

Comments on
**“Productivity trends in Europe:
A perspective from the EBRD”**

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Summary

- Shows productivity trends in European countries.
 - Lag other regions (particularly the US)
 - Significant heterogeneity within Europe
- Focuses on three factors of the productivity trend.
 - Two crises (2008 Global Financial Crisis, COVID Pandemic)
 - Zombie firms
 - Intangibles

Factor 1: Two Crises

- 2008 Global Financial Crisis
 - The government response relied heavily on monetary policy, rather than fiscal, and this led to a sluggish, K-shaped recovery.
- COVID Pandemic
 - Combination of monetary and fiscal policies promoted more rapid economic recovery, but also likely reduced market dynamics.
- Did K-shaped recovery occur in GFC or in COVID Pandemic?
 - K-shaped recovery seems to be more pronounced recently.
 - Technology, finance, e-commerce VS. local services (retail, restaurant, tourism)
 - Crucial for the future productivity trend
 - (+) Sectors with strong recovery are typically more productive.
 - (–) Exacerbate the already-significant income inequality (esp. in the long run).
 - Majority of the population is in lower arm → long term economic challenges

Factor 2: Zombie Firms

- Increase of zombie firms in recent years
 - Due to low interest rates and generous gov't support
 - Causes capital misallocation, lowers R&D investment, ...
- In just one year, macroeconomy became hostile to zombie firms.
 - Substantial increase in interest rates, recession-driven profit reduction
- How does this radical change affect zombie firms and ultimately aggregate productivity trend?
 - Conventional cleansing effect?
 - Again, trade-off btw. short-run vs. long-run effect of the cleansing?

Factor 3: Intangibles

- Intangible investment as a key source of the productivity growth
 - Explains much of the productivity gap btw. the US and Europe.
- Practically, financing the acquisition of intangibles is HARD.
 - Banks may be reluctant to lend due to information asymmetry and lack of physical collateral.
- The role of government
 - Subsidize firms to adopt new digital technologies.
 - Needs due diligence to determine their readiness for adoption.
 - Management practice, Willingness of C-suite and workers, IT specialists, training programs, ...
 - A real example in Korea
 - Subsidy covers up to 50% of the acquisition cost (with a certain limit).
 - An experienced coordinator is assigned to each case for due diligence and monitoring the technology implementation process.