

*The Major Growth Regions in Comparison:
Some Findings from recent OECD Work on Growth
and Productivity*

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This presentation

- Provides an overview of growth in the OECD area:
 - Growth in GDP per capita.
 - Role of labour productivity and labour utilisation.
 - Contributions of capital (including ICT) and MFP growth.
 - Differences in productivity growth at the industry level – role ICT-producing and ICT-using industries.
- Points to EU-US variation in performance for some key drivers of productivity growth:
 - ICT investment, production and use.
 - Firm creation, firm growth and innovation.
- Points to some structural rigidities that may explain the differences.
- Does not address the macro-economic picture.

Context of OECD work on Growth

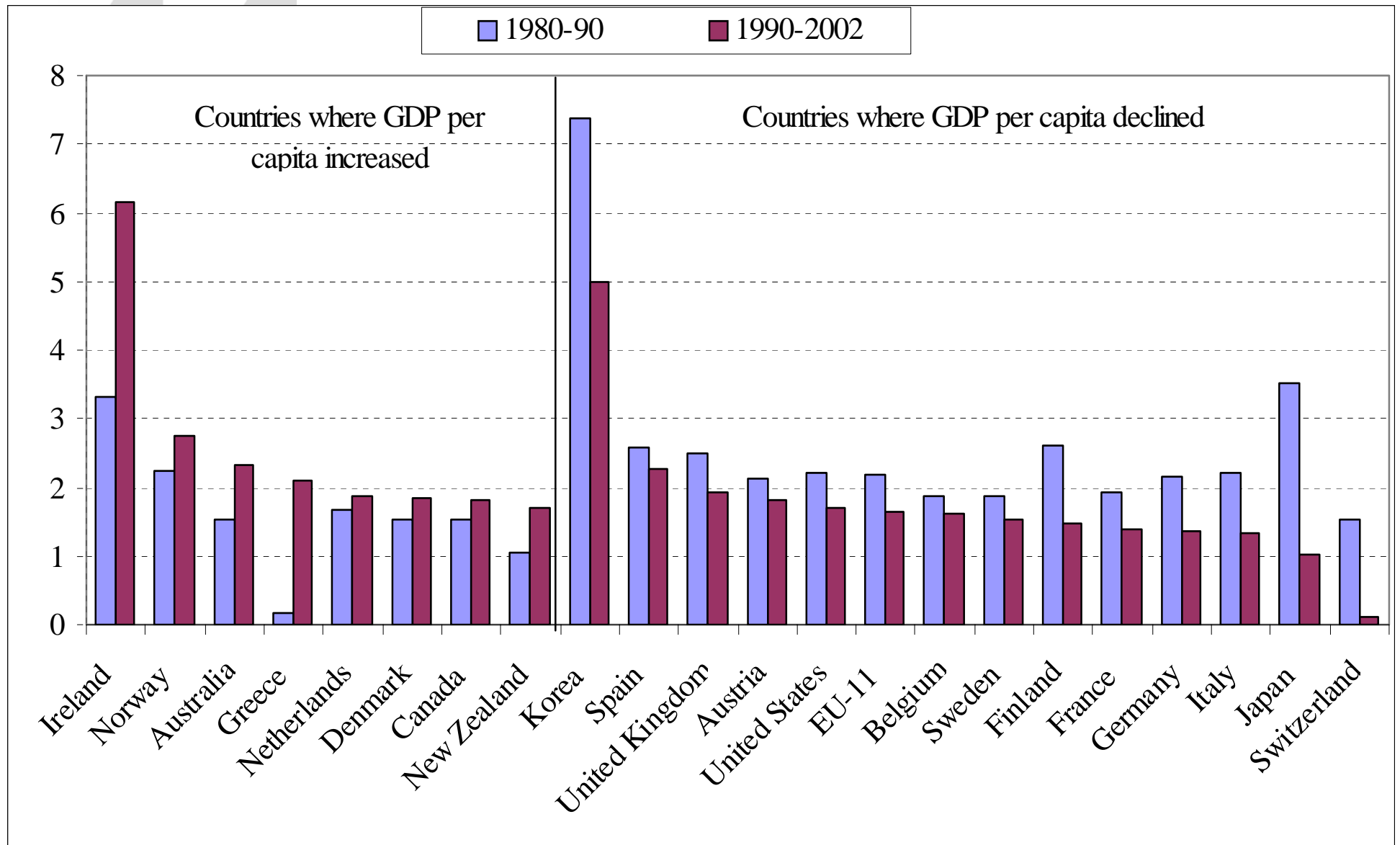
- 1999 request of OECD Ministers:
 - What are the sources of growth differentials in OECD area?
 - What’s new – is there a “new economy”?
 - Provide policy recommendations to strengthen growth.
- Request led to 2001 report to OECD Ministerial: *The New Economy: Beyond the Hype*.
- Further request for work at 2001 and 2002 Ministerial meetings, leading to two new reports in 2003:
 - *The Sources of Economic Growth in OECD Countries*.
 - *ICT and Economic Growth*.
- Work across different OECD Directorates.

Does measurement play a role?

- Recent OECD working paper
 - Some differences in the measurement of nominal GDP (e.g. treatment military equipment, FISIM, software).
 - Some differences in measurement real GDP (hedonics prices, index numbers and services); some of these factors interact and work in different directions.
 - Labour input: consistency of series and quality of data on hours worked are key problems.
- In all cases, problems larger for levels than for growth – and efforts are underway to reduce the differences.
- Measurement does not explain (much of the) differences between the major OECD regions.

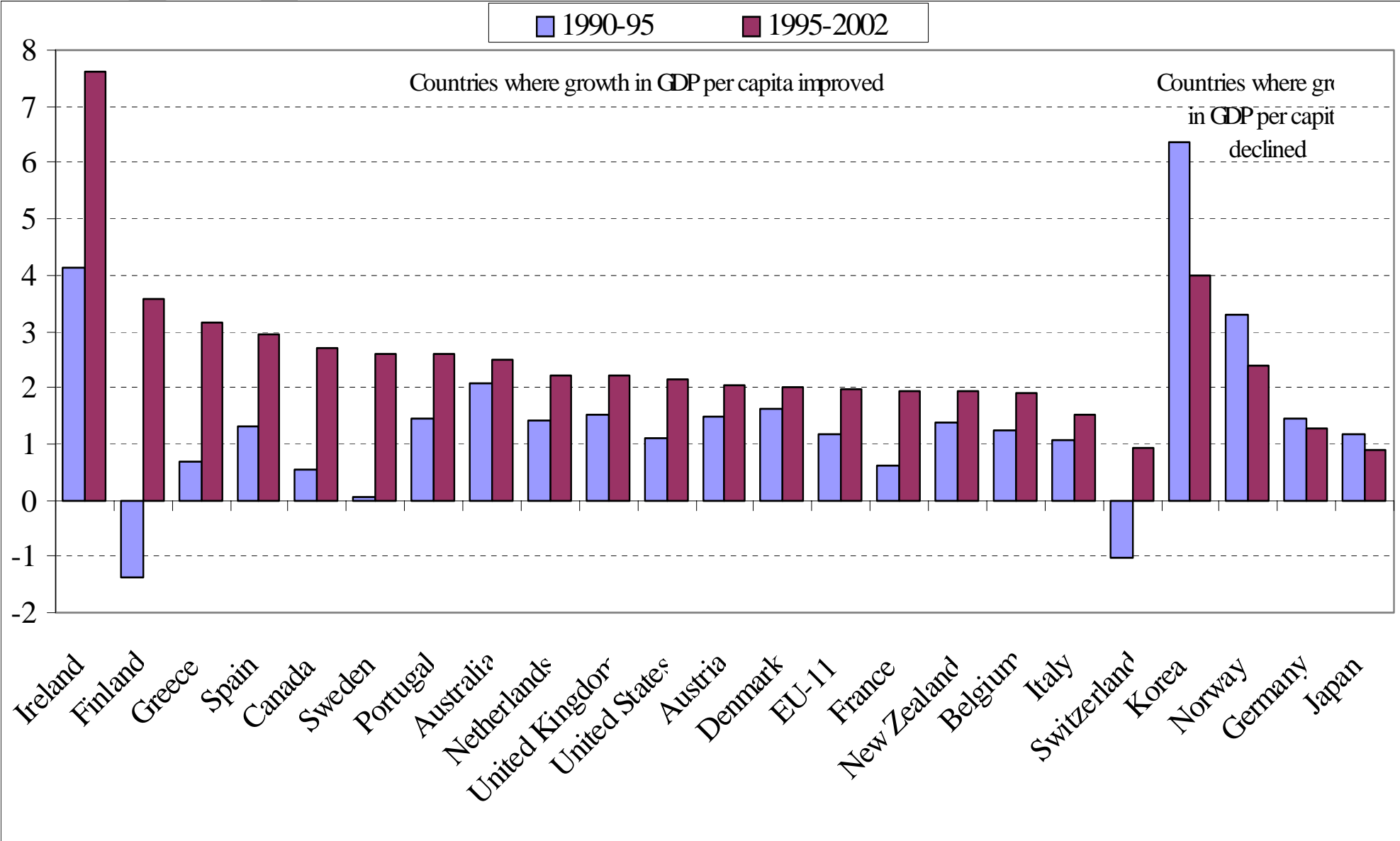
Few countries improved from the 1980s to the 1990s

