Producing the nation’s output requires the use of capital and labor services. The quantity, types, and organization of capital goods (structures and equipment) and labor services determine the economy’s total output. Hence, growth in the number of these inputs, and improvements in their quality and organization in firms and households, expand productive capacity. The economy’s capital goods may be classified into two types—equipment that depreciates rapidly, like computers and machines, and structures that are relatively long-lasting, like buildings and airports.

Each category may be subdivided by ownership into production capital owned by firms—for example, nonresidential buildings and computers for automated manufacturing—and consumption capital owned by households—for example, houses for shelter and computers for surfing the Internet.

Growth in capital equipment and structures picked up during the early 1980s as inflation and nominal interest rates were reduced from their earlier double-digit rates. The growth rate for the stock of consumption-sector equipment slowed again after the mid-1980s, but production-sector equipment continued to surge. The last six years have witnessed an investment boom in general. The recent rapid increase in capital stock value probably reflects the better technology embodied in newer capital stock as well as capital gains stemming from a better...
organization of the existing capital stock within firms.

The civilian labor force has exhibited healthy expansion during the post-World War II period. Growth was especially high during the 1970s because of women's increased participation and baby boomers entering the workforce. The civilian labor force has continued to expand, despite the post-1980 trend toward earlier retirement and a slight reduction in average hours worked. Moreover, total hours worked have increased because the share of the population that is employed has surged since the mid-1970s.

Total hours worked in the economy have grown over time, with only brief setbacks during recession years. However, an hour of work in the mid-1990s should not be directly compared with an hour of work in the mid-1950s. Better education, job training, and the acquisition of new skills have probably made labor more efficient over time. Adjusting labor hours for worker efficiency yields a steeper time profile of hours worked than does the series on observed total hours.

In addition to better education and training, worker efficiency is also affected by the amount of capital available per worker—the capital/labor ratio. During the post-war period, this ratio (measured using production-sector capital and efficiency-adjusted total hours) has increased consistently except during the 1970s, when the investment slowdown, coupled with continued growth in the workforce, caused a sharp decline. During the past two decades, the capital/labor ratio has increased significantly, although the rate of change has varied. Given today's low inflation environment, the prospects for continued gains—and hence greater worker productivity—appear bright.