CompNet The Competitiveness Research Network

Microprod Policy Dialogue: COVID and productivity

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Outline for today

- Covid has disrupted all aspects of our life and inflict tremendous costs to the economies
- Assessing the Covid **impact on productivity** will become critical, to ensure that the recovery will be balanced and sustainable
- What do we know one year after Covid-19 erupted?
- We will provide a quick and simple conceptual framework
- …and indicate some initial results across the globe

- This to introduce the 3 EU country specific findings

Dissecting productivity: a primer

Production function → $Y = f(A, K, N)$

Total Factor Productivity

Within firms

Internal efforts/characteristics (marketing, technology, costs…)

Between firms

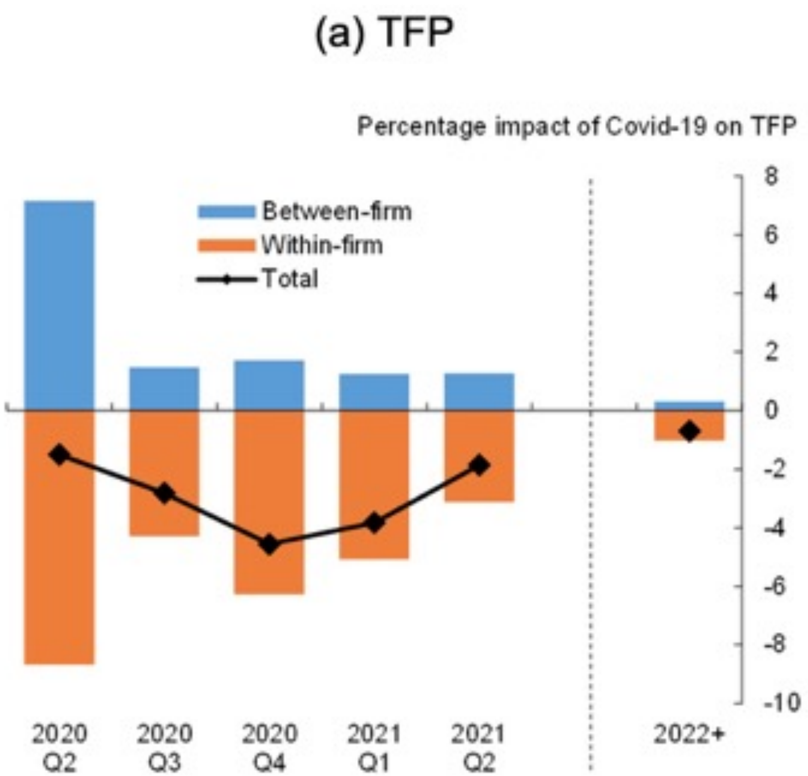
Net Entry effect

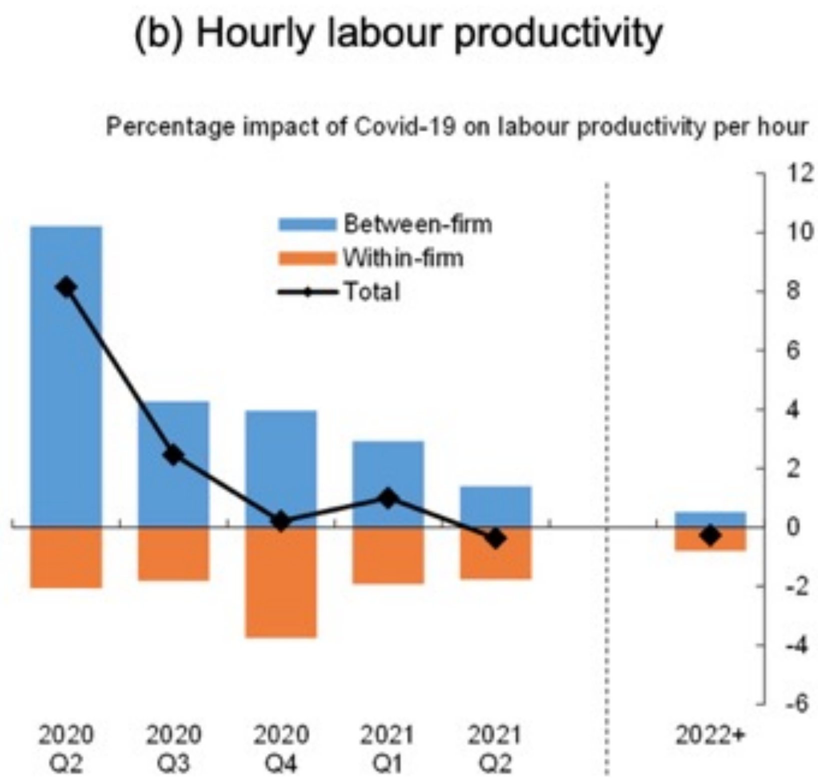
New (more productive) firms entering
Bad firms exiting

