The Daily Dish

Construction and the Economy

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The construction industry builds houses. It builds apartments and condos. It builds strip malls and indoor malls. It builds factories. It builds infrastructure. Indeed, the construction industry lies at the crossroads of the U.S. economy. And that is a problem.

Every now and then, there is a research paper that is so clear and on point that it is stunning. Such is The Strange and Awful Path of Productivity in the U.S. Construction Sector by Austan Goolsbee and Chad Syversen. (You could also not read the paper but listen to it as I did.) The authors take a look at productivity in the construction industry and the basic story is shown in the graph below (reproduced from the research summary here).

The short version is that the U.S. economy overall has continued to become more productive, but since the mid-1960s, the construction industry has seen output per worker decline by about 1 percent annually. The upshot is that it is much more expensive to build something in the United States than it would be if construction had experienced more normal productivity growth.

But why hasn't it? This, alas, remains the great mystery. It turns out that there are a lot of potential explanations but no real resolution of the productivity puzzle. For example, manufacturing has experienced very strong productivity growth and has many large firms, along with midsize and small competitors. Construction has relatively few large firms and is dominated by small establishments.

Alternatively, many people point to land use policies (zoning) as the problem. That undoubtedly contributes but does not seem to fully explain the situation. Also, the politics are problematic because homeowners, who dominate local decision-making, have no incentive to make their most important asset less valuable. Cheaper is good for buyers but not sellers.

Eakinomics' upshot? This is a great cocktail party fact (obviously I attend the wrong

parties), an important policy issue, and a great research puzzle. What could be better?

Figure 1 • Indexes of Value Added Per Full-Time-Equivalent (FTE) Worker and Total Factor Productivity (TFP), Overall US Economy and Construction Sector (BEA Data)

