What we talk about when we talk of Productivity

Vergés-Jaime, Joaquim

Universitat Autònoma de Barcelona

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WHAT WE TALK ABOUT WHEN WE TALK OF PRODUCTIVITY?

Warning to non-experts on frequent misleading interpretation of productivity measures

Joaquim Vergés
Universitat Autònoma de Barcelona
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‘Productivity’, a key issue in the political arena

The common understanding for ‘Productivity’ is quite straightforward: Its value increases if a company either produce more of some goods or services with the same resources (personnel and the rest of productive factors), or produce the same quantities of good and services with less of some of the resources. Or a given mix of both types of moves, including trade-offs between favourable and unfavourable moves. In the above quite intuitive formulation –which, broadly coincides with experts’- you may substitute ‘a company’ by ‘any organisation producing goods or delivering services’, or by an ‘industry’ or economic sector, or by the entire country (the whole of its sectors).

Newspapers and media in general talk frequently on productivity. As, for example, in terms of “.. the problem of our economy is that productivity is comparatively low/is-lagging-behind (and here the figure for a productivity index referred to the country)”. Or “...There is a need for serious reforms be undertaken addressed to increase productivity, in order our economy become more competitive and so ...”; or “..industry’s Unions and Employers Association representatives agreed finally on an increase on salaries for this year equal to the last year increase in productivity less half a point. The agreement comes subject to ..”.

In any case, data on productivity levels –at sector or country level- have last years become one familiar component in the media news and in socio-political debate. The problem is that those data on productivity (which usually are of labour productivity) do not talk us actually of productivity in the sense stated at the beginning, though this is the implicit meaning media and experts do transmit about. And, of course, those data are presented to us as an out-of-discussion ‘measure of productivity’, since the acknowledged source for them are some official statistics institution, national or international, as Eurostat –for the EU countries-, OECD, BLS (US), .. etc. .

By way of example: According to Eurostat, the EU’s country with the highest labour productivity level in 2013 was Luxembourg: 163,9; and the following one in the ranking was Ireland (135,5). Quite below appear Germany (107), France (116) and Spain (111), for

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example¹. One certainly gets surprised by reading that Luxembourg workers are about 64% more efficient that German workers. Where are those Luxembourg’s set of factories or services companies whose employees work with a so much productivity (that is, producing so much more goods o delivering so much more services per-person) that their German counterparts? Direct observations show that obviously this is not the case. The above productivity differences, 163,9 vs. 107 are against all evidence ². Or the above indexes do not refer actually to the common-knowledge concept of productivity stated at the beginning — in spite they being so used in the media and the political arena.

Then, what do actually mean those ‘(labour) productivity indexes’ for such and such country? How are they in fact calculated by the specialised agencies (first the nationals ones, then the Eurostat, OECD, etc.)?

The present notes, intended for being read also by non-professionals, try to clarify such questions. They start by presenting a summary on the way economists and statisticians calculate the more frequently used productivity measures, at companies level -namely, Total factor productivity and Labour productivity- which are the conceptual basis. And then, attention is driven to how their adaptations to sector (‘industry’) and whole-country level are calculated by statistics agencies. This allows finally to discuss and make clear the real meaning of these indexes at sector and country level. And so to prevent against the frequent misleading use and interpretation of statistical data on productivity, not only in the media and the socio-political arena but also in the academic field, which lead to distorted conclusions regarding the real world.

### How productivity indexes are calculated

Let us start by underlining the dominant idea regarding the topic: that productivity at companies level is something directly connected to the economic growth of the country -usually measured by the increase in the Gross Domestic Product (GDP) per-capita. That idea would go like that: the increase in GDP-pc depends mainly on the overall economy’s productivity increase; that in turn results from each economic sector’s productivity increase; and for each sector the increase depends on its companies’ productivity increase.

According to that, the starting step would be how productivity is defined and measured at firms’ level. And then how the aggregation process up to sector and country levels is done. So, let us start by how productivity is measured at enterprise level. [Though you might want to skip the following point on Total factor productivity, going right away to the next one, Labour productivity; your getting the essential of the latter will not come substantially affected].

#### The basis: Overall productivity index at companies’ level (TFP),

The usual productivity measures for a company, in experts works, are the Total Factor Productivity (TFP) index, and the (partial) Labour Productivity index. The former stands however for the ‘proper’ productivity measure. It is the most used in experts studies and academic papers.

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¹ Eurostat data for ten and five years before show similar values and differences.
² The above Eurostat figures represent: Making the mean of labour productivity indexes for the whole EU-countries equal to 100, which is the corresponding figure for each of them. Thus, in 2013 Luxembourg’s productivity level would be 63,9 % above EU’s mean, France’s would be 16% above, Germany 7% above, etc.
What we talk about when we talk of Productivity?

Its basic definition is in fact the one in the paragraph at the beginning; though made it operative through a given, certainly not-simple, formula, since the reality to measure is in fact complex. To start with, the usual in the business world is that a firm produce not just one but a lot of different ‘products’; and use more than just one ‘factor’ –the latter, even in the rare cases of enterprises producing just only one product (as it is the case of an only-milk farm, for example). And it is also usual that from period to period the units of its different ‘products’ show simultaneous changes of different sign (increases and decreases); while at the same time there are also changes of different sign in the units of the ‘factors’ contracted or used. All that makes that to get a single figure for the concept of ‘productivity’ of a company in a given period is not any simple.

Broadly speaking, the standard TFP formula for a given period comes to be a quotient in which the numerator is a weighted sum of the units of the different goods or/and services produced (invoiced) by the firm in such period, and the denominator a weighted sum of the units of work and of the other factors contracted or consumed in the same period. Those weights being usually the respective products’ and factors’ prices in a given, past, reference period. Those prices are then taken as parameters (kept as constants) for calculating the TFP indexes for different, subsequent periods. (You may see a description of that standard formula in Appendix 1).

