Labor and Productivity

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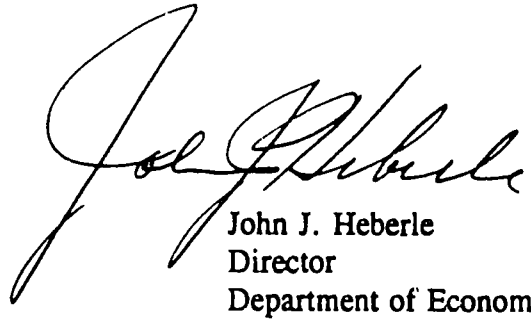
INTRODUCTION

This booklet has been prepared specifically for trade unionists from Latin America and the Caribbean who have no profound knowledge of economics yet need to understand the concept of productivity. It is an attempt to deal with a technical subject in a non-technical manner while maintaining the intellectual integrity of the material.



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Productivity as a Measure

Probably no aspect of economic life is more important to our well-being, and yet so often misused, as the concept which we call "productivity." It is one measure (not the only one) of the efficiency of man's[1] efforts to produce goods or to provide services. Our productivity determines, in part and over the long run, how well we live; the most critical and ultimate appraisal of our economic activity.

The word "productivity" usually denotes the use of a statistic, an index, which provides us with a measure of efficiency which we find useful. This measure does not denote, in and of itself, the underlying causes of particular level of efficiency in the creation of wealth, i.e. in the production process.

It is often said that we should strive to increase our productivity, our economic efficiency, and when used in this manner, the word indicates that we have set a goal. As a goal to increase productivity may be very desirable, but it must be remembered that productivity increases constitute only one goal that a society may establish. Other goals include, but are not limited to protection of the environment, the implementation of health and safety regulations, maintenance of high levels of employment, control of inflation, and stabilization of fiscal policy.

[1]The masculine form "men" or "man" or "his" is used throughout this paper in the generic sense and therefore should not be interpreted as excluding women in any way. In fact, as more and more women enter the workforce, their productivity becomes even more important.

Often, economic goals conflict with one another and this is no less true for the goal of increasing productivity than for these desirable goals. Trade-offs are therefore involved -- a matter which will be referred to later.

There is no magic involved with the concept of productivity. Labor union representatives must understand the value and the shortcomings of the concept and be able to put it into perspective with other economic concepts such as the redistribution of income or competitiveness or profitability.

Productivity, i.e. the physical efficiency with which we produce something, is a measure which compares how well that thing was produced before with how well it is produced now. Economists use indexes (usually of labor productivity) to make such comparisons. These indexes have great utility in conducting economic studies, in preparing a collective bargaining position, or in analyzing a specific industry situation, but the fact is that you don't have to be an economist, or even make reference to an index, to be able to understand the concept of productivity.

Indeed, it may be useful to avoid a detailed description of indexes. These measures of productivity are usually assembled by qualified statisticians and the availability of raw statistics, problems of interpretation, and changing economic situations are but some of the problems of compiling productivity indexes. The fact that these statistics may be accurate and representative

(or they may not be) is a real life problem for those using the indexes but need not be a serious concern for this review of the productivity concept.

Labor Productivity

Economists usually speak of labor productivity but there are other, less well developed, measures of productivity. We often make reference to the productivity of capital (i.e. machines, tools, factories, etc.) and some land is obviously more productive than others. We say in common parlance that the productivity of this factory or that piece of land is very high or is too low. Sometimes we can support such a comment with a statistic. But the fact of the matter is that when we speak of productivity, more often than not, we are speaking of labor productivity. Why?

Basically, the answer is that, over time, labor has become the factor of production most commonly and traditionally used to measure productivity. Labor had been accepted by the governments of the world and by international organizations as the most basic ingredient in the productive process and, as such, most conducive to measurement. From a practical point of view, it is easier to count the number of people in the labor force (or the number of man-hours or man-days) to produce a given level of output than it is to count totally dissimilar factories or technologies or industrial processes.

