

Reforms and investment as drivers of growth?

Europe 2020 Conference

Rome, October 27, 2014

1. Targets of the EU2020 Strategy

No cost for public budget

1. Increasing R&D expenditure to 3% of GDP
2. Graduation rate (30-34) of 40% from tertiary education
3. Employment rate of 20-64 years old population of 75%
4. Lowering the number of persons at risk of poverty or social exclusion by 20 million
5. Reducing green house gas emissions by 20 %.

1. Targets of the EU2020 Strategy

No cost for public budget

1. Increasing R&D expenditure to 3% of GDP

Key is private expenditure! (EU public = US public, but EU private << US private).

Empirically : R& D expenditure depends on government effectiveness.

Also: wrong target?

'Intangible capital' more important for competitiveness.

1. Targets of the EU2020 Strategy

No cost for public budget

Graduation rate (30-34) of 40% from tertiary education.

Essentially choice of population, more than policy choice.

Key not numbers, but organisation of university systems (public/private partnerships), key to maintain competition among Universities (Bologna more important than Lisbon)?

Key for employment target, but impact on productivity so far zero (waste of human capital).

Be careful what you promise

Since early 1990s many EU initiatives:

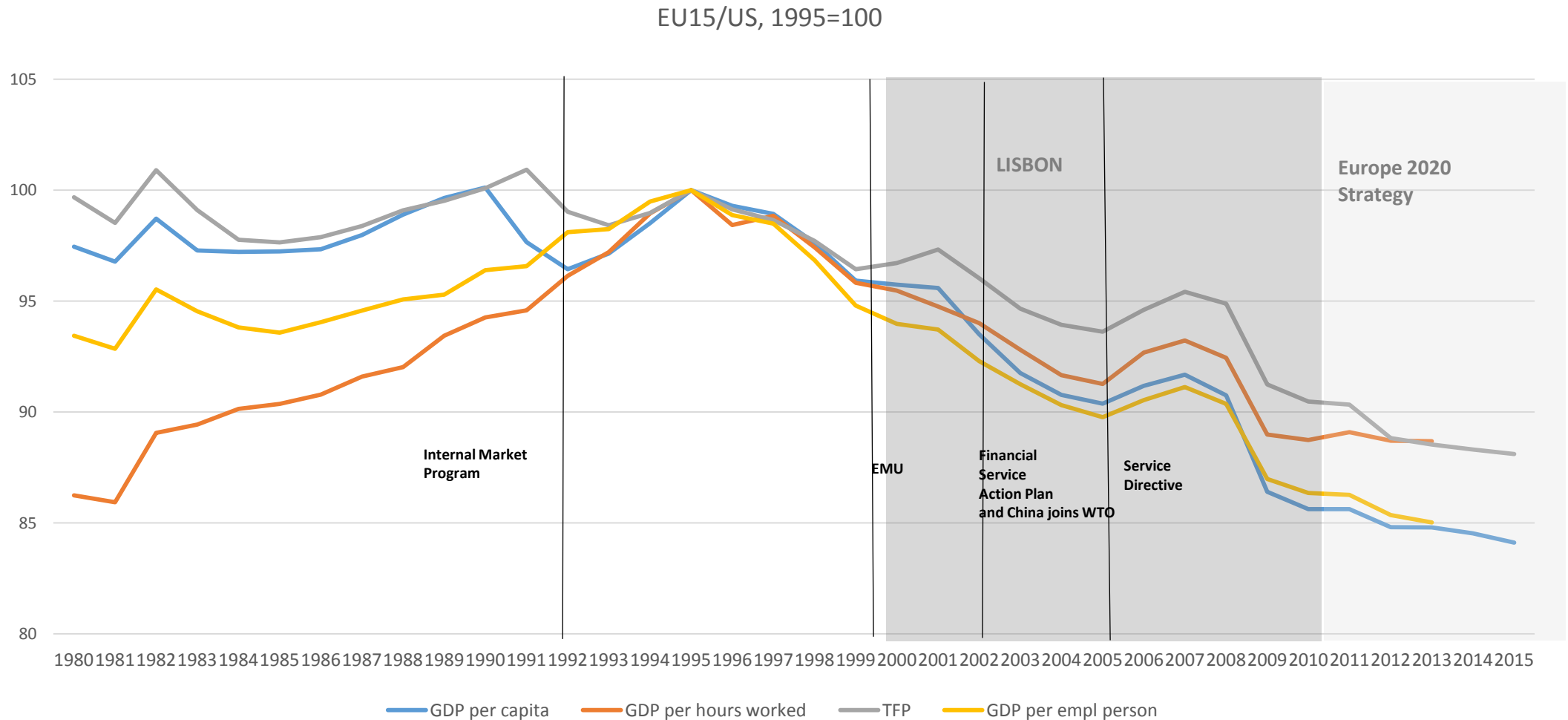
Internal market

EMU

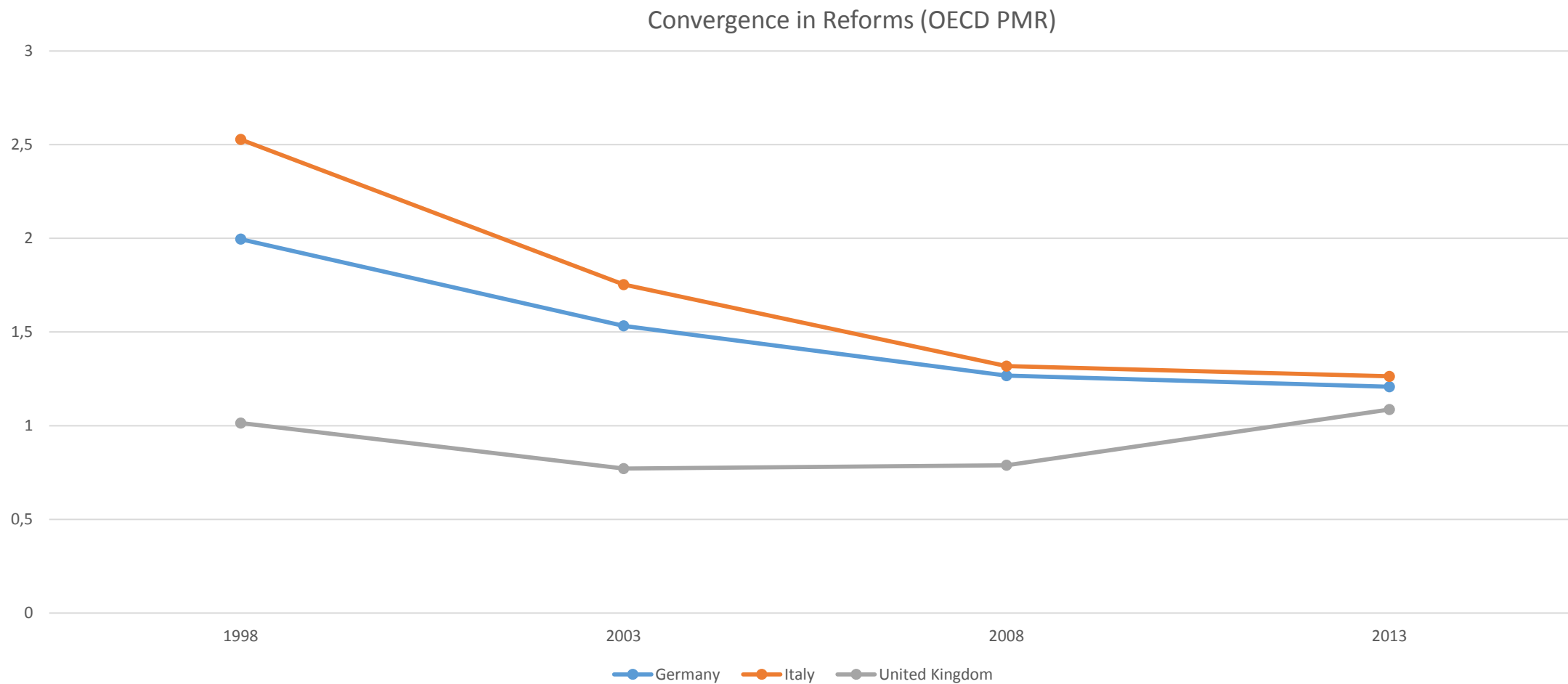
Lisbon!

Outcome? Continuous deterioration of performance (absolute and relative to US).

