

How to raise productivity post-COVID?

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

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Luiz de Mello

Director, Economics Department, OECD

[Oe.cd/going4growth](https://oe.cd/going4growth)



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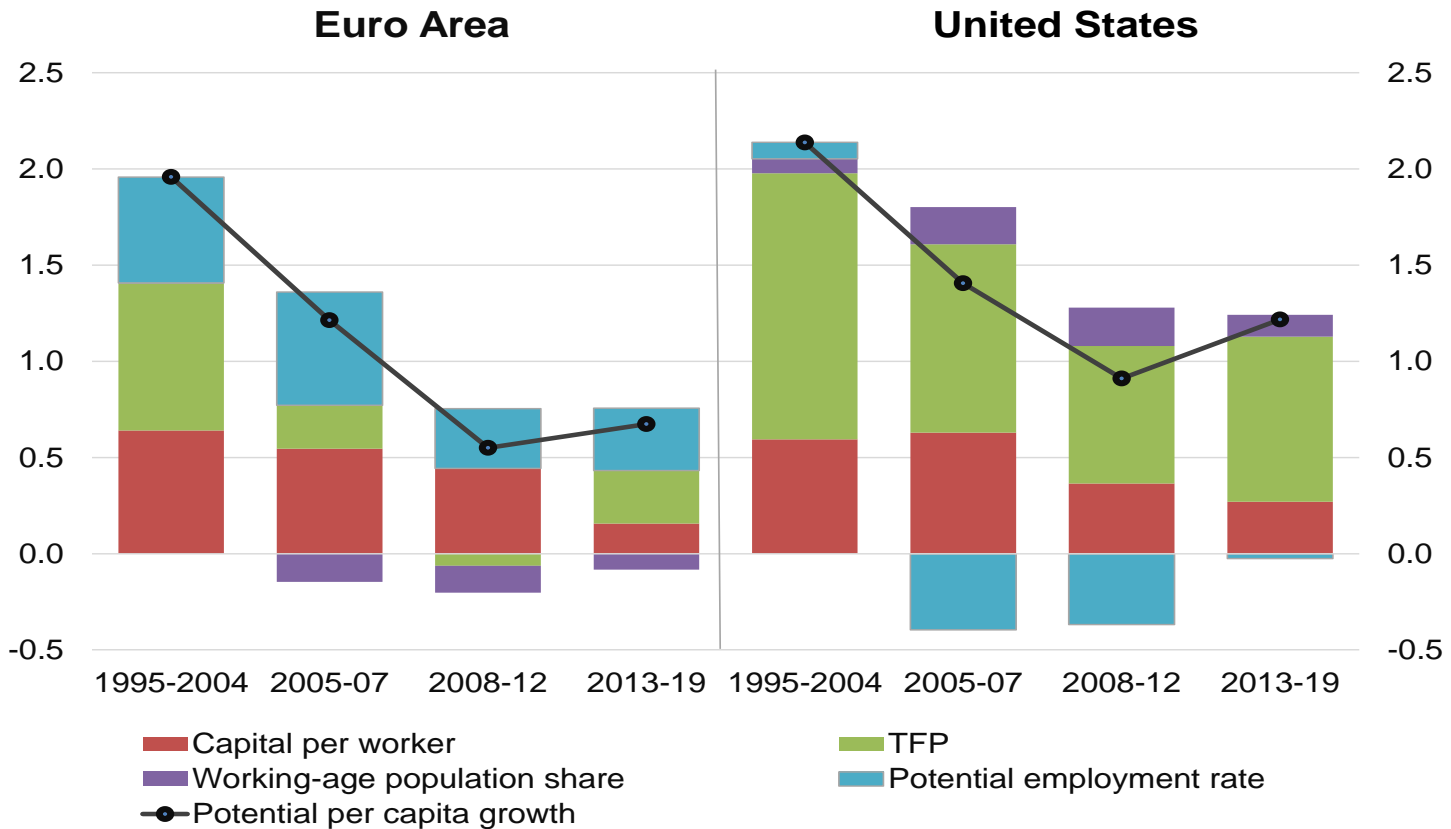
2 main points

- **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)



Source: OECD Economic Outlook database.



