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AMERICAN PRODUCTIVITY: KEY TO ECONOMIC STRENGTH AND NATIONAL SURVIVAL

REPORT

OF THE

SUBCOMMITTEE ON PRIORITIES AND ECONOMY IN GOVERNMENT

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

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LETTER OF TRANSMITTAL

JUNE 30, 1972.

To the Members of the Joint Economic Committee:

Transmitted herewith for your consideration and use is a report by the Subcommittee on Priorities and Economy in Government entitled "American Productivity: Key to Economic Strength and National Survival."

The Subcommittee undertook an intensive hearing into the question of what can be done to improve the productivity of the Nation's manpower and capital resources. Leading experts—government and private—were called to present their analyses. Most witnesses emphasized that we were in the midst of a productivity crisis which requires special efforts on the part of all parties involved to increase national efficiency.

WILLIAM PROXMIRE,
Chairman, Subcommittee on Priorities and Economy in Government.

AMERICAN PRODUCTIVITY: KEY TO ECONOMIC STRENGTH AND NATIONAL SURVIVAL

The basic problem of economic policy for this Nation is our continuing misuse of national resources. This problem can be subdivided into three categories: (1) The failure to fully utilize our available manpower; (2) distorted use of resources because of inflation; and (3) our seeming inability to obtain the optimum use of resources even when employed to meet the demands of the free market.

Obviously, all three of these aspects are interdependent. With respect to the first aspect, there is little, if any, doubt that a healthy job market and a healthy environment for capital expansion would make for a far more efficient use of available resources. The fear of being laid off always has a debilitating effect on efficiency. If unemployment were in fact brought to its practical minimum amid a healthy environment for capital expansion, the productivity of all workers and capital would be enhanced.[1]

On the second aspect—distorted use of resources due to inflation—when prices and costs are rising rapidly, and when the expectation of further increases prevails, there is little incentive to conserve on either labor or capital resources; indeed there is much incentive to use both resources where they will make the greatest dollar profit, regardless of the efficiency of the operation.

This same conclusion follows with respect to the less than optimum use of resources where market forces are in operation. Where labor is in surplus and there is lessened incentive to conserve on the use of capital, monopolistic and semimonopolistic practices are encouraged. On the other hand, normal market constraints tend to force firms to utilize labor and capital resources more efficiently.

All of these forces have been in operation—at one time or another—over the last several years. The net result has been a distinct slowing of our growth in productivity—the relation of expansion in output to the increase in inputs of resources. From 1948 to 1957, real output rose at an annual rate of 3.7 percent in the private economy (the only

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[1] The committee majority once more reiterates the views expressed in its 1972 Annual Report:

"An unemployment rate no higher than 3 percent remains an appropriate long-run target for the United States. If the necessary structural and institutional reforms are undertaken, a combination of a rate of unemployment below 3 percent and an inflation rate (as measured by the GNP deflator) no higher than 2 percent can be achieved and sustained.

"Because we are presently so far from the long-range employment goal, a specific interim target should be established. A 4 percent unemployment rate represents an appropriate interim target. The administration should establish such a target and make available their estimate of when it can be reached."

NOTE.—Senator Sparkman and Representative Conable state: "Because pressure of other duties prevented us from participating in these hearings, it would not be appropriate for us to take a position on the specific recommendations."

sector for which it has been possible to measure productivity.)[2] In this period, productivity—output per unit of input—increased at a rate of 2.3 percent. From 1957 to 1966, the increase in output expanded to a rate of 4.4 percent, and productivity growth accelerated to 2.6 percent a year. But from 1966 to 1971, when inflation took over, the expansion of output fell to 2.4 percent, and the productivity advance decelerated to only 1 percent.

A similar picture is presented by the more well-known measure of productivity—output per man-hour. This latter measure showed an increase of 3.3 percent in the 1948–57 period, 3.5 percent in the 1957–66 period, and 2 percent in the 1966–71 period. It may be noted, moreover, that during the stagnant recessionary years of 1969–70, there was an actual decline in output per unit of input as firms hung on to unwanted labor, and relatively constant overhead costs were covered by lagging output. Partly because the 1969–70 recession was the smallest in the postwar economy, the current expansion starting in 1971 has not produced productivity gains at a rate to be expected in a period of cyclical expansion. Moreover, the most recent experience in 1972 for which we now have measurement—the first quarter—shows a renewed retardation of productivity growth.

There is a close connection between productivity gains and our ability to maintain trade competitiveness abroad, to satisfy our national goals without diverting resources from other priority tasks, and to translate wages and salary increases into real standard of living increases. Recent trends in our balance of international trade, the bleak Federal budget picture and the persistence of inflationary pressures in the economy give us cause for concern.

