



# Europe's Single Market Challenges

*Backdrop: Productivity-wage dispersion*

*Challenges: Banking, Services, Digital  
and some regional observations*

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ECB, Frankfurt, October 18, 2017

[www.oecd.org/economy/economicoutlook.htm](http://www.oecd.org/economy/economicoutlook.htm)  
ECOSCOPE blog: [oecdoscope.wordpress.com](http://oecdoscope.wordpress.com)

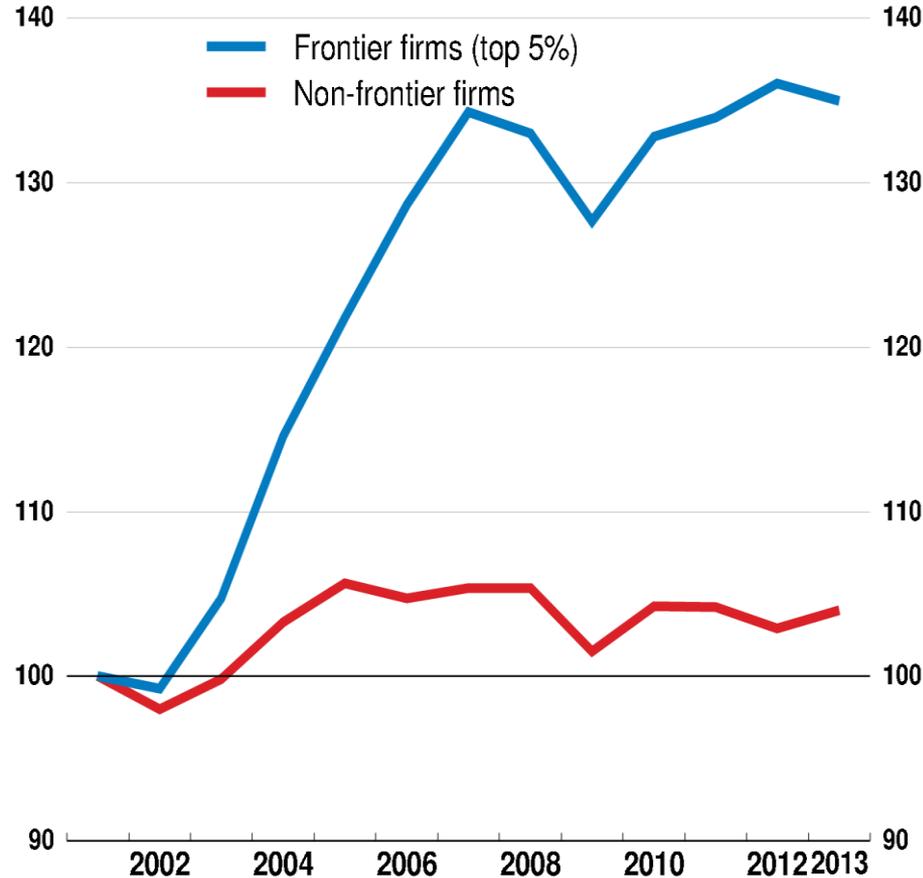


# Twin-Divergences: The Best vs the Rest

## *Firms vary in productivity and wage dispersion*

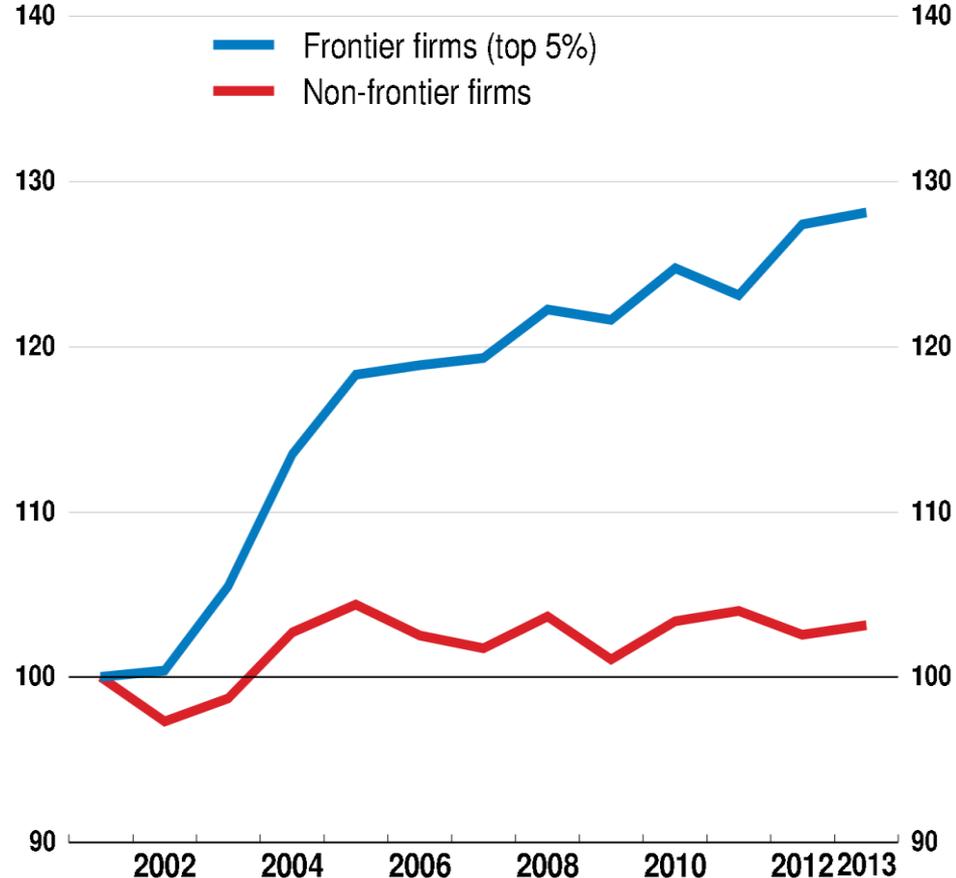
### Labour productivity

Index, 2001 = 100



### Real compensation per worker

Index, 2001 = 100



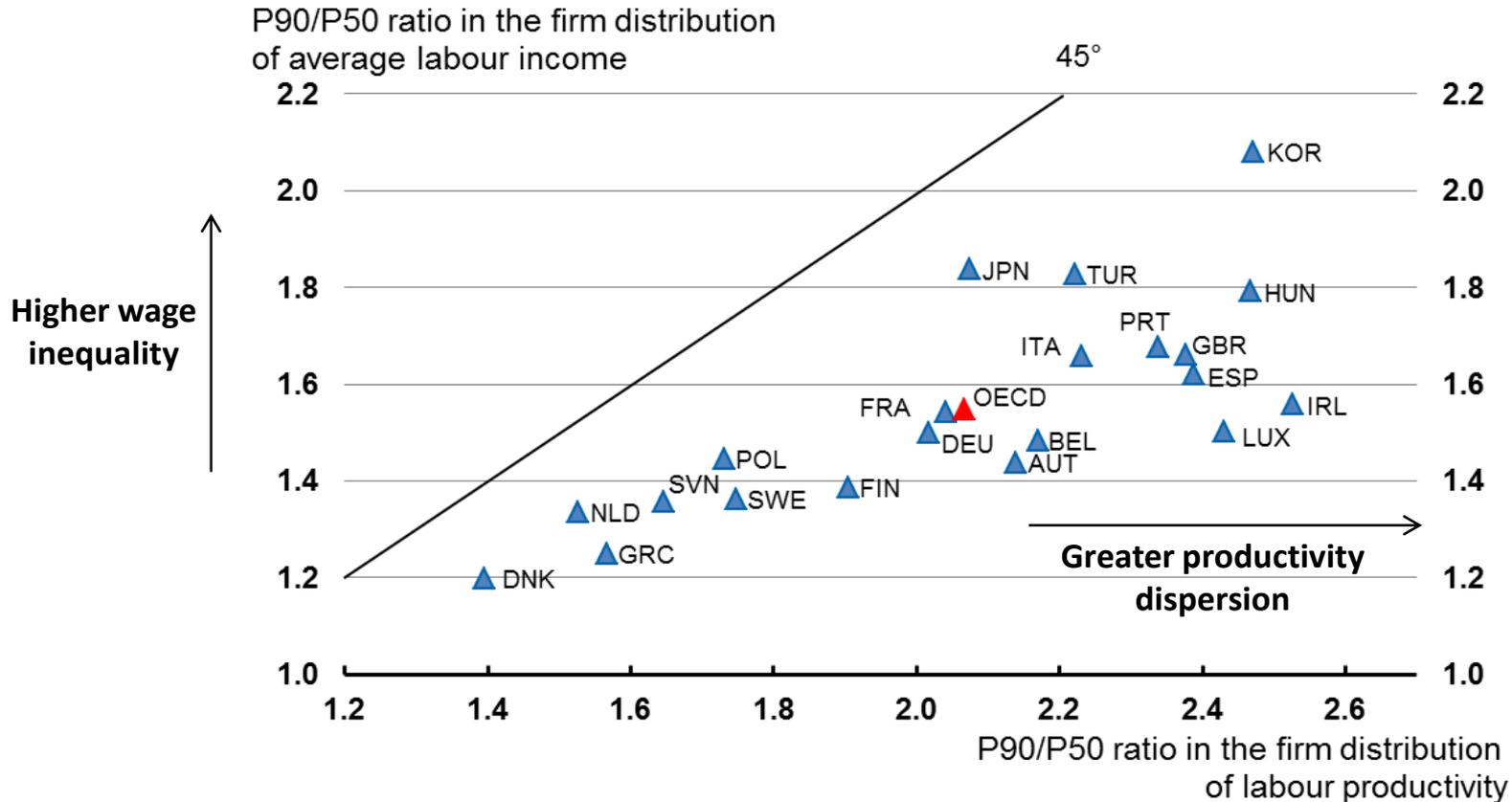
**Note:** Frontier firms are the 5% of firms with the highest labour productivity by year and sector. Included industries are manufacturing and business services, excluding the financial sector, for firms with at least 20 employees.

**Source:** Andrews, D., C. Criscuolo and P. Gal (2016), "The Best versus the Rest: The Global Productivity Slowdown, Divergence across Firms and the Role of Public Policy", OECD Productivity Working Papers, No. 5; Orbis data of Bureau van Dijk; and OECD calculations.



# Wage ⇔ Productivity Dispersion Varies substantially within Europe

## Wage inequality and productivity dispersion across firms



Note: Data are for 2013. OECD is the unweighted average of the countries for which data are available. The P90/P50 ratio is labour income or labour productivity of the firm at the 90th percentile divided by the corresponding value of the firm at the median. Labour income is total compensation including taxes and the employer's and employee's social security contributions.

