

Reversing the Productivity Slowdown in OECD Countries

Evidence and Policy Options

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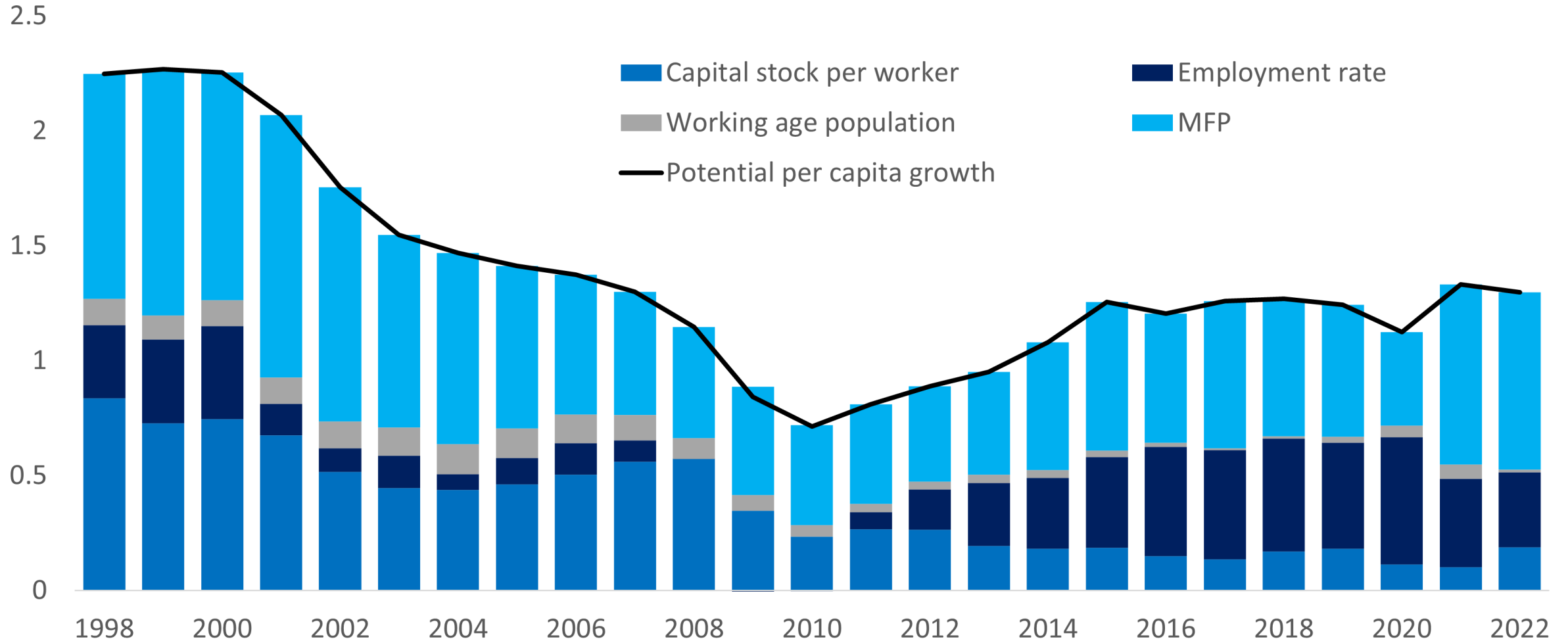
Outline

- 1. Productivity Slowdown in OECD Countries:
Macro and Micro Evidence**
- 2. Selected structural and policy drivers**
 - a) How can skill quality and allocation boost productivity?
 - b) How to ensure productivity gains from globalisation?
- 3. Key policy issues for future productivity growth**



Longstanding productivity slowdown exacerbated by capital stagnation since the global financial crisis.

