

Growth Enhancing Reforms: The Employment, Skills and Innovation Agenda

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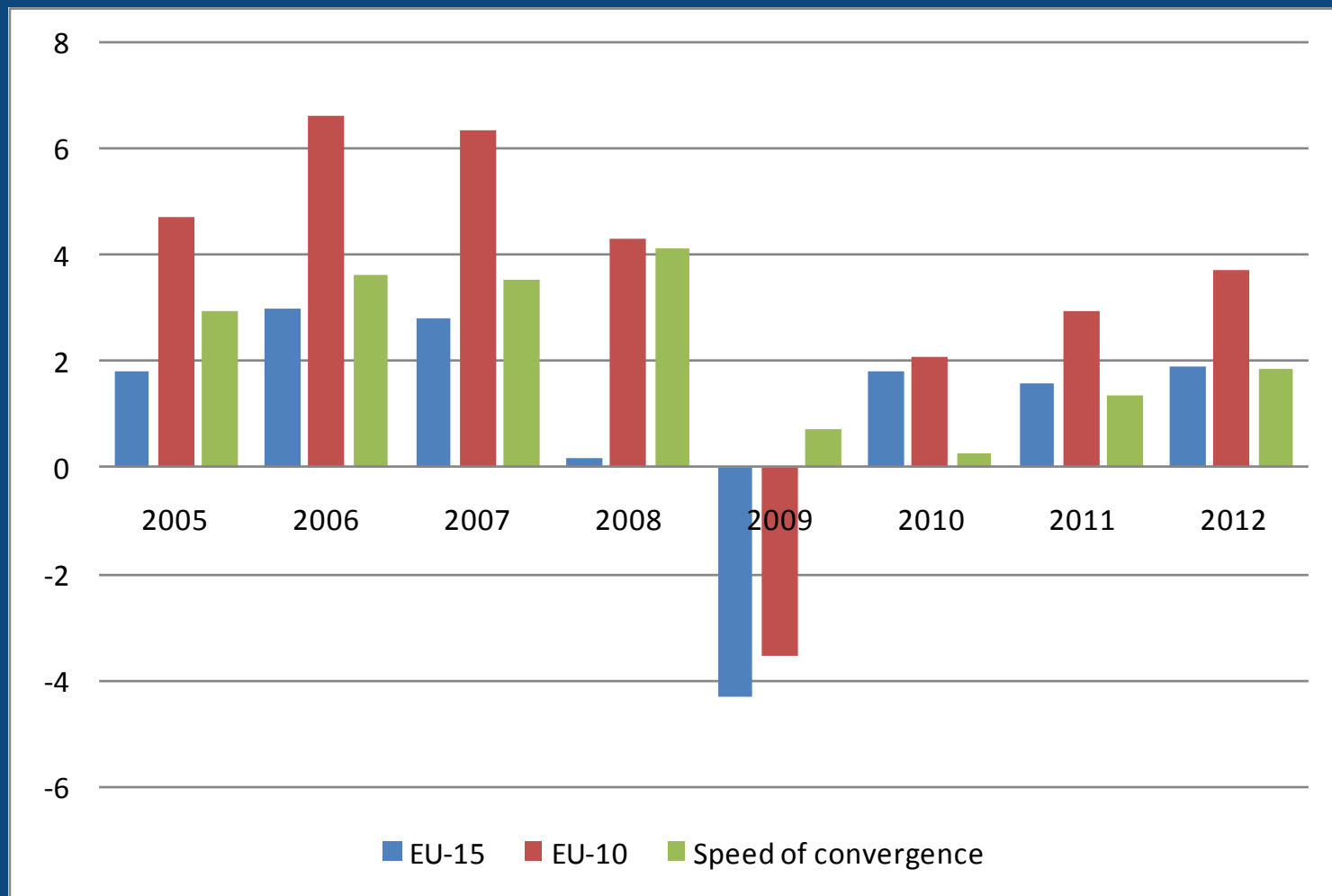
Budapest, March 30, 2011