In any case, the calculation outcome consists in a serie of TFP figures, for each of the periods under calculation; by way of example: TFP\textsuperscript{year 2012} = 1,34; TFP\textsuperscript{year 2013} = 1,42; TFP\textsuperscript{year 2014} = 1,38. Though the figures we will more likely find in the reports are not those absolute values properly said but its respective rates of change from period to period,

\[
\frac{\text{rate of change in 2013}}{= (\text{TFP}_{\text{year 2013}} - \text{TFP}_{\text{year 2012}})} / \text{TFP}_{\text{year 2012}} \Rightarrow (1,42-1,34)/1,34= 0,06; \ (1,42-1,34)= 0,06 \\
\frac{\text{rate of change in 2014}}{= (\text{TFP}_{\text{year 2014}} / \text{TFP}_{\text{year 2013}}) - 1} \Rightarrow (1,38/1,42)-1=-,028; \ (-2,8%)
\]

albeit calculated in an alternative, more sophisticated, way –which gives however similar values (specially for moderate changes, between 1 to 8%)

\[
\frac{\text{rate of change in 2013}}{= \ln(\text{TFP}_{\text{year 2014}} / \text{TFP}_{\text{year 2013}})} \Rightarrow +0,058 \\
\frac{\text{rate of change in 2014}}{= \ln(\text{TFP}_{\text{year 2014}} / \text{TFP}_{\text{year 2013}})} \Rightarrow -0,028
\]

This ‘sophisticated’ alternative has the advantage for the experts and practitioners that it can also be calculated as the difference between the rate-of-change-in-the-aggregated-of-‘products’ (outputs) and the rate-of-change-in-the-aggregated-of-‘factors’ (inputs). Thus, what we may more frequently find in experts’ reports or articles on productivity measures for such and such company is a calculation process consisting in some kind of approach\textsuperscript{3} to the above rates of change, for ‘the-aggregate-of-outputs’ and for ‘the-aggregate-of-inputs’. Thus, following the example, such calculation could give for 2014 something like: \textit{Average rate of change in Products (+7,6 %) – Average rate of change in Factors (+10,4%) = Change in Productivity (-2,8%).}

Are these experts’ \textit{TFP measures} applied to such and such company the starting data for, throughout aggregation processes, to calculate the productivity –o its change- for a whole industry or economic sector, and then for the whole country? Not actually; though it can be said that TFP measures lends the inspiring background. In any case, that rather (unavoidably) complex way of calculation is not the starting point for determining the productivity measures

\textsuperscript{3} Rarely the expert have available the detailed required data from the firm (the respective units and prices for each different product and factor, for such and such year) as for actually carrying out the ‘real’ calculation of these two rates.
referring to industries (sectors) and countries we can find in wide audience publications and official statistics. The starting point for sector or country level productivity measures we can read in the press - whose sources use to be publications by institutions as Eurostat or OECD-- is something simpler, based in the Labour productivity, mimicking the calculation of it at enterprises level.

**The star: Labour Productivity**

It is the other usual productivity measure at companies’ level. Quite easier of being determined than TFP. And more widely used among practitioners and in wide audience publications. It is defined as the *quotient between a company’s total output and the volume of its workforce*, and technically labelled as *Labour partial* productivit y. That rather general concept, has in practice different translations/ interpretations. Among the more usual ones:

\[
LP_{\text{[type A]}} = \frac{\text{N. of Units sold (**)}}{\text{N. of Employees (***)}}, \quad \text{or} \quad \frac{\text{Sales (*)}}{\text{N. of Employees (***)}}, \; \ldots; \quad \frac{\text{Value Added (***)}}{\text{N. of Employees (***)}}
\]

Which, in turn, we can find applied in different versions:

(*) , either at current or at constant prices;

(**) , either as just contracted people or ‘N. of full time equivalent’; also some times: N. of Total hours worked

(***) , only viable in the scarce cases where the analysed company produce a single output (f.e. Hl. of milk)

As far as Value added, it is calculated –broadly speaking- as the sum of personnel-costs plus company’s profits.

These Labour productivity measures enjoy a great appeal from people at reading productivity analysis papers or reports: these indexes sound as less ‘abstract’, more directly understandable that the ‘professional’ TFP. At least at a first glance, though the shortfalls and drawbacks from using those LP indexes are well known:

Regarding type ‘A’ ones, because 1) they imply to assign all the basket of outputs to one of the inputs, work –independently of how the units of the rest of inputs (equipments, subcontracted services, energy, etc.) have changed from period to period; which leads to figures of an uncertain –if not misleading- meaning. And 2) the last-decades-accelerated trend to mechanisation, automation, and outsourcing –which imply that ‘work’ is progressively substituted by other factors (equipments, energy consumption and outsourcing services)- makes that the numerator tends to increase over time while denominator keeps constant or decreases. As a consequence, this type ‘A’ measures tend to show a persistent increase across time even if employees efficacy and ability in their job be the same; which makes them not significant as productivity measures.

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4 Among other things, because to calculate the above rates for all the companies of even a single industry would have huge information-costs: To get the number of units for each output and for each input of each company, as well as of their respective prices –provided such companies would be willing to disclose that information. Obviously –and that is much more determining- companies consider that kind of internal data as strategically confidential. And, of course, in a market economy they have not any obligation of delivering them to a statistics agency.

5 ‘Partial’ because it relates the whole output with only one of the inputs: Labour.

6 A more refined definition of Labour productivity at-constant-prices, based on the terminology of TFP, is also becoming popular among experts. See further foot note 10 in annex.
And as far as type-B measures, because the value-added-per-employee will necessarily appear higher for a company operating with high margins –thanks to enjoy some market power- in comparison with another company that face hard competitive pressure and therefore operates with lower margin rates. Even if their respective employees are equally productive and smart. Thus, the former company will get higher profits per-employee and may also pay higher salaries; so, it will show higher value-added-per-employee. Therefore, for comparisons among different companies, a higher value-added-based LP index not necessarily means higher productivity properly said.

However, on the side of advantages, it is easy to see that to apply a type B Labour Productivity formula to an industry or economic sector, or to the whole economy, is something much more easy, feasible and straightforward that in the case of a TFP measures. Let us see the application of LP idea at those upper levels.

(Labour) Productivity measures at sectors and countries’ level

Most of the data we may read on productivity at sectors or countries level refers to LP; and, more specifically, to Labour-Productivity-based-on-value-added (LPva) in its version of:

\[
LP_{va \text{ sector ‘...’}} = \frac{VA_{\text{equivalenttimefull} \text{ of } N(\text{average})}}{E_{\text{full-time-equivalent} \text{ Employees}, \text{ (average)}_{\text{N. of Employees}}}},
\]

for a given period ‘x’; (year, semester, ……)

It is easy to calculate for a given economic sector by taking the usually available national statistics. Thus, in the case of the numerator, raw data on the value added for (all the companies included in) a sector can be drawn from the Value Added Tax (VAT) national system. And as far as denominator, regular employment statistics use to come detailed by sectors.

