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Prospects for supply growth in Western Europe – a speech by Martin Weale

In a speech delivered at Groningen University in the Netherlands, Martin Weale explores the scope for growth in Western Europe. After considering a range of factors determining the potential for productivity and output growth, Weale finds cause for modest optimism and questions the notion that Europe is necessarily facing secular stagnation.

Weale finds that much of the productivity puzzle that has affected the largest European economies since the financial crisis can be explained by lower underlying technical change. He explores whether the climate of uncertainty may have made firms more cautious about adopting new technology. He also considers the scope for government policy to raise productivity growth rates, and finds evidence that policy changes aimed at creating a more competitive economy had a beneficial effect on productivity after the crisis

Turning to the role played by education in underpinning the development of productivity, Weale finds that, although there is considerable variation, in some countries – notably France, the Netherlands and the UK – there is still scope for greater uptake of higher education to boost GDP growth.

Addressing rates of return to capital in Europe, Weale finds that these have held up well in many countries, which sits at odds with the general decline in interest rates over the same period. He states that this “suggests it is unlikely that economic growth since the crisis has been limited by a poor return on capital or that it is held back by a lack of investment opportunities”

Finally, Weale considers the likely impact of developments in the labour market to European growth prospects. For him, this impact will be dominated by three factors. First, demographic shifts imply that some European countries, notably Germany, are likely to see the working-age population shrink over the next ten years. This compares unfavourably to countries such as the US, which are likely to experience substantial growth in the working-age population. Secondly, Weale notes that some countries are much more effective than others in encouraging greater participation in the labour market of particular groups of people, such as

young workers. Some, such as France, have the potential to raise youth participation significantly over time. Thirdly, Weale suggests that increases in the average number of hours worked per week in Europe may ultimately act to offset the demographic drag of fewer people in the working-age population.

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