Abstract. This note briefly addresses two questions related to growth performance in the OECD area, namely: 1) why have so few OECD countries seen an increase in productivity related to investment in Information and Communications Technology (ICT); 2) how does the environment for firm creation affect growth in OECD countries? The note points to some recent empirical work with firm-level data on these issues and suggests that further cross-country research with such data could be very helpful.

Key words: Productivity, information technology, growth, enterprise dynamics

JEL Classifications: O33, O40, O57

1 Introduction

Growth and productivity are on the policy agenda in most OECD countries, as governments seek to address problems related to sluggish growth, such as low employment growth, high unemployment or fiscal deficits. In addition, the European Union has set itself the objective at the 2000 Lisbon Summit of becoming “the most competitive and dynamic knowledge-based economy in the world”. Achieving this objective and strengthening growth performance in the European Union has thus far proven difficult, however.

This note briefly addresses two questions related to growth performance in the OECD area, namely: 1) why have so few OECD countries experienced an increase in productivity related to their investment in Information and Communications Technology (ICT); 2) how does the environment for new firm creation affect growth in OECD countries?
1.1 The role of Information and Communications Technology (ICT)

ICT has become a fact of economic life in most OECD economies. OECD statistics show that a large number of firms now use computers and many of these have an Internet connection. Moreover, a large share of firms use computer networks for economic purposes, such as the buying, selling and outsourcing of goods and services (OECD, 2003a). But despite the ongoing diffusion of ICT in OECD economies, questions remain about the impact of the technology on economic performance. Thus far, only few OECD countries have clearly seen an upsurge in labour or multi-factor productivity growth in those sectors of the economy that have invested most in the technology, notably services sectors such as wholesale trade, financial services and business services. In most OECD countries, these impacts have yet to materialise.

The question is why this is so? One reason is that countries have not invested equally in ICT (OECD, 2003b; 2004). While ICT investment accelerated in most OECD countries over the past decade, the pace of that investment differs widely. The data show that ICT investment rose from less than 15% of total non-residential investment in the early 1980s, to between 15% and 30% in 2001. In 2001, the share of ICT investment was particularly high in the United States, the United Kingdom, Sweden, the Netherlands, Canada and Australia (OECD, 2004). ICT investment in many European countries was substantially lower than in the United States over the past decade. Other indicators of ICT diffusion also tend to point to the same countries as having the highest rate of uptake of ICT. These include the United States, Canada, New Zealand, Australia, the Nordic countries and the Netherlands. Presumably, the largest economic impacts of ICT should also be found in these countries.

This variation in the uptake of ICT is partly due to differences in the direct costs of ICT, e.g. the costs of ICT equipment, telecommunications or the installation of an e-commerce system. The available statistics point to persistent differences in the costs of ICT across OECD countries (OECD, 2004), despite strong international trade in ICT and the ongoing liberalisation of the telecommunications industry. Another important factor affecting diffusion is the ability of firms in different OECD countries to absorb ICT and use it effectively. This is influenced by the availability of know-how and qualified personnel, the scope for companies to engage in organisational change and the capability of a firm to innovate. Factors related to competition and the regulatory environment also play an important role in explaining differences in diffusion, since competition forces firms to look for ways to improve performance and because excessive regulation may make it difficult for firms to seize the opportunities offered by ICT.

But the diffusion of ICT is not the only factor that plays a role in determining economic benefits. Seizing the benefits from ICT also depends on a range of complementary factors. Thus far, OECD countries such as Australia and the United States have experienced substantially larger productivity impacts from ICT than European countries such as Germany and Italy. In Australia and the United States, the impacts of ICT on both labour and multi-factor productivity can already be observed in ICT-using...