

OUR MIRACLE OF PRODUCTIVITY ... //

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Issues in the News

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OUR MIRACLE OF PRODUCTIVITY

This We Believe:

America's steady increase in productivity, constantly raising the standards of living, is far more able to improve the well-being of the nation than any kind of redistribution of existing wealth or income. During the past 50 years, the American economy has outstripped that of other nations where redistribution of wealth has been placed above the creation of new wealth. Our productivity has increased primarily because of incentives possible only in a free economy. We have combined in a unique way the powerful forces of growth with the preservation of human liberty. That is where we differ from most other nations. Whether we continue to grow in wealth will depend upon whether we are able to maintain the freedoms which provide our citizens with the incentives to save, to invest, to create. Without these elements of strength, America cannot maintain her place in the world as a first-rate power.

1. What is productivity?

Productivity is the rate at which we convert work and raw materials into useful goods and services. In a sense, it is a measure of our economic efficiency. "Mr. Jones," an employer says, "is a great producer. He gets twice as much done as Mr. Smith with the same effort."

Productivity is not the same thing as production. A man who increases the amount of work he does by working longer has increased his production, but not necessarily his productivity. If he finds a way to turn out more work with the same, or less time or effort, he has increased his productivity as well as his production.

2. Has productivity increased in this country?

Very greatly. Today a man can turn out three times as much work with no more effort, than he could at the turn of the century. This represents a cumulative rate of increase of about 2.2 per cent a year in the volume of goods produced per man-hour of work during the period 1899-1950. The figures cover the economy as a whole, and apply only to the United States.

3. Why has our national productivity increased so swiftly?

America's miracle of productivity results from a unique combination of powerful forces. Among these are natural resources, science, invention, competition, ambition, managerial talent and technology. Under this last term we include such important factors as machines and the power to drive them; better plant design, better tools, better processes for making things and more highly skilled labor. Capital also is necessary. So is the American genius for selling, for creating the mass markets necessary to mass production. Sanctity of contract must be included for it helps create the stability needed for investment.

Another of the forces behind productivity is the profit motive--a powerful economizer as well as stimulant. The profit motive gives everybody incentive to make resources go further. That is its great social significance. In this country we have four million separate business establishments. Each is anxious to survive and most of them are anxious to grow. That means that in four million separate locations we have

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somebody who is trying to check costs and increase productivity. Lumber makers have learned to extract the maximum from the last flake of sawdust. Myriad new products have been developed from petroleum. The profit motive also provides incentive to discover new resources.

Underlying all of these forces of productivity is human liberty. Liberty to invent, to compete, to profit and to grow, We say this combination of forces is unique in America because of this last factor-- human liberty. For Russia, too, has vast resources and technology and her productivity also has progressed. The miracle of America is that she has so greatly expanded her productivity without loss of her basic liberties. Americans produce, as we have seen, for a number of reasons. But none of them is government edict. Perhaps it is because her people lack the incentives provided by freedom that Russia has been forced to borrow our technology. In any case, America's unique formula for productivity has enabled her to outperform the whole world.

4. Can we trace the historical roots of productivity?

Productivity is basically modern and basically western. Charles Beard, the historian, wrote that if a man had died in 400 A.D., and had returned to life 700 years later he would have found little that was new to him. But that is not our kind of society. Even our great grandfathers would find much to astonish them in today's world.

The modern upsurge of productivity began with the industrial revolution in England when powered mechanization was introduced, and arrived in this country about the time of the Civil War. Eli Whitney's cotton gin and his discovery of the principle of interchangeable machine parts (ancestor of the assembly line) were earlier major developments in our mechanization of production.

The substitution of horsepower for human brawn contributed mightily. If a workman today can produce three times as much as he could have done in 1900 with no more effort, it is obviously not because he is three times as smart or three times as strong. Something has been added--new forms of power. In 1900, the manufacturing industries provided about 2.30 horsepower per wage earner. Today, that figure has more than tripled. It is interesting to note that while power is not the sole factor behind increased

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productivity, its rate of increase has almost exactly kept pace with that of productivity.

5. Why is increasing productivity vital to America?

There are two reasons--our swiftly growing population and the need to survive as a first-rate nation in a highly competitive world.

During the present decade, we will add about 28 million persons to our population. If we merely continue our present level of productivity, our per-capita standard of living will decline. Or, if our economic growth simply keeps pace with our population growth, we will be standing still. The feeling that we are living a little better this year than last, and that prospects for the future are bright, is essential to domestic tranquility and political stability.

Increasing productivity also is necessary for our national defense. The Allied victory in World War II was due in very large measure to the sheer weight of weapons produced by America. Today, America's productivity is a powerful factor in maintaining peace.

