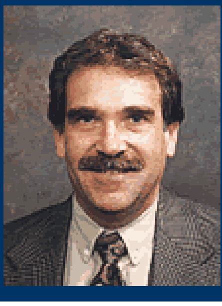
Articles & Commentaries

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.

The Saving Graces of Productivity

Productivity rode into town on a white horse with shining armor to save the day. Her effect was described in such glowing terms as "awesome" and "remarkable." She cast a calming spell over all and, most importantly, allayed the inflation fears of those who count - the Federal Reserve Board. Her persuasiveness prevented interest rates from rising and warmed the souls of business and investors. To what can we attribute this impressive display of power?

A rise in productivity of 5.1 percent over the last twelve months is the best showing since 1983. This and earlier productivity gains since 1996 translate into a 2.8 percent overall rate of productivity gain over the past five years. This is double the 1.4 percent from 1973 to 1995. This show of force in productivity reduced unit labor costs by 0.4 percent over the past twelve months, the first time this has happened since 1984.

With all this wonderful news on productivity, it would seem the time has come to unravel the components of this success so other economies might learn from the experience and see similar profitable results. Not so fast. If we were to ask Alan Greenspan, Federal Reserve Board chairman, he would tell us, as he did in June, that gains in productivity are structurally driven by "irreversible advances in technology and its applications." There are a significant number of detractors to this view who claim productivity's gains only reflect the booming economy. This argument has been going on for some time and has been highlighted by this author in previous columns. In a very useful study undertaken by Business Week, the data reveals an interesting and somewhat disturbing trend in manufacturing productivity.

There seems to be a consensus that in the financial services sector productivity is underestimated due to measurement anomalies, e.g., the labor-saving use of ATMs is not captured in the statistics. In manufacturing, however, one can more readily measure outputs. Borrowing from the Business Week study, we find "that only three high-tech industries - computers and office equipment, communications equipment, and semiconductors - account for all of the uptrend in factory productivity growth. In the past year, productivity growth in these three industries, which make up only about 10% of total factory output, appears to have been on the order of 50%." When you mix this information into the productivity stew you learn that, excluding these three industries, productivity is up a less than impressive 1.8 percent. Given its disproportionate share of productivity growth, a high-tech slowdown would paint a much different picture of the extent of productivity growth throughout the economy. Without broad-based productivity increases, one is forced to reconsider the pervasive influence of technology on productivity.

If you can extract yourself from the sometimes confusing and contradictory tapestry woven by statistics and turn to selected case studies, efforts to enhance productivity are heartening whether you pin your hopes on technologically driven productivity or just smart management. Those familiar with the efforts of the APO and the productivity movements around the world can appreciate the amount of valuable information available to business management for increasing productivity - quality circles, just-in-time inventory, bottom - up information flow, worker incentive programs, technology upgrading, to name a few. Knowing the extent to which productivity organizations have "put the message out," I was struck by the story of a foreign car manufacturer in the U.S.

In need of generating a profit and improving product quality, this company hired a new CEO to implement change at its Illinois manufacturing facility. Under the new management, vehicle production is up 43 percent from a year ago which represents the highest output since the plant was established in 1988. Last year twenty-five percent of the cars needed reworking before they could be shipped; this year that figure is down to ten percent. And the facility is running at a profit. Why the turnaround? It seems as though management opened up the productivity play-book. First, management went to the workers and asked the workers' help in redesigning their work places and reconfiguring equipment. By gaining labor cooperation, the time required to produce a car was cut from 38 to 30 hours. Parts were delivered more often and in smaller quantities to reduce clutter along the assembly line thereby reducing defects. All of these productivity-enhancing techniques are well documented and endorsed by productivity groups. We are left with the question of why this auto maker took so long in getting the message. It is also worth noting that large investments in technology were not critical in the turnaround.

There has been no lack of hypotheses regarding the connections between culture and economic development. We have all read some of these efforts that attempt to tie cultural and social mindsets into economic progress. And by doing so we have gained some insights into our own and others' cultures. At the same time these writings leave us uneasy, and rightly so, because under close scrutiny so many exceptions to the theories exist little is left to justify the hypotheses. In any event, I wanted to alert the reader to three new works that have recently been published; if the inclination is there they may be worth a read. The first is How Values Shape Human Progress, edited by Lawrence E. Harrison and Samuel P. Huntington, Basic Books. The second is The Twilight of American Culture by Morris Berman, Norton Publishers. The third is a yet to be published study done by a social psychologist, Dr. Richard Nisbett of the University of Michigan, and his colleagues that compares European Americans and East Asians in how information is processed and how they make sense of the world around them. The full study is scheduled to appear in the winter issue of the Psychology Review. In a presentation of his preliminary findings Dr. Nisbett tells us that different cultures think not just about different things, but think differently, and that Americans when perceiving the world around them notice what is biggest, fastest, and shiniest. Perhaps that explains why I am so disappointed in my aged, not so shiny and not so fast family car.

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