

Missing Emphasis in Discussions of the European Productivity Setback

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Presented at Conference,

Productivity, Innovation and Value Creation

Amsterdam Airport, Dorint Sofitel, 22-23 June 2004

My apologies and thanks to the organizers

- Bob McGuckin and Bart van Ark are saints
- They understood that I had important obligations at home, my wife's birthday on Monday and our 41st anniversary on Tuesday
- Thanks so much to Bob and Bart for allowing me to come and join you for my limited time here.

You Here are Lucky

- If you've been in Europe or en route since Sunday night, you've been able to miss Clinton week.
- Dan Rather 60 minutes on Sunday, prefaced by a zillion media interviews of Dan Rather
- Oprah on Tuesday, and I'll get home in time for Larry King on Thursday night.
- You can be sure that Oprah didn't talk about Bosnia or Rwanda or anything serious that Clinton might have done right or wrong, it was all about Monica and how and whether he saved his marriage.

We are here today to understand the European productivity growth shortfall

- First, let's understand the dimensions
- “Europe” refers to the EU 15. The Angus Maddison record is that Europe started out at 75 percent of US productivity in 1870, fell back to 44 percent in 1950, and almost caught up to 94 percent in 1995
- Few people have commented on the devastating turn of events in the past decade. From 95 percent in 1995, Europe in 2004 has fallen back to 84 percent.
- Our mission at this panel discussion should be to figure out WHY Europe suffered this devastating setback.

How do we Interpret this Shortfall

- On the plane, I have dutifully read all the conference presentations that were kindly sent to me in hard copy by the Conference Board secretariat late last week.
- And I find several themes missing, at least in the presentations that I read

Retailing and Land Use Planning

- Martin's wonderful new book places land use planning at the very top of his recommendations for European policy reform.
- While agreeing completely with Martin, I would approach this issue as a more profound issue than is capable of remedy by any short-run policy reform

The New vs. the Old

- We have been taught by Bart and colleagues that retailing is the core of the difference
- We have all been influenced by the research of Haltiwanger and colleagues showing that ALL of the productivity growth in U. S. retailing was achieved by new establishments

Not enough emphasis on new vs. old

- It's not just that land-use planning prevents Wal-mart from setting up a new big box on every highway interchange in Europe
- It's that the MIX of retailing in Europe is heavily composed of small, old-fashioned firms

Let's Walk down a street in Paris on the Left Bank

- Every few blocks, a green cross indicating a pharmacy
- To American eyes, these are antique anachronisms
 - One-by-one service at the counter, no check out stations
 - Tiny, small, don't carry any of the obvious things that a pharmacy should carry. Walgreens.

University Funding

- Block grants for ugrad tuition subsidies
- U. S. peer reviewed grants to young professors, not young students
- NSF, NIH

The “Legacy” Problem

- Here the U. S. is lacking and Europe is gaining because of public vs. private finance of pensions and medical care
- Many old U. S. companies are being driven out of business by pension obligations
- Steel, airlines. Unfair advantage of startups, escape legacy obligations

Legacy Leads us to talk about Social Security problems

- In some European countries population decline has already set in.
- Russia – net population increase since 1989 is **NEGATIVE**
- The fundamental U. S. advantage is open, uncontrollable immigration

Why Immigration is Good

- Obvious, lowers the age of population and increases the birth rate
- The unbelievable unreality of U. S. population growth projections
- Immigration solves the social security problem and it also repopulates the inner city.
- My Russian taxi driver

Policy Options

- Index retirement age to life expectancy
- Open up immigration, especially for skilled workers
- Take advantage of U. S. mania about terrorism. If they keep out talented Chinese and Indian engineers, let them in
- Big problem about language

Conclusion: Neglected Themes

- Preservation of European Inner City is fundamentally at odds with modern retailing and productivity growth.
 - I Love the Parisian inner city, but the compromise must be faced
- The biggest divides between the U. S. and Europe are:
 - Fundamental differences in tastes for the structure of metropolitan areas. Rich inside, poor outside or vv. Retailing prody.
 - Second population growth, with immigration policy or non-policy the crucial element. It is rarely emphasized that immnigration can solve many social issues and public finance problems