Bank of Italy

Workshop 'Understanding the Roots of Productivity Dynamics'

Opening remarks by Salvatore Rossi

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Good afternoon, ladies and gentlemen. I am delighted to welcome you all to the Bank of Italy in Rome for this workshop on ‘Understanding the Roots of Productivity Dynamics’.

In my introductory remarks I would like to address briefly three related questions. First, ‘Why should scholars and policymakers meet to talk about productivity right now?’, that is, in a phase such as we have been experiencing for the last 8 years, with the stance of monetary and fiscal policies, the fluctuations of financial markets, and the health of the banking sector dominating the headlines. The second question is ‘Why hold such a workshop in a central bank?’, and the third is ‘Why in Italy?’

An easy answer to the first question is ‘just look around you!’ In this room you see many experts from academia, research institutions and central banks all over the world. The papers that will be presented have been selected out of almost 120 submissions.

One might suggest that what attracted you here is not the topic but the beautiful city of Rome, so let me try to be a little more specific.

The advanced economies, in particular the European ones, are recovering slowly from an exceptionally severe and prolonged recession which was the result of two different financial crises: first, the one sparked by the collapse of Lehman Brothers that rapidly spread throughout the world; second, a couple of years later, the sovereign debt crisis in Europe.

We know that financial crises produce slower real economy recoveries than other types of shock. There are a number of reasons for this, such as the larger decline in capital accumulation, the stronger impact of the credit shock, especially on young and fast-growing firms, and the cost of banks’ recapitalization. Currently, growth in the European economies is also held back by deleveraging, subdued demand, and excessively low inflation.

But beyond the short-to-medium term, future growth prospects are darkened by a much more lasting phenomenon: the long-term decline in productivity growth that is affecting all the developed countries. This has been going on since the end of WW2 (Figure 1). We can estimate that in the last two years growth in global output per worker has slowed further in the emerging and developing countries, while in the mature ones it has remained steady at the low level reached in previous years.

This is the answer to my first question.

Buoyant productivity growth, by strengthening potential output growth, would help to raise the natural real interest rate, giving monetary policy more ease and allowing it to depart from the current ultra-accommodative stance. This explains why central banks are so interested in our present topic, which was my second question.

Moreover, productivity growth, by improving the future prospects of the economy, would induce households and firms to consume and invest today rather than postpone it to tomorrow, and this would not only alleviate the onus currently placed on monetary policies, but it would even give more room to fiscal policy, especially in countries where that space is constrained by high public debt.

So I would definitely subscribe to the well-known statement of Paul Krugman in the early ‘90s, that productivity ‘… isn’t everything, but in the long run it is almost everything’.

But what is curbing productivity growth in our countries? I hope you will come away from these two days with a clearer view, if not with tentative answers to this fundamental question. In any case, and I am sure that we all agree on this, there is no single determinant and, moreover, the relevant determinants may also vary across countries.

Great analytical improvements have already been made regarding several aspects. First, we now have more tools to measure productivity correctly. Recent contributions have used a mix of data on prices and modelling assumptions to better control for output and input price heterogeneity, providing more robust estimates of total factor productivity. Second, starting from the initial empirical observation of significant productivity dispersion even in narrowly-defined industries, we are now well aware of the crucial role of input misallocation across firms. Third, both empirical and theoretical results have shown how firm dynamics and selection into and out of the market are key to understanding productivity growth.

Policymakers should therefore welcome workshops like this one and treasure their results.

And now a few words about Italy, which will address my third question (Why in Italy?).

Italian productivity has been stagnant since the beginning of this century, which is a much worse result than the one recorded in other European countries (Figure 2).

In 2000, Italian labour productivity in the private non-agricultural and non-financial sector was 20 per cent lower than in Germany and 25 per cent lower than in France. The productivity gap increased steadily by around 13 per cent until the Great Recession; after 2009 the trend kept diverging as productivity in France and Germany started to grow again, while in Italy it continued to stagnate.

If we rely on a standard GDP growth decomposition framework, only population growth, which is entirely due to immigration, and the increase in the employment rate have allowed the Italian economy to achieve a modest average increase in GDP.

Thanks to the work of many economists, some of them at the Bank of Italy, we can now trace the roots of Italian productivity stagnation back to a set of structural weaknesses of the economy that prevent it from taking advantage of the two major shocks that the world experienced in the second half of the 1990s: the shift in the technological paradigm and globalization.

First of all, Italian firms are considerably smaller, older, more ‘family-dominated’, with lower propensity to innovate and fewer management skills than other countries' firms. Moreover, they are more reliant on bank credit to finance their investment and innovation activity.

