



# Growing United

## Upgrading Europe's Convergence Machine

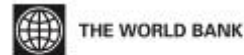
 #EUGrowingUnited  
@cbodewig



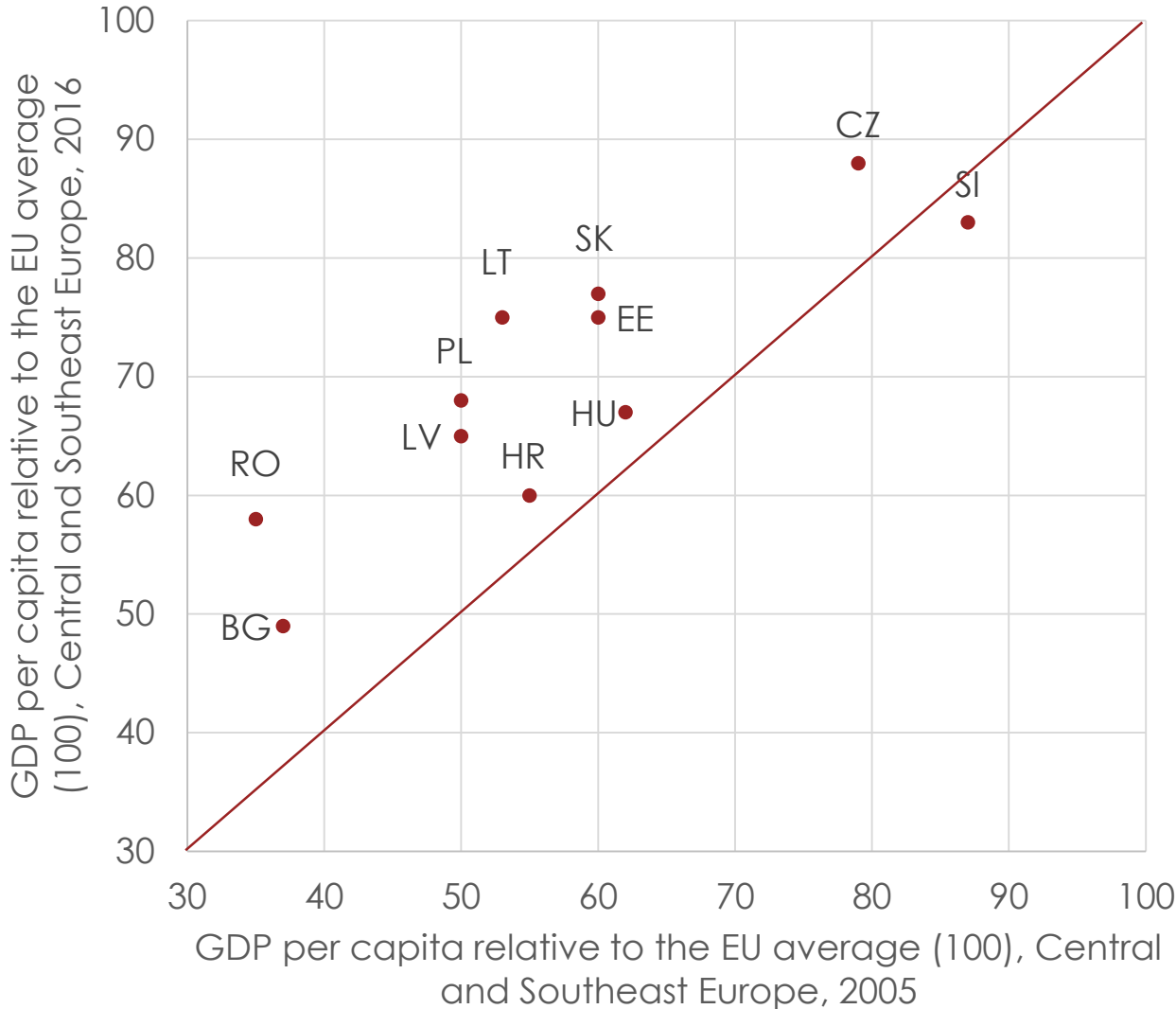
# Europe: the Convergence Machine

## Golden Growth

Restoring the Lustre of the  
European Economic Model



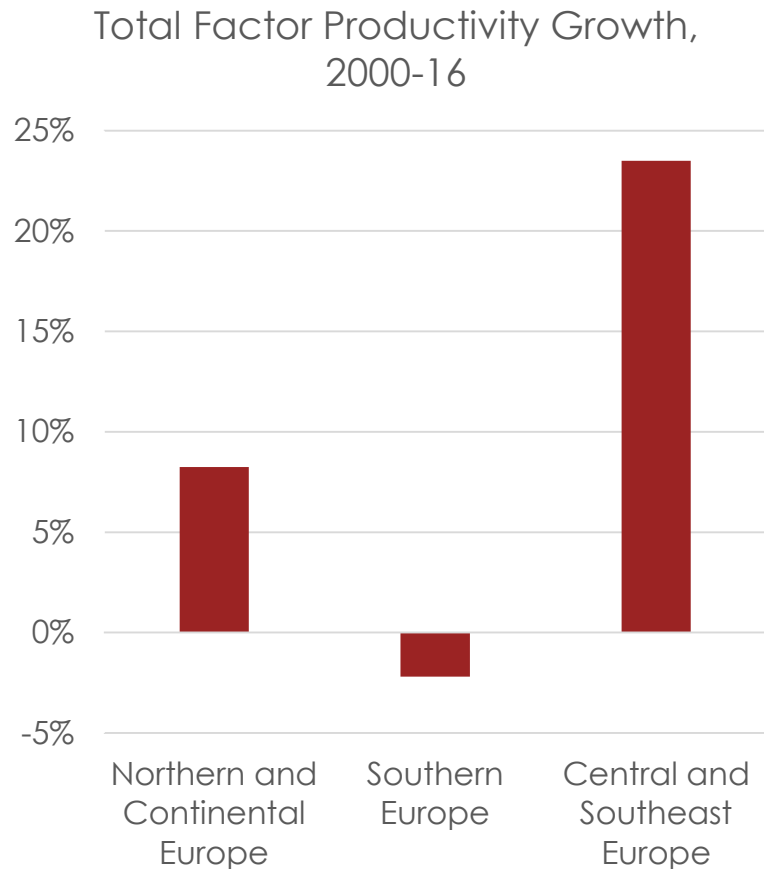
# The EU: A globally unrivalled convergence machine



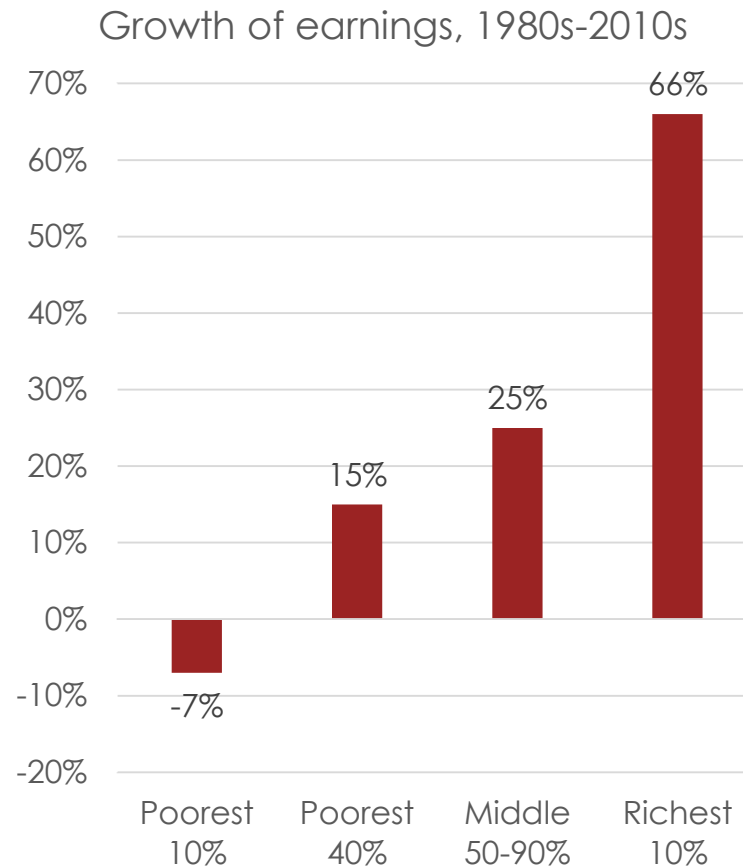
50% to 68%:  
Change in Poland's GDP per capita relative to the EU average between 2005 and 2016

