

Low productivity growth: implications for inequality

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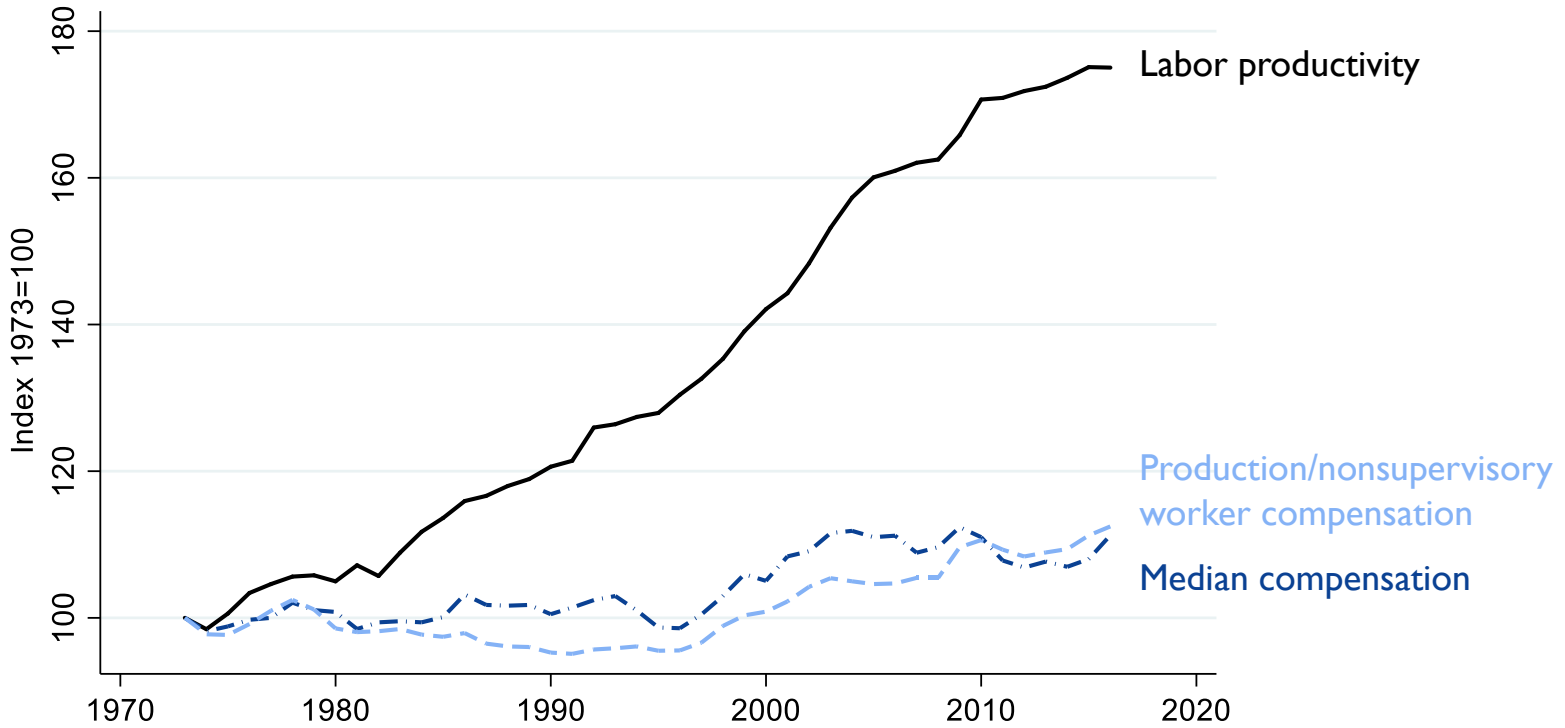
Facing Up to Low Productivity Growth
Peterson Institute for International Economics
March 20th, 2019

Today

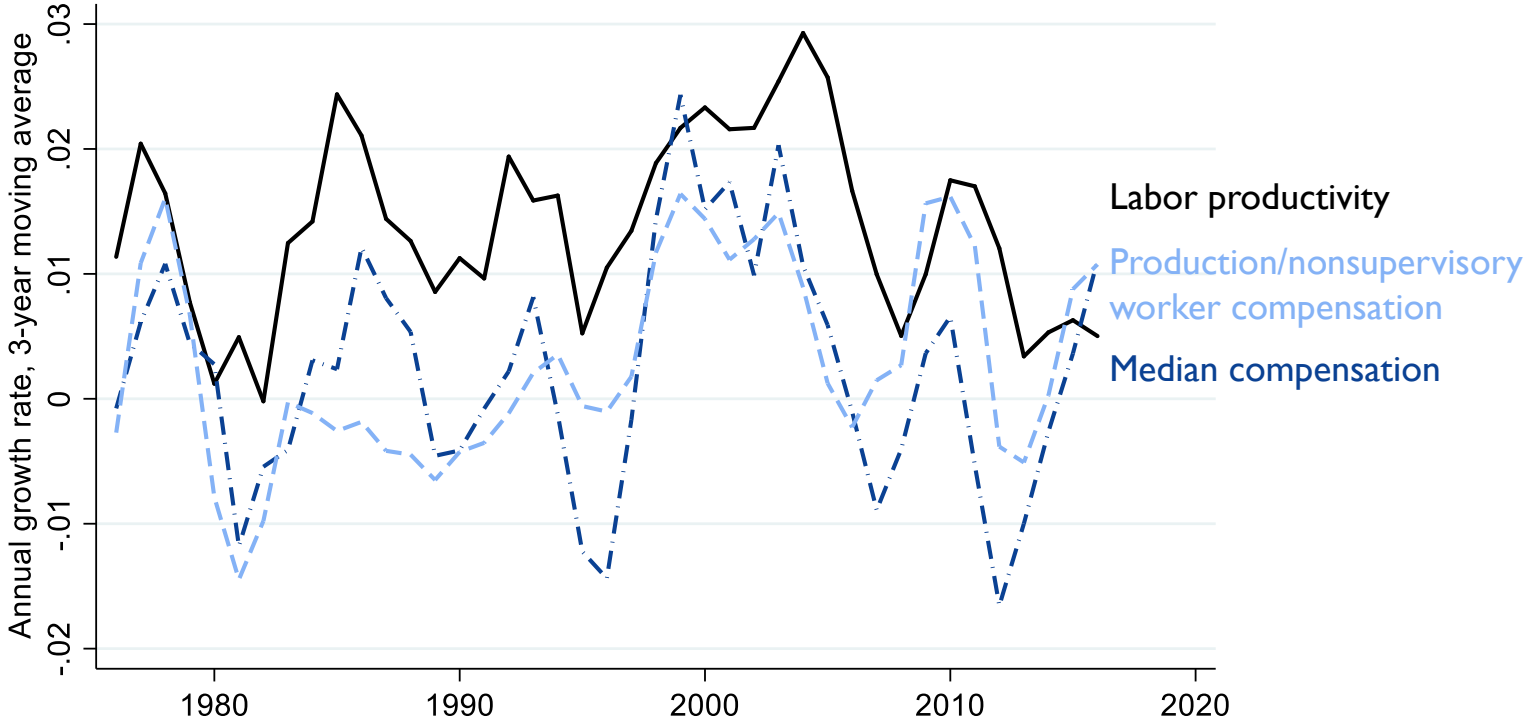
- What are the implications of continued low productivity growth for inequality?
 - Slow pay growth/pay stagnation for typical workers
 - Rising inequality
 - Fewer resources to redistribute
- How should these affect policy decisions on inequality? Five principles

