

*Productivity
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The Significance of Our Productivity Lag

Address by

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U.S.
Chairman, Board of Governors of the Federal Reserve System,

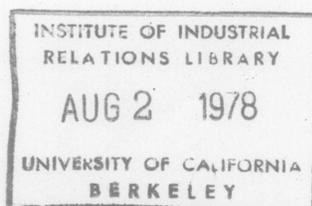
at Commencement Exercises of the

University of South Carolina

Columbia, South Carolina

May
May 14, 1977,

Washington 2 May 1977.



It is a pleasure for me to join this Commencement assemblage in paying tribute to the graduating class of the University of South Carolina.

Those of you graduating today are part of a great tradition. The first graduate went forth from Carolina's classrooms when Thomas Jefferson was President of the United States. And many of the students who have followed since then -- some of whose names commemorate the buildings in which you have lived and studied -- have made notable contributions both to this region and to the country at large. I trust that in the years ahead -- in whatever careers you pursue -- you will never cease to draw inspiration from the achievements of those in whose footsteps you follow.

In considering what I might appropriately say to you today, I found my thoughts turning repeatedly to the remarkable transformation that our Nation's economy has undergone since the time this institution was founded. The broad outlines of that transformation -- from simple agrarianism to the complexities of our modern industrial state -- are well known to all. So, too, is the remarkable record of material gain that has flowed to our people in the process.

What may perhaps be less fully appreciated is that the material progress we have made as a Nation -- and which has long been the marvel of the world -- was by no means an inevitable occurrence, despite our endowment of natural resources. Nor is it something whose extension we dare take for granted. I believe, rather, that the bounty that is ours came about chiefly because we have had the wisdom throughout most of our history to foster an environment in which the latent energies of our people had generous scope for realization. Ours has been a society in which men and women, no matter what the circumstances of their birth, have known that there were ultimately no boundaries to what might be achieved with effort and ingenuity. That faith -- and the spirit of independence and drive it has fostered -- has been the essential dynamic force in the economic life of our Nation.

In the language economists are prone to use in describing material gains, what we have had in America is an astonishing record of productivity achievement. Our environment of enterprise and the rewards it has offered have prodded us to great effort. Historically, we have been an industrious and an inventive people. We have striven for self-improvement and the betterment of our families; and we have been willing, both individually and collectively,

to sacrifice and scrimp when investment opportunities beckoned.

We have, moreover, been imaginative and persistent in devising

better ways of doing things and in applying new technologies in

the organization of our productive activities.

The consequences of all this in terms of the efficiency of performance of the individual American worker have been striking.

It is, indeed, our impressive historical record of upward climb

in output per hour worked that is the foundation of our economic

strength. To be sure, the aggregate income and wealth of our

Nation have grown with the passage of time partly because our

workforce has grown in size. But that has been far less important

as a source of output gain than some of you may realize. Over-

whelmingly, what has been critical -- to the extent of accounting

for about two-thirds of the rise in national output over the span

of our history -- has been the advance in labor productivity, the

simple fact that an hour of labor progressively has yielded more

and more output.

I focus on this today because I think it is important for you to have an awareness that our country's productivity growth has exhibited a slowing in recent years, both absolutely and relative to that of other countries. You should recognize this as a matter

of great concern to you personally and to the future of the Nation. Indeed, largely because of the slowing of the underlying rate of productivity growth -- to a pace a third less rapid in the last ten years than in the 1950's and early 1960's -- we can no longer boast of having the highest per capita standard of living in the world.

Far more is at stake, of course, than the issue of international prestige. As a Nation, we can consume no more than we produce, so that unless productivity growth reaccelerates, our citizens inevitably will enjoy less rapid gains in living standards in the future than has been customary historically. It requires little imagination to foresee that troublesome tensions could arise from that situation as competing groups in our society endeavor to secure a larger share for themselves of production gains that are disappointing in the aggregate. Also of great significance is the fact that without a reacceleration of productivity growth we shall find ourselves increasingly cramped in our public life in channelling resources to the solution of domestic and international problems.

These are powerful reasons for trying to understand the causes of the productivity weakening that has recently occurred. A good deal of scholarly effort has in fact been devoted precisely to that end. However, we still cannot be sure how much of the slowdown in productivity growth reflects transitory as distinct from more basic causes.

One cause of slower productivity growth in recent years that is presumably of a temporary nature has been an increase in the proportion of relatively inexperienced workers in our labor force. This reflects several influences: first, a greatly enlarged stream of young people entering labor markets in the late 1960's and early 1970's as a delayed consequence of the very high fertility rates that followed World War II; second, the increasing tendency for adult women -- many lacking recent work experience -- to seek employment; and third, the prevailing trend toward early retirement. As the younger workers and adult women gain in job experience, however, the depressant effect on productivity growth of the shift in the age and sex composition of the labor force will no longer be operative. Indeed, a reversal may already be in progress.

