

# Growth Enhancing Reforms: The Employment, Skills and Innovation Agenda

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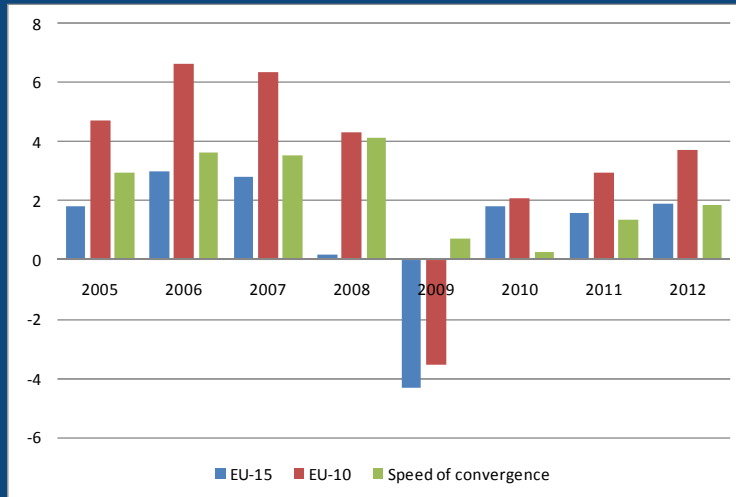
Budapest, March 30, 2011

## Main messages

- Post-crisis economic growth in the EU-10 is likely to be lower than before the crisis
- Structural reforms could accelerate growth
- The reforms should focus on:
  - Raising employment
  - Improving skills
  - Enhancing technology absorption and innovation

## Post-crisis growth likely to be lower

Figure: GDP Growth Rates in EU-10, EU-15 and the pace of convergence, 2005–2012, in percent



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Source: World Bank based on the IMF and Eurostat



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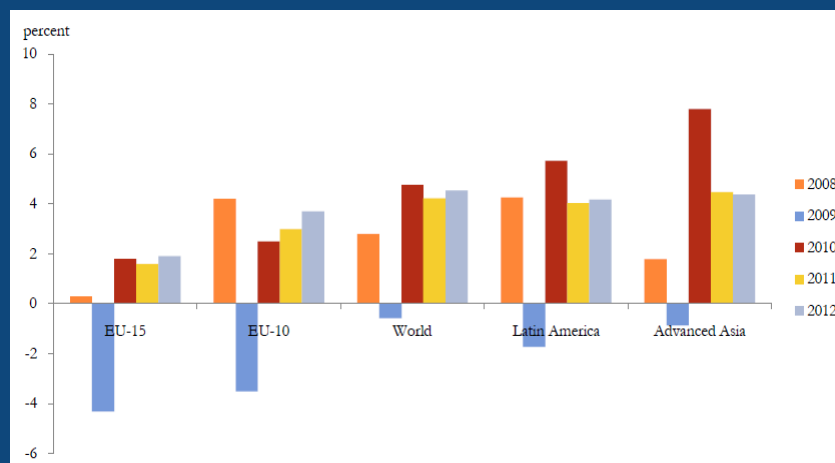
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## Also relative to non-EU countries

Figure: GDP Growth Rates in EU-10, EU-15 and the World, 2008–2012, in percent



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Source: IMF and Eurostat



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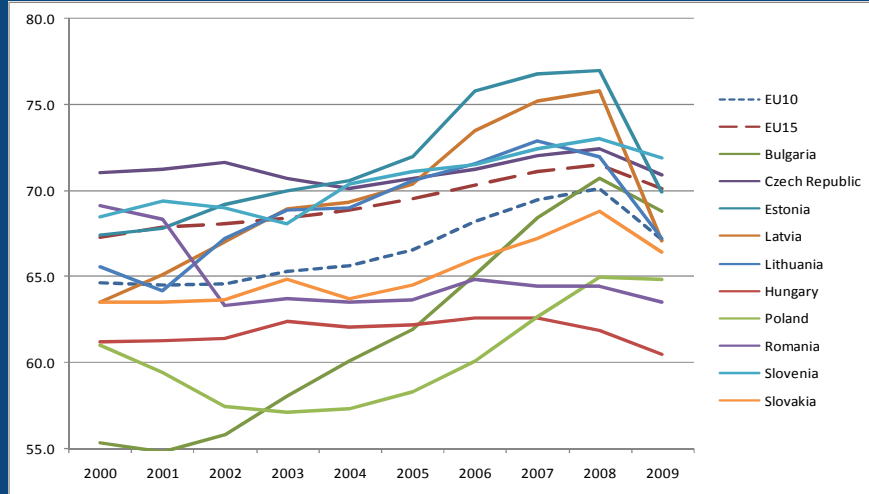
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# Key issue: Low employment rates

