment that is flexible enough to accommodate the required changes in production

Europe's record

- Not doing well compared with competitors (Fig. 1)
 - Low research spending
 - Low private and public investment
 - Labour market reforms needed

Fig. 1
Domestic R&D, 2012



R&D, investment

- Incentives for research not as strong as in USA
- Investment levels low, especially since 2008 and especially public sector infrastructure investments (Fig.'s 3-4)

Fig. 2
Fixed capital formation, private

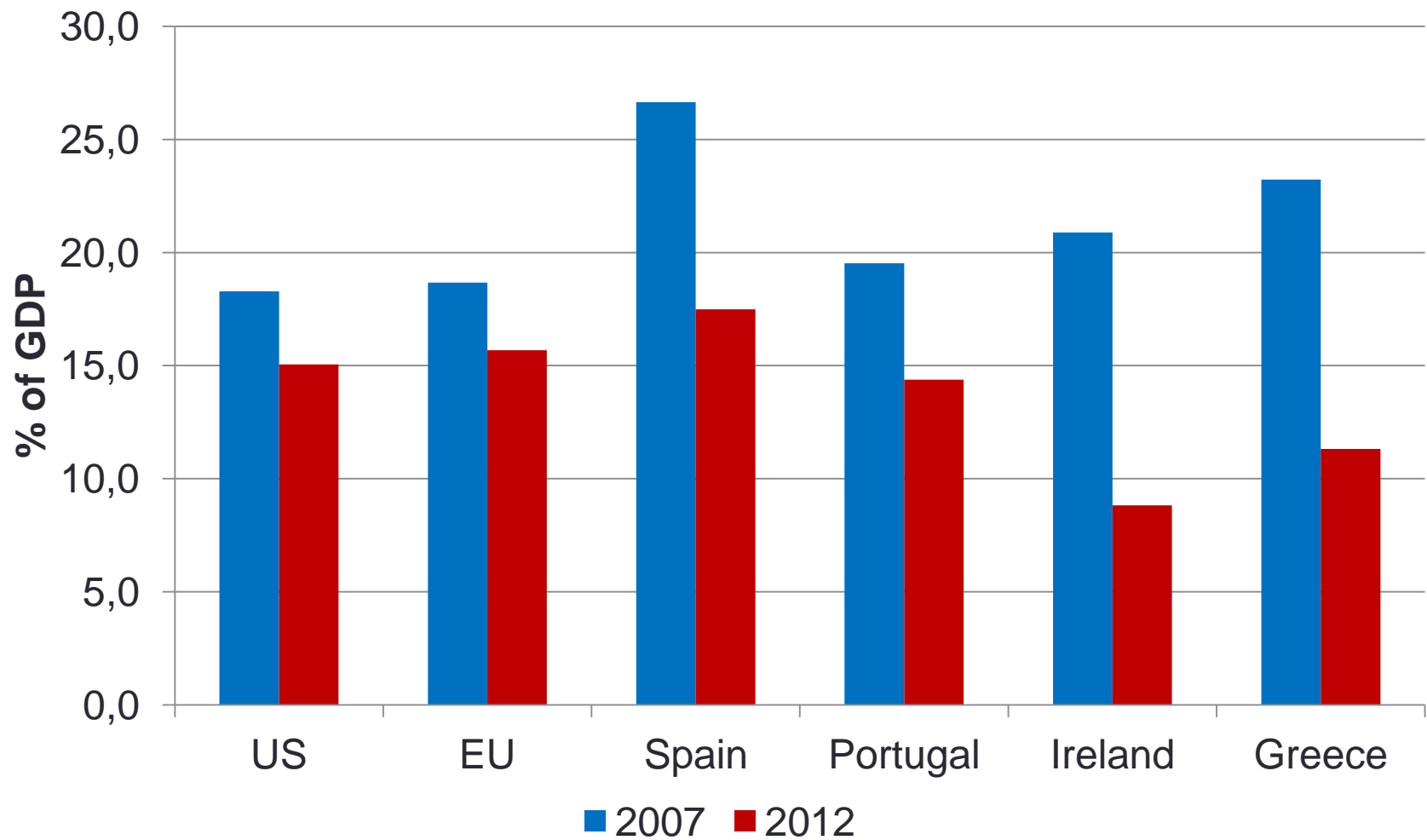
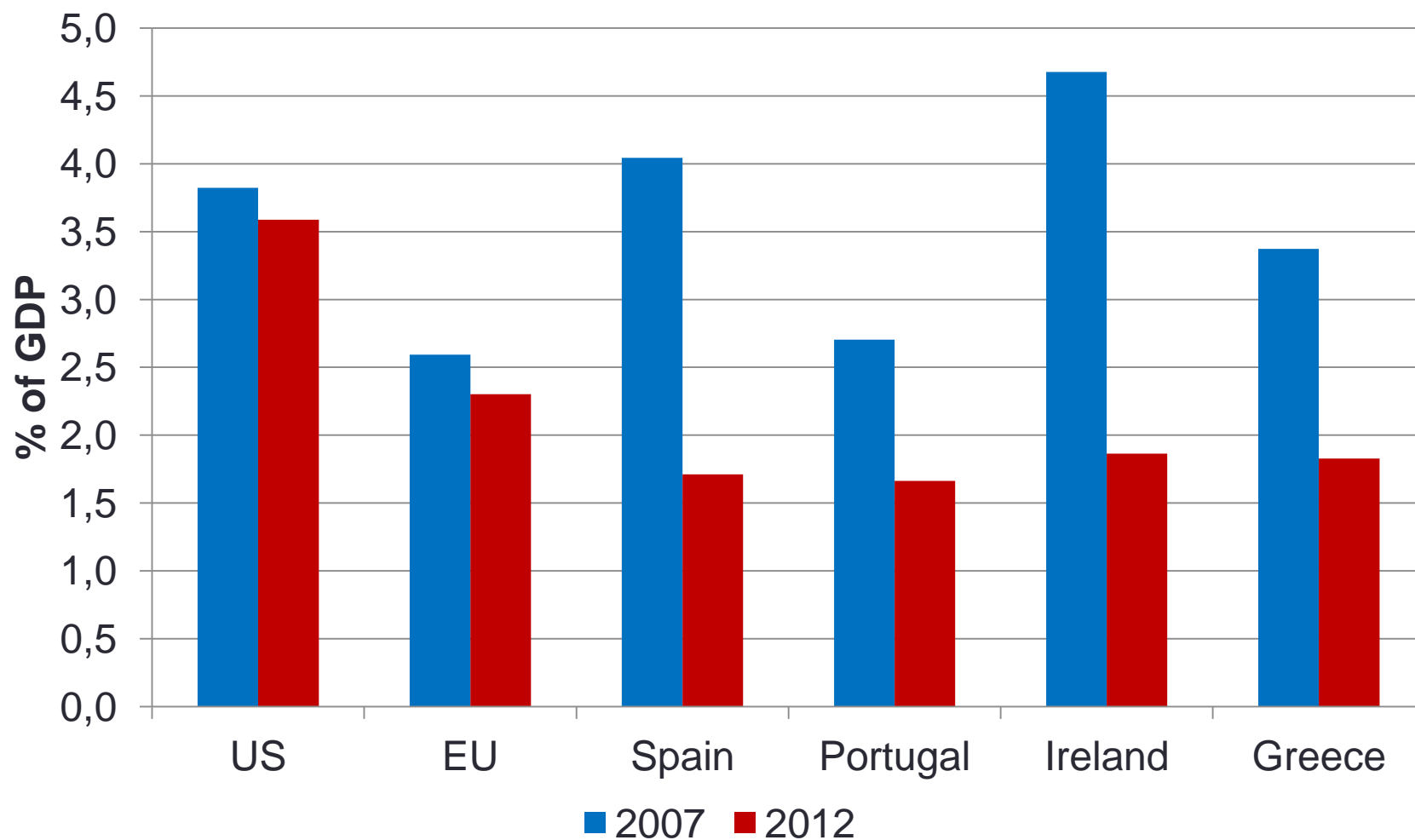


Fig. 3
Fixed capital formation, public



Labour and product markets

- Flexible labour markets encourage more and faster recruiting and allow dismissals, especially important for start-ups
- Flexible product markets with low administrative running costs for companies encourage start-ups

Innovation and the structure of employment

- Innovating companies gain employment from competitors
- Innovating sectors lose jobs because demand for sector's output does not match the rise in supply
- Demand spills to non-innovating (usually labour-intensive) sectors, which gain jobs
- Such shifts spread the benefits from sector-specific innovations more widely and make growth more inclusive.

