International Labour Organization

▶ GB.341/POL/2

Governing Body

341st Session, Geneva, March 2021

Policy Development Section

POL

Employment and Social Protection Segment

Date: 5 February 2021
Original: English

Second item on the agenda

Decent work and productivity

Purpose of the document

This document is submitted to promote discussion of the main drivers of productivity growth and its implications for decent work, employment creation and sustainable enterprise development. The Governing Body is invited to provide guidance on decent work and productivity in the implementation of the ILO's programme and in the follow-up to the ILO Centenary Declaration for the Future of Work (see the draft decision in paragraph 60).

Relevant strategic objective: Enterprises and Employment.

Main relevant outcome: Outcome 4: Sustainable enterprises as generators of employment and promoters of innovation and decent work.

Policy implications: Yes. Work across the policy outcomes on issues relevant to decent work and productivity.

Legal implications: None.

Financial implications: None.

Follow-up action required: Yes.

Author unit: Enterprises Department (ENTERPRISES).

Related documents: ILO Centenary Declaration for the Future of Work.

▶ Contents

▶ Framing the discussion

1. Increasing productivity is a shared concern of ILO constituents, who view it as a catalyst for creating decent work, inclusive growth and shared prosperity. Since its very inception, the ILO itself has devoted considerable analytical effort to understanding the relationship between productivity and decent work. As the Organization begins its second century, the topic of productivity warrants the ILO's prompt and focused attention. The economic and social devastation brought by the COVID-19 pandemic renders the issue all the more important.

2. The ILO Centenary Declaration for the Future of Work [1] reaffirms the ILO's founding vision, which is rooted in the quest for social justice, democracy and universal peace through the concerted action of governments and organizations of workers and employers. The past, present and future converge in the Centenary Declaration, which provides a backdrop to the persistent challenges to shared prosperity and decent work for all. In this way, the Declaration bridges the ILO's first and second centuries.

3. The Declaration of Philadelphia gives the ILO the "responsibility … to examine and consider all international economic and financial policies and measures in the light of th[e] fundamental objective" of social justice. [2] Productivity is recognized as a key driver of economic growth, employment creation and social reform. How can productivity gains translate into decent work for all in the rapidly changing world of work? What steps must Member States take to increase productivity and in so doing ensure that productivity growth generates more sustainable enterprises and actually results in wage growth? What measures can help enterprises to innovate and grow, while promoting decent work, in a highly competitive environment?

4. Emerging challenges, and in particular the COVID-19 pandemic, in a world of work in which labour markets and business models are evolving rapidly are injecting renewed urgency into the productivity debate. Despite widespread digitalization of work, productivity growth has been slowing in many countries in recent decades. There is also concern that this productivity slowdown is continuing to worsen in the wake of the pandemic, as it damages the productive capacities of capital and workers. If this happens, the recovery of economic and employment growth will be slow and difficult.

5. Furthermore, there is little or slow progress towards global convergence in productivity: microenterprises lag behind small and medium-sized enterprises (SMEs), which in turn lag behind larger firms; informal enterprises lag behind formal ones; and developing countries lag behind developed ones. A sustained decline in public investment in many countries has further jeopardized the achievement of higher labour productivity by reducing public spending on research and development, local infrastructure and physical

[1] ILO, *ILO Centenary Declaration for the Future of Work*, International Labour Conference, 108th Session, 2019.

[2] ILO, *Declaration of Philadelphia, Declaration concerning the aims and purposes of the International Labour Organisation*, International Labour Conference, 26th Session, 1944, Art. II(d).

and digital connectivity, [3] new technology and innovation. [4] The skills mismatch and the lack of access to quality education [5] and health services [6] are additional challenges.

6. In addition to the productivity slowdown, another worrying trend is that in many countries over the past 20 years, wage growth has not kept up with growth in labour productivity. [7, 8] This trend has contributed to lowering the median wage, increasing income inequalities and reducing the share of labour income in national GDP. Public policies can play an important role in redressing this development. For example, skills development policies and lifelong learning can ensure that the gains from technological progress are more broadly shared with workers. The promotion of collective bargaining could contribute to a more equitable distribution of productivity gains. Furthermore, competition policy can promote the transmission of productivity gains to wages by reducing the presence of rents in product markets.

