

First CPP Advisory Board Meeting– 29th March 2019

Main topics discussed

1st Report of the National Productivity Board The Productivity of the Portuguese Economy

Overall the Advisory Board members agreed that **the first report of the CPP is carefully written and conveys useful information** regarding the Portuguese productivity developments and its drivers in Portugal in the last decade. Particularly, given the scarce resources available for its elaboration. The wealth of productivity indicators, put together in a consistent manner, is one of the main strengths of the report.

However, its **broadness, in particular in what concerns policy issues**, while understandable in a first report that intends to set the scene, comes at the price of **only partial value-added** concerning existing analysis by the European Commission, the IMF or the OECD and of a reduced set of tangible policy applications. It was also referred that the report should have included a formal definition of structural reforms.

It was considered that one of its **main drawbacks is that it is not replicable going forward**. The medium-term analysis carried out can be updated but, given the structural nature of the phenomena analysed, no new results will emerge. In addition, by taking a very encompassing approach regarding productivity, the report does not develop any aspect in depth, thus making it difficult to convey policy messages. Although some policy statements are made in the report, they are not evidence based.

Possible suggestions for future editions of the report would be to **focus on a subset of indicators that provide meaningful information at an annual frequency** to and to select **one key area to develop each year**. Ideally, this would emerge from autonomous and innovative work giving rise to specific policy recommendations. In this respect, the identification of the economists contributing to the report should be considered. Moreover, the report could include a list of key structural reforms implemented in each year, as well as its follow up. The ex-post evaluation of implementation and impact can be carried out through key performance indicators and specific analytical work.

The **external communication of the report is very important**. It was suggested that the report should include a presentation of the objectives of CPP and that this should be adopted in future reports: identifying what has been done and what is to be done in the future.

Future research topics

Regarding future research to be conducted by the CPP, there was wide consensus that covering four research topics, as conveyed in the report, is too ambitious for any structure, and it's even more so in the context of the very limited resources currently allocated to the Board. According with the members of the advisory board, **the CPP should focus on one topic per year**, maximum two topics.

The focus on a single policy area – coupled with the **cooperation with the academia and an encompassing consultation procedure of relevant stakeholders** - would better allow for an in-depth, incremental analysis, which could provide a clear and tangible contribution to the understanding of the chosen policy area.

Drawing from the report the following research topics were highlighted by the members:

- Firm-level analysis
- Understanding price and competition effects in the productivity developments in Portugal
- Measurement and impact of management practices in Portuguese firms - Statistics Portugal produces the *Management Quality Survey*
- Financial Structure of companies
- Skills Mismatch and Labour Market distortions

National Productivity Board and Institutional framework

Institutional Framework

First and foremost, and beyond the legal obligation that underpinned its creation, the newly established Board may have an important role in **deepening the knowledge on productivity related policies, promoting a more informed debate on policy options and thereby contributing to higher awareness and public scrutiny, together with more informed decisions.**

Notwithstanding the important contribution, the board expressed **concern on the independence of the CPP**. The fact that the CPP stands as joint structure of two Ministries limits its autonomy to assess policies carried out in several domains. Although an effort to maintain an independent stance can be pursued, it will be impossible to avoid **conflict of interests, and a lenient assessment of actions** taken by the authorities will emerge.

On this topic it was also noted that in the paper *Institutions to Promote Pro-Productivity Policies*, published in 2015 by Gary Banks in the context of the *OECD Global Productivity Forum*, the author sets up five design features for such institutions, namely **“independent governance, transparent processes, solid research capacity, an economy wide frame of reference and linkages to policy-making mechanisms within government”**. In this light, and from the 13 national boards across the EU assessed by the European Commission, only Portugal and Lithuania opted for a ministerial structure, “without any provision underpinning their functional autonomy”. This situation can undermine the credibility of the Board – a critical element for its effectiveness - and thus harm the goals stated in the Council recommendation concerning “the enhancement of ownership of the necessary policies and reforms at a national level” and the increased “awareness of all stakeholders”.