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

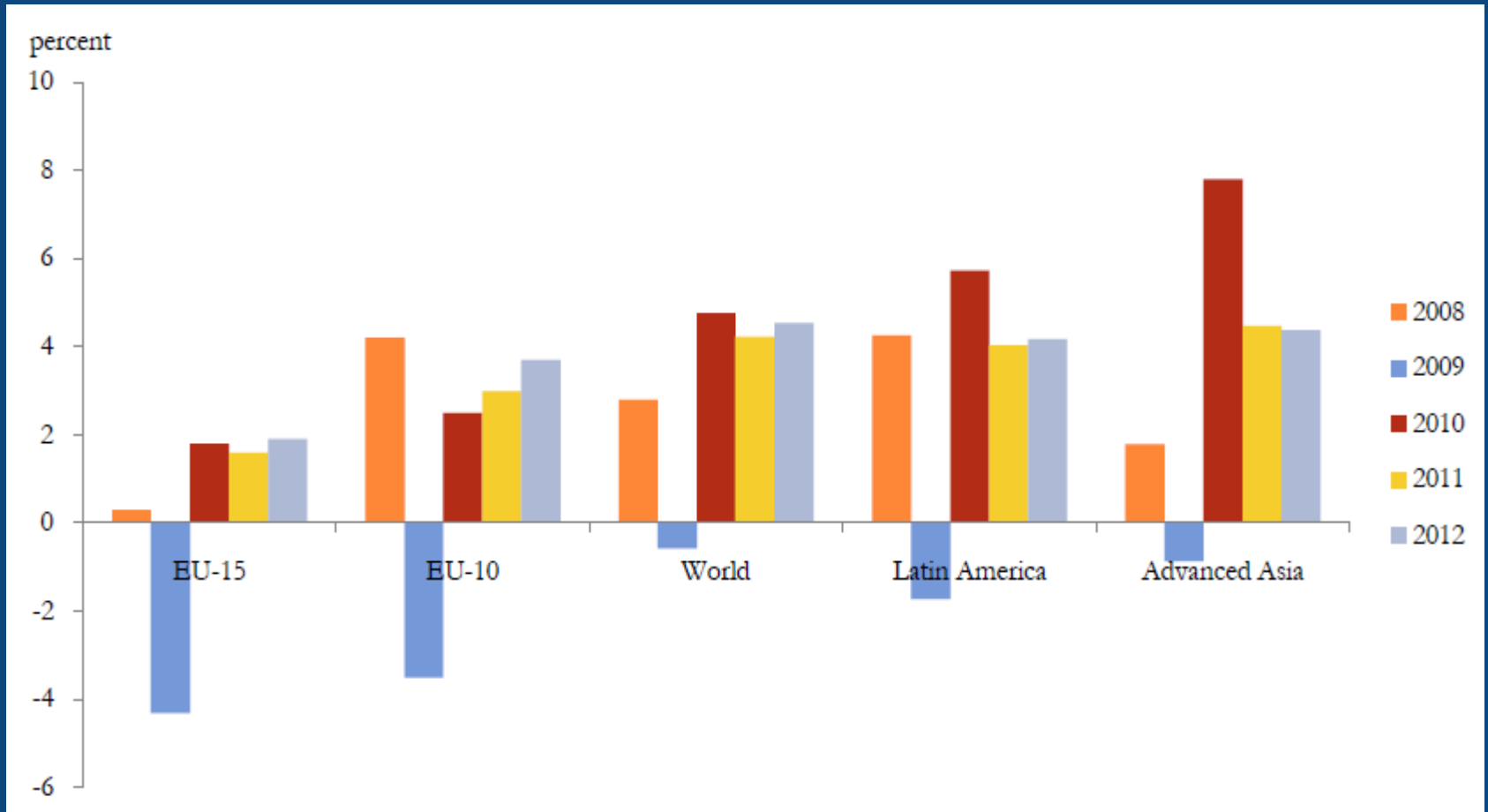
Post-crisis growth likely to be lower

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



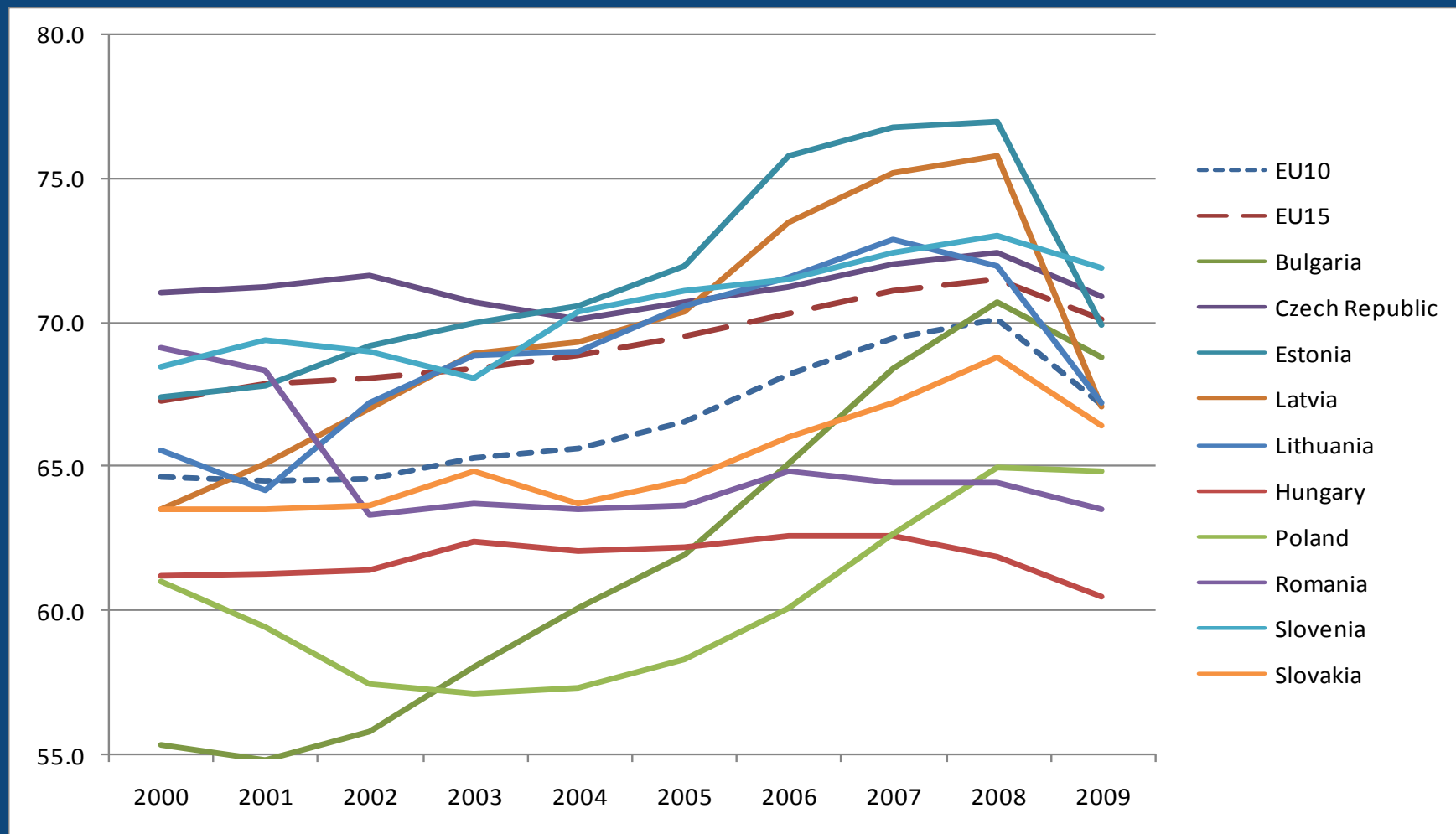
Also relative to non-EU countries

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



Key issue: Low employment rates

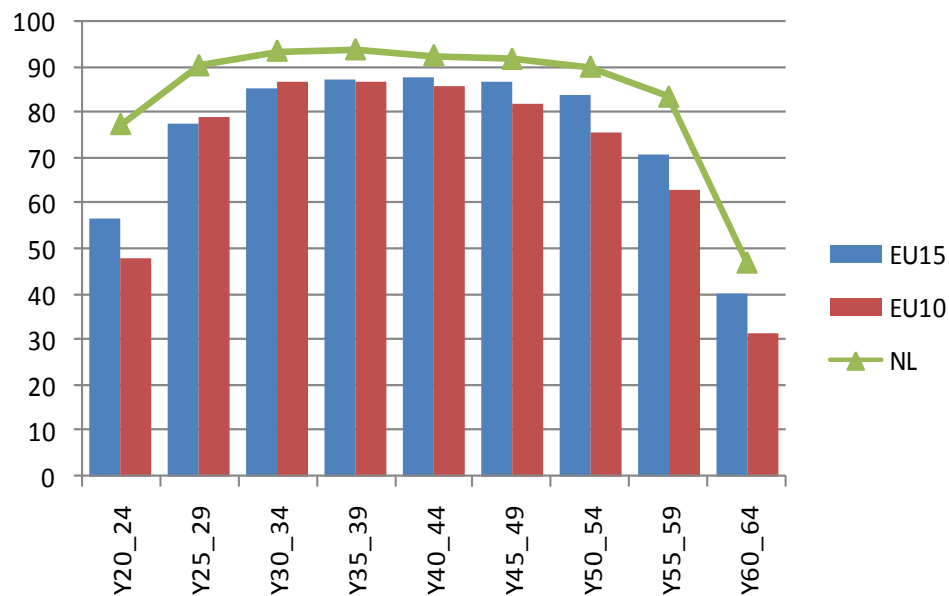
Figure: Average Employment Rates in EU-10 and EU-15 Countries, 2000–09



