

JOHN LIPSKY

Senior Fellow of the Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies, former First Deputy Managing Director of the IMF

Thank you very much, Jean-Claude, it is a pleasure to participate in this workshop again. I thought I could give some illustrations of a topic that has been recurring in these sessions, which is the interaction between productivity growth and prospects for improvement through technology or other aspects.

Of course, one development that has been widely noted is the relatively recent good performance of the US economy in terms of total factor productivity growth. Cumulative total factor productivity increases from 1950 to 2023 show a positive performance post-Covid. In other words, the response to the dramatic shutdown in the economy and the associated spike in unemployment has been a new acceleration in productivity gains. This outcome was not expected and differentiates the United States from all other major advanced economies. Part of the explanation for this development is straightforward and reflects an increase in capital spending by non-financial corporations post-Covid. Increased business investment in high-tech equipment underpins this surge. This can be seen clearly in the excellent and easy to use Saint Louis Federal Reserve Bank's FRED database.

However, there is another very notable aspect that has been quite unexpected and quite differentiating, which is the growth in new US business formation. This skyrocketed post-Covid, which was not anticipated and differentiates the US economy not only from its own recent performance but from the performance of any other advanced economy.

There is another notable aspect that I suspect that we all recognize but do not seem to have incorporated much into our analysis. That is work from home as a signal of changes in the way the economy is working. My friend Nick Bloom, a professor at Stanford who is the world expert on work-from-home practices, has developed data showing US full-days of work from home as a percentage of the total. It shows that pre-Covid about 6% of US workdays would be classified as work from home. At its peak during COVID, this measure reached about 60%. However, the surprise is that post-COVID, it has stabilized at around 25%. In other words, the average US employee is working a bit more than one day per week from home, which is a rather astonishing change in business behavior and workforce behavior. We will see whether or not this is sustained, but other data produced by Prof. Bloom shows that new patent applications related to technology designed to support work from home also is accelerating. The implication of these factors is relatively straightforward, if uncertain in degree. Post-COVID, the US economy has exhibited an unusual level of flexibility. Although there is no academic research yet that examines this aspect, I suspect that when support was given to companies during COVID to maintain linkage with their workers — as was typical in the



European Union — with the well-intentioned and justifiable idea that workers should feel that they had retained their connection with their workplace to give them confidence that when Covid receded and the economy restarted, they would keep their previous employment. That confidence did not exist in the United States to anywhere near the same degree. Rather, the US economy's restart seems to have been associated with a perceived opportunity to take advantage of new technologies via new business formation. It remains to be seen whether or not this unexpected trend is sustained. Although it would be premature to draw conclusions, it is plausible that the jump in US new business formation was associated with a recognition that new technologies allowed new businesses to produce better performance, and that labor force flexibility would help to make new ventures more feasible.

To show you some of the important behavioral changes that have been associated with the growth in work from home, data on US golf trends show that prior to COVID, golf course usage peaked on the weekend. Post-COVID, overall golf activity has boomed, and it has evened out through all seven days of the week.

Jean-Claude Trichet, former President of the European Central Bank, Honorary Governor of the Banque de France

Thank you very much, it was fascinating. I still have to understand how you could massively increase productivity per hour worked with your workers' passion for golf but that is another story.