Figure: Average Employment Rates in EU-10 and EU-15 Countries, 2000–09



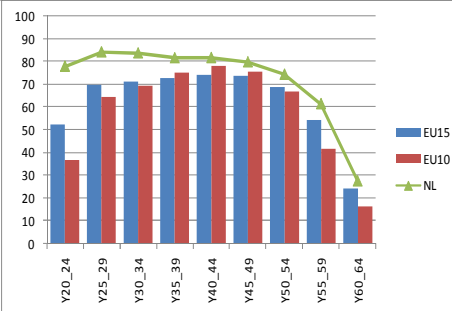
# Especially among the elderly and women

Figure : Employment Rates by Age in EU-10, EU-15, and the Netherlands, 2009 (percent)

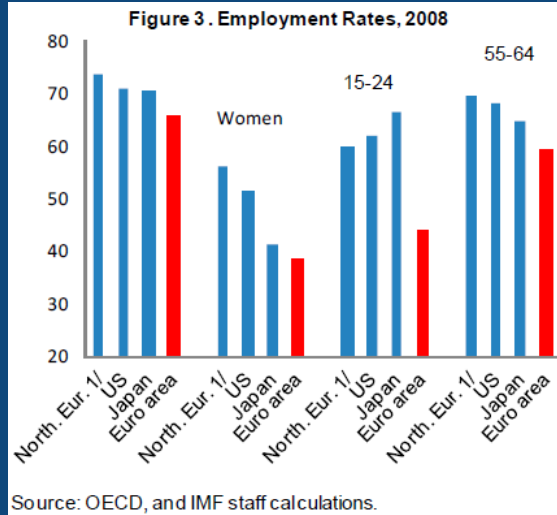
Panel A: Male



Panel B: Female



## Also in the euro zone



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Source: Allard and Everaert (2010)



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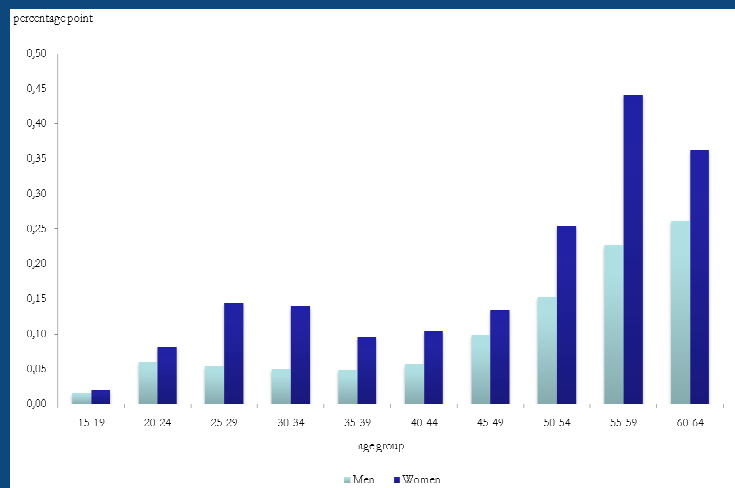
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## Higher employment of women and the elderly represents the highest economic potential

Figure : Poland: Effect of 10% Fall in Inactivity on Total Employment Rate (by Age and Gender), 2008



