

**January 15, 2015 – 12:00 pm**  
**Policy Seminar with Jesús Fernández-Villaverde**  
**George Shultz Conference Room, Herbert Hoover Memorial Building**

**PARTICIPANTS**

Jesús Fernández-Villaverde, Nick Bloom, David Brady, John Cochrane, Sebastian Di Tella, Darrell Duffie, Paul Gregory, John Gunn, Doug Irwin, Chad Jones, Dan Kessler, Pete Klenow, Arvind Krishnamurthy, Stephen Langlois, Ed Lazear, David Mauler, Mike McFaul, Allan Meltzer, Lee Ohanian, Monika Piazzesi, Ken Scott, George Shultz, John Taylor

**ISSUES DISCUSSED**

Jesús Fernández-Villaverde, professor at the University of Pennsylvania, discussed his work in collaboration with Lee Ohanian on “The Political Economy of European Economic Stagnation.”

To begin, Fernández-Villaverde emphasized the importance of not allowing day-to-day developments to distract from big-picture, economic challenges facing the Eurozone. He noted that these systemic issues in continental Europe serve as a cautionary tale for the US. Fernández-Villaverde then presented an empirical pattern illustrating how several countries in Europe experienced tremendous post-WWII growth in GDP per capita, shortening the gap relative to US GDP per capita. Around 1970, however, relative growth levels off and has been largely constant ever since. He followed this with a matching pattern of TFP in each country and argued that, together with relatively constant hours per capita, the TFP data suggest that growth in GDP per capita the past 40 years is primarily driven by growth in human and physical capital. Fernández-Villaverde then discussed potential explanations to this stagnation in TFP growth. These include barriers to entry, lack of competition, high regulation, inefficient capital markets, high taxes, and aging demographics.

Fernández-Villaverde moved on to discuss dynamics in the political environment. WWII was followed by a period favorable to growth—in part due to younger demographics and a more moderate welfare state. However, this period ended due to post-1968 reforms, combined with the oil crises and technological change. He noted that regulation became especially burdensome with the onset of an explosion in technology. Also, labor regulations caused a broad movement to more capital-intensive economies. By the 80’s and 90’s, the political scene was dominated by older workers, retirees, civil servants, and protected sectors, and political competition was limited. Recently, these coalitions have eroded, with populist parties growing all across Europe.

Fernández-Villaverde concluded by noting that increasing TFP is the obvious solution for policymakers, and mentioned the success of the UK and Sweden in this regard during the last two decades. He reiterated that U.S. policymakers ought to learn from Europe, and avoid falling into the same challenging political equilibrium.