The Rise of Productivity Commissions: Some Lessons Learned

The rise of productivity commissions

The central role of productivity for economic performance has been recognised for many years. But it is only recently that many governments have decided to establish dedicated institutions to provide advice on policies to strengthen productivity growth.

Australia was the first to establish a productivity commission, in 1998, and several other countries followed in the mid-2010s. Following a recommendation of the EU Council in 2016, many EU countries also established productivity boards in the last decade, while the UK Productivity Commission was established in 2021.

Today, some 20 productivity commissions operate across the OECD area. While most are quite new, much can already be learned from their work. To inform the work of the UK Productivity Commission and work on productivity in general, this paper reviews what ten key productivity commissions have thus far found on the drivers and policies that affect productivity, i.e., Australia, Belgium, Denmark, Finland, France, Germany, Ireland, Netherlands, New Zealand and Portugal.

The institutional set-up of commissions differs considerably across countries, affecting the role they can play for national policy. This includes differences in mandates, degree of independence, composition (academic, multi-stakeholder or government), reporting and available resources, amongst others (Table 1).

Moreover, the effectiveness of productivity boards does not only depend on these internal factors, but also on governments' commitment to support the board, and its capacity to review and implement the policy recommendations generated by the board.

The variety in arrangements shows that governments have taken different decisions on what the work of commissions should entail and what advice they want to receive.

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Table 1: Overview of the Productivity Boards reviewed

	Institution	Est.	Type of Institution	Mission	Location
	Australia Productivity Commission	1998	Standing inquiry body	Promoting productivity-enhancing reforms	Independent, reports to executive and Parliament
	Belgium National Productivity Board	2019	Independent advisory body	Examine development of productivity and competitiveness	Independent structure, reports to trade unions and employers' organisations
	Danish Economic Council	2017*	Independent advisory body (multi-stakeholder)	To analyse productivity and competitiveness	Independent, provides advice to Danish policy makers
	Finnish Productivity Board	2021**	Independent expert body	Monitor productivity and competitiveness and conduct independent evaluations	Independent expert body linked to Ministry of Finance, reports to government
	French National Productivity Council	2018**	Independent advisory body of academic economists	Analyse productivity and competitiveness and policies that affect them	Independent, non-partisan advisory body reporting to the Prime Minister and Minister of Finance
	German Council of Economic Experts	2019*	Independent academic advisory body	Analyse developments in the field of productivity and competitiveness	Independent, provides advice to German policy makers
	Ireland National Competitiveness and Productivity Council	2018*	Independent council established by government (multi-stakeholder)	Gain understanding of driving forces and impeding factors of productivity growth	Independent agency, part of Ministry of Economic Affairs and Climate Policy
	Netherlands Productivity Board	2017**	Independent economic research agency	Gain understanding of driving forces and impeding factors of productivity growth	Independent agency, part of Ministry of Economic Affairs and Climate Policy
	New Zealand Productivity Commission	2011	Standing inquiry body	Improved well-being, improved productivity	Independent, reports to Parliament
	Portugal Productivity Council	2018**	Joint temporary structure	Monitoring public policies in the field of productivity and support discussion on the subject	Joint economic structure of Ministry of Finance and Ministry of Economy
	United Kingdom Productivity Commission	2021	Independent body, established by NIESR and The Productivity Institute	Understand research and evidence related to productivity, provide policy advice and develop policy recommendations	Body operating independently of government, working closely with policy makers

Notes: * Productivity Boards established based on existing advisory councils. ** Boards linked to existing governmental institutions.
Source: National sources and Renda and Dougherty (2017), see also:
https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-productivity-boards_en for EU countries.

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The drivers of productivity

The boards have much in common in their analytical and policy work. This partly reflects common challenges, such as the overall slowdown in productivity growth and the recent COVID-19 crisis; broader underlying trends affecting productivity, such as digitalisation and structural change; as well as a shared understanding of the main direct drivers of productivity.

Direct productivity drivers

Most boards have devoted the bulk of their work at examining the **direct** drivers of productivity in their work, i.e., investment; human capital; innovation; digitalisation; and entrepreneurship and business dynamics, although with differences in focus (Table 2).

This is not surprising, as these drivers help determine the contributions of fixed and intangible capital, human capital and multi-factor productivity to economic growth. Some points stand out in the work thus far:

» **Investment** Considering its importance, relatively little attention has been devoted to policies that can help address the *slowdown in aggregate investment* that is often regarded as a key factor for the slowdown in productivity.

» **People and skills** Human capital is the most explored driver in the work, which suggests productivity commissions consider it much more important for productivity growth than would be suggested by many empirical studies. Many boards consider l*ack of skills and growing skills mismatch* key barriers to productivity growth.

» **Technology diffusion** Considering their importance, few countries have explored the *slowdown in technology diffusion* or the overall pace of technological progress and their impacts on productivity.

» **Business dynamics** Many countries have explored business dynamics – the entry, exit and growth of firms – and understand its importance for productivity. Little attention has been devoted to policies that can drive *productivity in frontier firms* compared to policies for laggards.