FIG. 4
Employment rates in four countries
(population 15+ EUKLEMS data)

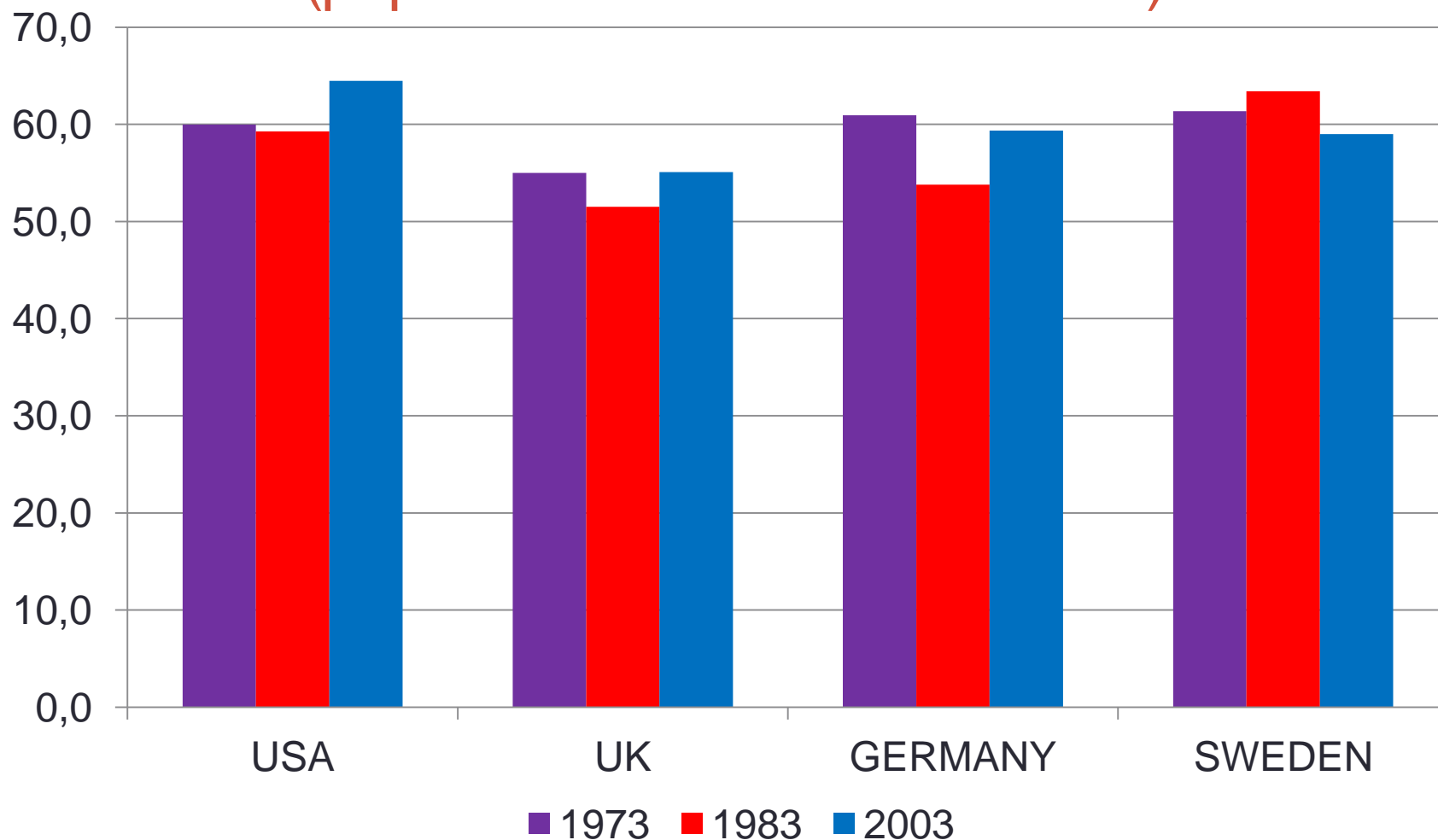
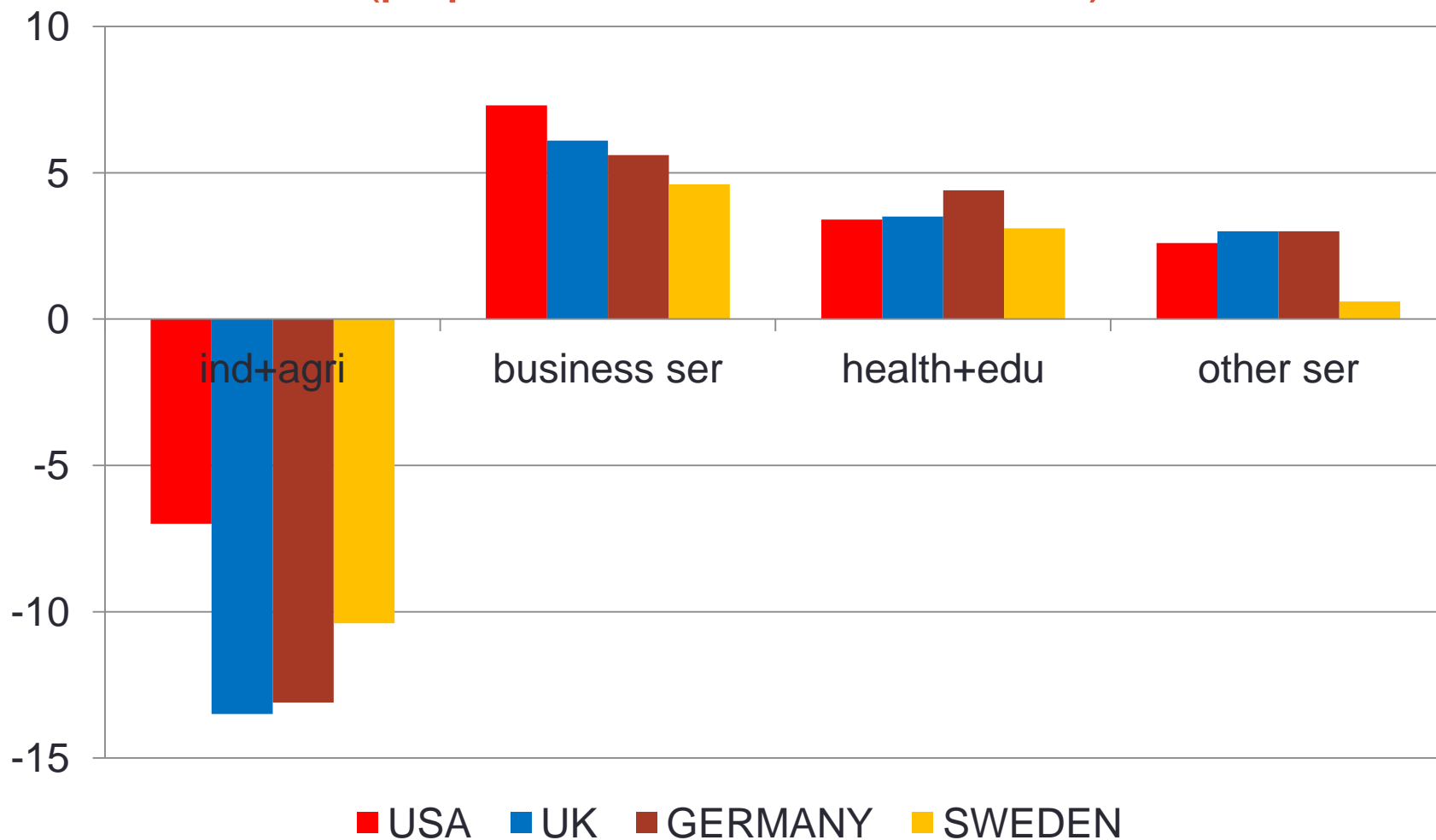