How will COVID-19 affect potential output?

POTENTIAL LABOUR		POTENTIAL CAPITAL		POTENTIAL TFP	
Quantity	Quality			Within-firm productivity	Resource reallocation
Death (0)	Less schooling (-)	Obsolescence (-)	ICT investment (+)	Experimentation (+)	Cleansing (+)
Immigration (-)	Scarring (-)	Uncertainty (-)		Firm specific capital (-)	Exit of productive but fragile firms (-)
				Diverted managerial time (-)	Between-sector shifts (+)
				Global knowledge spillovers (-)	

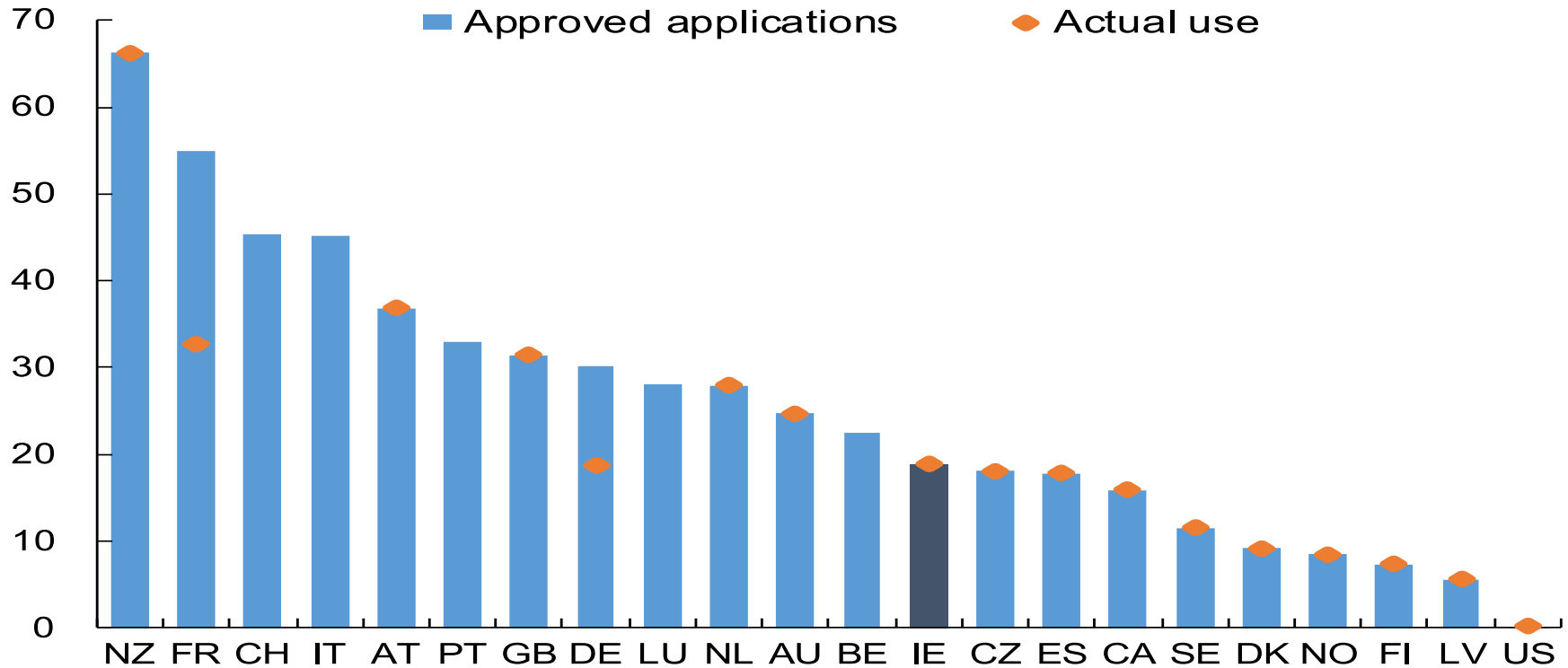
Reallocation is an important channel

- **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 (%)



Sources: OECD (2020) *Employment Outlook*.

