Think Like an Enterprise: Why Nations Need National Productivity Strategies

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Today's Presentation

1 **Overview of Productivity**

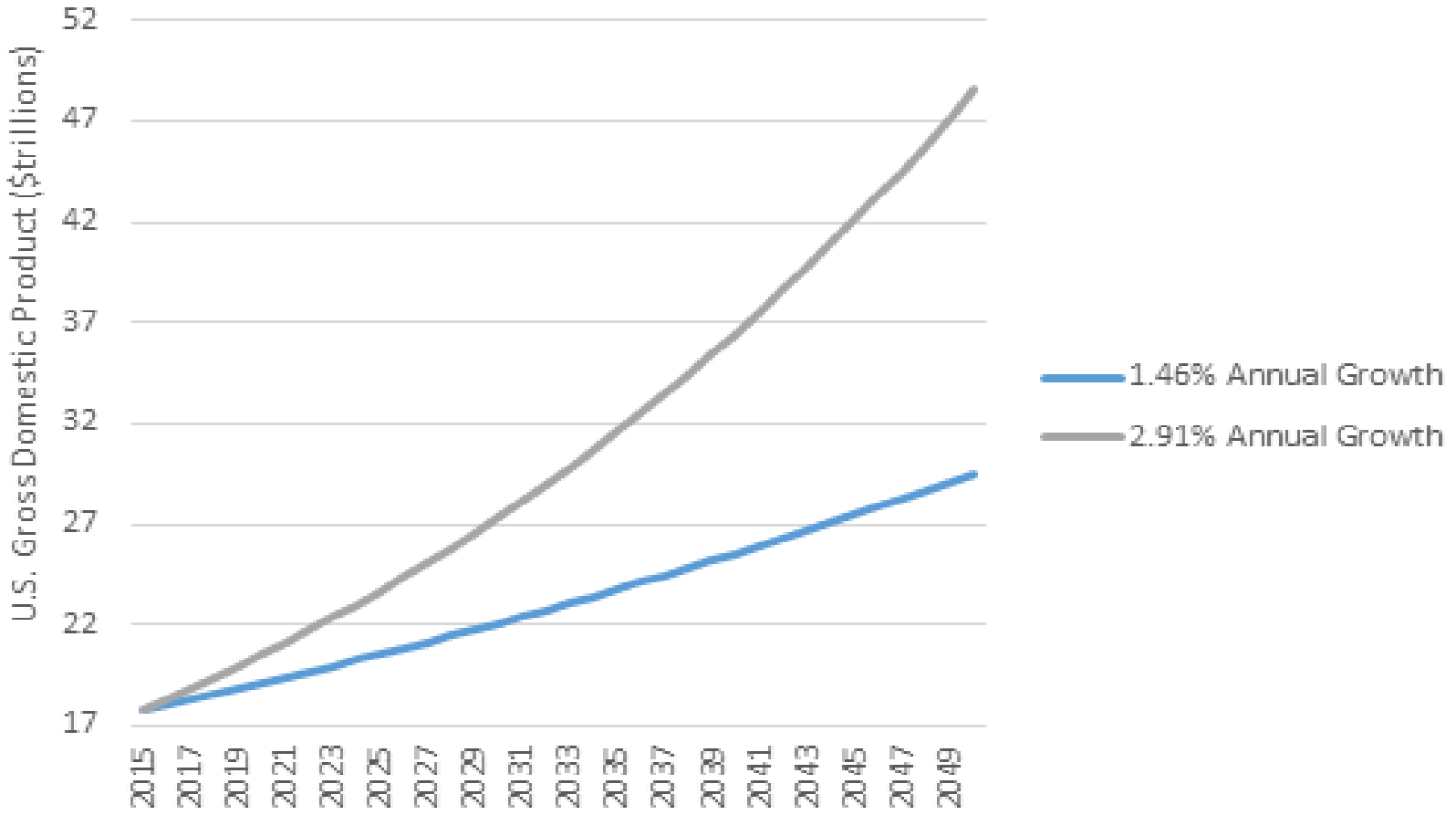
2 The Case for a Productivity Strategy

3 Components of a Productivity Strategy

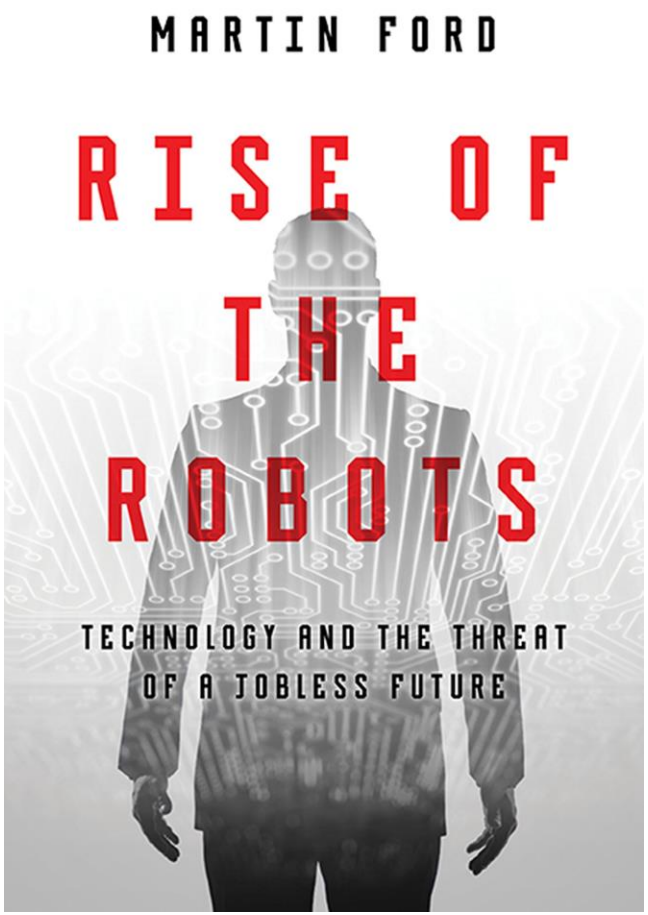
What is Productivity?