7. A further consideration is that productivity measurement has limitations, notably due to its inability to capture negative externalities such as climate change. To the extent that the traditional productivity measurement framework does not reflect the use of natural resources on the inputs side and the efforts to reduce harmful by-products on the outputs side, traditional productivity estimates fail to incorporate environmental considerations. This means that countries that deplete their natural resources unsustainably to increase GDP may appear more productive than those that are more cognizant of their use. By the same token, efforts to attain the reduction of greenhouse gas emissions will not be adequately reflected in productivity estimates, which might lead countries to adopt the wrong policy decisions. To address this issue, alternative methods have been designed that try to take into account these environmental considerations in productivity measurement, although they are still experimental and not yet widely used at the national and international levels. [9]

▶ The Centenary Declaration and productivity

8. Reiterating one of the central goals of the ILO, the Centenary Declaration emphasizes the need "to shape a … future of work with full, productive and freely chosen employment", as well as the need for "productive workplaces" and "productive and healthy conditions" of work. The role of enterprises is clearly a focal point of addressing the future of work; "the role of sustainable enterprises as generators of employment and promoters of innovation

[3] International Trade Centre, *SME Competitiveness Outlook 2018: Business Ecosystems for the Digital Age*, 2018.

[4] David A. Aschauer, "Is Public Expenditure Productive?" *Journal of Monetary Economics* 23, No. 2 (March 1989): 177–200. Alicia H. Munnell, "Why Has Productivity Growth Declined? Productivity and Public Investment", *New England Economic Review* (January 1990): 3–22.

[5] Gary S. Becker, *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education – Third Edition* (Chicago, University of Chicago Press, 1994).

[6] David Bloom, David Canning and Jaypee P. Sevilla, "The Effect of Health on Economic Growth: A Production Function Approach", *World Development 32*, No. 1 (2004): 1–13.

[7] Joris Schröder, *Decoupling of Labour Productivity Growth from Median Wage Growth in Central and Eastern Europe*, Research Report 448 (Vienna Institute for International Economic Studies, July 2020).

[8] OECD, "Decoupling of Wages from Productivity: What Implications for Public Policies?" *OECD Economic Outlook, Volume 2018, Issue 2*, (2018), Ch. 2.

[9] For an example of productivity measurement method that integrates environmental considerations, please see: OECD, *Greening Productivity Measurement: Environmentally Adjusted Multifactor Productivity Growth – Policy Perspectives*, 2016.

and decent work" is more relevant than ever at this particular juncture. The Declaration recognizes "the role of the private sector as a principal source of economic growth and job creation by promoting an enabling environment for entrepreneurship and sustainable enterprises, in particular micro, small and medium-sized enterprises … in order to generate decent work, productive employment and improved living standards for all". Furthermore, the Declaration makes a clear link to decent work, calling upon all Member States to "[promote] sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all".

9. The Declaration's most comprehensive statement about productivity, however, lies in enunciating where "the ILO must direct its efforts" in "discharging its […] mandate […] and further developing its human-centred approach to the future of work". Underpinning all of this is the need for all actions to be environmentally friendly. Here, the Declaration calls upon the Organization to "harness […] the fullest potential of technological progress and productivity growth, including through social dialogue, to achieve decent work and sustainable development, which ensure dignity, self-fulfillment and a just sharing of the benefits for all." [10]

10. Social dialogue will be key to attaining the promise of productivity growth in simultaneously supporting the growth of sustainable enterprise and sharing the gains with workers fairly. A process and objectives that are inseparable emerge from the text of the Declaration, which point the way to a virtuous circle of productivity growth and decent work. In turn, this facilitates and safeguards the realization of human capacities and an equitable distribution of economic growth.

▶ The ILO's long-standing attention to productivity growth and the distribution of its benefits

11. Throughout its history, the ILO has examined the issue of productivity within the context of its social justice mandate. A few examples demonstrate that the Centenary Declaration's treatment of productivity finds its roots in that tradition.

12. In 1937, the Report of the Director-General to the 23rd International Labour Conference addressed itself to recovery from the Great Depression. Director-General Butler's observations testify to the ILO's abiding focus on productivity as it concerns the potential for improving wages and working conditions. The virtuous circle described in the Centenary Declaration has its antecedents in the very earliest ILO thinking about productivity and decent work.

