How to raise productivity post-COVID?

SUERF/OeNB webinar on “how to raise \( r^* \)”

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2 main points

• There are pre-pandemic structural weaknesses that have held back productivity growth.

• The pandemic adds the challenge of making short-term preservation consistent with longer-term productivity-enhancing reallocation.
Productivity had been slowing among OECD countries already before the pandemic

Potential output per capita growth
Contributions to growth (%pts)

Euro Area

United States

Source: OECD Economic Outlook database.
### How will COVID-19 affect potential output?

<table>
<thead>
<tr>
<th>POTENTIAL LABOUR</th>
<th>POTENTIAL CAPITAL</th>
<th>POTENTIAL TFP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quantity</strong></td>
<td><strong>Quality</strong></td>
<td></td>
</tr>
<tr>
<td>Death (0)</td>
<td>Less schooling (-)</td>
<td>Obsolescence (-)</td>
</tr>
<tr>
<td>Immigration (-)</td>
<td>Scarring (-)</td>
<td>Uncertainty (-)</td>
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**Reallocation is an important channel**

- **Over 20% of jobs are reallocated each year through firm entry and exit.**
- **Resources are typically reallocated towards more productive firms.**
- **Job destruction is costly: it needs to enhance productivity to be useful.**
During the pandemic, support has (rightly) focused on preservation, given the costs of job destruction, ...

OECD – Participation in job retention schemes
Share of dependent employees (%)

Approved applications
Actual use

... but this is not without consequences for productivity-enhancing reallocation

The case of Australia: JRS and the labour market

Index, 1 March 2020=100

JobKeeper scheme announced on 30 March

The goal is to make sure that preservation does not lead to zombification.

The case of Australia: Difference in employment growth between high and low productivity firms (Estimated monthly profile: March 2020 to May 2021)

Loan guarantees have been used to prevent insolvencies due to crisis-related liquidity shortages.

These guarantees affect the scope for productivity-enhancing labour reallocation

Key challenge is to tackle pre-pandemic structural obstacles to productivity diffusion

Post-2004 productivity slowdown has been structural:

1. Stalling knowledge diffusion from the frontier
2. Slowing resource reallocation
3. Declining firm entry
4. Less efficient firm exit (zombies)
5. Rising product market concentration and mark-ups
6. Declining job mobility

Why? Plausibly a mix of technological factors and policy weakness

Labour productivity gaps

Structural reform priorities cut across several policy areas

The most frequent productivity-enhancing priorities (OECD)

- Product market regulation, competition and trade openness, 25.9%
- Education and skills, 23.0%
- Environment, 15.6%
- Infrastructure and housing, 12.7%
- Tax structure and efficiency, 11.2%
- Public sector efficiency, governance and rule of law, 6.3%
- R&D policies, 5.3%

It is also important to restore the impetus of pro-growth structural reform

Responsiveness rates to Going for Growth recommendations, %

Simple average across countries.

Note: The responsiveness rate indicator aims to assess progress made by countries in addressing policy recommendations arising from the top 5 areas of reforms identified in Going for Growth. The indicator measures the share of total policy recommendations, across and within priorities, on which countries have taken reform action. The computation of the responsiveness rate indicator is based on a scoring system in which recommendations set in the previous edition of Going for Growth take a value of one if a reform action is taken and zero if not. The action must be implemented or legislated, i.e. announcements and government plans are not taken into consideration.

Source: OECD Going for Growth database.
Thank you

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