Growth in GDP per capita, %



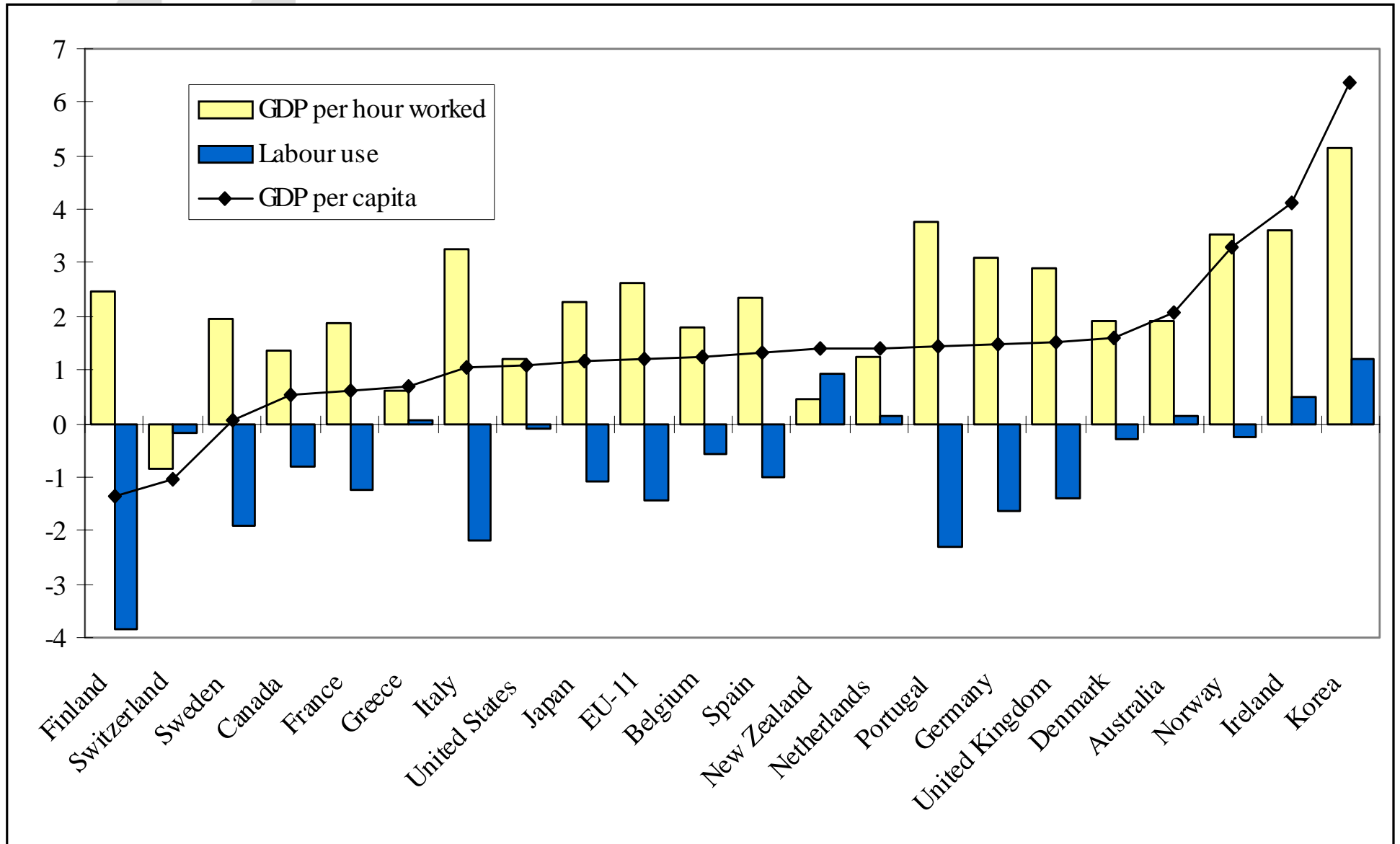
Growth improved during the 1990s, partly due to the cycle

Growth in GDP per capita, %



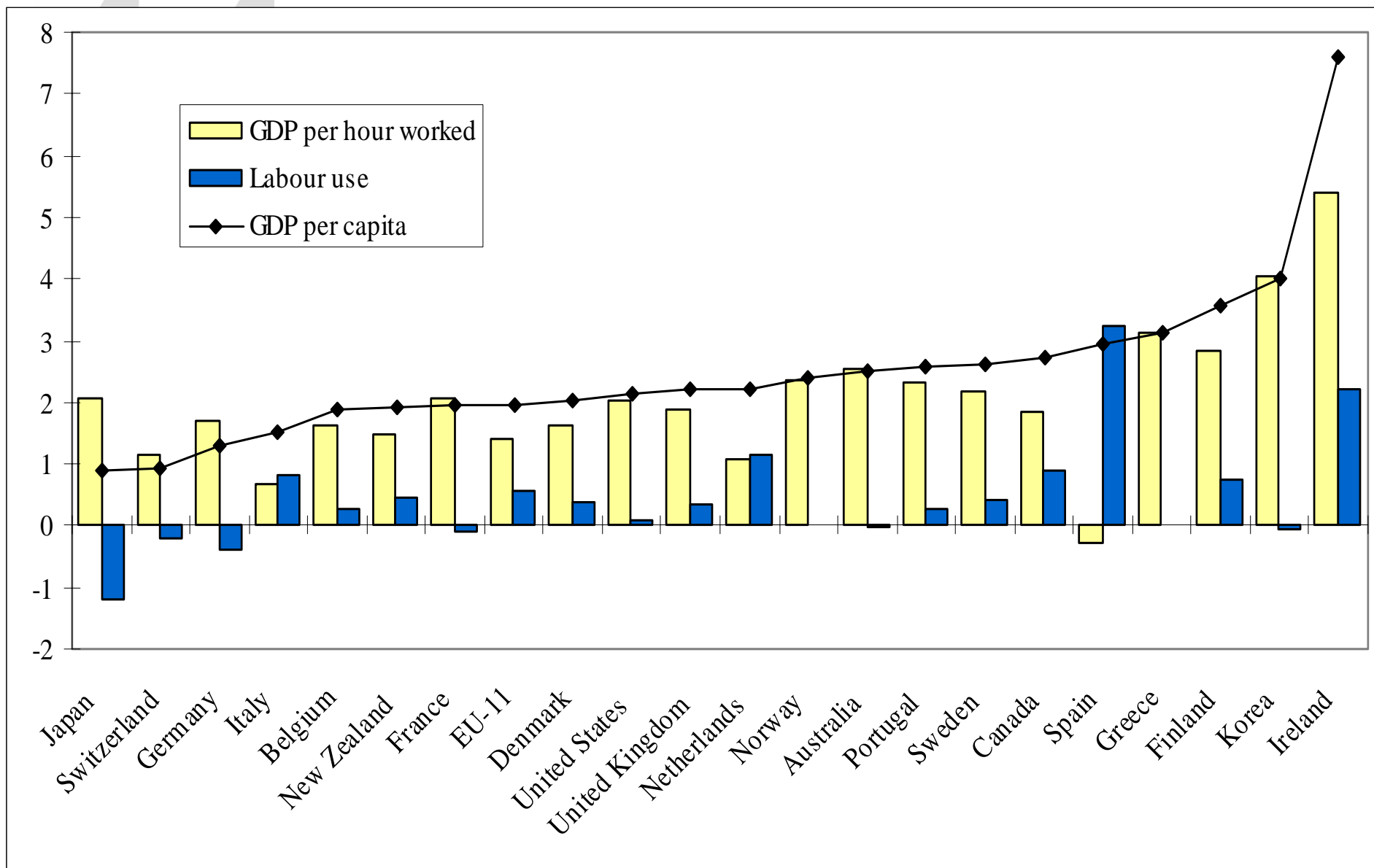
Labour use declined in the EU over 1990-1995 ..