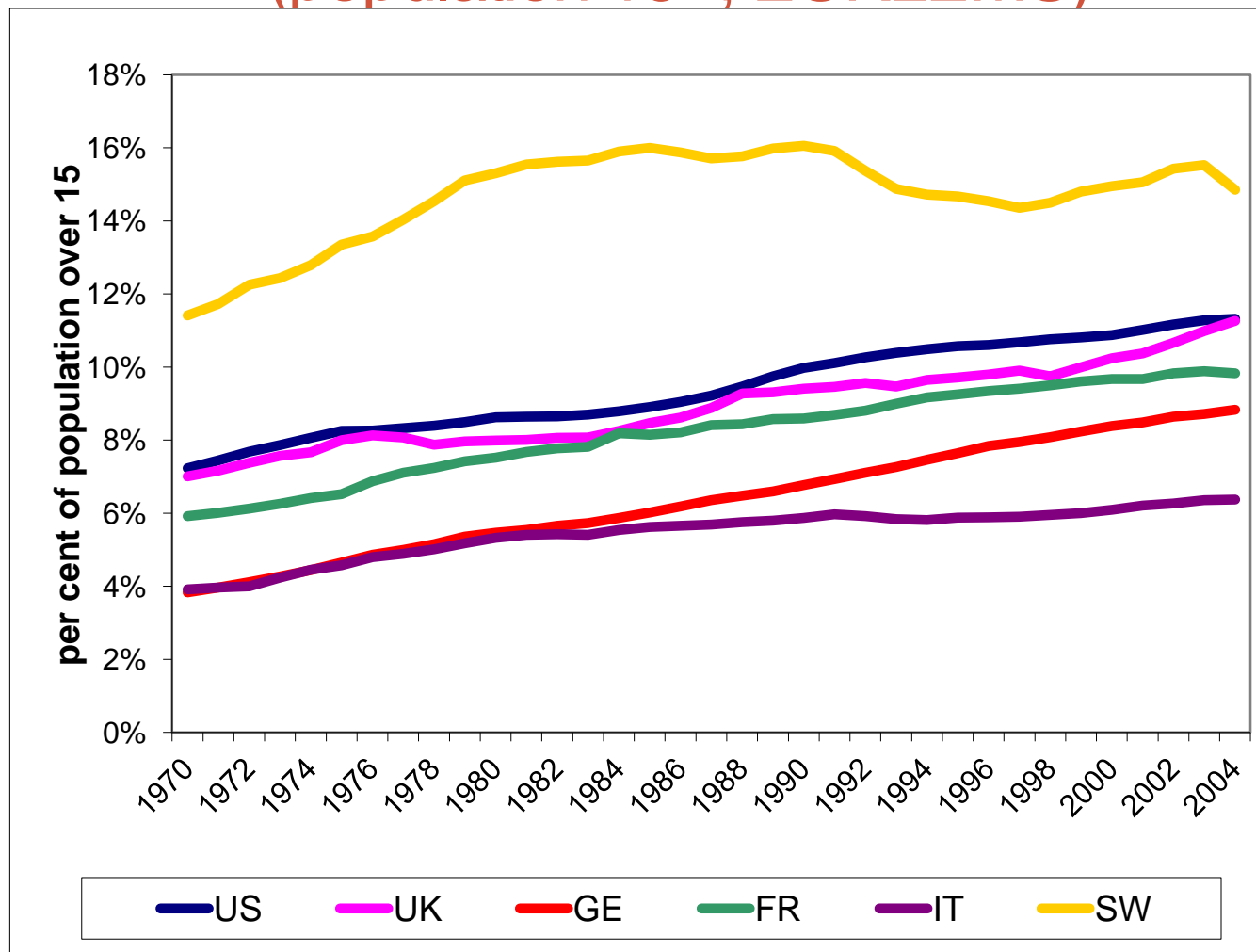
FIG. 5
Change in employment rates 1973-2003
(population 15+, EUKLEMS)



Policy implications

- To speed up transition and make growth inclusive we need to:
- Give incentives to R&D to speed up productivity growth
- Liberalise services, making it easier to start and run new businesses
 - to absorb the workers released by industry and
 - draw more women into the market

FIG.6
Employment rates in health and education
(population 15+, EUKLEMS)



Productivity growth and aggregate employment

- Higher productivity is good for employment because
 - Increases attractiveness of market work vis-à-vis home production – good for female employment
 - Increases international competitiveness – good for industrial employment