Implications of sustained low productivity growth for inequality

Productivity and pay of the typical worker have diverged...

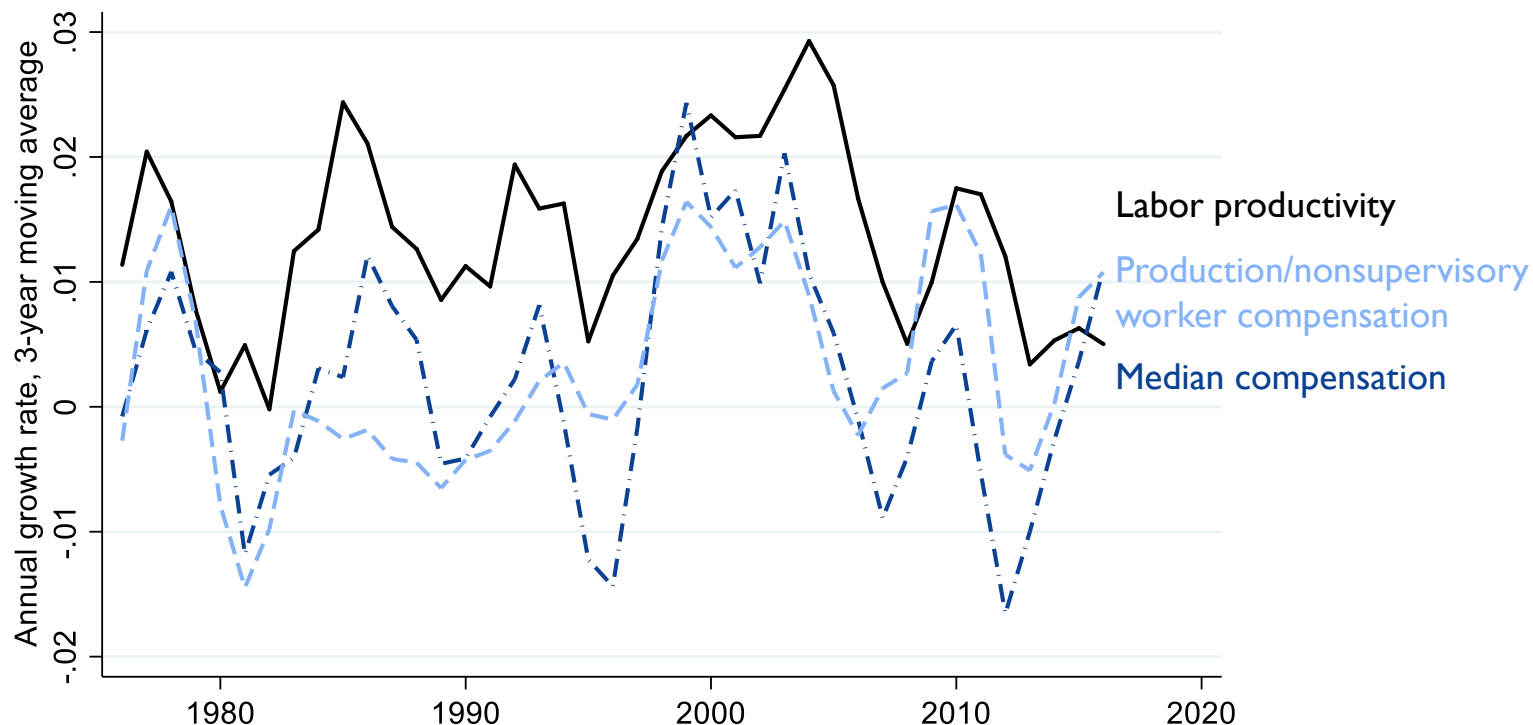


...but higher productivity growth still translates into higher pay growth



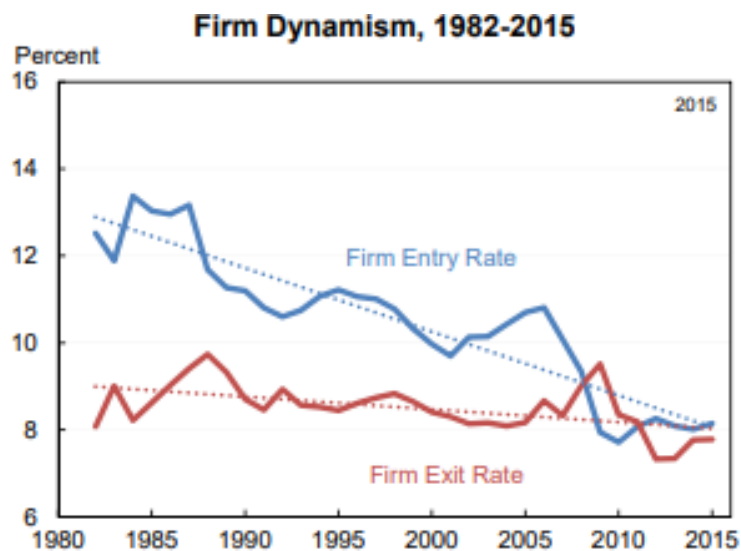
Source: Economic Policy Institute, Bureau of Labor Statistics, Bureau of Economic Analysis, authors' calculations