Then, if this LP is calculated for all economic sectors, an average for the whole economy may then be determined. However, this overall LP measures at country level may also be (and usually are) calculated directly: By taking national-level statistics for employment, for the denominator. And by determining, for the numerator, the total value added at national level as from the VAT system statistics; which, broadly speaking, is equivalent to the Gross Domestic Product (GDP) \(^7\). In any case, Labour productivity at country level is usually defined as:

\[
LP_{\text{ (va € per person), whole country}} = \frac{VA_{\text{GDPcp \text{ at \text{ constant \text{- } prices}}}_{\text{Total N.of Employees f.t.e \text{(annual average)}}}}}{E_{\text{N. Employees}}}
\]

However, Eurostat data-base, for example, does not made properly available the above absolute (in €) data values for the EU countries but just comparative indexes:

\(^7\) More precisely, GDP is defined as the sum of value added over all sectors, but adding taxes and deducting subsidies on final products.
Table 1

Comparative Labour Productivity (value added €, per person), between EU countries:

<table>
<thead>
<tr>
<th>Country</th>
<th>2007</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average EU (27 countries)</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>179.7</td>
<td>163.9</td>
</tr>
<tr>
<td>Ireland</td>
<td>136.2</td>
<td>135.5</td>
</tr>
<tr>
<td>France</td>
<td>115.4</td>
<td>116.1</td>
</tr>
<tr>
<td>Germany</td>
<td>108.2</td>
<td>107.5</td>
</tr>
<tr>
<td>Spain</td>
<td>103.3</td>
<td>111.2</td>
</tr>
<tr>
<td>Greece</td>
<td>95.3</td>
<td>92.7</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>37.4</td>
<td>43.4</td>
</tr>
</tbody>
</table>

Source: Data from Eurostat’s table “Labour productivity per person employed” (ESA95), as published in the Eurostat web as of June 2015.

And these are the data that has been mentioned at the beginning of these notes: Luxembourg appearing surprisingly as the country with the highest (labour) productivity; and Spain having surpassed Germany (!).

What it does is available in absolute (€) values from Eurostat is a variant of the LPva ratio: (€ per hour worked). Thus, following with the above countries-example:

Table 2

Labour Productivity, value added; € per hour worked *, for some EU countries:

<table>
<thead>
<tr>
<th>Country</th>
<th>2007</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average EU (27 countries)</td>
<td>31.4 €</td>
<td>32.2 €</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>64.9</td>
<td>58.2</td>
</tr>
<tr>
<td>Ireland</td>
<td>45.1</td>
<td>48.8</td>
</tr>
<tr>
<td>France</td>
<td>44.9</td>
<td>45.6</td>
</tr>
<tr>
<td>Germany</td>
<td>42.5</td>
<td>42.8</td>
</tr>
<tr>
<td>Spain</td>
<td>28.5</td>
<td>32.1</td>
</tr>
<tr>
<td>Greece</td>
<td>21.5</td>
<td>20.2</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>4.3</td>
<td>4.9</td>
</tr>
</tbody>
</table>

(*) VA/E; VA measured as GDPcp; E measured as ‘Total N. of hours worked’

Source: Data taken from Eurostat’s table “Real Labour productivity per hour worked (€)”, [nama_aux_lp], as published in the Eurostat web data-base as of June 2015.

Again –be at sector or country level-, half of the times the data we will find in economic newspapers or in the original statistical sources –f.e., Eurostat (EU) or OECD publications- will not refer to the above absolute, monetary values (so much € in the year, per person, or per hour worked) but to the corresponding change of those values from period to period. Changes which we may find expressed either in terms of index or in terms of rate. Thus, in the case of index (of change, over time) option, it will have been calculated as (taking, by way of example, year 2005 as initial, reference year):
LP\(^\wedge\) = Labour Productivity index of change: for Year 2013' = \(\frac{(VA/E)_{2013}}{(VA/E)_{2005}} \times 100\);  

[so, f.e. a value of 104,5 would mean that the productivity of the Sector (or of the Country) –measured as Value added at constant prices, per Employee (full time equivalent)– has increased 4,5% since 2005.].  

Thus, following with the example: 

<table>
<thead>
<tr>
<th>Country</th>
<th>2005</th>
<th>2007</th>
<th>2013*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average EU (27 countries)</td>
<td>100,-</td>
<td>103,6</td>
<td>106,4</td>
</tr>
<tr>
<td>Some countries’ data:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Luxembourg</td>
<td>100,-</td>
<td>103,-</td>
<td>92,3</td>
</tr>
<tr>
<td>Ireland</td>
<td>100,-</td>
<td>102,4</td>
<td>110,7</td>
</tr>
<tr>
<td>France</td>
<td>100,-</td>
<td>103,-</td>
<td>104,5</td>
</tr>
<tr>
<td>Germany</td>
<td>100,-</td>
<td>105,4</td>
<td>107,2</td>
</tr>
<tr>
<td>Spain</td>
<td>100,-</td>
<td>102,2</td>
<td>115,-</td>
</tr>
<tr>
<td>Greece</td>
<td>100,-</td>
<td>108,7</td>
<td>102,-</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>100,-</td>
<td>106,-</td>
<td>121,6</td>
</tr>
</tbody>
</table>

(*) For each country: [VA-€-per-hour-worked Year 2013] / [VA-€-per-hour-worked Year 2005] x 100

Source: Data taken from Eurostat’s table “Real Labour productivity per hour worked (for each country, Year 2005 value =100)”, [nama_aux_lp], as published in the Eurostat web data-base as of June 2015.

Which tells us the same story than the previous table 2, though in a different way. Thus, f.e., that France would have increased its Labour Productivity from 2007 to 2013 in around 1,5 %, and that Greece would have saw it decreased in around 6,1%.

Having read till here, you might have got the idea that it seems to be some contradictions between the messages the above tables 1 and 2 give to us. For example, that according table 1 Germany’s labour productivity would be lower than Spain’s, but according table 2 it would be just the opposite. So, you would have every right to ask, which is the good conclusion and why such contradiction?

8 You might also find the same ratio expressed in the equivalent terms of,

\[ LP^{\wedge}_{(2015)} = \left( \frac{VA^{Year\ 2015}}{E^{Year\ 2015}} / \frac{VA^{Year\ 2014}}{E^{Year\ 2014}} \right) \times 100; \equiv \left( \frac{VA^{\wedge}_{(2015)}}{E^{\wedge}_{(2015)}} \right) \times 100; \text{ for Year 2015, regarding 2014; and so on for an annual-growth time-series, and/or for a different reference year (in the example, each previous year)} \]

The version on the right is the more usual way of calculating the \(LP^{\wedge}\) index by national statistical agencies: As the quotient between the Value added index, and the Employees index).