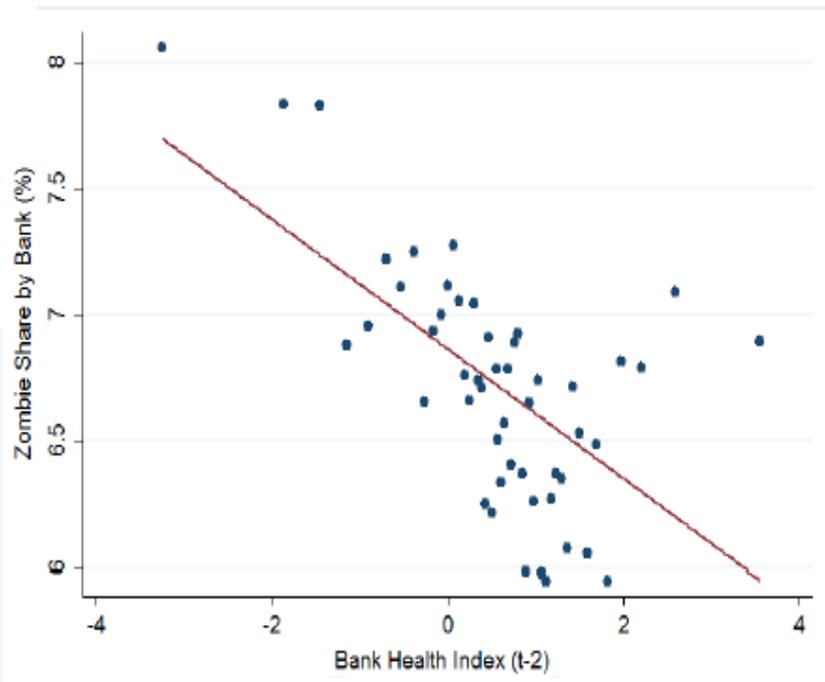
Source: OECD estimations based on Saia and Schwellnus (2016), "Decoupling of Productivity and Median Wage Growth: Micro-Level Evidence", OECD Economics Department Working Papers, forthcoming; Orbis.



# Role for Banking Union

## NPLs and Zombies capture capital, reduce dynamism

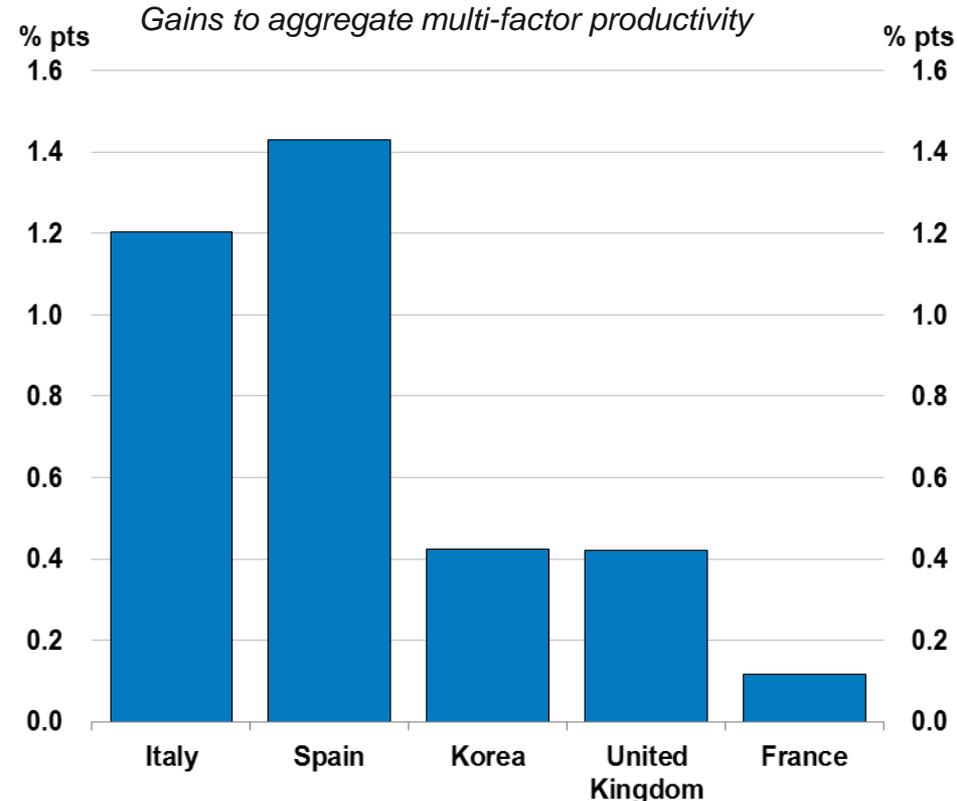
### Average zombie firm share for each category of bank health



Note: the average zombie firm share for each bin of bank health, purged of country-industry-fixed effects. The relationship is statistically significant at the 1% level and is based on over 1.5 million firm-bank observations for 11 European countries over the period 2001-2014.

Source: Andrews, D. and F. Petroulakis (2017), "Breaking the Shackles: Zombie Firms, Weak Banks and Depressed Restructuring in Europe", *OECD Economics Department Working Papers*.