A more complicated issue to assess -- but one that likewise involves the potential for a favorable turn -- concerns the way in which our Nation's capital stock grows in relation to the labor force. In recent years, the exceptionally rapid rate of labor-force growth has not been matched by a corresponding acceleration in capital formation. In fact, even apart from the slump in capital investment during the recent recession and the disappointing recovery in capital spending since then, the growth of this country's stock of

capital has tended to be slower for some time than in the earlier postwar period. This combination of circumstances -- rapid labor force increase and a slowing in the pace of capital formation -- has meant that progress in equipping our workforce with increasing amounts of capital equipment has proceeded much less rapidly than in the 1950's and the 1960's. That unquestionably has been detrimental to the maintenance of productivity gains at their historical pace. Demographic influences, however, are gradually becoming somewhat less awesome. Within the next few years, the growth rate of the labor force is likely to decline appreciably, reflecting the lower fertility rates that followed the earlier postwar bulge. In that situation, the challenge of achieving an accelerated pace of capital formation relative to labor supply will become less formidable -- provided, of course that we are successful in maintaining a climate of enterprise that is conducive to capital spending by business firms.

Despite these two potentially favorable influences -- that is, the trend emerging toward restoration of a more experienced work force and the definite possibility that faster growth may resume in the capital stock per worker -- complacency about future productivity developments is by no means warranted.

I say this because the productivity slump which we have been experiencing is only partially explained in terms of the changing experience of our labor force and the amount of capital our workers have been equipped with. Careful study of those two factors still leaves a substantial part of the recent productivity slowing unexplained. Other adverse influences apparently have been at work as well.

My own judgment is that we have been undergoing a change in our societal values and attitudes that has contributed significantly to poorer job performance in recent years. I advance that as a hypothesis only, not as an established fact. It is a hypothesis, however, for which there is regrettably a considerable body of supportive evidence.

Testimony to a lessened sense of industriousness on the part of our workforce is certainly present, it seems to me, in this country's record of job absenteeism. The number of people who simply do not show up for work on any given day, especially before and after weekends, has been rising in recent years and has assumed worrisome proportions. In a typical week last year, almost five million workers had unscheduled absences from their jobs for a day or more either because of reported illness or for other personal reasons. Last year's absenteeism involved the

loss of more than 100 million hours of working time per week, giving rise, one can be sure, to a great deal of unnecessary cost and inefficiency in the operations of our businesses -- ranging from disruption of production schedules to overstaffing by employers as a defensive measure. No one would deny, of course, that many unscheduled absences are justified by illness or personal or family emergencies. But there is evidence that absenteeism has risen faster in recent years than the number of employed individuals, and this suggests that decided changes have been under way in our country in the basic work attitudes of employees.

The high and rising incidence of absenteeism would be easier to understand if workers in this country enjoyed less paid time off than they do. Significantly, however, the average factory worker now gets 9 paid holidays each year and many workers get more. There has been an impressive liberalization throughout the postwar period, moreover, in the amount of time employees can take as paid vacation. Indicative of the trend is the fact that more than two-thirds of factory workers with 25 years service now get a full month's vacation, whereas fifteen years ago only about one in five enjoyed such generous vacations.

Employers, in short, are increasingly remunerating workers for time during which no work is performed. At present about 7% of total payroll costs incurred by the average employer in this country goes to pay for time that employees are not explicitly on the job. And the full costs of paying for nonworking time would be much larger if there were any meaningful way of measuring the extraordinary number of hours spent on coffee breaks, wash-up time, retirement parties, and other social rites that have increasingly become a part of our working lives. Against this background, is there really any wonder that many of our producers find it difficult to compete internationally and that so many of the products in our homes and garages bear foreign names?

These developments relating to work attitudes and the amount of leisure time we are opting for as a society are a relatively neglected aspect, I believe, of scholarly investigation into the causes of the slowing in our productivity growth. I think they must be brought into sharper focus to facilitate wider public understanding of what is at stake. It is not at all clear that people actually perceive that lessened work effort inevitably must be reflected in the material benefits we as a people can enjoy. That

linkage was inescapably evident earlier in our history -- when, to a much greater degree than is now the case, men and women could literally see what their individual effort yielded in consumable products; but the linkage has been blurred as our productive and distributive mechanisms have grown in complexity.

I trust it is clear that these matters are by no means of remote concern to young people such as you who are now embarking on careers. Indeed, I would call your attention to the fact that during your lifetimes the degree of productivity growth achieved by the workforce, will, if anything, be more important than it is now, simply because of the changing ratio of the working to the nonworking portions of our population. Reflective of the longer lifespan people are enjoying and the trend toward lower birth rates, we are now experiencing a rapid expansion in the elderly portion of our population. A relatively heavy burden will thus fall on the employed portion of the population to produce goods and services not just for themselves, but also for the swelling numbers of people who will be beyond retirement age. That prospect emphatically underscores the importance of reachieving and maintaining strong productivity growth.

I urge you to think about the implications of that challenge and to consider carefully the interest you have in helping to foster a renewed spirit of industriousness in this Nation. The future is yours to do with it what you will. I hope you will choose wisely.

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