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## The Productivity Plunge and Harold Ramis

In the ecosystem of economic indicators, the world is deluged with data about GDP growth, unemployment, inflation, tax rates, deficits, and debts. All of these are no doubt important. But there is one often-overlooked data point that trumps all of these—and many others—in long-term importance: productivity, i.e., how much output workers produce.

Don't take our word for it. Productivity is "perhaps the single most important determinant of average living standards," as the Brookings Institution's newest economist, Ben Bernanke, once said. Or, as Nobel laureate Paul Krugman once wrote, "Productivity isn't everything, but in the long run it is almost everything … Compared with the problem of productivity growth, all our other long-term economic concerns … are minor issues. Or more accurately, they matter only to the extent that they have an impact on our productivity growth."

Given how essential growth in worker productivity is to growth in average standards of living, it is alarming how visibly growth rates of productivity are plunging around the world.

Global productivity increased 1.7 percent last year, which a new report from The Conference Board says "is at the low end of the spectrum of productivity growth rates in recent decades." Worker productivity can rise for one of two basic reasons: capital accumulation or growth in what economists clumsily call "total factor productivity," or TFP—the efficiency of capital and labor used together, thanks to innovations like new products and processes. For many countries and time periods, the majority of growth in worker productivity is driven by growth in TFP. It was thus even more worrisome that The Conference Board found that the growth rate last year in worldwide TFP was actually negative.

Countries emerging and emerged alike are suffering productivity slow-downs. A recent survey in The Economist of Brazil cited research that found Brazil's TFP growth has been negative for many years running. Underpinning recent forecasts of sluggish GDP growth in Europe are forecasts of poor productivity growth.

What about the United States, traditionally one of the highest-productivity countries thanks to countless technological and managerial innovations that boosted the efficiency of U.S. workers? Plunging productivity growth in America as well. From 1947 to 2004, the average annual growth in worker productivity was 2.3 percent: If you want one single data point to explain U.S. economic strength in the post-war generations, this number is it. But since 2005, annual U.S. productivity has averaged just 1.6 percent, and last year it was just 0.6 percent. Many leading economists are voicing concern that poor U.S. productivity growth is here to stay. Northwestern University’s Robert Gordon foresees in his just-released study “the demise of U.S. economic growth.” Harvard University’s Larry Summers frets that the country faces “secular stagnation.”

While time will tell whether these bleak forecasts are right, what we do know from lots of research is that productivity growth ultimately depends on a few key ingredients: education, openness to the global economy, intellectual property protections, and liberal immigration policies. As documented in a report one of us co-authored last year, the United States is facing a severe skills deficit at a time when other countries are upgrading their skills. And highly-educated immigrants are being turned away, thus depriving the U.S. economy of people with a track record of productivity-boosting (and job-creating) innovations. Given these depressing outcomes of ongoing U.S. policy choices, it is no surprise the U.S. may confront stagnation.

The painful irony is that even as U.S. economic policy makers continue to impair innovation and productivity growth, U.S. economic statisticians increasingly recognize the value of innovation. As we wrote about in an earlier report, in 2013 official U.S. government statistics began to treat spending on research and development and on entertainment, literary, and artistic originals as productivity-boosting investment rather than an expense.

To avoid a stagnant, low-productivity future, the United States and many other countries need perhaps more than anything else to nurture the talent that drives productivity growth—talent in all industries, not just information technology and manufacturing but all the way to entertainment and the arts as well. In that spirit, we will close by here noting the world’s loss—comic, artistic, and, yes in terms of productivity as well—with the death last week of Harold Ramis.

To the canon of American comedy films few people contributed more than Harold Ramis, who in varying combinations authored, directed, and starred in classics such as *Animal House, Caddyshack, Ghostbusters, Groundhog Day, Meatballs*, and *Stripes*. The span of his cinematic creativity and innovations generated, conservatively, over $1 billion in economic activity. It is precisely more people like Harold Ramis that America and the world need—yes, to laugh, but also to be more productive.



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