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

Conference on *Productivity: a challenge to the Slovenian economy*
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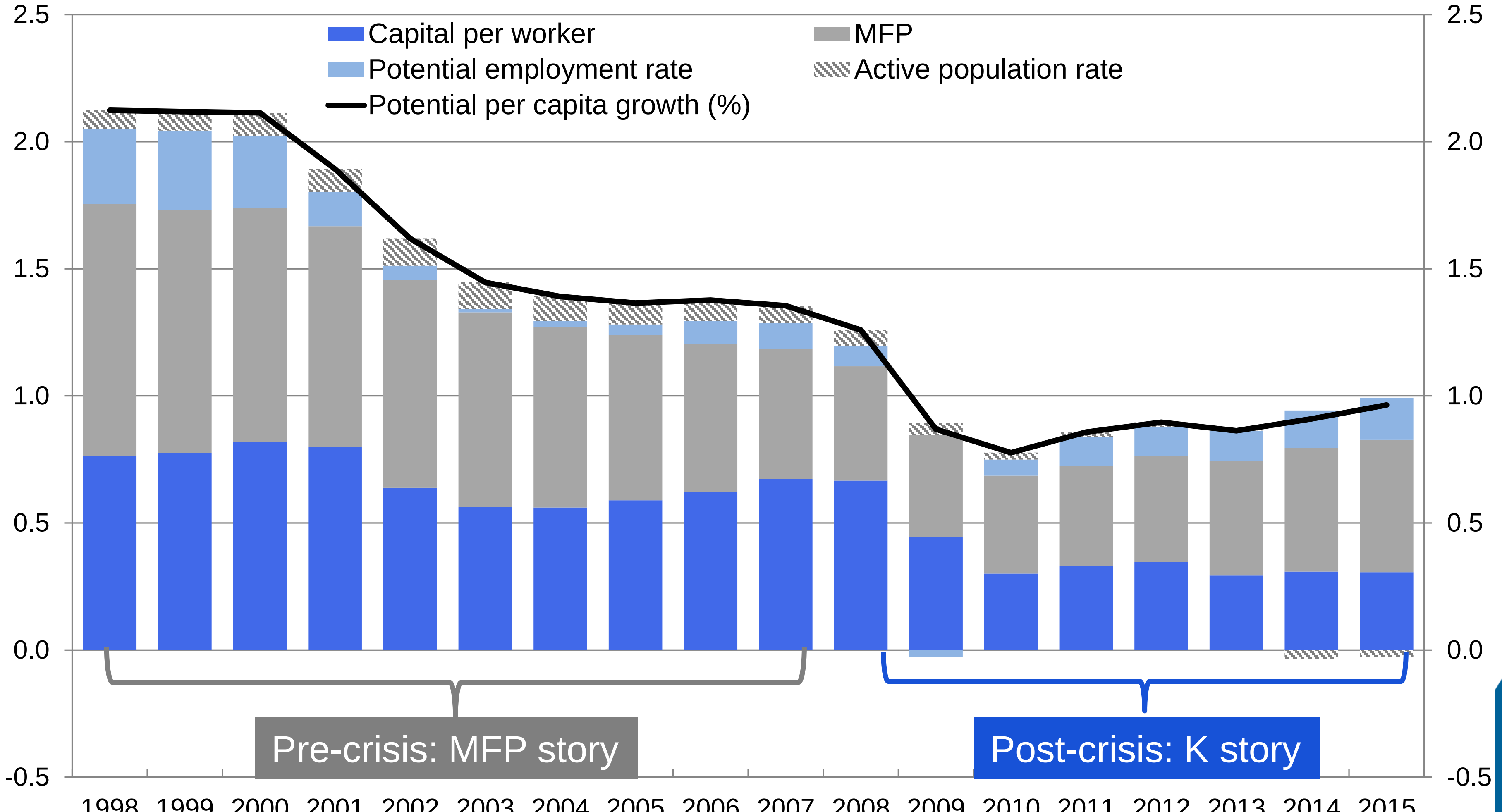
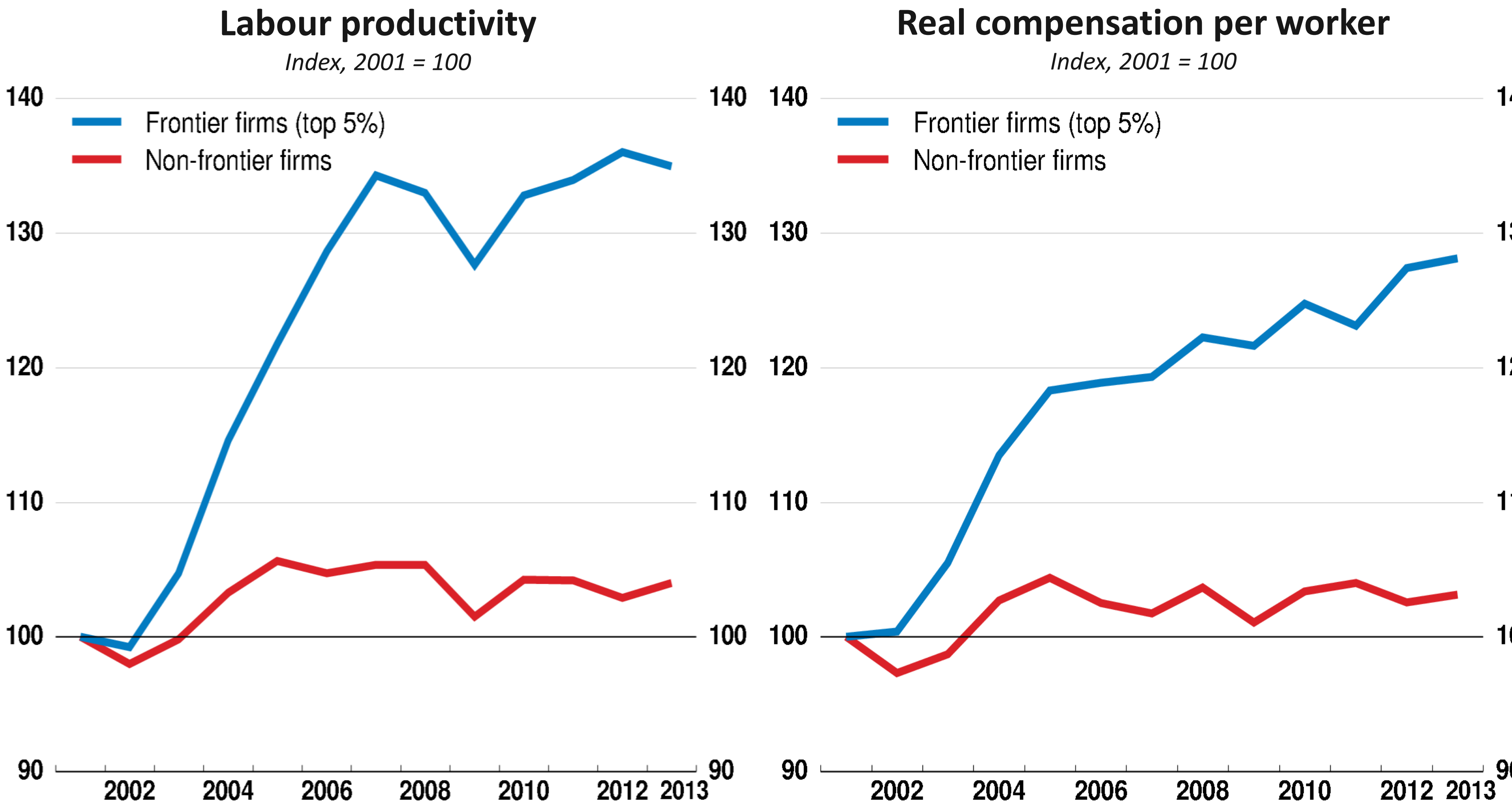
Weak labour productivity underpins the collapse in OECD potential growth

