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I would like to focus on what I would call longer-term issues and echo what Yann Coatanlem mentioned this morning about productivity.

I want to start with the trend in total factor productivity growth, comparing long term productivity growth trends for the United States, the Euro Area and developing countries between 1952 and 2024, using data from the Conference Board Total Economy Database. We are clearly facing in the Euro Area a clear, long-term decline in total factor productivity, with even a negative trend growth since the early 2000s. This would mean that over the last quarter of a century, we are basically continuously using our production factors less efficiently! There may be data issues, and since total factor productivity is measured as a residual after accounting for labor and capital growth, its values are not easy to interpret. Developing countries also suffer from a trend reversal in total factor productivity growth (also towards a negative growth) since the early 2010s, which comes as a disappointment. The only (relatively) good news in the world right now comes from the United States economy, where there has been a long-term decline as well since the 1950s, but the trend in total factor productivity growth has stabilized to a positive rate for the last 30 years. This question is hardly addressed in short-term discussions of economic prospects. Yet, it is an essential issue to understand the dynamics of longer-term growth.

Second, I want to refine this a little with an exercise in growth accounting, still using Conference Board Total Economy Database data. I have looked at contributions to growth coming from labor accumulation (using the Conference Board distinction between labor quantity and labor quality), capital accumulation (distinguishing between ICT capital and non-ICT capital, and total factor productivity, and the data that I comment have been averaged over three periods: 1990-2008, 2009-2022 and the last two years, 2023-2024. And I'm showing this for 8 countries: Brazil, China, France, Germany, India, Japan, the UK and the US. The table that I'm showing and that I'll be happy to leave with you confirms the negative contribution of average total factor productivity to growth for France and the UK since the 1990s. In Japan, total factor productivity has contributed positively to growth in 2023-2024 (but negatively before), in Brazil as well. In Germany, total factor productivity has contributed positively to growth over 1990-2022, but negatively in 2023-2024. In China, in India and in the US, total factor productivity contributes positively to growth over each period. India stands out with total factor productivity growth of 2.76% per year over the last two years, though it is an open question whether it will continue. We also note that ICT investment makes a significant contribution to growth in the US and China, but also in France despite frequent comments on the weakness of the ICT effort. In China, non-ICT investment makes a 3% contribution to the rate of yearly growth on average in 2023-2024, which is less than in 1990-2008 (5.8%) and

2009-2022 (5.41%) but comparatively very high in comparison of other countries (showing that the phase of capital accumulation is still continuing). Investment also makes a substantial contribution to growth in India. In all these countries except India, the contribution of labor accumulation to growth has become minimal, certainly in terms of labor quantity, but also, to some extent, for labor quality.

The question is how we deal with this broad productivity issue, especially in ageing countries, notably in Europe. In France and several other European countries, debates about retirement age and conditions do not make it likely that labor accumulation could be a solution in any meaningful way. It is crucial to better understand what total factor productivity is about, and we certainly have problems of data – especially when we see negative rates of total factor productivity growth, which suggests that we are using our factors of production less and less effectively. But to restore long-term growth, it is clear that more investment is needed, and investment in areas that are likely to contribute to total factor productivity: education, research, the organization of markets, innovation systems including artificial intelligence. There is a further, daunting issue, which is how to understand productivity growth and value creation given environmental – biodiversity and climate – and health concerns. These are, I believe, the most important long-term questions. At issue is also the role of public policies and public investment. As illustrated by several quality reports on how to gear the transition, more public investment is needed, notably in research but also in all sectors contributing to the energy and climate-related transition. This comes at a time when fiscal space is very limited. So, a big issue now for Europe is how to organize public policy with that in mind. I realize that financial stability and fiscal discipline have become paramount issues, but I worry that the current focus on the public debt ratio and the public deficit distorts the fiscal problem. We need to define and shape a long-term fiscal discipline path that allows front-loaded public investment. This is no blueprint for fiscal profligacy, but a call to react to past mismanagement not by counterproductive short-term fixes but through a long-term approach that focuses on the direction and quality of public spending. I think this is also what the Draghi report recommended, and I hope we can heed that recommendation in Europe. A major worry today is that the current debate does not seem to leave much room for that.

Jean-Claude Trichet, former President of the European Central Bank, Honorary Governor of the Banque de France

Thank you very much, Pierre. We will certainly discuss what should be done. The paradox of Europe as a whole is that it has a savings surplus, a permanently positive current account, and much more positive than the US, which is negative, so we should be able to utilize our savings surplus in appropriate investments. We do not do that, so we have to reflect not only on optimizing our public spending, but also optimizing our private spending, which is very abnormal.