

Ladies and gentlemen,

It is a pleasure for me to welcome you all here at National Bank of Belgium today for the 8th edition of our biennial conference.

The theme that has been chosen this time is that of total factor productivity, or TFP for short. There is no doubt about the timing and relevance of this topic. TFP has been and still is today the focus of much attention, and justifiably so, since it plays a major role in so many different areas of the economy. The slowdown in TFP that has been observed at the macroeconomic level over the last ten years or so deserves our close attention. Optimistic and pessimistic views about future trends of technological change co-exist. To take a stand on this, we need a proper assessment of the determinants of TFP and its impact on observed productivity.

Since one of the important policy challenges we are faced with at the moment is low growth rates, and at a time when the signs of recovery are still too faint, there are clear concerns as to how far the productivity slowdown will shape future potential output growth. TFP is the main driver of productivity growth, which in turn enhances economic growth in the long term. It goes without saying, then, how crucial it is to understand the key determinants of TFP and how they differ across firms, sectors and countries, as this will allow us to set up effective policies to achieve sustainable growth, employment and higher levels of well-being.

So, total factor productivity is understandably being watched very closely by economic decision-makers and has been the subject of a large amount of research and economic analyses for decades. It is for all these reasons that the Bank has launched a research project bringing together Belgian university teams and our own researchers, calling on the expertise of internationally renowned personalities.

It is essential to gain a better understanding of the impact of main economic changes on TFP in order to plan and apply appropriate responses. I will just mention four particular challenging areas here.

The first challenge relates to dealing with the common euro area monetary policy at the national level. One focal point for a Eurosystem central bank in particular is evaluating the determinants of TFP and precisely assessing the differences across euro area countries as there is a large degree of heterogeneity in determinants of growth and economic recovery. Addressing those differences therefore requires European-, country- or region-specific policies aimed at reducing this heterogeneity. Indeed, this is a crucial prerequisite for guaranteeing maximum effectiveness of the single monetary policy in the euro area.

The second challenge I would like to talk about concerns the assessment of the consequences of the economic and financial crisis in order to address them with appropriate policy responses. While the crisis itself was not the reason for the slowdown in TFP that has been observed since the beginning of the 2000s, it has nevertheless aggravated this trend or restricted and even slowed down our economies' capacity to get back on the path to more sustainable growth. Financial constraints, which have affected some firms more than others, can limit their capacity to invest and innovate. There is an active role here for macro- and microprudential regulation to address financial market failures and to get the most out of structural

reforms so as to ensure efficient resource (re-) allocation. Indeed, credit and other resources might need to be moved away from less productive to more productive firms. Ensuring that the most efficient firms remain in business is particularly important in the current environment of low interest rates caused by accommodative monetary policy, which eases borrowing conditions for less creditworthy firms as well, and tends to delay banks' balance sheet adjustments and the process of resource reallocation.

It is worth remembering that a country's TFP dynamics depend not only on growth within each firm, but also on the reallocation of resources from less productive firms to the most productive ones. What Schumpeter called the phenomenon of creative destruction, and more generally the reallocation of factors of production between firms can make up a sizeable fraction of aggregate growth of TFP. To ease and accompany this process, targeted policies may prove useful here. It may involve, for example, policies that facilitate labour mobility, not only in terms of physical mobility but also in terms of qualifications. Also, it might need to focus on some firms more than others, and especially young ones, as these are considered to play a key role in productivity growth.

Third, fiscal policy also has its place in promoting productivity-driven investment and growth. This is particularly relevant in the face of budget austerity measures: because even if austerity is unavoidable to tackle sovereign debt issues, it might temporarily have downside effects on aggregate demand and slow down the economic recovery process. It is important for these effects to be offset by combining structural reforms and long-run budgetary policies that provide sufficient room for investment in public infrastructure research and education. The role of research and innovation in technological progress goes without saying. Also, increasing human capital can only have a positive impact on firm productivity. In addition, public infrastructure should not be neglected. For several reasons, such as the increased fragmentation of production, facilitating mobility from one place to another becomes more important than ever. This issue may be particularly important for Belgium, given its central geographical location.

Finally, understanding the nature and degree of competition is a challenge that deserves particular attention because it can also have an impact on TFP. When talking about such things as development of market structures, it is hard not to mention globalisation. This is a multi-faceted phenomenon. It does of course mean fiercer competition from the emerging economies, but it also offers wider and easier access to cheaper and/or better quality products, including intermediate goods.

For a small country like Belgium which depends heavily on foreign markets, where only the most productive firms are able to expand their overseas market share, improving productivity is a necessary guarantee for us retaining and sharpening our competitive edge, and thus of our business performance and employment levels. This is obviously a key issue in our globalised economies in a context where recovery is slow and where foreign demand can play a significant role. Both theory and empirical evidence show that competitiveness depends heavily on unit labour costs, an essential element of price-setting. Microeconomic studies, including studies on Belgium, point out that it is productivity that will make that bit of difference between two companies for determining their access to and growth on the markets, and especially foreign markets. And it is productivity again that will lead to the development of new and better quality products.

Something that has received a lot more attention recently is the development of global value chains. This internationalisation of the production process effectively changes not just the relevant economic measures and the stance on productive efficiency, but above all the type of policy and measure that foster TFP growth and corporate development. Understanding the role of opening up trade to higher-performance and cheaper products, ensuring that the most important elements in the production process, and notably in terms of total factor productivity, are located in one country rather than another, understanding the impact of alternative organisation and management practices are all part and parcel of the new areas of focus that require appropriate attention both in economic research and policy discussions.

Faced with all these challenges, it is essential to put in place the right conditions for supporting businesses in their own development, whether it may be capacity to innovate for some, capacity to take on new technologies, or to develop new niche outlets to adapt to change for others. There are many different ways of doing this, whether in terms of the quality and adaptability of the workforce, access to funding, or the establishment of a stable economic environment that is favourable to investment, innovation and the creation of new businesses.

But, to provide relevant guidance, one needs first to measure TFP correctly. Total factor productivity is an economic concept that can be defined as “the efficiency in using existing technology to produce goods and services from a given set of inputs”. So it is obviously a variable that cannot be directly observed. What’s more, it is dependent on factors that are sometimes not so easy to measure themselves, like human capital, the quality of intermediate inputs, production capacity utilisation, etc. Consequently, in light of the challenges I have just mentioned, it is important to measure TFP as precisely and accurately as possible, and to understand its determinants given the role this single variable plays in so many different economic domains. This highlights the importance of having reliable datasets and econometric techniques to guide us in drawing suitable conclusions and setting up effective economic policy responses. Indeed, although not primarily designed to tackle productivity issues, there are actually many areas and levels of economic policies and reforms that may impact on productivity.

The subject is endless! By holding this biennial colloquium, the NBB aims to contribute to progress in this domain and take the policy debate one step forward.

Ladies and gentlemen, may I wish you a very fruitful conference and most interesting discussions here today and tomorrow.