A policy framework for reviving productivity growth

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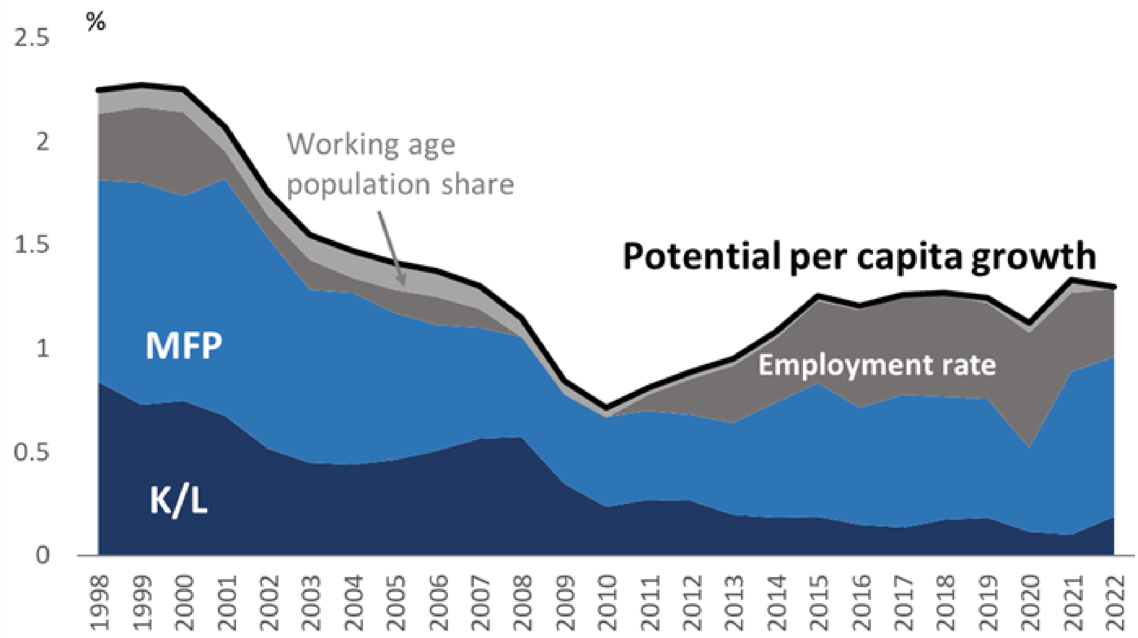
By Christophe André, Peter Gal and Álvaro Pereira

It is well known that productivity ultimately drives living standards. In the long run, all that matters is productivity. However, productivity growth has been on a declining trend across the OECD for decades (Fernald, Inklaar and Ruzic, 2024; Goldin et al, 2024). Labour productivity – measured by GDP per hours worked or per employee – has been slowing from nearly 2% annual growth to around 0.8% per year over the last decade. This slowdown was driven by lower trend multi-factor productivity growth and, since the global financial crisis, weaker capital accumulation (Figure 1). In a new paper (André and Gal, 2024), we provide an update on the existing macro- and firm-level evidence and on the role of public policies.[1]

Figure 1. MFP and capital accumulation have both contributed to the slowdown in trend per capita potential growth

Decomposition of OECD potential GDP per capita growth (annual change, in %)



Note: All variables are smoothed except capital stock per worker. For more details, see the source.
Source: André and Gal (2024) based on the OECD Economic Outlook 113 Database.

The long-term declining productivity growth trend since the 1970's was interrupted by a roughly decade-long rebound starting in the mid-90s, associated with the diffusion of information and telecommunication technologies (ICTs) in the United States and other countries. Looking at the micro level, firms at the technological frontier have continued to perform more strongly than other firms since the 2000s (Andrews, Criscuolo and Gal, 2016), but the rate of frontier growth also seems to have slowed in the past decade or so. High uncertainty, financial disturbances, low investment, and weak business dynamism may have all played a role in slowing OECD productivity growth to historical lows.

As OECD economies face structural headwinds, including ageing, diminishing gains from education and high debt levels, a productivity revival appears more necessary than ever. But can it be achieved? A debate has been going on for over a decade on the ability of new technologies to boost productivity, with sceptics such as Gordon (2016) considering that recent inventions are unlikely to foster the same kind of growth as did electricity and the internal combustion engine, against those who believe that digital technologies can boost productivity, provided the right complementary investments are in place (e.g., Brynjolfsson, Rock and Syverson, 2021; Mokyr, 2013). In particular, recent OECD research shows that Artificial Intelligence will provide a significant boost to productivity (e.g. Filippucci et al., 2024; Filippucci, Gal and Schief, 2024).

Indeed, productivity is not only about technology. OECD research has shown that the broader economic environment is key for promoting innovation, diffusion and turning it into productivity benefits (OECD, 2015). Our paper builds on that framework by exploring how incentives and capabilities affect firms at the technology frontier and below, as well as the reallocation of resources across the economy (Table 1).

Table 1. The scope of policies to raise productivity through shaping incentives and capabilities: A stylised framework

<table>
<tr><th rowspan="2">Impacts
mostly fall on:</th><th rowspan="2">Incentives</th><th colspan="3">Capabilities</th></tr>
<tr><th>Through MFP</th><th>Through capital</th><th>Through labour</th></tr>
<tr><td>Firm level productivity
near or at the frontier</td><td>For innovation through competition among leaders, appropriate intellectual property rights and public procurement</td><td>By expanding the knowledge frontier through basic research and collaboration</td><td>By enabling high risk investments in (mostly) intangible assets</td><td rowspan="2">By raising the quality of human capital through education and adult training</td></tr>
<tr><td>Firm level productivity
below the frontier</td><td>For adoption and experimentation through competition (domestic & international) and fiscal incentives</td><td>By diffusing knowledge across firms and workers</td><td rowspan="2">By removing obstacles to private Investments and providing quality infrastructure</td></tr>
<tr><td>Allocation of resources
across firms with different productivity levels</td><td>For better resource allocation through healthy business dynamism</td><td></td><td>By improving the matching of workers to jobs through enabling mobility</td></tr>
</table>

Note: MFP stands for multifactor productivity. See more details in the source.
Sources: André and Gal (2024), building on and extending OECD (2015).

Competition is key among incentives: it encourages firms at the technological frontier to innovate and other companies to adopt modern technologies and business practices. Therefore, the rising market concentration in the United States and to a lesser extent in Europe, along with rising markups and the long-term decline in business dynamism is worrying.[2] Moreover, the fragmentation of international trade, due to geopolitical tensions and other barriers, is eroding the productivity benefits from global competition, and also holds back knowledge spillovers across borders in value chains. Regulatory and trade policies should aim to revert or mitigate these tendencies.

Innovation can also be incentivised through intellectual property regimes provided they strike the right balance between protecting innovation and preserving market competition. Fiscal incentives and public procurement also matter, and can be used in a directed way to serve other policy goals such as greening the economy.

The allocation of resources (such as labour and capital) across firms also plays a key role for aggregate productivity. Flexible labour markets, well designed active labour market policies, and better access to housing are essential for labour reallocation, but can be hampered by excessive use of non-compete and non-poaching clauses as well as burdensome licensing procedures. Efficient insolvency regimes can promote entrepreneurship, by lowering the cost of failure, and facilitate corporate restructuring and the reallocation of resources towards more productive uses.

Crucially, providing the right *incentives* needs to be complemented with measures to improve *capabilities* along various dimensions. First, promoting basic research is key to advance the knowledge frontier. Second, good quality infrastructure and other measures for domestic and international integration help creating innovation networks to *diffuse* knowledge. Third, attracting venture capital and measures addressing the difficulties of financing intangibles could allow start-ups to flourish. Finally, human capital can be developed through higher quality education systems, promoting and enabling lifelong learning, spreading good management practices and fostering a better use of skills through matching of workers to jobs.

In sum, while the impact of new technology on economic growth remains highly uncertain, governments should pull all the available policy levers to strengthen incentives and build capabilities to ensure their economic benefits are maximised and contribute to a revival of productivity growth, and hence boosting living standards.

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[1] For a recent complementary overview of the literature on the structural drivers of productivity with a stronger focus on measurement, see OECD/APO, 2022.

[2] Even though a resurgence in US business creations since the COVID-19 pandemic offers a glimmer of hope.

