

The Most Productive Nation

Written by Bob Williamson, Contributing Editor
Monday, 01 January 2007 00:00



Bob Williamson, Contributing Editor *What should we wish for in 2007? Cutting operating costs has been at the top of the business and industry wishlist for over 30 years...*

Sometimes the cost-cutting bell gets rung louder than others. It all depends, some say, on Wall Street investors, stockholders, executive decisions, the marketplace, competition, return on investment, global economic changes and/or currency exchange rates. Then, in prosperous times, the cost-cutting bell is silenced. *Should we wish for more of the same?*

The United States remains the most productive nation in the world, and U.S. manufacturing has remained the most productive in the world since before 1960! Despite what the media says, despite politicians' interpretations, despite what some may think, we are a model of economic stamina, whether measured by Real GDP (Gross Domestic Product) per capita, or Real GDP per employed person. The top 10 Real GDP per capita in 2005: U.S., *Norway, Denmark, Netherlands, Canada, Austria, U.K., Belgium, Sweden, Australia*

. Manufacturing, not service industries, is one of the sources of 'original wealth' (along with mining and agriculture). Should we wish to remain the most productive nation in the world? If so, we have serious work to do...and we already know how to do it!

Good news continues to be reflected in this year's productivity trends: U.S. manufacturing Unit Labor Costs (ULC) fell 8.3% in the second quarter and 4.1% in the third quarter of 2006 (*ULC = average labor compensation per unit of output*

). Productivity improvement measures, including advanced manufacturing methods, workplace innovation, favorable currency exchange rates, and (

I believe

) our maintenance and reliability improvements continue to sustain America's competitive edge.

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Low-wage countries continue to attract the attention of some manufacturers. However, these countries (*China, India, Mexico, Turkey, Czech Republic, Hungary and Poland*) also have extremely low productivity levels. This is where the Unit Labor Cost comes in-
a true measure of economic productivity

. For example, wages are considerably lower in China and India (only 2% to 3% of U.S. wages). But productivity is also significantly lower in China and India (12% to 13% of U.S. productivity). That means considerably MORE labor hours are required to make the same output in China and India than in the U.S. Still, China's and India's Unit Labor Costs are lower than those of the U.S.-

but only 20% lower, on average

. And, 20% isn't that much when you calculate the true 'costs' of importing goods from Asia. These include actual transportation, in-transit damage, un-returnable defective products, long lead times for changes and order quantities and high inventory levels that have to be maintained here, not to mention the risk of dealing with a country (China) that doesn't recognize proprietary information, patents, trademarks or copyright protections.

China and India, among others, will continue to be formidable consumers and competitors in the global market. Twenty-eight percent (28%) of all of the world's jobs are in China and 15% are in India. As their standards of living increase, so will their cost of living and their employee compensation. In China, for example, average hourly compensation in manufacturing jobs rose 8.8% from 2002 to 2003, and another 8.1% from 2003 to 2004. To retain their lower ULC, China and India must employ increasingly more advanced manufacturing technologies, methods and innovations along with their economic and environmental reform policies. Advanced manufacturing requires increasing levels of skilled and highly-skilled workers and technicians, which also brings higher compensation levels. As noted in previous columns and articles, developing and attracting higher-skilled workers will continue to be an escalating worldwide problem.

Our challenge for 2007 and beyond is to keep our productivity levels high and our operating costs down as we enter a 19-year era of drastic workforce demographic changes. We must dramatically improve the education levels of our workforce to facilitate error-free operations plus accelerate our ability to rapidly innovate and improve our infrastructure, facilities, manufacturing, transportation and utilities. Our business and government leaders, schools and families all play a role in retaining, and improving our competitive advantage. Look what's happened over the past 30 years: Vocational/technical school programs have declined, as have skilled trades apprenticeship programs. Many manufacturing and maintenance jobs have lost their luster, despite relatively high wages. Changes in taxes, insurance, health care, permits and liability litigation have increased costs. The cost of procuring and transporting raw materials and finished goods has skyrocketed. Outsourcing and off-shoring, once thought to be "the answers" to our industrial woes, may not always be the best path to a long-term, viable economy. These

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strategies often just turn out to be "quick fixes" with long-term consequences.

My wish for 2007? Let's all do our part to improve our Nation's success by building a solid foundation based on an educated, motivated, innovative workforce. Let's make our critical equipment, infrastructure and facilities the most reliable and best-maintained and our standard of living and productivity the highest in the world. Here's wishing all of our faithful readers a very happy and prosperous New Year!

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AUTHOR'S NOTE: The facts and statistics for this article were obtained from The Conference Board Report (October 2006); The Conference Board via Newswire (June 01, 2004); USDOL, Bureau of Labor Statistics News (Nov. 30, 2006 & Dec. 5, 2006); and the USDOL, BLS, Office of Productivity & Technology report: "Comparative Real GDP Per Capita and Per Person Fifteen Countries 1960-2005."