Obviously, this does not imply that all men are the same in terms of their contribution to the economic process. Some are strong. Some are weak. Others may be intelligent -- or the opposite. Some are educated. Many have not been. And, very importantly, some have been given high levels of technology and equipment to work with while others have not. Workers also bring to the job their own varying degrees of talent, industriousness, dedication, and enthusiasm. Despite these differences, men have more in common with each other as compared with the differences that characterize the other factors of production.

In a more philosophical (but no less important) vein, the purpose of all economic activity is to improve the well-being of the individuals who make up the society. (Only the most conservative businessmen would disagree with this proposition). Any use of labor as a measure, whether as a per capita description of the Gross National Product or a productivity statistic, best expresses the relationship between economic activity and the standard of living. The use of labor measures, therefore, place emphasis on the need to achieve an equitable distribution of income in order to create a more socially just society.

So it is usually the productivity of labor that gets measured. This should not, however, be interpreted as a causative factor. If labor productivity declines, is labor the culprit? Or, for that matter, if labor productivity raises, can labor claim all the credit? In both situations, the answer is: Not necessarily. Labor productivity can rise or fall over time because of technological changes or changes in investment patterns or because of good or bad management

as well as the fact that labor has improved its ability to do the job. Remember that labor is being used only to measure the increase or decrease in productivity; the physical efficiency of production.

Labor productivity, the amount of output which can be produced by a man in one hour (or one day or one week) is therefore really a composite measurement of many elements of an economic system. In addition to the skills and effort which a worker brings to the workplace, his productivity is determined by the education which he has received (usually provided by the state), the level of technology available, and the quality of management. The amount and condition of accumulated infrastructure and the type of industry base has a great deal to do with the level of productivity -- labor productivity.

Productivity versus Production

A word of warning: an increase in production is not the same as an increase in productivity. Production can be increased by simply putting to work resources (including human resources) which have previously been unemployed. This is obviously desirable -- but different from a situation in which, on average, every employed person in the economy produces more per hour worked. Productivity measures do not take into consideration the unemployed persons in an economy. This distinction becomes more important as we discuss, shortly, the relationship between productivity and income.

Role of Unions

Another word of warning: union leaders, despite an obvious interest in improving productivity, must not fall into the trap of accepting responsibility for falling (or improving the level of) productivity. Labor, generally, does not control educational policy or the level of research and development activity or the application of technology. Labor only reacts to investment decisions and the quality of management. Would that it be otherwise! But until it is and until labor has a strong voice in these determinants of productivity levels, it will continue to be the labor leaders primary responsibility to represent the interests of his members -- not to improve productivity.

The above might seem to indicate that labor should have no interest in productivity. Nothing could be further from the truth. Workers and the societies in which they live will see standards of living rise in the long run only through increases in productivity. Several comments on this prospect are in order.

First, the phrase "long run" is operative. John Maynard Keynes, the famous British economist, once quipped that the long run was a period in which we are all dead. Most of us would rather not wait for that to occur. In economies with a skewed and unjust distribution of income currently, the goal of redistributing income remains legitimate and perhaps a primary trade union goal.

Secondly, and if unjust distribution of income currently is not the major problem, then low levels of productivity in fact place a cap on how well the inhabitants of a society can live. It becomes a truism under these circumstances to say that a population can only live as well as it produces. In this type of economy, emphasis on productivity increases becomes more important.

Thirdly, it does not follow that if productivity increases, living standards will automatically increase. It could have that effect but productivity increases worldwide have often resulted in greater, not lesser, gaps between the rich and the poor. Wages are not determined solely by productivity levels. Workers have repeatedly been repulsed by this observation and the fact that wealth, which they helped to produce, finds its way into foreign bank accounts or increasingly luxurious living standards for the already rich.

In fact, unions contribute to productivity in a variety of ways. With unions, there is less labor turnover because of better pay and benefits and because grievance procedures assure a greater level of job security. The result is that the workforce is more experienced and therefore brings more skill to the workplace.

