



The Daily Dish

A Closing Word on 2023

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This is the final (original) Eakinomics for 2023. We thank you for your (pick one) loyal/intermittent/accidental readership and hope that even the tiniest insight was gleaned at some point this year.

To close the year, it seems appropriate to ask: What was the most surprising economic or policy development in 2023? We can rule out policy, since Bidenomics is nothing if it isn't as predictable and ineffective as the Steelers' offense. The economy did surprise, however, dodging a recession and showing disinflation at a better-than-expected clip. But the foundation of that surprise, and this year's award winner, is productivity growth in 2023.

Labor productivity growth has averaged 2.7 percent (annual rate) through the first three quarters of 2023, after averaging -0.5 percent for the first two years of the Biden Administration. Holy U-turn, Batman!

Nothing else contributed more to the relative ease of reducing inflation without a sharp increase in unemployment. Nothing else did as much to turn real wage growth from black as midnight to a glimmer of dawn on the economic horizon. Nothing else could hold growth positive as the Fed did its very best to restrain demand growth.

And nothing else could have been harder to anticipate.

Now, as the graph below vividly demonstrates, labor productivity growth is one erratic fellow – even when “smoothed” by looking at year-over-year rates (which essentially average four quarters) instead of quarter-by-quarter data. So, what happened?

Was it the bipartisan infrastructure bill? No. There is nothing in the Congressional Budget Office [research](#) that suggests \$500 billion in new infrastructure spending – especially when half of it was deficit-financed – would generate that much productivity growth that fast. No.

Was it the CHIPS and Science Act, with it supercharged, rent-seeking semiconductor industrial policy folly? No. The first of that money was not wasted until last month. No.

Was it the Inflation Reduction Act, with its clean, green, rent-seeking industrial-policy-cum-protectionism climate policy? No. Ha ha ha. No.

The truth is that it was just an economic four-leaf clover. Just say thank you and savor it.

Labor Productivity Growth (year-over-year)



