

REMARKS OF
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"GOVERNMENT AND INDUSTRY--PARTNERS IN PROGRESS FOR
REVERSING THE PRODUCTIVITY SLUMP"

SHOREHAM HOTEL
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I am pleased to have the opportunity to address this conference and to commend the Chamber of Commerce and the Society of Manufacturing Engineers for increasing our Nation's awareness of the productivity problem. Obviously, great effort must continue to be concentrated on this issue.

I have long been convinced of the need to improve productivity in government as well as in private industry and have committed the General Accounting Office to an active role in demonstrating this need to the Congress, to the President, and to department and agency heads.

Of course, I do not have to convince you of the necessity of improving our Nation's productivity. Your presence demonstrates your awareness and concern.

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Until recently, the United States was perceived at home and abroad as an enterprising, innovative and highly efficient nation that enjoyed the highest standard of living in the world. Our productivity practically doubled during the first two decades following World War II. As a result not only were we able to achieve much better living conditions, but also believed we could afford extensive foreign aid plus ambitious domestic programs. Unhappily, the trend of national productivity has faltered during the past decade. In fact, for the first half of 1979, it actually decreased at an annual rate of over 3 percent.

The cost of our recent productivity stagnation has been enormous. It has cut deeply into the growth of our Gross National Product and caused an accelerated pace of inflation, a weakened position in international trade, greater social tensions, and--most troublesome of all--reduced confidence in ourselves and our institutions. We are all aware of the importance and implications of this last problem. Now we must respond through a concerted effort in both the public and private sectors.

This awareness is recent. Not long ago our greatest challenge was convincing the executive branch and the Congress that the decline in productivity improvement is a significant economic problem. This has changed. Fortunately, the stagnation of our productivity is now recognized in both Government and business circles.

The two most recent annual reports of the Council of Economic Advisers stressed the importance of productivity. Top administration officials have spoken out on the problem. In January, President Carter warned that the productivity slowdown has "reached serious proportions," and that "with productivity growth at a low ebb, living standards will not rise as fast as they have in the past two years."

We now also find unprecedented interest in productivity on Capitol Hill. The Joint Economic Committee has called our sluggish productivity growth "the most important factor contributing to our present economic malaise," and numerous committees and members of Congress are speaking out and calling for action on various productivity aspects.

Although the need for action is great, reversing the productivity slump does not have a ready-made solution; the causes are many and complex. I cannot offer you a panacea. However, we can do--and are already doing--something about the productivity problem. Today, I will focus on the importance of cooperation between the Federal Government and the private sector to the improvement in productivity, cooperative efforts now in progress, and additional Government actions necessary to develop an appropriate Government-private sector environment for improving productivity.

NEED FOR COOPERATION
BETWEEN GOVERNMENT
AND BUSINESS

We at GAO are well aware of private sector resistance to Government intervention in business. In the fall of 1977, GAO sent questionnaires to 1,200 firms throughout the country to obtain their views on productivity and determine whether they see an appropriate role for the Federal Government. A vast majority said they did not want Federal assistance. In fact, most were adamantly opposed to any further Government interference in private sector operations.

In February, GAO invited 16 leaders from industry, labor, and universities to discuss the productivity issues, whether there is an appropriate role for the Federal Government, and the most critical elements that need to be addressed. GAO sought to hear firsthand the thoughts of these private sector experts in order to better plan its own efforts and to be more responsive to the congressional policymakers.

That session produced 39 separate issues which were perceived by this panel as affecting national productivity. Those that generated the greatest concern were

- conflicting U.S. national policies and goals;
- the importance of capital investment and technology to productivity, jobs, and economic growth; and
- the need to ease concerns about job security of workers affected by technological change.

A more general conclusion was that the Government and the private sector need to work together to remove federally imposed disincentives to productivity improvement.

Although our national productivity performance is largely dependent on the performance of business, it is the Government that establishes the broad economic, legal, and social frameworks within which business operates. Despite this interdependency, Government and the private sector seem at times to be more at odds and trusting each other less. In this we differ significantly from other industrial nations that have high productivity rates; we appear to lack a spirit of cooperation between Government and the private sector that prevails, say, in Japan or West Germany. While the basic adversary relationship between the public and private sectors will always exist, we must work toward introducing into this relationship a spirit of trust and cooperation.