Unlocking Colombia's Potential: The Imperative of

Boosting Investment

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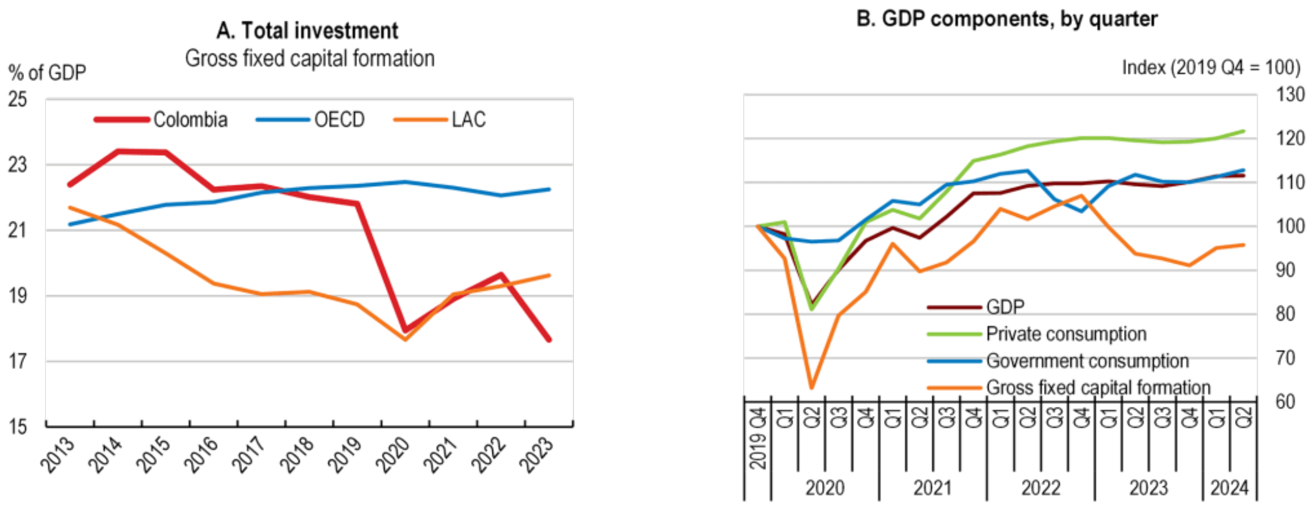
by Paula Garda and Michael Koelle, OECD Economics Department

Investment fuels the engine of economic prosperity. It drives productivity, fosters innovation, and generates formal job opportunities, all of which are essential for improving living standards. In Colombia, the total investment rate has dropped since the end of the commodity boom from 23% in 2015 to 18% in 2023, now ranking among the lowest among OECD countries (Figure, panel A), according to the 2024 Colombia Economic Survey. This low investment rate hinders Colombia's potential growth, estimated at below 3%, and is particularly troubling as the country faces urgent needs in infrastructure, education, innovation, peacebuilding efforts, social development, and transitioning to a green economy.

The weakness in investment is also a slowing down Colombia's current GDP growth rate (Figure, panel B). Colombia experienced one of the strongest recoveries among OECD countries from the COVID-19 pandemic, but its consumption-led growth decelerated sharply in 2023 due to tight macroeconomic policies, slowing global growth, and rising borrowing costs. Although economic activity including investment began recovering in 2024, the investment rate remains low. Several factors contribute to the investment weakness, including high credit costs, low business confidence, and uncertainty.

Figure. Weak investment is dragging down growth



Source: OECD calculations based on the OECD Economic Outlook (database).

The government has an ambitious reform agenda to raise living standards and social justice through economic diversification, an energy transition, and fostering regional convergence, but all this requires higher investment. Improving infrastructure, innovation, education, public services and formal job opportunities are needed not only to reduce entrenched inequalities, especially in remote and marginalized regions, but also to boost long-term growth. Colombia's natural resources and biodiversity offer unique opportunities to attract green investments. Given Colombia's limited fiscal space, attracting private investment is crucial for stepping up investment.

To reverse the downward trend in investment, and achieve stronger, resilient, and inclusive growth, the 2024 Colombia OECD Economic Survey suggests policy action in several areas:

1. **Maintaining a strong macroeconomic framework.** This includes continuing fiscal consolidation and complying with the fiscal rule to support public debt sustainability and foster a business-friendly environment. Monetary authorities should also maintain a prudent, data-based, easing cycle of monetary policy mindful of inflationary risks, to bring inflation to target, which will gradually reduce borrowing costs.

2. **Implementing a comprehensive tax reform:** High corporate tax burden and the uncertainty generated by frequent piecemeal tax reforms have been a deterrent to private investment. Colombia needs a comprehensive and gradually implemented tax reform to create the fiscal space for social and productive investments. Lowering the corporate tax rate while expanding the base of personal income taxes, reducing unnecessary tax expenditures in corporate, personal and consumption taxes, and tackling tax evasion would enhance revenue collection while promoting a business-friendly environment. Raising spending efficiency is also crucial.
3. **Lowering barriers to private investment:** The recent record-high Foreign Direct Investment (FDI) influx of USD 17 billion in 2023 is a positive sign, but more needs to be done to sustain this momentum, capitalise on nearshoring trends and encourage domestic investment. The government should accelerate the implementation of public-private partnerships, particularly the new generation of infrastructure projects, ensure access to affordable credit, particularly for SMEs, and foster a more stable and predictable policy environment. Expanding the coverage of the simplified tax and insolvency regimes and online one-stop shops to more micro and small firms would significantly reduce regulatory compliance costs. Additionally, increasing investment in science, technology, and innovation is crucial for diversifying the economy and attracting higher value-added investments.
4. **Strengthening subnational government fiscal and administrative capacities** and improving intergovernmental coordination are necessary to ensure the successful implementation of public investment projects and regional convergence.
5. **Reducing informality:** High business and labour informality leads to low savings rates and inefficient capital allocation which have been major barriers to

investment in Colombia. The government should implement a comprehensive agenda of reforms to reduce informality by lowering the costs formal firm creation, enhancing skills, strengthening the enforcement of labour and tax laws, and lowering social security contributions for lower-income workers. This, in turn, will enhance social protection coverage, improve tax collection, and boost inclusive growth. Improving education outcomes at all levels and aligning them with labour market needs would support creating formal job opportunities and attracting investment.

Boosting investment is not just a short-term priority for Colombia—it is fundamental for achieving sustainable economic growth and social development, unlock the country's potential and laying the foundation for a more prosperous and equitable future.

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Productivity and inequality – a nexus for policymakers to tackle

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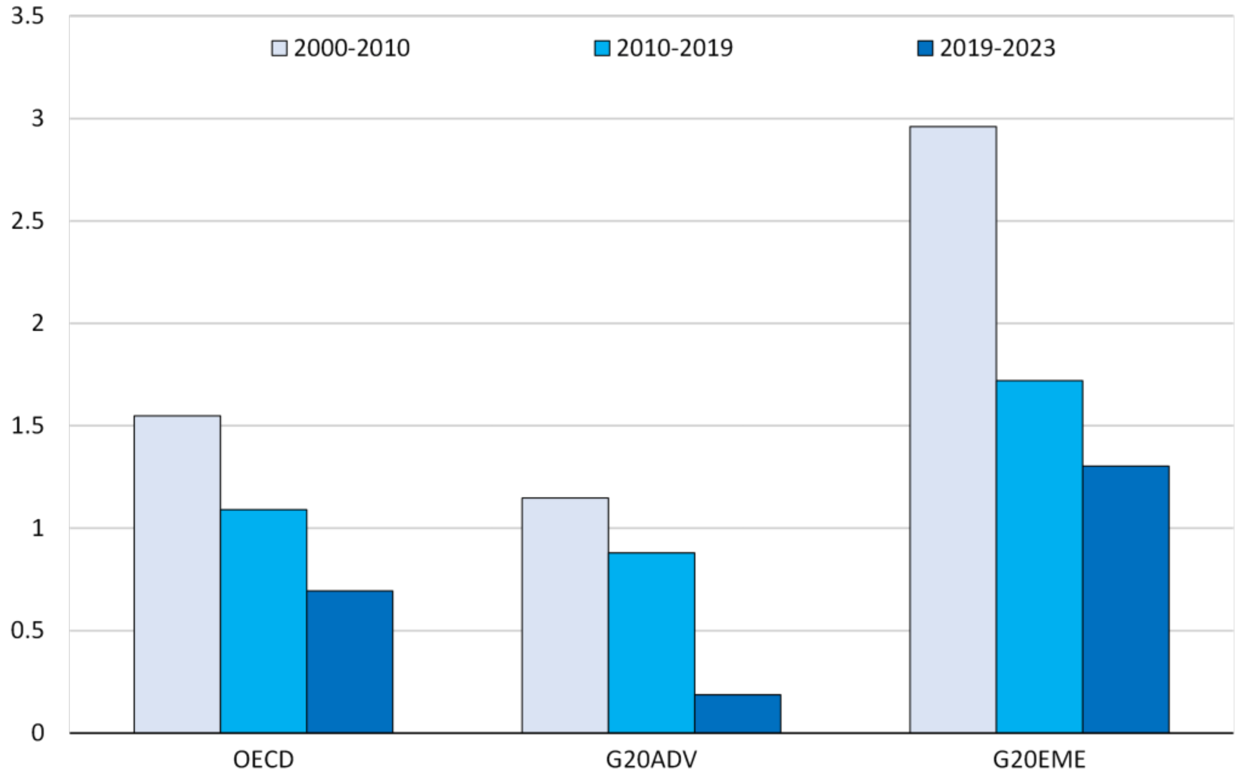
By Emilia Soldani