Allocative Efficiency

Resources (L and K) going to most productive firms, which become larger

Between-firms attenuates within-firms effect in the UK

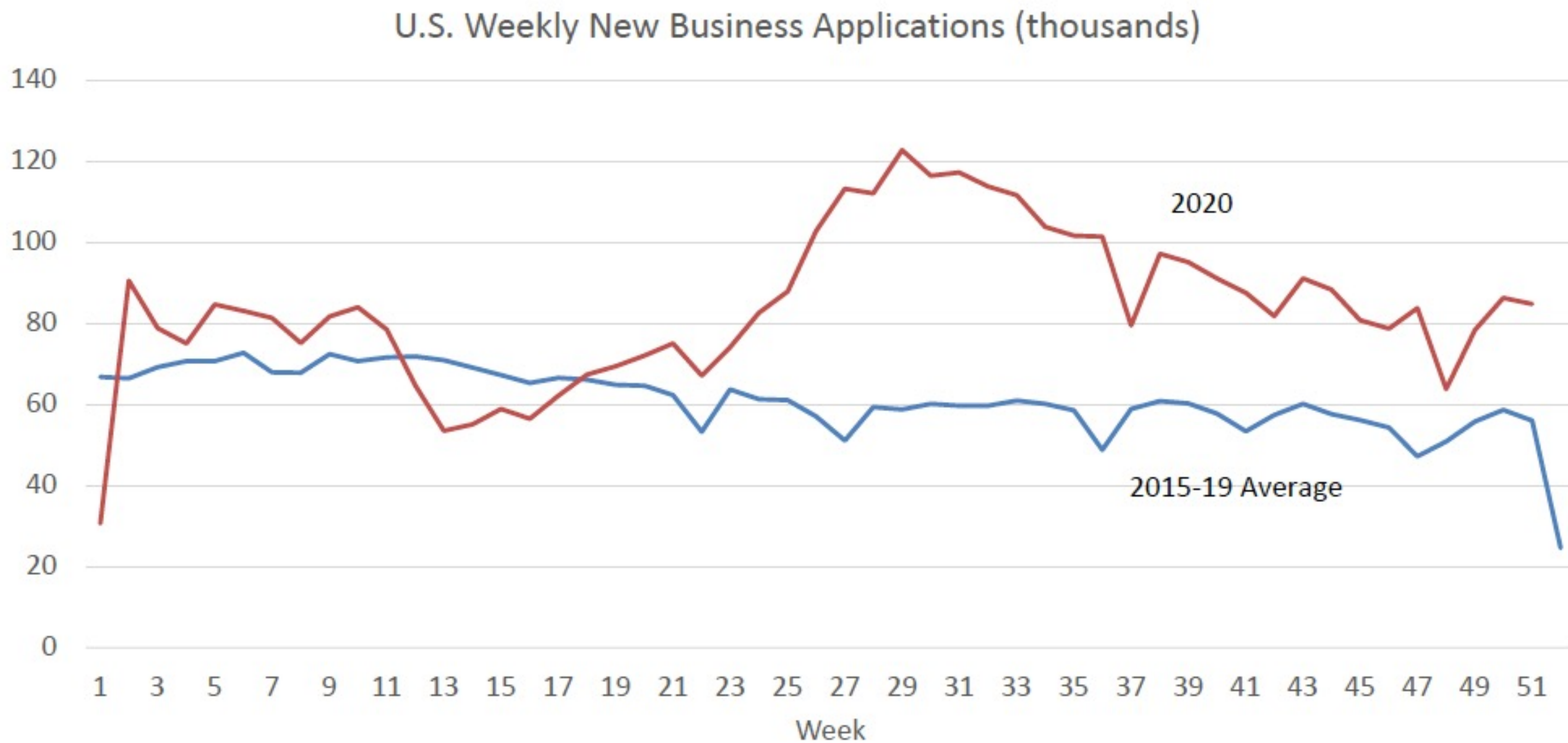




- The effect on within-firm productivity is negative (Orange histogram):
  - E.g. firm losing efficiency (higher costs) because anti-Covid measures.