### Productivity gains from reducing zombie capital



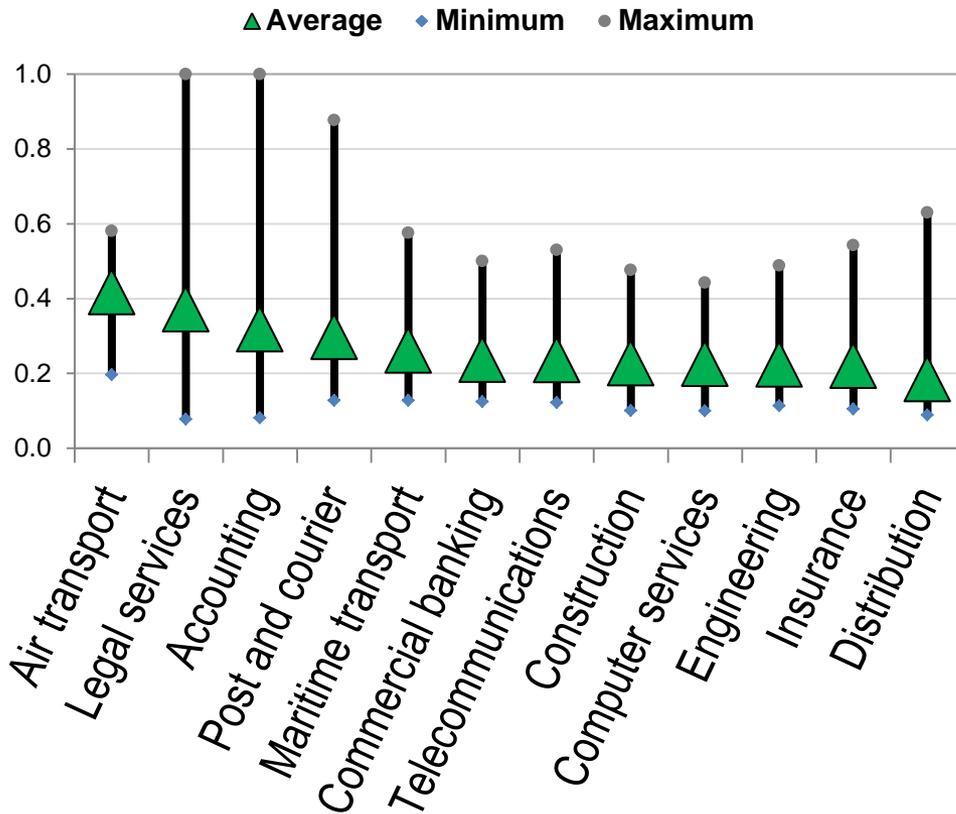
Note: Firms aged 10 years or more and with profits not covering interest payments over three consecutive years. The sample excludes firms that are larger than 100 times the 99th percentile of the size distribution in terms of capital stock or number of employees. Source: Adalet McGowan, Andrews and Millot (2017), "The Walking Dead? Zombie Firms and Productivity Performance in OECD Countries", *OECD Economics Department working paper*; and OECD calculations.



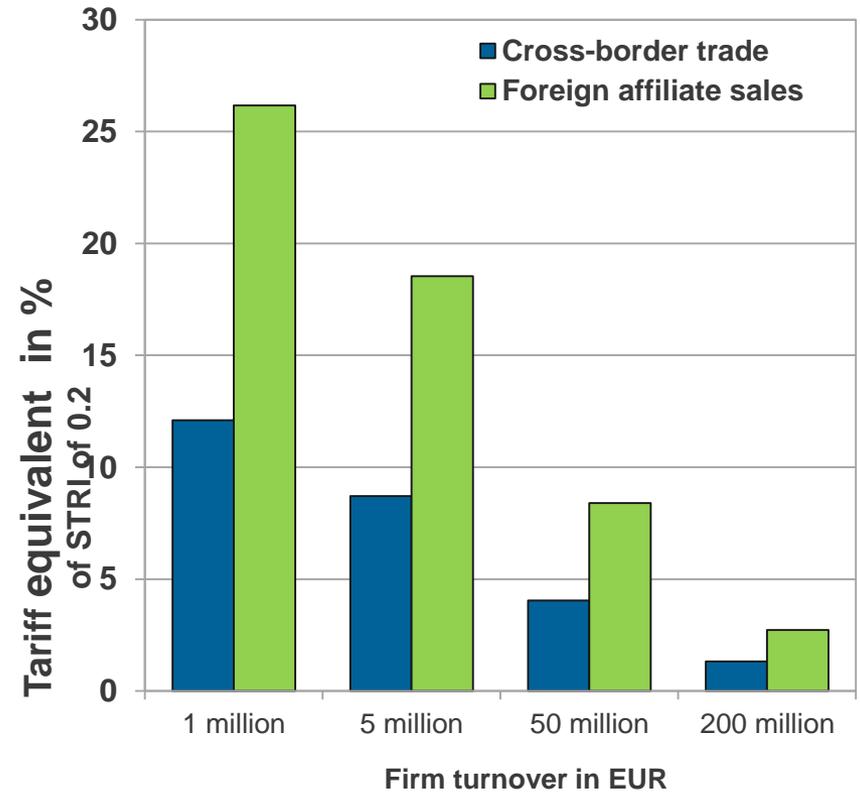
# Role for Services Single Market

## Scope for improvement, and implications

**Services trade restrictiveness indices**  
2016, covering 44 countries



**The burden of restrictions falls disproportionately on smaller firms**



Note: Covers the 35 OECD members plus Brazil, China, Colombia, Costa Rica, India, Indonesia, Lithuania, Russia and South Africa.  
Source: OECD STRI database.

