



Economic Cycle & Growth

# The Myth of Poor Productivity Growth

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## At a glance

Switzerland's productivity growth is strong. However, per capita GDP is growing at a slower rate than in the U.S. because people here work fewer hours.

We hear and read it time and again: labor productivity growth—that is, the amount of GDP generated by a single worker—is said to be poor in Switzerland. There is talk of sluggish productivity growth in recent years. That is why per capita GDP growth is modest. But this claim remains false, no matter how often it is repeated.

Switzerland is not just growing in breadth. *economiesuisse* has already dedicated an entire dossierpolitik. It is obvious that economic output increases with a rising number of employed people. However, it is evident that in Switzerland, GDP per capita is also rising, and with it the prosperity of the resident population. They, too, benefit from economic growth. The reason is simple: GDP per capita rises because labor productivity rises. However, it could rise even more sharply if people in Switzerland—as in the U.S., for example—worked longer hours. But has productivity in Switzerland really grown only marginally in recent years, as is often claimed?

## Labor input is often overlooked

There are two ways to increase GDP per capita: On the one hand, the working population can become more productive, i.e., they produce more output in the same amount of time. On the other hand, they can increase GDP per capita by working more hours than before. It is therefore important to consider labor input in addition to productivity. And because GDP per capita refers to the entire population and not just the working population, the labor input of the entire population must also be taken into account.

The following figure shows the development of these two components for various countries. Clearly, overall economic productivity has risen more sharply in the U.S. than in Switzerland. However, it is evident that this is also largely due to the fact that more hours are worked per person in the U.S. This is why countries such as the U.S. show better growth rates in terms of GDP per capita than Switzerland. Yet it is incorrect to infer from this that productivity growth is stagnant. If we look solely at labor productivity, Switzerland has achieved annual growth rates on average as high as those of the U.S., Denmark, or Germany since 2010 (and this despite the fact that the level of labor productivity in Switzerland is much higher than in these three countries). In the UK and the Netherlands, however, productivity gains were significantly lower than in Switzerland.

So if a country has higher GDP per capita growth than Switzerland, this does not automatically mean that this country is also performing better in terms of productivity growth. The difference in growth may also be due to a difference in the development of labor input.

## Why is labor input declining in Switzerland?

There are two explanations for why labor input is declining in Switzerland. On the one hand, the number of hours worked by the employed population is declining. This simply means that the working population is consuming part of its prosperity in the form of additional leisure time. Leisure time is not included in GDP per capita.

On the other hand, we are facing demographic aging, meaning a growing proportion of the population is no longer economically active due to age. This reduces the labor input of the population per capita. Immigration, which in Switzerland mainly involves people of working age, mitigates this effect. As *economiesuisse* demonstrates in another



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