Higher union wages, in addition to reducing labor turnover, also cause management to seek better ways of utilizing the workforce. This manifests itself in the greater investment in

labor saving equipment, the use of new technologies, and managerial improvement that would probably not otherwise have been put into practice.

Unions and Income Distribution

Unions remain central to a solution of the problem of income distribution. Economic progress will be encouraged to the extent that unions are accepted as a integral part of the economic system, and collective contracts continue to be a primary mechanism through which the increased wealth, perhaps measured by productivity indexes, is distributed. Since productivity gains are unequally distributed throughout all societies, government, through its taxation and its provision of benefits and services, will continue to be the other instrument for the equitable distribution of income.

There are those, in every society, who would argue that the chief causes of productivity increases are not workers but rather technology and capital investments. Thus, according to their logic, the returns on investment should go to the providers of capital and knowledge and not to relatively undeserving workers. This is the logic of a class struggle as seen from a capitalist point of view -- a struggle which is most often portrayed as originating from a labor perspective.

Most modern economists, while not blind to the gap between the haves and the have-nots, would argue that these arguments are essentially counter-productive and have been the basis for industrial and political turmoil over the past 150 years. More to the point is the fact that a modern economy requires that incomes be high enough for goods produced to be taken off the market through purchases by consumers. This requires the widest distribution of income possible, including income which has resulted from productivity increases.

It must be readily admitted that such reasoned arguments and theoretical analysis fall by the wayside during periods of economic crisis and/or industrial conflict. Perhaps economic analysis has concentrated on how to produce to the detriment of efforts to achieve a more just society. One such area of concern is to assure that productivity gains be equitably distributed outside the technologically advanced sectors of the economy.

Labor and Technological Unemployment

Given the tremendously important role of technology in the advancement of productivity, of income, and of the standards of living throughout the world, unions have come in for their share of criticisms. Unions, according to the critics, have been too interested in protecting jobs and have acted in an unprogressive manner with regard to technological change. Since workers normally benefit from technological change in the form of higher incomes only after a very long period of time, and since they and their families must survive in the meantime, it is perhaps not

an astute observation to indicate that their current job might be more important to them than the promise of a better future.

Labor is fully aware of the potential gains in income to be realized as a result of technological change and productivity increases. But labor also recognizes the relationship between productivity increases and employment or unemployment. This latter relationship deserves more than a passing reference.

It is obvious, but not sufficient, to observe that the introduction of new technologies into the workplace are designed to increase the productivity of the workforce. The amount of production possible from that workplace will increase. Unless the demand for what this workforce produces increases (a key point), there will be a reduction in the demand for the services of a part of this workforce, i.e. technological unemployment.

Economists call this a reduction in labor requirements. Please note that increases in productivity always results in a decrease in labor requirements per unit of output. In general terms, this is desirable since each worker who is employed using the new, high level of technology, is adding more value to the product than before the technological change and he and his union are now in a better position than before to demand an increase in salary.

It is important also to note that a decrease in labor requirements does not necessarily result in unemployment. The key factor, the demand for the product, must be taken into consideration. If demand increases sufficiently, there will be a continued demand for the labor force even though there has been a decrease in labor requirements per unit of output. Thus, growth in demand for the products of a firm or an industry or an economy, in relation to the new levels of technology being used, will determine whether or not unemployment results from a decrease in labor requirements.

Technology, Growth, and Unemployment

It would be difficult to exaggerate the importance of economic growth to this equation. Without growth, the technologically advanced countries of the world would be those that suffer the highest rates of unemployment. Since this is quite observably not the case and since every society would like to reap the benefits of technological change (while avoiding the disadvantages of unemployment) one has to look for solutions in policies which enhance growth -- a full discussion of which is beyond the scope of this paper. Such a discussion would have to include trade and investment policy, tax policy, exchange rate policy, the status of institutions related to development, incomes policy -- to mention but a few.

A decrease in labor requirements, i.e. a productivity increase, automatically and initially results in a decrease in labor costs per unit of output. Each worker is now producing more at

his former salary level. The reduction in unit labor costs is obviously desirable to the employer but also beneficial to the worker since now he is in a better bargaining position to seek a higher wage.