And when the option is the rate (percentage) of change, it may come calculated either in the usual way or in the ‘sophisticated’ one of,

\[ LP\ r = \text{Labour Productivity rate (\% of change for period } \times \text{)} = \ln \left( \frac{VA/E}_{Year\ 2015} \right) - \ln \left( \frac{VA/E}_{Year\ 2014} \right) \times 100 \]

Since –as pointed out before- it allows for the useful possibility of expressing the same value also as the difference between the rate of change of the VA and the rate of change of the E: \(LP\ r = \ln(VA^{\wedge}) - \ln(E^{\wedge})\)

That is, putting it in a narrative way: \(LP\ r = \text{Labour Productivity rate (\% of change) =}(\% \text{ of change in the Value Added}) - (\% \text{ of change in Employees})\)
The short answer is that table 1 refers to *Value Added (VA)* in terms of € per person employed, and table 2 in terms of € per hour worked. And the non-so-short answer (since the former one does not clarify that much) would imply first to ask to Eurostat helpdesk services for additional data on the relationship between the ‘hours worked’ data and ‘persons employed’ data they have taken for each country; as well as to ask for more detailed information regarding their respective determinations for value-added data. To tell the truth, I have not done that job when writing these notes; neither I would expect the analyst responsible of the Economy section of a newspaper –even an international one- would do it before writing her/his article about. Let us just keep with the conceptual conclusion: that data on productivity we may read some times in a report or in the media referring apparently to the same label –f.e., *labour productivity*– may have in fact different meanings. And not a minor, piecemeal, difference, but one that may change the conclusions regarding comparative productivity levels among countries, or when comparing across years for a given country.

To sum it up, and by way of example-questions: Why the above ‘official’ data make appear Luxembourg –against all evidences– as the EU’s country with the highest labour productivity? Is Spain’s labour productivity in 2013 higher or lower than Germany’s? Is Spain’s labour productivity about 20% higher than Greece’s (table 1) or about 59% (table 2)?

**What those Labour Productivity indexes actually tell –and can’t tell- to us**

In summary, as it can be seen from the above, the usual *labour productivity* index at country level measures in fact some kind of average of the net income (personnel costs, included variable compensation, plus company’s profits) per employee the country’s companies get in a given period. Put it schematically,

\[
LP (\text{va}) = \frac{\text{Personnel Costs} + \text{Company profits}}{\text{N. of Employees}}
\]

Which is different from the very idea of workers’ (or companies’) productivity or efficacy level, i.e., commercialised (physical) units, per (physical) unit of work. Let us underline why:

- If a high proportion of the employees of a given company -as, f.e., an investment bank- are rather executive officers (EO), very well paid, then the company’s value added per-employee will be notoriously high. Of course, any high executive, including the ones with a total annual compensation (fixed salary plus bonuses) in the range of million/s €, is statistically speaking, an employee.

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9 Specifically in the case of Eurostat data, it must be pointed out that the calculation for countries’ Labour Productivity do not take for the denominator the ‘N. of Employees full-time-equivalent’ as standard definition do but just the total number of Employees, be their dedication full or part time (likely due to lack of homogeneous data on full-time-equivalent for all the 28 EU countries) *. Therefore, the LP index for an EU country with a comparatively high proportion of part-time employees will appear (in table 1), artificially, something lower. Probably, the contradictions pointed out before regarding the LP figures for Germany, Spain and Greece have to do with these specific variants of making calculations.

Consequently, when in a given economic sector most of its companies show the above features, the average value added per-employee calculated for that sector will be quite, quite higher compared to other more common commercial or industrial sectors’ in the same country.

Finally, if in a given country, those sectors with a so heavy-weight of very well paid EO have a dominant weight in the country economic activities, then that country will statistically appear as with a value-added-per-employee (in practical terms, GDP per-employee) quite higher than other countries with a more mixed composition of ‘ordinary’ industrial, commercial and services sectors.

So, here we have an explanation for the paradox of Luxembourg appearing in the statistics as the EU country with the highest \((\text{labour})\) productivity: The dominant Luxembourg economic activity comes from financial and legal services companies working for companies and investors from abroad. Most of the Luxembourg’s economic activity relates to investment banks, specialised financial services, and convenience-sites of foreign companies. The proportion of EO (banking managers, investment agents, specialised consultants, … etc.) in the firms established in the country are dominant. Compensation paid to these EO –big salaries, plus even bigger bonuses- tend to be several times the average compensation of an EU specialised industrial worker. And foreign firms with convenience-site in the country use to mean -statistically speaking- firms established in the country, declaring important profits but few employees, if anyone.

Therefore, it is not properly true that the productivity of Luxembourg employees be so much high as statistics show. Or, put it in another way, in fact LP statistics do not say to us that Luxembourg employees’ productivity be so much higher than their French or German counterparts; though certainly that is how many analyst, experts and wide audience media ‘read’ and use those statistics. What those \(\text{labour productivity}\) statistics figures actually say to us is that, for Luxembourg, the sum of total compensation paid to employees (plus social charges) plus companies profits (which makes up the total value added), divided by the number of employees, gives (surprisingly, for a close-to-fiscal-paradise country?) a comparatively very high amount of Euros.

In any case, nothing to do with the proper idea of employees’ productivity or companies’ efficacy as stated at the beginning.

More in general, let us consider an economic sector whose companies enjoy comparatively high margins –which means they hold some kind of sale-prices’ power. That situation allows companies to get high profitability and likely also to pay high salaries to employees. Which will translate into their exhibiting a high \(\text{labour productivity}\) score. Thus, the simple fact that most of the sector’s companies holding some privileged market position will make that such sector display a higher value-added-per-employee, what will be read as a higher \(\text{labour productivity}\), even if the average efficacy (productivity properly said) of their respective employees is the same than in other sectors not enjoying so generous rates of margin. The same reasoning applies for comparisons along time: if the companies that make up the core of a sector increase in a significant way their market power –because a concentration process, for example- the sector average margin rate will increase regarding former years, and therefore the sector LP index will so increase; which will be read by experts and analysts as the sector having increase its productivity.

Moving from sector (industry) to country level: If a country where most of its economic sectors enjoy higher margin rates compared to other countries’ –that is, that the former have some kind of international prices/market power-, such country will show a higher \(\text{labour productivity}\) index, in spite of the fact that the efficiency, training, etc. of its work force may be on average the same that in those other countries. Looking the other way round: A comparative lower \(\text{labour productivity}\) index may mean just that the country’s average
salaries are comparatively lower relative to other countries. Let us illustrate that with the following sketch:

A big German (or French) carmaker have one of its factories in Portugal. There, workers salaries are significantly lower than in Germany (or France) –which probably was a reason for the carmaker opening that factory in Portugal. The workers of such factory work with the same real productivity than their German (or French) counterparts –which is hardly surprising since they are working with the same equipments and technology (robotic chains) and have received the same training for that. However, when calculating the labour productivity index for the Portuguese factory we will end with a value lower than for the carmaker’s factories at home –just because the Portugal lower salaries.