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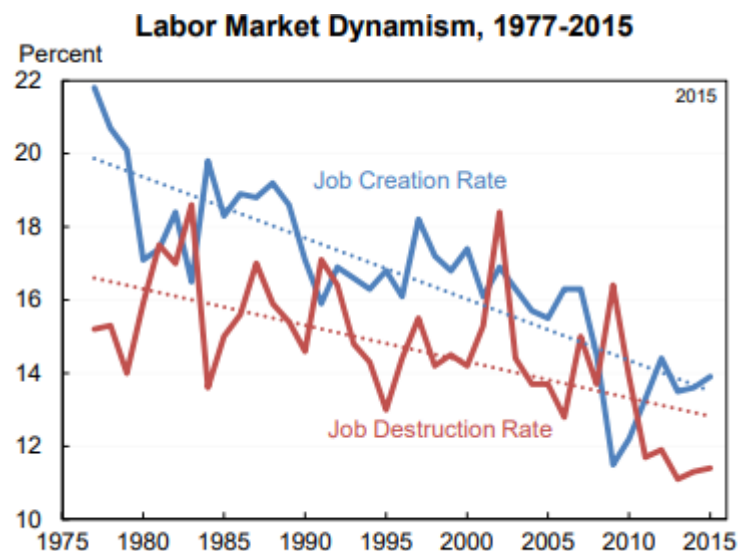


Lower productivity growth implies **substantially slower pay growth** for typical workers – and possibly, **pay stagnation**

Reduced competition and dynamism could explain *both* low productivity growth and rising inequality



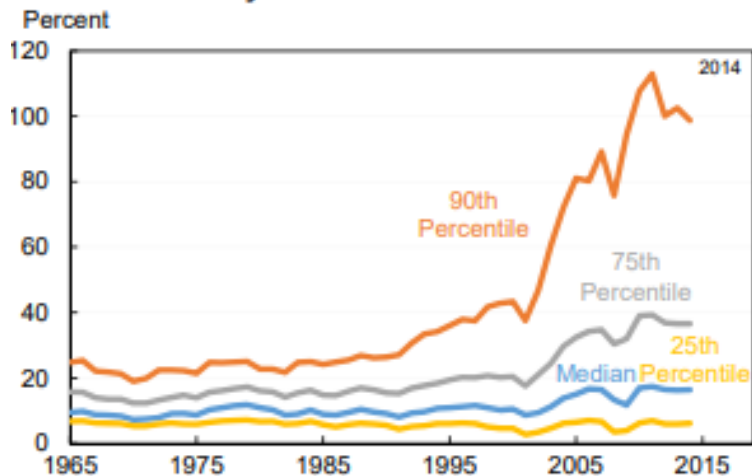
Source: Census Bureau, Business Dynamics Statistics; author's calculations.



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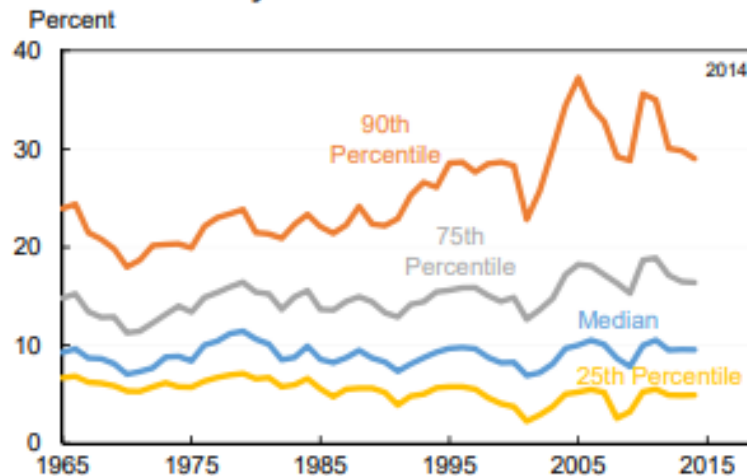
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Return on Invested Capital Excluding Goodwill, U.S. Publicly-Traded Nonfinancial Firms



Source: Furman and Orszag (2018).

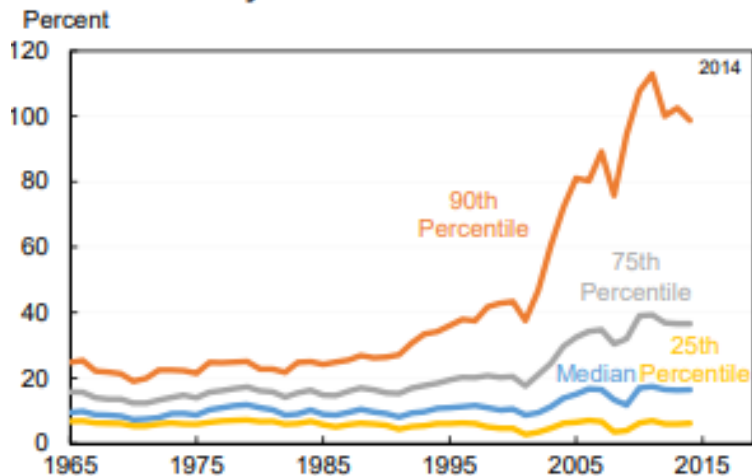
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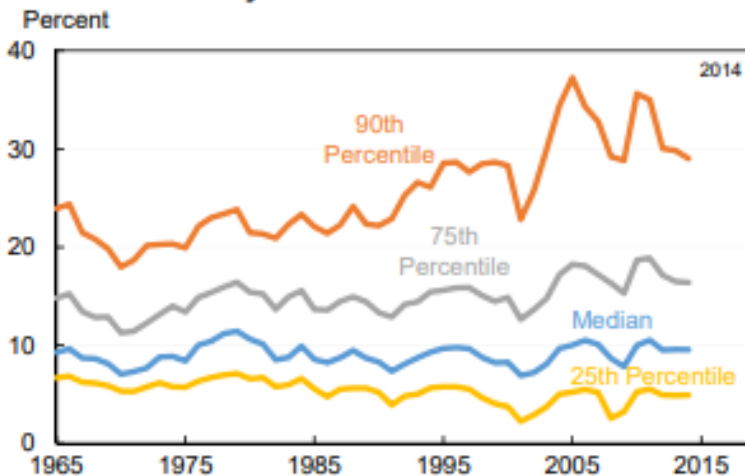
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If reduced competition and dynamism continue, we can expect **both lower productivity growth and faster-rising inequality**

What does this mean?