Economic growth can be supported in a variety of ways by a drop in unit labor costs. Such cost savings could be passed along to consumers through lower prices thus increasing demand for the product in some cases. Workers could receive higher wages and their increased spending would increase demand for products generally available in the society. Business profits could be increased by maintaining existing price levels and not granting wage increases with the result, again in some cases, that investment would be induced. Probably some combination of the above will occur in most developing economies.

Productivity and Business

At this point it is worth mentioning that the various sectors of society (labor, business, and government) each have a differing perspective on productivity issues. Business is interested in improving physical efficiency only to the extent that it improves their bottom line. They will forsake technological advances if their profit picture can be bettered by hiring more low-paid, low-productivity workers. Often a technologically superior method of production, one that would increase productivity, is simply not used because it is currently too expensive and would increase rather than decrease costs.

It is also interesting to note that whenever an advanced production technique has been economically justified, it is seldom if ever shelved in favor of a more labor intensive method. One need only observe that major investors from high wage countries to low wage countries do not generally attempt to employ more labor. They use roughly the same ratio of labor to capital; the only difference being that they pay the workers less. Workers justifiably refer to this as "exploitation."

Productivity and Government

Governments are slightly more removed from productivity issues. Usually a Ministry of Labor is responsible for collecting and compiling statistics on productivity. Governments must, of course, pay attention to their own levels of productivity -- or face even more directly the current effort to privatize their activities. But above all productivity, with all that term implies, is a political issue for governments. The population of all countries hold government responsible for the well-being of their citizens and to the extent that productivity measures describe this aspect of national life, governments are interested in formulating policies which will show them in a favorable light.

In the past, such policies have often been confusing and at times contradictory. A government may be sincerely interested in increasing productivity but be faced with a drastic unemployment situation. The government then faces a dilemma; should it encourage labor-

intensive road construction or seek economic growth through rapid capital-intensive infrastructure development? Should the government encourage labor-intensive industry generally characterized by low wages and low productivity or should it favor high-tech industries to invest? Every society has multiple economic goals and productivity increase is only one of them.

Labor Position: Protection for Workers

Labor, of course, is generally in favor of technological change and productivity increases. They are apprehensive (and with good reason) about the employment aspects of change. Their experiences over time with both government and business justify their fears. What labor generally seeks are solutions which incorporate social justice into business and government plans for change, a voice in the decisions which will affect their members' lives, and safety nets which will ease the transition from technological backwardness to highly productive economies.

There is an extremely optimistic, if sometimes unrealistic, North-American attitude which suggests that for every problem there is a solution. Sometimes problems, rather than being solved, simply pass into history. Other times, the economic situation changes and the problem disappears through no effort of the problem-solver. Once in a while, however, we are resourceful enough to propose and even to put into effect a solution to our current economic problems. Usually these measures are partial answers to the problem and often are attacked as

insufficient. None of this, of course, absolves the labor movement of its responsibility to seek solutions.

Legislative and Collective Contract Protections

Basically, the labor movement has only two channels of response to the problem of transition from a technologically backward to a high productivity economy: legislation and collective bargaining. The first is general, affecting the entire economy and workforce and normally will result in the modification of labor codes or other laws. Collective bargaining, of course, is much more specific and consequently can concentrate on the expected problems of a smaller group of workers. Legislation might be considered the shotgun approach and collective contracts might be compared with a rifle. They should not be considered mutually exclusive but rather mutually supportive.

What protections should labor seek to have included in either or both of these two approaches? Basically, funding is needed to cushion the negative (usually unemployment) effects of technological change. If unemployment is not the result of productivity-increasing change, the "problem" is probably more manageable. In either event, the solutions cost money and it should be argued that the costs of a protective safety net should be considered as a legitimate cost of the investment or the technological change. Depending on the nature of the problem, the funds might come from public revenues or from private company resources.

