



The promise of productivity

Federal Reserve Bank Chairman Alan Greenspan's glasses must have fogged over when he read the latest productivity figures: 9.4% productivity growth for the third quarter following 7% growth in the second quarter of 2003. Even a staunch believer in a technology-driven productivity revolution like Greenspan had to gasp at such unprecedented productivity growth. Since the economic recovery in November 2001, productivity has grown at a rate of 5%, the fastest pace for a two-year period in more than 50 years. Economic growth has also started to forge ahead. The third quarter of 2003 witnessed 8.2% GDP growth. The Bush administration grabbed onto these statistics as evidence that national economic policy was on track, buoyed by a tax policy that keeps money in the pockets of consumers and business. Sounds good until someone brings up the matter of jobs.

The idea that productivity could play the role of "job slayer" is a new twist to the notion that producing more with fewer inputs was a priori a sure formula for success. In fact unit labor costs, which comprise an estimated 75% of business expenses, have fallen 1.9% from a year earlier. Productivity growth is also a key factor in how well we live, directly affecting our standard of living. Predictions that America's standard of living would increase dramatically given its high productivity rates brought smiles to workers who were playing a key part in those productivity increases. Gary S. Becker, 1992 Nobel Laureate, believes the "most significant news from the past few years is the continuation and possible acceleration of the sizable productivity advance that began almost a decade ago." So how does one explain the malaise that has crept into economic and labor reporting of late?

Factors prompting deep concern in labor circles are a result of recent studies documenting joblessness, the decline of economic mobility in the USA, and the accelerated pace of job outsourcing overseas. Workers are asking how it was possible to reconcile the good productivity results with the

bleak economic news. Nationwide, 2.7 million factory jobs have been lost since 2000. Nine million Americans were jobless in September and a quarter of those had been out of work for at least a half year. Since the US recovery began in November 2001, the economy has shed one million jobs. In the third quarter of 2003 alone, 150,000 manufacturing jobs vanished. In previous recessions, temporary layoffs accounted for 30% to 40% of the increase in unemployment. This time around only 7% are temporary layoffs. To absorb new workers entering the job market and keep the unemployment rate from increasing, approximately 150,000 jobs need to be created monthly. Obviously the US economy is not yet up to that kind of performance.

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Economics commentator Louis Dobbs remarked that "America is using productivity and greater efficiency as code words for cheaper labor." A University of California–Berkeley study projects that the US can expect a future of lower pay and a reduced standard of living. But theory tells us that productivity should bring a higher standard of living. Given the recent impressive productivity gains, economists predict a doubling of the standard of living in 25 years. But so far productivity's blessings have been mainly limited to increasing company and investor profits. That, of course, is not the fault of productivity per se, but how decision-makers see fit to distribute productivity's benefits.

Recent studies have traced the mobility of American families against the promise of the "American Dream." The promise of a better life

through hard work has motivated generations of Americans and attracted immigrants to the US seeking a better life for their families and future generations. Certainly strong productivity growth would only add to the possibilities of upward economic mobility. Researchers, however, are having difficulty documenting the "American Dream" and, in fact, contrary evidence is showing up.

The Federal Reserve Bank of Boston found that 53% of families who were in poverty in 1970 were still below the poverty level. The study also found that more workers remained in the same income brackets in the 1990s than in the previous two decades. Comparing 1973 with 1998, a Wichita State University study found a higher percentage of sons in 1998 remained in the same income bracket or a lower economic bracket than their fathers.

Job losses in higher-paying sectors have hurt workers' chances of moving up the economic scale. Losses in manufacturing (an 8% decline since November 2001), telecommunications (12% decline), computer systems (9% decline), and Internet publishing (15% decline) have given way to low-wage jobs in health care (4% increase) and temporary help (5% increase). The move to lower-wage jobs is the subject of a recently published book entitled *Low-Wage America: How Employers Are Reshaping Opportunity in the Workplace*. The book suggests that one-quarter of the American workforce will be stuck in poorly paying jobs. Higher education is cited most often as the key to breaking the chains of economic rigidity, but only 5% of children from poor families go on to a college degree. This figure has not changed in 30 years according to education commentator Thomas G. Mortenson.

It seems more American jobs are going overseas these days than Americans themselves. By 2005, roughly 600,000 American jobs are expected to be outsourced. Forrester Research forecasts 3.3 million American jobs will find their way overseas by 2010. The question arises of whether this is good



or bad. For profits of American companies it is good. For American workers the perception at the moment is that it is bad. While more and more of the jobs leaving the US are in high tech, the Bureau of Labor Statistics reports that unemployment among American information technology workers runs to about 234,000. Unemployment among software engineers is 4.6%, among electrical engineers 6.7%, and among network administrators 7.7%.

For US companies being pushed to the extreme by global competition, there is no choice but to send jobs overseas. Many large American companies are happy to have the talents of foreign engineers and scientists at the other end of the terminal. The innovation and discovery resulting from the best global minds will, they say, benefit all humankind, and shouldn't that be the ultimate goal of increased productivity? The challenge remains, however, to ensure that the tremendous strides in productivity have an uplifting effect on society as a whole. 🌀

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