ILO EMPLOYMENT Podcast

Global challenges – Global solutions

Transcript for:

The trillion-dollar question: does rising productivity lift all boats?

With Prof. Gaaitzen de Vries, Associate professor at the Department of Global Economics and Management of the University of Groningen in the Netherlands, and Luca Fedi, Employment specialist of the ILO Productivity Ecosystems for Decent Work project

Welcome to the ILO Employment podcast, Global Challenges, Global Solutions. I'm your host Tom Netter.

The International Monetary Fund recently said boosting productivity is the "trillion-dollar question". But what does that mean? Productivity is seen as central to economic development and social progress. Increased productivity drives wages up, improves living standards for workers and boosts the competitiveness of business. The information technology revolution—from computers to the internet and now artificial intelligence—is expected to generate major productivity gains as it transforms where and how we work. Climate change and our commitments to curbing carbon emissions are also heightening the challenge of using our finite resources more efficiently. So, how are different regions and countries increasing productivity, and can it be done in an inclusive way? What have we learned from policies for advancing productivity gains and decent work? What is the role of structural change? And what are the key research issues that we need address?

Here to help us better understand productivity and its impact, why it matters and how it relates to change strategies like the SDGs is one of the leading global experts on this issue, Professor Gaaitzen de Vries, Associate professor at the Department of Global Economics and Management at the University of Groningen in the Netherlands, and Luca Fedi, Technical Specialist, Employment and Productivity at the ILO. Gaaitzen, Luca, welcome to the podcast.

Tom: Let's begin with Gaaitzen. Can you start by telling us why productivity and structural change matter?

Gaaitzen: Sure. Thanks, Tom, for having me here. So, productivity growth is essential if you want to achieve a rising standard of living in the long term, or if you want to implement policies in order to combat inequality or climate change. You cannot do that without productivity growth, and otherwise you have experienced a reduction in the standard of living. So, productivity actually often improves if labour and capital moves from less productive to more productive activities. So, in a country, you want to see structural change where workers and resources move into activities that can really boost productivity. And these are often the kind of activities that benefit from new technologies, that generate knowledge spillovers and those that connect well with other parts of the domestic economy, which is what economists often call backward and forward linkages.

Tom: Thanks for that answer, Gaaitzen. Now Luca, can you give us the ILO perspective on why the ILO invests in productivity?

Luca: Yes, thanks Tom. Great to be here. We can look at the evidence from country data. In ILO statistics, we have data on labour productivity and job quality for about 130 countries. When you look at this whole group of countries, you see there is a very close association between productivity and job quality. Countries with lower productivity also have lower shares of formal employment, for instance, and the higher the productivity level in a country, the higher the share of formal quality jobs. We can see that as a two-way relationship, which has also been studied at the micro level. When productivity grows, wages and working conditions can improve and also better-quality jobs make for more productive work. And that's why productive employment and productivity have been at the core of the ILO mandate for a long time, and today we are working as part of the Productivity for Decent Work programme with support from Switzerland and Norway to work in different countries and foster this nexus between productivity and decent work.

Tom: Okay. Well, let's continue on that theme, Luca. How are different countries and regions performing on productivity and jobs? Can you tell us where there has been sustained progress and where is there stagnation or maybe even risk of falling productivity?

Luca: Yes, we're currently working closely with statistics organizations and other data producers to improve the way productivity is measured. This is happening in Ghana, South Africa and Viet Nam in particular. We think it's key for countries to monitor their performance on productivity and jobs, to know where their economy is going and how to improve gains. And in the three countries we are working on on this, we see very different trends, and South Africa is unfortunately an example of an economy where incomes per capita have been falling back over the past 10, 15 years as informal low productivity employment is increasing. Viet Nam, on the contrary, has been, over the past two decades, one of the countries with the highest gains in both productivity and job quality. And I would say Ghana sits somewhere in the middle with moderate productivity gains and slow progress on job quality.

