How to revive US productivity

Boosting US productivity represents a $10 trillion opportunity. Here are strategies CEOs can implement now to lead the US to more prosperity.
**Once an engine** of US power and prosperity, US labor productivity has grown at a sluggish 1.4 percent since 2005. Imminent challenges such as workforce shortages, debt, inflation, and the cost of energy could be ameliorated with higher productivity. On this episode of The McKinsey Podcast, Olivia White, a McKinsey senior partner and a director of the McKinsey Global Institute, and McKinsey partner Charles Atkins join McKinsey editorial director and host Roberta Fusaro to share tangible ways to boost US productivity.

After, while taking deep breaths can undoubtedly help regulate emotion, Jennifer Moss, author of The Burnout Epidemic: The Rise of Chronic Stress and How We Can Fix It (Harvard Business Review Press, September 2021) says it will take much more than that to stop the scourge of burnout, in an excerpt from our Author Talks series.

The McKinsey Podcast is hosted by Roberta Fusaro and Lucia Rahilly.

This transcript has been edited for clarity and length.

**Productivity leads to prosperity**

**Roberta Fusaro:** US productivity is a big deal because …

**Charles Atkins:** … over the long view of human history, productivity is the way that we collectively get wealthier.

**Roberta Fusaro:** That’s McKinsey partner Charles Atkins. He says if we want to grow wealthier and more prosperous as a nation …

**Charles Atkins:** Then we really have to get more productive by generating more output with each hour that we work, which is really quite a simple insight, but also a really important one, because we very often get lost in the day-to-day of the business cycle of employment and unemployment fluctuating over time.

**Roberta Fusaro:** So what exactly is productivity? Charles says that, in economics, the definition is pretty simple.

**Charles Atkins:** Productivity is a measure of output relative to some set of inputs. So it can be easiest understood in the context of labor productivity, where we look at what the output per worker is for each hour that they work.

**Olivia White:** So in a sort of economic context, think about a café. How many lattes does a barista make in an hour? Think about a car assembly plant. How many cars roll down the line complete in a day?

**Roberta Fusaro:** That’s McKinsey senior partner Olivia White.

**Olivia White:** Think about productivity as doing more with less.

**Roberta Fusaro:** Doing more with less is exactly what the McKinsey Global Institute’s recent report, “Rekindling US productivity for a new era,” examines. The report says that in the face of workforce shortages, debt, inflation, and the energy transition, regaining historical rates of productivity growth would add a whopping $10 trillion to US GDP—something the US sorely needs.

**Productivity across US states**

**Roberta Fusaro:** Olivia, I was thinking a little bit about the community that I live in. I am based in Massachusetts, and we’ve got biotech communities and huge healthcare systems. Thinking about how companies settle into particular cities and particular states, how is that reflected in our research?

**Olivia White:** So we looked at the productivity of all US states. There are 25 states that have below-average productivity and below-average productivity growth. And there are effectively seven states that have above-average productivity and above-average productivity growth for the past ten years or so.
And those are New York, Massachusetts, Texas, Colorado, Washington, California, and North Dakota.

The broad dynamic here is that we have increasing divergence in the productivity level of a lot of different states across the US. That’s a really important dynamic, and it’s not one that we’ve observed historically.

Charles Atkins: We were somewhat puzzled by this because the US is a unified market. You would expect that there would be mobility of labor, the spreading of ideas, and that you would start to see productive practices spreading more easily. And that’s not what we’ve seen.

Some of it may be that there is an increasing divergence between the companies that are most productive and the companies that are least productive. So where you have states that have managed to attract and continue to foster more productivity among their companies, that can be one of these reasons. But I will just say, honestly, that some of this is an honest-to-goodness real open question.

Charles Atkins: There seems to be something about the leading states in that they have been able to attract the right kinds of firms, attract the labor and the capital that those firms need. And those [firms] have created some healthy dynamics in terms of productivity growth within those states.

Tech is not the differentiator

Roberta Fusaro: What are some of the factors that are playing into this divergence? We haven’t seen it before, so what’s different now?

Olivia White: What’s happening? Well, let me first bust a myth on technology. You might expect, “Well, the states that have higher productivity and higher productivity growth, maybe they’re just the ones in tech.” Not so. They don’t have per se higher amounts of technology or other particularly productive sectors.

