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LABOUR PRODUCTIVITY: ARE DIVERGING TRENDS BETWEEN DEVELOPED COUNTRIES DURABLE?

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NON-TECHNICAL SUMMARY

Between 1950 and 1973, a process of absolute convergence was at work between the technological leader, the USA, West European countries and Japan. The catching up process between developed countries gradually vanished between 1973 and 1995. Since then, it has been replaced by diverging trends. On the one hand, we had a revival of US labour productivity growth while, on the other hand, most European countries and Japan have registered a steep decline. This paper investigates the source of these diverging trends. We use an econometric test developed by Bai and Perron in order to find and measure breaks in productivity trends over the long term. The test reveals that there were few breaks. In the US case, Maury and Pluyaud found that the long term productivity per employee average annual growth varies between 1.3% before 1922, and 2.5% between 1923 and 1964, and then returns to 1.3%. Our tests tell a slightly different story. First, a break appears after the first oil shock: productivity falls from 1.8% per year between 1960 and 1974 to 1.3% between 1974 and 1992. Then, the growth rate comes back to 1.8% up to 2007. Using hourly productivity data, we find a more important break: a 1.2% growth rate between 1974 and 1994 and 2.6% from 1995 to 2007. For other developed countries, the aftermaths of WWII is a time of very fast productivity growth, on average more than 4% per year (except for the United Kingdom and Australia), which last until the first oil shock. Since 1974, productivity growth continues to decline by steps for most other developed countries except Sweden and the United Kingdom. EU15 hourly labour productivity decline in two steps: from 4.3% before 1974 to 1.7% between 1975 and 1990, and then to 1.2% from 1991 to 2007.

Among the explanations given in the literature the most popular one is based on the "New Economy" paradigm, i. e. the idea that new technologies play a major role in the productivity revival after years of decline. In the US case we show that it played an important role between 1995 and 2001, but afterwards it is the decline in the labour content of growth that played the crucial role. European countries that increased their investments in new technologies did so only half as much as the US, which could explain that the benefit they got from it was lower than for the US, but it cannot explain the absolute decline in the growth of labour productivity. The major change in most European countries was seen in the labour content of growth. Policy priorities were to reduce mass unemployment, which they did. The most up to date data for 2008 tend to confirm our diagnosis of divergence between the US and most other developed countries based on the movement of employment.

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