Joint OFCE-LEAP Workshop

(Missing) Productivity and the Growth Challenge

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Wrapping Up

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The Diagnosis for Missing Productivity – a large number of factors contribute, including …

- Lack of MFP growth – Weak investment in IT, low private investment in R&D, lower investment in Intangibles, European science paradox, few global leaders (cars?, green)
- Lack of capital deepening; gaps in financing, especially equity; public investment too low
- Regulation – *but perhaps a smaller NIMBY problem as the US and UK*
- Skills, rigidities in labour markets, labour hoarding and skills mismatch
- Ageing and migration/brain drain (Italy), or high immigration low-skilled (Germany)
- Slowdown in business dynamism and competition, partly linked to ICT/AI & intangibles
- Divergence leaders and laggards, heterogeneity, many small firms
- Lack of scale – still a very fragmented market
- No/very few high-growth firms and even fewer that reach global scale
- Sectoral – Europe lagging in business services and ICT-producing sector
- Slow pace of change & political factors

Policies – EU and national/regional level

- **National policies:**
  - Large variety in European (including regional) productivity experiences – national/regional policies matter and we need to learn more from them - country-specific work is important.
  - TPI project currently underway with 17 **country case studies** of long-term productivity growth since 1950s/1960s (13 G20 countries, 6 EU – France, Germany, Ireland, Italy, Netherlands, Spain + China, India, Japan, Korea, Australia, Brazil, Chile, UK, US, Canada, Saudi Arabia), cross-country econometric analysis and synthesis paper – intends to complement cross-country econometric analysis
  - Are national **productivity commissions** making a difference, even with limited budgets and responsibilities?

Policies – EU level

- **EU competitiveness strategies:**
  - Single market – *long-standing problem, why no more/earlier action?*
  - Financing – VC, equity, innovation
  - Simplification
  - Industrial, trade and competition policies – *where's the balance, e.g. on more targeted support vs. state aid policies*
  - Sectoral actions – *Green important, but mostly focus on goods, rather than services*
  - Innovation – *but EU funding for innovation often a challenge and still highly fragmented EU/national funding landscape, also strong focus on non-targeted support (tax credits)*

The Future of Productivity – AI, Green, Defense …

AI:

- Diffusion still low, mainly large firms & IT sector, increasing very fast (plug and play)
- Needs complementary intangibles (skills, org. capital, data, software, R&D), digital capabilities (cloud computing, data centres, computing) & new firm creation
- Likely J-curve effects at macro level – productivity may go down before it goes up
- Likely to increase divergence between large and small firms
- Impacts on R&D & innovation could be important and longer-lasting (ideas less hard to find) than automation of cognitive tasks – but hard to estimate at this stage
- Lots of other challenges …..

Green/climate change:

- Challenge and opportunity
- Estimates of (productivity) costs of transition are declining as prices of technology fall
- Productivity impacts relatively small – also consider counterfactual of no action