Output / Input = Productivity

Faster Productivity Growth Will Drive Growth

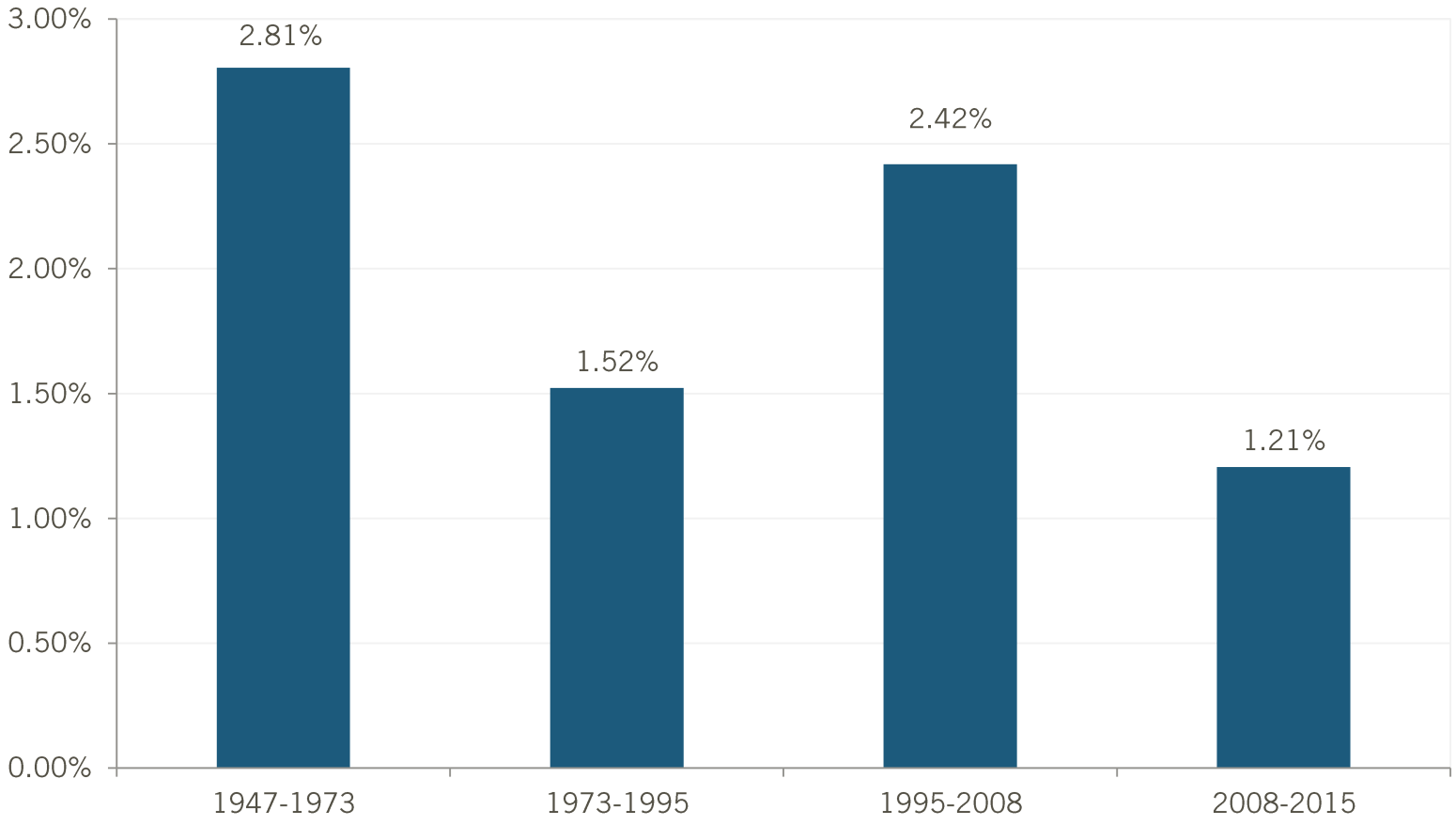


Faster Productivity Growth Won't Lead to Fewer Jobs