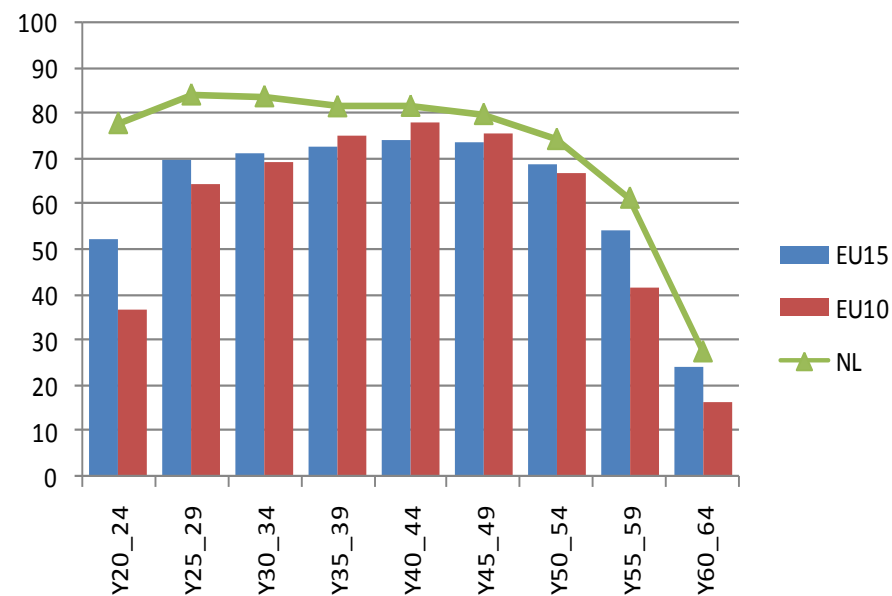
Especially among the elderly and women

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

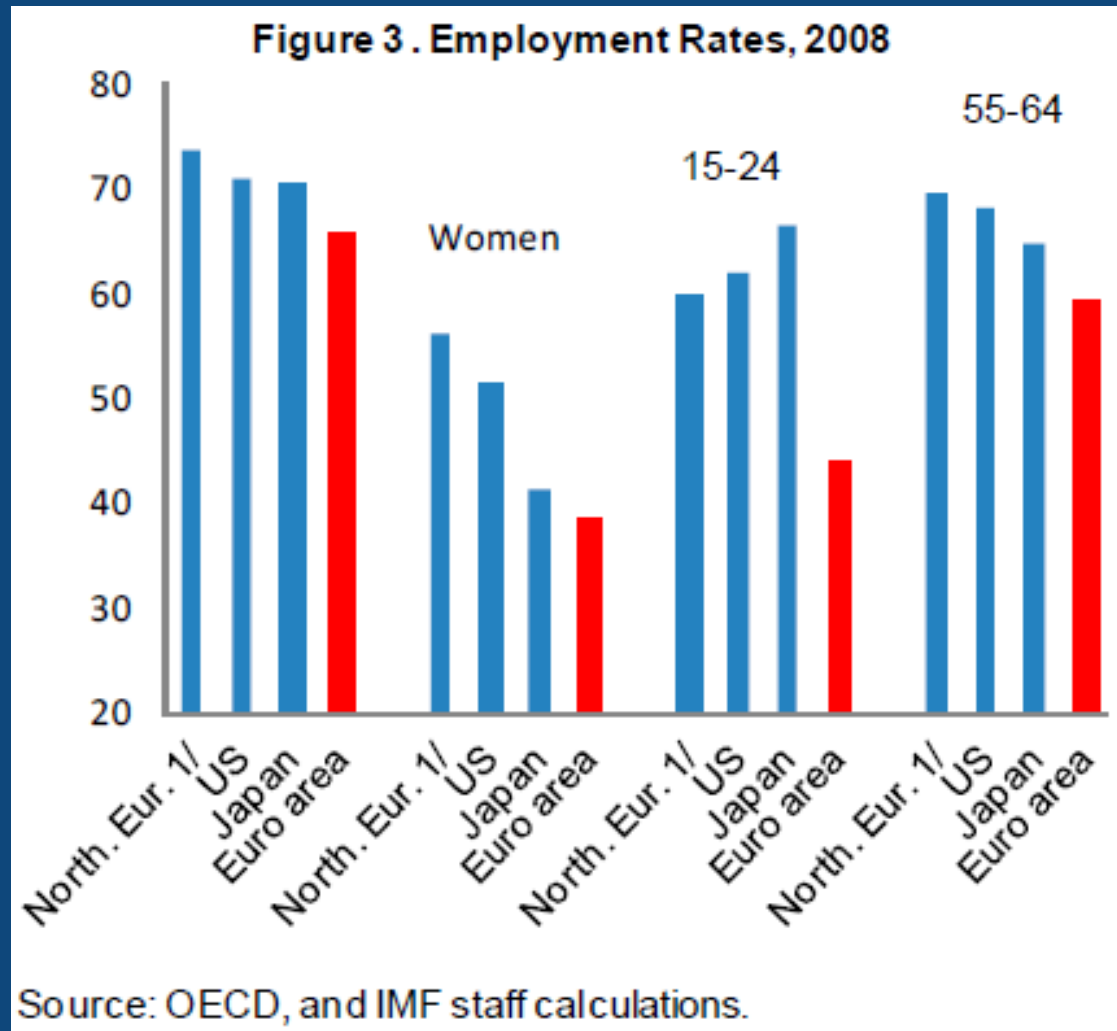
Panel A: Male



Panel B: Female