Indirect productivity drivers

There is much greater variation in the work of the boards on the **indirect** drivers of productivity – drivers that influence the incentives for firms to enhance productivity (Table 3). Some drivers, such as trade and foreign direct investment (FDI); business, competition and regulation; and labour markets have been addressed by several boards, while far fewer have thus far looked at industrial and regional policies, for example.

Differences in (perceived) mandates may play a role here, for example in the extent to which commissions are expected to examine the regional dimensions of productivity or only national ones. Institutional arrangements may play a role too, e.g., the role of productivity commissions relative to other authorities, e.g., competition commissions or monetary authorities.

Many of the policy recommendations by the boards reflect the results of long-standing work on productivity and structural reform. However, new policy questions linked to productivity, such as the rationale for a more focused or targeted **innovation policy** (New Zealand); increased **strategic autonomy** (Germany); or policies linked to **data and artificial intelligence** (Australia, Germany, Ireland) are now starting to be tackled by some boards.

This suggests that several commissions do not take a narrow view of their mandate and are willing and able to tackle a wide variety of factors and policies that may affect productivity.

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Table 2: Key themes in the work by productivity boards on direct drivers of productivity

	Tangible and Intangible Capital	Human Capital	R&D and Innovation	Digitalisation	Entrepreneurship & business dynamics
	Macro drivers of business investment, Structural factors, Social Benefits	Foundational and Specific Skills, Life-long Learning, School Productivity	New to the World Innovation versus Diffusion, Non-Market Services	Uptake Advanced Technologies, Data economy, Intellectual Property, Infrastructure	
	High-Quality Infrastructure, Digital & Green Transition and R&D, Public Budget, FDI	Skills Mismatch, Retaining Talent, Lifelong Learning, STEM skills	R&D Concentration, Tax Credits, Innovation System, Diffusion	Digitalisation and COVID, Complementary Investment, Just Transition	Firm Dynamics & COVID, Zombie Firms, Scaling, Productivity Divergence
	Public Infrastructure, Cost-Benefit Analysis, Targeted Support for SMEs	Relocation of Education & Training, Foreign Labour	R&D Tax Credits		COVID and Firm Dynamics, Support Schemes
	Capital intensity, Role Demand and Business Cycle	Structure Labour Force Management Skills	Incentives for Private R&D, Productivity of R&D, Radical Innovation		Creative Destruction, Growth SMEs, Resource Allocation, High-Productivity Firms
		Quality of Education, Soft Skills, Management and Diversity, Inequalities, Skills Mismatch	Investment in R&D, Structural Factors, Efficiency of R&D, Public-Private Links	Telework and Productivity, Co-investment in Digital Technology, ICT Diffusion	Business Dynamics & COVID, Unwinding Support, Productivity Divergence, Frontier Firms
	Infrastructure, Intangibles, Fiscal Policy, Equity Finance	Lifelong Learning, Equality of Opportunity, Management Skills	Innovation System Concentration, Costs and Complexity of Innovation	Impact COVID, Data economy, Platforms, Cloud, Sovereignty, Digital Infrastructure	Firm Dynamics & COVID, Allocation, Support Policies, Market Access, Demography
	Digital, Transport & Energy Infrastructure, Housing, Planning	Digital and AI Skills, Green Skills, Management Skills, Skills Gaps & Mismatch	R&D Intensity, Innovation Strategy, Research and Innovation Funding Agency	Broadband Plan and Advanced Technology Use Telework and COVID	Indigenous SMEs, links to MNEs and Research Institutions
	Intangibles Digital technologies			Digital technologies	Business dynamics Productivity divergence
	Capital Intensity, Macro Drivers of Investment	Talent, Management and Leadership, Immigration, Skills Mismatch	R&D Tax Credits, Procurement, Focused Innovation Policy		Frontier Firms, Productivity divergence, Technology Diffusion
	Investment Dynamics, Financial Constraints of Firms	Disparity in Qualifications Skills Mismatch, Entrepreneurial Skills	Collaboration, R&D Tax Credit Scheme, Innovation System, R&D Concentration	Digitalisation and COVID, Technology Diffusion	Productivity divergence Zombie Firms, Resource allocation, Diffusion
	Investment Policies, Tax Breaks, Infrastructure Plan	Skills, Training Management, Skills Mismatch	Innovation, Diffusion, Collaboration, Centres of Excellence	Homeworking	Reallocation, Frontier firms, Labour mobility

Source: Reports of national productivity commissions and other references available in full paper

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Table 3: Key themes in the work by productivity boards on indirect drivers of productivity

