

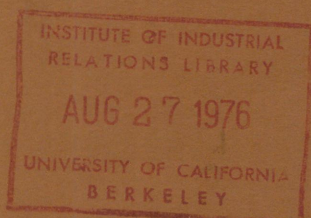
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U.S. National Commission on Productivity
and Work Quality

A National Policy for Productivity Improvement

A Statement by
the National Commission on
Productivity and Work Quality

October 1975



Washington 1975

Preface

The National Commission on Productivity and Work Quality is composed of leading business, labor, government, and public representatives. The Commission was initiated in 1970 in response to a growing concern about the importance of productivity to the nation. Since its inception, the Commission has sponsored and participated in a continuing national dialogue on the subject of productivity, and has promoted a number of productivity-enhancing programs in many sectors of the economy.

Based on this experience, Commission members determined that the time was appropriate for a statement of the Commission's current thinking on national productivity policy. There is a great need, the Commission believes, for a "productivity voice" to participate in the development of our national policies.

To produce this statement, the Commission as a whole met to consider the issues to be addressed, and augmented this meeting with further contributions by individual Commission members. All Commissioners have had an opportunity to review the final text of this statement, and although not all Commission members endorse each and every point made in the policy statement, all have concurred with its central thrust and contents.

The Commission hopes that this expression of its views will serve to stimulate efforts by responsible individuals in all sectors of the economy, to provide counsel to those charged with legislative and policy decisions, and to improve the quality of debate on issues for which solutions are still being sought.

National Commission on Productivity and Work Quality¹

Nelson A. Rockefeller, Chairman
Vice President of the United States

I. W. Abel, Vice Chairman
President
United Steelworkers of America

C. L. Dennis
President
Brotherhood of Railway, Airline and
Steamship Clerks, Freight Handlers,
Express and Station Employees

Donald C. Burnham, Vice Chairman
Director-Officer
Westinghouse Electric Corporation

John T. Dunlop²
Secretary of Labor

F. E. Barnett
Chairman
Union Pacific Railroad

Daniel J. Evans
Governor
State of Washington

Thomas Bradley
Mayor
Los Angeles, California

Frank E. Fitzsimmons
President
International Brotherhood of Teamsters

Berkeley G. Burrell
President
National Business League

Alan Greenspan
Chairman
Council of Economic Advisers

Catherine B. Cleary
President
First Wisconsin Trust Company

Wayne L. Horvitz
Chairman
Joint Labor-Management Committee of
the Retail Food Industry

R. Heath Larry
Vice Chairman
United States Steel Corporation

Jerome M. Rosow
Planning Manager, Public Affairs
Exxon Corporation

James T. Lynn
Director
Office of Management and Budget

Charles L. Schultze
Senior Fellow
Brookings Institution

John H. Lyons
President
International Association of Bridge,
Structural and Ornamental
Ironworkers

L. William Seidman
Assistant to the President for
Economic Affairs

William H. McClennan
President
Public Employees Department
AFL-CIO

William E. Simon
Secretary of the Treasury

Rogers Morton
Secretary of Commerce

The participation of Elmer B. Staats, Comptroller General of the United States, W. J. Usery, Jr., Director of the Federal Mediation and Conciliation Service, and H. Guyford Stever, Director of the National Science Foundation, in the discussions leading to the preparation of this document is acknowledged with appreciation.

John F. O'Connell
Vice Chairman
The Bechtel Group

Albert Rees³
Executive Director
Council on Wage and Price Stability

George H. Kuper
Acting Executive Director

³ Resigned July 25, 1975

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*The National Commission on Productivity
and Work Quality
Roosevelt Room
White House
June 24, 1975*