Joint Economic Committee Hearings

It was in the light of these rather discouraging facts that the Joint Economic Committee called for testimony from public and private witnesses as to how to improve the performance of the economy. The committee heard from the Secretary of Commerce, Peter G. Peterson, as Chairman of the Productivity Commission, and from Chairman C. Jackson Grayson of the Price Commission. Private witnesses who appeared were Donald C. Burnham, chairman, Westinghouse Electric Corp.; Edward Denison, senior fellow, The Brookings Institution; Ralph Nader, consumer advocate; Jerome Rosow, director of manpower planning and policies, Standard Oil of New Jersey (former Assistant Secretary, Department of Labor); and Gabor Strasser, director of planning, Battelle Memorial Institute (former Executive Director, President's Panel on Scientific and Technical Policies). A written statement was submitted by John Kendrick, director of research, conference board.

While the degree of emphasis varied, most witnesses agreed that the United States faces a productivity crisis requiring new policies for increasing national efficiency; also, that lagging growth in the economy was a major factor in the deterioration of productivity performance in the last several years. With the economy performing much

[2] But see p. 6 for more recent developments.

closer to its productive capacity, and growing in a noninflationary environment, it was agreed productivity would be much higher than it is today.

However, the administration witnesses and some private witnesses stressed the possibility that there was something more fundamental at work, tending to reduce the productive effort of the American people. A major emphasis of this testimony was to the effect that attitudes of workers had changed adversely. Citation was made of reports of rising drug use and absenteeism in factories, of shoddy workmanship and of fundamental changes in the attitudes of working people to their jobs, suggesting that we were becoming less productive and less able to compete as a nation. It was noted that the President commented on this in his 1971 Labor Day address, stating that we must reinstill a pride of craftsmanship in our labor force. Also cited was a recent Gallup poll which found that a majority of Americans believe U.S. workers are not turning out as much work each day as they should.

These same witnesses stressed our lagging research and development efforts which are basic to continued improvement in the Nation's capacity to produce, and particularly in our capacity to compete with other nations. It was pointed out that our expenditures on research and development were decreasing as a percent of total output, whereas our major competitors were not only making special efforts to improve their research capacity, but also taking advantage of what special efforts we were undertaking.

They also raised for questioning the possibility that our "liberal arts" stress in education was somewhat misdirected, that a reorientation toward job-related training might now be called for.

Dr. John Kendrick, a recognized authority in the study of productivity, listed some of the factors outside of the business cycle that he believes are having an adverse impact on productivity. Among these are "negative social tendencies" that have an adverse impact on productivity, changes in the composition of the labor force, the diversion of resources from more productive activities into efforts to combat inflation, and a relative decline of research and development spending.

These points were rejected by one witness, one of the foremost students of the determinants of national growth and international competitiveness, Dr. Edward Denison, who stated:

> In the past few years productivity series have behaved in an erratic, and to some a rather disappointing, fashion. This has given rise to speculation that something fundamental and lasting may have gone wrong. I find no support for this speculation in the data. I have analyzed them through 1969 just as carefully as I can. Once an appropriate cyclical adjustment is introduced, I find no tendency whatsoever for the rate of productivity increase to slacken. The last 2 years cannot yet be examined as precisely, but I do not think the situation has changed. I do not wish to forecast the future because there are things that could go wrong. But I see absolutely no evidence as yet of any productivity crisis, but only the usual cyclical pattern.

Aside from maintaining conditions for full employment of our productive resources, the primary thrust of a national productivity policy should be to establish the conditions wherein change and innovation can freely take place. This has, of course, been the basis of capitalist endeavor, but the lesson needs to be repeated especially as our economy becomes more complex. It should come as no surprise that some of the most productive and profitable innovations in traditional industries today have come from persons not associated with the industry in question.

The Administration has conspicuously and at length stressed the central importance of increased productivity in its aim to control inflation. Almost 2 years ago the President established a National Commission on Productivity (NCOP) and, at the time of its establishment, the President stated:

> . ... that productivity growth is the key to the continued improvement in the quality of life for all Americans, to the satisfaction of urgent domestic needs, and to the maintenance of the competitive position of the United States in world trade.

Yet in this whole period, little was done by the Commission. For some time, the Commission had a professional staff of only one part-time employee. As a result, Congress pushed through legislation providing a specific authorization of $10 million for fiscal 1973 to build up required staff work. The President saw fit to ask for half of this amount, but staffing continues inadequate. There is hope this situation is now being changed. Assuming this is the case, we make the following recommendations:

The Commission (NCOP) should immediately undertake and report to Congress within the next 3 months steps taken to increase productivity.

The Commission should include in this report its findings as to the causes of whatever lags exist in the necessary productivity increase.