- BUT positive between-firm effects partially offset this
  - least productive firms/sectors among them, are disproportionately affected and exit.

Net entry effect unusually positive in the US

Encouragingly Strong Business Formation

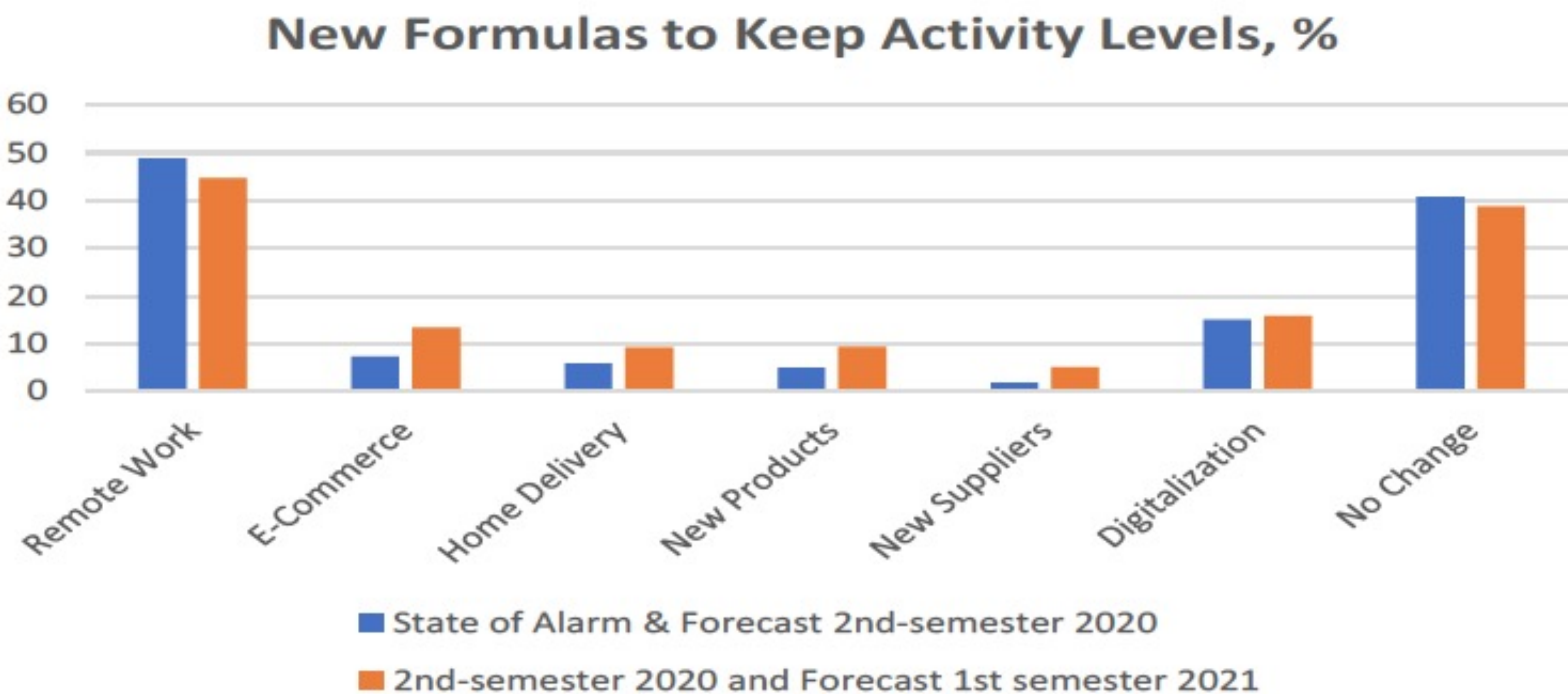


In the US a positive and encouraging business formation trend is present.