These peculiarities are due, other than to psychological and sociological factors affecting Italian entrepreneurs, to specific features of our overall economic, social and political environment: red-tape and excessive bureaucracy, judicial inefficiency, corruption, cronyism, distortive market regulations, tax evasion, limited supply of human capital, and lack of infrastructure, both material and immaterial. These are not limited to Italy, of course: we find them at least in part in most other countries. In my view, what weakens Italy more than other countries are two factors: its juridical culture and the education system. But I'm not going to elaborate on this point.

Clearly, internal and external weaknesses are deeply interconnected. For instance, there is evidence that small firm size may be linked to the excessive length of court proceedings and to the combination of high taxes and low tax compliance. Or, the limited supply of human capital may perversely interact with the weak demand for skills from small firms in low-technology sectors to generate a poor attitude towards innovation.

In this light, I think that the structural reforms needed to bring the Italian economy back to a path of development should address all these different weaknesses in an integrated and coherent strategy.

In sum, it is clear that there is still large scope for economic research into many aspects of productivity. Today, I am pleased to introduce a workshop with many outstanding contributions, at the cutting edge of scientific analysis of productivity. Ahead, we have one day and a half of full immersion on topics such as misallocation of resources, cost and demand estimation, and determinants of productivity.

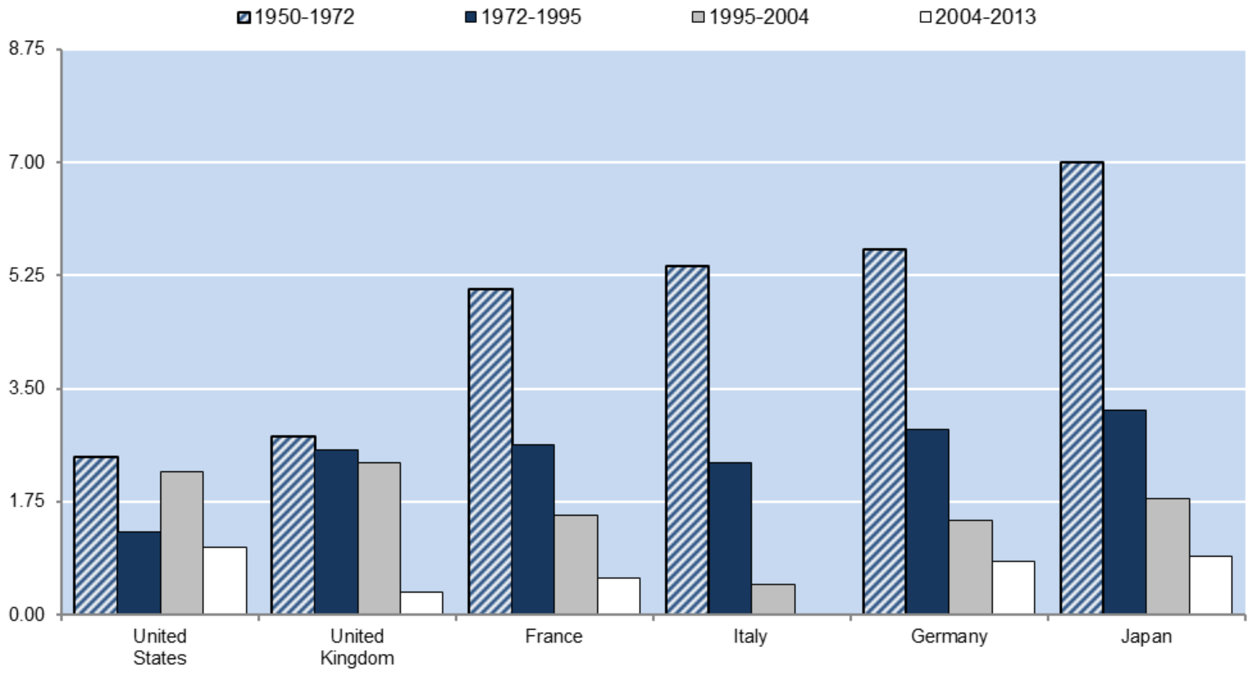
I would like to thank all the authors who will contribute to this workshop and our internationally renowned keynote speakers, Prof. Jan De Loecker from Princeton University and Prof. Gianmarco Ottaviano from the London School of Economics.

Last, but not least, I would like to thank the organizers: Matteo Bugamelli and Francesca Lotti from the Bank of Italy, as well as Mark Roberts, Fabiano Schivardi and John Van Reenen, whose contributions to the scientific committee have been invaluable. I would also like to thank Alessandra Piccinini from the Bank of Italy for taking care of the logistics.

I welcome you again and wish you a pleasant stay in Rome. I hope that you will enjoy the forthcoming exchange of ideas and draw profit from it.

It is now my pleasure to give the floor to Prof. Jan De Loecker for his talk on ‘Firm Performance in a Global Market’.

Figure 1. Hourly labour productivity – annual average growth



Source: OECD, 2015.

Figure 2: Hourly labour productivity (2001=1 for each country)