



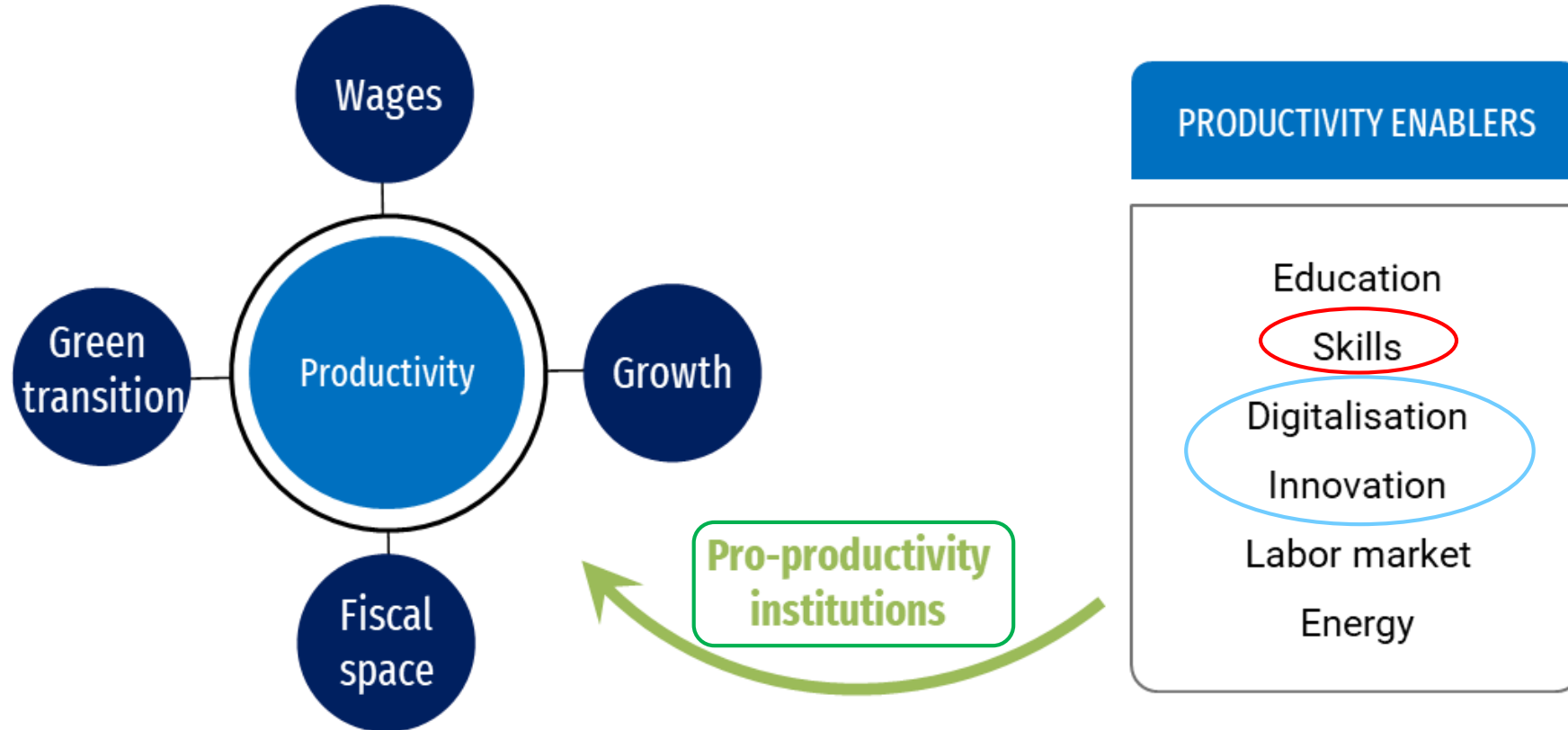
Productivity performance and Pro-productivity institutions

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**Productivity Dialogue
22 February 2022**



Productivity is a key driver of growth and prosperity



Source: OECD elaboration.



Decomposing aggregate productivity growth

Aggregate Productivity Growth

Within-firm growth of heterogeneous firms

- Growth at the frontier
- Speed of catch-up (diffusion and adoption; spillovers and absorptive capacity)
- Will depend on firms' skills; management; capital (tangible and intangible); innovation; ...

Resource Reallocation

- business dynamism (reallocation, entry/exit)
- Productivity enhancing nature of reallocation



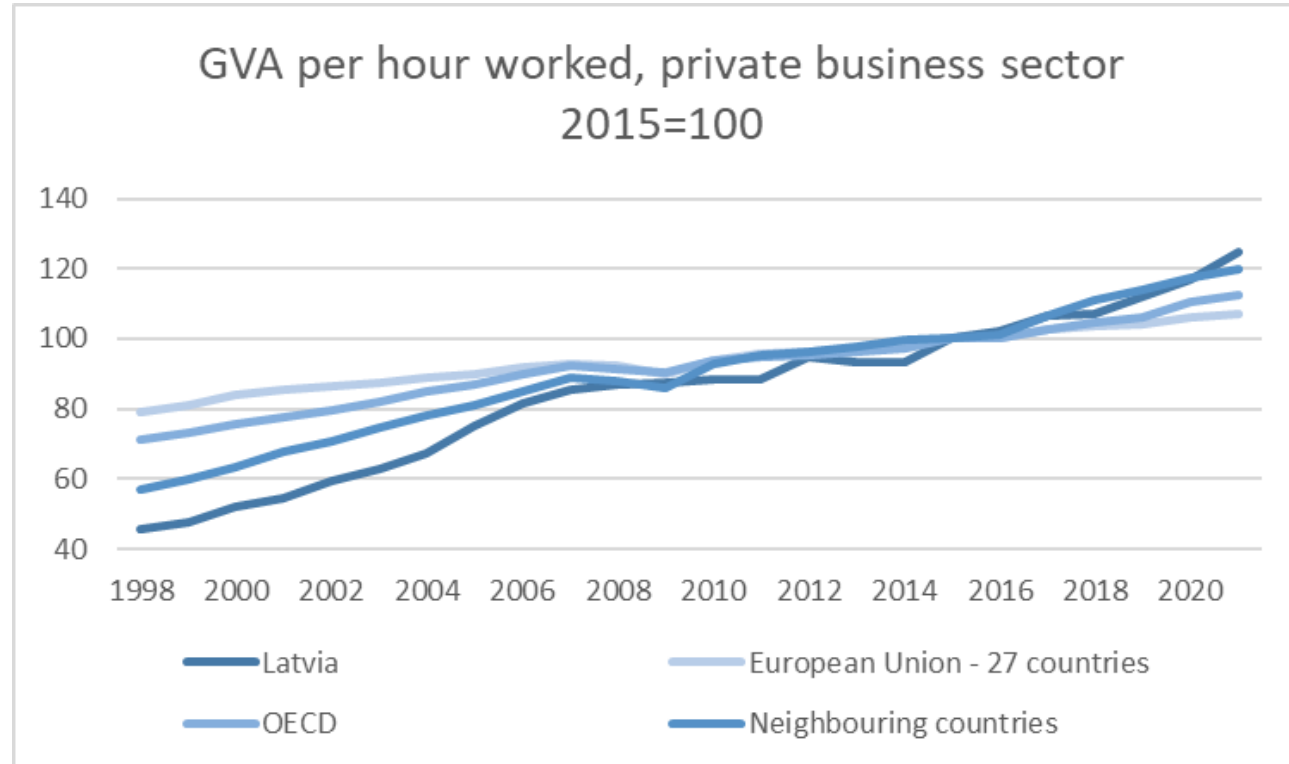
OVERALL PRODUCTIVITY PERFORMANCE

BASED ON THE MULTIPROD DATABASE

(WITH SPECIAL THANKS TO
KONSTANTĪNS BEŅKOVSKIS, LATVIJAS BANKA, AND
STOCKHOLM SCHOOL OF ECONOMICS, RIGA)



