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REMARKS OF
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OF THE UNITED STATES
BEFORE THE
HONOR AWARDS BANQUET
OF THE SAN FERNANDO VALLEY ENGINEERS COUNCIL
ON [THE PRODUCTIVITY CHALLENGE OF THE 1980'S]
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It is an honor to receive your "Engineer of the Year Award" for 1980 and to find my name associated with the distinguished engineers you have honored previously. These engineers both individually and collectively set a high standard for the profession, and their contribution to the technology and productivity of our society is impressive. The numerous societies represented in the 40,000-member San Fernando Valley Engineering Council illustrate the wide range of technologies and professions which are under the purview of the engineering profession--and the magnitude of our engineering resources.

Over the years, I have developed a deep appreciation of the contribution that engineers make in terms of increasing not only the quantity of goods and services we produce, but also the quality of the lives we lead. The challenges of the energy crisis, controlling inflation, accelerating the

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rate of technological innovation, and improving our productivity impose particularly heavy demands on the analytical tools and the problem-solving capabilities of the nation's engineers.

This evening I would like to review briefly these challenges to our economy and our Nation. In particular, I would like to emphasize the growing concern about our poor productivity growth which affects the lives of all of us. I am especially troubled by the recent statistics which indicate that in 1979--for the second time since 1947--U.S. productivity not only showed no improvement but showed an actual decline. I will venture a few suggestions as to how the Federal Government should respond to our productivity problem.

Changes in the U.S. Postwar Economy

As we enter a new decade, it is appropriate to assess the past and look at the challenges of the future. The 35 years which have passed since the end of World War II can be divided into two periods for purposes of this discussion. The period from the end of World War II up to 1970 was a period of strong performance within our economy. Productivity doubled during that 25-year period. From 1948 to 1965, productivity increased at an annual rate of 3.2 percent. Thus, productivity performance--and the price stability and economic growth it fostered--increased our real standard of living and allowed for a "social increment" which could be used to improve Government services, especially services to the economically disadvantaged.

Strong forces supported our economic growth performance between 1945 and 1970. Three of these forces were inexpensive energy resources, a high rate of innovation, and supportive Government policies.

In the 25-year period ending in 1970, the United States enjoyed an era of inexpensive energy resources. Domestic petroleum prices climbed slowly to about \$3 a barrel and Mideast imports were even cheaper. During the same period, the United States slipped from energy independence to dependence on foreign sources for 9 percent of all energy consumed and 23 percent of petroleum and refined products.

This same period was an era of sustained technological progress. Innovations in consumer electronics, xerography, and computers flourished during this period. Technology and product quality also advanced in the aircraft, auto, and steel industries.

On balance, Government policies in a wide variety of areas, such as research and development, housing, transportation, space, defense, education, and agriculture, supported economic growth and productivity improvement. It was a period in which rapid mechanization of agriculture released large numbers of workers from low productivity subsistence agriculture into areas of employment in which productivity was higher. In the decade from 1950 to 1959, agricultural productivity almost doubled. Government agricultural policy was an important contributor to this performance.

During much of this 25-year time span, we enjoyed relative price stability due in large part to increased productivity. For example, from 1961 to 1965 the annual increase in the level of prices averaged 1.3 percent compared with the most recent annual increase of 13.3 percent--a ten-fold increase.

Productivity during the decade of the seventies does not reflect such a bright picture. Labor productivity, which had increased at a 3.2 percent annual rate from 1948 to 1965, fell to an annual rate of 2.3 percent for the period 1965 to 1973 and to 0.9 from 1973 to 1978. In fact, recent statistics indicate that in 1979, productivity fell even further than the 1978 depressed level. This is a most troubling note on which to start the 1980s.

Many of the forces which had supported economic and productivity growth in the previous period dwindled during the seventies. In terms of energy, the last decade saw skyrocketing prices, paced by a ten-fold rise in world oil prices to about \$30 a barrel. Despite these increases, the Nation's dependence on imports has grown to 21 percent of all energy consumption and 45 percent of petroleum and refined products, while the dependability of key suppliers has become increasingly doubtful.