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Source: World Bank



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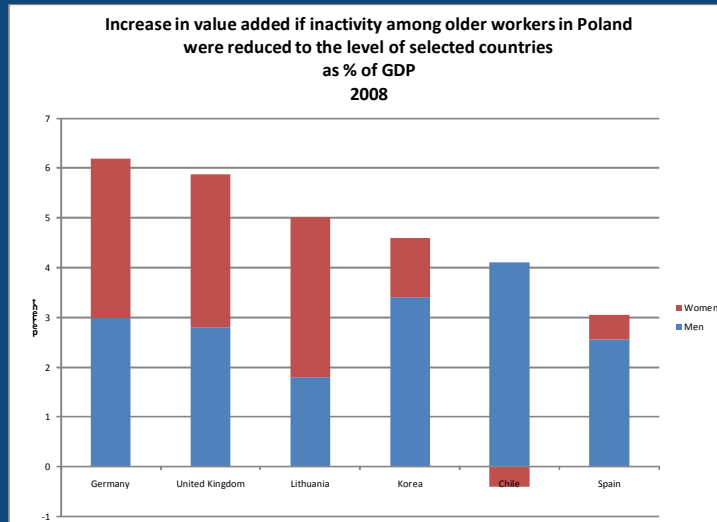


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## Which could boost economic growth



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Source: World Bank



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## Selected Policy Recommendations

- Enhance the productivity and employability of older workers through focused training programs and private sector involvement (such as Germany's Initiative New Quality of Work)
- Increase retirement age and decrease worker disincentives resulting from pre-retirement benefits
- Rationalize disability pensions
- Reduce tax wedge
- Encourage higher female labor force participation and evaluate pro-natalist and others policies in this context
- Promote active labor market policies

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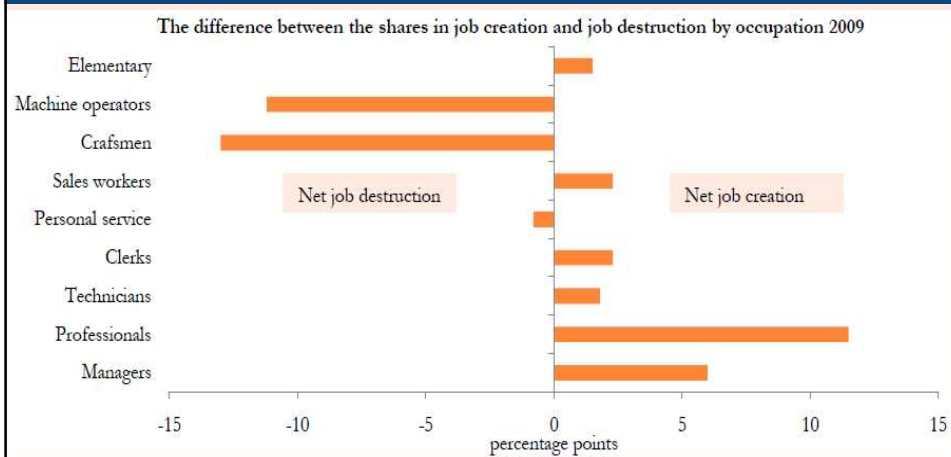
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## Key issue: low skills leading to mismatch

Figure : Newly Created Jobs in Poland Require Different Skills from Old Jobs, Giving Rise to the Skills Mismatch



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Source: World Bank



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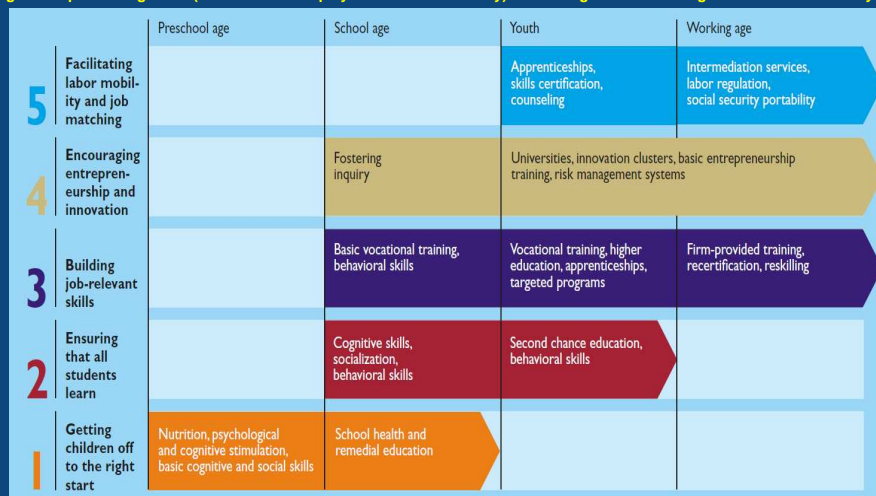
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## Need to adopt an integrated approach

