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THE LINK BETWEEN PRODUCTIVITY AND PAY IS VERY MUCH ALIVE, SUMMERS PAPER FINDS

By Greg Ip
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Wages are supposed to track worker productivity, and from the end of World War II until 1973 they did. Then, something happened: Productivity kept rising but wages did not.

Many on the left argue the link is now broken and redistributing income from the wealthy downward would help workers more than faster economic growth. But a new study co-authored by Harvard University economist Lawrence Summers says that's wrong. He and Anna Stansbury, a doctoral student at Harvard, found a strong and persistent link between hourly productivity and a variety of wage measures since 1973. The problem, they conclude, is that the positive influence of productivity on pay has been overwhelmed by other forces pushing the other way.

The implications go to the heart of the debate over inequality and what to do about it, particularly among Democrats and progressives.

"Boosting productivity growth…will not lead to broad-based wage gains unless we pursue policies that reconnect productivity growth and the pay of the vast majority," Larry Mishel and Josh Bivens of the left-leaning Economic Policy Institute wrote in 2015. Mr. Mishel is co-creator of a chart illustrating the post-1973 divergence between productivity and pay that has achieved iconic status on the left.

But Mr. Summers, who was Bill Clinton's Treasury secretary and Barack Obama's top economic adviser, disagrees. His and Ms. Stansbury's results, which they will present at the Peterson Institute for International Economics on Thursday, suggest that even if nothing is done about inequality, rising productivity will make workers better off than otherwise.

Over one- to five-year periods between 1973 and 2015, they found that a one-percentage-point increase in productivity growth generally led to a 0.5- to one-percentage-point increase in average or median pay growth, depending on the type of workers measured. Yet while productivity and wage growth tended to move together over these short periods of time, there was enough of a difference in growth rates that over time a huge gap opened up between the pay and productivity. By 2015, productivity was up 73 percent from 1973 but wages were up just 12 percent.

They argue this cannot be due to the same forces that lifted productivity, such as trade and technology, since those forces clearly pushed pay in the right direction. Rather, they say other forces such as weaker unions were eating away at the ability of workers to share fully in the rise in productivity.

In an interview, Mr. Summers says the idea that "policy should shift from growth to inequality is badly misleading." Had productivity grown at the same rate after 1973 as before, that would have been a bigger boon to the typical worker than if inequality had not risen. He’s not minimizing inequality, only arguing that it should be treated separately from growth.

Mr. Mishel, the outgoing president of the EPI, says Mr. Summers’ and Ms. Stansbury’s results are less definitive than they imply. He argues, for example, they may have understated the influence of higher unemployment on paychecks. The late 1990s was one of the few times since 1973 when worker pay grew briskly, but that, he says, was probably because unemployment was around 4 percent, not because productivity was growing rapidly.

And while he agrees productivity and pay growth rise and fall together, he notes Mr. Summers and Ms. Stansbury did not find a one-for-one relationship: Productivity almost always grows faster than pay. “It’s a matter of whether you want to look at the glass half full or half empty,” Mr. Mishel says. “We’re saying it’s half empty, at best.”