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The four acts

• The missing services

• The burden of laggards

• The digital deficit

• A sick man: Italy
EU services: missing in action?

Labour productivity growth by macro-sector, US vs EA

Note: Growth in value-added per employee, OECD Productivity Database
EU services: missing in action?

Note: Euro Area: unweighted across on 10 EA countries (AUT, BEL, DEU, ESP, EST, FIN, FRA, ITA, NLD, SVN)
Laggards’ weigh down: EA firms losing touch with global and EA frontier

Labour productivity (2004=100)

Source: OECD based on Orbis
Laggards weigh down: zombie firms on the rise

Share of zombie firms
Index, 2007=100

Note: EA includes Austria, Belgium, Germany, Spain, France, Greece, Ireland, Italy and the Netherlands

Source: OECD Orbis dataset
Gains in aggregate productivity from laggards catching up to median productivity levels

Going digital: the missed complementarities

Between technologies

Technology A

Digital technologies

Technology B

Between technologies and intangibles

Organisational capital and management skills

R&D and patenting

Human capital and ICT-related skills

Reallocation-enhancing regulations

Going digital: the missed complementarities

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Going digital: not yet so common after all

Digital technology diffusion across EU countries, 2017
% Share of firms adopting selected technologies

Going digital: benefits are not the same for all

More productive firms benefit more from a digitalized environment

Firm-level increase in productivity from a 10 percentage point increase in digital adoption

Source: Gal, Nicoletti, Renault, Sorbe and Timiliotis (2019)
Going digital: skills are key

Skill shortages reduce gains from digital technologies in low productive firms

Productivity shortfall from digital adoption in low productive firms relative to most productive firms (average OECD country)

Source: Gal, Nicoletti, Renault, Sorbe and Timiliotis (2019)
The EA sick man: Italy

- EU Area annual labour productivity growth
- Contribution of Italy to productivity slowdown (31.4%)
The EA sick man: a concentrate of problems

Productivity gaps in services

- Global frontier
- Italian frontier
- Italian laggards

Share of capital in zombie firms, 2013

Percentage share of adults (15-65) with insufficient or no ICT experience, 2015

Diffusion of modern managerial practices (HPWP), 2015
The policy moral

• **Complete services Single Market:**
  – especially professions and digital that have gone in reverse

• **Increase dynamism and facilitate catch-up:**
  – barriers to entry (administrative burdens on startups) and exit (insolvency regimes, NPLs)
  – ensure conditions for innovation and digitalisation (infrastructure, skills/training, non-bank finance, public and private R&D)

• **Repair Italy!**
References


Berlingieri, G., S. Calligaris, C. Criscuolo & R. Verlhac (forthcoming), Last but not least: laggard firms, technology diffusion and its structural and policy determinants


For more, visit the Global Forum on Productivity site
BACK UP SLIDES
The Euro Area slowdown is deeper and more productivity driven than in the US

Source: OECD Economic Outlook (EO_LIVE)
22 March, 2019
The post-crisis pick up in productivity has been stronger in the EA than in the US, especially per hour worked.
Restrictions in digital trade have gone up

Evolution of digital services trade restrictions

*Source: OECD STRI

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Euro area

United States
Services are key to support EA productivity in the future

EA productivity scenarios under different assumptions regarding future productivity in manufacturing and services

Scenario A: productivity growth as in the past
Scenario B: rebound in manufacturing productivity only (to 4%)
Scenario C: rebound in manufacturing and services (to 2%)
Zombie firms in the EA and Great Britain

Source: OECD Orbis database
Complementarity between digital technologies and skills

Good management and technical skills are key

Increase in productivity growth associated with a ten percentage point increase in the diffusion of high-speed broadband, for specific skill shortages

Source: Gal et al. (2019)
Policies can have strong effects on productivity via digital adoption

Effect on firm productivity (through digital adoption) of closing half of the gap with best performing countries in a range of areas. Average OECD country, effect after 3 years

- Higher use of high-speed broadband
- Upgrading skills (technical and managerial)
- Reducing regulatory barriers to competition and reallocation
- Easier financing for young innovative firms
- Reducing barriers to digital trade
- Higher use of e-government

Source: Sorbe et al. (2019)
The EA sick man: allocative efficiency weakens

Difference in capital growth between high and low productivity firms (%pts)

Source: Adalet McGowan et al. (2017)
The EA sick man: digital diffusion lags behind

**Individuals using the Internet in the last three months**

- **OECD average**
- **Italy**
The EA sick man: banks are also sick

Non-performing loans net of provisions
As a percentage of capital, Q4 2017