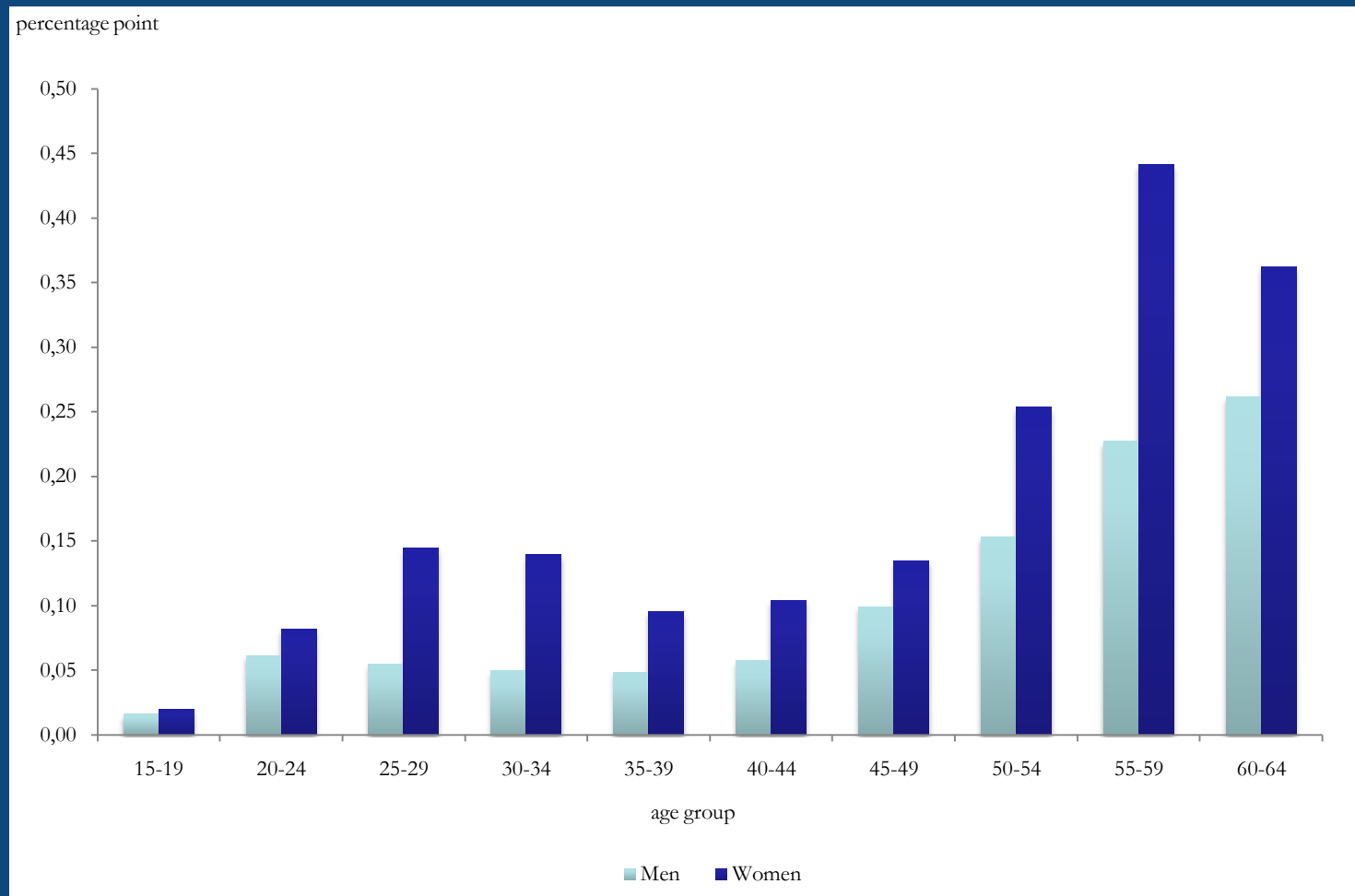


Also in the euro zone



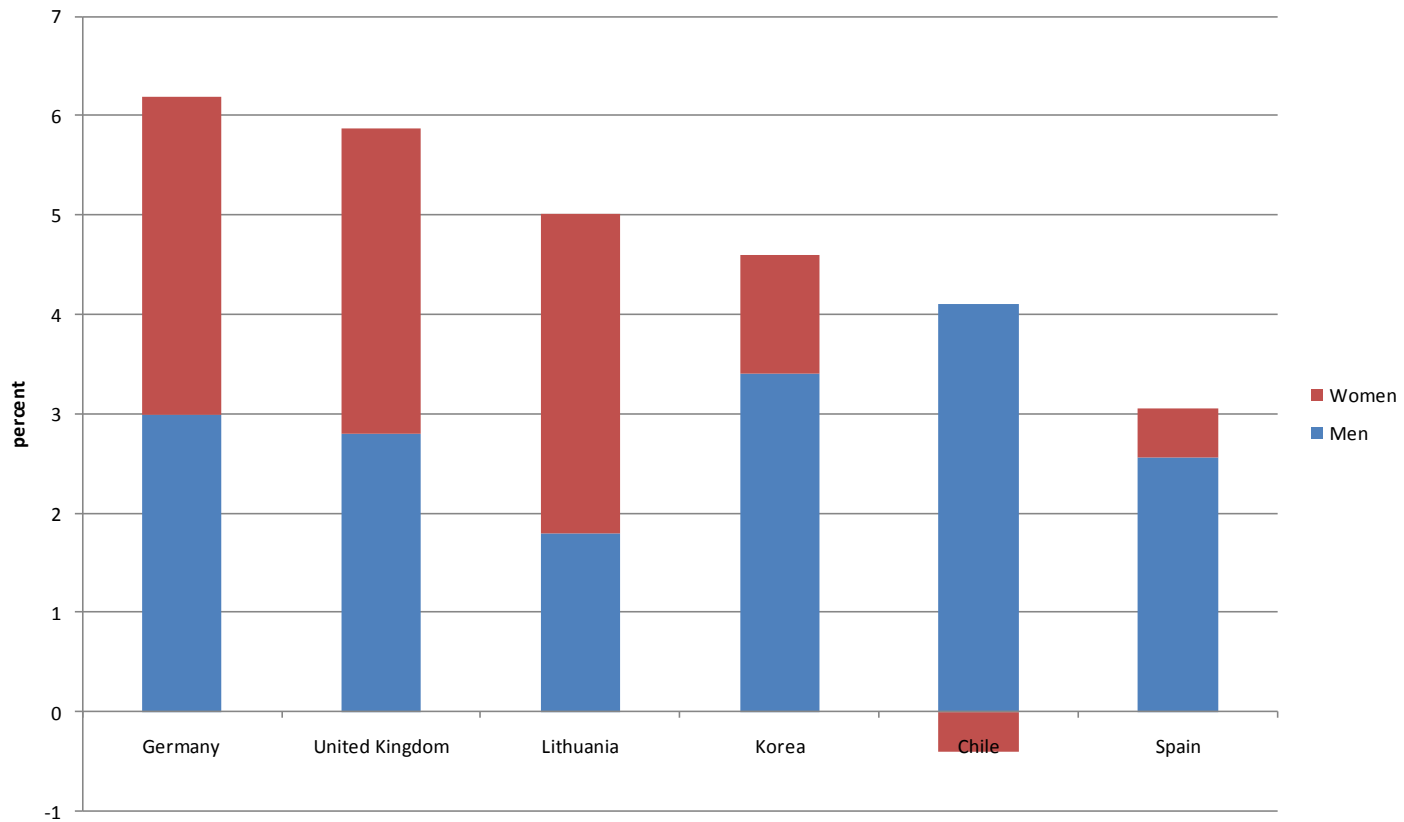
Higher employment of women and the elderly represents the highest economic potential

