The global productivity slowdown and the increasing gap between the Best and the Rest: What role for policy?

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Weak labour productivity underpins the collapse in OECD potential growth

Contribution to potential per capita output growth (% pts unless otherwise noted)

Productivity gaps widened between the best vs the rest, along with rising wage inequality

Labour productivity
Index, 2001 = 100

Real compensation per worker
Index, 2001 = 100

Note: Frontier firms are the 5% of firms with the highest labour productivity by year and sector. Industries included are manufacturing and business services, excluding the financial sector, for firms with at least 20 employees.
Lack of capabilities to adopt best practices? Winner-takes-all phenomenon in digital sectors…

Average of productivity across firms within detailed sectors (2001=100) *

Note: Frontier firms are the 5% of firms with the highest labour productivity by year and sector. Industries included are manufacturing and business services, excluding the financial sector, for firms with at least 20 employees.

Lack of incentives to adopt best practices?
Weakening business dynamism and market contestability

**Share of firms (%)**

- **Non-viable old firms (older than 10 years)**
- **Young firms (0-5 years)**
- **Mature firms (6-10 years)**

**Productivity relative to viable old firms**

- **Young firms (0-5 years)**
- **Mature firms (6-10 years)**
- **Non-viable old firms (older than 10 years)**

**Notes:** Non-viable old firms are those older than 10 years that record negative profits over at least two consecutive years. The omitted group are firms older than 10 years that do not record negative profits over at least two consecutive years (viable old firms). Source: Andrews, D., Criscuolo C., and Gal P. (2016), “The Best versus the Rest: The Global Productivity Slowdown, Divergence across Firms and the Role of Public Policy”, OECD Productivity Working Papers, No. 05; Orbis data of Bureau van Dijk

**Declining firm turnover:** fewer young firms, while marginal firms increasingly survive.

**A higher productivity threshold for entry, while marginal firms survive despite a collapse in their productivity**
THE ROLE OF POLICY
Firms: sluggish services reform efforts are linked to productivity divergence

Estimated contribution to the annual change in the MFP gap of the slower pace of reform relative to the fastest reforming industry (telecoms).

- Observed increase in gap
- Increase in gap due to slow deregulation

Firms: much scope to reform insolvency regimes to promote restructuring…

OECD insolvency regime indicator (preliminary)

Lack of prevention and streamlining


Bars to corporate restructuring

Openness: participation in global value chains is key for businesses to learn from best practice

Estimated frontier spillover (% pa) associated with a 2% point increase in MFP growth at the global productivity frontier

THANK YOU

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