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



Source: OECD Economic Outlook 2016, Volume 1.

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

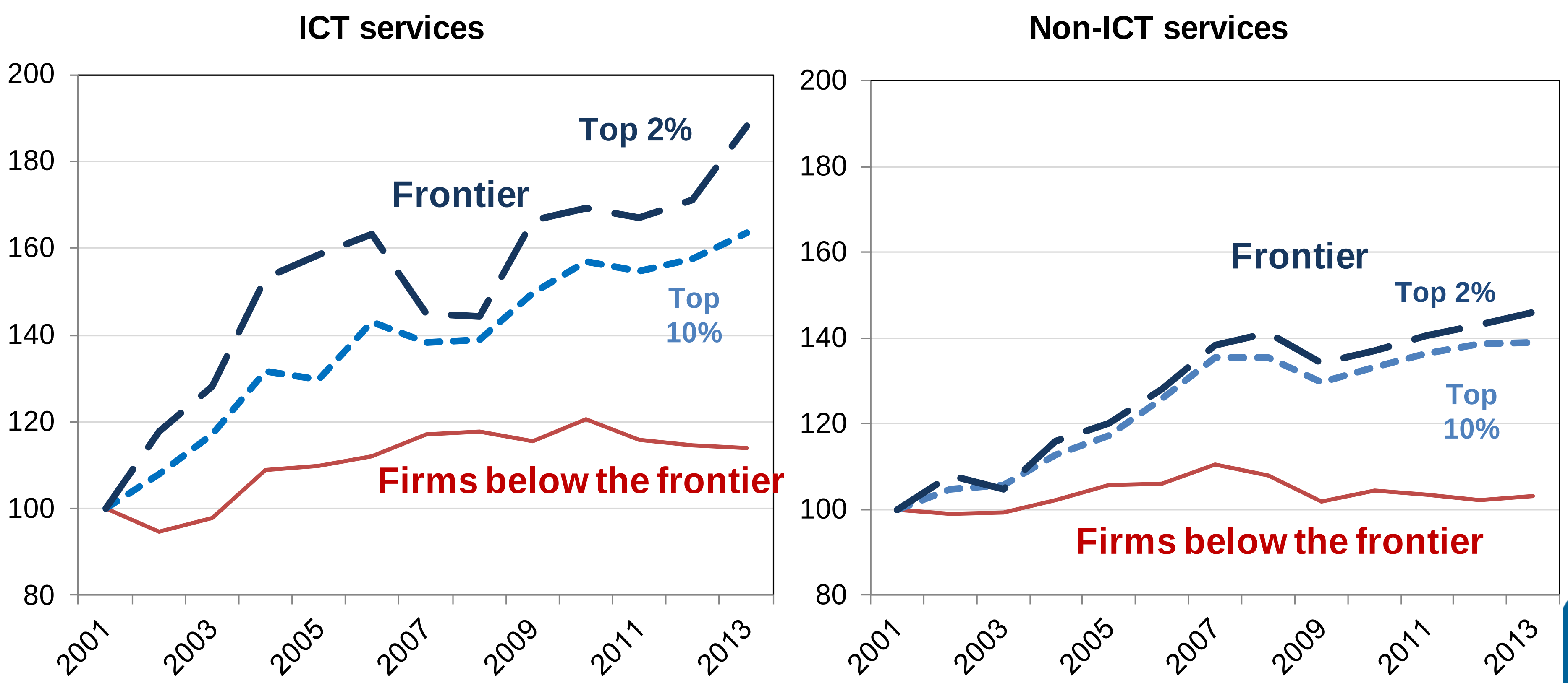


Note: Frontier firms are the 5% of firms with the highest labour productivity by year and sector. Industries included are manufacturing and business services, excluding the financial sector, for firms with at least 20 employees.
Source: Andrews, D., Criscuolo C., and Gal P. (2016), "The Best versus the 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; and OECD calculations.

Lack of capabilities to adopt best practices?