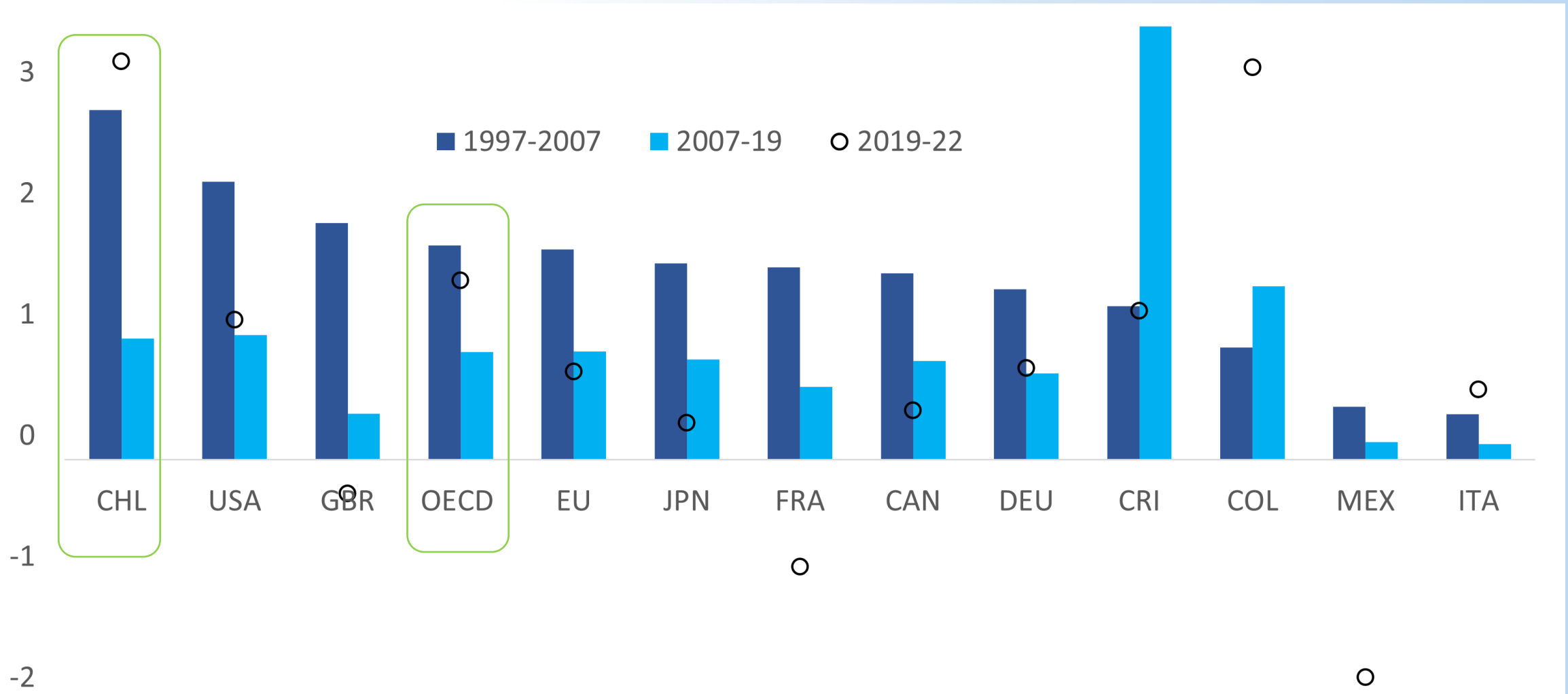
OECD potential GDP per capita (annual growth, in %)





Productivity slowdown has been **broad-based** with signs of uptick in the post-COVID era.

Labour productivity (annualised growth, in %)