- see red line higher than during 2015-19

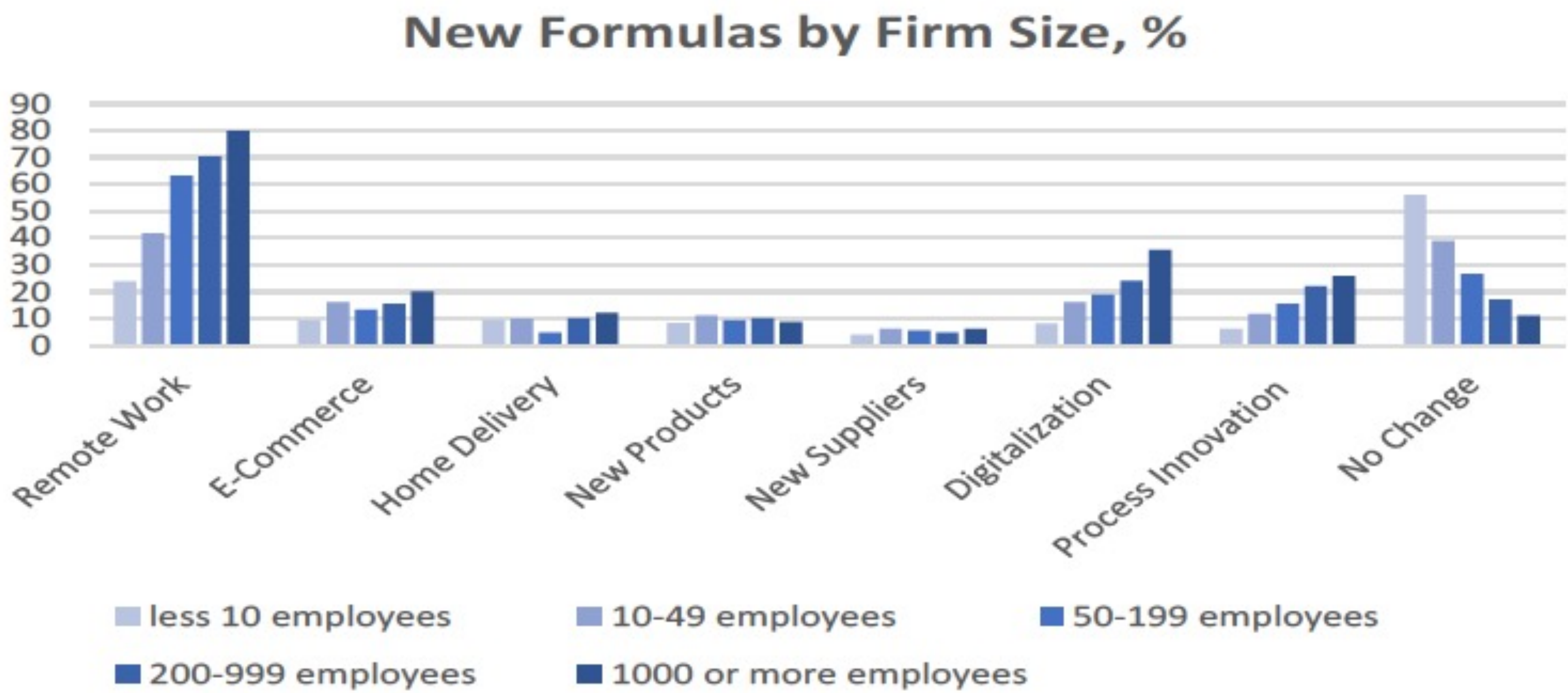
BUT……it is still uncertain how this will be sustained and boost future productivity growth

Within-firms impact are positive in Spain for incumbents



- **Existing firms are changing the way in which they are conducting business during crisis**
- The most common change is either **remote work** or **no change**