Productivity and the National Interest

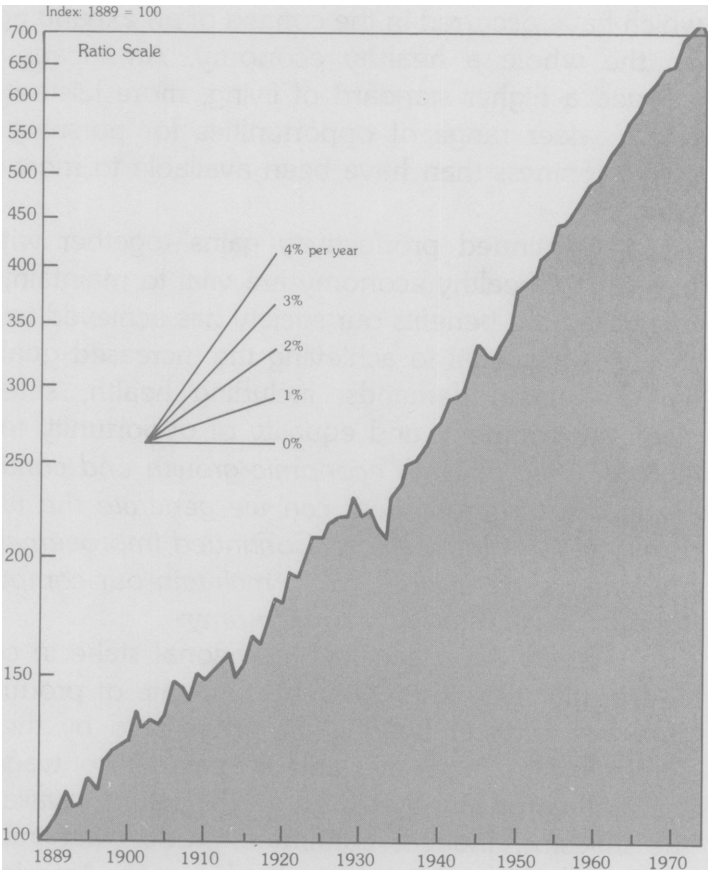
Throughout our history, the American economy has provided an environment in which productivity improvements have been undertaken with enormous vigor, ingenuity, and success. As a result, the average American worker today produces about four times as much in an hour of work as the average worker of 50 years ago (see Chart 1). From these improvements, which have occurred in the context of an expanding and on the whole a healthy economy, Americans have enjoyed a higher standard of living, more leisure time, and a wider range of opportunities for pursuing their own happiness than have been available to most other people.

Continued productivity gains together with an expanding, healthy economy are vital to maintaining or improving the benefits our society has achieved to date; they are also vital to achieving the increased quality of life our nation demands, including health, safety, a clean environment, and equality of opportunity for our citizens. *Only through economic growth and continued productivity improvement can we generate the wherewithal to meet these goals. Continued improvements in productivity are also critical to maintain our competitive position in the international economy.*

Every American has a personal stake in continued productivity improvement. Our rate of productivity gain has a direct bearing on prices paid by the consumer, on the funds available for payment of wages, on the real worth of wages, and on the returns available to the investor. Indeed, continued productivity improvement offers a primary means for each American to improve his or her situation in life, and to ensure our future well-being through increased concern over the

efficiency and effectiveness with which we use our resources to produce the goods and services required by our present and future needs.

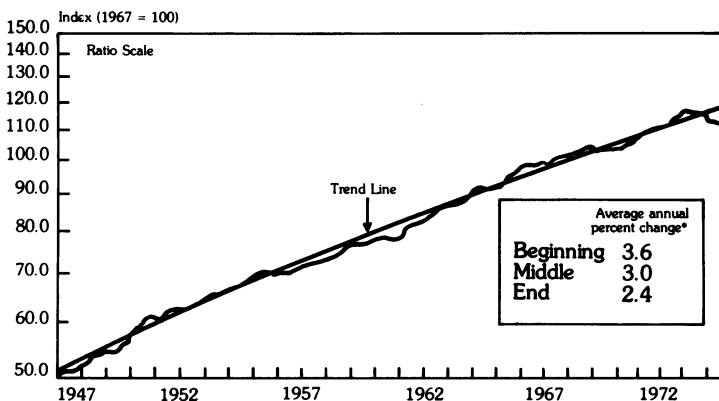
Chart 1: Productivity Has Risen Persistently Over the Past 85 Years



Source: National Bureau of Economic Research (J.W. Kendrick) for 1899–1909; Bureau of Labor Statistics for 1909–74 (private economy, “establishment basis”). In both sources the series are for “real gross product per unweighted man-hour worked.”

Why, if our productivity growth has fared so well during our history, do we need to be concerned about continuing to improve our productivity in the future? Productivity involves changes in many input variables—such as labor, capital, and energy—and in outputs which are often hard to quantify; as a result, trends in productivity are difficult to measure on a consistent basis. The most commonly used measure of productivity—output per man-hour—suggests that the rate of productivity growth during the post-World War II period has shown signs of slowing down (see Chart 2). Comparisons of trends in other industrial countries during the past decade also suggest that U.S. leadership in productivity is diminishing (see Chart 3). These statistics may not tell the total story about the complex issue of productivity, but they are nevertheless a basis for genuine concern.