- Slow productivity growth implies:
 - very slow-growing – or stagnant – pay for typical workers
 - likely faster-rising inequality
 - and less total resources to distribute
- Fast productivity growth *wouldn't have solved the problems of inequality*, but it would have given us more to work with

Five principles of inequality policy in an era of low productivity growth



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Productivity growth should be a priority:

1. Prioritize “double dividend” policies which can both reduce inequality *and* increase productivity growth

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Resource constraints will bind more tightly:

2. Accept that hard choices about redistribution must be made
3. Favor targeted benefits over universal

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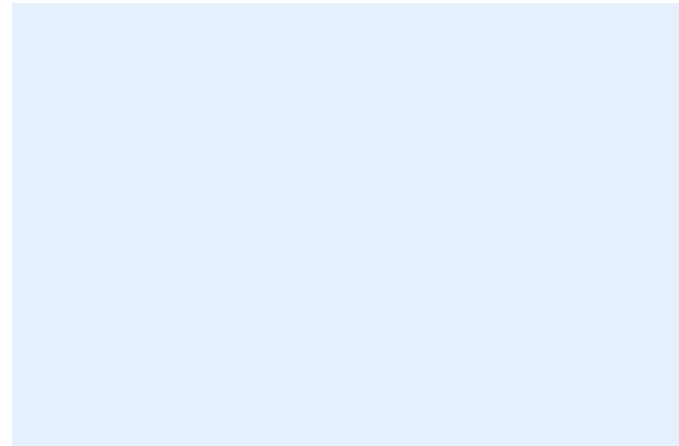
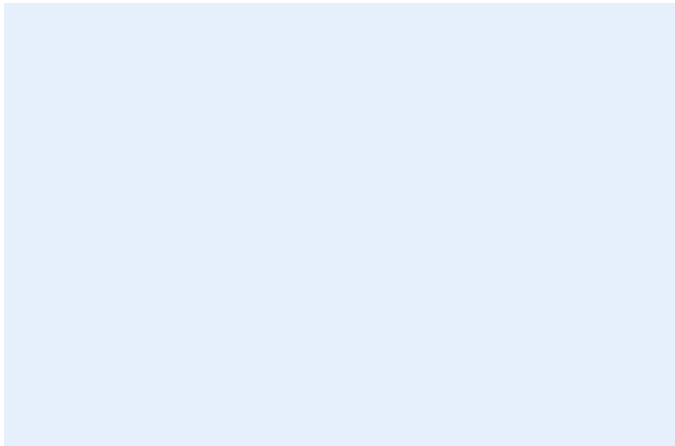
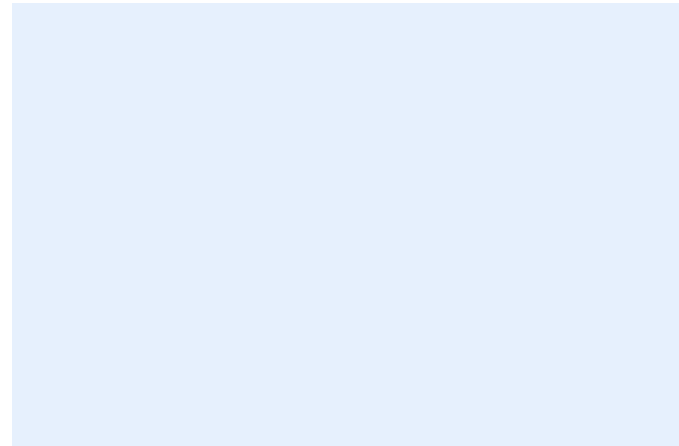
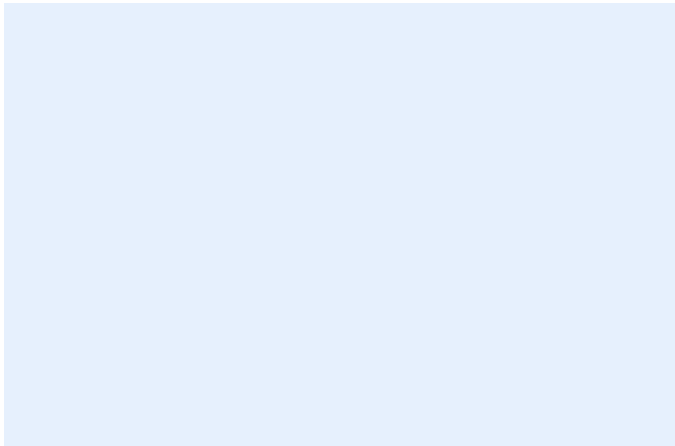
Resource constraints will bind more tightly:

2. Accept that hard choices about redistribution must be made
3. Favor targeted benefits over universal

Multiple policy levers should be used:

4. Promote predistribution, not just redistribution
5. Focus on dignity and justice alongside monetary outcomes

I. Prioritize “double dividend” policies which can reduce inequality *and* increase productivity growth



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- Paid parental leave, childcare support

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- Access to quality schools
- Universal pre-K