Contribution of productivity and labour use to growth in GDP per capita, %



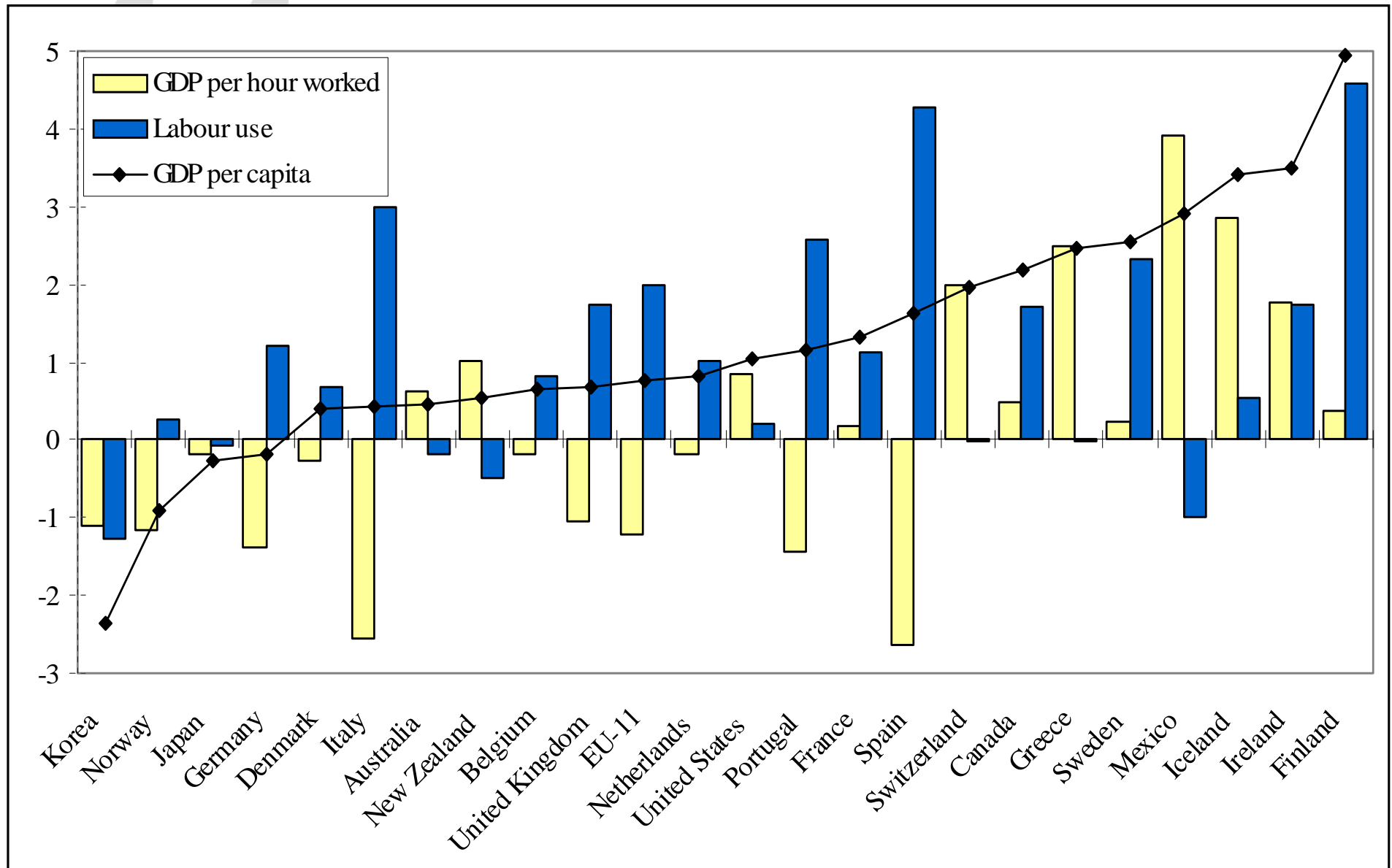
.. but improved in the 1995-2002 period

Contribution of productivity and labour use to growth in GDP per capita, %



Increased EU labour use accompanied lower productivity growth

Change in contr. of product. & labour use to GDP growth, 1990-95 to 1995-2002, %

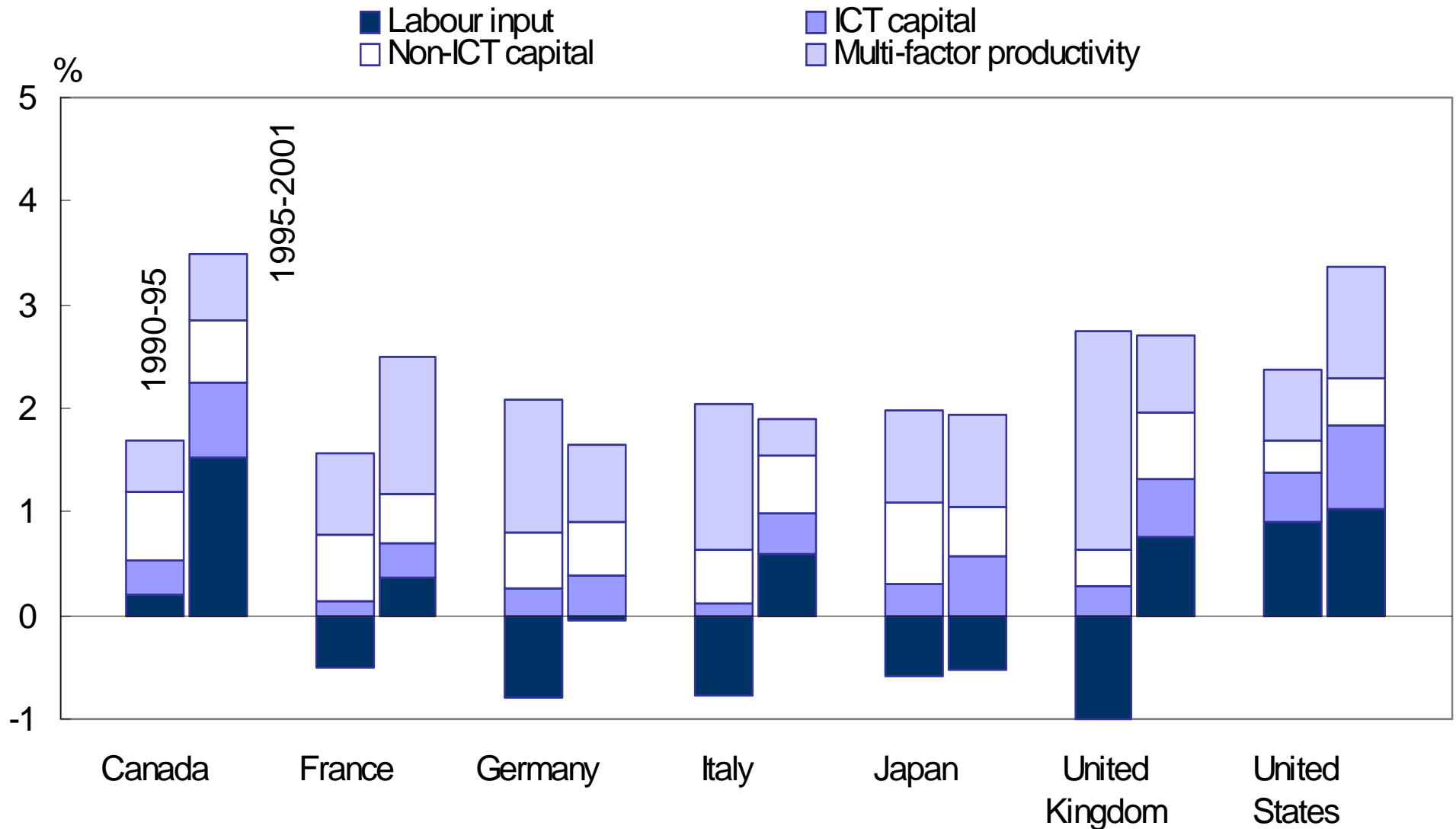


Cyclical differences play a role

- Trend-adjusted estimates prepared by the OECD Economics Department show that:
 - The US had slightly faster growth in GDP per capita than the EU over the 1990s.
 - Labour productivity growth fell in the EU over the 1990s and increased in the US – overall difference in labour productivity growth is small.
 - Faster growth in US labour utilisation explains the US/EU gap in growth of GDP per capita.
 - The pick-up in EU growth over the second half of the 1990s was due to increased labour utilisation.
 - Increased labour utilisation was accompanied by a decline in labour quality of the labour force.

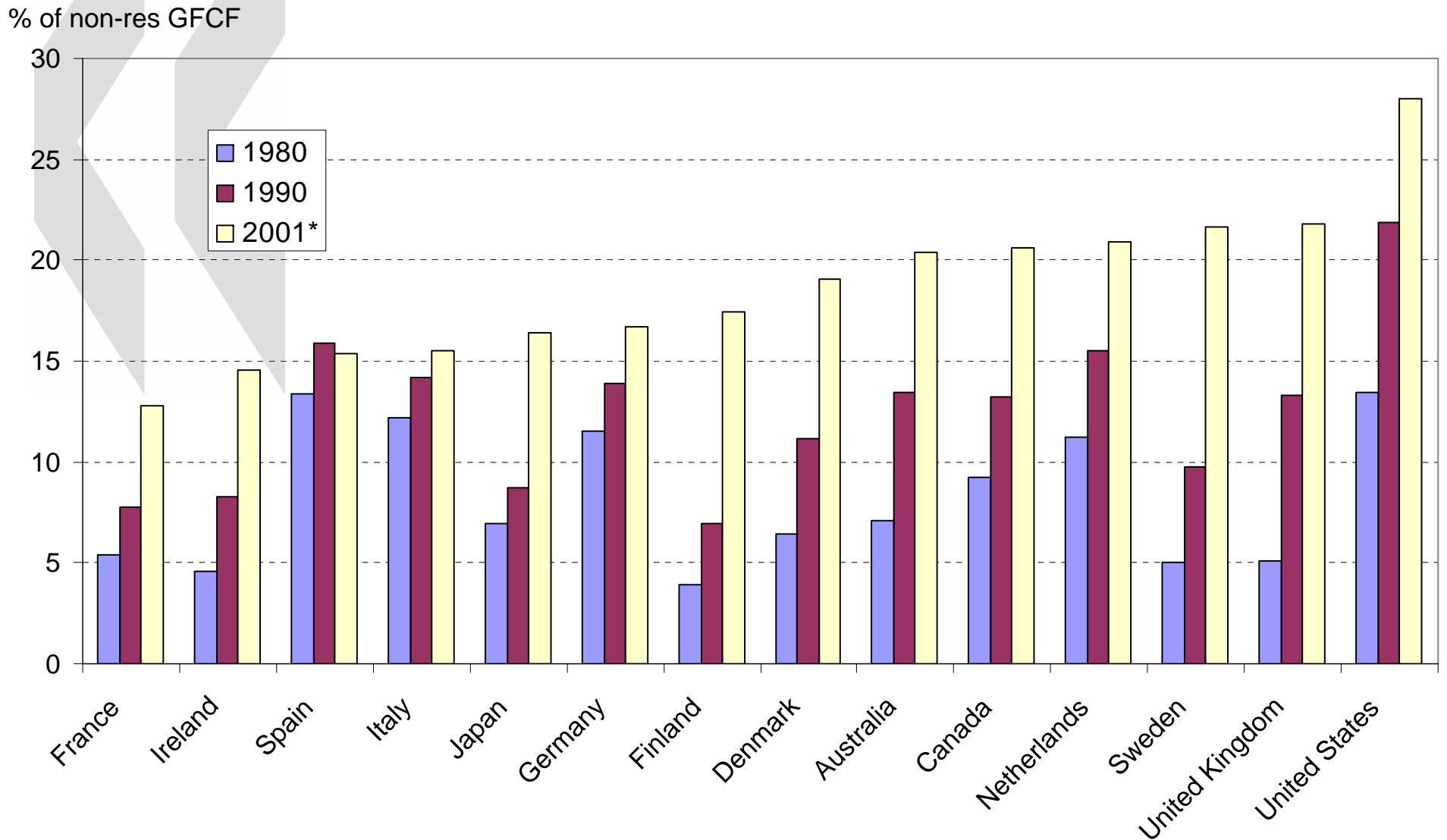
Strong growth is based on a combination of factors