Chart 2. Output per Man-Hour Growth Rate Has Tended To Slow Down Over the Post-War Period



*Computed from trend line fitted to quarterly data for private economy.

Source: Bureau of Labor Statistics, U.S. Department of Labor.

Chart 3. Manufacturing Output per Man-Hour in Seven Countries, Average Annual Percent Change, Selected Periods, 1950—74

Country	1950—74	1960—74	1950—66	1966—74	1966—70	1970—74
United States	2.9	3.3	2.7	3.6	2.2	4.8
Canada	4.1	4.3	4.0	4.4	4.7	4.2
Japan	9.5	10.5	8.4	11.1	13.9	9.5
France	5.4	6.0	4.8	6.0	6.6	6.0
Germany	6.0	5.8	6.2	5.4	5.8	5.7
Italy	5.9	6.4	5.9	6.1	5.4	8.3
United Kingdom	3.4	3.9	2.9	3.6	3.5	4.3

Note: Data for Italy cover periods ending with 1973. U.S. estimates for 1974 are based on data for full year; estimates for France are based on two quarters; and estimates for remaining countries are based on three quarters.

Source: Bureau of Labor Statistics, U.S. Department of Labor.

Regardless of the extent of recent declines in productivity, or even whether such declines have occurred at all, our economic system faces significant challenges in the future. These challenges include the improvement of our material standard of living, the maintenance of our competitive position in the international economy, and the need to improve the quality of our environment. To meet these challenges will require continued economic growth and productivity improvement.

Thus, to keep what we have achieved to date and to meet the challenges of the future, the nation must concern itself with developing adequate policies to foster continued productivity improvement.

Many different factors affect productivity. Indeed, almost every development sooner or later influences productivity, from the extent of commuter traffic to the quality of primary education. In the view of the National Commission on Productivity and Work Quality, the most crucial factors affecting productivity, and about

which our national policy should be primarily concerned, are grouped under three broad headings. These are:

- **Human Resources**—that is, the level of health and education, skills, ingenuity, and dedication of all people involved in the production of goods and services, and the extent to which we continue to maintain and improve this productive capability.

- **Technology and Capital Investment**—that is, the process through which productivity-enhancing innovations are conceived, developed, financed, and diffused throughout the economy, in both the public and the private sectors.

- **Government Regulation**—that is, the process through which government regulates the actions of individuals and organizations in the interest of the community, and the extent to which this process affects the ability of the economic system to foster continued productivity improvements.

The Commission believes that as a nation we have serious problems in all three of these areas which must be faced realistically. In each area, the Commission has identified specific policies which it believes require urgent national attention in order to maintain our historic growth in productivity and in turn to assure America's continued strength and ability to meet the needs of its people and its responsibilities to the world.

In conjunction with adequate policies in these three areas, a stable, expanding economy with high levels of employment and investment goes along with substantial productivity improvement. Conditions of stable growth and full employment are normal companions to high levels of savings and profits, and the incentive to

reinvest these funds in productivity-enhancing projects. Similarly, when jobs are plentiful, technological changes which lead to greater efficiency are more readily accepted.

Productivity statistics are also influenced by the business cycle; in times of recession, capital and labor resources tend to be used less efficiently. As a result of the recession, productivity in 1974 (as measured by output per man-hour) experienced an unusually sharp cyclical decline. In fact, for the first time in 25 years, output per man-hour declined from one calendar year to another—by 2.6 percent between 1973 and 1974.

As a first step toward returning to sustained productivity growth, therefore, we need to remedy the current problems of recession and unemployment. This will be rewarded by an immediate improvement in productivity statistics. However, long-term productivity growth, independent of this cyclical effect, depends on adequate policies in the areas considered by this statement.

Human Resources

Introduction

Human resources—including all persons who are involved in the production of goods and services regardless of their affiliation with either “labor” or “management”—are the driving force behind change and improvement. The Commission believes that the willingness and energy of working Americans are in large measure responsible for the dominant position of our national economy today. Further, to the extent that our rate of productivity improvement is less than we might desire it to be or to the extent that we feel it is threatened in the future, the principal cause is not that Americans lack the willingness to work hard. Rather, we must look to making sure that the tremendous potential of our human resources is fully realized—that the unparalleled dedication, skills, organizational talent, and ingenuity of Americans are effectively directed at our productivity goals.