# 3 signs of growing divides

## Productivity growth has stalled in Southern Europe



## Low-income Europeans are being left behind



## Growing regional divides

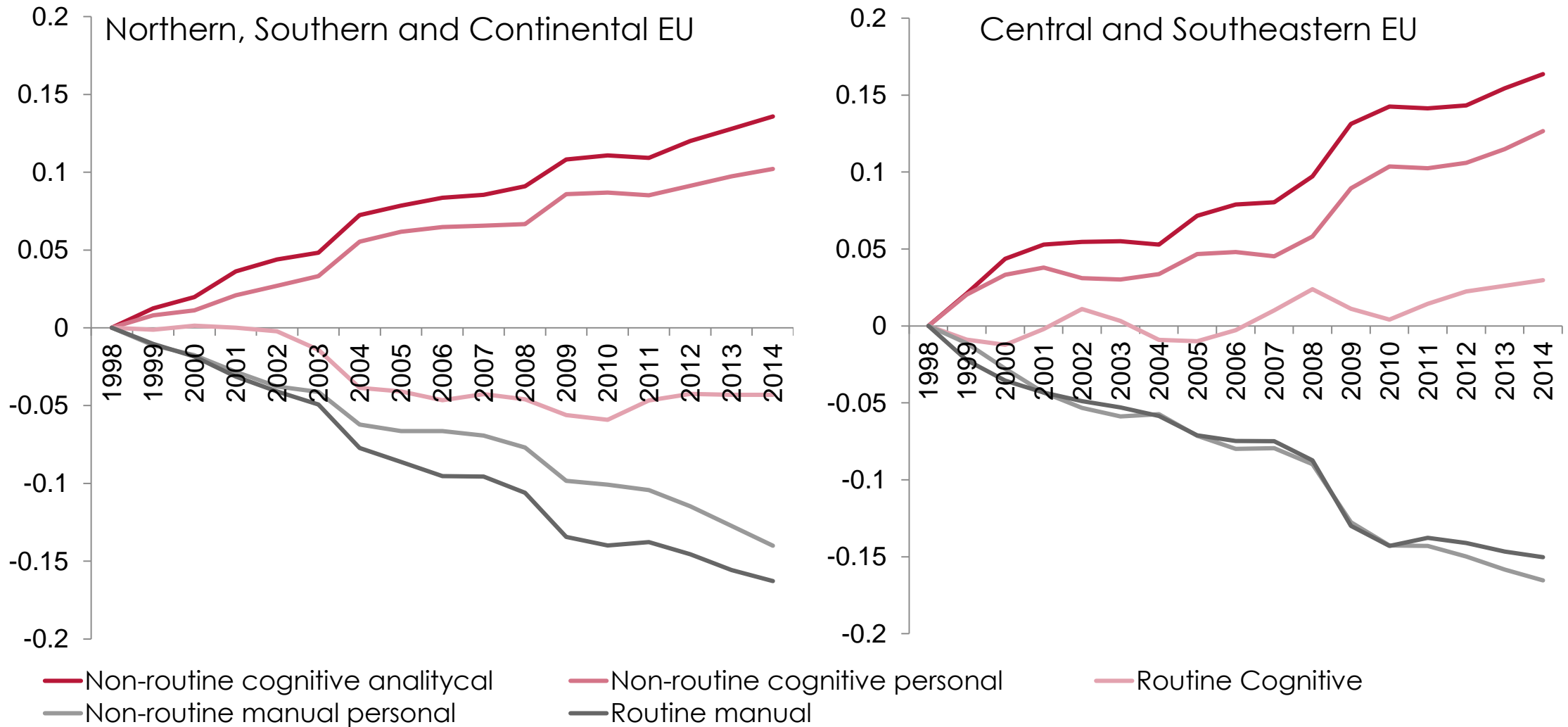
0 growth in GDP per capita among lagging regions in Southern Europe, 2000-15

28% increase in regional inequality in GDP per capita within Central and Southern Europe

Accelerating technological  
change is generating  
growing divergence

# Technological change is making jobs more intensive in non-routine cognitive tasks

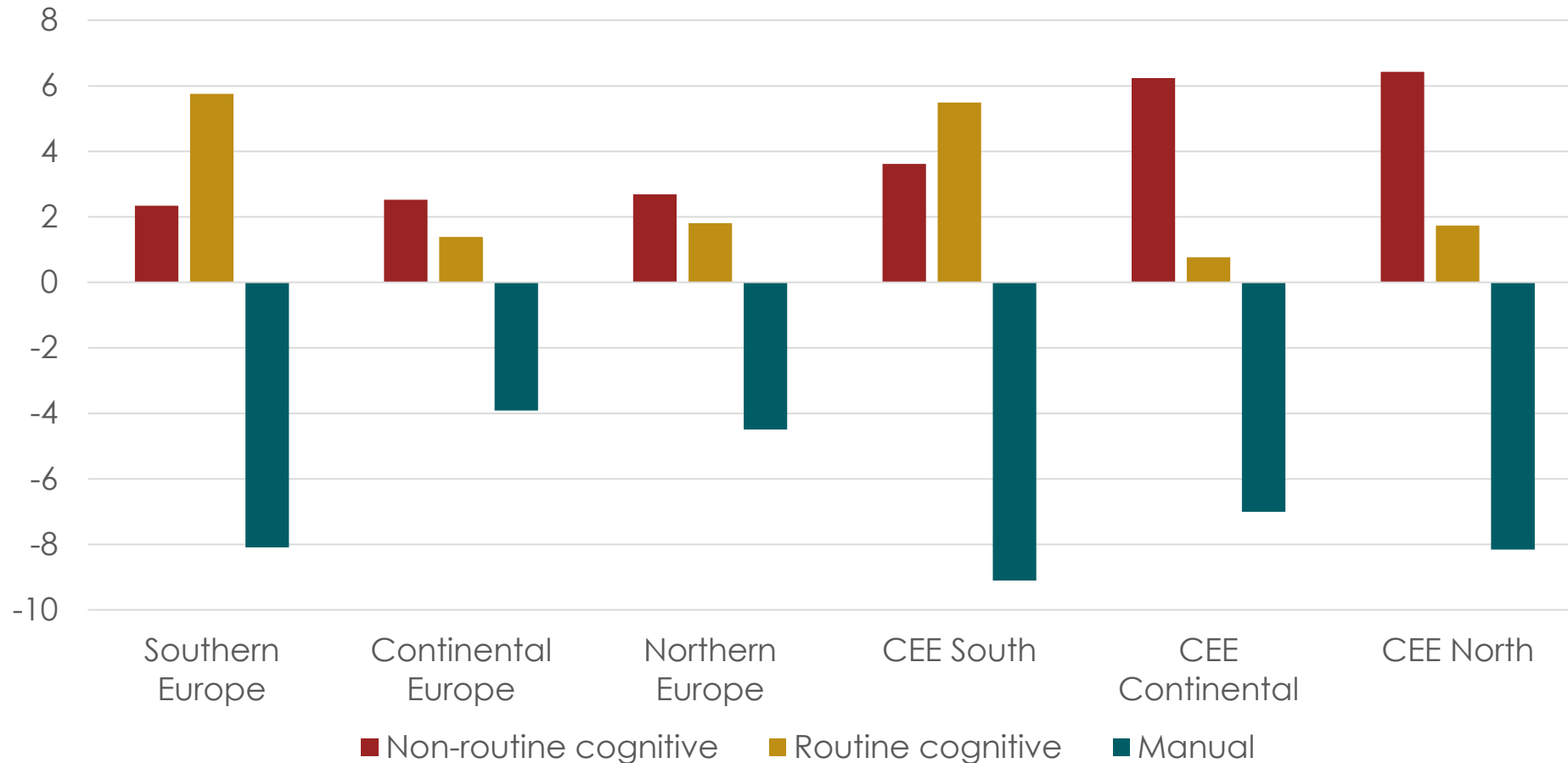
Occupation-specific task intensities, aggregated for each country and standardized over time, regional averages, 1998-2014



Source: Gorka et al. (2017), commissioned for this report.