(% contribution to GDP growth, 1990-95 and 1995-2001)



Countries have not invested to the same extent in ICT

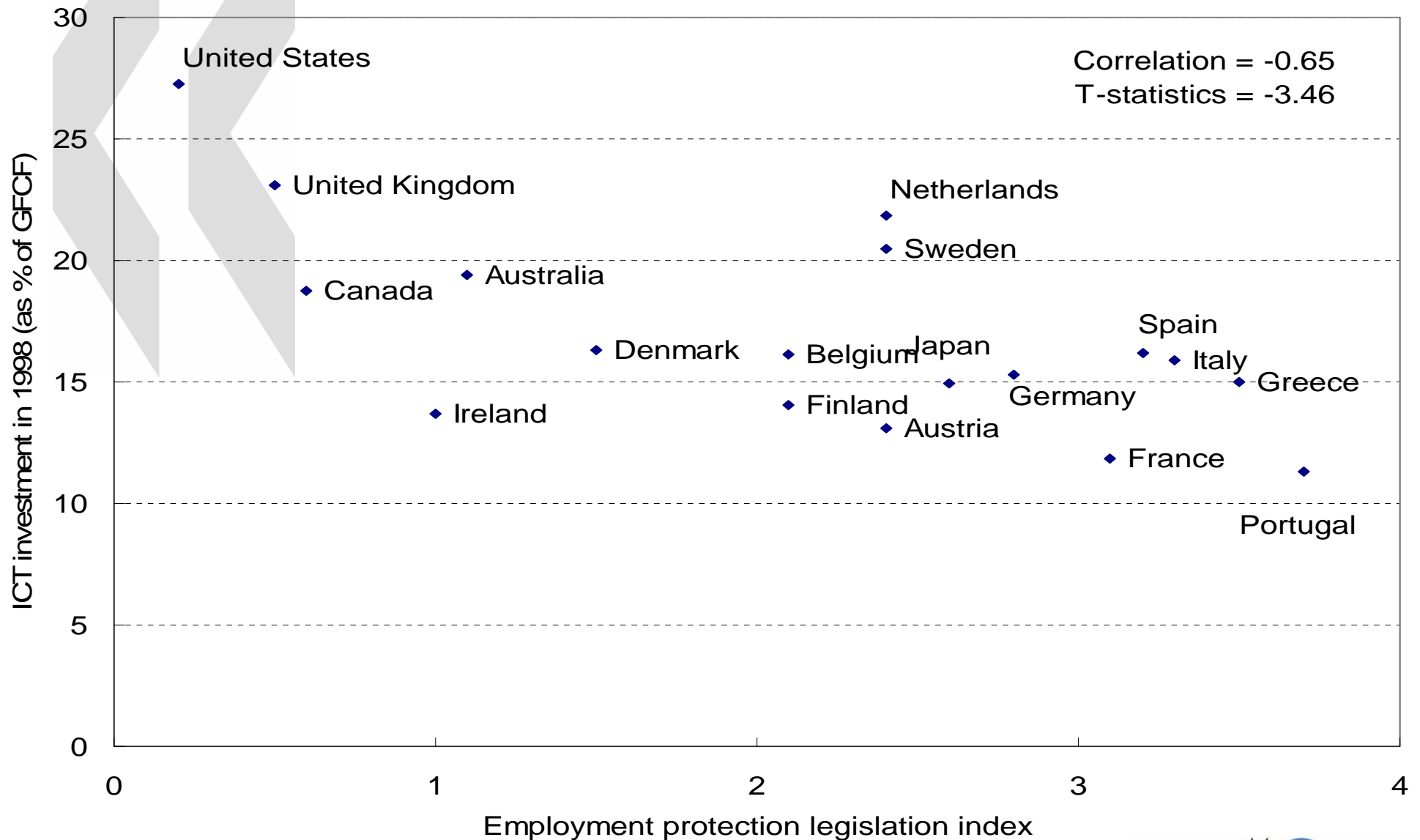
(ICT investment as % of non-residential investment)



Why the differences in ICT investment?

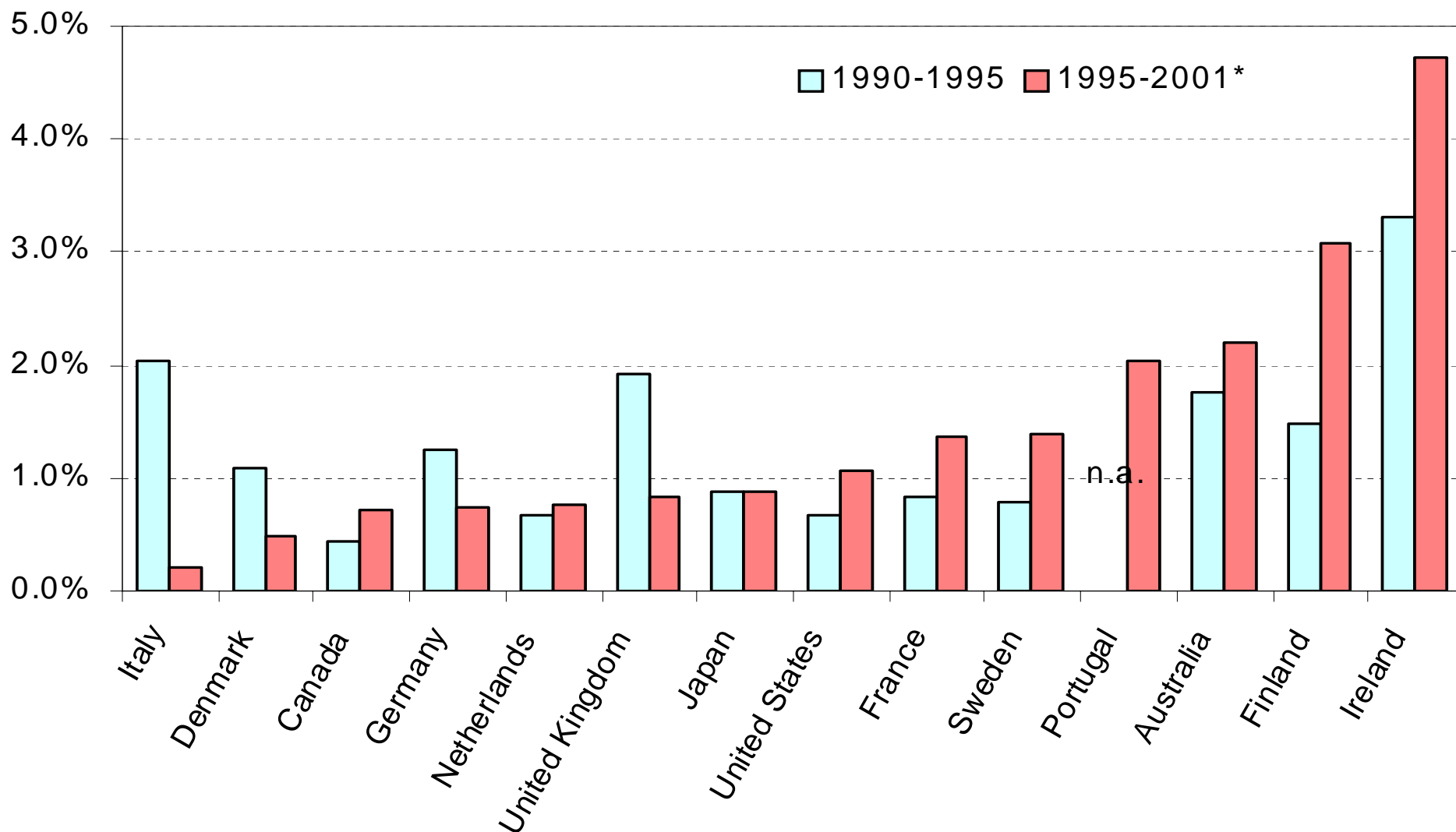
- Quality-adjusted prices have fallen everywhere.
- Differences partly reflect structural rigidities:
 - Regulatory barriers, lack of skills & innovation, difficulties in changing organisational set-ups, make it difficult for firms to use ICT to its full potential – this limits investment.
 - Competition is not equally strong in all countries – pressures to improve performance differ.
 - Costs of ICT (e.g. telecommunications) still differ.
 - ICT is not suited to all markets, sectors, or business models.
 - Greater hype about ICT in the US?
- Policies to enhance labour use in the EU may have reduced capital-labour substitution in the 1990s.