Figure : Implementing STEP (Skills Toward Employment and Productivity) as an Integrated Set of Programs Across the Life Cycle



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Source: World Bank



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## Selected Policy Recommendations

- Expand early childhood development programs to universal coverage
- Build a strong skills foundation for all through ambitious approaches to schooling
- Strengthen access to and efficiency of tertiary education through higher education financing reform and data collection as a basis for system steering (tracer studies)
- Establish and strengthen lifelong learning systems

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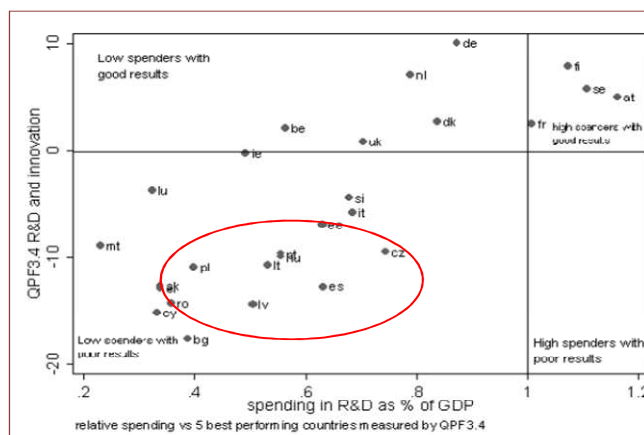
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## Key issue: Inefficient R&D spending

Figure: Assessment of the Amount and Quality of Public R&D Spending in EU-27



Source: Economic Papers 382, DG Economic & Financial Affairs, July 2009.

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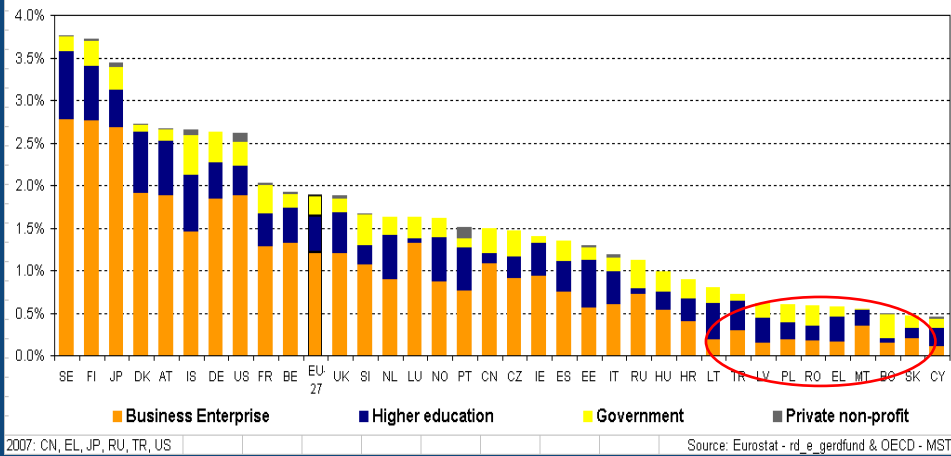
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## Low share of private sector R&D spending