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



Which could boost economic growth

**Increase in value added if inactivity among older workers in Poland
were reduced to the level of selected countries
as % of GDP
2008**



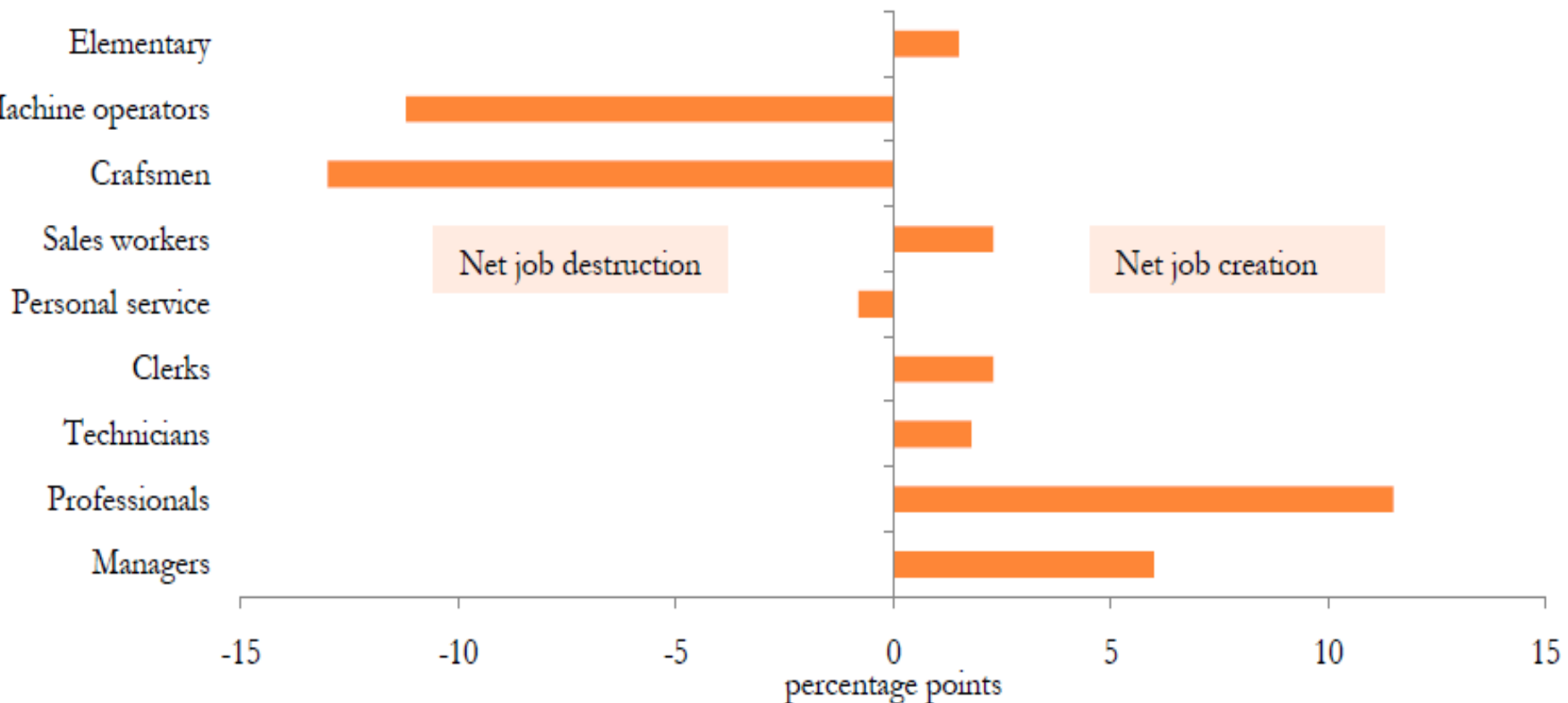
Selected Policy Recommendations

- 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 pronatalist and others policies in this context
- Promote active labor market policies