Productivity across US cities

Roberta Fusaro: What are the implications for individual cities in a state like mine, where productivity is high?

Olivia White: I’ll give you my answer, and you should absolutely get Charles’s view on this one. So there are a set of cities, in fact eight cities specifically in the US, where actual productivity is meaningfully higher today than it is elsewhere. And I will tell you that Boston is the eighth on that list. San José is actually the first and San Francisco the second.
Roberta Fusaro: We’ve got to catch up!

Olivia White: Yes! And then just for people listening, there’s Seattle, Houston, San Diego, Los Angeles, New York, and then Boston. It’s really clear that agglomeration effects can matter.

When you agglomerate or get a bunch of stuff together in a city, you get a synergistic effect of one plus one being either a lot or at least a little more than two. And what we see here in the US is that there are some cities where that’s really true in spades, and others which don’t really fully or at all benefit from their “citiness,” if you will.

But when it works, this is where you’re able to get a set of companies that actually interact and learn from one another. Workers who actually work at different companies, but nevertheless are able to be better at what they do by virtue of their own interaction.

A lot of it has to do with the sort of ferment of intangibles, how people interact and aid in innovation in different sorts of fields.

Charles Atkins: I think one of the interesting findings from what we’ve seen that is also noted in the academic literature is that the benefits seem to accrue not just to the firms in the technology sector, like what we see in a place like San Francisco or San José, but actually spreads more broadly through the different sectors within those cities.

So it’s not true to say that the success of California is a tech story, because there’s actually multiple sectors that are doing quite well. But it is true to say that if you look at a city like San José or San Francisco, the story of technology and the story of agglomeration effects is very significant in driving the productivity growth that they’ve seen.

Productivity across industries

Roberta Fusaro: I’m curious to hear a little bit more about which industries are growing and which industries are lagging.

Olivia White: It’s not sector-level productivity that makes some states more productive, but there are some sectors that are simply more productive and faster growing than others. I’ll call out a few categories. The first is information, which includes tech and most of what we would consider tech companies; finance and insurance; mining; and wholesale trade.

There’s a set of sectors that are more productive than average, but where productivity is not growing so fast. They’re sluggish, and they include manufacturing, real estate, rental, and leasing.

And the final category I’ll call out are the sectors that are lagging—the ones where productivity growth is basically at a standstill. This includes construction. It includes accommodation and food services. It includes transport and warehousing. It also includes healthcare.

Roberta Fusaro: Looking specifically at companies as engines of this productivity in the economy, what did we see in the report?

Olivia White: We found something really unusual in the data that the US collects. Individual companies within a given industry have widely varying levels of productivity and productivity growth.

Take the manufacturing sector. The most productive companies are five times more productive than the bottom decile of companies in terms of productivity. So there’s a huge amount that many companies can learn from the most productive. In general, we find that that’s true across industries.

Charles Atkins: And that gap has actually been growing wider over time. Our productivity is actually not slowing down at the level of those in the top 10 percent of companies. They are actually growing more productive at a rate that is at least in line with historical growth, and depending on the sector, sometimes exceeding the historical growth rate.
The question is more: Why is the other 90 percent falling further behind? And this is a key pattern to understanding what it will take to unlock productivity growth.

Because understanding the dynamics at a firm level, how some firms can take technology, and skilled labor to drive business benefit from it, is actually the key to understanding what is happening in productivity growth in the US economy.

Roberta Fusaro: Are there any examples of companies getting this right?

Charles Atkins: There’s a company by the name of Dot Foods.

What’s interesting about this company is that it’s in a sector that is viewed as a laggard sector in terms of productivity. It’s in food services redistribution. It is a small company in contrast to a lot of the superstar firms that are talked about as being productivity leaders.

It’s based mostly in rural areas compared with many of the other firms in cities. Many of the same things I just spoke about are inherent in its success story. It digitized early. It reconfigured its organization around its digital infrastructure and digital engagement of its customers. It was able to find and attract scarce talent even in [rural] areas. And now it’s one of the largest food services redistributors in the United States.

How to increase productivity

Roberta Fusaro: What can companies do to improve productivity?

Olivia White: Let me make a couple of suggestions for the CEO seat. Number one is to prepare for the future war on talent. Labor markets are going to be tight in some form for the foreseeable future, and human capital plays an incredibly important role.