# High-skill workers are gaining, low-skill workers are losing

Percentage point changes in share of workers in each job type,  
1998-2014

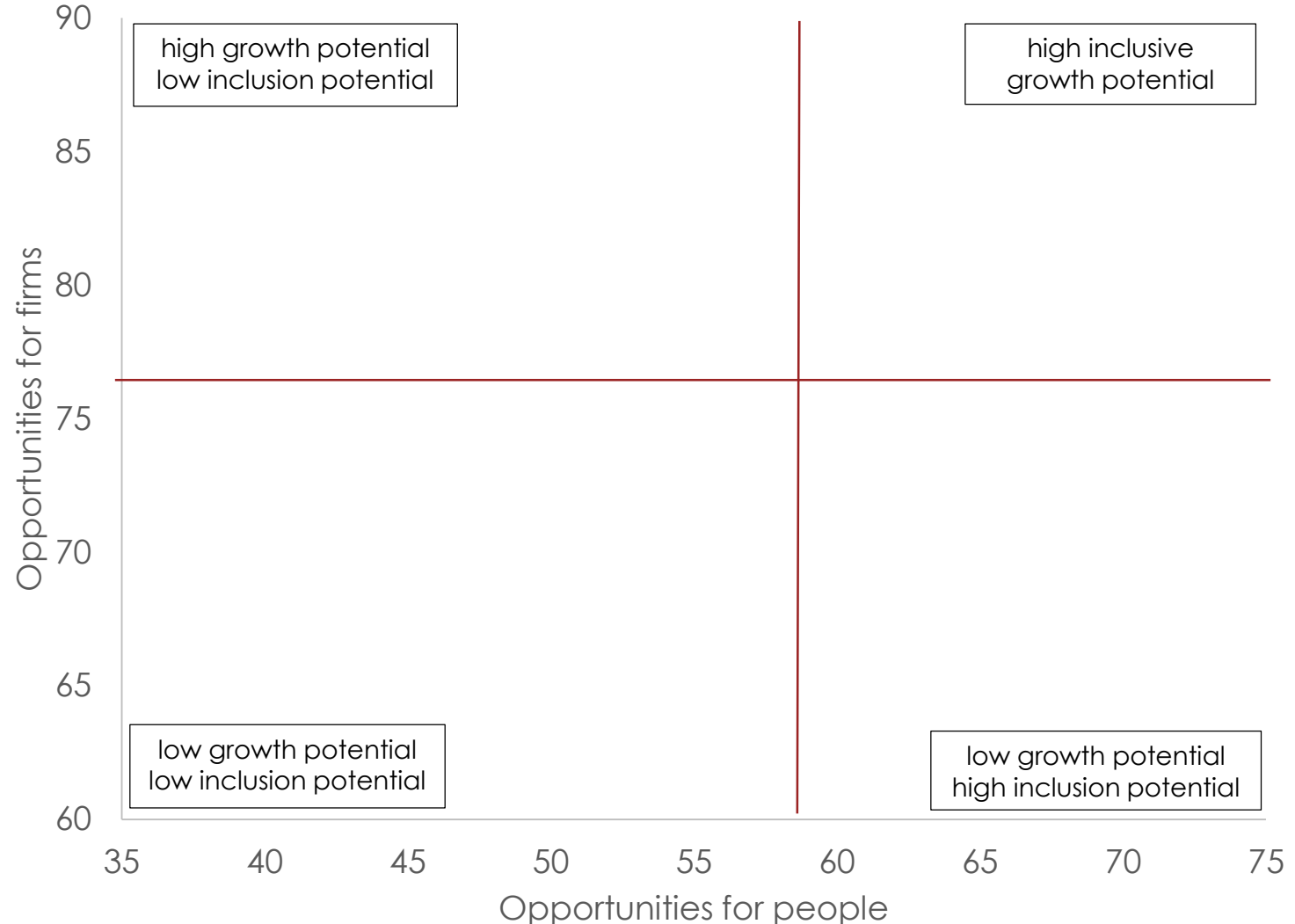


Source: Gorka et al. (2017), commissioned for this report. Note: Jobs are classified by their most intensive task into non-routine cognitive, routine cognitive, and manual.

# Boosting opportunities for people and firms



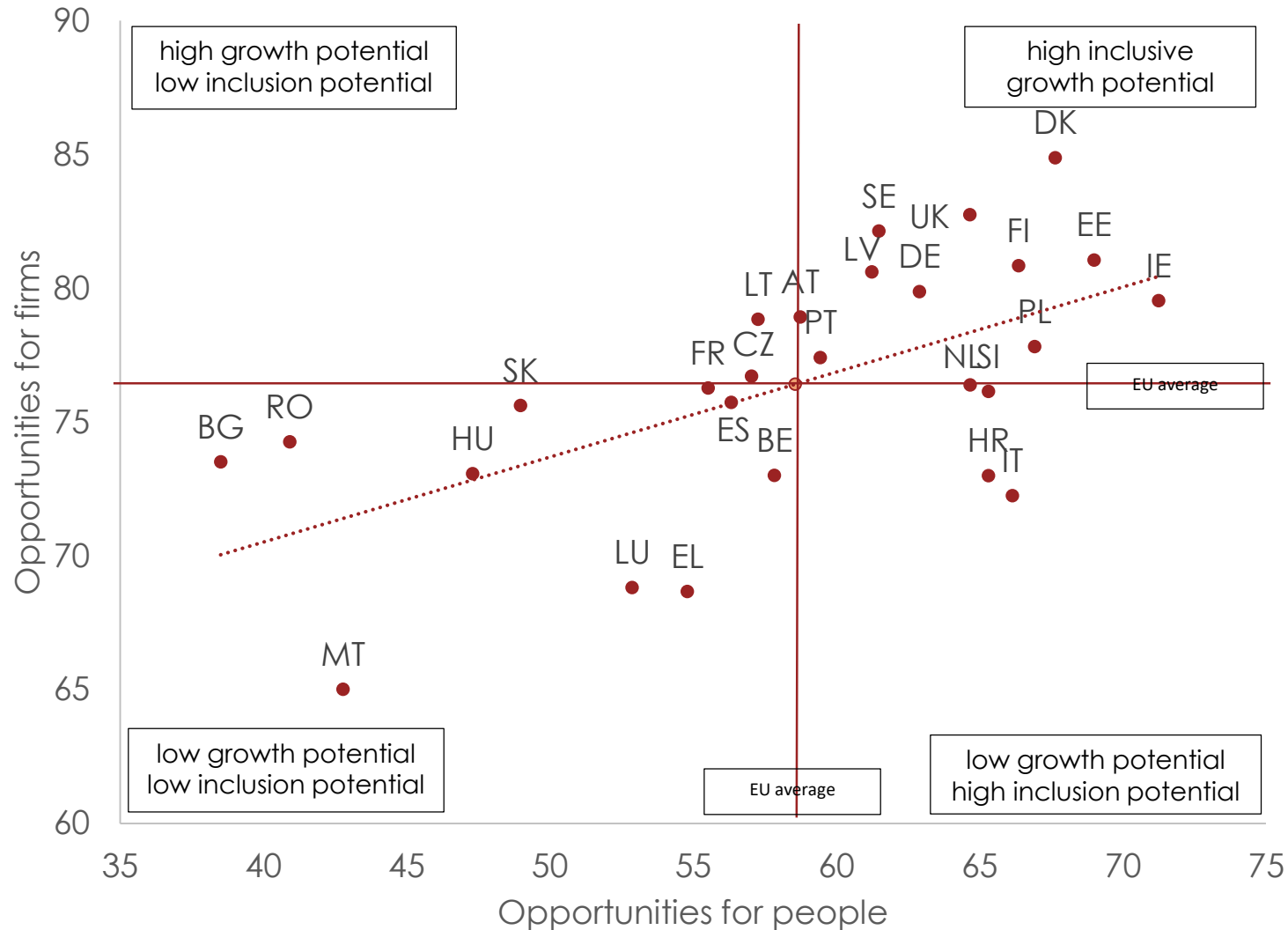
# Technological change: good where opportunities for people and firm are high, disruptive where they are low



