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Productivity Grows, But Workers Don't Share

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Productivity Grows, But Workers Don't Share

Abstract

[Excerpt] Productivity growth increased substantially in the 1990s. For each hour that a worker spends on the job, more is being produced. The higher productivity has lowered costs and boosted company revenues, but workers have not shared in the gains. Higher productivity means that workers should be experiencing a faster rise in real wages than in past decades. When productivity grows, employers, in general, have the ability to grant wage increases above the rate of inflation, and realize higher profits at the same time. But productivity growth in recent decades has not led to higher wages as it should. Instead, the buying power of workers has declined as employers continue to make every effort to hold down wages. In contrast to the situation of workers, profits and executive salaries are increasing at a startling rate. The benefits of rising productivity have been captured by the richest Americans, who have allowed nothing to trickle down to the rest.

Keywords

key workplace documents, ILR, AFL-CIO, productivity, workers, growth, union, wages, U.S.

Comments

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Reviews the Issues

Productivity Grows, But Workers Don't Share

Productivity growth increased substantially in the 1990s. For each hour that a worker spends on the job, more is being produced. The higher productivity has lowered costs and boosted company revenues, but workers have not shared in the gains.

Higher productivity means that workers should be experiencing a faster rise in real wages than in past decades. When productivity grows, employers, in general, have the ability to grant wage increases above the rate of inflation, and realize higher profits at the same time. But productivity growth in recent decades has not led to higher wages as it should. Instead, the buying power of workers has declined as employers continue to make every effort to hold down wages.

In contrast to the situation of workers, profits and executive salaries are increasing at a startling rate. The benefits of rising productivity have been captured by the richest Americans, who have allowed nothing to trickle down to the rest.

Productivity in the 90s

The pace of productivity growth has picked up in the 1990s compared with the decades of the 70s and 80s. Productivity growth in private business averaged 2.0 percent per year from 1989 through the first nine months of 1995, compared to 1.0 percent in the 1980s and 1.5 percent per year in the 1970s.

Manufacturing productivity growth showed an even greater improvement. Productivity in manu-

facturing averaged 3.1 percent per year in the 1990s, which was also higher than the 2.4 percent average annual growth in the 1980s and 2.1 percent in the 1970s.

Productivity made strong gains in 1995, even though the economy showed signs of slowing down. Productivity was 3.3 percent higher in the three-month period July-September 1995 compared to the same three months a year earlier. Manufacturing Productivity rose even faster at 4.0 percent.

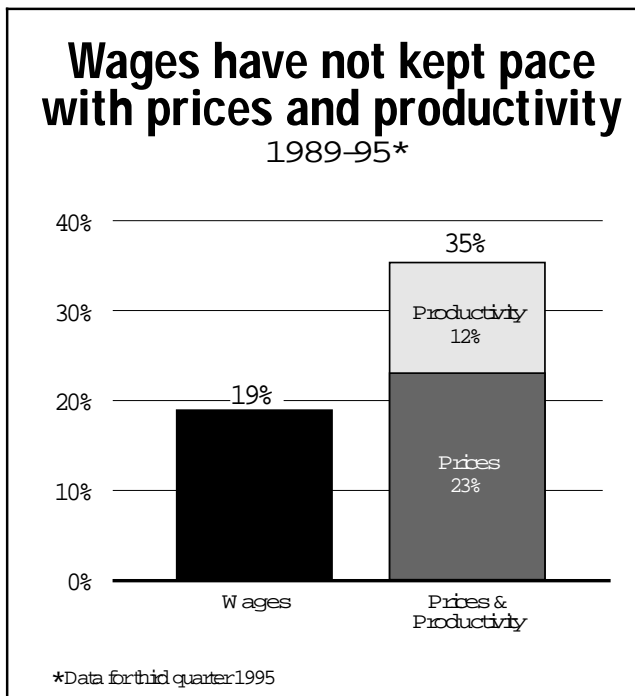
Slowdown and Recovery in Productivity Growth

Although much improved compared to the 1970s and 80s, productivity is growing more slowly than in the decades of the 1950s and 60s. The growth rate of 2.0 percent in private business in the 1990s compares to 3.4 percent in the 1950s and 2.9 percent in the 1960s.

In manufacturing, the slowdown appears to have been completely reversed. The average annual growth of 3.1 percent per year in the 1990s is higher than the 2.5 percent annual growth in the 1950s and 2.9 percent in the 1960s.