Key issue: low skills leading to mismatch

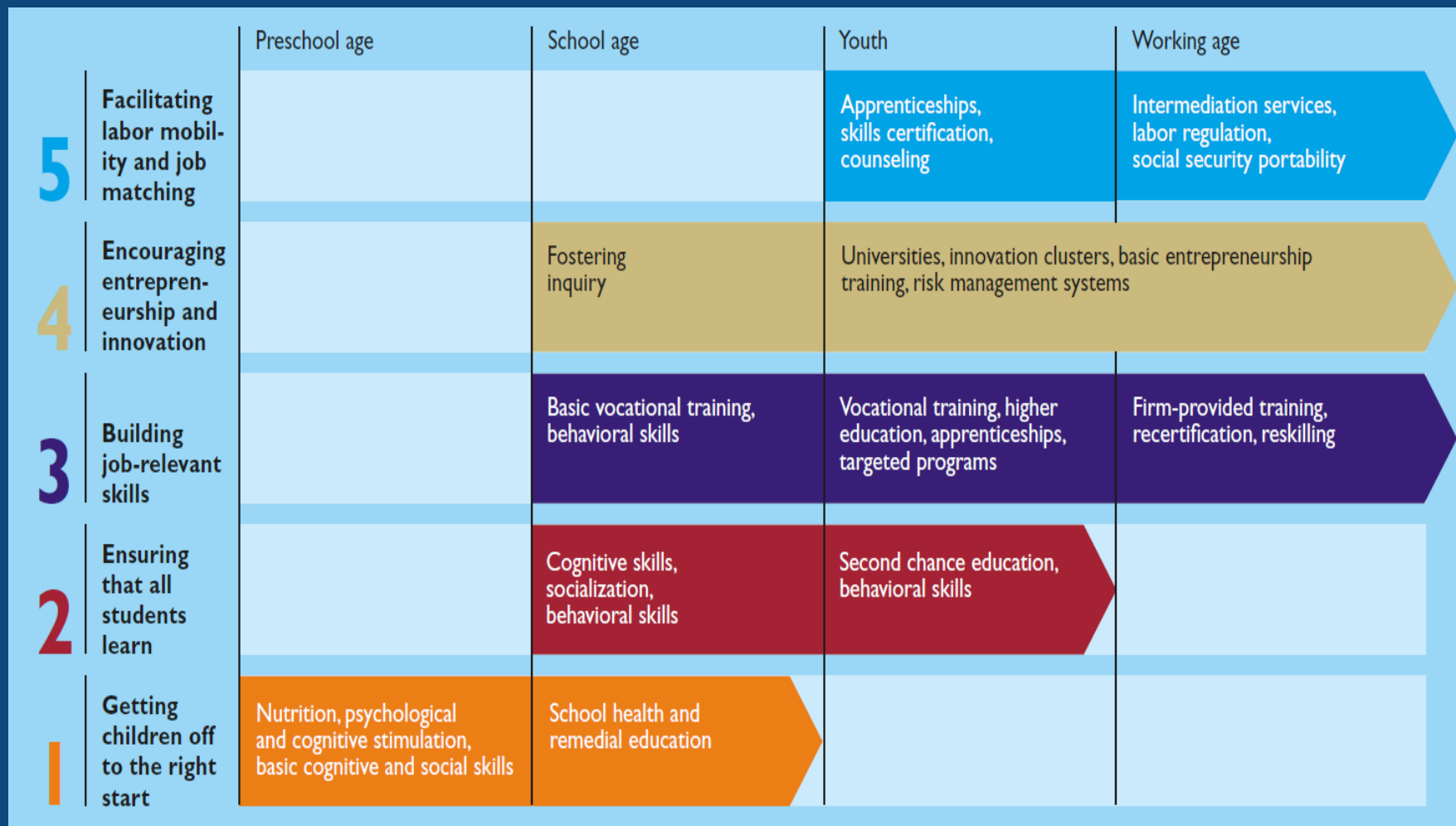
Figure : Newly Created Jobs in Poland Require Different Skills from Old Jobs, Giving Rise to the Skills Mismatch

The difference between the shares in job creation and job destruction by occupation 2009