Latvia has benefited from sustained productivity growth over the last 2 decades



Source: OECD Productivity Statistics

- Labour productivity has grown faster than OECD and EU averages.
- Performance has been particularly positive since EU accession in 2004
- During the COVID-19 crisis, policies have fostered productivity (from a recent OECD study)



Productivity growth has been broad-based, except for the Information industry and professional activities

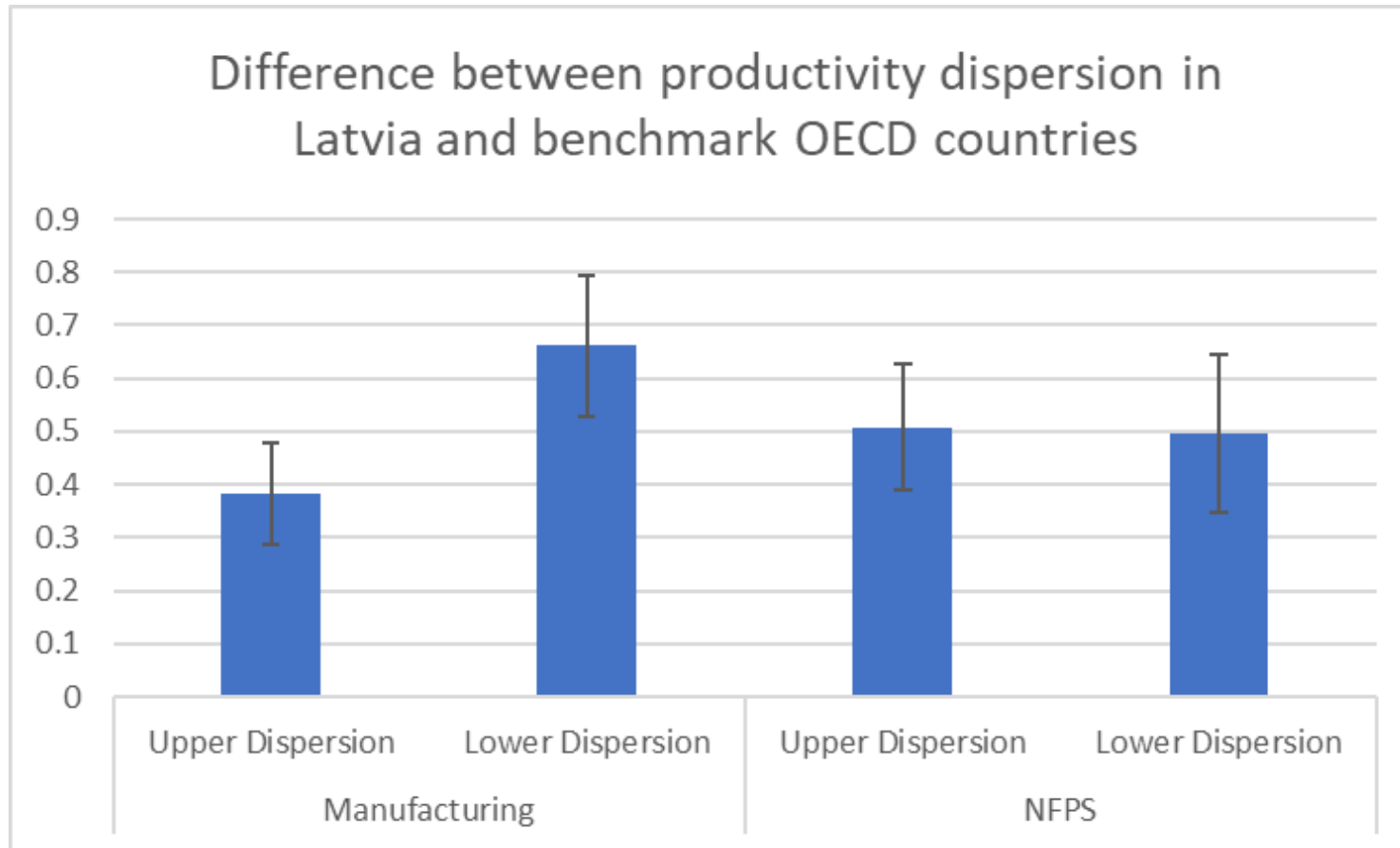
Industry contribution to private business sector labour productivity – selected industries



Source: OECD Productivity Statistics



Productivity dispersion is relatively high, both at the top and at the bottom of the distribution



- Large, widespread & persistent differences
→ Important potential aggregate productivity gains from the **catch-up** of lagging firms
- But technology is becoming cheaper, so it must be other factors...
- What about the **Human Side?**
Skills, management, diversity, organisation

Source: This graph reports coefficients of a regression of the dispersion between the 9th and 5th decile (upper dispersion) or between the 5th and the 1st decile (lower dispersion) of the productivity distribution on a dummy =1 for Latvia. Countries included are BEL, CAN, EST, FRA, HRV, HUN, ITA, LTU, NLD, PRT, SVN.