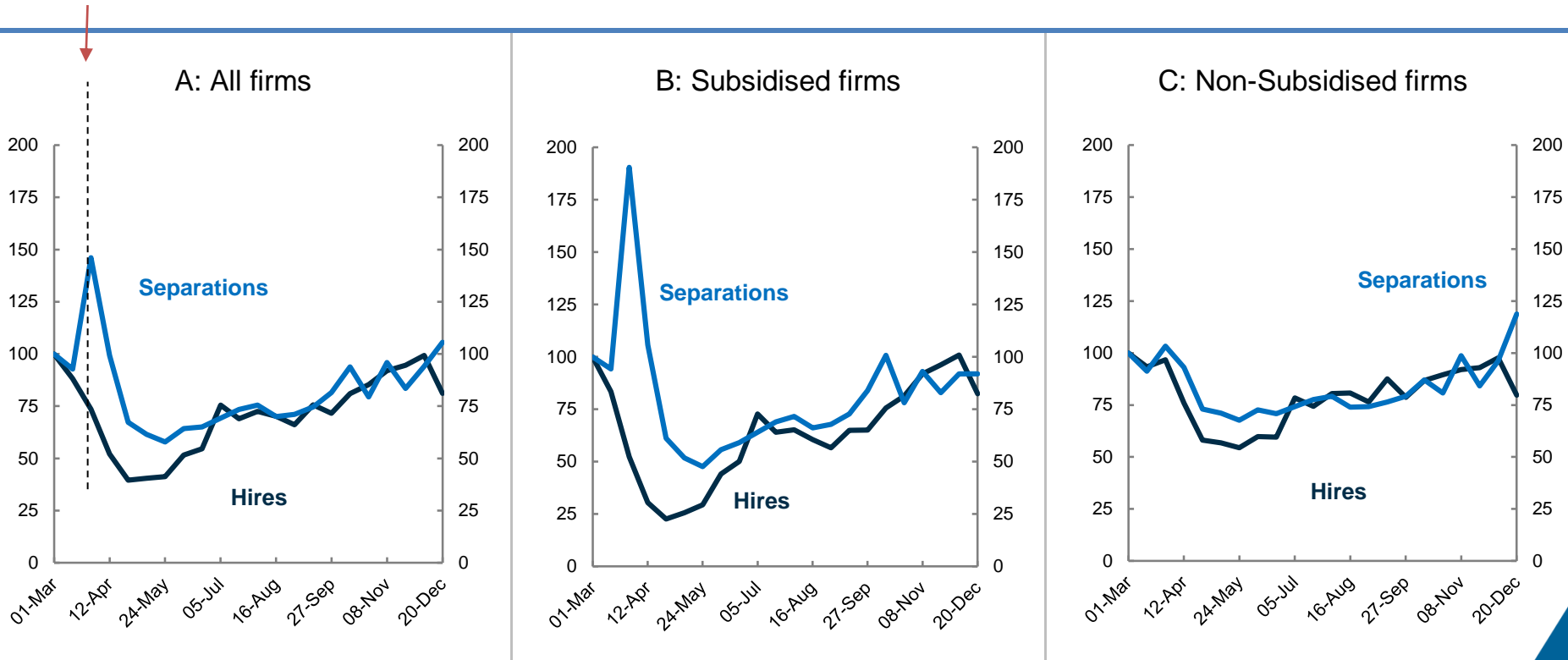


... but this is not without consequences for productivity-enhancing reallocation

The case of Australia: JRS and the labour market

Index, 1 March 2020=100

JobKeeper scheme announced on 30 March