# Technological change: good where opportunities for people and firms are high, disruptive where they are low

**High opportunity places:** High share of high-skill workers and frontier firms

**Low opportunity places:** High share of low-skill workers and lagging firms

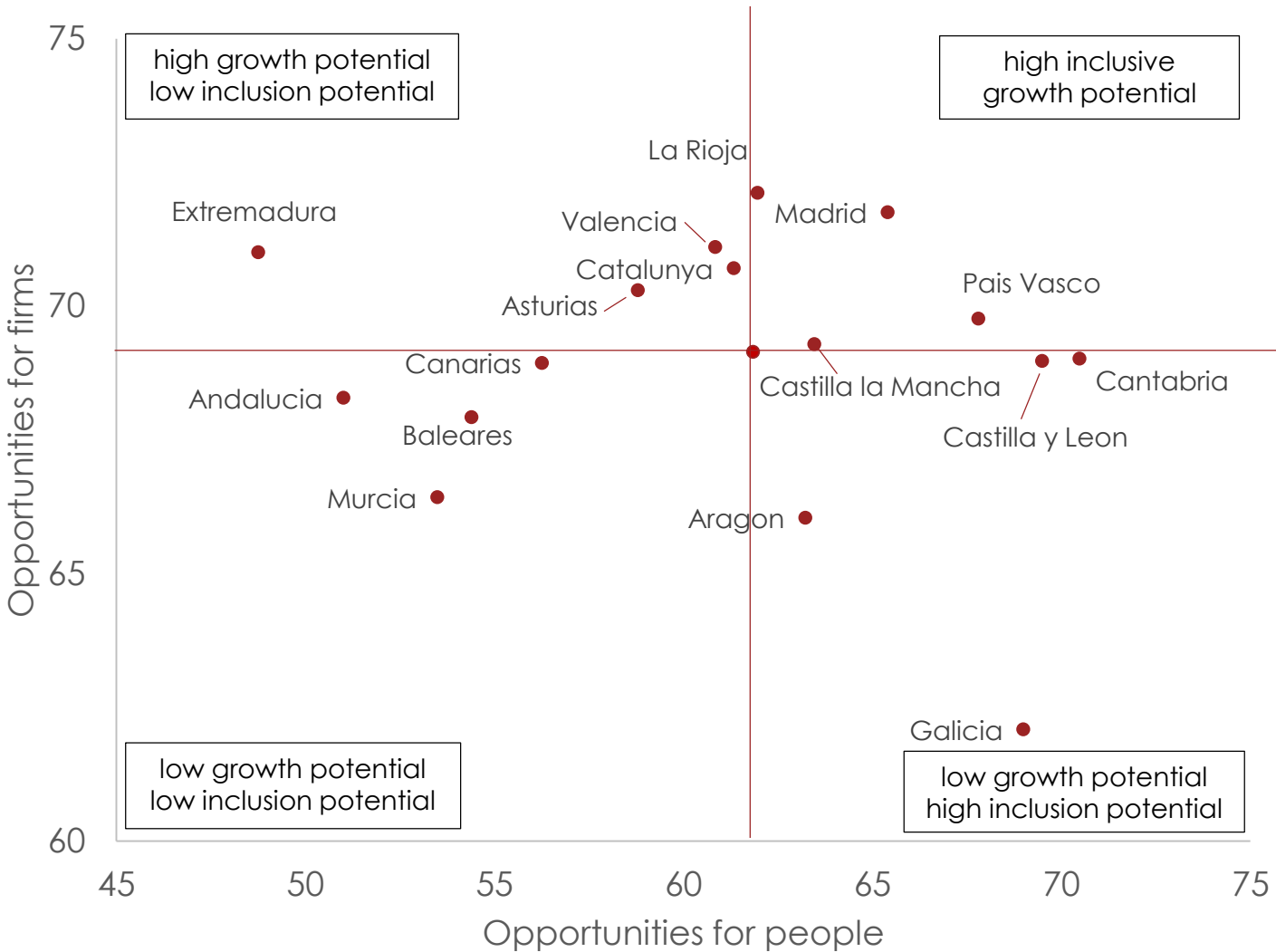


Source: Own calculations based on PISA and Doing Business data. Note: Cross-lines are EU average. OP is measured by the share of 15 year-olds above proficiency in PISA reading in 2015, corrected for inequality of opportunities (variation in PISA scores explain by socio-economic status of students) and the proportion of young people that leave school with at most lower secondary. OF is measured by the 2017 Doing Business distance to frontier index.

# Opportunities also vary between regions: e.g. Spain

Top 25% global performer on construction permits: La Rioja (Galicia among the bottom 25%)

90% of students in Castilla y Leon have basic competency in math (69% in Extremadura)



Source: Own calculations based on PISA and Doing Business subnational data. Note: Cross-lines are Spain average

Opportunities for people  
and firms vary across EU  
countries and regions

# 3 dimensions of skills and the evolution of skills formation

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University  
TVET  
Lifelong  
Learning

