

Productivity during and after the Pandemic

John Fernald
INSEAD and FRBSF

March 21, 2022

The views expressed here are my own and do not necessarily represent those of the Federal Reserve Bank of San Francisco or others associated with the Federal Reserve System.

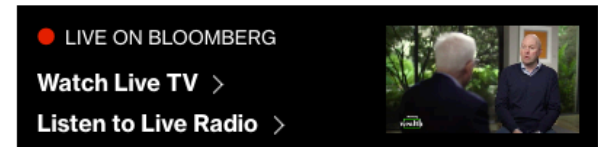
Business

Pandemic Blows Up Old Business Habits, Opening Path to a Boom

By [Craig Torres](#) [+Sign Up](#)

November 9, 2021, 10:00 AM GMT+1

- ▶ Companies find new ways to match staff, tech, customer demands
- ▶ U.S. productivity has accelerated and profits hit record highs

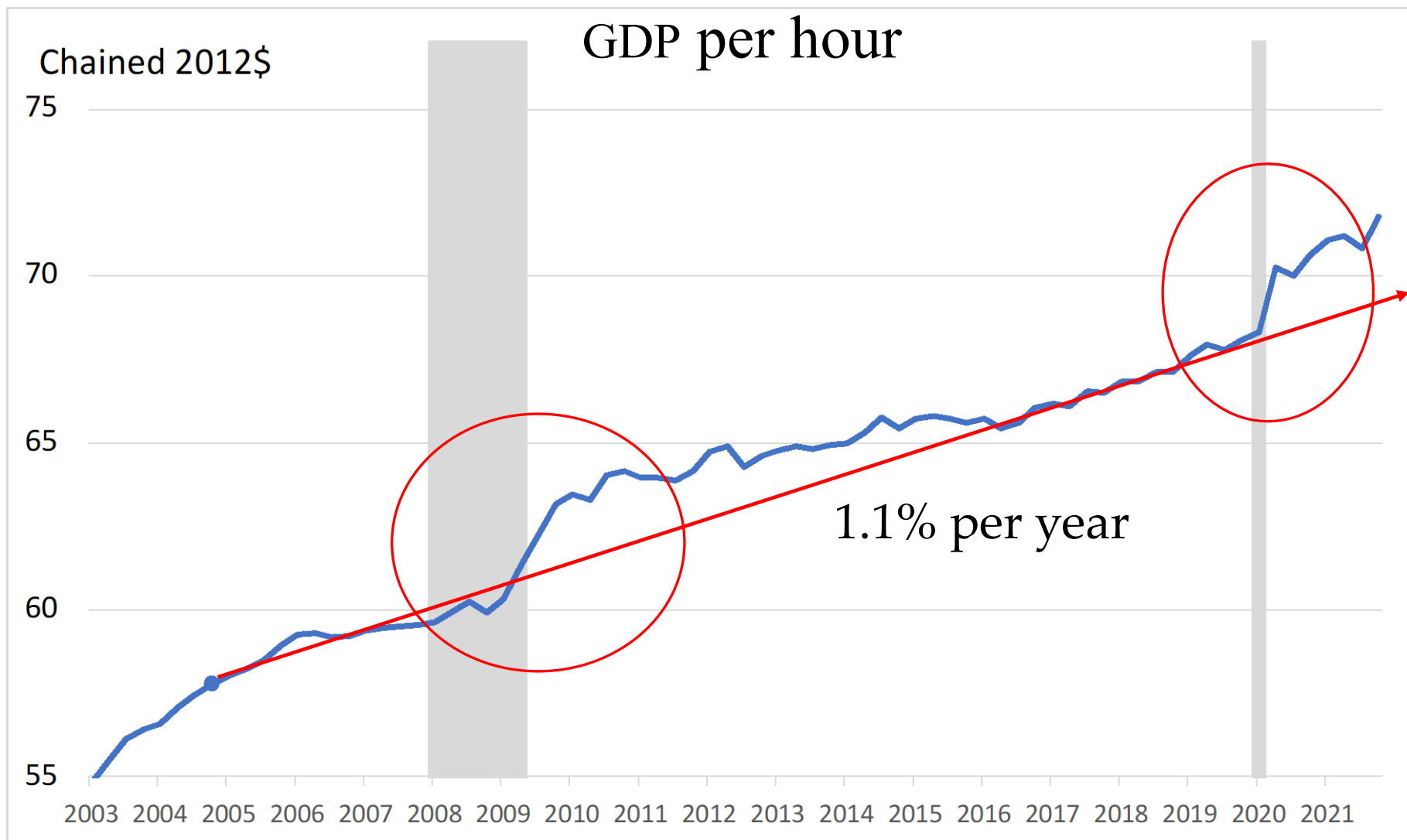


Are we on the cusp of the new 'Roaring '20s'?

