Low productivity growth: implications for inequality

Anna Stansbury
Harvard University

*Facing Up to Low Productivity Growth*
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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...

Source: Economic Policy Institute, Bureau of Labor Statistics, Bureau of Economic Analysis, authors’ calculations
…but higher productivity growth still translates into higher pay growth

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

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Reduced competition and dynamism could explain both low productivity growth and rising inequality.
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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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1. Prioritize "double dividend" policies which can both reduce inequality and increase productivity growth.

2. Accept that hard choices about redistribution must be made.

3. Favor targeted benefits over universal.

4. Promote predistribution, not just redistribution.

5. Focus on dignity and justice alongside monetary outcomes.
Five principles of inequality policy in an era of low productivity growth

*Productivity growth should be a priority:*

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

*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
1. Prioritize “double dividend” policies which can reduce inequality and increase productivity growth
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Reduce barriers to workforce participation

- Criminal justice reform
- Paid parental leave, childcare support
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- **Reduce barriers to workforce participation**
  - Criminal justice reform
  - Paid parental leave, childcare support

- **Increase access to education**
  - Access to quality schools
  - Universal pre-K
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Reduce barriers to workforce participation
- Criminal justice reform
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Reduce barriers to labor mobility
- Portable benefits/healthcare
- Occupational licensing
- Land use restrictions

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**Reduce barriers to labor mobility**
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**Increase access to education**
- Access to quality schools
- Universal pre-K

**Increase competition**
- Antitrust enforcement
- Barriers to entry
2. Accept that hard choices about redistribution must be made

High productivity growth: 2.5% p.a.

Low productivity growth: 1% p.a.
2. Accept that hard choices about redistribution must be made: a simple numerical illustration

High productivity growth: 2.5% p.a.

- Bottom 50%: 19%
- Top 10%
- 50th-90th percentiles

Low productivity growth: 1% p.a.

- Total national income
- Bottom 50%
- Top 10%
- 50th-90th percentiles
2. Accept that hard choices about redistribution must be made: a simple numerical illustration

High productivity growth: 2.5% p.a.

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<thead>
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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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- Bottom 50%: 19%
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High productivity growth: 2.5% p.a.

- Bottom 50%: 19%
- 50th-90th percentiles: 3% p.a. growth
- Top 10%: Hold constant

Total national income

2019 2029

25%

Low productivity growth: 1% p.a.

Total national income

2019 2029

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2019: 25% of total national income

2029: 25% of total national income

Low productivity growth: 1% p.a.

- Bottom 50%: 19%
- 50th-90th percentiles: 0.2% p.a. growth
- Top 10%: Hold constant

2019: 25% of total national income

2029: 25% of total national income

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