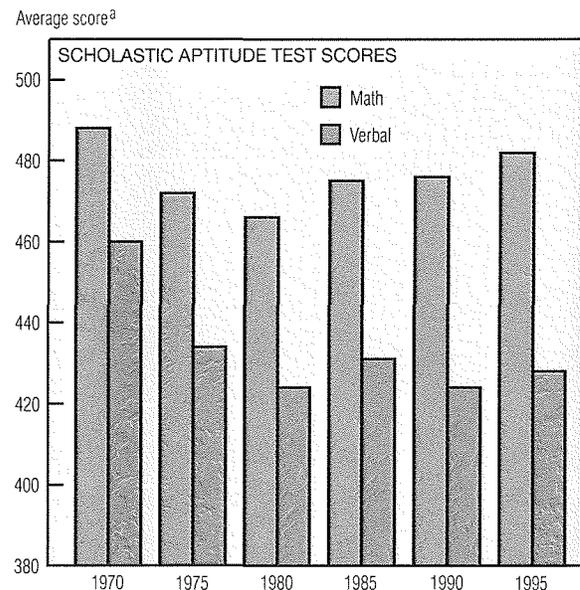
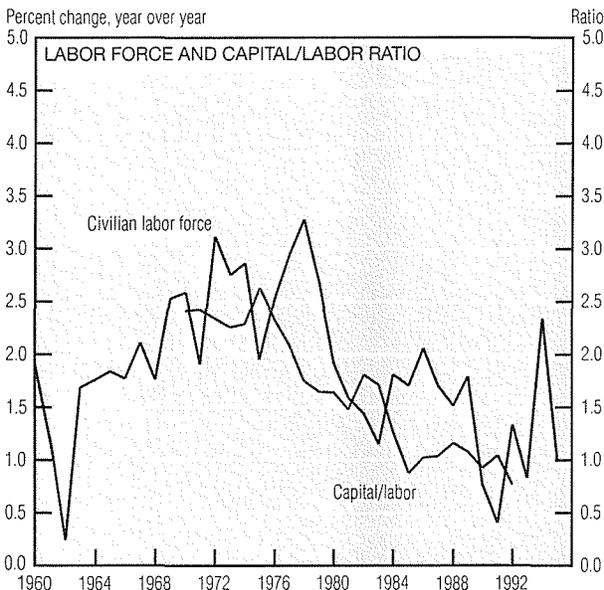
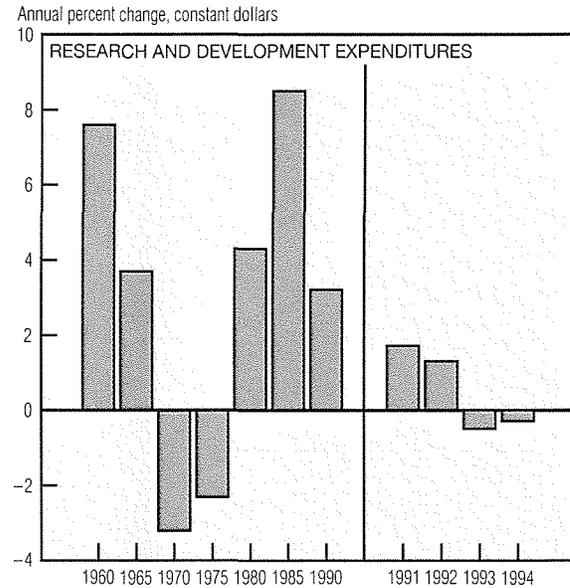
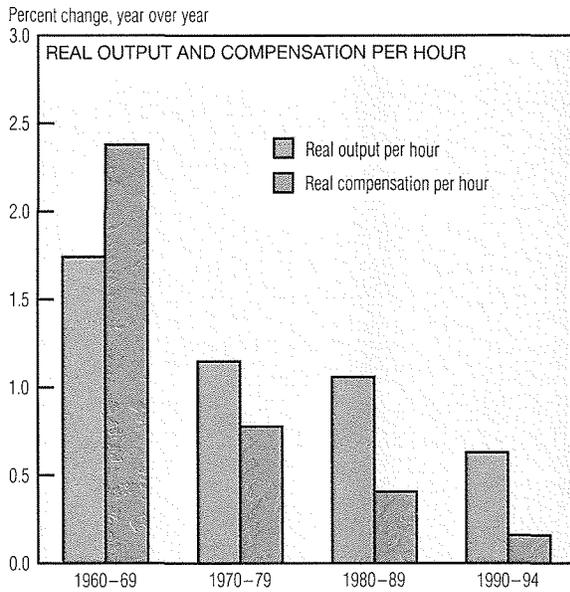


Productivity Trends



a. Minimum score, 200; maximum score, 800.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; Citibase; and College Entrance Examination Board.

Growth in hourly output has decelerated significantly since the early 1970s, reflecting a decline in labor productivity growth. Sluggish labor productivity growth is associated with slack gains in hourly compensation, which suggests that progress in U.S. living standards has slowed to a crawl.

Labor productivity changes can be divided into those arising from technological changes and those due to changes in the amount of capital per worker (capital deepening), both of which are difficult

to measure. A proxy for technological change—growth in research and development spending—indicates that this factor may have contributed to slower productivity growth during the mid-1970s. R&D outlays surged during the 1980s, but have slowed again in recent years. The rate of capital deepening, calculated with an all-inclusive measure of capital, shows considerable decline after the mid-1970s, some of it attributable to baby boomers' entry into the labor force.

Just as important, however, is the

quality of the labor force. More young entrants and fewer older workers—a consequence of the growing trend toward earlier retirement—meant that the post-1970 workforce was less experienced than before. Moreover, Scholastic Aptitude Test scores indicate that new entrants were less accomplished than their predecessors. Because skills and experience are forms of capital, these data suggest that the measured decline in the capital/labor ratio may understate its true extent.