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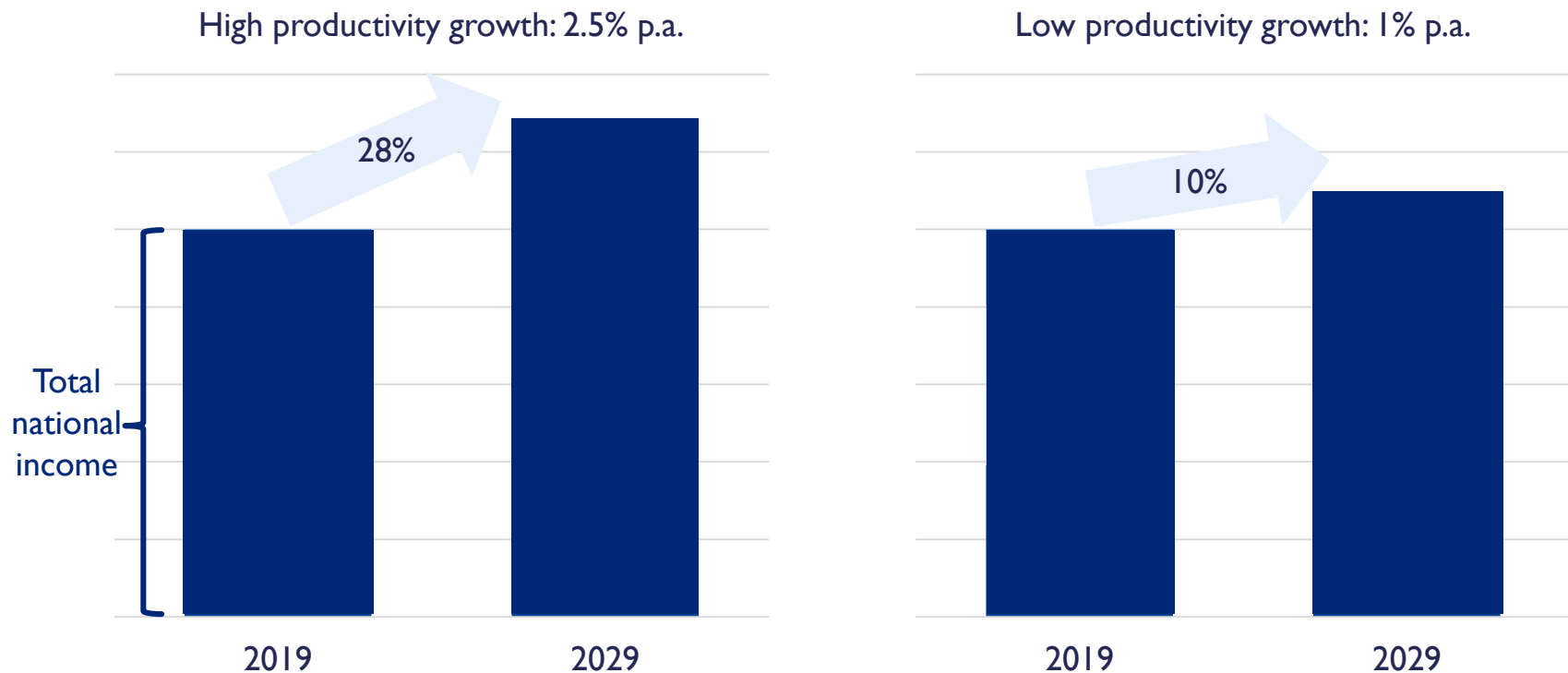
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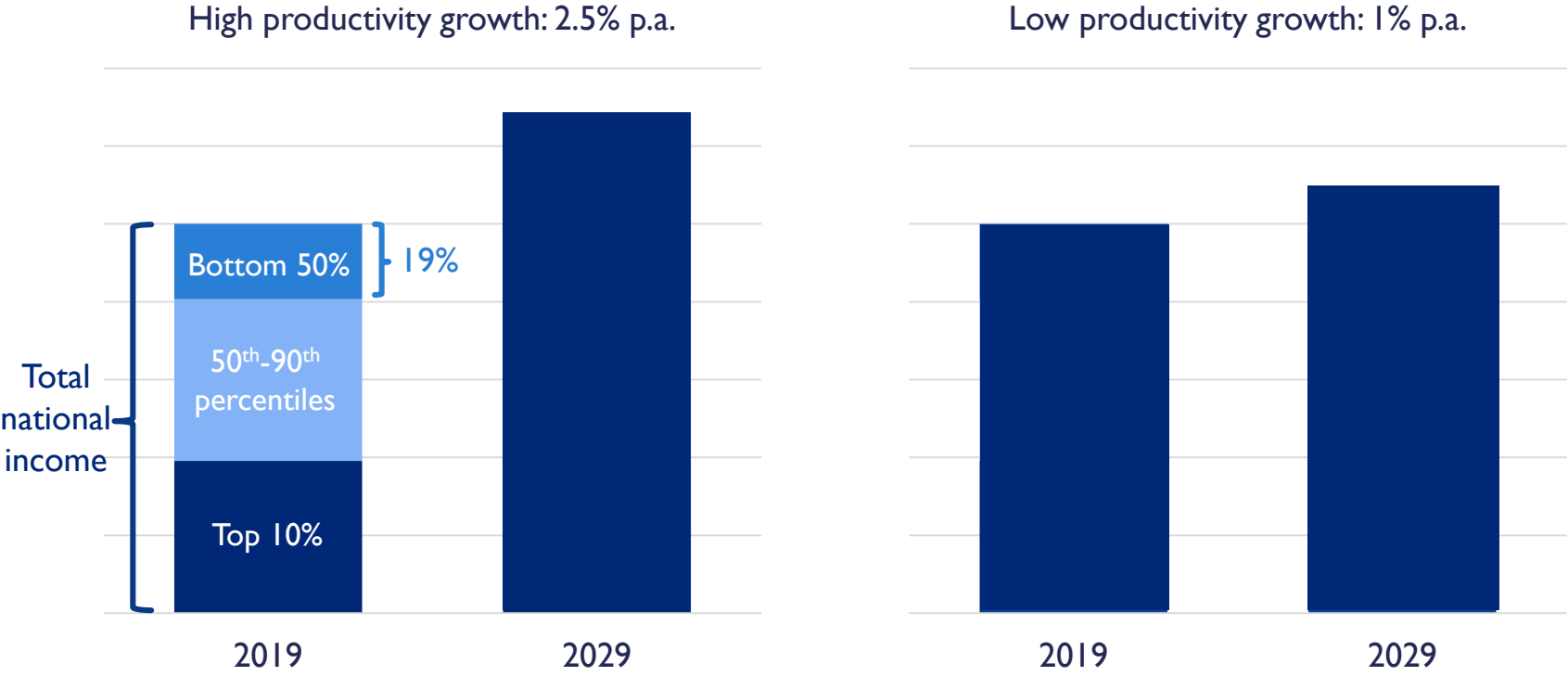
Increase competition

