PRODUCTIVITY AND COMPETITIVENESS: A LOOK AT THE KEY STRUCTURAL DRIVERS

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Closing the productivity gap vis-à-vis leading countries will be key to maintaining competitiveness in CESEE countries.

Future productivity growth will depend on the capacity of firms to harness the forces of knowledge diffusion from frontier firms.

Structural factors shaping diffusion include global connections, investment in KBC and an efficient allocation of resources.

Policy areas include pro-competition reforms (entry/exit), closer collaboration between firms and universities, access to early stage VC and stronger mobility.
Differences in GDP per capita mostly reflected in productivity gaps

Considering the size of the gap in CESEE countries diffusion of technology and knowledge remains vital.
Productivity slowed sharply also in CESEE countries.

The slowdown preceded the crisis in most advanced countries: Not so in CESEE countries, except Poland.
Investment is lagging GDP

Distance between the 2014 and 2008 level, percentage of the 2008 level

With the lag being particularly severe in Europe. CESEE countries are no exceptions.
Factors shaping the diffusion of know-how and technology

• Global connectedness:
  – Trade intensity and participation in GVCs

• Innovation and knowledge-based capital:
  – Combining technological advances, organizational changes and human skills to harness the power of digitization

• Efficiency of resource allocation:
  – The rapid scaling-up of most innovative firms requires that resources be able flow from low- to high-productivity firms.
CESEE countries benefit from high cross-border trade intensity

**Trade intensity and country size (GDP)**

Even controlling from country size, some of them are among the best connected in trade networks
They are also well integrated in GVCs

Integration into GVCs and access to large and open markets

Taking fully advantage of their proximity to a large market
Trade openness is not sufficient to move up the value chain

R&D spending as a percentage of GDP, 2013

Complementary investments in R&D, skills, organisational know-how (managerial quality) and other forms of KBC are key to absorb, adapt and reap the benefits of technologies.
There is more to innovation than R&D

ICT readiness and usage among population, businesses and governments

Index scale from 1 (lowest) to 7 (highest), 2015

The capacity of countries to leverage ICT is also fundamental => Points to the importance of ICT infrastructure and related regulatory framework.
Efficient resources allocation is vital for making the most of innovation and ICT. Large productivity gains could be achieved from channelling resources to low- to high-productivity firms. This points to the importance of policies facilitating firm entry and exit.
The mismatch of skills also act as a constraint on productivity

Percentage of workers with skill mismatch and implied gain in productivity from reducing mismatch, 2011-12

Constrains the ability of firms to attract skilled worker and grow.

⇒ Points to the importance of adult learning programmes but also housing policies (in addition to firm turnover).
Policy areas that can promote productivity diffusion from frontier to lagging firms

This is about facilitating firm entry and exit, the extent of collaboration between firms and universities and the funding of entrepreneurship.
References

• *The Future of Productivity*, 2015, [OECD publications](#)


• *Going for Growth*, 2015, [OECD Publications](#)