Gradualism

The most important single consideration is time. If a planned change is kept secret and workers are simply told on Friday not to come to work on Monday, there is no possibility that protection for these workers can be effected. Therefore, using either the shotgun or the rifle approach, there must be disclosure procedures put in place. The longer the period of advance notice, the better. And the longer the period of time from inception of plans to modernize until the actual implementation of new procedures and processes, the better. "Gradualism" should be the operative word.

Attrition

Gradualism makes possible a program of attrition. In a large firm or industry (usually those which have the capacity to affect technological changes), there is an element of natural labor force turnover. During any given period of time, again the longer the better, a certain number of persons will quit their job to obtain better employment opportunities; to move to another location; to marry; to retire; or to leave the firm because of disability; or because of death. The key point here is that these persons should not be replaced by hiring from outside the firm. This hiring freeze would result in a natural decrease in the firm's workforce. Obviously, this approach is not a solution to national unemployment problems but will protect

the livelihood of persons still employed in the firm; thus the collective bargaining method seems more appropriate.

Relocation Allowances

In some instances, the cost of protecting the worker will be relatively small. Preferential replacement within the firm may require the payment of a transfer allowance to pay the workers' cost of moving to another plant in another city. A subsidy for losses incurred in selling a home might also be considered.

Income Maintenance

Income maintenance for some negotiated period of time for those workers who do lose their jobs can certainly be considered a reasonable cost of the technological change. The basis for this type of demand, aside from social justice, is the concept of a job right. Thus, older workers, who have special adjustment problems would benefit from their seniority and the possibility of having their job "bought" by the company. This, coupled with a program of early retirement, usually goes a long way toward mitigating the problems of older workers.

Training

Training and retraining is obviously a desirable cushion for a worker who is unemployed because of technical change. The real problem is that many workers because of a lack of education or their age or some disability are often not perceived as being attractive candidates for training programs. In addition, training ideally must lead to a job placement; something not always possible in an economy which is suffering from slow growth. Training should also be afforded to those within the plant or industry whose skills must be upgraded if they are to avoid being displaced. Training programs, despite these problems, should be high on the worker protection agenda.

Governmental Safety Nets

A government safety net should include a program of unemployment insurance to cover those persons, previously employed, who are now unemployed because of a technological change. Note the distinction between the technologically unemployed and those unemployed for other reasons. The amount of such support will obviously differ from one country to another but the payment of any such benefit would reduce the opposition to structural change.

Public Works

Government might (with much financial difficulty) initiate public works programs to help employ not only the technologically disposed but also other unemployed workers. To the extent that such programs are possible and successful, the job market becomes that much more fluid; removing entrenched opposition to economic change. Public works programs have fallen into disrepute because of debt and solvency issues, frustration with perceived governmental inefficiencies, and a political and ideological shift to private enterprise economies. To be effective, these programs would have to utilize labor-intensive methods which result in low productivity and low wages. Nevertheless, they should not be discarded altogether from the list of possible responses to the problem of unemployment.

Summary: A Worker's View

It is undoubtedly presumptuous to attempt to speak on behalf of all workers. Productivity measurement, involving as it does such concepts as economic efficiency, employment effects, technological change, labor requirements and the like, is both complex and controversial. A worker who has lost his job due to such changes is certainly going to have an opinion far different from one whose skill levels and salary has been increased. Nevertheless ...

Workers generally understand and want technological change and productivity increases. Workers understand that increases in their salaries and their standards of living depend for the most part on increased efficiency through technological change. They are, however, equally understanding and highly fearful that such changes may negatively affect their continued employment. Therefore, workers want job security when possible and safety nets when it is not.

Unions have consistently voiced their members' desire for an economic system that will encourage high levels of productivity and increasing income levels, and high levels of growth to eliminate unemployment.

The greatest challenges from technology advance lies ahead. The world has the technological tools needed to produce huge amounts of goods and services. This capacity is likely to increase. The real question is whether or not there exists the wisdom and the political will to create a just world society with more equitable income distribution. To this end, unions must provide the leadership.

APPENDIX A

HOW DO YOU CUT GRASS?

