## Net gains and losses

*The internet has not yet produced the hoped-for productivity miracle*


THE developed world has an ageing problem. As the baby boomers retire, the size of the workforce in many places will stagnate or shrink. So generating economic growth will require a very healthy improvement in productivity.

Recent trends have not been encouraging. The labour-productivity index for the euro zone is up by just by 13% since 1995, and by only 3% since 2005. The British economic recovery has been marked by a "productivity puzzle" in which employment has held up rather better than GDP. On the other side of the Atlantic American productivity growth has also been sluggish. A note from Smithers & Co, a research firm, shows that GDP per hour has grown at a rate of only 0.3% a year since 2010, compared with a 1.5% annual rate in the 20 years before then.

This poor performance may be related to the structure of the workforce. Dhaval Joshi of BCA Research points out that in Britain a net 360,000 self-employed jobs have been created in the first four years of recovery, around 40% of the total increase in employment. By contrast, self-employment made a tiny contribution to the 1990s rebound. The self-employed work longer—around 6% more hours a week than employees—but their median hourly earnings are less than half those of employees. This may well be weighing on the productivity numbers.

That might be fine if those heading into self-employment were the budding entrepreneurs who could create the Apples and Googles of the future. But the numbers do not suggest this is happening. Between 2008 and 2012 there was a 66,000 fall in the number of British self-employed who had people working for them (ie, job-creating entrepreneurs) and a 431,000 increase in those who worked as one-man bands.

The types of industry that gained the most self-employed workers were information, communication and support services, suggesting that former employees in areas such as technology, media and journalism have become freelancers. In doing so, they have probably suffered a drop in their income but may still be working hard, pounding the pavements in the hope of finding new clients and projects.

The role of technology in enhancing productivity is another source of lively debate. In a controversial essay last year Robert Gordon of Northwestern University suggested that the impact of the internet is much smaller than previous innovations such as electrification or indoor plumbing. He postulated that the economic progress of the past 250 years may have been a unique period in human history.

It seems rather early to declare an end to the era of computational innovation: the original industrial revolution took over a century to play out. But there does seem to be a contrast between the initial expectations that marked the dotcom bubble of the late 1990s and the disappointing growth of developed economies since.

The internet has had a huge effect, of course. It has transformed some industries—retailing, music and publishing, for example—largely by destroying old business models. Consumers have benefited in the form of lower prices.

For workers, the internet has made it easier for people to freelance. Just pop into your local coffee shop and observe all those latte-lovers on laptops. But by the same token full-time employees are now expected to be in contact with the office for more hours of the day, and on holiday as well. Whether the ability to watch kittens on YouTube or to look up information on Wikipedia is sufficient compensation for this deterioration in work-life balance is for individuals to decide.

Life in a 19th-century cotton factory was hardly idyllic, after all. But what factories did do was group workers together, allowing them to organise and eventually improve their conditions. The internet, in contrast, seems to be atomising the workforce. By giving more control to the owners of capital, it may help explain why profits are close to a post-1945 high as a proportion of American GDP.

In theory, those profits should allow companies to invest more in ways that will enhance productivity and thus GDP growth. In a sense that is what monetary policy is meant to achieve. By forcing down the cost of capital, businesses will be encouraged to go on an investment spree. Firms have yet to fulfil their part of the bargain. They need to do so if the rich world is going to grow fast enough to pay for the baby boomers' retirement.

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