

# November 2003 Commentary

## Productivity Miracle: Fewer Jobs, but Higher Output

**"Nothing is particularly hard if you divide it into small jobs."**

Henry Ford

According to many newspaper reports, the U.S. economic expansion, officially underway for 20 months, has somehow managed to destroy rather than create new jobs. While it is true that there are some 700,000 more unemployed, there are 1.8 million more Americans working today than there were in November 2001. While the overall job situation might be better than reported, manufacturing jobs appear to be emigrating or even evaporating. Common wisdom is that a lot of American manufacturers are moving jobs to China and that China is gaining manufacturing jobs at our expense. This is shaping up to be a huge political issue in the coming 2004 Presidential election year.

This very issue is the subject of a recent study by Joseph Carson, an economist at Alliance Capital Management. His research shows that it isn't just the U.S. that's losing manufacturing jobs - it's the whole planet. Carson found that the world's 20 largest economies lost 22 million manufacturing jobs from 1995 to 2002. That represented a worldwide drop of 11 percent, which coincidentally is also the percentage loss experienced in U.S. manufacturing jobs during the same period. In the U.S. about 2 million factory jobs were lost from 1995 to 2002.

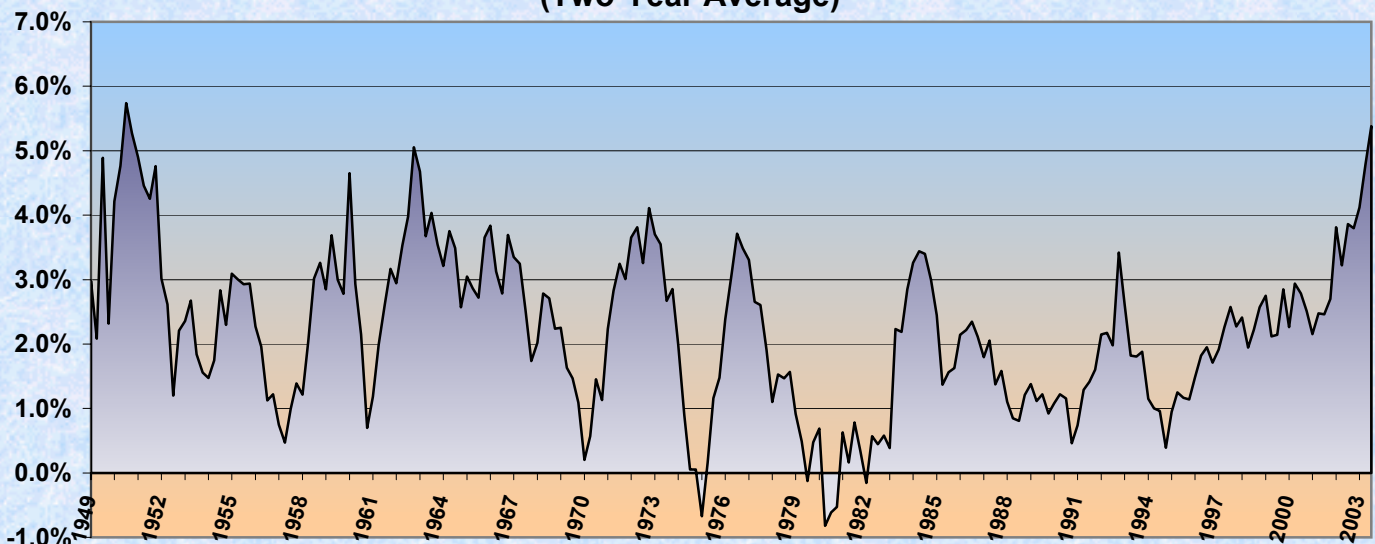
Even China, which is supposed to be where most of our factory jobs are going, lost 15 million jobs (about a 15% decline) from 1995 to 2002 bringing the total number of factory workers to just over 83 million, down from 98 million in 1995. Behind those numbers is a dramatic story, involving China's lurch from its Communist past toward a market-based economy. As many state-owned, money-losing enterprises have been shuttered or sold off, millions of workers have lost their secure, lifetime job that included housing, health care and other cradle-to-grave benefits. At the same time, millions of new jobs have been created in China's new economy - one fueled by foreign investment and private enterprise. Yet all the growth in that sector hasn't equaled a net total increase in manufacturing jobs.

Carson sees this as evidence that the real story in manufacturing is something different, larger and more pervasive than just the movement of factory jobs to low-wage countries. Two words sum it up: Productivity and Competition. Fewer people are cranking out stuff, yet the world has much, much more of it; 30% more, Carson found. High productivity appears to be a global phenomenon and in the U.S. productivity is at the highest levels in 50 years (see chart below). The good news is that productivity improvements directly lead to a higher standard of living and these higher levels of productivity, if sustained, will lead to even faster improvements in our standard of living.

**"Economics is extremely useful as a form of employment for economists."**

John Kenneth Galbraith

### Annual Growth of Labor Productivity (Two-Year Average)



Source: Department of Labor

"I used to work in a fire hydrant factory. You couldn't park anywhere near the place."

Steven Wright

The U.S. economy has actually been shedding manufacturing jobs since 1979. Steven Wieting, the Citigroup economist, estimates that manufacturing employment has fallen 22% since 1979, while domestic manufacturing output is up 77% since then.

