In Short

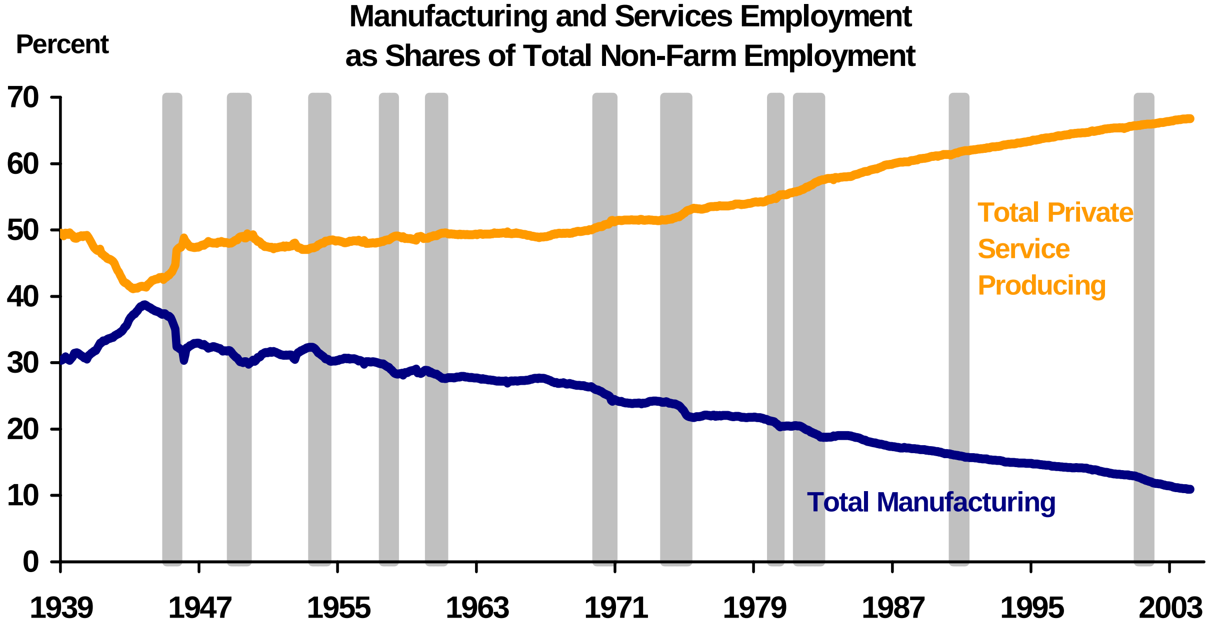
Productivity Growth and Structural Change

While rapid productivity growth raises the overall standard of living in a nation, not everyone realizes the same net benefits, especially in the near term. Shocks to productivity affect the number of jobs produced at a given rate of output growth and influence the mix of jobs created and destroyed over time. Regarding job growth for example, exceptional gains in productivity were thought to be one of the factors restraining job growth as the U.S. economy recovered from the 2001 recession. In terms of job mix, the steady shift from manufacturing to service oriented job creation has been due in part to the substantial gains in manufacturing productivity. Innovations in the workplace also are changing the types of skills needed on the job. Over the past fifty years, changes in the demand for skills have affected the wages paid to workers, producing a premium for those with higher skills or more education. Finally, advances in technology have made it feasible for some businesses to locate production and service facilities far away from their consumers. The ability to make business location decisions globally, rather than nationally, has altered the composition of jobs residing in the U.S., leaving some workers less well-off than they had been previously.

Although the disruptions created by productivity shocks are not distributed evenly and can be difficult for those who experience them, producing more output, cheaper, and with less effort is the key to long-run improvements in economic well-being in the economy.

Changing Mix of Jobs

Manufacturing and Services Employment as Shares of Total Non-Farm Employment



Source: Bureau of Labor Statistics

For more information see Shaping the Economy: Innovation and Productivity, FRBSF Annual Report 2004.

April 2004

CSIP FRBSF Center for the Study of Innovation and Productivity