Countries with strict employment protection legislation have invested less in ICT



MFP growth increased in some countries, although this was partly due to cyclical conditions

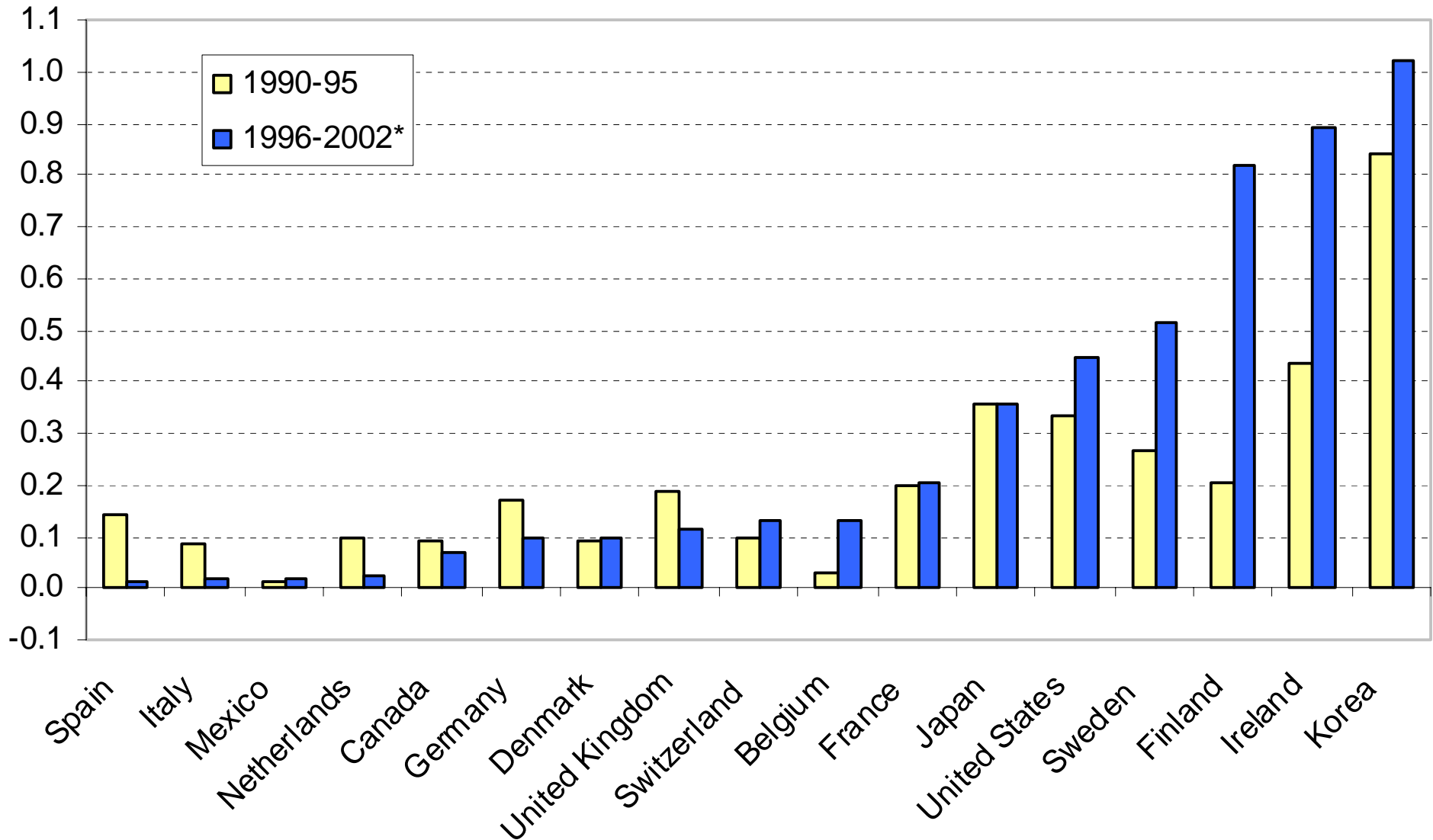
(annual compound growth rate, in %)



What drives the pick-up in MFP growth?

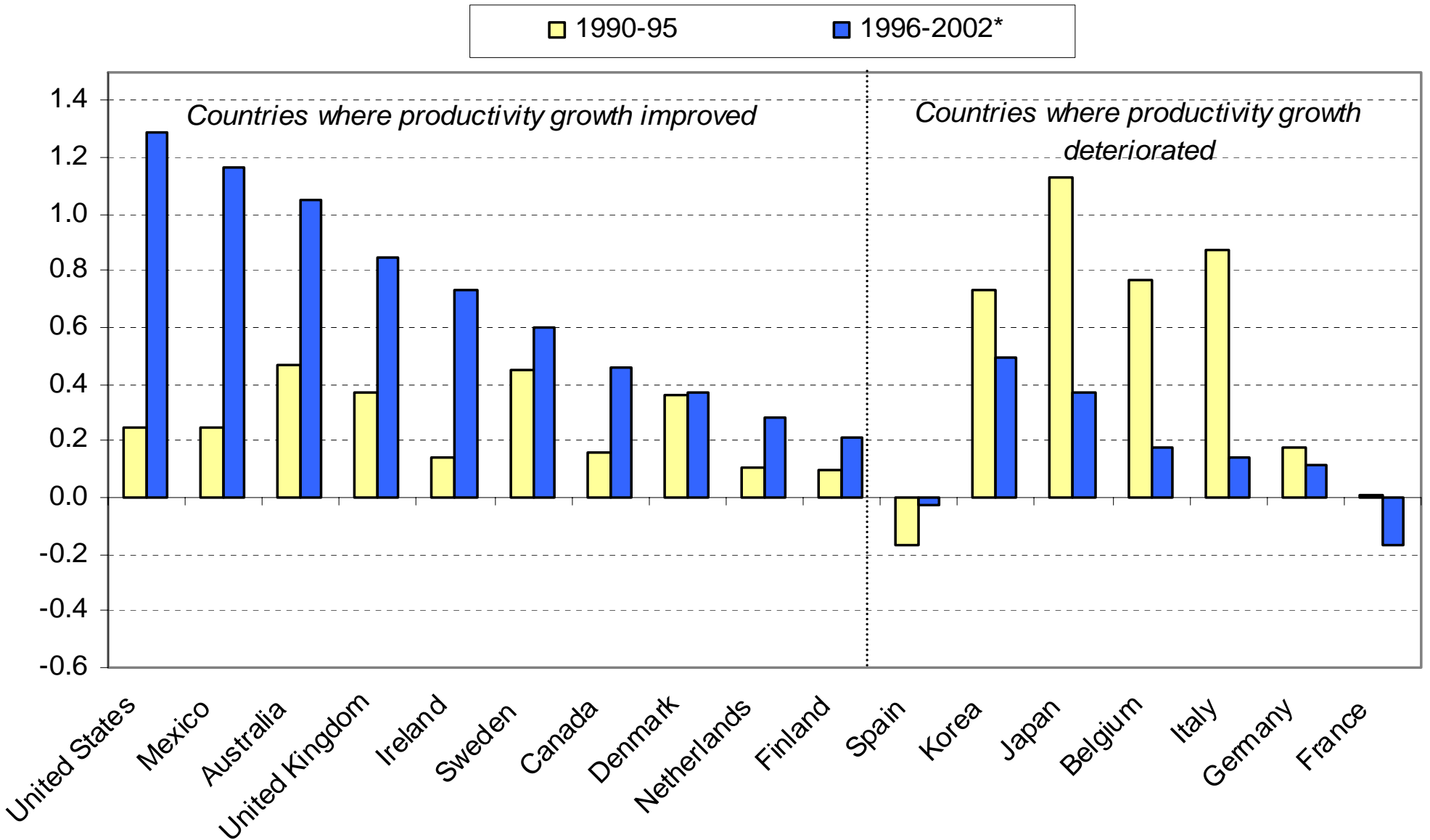
- Previous OECD work pointed to several factors that could play a role:
 - **ICT:** The extent to which countries have benefited from ICT production and use, including their scope for efficiency-enhancing organisational change.
 - **Firm dynamics:** Entry, exit and firm growth.
- These factors interact, but some cross-country evidence is available.

ICT manufacturing is only important for some countries (contribution to average labour productivity growth, in %)

