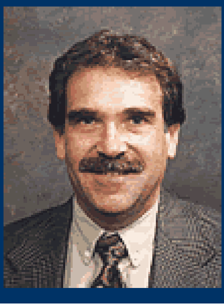
Articles & Commentaries

p-Watch — USA



by Michael Manson, long and closely associated with the APO when he was the Assistant Director of the East-West Center's Institute of Economic Development and Politics in Honolulu. He helped to initiate a number of collaboration programs between the APO and the East-West Center. Manson also served in the Asian Development Bank, and was Director of Communications with the State of Hawaii's Department of Business, Economic Development and Tourism. He is presently an educator, and a regular contributor to this column.

Productivity: Too Much of Good Things?

Productivity lost a good friend when Alan Greenspan, Federal Reserve Chairman, suggested solid gains in productivity spoil the economy. Greenspan's thinking is that high expectations for productivity growth inflate the stock market and prompt people to spend beyond their means. This in turn leads to higher inflation, the economy's number one enemy. The idea that productivity could play this nefarious role, and could, in fact, derail America's longest economic boom, turned the heads of the nation's economic analysts. It was one thing to talk about the "irrational exuberance" of the stock market, but to shift the "irrational exuberance" reference to productivity was too much for most commentators to accept. As reported in *Time* magazine, Lawrence Kudlow, chief economist at Schroder & Co., took exception saying, "No government official has previously argued that rising productivity causes inflation and therefore should be reduced." The article goes on to say "Most economists fervently believe that rising productivity, led by advances in computers and software, is an inflation killer and that there is no such thing as too much productivity growth." The analysts even started to question the "guru" status of Greenspan and began to withdraw the almost universal support that he has enjoyed during his tenure as Fed Chairman. One state government official is quoted as saying, "Mr. Greenspan is like a medieval physician who insists on prescribing bloodlettings without regard to effect." At the end of the day the score was Productivity 1 - Greenspan 0.

The first quarter of 2000 saw productivity growth at 2.4 percent. This was less than last year's growth of 3.7 percent. It also pales in comparison to the rather extraordinary 5.8 percent growth achieved in the second half of 1999. At the same time the Employment Cost Index rose to a two-year high, recording a 4.3 percent annual growth rate. Rising labor costs and a slowing of productivity have everyone jittery. Add to that a severe shortage of skilled workers and you have the rationale for the recent increase of a half-percentage point in the Federal Reserve Bank's interest rates. This forces increases in interest rates across the board with the consumer eventually picking up the tab.

Inflationary worries have intensified the debate over whether the implementation of new technologies has really changed the economic landscape. Coming out of the closet are the "traditionalists" who, sensing a "kill", are beginning to attack the idea of a New Economy-Old Economy paradigm. Is there, in fact, a new economy led by productivity enhancing technologies or do we have only momentary relief from the expected inflation thanks to a high-flying economy? In other words, are productivity's impressive figures cyclical and will they evaporate in a slower-paced economy?

The answer to which, I'm afraid, will only come in time. The argument, however, that technology is changing the face of business and the overall economy is compelling. Citing government statistics, *Business Week* reports that output per hour in non-durable manufacturing -- including such industries as food and clothing -- rose by 4.2 percent in 1999, and overall output per hour grew at an annual rate of 5 percent, an increase in efficiency so great that unit labor costs dropped 1 percent. Examples of technology driven productivity increases abound. The use of the Internet has dropped the price of an airline booking from $10 to $1. Generating computer images of new cars saves one to two years of development time and $1 billion in development costs. Purchasing agents are realizing up to 25 percent savings thanks to the Internet. Power plants are seeing a 50 percent increase in efficiency using Internet connected energy markets. Even small trucking companies are claiming a 50 percent increase in revenue by going online.

The stickiest problem facing the U.S. economy is low unemployment. The U.S. has run out of skilled workers. This in itself could dampen the promise of the new high-tech economy. With unemployment at an unprecedented 3.9 percent (Japan currently reports a record high 4.9 percent unemployment), companies are in dire need of skilled workers. The U.S. Congress has before it a number of proposals to change immigration laws to bring more technical people to the U. S. This will lead to some loosening of immigration quotas. In addition, those in the labor market are changing employers at an unprecedented rate. *U.S. News & World Report* notes that job hoppers are up 6 million from five years ago and that young Americans now change jobs an average of nine times before their mid-30s. To discourage young lawyers from moving to greener pastures in the new economy, established law firms have increased salaries for starting employees to $115,000 from about $70,000. If that doesn't tempt fledgling lawyers, law firms are dropping their dress codes to mimic their new economy competitors where blue jeans and polo shirts rule.

It is entertaining to follow the creativity of employers who hope to keep and recruit talented workers. Take for example a small company in Massachusetts who challenged its top managers to double the company's stock price through increased profits. If successful they would be rewarded with new $48,000 Porsches. In March twenty silver Porsches arrived at the company for distribution. Two of the twenty cars will be rotated two weeks at a time to high-performing workers among the 450 lower-level employees. How's that as an incentive to increase productivity. It sure beats the "Employee of the Month" parking space by the front door.

Several companies have sought to couple their generosity with self-interest. Ford Motor Company announced that its 350,000 employees worldwide would receive a desktop computer, printer, and Internet access for a $5 monthly charge. This largesse is expected to encourage the company's employees to become technologically savvy and assists Ford in developing a community of employees wired into its communications and consumer network.

Smaller companies desperate to stay in business offer $50 biweekly bonus for workers who have perfect attendance the prior two weeks. If you can suggest a new employee to your boss and that person is hired, you will find a $500 bonus in your paycheck. Or would you prefer a cash advance to buy a house, maid service, wardrobe allowances, concierge service, fully paid vacations to exotic destinations. These have become expectations of the technologically able. What is the trade off - 80 hour work weeks, sleeping at the office, not seeing the family for days, frequent job switches and little job security. From the American worker's perspective if this isn't a new economy, it certainly isn't the old economy.