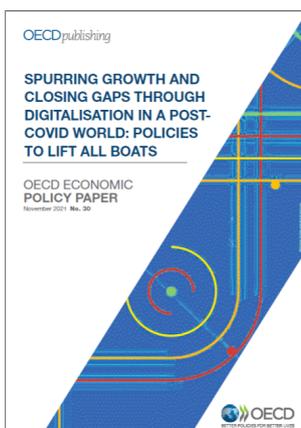


Spurring growth and closing gaps through digitalisation in a post-COVID world: Policies to LIFT all boats

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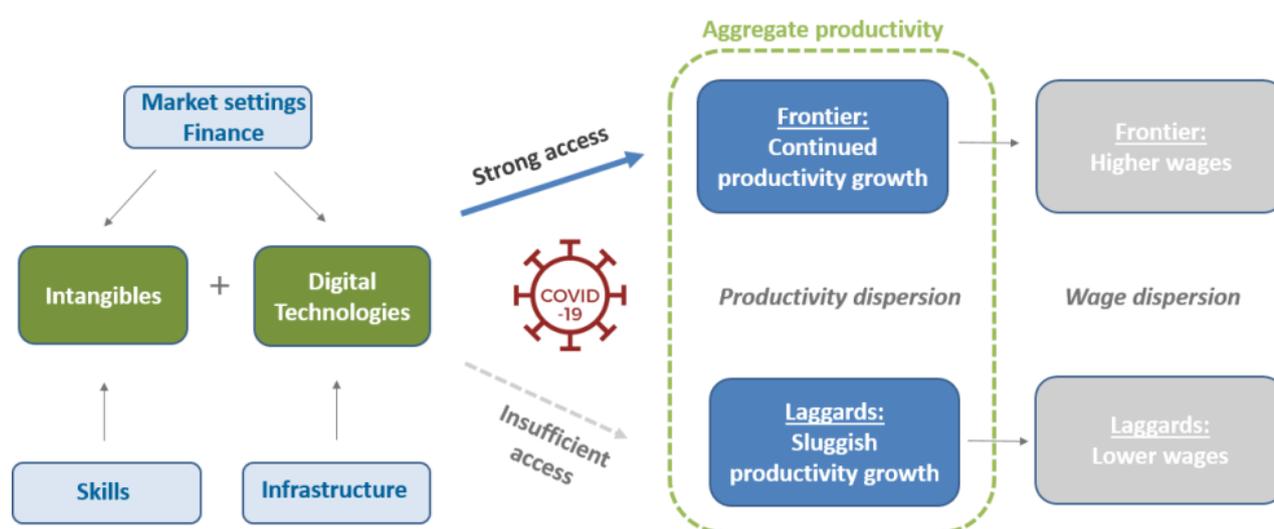


Over the past decades, policy makers across OECD countries faced the double challenge of a marked slowdown in productivity growth and a large increase in inequality. This happened despite the seemingly rapid emergence of digital technologies, which have the potential to boost productivity growth and living standards. This new study shows that the productivity slowdown, rising income dispersion and fast digitalisation are linked: they can be traced back to differences across firms and households in access to digital technologies and the complementary knowledge, embodied in intangible investments, which is necessary for digital technology adoption. The study stresses that broad-based policy support would help to spur growth and narrow the divides in digitalisation, productivity and incomes.

The key for understanding the link between the productivity slowdown, rising income dispersion and fast digitalisation is

that intangible assets are costly and difficult to finance, especially for less productive firms and SMEs. While the high productive firms can afford and benefit from intangible assets, the low productivity firms much less so, and therefore are set to lose ground relative to the best performers. Ultimately, differences in access to technology and intangibles translate into both rising productivity differences across firms and rising cross-firm dispersion in average wages, which largely depend on the firms' average productivity. This in turn not only drags down aggregate productivity growth but also contributes to overall wage inequality (Figure 1).

