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REPORT FROM THE COMMISSION TO THE COUNCIL

Progress report on the implementation of the Council Recommendation of 20 September 2016 on the establishment of National Productivity Boards

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1. INTRODUCTION AND MAIN FINDINGS

Policies to boost productivity growth and enhance competitiveness are a priority for Member States, but also for the Union and particularly the euro area. Productivity growth has been in decline for several decades and has suffered further since the economic and financial crisis. Moreover, diverging developments in competitiveness and productivity across the euro area prior to the crisis contributed to the accumulation of macroeconomic imbalances, the correction of which has proved protracted and costly. As national productivity is a main driver of prosperity and income growth, these developments have significant implications for economic welfare and income inequality, as well as for the smooth functioning of the economic and monetary union.

Despite some progress, more remains to be done to increase the economic resilience of the euro area and prepare the Union to face long-run challenges, such as population ageing, globalisation and technological change. Policy action needs to take place in the Member States as well as at the level of the Union as a whole. Boosting productivity features prominently in the Annual Growth Survey and euro area recommendations.[1] Support for the implementation of structural reforms has been strengthened through the European Semester. The Union is also working to boost investment, improve the regulatory environment and complete the Single Market, the Digital Single Market, the Capital Markets Union, the Banking Union and the Energy Union. The progress of reforms in the Member States, however, has been uneven and altogether too slow.

Designing and implementing policies to enhance productivity is challenging and requires strong national ownership to succeed. Such policies should be based on robust evidence and comprehensively address the complex drivers of productivity, which are to some extent specific in each Member State. This is why the Five Presidents' Report on completing Europe's Economic and Monetary Union[2] recommended each euro area Member State to establish an institution in charge of tracking economic competitiveness and making policy recommendations in the field. The purpose of these institutions is to promote and support the implementation of structural reforms by providing a solid analytical foundation and informing public debates. Member States' governments can benefit from the evidence generated by these institutions to gain political and public support for the reforms needed.

Based on a proposal by the Commission, the Council adopted a Recommendation in September 2016, inviting the Member States of the euro area to establish National Productivity Boards by March 2018.[3] The Recommendation is addressed to euro area Member States, but non-euro area Member States are also encouraged to identify or set-up similar institutions. The productivity boards were envisaged as objective, neutral and independent institutions regarding analysis and content that could investigate the productivity

[1] European Commission (2018) "Annual Growth Survey 2019: For a stronger Europe in the face of global uncertainty", COM(2018)770.

[2] European Commission (2015). The Five President's Report: Completing Europe's Economic and Monetary Union.

[3] Council Recommendation of 20 September 2016 on the establishment of National Productivity Boards. OJ C 349, 24.9.2016, p. 1.

challenges and contribute to evidence-based policy-making. Based on the common characteristics and tasks of such boards, each Member State could decide upon the exact set-up of its own productivity board.

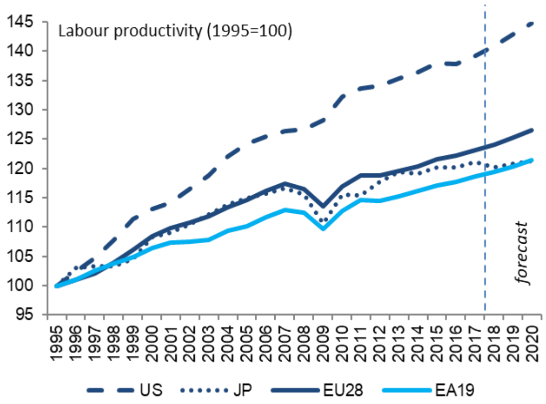
The Council Recommendation also invites the Commission to prepare a progress report on its implementation and suitability by 20 March 2019. This report fulfils that mandate. It is based on the replies to a survey sent by Commission staff to the appointed productivity boards and to the members of the Economic Policy Committee in December 2018. It provides an overview of productivity and competitiveness developments in the Union and the euro area, describes the state of play on the set up of productivity boards as of end 2018, and summarises the collaboration of productivity boards and the role of the Commission. The main findings of this report are the following:

