

Structural change, aggregate demand and the decline of labour productivity: a comparative perspective

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Abstract

Over the last three decades, many advanced economies have experienced significant changes in their productive structures, with a decline in the share of workers in manufacture and a transition towards the service sector. This structural change has to be considered as one of the main causes behind the low performance of labour productivity. Moreover, these changes have been associated with a process of reforms in the labour market, i.e. an increase in labour flexibility and a reduction in employees' protections. Finally, the decrease in the wage share over the last 30 years has affected many advanced economies. Our hypothesis is that these institutional and economic processes can also be harmful to labour productivity. After having substantiated the theoretical argument, we submit our hypotheses to empirical scrutiny. The results are as follows: the share of employment in manufacture is positively related to the hourly labour productivity. On the other hand, the share of employment in several service industries negatively affects it. Countries which tend to have most of their employment in the low-skilled service sectors have the worst performance in terms of labour productivity and in terms of GDP dynamics. In fact, aggregate demand in these countries stagnated because wage dynamics is low, and in turn, GDP performance is low. To conclude, we also find that an increase in labour flexibility and in the diffusion of temporary works, particularly in the service sector, damage labour productivity, while capital accumulation and an increase in the wage share can enhance it.

Key words: Structural change, labour productivity, aggregate demand, welfare models

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