Several factors are required to insure effective realization of the potential of our human resources. First, those who commit themselves to improving productivity (including labor, management, and private investors) must understand how they will share in the gains.

Second, the know-how, ingenuity, and imagination of employees need to be more widely recognized by management, and new cooperative arrangements between labor and management need to be developed to allow this important resource to be utilized more fully.

Third, the important relationship between productivity and job security needs to be fully understood, and we need to provide workers with adequate assurance that cooperation in productivity-enhancing changes will not adversely affect their security and self-interest.

Fourth, the quality of the work environment needs to be maintained or improved.

Fifth, the educational system, which provides workers, managers, and other members of the work force at all levels with the necessary skills to be productive and with the capacity to adapt to technological change, needs to be kept flexible and responsive to society's changing requirements and to the changing character of individual aspirations.

The views of the Commission with respect to each of these areas are elaborated below. In addition to effective policies in these five areas, it should be emphasized that effective use of our human resources requires an environment of full employment and equal opportunity. Unemployment—quite apart from humanitarian considerations—is a waste of potentially productive resources. Similarly, discrimination forces people to work at less than their capacity. Therefore, conditions of both full employment and equal opportunity are a necessary context for the more specific policies considered below.

Labor-Management Relations

The Commission believes that greater cooperation between labor and management offers significant and mainly untapped potential for increasing productivity in all sectors of the economy. "Cooperation" in this context refers to an open exchange of ideas between labor and management, occurring outside the formal collective bargaining process and in a nonadversary environment. Improved cooperation requires, on management's part, a recognition that labor can contribute important know-how, imagination, and ingenuity in such areas as

increasing output, reducing waste, improving morale and job satisfaction, and reducing counterproductive behavior such as absenteeism or alcoholism. Of equal importance, a cooperative approach to productivity improvement requires an acceptance by labor of its responsibility for sharing in the effort to improve productivity.

Collective bargaining has proved to be an effective mechanism for resolving differences between labor and management; however, the Commission believes that opportunities also exist for labor and management to identify and pursue common objectives outside the collective bargaining process, and that the pursuit of these objectives can serve their mutual interests without threatening the viability of collective bargaining.

The identification and promotion of areas of cooperation should prove equally useful in those sectors of the economy where employees are not represented by unions, and where no other formal mechanism exists for communication between management and employees on productivity issues.

In promoting the potential of expanded labor-management relations to achieve productivity improvement, the Commission feels that our national policy should place particular emphasis on the public sector. The public sector (Federal, State, and local government) now accounts for approximately one-fifth of the total national employed work force. However, many units of government lack administrators with adequate skills, training, and experience in labor relations. In addition, collective bargaining is often new and quite fragmented and many public service unions have less experience than their counterparts in the private sector. Therefore,

the Commission believes that opportunities to improve labor-management procedures—including grievance-settling methods and communications on productivity improvement issues—and to expand the skill levels of those responsible for labor relations should be vigorously pursued.

In addition, the Commission believes that managers in almost every area of the economy can take more initiative and can contribute more to the process of productivity improvement. Accordingly, efforts to promote the value of increased productivity and to disseminate techniques for improving productivity should involve every employee. This is especially true in the public sector, where the need for administrators to take an active role in productivity improvement is not as widely understood as it might be

Job Security

Nationwide, productivity improvement and employment are interdependent. High rates of employment are a necessary condition for sustained productivity growth; continued productivity improvements are vital to the ability of the economy to supply new jobs and to maintain existing ones. However, in particular situations where proper alleviative measures have not been taken, increased productivity can threaten job security and, consequently, the changes designed to improve productivity will be understandably resisted by workers.

Even where resistance to change is not an issue, workers cannot be expected to contribute their ideas and know-how to improving productivity if they believe the resulting changes will affect them adversely. Further, because of the association in the minds of many workers

between “productivity” and threats to employment security, changes may be resisted or constructive suggestions withheld even when no real threat to employment exists.