Winner-takes-all phenomenon in digital sectors…

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



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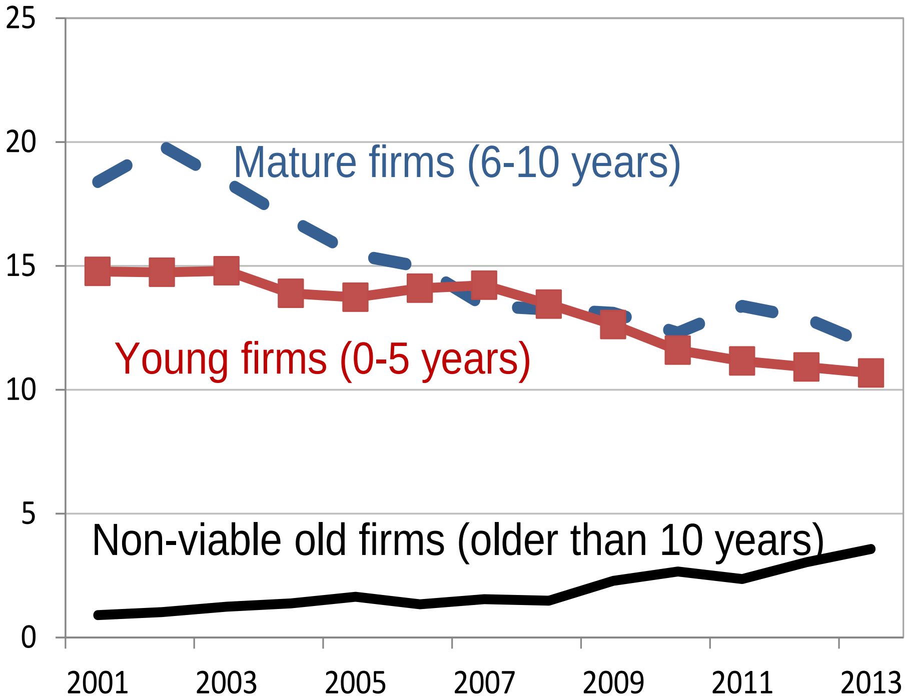
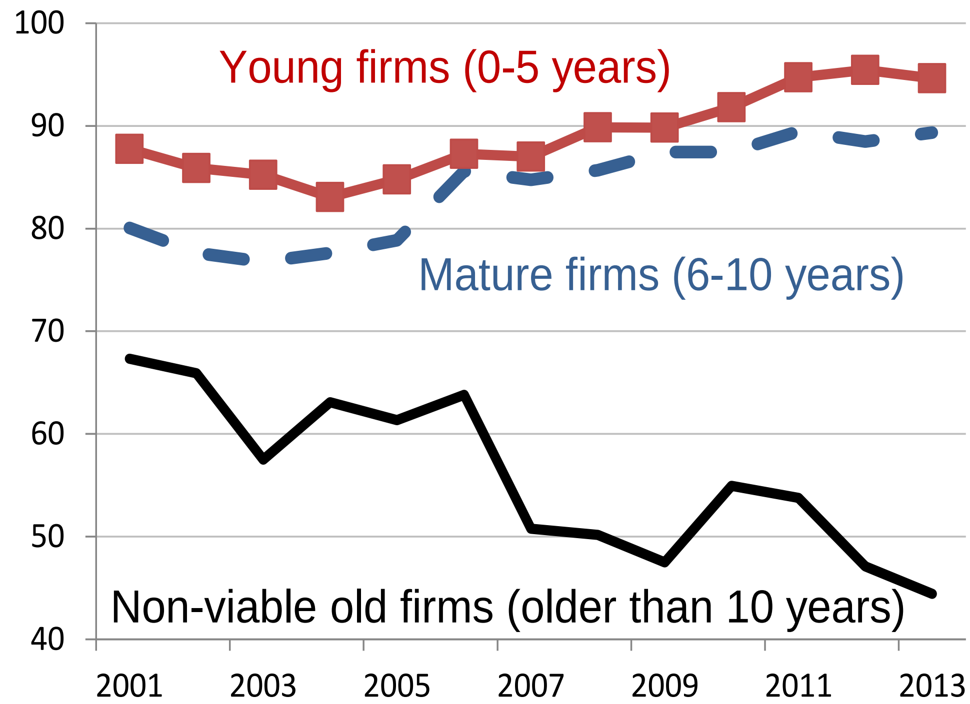
Lack of incentives to adopt best practices?

