# There is no development without optimizing productivity


According to Quijandría, since the economic reforms of the 1990s, which culminated in the commodities cycle, growth was mainly due to the increase in productivity. From left to right: Nikita Céspedes and Alvaro Quijandría.

**The increase in productivity is closely related to economic growth. However, different elements that affect its performance, can not be ignored if you want to think about sustainable and long-term development. The research table "How to measure the productivity of the Peruvian economy" addressed this issue in a technical manner, with evidence and policy proposals.**

The economist Nikita Céspedes presented the research the Productivity in Peru: measurement, determinants and implications, prepared with Pablo Lavado and Nelson Ramírez.2 The central analysis of the document is productivity, and one of the first revelations is that Peru has one of the lowest productivity rates in Latin America.

But what are we talking about when we talk about productivity and why is it so important for economic development? Céspedes refers to two key indicators to measure it: labor productivity (LP) and total factor productivity (TFP).

"The first indicator is measured as the product per worker and is the most used in Peru because it is easy to estimate. However, it presents significant biases when incorporating capital growth, which has increased significantly in recent decades. These biases can lead to wrong

1/ The exhibitors of this research table were Nikita Céspedes, Ph.D. in Economics and specialist in economic research at the Central Reserve Bank of Peru (BCRP); and Alvaro Quijandría, Ph.D., leading specialist in private sector development at the International Finance Corporation (IFC). The panelists were Gabriel Natividad, Ph.D, professor of Economics at the University of Piura; Julio Gamero, employment and labor market specialist of the International Labor Organization (ILO). This space was moderated by Lourdes Alvarez, former general director of Impact Evaluation, Statistics and Economic Studies of the Ministry of Production.

2/ Both are researchers from the Universidad del Pacífico.

*"There is a high heterogeneity of productivity between the regions: that of Apurimac is one eighth of that of Moquegua, and a quarter of that of Metropolitan Lima. The differences in productivity between regions of the country are greater than the differences in productivity between Peru and the world."*

conclusions when using only this indicator," he explains. The second indicator, TFP, measures efficiency in the use of productive factors (labor and capital), and is better than the first. According to the PTF, productivity in Peru has been low and has had a weak growth in recent years.

Céspedes draws attention to the high heterogeneity of productivity among the regions of Peru: that of Apurimac is one eighth of that of Moquegua, and one quarter of that of Metropolitan Lima.

"The differences in productivity between regions of the country are greater than those differences between Peru and the world," he says. On this, he points out that the design of Peruvian economic policy has not explicitly contemplated this high heterogeneity, which he considers to be a current challenge.

**OBSTACLES TO PRODUCTIVITY**

Céspedes points out that between 1950 and 2016 productivity growth (TFP) has been slow. In developed economies it accounts for 30% to 35% of GDP growth, while in Peru, less than 10%. What elements affect productivity? The specialist argues that there are macro and micro factors. Within the macro factors, structural policies and those of macroeconomic stability stand out, such as those generated in the reforms of the 1990s. "In the micro sphere, there is a lot of space to be done via reforms; for example, institutions, health, education and training, because the returns of these investments in terms of aggregate economic growth are high, "he says.

Céspedes points out that the hourly wage is a variable closely related to productivity. "The hourly wage is growing at a rate that is one third of the GDP growth, with which the growth of wages during the last decades has been very slow and evidences to a large extent the low growth of productivity, "he says.

Human capital is key to increasing productivity, and this can be promoted through policies articulated in the various stages of people's lives. In the preschool stage, where the production of skills is important; in the school stage, where fundamentally years of education and/or specialization are produced; and in the labor stage, where workers accumulate human capital through experience and via job training programs. In Peru, the formation of human capital in the three stages mentioned is deficient, and low productivity -both national and regional- is a reflection of this fact.

Another element that has conditioned the low accumulation of human capital, through increased job training, is high labor turnover. "The accumulation of skills depreciates due to high labor turnover. The creation and destruction of jobs are high in the informal sector and higher than in the formal sector, so the accumulation of long-term human capital in Peru is limited, "says the researcher.

The economist suggests that growth through increased use of factors-such as increased employment and investment-could have limits over extended periods of time, while it could grow through productivity, through investment in skills, education and innovation.


The panelists stressed the importance of measuring productivity to formulate better public policies. From left to right: Gabriel Natividad, Lourdes Álvarez and Julio Gamero.

On the growth of productivity (PTF), Céspedes said that between 1950 and 2016 it was slow. In developed economies it explained 30% to 35% of GDP growth, while in Peru less than 10%.

Finally, he assures that the growth generated by higher productivity is the only way forward to achieve high levels of development. The projections for the next 20 years, period in which GDP per capita is expected to be similar to the average of the developed economies and the desired level of development (30 thousand dollars) is reached, place productivity in a preponderant scenario. During that time, he explains, if we consider an annual growth of the factors of work and capital of 1% and 4%, respectively, productivity should grow at a rate close to 3%, a level well above the historical rates of productivity growth that Peru has had (close to 0.5% in the period 1951). -2014).

**PROMOTE INVESTMENT IN INNOVATION AND HUMAN CAPITAL**

In his presentation, the economist Álvaro Quijandría, leading specialist in private sector development at the International Finance Corporation (IFC) of the World Bank, argued that productivity plays a key role in economic growth. According to Quijandría, since the economic reforms of the 1990s, which culminated in the commodity cycle, growth has been mainly due to the growth of productivity. In the last 15 years, basically, there was an increase in productivity within companies.

*"The restrictions on the reallocation of resources between companies and sectors have affected productivity and economic growth. The solution is to remove the barriers to the transfer of resources from low-productivity sectors to sectors with higher productivity, and from low-productivity companies to companies with higher productivity."*

However, he observes that there is a central problem: the failure to assign the factors of production. "The restrictions on the reallocation of resources between companies and sectors have a negative impact that has affected the efficient allocation between companies and between sectors," he says. This problem has impacts on productivity and economic growth. In his opinion, the central solution must go through removing the barriers to the transfer of resources from low-productivity sectors to higher-productivity sectors, as well as from low-productivity companies to higher-productivity companies.

"The dispersion of productivity between highly productive companies and those with low productivity is considerable. The gains for productivity occur in a few companies, basically in the mining sector, "he explains. For the economist, investment in integration into global value chains is key.

So, how to remove barriers to the transfer of resources? Quijandría points to vertical policies, such as the impulse to innovation, to solve market failures to diversify, to the search for investment in value chains global and public-private dialogue. In addition, it proposes horizontal policies, such as the facilitation of foreign trade to boost production towards exports, reduction of the rigidity of the labor market and the strengthening of the capacities of the workers. On the other hand, it appeals to regulatory reforms, to the reduction of bureaucratic barriers, to strengthen frameworks for the promotion of competition and to increase the capacity of the worker to move towards more productive sectors.

According to Quijandría, regulatory barriers are still high in Peru (mainly in decentralized public entities) and labor regulation is very restrictive. In addition, he argues that innovation is low due to lack of economic incentives and reduced public investment.