Need to adopt an integrated approach

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

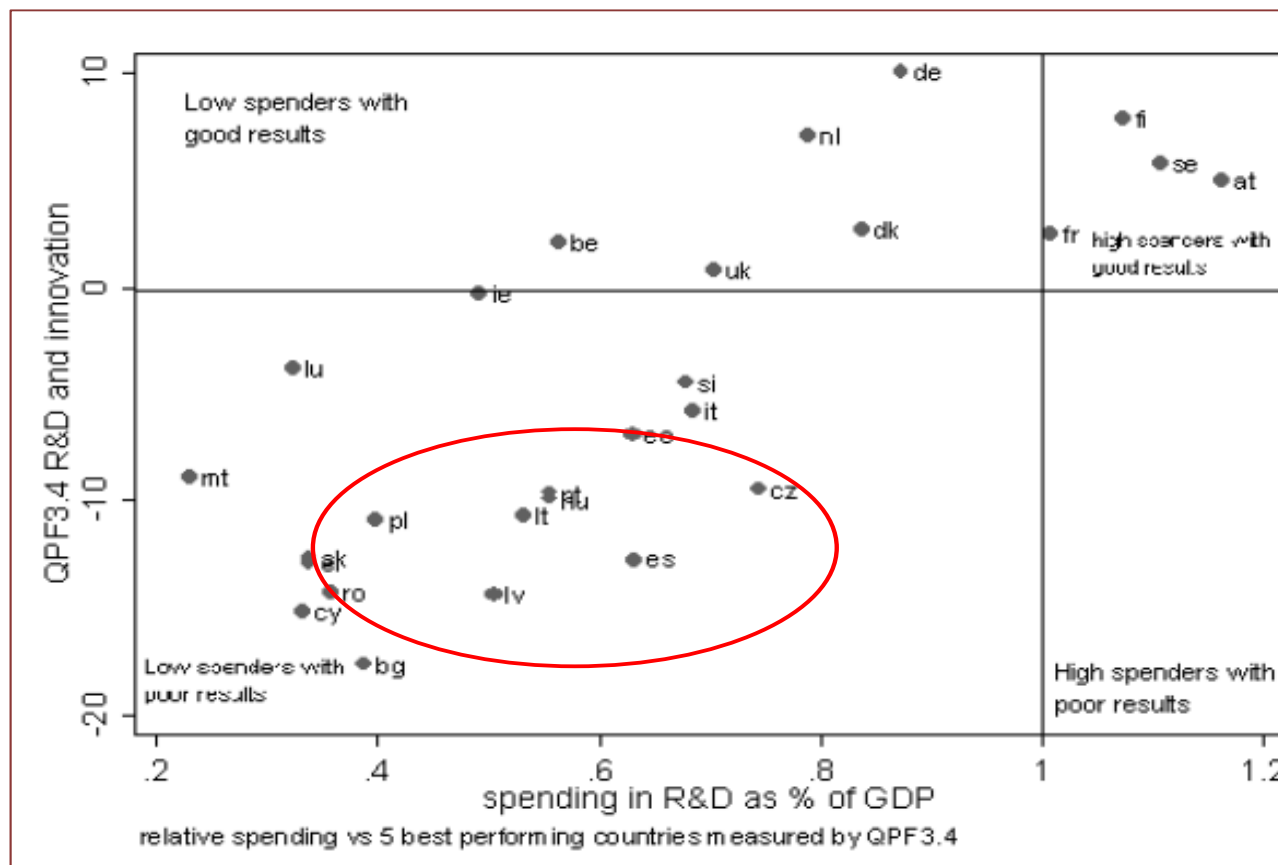


Selected Policy Recommendations

- 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

Key issue: Inefficient R&D spending

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

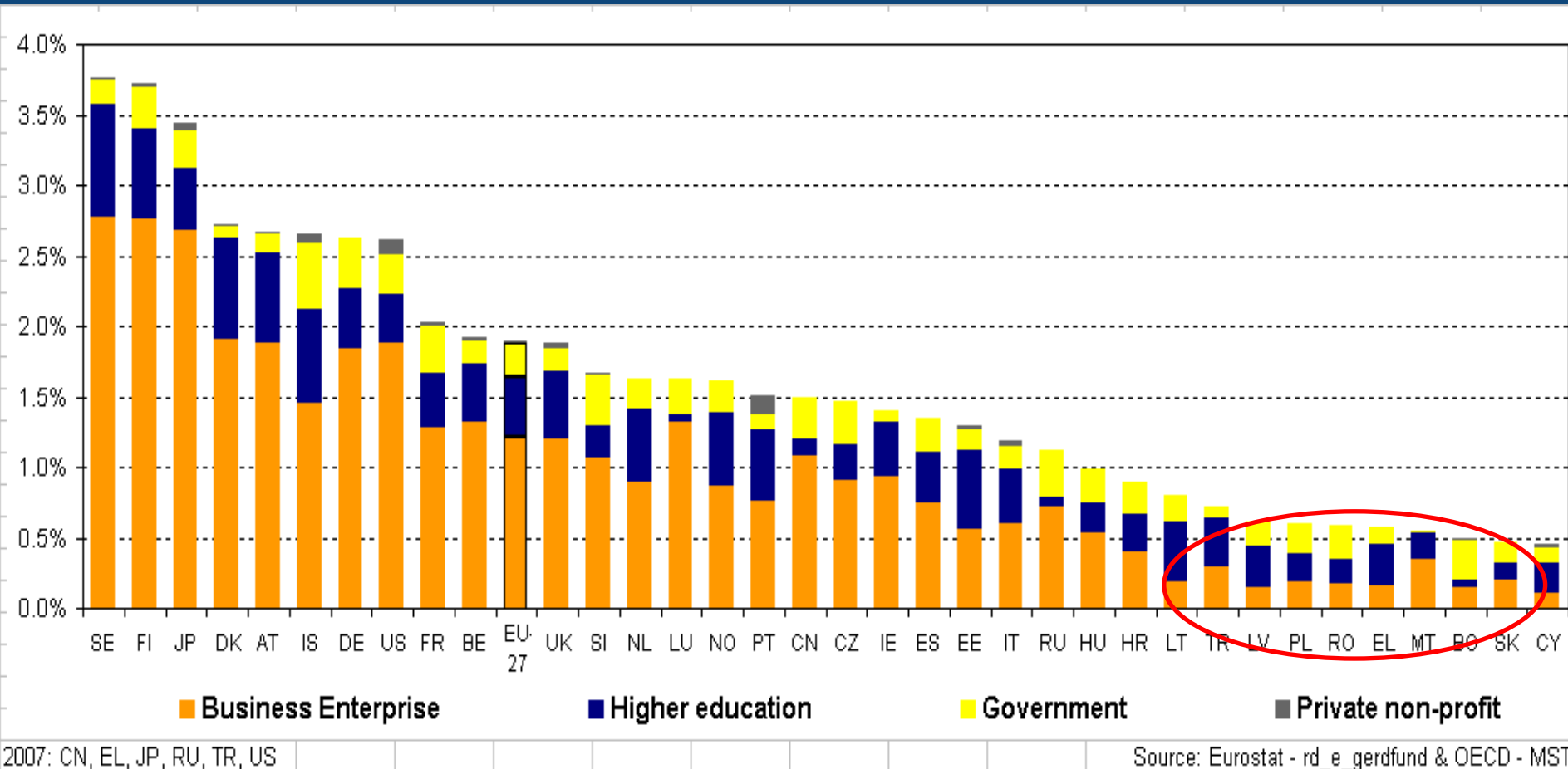


Source: Economic Papers 382, DG Economic & Financial Affairs, July 2009.

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Low share of private sector R&D spending

