Productivity Growth: A Cure For Many Economic Ills

ST. LOUIS — Raising the U.S. productivity growth rate by 1 percent a year could solve the Social Security shortfall, improve income distribution and reduce poverty rates, argues John B. Taylor, a Stanford University economist.

Taylor's comments appear in the most recent issue of Review, a bimonthly journal of economic and business issues published by the Federal Reserve Bank of St. Louis. His remarks, titled "Monetary Policy and the Long Boom," were delivered at the annual Homer Jones Lecture, named in honor of the Reserve Bank's former director of research.

"I'll be the first to admit that a goal of productivity growth of 1 percent a year is very difficult to achieve," said Taylor. "But I think goals are useful for bringing attention to a problem, for focusing policymakers' efforts, and simply for getting things done."

He suggested four economic policy measures to help achieve the goal:

- Reform the educational system. "This is the most important thing we can do for productivity growth," said Taylor, "although the payoffs will not come until later.
- Establish a fiscal policy that will increase economic growth without a budget surplus. "A budget surplus can lead to more savings, more investment, rising capital, and increased productivity," he said. "Unfortunately, every time we have seen projections of surpluses in the past, they're usually followed by proposals for how to spend it."
- Reform the tax codes. "A flat tax, for example, could stimulate investment by exempting investment from taxation," said Taylor. "Or, we could replace the income tax with a retail sales tax. There are numerous alternatives, but we need to adopt one if we're going to achieve the goal."
- Apply cost/benefit criterion to regulatory policies. Taylor said the United States has been very effective at reducing entry and price disparities in a number of industries, such as trucking airlines and telecommunications, but lags in what he calls "social regulation," which includes environmental regulations, work and safety regulation.

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