- **National productivity boards are already established in a majority of euro area Member States and the number of boards is steadily growing.** 10 euro-area Member States have now set up their own productivity board (Belgium, Cyprus, Finland, France, Ireland, Lithuania, Luxembourg, Netherlands, Portugal and Slovenia). The remaining euro area Member States have confirmed their intention to establish productivity boards and some of them already are in an advanced stage of the process (Greece, Malta and Slovakia). Moreover, three non-euro area Member States have identified or set up similar institutions (Denmark, Hungary and Romania).
- **There is a variety of set-ups chosen by Member States, largely reflecting country-specific circumstances.** The designs of the appointed productivity boards appear to be broadly in line with the requirements of the Council Recommendation. In several cases, however, some of the requirements are not explicitly embedded in the national legislation, for example, as regards provisions to ensure functional autonomy and appropriate access to information. Some productivity boards also have a time-limited mandate. Whether these factors will have an impact on the performance of the relevant productivity boards, however, remains to be seen, as most are relatively new and will take time to establish a track record.
- **It is encouraging to see that some productivity boards are actively contributing to domestic discussions on productivity-related challenges.** Typically, productivity boards relying on existing institutions have been the most successful in this area. Several boards have already published their annual reports and actively participate in productivity debate, including by organising events, conferences, workshops and publishing reports.
- **The European Commission has launched a network for the productivity boards to facilitate the sharing of views, practices and experiences and to help them better take into account the broader euro area and Union dimension.** The Commission considers the productivity boards to be important interlocutors and agents for building national ownership of reforms. The Commission will, on a regular basis, exchange views with all the participating productivity boards, including during the European Semester fact-finding missions to Member States.

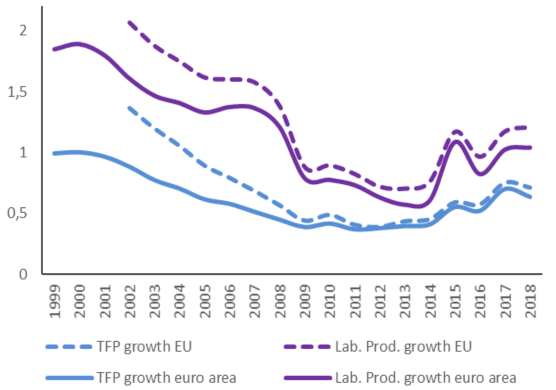
2. PRODUCTIVITY AND COMPETITIVENESS IN THE UNION AND THE EURO AREA

Labour productivity growth in the Union and other advanced economies was in decline well before the crisis. While most advanced economies have been affected, the productivity gap between the Union and the US has widened over the last two decades (Graph 1). In spite of a recent pickup, labour productivity and Total Factor Productivity growth in the Union and euro area both still linger below their pre-crisis level (Graph 2). Moreover, the recent improvement masks significant differences among Member States.[4] Differences in labour productivity growth across Europe are related to factors such as the catching-up process of some Member States; countries with lower initial labour productivity have shown, on average, higher productivity growth since 1995 (Graph 3).

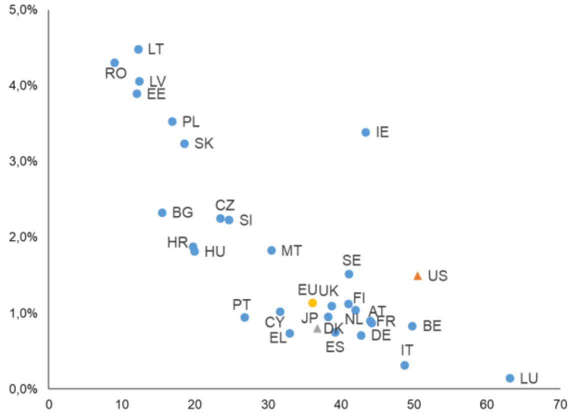
Graph 1: Labour productivity in euro area and EU28 compared to US and Japan



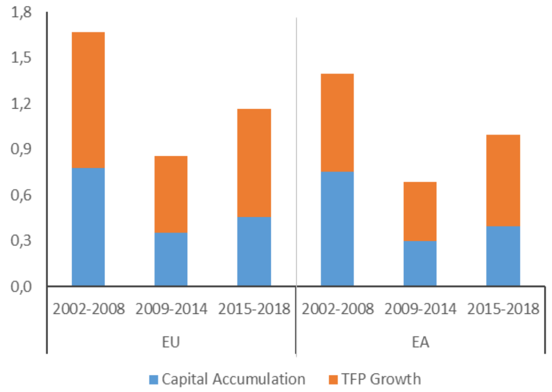
Graph 2: Labour productivity and total factor productivity growth