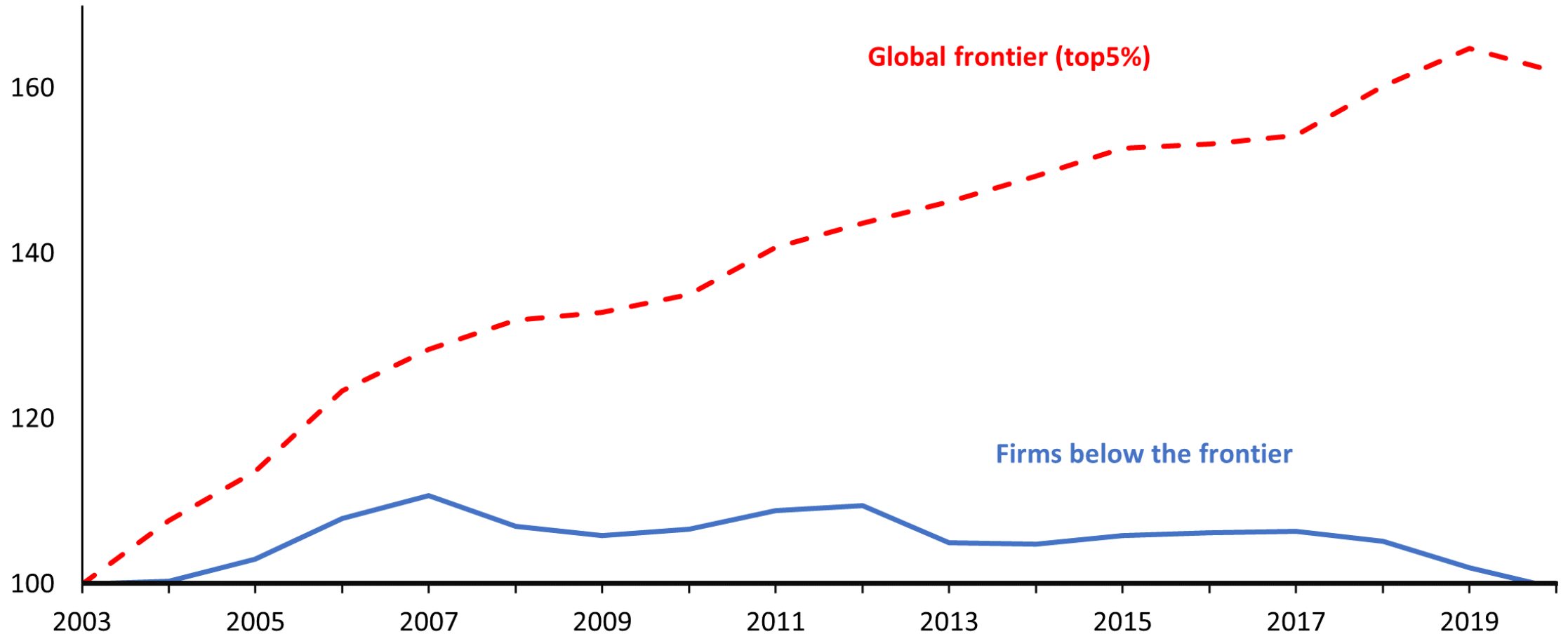




Productivity grows much faster at the frontier, yet also faces a slowdown.

Labour productivity index (log changes)

Index (2003=100)





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A policy framework for reviving productivity growth

	Incentives	Capabilities		
		MFP	Capital	Labour
Firm-level productivity at frontier	...for innovation	Basic research	High-risk Investments	Human capital
Firm-level productivity behind frontier	...for adoption and experimentation	Knowledge diffusion	Private investments/ public infrastructure	
(Re-)allocation of resources across firms	...for healthy business dynamism			Mobility



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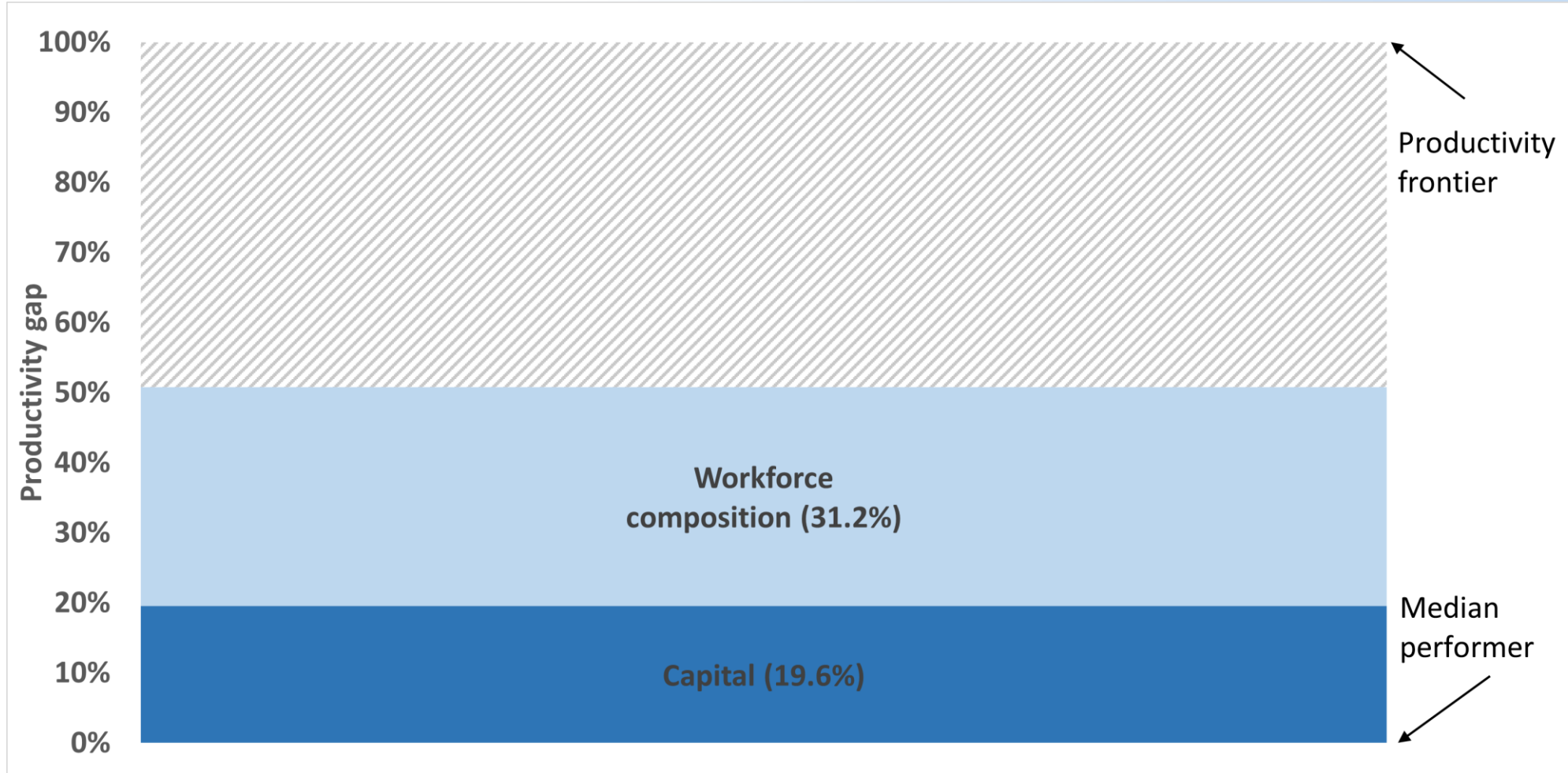
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The human side of productivity constitutes a large part of productivity gap.