13. The Report of the Director-General to the 33rd International Labour Conference in 1950 [11] devoted a chapter to "the productivity of labour" in order to focus delegates' attention, according to Director-General Morse, on "one of the most important and challenging issues in the world today" for "every country, whether large or small, industrial or agricultural, advanced or underdeveloped". While insisting on the imperative of increased production, Morse emphasized that measures to achieve greater productivity must be "closely linked to efforts to ensure the fair distribution of the fruits of the … labour" of workers. He also stated that "the ultimate goal of full employment in an expanding

[10] *ILO Centenary Declaration*, Section II, para. A(ii).

[11] ILO, *Report of the Director-General*, International Labour Conference, 33rd Session, 1950, Ch. III.

economy" is "to progress quickly to raise the standards of living of the people and to develop a sound and healthy social and economic national and international life".

14. Morse engaged in an exhaustive discussion of the factors contributing to greater labour productivity, including the challenges of measurement and data, technological progress, education, vocational training, transition to more productive industries, migration, the responsibilities of advanced economies towards investment in less developed ones, labour–management relations, and safety and health. He noted that virtually all of these issues "come within the purview of the ILO", thereby identifying the ILO's broad policy mandate. [12] Morse stressed, however, that "the aspect of the problem of raising productivity which is perhaps most distinctively the concern of the ILO is the need for reconciling the claims of workers for security of employment and income with an all-out drive for higher productivity".

15. The ILO has returned, repeatedly, throughout its history to the issue of productivity and its relationship to decent work, building on the twin imperatives of productivity growth and commensurate gains for workers. Recent World Employment and Social Outlook reports discuss the link between labour productivity and innovation, as well as the nexus between productivity and climate change. [13] The World Employment Report 2004–05, [14] in particular, explored the evidence regarding the impact of productivity performance on both employment growth and poverty reduction. It shows that bridging the "global productivity divide", particularly in parts of the economy where the majority of people work (such as agriculture, small-scale enterprises or the urban informal economy), is essential for fighting poverty and stimulating growth in both output and "decent and productive" employment. The World Social Protection report has shown that better social protection for workers has positive impacts on labour productivity; it has also shown that unemployment benefit schemes support the structural transformation of the economy towards higher levels of productivity. [15]

▶ The ILO's second century: Taking stock to move forward

16. However, delivering on the promise of the Centenary Declaration requires a sharper analysis of productivity in the light of contemporary realities. Tremendous efforts must be made in order to create and maintain sustainable enterprises, which will help workers to share in the benefits resulting from higher productivity, particularly as the clock ticks towards realization of the 2030 Agenda for Sustainable Development.

17. Recent trends are worrying. Over the past two decades, labour productivity has slowed in most high-income countries and in some major emerging economies (such as Brazil and South Africa), although there are notable exceptions where productivity has kept growing at a good pace (for example, China, India and many south-east Asian economies). In addition, while globalization has supported a process of income convergence between

[12] Morse continued to emphasize the policies needed to raise productivity in later reports to the Conference. See for example *World Labour Report 1953*, International Labour Conference, 36th Session, 1953.

[13] ILO, *World Employment and Social Outlook 2018: Greening with Jobs*, 2018.

[14] ILO, *World Employment Report 2004–05: Employment, Productivity and Poverty Reduction*, 2005.

[15] ILO, *World Social Protection Report 2017–19: Universal Social Protection to Achieve the Sustainable Development Goals*, 2017.

emerging economies and high-income countries, income inequality within countries has increased.

18. This is especially true in high-income countries where there has been an increase in labour market polarization, that is to say the rise of high- and low-wage jobs relative to middle-wage jobs. [16] This trend has been linked to the rise of digital technologies in the 1980s and 1990s and the substitution of many cognitive and manual tasks that could be implemented by following a set of codified rules (also called routine tasks) with computers and fewer high-skilled jobs (typically college-educated) to run these computers. [17] To the extent that routine tasks were most common in manufacturing and that low-skilled workers moved towards services at lower risk of automation (such as transportation, personal services and food and accommodation), [18] labour market polarization has also been linked to the decline of manufacturing and rise of services in many economies. More recently, it has been argued that the rise of the gig economy, characterized by occasional and low-protected jobs, risks making the labour market more polarized between insiders with adequate income and social protection and outsiders lacking both.

