

The Most Productive Nation

What should we wish for in 2007? Cutting operating costs have been in the forefront for business and industry for more than 30 years. Sometimes, the cost-cutting bell gets rung louder. It all depends, some say, on Wall Street investors, stock holders, executive decisions, 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. Regardless what might be stated in today's media, regardless of our politicians' interpretations, regardless of what some think—we are a model of economic stamina whether measured by real gross domestic product per capita or real GDP per employed person. The top 10 real GDP per capita in 2005 were: the US, Norway, Denmark, Netherlands, Canada, Austria, UK, Belgium, Sweden, and 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: US manufacturing unit labor costs (ULC) fell 8.3 percent in the second quarter and 4.1 percent 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 our nation's competitive edge.

Low-wage countries continue to attract the attention of some manufacturers. However, these low-wage 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 (2 to 3 percent of US wages). But productivity is also significantly lower in China and India (12 to 13 percent of US productivity). That means that considerably more labor hours are required to make the same output in China and India than in the US. However, that still makes China's and India's unit labor costs lower than in the US—but only 20 percent lower on average. And 20 percent is not really that much when you think about transporting manufactured goods from China and India: The transportation costs, in-transit damage, un-returnable defective products, very 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 does not recognize proprietary information, patent, trademark or copyright protections.

China and India, among others, will continue to be formidable consumers and competitors in the global market. Twenty-eight percent of all of the world's jobs are in China, and 15 percent are in India. As their standards of living increase, so will their cost of living and their employee compensation. In China, for example, the average hourly compensation in manufacturing jobs rose 8.8 percent from 2002 to 2003 and another 8.1 percent from 2003 to 2004. To retain their lower unit labor costs, 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. Developing and attracting these higher-skilled

workers will continue to be an escalating world-wide problem. (See our past online articles regarding skills shortages and training.)

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, our schools and families, we all play a role in retaining and improving our competitive advantage. Look what has happened over the past 30 years: Our vocational-technical schools and programs declined, as did our skilled trades apprenticeship programs. Many of our jobs in manufacturing and maintenance have lost their luster despite relatively high wages. Changes in business taxes, insurances, health care, permits, and liability litigation have increased our costs. The cost of procuring and transporting raw materials and finished goods has increased significantly. Every one of us has played a role in our nation's success, and every one of us must play a role in our continued success. In many cases, outsourcing and off-shoring might not be the best answers to a long-term viable economy. They tend 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 of an educated, motivated, innovative, workforce. Let's make our critical equipment, infrastructure, and facilities the most reliable, well-maintained, and productive in the world. Let's keep our standard of living and our nation's productivity the highest in the world. Wishing all of our faithful readers a very happy and prosperous New Year.

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 (November 30, 2006 & December 5, 2006); and the USDOL, BLS, Office of Productivity & Technology report: "*Comparative Real GDP Per Capita and Per Person Fifteen Countries 1960-2005*"

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