

Unlocking Productivity in The Essential Economy

While top-line U.S. productivity figures point to slow but positive growth, they mask a mounting divide at the core of our economy. We are witnessing accelerating efficiency in Professional and Business Services (the “white collar economy”). The digital and consumer-facing realms – the ‘apps’ of our economy – are running faster than ever. Yet, the critical industries that build, power, move, and maintain the physical world are stalling. In many vital sectors, productivity isn’t just lagging; it’s actively declining.

These aren’t niche industries on the periphery. We’re talking about the sectors that form the bedrock of commerce, the physical infrastructure upon which all other sectors depend: Agriculture, Construction, Energy, Manufacturing, Transportation and Logistics, Maintenance and Repair, and the Public Sector.¹ This Essential Economy represents \$7.5 trillion dollars in output per year – 27% of our GDP – 52 million jobs, and 2 million businesses.² If you were to add healthcare, retail, and all public services – considered by many to be critical sectors of the economy – the size jumps to \$12 trillion dollars of GDP, 95 million jobs and 3 million businesses.

And this growing gap in productivity presents a serious challenge for our economy and could erode our economic edge. Economists define productivity (specifically, labor productivity) as the total value of goods and services produced per hour of work. As workers produce more output within the same number of hours, firms raise more revenue without greater costs, increasing profits – which they can use to raise wages (or re-invest in the business) without raising prices. For decades, American workers’ wage growth has risen hand-in-hand with our national productivity.³

Productivity is the engine of profitability for businesses, the bedrock of competitiveness and central to sustainable economic growth. It can elevate wages and living standards. Simply put, productivity is a key determinant of our collective future – and that means challenges to productivity in the Essential Economy present a challenge for us all.

The Importance of the Essential Economy

The sectors of the Essential Economy – including Agriculture, Construction, Energy, Manufacturing, Transportation and Logistics, Maintenance and Repair, and the Public Sector – lay the foundation for growth across the economy by ensuring the stable, secure, open flow of commerce. These sectors build and maintain the energy and transportation infrastructure used to produce goods and bring them to market. They construct and repair the vehicles, roads, power plants, warehouses, data centers, office buildings, and storefronts that allow the economy to operate.

Since 2015, the aggregate productivity growth of 1.7 percent per year has been driven almost entirely by robust 5.3 percent annual growth in the Information sector and 3.0 percent growth in Professional and Business Services. Meanwhile, the foundational sectors have been left behind.⁴ As Figure 1 plots, from 2015 to 2023, productivity in the white-collar economy rose 28 percent, led by things like software, cloud services and consulting. But during that same time, productivity in the Essential Economy has gone down.

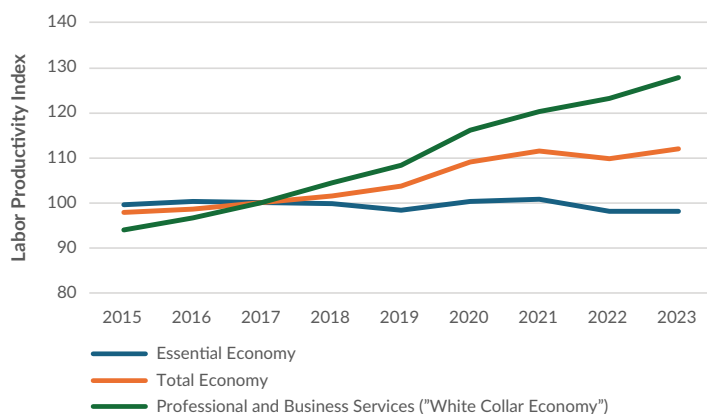
1 This definition corresponds to workers and firms in industries with NAICS codes 11, 21-23, 31-33, 44, 48-49, 5617, 562, 6219, 811, and 92.

2 For data on output by industry, see Bureau of Economic Analysis, GDP by Industry; for employment data, see Bureau of Labor Statistics, Quarterly Census of Employment and Wages; for number of businesses, see US Census Bureau, Business Dynamics Statistics.

3 See, for instance: Strain, Michael. 2019. “The Link Between Wages and Productivity is Strong,” American Enterprise Institute.

4 For data on aggregate and industry-level productivity, see BLS, Office of Productivity and Technology, “Labor productivity by detailed industries.”

Figure 1: Productivity Growth in the Essential Economy Has Lagged White Collar Economy



Notes: Labor productivity index measures changes relative to 2017 (set to 100).
Source: Bureau of Labor Statistics (2025).