Gaaitzen: So, if I may, just to broaden that country sample. So, what we observed across advanced economies is that productivity growth has slowed since the mid-two-thousands. So, in this widespread slowdown is often referred to as the productivity puzzle and it's often attributed to several factors, and these reasons, among others, include a decline in a generation of new ideas, reduction in creative destruction. So that's the process where all the industries are being replaced by new and more efficient ones. And these long-term trends in productivity slowdown have been particularly important compared to this more temporary impact of the 2008 global financial crisis. And as Luca pointed out, this productivity performance of emerging market and developing economies is quite diverse. They all have in common that they have historically lagged behind advanced economies in productivity. The drop we observe in poverty rates in various countries is actually implicitly an encouraging sign that at least some of these economies are making productivity and income gains. We know that convergence to these higher productivity levels is often associated with factors including greater political stability, better education systems, and more diversified economy and integration into global value chains.

Tom: Okay. Well, Gaaitzen, you talked about trends. How do you see major global trends such as an increasing aged population in the north and fast-growing younger populations in other parts of the world as well as climate challenges, for example, and obviously artificial intelligence affecting productivity in the coming years?

Gaaitzen: Well, basically, so rising living standards come about from productivity growth or by increasing labour force participation. And so far, we have been talking about productivity growth, but an increase in the share of the population that is engaged in productive work is also a driver of rising living standards, although it is a temporary one. So, for example, if the share of females engaged in market work increases, this will relate to rising living standards. And related and more broader, there's this demographic dividend which refers to the shifts in a country's age structure. So typically, there's a demographic dividend when the working age population, roughly the group of those aged between 15 and 64, grows larger relative to the non-working age population, which are the children and the elderly. So, there's several economies in Asia such as Japan, China, South Korea, as well as most economies in Europe that now face a demographic burden. Actually, in these economies, it's the share of the elderly, the non-working population, which increases relative to the working age population. And the only way for them to achieve rising standards of living is by increasing their productivity.

But there are other economies in Asia such as India, but also many economies in Africa and the Middle East, that have a very young population, and they potentially stand to benefit from this demographic dividend where the working age population increases relative to the non-working age population. So, I say potentially they stand to benefit, and this is because these new workers that enter the labour force, they obviously should be able to find productive jobs. So, these economies, they need structural change whereby productive jobs expand. And then there's these recent trends in technology and global value chains that have not made that easier. So, there's innovation, often in manufacturing global value chains, that is increasingly taking a skill biased form and thereby reducing the demand for workers with relatively low levels of education. But it's precisely that in many developing countries, the workers that enter the labor market actually have limited skills. So, this creates a problem for many emerging and developing economies, and clearly there's creative thinking and solutions are needed to address these challenges.

Tom: Okay. Well, Gaaitzen, and let's talk about research. What research frontier is keeping you busy these days? You recently gave a talk at the ILO about export promotion and employment and the impact of tasks on understanding the economy. Can you elaborate briefly on this and provide a good example?

Gaaitzen: Surely, Tom. So recently I had the pleasure of presenting a book that will hopefully appear at the Cambridge University Press in 2025, and this book is written together with my long-term co-author, Marcel Timmer. So, it's titled Exporting Tasks, A New Perspective on Trade, Structural Change and Development. And in this book, we're diving into a fascinating shift in how we actually understand trade, growth and structural change. So traditionally these topics have been studied from a sector or a product perspective. However, there's this rise of large-scale offshoring, there's countries that are now engaging in global value chains and it typically involved by doing tasks rather than producing entire products from the beginning to the end. So, in this shift, there's actually important implications for how we understand trade, structural change and development to come about. So, and in response to such a shift, we present a fresh approach which focuses on task development instead of products. And in the book, we present new data to measure this task content of exports, we offer novel analysis of trends in comparative advantage and reveal new patterns of structural change across different levels of economic development.

Consider, for example, the example of what the Dutch do in the international trade of tulips. So, the traditional few of international trade often highlights the Dutch as producers of tulips. So almost anyone listening now will be able to picture a scene from the Dutch countryside where there's a windmill and there's all these differently colored tulips growing. But the reality is that much of the flower cultivation has actually moved to labour-rich regions like Kenya, and a prime example is this production of so-called letterbox flowers, which are basically specially packaged flowers that fit through the mail slots of houses. So, you can actually post these flowers. And these flowers, although they're still associated with Dutch expertise, are now grown and also packaged in Kenya due to the lower labour costs there. And that's a shift that underscores a broader trend where the Netherlands then excels not in production, but in organizing the transport, developing new technologies and creating innovative marketing strategies.

