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I think we will come back to the question of protectionism later, but now I would like to call on Kemal Derviş to make his presentation.

Kemal DERVIŞ

Thank you, Richard. I will not repeat things that have been said, because most of us have read the IMF's WEO, and it is indeed the first time in a long time that the IMF has become more optimistic than it was in the past editions. I want to focus on really two points; one is this issue of debt and interest rates, and whether that is a major risk. Clearly, the amount of total debt, private and public jointly, and of course, I am talking of gross debt, there is a netting-out process, but gross debt to GDP has increased. It is higher today, significantly higher depending on the measurements for the exact figure, than it was at the beginning of the 2008 crisis.

This debt does not create too much of a problem, because of extremely low interest rates, so if there was a probability of interest rates rising, the overall debt situation in the world would become a problem. However, I do not foresee these interest rates rising for various reasons: both supply side and demand side. Uri has mentioned the low inflation, and so at least in the next few years, I do not see that as a real risk, despite the fact that the debt is so high. If this hypothesis about interest rates is wrong, then we could enter a major crisis situation, because the deleveraging process would be very messy and much of the ammunition that was available has been spent.

The second point I want to make is about the productivity paradox. Most of us must have been here for the last session about digital communications. We have indeed entered a world with artificial intelligence, a booming technology world, and if you look at these technology stories, at the micro level, you would think as a macroeconomist, that productivity growth would be rising very rapidly, but in fact, the opposite is the case. Both labour productivity and total factor productivity are rising much more slowly than they have in a long time, and that is pretty much a global phenomenon. It is true in the US, it is true in Europe, it is true in the major emerging markets, so this is a very strange situation. On the one hand, you have this booming technology innovation, and on the other hand, you have measured productivity, which in terms of GDP statistics, is actually slowing down, where growth is slower than it has been for decades.

Now quickly, two points, and our time is very limited. Is this a measurement problem? Some people will immediately say it is. There are some measurement issues, but there are important papers that have been written that actually show that measurement only explains a very small part of the problem, and of course, we have to remember one thing; productivity measured in GDP does not try to measure consumer surplus. I do not want to get too technical. Consumer surplus is a different concept from GDP, and it may well be that consumer surplus is rising, but there has also been research on that, and even if you adjust for consumer surplus, again, you do not find that total factor productivity or labour productivity is rising rapidly. This is a paradox and a real puzzle. We have done some research about it, which is not finished, but the story that comes out is very interesting, and has something to do with income distribution.

What is happening is that the best firms on the frontier are actually increasing their productivity quite well, so there is rapid total factor productivity growth and labour productivity growth among frontier firms, the best firms. However, they are a small minority, and their weight in the overall economy is small. The other firms, the median firm or the below-median firms are showing – in most cases – negative total factor productivity growth, so it is not that innovation is not happening, that it is not translating itself into the productive sphere. It is, but only in a minority of high-performing firms, and this has of course many implications. One can be hopeful that the diffusion might occur, and that will solve the problem, although there is data that shows that diffusion is actually slowing down, but it has one very important consequence, also. It is making the income distribution even more unequal. It is one more factor of why the income distribution is becoming more unequal and that may be the biggest problem.

Richard COOPER

Thank you.