"How do you cut grass?" sounds like a very simple question, doesn't it? Actually, an economist can make it rather complex.

First, the economist would ask where the grass to be cut is located. Then he would like to determine the wage levels for skilled and unskilled labor, the availability of skilled labor, the level of technology available, and the relative cost of equipment utilization.

If the questioner is from a less-developed country (LDC), the answer would probably be that wage levels for an abundant amount of unskilled labor are very low, skilled labor is in short supply, advanced technologies are not readily available, and the purchase or rental of machines and equipment is very expensive. It wouldn't take long for the economist to determine that the best way to cut grass in this LDC is to hire campesinos, arm them with machetes, and let them chop away. The cost of the campesino (his wage) is low, the capital costs (the machetes) are low, high skill levels are not needed since the technology is simple. If the area to be cut is large, there is a huge reservoir of unemployed campesinos waiting to be hired. This, then, would be the most financially efficient way to cut grass, i.e. at the lowest possible cost. Physical efficiency is not very high, but then we are talking about a less-developed country and everyone knows that productivity is low in LDC's. So what's new?

The poor campesino is working hard for his pitifully low wage. The fact of the matter is, however, that he's not producing very much. His productivity, his output-per-man-day, is very low. After all, how much grass can you cut with a machete? Should he receive more income? The economist doesn't want to get into a debate at this point concerning St. Thomas Aquinas, just wages, wage competition, and the like. Productivity, he would be the first to admit, is only one of the factors that determines the grass-cutter's wage.

Is this the end of the story? Is the campesino forever doomed to cut grass with a machete and live poorly on a subsistence wage? What would change his situation?

The campesino could form a union and threaten to withhold his services until the price paid for his labor went up. As a practical matter, this would be difficult if not impossible, since there are a lot of other campesinos looking for work and probably willing to work for a low wage. Even if he could form a union, the amount of time he could withhold his services would be severely limited by the need to feed his wife and kids. And finally, any strike that the union might mount would have to face the fact that

homeowners can allow the grass to grow quite tall before there is any real pressure on them to settle. This approach doesn't seem too promising.

What if tariff barriers were eliminated and the cost of imported lawn mowers was drastically reduced? Now the homeowner might invest in this higher level of technology, cut more grass more quickly and thus improve the campesino's productivity. His productivity would be enhanced even more if the new lawn mower was of the very latest design and could cut larger swathes at a faster speed. The campesino might still have to worry about wage competition from other campesinos -- but his higher productivity, the fact that he could now produce more per-man-day than his counterparts, would justify a higher wage for him.

He would also need to improve his level of skills. Before, all he really needed to do was to keep his machete sharpened. Now he will have to be responsible for the care and maintenance of the lawn mower. Responsibility is the key word and also helps to justify a higher salary.

Perhaps now has come the time for the formation of a union. Higher wages based on increased productivity and more responsibility will not be automatically offered by the homeowner. But negotiating a higher wage based on the threat of withholding services will now hurt the homeowner since he could now have some of his money tied up in an equipment purchase and it would under those circumstances be used to cut grass.

Suppose that the campesino saved his money and became the owner (rather than the homeowner) of this relatively sophisticated technology, the lawn mower. The homeowner may be better off since he doesn't have to invest his money in a lawn mower. Since the campesino's higher productivity now allows him to cut many more lawns that had previously been possible, it would have another effect as well; the campesino while making a higher wage, would also be in a position to lower his price charged to the homeowner. This might make him popular with homeowners, the consumer of his services, but you can bet that he would not be an overnight favorite with his fellow campesinos.

What had happened was that there had been a reduction in the demand for campesino services as a result of his increase in productivity -- the very aspect of the technological change that facilitated his increase in income. This decrease in the requirement for his services might, of course, cause some campesinos to become unemployed unless there is an increase in the number of lawns to be cut.