Productivity in Competing Industrial Nations

Historically, other major industrial nations have had much higher productivity growth than the U.S., but that has changed considerably in the



1990s. Japan and Europe still lag the U.S. in overall productivity capability, and they have had difficulty due to recession.

Manufacturing productivity in the U.S. grew an average yearly 3.0 percent from 1990-94 in the U.S. compared to 2.8 percent for France, Germany, and Canada, while productivity grew at a 2.4 percent pace in Japan.

What is Productivity Growth?

Higher productivity means that more is produced by workers than in the past. Productivity gains are usually measured as the percentage rise in the amount of goods and services produced in an hour's work. Higher productivity means producing more during every hour worked. It does not necessarily mean working harder.

Greater productivity is the result of many factors including better work organization, investment for the expansion and modernization of the workplace, better trained and educated workers, and more spending for research and development.

Public infrastructure development is essential for productivity growth. Public investment, consisting of transportation systems, sewer and water systems, schools, and other public investment, provides essential support facilities for production of goods and services.

Programs to train and involve workers enable the U.S. to realize its potential productivity growth. Comparisons with European countries show the U.S. well behind in developing training programs. Workplaces that involve workers in the setup and operation of training programs, and enable them to participate in the implementation of health and safety, technology, and other workplace activities, are more likely to be successful in implementing their plans.

Trade unions make a substantial contribution to productivity in carrying out their role of improving workers' living standards, job security and working conditions. The most comprehensive comparison of union versus nonunion workplaces in the U.S. was done by James Medoff of Harvard and Charles Brown of the University of Maryland. That study found union workplaces in manufacturing 22 percent more productive than nonunion plants.

A key ingredient to raise productivity is a healthy economy with rapid business expansion. The best productivity growth is achieved when unemployment is falling and consumer demand is strong, because that climate stimulates investment in training, equipment, research and development, and other factors that lead to higher productivity.

The success of the American economy is due in large part to a strong base of consumer purchasing power. Higher U.S. wages enabled America to lead the world in the adoption of high volume production. The most rapid economic growth in U.S. history accompanied the rapid growth in trade unions after World War II which were effective in building broad based purchasing power.

The use of high interest rates and tight credit by the Federal Reserve Board to fight inflation tends to slow the growth of production and investment in the kinds of activities that raise productivity.

Sharing Productivity Gains

A company with improved productivity can make a number of choices that determine who benefits from the gain. If the company does not lower prices, and holds down wages, all of the productivity gain will appear in higher profits.

If the workers can bargain with management to raise wages by the amount of the productivity increase, in addition to the increase in prices, then wages and profits share equally, each rising by the amount of the productivity increase plus inflation. To the extent that companies lower prices, customers benefit from higher productivity as well.

A great deal of catching up is needed to restore wages to the buying power of the past, and to the prior share that workers received of the total returns. In any given year, wages must rise by the increase in prices plus the rise in productivity for workers to receive a fair share of that year's increased productivity. When wages lag behind this standard, profits, dividends, and executive salaries rise much faster than wages.

There is nothing automatic to assure that the benefits of productivity are broadly and equitably distributed. Therefore, rising productivity presents the potential for trouble for the economy as well as the potential for progress.

This imbalance, between productivity and wages, played a role in the depression of 1929, and in a number of subsequent recessions. As analysts have pointed out, much of the slowdown in the economy in late 1995 can be traced to this problem. Consumer buying was sluggish in late 1995, in large part because higher productivity means firms can produce more, but buying power has not kept pace.

The Decline in the Buying Power of Wages

Companies generally have not allowed wages to rise enough to enable workers to share in the benefits of increased productivity. The evidence

appears in the government data on wages and income distribution.

Real wages of production and nonsupervisory workers, while still rising, began to lag productivity growth in the mid 1960s. Real wages are wages adjusted to reflect rising prices, and thereby are a measure of buying power. The gap between real wages and productivity began to widen much more rapidly in the 1970s as real wages began to fall. From 1979 to 1994, real wages fell in 11 of those 15 years producing a total drop in real earnings of 9 percent.