In response to this phenomenon, the Commission believes that a better understanding of the relationship between employment and productivity improvement is needed. Efficient, highly productive enterprises are usually the ones that grow and hire more people. It is necessary in most areas of work that we try to solve such problems as how to more efficiently utilize time on the job; how to improve performance; how excessive waste of energy, materials, supplies, or equipment can be eliminated; how equipment breakdowns can be avoided and product quality improved; or how workers’ satisfaction can be enhanced. Thus, long-term job security which comes about by having a high productivity work force must be recognized.

In addition, measures and programs designed to enhance job security need to be pursued more fully. The specific measures and programs which are needed vary widely depending on the industry or economic sector involved. However, the Commission believes that several areas offer especially strong potential for maintaining job security and accommodating productivity-enhancing changes. For example, the unemployment insurance system, the transferability of pension funds, and other measures for assuring greater financial security for the employee while adjusting to change all require review and improvement. In addition, better management procedures for forecasting and adjusting to change need to be developed and implemented by employers in many sectors of the economy. In this

context, the problems of small companies, which are less able to forecast the impact of change and which may have less flexibility in reacting to change, require special attention.

The Commission believes that the need for a better understanding of and methods for achieving an appropriate balance between job security and productivity gains are especially acute in the public sector, where many government units seem to be faced with a choice between layoffs and massive budget deficits. Of particular importance in this regard are budget policies which reflect sound and prudent management of available resources, both human and financial.

Quality of Working Life

In its broadest sense, the concept of quality of working life embraces many of the areas covered elsewhere in this statement—labor-management relations, job security, the quality of education and training provided to workers, and other factors associated with maintaining the capacity and motivation of the American work force. In this broad sense, the Commission believes that quality of working life is vital to our national productivity.

In addition, increased national attention has been focused recently on experiments designed to improve quality of working life in the more specific sense of the atmosphere in which work is conducted. The Commission endorses these efforts and believes that they offer promise in providing an atmosphere conducive to productivity improvement. In the view of the Commission, further experimentation should place more emphasis on seeking a better understanding of the relationship be-

tween productivity and the quality of a worker's environment and on learning more about which concepts of "quality of working life" seem most conducive to stimulating productivity improvement.

Education and Training

Overall, the Commission believes that the traditional strength of our educational institutions is a main factor in the capacity of the United States to improve productivity. The quality of the scientists doing research, the engineers planning new products and methods, and the managers, administrators, and workers operating our productive enterprises and public service organizations all depend on our educational system.

To keep pace with the requirements of an increasingly complex socioeconomic environment, the Commission believes that U.S. education can and should become increasingly responsive to the needs of society, including especially the need for a well-prepared work force. Without compromising the excellence of our liberal arts programs, the future demands somewhat more emphasis on shaping our educational directions to better prepare graduates at all levels for the realities of a productive life.

At all levels of education, there is a need for communication and interaction between schools and local business and labor organizations. Through this process, educators can keep up with skill requirements and labor market demands, and design course content, counseling, and job placement programs accordingly. Similarly, through closer contact with educational institutions, business and labor can better adapt their organizations to changing social mores.

The Commission also recognizes that, especially in black and lower-income areas, school systems have failed to produce an adequate number of graduates with the basic skills needed to compete effectively in the job market. To a great extent, this problem represents a failure not of the educational system only but rather of society as a whole. Nevertheless, the educational system tends to be a focus of the problem because herein lies a primary opportunity to interrupt the vicious cycle of successive generations of poverty and failure.

The specific remedies for these problems—including, for example, the question of how to teach inner-city children how to read and write—are beyond the Commission's purview. Nevertheless, because solutions to these problems are fundamental to maintaining our long-term productive capacity, the Commission supports a greater national emphasis in this area. In particular, priority should be given to reducing, through improved education programs beginning at the primary school level, the proportion of the population which is marginally employable due to a lack of fundamental skills. For such an effort to be successful, we must have an active economy which provides job opportunities, and hence the incentive to complete an educational program, for the students involved.

The Commission feels that training programs outside the formal educational system can make an important contribution to productivity. These would include programs to provide marketable skills to the unemployed and the underemployed who have passed the normal age for attending high school. In addition, we need better programs to upgrade the skill levels and thus the economic opportunities of workers already in

the labor force—with particular emphasis on those with high school degrees or less.