19. Global trends in technological innovation and demographic and climate changes, as well as the possible long-term effects of COVID-19, could worsen within-country income inequality, thus calling for remedial policies on enterprise development and skills upgrading, among others. Against this backdrop, boosting productivity growth will be crucial, to the extent that the long-term ability of a country to improve its average standard of living depends on its ability to raise its output per worker.

20. The urgent need to make progress cannot obscure the tremendous strides that have already been made in reducing inequalities between countries. The difference in GDP per capita between the richest and poorest countries and territories, as well as with respect to other developing country income groups, declined between 2000 and 2018. [19] The challenge is to devise innovative policies to mitigate the effects of the ongoing global health and economic crises, including the most recent COVID-19 pandemic, which could destroy the progress made in reducing poverty and raising living standards.

21. Recovery from the Great Recession of 2008–10 did not produce the necessary economic gains in either advanced or developed economies, even before the COVID-19 pandemic. It is essential to rekindle productivity growth to foster sustainable enterprise development, particularly of micro, small and medium-sized enterprises, for quality employment creation and a concomitant gain in labour income. This requires an evidence-based, integrated strategy with a long-term approach aimed at achieving a virtuous alignment of policies, regulations and institutions, in a joint private–public effort to put productivity growth at the forefront of societal and economic goals, looking at sources of productivity growth both within sectors and through the reallocation of labour towards more productive sectors.

[16] Bruno Ducoudré and Véronique Simonnet, "Polarization(s) in Labour Markets", *Travail et Emploi*, 157 (2019): 7–12.

[17] David H. Autor, Frank Levy, Richard J. Murnane, "The Skill Content of Recent Technological Change: An Empirical Exploration", *Quarterly Journal of Economics*, 118(4) (2003): 1279–1333.

[18] Maarten Goos, Alan Manning, Anna Salomons, "Job Polarization in Europe", *American Economic Review*, 99(2) (2009): 58–63.

[19] ILO, *World Employment and Social Outlook: Trends 2020*, 2020, 23.

22. Over two thirds of total employment globally is to be found in micro (one–nine workers) and small (10–49 workers) firms, [20] where productivity gaps compared to larger enterprises are the widest and decent work deficits are the most pronounced. In countries that are members of the Organisation for Economic Co-operation and Development (OECD), for example, microenterprises in the manufacturing sector have productivity levels that are about 40 per cent of those in large companies (which employ 250 workers or more). [21] The wider the productivity gap between micro, small and medium-sized enterprises and large companies, the greater the wage differentials and income inequalities at national level, and the less the opportunity to participate in supply chains.

23. Across developed and less developed countries, productivity has stagnated and in some cases declined over the past two decades, [22] despite technological progress. [23] In developing and emerging economies, free trade does not appear to have led to the disappearance of inefficient and unproductive micro and small enterprises. Intensified competition and export growth were expected to lead to the reallocation of resources towards larger (more efficient) enterprises; however, this has not happened. [24] Instead, a large group of informal small enterprises and sole proprietorships coexist with a small number of large formal enterprises. This reality calls for a rethinking of the approach to promoting productivity growth, particularly to help less developed countries escape the middle-income trap and enhance their economic development.

24. Productivity growth is determined by a wide range of factors, some of which lie within an enterprise's sphere of influence (internal factors), while others are external. The latter include a conducive business environment, the structure of the industry in which enterprises operate and compete, and foreign markets that may affect input prices. Evidence shows that most enterprises face challenges to sustain rapid growth, [25] which reveals that it is essential to support enterprises in identifying the internal or external constraints that hinder productivity growth.

25. Some studies indicate that management practices are key determinants of productivity growth. [26] Evidence from nearly 6,000 enterprises in 16 countries, including Brazil, China and India, shows a strong positive correlation between management practices and enterprise performance, [27] thus suggesting that the better the quality of management, the greater the total factor productivity. In addition, a conducive business climate is a key factor to boost productivity growth and enterprise performance. Evidence shows that

[20] ILO, *Small Matters: Global Evidence on the Contribution to Employment by the Self-employed, Micro-enterprises and SMEs*, 2019.

[21] OECD calculations, based on the OECD Structural and Demographic Business Statistics (SDBS) database, accessed 22 September 2020.

[22] Ana Paula Cusolito and William F. Maloney, *Productivity Revisited: Shifting Paradigms in Analysis and Policy* (World Bank, 2018).