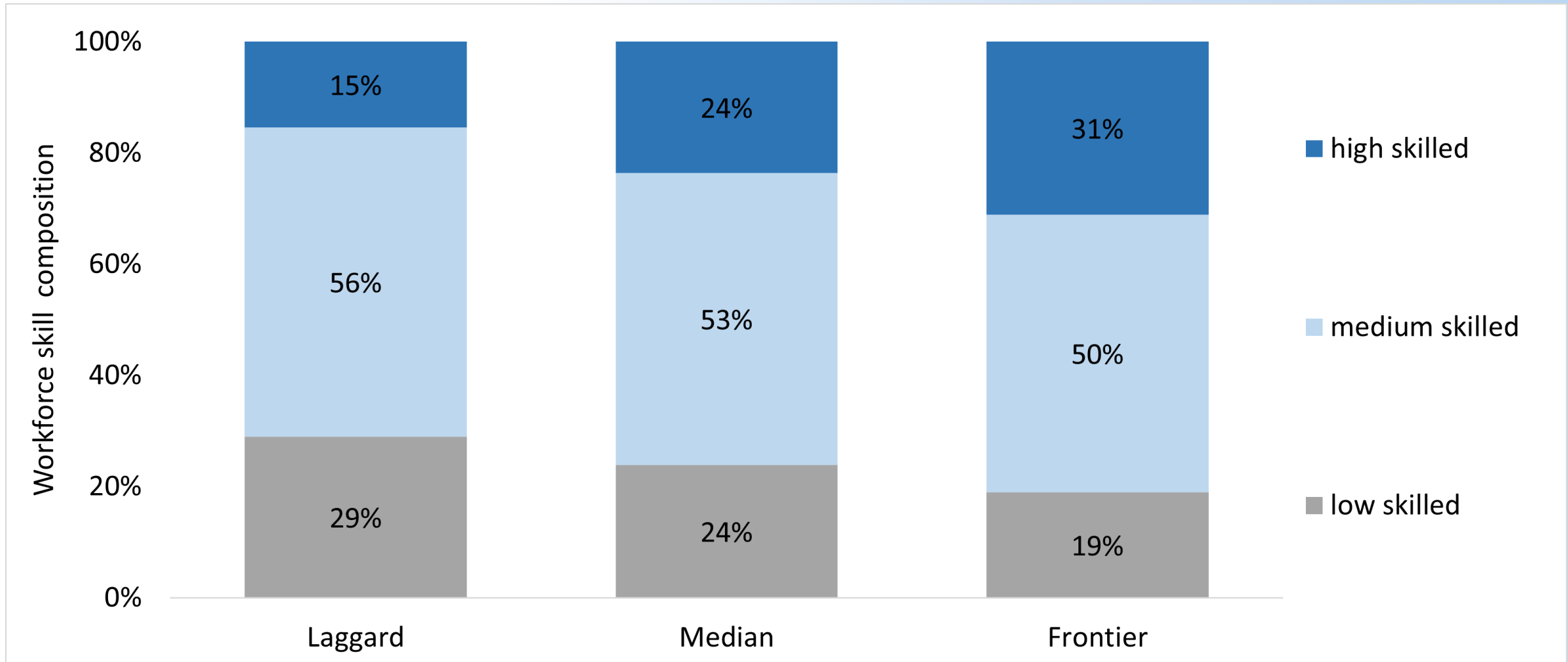
Contribution of capital intensity and workforce composition to firm-level productivity gaps