Finally, there is a broad requirement for improving, through educational programs both within and outside the formal educational system, the level of public understanding about our economic system. Particular emphasis should be given to altering the misconceptions or nonconceptions which many people have about productivity itself, including the role which productivity gains play in improving the quality of our lives and the role we all play in achieving productivity gains.

Technology and Capital Investment

Introduction

Much of the historical growth of productivity in this country is the direct result of technological change. Technological advances are critical to continued productivity growth because they lead to increasingly effective use of our labor, capital, and natural resources.

Technological change, in the context of this statement, refers to the total process through which productivity-enhancing innovations are conceived, developed, and diffused throughout the economy. There are many different variations of this continuing process. Included are the invention, design, production, and marketing of specific new products, as well as the development, refinement, or improvement of existing products. The process of change can apply to a product, or to an entire manufacturing technology where the change might involve a whole system of products and methods. Technological change applies to all sectors of the economy—including agriculture, manufacturing, service, transportation, and government—and involves techniques, methods, and ideas as well as products.

While the process of change is both complex and highly variable, the Commission has identified four primary—and largely interrelated—factors which are needed to support the type of continuing technological change which contributes to productivity improvement. First, there must be a strong underlying scientific base—that is, a continuously improving body of knowledge through which changes can be conceptualized, and from which practical applications can be developed.

Second, individuals and organizations must have the best possible access to available technical know-how and to information on available products and processes.

Third, individuals and organizations must have the incentive to develop new products, or to invest in the purchase of new products developed by others. This incentive, in turn, implies that they must have reasonable assurance of being able to benefit from their investment.

Finally, adequate capital resources must be available to finance the development and installation of new products and processes. Again, it is important to state that capital resources must be available for investments in both the public and the private sector. The private sector has the greater need for investment capital, and provides the cutting edge for economic growth. The public sector bears the major responsibility for financing critical items of “overhead” capital—water sewage systems, roads, dams, schools, hospitals, and other capital facilities which support our economic system.

Technology

The Commission believes that our “underlying base” of technical know-how, scientific knowledge, and engineering ability is fundamentally sound. Our universities, private business organizations, government laboratories, and other institutions involved in the expansion of our basic scientific knowledge have succeeded in developing an enormous body of technical knowledge and capability which is probably unmatched by any other nation. However, the Commission believes that the technological leadership of the United States—that is, our capacity to foster continued technological change of the type needed to support productivity improvement—may be threatened both by a recent lessening of our basic research activities and by an increasing inability to make

effective use of the scientific knowledge and technical know-how we already have.

Despite the traditional excellence of basic research programs in the United States, recent evidence suggests that many of these programs have been cut back or even eliminated. Specifically, funding for basic research at universities as well as corporate commitments to internal basic research programs have been diminished in many cases. A reduction of basic research activities does not represent an immediate threat to technological progress, and may turn out to be temporary. Moreover, it is the quality and innovative character of the research which is important rather than its amount. Further, it is difficult to specify what level of basic research is required from a productivity standpoint, or how to measure whether that level is being achieved.

The adequacy of basic research is nevertheless a matter which requires careful scrutiny. A permanent reduction in basic research activities would seriously undermine our long-term capacity to make needed technological advances. Also, we must be conscious of the fact that while a reduction in our basic research effort takes a long time to have an adverse impact, the time required to reverse that adverse effect is equally long.

A more immediate problem derives from what the Commission perceives to be a growing inability to exploit the scientific knowledge and practical know-how we already have available. One approach to this problem involves greater efforts to provide particular sectors of the economy better access to technology being developed or used in other sectors. In particular, business associations and government units need to develop

more effective ways to stimulate transfer of technical know-how and information about new products and processes from one unit or level to others. We also need to review the opportunities which exist for more widespread exploitation of defense-related technology.

In addition, our ability to exploit existing technology and to install new technology as it becomes available is influenced by the regulatory framework in which investment decisions are made. Increasingly, commitments to the development, acquisition, and installation of improved productive technology are being deferred due to uncertainties about the regulatory policies which will be in effect at the time such improvements are ready for commercial use.

The Commission also views with concern the growing uncertainties caused by the proliferation of complex and sometimes conflicting regulations, and by the slow, undependable, or arbitrary way in which regulatory control is sometimes exercised. Obviously, commitments to new technology will always involve a degree of uncertainty—quite apart from the uncertainty of the marketplace—about whether or not a new product or process will be found acceptable to regulatory authorities. As our standards of acceptability become increasingly stringent and complex, however, we need to take care that we have not created unnecessary or excessive obstacles to technological progress. In this connection, the Commission believes that more efforts are needed to streamline review processes and to improve communications between regulatory bodies and private research and development groups.