Weakening business dynamism and market contestability

Share of firms (%)



Productivity relative to viable old firms



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

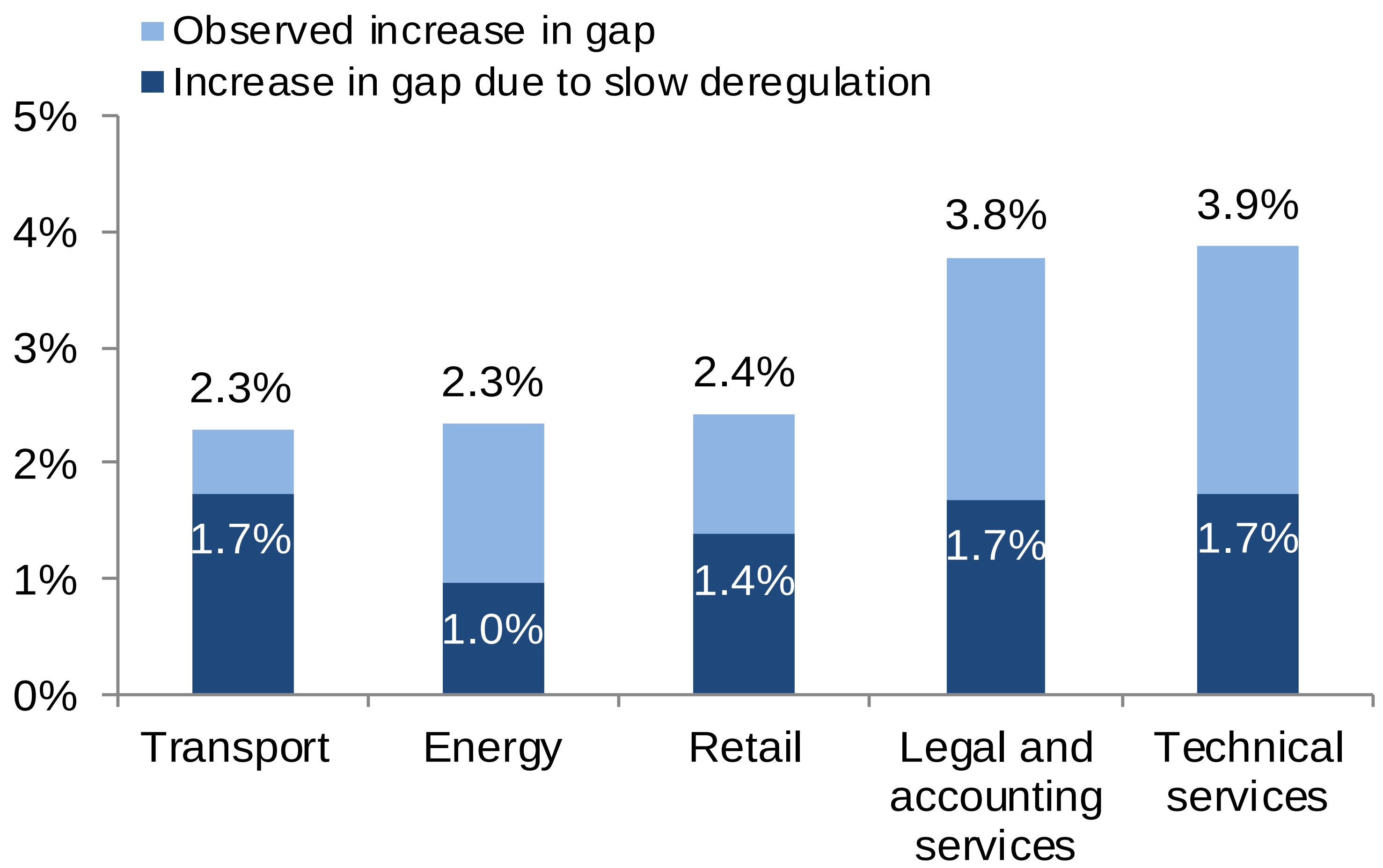
A higher productivity threshold for entry, while marginal firms survive despite a collapse in their productivity

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

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)