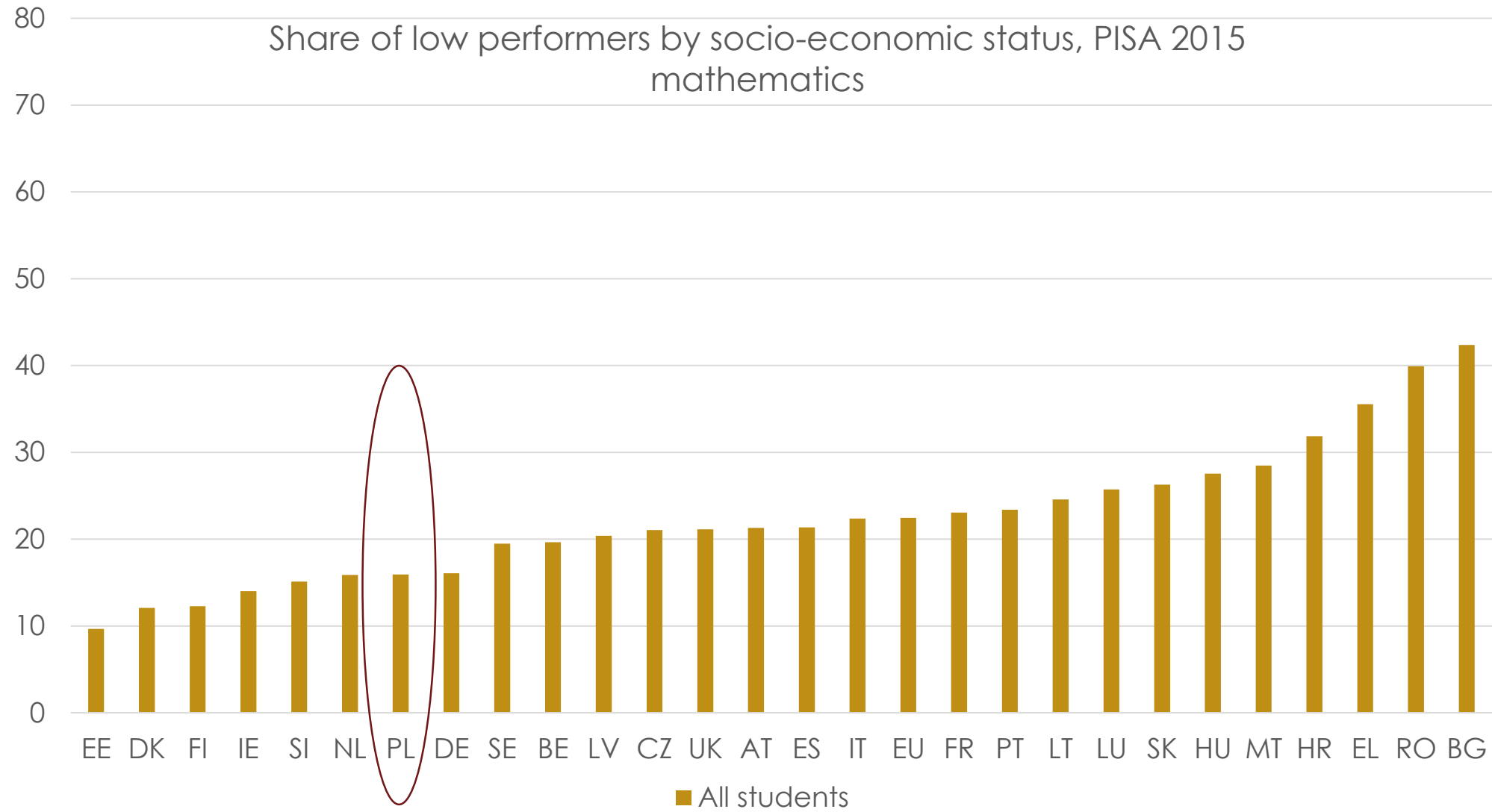
Technical

Early  
childhood  
education,  
basic  
education

Cognitive

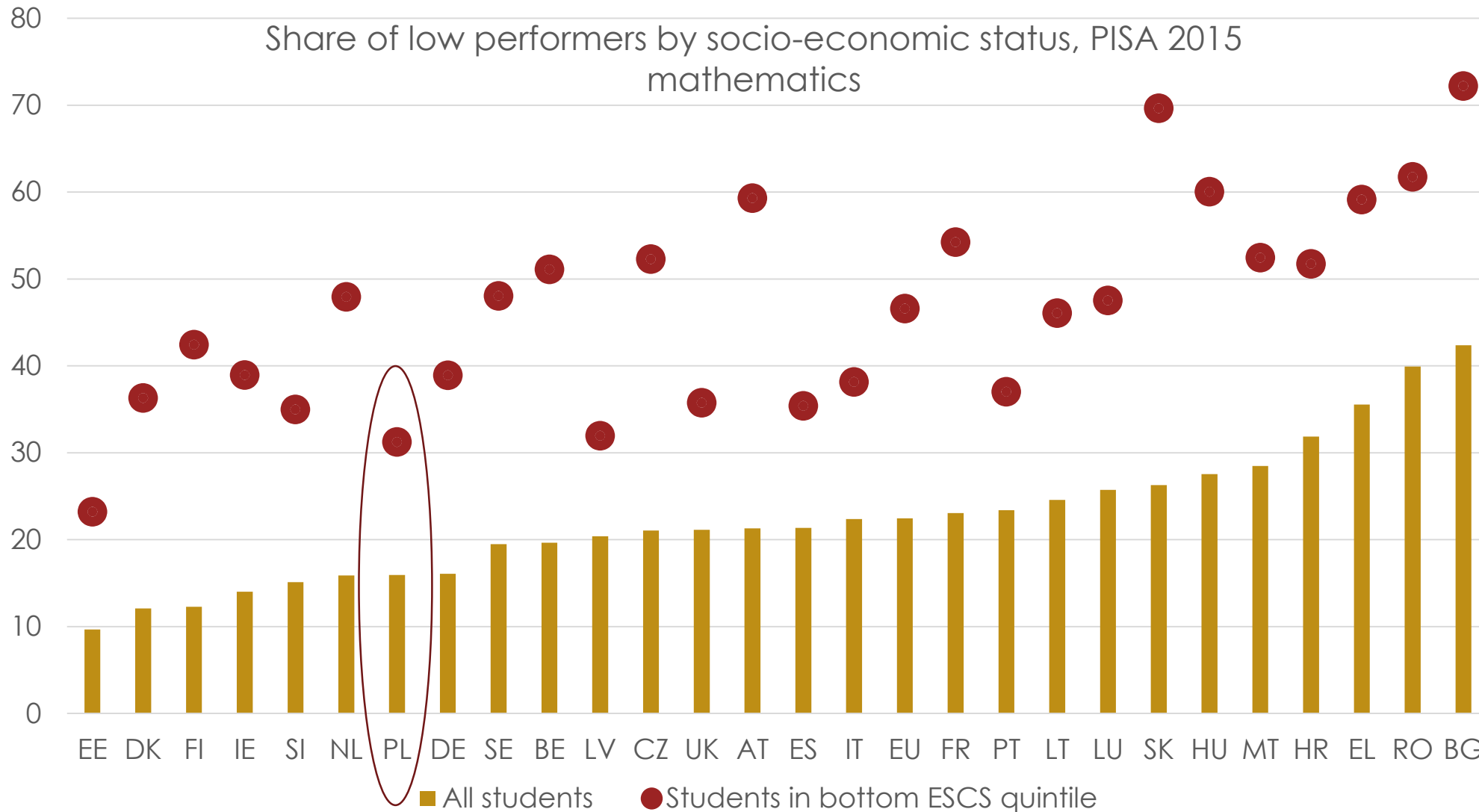
Social-  
emotional

# Europe's significant foundational cognitive skills gap...



Source: World Bank staff calculations based on PISA 2015

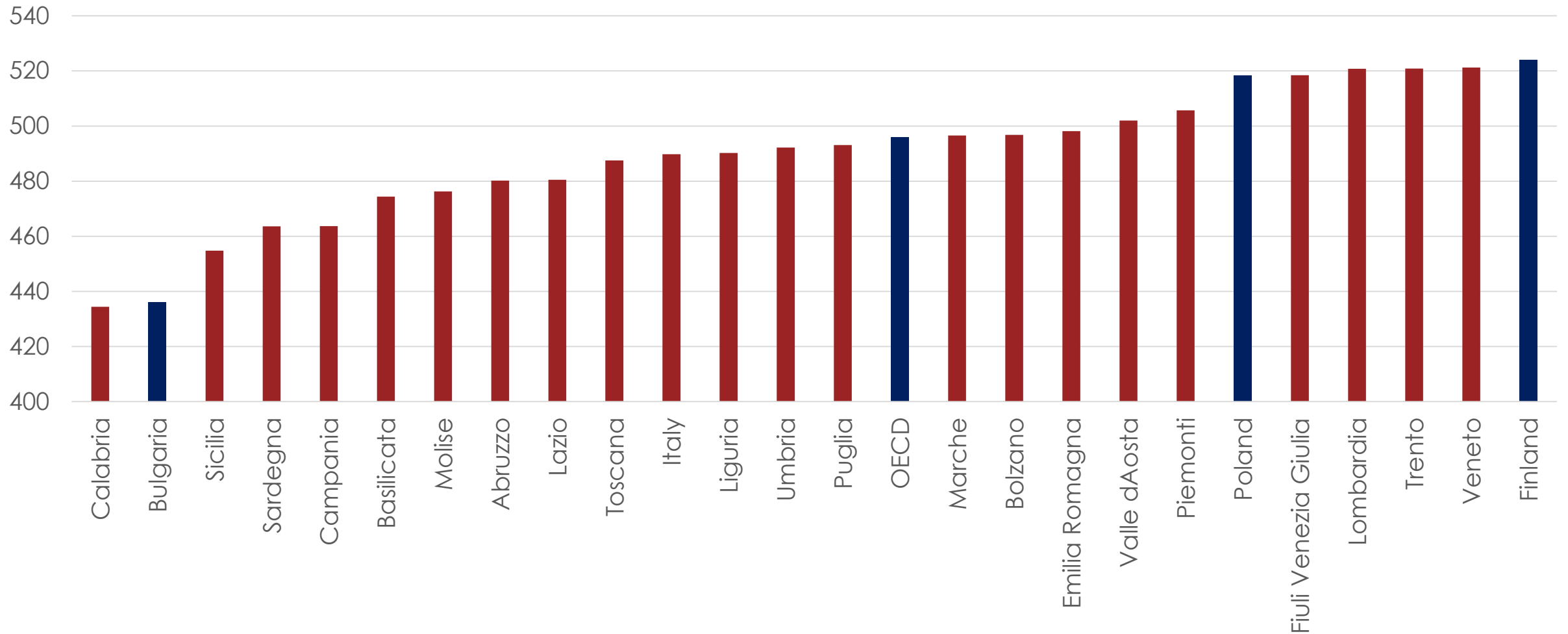
# ...is largely an equity story for individuals...