[23] Jaana Remes et al., *Solving the Productivity Puzzle: The Role of Demand and the Promise of Digitization* (McKinsey Global Institute, 2018).

[24] Jan De Loecker and Pinelopi Koujianou Goldberg, "Firm Performance in a Global Market", *Annual Review of Economics* 6, No. 1 (2014): 201–227.

[25] Arti Grover Goswami, Denis Medvedev and Ellen Olafsen, *High-Growth Firms: Facts, Fiction, and Policy Options for Emerging Economies* (World Bank, 2019).

[26] Nick Bloom and John Van Reenen, "*Measuring and Explaining Management Practices across Firms and Countries*", *Quarterly Journal of Economics* 122, No. 4 (2006): 1351–1408. Miriam Bruhn, Dean Karlan and Antoinette Schoar, "What Capital is Missing in Developing Countries", *American Economic Review: Papers and Proceedings* 100, No. 2 (2010): 629–633. Chad Syverson, "What Determines Productivity?", *Journal of Economic Literature* 49, No. 2 (2011): 326–365.

[27] Nicholas Bloom and John Van Reenen, "*Why Do Management Practices Differ across Firms and Countries?*", *Journal of Economic Perspectives* 24, No. 1 (2010): 203–224.

better business environments significantly contribute to increasing enterprises' sales growth, total factor productivity and profitability. [28]

26. As the ILO enters its second century, the relation between productivity growth and wage growth has become weaker in many countries. Contrasting views about the role of labour institutions in strengthening this link have yielded to a more balanced understanding that there are no trade-offs between decent working conditions and an enabling environment for sustainable enterprises. [29] Labour institutions can play an important role to generate a virtuous cycle of productivity growth and distributional gains.

27. The ILO's own programmatic experience has made a major contribution to this growing consensus. Its Better Work and Sustaining Competitive and Responsible Enterprises (SCORE) programmes [30] have demonstrated that improved workplace cooperation, effective workers' representation, quality management, clean production, human resource management and occupational safety and health, as well as supervisory skills training, particularly among female supervisors, all increase productivity. Better management also helps to lower accidents at work [31] and employee turnover and reduces the occurrence of unbalanced production lines (where work piles up on one line while other workers are sitting idle). Evidence also points to increased productivity and profitability associated with a reduction in verbal abuse and sexual harassment. [32]

28. Yet our recent experience also shows that creating the virtuous cycle between productivity and quality of employment requires the development of an integrated policy framework. For instance, there is indisputable evidence that overall productivity increases when more enterprises engage in innovation and, more importantly, that generating this linkage between innovation and productivity requires more investment by enterprises [33] and governments in research and development. Enterprises need new technologies and workers need the right skills. This requires strong public support for technological innovation and skills development. Effective and large-scale public investment is an essential condition for a society in which all enterprises have the capacity to thrive through innovation and all workers have the opportunity to develop their capacities.

▶ Making the most of a new era of productivity growth and just transition

29. Increased competition and technological change, notably the digital transformation, are in principle major drivers of productivity growth but, as noted earlier, this has only partially happened in recent decades. Some major emerging economies, such as China and India, have seen productivity grow thanks to globalization and technological catch-up, but

[28] Thomas Farole et al., "Business Environment and Firm Performance in European Lagging Regions", World Bank Policy Research Working Paper 8281 (2017). Young Eun Kim and Norman V. Loayza, "Productivity Growth: Patterns and Determinants across the World", World Bank Policy Research Working Paper 8852 (2019).

[29] Farole et al.

[30] ILO/International Finance Corporation, "Better Work". ILO, "Sustaining Competitive and Responsible Enterprises (SCORE): Programme at a Glance".

[31] ILO, "Looking Back to Look Forward – Impact Evaluation of ILO SCORE Training in Peru", ILO SCORE Impact Study, August 2020.

[32] ILO, *SCORE (Sustaining Competitive and Responsible Enterprises): Phase II Final Report 2017*, 2017, 36–37.

[33] ILO, *World Employment and Social Outlook: Trends 2017*, 2017.

productivity growth in high-income economies and other emerging economies (for example, Brazil and South Africa) has virtually stalled.

