The best vs the rest: The global productivity slowdown hides an increasing performance gap across firms

Even before the 2008 Global Crisis, productivity growth had slowed in many OECD countries. This ignited a spirited debate on the future of productivity. So far, this debate has largely been conducted from a macroeconomic perspective. It has paid attention to prospects for innovation at the global productivity frontier (e.g. Gordon 2012 versus Brynjolfsson and McAfee 2011), the role of secular stagnation (Summers 2016), and even mismeasurement (Byrne et al. 2016). But analyses based on aggregate data ignore the complexity that characterises contemporary economies, particularly the heterogeneity in firm productivity that exists within narrowly defined sectors (Syverson 2004).

In fact, productivity growth at the aggregate level is the result of two underlying microeconomic forces (Foster et al. 2001) which we will call micro-drivers 1 and 2:

1. Heterogeneous productivity growth performance within firms;

2. The processes of creative destruction and resource reallocation whereby new firms enter the market and replace old ones, and scarce resources are continuously reallocated towards more productive activities.

In this context, in new OECD research we argue that the global productivity slowdown at the aggregate level masks a deterioration in both micro-drivers (Andrews et al. 2016). By distinguishing between firms at the global productivity frontier and laggards, we find a noticeable decline over time in both the pace of laggard firm's catch-up to the global productivity frontier (micro-driver 1) and the extent of market dynamism and growth-enhancing reallocation (micro-driver 2). These sources of productivity weakness can, in turn, be linked to the slowdown in the pace of structural reforms in product markets…

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