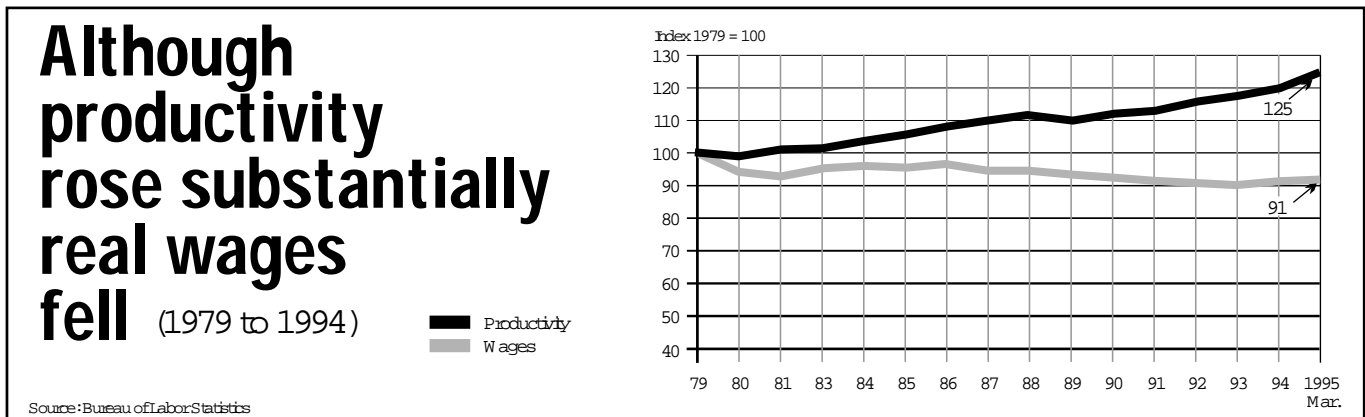
In the same period, productivity went up 20 percent, which should have enabled all American workers to enjoy a substantial boost in buying power.

In the first nine months of 1995, real wages showed no rise compared to the first nine months of 1994, because the 3 percent rise in wages was canceled out by a rise in prices of the same amount. Thus, wage earners did not receive any share of the 2.9 percent increase in productivity in the same period.

Declining real wages have affected production and nonsupervisory workers the most. But data on income show that the pay of college graduates has also begun to stagnate. College graduates received a real pay increase of only about 1.2 percent from 1989 to 1994, and preliminary figures show a slight drop in their buying power in 1995.

Profits and Executive Pay

In contrast to wages, profits have ballooned in recent years. Business Week magazine reported an "astonishing" 40 percent gain in corporate profits in 1994 for the 900 firms in their survey. That gain followed enormous increases of 19 percent



in 1993 and 20 percent in 1992. The return on corporate investment rose to 15.9 percent in 1994, the highest in 45 years.

The lucrative gains continued in 1995, with profits in the *Business Week* survey up 20 percent in the first nine months compared to the same period in 1994.

Chief executives of corporations have enjoyed a skyrocketing increase in pay, in contrast to workers. The pay of chief executive officers increased 361 percent from 1980 to 1994, while workers' pay increased 75 percent. In 1980, CEO's pay was 42 times more than factory workers. By 1994, their pay was 109 times more.

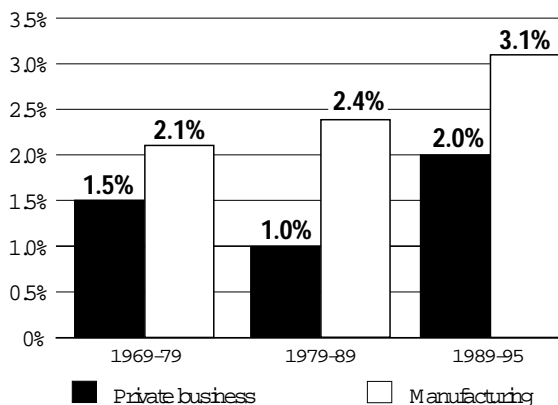
Spurring Better Incomes

Public officials have given ample time to the discussion of means to increase productivity growth in recent years, but have paid scant attention to assuring that the gains are fairly distributed. Vital to an improvement in workers' ability to share in productivity gains is a change in the nation's labor laws to enable more workers to join unions and benefit from collective bargaining.

Conclusion

Past emphasis on productivity growth while ignoring how the income will be distributed has been based on the idea that the increased income of the rich would trickle down to the rest of Americans. The "trickle down" theory must be discarded

Productivity shows a marked improvement in the 1990s compared to past decades



Source: Bureau of Labor Statistics

and income distribution must become the focus of attention in the discussion of productivity growth.

Policies that narrow the gap between the rich and the poor to enable all Americans to benefit from the nation's prosperity are essential to ensure the sustainability and success of the American economy.

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