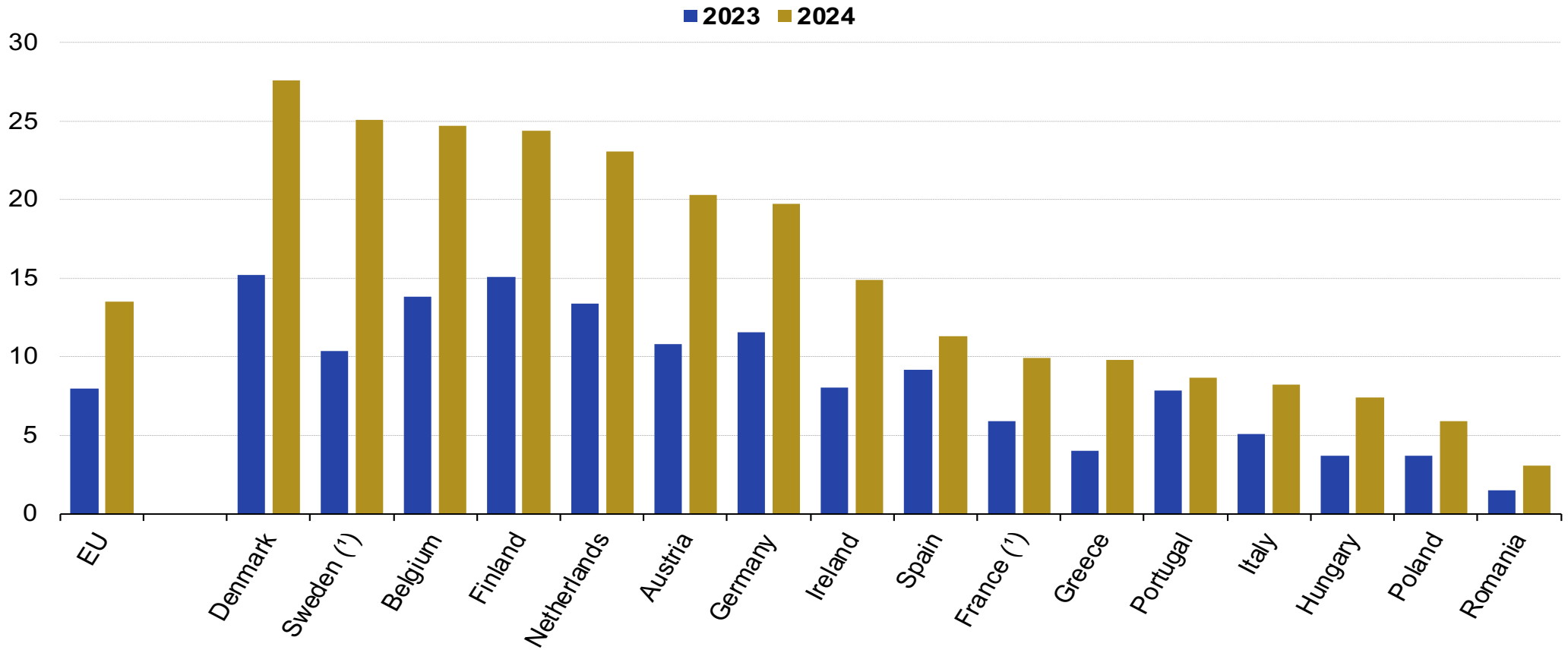
Defense: dual use, seize opportunities beyond security

John Fernand: “The same, until it changes ….”

AI diffusion at the firm level is increasing very rapidly – big jump in the data from 2023 to 2024, but large diversity across EU

Enterprises in EU countries using AI technologies, 2023 and 2024

(% of enterprises)



Note: 2023 – Break in time series.

Source: Eurostat, January 2025.

Some outstanding questions (1)

- **Intangibles – do we have the right policies in place, e.g:**
  - **Intellectual property – balance between innovation and diffusion** – *or has IPR become another tool to exclude competition and slow down diffusion (e.g. Bessen)*
  - **Data** – *access to private data increasingly constrained* – not much economic analysis
- **Can laggards (firms, regions and countries) catch up with leaders or are the challenges structural and inherent to productivity dynamics in advanced economies?** – *e.g. access to scarce skills, management, financial markets, intangibles (e.g. data, IPR), etc.*
- **Frontier firms** – *how do we get/retain them - NZL PC did study a few years ago*
- **Would European firms be able to reach global scale even in a fully integrated European market or would they be acquired by (cash-rich) US firms?** – *and does this require any policy action, e.g. changes to competition rules?*
- **Note also sharp slowdown in productivity in emerging economies after 2010 or so** – are we running out of catch-up opportunities at the global level (middle-income traps)?

Some outstanding questions (2)

- **Services is where much of the European productivity deficit is** – *but do we truly understand productivity growth in the highly diverse services sector – and should we perhaps do more sectoral studies (construction, business services, …)?*
- **Data and evidence – what else is needed to strengthen the evidence base?**
  - *What more do we need to do to improve data and their comparability? Focus on non-residential business sector? What about residential capital – big issue in Spain with low capacity utilisation? More work on productivity levels (also sectoral)?*
  - *TPI in the UK is an interesting example of national productivity research that has the scale to address some key questions for UK productivity.*
- **Industrial policy –** *important discussion, time to go beyond "picking winners" language*
- **Productivity and wellbeing** – *Can Europe maintain its high level of wellbeing without (much) stronger productivity growth?*