Gross domestic R&D expenditure, by sector of performance, 2008



2007: CN, EL, JP, RU, TR, US

Source: Eurostat - rd\_e\_gerfund & OECD - MST

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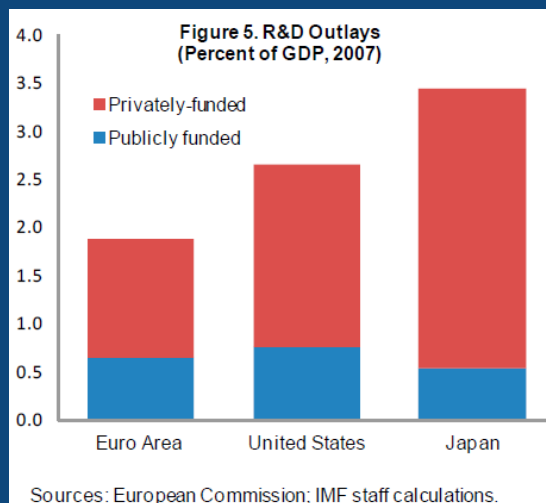
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Source: Eurostat

## Also in the euro zone



Sources: European Commission; IMF staff calculations.

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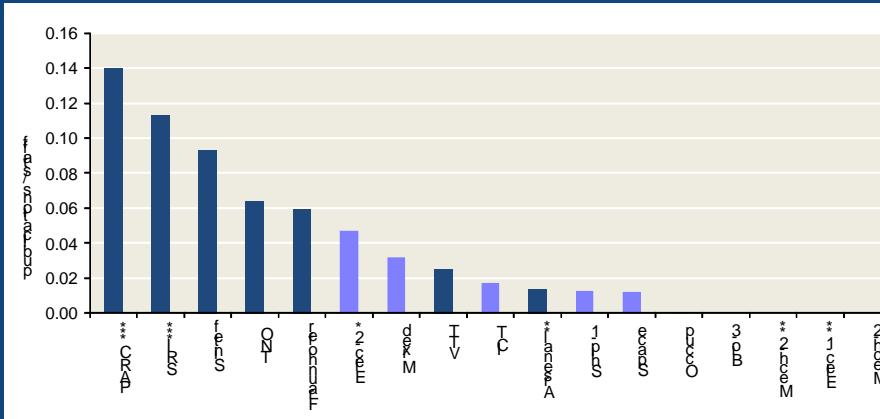
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Source: Allard and Everaert (2010)



## Inefficient public research institutions in EU-10

Figure : Number of Annual Publications per RDI Staff in Selected EU-10 and EU-15 Countries



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Source: Goldbern, Goddard, and Kuriakose 2010 using Science Citation Index.

## Higher and more efficient R&D would raise GDP

Table : Overall Effects on GDP Levels of Achieving Lisbon Targets in Selected EU-27 Countries by 2025

	Employment (1)	Human capital (2)	Services (3)	Administrative burden (4)	R&D (5)	Total (6)
<b>GDP</b>						
Poland	15.6	0.4	0.4	2.0	5.4	25.2
Czech Republic	5.5	0.1	1.5	1.7	4.9	14.3
Romania	11.0	0.7	0.3	1.7	11.7	27.2
EU-27	6.3	0.4	0.1	1.5	4.5	13.3

Source: Lejour, Verweij, and ter Weel 2008.

Note: The numbers in columns (2)–(5) are relative changes from the policy simulations in the previous column in 2025. The number in columns (1) and (6) are relative changes from the baseline.

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## Selected Policy Recommendations

- Redesign public R&D funding systems to emphasize applied research and collaboration with industry
- Reform state-owned research institutes, including through commercialization and employee-led privatization, to better align their outputs with the needs of industry
- Strengthen the public institutional framework for R&D and innovation
- Increase financing for start-up and innovative companies

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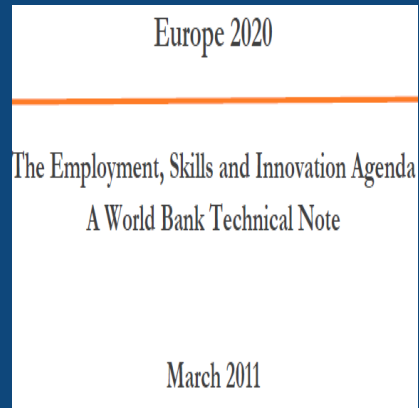
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