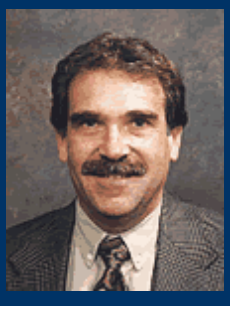
Articles & Commentaries

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.

What's in a number?

Number crunching as a means to allocate scarce resources effectively is increasing. The so-called numerati are in high demand as we pass through this period of global economic soul-searching. Consulting firms report having a difficult time keeping up with requests for Six Sigma Black Belts. Numbers send powerful messages, especially to those that hope to paint an economic and social portrait of a nation. With knowledge and imagination, thoughtful policymakers can use national statistics to develop a perspective and a vision for their countries. In this way, numbers begin to define a reality that is then shared by national leaders and the citizenry. Productivity growth rates are a good case in point and have played an important role in how countries view themselves and measure their economic and social progress.

During the 1980s and 1990s, Americans took comfort in the fact that productivity rates underscored an efficient use of resources and reflected an improving quality of life. There was even some national bravado at play, and the USA viewed itself as a model to be emulated by countries hoping to achieve economic prosperity. Certainly innovation, advances in information technology (IT), and the practical applications of IT led to real growth in productivity in the USA and around the world. But with the financial collapse and deteriorating employment picture in 2008 and the first half of 2009, observers were less sanguine over productivity's contribution to the USA's extraordinary wealth creation. Many wondered if financial manipulation had led to excessive consumption and an artificial increase in the US standard of living.

Accordingly, productivity growth rates are under intense scrutiny as the dust from the financial crisis settles. The financial collapse, current economic recession, and high unemployment rate have exposed the fragile nature of the USA's future economic growth. Improvements in the quality of life must now more than ever depend on "real" productivity growth. Suspicions linger that without artificial boosts from "funny" money (Wall Street shenanigans and temporary government stimulus packages), productivity by itself will not be up to the task of moving the country forward.

When the government revised the 2009 first-quarter productivity rates from 2.3% to 0.2%, economic observers raised their collective eyebrows. Second-

quarter productivity growth was reported to be 6.3%, but the dramatic revision of first-quarter productivity figures turned productivity watchers into nervous nannies. There was a sigh of relief when the revised figures reflected an increase to 6.6%, the fastest pace in six years. (Productivity growth has only surpassed 3% in two quarters since January 2005.) Unit labor costs are also down an impressive 5.9%, the sharpest drop since 2000.

> **"Improvements in the quality of life must now more than ever depend on 'real' productivity growth."**

With productivity on the rise, at least in the short term, attention has turned to the factors behind such an impressive surge. Is current productivity growth simply a function of high unemployment? Are those who remain employed producing more because of excessive overtime and out of fear of losing their jobs? If the answers are "yes," this gives productivity a villainous character, rather than the positive image that the more efficient use of innovation and technology gave productivity growth before last September's economic meltdown.

With unemployment at 9.7%, the highest since 1983, and with more than 200,000 jobs being lost each month, last quarter's improvement in productivity growth has resulted in little celebration among policymakers. There is some optimism in the fact that the rate of job loss has declined, but with 14.9 million people out of work in an economy that depends on consumers for 70% of its growth, the USA faces an uphill battle. It is also estimated that 8.8 million workers have been forced into part-time work because of cutbacks in hours or the unavailability of full-time work. More than 20% of employers are reducing pay and/or cutting back on hours. If one considers that 125,000 to 150,000 full-time jobs need to be created to absorb new entrants into the labor force, a turnaround of 350,000 jobs is necessary.

What is to be done? The numbers paint a very challenging picture. A decades-high unemployment rate, four successive quarters of negative economic growth (the first such decline since the government began keeping records in 1947), a precarious financial sector (400 banks are on the Federal Deposit Insurance Corporation watchlist), lower wages/fewer hours worked for those employed, and disablingly high healthcare costs are among the biggest challenges. The heavy lifting required to put the US economy on the path to recovery will require substantial job creation and high sustainable productivity. The challenges the USA faces are not unlike those facing a majority of nations today: creating more jobs, improving productivity, and ensuring that workers are internationally competitive.

President Obama's administration is betting that the Green Revolution with its emphasis on technology, innovation, and R&D is the way out of the USA's economic malaise. Portions of the economic stimulus funds have been directed at enhancing the country's competitive position in green technology and R&D generally. The USA spends more on R&D and higher education (just over 5% of GDP) than other countries, with the exception of the Republic of Korea. As was true in the 1980s and 1990s, technological innovation and productivity are indispensible, interdependent factors contributing to a nation's prosperity. Economists are close to unanimous that innovation is the most important

contributor to economic growth.

Of immediate importance to US policymakers is reducing unemployment. Can its edge in innovation and research translate into more jobs, especially high-tech, high-paying manufacturing jobs? If history is a good yardstick, the answer is "yes." Recent trends, however, beg to differ. Manufacturing growth has always outpaced the USA's national economic growth, but so far this decade manufacturing growth has for the first time significantly lagged behind overall economic growth. Have the years of outsourcing, technology transfer, and growth of new markets overseas handcuffed the USA to the extent that it is unable to benefit from its genius in innovation? It is imperative for US policymakers to grasp the message that what was often referred to as "hollowing out" needs to be reversed to create jobs and reduce unemployment. It would be instructive to revisit the policy recommendations made to developing countries over recent decades to improve their economic fortunes. If memory or experience fails policymakers, the following list can serve as a reminder:

- Cut bureaucratic red tape for entrepreneurs.
- Provide incentives and tax preferences in areas of comparative advantage.
- Foster high-tech, innovation-based manufacturing centers and networks.
- Increase financial support for education and retraining.
- Send the best and brightest students overseas to learn from the competition.
- Profits and wealth need avenues of equitable distribution to invigorate the workforce.

Finally, the USA must answer the question: "Should the country have a viable high-tech manufacturing sector to provide a secure future for its people?" If the answer is "yes," the USA must move forward with a sense of national purpose. Given the portrait that emerges from the depressed economic numbers, the USA may find value in positioning innovation-based manufacturing at the center of a national industrial policy.

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