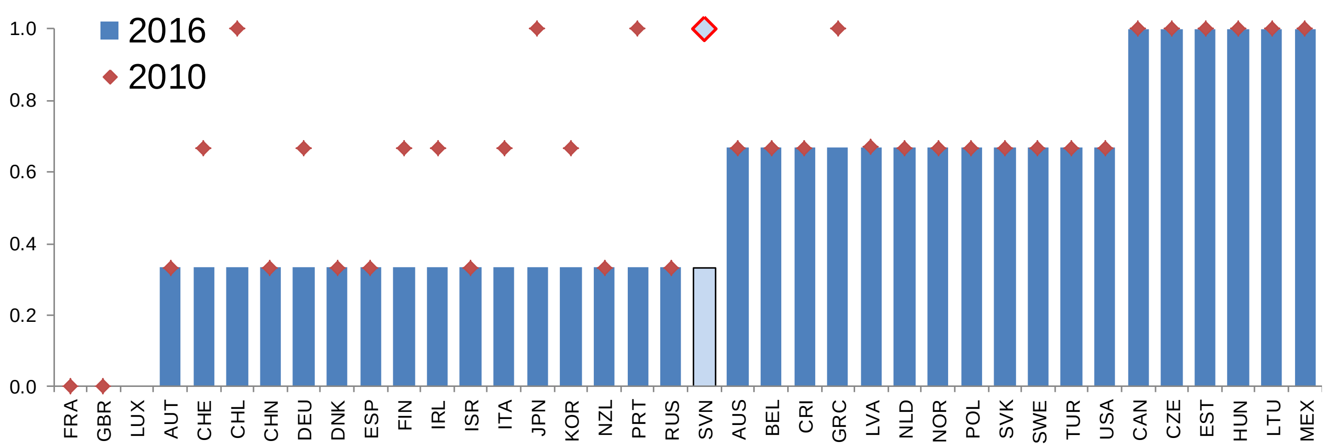


Source: Andrews, D., Criscuolo C., and Gal P. (2016), "The Best versus the Rest: The Global Productivity Slowdown, Divergence across Firms and the Role of Public Policy", OECD Productivity Working Papers, No. 05.

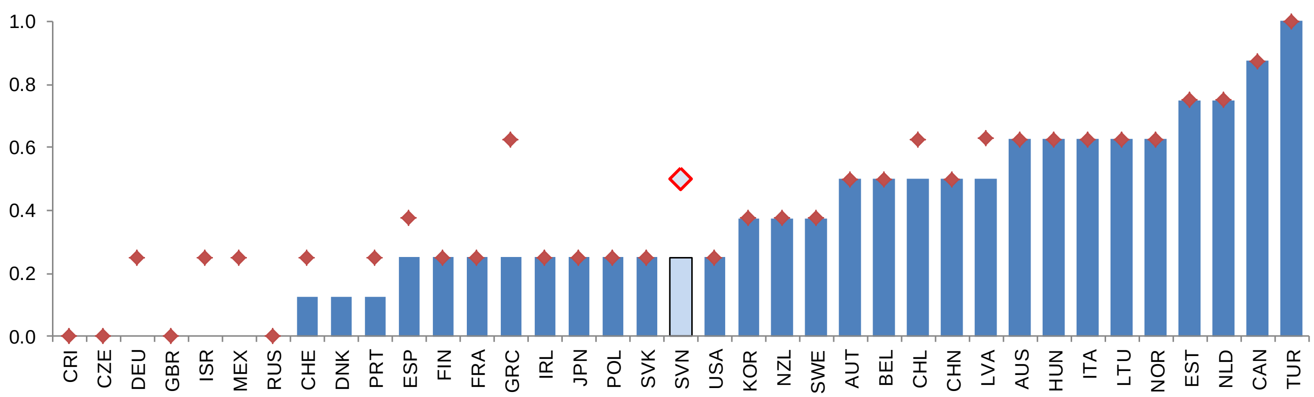
Firms: much scope to reform insolvency regimes to promote restructuring…