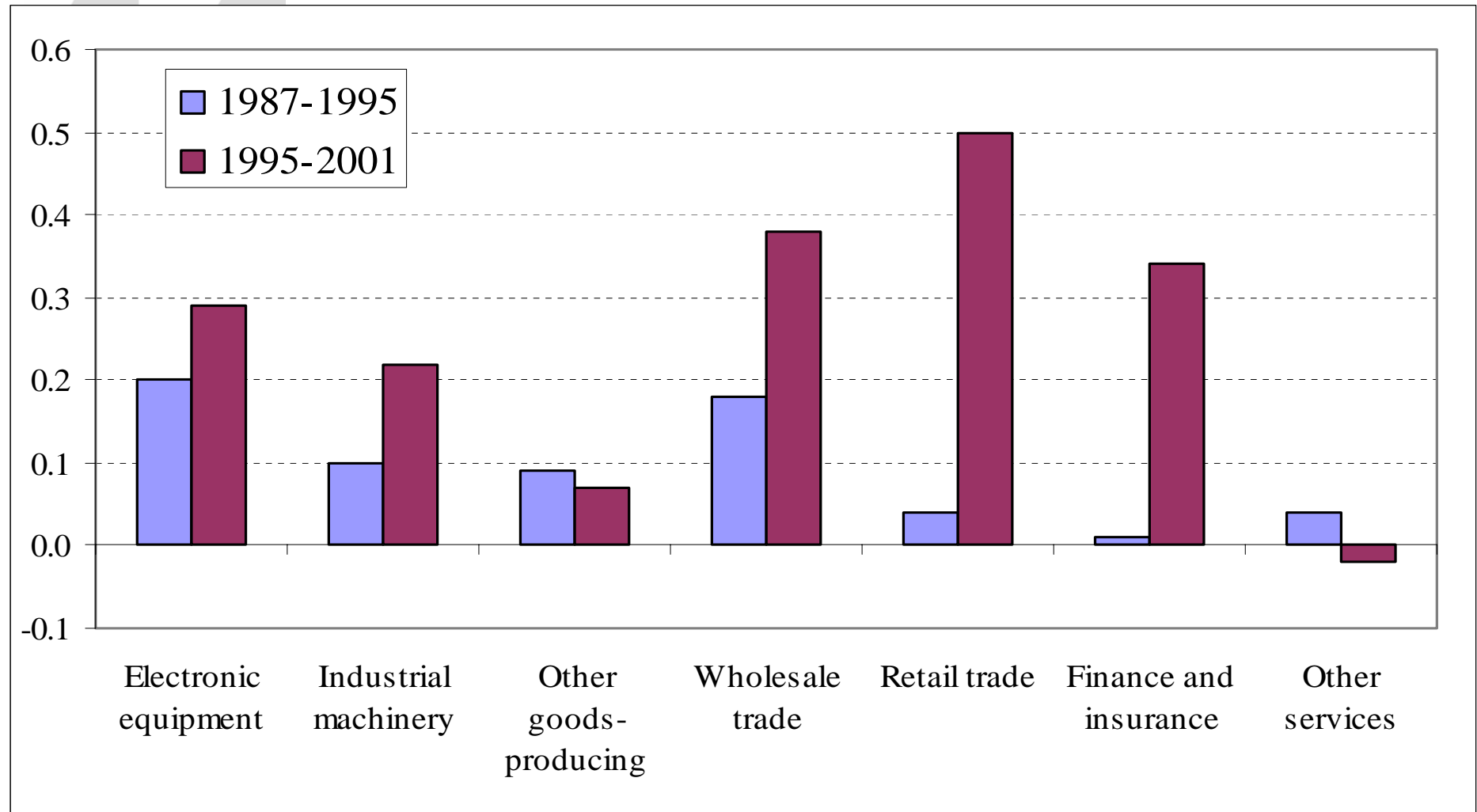


ICT-using services show more rapid productivity growth in a few OECD countries

(contribution to average labour productivity growth, in %)



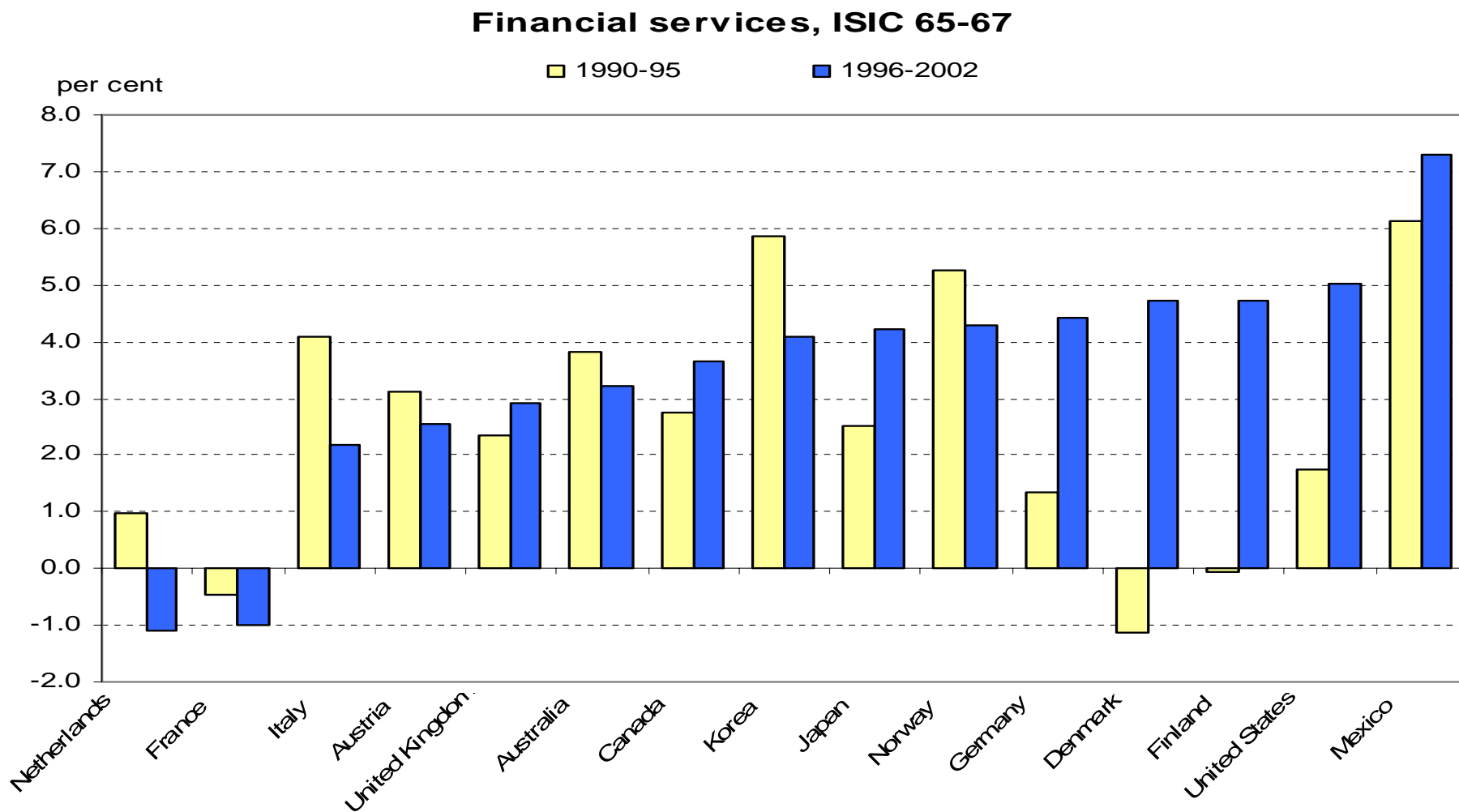
Stronger US MFP growth is primarily due to ICT-using services (contributions to trend MFP growth, in % points, Domar weights)



Source: Bosworth and Triplett, 2003.

The US has had rapid productivity growth in financial services ..

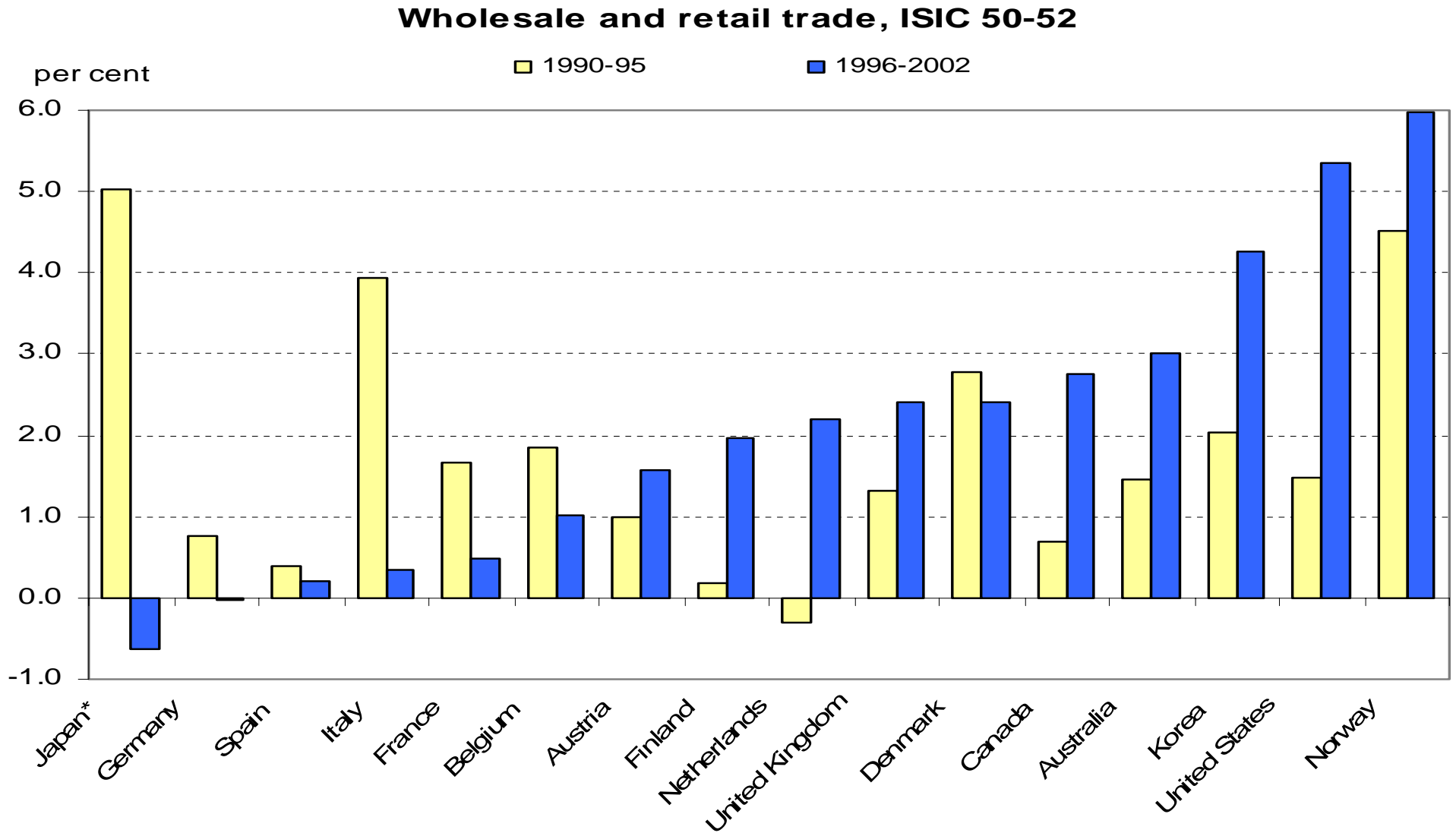
(annual average labour productivity growth, in per cent)