- 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

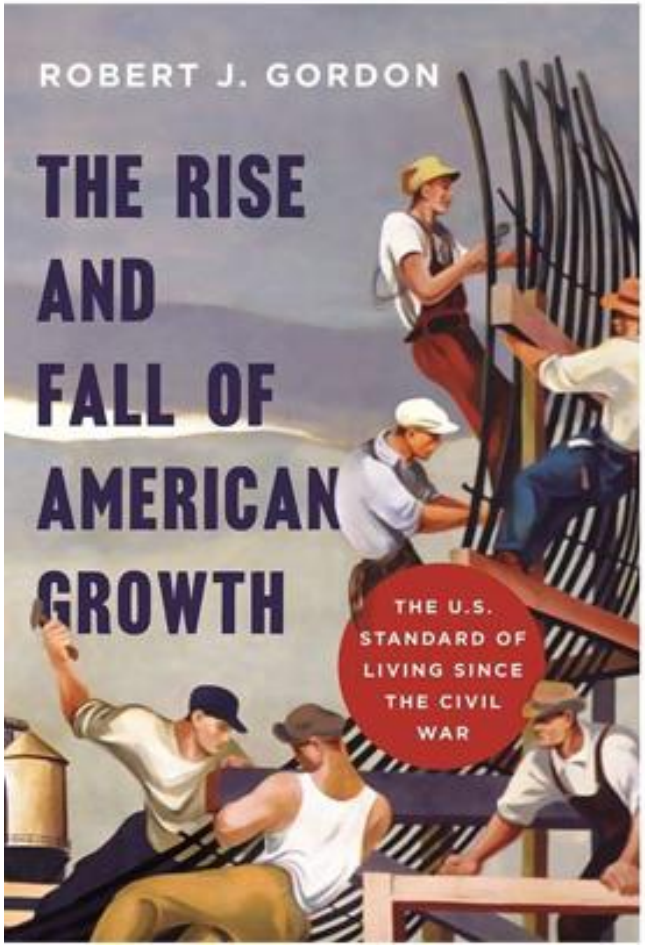


Why Has Productivity Lagged?