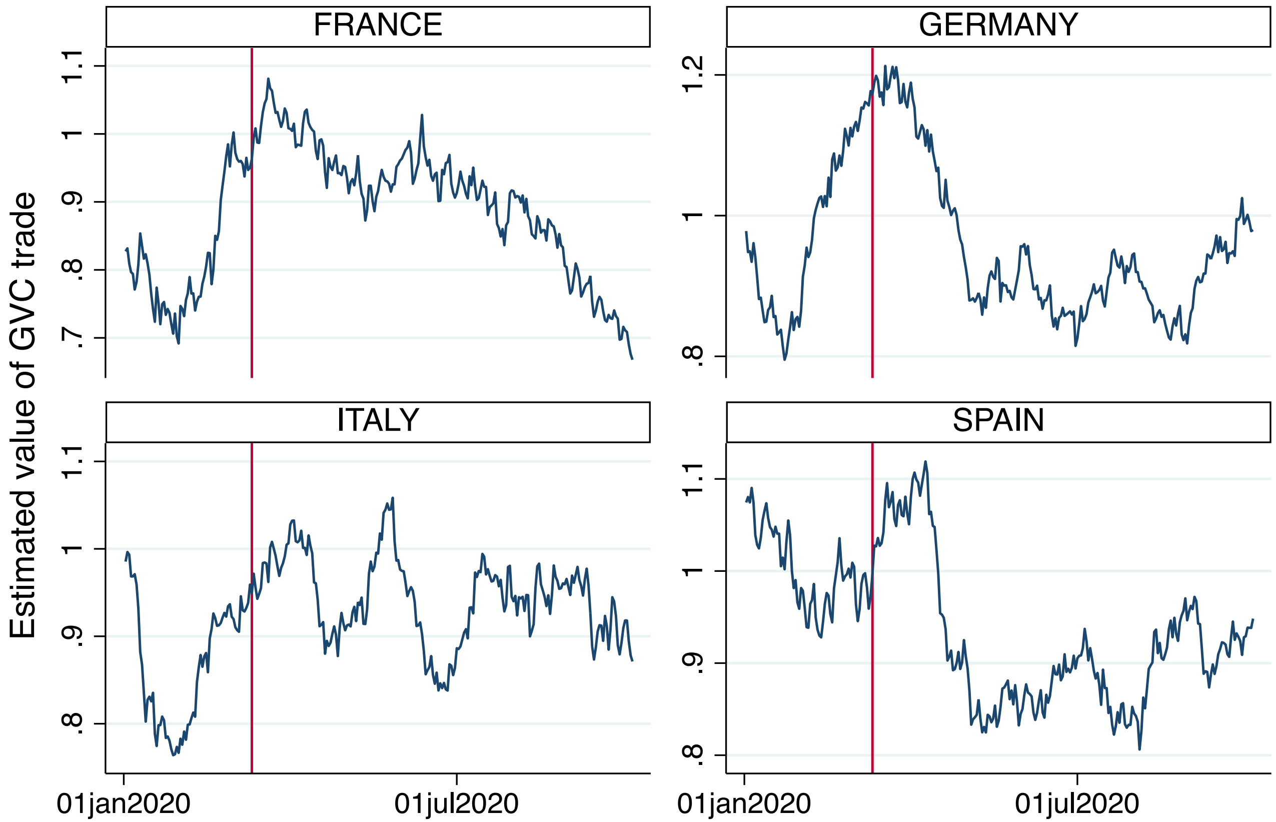
… BUT, the Firm size matters a lot….



…**Changes** in remote work, digitalization and process innovation **are mostly concentrated among large firms**.

No generalized signs of supply chains (GVC) disruption

Daily estimates (30-days MA) of GVC related trade for 2020 as a share of 2017-19 average



Note: the red line indicates the date in which WHO delcared the COVID-19 pandemic

…but the impact varies across EU countries

- negative in France
- with some sign of recovery in GER, ITA, SPA

Conclusions

- Possibly, so far, across the globe, the impact of COVID on productivity was less damaging than feared
- Including, because of some “cleansing effects” across firms/sectors (least productive out)

➔ There is still a lot to learn:

- How differentiated will be the impacts **across** and **within** several dimensions (sectors, cities..)?
- Will there be clear new winners and losers from this crisis? A part the Digital firms?

➔ Data are still scarce, but MICROPROD and CompNet will be able to offer soon some more systematic cross-country indication

➔ Let’s go to some specific country findings