

The Policy Implications of Sustained Low Productivity Growth: International Aspects

Comments on F. di Mauro's and J. de Gregorio's presentations

Olivier Jeanne

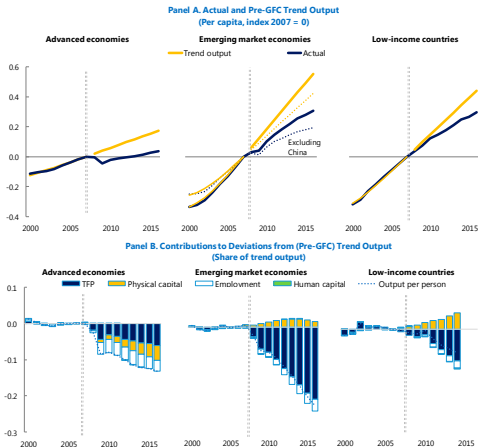
Johns Hopkins University and PIIE

PIIE, November 9 2017

- Productivity slowdown is a global phenomenon
- Is there international transmission and what are the channels?
- What are the policy implications?
- The two papers are interesting taken both separately and together because they are so different in their approaches
- I will discuss them in the context of broader set of questions

Global productivity slowdown

Figure 1. Trend Output and Post-Global Financial Crisis Total Factor Productivity Losses
(Per capita)



Sources: Penn World Table 9.0; IMF, *World Economic Outlook*; and IMF staff calculations.

Note: GFC = global financial crisis, TFP = total factor productivity. Purchasing power parity GDP weighted average of largest 20 economies per income group is reported. Trend output refers to a projection based on the Hodrick-Prescott filter trend in the years preceding the GFC.

Figure: Source: Adler et al, 2017, "Gone With the Wind: Global productivity", IMF Staff Discussion Note 17/04

Global productivity slowdown

- Jose de Gregorio presents some thought-provoking facts about TFP in emerging markets (EMs) and advanced economies (AEs)
 - based on PWT 9.0, 1960-2014
- On average EMs do not catch up to AEs in terms of TFP (after controlling for human capital accumulation)
- TFP growth in EMs is correlated with that in AEs at low frequency
- Both facts are surprising if one believes that EMs catch up to the frontier through technological diffusion
 - techno-pessimism explains slowdown at the frontier, not in EMEs

Channels of transmission

- Finance: TFP growth could be affected by financial frictions that are contagious across borders
 - reasonable candidate for the Great Recession, but more generally?
- Trade: lower demand could impede learning by exporting
- Trade: more generally, TFP growth could be endogenous to (global) demand
- In Jeanne (2017) I find that post-crisis (2007-14) TFP growth is orthogonal to countries's international integration (trade or finance)

Global productivity slowdown

What can we learn from more granular data?

- Large literatures on factor allocation, exports and productivity based on firm-level data
- Some evidence in favor of a finance channel
 - companies with weaker balance sheets prior to the global financial crisis had larger falls in TFP growth and investment in R&D after the crisis (Adler et al, 2017)
- Slowing TFP at the sector level reflects primarily weaker diffusion from global frontier firms to lagging firms (Andrews, Criscuolo, and Gal 2016)
- There must be more one can learn from this approach about the productivity slowdown

Global productivity slowdown

Ottaviano and Di Mauro

- Firm-level data in 20+ countries, 2001-12
- Main results: more skewness in productivity distribution at country-sector level associated with higher allocative efficiency and higher exports
 - after controlling for trade gravity determinants
- What does this tell us about the productivity slowdown?
- What does this tell us about the relationship between trade and productivity growth?

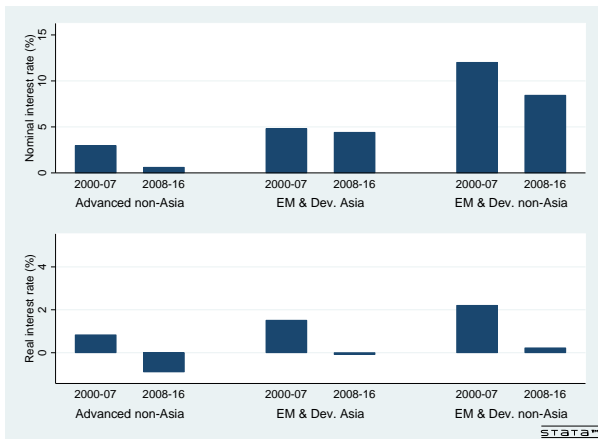
Policy implications

- Lower productivity growth implies lower global demand and interest rates
 - here the channels of international transmission are straightforward
- The set of policy instruments has considerably expanded (unconventional monetary policy, macropru, etc.)
- I will focus on the implications of this environment for credit

Policy implications

Real interest rates have fallen more in EMs than in AEs

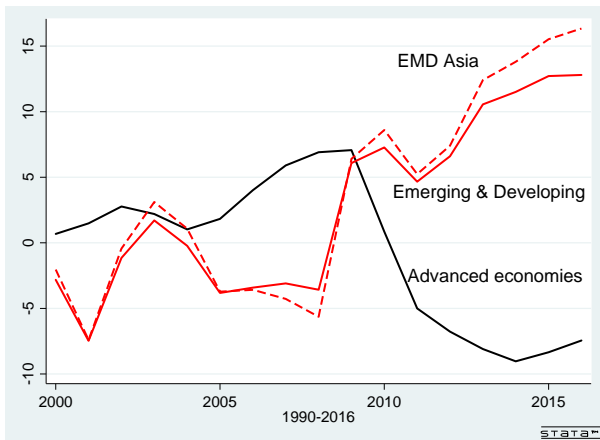
Figure: Pre- and post-crisis interest rate (percent)



Policy implications

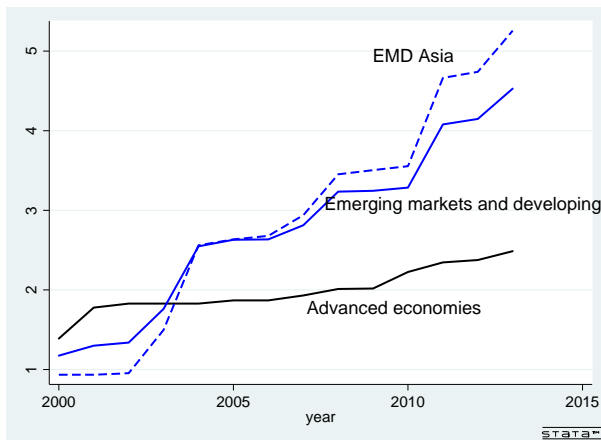
Credit: the big shift

Figure: Credit gap (percent, GDP-weighted, source: BIS)



Macroprudential policy

Figure: Macroprudential intensity (Cerrutti, Claessens and Laeven 2015)



Policy implications

Credit growth and demand rebalancing

Figure: Current account balance and credit gap (percent, BIS)