Source: World Bank staff calculations based on PISA 2015

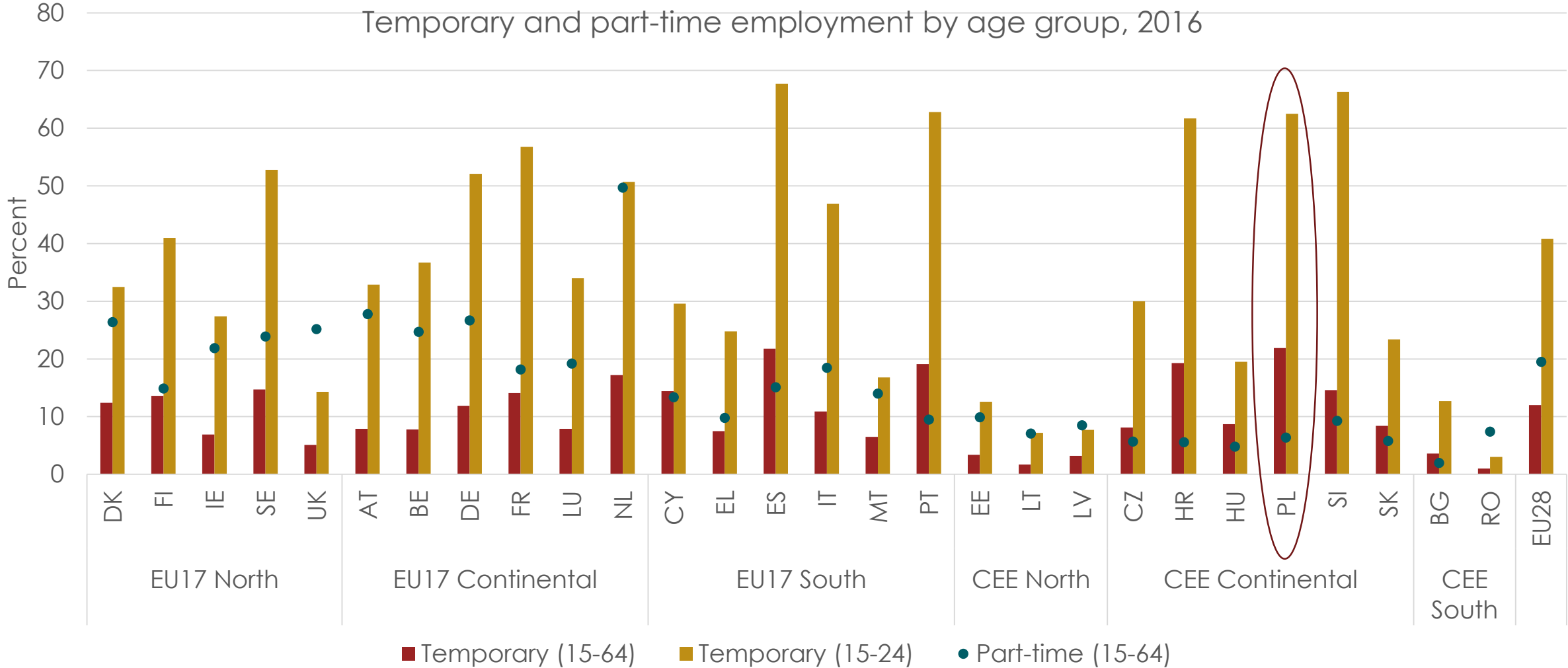
# ...and regions

PISA 2012 reading scores by Italian regions and select other countries



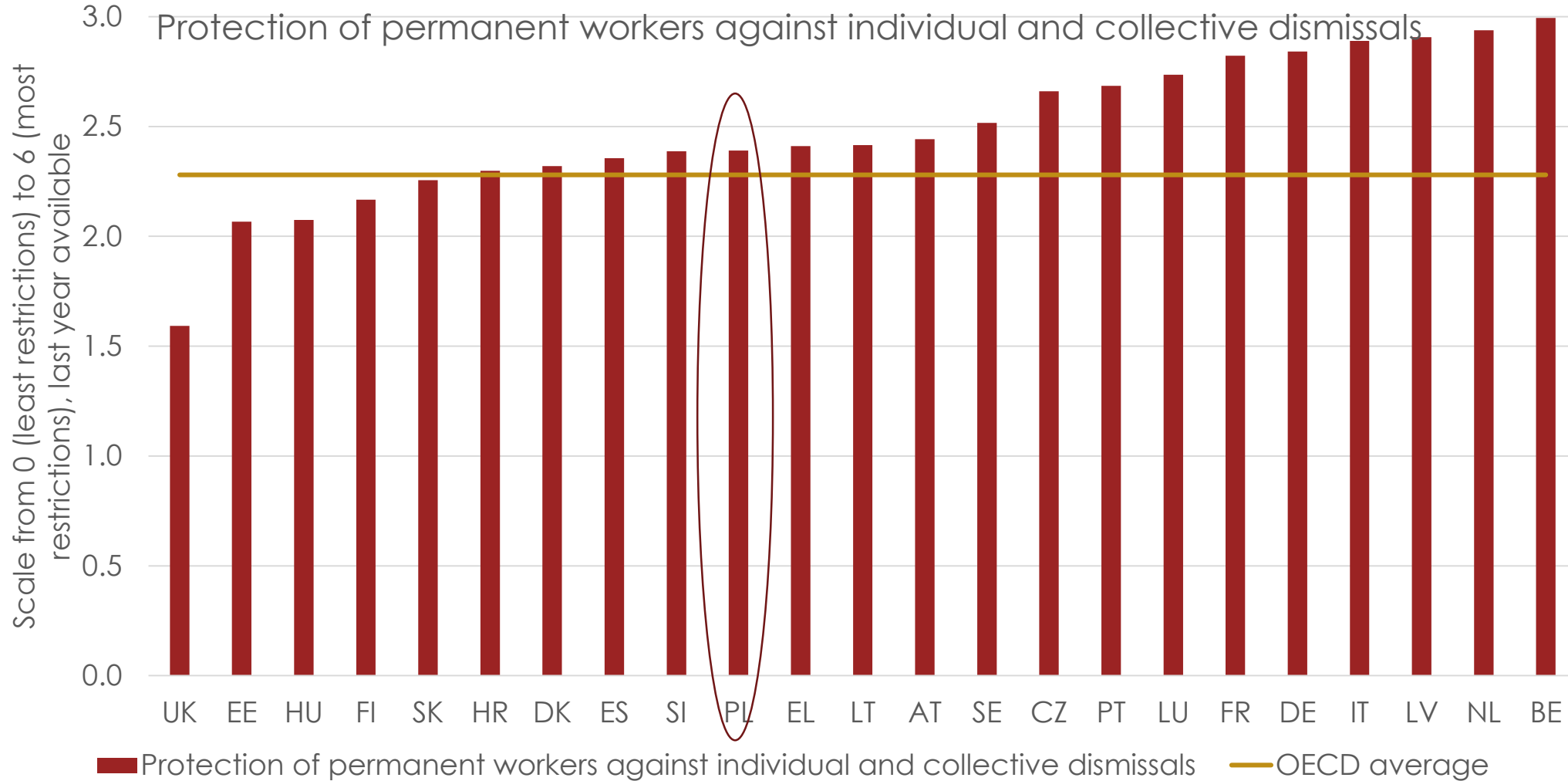


# Temporary employment is high among younger workers



Source: World Bank staff calculations using Eurostat

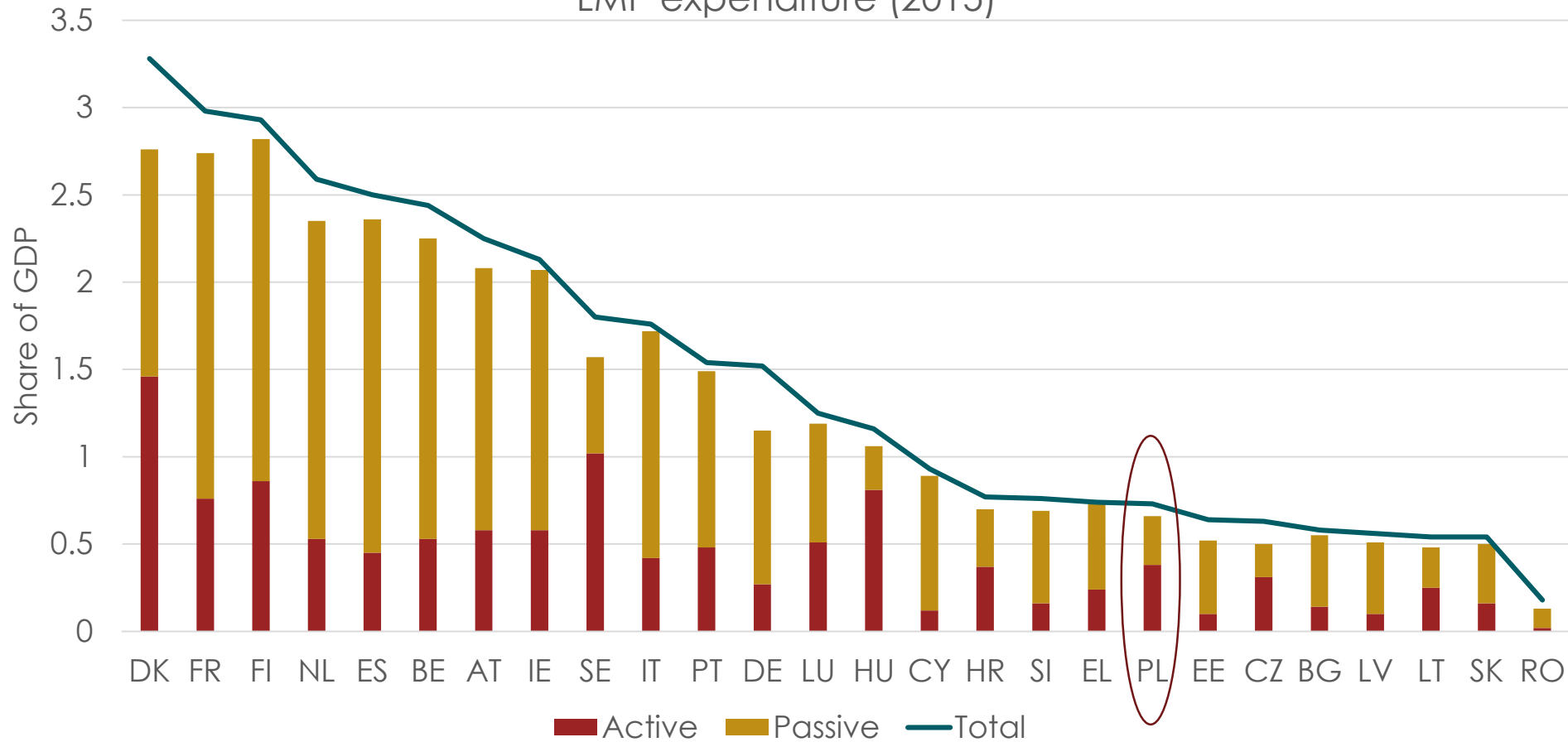
# Limited flexibility drives growing labor market duality



Source: World Bank staff calculations based on the OECD Employment Protection Database.

