The US Economy: The Good Amid the Bad

Tragedy and bad economic news have flowed across the American landscape. In addition to the human suffering, the September 11th attacks are estimated to have cost the US about 1.8 million jobs by the end of 2002. Of these, 760,000 were directly related to the events of September, primarily affecting the areas of travel and tourism. It is calculated that air transportation will account for 20 percent of the job loss. Already United Airlines lost a record $2.01 billion in 2001 and passenger traffic was down 20 percent.

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The impact is not confined to US. air carriers; British Airways has announced 5,800 job cuts on top of 7,200 previously announced. This amounts to a 23 percent cut in jobs since August of last year. Other areas of the economy are also struggling. Ford Motor Company plans to eliminate 35,000 jobs and close five manufacturing plants. Ford lost $692 million in the third quarter of 2001. Chrysler plans to cut 25,000 jobs. The poor performance of the American economy has adversely affected US homeowners as well. Mortgage delinquencies rose to 4.8 percent, the highest level in ten years. Technology news is also glum. Three high-flying technology companies mentioned previously in this column have seen their stock values plummet. CMGI fell from a high of $320 per share to $1.30; Akamai from $326 to $3.92; and Sycamore Networks from $184 to $3.60. Even the charitable Salvation Army has begun to say no to the huge give-away of office furniture by failing dot.com companies, citing lack of storage space. The $700 ergonomic executive chairs do not suit American living room decor.

The collapse of Enron has added to the nation's economic woes. Americans have traditionally been skeptical of the altruism of the business elite, but the hoodwinking behavior of Enron executives has reached new lows in malfeasance. Other major US companies are under criticism for actions contrary to the interests of employees and investors. Americans have cast their vote on these most recent transgressions of trust: 80 percent of Americans surveyed in a recent Business Week/ Harris poll claim they have "only some or hardly any" confidence in corporate America. Seventy-nine percent believe that large US company executives put their own interest before that of workers' and investors'.

Recent tragic events and the recession have hurt the most vulnerable sector of the US working population - the young and less educated. Employees with a high school diploma or less, who constitute about forty percent of all workers, accounted for ninety percent of the approximately 1.4 million jobs lost to date. Young adults 16 to 24 years old have also borne the brunt of the current economic downturn. Over the past twelve months, the employment gains made by this group over the past ten years of strong growth have disappeared, leaving one million previously employed youth without jobs.

So where is the good news in all of this? Surprise of surprises, the good news is productivity. After a brief lapse in productivity gains earlier in 2001, the fourth quarter saw a 3.5 percent rise. This dramatic gain translates into a 2.3 percent rise in productivity for the last three quarters of 2001. Economists have heralded this productivity performance in a time of recession as unprecedented, phenomenal, remarkable, and amazing. It is all of that and also affords us a look into the future of work.

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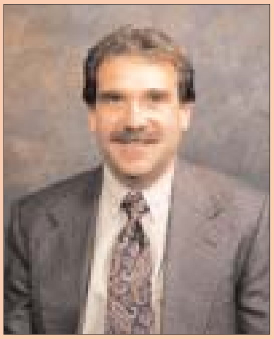
First we are introduced to the concept of a "jobless recovery." In other words, the economy recovers its productive capacity without needing to add employees. Companies are able to produce goods and provide services at a profit with fewer workers and, it appears, at lower wages and benefits, at least for the bottom echelon of employees. This reflects a growing bifurcation of the workforce where workers are divided into two groups, permanent and contingent. This has been labeled a "flexible" work force. Companies that have learned to manage this flexibility to their advantage have remained profitable in the recent downturn. At risk are the contingent or temporary workers who have absorbed 30 percent of the current job loss. Those who have remained employed have seen their wages fall 9 percent over the past twelve months. Contingent workers now comprise 4 percent of the work force.

Another glimpse into the workplace conveys a tough, competitive environment where pay is more strictly set to performance. Performance software is being developed that monitors individual employee productivity, and the employee is then rewarded accordingly. Many workers, especially managerial and technical staff, are likely to find this careful tracking of employee productivity intrusive. On the other by Michael Manson



hand, it is clear from the bankruptcy setbacks of Enron, Polaroid, and Kmart that companies are under severe pressure just to survive.

While companies are pushing employees to maximize productivity, they are also reducing fixed salaries and benefits. Employees are finding their compensation tied to the profit of the company in the form of bonuses and stock options. This was something workers relished in the boom days when company profits and venture capital were sky high, making lucky employees comfortably rich. Now employees pine for the days when compensation was in the form of a fixed salary. What was the best of worlds in a strong, expanding economy and tight labor market has turned into an employee's worst nightmare. Stock options have become worthless, and bonuses and perks have disappeared. One-third of large US companies are reducing or delaying pay raises. Company contributions to health plans and pensions are being reduced or eliminated, offsetting the value of any pay hikes. Contract workers are seeing a 30 percent drop in compensation as they bargain new deals with employers.

These cost-saving measures, coupled with judicious investment in technology, have allowed the more nimble companies to increase productivity with lower costs, a formula that should result in a stronger US economy. European business leaders have been petitioning their governments to liberalize labor laws and implement pension reforms in the hope of duplicating the strong US productivity showing. One important question remains, however. To what extent will productivity continue to increase in an excessively unpredictable, unforgiving, and pervasively competitive environment before quality of life considerations force a retreat?

Michael Manson had a long and close association 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. Mr. 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.