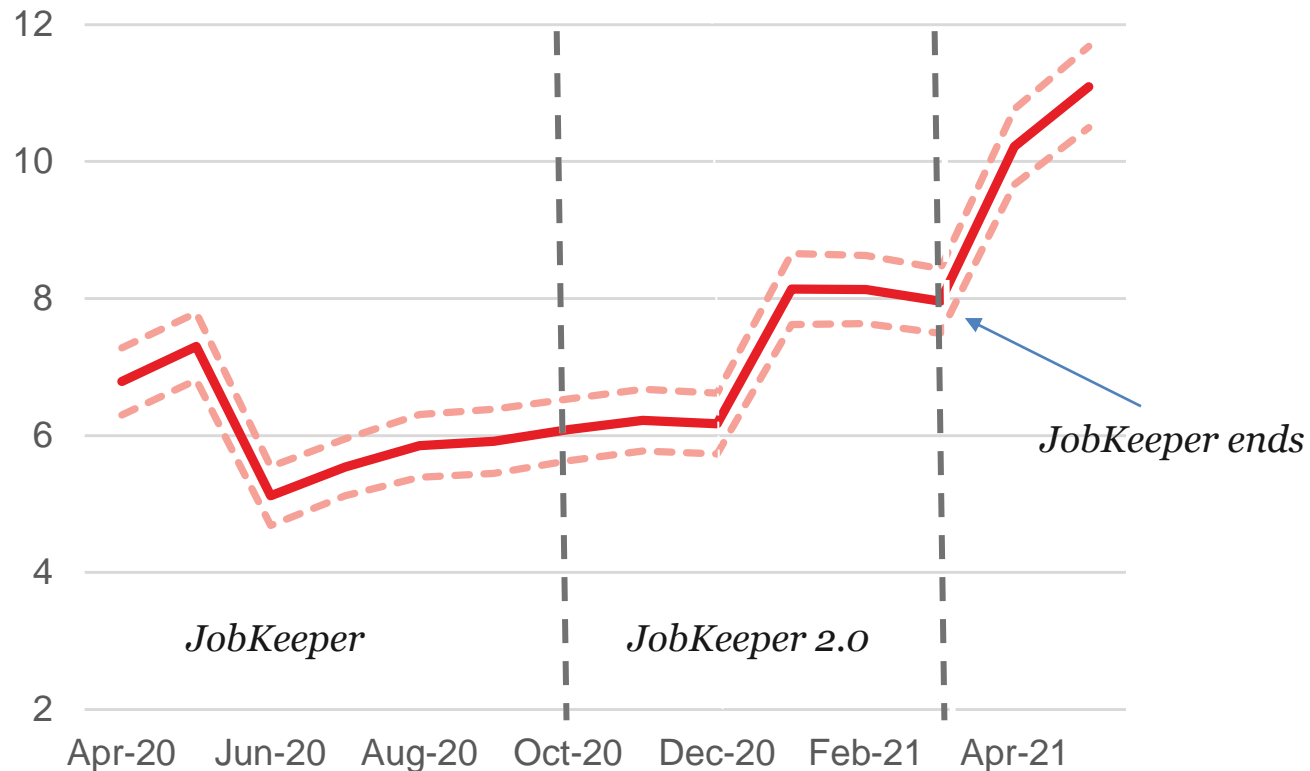


Source: Andrews et al. (2021), "Productivity and reallocation: Time evidence from three OECD countries, OECD Economics Department Working Paper, No. 1676, OECD, Paris.