# Limited security: labor market policy mostly passive

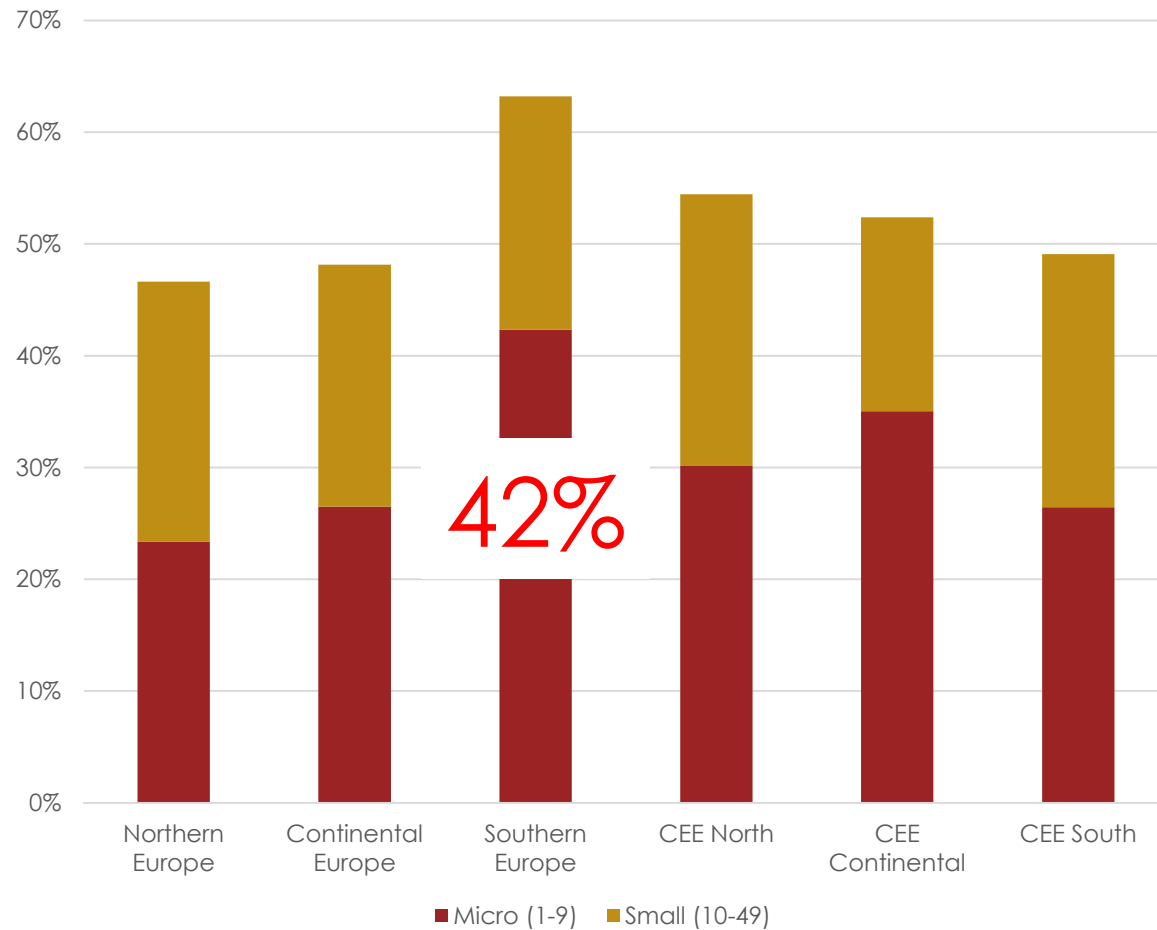
LMP expenditure (2015)



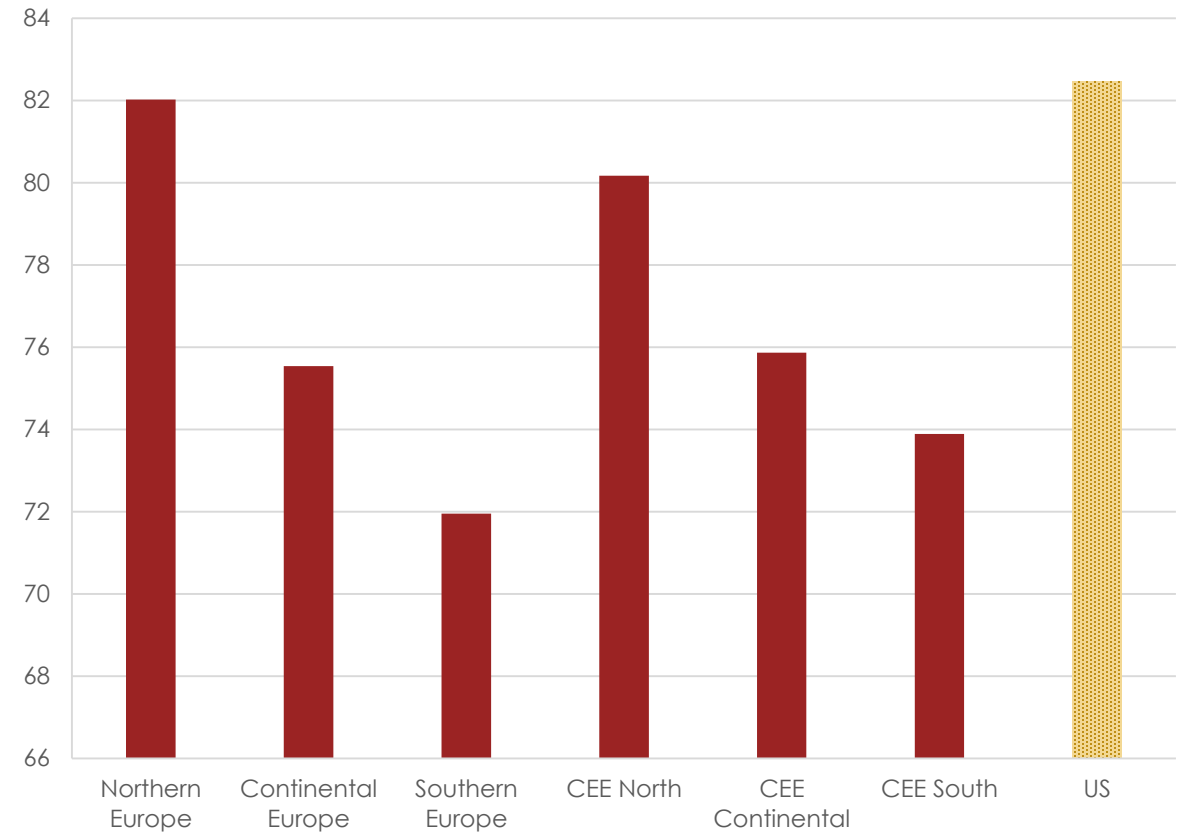
Source: World Bank staff calculations based on Eurostat.  
 Note: Active includes training, employment incentives, supported employment and rehabilitation, direct job creation and start-up incentives. Passive includes income support and early retirement. Total also includes labor market services.

