

## Chart of the Day: US productivity growth is set to fall for the first time in decades. Should we worry a little or a lot?

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**Productivity is set to fall in the US for the first time in more than three decades, raising the prospect of persistent wage stagnation and the risk of a further populist backlash.** Research by the Conference Board, a US think-tank, also shows the rate of productivity growth sliding behind the feeble rates in other advanced economies, with gross domestic product per hour projected to drop by 0.2 per cent this year. ... “Last year it looked like we were entering into a productivity crisis: now we are right in it,” said Bart van Ark, the Conference Board’s chief economist. “Companies really need to invest seriously in innovation. It is time for companies to move on the productivity agenda to turn this story around.” ...

**Unless the rate of productivity growth increases, advanced economies will struggle to raise living standards and pay for the costs of their ageing populations.** ... Output per person, an alternative measure of productivity, grew just 1.2 per cent across the world in 2015, down from 1.9 per cent in 2014. **But the US, which appeared to be outperforming other advanced economies, is now increasingly concerned at the deterioration in its own performance.** ... Growth in output per hour slowed last year to just 0.3 per cent from 0.5 per cent in 2014, well below the pace of 2.4 per cent in 1999 to 2006. ...

**Productivity growth lies at the heart of economic progress. Without an improvement in output for every hour worked, economies can grow only if people work harder and longer or more people find jobs.** A downturn in productivity growth in one year does not matter much because economies will go through ups and downs as technology changes, but a persistent decline is a much more serious prospect.

Know what’s worse than middle-class incomes not rising in sync with productivity growth? No productivity growth at all. Without innovation-driven growth, there’s no wealth to redistribute.

Two big questions: First, is the stagnation real? As the FT notes, “The poor productivity numbers are in some ways surprising given [the breakneck pace of digital innovation](#) in powerhouses such as Silicon Valley and other US research hubs. However such new technologies are only gradually being rolled out across the economy.”

Maybe we are mismeasuring productivity growth both in terms of a) accurately capturing technological progress in today’s increasingly digital economy and b) the value of free goods such as Facebook and Google Maps that don’t show up in GDP. Some economists, such as those at Goldman Sachs, argue this may be the case. In fact, Team Goldman [has created an alternative productivity timeline](#) that incorporates revised measurements. So America’s 2% economy is maybe really closer to a 3% economy:

Second, how worried should we be? Even if the numbers are more or less correct, there are also reasons for

hope. More people are working in science than ever before, and with better tools. And we may be just at the start of many new technologies being incorporated more effectively and deeply in the economy. As economist Daron Acemoglu recently said: “It may well be that these innovations haven’t translated into productivity. But if you look at just the technologies that have been [recently] invented and are close to being implemented over the next five to 10 years, they are amazingly rich. It is just very hard to think we’re in an age of paucity of innovation.”

But we shouldn’t assume the productivity slump, if real, will turn around. Again, the FT: “The White House has argued that [slowing investment](#) may be dragging productivity down and has highlighted [a slump in the number of business start-ups](#).” (Though there is some good news of late [on high-impact, entrepreneurial innovation](#).) Those would seem to be two areas, along with more basic science research, that policymakers should focus on to achieve [greater product innovation](#). Also, housing — both in terms of [affordability in our high productivity cities](#) and making it [easier for workers to move](#) to where the good jobs are. Oh, and maybe we need [a big inspirational goal](#), too.

Anyway, productivity stories often start with this famous Paul Krugman quote, so mine will end with it: “Productivity isn’t everything, but in the long run it is almost everything.