OECD insolvency regime indicator *(preliminary)*

Lack of prevention and streamlining



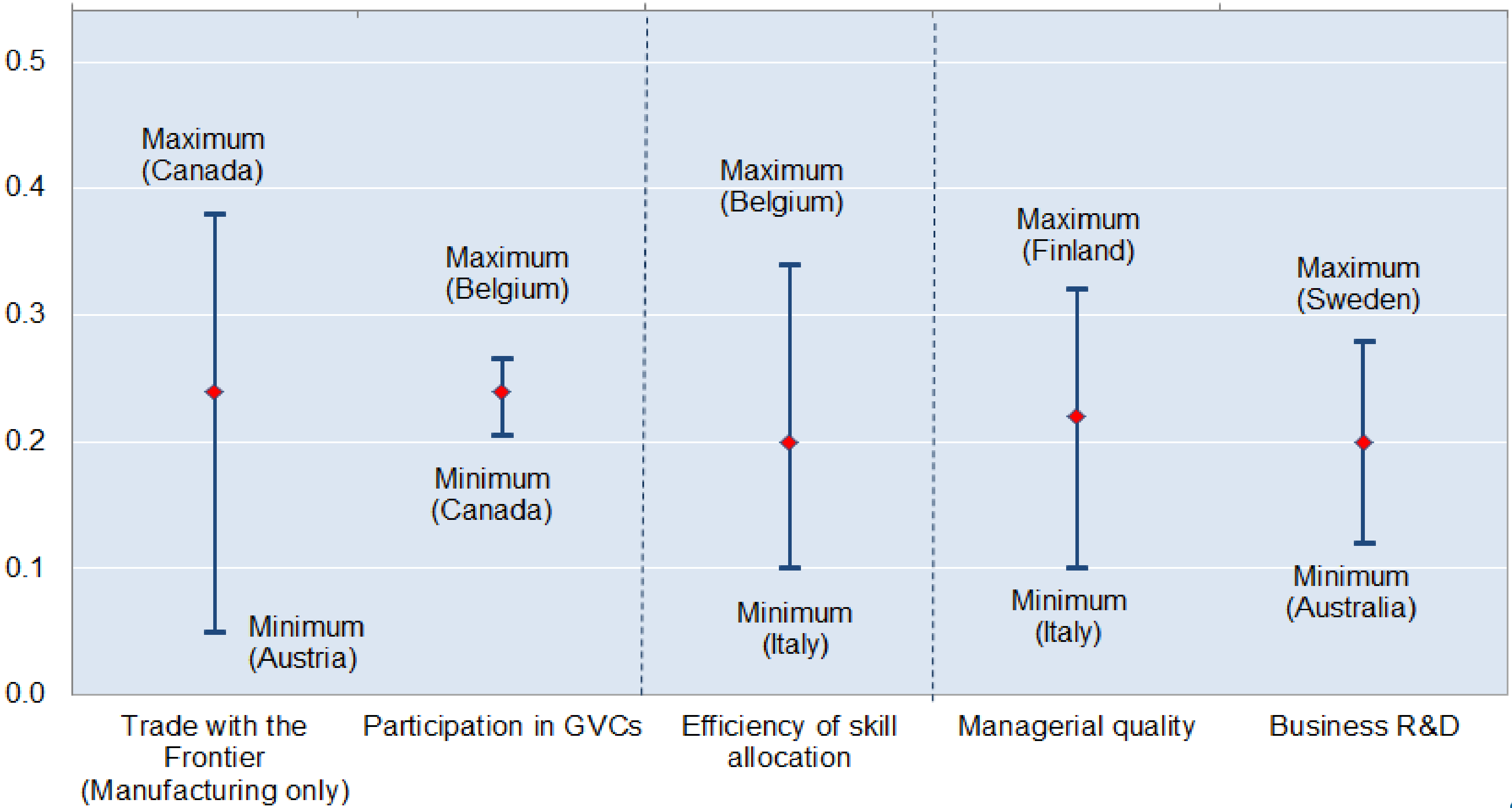
Barriers to corporate restructuring



Source: Adalet McGowan, M., D. Andrews and V. Millot (2017), "Insolvency Regimes, Zombie Firms and Capital Reallocation", OECD Economics Department Working Paper *forthcoming*.

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



Source: Saia, Andrews and Albrizio (2015), Productivity Spillovers from the Global Frontier and Public Policy Industry-Level Evidence, OECD Economics Department Working Papers No. 1238

THANK YOU

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