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# Spreading good ideas and developing new ones

**Bart van Ark**

Spreading good ideas while continuously developing new ones is the key to greater productivity and prosperity, argues Bart van Ark, chief economist of The Conference Board.

**Productivity is the** only source of sustainable long-term growth. With the benefit of Angus Maddison's monumental work on deconstructing historical growth, it turns out that at least two-thirds of global GDP growth since the beginning of the first industrial revolution stems from increases in output per worker.

History also shows, however, that maintaining a high rate of productivity growth is challenging. Achieving, never mind sustaining, the McKinsey Global Institute's goal of an 80 percent improvement in annual average productivity growth from a historical 1.8 percent to 3.3 percent, is a very tall order. According to *The Conference Board Total Economy Database*, a 3.3 percent global average productivity-growth rate was reached most recently during the period 2003–07. It resulted from a decade-long commitment to rapid globalization, innovation, and deregulation. Emerging markets strongly contributed to those exceptional growth rates, as mature economies didn't go beyond their long-term average of about 2 percent productivity growth. But it didn't last long. Once the global crisis hit in 2008, productivity growth slid back to only 2.3 percent globally.

So how to bend the slowing productivity curve? There is no silver bullet to create productivity. And even drivers that work in some circumstances have the opposite effect in others. For example, more competitiveness doesn't bring innovation under all conditions; labor market flexibility doesn't always bring about higher skills; and, more generally, aggregate productivity growth will only rise if the winners gain more than the losers give up. In other words, allow failure to create success.

To achieve 3.3 percent growth over the long term, therefore, we must stay curious about what works and what doesn't and create the conditions that are most likely to result in the spread of innovations that can spur greater productivity. McKinsey's research shows that as much as 75 percent of the gains necessary to meet its target can result from simply "catching up" with existing best practices. These catching-up opportunities are right on our doorstep. To realize them, government should remove the barriers to competition, domestically and across nations. Second, within organizations, management practices can still greatly improve to drive out inefficiencies, which should help to shorten the long tail of inefficient business practices that often remain.

The remaining 25 percent will be much more difficult to realize for the same reason that maturing economies grow more slowly than emerging economies. "Moving the productivity frontier out" results from breakthrough technologies and subsequent incremental innovations. Governments can support basic research to strengthen innovation, but after that, the best thing they can do is to get out of the way. The outcomes of innovation are highly uncertain. Even successful innovations often do not translate immediately into productivity gains. Each business needs to seek its own optimal efficiency by experimenting, learning, practicing, and implementing. Some call it entrepreneurship.

To raise productivity by 80 percent while managing a drop in workforce growth is historically unprecedented. But we have been surprised by major turnarounds in growth before. It seems too early to write off that possibility. As Roberto Unger of Harvard Law School said, "At every level the greatest obstacle to transforming the world is that we lack the clarity and imagination to conceive that it could be different." Nothing is truer as we contemplate the future of productivity. □

**Bart van Ark** is executive vice president, chief economist, and chief strategy officer of The Conference Board, as well as a professor of economic development, technological change, and growth at the University of Groningen.

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