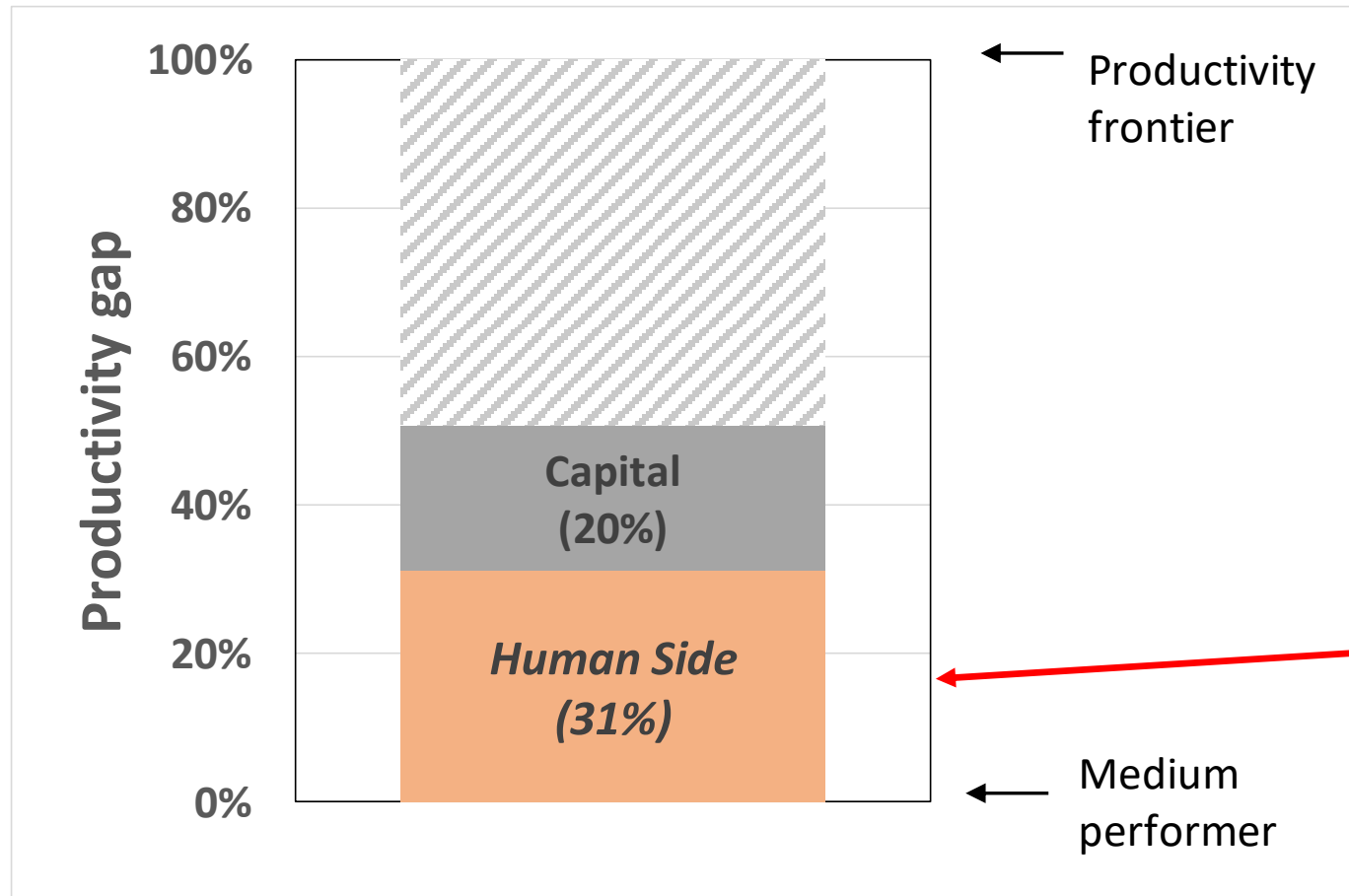


SKILLS AND THEIR ROLE FOR THE DIGITAL TRANSFORMATION

(JOINT WITH PETER GAL, TIMO LEIDECKER AND GIUSEPPE NICOLETTI AND BASED
ON EVIDENCE FROM ITALY BASED ON CALVINO ET AL., 2022)



The “Human Side” accounts for nearly 1/3rd of the gap



Skill measure: based on cognitive abilities by occupations
Pattern robust to using education or wages

Workforce composition along:

1. **Skills**
2. **Managerial structure**
3. **Gender & Cultural Diversity**

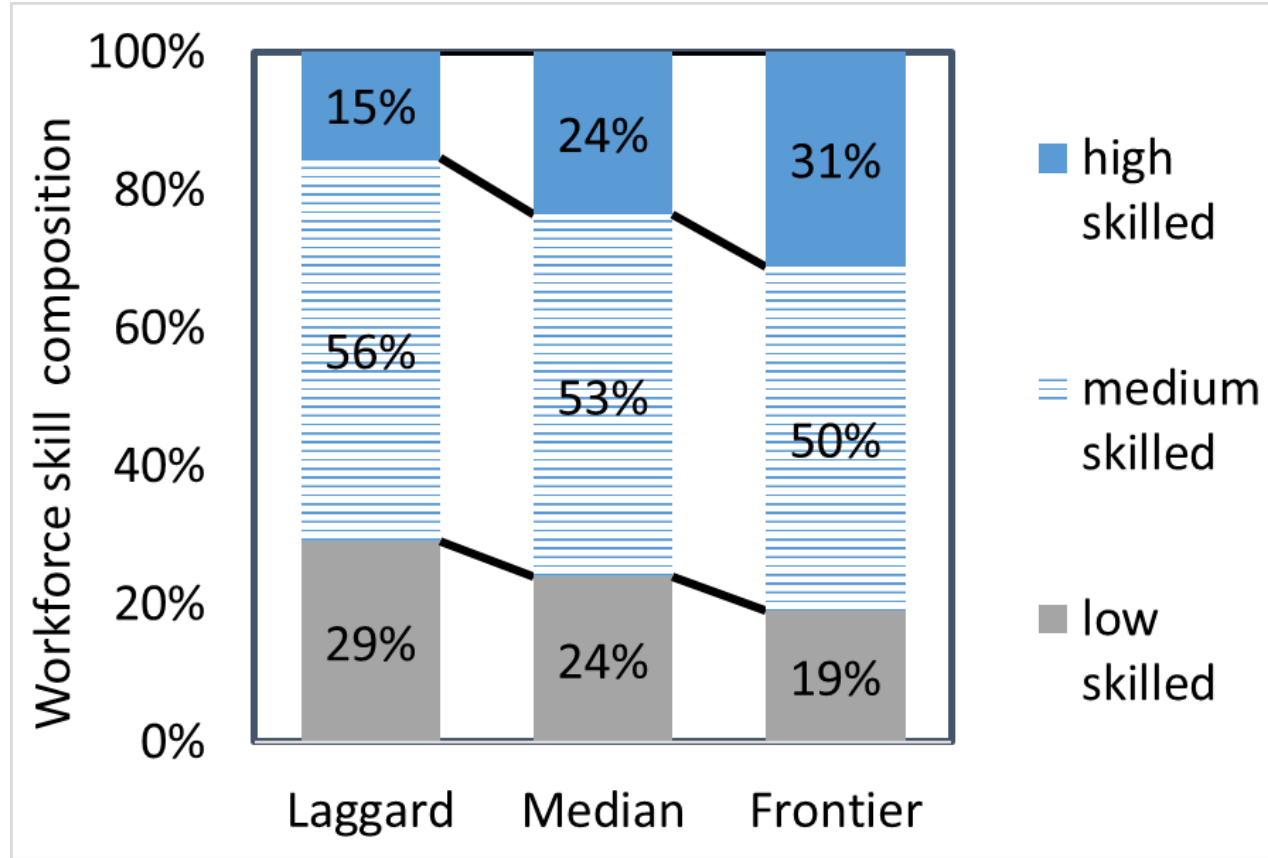
Criscuolo et al., 2021 (countries covered **Belgium; Costa Rica; Denmark, France; Germany *; Hungary Japan **; Portugal; Sweden and Italy**; Universe of 10+ employee firms except

* Representative sample, not universe ** Firms with at least 50 employees; Unbalanced panel 2000-2019