Probably a lot of campesinos would lose their employment in the grass cutting industry. Hopefully, they could find other work,

i.e. adjust, and produce corn or beans for sale in the growing city markets. Or they might go to the city and become an industrial worker. But we're not really talking about campesinos in general or employment in general, but rather about cutting grass. The man who wants his grass cut is not a social scientist and, apart from perhaps being a conscious citizen, doesn't think of these consequences when he hires the campesino and his new mower to cut the grass.

Actually, a lot of other campesinos (and quite a few non-campesinos), observing the success of our hero, the campesino-turned-entrepreneur, would probably try to duplicate his success. As more and more grass-cutting campesinos became mechanized, the competition could become fierce. Probably the demand for other power equipment such as hedge-clippers and weed-eaters and chemical applicators would become commonplace as these campesinos vie for consumer favor. Technology and high productivity prowess have now become the norm. These campesinos are no longer just campesinos -- they're landscapers and they're hiring workers, including office personnel, accountants, salesmen and auto mechanics to support the lawn mower operators and who themselves have to be productive. Those workers definitely need a union! The time has come!

And if the union forces wages up? Great! In most developed countries, higher wages have been a spur to continued technological improvement in order to keep labor cost per-unit-of-output at the lowest possible level. In this way, these landscaping companies become ever more competitive in terms of quality and price to consumers. This is certainly better than competing on the basis of low wages. It's called working "smarter" rather than "harder."

Silly example is it? Maybe. But it is roughly the experience of the now-developed countries. What will happen to the campesinos who didn't become landscapers? Hopefully, some will make their farming operations more efficient and survive as farmers. Probably a lot of them won't make it. Only a tiny fraction of the populations of developed countries continue to farm. The farms that survive are, however, certainly efficient.

What ever happened to blacksmiths?

Oh yes! Suppose the questioner, the fellow who wants to know how to cut grass, is from a developed country rather than an LDC. He'll find that he really doesn't need a grass-cutter at all. What he really needs is a domestic environment beautification technical consulting firm. They'll do the rest.

APPENDIX B

INSTRUCTOR'S OUTLINE

I. LABOR PRODUCTIVITY IS PRIMARILY A MEASURE OF ECONOMIC EFFICIENCY

A. Productivity results from many things: education, technology, R & D, investment in good management

B. Unions not in control of these factors, therefore not responsible for labor productivity

C. Union's chief function remains the representation of workers' interests

D. Unions, nevertheless, increase productivity by reducing labor turnover through higher pay and benefits, and grievance procedures to enhance job security.

II. AN INCREASE IN LABOR PRODUCTIVITY IS OFTEN CITED AS A GOAL FOR THE ECONOMIC SYSTEM. AS SUCH, AN INCREASE IN PRODUCTIVITY IS BUT ONE OF MANY GOALS

III. LABOR PRODUCTIVITY NOT AN END IN ITSELF

A. Could result in more for everyone BUT

B. Must be accompanied by better income distribution (acceptance of unions, collective contracts required)

C. Workers are repulsed by the observation of increased productivity that results in:

1. greater differences between rich and poor
2. flight of capital to foreign banks

IV. A BUILT-IN DILEMMA: PRODUCTIVITY INCREASES AND UNEMPLOYMENT

A. Productivity increases result in a decrease in labor requirements per unit of output

B. Employment levels can be maintained in these circumstances only through growth in output

C. Growth can be supported by consequent drop in unit labor costs (which could benefit consumers through lower prices, business by maintaining higher prices with no

wage hikes, workers through wage increases, or some combination of the above.)

V. SOLUTIONS???

A. Responses can be either:

1. legislative (labor code)
2. collective contracts

B. Responses include:

1. attrition
2. transfer benefits
3. training
4. safety nets (e.g. unemployment benefits)
5. Public works

C. Response must include tax reform to pay for the safety net

VI. BOTTOM LINE

A. Workers understand and want productivity increases

B. Workers want to share in the benefits from such increases

C. Workers also understand that such increases affect their employment possibilities

D. Workers therefore want job security when possible, and safety nets when it is not

E. Workers want an economic system that will encourage productivity and increasing income levels, and high levels of growth to overcome unemployment