(The rate of technological innovation and the technological leadership of the United States declined during the 1970s. The recent Domestic Policy Review on Industrial Innovation identified several possible causes for this decline. One of the most

prominent was the lower level of Federal support of research and development.)

In 1979 Federal R&D outlays rose to \$26 billion. But despite this apparent increase in Federal support, the \$26 billion translates to only \$16 billion in 1972 dollars, compared with \$18.2 for 1967. Moreover, the percentage of GNP going into research and development declined from 3.0 percent in 1964 to 2.3 percent in 1979.

(Many industries which grew dramatically prior to the 1970s-- consumer electronics, automobiles, footwear, and steel--are now problem industries. And areas where we've maintained our own technological leadership are increasingly challenged by strong foreign competition.)

New programs mandated by the Federal Government have also adversely affected productivity. Important examples are regulatory measures to improve the quality of air and water and the safety of products and the workplace.

For the past ten years I have publicly expressed concerns about the trends in U.S. productivity performance. And, quite frankly, I encountered great difficulty in increasing the the awareness of productivity issues within the Congress or the Executive Branch. I am encouraged, however, that there appears to be greater awareness of our productivity problems and the need for both governmental and private sector action.

For example, the last two annual reports of the Council of Economic Advisers, emphasized the importance of doing something

to improve productivity growth. Top Administration officials are now speaking out on the problem. The Chairman of the Council on Wage and Price Stability recently stated that a large part of the acceleration in the underlying rate of inflation is due to our dismal productivity performance. President Carter, in his last two State of the Union addresses, has expressed concern about the productivity slowdown.

We now also find unprecedented interest in productivity on Capitol Hill. The Joint Economic Committee has held hearings and issued reports on the subject and numerous committees and members of Congress are calling for action on various aspects of productivity.

We all have seen the numerous newspaper and magazine articles on our productivity decline. I think it is safe to say there is now at least a general awareness of the productivity problem. The remaining question is how to translate this awareness into action, and how we can reach an understanding that the public and private sectors must attack this problem together.

GOVERNMENT AND BUSINESS MUST WORK TOGETHER

Although our national productivity largely depends on the performance of business, it is the Government that establishes the broad economic, legal, and social frameworks within which business operates. Despite this interdependence, Government and the private sector seem, at times, to be more at odds and less trusting of each other. In this we differ significantly from

other industrial nations with high productivity rates; we appear to lack a spirit of cooperation between Government and the private sector. While the basic adversary relationship between the sectors will always exist, we must work toward converting this relationship to one of trust and cooperation.)

In the area of capital investment, there is evidence of an increased willingness on the part of the Congress and the Administration to work with the business community. The passage of the Revenue Act of 1978 encouraged capital investment through a reduction in the corporate tax rates, improvement in the investment tax credit, and a reduction in the capital gains tax rate. At the present time, Congress is considering a major change in depreciation policy to encourage greater investment.

Other examples of public/private sector cooperation are worth noting. A Cooperative Technology Program is currently being developed by the Department of Commerce. With Commerce acting as a catalyst, researchers in industry and academia will be brought together to resolve common technological problems. The key mechanism in this program will be the establishment of cooperative technology centers, by joint action, as not-for-profit corporations, to carry out research and development and innovation. A proposed "Footwear Center" will provide technology evaluation and transfer, technical services, and certain kinds of research for the footwear industry.

Similarly, the Department of Energy has established several cooperative projects which 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. Government must seek new and better ways to cooperate with the private sector. Contradictory or conflicting rules and regulations must be resolved in consultation with the private sector, before they are implemented. The Government, in brief, must show a better appreciation of the importance of business to our economy. It must help business remain strong and find ways to meet national objectives consistent with this need.

The private sector, in turn, must be willing to work with the Government so public policy can be made with the insights of those the policies will affect.