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

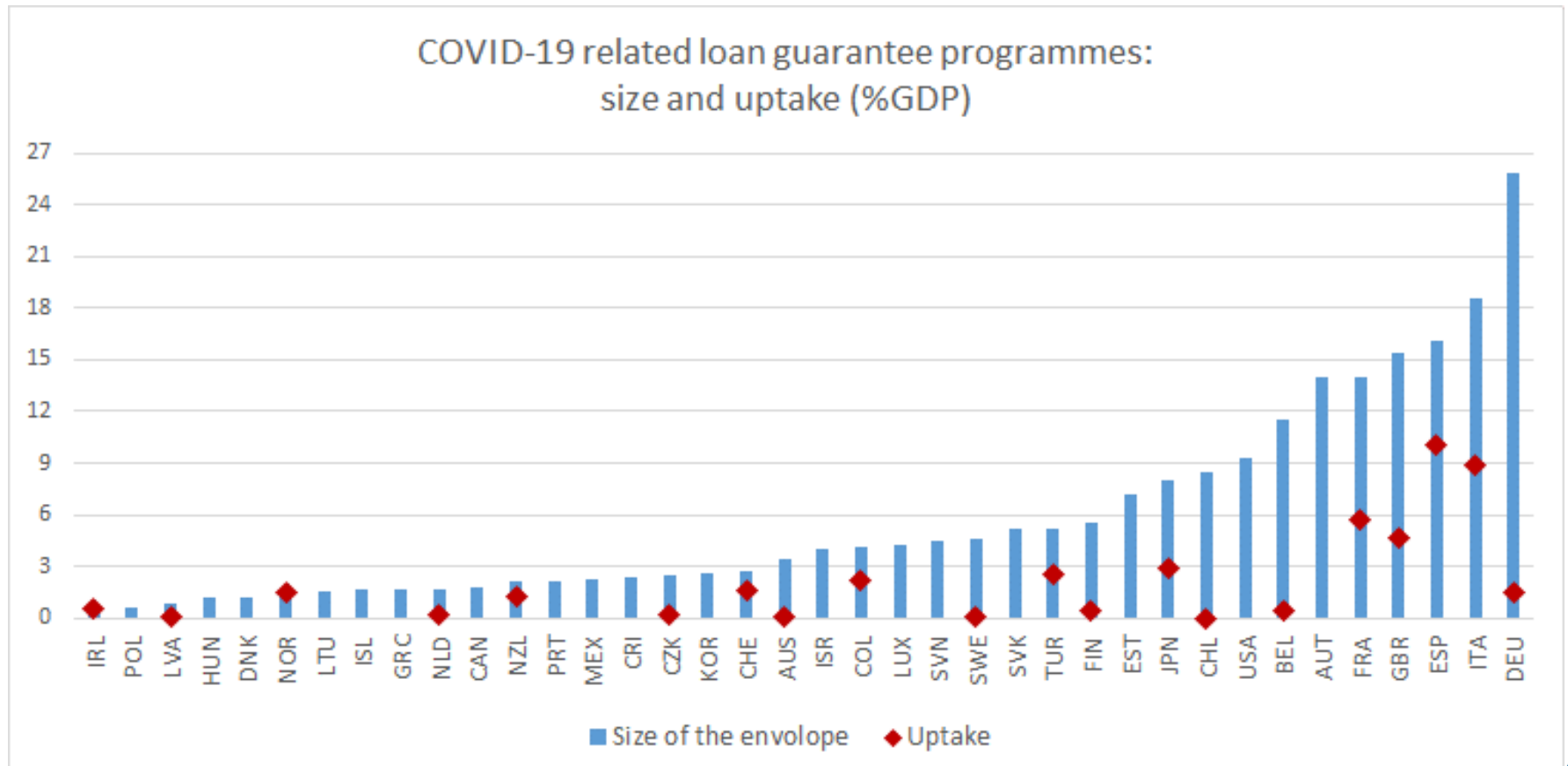
The case of Australia: Difference in employment growth between high and low productivity firms (Estimated monthly profile: March 2020 to May 2021)



Source: Andrews et al. (2021), "The COVID-19 shock and productivity-enhancing reallocation in Australia: Real-time evidence from Single Touch Payroll", OECD Economics Department Working Paper, No. 1677, OECD, Paris.