Some sectors of the economy have a limited ability to foster technological changes on their own.

Certain service industries (for example, health care and repair services) as well as State and local government units are frequently not favorably positioned—compared, for example, to many manufacturing industries or to the Federal Government—to undertake strong research and development efforts, or to identify, evaluate, and install the technical innovations developed by others. Typically, these sectors of the economy are fragmented, with individual units lacking the resources to develop needed technological changes on their own, and often representing an unattractive market to prospective suppliers of innovative products. At the same time, these sectors represent an increasingly large part of the total economy and hence offer significant potential for productivity improvement if appropriate ways can be developed to stimulate technological change.

In addition to the specific issues cited above, the Commission believes that closer cooperation between government and the private sector is needed to improve certain kinds of critical technical change. Given an expanding economy with attractive markets, American industry has a great capacity for continued technological change and improvement. However, the discovery and exploitation of certain kinds of new technology may require greater resources than those available from a single private company. Or, the uncertainties and delays associated with legitimate regulatory scrutiny may be too great for private investors. Both of these factors may become especially relevant in conjunction with certain kinds of needed energy technology—for example, nuclear applications in the steel industry or the development of coal gasification technology.

In such cases, new methods of cooperation be-

tween business and government may be appropriate. Such cooperative arrangements would differ according to the particular technological objectives and industrial sectors involved, and would need to be developed with great care—with due consideration for the interests of consumers and the protection of competition. In principle, however, the concept of cooperation between the public and private sector to achieve needed technological development is well established. For example, military, space, aircraft, and medical developments as well as significant parts of our electronics and machine-tool technology have all been substantially stimulated by public funds.

Capital Investment

For more than a decade, the United States has invested a lower proportion of its resources in new plant and equipment than the proportion invested by other major industrial nations. In part, this trend reflects the post-war reconstruction programs of other nations, and in part it reflects the changing mix of manufacturing and service components in the U.S. economy. In many of our manufacturing industries, however, obsolescence is a serious and growing problem. In addition, units of State and local government are hard-pressed to expand and renew their facilities and equipment.

Our economy also faces considerable and largely unprecedented pressures on our capital resources. Many of these emerging pressures on our capital resources involve expenditures for achieving necessary or highly desirable objectives—including, for example, environmental quality, needed health and safety standards, and greater energy independence. The Commission believes

that we must continue to pursue these objectives, many of which, in addition to their intrinsic desirability, are themselves important to improved productivity in the long run.

However, we need to understand that improved productivity and the objectives we desire are mutually interdependent. The speed and methods with which we pursue these objectives, as well as the level of achievement we desire, can all have an important impact on productivity (in the sense of output per man-hour, as conventionally measured) in the short run.

We need, therefore, to achieve an appropriate balance between maintaining rates of capital investment which are adequate to support continued productivity improvement and directing sufficient capital resources toward such areas as environmental quality, health, safety, and energy independence. To do so we need to improve our understanding of both the cost and the benefits—that is, the total economic impact—of achieving a given standard. Of equal importance, we need to pay considerably more attention to the methods we adopt for achieving certain standards—particularly the manner and timing of enforcement provisions.

Government deficits also have an important relationship to our capital structure. In periods of recession and high unemployment, deficits represent a needed stimulus. As the economy moves toward full employment, however, government deficits constitute a serious threat to capital investment. The Commission supports a deficit budget in the present economic climate; it is also concerned, however, about whether we have adequate mechanisms for controlling our spending once a high-employment economy has been achieved. Of particular

importance in this regard is an improved system for projecting the future budgetary impact of commitments made today.

Inflation also contributes to the cost of modernizing obsolete equipment. Depreciation allowances are based on the original cost of equipment; in periods of high inflation, the gap between original cost and replacement cost increases. In developing future policy on taxation, therefore, we need to have a better understanding of the distortions in business profitability and cash flows caused by inflation and we must be prepared, if necessary, to adjust to its effects on corporate and industry economics. In this context, a study should look at the capital flow of corporations to determine their potential for investment, and not simply at corporate net income. It would also be helpful to have access to improved information about plant and equipment obsolescence in specific sectors of the economy.