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

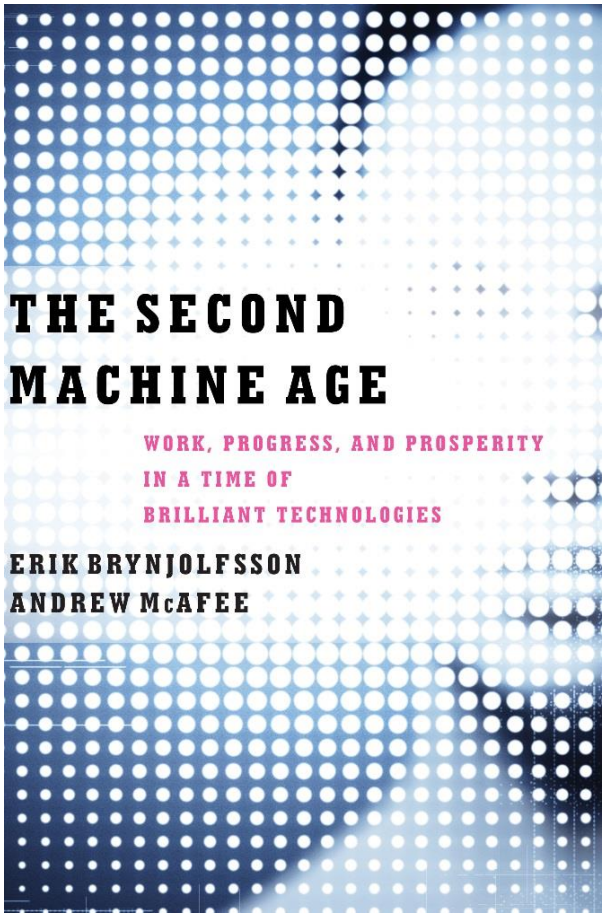
Where is Productivity Going?

- Stagnation?



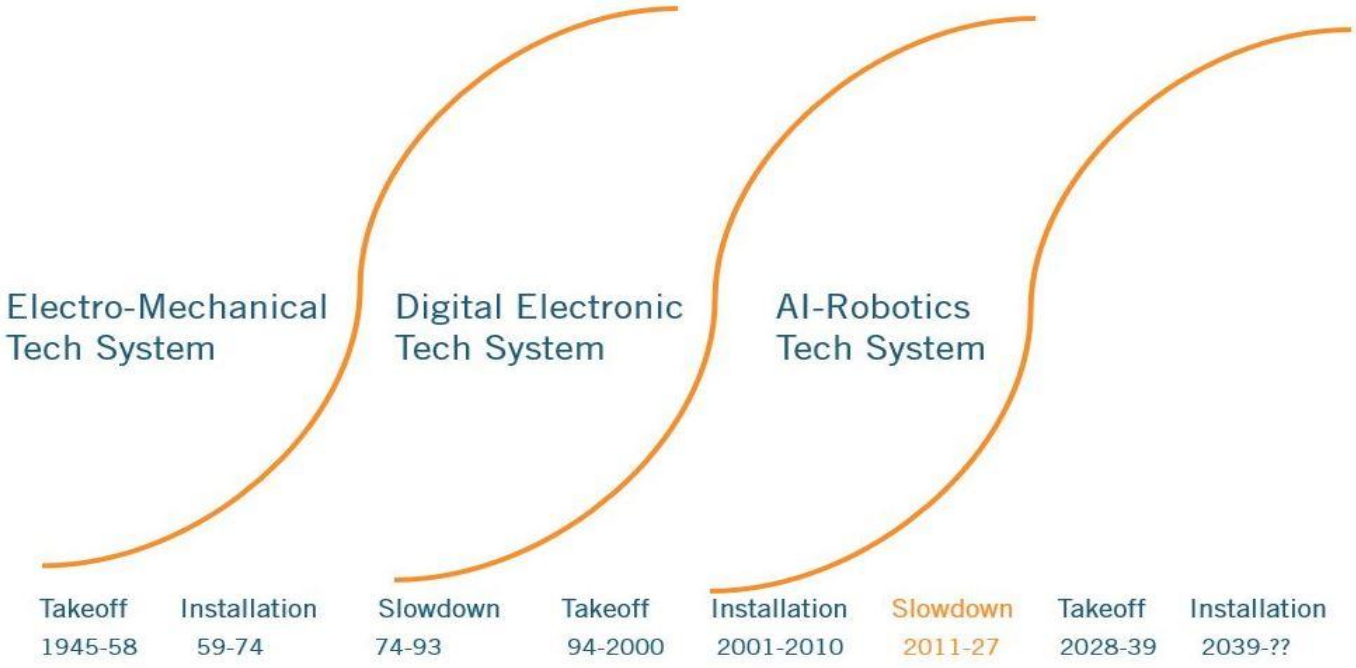
Where is Productivity Going?

- 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 independencies 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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