Firms at the productivity frontier employ a more **skill-intensive** workforce.

The workforce skill composition of productivity leaders and laggards





Raising skill quality and ensuring efficient allocation are key to boost productivity.

1. Increase the supply of **skilled workers**

- Strengthen the quality of the education system

2. Facilitate **skill upgrading** of existing workforce

- Lifelong learning, especially in the context of digital skills
- Social skills (teamwork, communication), supply of managerial talent

3. **Improve matching** of worker skills to firm demands

- Provide market intelligence about existing and prospective skill demand
- Support mobility through efficient housing markets and transport systems

➔ **Relevant given labour shortages, explored by ongoing GFP work**



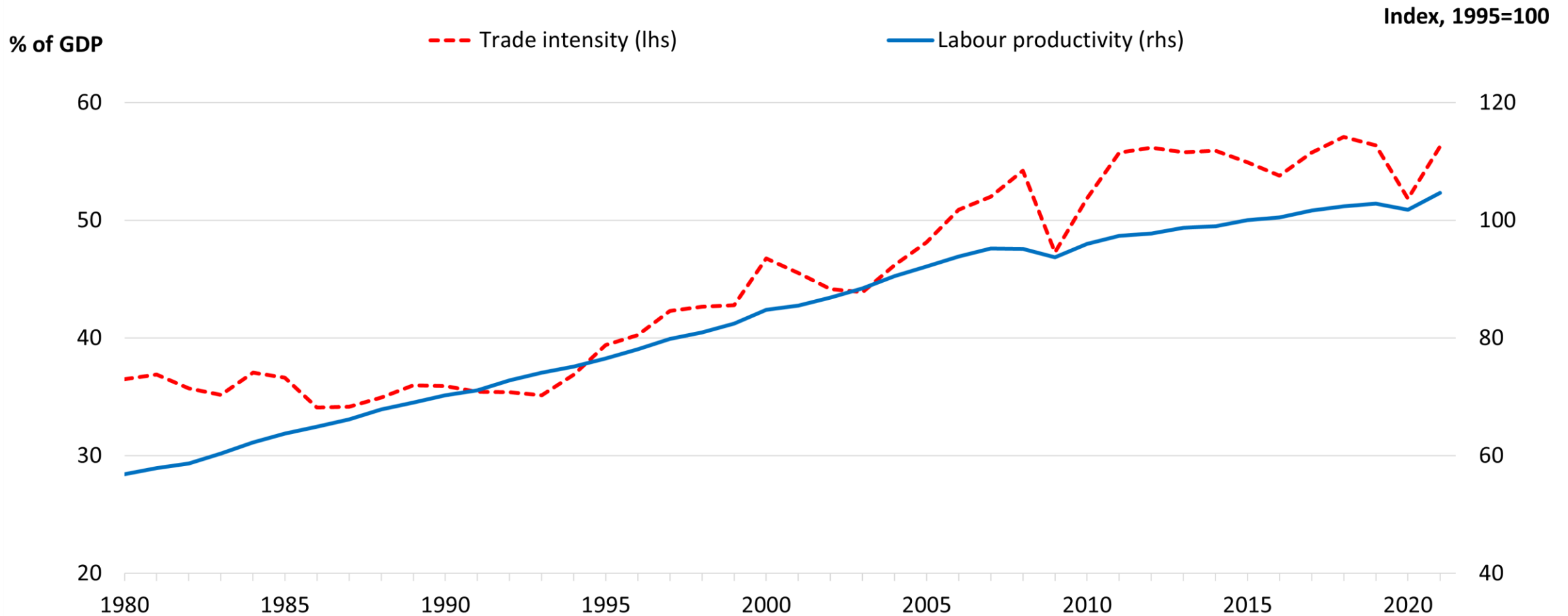
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Productivity slowdown coincided with **slowing trade integration.**

