Main lessons of the NBB’s 2014 conference on “Total factor productivity: measurement, determinants and impacts”
(Article for the December 2014 Economic Review)

This article summarises the main lessons derived from the scientific contributions and discussions at the Bank’s 2014 conference on “Total factor productivity: measurement, determinants and impacts”.

At this conference, six original contributions were presented and discussed. Apart from these contributions, three lectures looked at the causes of the slowdown in total factor productivity in the advanced economies and the effect of innovations (in the form of new products, processes or methods of organisation and management) as a driver of TFP growth. Finally, a panel of international experts discussed the main economic policies necessary to avoid what some refer to as secular stagnation.

The following points emerge from the set of papers and the discussions.

First, various speakers pointed out that Total Factor Productivity (TFP) plays a crucial role in lasting, sustainable economic growth. Since the 2000s, TFP growth has slowed in the advanced economies. This slowdown is due to multiple factors.

Those factors include the increasing dominance of the tertiary sector and the shortage of investment in Europe. That lack of investment translates into a lack of innovation (be it in new products, production processes or methods of organisation and management). The investment deficit is particularly worrying because it has a negative impact on future growth potential, in a context of an ageing labour force, which, as one of the papers showed, also has an adverse effect on TFP growth.

While the role of investment as a source of TFP growth was highlighted, particularly in the case of investment generating innovations, some speakers also stressed the importance of reallocating the available resources in the optimum way from the least productive to the most productive firms, be it in terms of workers or financial resources. That optimum reallocation of resources requires markets that operate efficiently.

Structural reforms on both the product and service markets and the labour market could generate stronger TFP growth at macroeconomic level. Although these reforms could be beneficial in the long term, they nevertheless imply short-term costs borne by the persons affected by the reallocation of resources. Therefore, to facilitate acceptance of the reforms necessary for that reallocation and to support that process, special attention must be paid to training, skills, the necessary financial regulation measures, and an improvement in the conditions favouring the establishment of businesses.