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ECONOMIC PERSPECTIVES

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NNDA Northern Nevada Development Authority

Boosting Productivity Spurs Economic Growth

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The core of any economy is the ability of economic agents to convert inputs – capital, labor, energy, raw materials and purchased services – into useful products. Referred to as productivity, this rate at which goods and services having monetary exchange value are produced has long been the foundation for economic growth. We are richer than the generations before us and than the average person in the third world chiefly because we are more productive. The more productive we are, the better we are able to compete locally, nationally and globally. It is a measure often ignored, and yet according to American economist, Paul Krugman, "Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker."

Productivity matters because it is the cornerstone and fundamental component of economic success, as well as the building block that determines how fast an economy can grow. Over the past 50 or so years, productivity rates in the U.S. have been declining as the balance between cost and prices have not been favorable to support the growth of higher rates. While there have been wage increases, there has not been the productivity to offset it. Post-World War II (1947-73), the average productivity rate was 2.8%. The rate ran between 1.2% and 1.5% from 1973-1990. Between 1990-2000, it rose to 2.2% and from 2000-2007, it climbed to 2.6%. From 2007 until now, the productivity rate has dipped to 1.2%. If the U.S. economy hopes to generate an annual growth rate of at least 3%, then the productivity rate needs to rise to a minimum 2.3%.

While economists debate the dozen or so potential causes for the slowdown in productivity rates, both in the U.S. and worldwide, it remains a mystery. Some of the possible causes include low investment and savings rate, excessive government regulation, low rate of public investment in infrastructure, decline in R&D investment, and the lack of a workforce with contemporary skills.

There are many economists and business leaders who believe the waning U.S. productivity rate is partly the result of a skills gap. Despite the declining unemployment rate, high skill employers continue to complain about the lack of qualified job candidates. When open positions go unfilled or employers are actively hiring unqualified candidates, productivity is negatively impacted.

Many studies and reports document evidence that boosting productivity enhances gross profits, maintains competitiveness, and helps to lift living standards. The results generally support the premise that productivity growth results from a coordinated program of investment in equipment, innovation, and human capital (i.e., an educated workforce).

Education is investment in people, or human capital. There is plenty of evidence that an educated workforce is associated with productivity, both at country and individual levels. Countries who invest the most in education tend to be the richest and have the highest rates of economic growth. Their economies also tend to grow more rapidly. Individuals clearly benefit from education, and this includes formal schooling, job training, and work experience. More highly educated workers are typically better paid and, unless their employers are fiscally irresponsible, are more productive.

U.S. companies are spending increasingly large amounts of money on private sector worker training, a seeming indication that learning is a continuous process not confined to schools or to the young. They appear to understand the connection between education and productivity, and how human capital investments can boost productivity and their own economic growth.

The supply of an educated workforce plays a crucial role in accelerating labor productivity and the overall rate of productivity. While there is no consensus regarding the causes of our current productivity lethargy and how to resolve it, addressing workforce education and development can boost productivity rates and help to spur economic growth, including here in the Sierra Region.

Fortunately, this can and is being addressed in real time, both at the federal level and here in Nevada. It has been a high priority for Governor Sandoval, the Nevada Legislature, and the Nevada System of Higher Education over the past 6 years, and that will continue over this next biennium. The 2017 session of the Nevada Legislature resulted in the passage of legislation that reinforces the role of Nevada's community colleges as the hubs for workforce education and development programs.

Workforce development and diversification are widely recognized as the most important component of economic development here in the Sierra Region, throughout the Silver State, and across the U.S. Throughout the rest of this year, NNDA will be rolling out its own workforce development initiatives and programs to meet employer needs.

Please join us on Wednesday, June 28, 2017, when Nevada State Senator James Settelmeyer, along with WNC President Chet Burton and Capitol Partners, will provide a legislative update and what it means for the Sierra Region during the NNDA breakfast meeting at the Carson Nugget from 7:00 am-8:30 am. Register today at https://www.eventbrite.com/e/nnda-june-28th-breakfast-legislative-update-tickets-35058311353?ref=estw Registration closes at 3:00 pm Pacific on June 27, 2017.