Figure 1. Linking digitalisation, productivity and income gaps



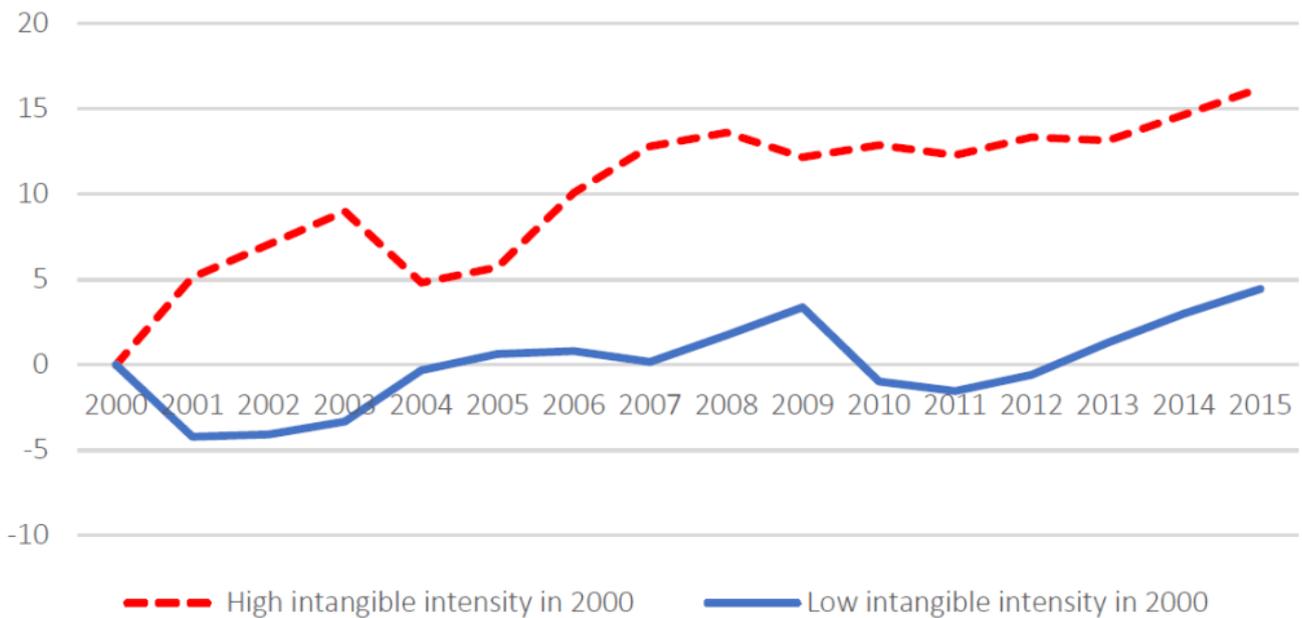
Source: OECD.

Indeed, gaps between firms at the global productivity frontier and productivity laggards increased dramatically over the past two decades, especially in intangible-intensive sectors where complementarities with digital technologies are strong (Figure 2).

Figure 2. Productivity dispersion and its link with wage dispersion

Evolution of productivity dispersion (difference between frontier and laggards) grouped by intangible intensity

(2000=100)



Source: Corrado et al. (2021 forthcoming), *New Evidence on Intangibles, Diffusion and Productivity*, OECD publishing, Paris.

Broad-based, equitable and growth-enhancing digital transformation requires action spanning several policy areas at once. Policies that help to close productivity gaps across firms by broadening the digital transformation and raising the productivity of laggard firms offer a double dividend: they contribute to sustain aggregate productivity and to close wage and income gaps.

The COVID-19 pandemic has added new opportunities for accelerating productivity-enhancing digitalisation. For instance, lockdowns and social distancing requirements have increased the use of online platforms (OECD, 2020), raising resilience during the crisis and foreshadowing future productivity benefits, especially for SMEs and less productive firms, which benefit most from the use of platforms. It also caused a surge in telework, with real time surveys suggesting that the phenomenon is likely to survive the crisis. The added flexibility that telework allows might also raise productivity in activities where stronger telework is feasible and sustainable.

In addition to making use of these opportunities, the paper proposes a multipronged policy approach to durably accelerate the diffusion and uptake of digital technologies across all layers of society, and share their benefits more widely. The building blocks of the proposed LIFT approach are the following:

- *Lifelong learning for all.* Skills are crucial to adopt and effectively use digital technologies. Building effective and inclusive lifelong learning programmes is key to ensuring everybody has the opportunity to acquire and upgrade the skills needed to thrive in a digital world. Boosting adult learning programmes and on-the-job training schemes, and better integrating digital tools into school curricula are key steps to this end.
- *Intangibles finance.* Supporting intangible investments requires not only financial market reforms to facilitate their funding with private equity and their collateralisation for bank credit, but also specific policies for the development, upgrade and diffusion of managerial and workers' skills.
- *Framework conditions.* These should provide firms with the right incentives and access to markets, including via the updating of competition and regulatory policies to the digital age and easy access to digitalised public services via e-government and open data.
- *Technology access via infrastructure.* Policy should support the development and access to quality ICT infrastructure, as such infrastructure is the basis for the take up and effective use of all kinds of digital technologies.

Only a comprehensive, coordinated and well-monitored policy approach at the national level, coupled with initiatives at the international level to establish common principles, share best practices and foster robust cooperation among relevant agencies, can ensure that OECD economies succeed in spurring

growth and closing gaps through accelerated and widespread digitalisation in the post-COVID world.

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