Thus, the simple fact that average salaries in country A be lower than in country B –all the rest the same (including real employees’ productivity)- will make that A appear in the international statistics with a lower labour productivity index than B. And, for the same reasons, a decrease in the average salary in a given country (because economic crisis, f.e.) will result –ceteris paribus- in a decrease in its productivity index.

One of the ironic consequences of that is that worsening of labour conditions (real work-time, and jobs conditions) in a sector or country may make appear higher LP indexes for it. Thus, the 2008-onwards economic crisis has brought substantial reductions in employment –f. e. in Spain, among other EU countries. In parallel, or as a consequence, job conditions have tended to get tougher -especially en terms of real working time per week higher than contracted, and companies growing to apply changing job-schedules (‘flexibility’). All that due mainly to widespread of shorter-term contracts as well as to a growing employees’ uncertainty regarding their current job position be held. As long as this process has been significant for Spain, f. e., we could easily predict that its LP indexes will have improve along 2011-2014, since such worsening of job conditions means that the numerator of the LP index will have decrease less in proportion than the denominator. And, indeed, table 3 above seems to come to confirm such prediction.

To sum up, the ‘true’ productivity level –i.e., what it is assumed could increase by getting improvements in technology, in the organisation of the productive activities, or in the degree of efficacy, qualification, training, and skills of employees, managers included- is of course one of the elements that improve companies’ net income per person employed (or value added; which broadly speaking is the sum of cost-per-employee plus company profits-per-employee), but not the only one: Comparative high margins because monopolistic or market-privilege positions may play the dominant role.

Thus, against what is usually implicitly assumed, the official Productivity figures (Labour Productivity figures, actually) do not measure in fact the productivity level but just the companies’ net income per employee. That is, they measure a companies’ monetary outcome (net income got from the outside, per employee) not one of its determining variables (efficiency or productivity properly said).

However, the mainstream discourse when reading and interpreting those statistics of productivity data -f.e., a comparative low figure for the LP index for the such and such country- is that that country should take measures for improving its workers efficacy; implicitly understanding by that to improve their effective job-time, qualifications, skills, ..etc. and/or to adapt them to new production activities.
In a much lesser extent, public statistical agencies also pay some attention to ‘multi-factor productivity’, \( mfp \). The label (multi-factor) referring to the idea of a more complete and/or accurate measure, which take not just one factor, Labour, but also the usual other ones - Equipments (Capital), Materials, Services, Energy, etc. However, the published data on \( mfp \) do not use to enjoy significant appeal either in the media and the political debate. Mainly because they come just in terms of rates (or indexes) of change (growth), not in absolute values, which do not allow for productivity comparisons –be among sectors, or among countries. Though also because reading and interpreting these \( mfp \) data require getting into complex technicalities –including definitions and assumptions that are in fact a matter of debate in professional and academic literature.

Thus, Eurostat do not properly publishes data on TFP or \( mfp \); only methodological references for calculating them; and this within the section devoted to indexes of economic growth\(^{10}\). These guidelines are in turn referred to the OECD’s manual on the topic\(^{11}\). Which is also followed by the US’ Bureau of Labor Statistics (BLS) and the UK’s Office of National Statistics (ONS).

The computing formula used for these \( mfp \) measures is a given adaptation of the standard expression for the rate of growth (change) in TFP literature (appendix 1, expression ‘b’), or of its equivalent in terms of index \(^{12}\). However, most of the published data (by BLS and ONS) on \( mfp \) – rates or indexes of growth- refer in fact to a simplified two-inputs approach: Labour and Capital. Only in some cases (some industries) data referred to a model encompassing the rest of (aggregates of) factors –namely: Materials, Energy and Services- are provided; which is then labelled as KLEMS \( mfp \) measures\(^{13}\).

However, even in the two-factors case, the data made available by statistical agencies are difficult to read and interpret because they come in the way of complex technical tables, resulting from debatable assumptions, and fuzzy computational definitions of variables. Specially regarding the measure of capital inputs, or ‘capital services’ –which stands for the (value of the) use or consumption of input Capital (with a sense of ‘true’ costs of Capital) for the corresponding period- and the share to assign to it in the total output. That makes the published \( mfp \) data more as a material addressed to an experts’ audience. Though even for productivity experts those \( mfp \) figures (rates or indexes) are not in fact of a clear-cut, straightforward meaning (see Appendix 2).

In that sense, the available quantitative results at whole economy level –as from BLS and ONS data releases- suggest that \( mfp \) measures –indexes or rates of change/growth- reflect more changes in the economic activity (as an economic growth indicator) than productivity growth. And, more in general, since any TFP-type indicator (be it applied at company, sector, or whole economy level) gathers the trend both in productivity-properly-said and in activity level (see Appendix 1), it could be argued that the available statistical data on \( mfp \) rates of growth/change, be them positives or negatives, would in any case rather reflect the joint effect of those two components: the trend in the average productivity of the country’s companies,

\(^{11}\) OECD. 2001.
\(^{12}\) \( TFP^\wedge = \frac{\left(O^\wedge_1\right)^{t_1} \cdot \left(O^\wedge_2\right)^{t_2} \cdots \cdot \left(O^\wedge_n\right)^{t_n}}{\left(I^\wedge_1\right)^{r_1} \cdot \left(I^\wedge_2\right)^{r_2} \cdots \cdot \left(I^\wedge_n\right)^{r_n}} \)

\(^{13}\) That standing for: Capital (K), Labour (L), Energy (E), Materials (M), and Services (S)
What we talk about when we talk of Productivity?

and the trend in the GDP. Hence, available \textit{mfp} figures may be misleading if they are taken literally as an indicator of productivity.

Additionally, and as already mentioned, \textit{mfp} measures are just indexes or rates of change, which do not allow for comparisons of the \textit{productivity levels} among countries (or among industries). As far as they would partially reflect productivity trends, they might allow us just to know how much the (undetermined) productivity level of a country (or of an industry) comes changing relative to others’.