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

Labour productivity (VA/L) segments within STAN A38 industries



Skill measure: based on cognitive abilities by occupations

Pattern robust to using education or wages

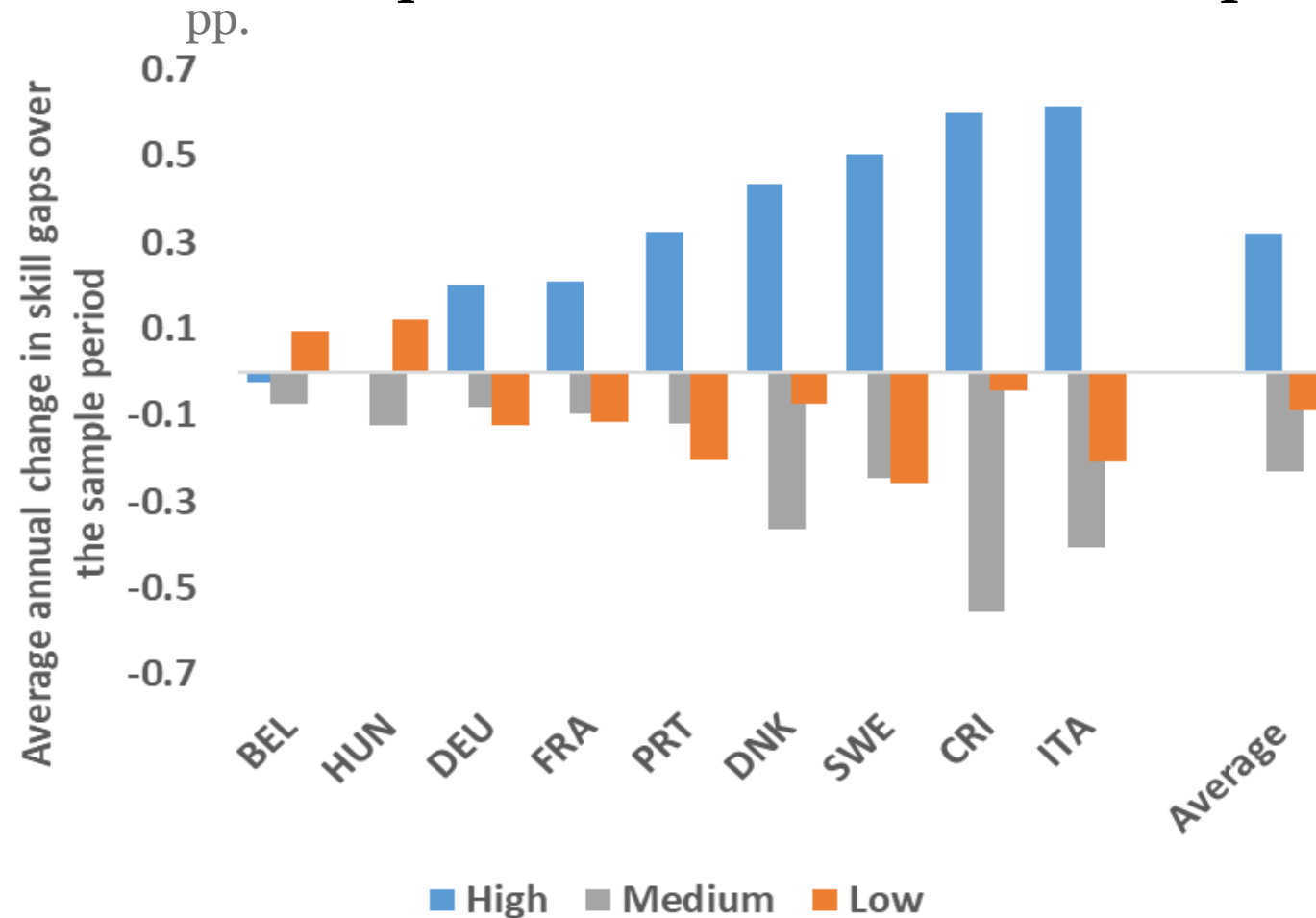
Notes: 10 countries covered Belgium; Costa Rica; Denmark, France; Germany *; Hungary; Japan **; Portugal; Sweden and Italy; Universe of 10+ employee firms except * Representative sample, not universe ** Firms with at least 50 employees; Unbalanced panel 2000-2019. **frontier firms** correspond to 10% most productive firms in 2-digit industry x year x country cell Productivity measured as value added per worker; frontier/medium/laggard firms correspond to top/4th-6th/bottom decile of productivity distribution in 2-digit x year x country cells; figure are unweighted averages across country-industry-year cells



Changes over time

Firms at the frontier are using more and more high skills

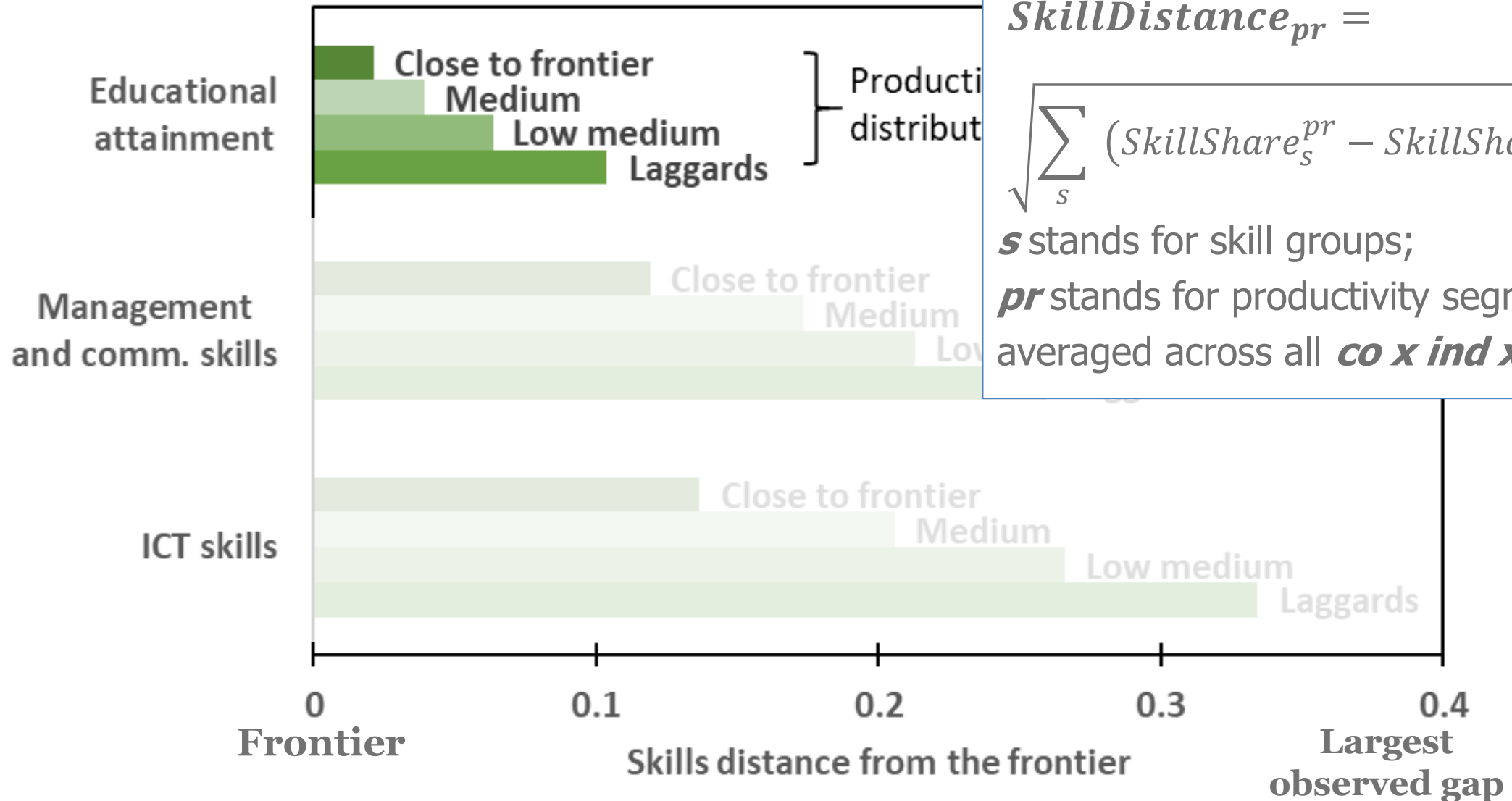
Changes in the differential shares of low, medium and high skill shares between the most productive firms and medium performers*



* Annual average change over the period 2000-2018 or shorter, depending on data coverage by country



