Ways to jumpstart global productivity

It's been nearly a decade since the 2008 global financial crisis, and world economic growth rates are almost back where they were after a long, painful but instructive haul, and both developed and emerging economies have added a lot to their financial tool kits.

The International Monetary Fund predicts growth in developed countries will drop from the pre-crisis 2.2 percent to 1.5 percent, and in emerging economies from 7.5 percent to 5 percent between 2015 and 2020.

While high unemployment, huge debt in developed countries, excessive debt of enterprises in emerging economies, and overcapacity are to blame, declining productivity is another major culprit.

Growth in labor productivity in developed countries declined from about 2 percent from 1990 to 2007, to below 1 percent after the global financial crisis in 2008.

The People's Republic of China has emerged better off than other countries—labor productivity growth there has fallen from 12 percent to some 8 percent since 2008—not bad considering its vast labor force, divergent industries, and a shift to internal urban growth against exports.

Around the globe, labor productivity has weakened due to aging populations, a mismatch of labor skills, and barriers to labor mobility that prevent a flood of migration from the low-paying countryside to overcrowded but better-paying urban centers, where even street beggars are considered better off than those who stayed on the farm.

Low-skilled groups find it hard to get jobs, leading to a general decline in productivity, widening inequality, and leading to weaker economic growth.

Rather than focusing on gross domestic product growth, governments should pay attention to increasing national wealth and ensuring that low-income groups benefit from that growth.

Governments should carry out the most urgent structural reforms to improve access to pension systems, medical insurance, and the job market, and speed up reforms that are sure to deliver results.

They need to invest more to connect infrastructure and encourage innovation in investment and financing, looking specifically at the Internet and financial sectors, which can provide relatively easy access and new opportunities to unskilled workers.

Governments should be investing more in human capital and removing barriers to labor mobility, so workers can go where the jobs are, increasing productivity and competition.

Significantly, governments should promote climate-friendly growth and switch to a low-carbon economy to make better use of land, water, and energy, and to reduce waste.

Governments should improve the statistics on natural assets—soil, air, water, people, and wildlife—the things societies depend on to survive; improve how the data are used; and ensure that their countries continue to benefit from these natural resources.

Above all, governments need to strengthen international cooperation and free trade, and create an economic environment that bridges the gap between the rich and the poor.

This episode is based on research by Li Xu, a senior research fellow at ADBI.

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