To sum up, the problems pointed out in the previous section regarding the misleading interpretation of the more usual available productivity indexes at sector and country level — \textit{labour productivity} indexes- are not in fact overcome when, in some cases, statistical agencies (as BLS and ONS) also provide a more sophisticated index under the label of \textit{multi-factor productivity}, \textit{mfp} —mostly limited in fact to a \textit{two-factor} approach: Labour and Capital. Taking into account how those \textit{mfp} measures are determined, the meaning or interpretation of the resulting figures is rather uncertain and likely misleading as a country (or sector) productivity indicator. It could be said that they reflect more the trend in economic activity (as an economic growth indicator) than rather the trend in productivity properly said -in the usual sense of efficacy of personnel, of the equipment used, the subcontracted services, etc., and of the managers organising the production activities.

To read more about \textit{Multi-factor productivity measures at countries level} →
APPENDIX 1:

The basic productivity index: Total Factor Productivity, at enterprise level:

These lines are written under the objective they be understandable for non-experts, without having to get into the formulae. What the formulae say are put also in common language within the text. The mathematical expressions stand just for the sake of being precise or of avoiding ambiguities (as well as a deference to expert readers)\(^{14}\).

The TFP formula—for the usual case of a company using different types of personnel, of materials, of services, etc. (different factors, or inputs) for providing to market a given basket of goods or services (different products, or outputs)—goes like this:

\[
TFP^x = \frac{\sum O^x \cdot p}{\sum I^x \cdot k},
\]

where:
- \(x\) = measured period (f.e., year 2014, quarter, 2014-3rd, … etc.);
-Parallel vertical bars, \([⋯]\), stand for summation: for all company’s products \((i = 1, \ldots, n)\), in the numerator; for all inputs or factors \((j = 1, \ldots, m)\), in the denominator.
- \(O\) = Number of units of output ‘\(i\)’, the company has sold during such period ‘\(x\)’
- \(I\) = Number of units of input ‘\(j\)’ the company has used (contracted or consumed) during such period; i.e., of each type of employees, of materials, of equipments, of services, energy, … etc.
- \(p\) = weight assigned to output ‘\(i\)’; usually it is taken as that the price of such output in a given reference period, ‘0’.
- \(k\) = weight assigned to input ‘\(j\)’; usually it is taken as that the price-cost of such input for the same reference period, ‘0’.

Thus, the units of company’s products \((O_i)\) and of resources it used \((I_j)\) in a given period are the variables; and \(p_i\) and \(k_j\) are parameters. And, certainly, it is easy so see that such TFP index respond to the productivity concept stated at the beginning \((\rightarrow)\): if, f.e., the number of units of one of the products this year is something higher that previous year’s, keeping all the rest unchanged, then the above TFP index will show an increase; and the reverse regarding a decrease in the units of just one of the factors, keeping unchanged the rest of variables. And—what is most important—the formula also allows for taking into account the real-life complexity: companies’ activity showing—for a given period—changes of different sign in products, as well in factors, simultaneously.

\((\rightarrow)\) However, outputs’ units commercialised by a company may decrease just because an overall downfall in demand; or may increase because an economic recovery. Therefore, the TFP index gathers in fact two joint effects: ‘productivity properly said’ (efficacy of the personnel, and of the used equipments, the contracted services, etc., as well as of the manager organising the use of all the factors), on one side, and ups and downs in real sales (units of outputs) because overall downfall/recovery in demand, on the other side.

In any case, the above index is the standard measure and terminology in experts’ papers. And it merits pointing out that in its usual applications (i.e., taken as parameters the ones described above) TFP is in fact, as it can be seen, a quotient between two monetary values: Value of all the outputs (sales), at constant prices—numerator—, and value of all the inputs (total costs),

\[^{14}\text{For a more complete, handbook-like, presentation on TFP, it could be seen Vergés, 2014}\]

also at constant prices –denominator 15. Hence, for a normal situation of a given private company (that be operating at profits) we must expect its value be something higher than 1 16.

However, what is most likely you to find in studies, articles and economic reports is not the above TFP measure but its rate of change, from period to period. Though not calculated in the usual way, \( r = \frac{\ln(TFP_x/TFP_{x-1}) - 1}{\ln(TFP_{x-1}/TFP_{x-2})} \), but as \( r = ln(TFP_x/TFP_{x-1}) \); and usually expressed in percentage terms (the resulting values multiplied by 100).

The latter, let us say sophisticated way of calculating the rate (or %) of change, gives approximately the same value that the former, the ordinary way. But it has a very useful property: it allows to be also expressed—and calculated- as the difference between the average rate-of-change of Outputs and the average rate-of-change of Inputs

\[
\frac{\sum (O_x/O_{x-1})v_i - \ln \sum (I_x/I_{x-1})a_j}{\ln \sum (I_x/I_{x-1})a_j}
\]

Where coefficients \( v \) are calculated as the share of each output in the total sales of the company in period (x-1); and coefficients \( a \) as the share of each inputs in the total costs of the company for the same period; (in both cases, values at constant prices). (hence, \( \sum v_i = 1 \), and \( \sum a_j = 1 \))

To put it in another way:

\[
\frac{r_{100} = \% \text{ of growth (change) in Total Factor Productivity}}{= (\text{average } \% \text{ of change in Outputs}) - (\text{average } \% \text{ of change in Inputs})}
\]

And, last step, if we modify slightly the calculation for the above both averages by applying Törnqvist-like weights as coefficients \( v \) and \( a \), then we end with the perhaps more popular expression in Productivity literature:

\[
\frac{r^{*} = \sum v^{*}_i \ln \left( \frac{O^{*}_x}{O^{*}_{x-1}} \right) - \sum a^{*}_j \ln \left( \frac{I^{*}_x}{I^{*}_{x-1}} \right)}{\ln \sum (I_x/I_{x-1})a_j}
\]

Where: \( v^{*}_i = (v_i + v_{i-1})/2 \); \( a^{*}_j = (a_j + a_{j-1})/2 \)

Which you might find also expressed in a more compact notation, as:

\[
\frac{r^{*} = \sum v^{*}_i \cdot O^{*}_i - \sum a^{*}_j \cdot I^{*}_j}{\ln \sum (I_x/I_{x-1})a_j}
\]

Where \( O_i \) denotes the (logarithmic) rate of change in the units of output \( I \), from period \( x-1 \) to period \( x \), etc.

It must be noted, however, that most authors like better to present the above computing formulae/definitions (or its equivalent, in terms of index of change, see footnote 21) as a deduction from the production function mathematical setting in the orthodox economic theory 18.

