



## *The Economics of Firm Productivity*

Productivity varies widely between industries and countries, but even more so across individual firms within the same sectors. The challenge for governments is to strike the right balance between policies designed to increase overall productivity and policies designed to promote the reallocation of resources towards firms that could use them more effectively. The aim of this book is to provide the empirical evidence necessary in order to strike this policy balance. The authors do so by using a micro-aggregated dataset for 20 EU economies produced by CompNet, the Competitiveness Research Network, established some 10 years ago among major European institutions and a number of EU productivity boards, national central banks and national statistical institutes, as well as academic institutions. They call for pan-EU initiatives involving statistical offices and scholars to achieve a truly complete EU market for firm-level information on which to build solidly founded economic policies.

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# The Economics of Firm Productivity

Concepts, Tools and Evidence

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## *Preface*

Productivity is an essential concept in almost every field related to economics and management. As Paul Krugman wrote in *The Age of Diminishing Expectations* (1994),

Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.

As we slowly exit the nightmare of the 2020 COVID-19 pandemic, enhancing productivity is even more critical. The crisis has battered global economic activity in an unprecedented way. Entire sectors have been forced to cease trading, and unemployment has risen to record levels. Governments, central banks and international organisations have responded promptly and massively to the shock, sheltering firms and employees from its impact. This will, however, inevitably further slow aggregate productivity, at least in the short run.

Thus, the debate on how to raise productivity is again in the headlines, and that is the subject of this book. We believe that any useful insight must be based on detailed granular information compiled at the level of the firm. To that end, we will draw from research and the dataset produced by the Competitiveness Research Network (Comp-Net, [www.comp-net.org](http://www.comp-net.org)), a leading European research initiative that the authors founded a decade ago.

Using this data, we provide the conceptual framework and tools to analyse aggregate productivity, taking into account how it varies across firms. We identify and study a wide range of potential drivers of firm performance, explaining why productivity diverges across and within countries and industries.

The firm-level perspective provides critical insights to assess the impact of policy, most notably after a shock such as COVID-19, whose impact was felt differently in different countries and sectors, as well as firms within those sectors. Unfortunately despite the progress

made, additional European Union (EU)-wide efforts need to be made to collect and analyse data to ensure that the analysis is sufficiently deep, accurate and, most important, timely. We thus appeal to European institutions and research fellows to make a stronger case for better and more reliable firm-level data, which are also truly comparable across EU countries. It has never been more valuable.



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