It was also noted that there seems to be some **misunderstanding by the European Commission on the way the Portuguese Board is organized**, as in the assessment report it is stated that it is *“led by a remunerated director working full time and equipped with its own staff”*. For transparency purposes (with external but also internal stakeholders), the annual report, in particular in this first edition, could devote a chapter to the organizational structure and the resources allocated to the new structure.

Autonomy and Resources

The board also expressed concerns regarding the autonomy of the CPP, given that the **amount of human and financial resources available for its operation is limited**, in a context of

strict control of Portuguese public expenditure developments. In this perspective, the consideration of EU financing in a multi-annual framework could be discussed.

On this matter, several recommendations were suggested. The current members of the Council would benefit from **additional resources and senior coaching** and the **involvement of the academia**, as it is done in several other productivity boards in Europe. Moreover, involving the advisory board in the identification of future research projects (choosing those with the greatest potential) allows for better outcomes, in spite of the limited resources.

The availability of resources must naturally come together with accountability. Therefore, a regular and external auditing of the nature and quality of the activities carried out by the CPP should be considered.

In conclusion, it is considered that ideally, the Council should evolve to a functionally and financially independent body, with the needed resources to consistently bring value-added to the national knowledge base on productivity developments and policies.

Further Comments

Data and Collaboration

The operation of the CPP also depends on its ample **access to detailed data** regarding Portuguese firms and workers, as well as multiple aspects of public policies. In this vein, the **cooperation with a wide range of public and civil society entities**, such as, for example, the Economic and Social Council and the Productivity Forum, is very important.

In this context, it was recommended that the CPP strengthened the **collaboration with the OECD in policy evaluation studies**, since this institution already carries out international studies in this field, such as the project of impact evaluation of *Innovation Tax Credits* in various countries including Portugal.

In the policy evaluation field, it was also suggested that the CPP may take advantage of its ministerial organizational structure to **cooperate with other public ministries and obtain specific administrative data** related with policy measures undertaken.

Finally, University of Minho has also expressed interest in the creation of collaborative research projects between the institutions, given that the university has been working in the productivity subject and is currently developing projects related with some of the topics proposed by the CPP' report.

External Communication

In this dimension, it was also suggested the preparation of outlets targeted for different audiences and presentations in different relevant locations could be considered.

Objectives for the Council

Content wise, and going forward, it could be useful to list in a coherent and consistent manner the recent reform efforts with a potential impact on productivity, together with a list of ongoing reform measures. To this end, the existing structure in the context of the National Reform Programme and the related ministerial task-force could provide valuable data input, also concerning a possible dashboard of reform monitoring based on hard-data. This would allow to more directly address the goal to “track developments”, as stated in the Council recommendation. While productivity indicators are very relevant – and the new database set-

up by the CPP is certainly a welcome development - a more direct link with policy actions would better enlighten the discussions.

Again given the limited resources, and to maximize impact, the policy area could be chosen one year ahead by the Council of Ministries, allowing then the Board to produce its high quality research in an independent manner. This would ensure that the resources spent could directly contribute to policy design. In the longer-term, and with more resources, a broader mandate could be envisaged, where prospective analysis could also be undertaken.

Other members of the advisory board suggested that **the CPP should develop differentiating factors that justify its existence and ensure its continuity** (examples of comparative advantage):

- Create a productivity indicator and/or a specific TFP for Portugal, introduce improvements in the measurement of some variables: IT, factor quality, etc.
- Analysis of Public Policies (e.g. which policy measures exist, when they were implemented, how long they were implemented, in which regions they were implemented in, what are the performance measures/objectives, etc. ...)
- Promote the implementation of appropriate policy evaluation measures / Make a more scientific evaluation of the policies implemented

EU KLEMS database was mentioned as an example of the type of value-added work the CPP could develop for Portugal – in particular, since this database for Portugal is not so complete as for other countries.

However, it was also pointed out by other members that the CPP should not have the task of creating better productivity indicators, but rather of putting pressure on official Statistical Offices to do so.