Think Like an Enterprise: Why Nations Need National Productivity Strategies

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Today’s Presentation

1. Overview of Productivity

2. The Case for a Productivity Strategy

3. Components of a Productivity Strategy
What is Productivity?

\[ \text{Output} \div \text{Input} = \text{Productivity} \]
Faster Productivity Growth Will Drive Growth

- 1.46% Annual Growth
- 2.91% Annual Growth
Faster Productivity Growth Won’t Lead to Fewer Jobs

- McKinsey Global Institute finds that increases in productivity are correlated with increases in subsequent employment.

- Productivity leads to second order income effects (higher wages or lower prices) and this income is spent, thus creating other jobs.
The U.S. is in a Deep Productivity Rut

- 1947-1973: 2.81%
- 1973-1995: 1.52%
- 1995-2008: 2.42%
- 2008-2015: 1.21%
Why Has Productivity Lagged?

- Not mismeasurement
- Inadequate investment
- Difficulty adopting new tools, especially tech platforms
- Failure to take advantage of technology (gap between leaders and laggards growing)
Where is Productivity Going?

- Stagnation?
Where is Productivity Going?

- Turbo-Charged “Fourth Industrial Revolution”
Where is Productivity Going?

- Neither hopeless nor boundless
- More like 1 to 3 percent annual growth
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The Case for a National Productivity Strategy

- Public goods
- Externalities from investments, including in equipment
- Rise of “quarterly capitalism” reduces long-term investments
- Principal-agent problems in some industries (e.g., health care, real estate, optometry)
- System dependencies and platforms
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Productivity Policy Components

- Framework conditions, including size agnosticism
- Factor inputs (infrastructure, skills, R&D)
- Organizational incentives (e.g., tax incentive on new machinery, equipment, and software)
- R&D for productivity
- System-platform policies
Productivity Policy Components

- Require that nation’s major economic policy bodies have as a core part of their mission advancing productivity

- Establish national productivity commission

- Government agencies need to develop explicit productivity policies, not only for internal productivity, but also externally in the areas of the economies they influence
Thank You!

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