Differences in the use of skills across firms are pronounced



$$SkillDistance_{pr} =$$

$$\sqrt{\sum_s (SkillShare_s^{pr} - SkillShare_s^{Fr})^2}$$

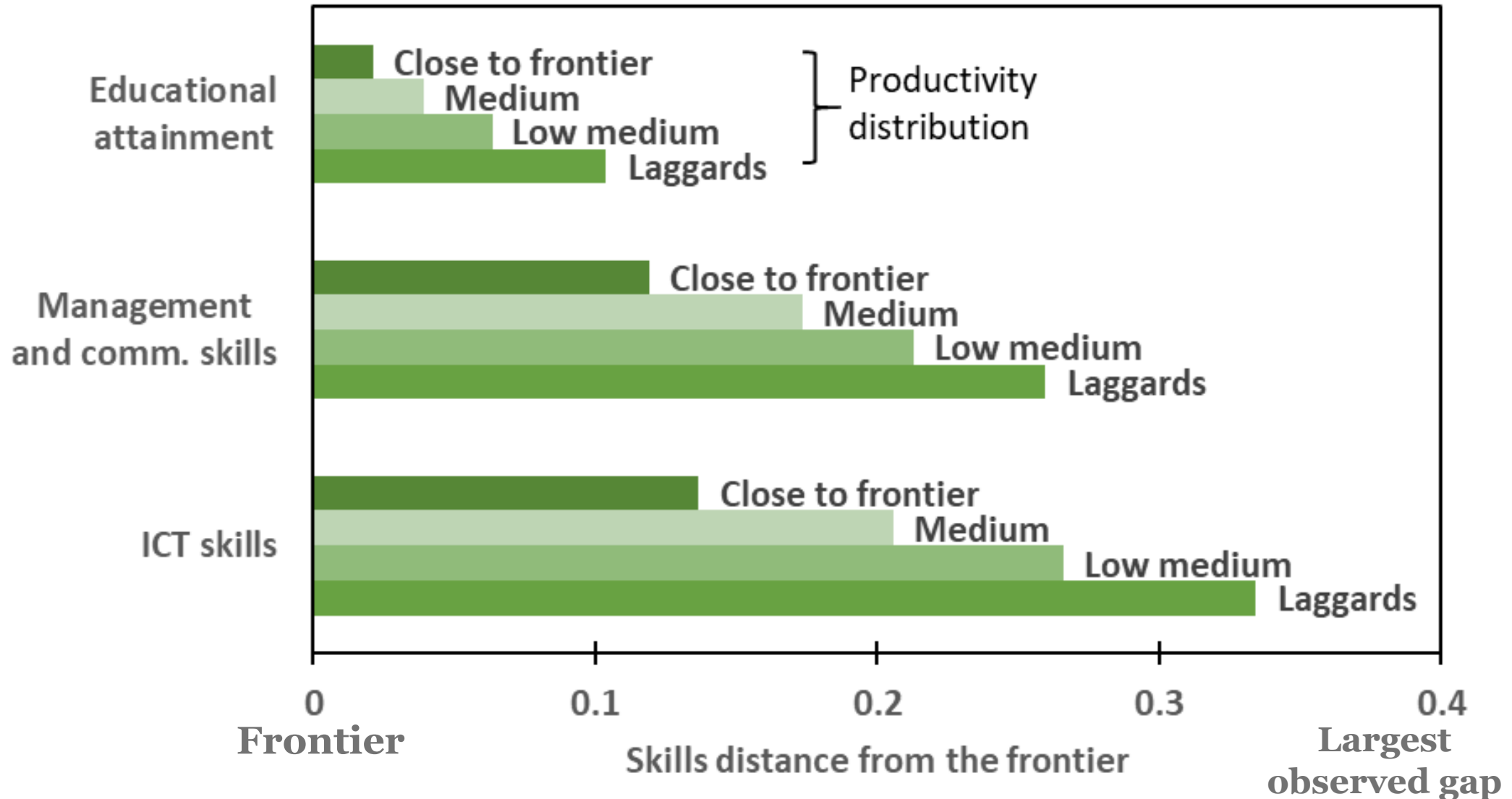
s stands for skill groups;

pr stands for productivity segments;