BUSINESS

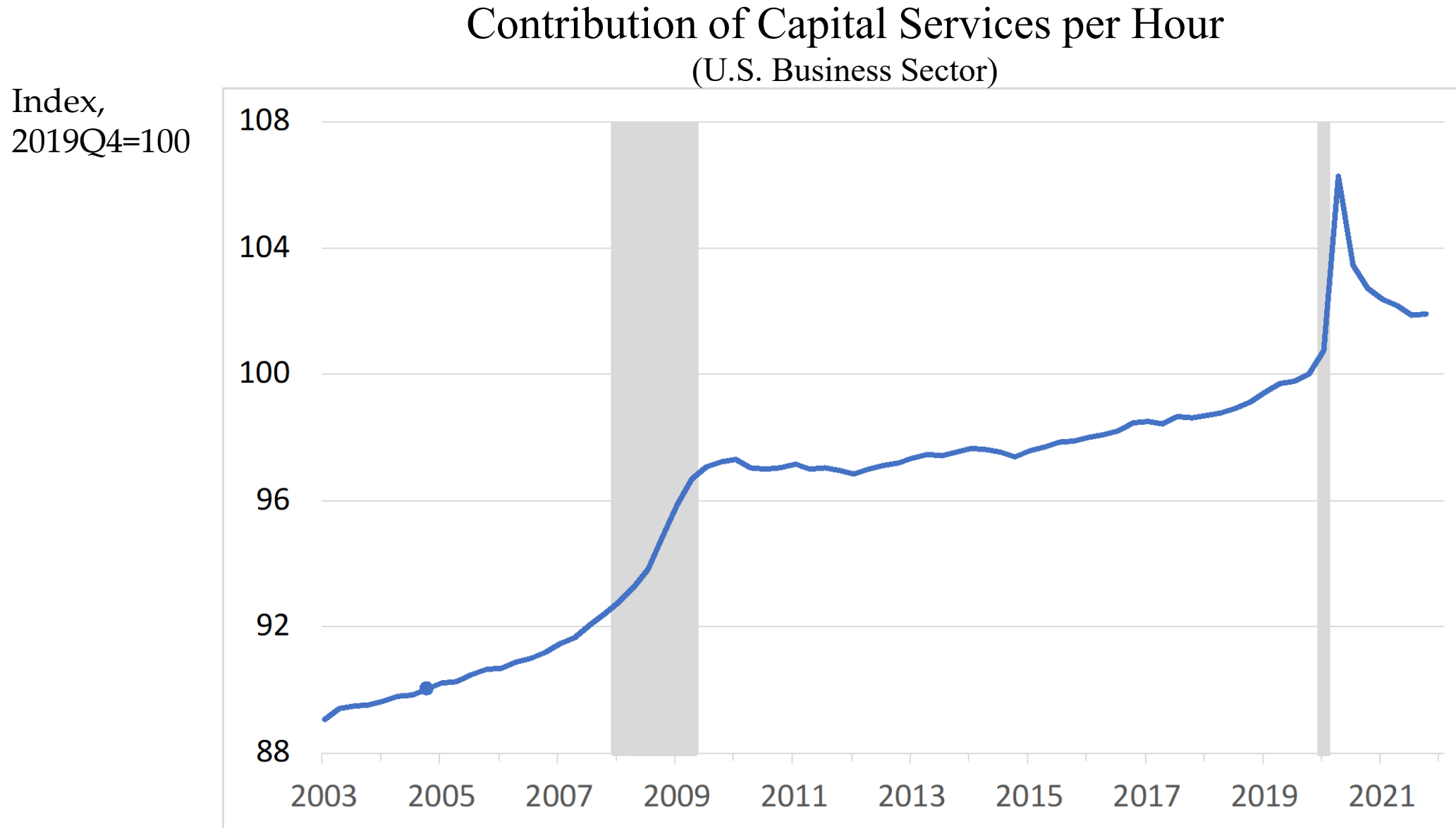
Could the pandemic have us on the edge of another “Roaring 20s”, the economy about to take off with bigger and better growth, investment and wages? Or once the immediate disruptions are sorted, are we doomed to slide back into our pre-COVID malaise of weak investment, soft growth and stagnant real take-home wages – a general timidity and wariness of risk?

Productivity surged during the pandemic



Note: "GDP" averages expenditure (GDP) and income (GDI) side. GDI for 2021Q4 is set to GDP value.

Capital deepening largely accounts for labor productivity spikes



Possible level effects on productivity

Positives

- Firms have learned new ways of doing business
- Some workers appear more productive remotely
- Dynamism/new businesses
- Increased incentives for automation

Negatives

- Adjustment costs of shift to hybrid/remote work
- Greater coordination difficulties
- Need to duplicate capital for home/office
- Pandemic-induced supply-chain disruptions (near term)
- Desire for more robust supply chains (long term)
- Increases in government debt crowds out capital

Not clear COVID shifts slow-growth trajectory

- Will shift to remote work open up a wider pool of talent?
- As economies shift inward and repatriate supply chains, will global idea diffusion slow?
- Are incentives to innovate higher or lower?
 - COVID has opened up new areas for innovation (e.g., remote work, online retailing). But also further entrenched large incumbents

Takeaway

- Pandemic was enormously disruptive. But we've learned that remote work can succeed.
 - Productivity has been volatile during pandemic (and likely will continue to be so). Shouldn't assume gains will survive
- My best guess: Pandemic effects are unlikely to substantially shift underlying slow-growth momentum of the economy

