asae foresightWORKS

The Productivity Paradox

SUMMARY: In recent decades, growth in economic productivity has failed to match growth rates of the post-WWII era despite exponential advances in computing and the rise of the information economy. Economists are concerned that today's information technology (IT) innovations are not economically transformational and are unable to support higher rates of productivity growth. Low productivity growth has contributed to a contracting middle class and marginal wage growth for a majority of workers.

Forecasts

- Tech firms are innovating at a rapid pace in internet technology and services, but their growth likely will fuel only modest job creation. New tech-enabled, platform-based services can be a disruptive force in a given industry, but these will continue to fall short of transformational innovations that give rise to new spinoff industries.
- Many markets are dominated by a handful of leading firms, which can impede disruptive innovation. These firms may capture an inordinate share of future growth until new technologies or regulatory interventions destabilize their market dominance.
- Consumers may perceive an improving quality of life, even if economic growth is weak, as technology innovation can drop the price of goods while increasing their capabilities (e.g., HDTVs).
- Artificial intelligence (AI) could be a transformational technology but, even with rapid progress, it may take years—if not decades—to affect overall economic productivity.

Key Uncertainties

Future funding levels for scientific research

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Whether R&D spending comes from the public sector or the private sector

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Ability to preserve political stability given continued economic stagnation

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Impact of artificial intelligence and automation on productivity growth

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Supporting Trends

- **The end of rapid economic growth.** Lack of transformational technological innovation may curb future productivity growth. IT innovation may not bring the same economic growth as past technological innovations like electricity, the automobile, or petrochemicals.
- **Frontier firm dominance.** Productivity improvement is being captured by a small number of elite global companies. These firms may be maintaining their dominance by attracting high performers, leveraging extensive patent portfolios, and developing a world-beating ability to execute in their markets.
- **Stalled income growth.** Income growth has stalled for the lower and middle classes in advanced economies. Millennials may be the first generation in 70 years to not surpass the incomes of their parents.
- **Headwinds for global trade.** Obstacles to the expansion of global trade are proliferating, with globalization facing a growing backlash in both the United States and European Union.
- **Declining U.S. workforce participation.** A declining percentage of working-age American adults are in the workforce.
- **Shrinking American middle class.** People in middle-income households have decreased to 50 percent of Americans.
- **Rising U.S. income inequality.** U.S. income inequality has been rising since the mid-1970s.

Related Drivers of Change

- American Inequality
- Global Power Shifts
- Trade in Transition
- Aging World

Notable Data Points

DECLINING WORKFORCE PARTICIPATION

In 2019, the **American civilian workforce-participation rate is 63%,** despite a low 3.8% unemployment rate.

Source: Federal Reserve Bank of Dallas

WINNER-TAKE-ALL MARKETS

In many sectors, **the elite 5% of companies benefited** from productivity growth between 2001 and 2015, while the other 95% of firms had minimal improvement.

Source: Organisation for Economic Co-operation and Development

STAGNANT INCOME GROWTH

Adjusted for inflation, purchasing power for average U.S. workers has **declined from $23.68 in 1973 to $22.65 per hour in 2018.**

Source: Pew Research Center

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Strategic Insights

- Association members in many fields could continue to feel cost sensitivity about membership, dues, registrations, and other service fees.
- Members of associations in low-growth job markets will place higher value on the ability of an association to facilitate professional networking and finding job opportunities. Associations could enhance their role as a job and talent matchmaker by expanding job board programs and developing new employment-focused offerings.
- Given the stagnation in developed markets, associations could grow their membership by strengthening their outreach in faster-growth emerging markets. Associations that do this will need to weigh whether collaborating with local partners or going it solo is the right approach.
- In some cases, strong growth in emerging markets could elevate the national or regional associations in these countries. Their increasing strength and visibility could impede efforts of U.S. associations to expand their global outreach.
- Associations can be a driver of funding foundational industry research. This could be by lobbying, direct grantmaking, industry funding partnerships, or even crowdsourcing.

Timing

- **Stage:** Mature
- **Speed:** Slow, though this could change rapidly in the event of an economic crisis

Potential Alternative Futures

- **Only emerging markets:** Emerging markets are the only economies experiencing sustained healthy growth.
- **Trustbusting tech:** Dominant tech firms fall afoul of antitrust sentiment, leading to breakups and revived innovation.
- **Crisis and renewal:** Another economic crisis causes short-term harm, but incites financial and economic reforms that spur growth.
- **Jobless growth:** Deployment of automation tech jumpstarts "jobless" economic growth, in which expansion is no longer linked to job creation.

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Take Action

- **Analyze your financial risks.** All forms of association revenue can be at risk. Reduce your reliance on any source of revenue through diversification of nondues revenue. Review your reserve policies to ensure that you have adequate funds for business continuity if the economy staggers.
- **Understand who is winning and losing in your industry.** Even within the same industry, you may have members in different sectors, socioeconomic groups, and geographic areas who face more severe economic impacts.
- **Revamp your approach to membership.** Adjust membership models to unbundle or tier benefits. Provide discounts and incentives to retain struggling members. Millennials with slower wage growth and student debt may hold membership to a higher return on investment. Membership growth and retention may no longer be a realistic metric for assessing association performance.
- **Help underwrite research and development.** If you have the resources, use them to sponsor innovation and research programs and grants that could help mitigate declining investments by government and business. If you fund research, consider taking a financial stake in any patents or discoveries.
- **Teach members to thrive against the odds.** Educate your members to have the resiliency and leadership skills to be winners in a challenging job market. Boost your career, mentoring, and networking services.
- **Anticipate a volatile political agenda.** Protecting members' economic interests will continue to be a priority. So many pending U.S. policy issues could have a potentially disruptive impact on the economy. State governments also may take actions that affect regional and chapter members.

Keyword Search

To continue researching this change driver, use these search terms:

secular stagnation, great recession, great stagnation, second machine age, low-growth economy, innovation decline, stagnant wage growth, new economic models

Who Will Be Affected

Associations and businesses in competitive markets may not survive in a low-growth economic environment. Associations and nonprofits that respond when people are in need could see membership and donations increase. Associations representing businesses where consumers can delay purchases or services may see their members struggle. Financial institutions will feel increased pressure to take risks to overcome slow rates of return on investment.

About ASAE ForesightWorks

ASAE ForesightWorks is a deliberate, evidence-based research program and emerging line of products to provide association professionals with a *continual* stream of intelligence about the changes facing the association industry, including:

- regularly updated action briefs;
- tools for applying insights from the research in your association;
- guidance in performing environmental scans; and
- opportunities to engage with peers around the research.

Ultimately, the program's mission is to empower association leaders to create a culture of foresight in their associations and to lead their organizations confidently into the future.

Check **asaecenter.org/ForesightWorks** and follow **@ASAEfdn** on Twitter for updates on new findings and events.

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