- Antitrust enforcement
- Barriers to entry

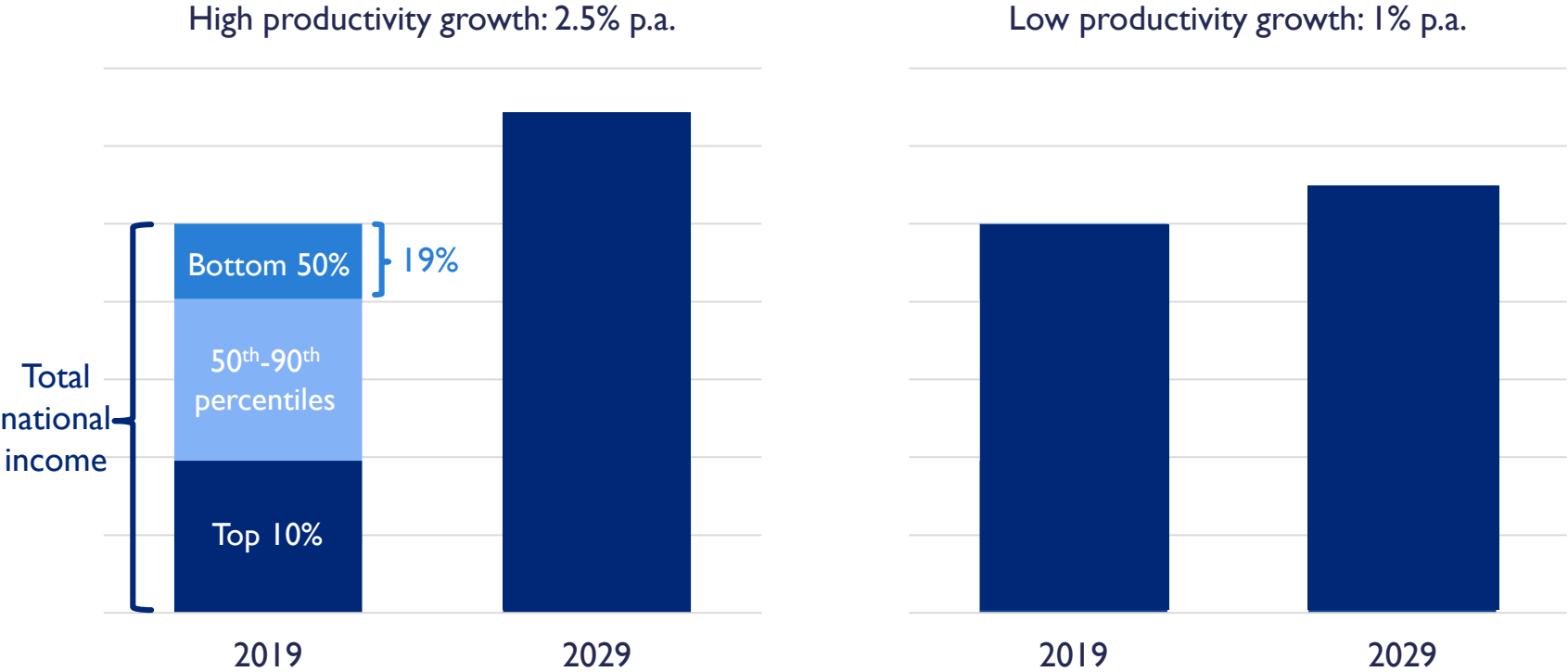
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2. Accept that hard choices about redistribution must be made: a simple numerical illustration