Even under the most optimistic of future scenarios—an expanding economy with full employment and low inflation—the supply of funds available for capital investment purposes may be inadequate to support needed investments in new productive capacity in both industry and the public sector, as well as the total level of mandated investment in environmental quality, energy resources, and other areas.

The Commission advocates further study of the extent to which total national savings in a full employment economy will be adequate to meet total national requirements. Should the present incentives for capital formation prove inadequate to sustain high levels of employment, productivity, and economic growth, additional measures will have to be considered. In any

event, the nation must recognize the importance of capital formation to future economic growth, high employment, productivity improvement, and achievement of national goals.

Government Regulation

The term “government regulation” encompasses a wide range of rules, standards, procedures, policies, and guidelines which were originally established to achieve a variety of different social and economic objectives. Some of the individual rules and policies included in the broad definition of “regulation” need to be revised because they do not operate as efficiently as they should. However, a program designed to reduce any inefficiencies caused by certain regulations must be highly selective; in particular, we must be able to distinguish between necessary or even productivity-enhancing rules, and rules which have outlived their usefulness or which unreasonably impede productivity without a corresponding social benefit.

Regulatory reform can and frequently does pose a real economic threat to some who have made investments, even though the change may benefit many. The feasibility of compensating those who are adversely affected by regulatory reform should be examined carefully. Also, in cases where the fears of those who resist regulatory reform are unwarranted, improved methods need to be developed for demonstrating that the benefits of change outweigh their potential losses in the long run.

A major problem associated with government regulation is that many of the rules, policies, and standards imposed by regulatory authorities do not provide for adequate recognition of their impact on costs. In particular, we need to understand the very real trade-offs and balances which exist between achieving such objectives as clean air and water and the maintenance of other national priorities such as low costs to the consumer and high overall rates of employment. There is a particular need to promote this greater awareness of

and concern about the economic impact of regulations among regulatory agencies themselves.

A related problem is that many regulatory standards are not pursued as efficiently as they might be. As mentioned in the Capital Investment section of this Commission statement, our national objectives for energy independence, health and safety, and environmental quality will all place considerable demands on our national resources. It is critical, therefore, that once the nation has adopted an objective, careful consideration be given to achieving it in the most efficient possible manner, thereby conserving our capital resources for the many demands which the future will place on these resources.

The problems of assessing trade-offs between various social and economic goals, of finding approaches to improving the efficiency of our regulatory processes, and of finding ways to accommodate those who have legitimate vested interests in regulations which might otherwise be considered counterproductive, are matters which require extensive and informed deliberation at the national level. The Commission wishes to emphasize, however, that the complexity of these issues should not cause us to lose sight of the counterproductive rules, regulations, and procedures existing at all levels of government and in the private sector which may be eliminated or modified without compromising any social objectives or hurting any vested interests.

A widespread effort—involving the participation of business, labor, consumers, and appropriate units of government—to identify and revise such counterproductive regulations could lead to important productivity improvements. These efforts could focus on any or all of

the following areas: eliminating redundancy and overlapping jurisdictions; reducing inconsistency and establishing more uniform standards; or identifying and abolishing rules which have simply outlived their usefulness.

Conclusion

This Policy Statement represents the views of leading business, labor, government, and public representatives concerning areas which affect productivity, and in which our efforts to improve productivity should concentrate. The Policy Statement should not be read or used as a definitive report or as the documented results of a formal study. It is, as described in the preface, a statement of views and opinions. The Commission had adopted this approach because so many of the critical issues related to productivity are difficult to document or “prove” in a formal, conclusive way. We do not have, for example, adequate measures of the relationship between basic scientific research and productivity, or between the level and quality of education and the productive capability of the work force. Pending better knowledge and measurements, however, we must continue to develop and refine our policies in these and other areas which both experience and common sense indicate are important. To do so, we must rely on the best judgment of those who have the greatest practical and theoretical experience with the issues involved.

The Policy Statement will serve as a basis for the future efforts of the Commission and its staff. However, productivity improvement depends on individual efforts and effective policies in all sectors of the economy; in this context, the Commission plays a limited and primarily catalytic role. Accordingly, the Policy Statement is intended to stimulate action by others, including both the executive and legislative branches of Federal, State, and local governments, and leaders in the various industries, enterprises, labor organizations, and other institutions of the nation.

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