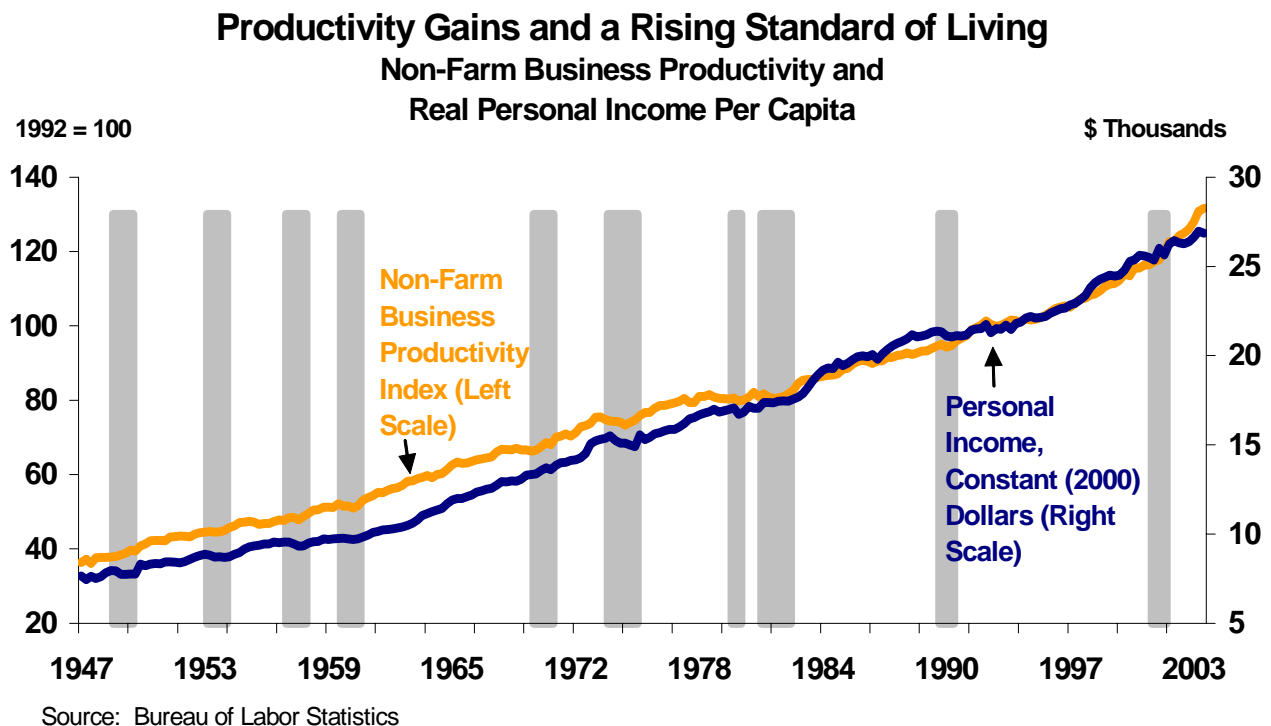


Benefits of Productivity Growth

Innovation and the pace of growth in labor productivity set the path for improvement in our economic standard of living. A commonly used measure of the standard of living is real (inflation-adjusted) income per capita. To raise real income per capita in our economy, we can work more—meaning working longer hours or having more people in the population working—or be more productive—meaning producing more output per hour worked. Over the past half century, Americans demonstrated a remarkable capacity to increase the average standard of living. Since the late 1940s, real disposable personal income per capita has increased from about \$7,000 to close to \$27,000. While both working more and working smarter have contributed to this, the more than threefold increase in labor productivity accounts for the bulk of the nearly fourfold gain in our economic standard of living.

Looking ahead, with the evolving demographics in the U.S.—in particular, with baby boomers, representing about a third of the population, approaching retirement years—we are going to have to rely almost exclusively on gains in productivity to push up income per capita. Maintaining the improvement in productivity growth in the U.S. will make a big difference to us. Although the actual growth rate is unpredictable, if the average growth in labor productivity were 2.5 to 3.0 percent per year, per capita real income could double in roughly 25 years. However, if labor productivity growth were to fall back to, say, 1.5 percent per year, it could take twice as long to realize the same increase in our economic standard of living.



For more information see [“Shaping the Economy: Innovation and Productivity,”](#) FRBSF Annual Report 2004 and [Does a Rising Tide Lift All Boats: Productivity Growth, Wages and Relative Prosperity](#) in the [CSIP Viewing Room](#).