averaged across all *co x ind x year*

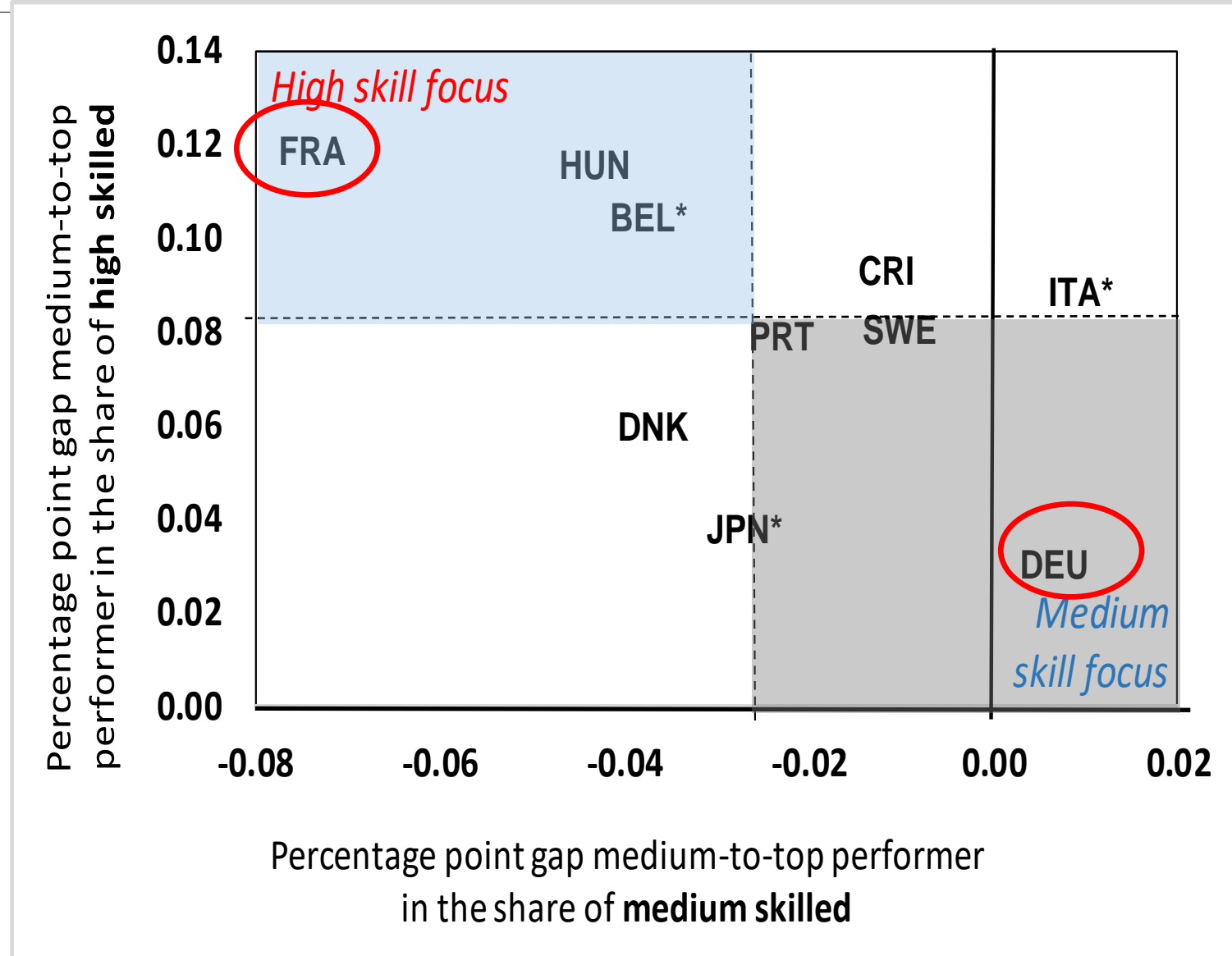


Differences in the use of specific skills are even more pronounced





There are different skills strategies of the top firms in various countries

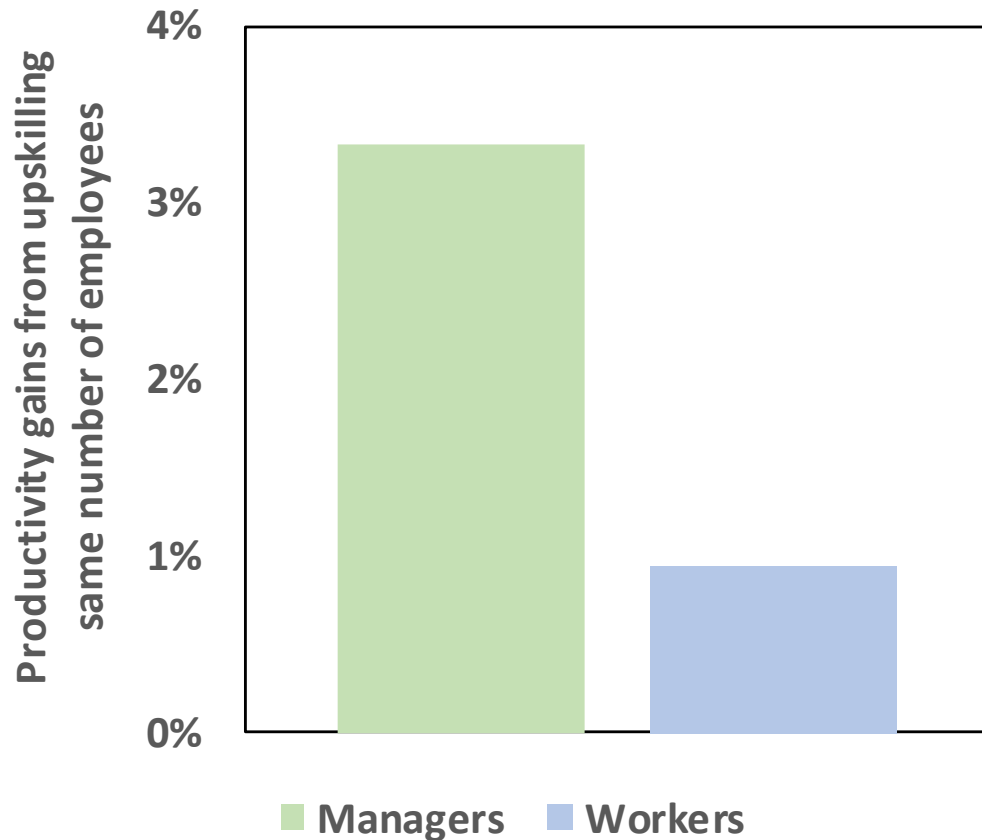




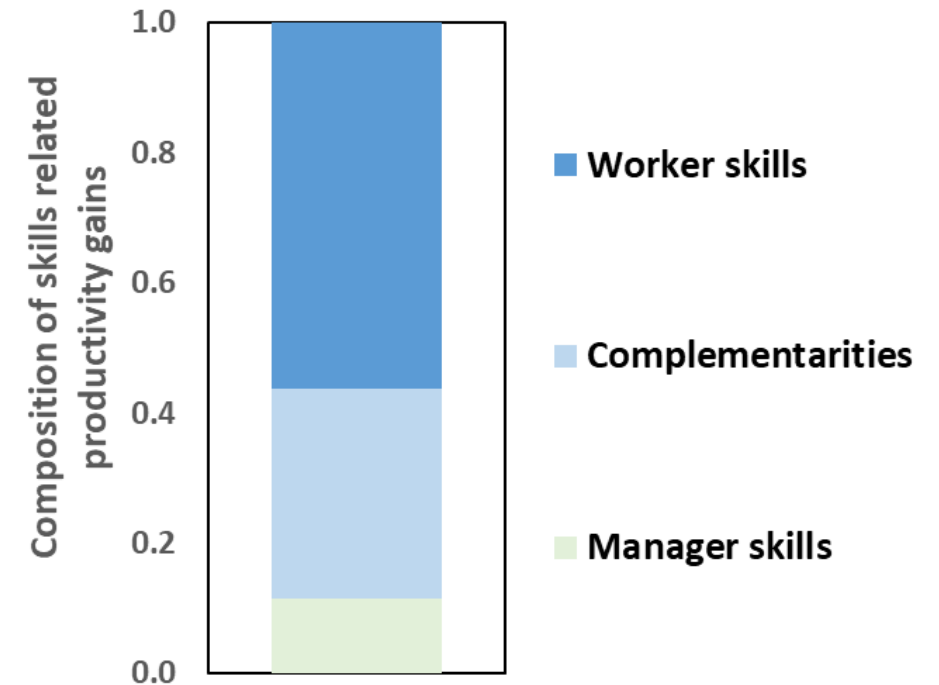
Manager skills matter disproportionately...

... and are most effective in combination with skilled workers

Productivity gains from upskilling either managers or workers*



Sources of productivity gains when upskilling the total workforce

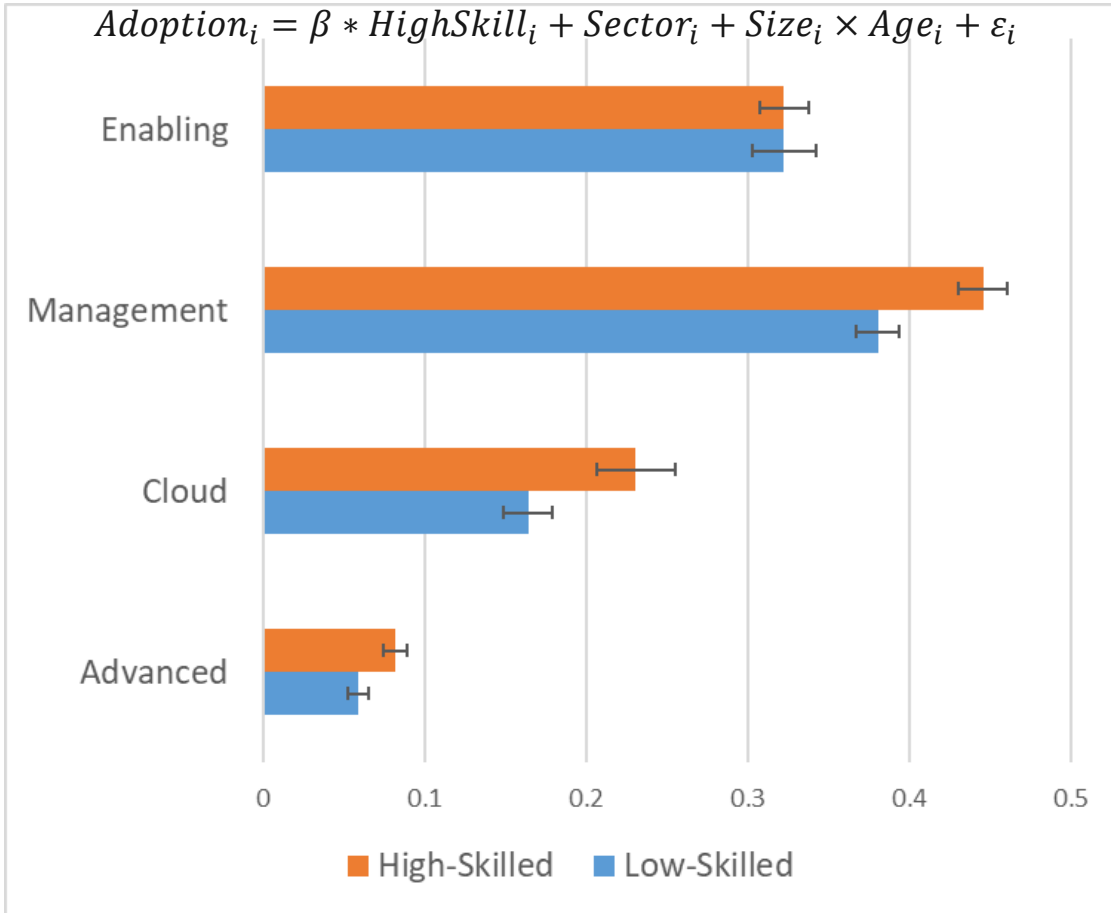


* Upskilling 1% of the workforce; predictions from extending the baseline firm-level