Over recent decades many advanced and emerging economies witnessed a slowdown in productivity growth, with weaker technology diffusion and a decline in business dynamism (Andre and Gal, 2024, forthcoming). This was accompanied by persistent and pervasive inequalities in economic outcomes and opportunities. A new report by the OECD Economics Department (link) explains why the two challenges should be considered and tackled together (Soldani et al., 2024).

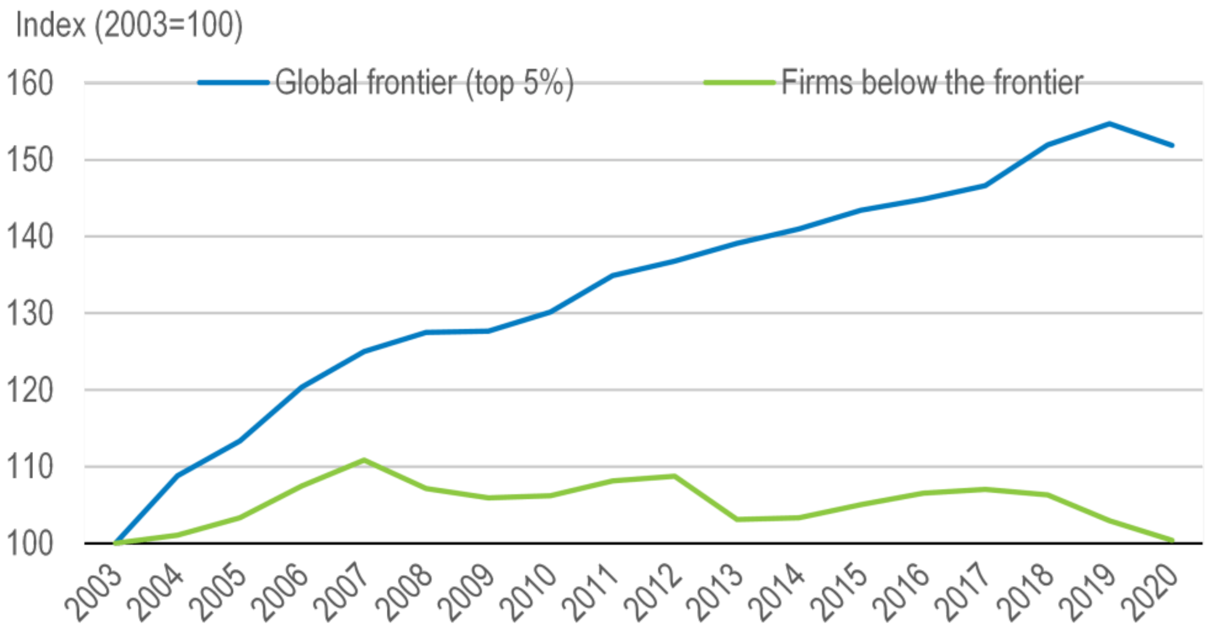
The slowdown in productivity growth (Figure 1), which at first affected advanced economies and more recently also emerging G20 economies, is associated with increasing gaps between firms at the global productivity frontier and laggard firms across and within countries, even within the same industry (Criscuolo et al., 2021; Andrews, Criscuolo and Gal, 2016).

Figure 1. The slowdown in productivity growth and catch-up

Panel A. Labour productivity average yearly growth rate, %



Panel B – The divergence in productivity dynamics across firms

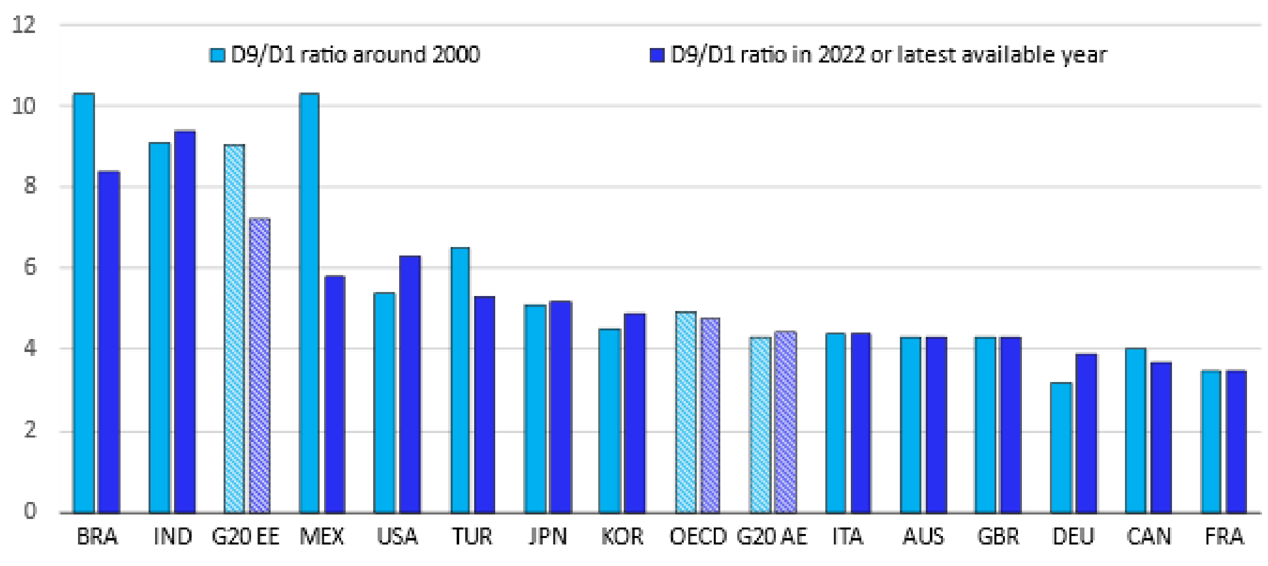


Notes: In panel A, Real GDP refers to the PPP population-weighted average. Advanced economies include Australia, Canada, Germany, France, UK, Italy, Japan, Korea and the US, and emerging-market economies include Brazil, Indonesia, Türkiye and South Africa. In Panel B, the index (2003 = 100) is approximated by changes in logs. The "Global frontier" is defined as the average productivity of the top 5% firms in the

global productivity distribution within each detailed industry (2-digit, NACE Rev.2). “Firms below the frontier” is the average productivity of all other firms within the industry. The chart shows the mean three-year moving average across industries, covering 24 OECD countries. Labour productivity is defined as value added per employee. More details are given in the source paper.
Source: For Panel A, OECD Economics Department Working Paper number 1819. For Panel B, Andre and Gal (2024, forthcoming) based on the updated calculations described in Andrews, Criscuolo and Gal (2016) using the Orbis firm-level financial account database (2022 vintage).

Meanwhile, while income inequality has decreased across countries (Lakner and Milanovic, 2015), it remains generally high within countries, especially in emerging economies. Across G20 economies with available data, the income ratio between the richest and poorest 10% of the population is still about significantly larger for emerging economies than advanced ones (Figure 2).