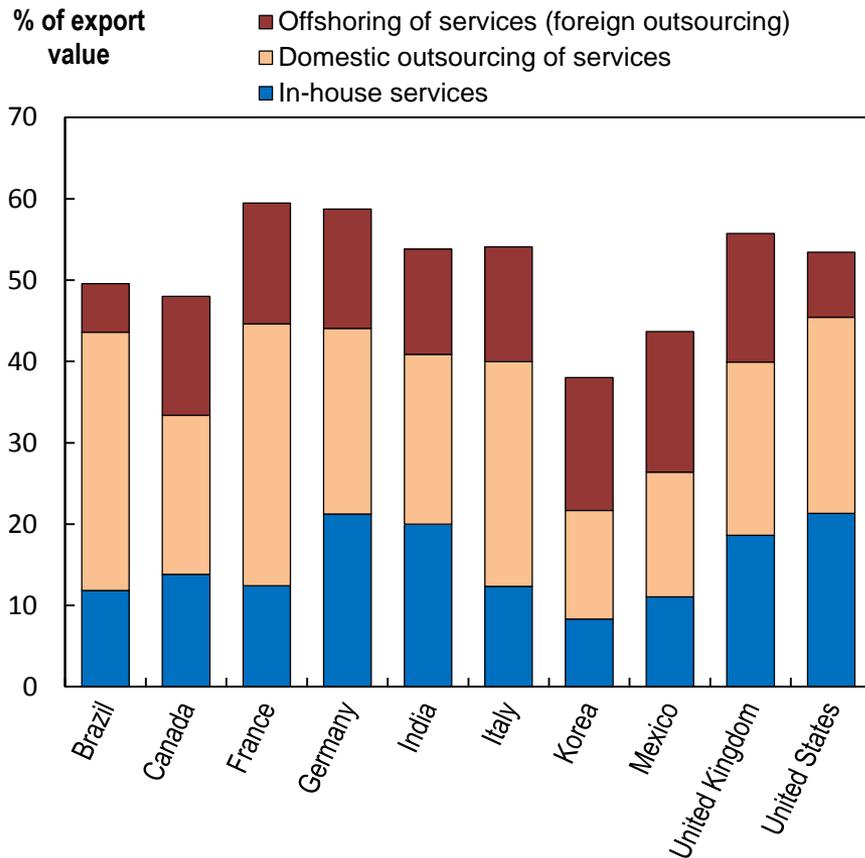
Note: average effect across sectors and countries based on microdata from Belgium, Finland, Germany, Italy, Japan, the United Kingdom and the United States. The numbers indicate the ad valorem tariff equivalent of an STRI score of 0.2 on top of what is incurred by firms with turnovers of EUR 500m and above. Source: Rouzet, Benz and Spinelli (2017), "Trading Firms and Trading Costs in Services", OECD Trade Policy paper.



# Services Activities and Competitiveness

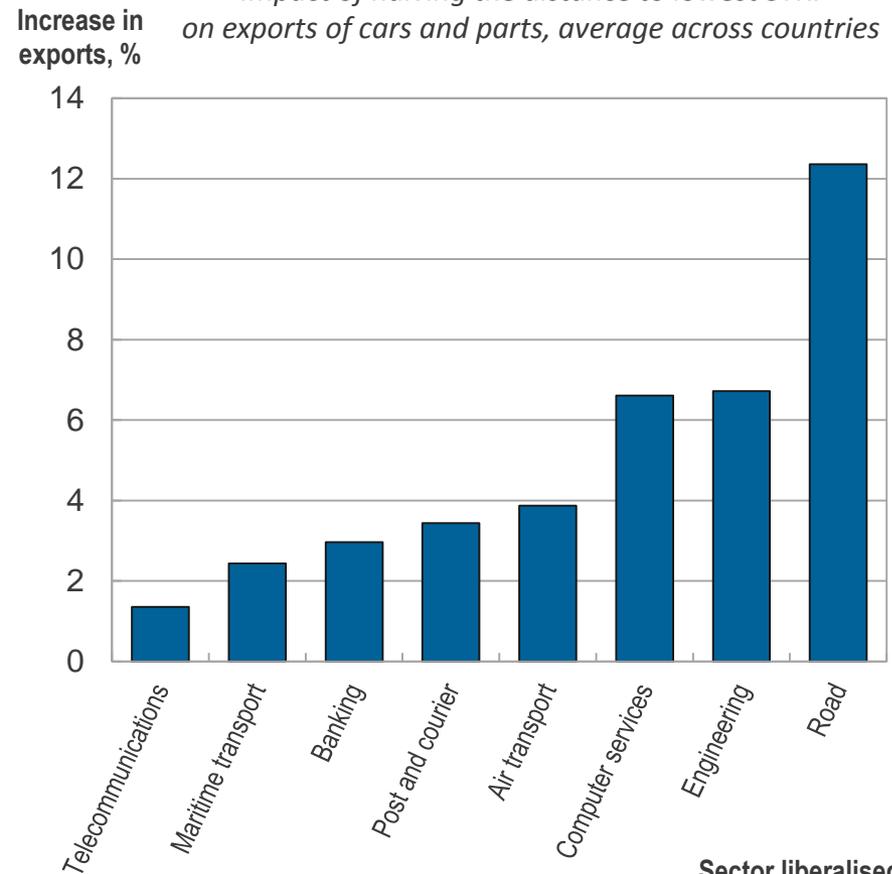
## *a look at manufacturing exports*

### Services value-added in manufacturing exports, 2011



### Spillovers from services regulation to manufacturing--example

*Impact of halving the distance to lowest STRI on exports of cars and parts, average across countries*



**Sector liberalised**

Source: Miroudot and Cadestin (2017), "Services In Global Value Chains: From Inputs to Value-Creating Activities", OECD Trade Policy paper; based on OECD ICIO and occupational data.