	Trade, FDI, value chains	Business environment	Structural issues	Regional dimensions	Energy, green transition	Labour markets	Other issues
	Trade in Services, FDI Screening, Tariffs	Concentration, Competition and Consumer Laws		Cities, Planning, Infrastructure, Governance, Tax	Carbon Pricing, Tradeable Permits, Impacts Productivity	Reform Migration, Mobility, Workplace Bargaining System	Health Sector; Effective Government
	GVCs, Growth Markets		Sectoral Shifts	Regional Diagnostic	Climate Change & Productivity, Energy		Measurement of Productivity
		Competition, Mark-ups, Regulation	Review Support Policies, Targeting	Cities, Planning Rules, Tax Policies	Carbon Taxes, Tax Reform, Other GHGs	Foreign Labour	Measurement of Productivity
		Competition, Regulatory Policies				Mobility, Regulations, Immigration	
	Attractiveness FDI, Location Factors, Tax Policies		Sectoral Shifts, Industrial Policies	Regional Concentration of Productivity			
	GVC Resilience, Dependencies, Trade Distortions	European Competition Policy	Open Strategic Autonomy, EU Production		Renewable Energy and Critical Raw Materials	Labour Market Participation, Immigration	
		Cost Factors & Domestic Competition			Interaction Climate & Competitive-ness Support Policies	Labour Market Participation, Role of Returnees, Migration	Evidence for Productivity Analysis
		Mark-ups					
	Market Size, Distance, FDI Attractiveness	Innovation-Enabling Regulation, Data Rights			Emissions Pricing, Innovation and Regulatory Policies	Review Immigration Policies	Public sector productivity
		Regulation, Costs, Competition, Barriers to Entry				Labour Market Segmentation, Incentives Training	
	Trade, FDI, & Ownership, Export Demand		Structure & Sectors, Firm Size, Industrial Policies	Inter-Regional Gaps, Levelling Up, Governance		Reallocation & labour mobility	Governance, Health, Measurement

Source: Reports of national productivity commissions and other references available in full paper

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Key gaps

Although the ten productivity commissions have already explored a wide range of issues, there are also some issues that have thus far not received much attention, notably:

» The impacts of **climate change** on productivity, and more generally the link between environmental performance and productivity. Some boards, such as Belgium and Ireland, have started to reflect on these issues in their latest reports.

» The role of key **intermediate inputs**. Growing concerns about the availability of energy and critical raw materials are leading to more work, e.g., in Germany's latest report.

» **Productivity and well-being.** Most commissions have not yet examined how the benefits of productivity are diffused across the economy or how productivity relates to well-being. Austria's new productivity board is expected to have a strong focus on these issues.

» **Productivity of the public sector**. While this topic has been addressed in Australia and New Zealand, and is noted by the UK, other commissions have not yet focused on this issue.

Learning about policy

Policies for productivity are not only complex, but also wide-ranging, which means there remains a lot of work ahead for all commissions to further disentangle the drivers of productivity and the policy levers that can be used to strengthen productivity growth and diffuse its benefits across the economy and society.

The current experimentation by more than 20 commissions across the OECD – in a variety of institutional arrangements – with analysis and policy advice on productivity is a new and important source of policy learning that should be drawn on in full by academic research and policy analysis. Cooperation between the commissions in various international settings and engagement with the academic community and stakeholders can play an important role.

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The UK work compared

The work by the UK Productivity Commission differs somewhat from that by other productivity boards. The UK Productivity Commission is essentially an independent, primarily academic effort linked to the work of The Productivity Institute, with a more indirect link to the UK government and policy making than the other commissions.

Substantively, the work has much in common with that undertaken abroad, however, with many issues covered by foreign productivity commissions also addressed in the UK. Some differences emerge, however, such as a greater focus on digitalisation, business dynamics and competition in the work of the foreign productivity commissions than in the UK.

On the other hand, the UK Productivity Commission has thus far had a stronger focus on regional issues, governance and institutional factors than most of the foreign productivity commissions. The inclusion of these issues in the work suggests that the UK Productivity Commission has a broader mandate than the commissions abroad.

National contexts and priorities differ, however, and what may be important in one country is not necessarily central to discussions in another. Rather, the comparison with work in other countries can provide context and ideas for reflection in the future work of the UK Productivity Commission.

Suggestions for future UK work

The first report of the UK Productivity Commission already pointed to some priorities for further analysis and policy reflection, notably business support; governance; investment; levelling up; and skills, management and training. Apart from these and considering the work of other commissions, four other issues may need further consideration in the future.

1. **Trade and Foreign Direct Investment** Given the shock to UK growth and productivity performance in the past years as the result of Brexit, greater attention may need to be devoted in the future to exploring the impacts of changing trade links, attractiveness to FDI, migration, and engagement in global value chains on UK productivity performance.
2. **Energy and Climate** Following the recent shock to energy systems due to Russia's invasion of Ukraine and the growing importance of climate change, exploring the links between energy and climate-related policies and productivity should be of growing importance for the UK context.
3. **Well-being** Exploring the relationship between productivity, inequality and well-being should be important for the UK and would be well aligned with the discussion on levelling up.
4. **Innovation** Many productivity commissions are currently exploring how policy could help boost productivity by more targeted policies related to innovation, industry, entrepreneurship and the digital economy, which is well aligned with UK discussions on industrial and innovation policies.

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