The U.S. Economic
Environment Has Changed

Our economic system was founded on the premise that competition is necessary to assure continued economic strength. Competition and the profit motive have compelled businesses to produce goods and services more efficiently than their rivals.

However, in recent years, the entire environment in which our system operates has changed radically. Business-Government

relations have become exceedingly complex and the environment for our competitive, free-enterprise system more difficult.

For example:

--Many of our once abundant resources are becoming scarce and we are becoming more dependent on foreign countries.

--Once strong American industries, such as steel, consumer electronics, footwear, and automobiles, have been seriously hurt by foreign competition and have been forced to turn to the Federal Government for assistance.

--Laws now require cleaner air and water, safer work places, and safer consumer products.

The list could go on. In each of the issues just raised, Government is playing a different and more active role than it did only a few years ago, and must make a concerted effort to find new and better ways to cooperate with the private sector. The Government must better appreciate the importance of business to our economy and help it remain strong and competitive.

For its part, the private sector must also be willing to work with the Government to make its needs and problems known. If the private sector fails to work with Government, public policy will be made without the insights of those the policies will affect.

With better cooperation between the public and private sectors, the many and complex factors that have caused the

productivity decline can be attacked more effectively. I would like to address three of these factors--technological growth, government regulations, and human resources. Let us consider the problems they present and the cooperative efforts that have been made so far toward resolving them.

Technological Progress

Technology provides the basis for change to a nation's productive process which results in higher productivity. Technological progress works through a process that starts with research and development (R&D), then uses R&D results for innovation, and finally culminates in new capital equipment and processes which incorporate the benefits of R&D and innovation.

All three aspects of technology--R&D, innovation, and capital investment--unfortunately have suffered declines or stagnation. Fortunately, the news media and others have aroused an awareness of this decline.

Because of this awareness, reversing the nation's declining technological structure is an issue that has received much attention, and it appears that some needed changes are coming into being.

One of the first and foremost is reversing the declining emphasis on research. The administration has made some progress by increasing the funding of basic research in the fiscal 1980 budget by 9 percent.

In the area of capital investment, the advice and assistance of the private sector was unquestionably key in the passage of the Revenue Act of 1978--which encourages capital investment through a reduction in corporate tax rates, an improvement in the investment tax credit, and a reduction in the capital gains tax.

Even more directly in the arena of cooperative efforts, several agencies have programs that are worth noting.

The Department of Commerce has developed a number of approaches to help private sector productivity. The domestic policy review, initiated a year ago, specifically called on private sector "experts" from outside Washington to deal with the apparent slowdown in industrial innovation in the United States.

Commerce's Cooperative Technology Program intends to use a similar approach. With the Department of Commerce acting as a catalyst, researchers in industry and academia will be brought together to resolve common technological problems in order to help speed up the innovation process. The key mechanism in this program would be the establishment of cooperative technology centers, by joint action, as not-for-profit corporations to carry out R&D and innovation. For example, a proposed "Footwear Center" would provide technology evaluation and transfer, technical services, and certain kinds of research for the footwear industry.

Another example: Some Department of Energy cooperative projects are showing promise toward improving coal extraction productivity. The Department and private companies are working together to develop a shaft boring machine which will impressively reduce the time required to bring a mine into production.

Such cooperative efforts are in the right direction--and more are necessary. Technological growth is too important to the Nation to be allowed to flounder because of the complexities of the modern economic environment, and these complexities of the modern world can only be addressed through participation of both Government and the private sector.

Government Regulation

Another factor, Government regulation, has a far reaching impact on our economy. It is essential that regulations be limited to those that are necessary, and that in turn they be as cost-effective as possible. There is an increasing awareness both in Congress and in the executive branch that regulation has in many cases gone too far.

Between the end of the 1960's and the mid-1970's, 26 new regulatory agencies were created to deal with such priorities as cleaning and protecting the environment and ensuring a safer and more healthful workplace.

Several long overdue steps were taken recently to reform the regulatory process to improve productivity. On March 23,

1978, the President established procedures to improve current and future government regulations by requiring each agency to determine if the direct and indirect effects of a regulation have been considered and the least burdensome of acceptable alternatives has been chosen.