6. How do we benefit by increased productivity?

In countless ways. Our living standards are higher and we work shorter hours. The dawn-to-dark working day of our grandfathers is gone. Since 1900, the average work day has been shortened from more than ten hours to eight hours and the average work week has dropped from 61 to 40 hours. This provides two days a week for recreation and cultural pursuits. Perhaps this has something to do with our longer life expectancy.

Increased productivity, with its component of competition, has raised our real wages and salaries by improving the quality of the goods we buy. In 1908, for example, the average employee of a tire factory could hardly afford his own product. He earned only 40 cents an hour while tires for a small car cost \$35 apiece. And a tire then was good for only about 2,000 miles. An hour's labor at 40 cents would pay for only 23 miles of use of one tire, figuring the cost at 1.75 cents per mile.

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In 1952, average earnings of tire plant employees had increased by five times to \$2 per hour. Had this been the only gain, a man still would have had to work one hour to pay for 114 miles of use from a tire. He still could not afford to run a car. However, two other things happened. The price of a tire had dropped to \$20.35, and its life increased from 2,000 miles to about 30,000 miles. Thus in 1952, an hour's work at \$2 would pay not for 23 miles of use, but for 2,950 miles, a 128-fold improvement. And today, most workers can afford cars.

Productivity also has created the myriad variety of goods we see in today's stores. We can pick and choose from dozens of kinds of shoes, hats, and coats. There is a whole new arsenal of breakfast foods. Oranges, once a luxury found only in Christmas stockings, are now on everybody's breakfast table the year 'round.

The tremendous increase in the variety of products has opened up countless new jobs offering new opportunities for individuals to find the kind of work they can do best. It has created a whole new world for women, who only two generations ago had almost no opportunities for employment beyond teaching and domestic service.

Frederick C. Mills of the National Bureau of Economic Research, call's America's increased productivity "one of the great lifting forces of our time."

7. Can we take our productivity for granted?

That would be dangerous. Productivity, as we know it, has been developed in only a handful of western nations, and there very slowly. Eastern nations have never learned its secret. And in recent years, under socialism, productivity has declined even in Europe and Britain where it was born. The London Economist, trying to put its finger on what had gone wrong with British productivity in the recent socialist regime, commented:

"The human donkey requires either a carrot in front or a stick behind to goad it into activity. The whole drift of British society for two generations has been to whittle both...until very little of either is left....Nobody gains anything from activity or suffers anything from inactivity. There is hardly the flavor of the carrot or the shadow of a stick. And yet we wonder why the donkey does not break into a trot."

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Even when a nation starts up the road of economic progress, there are many possibilities that improvements in technology will not be used for the general welfare. Egypt's rulers squandered their nation's resources on the pyramids, while Napoleon impoverished France with endless wars.

History teaches us that it is possible, and indeed easy, to destroy the springs of progress in a society, and that almost all past civilizations have done so. Like a precious jewel, productivity is difficult to gain, easy to lose.

8. How can America continue to increase productivity?

By maintaining incentive--the hope of reward. The miracle of productivity in this country has sprung from certain basic institutions. These include privacy of property which allows a man to keep, sell, or give away what he has produced whether it be a bushel of apples or a new idea; freedom of markets from government control or from monopoly so that private initiative can determine how much of what is to be produced, where and when it shall be sold, and at what price; and, finally, sanctity of contract.

The effect of these institutions has been to say to Americans: "you are free to produce, and to sell what you have produced in a free market at a profit. If you fail to produce, you yourself must accept the penalty for you have no right to what others have produced."

These stimuli have unleashed the energies, inventiveness, resourcefulness and managerial talents which have resulted in our miracles of productivity.

But there is, of course, no guarantee that these institutions will not be modified, or lost altogether. That is what needs to be recognized. Here is the basic threat to American productivity--that we may dry up the springs of economic growth, without realizing what we are doing.

This has already happened in some degree during the last two decades. We have lessened incentive by relying more and more for our domestic revenues upon income taxes--individual and corporate--and less upon excise taxes. Labor no longer enjoys a free market, for in some cases unionization has destroyed competition among workers. Farmers are no longer free to produce; government controls their crops and maintains fixed, artificial supports for their prices.

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Export and import prices are not entirely determined in free markets because of tariffs and other barriers to trade.

In a word, government has increasingly tended to control markets rather than to keep them free. This trend can be reversed by the will of the people and, to some extent, already has been.

The Chamber of Commerce of the United States believes that government must play a major role in preserving free markets. It can prevent business firms and labor unions from exercising monopolistic control over market prices, and it must refrain from doing so itself. Government must enforce contracts and protect the property rights of producers and consumers alike, and it must work to maintain domestic and world peace.

If, by these means, America can increase the incentives of her citizens toward greater productivity, she can maintain her prospect for future progress and national independence and security.