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To read more about \( \rightarrow \) TFP indexes at sector and country level (Appendix 2)

Back to main text →

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15 For some curious reasons, this fact –which among other things facilitates the reading of the formula’s quantitative results by non-experts- tends not to be acknowledged in experts’ papers, when not rejected by them with contempt, as an “accountants’ issue”.

16 In connexion with that, the TFP terminology is also applied to a refined definition of Labour productivity at-constant-prices, which comes gaining appeal among experts.

17 And, of course, you may find also that authors denote outputs, inputs, etc. with letters different than in here.

APPENDIX 2

To read more about …

Multi-factor Productivity measures, at sector and country level

MFP measuring, as from OECD and Eurostat

Eurostat do not properly publish data on TFP or mfp; only methodological references for calculating them; and this within the section devoted to indexes of economic growth Note. These guidelines are in turn referred to the OECD’s manual on the topic..

This OECD handbook define an index of change of mfp for a given country as: A weighted mean of the mfp index-of-change for the different economic sectors/industries of the country, being the weights the share of each sector in the whole economy in terms of value added. Therefore, the key issue becomes the mfp definition or formula they propose for a given economic sector/industry.

Regarding that, the manual starts by simplifying the ‘multi-factor’ idea to just a ‘two-factors’ one: “Labour” and “Capital”. That is, to a composite ‘Labour & Capital’ productivity index-of-change’ for a given sector, which is in fact defined as an extension of the Labour Productivity index-of-change seen before. That extension turns out however to be a simplified application of the index variant of the standard TFP formula, where the denominator is limited to two-inputs, and the numerator to one-output: the (index of change of the) sum of the Value Added of the sector’s companies. Thus, for a given economic sector or ‘industry’, and a given period, ‘x’,

Joint “Labour-&-Capital_Productivity” index of change = \[ \text{L}\&\text{K}\_\text{P}^x = \frac{VA^x}{(E^x)^{sl}(K^x)^{sk}} \times 100 \]

Where \( K^x \) is defined as the ‘Capital index of change’, \( K^x=K_{\text{period} ’x’}/K_{\text{period} ’(x-1)’} \), so mimicking the ‘Labour index of change’, \( E^x \), referred here before (footnote 9). The key new variable is therefore \( K_{\text{period} } \) (from here on, \( K^x \)), which is defined as the value of the ‘Capital Services’ for the period; albeit in a rather generic way, more conceptual than operative. On the other side, exponent \( sl \) is defined as ‘the weight of factor Labour in the sector’s value added’, and exponent \( sk \) as the weight assigned to factor ‘capital’, (therefore, \( sl+sk =1 \)); though, again, lacking a precise definition for the latter. Thus, the key methodological issues here are: how the flow ‘Capital Services’,\( (K^x) \), for an industry is defined and measured; and how is it defined the ‘share of it in the Value Added’ (parameter \( sk \), which then determines \( sl \)).

Regarding the first, the ‘capital services’ measurement, it is however dealt in the OECD manual as a rather complex conceptual-computational issue. They implicitly discard to take as

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21 Thus, as from footnote 17’s rate of growth, index variant:

\[ \text{TFP} = \frac{(O^\gamma)^{s1}(O^\gamma)^{s2}......(O^\gamma)^{sn}}{(I^\gamma)^{n1}(I^\gamma)^{n2}......(I^\gamma)^{n8}}^r \]

22 As can be seen, the denominator of the OECD’s formula for \( L\&K\_P^x \) can be read as a given mean of the Labour index of change and the Capital index of change; more precisely, a geometric weighted mean. Or, in other terms, a Törnkvist index –as it is presented in the OECD manual.

It merits to additionally note that the proposed formula \( L\&K\_P^x \) is mathematically equivalent to a more direct-meaning one: a geometric mean of the Labour Productivity index of change (\( LP^x \)) and the Capital productivity index of change, defining the latter as, \( KP^x = VA^x/K^x \). That is: \( L\&K\_P^x = (LP^x)^{sl} \cdot (KP^x)^{sk} \).
‘Capital services’ a direct measure; namely, an aggregate of the amortisation & depreciation costs according to sector’s companies accounts, plus some interest costs on their productive net investments. Instead of that, a theoretical concept of ‘input Capital’ at sector level is constructed, as a compound of different types of Capital which include, besides ‘physical’ capital, ‘R&D capital’, ‘intellectual property capital’, and other non-usual components in companies accounts. And then some ways of estimating the respective flows of those ‘capital components’ are pointed out, rather than made precise. However, the methodological explanations or definitions on all that remain as open, not made operationally precise, stated in a rather vague or fuzzy way: Comments on several possibilities are offered 23, but more in the way of a paper for an academic debate that a manual for practitioners or statistics readers.

This methodological approach (that is shared by the US’s BLS and the UK’s ONS) makes that the actual meaning of the resulting figures for the mfp of a sector –and then, of the whole economy- become certainly not a straightforward issue24.

MFP measures available

**BLS.-** The US’s Bureau of Labor Statistics do publish data on mfp for the main industries/sectors and for the whole private sector. In that case, annual rates of change; that is, a direct adaptation of the standard computational formula in TFP literature (expression [b] in Appendix 1). This adaptation consists –as in the case of OCDE manual- in simplifying the outputs side of the formula –for a given sector- to just one output-aggregate25; and 2) simplifying the right side of the formula to just two inputs too: Labour (L) and Capital (K). Thus (changing BLS notation to the one in the OECD manual, for facilitating the comparison)

\[
L&K_P \text{ rate-of-change} = O \text{ rate-of-change} - (sl \cdot L \text{ rate-of-change} + sk \cdot K \text{ rate-of-change})
\]

According to BLS methodology (BLS, 2007) Labour and Capital rates-of-change above are in turn calculated (defined) as “.. a weighted average of the growth rates of detailed types of capital, and labor inputs”. However, as far as the option regarding the units (values) of the ‘different types of capital”, how they are calculated, and how parameter sk is determined, the approach is quite similar to the OECD manual’s commented above: going beyond the usual capital concepts in companies accounts26; as well as also similar as far as its lack of concreteness and use of debatable assumptions. Therefore, the fuzziness on the meaning regarding the resulting mfp measures is similar27.