As you’re looking at hiring people for their talent and if they have the relevant experience, don’t focus just on credentials or where someone has a degree from. Make sure that once you bring people in, you really invest in on-the-job training and rotation programs that build skills over time. It also matters a lot to make sure that you have policies on childcare and elder care and parental leave, so that you’re not de facto excluding people with talent from the workforce, so you are able to get the most out of everybody.

‘We have a double problem. Not only has our productivity growth declined, but the number of workers that we have in the economy is slowing, because our labor force participation rate is declining.’

–Charles Atkins
The second broad thing is that digital transformations are important. Commit to that transformation with real goals and shared accountability.

Make sure that your investments aren’t just in technology, but that you’re investing in the research and development and the intangibles that actually allow you to create business operations that are designed around your goals, and make the technology serve your goals, rather than the other way around.

Charles Atkins: What we find is that most firms have actually made investments in technology, but very few have actually gotten the benefits. The companies that are getting the benefits tend to do a couple of things right. They tend to be able to bring together skilled labor that’s more suited to utilizing that technology.

They reconfigure their organizations and the workflows and operations within their companies to take the benefit of both the technology and the skilled labor. And then, finally, they will also start to invest in reskilling programs and other forms of intangible assets like brand and advertising, etcetera, that will help them really get the benefits of those investments in technology and people.

So when we see that [inefficient use of technology] is what’s holding many of those companies back, it’s not for lack of trying to invest in technology. But in many cases, it’s often the inability to fully capitalize on the benefits [of the technology], by not necessarily reconfiguring their organizations or being able to attract the types of talent that you need to capitalize on the benefits.

Olivia White: Technology and the efficient use of technology really matters. I hear a lot of CEOs and executives say, “We’ve invested a tremendous amount in technology, but we haven’t seen it in our productivity or in our margins.”

In order to get the most out of technology, it’s not just the widget [that matters]. It’s making sure that your processes and the way you train your people are tuned into the technology you’re putting in place.

How other countries are faring

Roberta Fusaro: Did the research look at productivity across other countries? And what’s the comparison there?

Olivia White: Yes. This is an incredibly important question, and this research focused on the US, but we did look elsewhere for a baseline comparison. If you look at the US, productivity growth in the US over the real long haul, since World War II, has been at about 2.2 percent per year.

Productivity growth over the past 15 years or so has been at about 1.4 percent per year. A little earlier we talked about how one thing productivity is important for is compensation. From 1995 to 2005, growth in real compensation in the US was 1.9 percent per year. From roughly 2005 to 2019, growth in real compensation was down by more than half—

Roberta Fusaro: Oh wow.

Olivia White: —to 0.7 percent.

Roberta Fusaro: Wow.

Olivia White: So this is why we care about the US. Now, how about other countries? We looked at a bunch of countries, particularly in Europe, to provide a bit of a counterpoint. And the fact is, they’re having exactly the same sorts of struggles and the same sorts of issues. In some instances, actually, those struggles are even more acute. So this is one of those places where we may look better than some of our European peers. As I say, not by a lot, but by a little bit. But none of us look very good, and none of us look very good even by standards of what we were seeing between 1995 and 2005.

Charles Atkins: We have a double problem. Not only has our productivity growth declined, but the number of workers that we have in the economy is slowing, because our labor force participation rate
is declining. And our view is that those problems are somewhat linked.

Solving the productivity challenge will allow us to create higher paying jobs and will create, in many cases, more opportunities for workers to get jobs that offer more professional advancement and higher salaries, in more productive settings. So our view is that, if we can solve the labor productivity challenge, we will also help solve some of the labor participation challenges that we also face.

Green technology productivity

Roberta Fusaro: Any thoughts on how companies can improve their productivity around the energy transition and green technology?

Olivia White: It is going to be important to make sure that people are thinking about capital allocation processes to enable rapid moves as green technology comes online and to also set long-term plans for net-zero transitions to make sure that business units and employees have time to adjust—because a lot of these transitions will actually mean that people have to work in new ways.

And then there are a lot of things that companies can do to work with others around them. This means private sector leaders working with the public sector and social sector to actually shape the local economic context.

So how do we think, for example, about local needs in terms of talent or in terms of infrastructure. How do we think about the way that suppliers and customers work together, maybe even an ecosystem like forums that can help generate some of the local agglomeration benefits, and co-innovation on the part of different companies, different firms, and governments that are in similar locations.