30. Nobel prizewinner Robert Solow once famously said that "you can see the computer age everywhere but in the productivity statistics". This statement has been further analysed, with some who have argued that digital technologies have not revolutionized the world of production as much as the technologies that had propelled the first and the second industrial revolutions (respectively, the steam engine and electricity). [34]

31. However, it is also possible that digital transformations have not yet fully unfolded their potential because digital technologies, although available, have not been widely adopted in the economy and in society, for example among micro, small and medium-sized enterprises or in lower-income countries. From this perspective, information technology increases productivity only when it is combined with complementary improvements in business practices and human capital, thus calling for appropriate policies in both areas. [35]

32. There is also an important distinction to make between labour-augmenting and capital-augmenting technological change. Such a distinction is crucial to devising the right policy mix to prevent technologically driven labour market distortions and support workers' skills development.

33. In more advanced economies, on the other hand, deregulation and "network effects" linked to the concomitant presence of the digital revolution and globalization have led to the emergence of high-tech corporate titans. Owing to the novelty of some of these industries, competition policy and antitrust regulation play an important role in preventing market concentration in sectors related to information and communications technology (ICT).

34. The structural transformation of the economy has also not always supported productivity growth as expected, at least not everywhere. This has not happened in countries where the rate of industrialization has not been fast enough to absorb rural workers shed by agriculture, who have therefore mostly turned to low-productivity jobs in the urban informal services sector. Rodrik, for example, finds that, despite strong convergence between high-income and low-income countries within manufacturing, aggregate convergence fails to materialize owing to the small share of manufacturing employment in low-income countries. [36]

35. Convergence follows the renewed emphasis on industrial policies, which have nonetheless taken a different angle from the past towards the broader improvement of framework conditions (education and skills, trade openness, etc.), fostering business linkages and industry–university linkages and supporting upstream technologies (for example, the adoption of digital technologies, such as artificial intelligence or block chains) regardless of the sector of implementation. [37]

36. The informal economy is highly heterogeneous. It is mainly made up of unregistered small-scale economic units with different levels of complexity. They are typically necessity-

[34] Robert J. Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War* (Princeton University Press, 2016).

[35] Erik Brynjolfsson and Andrew McAfee, *Race Against the Machine: How the Digital Revolution is Accelerating Innovation, Driving Productivity, and Irreversibly Transforming Employment and the Economy* (Digital Frontier Press, 2011).

[36] Dani Rodrik, "Unconditional Convergence in Manufacturing", *Quarterly Journal of Economics* 128, No. 1 (2013): 165–204.

[37] OECD, "New Industrial Policies" in *OECD Science, Technology and Innovation Outlook 2016* (OECD Publishing, 2016).

driven microbusinesses, often employing ten or fewer undeclared and low-skilled workers, including unpaid family workers, in precarious conditions without social protection. The informal economy is characterized by low productivity, low earnings and wages, low rates of saving and investment, lack of access to finance, and negligible capital accumulation. The low productivity of the informal economy is a major drag on aggregate productivity growth and results in the persistence of poverty. It is to a large extent a by-product of episodes of low productivity and low growth, forging a vicious circle whereby productivity stagnation and informality fuel each other's persistence, leading to a low-income trap.

37. The creation of incentives, access to finance through national development banking or government-backed loans, development of business owners' and workers' skills (to improve resource allocation and management practices while raising labour productivity), simple and fair taxation, anti-corruption policies, a stable and conducive business climate, and the simplification of registration procedures, among other measures, are therefore essential to increase the productivity of informal business units and accelerate their transition to the formal economy.