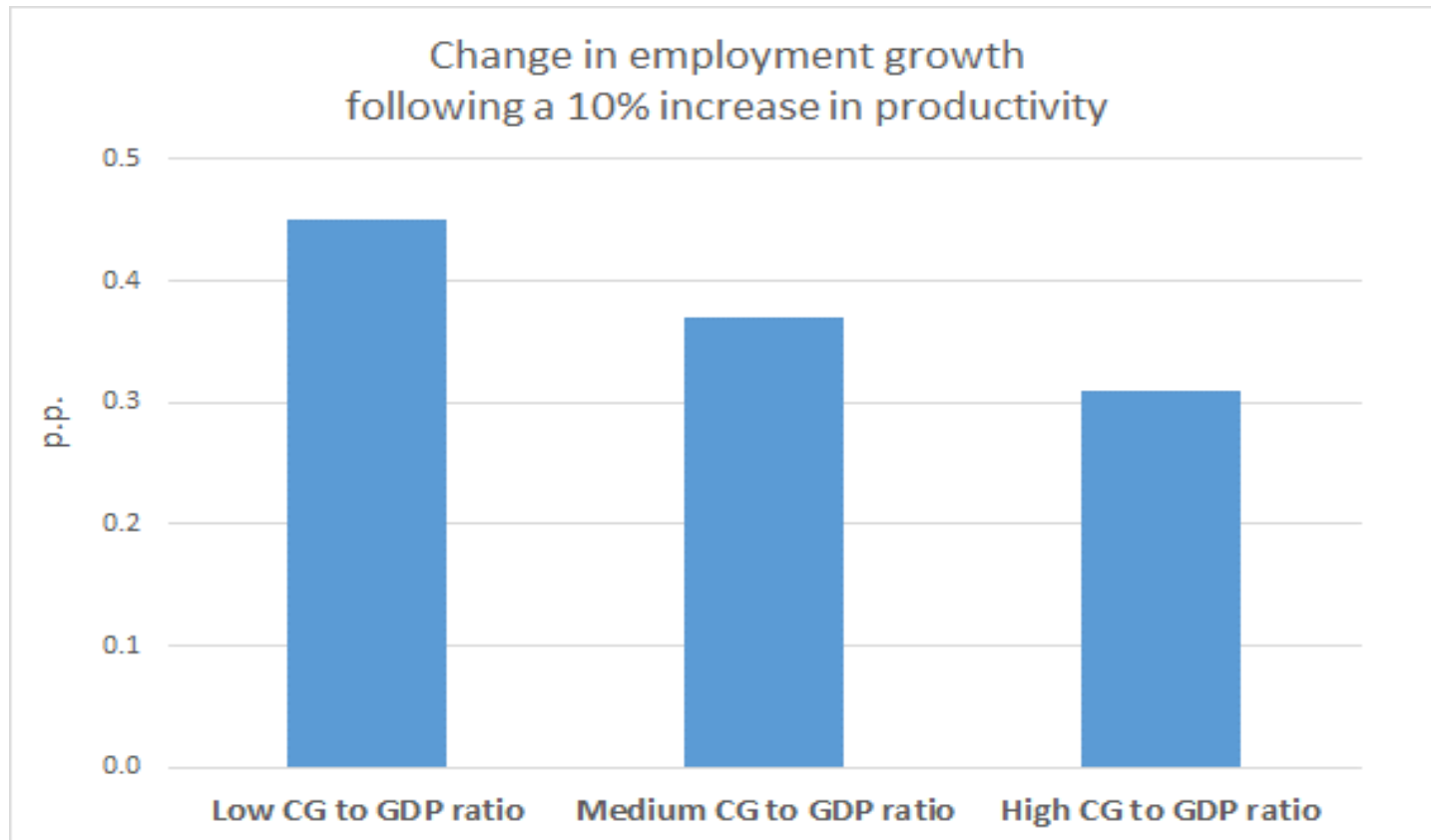
Loan guarantees have been used to prevent insolvencies due to crisis-related liquidity shortages



Source: Demmou, L. and G. Franco (forthcoming), “From hibernation to reallocation: COVID-19, productivity and public loan guarantees”, OECD Economics Department Working Paper, OECD, Paris.



These guarantees affect the scope for productivity-enhancing labour reallocation



Source: Demmou, L. and G. Franco (forthcoming), “From hibernation to reallocation: COVID-19, productivity and public loan guarantees”, OECD Economics Department Working Paper, OECD, Paris.