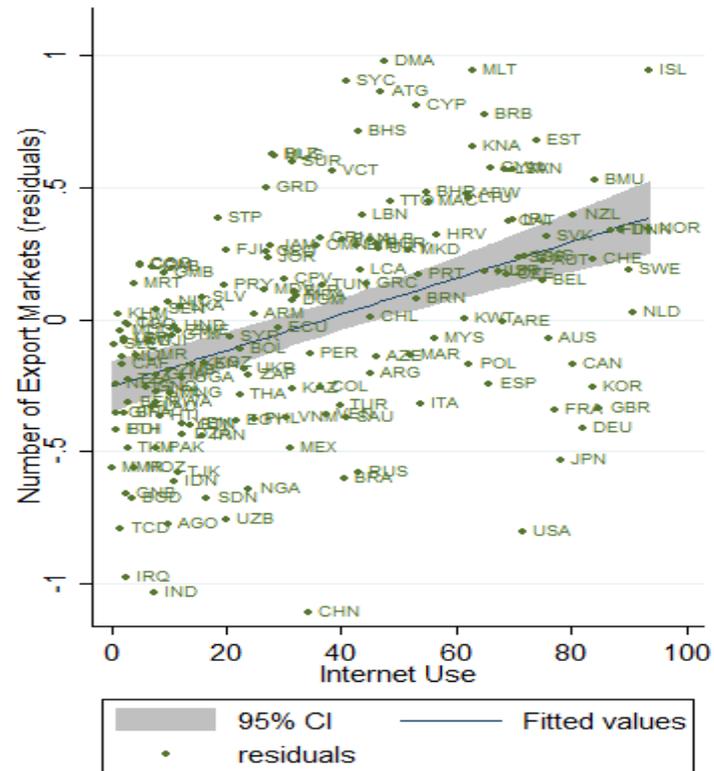
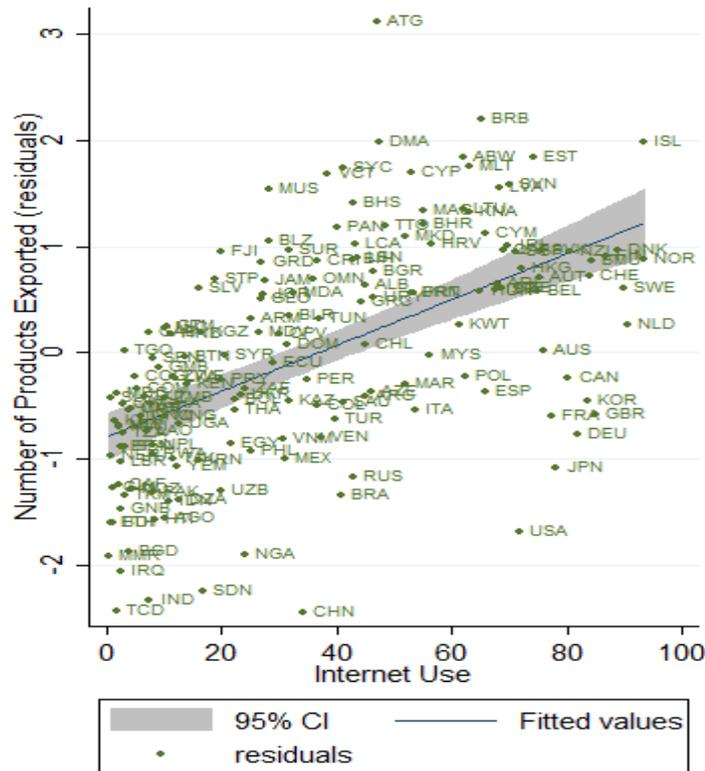
Source: OECD (2017), *Services Trade Policies and the Global Economy*; based on OECD STRI database, UN Comtrade, and OECD calculations.



# Role for Digital Single Market

## Trade and digitalisation go hand in hand

More 'connected' countries sell more goods to more destinations

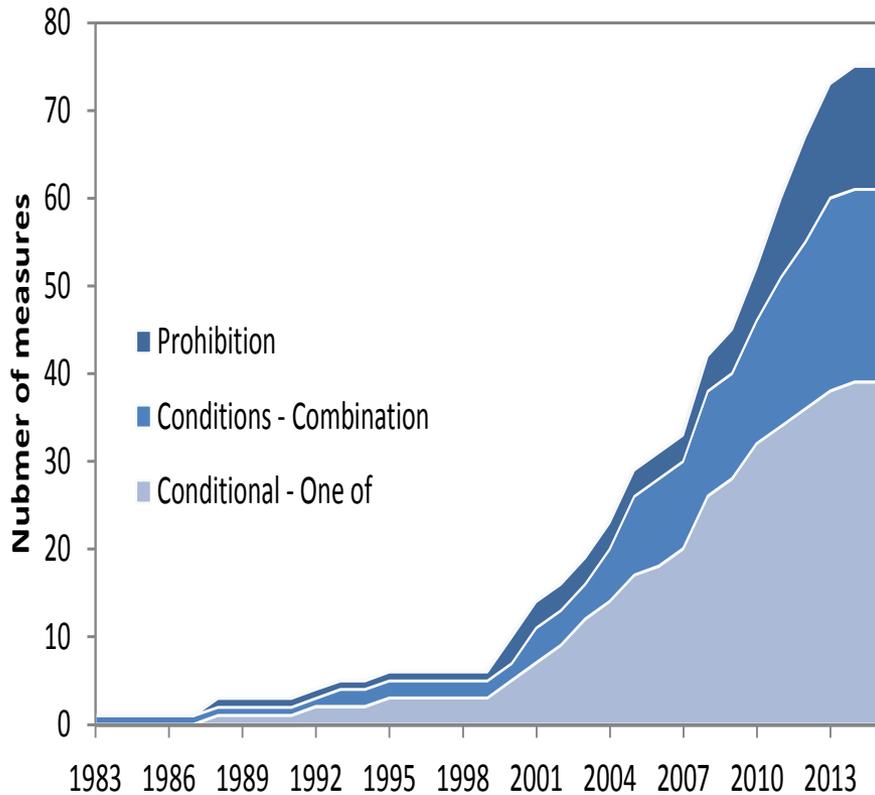


Note: Figures show correlation between internet use per 100 inhabitants, number of products exported and export market. To avoid correlations arising through other variables, such as internet use and income, or number of products and size of markets, the residuals from a regression of the trade outcomes with respect to per capita GDP and size of markets with country specific fixed effects and time dummies are taken.