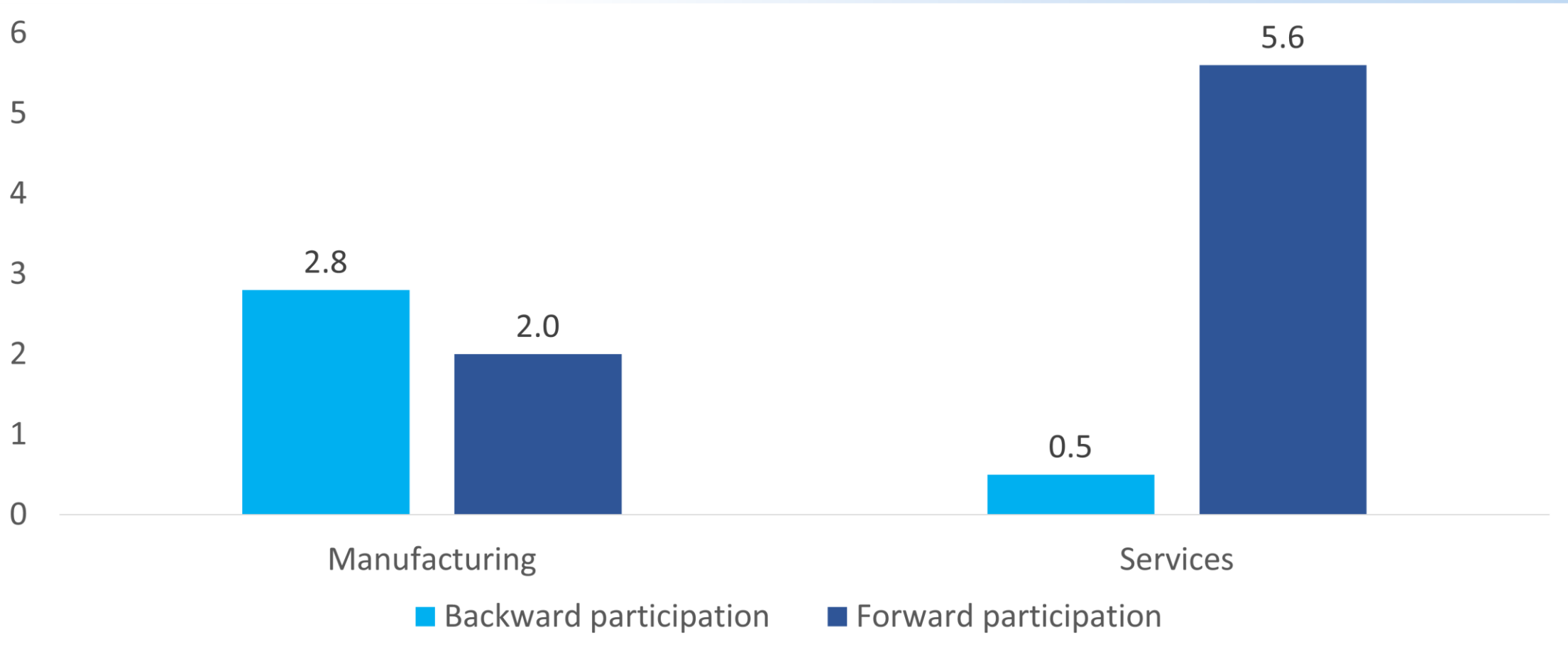
Average trade share and labour productivity in OECD countries