Graph 3: Labour Productivity in 1995 (hor. axis) and average productivity growth 1995-2017 (vert. axis)



Graph 4: Contributions to labour productivity growth



Source: AMECO. Note: In Graph 3, Labour productivity in 1995 is measured in Purchasing Power Standards.

Labour productivity growth is driven by productive investment and technological progress, both of which are still relatively weak (Graph 4). Technological progress in the Union, measured by Total Factor Productivity growth, slowed down during the crisis period, and has not yet fully returned to pre-crisis rates. Investment also fell during the global economic and financial crisis and has yet to fully recover. Decisive policy action at Union

[4] For example, in 2018, productivity growth ranged between -0.4% in Luxembourg and 4.3% in Poland.

level (e.g. through the Investment Plan for Europe) and at national level has helped investment to recover significantly but it still remains below pre-crisis levels.

Productivity growth has slowed while the gap between leading and less-performing companies' exploitation of technological advances has widened.[5] The increased gap between the level of productivity of the best performing firms in the market and the least productive firms demonstrates as much, with technological progress mostly benefitting the top performing firms, who have increased their predominance in the market. The least productive firms, by contrast, have been unable to swiftly exploit newer technologies and have been falling behind. This phenomenon also has social implications, since greater dispersion in productivity across firms may imply a greater dispersion in wages across the economy, and thus widening income inequality.

Macroeconomic, institutional and regulatory conditions affect productivity growth and competitiveness. Those conditions include: (i) sustained innovation and improvements in education levels; (ii) well-functioning labour and product markets; (iii) access to finance and effective insolvency frameworks; and (iv) a supportive business environment. In a number of Member States, several factors, such as a slowdown in the introduction of new technologies, competition-impeding product market regulations and malfunctioning labour markets, have played an important role in lacklustre productivity growth.[6] [7]

Fostering productivity growth requires targeted and evidence-based policies. In order to address the challenges to productivity growth, there is scope for policy action at both national and Union level. National reforms should aim to raise productivity growth and should include targeted measures to promote investment, skills development and stronger and better links between education systems and businesses. In addition, Member States should take both collective and individual responsibility in the Single Market to realise its full potential. The debate on productivity-related policies and structural reforms needs to be well informed in order to correctly identify the challenges and the possible impact of policies. Productivity boards can therefore contribute to an evidence-based debate and share good practices with their analytical and independent work.

Policies to enhance productivity are addressed in the framework of the European Semester. Challenges for productivity growth are, to some extent, country-specific and there is no 'one size fits all' policy recipe to address them. In 2018, most Member States received a Country-Specific Recommendation for policy action in an area that is related to productivity. Likewise, the 2018 euro area recommendation also called on the euro area Member States to prioritise reforms that increase productivity and growth potential.

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[5] OECD (2017), "The great divergence(s)", OECD Science, Technology and Innovation Policy Papers No. 39.

[6] Anzoategui, Comin, Gertler and Martinez (2015), "Endogenous Technology Adoption and R&D as Sources of Business Cycle Persistence", NBER Working Paper No. 22005.

[7] Cette, Fernald, Mojona (2016), "The pre-Great Recession slowdown in productivity", Federal Reserve Bank of San Francisco, Working Paper 2016-08.

3. STATE OF PLAY ON THE ESTABLISHMENT OF NATIONAL PRODUCTIVITY BOARDS AS OF END-2018

10 euro-area and 3 non-euro area member states have established national productivity boards.[8] In the euro area, they are Belgium, Cyprus, Finland, France, Ireland, Lithuania, Luxembourg, the Netherlands, Portugal and Slovenia; and the three non-euro area Member States are Denmark, Hungary and Romania. The nine remaining euro area Member States (Austria, Germany, Greece, Estonia, Spain, Italy, Latvia, Malta and Slovakia) have announced their intention to set up boards and the process is at an advanced stage in Greece, Malta and Slovakia.[9]

Apart from Croatia, the five other non-euro area Member States (Bulgaria, the Czech Republic, Poland, Sweden and the United Kingdom) **have decided not to establish a Productivity Board.** In most cases, they justify their decision on the basis that they already have institutions performing some or all the tasks mentioned in the Council Recommendation.