Such a review should examine the institutional barriers to change, such as the effect which the loss of pension rights on job transfers has on labor resistance to change. The role of patent policy is also a factor here, and we commend the administration's present efforts to rationalize the procedures on Government patents. The barriers caused by insufficient incentive for investment should also be identified. Considering the fact that the United States ranks the lowest of all the 22 OECD countries in the percentage of gross national product which is reinvested in fixed assets (16.7 percent in 1969 compared with an OECD average of 20.8 percent and a 35.2 percent figure in Japan), we believe that our national attitudes and policies toward investment incentives need substantial revision.

The NCOP review should examine possible improvements in the service sector which can be brought about by Government action.

For example, increased standardization of packaging—which the Government has some power to effect under the Truth-in-Packaging Act—could have significant productivity effects on certain industries, such as food retailing, where transportation is a major factor in the final cost of the product; studies have estimated efficiency losses of up to 25 percent due to nonstandardization in pallet and carton sizes. Other Government efforts to improve our service economy are discussed below.

Finally, the NCOP review should look into the adjustment of existing industry to change.

The role of adjustment assistance to international trade is well known, but the major amount of industry adjustment in America comes from response to domestic competition. Domestic adjustment assistance of a kind is available through the Economic Development Administration, but there is no Federal adjustment assistance program for individual workers threatened by domestic factors or by automation.

The principle of adjustment assistance, whether international or domestic factors are to account, should be one of developing a plan of productivity improvement and effective worker placement so that the assistance will be truly temporary.

In adjustment assistance programs of the future, we believe that the price of obtaining assistance—grants and loans for technological improvement, relocation allowances, etc.—should be adherence to a program of productivity improvement worked out between the industry or firm in question and the NCOP, bearing in mind that it is not the purpose of Government to reward bad management with liberal grants and allowances. We support the recommendation of one of our witnesses for a National Manpower Readjustment Fund to enable firms engaged in rationalizing their plants to redeploy their employees smoothly, and to assist workers in training, relocation, job placement and income maintenance while conducting a possibly expensive job search.

The Federal Government should examine closely whether we possess the appropriate infrastructure for our service economy and what major infrastructure investments are needed in the future in order to raise the productivity of service enterprises.

In an economy over half of whose GNP is devoted to services and wherein two-thirds of the work force is engaged in services, we have lagged severely in modernizing some of the basic Government efforts essential to a productive society. Other "less developed" countries have more efficient postal services and mass transportation systems than we do. Our research and development of high speed transportation systems, while progressing, is clearly worthy of additional funding on a cost versus benefit basis. The same can be said for the research into the technology of low-cost energy systems. Although progress has been made in awakening the Nation to the inefficiencies of our health care delivery system, the fact remains that the Government stimulus for greater productivity in this area is insufficient.

In some areas, completely new developments are appropriate to our service economy. Although a skeleton national computer net exists and has been put to use in developing effective air traffic control and climate research, expansion of such a net into a full-fledged computer utility, like other regulated utilities, could bring vast productivity gains at low costs in services where information exchange is basic. Utilizing such a net on an expanded basis, checkless-cashless transactions, instant filing of tax returns (and receipt of refunds) for those who subscribed to the service, and a vast expansion of our ability to exchange and analyze statistical data could become a reality.

One of the more dismal aspects of our lack of knowledge of productivity is in the Government sector itself. We do not know much, if anything, about such productivity. As a result of a request by this committee, the General Accounting Office has spearheaded efforts within the Federal Government to measure Government workers' productivity. This report of the General Accounting Office is due within a month. This committee is hopeful that we may at last have some measure of Federal employees' productivity.

With the publication of Federal Government productivity measurements, we urge that the annual appropriations process include a searching examination of Government productivity, and thus be able to pinpoint areas where improvement is necessary.

Below we discuss productivity bargaining, productivity councils, and job restructuring, all of which are not only available to Government as means to improve productivity but also should be used by Government as well in order to develop pilot programs for use by industry. In this regard we are concerned that dissatisfaction with certain kinds of Government employment may be creating costs for the Federal Government which some of these techniques could mitigate; the expensively trained Executive Protective Service, for example, has a turnover rate of more than 25 percent owing in part, it is alleged, to morale factors.

We are also concerned about evidence developed by the NCOP which suggests low productivity rates at the State and local government levels. Because these levels are responsible for the major part of the increase in both Government spending in general and the pressure by Americans for a better quality of living, the problems of improving State and local government productivity are paramount when considering Government efficiency. Whatever the need for revenue sharing, these shared funds should not be an excuse to allow continued negative productivity in Government.

We believe these trends need to be reversed. Performance contracts for such local government services as education and sanitation, and grants to bring business expertise into State/local government on a consultant basis are all legitimate ways to tackle this problem. In the latter regard, we note that under the present Federal tax laws, businesses cannot deduct the value of services they render to a State or local government from their incomes.

We believe that incentives should be developed to encourage these services.