At that time the President also established a Regulatory Analysis Review Group to examine major regulatory policies in terms of national goals. The group includes representatives from the Council on Wage and Price Stability, the Council of Economic Advisers, Office of Management and Budget, and 11 economic and regulatory agencies including the Environmental Protection Agency and the Department of Labor.

In October 1978, an independent organization was established consisting of representatives from 35 regulatory agencies. Their role is to encourage agencies to work together to develop more efficient regulations and eliminate those that are overlapping and inefficient. The Council will also attempt to compare the costs of regulatory compliance with anticipated benefits.

In its last session, the Congress also displayed heightened concern about the consequences of regulations and is actively considering regulatory reform legislation.

Government officials must bear in mind that regulations cause industry to channel resources from other purposes to meet the goals established by the regulations. Resources used to

comply with regulations cannot be used to invest in new plants and machinery. According to the latest annual report of the Council on Environmental Quality, the costs of complying with environmental regulations, measured in dollars of constant purchasing power, will rise from \$19 billion in 1977 to \$52 billion in 1986. Additional scores of billions will be required for occupational, transportation, and consumer health and safety, and for energy conservation regulations.

The effects of using such large amounts of resources can be substantial for individual firms and for the economy as a whole. There is no question that resources channeled away from investments in new plant and equipment can affect the growth of national productivity. This is why more must be done to ensure that regulations are cost-effective and applied only where they are needed. This will require industry cooperation not only to collect needed data but to be sure that differing points of view on the impact of regulations are considered.

Human Resources

Finally, there is also the very important factor of the motivation of the work force. Our human resources are the driving force behind changes for productivity improvement. We have learned the hard way that any program designed to apply technology to the workplace must have the enthusiastic cooperation and participation of the people involved. Efforts

to meet the expectations of workers for better working conditions and to make more effective use of their ingenuity and creativity represents one of the significant opportunities for productivity improvement.

There is growing evidence that a significant proportion of American workers believe that present forms of work organization underutilize their skills and abilities. They perceive their jobs and working conditions as restrictive with little opportunity to influence or improve the way the work is done. In fact, worker dissatisfaction is at the highest point in a decade according to the most recent study published this year by University of Michigan's Survey Research Center for the Labor Department. Never before have American workers been so well paid, and yet so discontented in their jobs as they are today.

America's work force has been transformed over the past two decades by a rapid influx of millions of young workers, including many women. Young, educated, and ambitious, this new breed of workers has come to expect good wages, fringe benefits, and a voice in their work. It is clear that management must update its labor relations policies to deal with the current work force. Several firms already are responding with programs to enhance worker participation. They cover: labor-management committees, quality of work life projects,

alternative work schedules, gain sharing plans, and employee ownership plans.

Labor-management committees appear to offer a significant potential in achieving the twin objectives of greater productivity and worker satisfaction. Joint committees meeting regularly between negotiating periods provide a forum for exchanging information about the organization and for drawing more fully on the ideas of employees and unions on improving the operation. By determining common interests they help solve problems on a rational basis and create a favorable climate for consideration of problems of productivity, quality, waste, absenteeism, morale, and energy conservation.

There are several examples of government working with industries to develop joint committees. The Chicago Construction Coordinating Committee was established in 1973, with Department of Labor funding, to help improve productivity. Similar committees have been established in San Francisco and Kansas City. In the men's clothing industry, the clothing and textile workers union and the clothing manufacturers' association decided in 1977 to develop programs of research, education and training to improve the competitiveness of their fragmented industry. The Departments of Commerce and Labor and the National Science Foundation have provided funds to support the effort.

The Federal Mediation and Conciliation Service has also provided a major Federal impetus in establishing labor-management committees. The potential for this type of formal cooperation is believed to be much greater than the small number of cases now recorded. The former National Center for Productivity functioned effectively as a catalyst in the formation of a number of these committees. Because of the potential, there continues to be a need for the Government to act as a catalyst in this area. Last year, Congress enacted the Labor-Management Cooperation Act of 1978 to encourage wider application of the concept of joint consultation. The act enlarges substantially the resources now available to provide information and technical assistance and conduct research and demonstration programs. The act assigns responsibility for carrying out its provisions to the Federal Mediation and Conciliation Service.