Going to the resulting figures, BLS publishes annual data of L&K_P rates-of-growth for the aggregate of all ‘private business sector’, not detailed by sector; that is, at whole economy level -public sector excluded- (BLS, 2016a). And additionally, for selected sectors -18 manufacturing industries-, detailed annual data are offered, applying a KLEMS mfp model

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23 Even in some parts of the manual it is suggested that the stock of ‘capitals’ in the sector could be taken as an acceptable ‘proxy’ for K, which is defined as a flow.
24 Even in the same Eurostat text cited before (footnote 1), there are critical comments on difficulties regarding interpreting the real meaning of the final values obtained for the mfp measures; be a two-factor or a “five-factors” KLEMS model.
25 An overall measure of the sector’s output which BLS methodology refers to as “.. a Tornqvist output index developed by BLS)’, (BLS, 2007).
26 As, for example: Information processing capital intensity, Research and development capital intensity, and Intellectual property products intensity. Even in one of the BLS methodological explanations (BLS, 2016a, Read Me) the definition for total ‘cost of input capital’ –that appears as a synonym of ‘capital services’- includes as a component corporation profits (!) –as well as ‘(part of) taxes on imports and properties’
27 In that sense, it merits to underline a remark stated by the same BLS in its TFP web page: “Output and the corresponding inputs for non-manufacturing industries are often difficult to measure and can produce productivity measures of inconsistent quality. Customers should be cautious when interpreting the data.”
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However, both type of data appear as in a for-experts format: Excel tables with tens of columns, one of them, \( mfp \), and most of the rest related to the determination of ‘input Capital’ variables.

Analysing the first type data-tables (\( L&K_P \)) at the whole economy level there appear negative rates-of-growth for some few specific years\(^{28}\), which would mean sporadic decreases in productivity. This is difficult to understand for a proper ‘productivity’ indicator. It would mean that the efficacy and yield from human resources –companies’ management included– as well as from the use of equipments and other capital inputs, becomes suddenly lower, then recuperating the following year(s). Which is rather unlikely: just some years workers getting lazier, the use of capital inputs getting less effective, ... etc., and the opposite the precedent and following year(s). Two of those years are 2008 (-1.2%) and 2009 (-0.2%); just the two ones with negative GDP growth in the US in the period 2005-2015, because the economic crisis (BEA, 2011, pp. 1). Thus, the hypothesis that those sporadic decreases in \( mfp \) measures are explained just by a decrease in activity level (GDP) rather than by a decrease in country’s productivity seems the more plausible one.

**ONS.** - The *British Office of National Statistics* follows the same BLS methodological approach: an adaptation of the standard formula in TFP literature. That is, \( mfp \) measures in terms of rate-of-growth; though formally presented as a development from the economics’ production function theory (Appleton and Franklin, 2012). The applied \( mfp \) model is however a two-factors one: Labour and Capital, where definitions of variables related to ‘Capital inputs’ raise the same remarks commented before for OECD and BLS; and where the outputs side is also simplified to the aggregate of sector’s output, defined in that case as the sum of its companies’ (gross) Value Added.

However, ONS, does not properly publish \( mfp \) data for overall readers but in the way of academic-like papers. Thus, in the cited paper by Appleton & Franklin (2012), estimates (sic) for the \( L&K_P \) rates-of-growth for years 1998-2010 are presented; both, detailed by industries (market sectors) and for the whole UK economy. This has been followed by updates to 2012 data (Field & Franklin, 2014), and to 2013 data (Connors & Franklin, 2015); and the last available up-date on that line, by Blunden and Franklin (2016), where the same type of indicators are extended to the 1970-2014 period.

As underlined by the same articles' titles, they respond more to a methodological-experimental work, within a economic growth (national) accounting framework. The latter making sense, since, again, the empirical data from the referred papers suggest that the \( mfp \) \((L&K_P, \text{in fact})\) measures they present reflect more the trend in activity level (macroeconomic growth) than the trend in productivity. Thus, after repeated positive \( L&K_P \) rates-of-growth, at country level, till year 2007 (of around +2,5 %), it appears for 2009 an impressive downturn of -5,2 % (Blunden and Franklin, 2016, pp. 5); which -for the same reasons pointed out before regarding BLS data- is not plausible as reflecting a real downturn in productivity. Again, 2009 was precisely a year when UK’s GDP dropped -around 6%, according the same paper- as a consequence of the overall crisis; so we can deduce that the referred downward in the \( mfp \) measure reflects more the trend in the UK economic activity rather than a decrease in its overall productivity-properly-said. More even, in the cited Blunden & Franklin paper (page 5, Fig. 1), it appears a clear high correlation between both measures, \( mfp \) and GDP rates-of-growth, both, for positive and (the few) negative ones.

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\(^{28}\) BLS (2016a), worksheet PG%, column X
Meaning and limitations of published *mfp* measures

To sum up, the core issue of any *mfp* model is the way of measuring the flow of input ‘Capital’ (‘capital services’) for a given economic sector and then for the whole economy. In fact, most of the contents of the methodological papers on *mfp* from international statistical agencies turn around this topic. Their common approach on that responds to the idea of an indirect measurement for a construct, ‘Capital services’, which implicitly is considered as ‘the true consumption/use of capital’ (as better than the equivalent from the direct measure from corresponding companies accounts). That construct includes—besides the usual capital types in companies’ accounts literature—additional ‘capital inputs’, for which definitions are between technically complex and fuzzy.

More precisely, when national or international statistical agencies engage in determining *mfp* measures (*L&K_P* measures, mostly) for some industries or the whole economy, they have got engaged in 1) choosing some definition for the macroeconomic construct ‘Capital inputs’, and making assumptions for determining their components (capital stocks), 2) making estimates or using proxies in order to calculate the rates of change of the *capital services* (capital flows, or costs) derived from each of those capital components, and 3) making assumptions for determining a value for the share of that *capital services* in the total sector’s output (*sk* parameter). Therefore, the actual meaning of the resulting figures for such *mfp* measures are uncertain, of low reliability, if not misleading as a ‘total productivity’ measure. And hence of doubtful usefulness.

In that sense, the available quantitative results at whole economy level—as from BLS and ONS data releases—suggest that *mfp* measures—indexes or rates of change/growth—reflect more changes in the economic activity (as an economic growth indicator) than productivity growth.

And, more in general, since any TFP-type indicator (be applied at company, sector, or whole economy level) gathers the trend both in productivity—properly-said and in activity level (see Appendix 1), it could be argued that the published *mfp* measures, be positives or negatives, would rather reflect the joint effect of those two components: the trend in the average productivity of their constituent companies, and the trend in their economic activity. Hence, available *mfp* figures may be misleading if they are taken literally as an indicator of productivity.

Last but not least, *mfp* measures are just indexes or rates of change, which do not allow for comparisons of the productivity levels among countries (or among industries). As far as they would partially reflect productivity trends, they might allow us just to know how much the (unknown) productivity level of a country (or of an industry) comes changing relative to others’.

**References** in Appendix 2 (*mfp*):


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