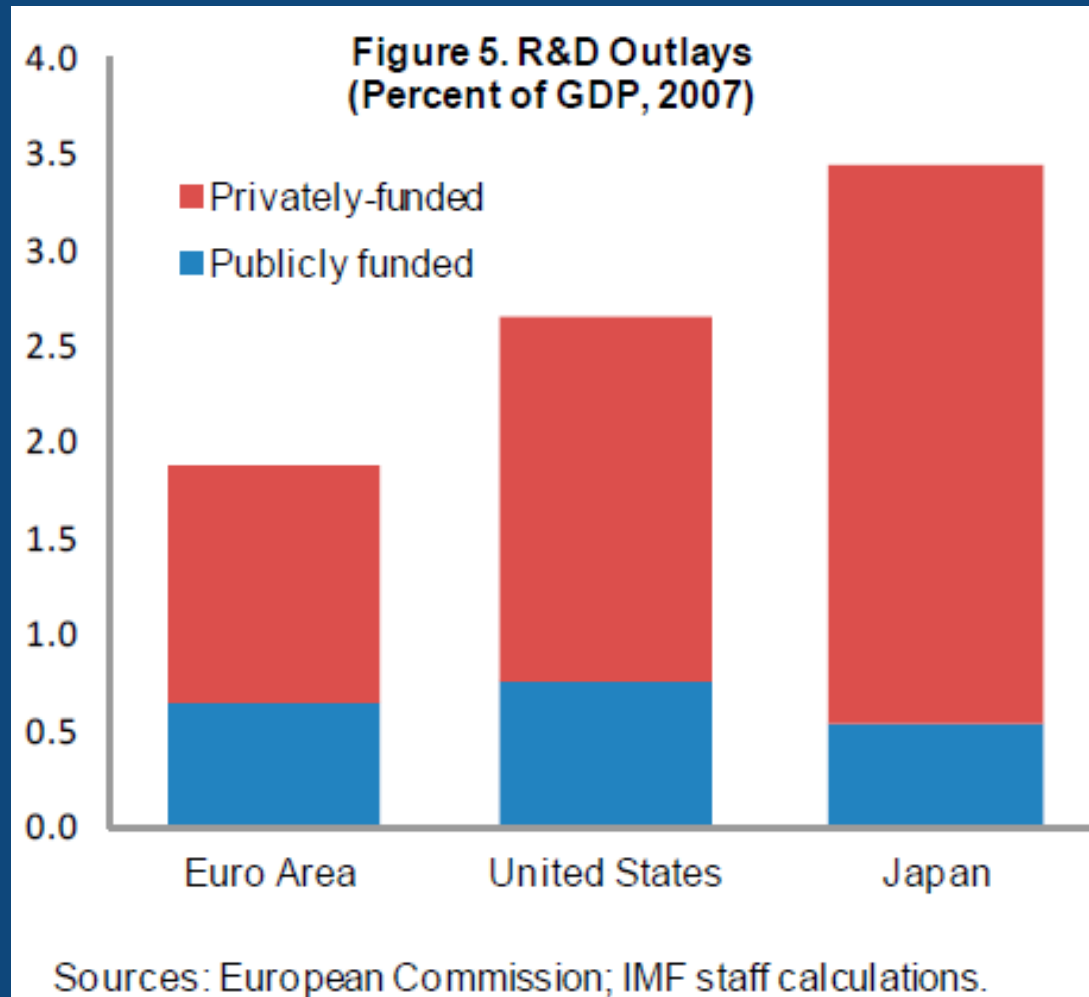
Gross domestic R&D expenditure, by sector of performance, 2008



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

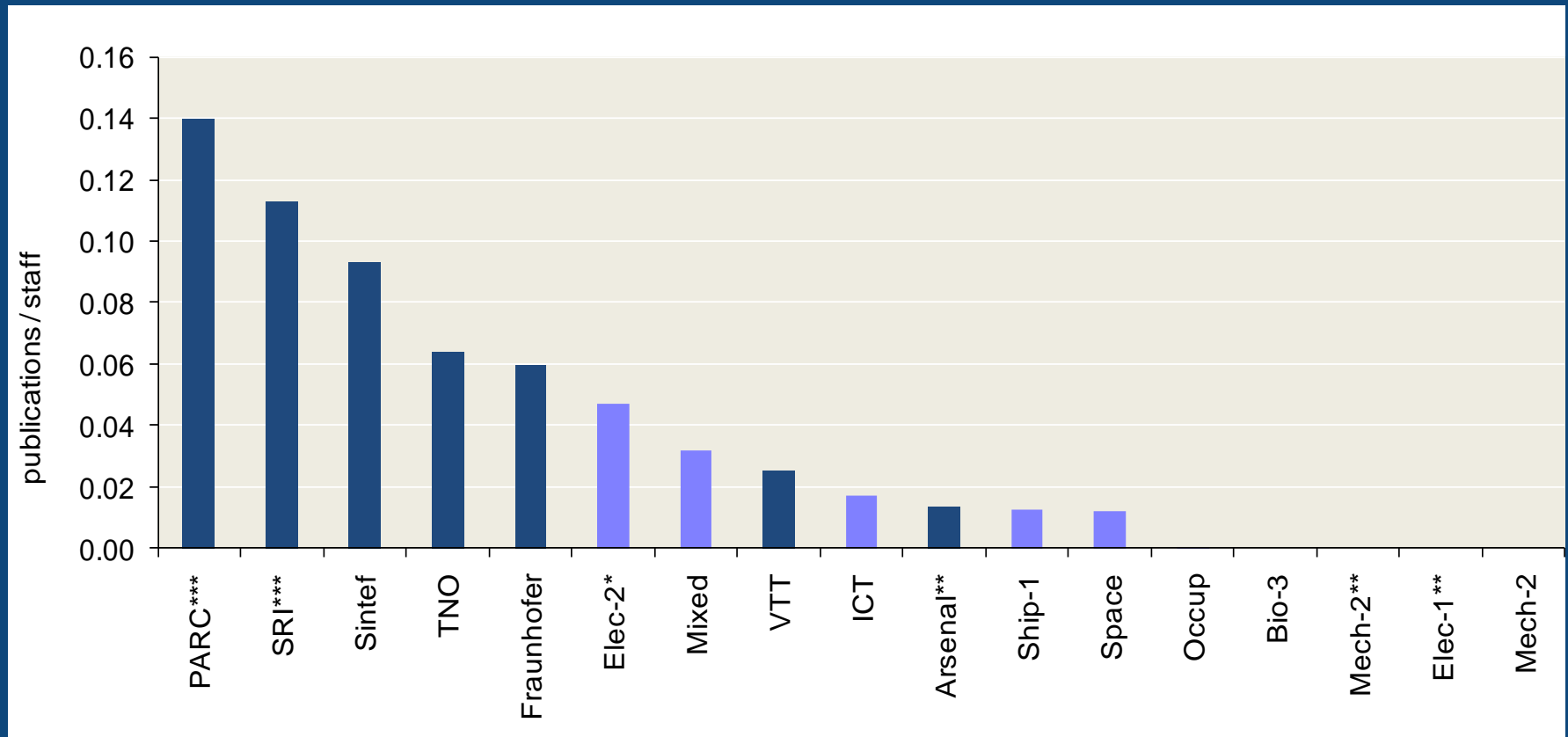
Source: Eurostat - rd_e_gerdfund & OECD - MSTI

Also in the euro zone



Inefficient public research institutions in EU-10

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



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	Human capital	Services	Administrative burden	R&D	Total
	(1)	(2)	(3)	(4)	(5)	(6)
GDP						
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.

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

THANK YOU!

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