Figure 2. The income gap between the top and bottom deciles of the population remains high in emerging G20 economies



Note: The D9/D1 ratio is defined on household equivalised disposable income and refers to the total population. Note that the comparison of data over time is subject to

methodological limitations (OECD, n.d.[58]). Data around 2000 refers to 2006 for Brazil and Korea; 2004 for India and Türkiye; and 2000 for the other countries. Latest data available refers to 2011 for India; 2018 for Japan; 2020 for Australia and Germany; 2021 for Italy, the UK, Canada, France, Japan, and Türkiye; 2022 for the USA, Mexico, Korea and Brazil.
Source: OECD Income Distribution Database, data extracted in July 2024.

The situation deteriorated further because of the COVID-19 pandemic (Mahler, Yonzan and Lakner, 2022; OECD, 2024), which also highlighted the extent of inequalities in other dimensions: access to quality education, health care, savings and social protection. Such inequality of opportunities negatively affect the allocation of talents and social mobility, potentially further dragging down productivity growth.

The OECD report (link) summarises the empirical evidence and lessons on the policy levers available to accelerate productivity growth and make it more inclusive, drawing from a vast array of OECD studies and academic research. The main conclusion is that productivity and inequality challenges should not be looked at in separation, due to many links between the two, in either direction. For example, higher productivity and economic growth can boost aggregate savings, investment, and the accumulation of human and physical capital, which affect economic wellbeing, poverty, social mobility, and inequality. At the same time, these factors also affect occupational choices, political demand for fiscal redistribution, and social and political conflict, all of which may affect economic growth (Barro, 2000). Intertwined links amid ongoing structural changes such as the decline in labour force due to demographics, environmental disruptions, and high levels of public and private debt, suggest the importance for policy levers to target both inequality reduction and productivity enhancement.

Based on the review of extensive research outputs, three main spheres of action to support inclusive growth emerge:

- The development of skills and the efficient matching of workers to firms can be supported by policies to improve access to quality education and upskilling at every age and to reduce labour market insecurity and informality.
- Policies to curb market power in labour and product markets: these may lead to double dividends by improving job quality and workers wellbeing, while also boosting growth-enhancing business dynamism.
- Enhancing the effectiveness, progressivity and equity of taxes and transfer systems. International cooperation, for instance in trade and taxation, should reinforce and support the efforts made at the national level.

The importance of business dynamism to boost productivity is best understood when noting that the productivity gap between laggard firms and those at the productivity frontier, which explains a considerable portion of the productivity growth slow-down, is higher in economic sectors characterised by stark barriers to business entry and dynamism and by higher market concentration (Calvino, Criscuolo and Verlhac, 2020). This suggests that policies supporting business dynamism may accelerate the diffusion of frontier technologies and management practices and promote aggregate productivity growth.

The need for policies to curb employers' labour market power and reduce informality is apparent in light of the widespread decoupling between the growth of labour productivity and wages. Indeed, the growth of average and median wages over recent decades has been limited. Over the same period wage dispersion has increased as wages have grown relatively more at the top of the income distribution (Schwellnus, Kappeler and Pionnier, 2017), despite some signs of a partial reversal in wage inequality through 2022 and 2023. Here, too, policies to support education and upskilling may help reduce wage dispersion while also enhancing productivity growth (OECD, 2021; OECD, 2020), including by ensuring that the workforce has the right skill sets to face the ongoing transitions (OECD, 2022; Causa et al., 2022).

In the context of education policies, the latest OECD PISA scores highlight the need to improve inclusiveness and effectiveness. Average students' performance starkly deteriorated between 2018 and 2022, and the gaps in scores along the socioeconomic dimension increased, with disadvantaged students falling further behind.

While the task may seem daunting, the stakes in reducing inequality and promoting inclusive growth exceed purely economic considerations: the combination of slow growth, persistent inequalities, especially in economic opportunities, may further erode social cohesion and the support for democratic institutions (Rodrik, 2017; Guriev and Papaioannou, 2022; Rodrik, 2021) and spark support for protectionist measures and hostile sentiments against international trade (Millot and Rawdanowicz, 2024; Criscuolo et al., 2022).

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Building on recent reform

progress In Brazil

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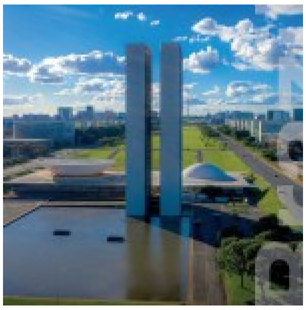


By **Falilou Fall**, **Priscillia Fialho**, and **Jens Arnold**, OECD Economic Department

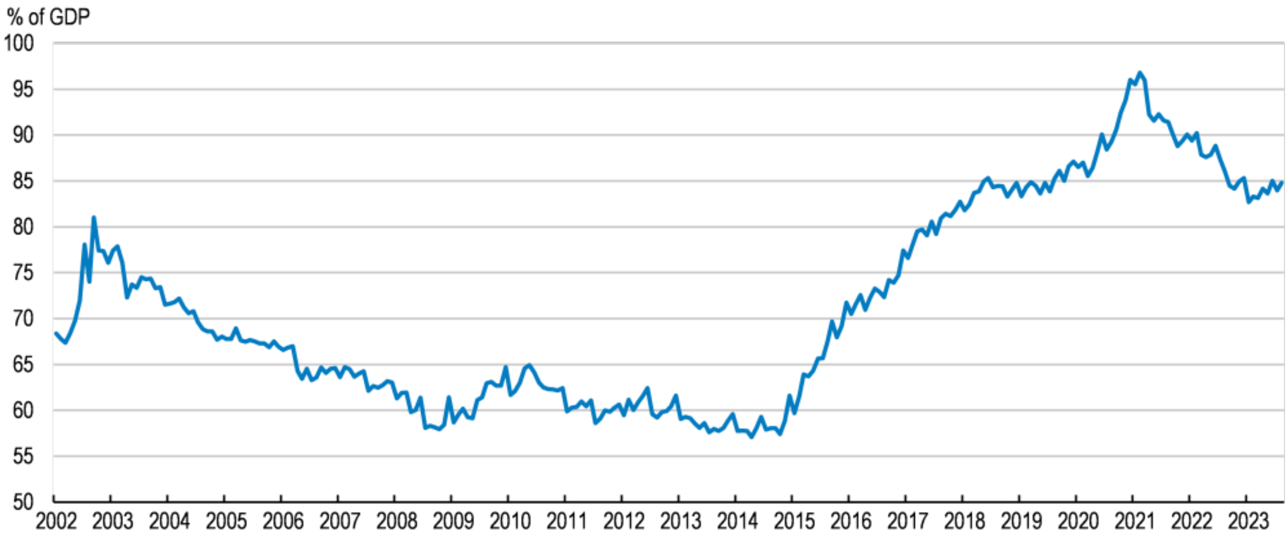
Brazil's economy has recovered strongly from the consecutive shocks of the last years says the latest OECD Economic Survey of Brazil. This year, buoyed by good weather and a record-high harvest, the economy is expected to grow at 3%, which is far above its long-term growth trend over the last decade. Unemployment is at its lowest level since 2015, while inflation has returned to the central bank's target after having risen to almost 12% in mid-2022. Even if in the next years growth will fall short of the exceptional performance of 2023, the current OECD projections of 1.8% in 2024 and 2.0% in 2025 are strong in historical comparison, and are largely driven by expanding domestic demand.

The time has now come to re-focus on the pressing structural challenges that Brazil is facing. These include limited fiscal capacity that hampers necessary investments, weak productivity performance, and the need to end deforestation in the Amazon, after visible increases during 2018-2022.

Building fiscal space will help to focus on policy priorities

With gross public debt exceeding 80% of GDP (Figure 1), rebuilding fiscal buffers is important to ensure that the public sector can undertake the necessary investments in education, social protection and infrastructure in the future. This will require credible deficit targets that guide fiscal policy over the next years. A recently legislated new fiscal framework is expected to become an essential tool in this context, as it combines a clear path for fiscal outcomes with safeguards for public investment, which has all too often fallen victim to fiscal adjustments in the past.

Figure 1. Rebuilding fiscal space is important
Evolution of public debt



Source: CEIC; Central Bank of Brazil.