FEDERAL ACTIONS TO IMPROVE PRODUCTIVITY

The Federal Government has many ongoing programs to encourage productivity administered by individual Federal agencies at a cost of almost \$1 billion annually. The programs support research and development, information, and capital related to various aspects of productivity improvement.) Unfortunately, the programs usually operate on independent and sometimes conflicting paths; they are not coordinated as part of a national

plan.) In short, we lack a national productivity program or a national commitment to develop one.

GAO'S WORK TO IMPROVE FEDERAL
PRODUCTIVITY EFFORTS

(In the General Accounting Office, national productivity is one of 36 key issues around which we plan our work--along with other issues such as energy, international trade, and procurement. I allocated the equivalent of over 50 full-time staff this fiscal year to work on numerous studies on improving productivity in the private sector and all levels of government.) These studies are conducted to give decision makers in the Congress and the Federal agencies information and recommendations, including

- assessments of Federal agencies' efforts to improve National productivity,
- reviews of the economic effects of regulations,
- comparisons of the productivity of similar activities performed by both the public and private sectors such as public utility operations,
- analyses of productivity problems of the coal and footwear industries, and
- an examination of the impact of the availability of venture capital on productivity.

[In response to a request from Senator Lloyd Bentsen, Chairman of the Joint Economic Committee, we have assisted in drafting proposed legislation to create a National Productivity Council.

Congressman Stanley Lundine of New York has introduced this bill in the House. The proposal incorporates the following integrated functions which I believe the Federal Government should perform to encourage productivity.

1. Make periodic assessments to determine the nature and extent of public and private sector productivity problems.
2. Facilitate the gathering of various groups on neutral ground to discuss widespread industry productivity problems.
3. Operate a productivity clearinghouse to provide national and international information on various aspects of productivity to all sectors of the economy.
4. Provide for a special analysis of the Federal budget to document where funds to enhance productivity are being spent and to help identify gaps, inconsistencies, and overlaps in the Federal productivity effort.
5. Make periodic assessments of the impact of fiscal, monetary, tax, and regulatory policies on private sector productivity. The assessments would be made by the Joint Economic Committee, the President's Council of Economic Advisers, and the Federal Reserve Board.
6. Take the lead in developing improved, acceptable measures of productivity. Current productivity statistics

do not adequately reflect the role of capital investment, advanced technological processes, and innovation in improving productivity. In addition to better overall economic measures, more attention is needed on the company and plant level where the measures could help managers improve productivity.

7. Create tax and other incentives to stimulate private sector productivity-improving investments and research and development. The Revenue Act of 1978 was a beginning, but other incentives are needed.
8. Promote the establishment of labor-management committees.
9. Provide better ways to measure the costs and benefits of both existing and future regulations which affect productivity.
10. And, finally, the Federal Government should accelerate its efforts to measure and improve productivity within its own operations and assume a strong leadership role in assisting State and local governments to do likewise.

This ten-point program should be led by a statutory body of representatives of Federal agencies that have productivity-related missions. Its major task should be to develop a national productivity program to guide Federal efforts for improving private sector productivity. An advisory group representing industry, labor, and the general public could play a highly important role. Certainly the engineering profession which

traditionally has had a close working relationship with productivity should be represented.

CONCLUSION

Engineers have designed the equipment and improved the techniques that have stepped up productivity. The engineer translates scientific principles into working technology and modifies the technology to accommodate human and material resources. Engineers are productivity change agents. It is hard to overestimate the contribution that the engineering profession has made to the performance of our economy.

The realities that we in the United States face as we enter this decade require an even greater contribution from groups such as yours. Rigorous and concerted efforts from a large number of engineering disciplines will be required to help us use our current energy sources more efficiently, to better develop conventional energy sources, and to bring to the marketplace new or exotic energy sources. If the United States is to improve its innovation and its international competitive position, engineers must develop the high technology based companies to compete in this arena. This is the free enterprise response to international competition.

(If, in the decade of the eighties, we are to reverse the trends which have caused so many of our current economic problems, we must develop a greater spirit of cooperation among

all sectors of our economy. If this cooperative effort is to triumph, the engineering profession must be one of the major contributors.