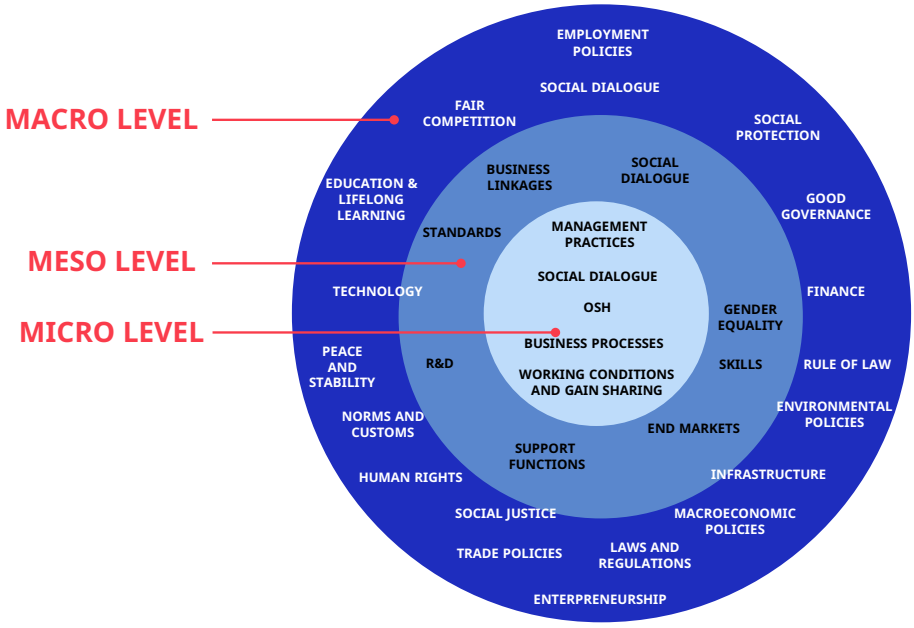
38. Climate change can be a driver of change and productivity growth – through the adoption of new technologies – but it can also cause a productivity divide between countries and companies that have the resources to invest, innovate and adapt, and those who do not. In this respect, it will be important to support companies in the adoption of greener technologies and workers in the green transition, through appropriate training and social protection measures.

39. Finally, another plausible reason for declining productivity might be that current measures fail to adequately capture growth where it does occur, for example in the expanding services sector in both developed and developing economies.

▶ A productivity ecosystem approach towards strong and sustained productivity gains for decent work

40. The Centenary Declaration points the way to a productivity ecosystem (see figure below) for achieving sustainable productivity gains through and for decent work. This approach addresses drivers of productivity and decent work deficits at the macro, meso and micro levels for win-win solutions that improve productivity and distribute gains equitably. The productivity ecosystem also rebuilds innovative productivity partnerships between workers and employers, including through social dialogue, to address issues such as workplace learning, the work–life balance and wages. There are many examples of such partnerships, which have evolved in response to shifts in economic structures and production systems, as well as in social and political environments.

▶ **Productivity ecosystem**



Macro level

41. At the macroeconomic level, increasing and sustaining productivity requires investments in people, infrastructure and strategic sectors, to address the drivers of transformative change. Well-designed and well-governed public investment can "crowd in" private investment. History also demonstrates that many new technologies which have created "star firms" originated from public research and development programmes. National development plans need to implement integrated policies in support of structural transformations that lead to higher productivity while at the same time creating decent work.

42. Now is the time to lay the foundations for raising productivity growth at the macroeconomic level. From an ILO perspective, this can be done mostly through policy analysis, policy advice and capacity-building of national policymakers and social partners – and by contributing to improved productivity and working conditions at the sector and enterprise levels.

43. Well-functioning labour institutions and social protection systems are required to ensure an inclusive structural transformation, to support the creation of productivity gains and to translate higher productivity into enhanced working and living conditions, which in turn allow workers to fulfil their capacities and make greater contributions to productivity. In a world of work characterized by a growing diversity of work arrangements, these institutions need to adapt or adjust the arrangements to ensure that all workers obtain their fair share. Minimum wages and collective bargaining can contribute to a more equitable distribution of productivity gains, while enabling workers to raise their productivity further.

44. However, capital investment and increased efficiency in the production process also affect labour productivity, which means that employers need to be put in the right position – through adequate framework conditions and support policies – to undertake productive investments.

45. Competitive product and labour markets encourage the entrepreneurial process of "creative destruction", which can be a driver of productivity growth at the national level. Trade openness plays a similar role, not only by increasing competitive pressures on domestic businesses but also by enabling domestic enterprises to gain access to foreign knowledge and technology. Foreign direct investment can support the development of downstream local sectors through the rise of supplier companies, but it can also exert strong competitive pressure, including through the offer of higher wages, on same-sector local companies.

46. Fair business regulations (business licences, business permits, etc.) and taxation make it easier for entrepreneurs to launch and grow their businesses. Financial sector development also fosters productivity-enhancing investments. Infrastructure, which includes both physical and digital infrastructure, favours productivity by easing and increasing access to markets, for example reducing transportation costs or enabling online sales.

Meso level

47. At the meso level, market conditions comprise several elements, such as the degree of competition in a given industry, input prices and the existence of domestic, regional or global value chains. Participation of SMEs in value chains is expected to boost their productivity – through the channels of increased and possibly more stable revenues.