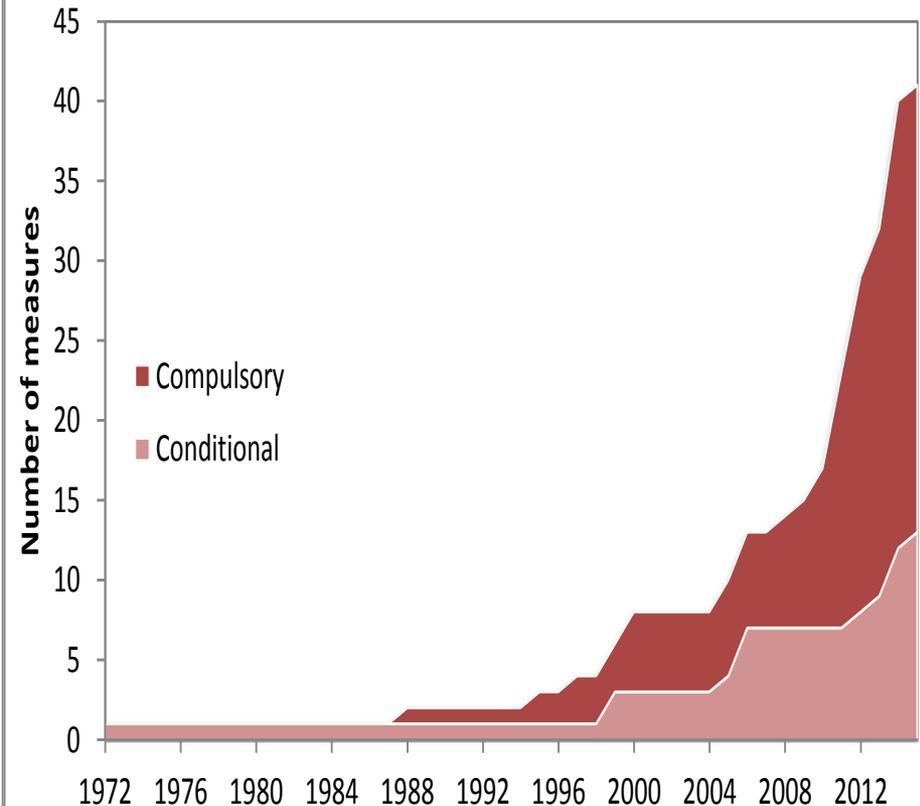


# But growing number and complexity of “data regulation” risks putting sand in the wheels

## Cross-border data transfer restrictions



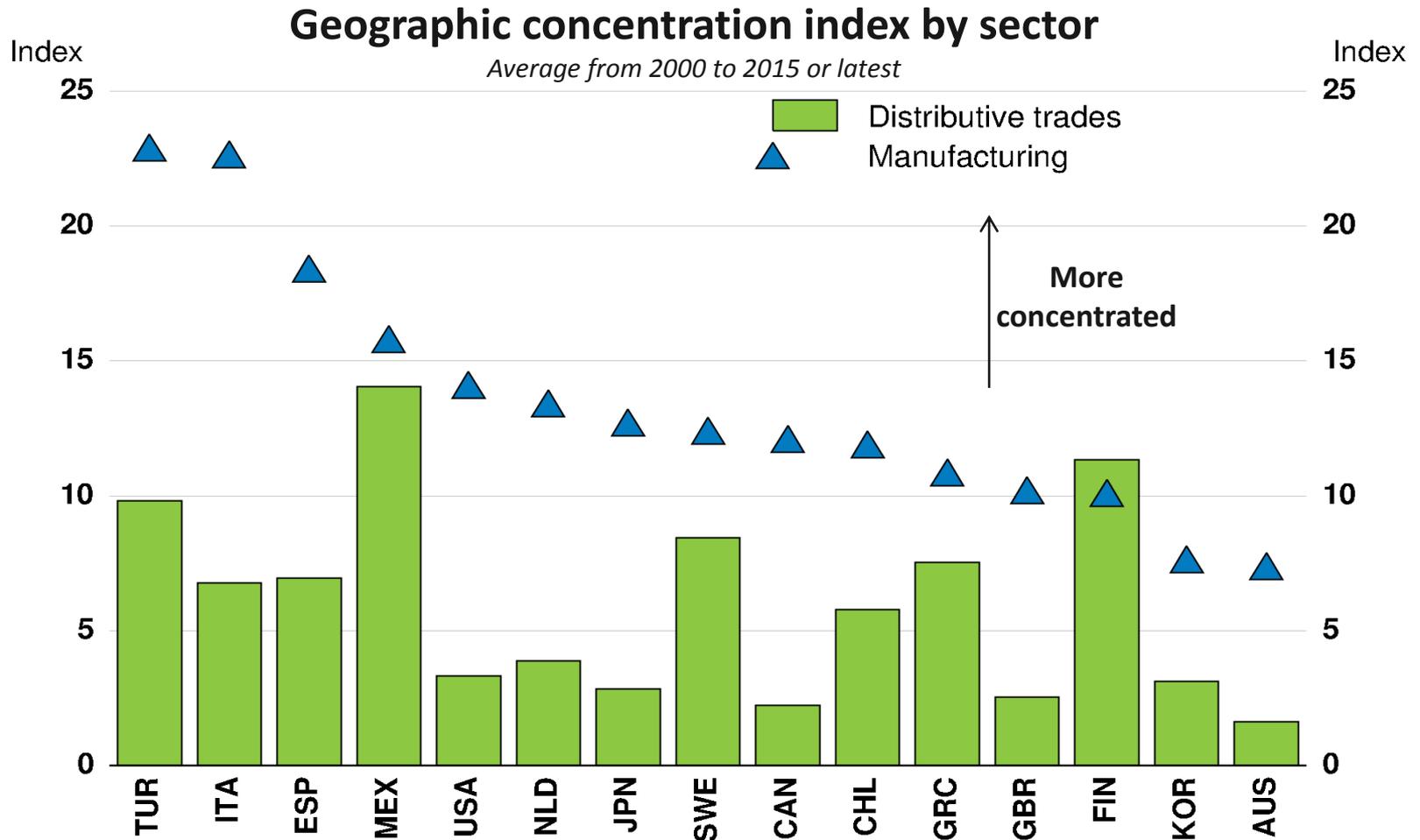
## Local storage requirements





# Why Focus on Services?

*Evidence that manufacturing is regionally concentrated which accentuates adjustment to trade, technology shocks*