Source: OECD STAN database

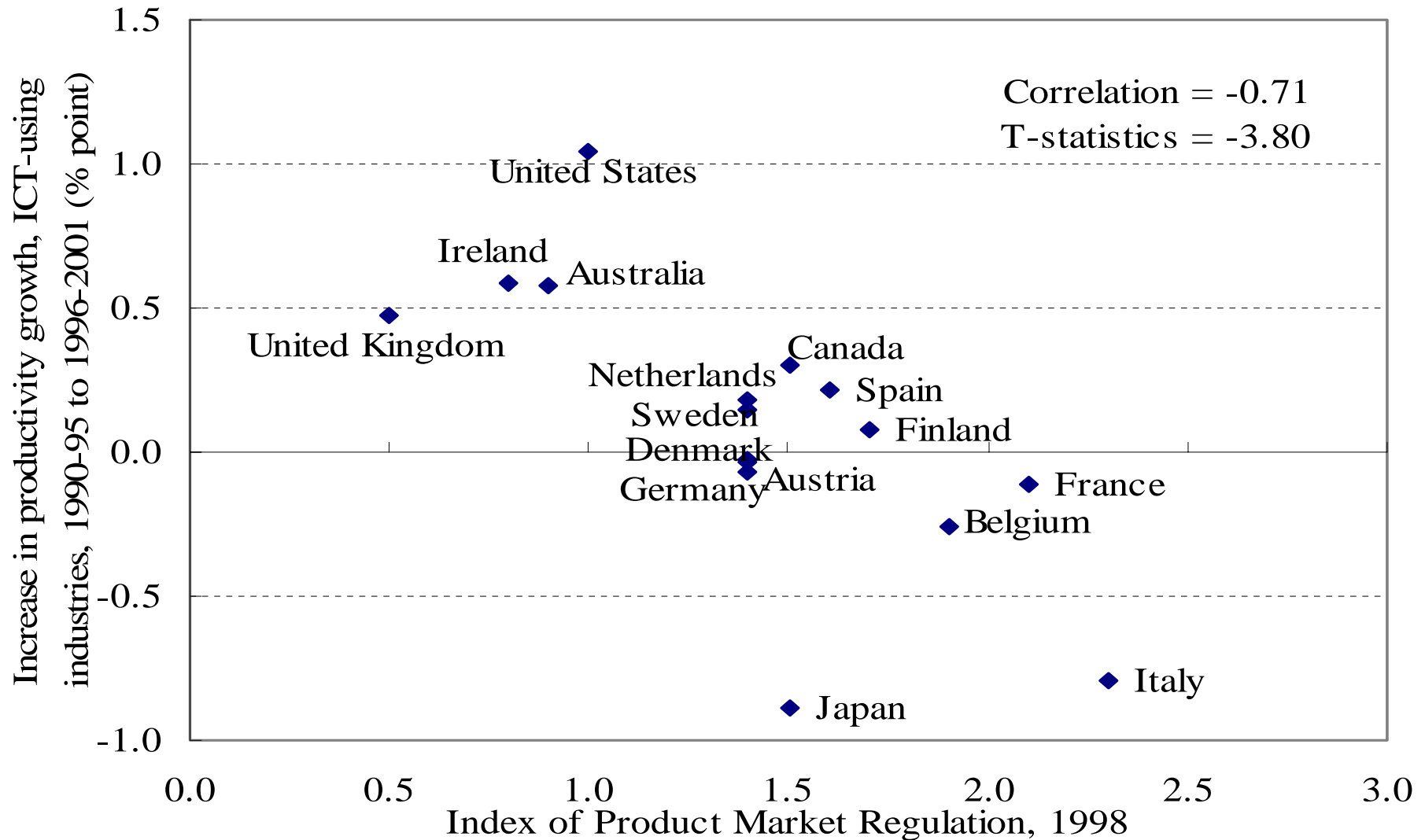
... and in wholesale and retail trade

(annual average labour productivity growth, in per cent)



Source: OECD STAN database

Countries with less product market regulation have seen a stronger pick-up in productivity in ICT-using services



A firm-level perspective on ICT and productivity – project with 13 countries

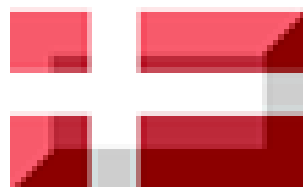
Australia



Canada



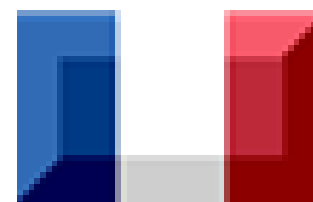
Denmark



Finland



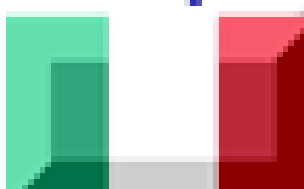
France



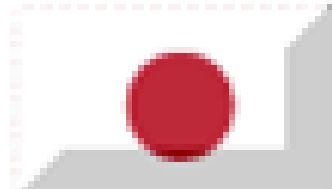
Germany



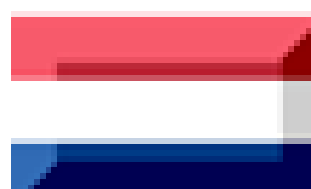
Italy



Japan



Netherlands



Sweden



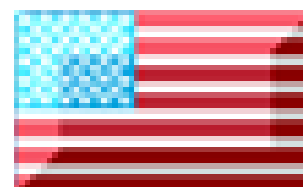
Switzerland



U.K.



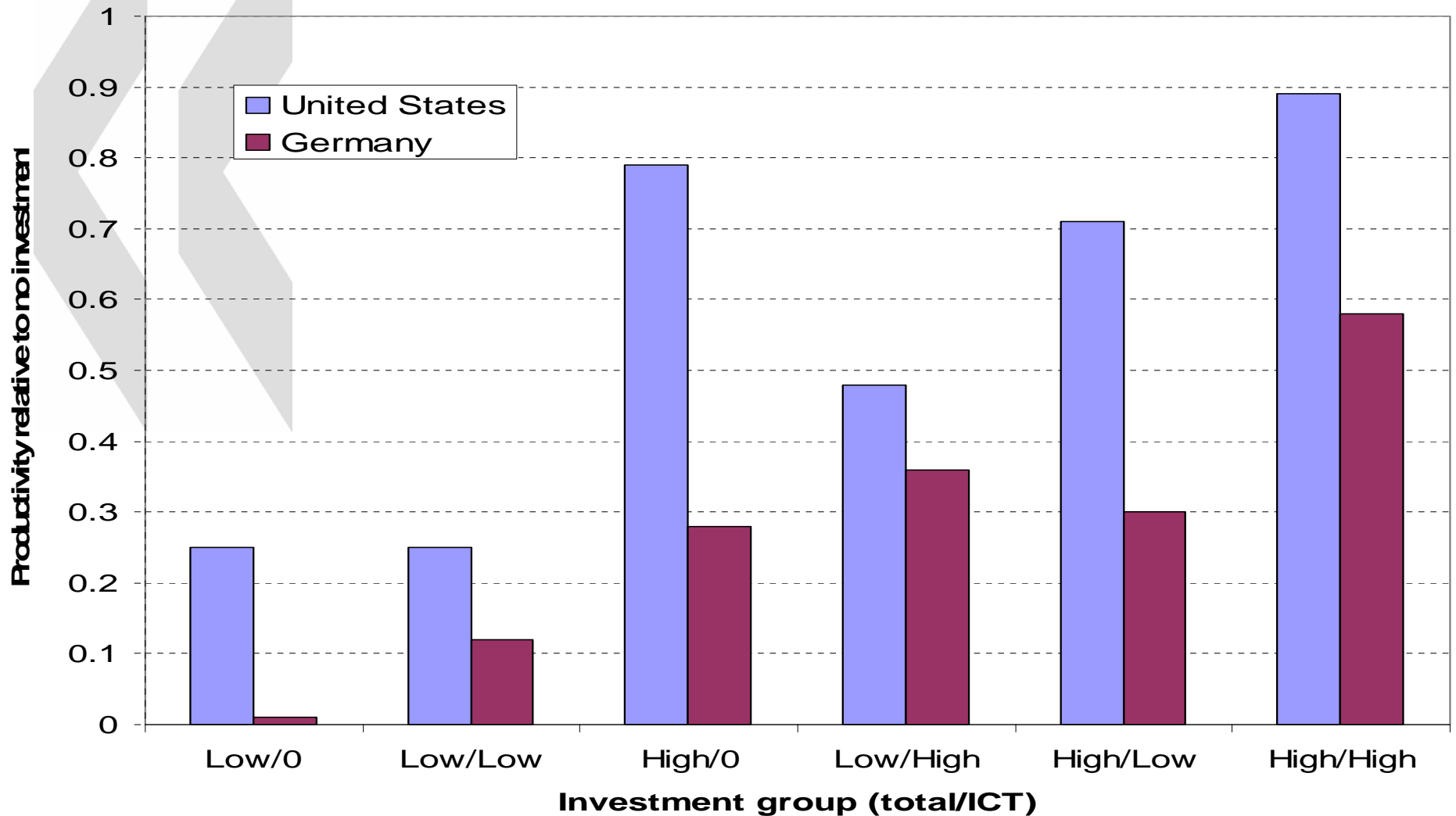
U.S.



Work shows that ICT use can help improve MFP growth

- Positive impacts of ICT in all countries, but conditional on other factors and firm characteristics (skills, innovation, organisational change, experimentation).
- ICT can help improve productivity and help efficient firms gain market share.
- Networking technologies are important.
- The impacts of ICT can also be found in the service sector.