A large number of the existing productivity boards have been appointed only recently and it is, therefore, too early to provide a comprehensive assessment of their impact. Against that backdrop, this section evaluates the main characteristics of the productivity boards, in particular with respect to the requirements set out in the Council Recommendation (i.e. the tasks assigned to them; the high degree of functional autonomy and the ability to produce high quality and objective analyses).

3.1. Institutional set-up of the established National Productivity Boards

Most of the productivity boards benefit in some way from existing institutions. Seven Member States (Denmark, Ireland, Lithuania, the Netherlands, Portugal and Romania and Slovenia) have appointed already existing institutions as productivity boards and broadened their mandates to execute the envisaged tasks. The six remaining Member States have created new bodies (Belgium, Cyprus, Finland, France, Hungary, Luxembourg), which typically rely on support from an existing structure, e.g. a ministerial department or a research institute (see Table 1 for more details).

[8] The legal incorporation of the Productivity Boards appears to be complete in those Member States, although in some cases additional steps are needed. For example, the Productivity Boards' internal regulations in Finland and Luxembourg need to be adopted. Other missing steps consist of the formal appointment of the Productivity Board's members in Belgium and Luxembourg.

[9] In particular, the ministerial decision appointing KEPE as National Productivity Board is scheduled for publication in the State Gazette in the first semester of 2019. Slovakia has appointed the Institute for Strategy and Analysis as the secretariat to the Productivity Board. Malta has invited the Council for Economic and Social Development to carry out the functions of a Productivity Board. In both cases, however, the legal provisions needed for the Productivity Boards to be created in law have not yet been adopted.

Table 1: existing Productivity Boards and date of incorporation

	Name of Productivity Board	Date of creation	Characteristics
BE	National Productivity Council (*Nationale Raad voor de Productiviteit/ Conseil National de la Productivité*)	November 2018	New institution
CY	Cyprus Economy and Competitiveness Council	June 2018	New institution
DK	Danish Economic Councils	February 2017	Based on existing institution
FI	Finish Productivity Board (Tuottavuuslautakunta)	October 2018	New institution
FR	National Productivity Council (*Conseil National de la Productivité*)	June 2018	New institution
HU	National Competitiveness Council	October 2016	New institution
IE	National Competitiveness Council	March 2018	Based on existing institution
LT	Ministry of Economy and Innovation	4th quarter 2017	Based on existing institution
LU	National Productivity Council (*Conseil National de la Productivité*)	Septembre 2018	New institution
NL	CPB Netherlands Bureau for Economic Policy Analysis (*Centraal Planbureau*)	April 2017	Based on existing institution
PT	Productivity Council *(Conselho para a Produtividade)*	March 2018	Based on existing institution
RO	Council of Economic Programming (CEP), within the National Commission for Strategy and Prognosis	August 2018	Based on existing institution
SI	Institute of Macroeconomic Analysis and Development (IMAD) *(Urad RS za makroekonomske analize in razvoj)*	April 2018	Based on existing institution

Source: Based on the replies to a survey sent by Commission staff to the appointed Boards and to the members of the Economic Policy Committee in December 2018.

All the productivity boards have open-ended mandates except for the ones in Portugal and Cyprus. The productivity boards in Portugal and Cyprus have been appointed for two- and three-year terms, respectively, and, unless renewed, these institutions will cease to exist. According to the Council Recommendation, productivity boards should carry out their activities on a continuous basis.