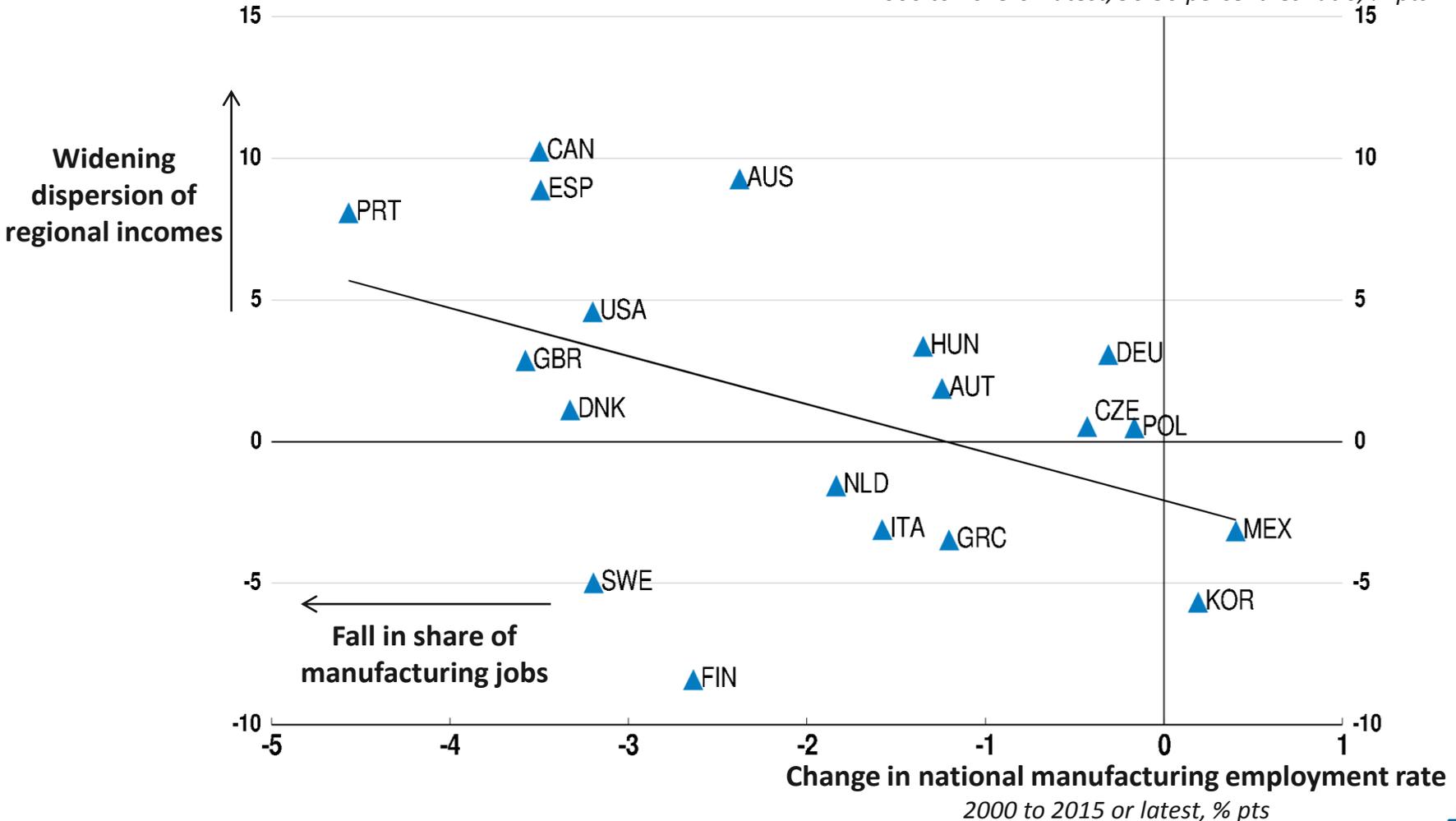


Note: "Distributive trades" includes distributive trade, repairs, transportation and storage, accommodation and food service activities. Index measures the extent to which employment is concentrated in particular regions, varying between 0 (no concentration, where all regions of a country have the same manufacturing employment rate) and 100 (maximum concentration, where all manufacturing employment is concentrated in the smallest region). The index incorporates the size of the region and is based on OECD (2003) "Geographic Concentration and Territorial Disparity in OECD Countries". Source: OECD Regional database; and OECD calculations., and Economic Outlook, chapter 2, June 2017



# Countries with larger falls in manufacturing jobs have increased regional inequality

Change in average income inequality across regions  
2000 to 2015 or latest, 90:50 percentiles ratio, % pts



Source: OECD Regional database; and OECD calculations. OECD Economic Outlook, Chapter 2, June 2017.



## Summing up

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- Background: Two sides of the growth and inequality challenge
  - Low average productivity masks divergence between “best” and “rest”
  - Productivity divergence mirrors real wage divergence
- Three challenges for completing the Single Market: Banking Union, Services, Digital
  - Zombie firms and zombie banks interact to inhibit dynamism and improvements in both productivity and inequality
  - Services regulations stand in the way of enhanced competitiveness, and disproportionately burden small firms
  - Digital expands export market and range of export products, but restrictions are rising.
- Why focus on services?
  - Services are less regionally concentrated than manufacturing, which can offset concentrated shocks to trade and technology