The firm-level impacts of ICT differ across OECD countries



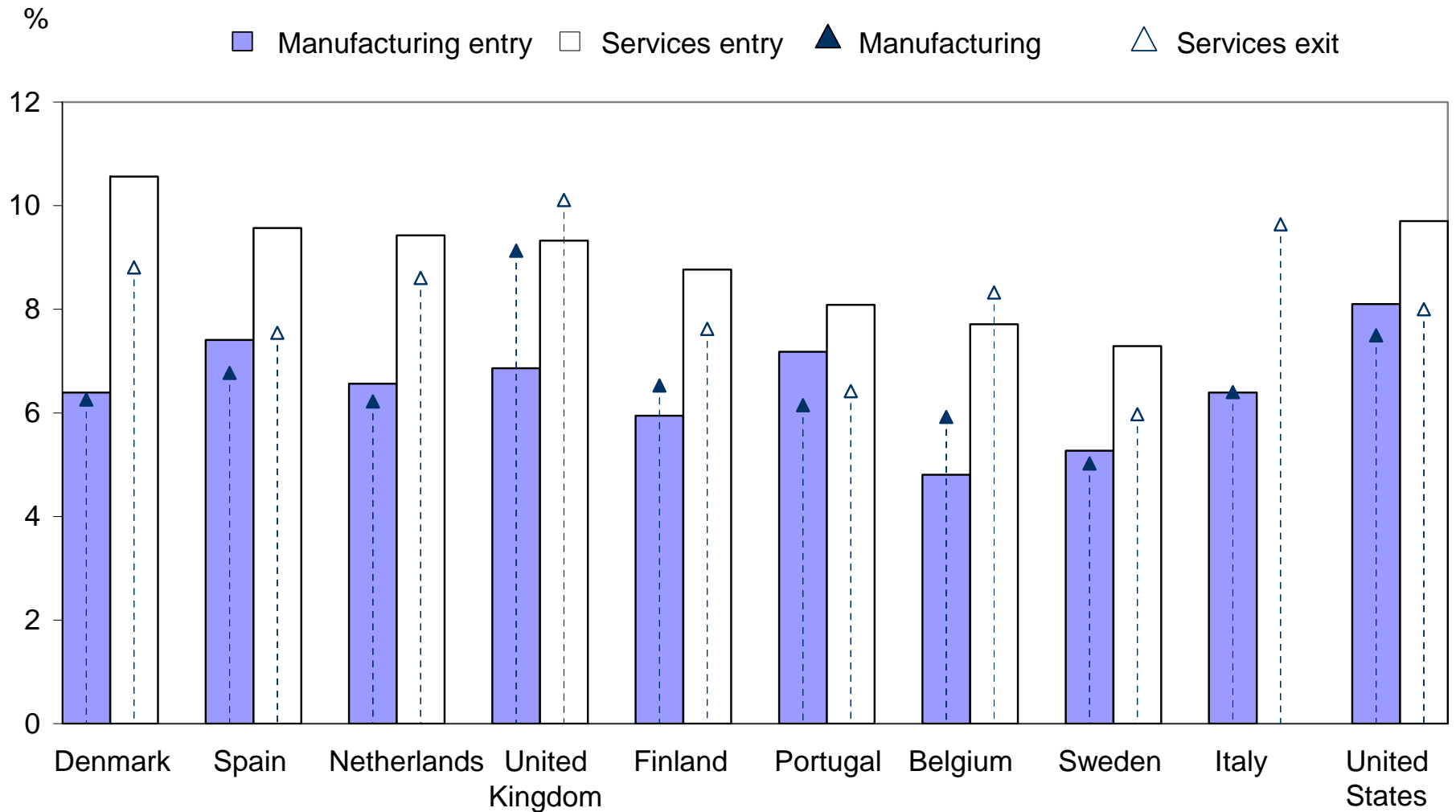
Source: Haltiwanger, Jarmin & Schank, 2002, Digital Economy, 2003.

Why difference between firm-level and aggregate – no evidence of aggregate impacts of ICT in EU?

- Impacts ICT in EU disguised by other factors (e.g. EU focus on increased labour use).
- Lags – US invested earlier and more – aggregate impacts in other countries might still come.
- Measurement – US output measures for financial services might pick up more growth in productivity.
- Spill-over effects – Perhaps some of this in the US, not much in the EU.

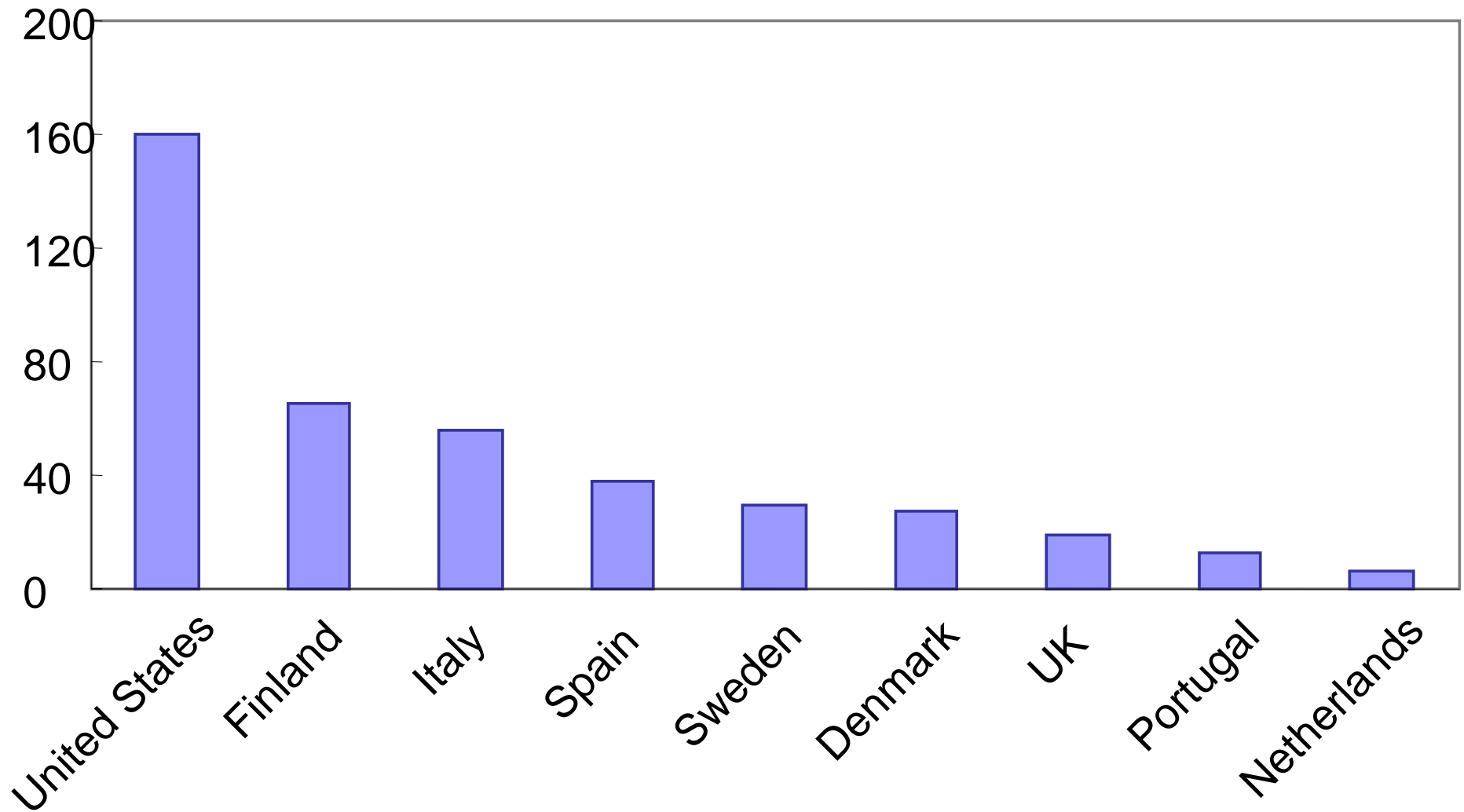
Entry and exit: EU-US differences seem small

(entry and exit rates, as % of all firms)



But differences in firm growth are substantial

(Employment gains of surviving firms after 2 years, % growth from initial employment)



Why the differences? Scope for learning?

- Firms in the United States start smaller than firms in Europe, but grow more quickly once they survive.
- There is a greater variation in performance in the United States – more high-growth firms, but also more failure.
- US firms have greater scope to learn and experiment – to find out whether a technology or business model works.
- The scope for learning enables rapid growth when successful; if not, exit is not excessively difficult.
- This environment is particularly suited for times of rapid technological change – when there is much uncertainty.

Differences in the business environment

- Entry and exit are relatively easy in the United States
- There is a larger pool of potential entrepreneurs than in Europe – risks are lower & many have tried already.
- There is a greater push to become an entrepreneur from unemployment – replacement rates are lower.
- Institutions support high growth – financial markets, venture capitalists, business angels, universities, etc.
- Greater investment in basic research and new technology – creates scope for new firms.
- Competitive environment implies that the potential rewards of success are high.
- Flexible markets permit resource re-allocation.

Concluding remarks

- The US has had stronger growth performance than the EU or Japan over the past years.
- Measurement is not the explanation, nor differences in the business cycle (although these play a role).
- Structural rigidities in labour and product markets continue to affect several drivers of growth in the EU:
 - The ability of economies to combine increased productivity growth and increased labour use.
 - The degree to which firms have invested and benefited from ICT.
 - The creation and growth of new (and innovative) firms.
 - The degree of experimentation and innovation in the economy.



Thank You for your attention

More information:
www.oecd.org/growth
www.oecd.org/sti

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