In terms of organisational structure, there are essentially two models adopted by Member States:

- In the first one, the board consists of several members chosen from academia, business associations, unions, government departments and/or other public sector bodies and is headed by a chair or a president (Belgium, Cyprus, Denmark, Finland, France, Hungary,[10] Ireland, Luxembourg and Romania). The number of members ranges from four (Finland and Denmark) to sixteen (Ireland) and they are non-salaried employees (with the exception of Denmark) although they may receive compensation for attending meetings. The Board receives technical and/or secretarial support from a

[10] In the case of Hungary, the Productivity Board in chaired by the Minister of Finance.

government department (Finland, Ireland, Hungary and Cyprus), a public institution other than a government department (Luxembourg, France and Romania) or a group of experts appointed for that task (Belgium and Denmark).
- Alternatively, the role of Productivity Board is entrusted to a body such as a research institute (the Netherlands and Slovenia) or a ministerial department (Portugal), led by a remunerated director or chair working full time and equipped with its own staff. [11]

3.2. Functional autonomy

Functional autonomy is essential for the productivity boards to be able to gain credibility and contribute to the domestic debate. Independent high-quality economic analyses of policy challenges can increase transparency and reinforce the policy dialogue within Member States. The Council Recommendation therefore considers it vital for productivity boards to be endowed with functional autonomy *vis-à-vis* any public authority in charge of the design and implementation of policies in the field of productivity and competitiveness in the Member State. That aspect is important because the productivity boards generally rely on government structures and resources and face the challenge of establishing themselves as impartial institutions.

In a few cases, functional autonomy is legally guaranteed. The regulations establishing Productivity Boards state explicitly the functional autonomy of the Boards in Belgium, Finland, Luxembourg, the Netherlands and Slovenia.

All Productivity Boards have reported that they decide autonomously on their work programme. In addition, their research appears not to require approval at political level (or some other form of external clearance process) prior to its publication. However, for productivity boards that are part of a ministerial structure, without any provision underpinning their functional autonomy (Portugal and Lithuania), the approval of the annual report is likely to follow the ministry's standard adoption procedures. In all cases, the actual track record of productivity boards in providing independent and relevant analyses, and communicating their results in a transparent and balanced manner, will show if the Council Recommendation's requirement to have a high degree of functional autonomy is met.

The productivity boards should also have access to necessary information to carry out their mandate. Three Member States (Belgium, Luxembourg and Romania) guarantee the Board's access to information through legal provisions. Some other productivity boards are planning to sign a memorandum with the statistical office of the Member State where they are located to secure access to information (Finland). While such legal provisions are absent in most cases, the boards consider themselves to have sufficient access to data and information.

Appropriate eligibility criteria to be met by the Board's members/management can also strengthen the degree of functional autonomy. This is to help ensure the quality and independence of the productivity board's output. The criteria can consist of academic qualifications (the Netherlands and Slovenia), expertise in the field (Belgium, Denmark,

[11] The Lithuanian Productivity Board is somewhat exceptional as it consists of two full-time analysts within the Economic Policy Division of Lithuania's Ministry of Economy and Innovation.

Finland, France, Hungary, the Netherlands and Romania), criteria to avoid conflicts of interest (Belgium and Denmark) and to ensure a balanced representation of stakeholders (Ireland).

3.3. Tasks

The tasks allocated to the appointed productivity boards are broadly in line with the Council Recommendation. Productivity boards are mandated to perform two main tasks: (i) diagnosis and analysis of productivity and competitiveness developments in their respective Member States and (ii) an independent analysis of policy challenges in the field of productivity and competitiveness. In line with point six of the Council Recommendation, the mandate of all productivity boards also includes the publication of an annual report, with the exception of the Hungarian one. Following the publication of the annual reports, which are the Productivity Boards' main vehicle to foster discussion on productivity, most of them plan to organise outreach activities such as events or workshops.

Some of the National Productivity Boards' mandates have specific features. For example, the mandate of the Belgian Productivity Board includes the study of the impact and the implementation of the European institutions' recommendations in the productivity and competitiveness fields. In France and Lithuania, the productivity boards plan to include recommendations in their annual reports, while the Irish Board may publish reports other than the annual report with recommendations on measures required to improve competitiveness. The Cypriot Productivity Board is tasked with conducting dialogue with stakeholders on key competitiveness and productivity issues.

3.4. Ability to produce high-quality and balanced analyses

A key aspect of work of the productivity boards is to carry out economic and statistical analyses to inform the public debate on productivity-enhancing policies. According to the answers to the Commission survey, the productivity boards have the ability to conduct research by themselves or through their supporting institutions.

