A SYMPOSIUM OF VIEWS

# Is America's Productivity Uptick The Real Thing?

*By some estimates, U.S. productivity growth has jumped significantly above two percent. If such higher-than-trend growth is sustainable, some analysts argue, the U.S. economy can enjoy the benefits of growth without inflation at rates significantly above the historic trend. By the same token, if current productivity growth is aberrational and rates return to the long term historic trend, should the Federal Reserve attempt to restrict monetary policy with the intent of bringing growth down to conservative trend rates? In short, is the productivity growth revolution for real or is the whole issue distorted by measurement problems related to CPI and other data revisions?*

***The key is to observe a variety of economic organizations rather than statistics alone.***

**MARTIN FELDSTEIN**
***President and CEO, National Bureau of Economic Research; Professor of Economics, Harvard University.***

I believe that productivity is now increasing more rapidly than it has during the past several decades and that this rate of increase is likely to continue for at least several years into the future. I base this conclusion on what I observe in a variety of economic organizations rather than on statistics alone.

The official statistics do indicate a substantial increase in the rate of productivity from an average rate of 1.4 percent between 1970 and 1995 to an average rate of 2.2 percent between 1995 and today. In the most recent four quarters, productivity rose by an even more impressive 2.9 percent.

But the official estimates of productivity gains are among the least reliable of all major economic statistics. The difficulty of measuring output, particularly in the service and retailing sectors, makes productivity estimates especially uncertain. The rapid introduction of new products and services also adds to the uncertainty of productivity gains.

Moreover, there have been brief intervals in the past when the rate of productivity has appeared to rise rapidly. For example, productivity rose at 3.4 percent in 1974 and 3.5 percent in 1975 but then fell back to much lower levels. A productivity spurt in the present is not necessarily a harbinger of faster productivity increases in the future.

But anyone who examines what is happening in companies and other organizations sees the impressive impact of electronic communication on the way firms are managed and on the nature of business itself. I have no doubt that Internet and Intranet communications are allowing businesses to reduce staff while raising output. It is also clear that companies are just beginning to develop the potential of these new technologies, implying that faster productivity gains from this new source are likely to continue for years into the future.

***Let's hope it's real, but there are at least several notes of caution.***

**JANET L. YELLEN**
***Eugene E. and Catherine M. Trefethen Professor of Business Administration, University of California at Berkeley and former Chair, Council of Economic Advisors.***

During the past four years, productivity in the nonfarm sector has grown at a remarkable 2.0 percent pace, up sharply from its 1.2 percent rate (adjusted for methodology changes) over the previous four years. The implications have already been far reaching, helping to suppress inflation, boost profits, and sustain solid gains in real wages after nine years of stagnation. Does this strong performance herald a permanent improvement in the U.S. productivity trend? It is simply too soon to tell. I am hopeful, but remain agnostic.

One factor which accounts for part of the productivity surge is the investment boom which has driven the latter part of the expansion, the consequence of an historic shift in the stance of fiscal policy. The switch from chronic and growing deficits in the federal budget to surpluses has boosted national saving, cut interest rates, and spurred private investment. Capital services per hour grew at an estimated 1.8 percent annual rate from 1994 to 1998, up from just 1.2 percent per year during 1990 to 1994.

Although capital deepening — faster growth in capital, particularly computers and equipment per worker — may explain part of the productivity improvement, the gains exceed what would normally be attributable to increased investment. This may well reflect, as "new economy" advocates suggest, the fact that several major technological developments have finally come of age. Indeed, the pace of productivity improvement in the computer industry itself has been stunning and is contributing significantly to the economy-wide trend; and new technologies may be permitting far reaching changes in the way businesses are managed. In some industries, such as financial services, the productivity these technologies permit are not well captured in the statistics. One hopes that these inventions will rival the importance of the steam engine and the electric dynamo.

But at least two notes of caution are in order. First, productivity is a highly cyclical variable, typically rising when output grows rapidly. Without the benefit of greater hindsight, it is difficult to rule out the possibility that some of the recent productivity surge is cyclical. In addition, the stunning productivity performance of the last few quarters is based on preliminary data. Productivity revisions can be substantial. Only time will tell if recent productivity trends can sustained. We can improve the odds by maintaining the fiscal discipline which is responsible for our investment boom.

***It's likely to remain at three percent for the next several years.***

**JOEL L. PRAKKEN**
***Chairman, Macroeconomic Advisers, LLC; President, National Association for Business Economics.***

U.S. productivity growth over the year ending in the first quarter of 1999 was around 3.0 percent. In a recent study entitled "Productivity Growth and Potential GDP in the