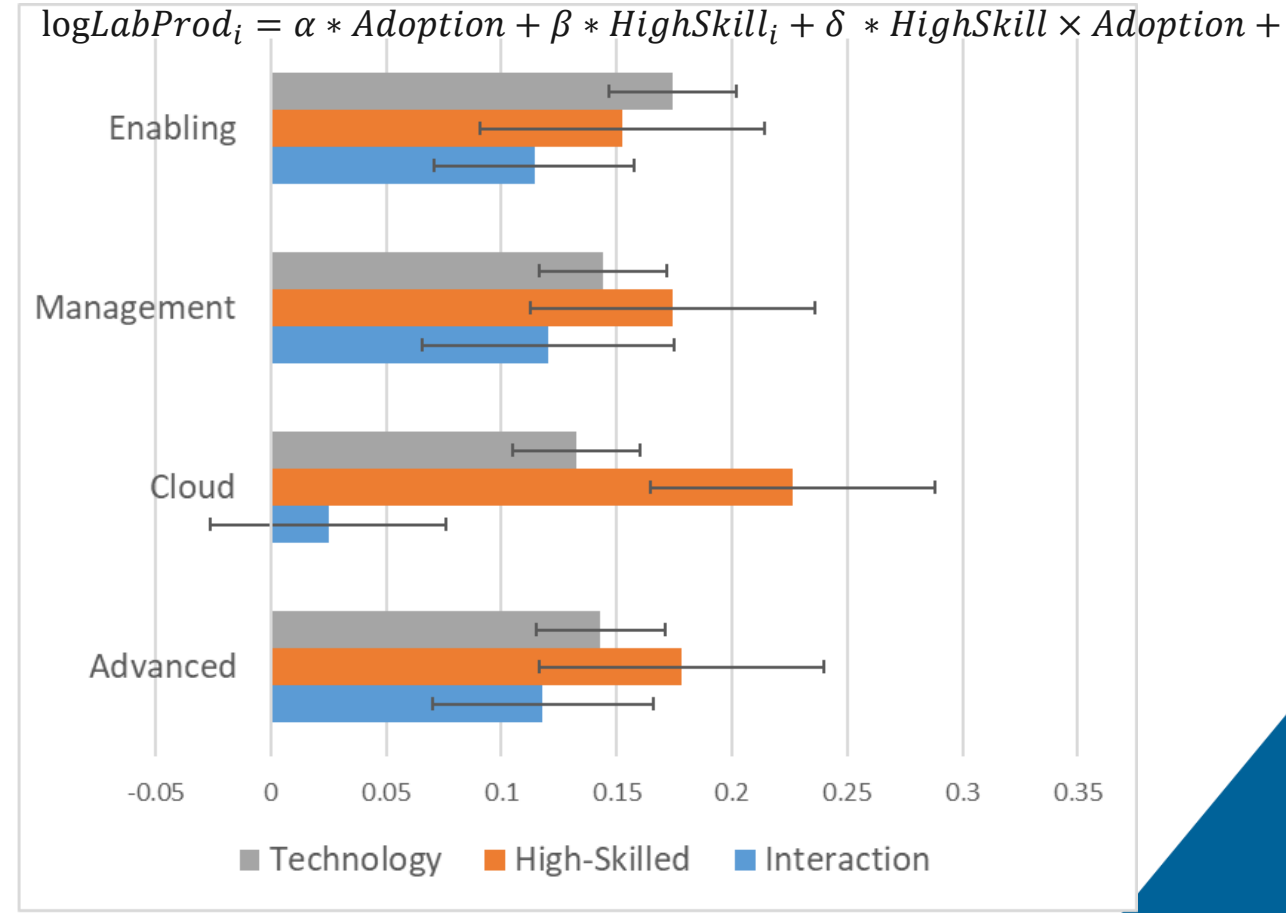


Worker skills are key to boost both adoption of technologies and their returns...

Skills and Technology Adoption
dep.var.: Adoption

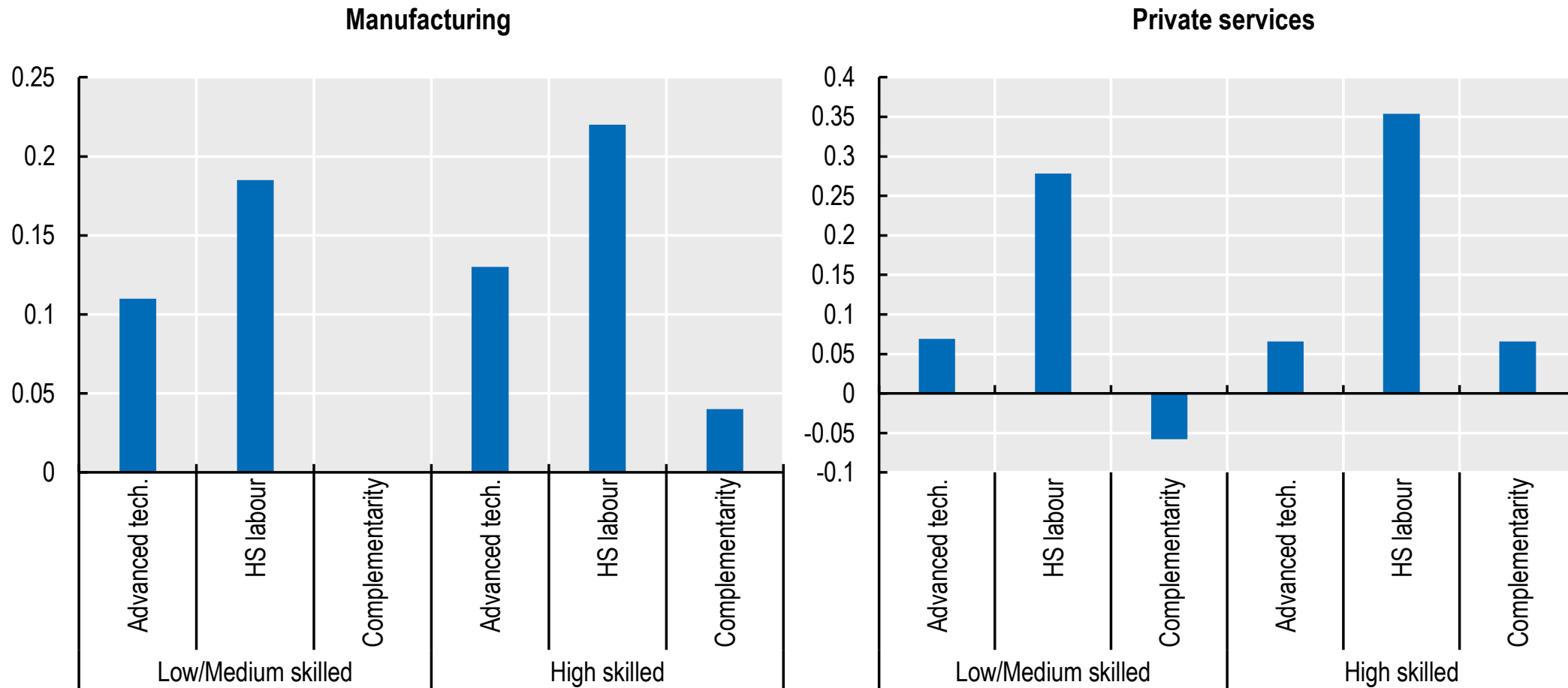


Skills and Returns to Adoption
dep.var.: Productivity





Managers can increase the complementarity between skilled workers and digital technologies



Source: Calvino et al. (2022)

two groups of firms: those that whose top-executive has a primary or secondary education (low/medium skilled) and those whose top-executive has a tertiary education (high skilled).