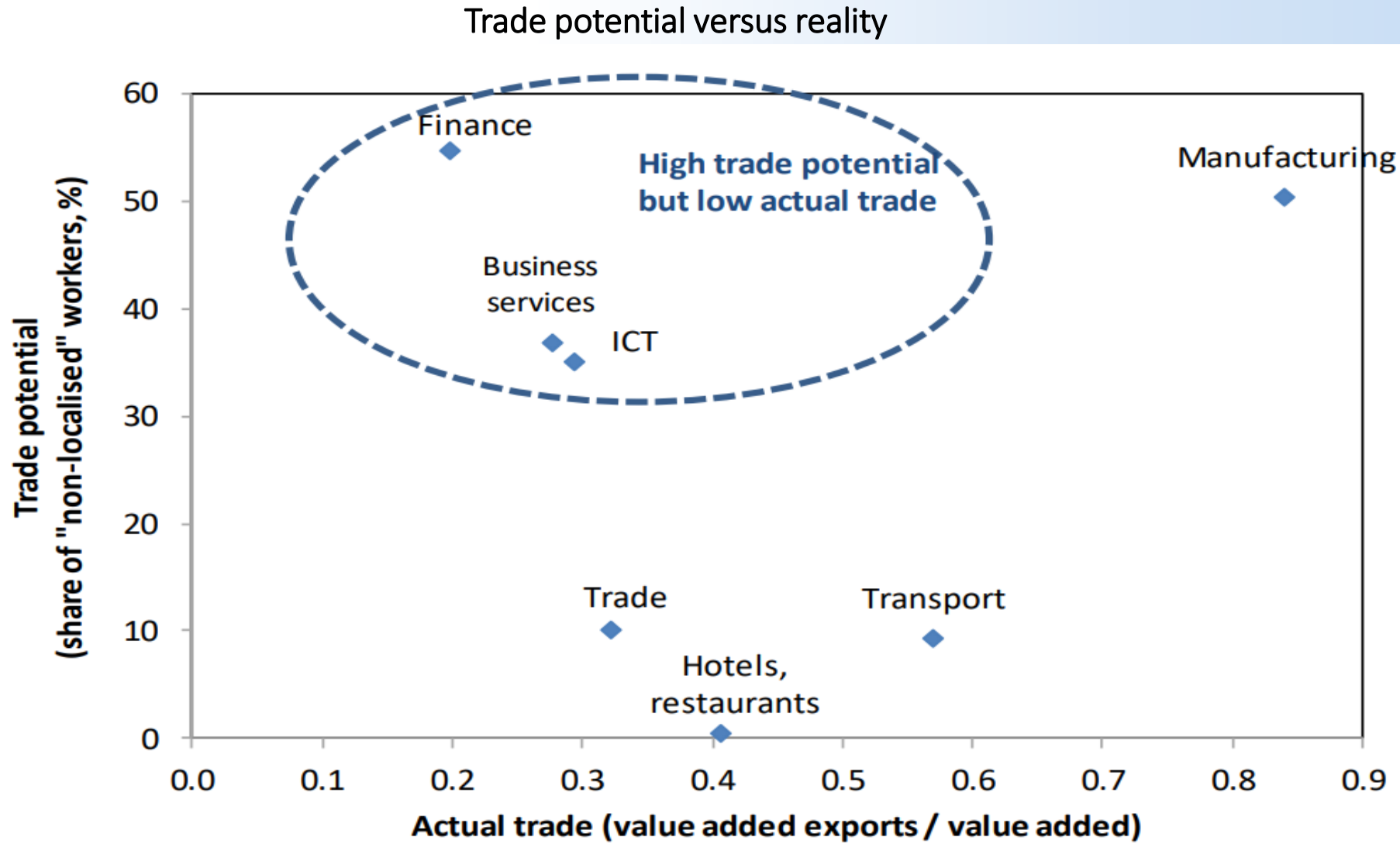
Global value chains contribute strongly to productivity growth.

Estimated productivity gains from increasing GVC integration from “low” to “typical” levels (over 5 years, in %)





Room for productivity gains remains in the **trade of services.**





Strengthening supply chains **without eroding efficiency gains** is possible.

1. Encourage diversification over “friendshoring” or “nearshoring” (Crowe and Rawdanowicz, 2023)

- Collection of data for risk assessment and stress testing
- Standards of conduct to reduce risks of supply chain disruptions
- A stable policy environment that allows firms to expand their planning horizon

2. Promote trade in services to achieve yet unrealized gains from trade (Sorbe et al., 2019)

- Reduced regulatory trade barriers
- Investment in digital infrastructure



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Economic shifts and technological advancements have brought **new complexities** that warrant further analysis.

1. Mitigation and adaption to **climate change**
2. Rapid **digitalisation**, including artificial intelligence (AI)
3. Human capital related challenges, including **demographics** (ageing)
4. Ensuring an updated and effective policy toolkit to promote **competition**



GFP work agenda on **labour market imbalances** integrates elements from these transitions.