The productivity bottleneck in the Essential Economy isn't merely an academic concern. It has tangible, costly implications for businesses. Falling productivity in construction means higher capital project costs and longer timelines for building everything from new offices to data centers. Stagnation in transportation and logistics means supply chain inefficiencies, increased operating expenses, and slower time-to-market. Lagging energy productivity raises utility bills and lowers grid reliability.

So, what does investing in the Essential Economy look like?

Leaders should focus on three key areas to accelerate productivity growth:

1. Fostering Innovation: Public-private collaboration in R&D is critical

Private companies have an incentive to invest in the creation of new products and process and adoption of new technologies to boost productivity. But while private sector efforts are vital, the federal government has historically

played a large role in funding basic R&D to great effect. In the energy sector, for instance, public and private partnerships have yielded transformative innovations that raised productivity and bolstered domestic resources.⁵ The sharp decline in federal R&D investment (to the lowest point in decades)⁶ is a disinvestment in our future capacity. We need to reignite the pipeline for foundational technologies that can revolutionize construction methods, logistics networks, and manufacturing processes.

2. Bolstering Human Capital: Investing in education and training to build a skilled workforce

Technology is only as good as the people who wield it. The most acute labor shortages today are in the skilled trades essential to these lagging sectors. Investing in targeted education and training isn't just social policy; it's strategic talent development. We need to bridge the gap between educational institutions and employers, funding proven models that equip workers with the high-demand skills needed to operate a modern, productive Essential Economy.

3. Streamlining Regulatory Procedures: Removing unnecessarily long and costly barriers to building

Here's a staggering reality: construction productivity is lower today than it was in the 1980s, heavily impacted by complex, drawn-out regulatory hurdles.⁷ This isn't just red tape; it's a physical barrier to progress. The inability to efficiently permit critical infrastructure – like the power lines needed for our digital economy – is a self-imposed constraint threatening national priorities. We must find ways to integrate public input and environmental review with decisive, predictable timelines that allow essential projects to move forward. Simply returning to prior levels of construction productivity will require streamlining the strings of veto points that characterize permitting at the federal, state, and local levels; gathering public input efficiently; and making a decision within a reasonable timeline that weighs environmental considerations alongside our national infrastructure needs.

⁵ See, for instance: Amarnath, Skanda and Arnab Datta. 2023. "How Public Policy Accelerated the Shale Revolution," Institute for Progress.

⁶ National Center for Science and Engineering Statistics. 2023. Federally Funded R&D Declines as a Share of GDP and Total R&D.

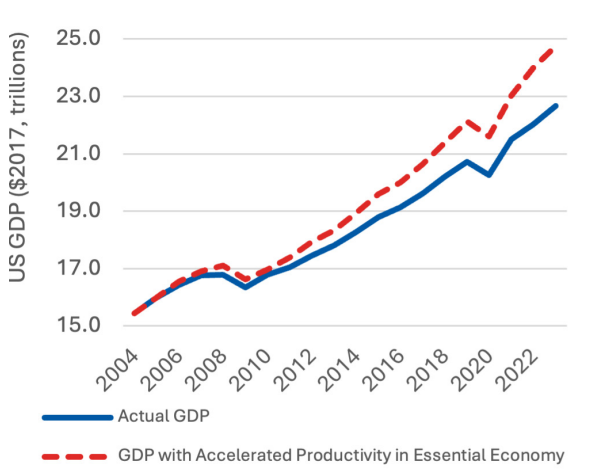
⁷ D'Amico, Leonardo, et al. 2024. "Why Has Construction Productivity Stagnated? The Role of Land-Use Regulation." National Bureau of Economic Research.

Toward a new path of productivity growth:

America's history of economic leadership is fundamentally tied to our ability to relentlessly improve how we produce. If productivity in the Essential Economy had kept pace with its growth over 20 years prior, US GDP would be 10 percent higher today.⁸ And it's not just growth, it's about people's paychecks. The median income today is about \$50,000, if productivity had kept up, a typical American worker would earn \$5,000 more a year.⁹

For questions, please reach out to essentialeconomy@aspeninstitute.org and look out for a full research paper coming in the Summer.

Figure 2: US GDP Would be 10% Higher if the Essential Economy Had Kept Pace



Source: BEA (2025).

This gap is a tangible drag on prosperity and a missed opportunity. By strategically investing in innovation, aggressively developing our skilled workforce, and courageously tackling regulatory bottlenecks, we can unlock the full potential of the Essential Economy – and in doing so, build a stronger and more prosperous future for everybody. The time to act is now.

⁸ This calculation is made based on a scenario of raising productivity growth within Essential Economy industries over 2006-2024 by an amount equal to its average growth from 1987 to 2004, without adjusting historic sectoral output shares.

⁹ For median earnings, see US Census Bureau, "Income in the United States: 2023."