For space reasons, our discussion of Government productivity has purposefully avoided discussion of the scores of Government programs which have been identified by this and other congressional committees as sources of waste and inefficiency in Government. These efforts, in effect, are a necessary substitute for the absence of competition in Government sector. They should be expanded.

Government decisions have a marked effect on national efficiency, but in many cases the effects of our decisions on the national economy are not accurately determined in advance. Our medicare program, for example, was developed without due regard to its manpower implication; in Congress, appropriations are voted upon without any clear idea of how the individual bill fits into the total budget or national picture. Gabor Strasser of the Battelle Memorial Institute testified that the Federal Government needs new institutions for decisionmaking so that trade-offs of various courses of action can be accurately determined. We believe that this problem is primarily one of making the Office of Management and Budget, and the Domestic Council, more effective. In the Congress, however, we do not even possess the rudiments of an overview organization such as OMB.

We, therefore, urge the Congress to improve its capability to identify the costs of various options, and the long-range effects of both technological and economic decisions. Proposals have been made to establish an Office of Technology Assessment, or an Office of Goals and Priorities Analysis, to perform these tasks. The Joint Economic Committee itself could play a key role here.

A final set of recommendations concerns the human dimensions of the national effort to improve productivity. One of the central themes of the hearings was the new concern for job satisfaction as an important factor in achieving greater productivity. As Price Commission Chairman Grayson said:

> Studies evaluated by the Commission provide disturbing evidence that increasingly in the United States, attitudes toward work, work-quality, workplace conditions, organization structures, and other environmental, psychological, and social factors have profoundly affected and will continue to profoundly affect work performed in the United States.

Some witnesses suggested that increased absenteeism and drug and alcohol use reflected widespread dissatisfaction with the nature of work. One expert concluded that changes in the composition of the labor force—toward younger men and women who have different expectations and motivations than their older counterparts—had an adverse effect on productivity rates. One indication of the importance of the human dimension in productivity improvement is the large number of cases where the application of human relations techniques has improved plant efficiency significantly. Conversely, as the publicized case of the General Motors plant at Lordstown, Ohio, demonstrates, failure to account fully for the human element can have significant economic effects. The penalty we pay for inadequate attention to the human element, the humanists say, is an increasing number of Lordstown-type cases where working conditions and not compensation are the major points at issue.

Apart from the job conditions themselves, a review of how labor-management decisionmaking is accomplished was urged on the subcommittee. Jerome Rosow described how productivity bargaining can be used both to improve workers' wages and plant productivity, and Ralph Nader urged a form of "initiatory democracy" vis-a-vis all established institutions, be they unions or companies.

More work needs to be done, both in developing statistics on worker attitudes and on documenting the relationship between attitudes and worker efficiency. Though there might be disagreements about the actual extent and impact of attitudinal changes, we believe that proof enough exists as to a serious human condition in American industry. One of the most effective means of alleviating this problem is the use of worker councils, or productivity councils, at the plant level. These councils, though a new technique, have proven their effectiveness in certain plants and installations.

> **Starting with carefully chosen cases where discernible productivity problems exist, the NCOP should give encouragement and technical advice so that a labor-management dialogue on a nonadversarial basis in the public interest can be established. Productivity councils could in some instances form the nucleus of decisionmaking units wherein the labor force could have some input into management actions. This is an area that Government can encourage but where the initiative must be taken by business and labor leadership.**

One issue which was discussed at both the productivity hearings and at the committee hearings on the President's Phase II policies was the method by which productivity gains should be allocated to the possible beneficiaries: Management, the working force, stockholders, consumers. AFL-CIO Chairman Meany stated that "by no means" should the savings from productivity increases go entirely to the wage earner, and that the place to get his share is at the bargaining table. Jerome Rosow went further to point out the limitations of traditional bargaining-table techniques in a system of productivity bargaining.

> **We believe the concept of productivity bargaining to be a sound one.**

We are aware of the fact that the NCOP had already taken steps to develop productivity bargaining in one local government jurisdiction, and hope that its experience in this regard can be used to extend its efforts.

The foregoing recommendations have been developed with the knowledge that they imply increased Government research and development efforts, and an increased profile for the NCOP. We believe both of these developments are worthwhile and necessary. When appointing the NCOP, the President said it was to point the way to how this Nation can improve its productivity, and it is surely not too early to ask that the actions of the NCOP fit the President's words.

However, the problem is too vast and too ubiquitous to be solved by one small Government agency or by simply studying it. In many respects it is a problem of attitude and social conditions. Here one cannot legislate, but he can lead. The President's leadership role in this regard is clear, and we urge that he also allow the NCOP to exercise a more active role in public relations, commenting on legislation, and developing legislative and policy recommendations for public scrutiny.

The stakes are high. They involve the strength of the dollar abroad and the strength of our society at home. As we have pointed out, Government can set the conditions for productivity improvement, but in the final analysis it is people and not machines which produce.