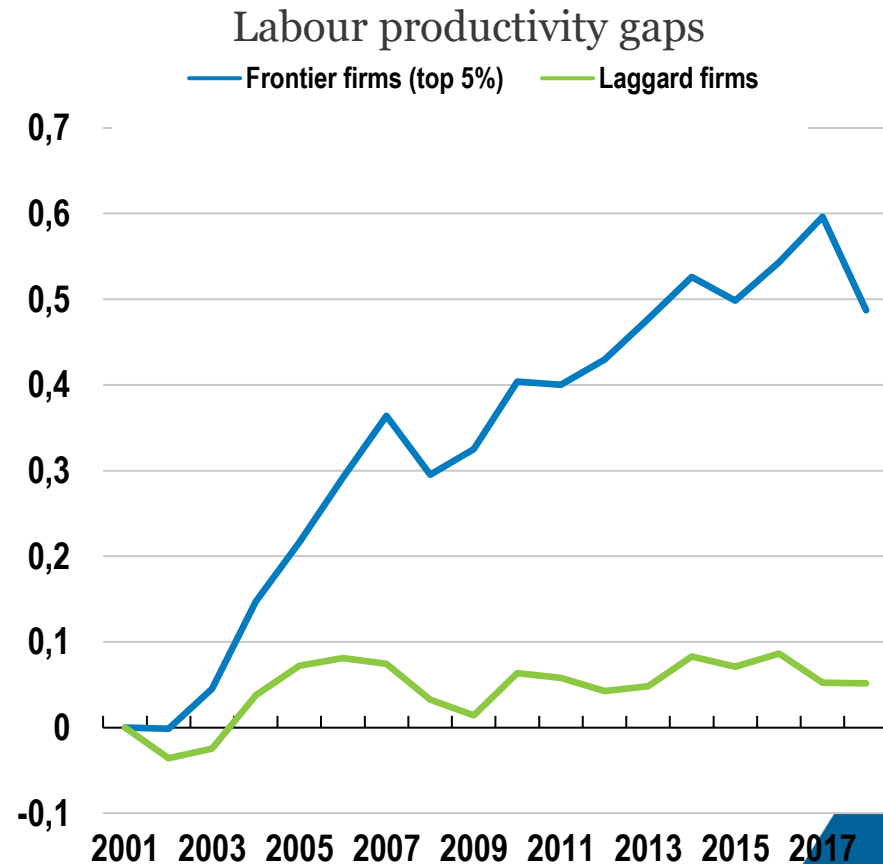


Key challenge is to tackle pre-pandemic structural obstacles to productivity diffusion