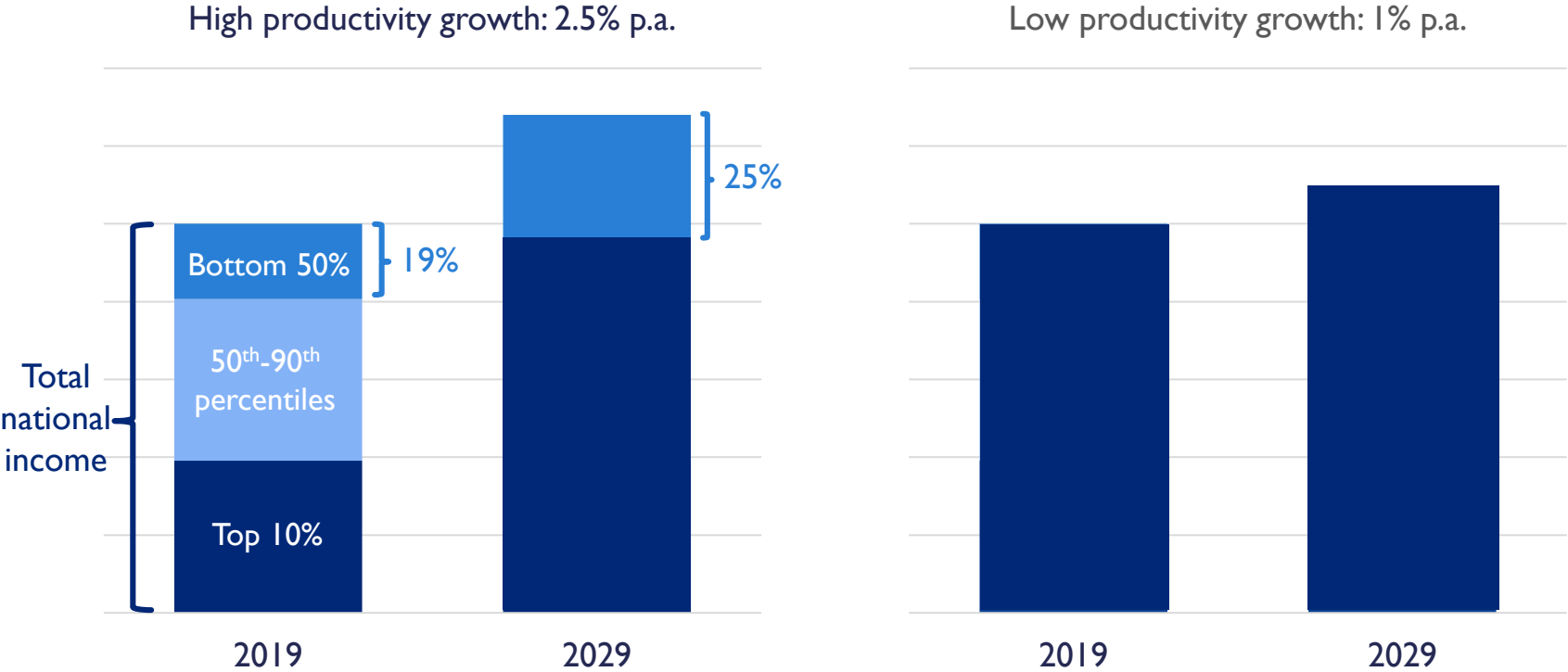


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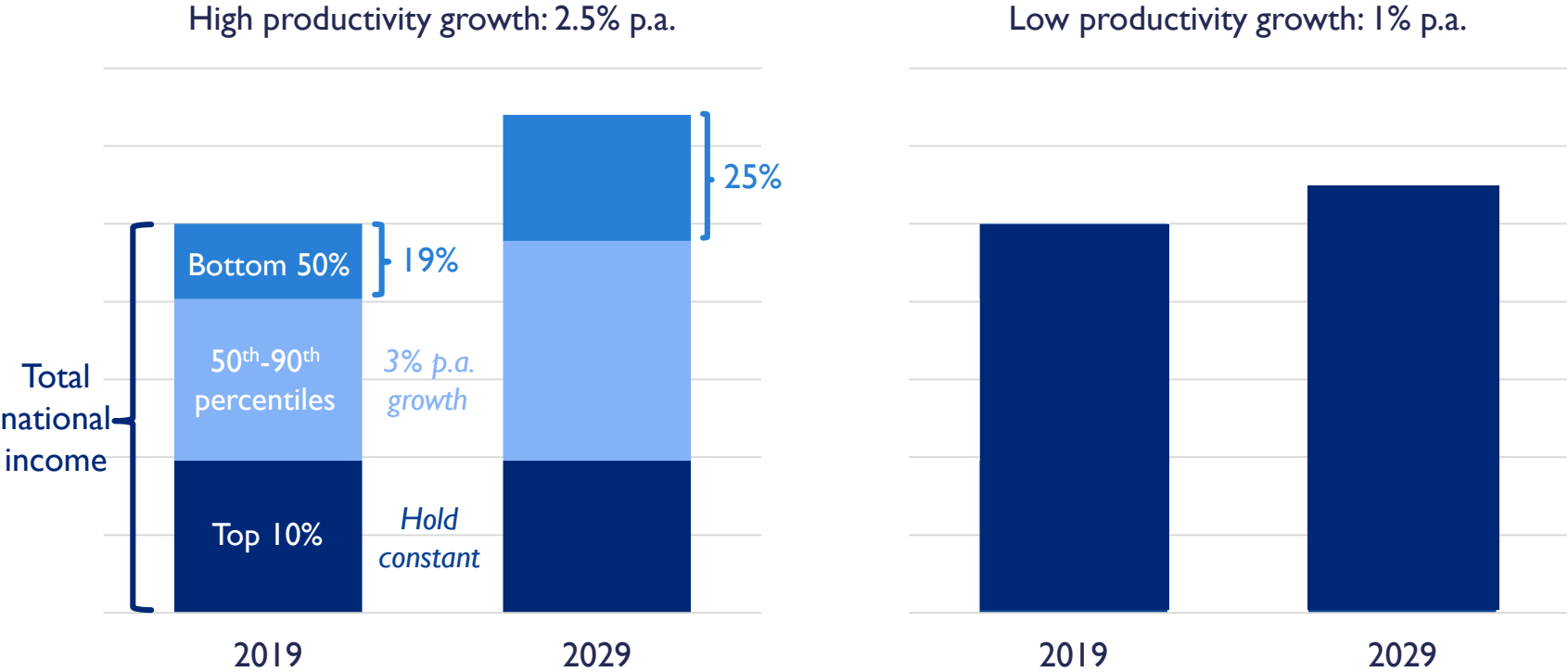
Hypothetical goal: reverse the rise in inequality for the bottom 50% (bring their income share back to 25% of total national income)

