

Comments to ‘Supply-side Costs of the Great Recession’ by Barry Bosworth

Paola Subacchi, Chatham House

Nomura Foundation, Macro Economy Research Conference, Tokyo, 27 January 2015

The paper's premises

- Starting from the current economic outlook for the US, the author observes that “the improvements in these standard measures of resource utilization are largely the product of reduced supplies of labor and capital than increased demand.”
- “Thus, the economic losses from the recession seem increasingly permanent and not a just transitory business cycle phenomenon.”
- The author also observes that “with recovery the public attention has gradually shifted away from a concern with jobs to discontent over a limited growth in incomes for those with jobs.”

The paper's objectives

- To examine in *great detail* the impact of the recession in the US's potential output as reflected in labour and capital, and in TFP.
- To explore the reasons for the poor growth in real wages and the link between real wage growth and productivity.

What the paper concludes

- The paper suggests a significant slowing of future growth for the US economy relative to pre-crisis expectations, with little scope for a cyclical recovery.
- The rate of TFP growth has also slowed and this slowdown seems to have predated the crisis.
- Because of the limited increase in productivity, and relatively modest GDP growth, job creation, and low unemployment rate, squeezes real wages (either .. or)

Implications from the paper's conclusions

- The financial crisis has been a magnifier of pre-existing trends (mainly demographics), and imbalances, rather than a trigger. This is consistent with the case of Europe.
- There is a significant impact on future living standards from low productivity growth, and significant policy implications if there is an implicit choice, *ceteris paribus*, between job creation and real wage growth.
- There are also significant policy implications from the permanence of output losses, especially for future sustainability of Social Security and Medicare.

What the paper achieves

- It focuses the attention on productivity growth and its impact on living standards and future growth.
- It fleshes out ideas, and discusses evidence, that could help define concepts such as ‘secular stagnation’ and the ‘new mediocre.’
- There are also significant policy implications from the permanence of output losses, especially for future sustainability of Social Security and Medicare.
- It suggests directions for future research.

Where should the paper go from here?

The paper suggest a number of questions as well as the need for data disaggregation

- Is demand the problem?
- If so, are supply-side reforms critical to achieve productivity gains?
- If so, why (policy instruments vs structural changes)?
- Which sectors have gained more jobs? How new jobs and productivity gains interact in key sectors?
- How does immigration affect labour force participation? Is there evidence of polarisation between low productivity jobs and high productivity jobs?

Thank you