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

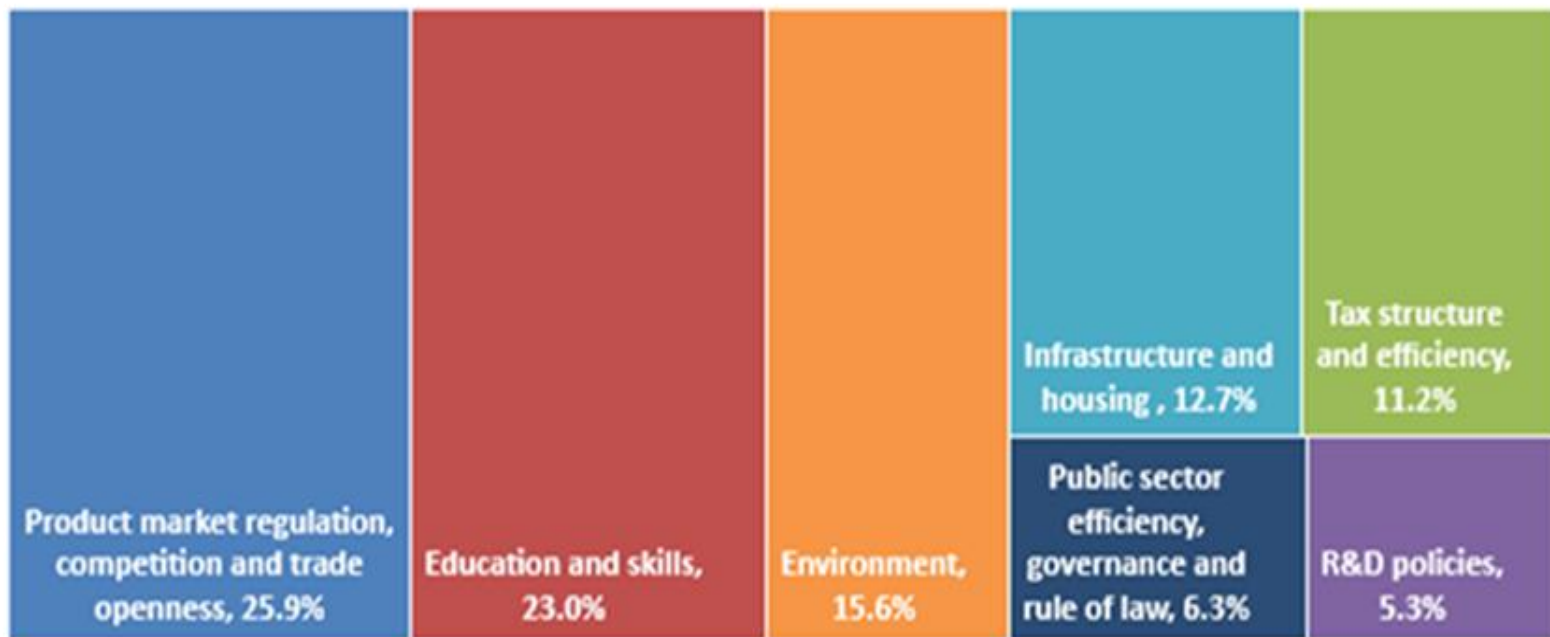


Source: Andrews, Criscuolo and Gal (2019)



Structural reform priorities cut across several policy areas

The most frequent productivity-enhancing priorities (OECD)

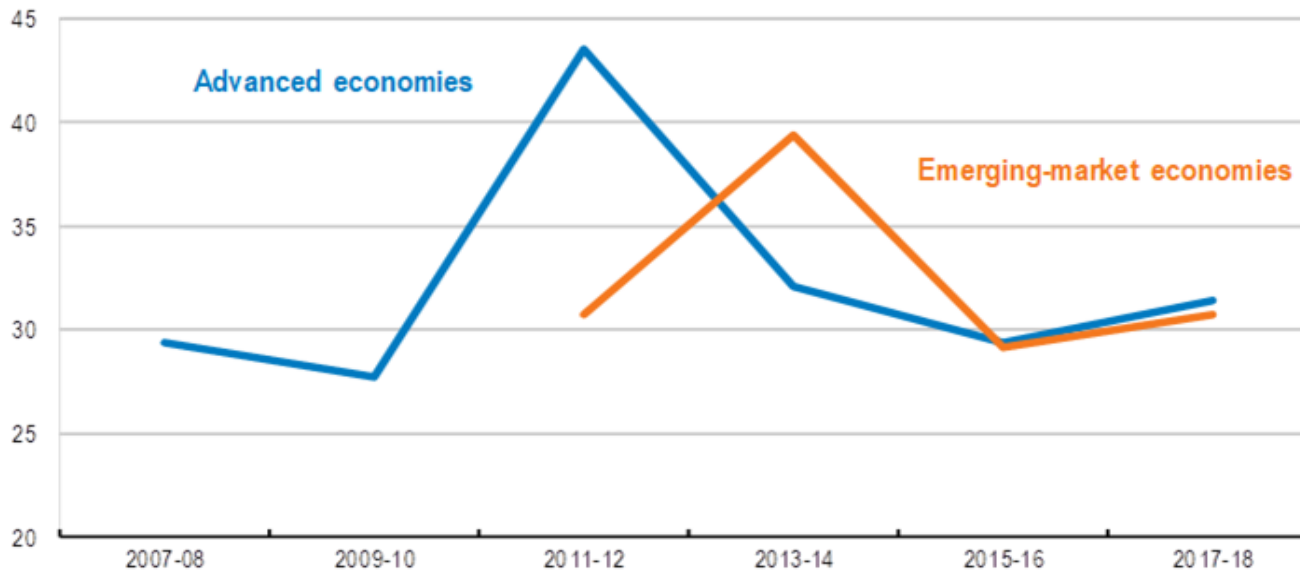


Source: OECD Going for Growth (2021).



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.



Thank you

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