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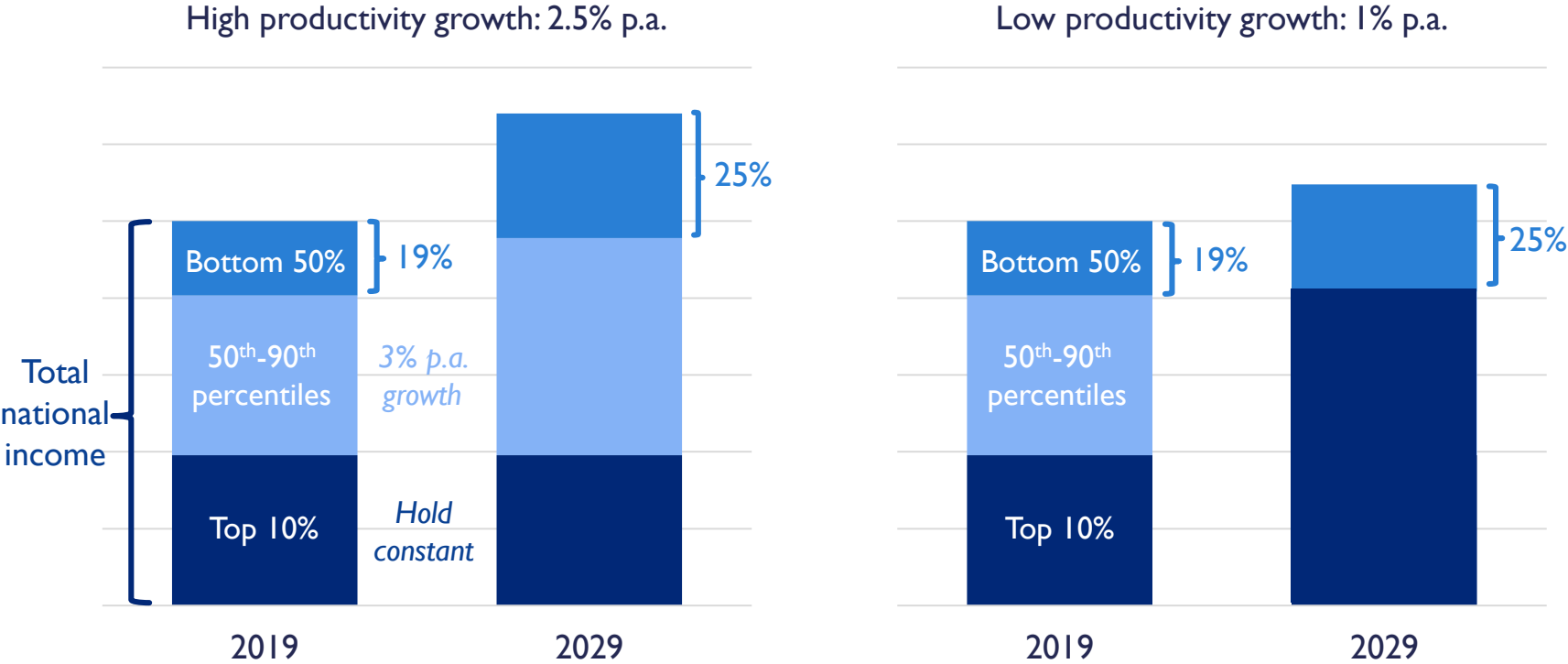
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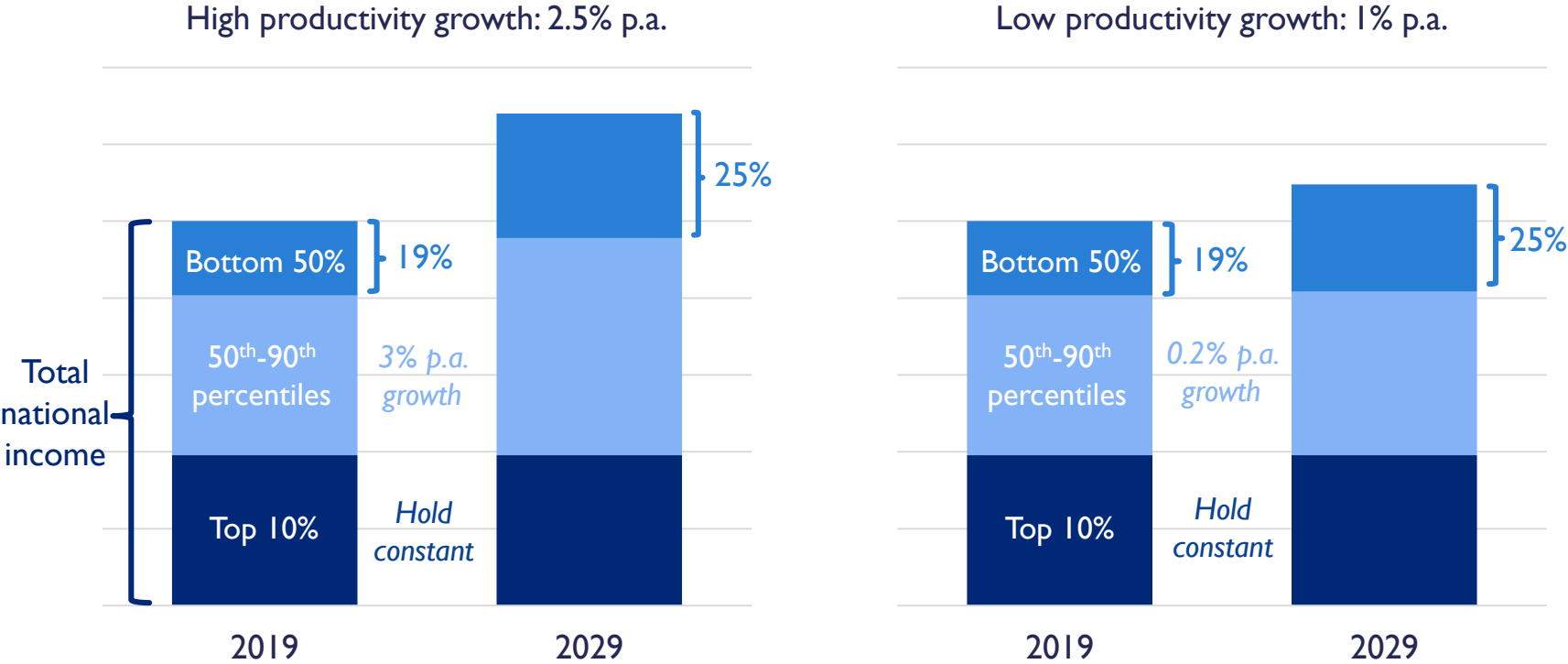
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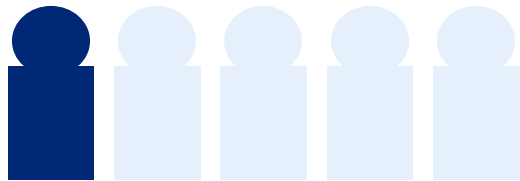
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3. Favor targeted benefits over universal

Targeted



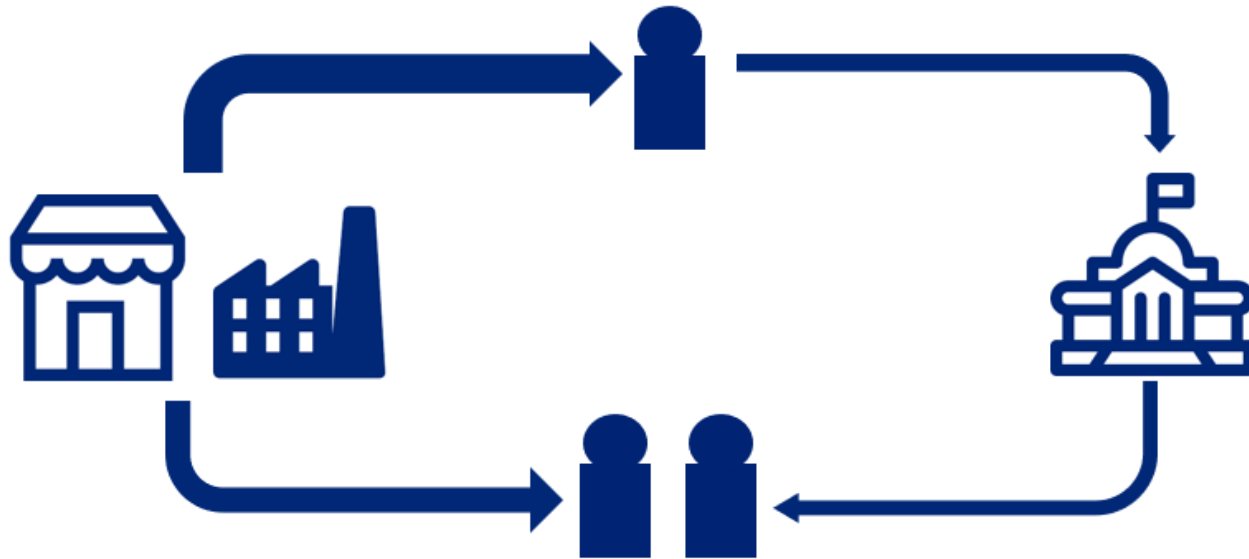
- Negative Income Tax
- Guaranteed minimum inheritance

Universal



- Universal Basic Income
- Universal minimum inheritance

4. Promote predistribution, not just redistribution



To the extent that rising corporate power & falling worker power are responsible for rising inequality:

- Predistribution, by increasing worker power, helps tackle the root cause
- and can also increase efficiency



5. Focus on dignity and justice alongside monetary outcomes