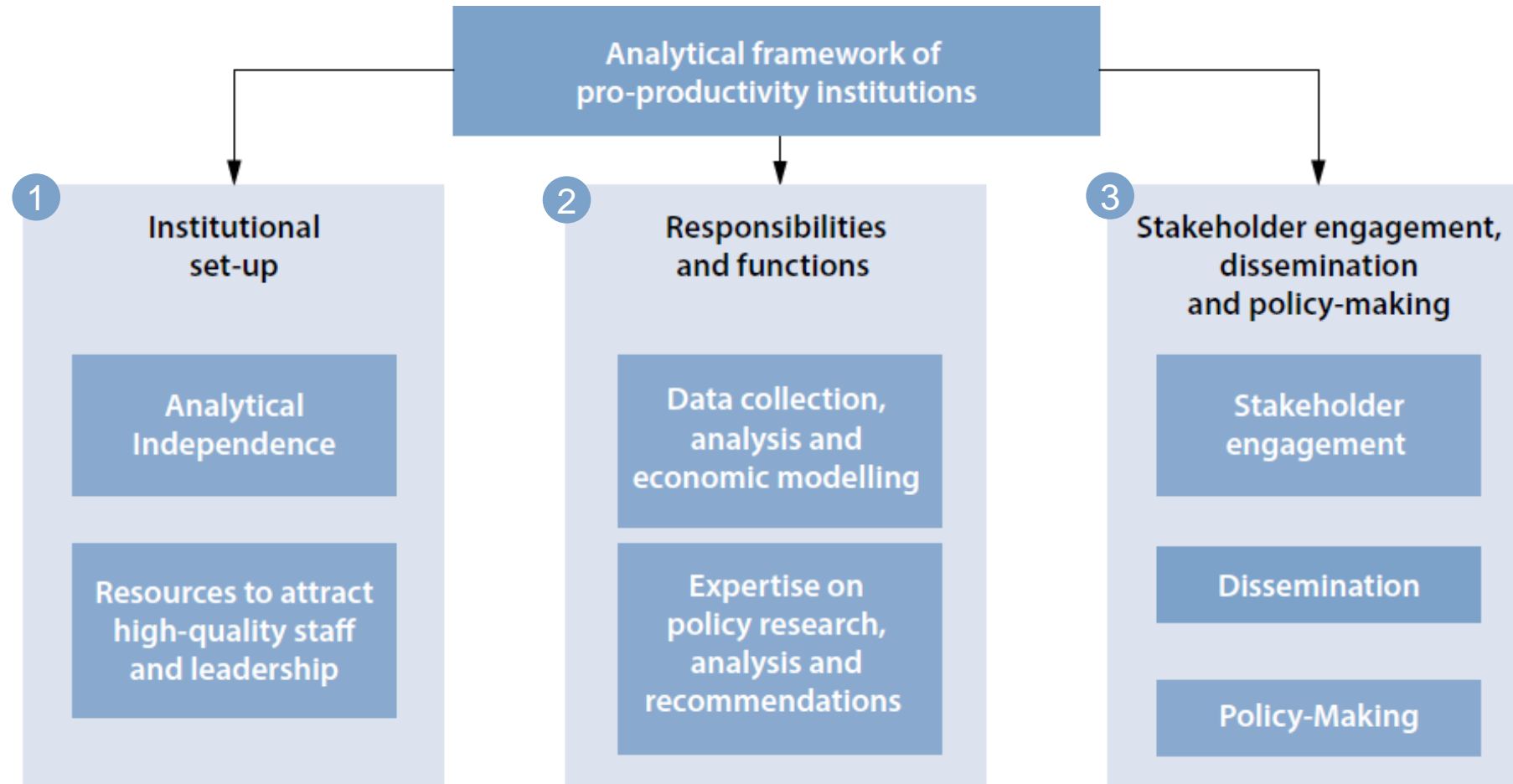


PRO-PRODUCTIVITY INSTITUTIONS: THEIR SET-UP AND FUNCTIONING

(JOINT WITH **FILIPPO CAVASSINI, FRANCESCA PAPA AND FATIMA
TALIDI**)



What makes pro-productivity institutions effective?



Source: Cavassini, Criscuolo, Papa, Talidi (2022), "Pro-Productivity institutions at work: Country practices and new insights on their set-up and functioning", *OECD Productivity Working Papers*, No. 32, OECD Publishing, Paris, <https://doi.org/10.1787/f5a3a2df-en>



Key insights (I)

1. Institutional set-up



- PPIs function as **analytically independent expert body**. Legal status varies.
- **Safeguards** in mandate and legal status can guarantee analytical independence.
- **Incompatibility criteria** can help avoid conflicts of interest.
- **Credibility, quality and relevance of analysis** matter to strengthen the position and role of PPIs as a co-ordination device to identify policy levers to boost productivity
- **High quality staff** is key to produce credible and impactful productivity analysis
- Staff needs to be supported by access to **financial and analytical resources**
- Important to leverage the expertise of **national and international experts**



Key insights (II)

2. Responsibilities and functions



- **Access to micro-data at the firm and individual level** from the various institutions key and yet not always obvious
- **Partnering with business associations** can help collect regional and sector-specific data and address sector-specific issues.
- PPIs could **expand the array of outputs informing policy making** beyond annual reports, considering trade-offs (policy evaluation, etc.)



Key insights (III)

3. Stakeholder Engagement, Dissemination, and policy-making



- “Not an ivory tower” – important to establish **regular communication channels with government** at the technical and political level to **effectively contributing to policy-making**
- Value in consulting and reaching out to **relevant stakeholders (academia, trade unions, business associations, etc.)** on a regular basis
- **Communication strategies and outreach activities** are key to contribute to raise public awareness on national productivity challenges
- **Focusing on long-term challenges** can enhance the institutions’ influence and credibility. In addition, **timely advice on short-term issues** can be an opportunity to enhance the institutions’ impact



Looking ahead

Institutional set up

- Resources matter to strengthen impact and value of PPI analysis
- Leveraging national and international networks can provide a common pool of resources
- These resources should be complemented by adequate staff and tools

Responsibilities and functions

- It is important to have adequate access to data and analytical tools
- There is an opportunity to work more jointly across PPIs to facilitate joint analysis and strengthen collectively access to good quality data

Engagement and dissemination

- It will be important to build more opportunities to communicate more widely on the findings and results of the analyses conducted by PPIs
- Especially in Europe, PPIs can identify common challenges and communicate on possible solutions across countries

