

# Editors' Overview

The 44<sup>th</sup> issue of the *International Productivity Monitor* contains five articles: a review of the rise of pro-productivity institutions; a proposal for improved measures of output, input and productivity in the non-profit sector; a comparison of estimates of capital and total factor productivity growth across international databases; an analysis of productivity in West Asian Arab countries; and lessons from productivity research.

To address poor productivity performance, many OECD countries in recent years have established pro-productivity institutions. In particular, the EU in 2016 recommended that its members create productivity commissions to better understand productivity trends and develop policies to boost productivity growth. In the lead article of this issue, **Dirk Pilat** from The Productivity Institute and the Valencia Institute of Economic Research provides a comprehensive review of the analytical work and policy recommendations of pro-productivity institutions in 11 OECD countries.

Pilat concludes that the rise of pro-productivity institutions is consequential. This development is putting the productivity issue back on the policy agenda and adding to the global evidence base on productivity trends and policies. While there are differences regarding institutional set-up, composition, and degree of independence of the commissions, they are largely pursuing common objectives reflecting similarities in mandates and challenges, such as the global productivity slowdown, the effects of the pandemic, and digitalization. The institutions also concur on the main drivers of productivity, namely investment, human capital, R&D and innovation, digital transformation, and entrepreneurship and business dynamics.

The measurement of productivity in sectors where output is not marketed, such as the non-profit sector, has always been problematic. In the second article, **Josh Martin** from the Bank of England and the Economic Statistics Centre of Excellence and **Jon Franklin** from Pro Bono Economics develop a conceptual framework for the measurement of output, labour input and hence labour productivity in the Non-Profit Institutions Serving Households (NPISH) sector in the United Kingdom. The authors go beyond the standard national account boundaries and include volunteer workers as part of labour input.

The size of the NPISH sector in the UK has increased significantly from 3.3 to 4.4 per cent in two decades, and adjustments for volunteer labour made the sector another 1.5 percentage points larger in 2019. There has been little growth in labour productivity in the NPISH sector in the UK since 1997. But the measurement of output prices in the non-profit sector is difficult, resulting in considerable uncertainty regarding real gross value added and productivity trends.

Multifactor productivity (MFP) is a key productivity metric. Its measurement requires measures of capital stock and services and factor income shares. Yet compilers of MFP estimates use different methodologies and assumptions in constructing

their MFP estimates. For example, estimates of MFP growth for Germany from 2000 to 2007 range from 0.1 to 1.1 per cent, a very large difference. In the third article, **Reitze Gouma** and **Robert Inklaar** from the University of Groningen examine estimates of MFP in the 2000-2007 period for 11 OECD countries using databases from four sources, the Penn World Tables, EUKLEMS, the OECD, and the Conference Board.

The authors attempt to explain the differences in MFP growth rates between estimates by harmonizing definitions related to capital services and asset stocks, and imposing common labour shares. Yet despite these harmonizations, substantial differences remain. The methodologies and definitions used for MFP measurement, unlike GDP, have not been standardized as part of the System of National Accounts. The authors recommend that consideration be given to doing so going forward.

Developing countries have generally experienced annual labour productivity growth of 2 per cent or more in recent decades. An exception to this trend are the West Asian Arab countries which have seen large declines in their level of labour productivity since 1982. In the fourth article, **Abdul Erumban** from the University of Groningen provides a comprehensive analysis of productivity developments in 12 West Asian Arab countries, the six countries that comprise the oil-rich Gulf Cooperation Council (GCC), namely, Saudi Arabia, Kuwait, Qatar, Bahrain, United Arab Emirates, and Oman and six non-GCC countries, Iraq, Syria, Lebanon, Yemen, Palestine and Jordan.

The sources of the poor productivity per-

formance differ between the sets of countries. In the GCC countries, the importation of low-wage foreign labour, largely from South Asia, has resulted in many low-productivity jobs and reduced productivity through a composition effect. In the non-GCC countries, political turmoil has had a negative effect on productivity growth. The author concludes that the development of a vibrant private sector is needed to boost productivity growth in the region.

**Martin Baily** from the Brookings Institution has been a leading and influential productivity researcher for many decades. In the fifth and final article in the issue, he looks back over his career to highlight what he sees as the lessons learned. One key finding is the disproportionate contribution to productivity growth from a very small number of industries, in particular related to high-tech manufacturing. Baily's work with the McKinsey Global Institute on cross-country comparisons of industry productivity levels yielded many insights into the drivers of productivity growth, such as the importance of strong competitive intensity and the negative effects of regulation and trade restrictions. Drawing on the firm-level productivity studies, he notes that there has been a relationship between declining business dynamism and slower US productivity growth.

Despite advances in our understanding, much remains to be learned about the mysteries of productivity growth. Going forward, he recognizes the uncertainty about the future path of productivity growth, but nevertheless expresses a cautious optimism, in large part because of the potential for artificial intelligence to boost productivity.