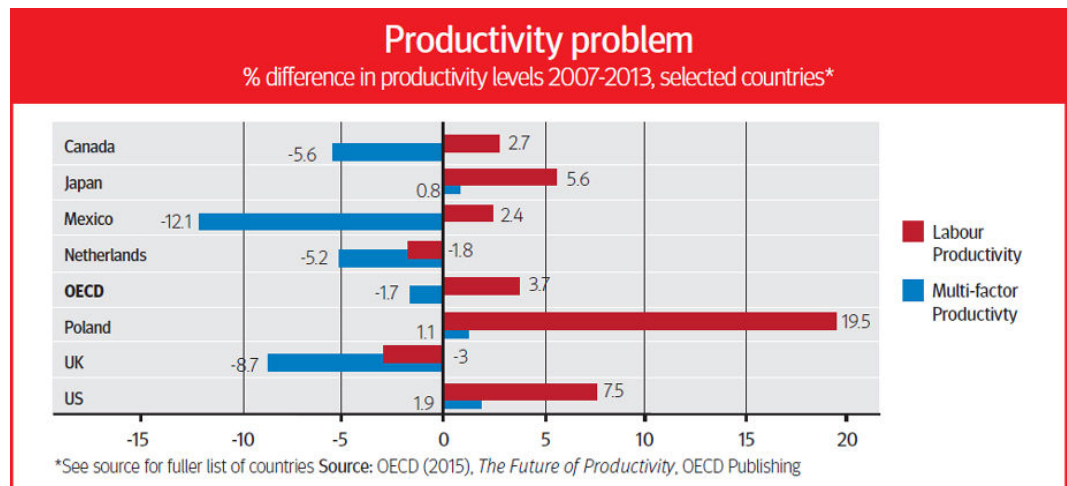


Productivity conundrum

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Since the economic crisis, productivity growth in OECD countries has continued to slow. Labour productivity rose by 3.7% in OECD countries from 2007 to 2013, and even fell in some countries, such as the Netherlands and the UK (see graph). A Bank of France study reported in this magazine in 2014 showed an “impressive slowdown” in developed countries’ productivity growth since the start of the 2000s, and illustrates the ebbs and flows of US, euro area, Japanese, and UK productivity from 1890 to 2012.

Boosting productivity is not so much about working harder as working smarter, OECD experts underline; it reflects our ability to produce more output by better combining inputs, based on new ideas, technological breakthroughs and business models. Innovations from the steam engine to digitisation have led to radical shifts in the production of goods and services, raising living standards and well-being.

But all this also makes the exact causes of the slowdown all the more perplexing, given the surge of new technologies since the 1990s. Indeed, according to *The Future of Productivity*, multi-factor productivity (MFP), which reflects combinations of labour, skills, technology and business approaches, actually dropped by 1.7% in the OECD area in 2007-2013, mostly in Europe.

What has caused this weak trend in productivity growth, how temporary is it and how can policy reverse it? These are key questions which the OECD is looking at, not least because productivity is seen as a driver of growth, innovation and well-being.

For *The Future of Productivity*, one explanation has been a slowdown in diffusion of global frontier innovations from the innovating core to all other firms. Policy reforms can help revive this “diffusion machine”, and the report lists a few, such as enabling businesses to experiment, improving skills and removing measures that favour less-innovative incumbents.

Are there other causes? Take inclusiveness: could the lack of diffusion of innovation and inequality be connected? Could there be influences between widening income inequality and slower productivity growth, and if so, how could this relationship inform policies? And what about sustainability? What is the interplay, if any, between policies to boost productivity and environmental constraints—what Vermont’s Prof Joshua Farley calls the planetary boundaries of the Anthropocene? Such questions, which capture the mind-set of the OECD’s New Approaches to Economic Challenges (NAEC) initiative, could hold lessons for the future of productivity.

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