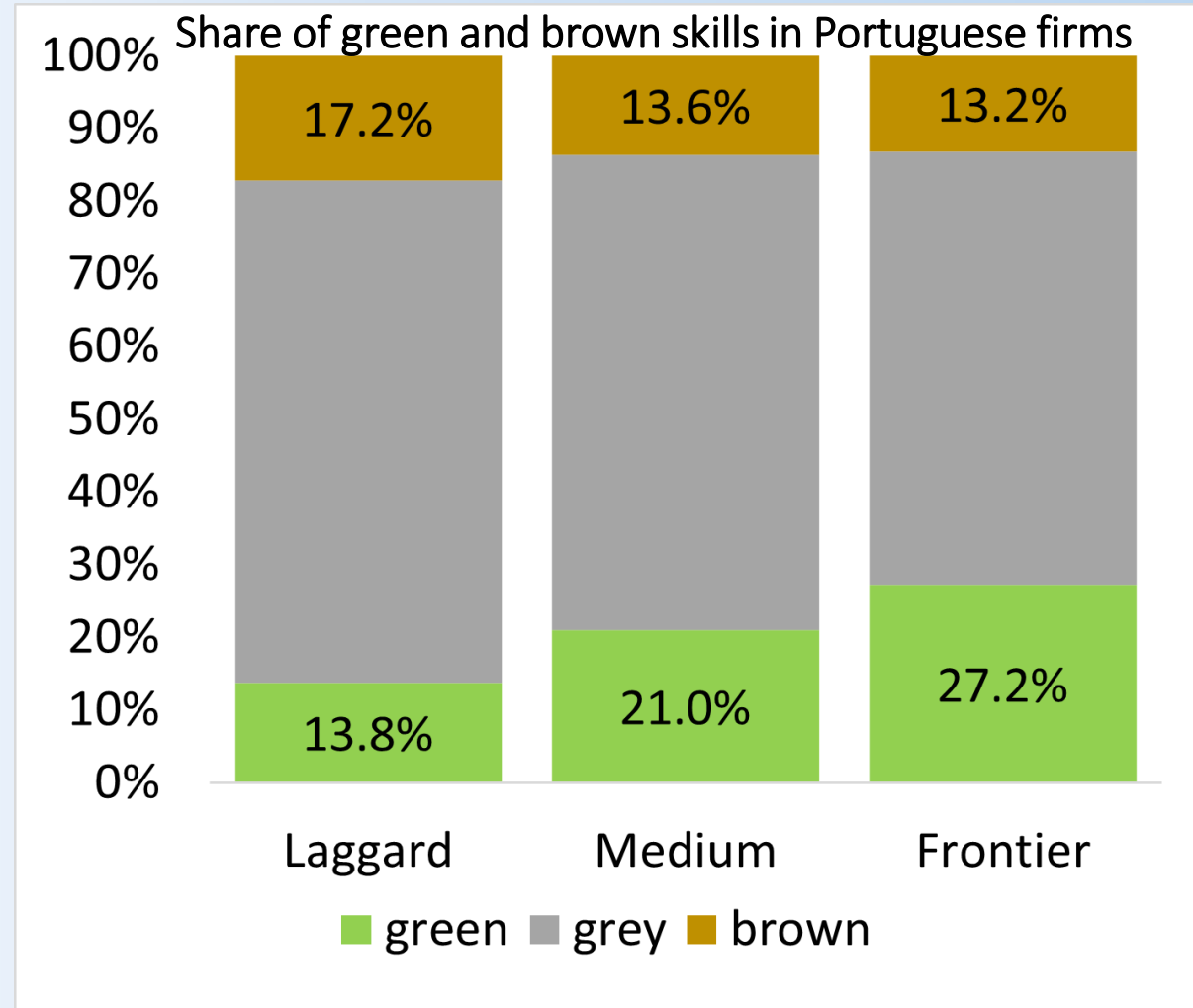
- i. **Cross-country database** on labour shortages and mismatches, based on labour force surveys and job postings.
- ii. Effects of labour shortages and mismatches on firm **productivity**.
- iii. The interaction of **megatrends** (ageing, digitalisation, and green transformation...) with labour markets.
- iv. Development of an online flash **survey on pervasiveness of shortages and mismatches** in firms.



Other ongoing work is addressing the opportunities and challenges for productivity going forward.

Green transition and productivity

- i. Do top firms need green skills?
(Preliminary evidence: YES)
- ii. Effects of environmental policy on green investment? Role of finance and management?
- iii. Impacts of extreme climate events on productivity?





Thank you

References

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- Sorbe, S., P. Gal and V. Millot (2018), "Can productivity still grow in service-based economies?: Literature overview and preliminary evidence from OECD countries", *OECD Economics Department Working Papers*, No. 153

Forthcoming

- André, C. and P. Gal (2023), "Reviving productivity growth: A review of policies"
- OECD (2023), "Going for Growth 2023"