Boards relying on existing institutions can generally build on their own track records for high-quality analysis and have already investigated productivity-related issues in their capacity as productivity boards (Denmark, Ireland, the Netherlands, Portugal and Slovenia). The boards in Ireland and Denmark have already published their annual reports, while several others are in the pipeline. As examples of other relevant analysis, the Irish Board published in 2018 a Competitiveness Scorecard to benchmark Ireland's competitiveness performance with regard to a range of selected countries. The productivity board in the Netherlands has also produced studies looking at issues such as productivity differentials among firms and the returns on higher education. Members of some of the productivity boards are highly recognised academics, which should guarantee the quality and relevance of their analysis and add to the credibility of their outputs. Moreover, most of the productivity boards are also able to commission studies from third parties.

To ensure a balanced representation of different views, productivity boards may consult relevant stakeholders, but should remain impartial. In particular, according to the Council

Recommendation, productivity boards should not convey only or mainly the opinions and the interest of a specific group of stakeholders. In the cases of Ireland and Hungary, trade unions and business associations are directly represented on the productivity boards. All other boards have reported that they consult stakeholders either on a formal basis (Belgium, Cyprus, France, Lithuania, Luxembourg and Romania) or informally (Denmark, Finland, the Netherlands, Portugal and Slovenia).

4. Collaboration among the National Productivity Boards and the role of the Commission

Given the cross-border nature of productivity challenges, collaboration among productivity boards is warranted, particularly in the euro area. In that spirit, the Five Presidents' Report called for a euro area system of productivity boards, bringing together national bodies and the Commission.

The established productivity boards have started to exchange views on productivity-related issues and practices. Since 2017, the Commission has organised several events (workshops and conferences), with the aim of creating a network of productivity boards. The network, facilitated by the Commission, seeks to support collaboration among the National Productivity Boards by helping them to exchange views and good practices and to stimulate discussions related to productivity and competitiveness in the Member States, while also taking into account the broader euro-area and Union dimensions. Regular bi-annual meetings are envisaged together with a continued exchange of views, enabled through a dedicated virtual networking application. Finally, the Commission will ensure good cooperation and complementarity with the Organisation for Economic Cooperation and Development's Global Forum on Productivity.

The independent expertise of Productivity Boards may be used in the context of the European Semester and the Macroeconomic Imbalance Procedure. Studies and analyses produced by the existing and well-recognised institutions appointed as productivity boards have been used extensively in the context of the European Semester. As mentioned by the Council Recommendation, the Commission will on a regular basis exchange views with all the participating Productivity Boards, including during fact-finding missions.

5. Conclusions

This report is an initial assessment of the formal features characterising the appointed productivity boards. It follows the Council Recommendation's requirement for the Commission to prepare a progress report on its implementation and suitability. Based on the information provided by Member States, there does not seem to be a need for a revision of the Council Recommendation at present.

It is encouraging that a majority of the euro area Member States have established their National Productivity Boards and the remaining ones intend to do so in the near future. The productivity boards have a high potential to inform the discussions on policies to boost productivity and competitiveness and to facilitate their implementation through higher domestic ownership of reform agendas. The work produced by productivity boards can concretely support the reforms needed to improve convergence and resilience in the euro area, thereby complementing the euro area's governance architecture.

Those Member States that have not yet appointed their National Productivity Boards should finalise the process of appointment as soon as possible. The usefulness of such institutions has been demonstrated in many countries in Europe and around the world. The appointed productivity boards in some Member States are entities with an established reputation and proven influence in the national debate on productivity. In other Member States, productivity boards have yet to develop their profile. Given the productivity challenges in Europe, productivity boards are expected to help create ownership for policy actions supporting productivity, at the national, euro area and Union level. Such ownership is also relevant in light of the Reform Support Programme proposed by the Commission[12] in the context of the Multiannual Financial Framework.

It is still too early to fully evaluate the effectiveness of National Productivity Boards. In many cases, the institutions were only recently formally appointed and their full impact remains to be seen. Hence, a further assessment will be undertaken within the first year after the next Commission takes up its functions, reporting the main developments observed and further evaluating the characteristics and work of the boards.

[12] See COM(2018) 391 final regarding the proposal for a Regulation of the European Parliament and of the Council on the establishment of the Reform Support Programme.