SKILLS BOOST NEEDED TO COUNTER THE ECONOMIC IMPACT OF AN OLDER POPULATION: Cross-national evidence on education, ageing and macroeconomic performance
[read]

Ageing populations and a slowdown in educational attainment will dampen economic performance, particularly in countries where ageing is especially pronounced and society has already achieved high levels of education across all age cohorts.

That is the central conclusion of research by Rainer Kotschy and Uwe Sunde. Their study, which analyses data on over 130 countries for the 60-year period from 1950 to 2010, finds that population ageing will slow down economic development in both developed and less developed countries.

Continued education efforts are crucial for future macroeconomic performance, the researchers conclude. But the scope of human capital improvements for countering the consequences of population ageing appear to be more limited in economies that age faster and which already have a more educated workforce.

The findings make it clear that without further improvements in the skill composition of the workforce in these countries, the consequences of population ageing will be much more dramatic. What’s more, increased female labour force participation, longer work hours or skill-biased technical change are unlikely to neutralise these effects.

LOW INTEREST RATES: New evidence of the impact on bank profitability
[read]

Monetary policy easing does not have a negative impact on the profits of banks, according to research by Carlo Altavilla, Miguel Boucinha and José-Luis Peydró.

Their study finds that while low interest rates tend to coincide with low bank profits, low profits are not driven by low interest rates but instead by weak current and expected macroeconomic performance. Therefore, accommodative monetary policy has an asymmetric impact on the main components of bank profitability, with a positive effect on loan loss provisions and non-interest income offsetting the negative effect on net interest income.

The research has important implications for financial stability and economic growth. Banks’ profits naturally affect both their soundness and their ability to supply sufficient credit to the economy. If profitability were to be harmed by the current low interest rate environment, this would affect banks’ resilience to adverse shocks, leading to possible costs for bondholders, depositors and, ultimately, taxpayers.

In fact, a protracted period of low interest rates has a negative impact on the profits of banks – but this effect only materialises after a long period of time and it is counterbalanced by improved macroeconomic conditions. What’s more, both bank bondholders and shareholders tend to be better off when the central bank announces more accommodative monetary policy.
ZOMBIE FIRMS IN OECD COUNTRIES:
New evidence of the damage to productivity growth
[read]

Growth of the most productive firms in OECD economies is being held back by the prevalence of so-called ‘zombie firms’ – those that would close down in a competitive market but which are being kept alive by creditors or policy weakness. The rise of ‘zombie congestion’ is connected to the collapse in potential output via two key channels: weaker business investment and weaker productivity growth.

These are the findings of research by OECD researchers Müge Adalet McGowan, Dan Andrews and Valentine Millot. Their study indicates that in some OECD countries, the problem of zombie firms is likely to be symptomatic of weak insolvency regimes and a slowdown in the pace of product market reforms. But zombie firms may also be kept alive by bank forbearance and the persistence of crisis-induced policy initiatives to support small and medium-sized enterprises.

While reforms in these areas may help to revive productivity growth, it is crucial that they are supported by well-designed active labour market policies, which have been shown to be effective at returning workers to work after their current employers close.

POOR PRODUCTIVITY IN ITALY:
Lessons from the ‘sleeping beauty of Europe’
[read]

Misallocation of capital and labour has played a sizeable role in slowing down Italian productivity growth over the past 25 years. But resource misallocation has increased more within sectors than between them; and it has risen more in sectors where the world technological frontier has expanded faster. What’s more, misallocation has increased particularly in Northern Italy and among big firms, which traditionally are the driving forces of the economy.

These are among the findings of research by Sara Calligaris, Massimo De Gatto, Fadi Hassan, Gianmarco Ottaviano and Fabiano Schivardi, which investigates inefficiency and misallocation in the Italian economy to draw broader lessons about what lies behind the ‘productivity puzzle’.

Their study notes that productivity growth has been slow in all Western countries since the global financial crisis. But in Italy it has been stagnating for 25 years. Italy is the ‘sleeping beauty of Europe’ – a country rich in talent and history but suffering from a long-lasting stagnation.