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Executive summary

Productivity growth is a central driver of long-term economic growth and living standards. But in many advanced and emerging economies productivity growth has been slowing. Against a backdrop of slower rates of investment coupled with increases in income and wealth inequalities, concerns are emerging that this may reflect a structural, and not a cyclical, slowdown, and a new low productivity growth paradigm, with consequential impacts on well-being and inequalities. Promoting productivity growth and sharing productivity gains, through the exploitation and creation of new and emerging technologies, investment in human capital (to meet the needs of 21st century production), and by fostering innovation, in particular through young firms, is as important today as it has ever been, to create a virtuous circle that tackles both growth and inclusion gaps.

Measuring productivity is difficult. There are challenges in the measurement of the factors of production, labour and capital, as well as the output. However, while these challenges can have an impact on recorded estimates and also impair international comparability, a growing body of evidence suggests that measurement, or rather "mis-measurement", is not the underlying cause of slower productivity growth.

Key results presented in the Compendium are summarised below:

Longer term trends

- Productivity growth remains below pre-crisis rates in many countries but the evidence points to the fact that labour productivity growth began declining before the crisis; with rates trending down since early 2000s in Canada, the United Kingdom and the United States and even earlier, and since the 1970s, in France, Germany, Italy and Japan.
- Over the last fifteen years, cross-country differences in GDP per capita growth can be mainly attributed to differences in labour productivity growth, as labour utilisation has increased only marginally. But the picture has been more varied since the crisis, particularly in those countries hit hardest and where employment levels have not recovered, i.e. hours worked per capita have fallen.
- Most of the growth in labour productivity reflected growth in multifactor productivity (MFP) and capital input. The empirical evidence points to the recent slowdown in labour productivity being at least in part explained by its pro-cyclical pattern, particularly for MFP, but longer term trends point to productivity slowing well before the current cycle.
- Sluggish business dynamism may also be hampering post-crisis productivity growth, with start-up and churn rates showing limited recovery in many countries.
- In general, productivity growth in manufacturing continues to outpace services. Within the business services sector, the key specialised services activity driving productivity

growth varied by country, for example, with professional services driving growth in Israel and information and communication services driving growth in Ireland.

- In most countries, labour productivity gaps between micro and, to a lower extent, SMEs and large firms, remain relatively high. This is particularly true for micro firms in both manufacturing and services.
- Increasing participation in global value chains is strongly associated with productivity growth in many, particularly Central Eastern European, countries. But the nature of participation and mode of upgrading varies across countries.
- Investment in knowledge-based capital (KBC) has been increasing over the past two decades, often at a faster pace than investment in traditional physical capital. KBC investment can contribute to foster economic growth and productivity and reinforce the contribution made by other production factors, through spillovers.

Recent developments

- In most OECD countries, labour productivity growth in the post-crisis period has been much weaker than in the pre-crisis period. While this decline has been broadly spread across sectors, labour productivity growth in the post-crisis period fell significantly in information and communication services, finance and insurance activities and professional services.
- In many emerging economies, post-crisis labour productivity growth has been much slower than in the pre-crisis period, partly reflecting their transition from industrial to services-based economies and the rebalancing towards consumption relative to investment.
- Similarly, there was a sharp fall in MFP growth in some countries, and there are risks that this could herald declining longer term trends in labour productivity growth.
- The flow of capital services has also slowed in most countries, partly reflecting the sluggish recovery of investment, in particular in tangible assets. Although investment in intellectual property products has been more resilient to the crisis; this too has slowed compared with pre-crisis rates.
- The corollary of slowing productivity growth in most countries post crisis has been relatively subdued wage growth, as countries sought to maintain competitiveness. This was particularly true in countries hit hard by the crisis, where low unit labour costs (ULC) went hand in hand with significant falls in employment and output.
- In sectors less exposed to international competition, notably the services sector, unit labour costs in some countries outpaced manufacturing ULC. But because many of these services are used as upstream inputs to manufacturers, international competitiveness could be impaired.

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