Deterioration of EU performance sine 1995

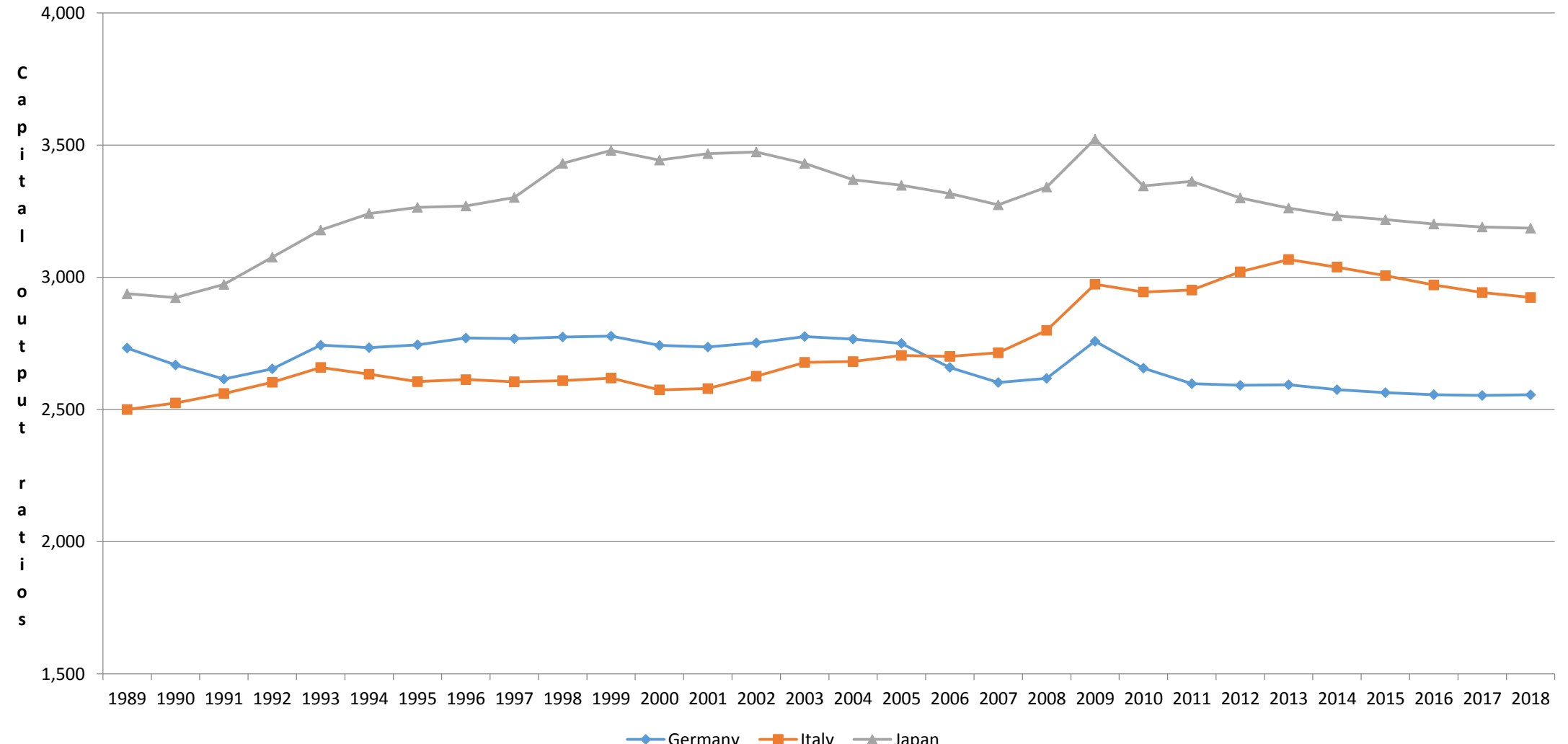


Structural reforms and growth?



More investment needed?

Capital output ratios in the ageing champions



More investment?

- High capital/output ratio denotes low productivity of investment.
- Particularly in Italy.
- Moreover, given high capital/output ratio more investment today means less tomorrow.
- => Not more but different investment, need structural change in financial markets, especially banking system, more equity, etc.

Key remains stronger consumption! But how?