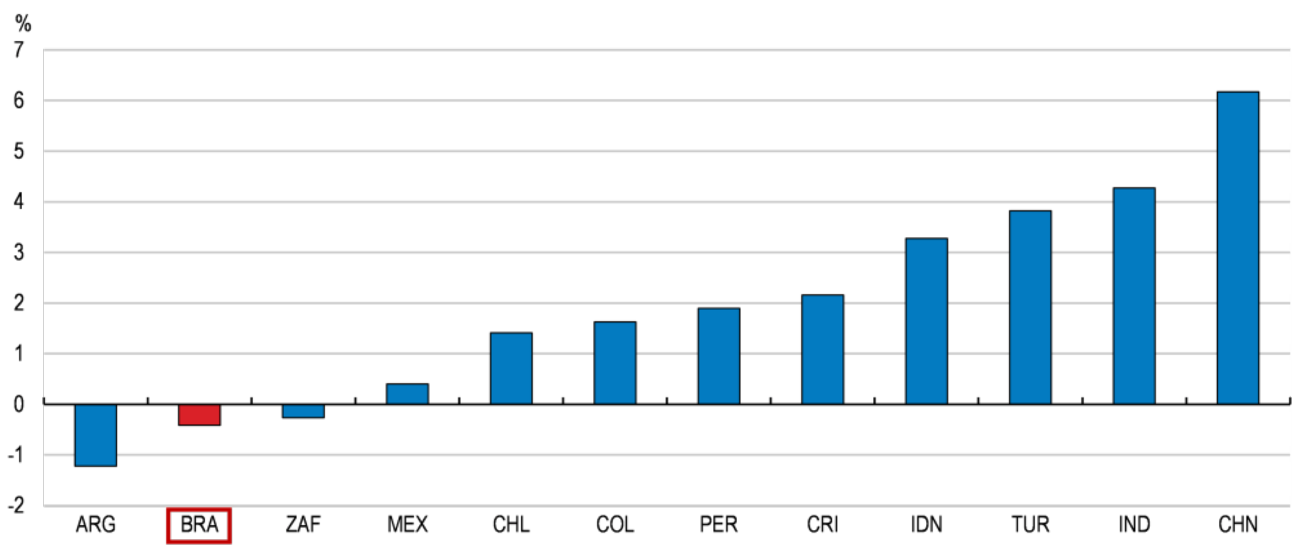
Making the most out of scarce fiscal space will also require more agile budgeting processes. These are currently characterised by widespread revenue earmarking and mandatory spending floors that commit 91% of the budget. This limits the government's ability to address priority policy challenges.

Further important fiscal reforms are either ongoing or planned. A fundamental overhaul of Brazil's notoriously complex system of consumption taxes has just been approved by Congress. Moving from a fragmented system of consumption taxes towards a unified value-added tax system will make tax compliance much easier for firms and reduce a number of taxinduced distortions that hold back growth. Beyond consumption taxes, there is scope to reform personal income taxes, including with a view towards making them more progressive.

Raising productivity and growth inclusiveness

Productivity has been on a declining trend since 2010, and compared to other emerging market economies, Brazil's per capita growth has been substantially weaker (Figure 2). This is particularly worrying in light of rapid population ageing. A young population has underpinned economic growth in the past, as more and more people were joining the labour force. Over the next 25 years, however, population ageing is expected to reverse the entire growth dividend that Brazil has reaped from more favourable demographics since the turn of the millenium.

Figure 2. Weak productivity performance and infrastructure competitiveness are impeding stronger growth
Average annual GDP per capita growth, 2012-2021



Source: World Bank; and OECD calculations.

Years of insufficient infrastructure investment have given rise to logistics bottlenecks and high transportation costs, which are one factor behind Brazil’s weak productivity performance. But scarce resources are not the only challenge. Improvements in planning and project execution could substantially improve the performance of many infrastructure projects. As a result of challenges in project management, public infrastructure investment has delivered results that have often fallen short of expectations.

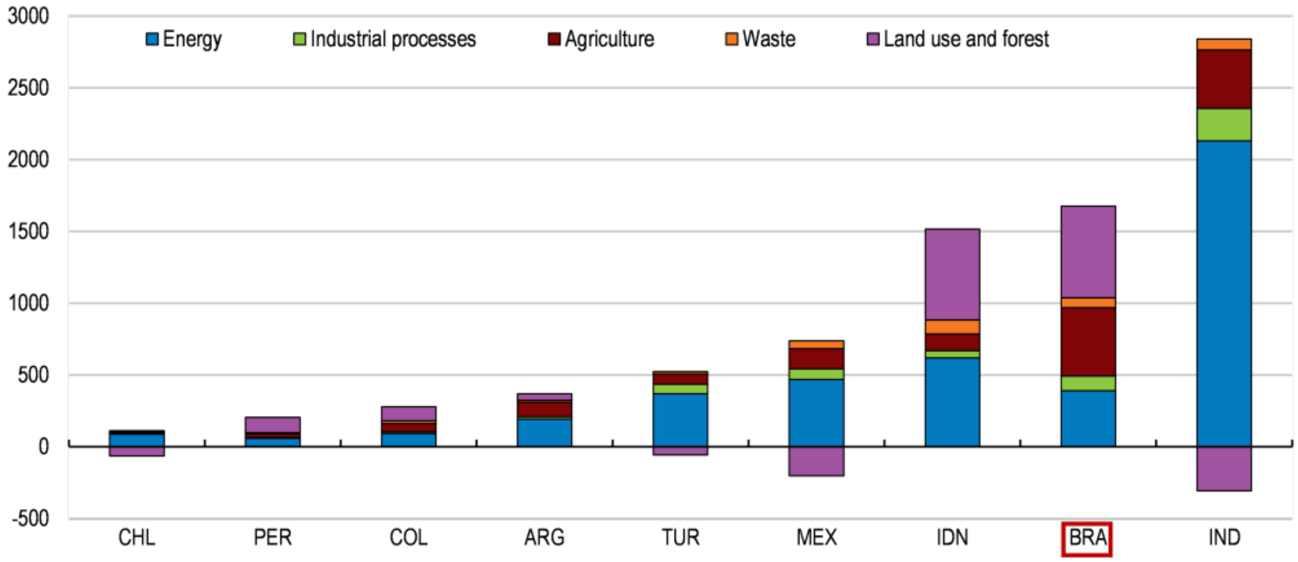
Competition, another key driver of productivity growth, has been held back by complex regulations and administrative burdens, some of which shield incumbent firms from potential new market entrants. Recent regulatory reforms have led to improvements in this area, but market entry barriers in services sectors remain above the OECD average. Further regulatory reforms in professional services, including the abolition of exclusive rights for certain ancillary tasks, can stimulate competition in crucial markets. Manufactured goods remain subject to elevated trade barriers, with average import tariffs approximately eight times higher than in Mexico. Lowering these trade barriers can facilitate access to foreign markets and foster a deeper integration into global value chains.

Mobilising currently underutilised labour resources and improving education outcomes is equally essential for sustaining stronger long-term economic growth. Womens’ labour force participation and employment rates lag approximately 20 percentage points behind those of men. The pandemic has exacerbated educational disparities by leaving a stronger mark on children from disadvantaged backgrounds. Prioritising investments in the early years of schooling and expanding access to early childhood education, especially for children from disadvantaged backgrounds, have the potential to reduce gender inequality and equip children with better opportunities later in life.

Making growth more sustainable

Deforestation, the largest contributor to greenhouse gas emissions, has increased since 2018, but policy priorities have changed and early indicators now suggest a decline in 2023. Strengthening enforcement of the Forest Code, coupled with allocating more resources to enforcement agencies, will aid in tackling deforestation. Emissions from agriculture, the second-largest source of greenhouse gas emissions, primarily arise from livestock (Figure 3). Better regulations and stronger incentives for more sustainable production hold significant potential for reducing these emissions. Energy emissions are already fairly low given the significant share of hydroelectric energy sources, but also solar and wind energy, where Brazil's still untapped potential could turn into a major competitive advantage in the future. The planned introduction of carbon pricing mechanisms will be a milestone in the transition towards a lower-carbon economy.

Figure 3. Deforestation and agriculture are the main sources of greenhouse gas emissions
Million tonnes of CO2 equivalent, 2021 or latest



Source: OECD environment database; Estimativas Anuais de Emissões de Gases de Efeito Estuda no Brasil (6ª Edição), Ministério da Ciência, Tecnologia e Inovação; and OECD calculations.

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Institutional shareholding, common ownership and productivity: a cross-country analysis

Category: Uncategorized
written by oecdecoscope | October 11, 2024

By Maria Bas[1]**, Lilas Demmou, Guido Franco and Javier Garcia-Bernardo**[2]

The increase in institutional ownership, accompanied by the shift towards passive portfolio management and the rise of common ownership, have transformed OECD countries financial markets in the last decades. These transformations have the potential to influence listed firms' productivity, given the role of equity owners in allocating private savings across firms and influencing firms' investment decisions.