48. The development of competency frameworks can support the professionalization of skilled trades in a given industry, thus strengthening workforce skills and reducing skills mismatches in the labour market.

49. A sector with a larger than average proportion of self-employed persons and microenterprises, and/or in which informality is widespread, will also tend to have productivity levels below the national economy average, which is why encouraging business scale-up is always an important policy option to boost productivity and formalization, while strengthening the ecosystem due to the impact on connected sectors. Accordingly, business linkages such as clusters, cooperatives and consortia can spur productivity growth by helping small enterprises to achieve economies of scale that they would not be able to reach individually, as well as boosting efforts to formalize the informal economy.

Micro level

50. At the micro level, policies to promote fair competition among enterprises are crucial to ensure that they have the opportunity to innovate. SMEs, especially those in the informal economy, will need particular support, both technical and financial. These enterprises are already a main source of employment and have tremendous potential to create new jobs, innovate through technology and become more productive and competitive within the right enabling environment. For example, digital technologies and value chains offer new opportunities for SMEs to participate in the global and regional economy, innovate and strengthen productivity.

51. Enterprises can drive productivity growth by, among other things, identifying skills needs, offering apprenticeships, developing adequate training courses and/or helping to strengthen environmental standards and safety at work conditions.

52. This is also the time for collective and coordinated action among enterprises. They can act together in enhancing competition, training more workers better, spreading productivity gains broadly and creating strong partnerships with workers and governments.

53. The productivity ecosystem responds to the realities of the twenty-first century by giving everyone a stake in increasing productivity, employability, sustainable growth and a more equitable distribution of gains. This is the essence of a social contract fit for purpose to meet the economic, social and environmental challenges of the future of work. Lifting productivity is a win-win situation: it creates greater profits for shareholders, better working conditions for workers, and lower prices for consumers.

54. Placing people and the work they do at the centre of the productivity ecosystem also means that we need to reconsider what we value. Just as we choose to value technological and economic progress, we can – and should – value the contribution of work to individual and societal well-being. Yet, traditional measures of economic success appear increasingly inadequate in capturing and measuring well-being, freedom, dignity, economic security and equal opportunity, which lie at the heart of both work and the productivity ecosystem. Unless we measure investments in human capacities, contributions to environmental sustainability and all forms of work, both paid and unpaid, we will not be able to measure our success in creating sustainable development.

55. Collective representation of workers can also contribute to productivity growth by fostering trust, cooperation and shared values. This can lead to better working conditions and wages, resulting in increased motivation and output of workers, as well as contributing to improving the organization of work, introducing new technologies, promoting innovation, fostering high-performance work practices and securing a safe working environment, along with protecting labour rights and ensuring appropriate compliance with international labour standards.

56. Workforce and managerial skills are both main drivers of productivity growth at the enterprise level. Enhanced skills improve efficiency in the production process and are a precondition for enterprises to be able to undertake innovation or to use digital technologies. Investments in ICT and innovation – whether or not they are based on research and development – are also major drivers of productivity growth by fostering technical progress and efficiency changes.

57. Adequate social protection throughout the lifecycle is key to a productive workforce and enables managers to attract and retain more skilled workers, in addition to creating a working environment that is more conducive to trust, collaboration and mutual commitment.

58. The macro, meso and micro levels are not layers; instead, they interact continuously to determine productivity levels and productivity growth. Enterprise-level drivers often have a stronger impact on productivity when certain other conditions at the meso and macro levels are met. For instance, a study by the World Bank of the Mexican automotive industry found that, even though there is a positive relation between ICT use and enterprise performance, this effect is greater for enterprises that face higher competitive pressures because their sector is more open to trade compared to others. As a result, enterprises facing higher competition appear to be the ones that have more incentives to increase the use of ICT.

59. Skills development at the enterprise level will have a greater impact on productivity if there is an industry-level competency framework that sets out the formal requirements of specific skilled trades. Conversely, widespread informality at the industry and economy-

wide levels is likely to reduce the commitment of employers to providing workers with social protection and engaging in workplace-based dialogue.

▶ Draft decision

60. **The Governing Body requested the Office to take into account the guidance provided during the discussion on decent work and productivity at its 341st Session (March 2021), in the implementation of the ILO's programme and in the follow-up to the ILO Centenary Declaration for the Future of Work.**