And if you have this new perspective on trade where you focus on tasks rather than products, it actually helps you reveal how the Dutch economy thrives by leveraging its strengths in professional services and logistics even as its traditional manufacturing and agricultural production is declining.

Tom: Well, that's really interesting. So it brings me to my final question, which is what kinds of policies related to productivity could countries consider nowadays? Are the old recipes or formulas for productivity growth and structural change still of use, and how can productivity growth translate into decent work for all? Let's begin with Luca.

Luca: Thanks, Tom. These are big questions that keep us quite busy these days. We see that big differences in the performance of countries on productivity and jobs are largely explained by differences in policies they apply. And recently, we've seen an important revival of industrial policies as a key lever to address some market failures, structural limitations and slow progress of countries when private actors are left entirely on their own. And we believe development challenges need to be addressed in collaboration between public authorities, businesses, and also workers. And we see that a close look at productivity is important to promote better and faster growth with decent work and job quality. It is also very important, for instance, as a metric for wage determination, to find that sweet spot where a fair distribution of economic gains can be achieved between employers and workers and the actors of the economy.

Gaaitzen: So, I fully agree, Luca, and I think the ILO actually plays an important and supportive role in data that measures productivity growth and also in developing policies that actually stimulate productivity growth. And yeah, as I mentioned earlier, the circumstances are also changing. So that's also what's keeping Luca and many others at the ILO busy. So, there's this technological change in global value chains that's skill biased, you have this demographic burden in advanced economies in China, you have these demographic dividends in India and much of Africa, and that necessitates a rethinking of industrial policy. And creative thinking may actually emerge if you shift thinking about sectors or products and actually start focusing on the tasks that are being done. And I think the example of the letterbox flowers that I gave is a case in point. So, if you would buy these flowers at the farm, you would consider that agricultural production.

But now these letterbox flowers are being processed, they're packed in boxes. So, is that being done at a processing plant, and would you just then call that manufacturing production? Or would you say, well, that's packaging in plastics, which actually is a service that's being provided? So, if you take a task perspective, actually the focus on sectors moves to the background, and actually what you start focusing on is the actual tasks that are being done. And if you think along such lines, you return to the importance of structural change where labour and capital then actually moves to productive tasks. And the “correctivistics” of such tasks then also becomes important, such as their potential for productivity growth and knowledge spillovers, the linkages they create with the rest of the economy. But you also get to new “correctivistics” such as how easy can you move these tasks somewhere else and that they leave the country? Or how complimentary are these tasks to other tasks that you would like to have as you develop?

And industrial policy questions become, then, like, should governance capitalize on their latent comparative advantage, for example, by targeting new tasks that are currently not in their export basket, but actually are dependent on quite similar capabilities they already have? Or do they need to stimulate exports of unrelated tasks in order to avoid a lock-in such as getting locked into a middle-income trap? And I think these are very important policy questions and I really look forward to seeing this further developed at the ILO and also elsewhere.

Tom: Fascinating. Gaaitzen, Luca, I want to thank you for this overview of a very complex topic, the impact of rising productivity on our economies today.

Gaaitzen: You're welcome, Tom.

Luca: Thank you.

Tom: The phrase "a rising tide lifts all boats" is an aphorism first voiced in the 1960s and linked with the concept that improving an economy will benefit all participants and that economic policy, in particular crafted by governments can have broad impact. There are many good examples of this as we've just heard. In a global division of labour where change can drive innovative marketing and productivity, many people stand to benefit—from those who have shifted from production to marketing and logistics, to those who carry out the labour-intensive work that's no longer practical in some more developed economies. So, the next time you buy a product it's worth thinking about how the world is changing, inclusively, and for the benefit of everyone.

I'm Tom Netter, and you've been listening to the ILO podcast series "Global Challenges, Global Solutions." For more information, go to www.ilo.org/employment. Meanwhile, thank you for your time.