Articles & Commentaries

p-Leader — Thailand Productivity Institute

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Productivity Roles in the Financial Crisis

Most people assume that the topic of productivity does not have high priority during the current financial crisis. Similarly, workers may not be concerned with doing a good job when the job itself is in jeopardy, nor will they function at a high level of productivity. This in turn can negatively impact any organization's productivity and long-term efficiency. On the contrary, some say that this is a perfect opportunity for those in the quality field to lead the company to success. The quality department is in a perfect position to help senior management focus on cost-saving projects. However, immediate actions should focus on quick-hit opportunities rather than overall productivity improvement programs. Nichols and Houry (Quality Progress, 2009; January: 8–9) suggested that companies should shift from projects centered on metrics improvement to those focusing on improving poor quality. They should also accelerate projects that deliver hard dollars versus those that drive productivity improvements.

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Does this mean that long-term productivity improvement projects should take a back seat? On the contrary, the views above only suggest that short-term quality objectives may be adjusted to respond to the immediate crisis. Whatever course of action is taken, short or long term, organizations should constantly focus on quality improvement. We all know that the long-term result of quality improvement is productivity growth. If an organization continuously improves the quality of products and services, a crisis should be avoided. This view is reflected in the results of a recent survey by the American Society for Quality. The January 2009 issue of the journal Quality Progress reports on a quick poll conducted on its Web site asking: "Could quality methods and principles have prevented the current financial crisis?" The majority (approximately 71.2%) of respondents said: "Yes." It is not difficult to rationalize this position among quality practitioners. Specifically, quality principles are characterized as result and target oriented, customer focused, proactive, lean, accountable, and participative. When we add two important components of productivity principles, the environment (society) and ethics, quality could easily protect us from the worst fallout from the current financial crisis.

At the national level, productivity has played a very important role in the financial crisis. But productivity is not a culprit. The real culprit is the imbalanced economic development of the leading economies and can be simply explained using the demand-supply relationship. Productivity has been regarded as one of the most important factors in global economic growth since the last Industrial Revolution and particularly in the IT Revolution of the last two decades. Because of enormous investments in new technology, productivity levels have increased over the years. Productivity growth, when it is unmatched by real income growth, is the main factor that can lead to a financial crisis. When productivity rises, the production of goods and services (supply) increases as well.

In a healthy economy, production increases must be matched by greater demand for goods and services. The main source of demand is real wages that allow people to exercise their purchasing power. A healthy economy requires a balance between the demand for and supply of goods and services. When supply is greater than demand, one result is unemployment. On the other hand, inflation occurs when demand exceeds supply.

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In normal situations, the market mechanism ensures that demand increases in proportion to greater supply to maintain an economic balance. This implies that real wages must also increase with productivity growth. In reality, this is not the case. Most countries elect to follow a different path. To increase real wages (purchasing power) or demand, policymakers often opt to allow easy access to money by trimming interest rates while suppressing real wage increases. In his many recent books (for example, Greenspan's Fraud: How Two Decades of His Policies Have Undermined the Global Economy, 2005, and The New Golden Age: A Revolution against Political Corruption and Economic Chaos, 2009), Ravi Batra has accused the USA of leading this practice. The US Federal Reserve always came out against wage increases. As a result, the US minimum wage, which peaked at US$10 per hour in 1969 in terms of 2008 prices, is now less than US$7. Over time, a wage-productivity gap grows larger and creates a situation where supply is greater than demand. Leading economic powers, especially the USA, have found a way to raise demand to cope with increasing productivity or supply: through debt. Debt increases people's purchasing power by allowing consumers to borrow more. The equation explaining this new economic relationship can be written as

Productivity growth = Real income growth + Debt.

Batra believes that debt is an artificial way to raise demand. Debt can postpone the problem for some time while economic imbalance builds and accumulates. Without that debt, goods and services will remain unsold and profit will not materialize. In this situation, company profits and shares skyrocket because the biggest beneficiary of productivity growth is companies. However, those are debt-supported profits. Everyone is happy because in the short term everyone wins. A debt-filled economy lasts only as long as consumers can service their debts. Over time, however, the demand-supply gap grows so large that debt servicing become impossible, and consumers start to default on their loans.

This happened when the housing bubble began to burst in 2007. In a chain reaction, the economy crumbles. The worst has yet to come. The housing market collapse and financial institute meltdowns are just the tips of the iceberg. We are talking about an oversupply of all production in the economy.

This is not to say that we should avoid thinking about productivity and methods to increase it. Productivity improvement is still necessary for economic growth that will finally lead to the well-being of the people. However, wealth as the fruit of productivity must be distributed fairly throughout the economy. Productivity-based gain-sharing is necessary for any economy to receive the full benefits of long-term productivity growth. It creates a fair distribution system that ensures sustainable development and cooperation among all sectors of the economy: producers, consumers, labor, and management. The APO has recognized the importance of this issue for many years and has organized various projects on the fair distribution of productivity gains among stakeholders.

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