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As you can see from the examples, there are efforts that represent a positive step to improve technological growth, capital investment, and human resources. Unfortunately, these efforts are not integrated and coordinated, and further, no overall plan exists for attacking these issues in a systematic and effective manner. I would like now to highlight some of the more important actions within the Federal Government that should be taken to make these efforts even more cohesive and effective.

THE FEDERAL GOVERNMENT
SHOULD DO MORE TO IMPROVE
NATIONAL PRODUCTIVITY

Although the Federal Government is already heavily involved in the economy and in national productivity issues, it should establish a formal program to make the effect of its involvement more positive and encouraging to productivity improvement.

A Federal program to improve national productivity is needed and should include the following 10 functions.

1. Develop periodic assessments to determine the nature and extent of public and private sector productivity problems.
2. Act as a facilitator in bringing together various groups on neutral ground to discuss widespread industry productivity problems.
3. Operate a productivity clearinghouse to provide national and international data and information on various aspects of productivity to all sectors of the economy. In particular, we need to provide private industry with more information on developments in foreign countries that may be applicable to the United States.
4. Provide for a special analysis of the Federal budget to document where funds to enhance

productivity are being spent and help identify gaps, duplication, and overlapping programs in the Federal productivity effort.

5. Develop a periodic assessment of the productivity impact of fiscal, monetary, tax, and regulatory policies on the private sector. This assessment should be made by the Joint Economic Committee of the Congress, the Council of Economic Advisers to the President, and the Federal Reserve Board.
6. Take the lead in developing improved and acceptable measures of productivity. Current productivity statistics do not adequately reflect the role which capital investment, improved technological processes, and innovation can play in improving productivity. In addition to better overall economic measures, more attention is needed on the company level where the measures can be used to help improve productivity.
7. Adopt policies which will stimulate private sector productivity-improving investments through tax and other incentives and greater support for research and development. The Revenue Act of 1978 is a step in the right direction, but more change is needed in this area.

8. Promote the establishment of labor-management committees.
9. Provide new and better ways for measuring the costs and benefits of both existing and future regulations which can affect productivity.
10. And, finally, the Federal Government should accelerate its efforts to measure and improve productivity within the Federal Government and take a strong leadership role in assisting State and local governments to reduce their costs through improved productivity.

This ten-point program should be led by a statutory body consisting of representatives of Federal agencies that have productivity-related missions. Its major task would be to develop a national productivity plan to guide Federal efforts for improving private sector productivity. There should also be an external advisory group reporting to this body made up of representatives from industry, labor, and the general public. This advisory group would suggest particular productivity issues it believes should be addressed.

I recognize that the administration established a National Productivity Council after the National Center for Productivity and Quality of Working Life was disbanded. However, this Council lacks the strength of a statutory body, has virtually no staff, and does not appear to be a policy-making group.

CONCLUSION

It is evident that there is much the Federal Government can, should, and, in fact, must do to increase productivity. As I say this I fully realize that ultimate improvements in national productivity growth must be the cumulative result of cooperative actions by individual business enterprises, industries, communities, and institutions throughout the United States.

This principle of cooperation has been recognized by every other industrial nation--they understand the critical role of productivity in meeting their national objectives and for many years have had extensive national programs to promote productivity. These countries have found ways to achieve close harmony among Government, industry, labor, and academia in attacking productivity problems. Foreign productivity centers have been successful primarily because they have accurately gauged and met the needs of the private sector.

Perhaps one of the best examples in our country of how Government-business cooperation can help improve productivity may be found by examining how the Department of Agriculture has worked with American farmers to create the most productive agri-industry in the world.

This example of cooperation between the U.S. Government and the private sector is a strong precedent for Government to provide the framework and the incentives within which

the energies of American know-how again may be unleashed and allowed to attain remarkable success. This is the partnership that needs to be renewed to improve our productivity growth and strengthen our economy.

We are fortunate to have a growing network of regional productivity and quality of working life centers which are doing an excellent job at the grassroots level in improving productivity. This, however, is not enough.

What we surely lack is a strong focal point within the Government for national productivity improvement. Such a focal point is needed to direct Federal activities and to improve cooperation between the public and private sectors. Both need to realize that a cooperative effort is in their best interest as well as in the interest of the country as a whole. We must develop a sense of partnership between business and Government to increase productivity and strengthen our economy.