Roberta Fusaro: Olivia, I’m curious as to how we think about all this at the 40,000-foot level. How should we think about productivity and potential benefits going forward?

Olivia White: Well, putting a number on something at the 40,000-foot level is dangerous but also important. And we tried, right? So what we asked ourselves is, suppose that productivity growth in the US returned to the long-term average we’ve had since World War II.

Suppose it went from the current roughly 1.4 percent per year to growing at 2.2 percent per year. Then we find that that is equivalent to $10 trillion in cumulative GDP added between 2021 and 2030, which is where our data transition started. So $10 trillion more than we’d see otherwise over a period of ten years.

Roberta Fusaro: That’s massive.

Olivia White: It’s huge. To put a bit more of a human face on it, what does $10 trillion mean? Well, that’s roughly $15,000 of additional output per household in 2030. And a $5,000 or $3,000 stimulus check—that’s a lot of money.

Productivity is ultimately the engine of economic growth, but it is also the only way that things like real wages can grow over time. It’s the way we make sure that everybody has enough. It’s the way we make sure that that happens, especially in a world where we have headwinds of various sorts.

So as people are getting older, and we have to provide for more people past retirement age, as there are potentially macroeconomic headwinds, as we’re going to need to spend in order to make our way to net zero, all of these are reasons why we need to have a productive economy in order to achieve our goals but also to sustain growth.

Roberta Fusaro: This has been a terrific conversation. I am now bound and determined to help the city of Boston move up our list. Thanks so much for joining the podcast.

Olivia White: It was really fun to chat, Roberta.

Charles Atkins: Of course, Roberta.
‘Even just being able to talk about mental health at work is a better perk than helping you to meditate when you’re really mentally unwell.’

—Jennifer Moss

Lucia Rahilly: There’s US productivity and there’s our own personal productivity—which can be hampered when we’re burned out. Jennifer Moss, author of The Burnout Epidemic, says sustainable wellness means companies have to make structural—not surface—changes.

Jennifer Moss: I look at burnout prevention as being part of an ecosystem; all parts need to be working together. Before we can eradicate burnout, we need to have, at the organizational level, the systems and policies in place that are focused on the root causes of burnout, which are way further upstream than what we’re doing right now, which is wellness technology, subsidized gym memberships, yoga, and breathing exercises.

But when 85 percent of the global workforce feels like their well-being has declined, those things aren’t actually going to work. Right now, it’s just too disparate. It’s two groups, us and them, trying to solve for burnout. And that’s why it’s failing.

We need to look at this as a crisis, and pause to ask, “Why are we still doing things that we did March 17, 2020?” This is endemic at this point. We need to start creating sustainable ways of working in this moment. And that means ten or 12 hours of video conferencing is not sustainable. What I keep seeing are these big declarations from companies saying, “We gave a week off to our burnt-out employees.” There’s so much irony to that. You’ve burned them out, so you’re giving them a week off. But have you changed any of the workloads so that when they go back, they’re not dealing with the debt created by being away for a week?

The first thing that we should be doing is asking, “How do people feel about the holiday party? How do people feel about this yoga that we’re doing right now? How do people feel about this app that we gave you to help you meditate?” And yet you’re working 70 hours a week. Even just being able to talk about mental health at work is a better perk than helping you to meditate when you’re really mentally unwell.

Positive gossip is one of the greatest interventions that we could be using inside of our organizations. We have social contagions. That can be anything from loneliness and divorce to happiness and gratitude.

We should be saying, “Hey, that presentation that you did last week, it was so good. And I actually took those two key points, and I brought it back to my team, and I actioned it. I noticed my team working differently. They were more collaborative, so thank you for that.”

That’s showing that you are empathetic. That’s showing that you’ve listened. That’s showing that you’re actually bringing this into the fold and into your work and making it better. I mean, the person
receiving the appreciation, gets such long-lasting impacts on their own sense of self-efficacy. And then that just continues to become this contagion effect, this network effect of high productivity, high sense of self-efficacy and value. Then every boat is lifted.

So understanding and really provoking people to think, "Wow, I, as a leader inside of this organization, have a responsibility to the people in my company who are working hard to try to show up, to work in a place that’s healthy. The last thing I want to do is make them unhealthy."

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