

Productivity Dispersion between Firms and Aggregate Productivity Growth

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Productivity growth slowed in many developed countries since the early 2000s. A feature of the productivity slowdown is not so much a lower productivity growth at the frontier firms, but rather rising productivity at the frontier coupled with an increasing productivity divergence between the frontier and the non-frontier firms (OECD, 2016). The dispersion in productivity growth between the best performing and the worst performing firms has increased in several OECD countries since 2000. This paper presents evidence on productivity dispersion between firms in Canadian industries for the period 1990 to 2014. It makes use of a longitudinal file of Canadian businesses that is built using various administrative databases. The paper asks a number of questions on productivity dispersion between firms that shed light on the causes of the slow aggregate productivity growth after 2000. First, is the productivity divergence only a recent phenomenon that reflects the winner-take-all dynamics in a digital economy, or is it a long-term trend? Second, to what extent does the slowdown in aggregate productivity growth reflect the slow productivity growth of the lagging firms, possibly due to the slow diffusion of innovation and technologies. Third, is there a decline in upward mobility towards the productivity frontier among firms that may reflect a decline in business dynamism, and what are the characteristics of the firms that move to the frontier. Fourth, what are the characteristics of the firms that remain in the bottom of productivity distribution? Are there barriers for those firms to improve their productivity performance