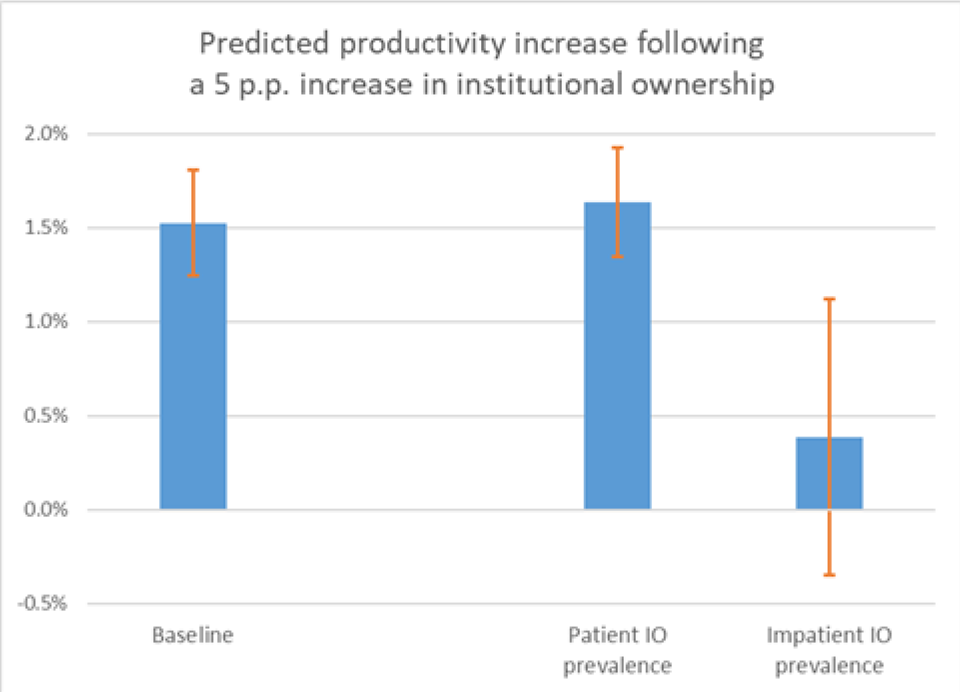
Against this backdrop, and relying on a rich firm-level dataset covering financial and granular ownership information on firms across a wide range of countries and sectors, Bas et al. (2023) study the productivity consequences of these changes via two main channels: a “governance channel”, looking at the role of institutional owners’ business model (i.e., investment style, time horizon etc.); and a “common ownership” channel, analysing the productivity impact of simultaneous ownership of shares in competing firms (i.e. intra-industry) or potentially vertically integrated firms (i.e. inter-industry).

The governance channel

The business model of institutional owners has recently been the subject of debate in two main areas. First, institutional investors tend to have higher portfolio turnover rates than corporate owners, potentially inducing a focus on short-term outcomes, while long-term-oriented owners are more likely to support innovative and human capital-intensive projects that yield (productivity) benefits over time. Second, institutional investors increasingly rely on passive investment styles, characterized by reduced monitoring but also increased diversification, which can encourage support for R&D activities by attenuating idiosyncratic risks associated with innovation.

Our main findings suggest, overall, a positive relationship through the governance channel: firms displaying higher institutional ownership tend to have higher productivity levels and growth rates compared to their peers (Figure 1). Consistent with theory, there is some heterogeneity across different types of institutional investors depending on their time horizon and investment style. On the one hand, the positive correlation tends to vanish when institutional investors’ horizon shortens, highlighting the relevance of the provision of patient capital (Figure 1). On the other hand, the correlation appears larger the higher the shares of large, passive and diversified owners, confirming that a diversified portfolio may favour support to innovative investments despite potential lower monitoring.

Figure 1 Institutional ownership and productivity are positively related at the firm-level



Note: Interpreting results as if they were causal, the blue bars represent the average change in firms' productivity following a 5 p.p. increase in institutional ownership. The orange whiskers indicate the 95% confidence intervals. Source: Bas, Demmou, Franco and Garcia-Bernardo (2023).

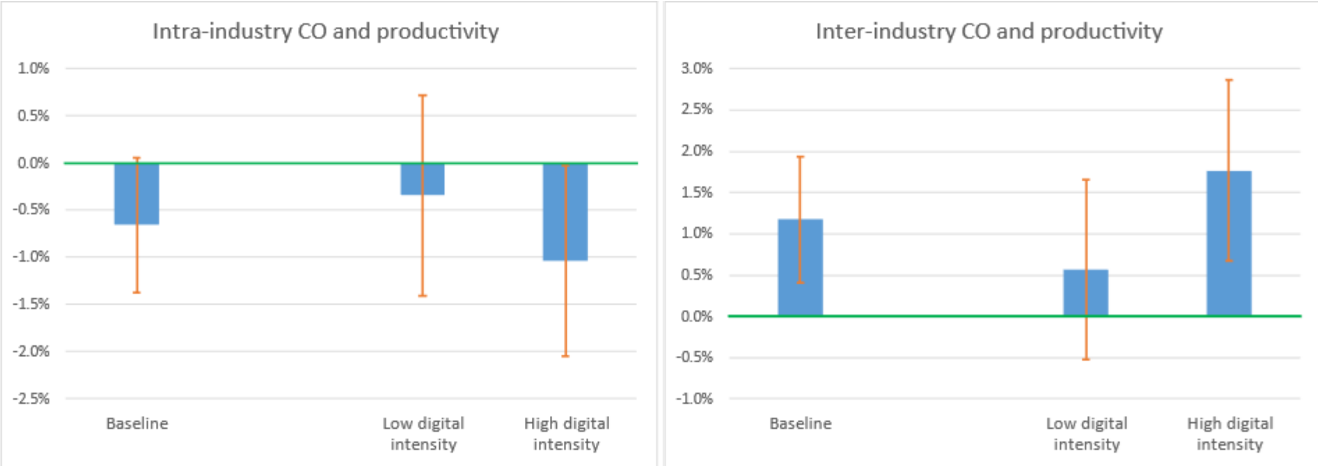
The common ownership channel

The consequences of common ownership for firms' productivity may vary depending on whether it occurs within industries or across industries.

Intra-industry common ownership. Firms operating in the same industry and belonging to the same investor's portfolio may, in the interest of their common shareholders, compete less intensively on product markets, for instance by colluding more easily, with detrimental consequences for productivity (*competition channel*). At the same time, intra-industry common ownership could benefit innovation and productivity when inter-firm coordination is explicit (e.g. joint ventures or strategic alliances) and firms find it easier to cooperate in their R&D efforts and share knowledge (*cooperation channel*). The estimates from the analysis linking intra-sector common ownership and productivity are not always significant (Figure 2, left panel). Still a negative relationship appears to prevail when they are, hinting that the competition channel may slightly outweigh the cooperation channel. The negative association is stronger in innovative sectors, further corroborating the potential existence of a competition channel given that these industries tend to be more concentrated.

<u>Inter-industry common ownership</u>. Common ownership along the value chain may lead to stronger business relationships among vertically integrated firms, (*vertical integration / spillover channel*), by attenuating hold-up problems when information asymmetries are high. Moreover, from a general equilibrium perspective, the attempt to increase profits through higher prices and lower competition is not immune to a backlash for common owners, as they risk ending up with lower profits in downstream industries due to higher inputs costs. The empirical investigation supports the existence of a positive relationship between inter-industry common ownership and firm-level productivity (Figure 2, right panel). The positive association is again stronger for firms producing in innovative sectors, potentially due to a more efficient network of vertical relationships and technological spillovers, which are particularly relevant in these sectors.

Figure 2 The productivity implications of common ownership depend on whether it occurs intra- or inter-industry



Note: Interpreting results as if they were causal, the blue bars represent the average change in firms' productivity following an increase in inter (left panel) or intra (right panel) industry common ownership from 0 to the level observed at the 75th percentile of the distribution of the respective firm level common ownership measure. The orange whiskers indicate the 95% confidence intervals. Common ownership is measured as in Azar et al. (2018) and Azar et al. (2021).
Source: Bas, Demmou, Franco and Garcia-Bernardo (2023).