This not the first time that the U.S. economy has undergone a massive structural employment shift. The fate of the production line worker in the last 25 years has been similar to the fate of the farm worker over the last 70 years. Farm employment peaked some time before 1929 (before detailed data was kept) with over 3 million workers. Today, farm employment has dropped about 75% to well under 1 million workers. Even in the last 25 years, the number of farm workers continues to decline. Since 1979 the number of farm workers has fallen by 31%, but real U.S. farm output has risen 96% since then.

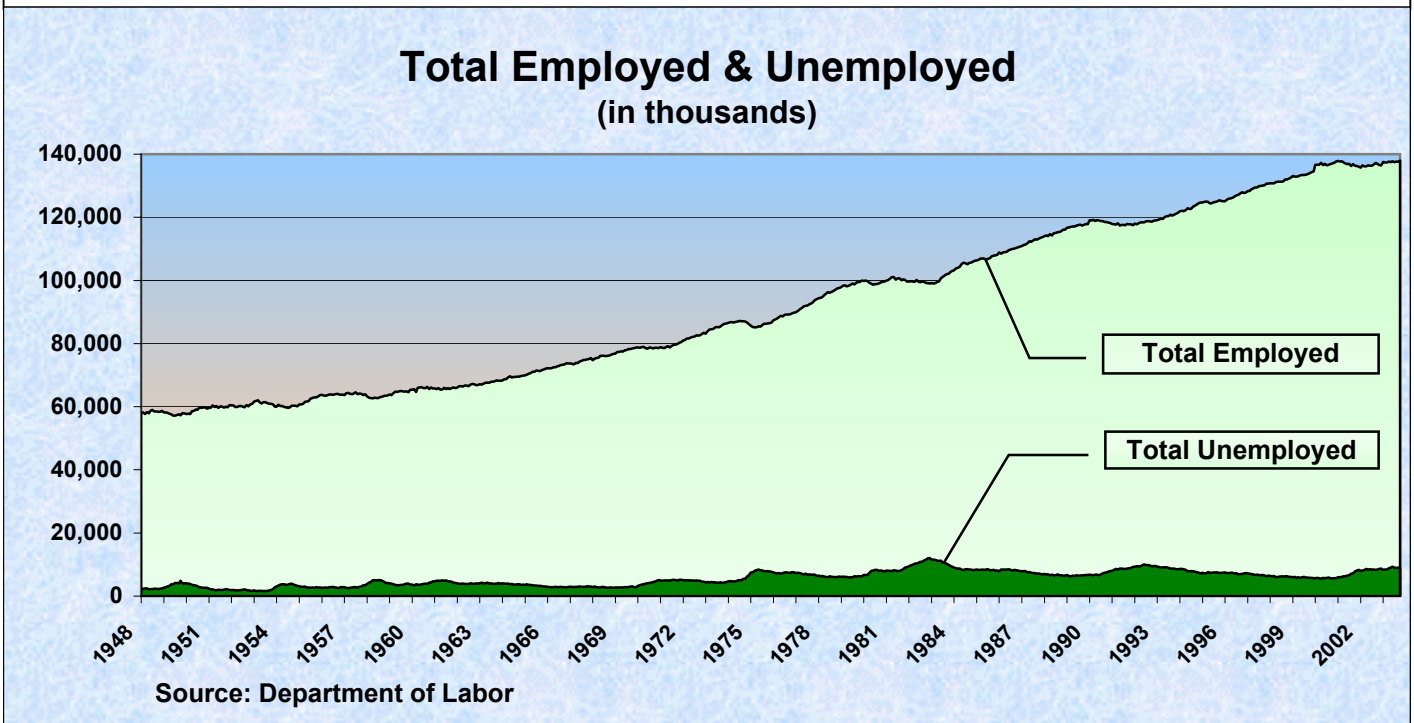
So there's the **secret of economic growth: make more with less**. New technologies continue to make it possible to produce more goods and services with fewer human hands. At the same time, globalization has opened markets virtually everywhere to more and more players. Competition has never been keener - and is unlikely to ease up. Pressure to reduce manufacturing costs doesn't just mean a loss of production-line factory jobs, it also implies continuous investment in new equipment, new ideas, and new product innovations - all of which will create new jobs, both here and elsewhere.

With large structural employment shifts taking place in the economy over long periods of time, it is easy to focus on the negative employment impacts (the election year will bring plenty of such rhetoric). However, there is an even bigger positive impact on overall job growth. As the chart below shows, since 1979 total employment in the U.S. has grown by 40 million workers from 98 million to over 138 million employed people at the end of October 2003. The chart also shows that over the same period the number of unemployed people rose by 2.7 million, from 6.1 million in 1979 to 8.8 million at the end of October 2003. Thus job creation has far outpaced job destruction by a factor of about 15 to 1.

Thus the U.S. economy has adjusted flexibly to changing circumstances. Collectively, we are making more agricultural and manufactured goods with less and less human labor, freeing up those resources and creating entirely new industries. With such high productivity levels in recent years, there is good reason to expect that this process will continue. And if you think that's a Pollyannaish view of the future, remember that this process of structural change in employment is not new. Our economy has always dealt with change and U.S. workers in the aggregate have prospered with higher incomes and an improved standard of living.

"The best way to predict the future is to invent it."

Alan Kay



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