The OECD Context

Meeting of the OECD Council at Ministerial level (MCM), June 1-2 2016

Productivity and Inclusive Growth

Report on “Enabling the Next Production Revolution: The Future of Manufacturing and Services” (NPR)
A range of radically new technologies will come to the market over the next 10-15 years: IoT, robotics, AI, 3D-printing, gene editing etc.

⇒ Mapping these developments (how fast? how deep?).

⇒ What opportunities and risks – for the economy, society, well-being and the environment?

⇒ What policies to help cope with risks and realise the opportunities?
1. Great potential impact on productivity and well-being.
2. Scarcity might not be the main economic problem, rather income distribution
3. Public acceptance might be a barrier to development and adoption
4. Radical change in skills is needed
5. Many technology-specific effects... and policies
6. Governments are not well-equipped to confront the strategic challenges: need to reinforce foresight
Questions to be Addressed by the Symposium

What is the potential of new technologies as engines of **growth**?

How do new technologies impact employment and income **distribution**?

What are the key implications for **policies**?
Benefits from Innovation: Productivity Growth

Labour productivity growth

Source: OECD Productivity Database
Distributing the Benefits from Innovation

- **Innovation generates benefits** that are distributed through a range of mechanisms:
  - Lower output prices benefit consumers
  - Higher wages benefit labour
  - Higher profits benefit capital owners with stakes in innovations
  - More income means more demand ....

- Historical evidence is **positive** on economic and labour market effects of technological change (for countries, industries, firms and workers).

- **But adjustments can take a long time, be very costly** (creative destruction) and **unequal** (skill-biased technological change)
1. Innovation and IT create “winner-takes-all” dynamics ...
   ... since IT allows for full & instant upscaling of the winning product/idea, which can take over the entire market at global level

2. The resulting market power creates rents → the traditional & necessary fuel to innovation (Schumpeter) has been boosted by IT
Economic Growth does not Necessarily Lift All Boats

Income Share Going to Labour

- Australia
- Germany
- Japan
- United States
Increased and More Skewed Return on Capital

Return on invested capital excluding goodwill, US publicly-traded nonfinancial

Source: Furman and Orszag, 2015 based on Koller et al. 2015
**Rents** are shared between capital owners, managers and workers of successful firms → **contribute to increasing income dispersion** among households.

**BUT:** **Creative destruction** provides opportunities for **social mobility**, notably in tech and knowledge-intensive sectors.
Objective:
Keep encouraging innovation... and ensure that policies do not generate excess rents

Solutions:
⇒ Innovation policies need to be open to outsiders (tax incentives, public procurement)
⇒ Intellectual property (scope of patents? Fluidity of IP markets)
⇒ Competition policies (platforms)
⇒ Entrepreneurship policies (facilitating entry)
⇒ Education/ skills (programming, inter-disciplinarity)
A Question for You …

In your view what will be the consequences of the current wave of new technologies:

⇒ Strong growth benefitting all
⇒ Strong growth benefitting a few
⇒ Weak growth
Thank you

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