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Promoting stronger and more sustainable growth for all people across Spain

Category: Climate,Spain,Tax
written by oecdecoscope | October 11, 2024

También disponible en español

By **Bertrand Pluyaud** and **Adolfo Rodríguez-Vargas**, OECD Economics Department

Before the COVID-19 pandemic, the Spanish economy experienced a period of sustained and more balanced economic growth, less dependent on the construction sector, and with a healthier financial system. The pandemic and Russia's war of aggression against Ukraine were successive shocks that required strong government support to protect businesses and households, as noted in the 2023 Economic Survey of Spain. Output has recovered to its pre-pandemic level, and growth has held up well since the second half of 2022 and it is expected to remain solid in 2024.

The recovery from the pandemic has been steady following the large fall of GDP in

2020

Gross Domestic Product, Volume, base 2019Q4 = 100

Made with Flourish

Spain has also introduced several major reforms to address longstanding labour market issues, promote business growth and innovation, ensure pensions' sustainability, and boost vocational education. However, structural weaknesses remain that weigh down Spain's growth potential. The 2023 Economic Survey discusses policy options to tackle these issues in four areas.

Addressing fiscal challenges

Government action was decisive for the recovery, but it was costly. Public debt, which was already high before the pandemic, has increased by 13 percent points of GDP since 2019. Sustained fiscal consolidation is required to keep debt on a downward path and to make room for ageing-related spending and growth-enhancing items, like education and green transition. This consolidation should rely on both mobilising additional revenues and on enhancing spending efficiency.

Increasing the relatively low tax intake should encompass gradually broadening the value added tax base and raising environment-related taxes, but also reducing tax avoidance and enhancing tax collection. Spending reviews should continue to be used to define growth-enhancing spending priorities, and evaluation of public policies should become the norm.

Public debt remains high

Public debt, Maastricht definition, % of GDP

Made with Flourish
Source: Eurostat.

Raising productivity

Low investment in R&D, inefficient public spending on education and training, and an insufficient stock of ICT capital have dragged down productivity growth, which in the last decade has averaged 0.6% per year compared to 0.9% for the OECD. The share of innovative companies is also comparatively low. All this weighs on potential growth, which with rapid population ageing is expected to weaken even more.

Promoting collaboration and knowledge transfer between businesses and universities, fostering entrepreneurship, reducing regulatory barriers, and improving regulation can increase innovation and business growth. Continuing with an effective implementation of the investment and reforms under the national Recovery, Transformation and Resilience Plan should remain a priority, as it can help overcome structural deficiencies and boost productivity.

Promoting opportunities for all people across Spain

Despite recent improvements, income inequalities remain significant. Poverty is high compared to the OECD, and Spain has the highest child poverty rate in Western Europe, at 22%. This makes it urgent ensuring that public assistance is sufficient and reaches those who need it more. The survey recommends improving the targeting of social benefits, particularly towards poor families with children, boosting the take-up of the minimum income guarantee, and reducing administrative burdens for users.

Young people in Spain face a challenging transition to an independent, productive, and happy adult life. The risk of poverty among them is particularly high, although it has fallen. That is why the special topic of this survey is how can Spain increase opportunities for its young.

Educational and labour market outcomes have improved, but many young people still leave the education system with low education levels or skills, and youth labour-market integration remains difficult. The share of temporary contracts has decreased after the 2021 labour market reform, but it is still high. The survey recommends training teachers to identify and assist students at risk and maintaining support for students to enrol in vocational education, including by fostering the participation of SMEs to offer places. Furthermore, to ease school-to-work transitions it encourages greater employer involvement in the design of university curricula, and improving access to financing for young entrepreneurs.

Housing is a pressing concern for many people in Spain, especially the young. To increase housing supply, the survey recommends expanding the very low stock of social rental housing and relaxing stringent rent controls.

Young people face high poverty risks

Risk of poverty or social exclusion, %

Note: OECD Europe includes European OECD countries and excludes Türkiye.
Source: INE.

Addressing environmental challenges

Spain has made progress in the fight against climate change, as environmental protection expenditure has increased and renewable energies are becoming more prevalent in the energy mix. To keep reducing its dependence on fossil fuels, Spain should accelerate the shift towards greener transportation, improve storage and grid interconnections, and continue promoting renewable energies.

A more environment-friendly tax regime is also needed, as environmental tax revenue as a share of GDP is low compared to most OECD European countries. The base for environment-related taxation can be broadened, including by phasing out exemptions and gradually increasing the tax rate on emissions, while compensating partially and temporarily the most vulnerable.

Persistent drought in some regions has lowered water availability, and intense agriculture production has affected water quality. These problems could be addressed through more efficient irrigation, reuse and recycling of waters, and a more sensible use of fertilizers.

Improving water availability and quality is urgent

Groundwater stations with poor quality standards, %

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Note: Groundwater stations failing to meet the drinking water standard under the EU Nitrates Directive
Source: European Environment Agency (EEA).

Government action helped Spain to overcome two major successive shocks. Evidence-based public policies can also help to solve Spain’s longstanding structural weaknesses to increase growth and raise wellbeing for all people across Spain.

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Pathways to Prosperity: Key Reforms for a Thriving Peru

Category: Latin America,Peru,Tax
written by oecdecoscope | October 11, 2024

También disponible en español

By ***Paula Garda*** and ***Michael Koelle***, OECD Economics Department

Peru has made significant strides over the past two decades in reducing poverty and improving living standards, outperforming many Latin American peer countries as highlighted in the 2023

Economic Survey of Peru. The basis for this progress was the country's robust macroeconomic framework and ambitious structural reforms implemented in 1990s. These reforms have catalysed macroeconomic stability, high economic growth, low inflation and low public debt.

The COVID-19 pandemic, however, exposed remaining challenges. Peru experienced one of the most severe economic contractions and excess mortality rates of any country. The economy bounced back in 2021, thanks to its fiscal buffers. The recovery was short-lived and a series of shocks, including Russia's war of aggression in Ukraine, social unrest and extreme weather events led to inflationary pressures and economic slowdown. The economy is projected to gradually recover with inflation returning to the target range by early 2024. However, Peru faces long-standing structural issues like a large informal sector, infrastructure gaps, and a weak rule of law. These not only magnify the impact of adverse shocks and socio-economic inequalities but also hold up Peru on its path towards better standards of living.

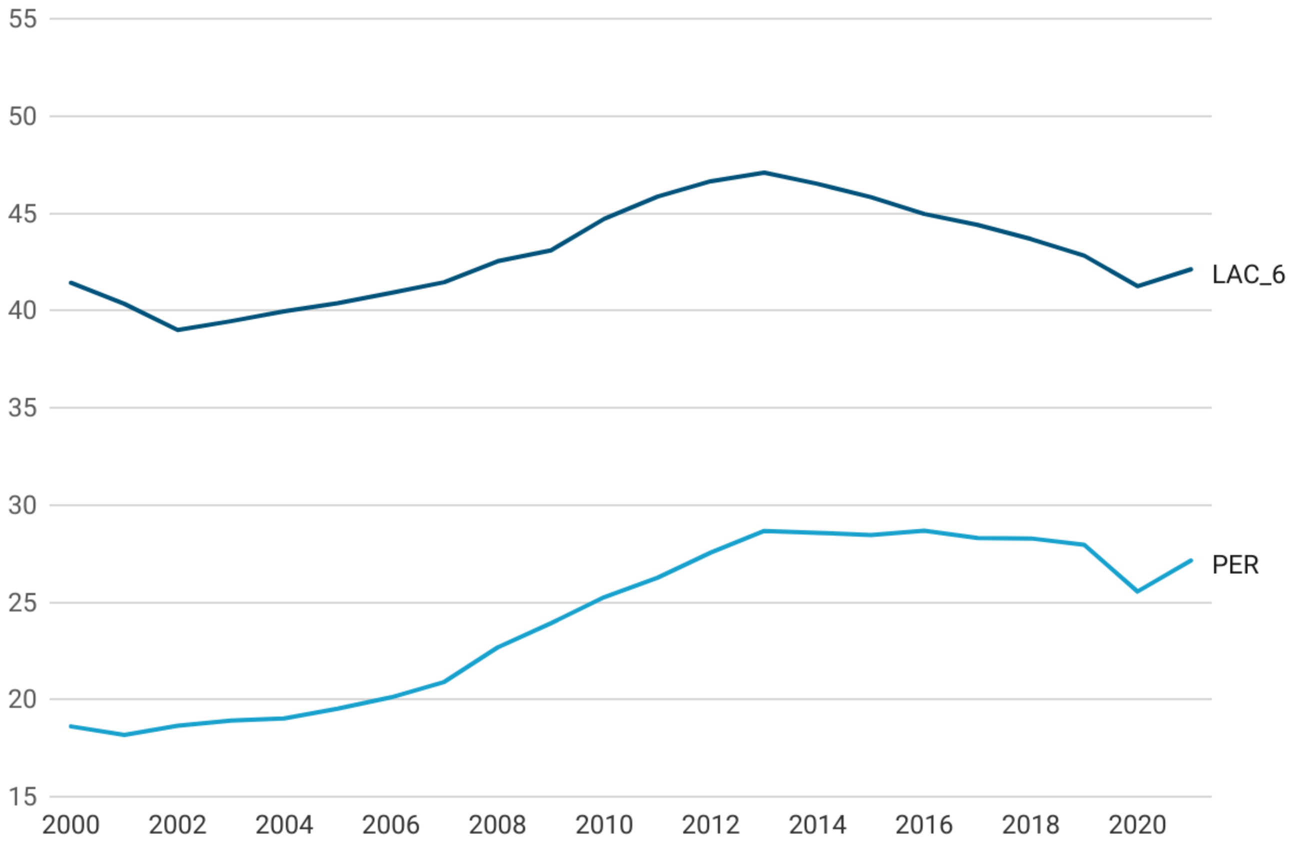
As Peru embarks on its journey towards OECD accession, the process represents a transformative opportunity for the country to design and implement a comprehensive reform agenda to foster convergence to higher living standards for all Peruvians. The 2023 Peru Economic Survey highlights four key priority areas of reforms:

Fostering Long-Term Growth

Income convergence to more advanced countries stalled in 2014 with the end of the commodity price boom, making it of utmost importance to boost productivity and investment. While commodities, particularly minerals, have fuelled past growth, there is a need to expand the economy's productive base. High concentration of market power in a few major business groups reduces market dynamism. This calls for strengthening competition enforcement and simplifying regulations to boost productivity. Additionally, better public spending efficiency would help close infrastructure gaps and deliver essential services while boosting potential growth. This entails enhancing local government capabilities, improving infrastructure planning, and modernising the civil service to enhance overall state capacity. Strengthening the rule of law by fighting corruption and improving judicial independence and efficiency is equally important, as it not only encourages investment but also restores trust in institutions.

Convergence has slowed down

GDP per capita % average OECD



USD, 2017 PPPs. LAC_6 is the simple average of Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico.

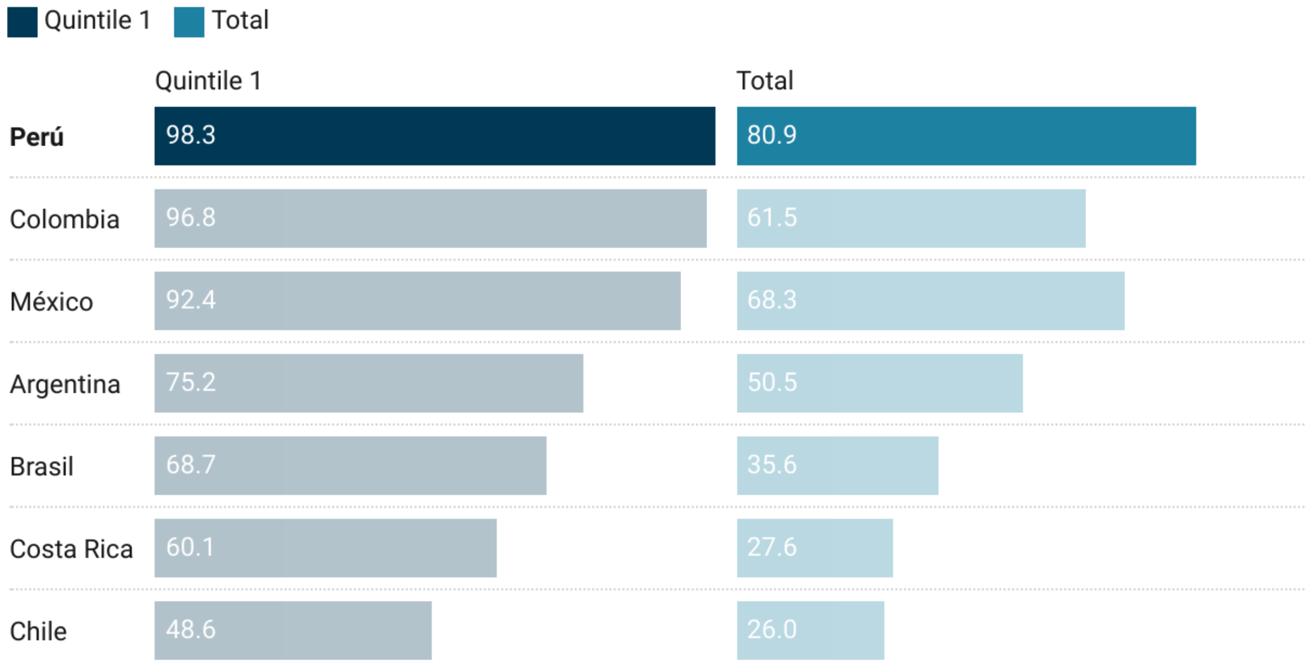
Chart: OECD • Source: WDI, World Bank • Created with Datawrapper

Tackling Informality

The challenge of informality looms large in Peru, with around 80% of workers in informal jobs, without social and labour protection, and on the margin of the formal tax and benefit system. Though there is no silver bullet solution as the roots of informality are multi-dimensional, fostering formality through a comprehensive reform package is essential for reducing poverty and inequality, boosting productivity, and improving tax collection. Ensuring universal access to basic social benefits – health, pensions, and social assistance – for both formal and informal sector workers alike, could remove some distortions that incentivise informality. This requires increased social spending funded by general taxation instead of by social contributions that make formal job creation expensive incentivising informal job creation. Providing universal access to pensions and health services financed by general taxation offers the possibility of reducing social contributions for low-income workers, promoting formal employment, and boosting productivity. Improving access to high-quality education tackles another root cause of informality, low labour productivity. Closing the gap in learning outcomes, especially among disadvantaged students, requires improving teachers' training and addressing school infrastructure gaps.

Informality is widespread

% employment



Informal workers are those not contributing to the pension system.

Chart: OECD • Source: SIMS database, IADB • Created with Datawrapper

Strengthening Public Finances

Peru’s current tax revenues, at 17% of GDP, lag both OECD and regional peers. A key challenge for Peru is sustaining fiscal responsibility while addressing social and infrastructure needs. Addressing this gap requires a multifaceted approach: improving spending efficiency while strengthening tax administration, reducing tax expenditures, modernizing property registries, and streamlining corporate tax schemes.

Confronting Climate Change

Climate change poses another significant challenge for Peru. The country is highly vulnerable to extreme weather events and is committed to achieving carbon neutrality by 2050. To achieve this goal, the country must combat deforestation—a major contributor to greenhouse gas emissions—and accelerate the use of renewable energy sources implementing stricter regulations and consistent price signals to reduce reliance on fossil fuels, tapping the enormous potential that the country has in this area.

As Peru navigates these multifaceted challenges, its process of accession to the OECD can offer a framework for long-term reforms that address existing vulnerabilities and allow the convergence to higher living standards. This roadmap, grounded in evidence and best practices, should build on the successes of the past, such as the robust macroeconomic setup that fuelled Peru’s economic growth. Realising this transformation demands political consensus, evidence-backed policies, and collaborative efforts.

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Canada: five messages from the latest OECD Economic Survey

Category: Canada
written by oecdecoscope | October 11, 2024

The latest Economic Survey finds Canada needs to tame inflation, further build fiscal buffers, strengthen productivity and prioritise the green transition.

Maintaining and reinforcing achievements in Costa Rica

Category: Costa Rica,education
written by oecdecoscope | October 11, 2024

Stepping up structural reform efforts would be the best way to respond to challenges to reinforce achievements and seize new opportunities.

The United Kingdom: Stronger growth needs significant productivity improvements across regions

Category: United Kingdom
written by oecdecoscope | October 11, 2024

Raising productivity requires more investment, re-and up-skilling to facilitate worker’s relocation and better use of existing skills to address shortages.