PRODUCTIVITY AND WAGE GROWTH

The Chicken...

By: Carter Johnson

An increase in unit labor cost indicates either a decrease in productivity, a rise in wages, or both. Wage growth has gradually risen in high income countries but at a much slower pace than past business cycles. This is despite full employment in the US, UK, Germany, and Japan. The rise in unit labor costs does not reflect higher wages as much as weaker productivity. The weakness in productivity growth is one of the most important economic puzzles. It helps explain the slow economic growth, but the sources of weak, poor improvement in productivity are hotly debated. Some blame the new technologies. Others have blamed the tax arbitrage that shifts booking of output. Still, other economists suggest weak capital investment has also slowed productivity gains.

Unit Labor Costs by Persons Employed Among OECD Nations

2016

OECD Database 2017

Insufficient aggregate demand is frequently attributed to the wages not keeping pace with productivity gains. However, over the last five years, that has not been the case in the US. As the lower chart illustrates, during this expansion, median wages have generally been rising faster than productivity. This would suggest that the key to boosting wages may be boosting productivity. On the other hand, it may be a bit of a chicken-egg story as slow wage growth is itself an explanation some have offered to explain the weakness in productivity.

U.S. Labor Productivity and Wage Growth

2007–2017


...or the Egg?
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