

BROOKINGS

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Up Front Blog



Increasing Productivity and Boosting Wages: Is Innovation the Answer?

Jobs and the Economy, Innovation, Wages, U.S. Economic Growth

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The United States continues to confront a weak economic recovery. According to [today's employment report](#) by the Bureau of Labor Statistics, payroll employment increased by 117,000 in July, and the unemployment rate edged down to 9.1 percent. The private sector added 154,000 jobs while governments continued to shed jobs. Furthermore, recently released GDP numbers show that economic growth fell far more during the worst part of the recession than was previously thought and the pace of recovery since then has been well below that seen in past recoveries and weaker than expected.

As policymakers turn attention back to policies to drive a near-term economic recovery, it is also crucial to target longer-term policies that will spur the pace of U.S. innovation, boost earnings for American families, and raise our competitiveness in the global economy. In this month's posting, we focus on the role of innovation in determining American living standards. We also continue our look at the nation's "job gap," or the number of jobs that the U.S. economy needs to create in order to return to pre-recession employment levels while also absorbing the 125,000 people who enter the labor force each month.

Innovation, Productivity and Compensation Are Closely Linked

During much of our nation's history, innovation and technological advancement have been key drivers of rising living standards by raising compensation of workers, developing new industries, and lowering consumer prices. Since 1973, however, the pace of U.S. innovation has slowed, and wage growth has lagged. Even more troubling, the wage gains arising from recent innovation have not benefitted the typical American.

The chart below illustrates this link between productivity and compensation. It is evident that when workers produce more, they also earn more. In the latter half of the past century, labor productivity (the blue line) and hourly compensation (the red line)—the sum of wage and other benefits such as health care, vacation days, and retirement—increased at a rate of about 2 percent per year. As a consequence, real hourly compensation increased from \$9.88 per hour in 1947 to \$35.44 per hour today, which represents a tremendous gain in living standards.



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