# Burdensome business regulations make firms in Southern Europe smaller and less productive

Share of employment: micro and small firms, 2014



Doing Business, distance to best performer, best performer = 100, 2017



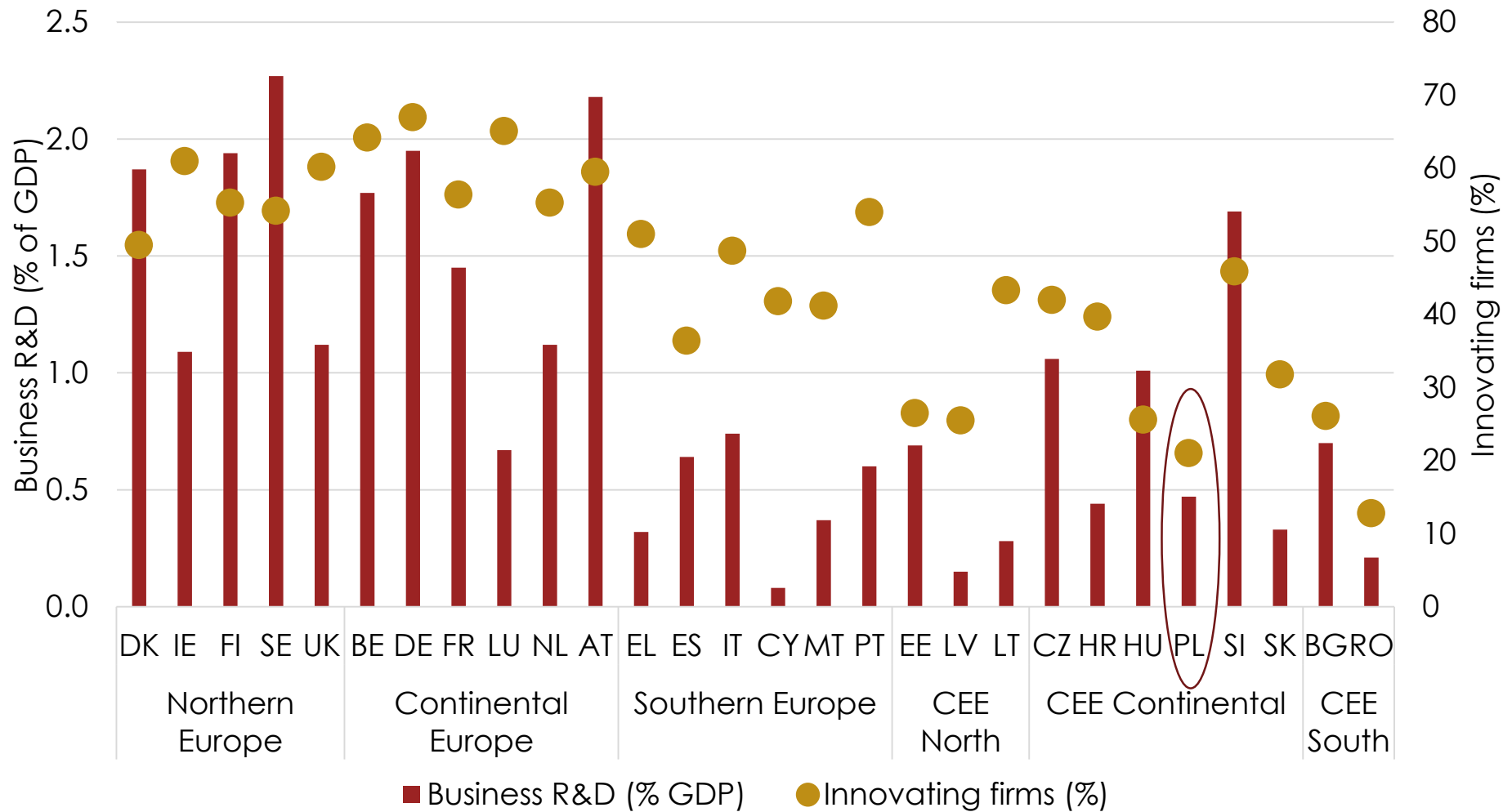
# And the business environment varies between regions

Subnational Doing Business scores for Poland 2015

City	Aggregate rank on 4 indicators	Ease of starting a business	Ease of dealing with construction permits	Ease of registering property	Ease of enforcing contracts
Bydgoszcz	1	9	1	3	6
Olsztyn	2	2	9	5	1
Białystok	3	4	12	1	3
Toruń	4	13	3	7	5
Opole	5	4	6	13	4
Poznań	6	1	15	4	7
Rzeszów	7	17	2	9	8
Zielona Góra	8	14	10	2	10
Łódź	9	9	5	8	14
Szczecin	10	18	7	6	12
Gorzów Wielkopolski	11	14	17	11	2
Katowice	12	9	11	16	13
Wrocław	13	6	4	18	16
Lublin	14	7	8	17	15
Kielce	15	16	13	15	11
Kraków	16	7	18	12	9
Warsaw	17	9	14	10	17
Gdańsk	18	2	16	14	18

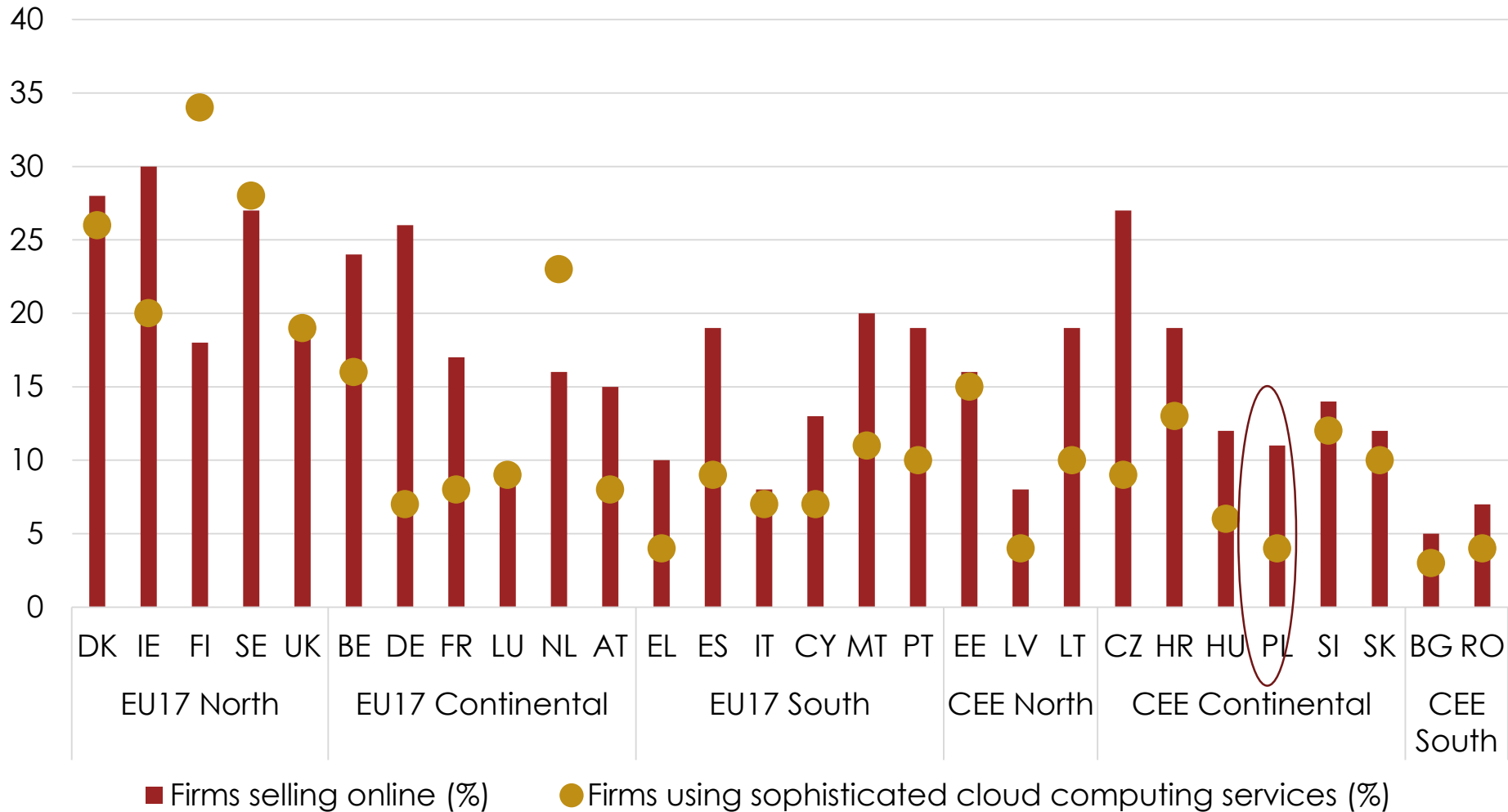
Source: World Bank (2015), drawing on the Doing Business database.

# Northern and Continental Europe innovate more...



Source: Eurostat and 2014 Community Innovation Survey. Notes: Percentage of innovating firms is measured on the right axis. A firm is innovating if it has implemented a new/significantly improved product, process, new marketing method, new organizational method in business practices, workplace organization or external relations.

# ...and lead the rest of the EU in technology adoption



Source: Eurostat and 2014 Community Innovation Survey. Notes: Sophisticated cloud computing services include accounting software applications, CRM software, computing power.

# Convergence machine 2.0: Toward convergence of opportunities



# Convergence machine 2.0 is a shared responsibility

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- Upgrade of policy at **regional, national and EU level**: Most policy levers are national and regional.
- Convergence Machine 2.0 **need not mean new centralization of powers to the EU level, but fully exploiting its key instruments** and the benefits of being a union of many countries.
- Global Europe: look out for **ideas and solutions around the world**.

# Equalizing opportunities for people & firms goes together

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- People

- Universal **foundational cognitive skills**?
- Education **equity** (households and regions): a rethink?
- Reloading **flexicurity**?
- Rethinking **social protection** for those left behind?

- Firms

- **Business environment**: regulations and implementation?
- **Connective infrastructure** in lagging regions?
- Completion of EU **Single Market for Services**?
- Boosting **firm innovation and technology adoption**?

## Upgrading Europe's Convergence Machine

Download the report from

[www.worldbank.org/eca/growingunited](http://www.worldbank.org/eca/growingunited)



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