Tackling the productivity paradox: The OECD Global Forum on Productivity

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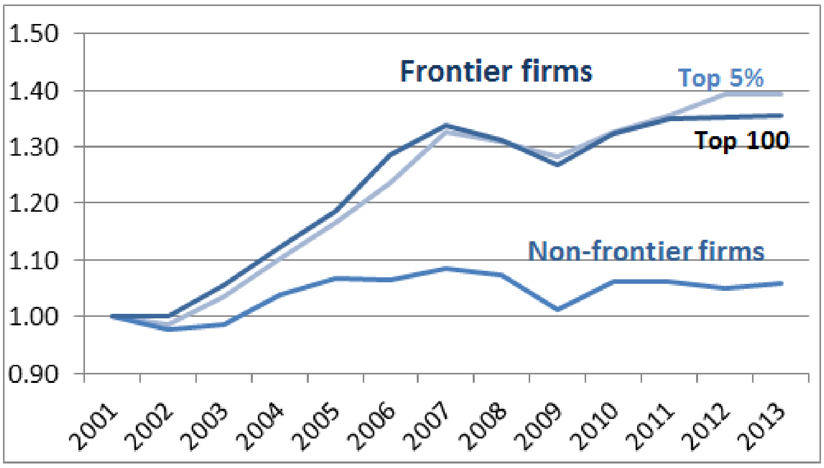
The nexus of slowing productivity growth and rising inequality is capturing the attention of policymakers and researchers. The productivity slowdown, its causes, and the link with inclusiveness will be discussed on 7-8 July in Lisbon at the first Annual Conference of the new Global Forum on Productivity, which was created by the OECD in collaboration with a number of Member and non-Member countries.

The fact that productivity growth is slowing in most countries is a puzzle, often referred to as the "productivity paradox", because you would expect the opposite to happen during a period like the current one where many new technologies are being introduced, more firms and countries are integrated into global value chains, and workers are more highly educated. The crisis may be part of the explanation, but *OECD data* show that productivity growth has been slowing since the early 2000s in Canada, the United Kingdom and the United States, and even longer, since the 1970s, in France, Germany, Italy and Japan.

A recent OECD study on *The Future of Productivity* argues that the economic forces shaping productivity developments can be better understood by focusing on three types of firms: the globally most productive ("global frontier" firms); the most advanced firms nationally; and those lagging behind. This suggests a more nuanced picture than simply looking at the overall figures. Labour productivity in global frontier firms increased at an average annual rate of 3.5 per cent in the manufacturing sector over the 2000s, compared to 0.5% for non-frontier firms.

Frontier and non-frontier growth

Manufacturing and business services, excluding the financial sector



Note: 2001 = 1 (log points), average across 24 OECD countries and 22 manufacturing and 27 market services industries. Global frontier has two definitions here (see two series on figures). Global frontier is defined as the 100 most productive firms within each industry and is defined as the 5% most productive firms within each industry, by each year.

Source: OECD preliminary results based on Andrews, D., C.Criscuolo and P. N. Gal (2016), "The Global Productivity Slowdown, Technology, Divergence and Public Policy: A Firm Level Perspective", forthcoming, OECD Publishing, Paris.

Data Source: Orbis database of Bureau van Dijk.

This gap in productivity growth between the global frontier and other firms raises questions about the ability of the most advanced firms nationally to adopt new technologies and knowledge developed by the global leaders, and for the firms trailing them at national level to catch up. Speaking at the China Development Forum in March 2016, the OECD Secretary-General put it like this: “It’s clear that the knowledge and technology diffusion “machine” is broken”, and called on governments to implement structural reforms to promote trade, encourage innovation, and boost competition to fix the machine. At the same time, a new OECD report, *The Productivity-Inclusiveness Nexus,* looked into the linkage between these productivity patterns and rising inequality identifying a number of factors that underpin both and thus deserve additional research .

Governments are already thinking about these issues. In the US for instance, the February 2015 *Economic Report of the President* stated that "The ultimate test of an economy's performance is the well-being of its middle class. This in turn has been shaped by three factors: how productivity has grown, how income is distributed, and how many people are participating in the labour force". Other OECD governments have productivity high on their agendas, too. These include Mexico's seeking to "democratize productivity" through its new National Productivity Council. Mexico is not alone: Chile's president Michelle Bachelet has established a "Productivity, growth and innovation agenda." Improving productivity is seen as the key to future well-being outside the OECD, too, for instance by the Chinese Academy of Sciences: "the real potential for sustaining Chinese growth is in improving productivity." And the European Commission has advised countries to establish Competitiveness Councils to deal, among other things, with productivity-enhancing policies.

The OECD proposes a three-pronged approach to boosting productivity: help the firms that are the most innovative at a global level and facilitate the diffusion of new technologies and innovations from the global frontier firms to firms at the national frontier; create a market environment where the most productive firms are allowed to thrive, thereby facilitating the more widespread penetration of available technologies and innovations; and improve the matching of skills to jobs to better use the pool of available talent in the economy.

Some will argue that we don't know how to ensure that all the factors that contribute to productivity growth will work together, Robert Samuelson for example: "There are always rhetorical solutions: more infrastructure spending; better schools; simpler taxes; more research. Though some policies may be desirable, there's no guarantee they will improve productivity. Influencing productivity is hard because it depends on so much (management and workers, technology, market behaviour, government policies and more).”

Given the complexity of the issues and their interactions, the Global Forum on Productivity will share analysis, data, experience, and ideas among OECD and non-member countries. The Forum is a practical, interactive tool that will be useful for those inside or outside governments seeking answers to three questions:

- What factors can explain the productivity slowdown?
- What can countries do to improve future prospects for productivity growth and innovation?
- What can countries do to improve the design of institutions seeking to promote higher productivity and inclusiveness

At the 2016 meeting of the Global Forum on Productivity around 200 participants from 43 OECD and non-Member countries will look at the role of public policy in stimulating productivity growth; productivity spillovers, diffusion, and public policies; divergence in productivity and implications for inclusion; the link between trade, global value chains and productivity; getting institutions right for productivity-enhancing policies; public sector productivity; and agglomeration economies and productivity (the benefits for firms of being located near each other).

Useful links

The Future of Productivity

Promoting Productivity & Equality: A Twin Challenge

The Productivity-Inclusiveness Nexus