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Stable US Economic Growth and Hidden Problems

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Long, Stable Economic Growth Without Inflation

The United States economy has enjoyed almost seven years of economic recovery and expansion since April 1991, when the economy picked up at the end of the "recession of 1990". According to The Washington Post, if this trend continues until December 1998, the US economy will have enjoyed the longest expansion in its history. Further, the average annual growth rate of 2.8%, in real terms, between 1992 and 1997 exceeds the US potential growth rate. This long term economic expansion has contributed to the steady decline in the unemployment rate, which fell below 5%, far below the point just under 6% which has long been said to mark full employment. At the same time, these conditions have not stimulated inflation, which has been restricted to the low level of 2%.

All this can be summarized as "long-term stable growth without inflation", such as has not been seen in the United States in the past 30 years, and which has been hailed as a "new era" for the United States economy. The key factor that has enabled this stable growth is the continuing low inflation rate, which has been made possible by a number of factors:

- a changing baby boomer consumer pattern
- stiffer sales competition in the retail sector
- low labor-cost growth rate
- changes in corporate management
- stronger supply capacity supplemented by increased imports
- preemptive monetary policy pursued by the Federal Reserve Board

All these factors are closely inter-related, the most significant of them being "the dramatic changes occurring in corporate management" which has been caused by "globalization of the economy" and "the development of information and telecommunication technologies". However, the same corporate management style which has been the basis of stable US growth also has elements which could threaten the well‐being of workers, who are also consumers, in the long term and create obstacles to stable economic growth in the future. In other words, current stable growth is sowing the seeds of future instability.

Discerning Consumers and Businesses' Pricing Policy

Since the beginning of the 1990s there has been an increasing demand for value among US consumers. ”Value" can mean price, quality, service, or convenience, or sometimes all of the above, but for US consumers, “price" stands out as the most important. Since the beginning of the 1990s, US consumers, especially baby boomers, have become increasingly budget conscious. This tendency is accepted as not being temporary, as it is caused by a change in the life‐style of the average US consumer. Such a basic change inevitably affects the pricing policies of the business sector.

For example, in the retail sector there is a sharp increase in the number of discounters, ranging from department stores to specialized retailers. As the scale of sales expands, discounters not only pressure suppliers to lower prices, but also work closely with them to reduce distribution costs, which also lead to price reductions. Other retailers strive for efficiency and higher productivity by downsizing, restructuring, mergers and acquisitions, and by making aggressive use of electronic technology, which all effectively keep overall retail price increases at a low growth rate. The extensive application of electronic technology is especially important. It is used not only to achieve more efficient management of inventory, but also the strategic partnership between retailers and manufacturers using electronic data interchange systems has contributed to higher efficiency in sales tracking, inventory management, and instant supplying of inventory.

In addition to pursuing repeated negotiations with trade unions, retailers are adopting various measures to curb increases in labor costs, including fringe benefit expenditures. These include closing stores with high labor costs and providing more training to improve safety so as to reduce spending on workers' compensation.

Intensifying International Competition and Corporate Behavior

Since the mid 1980s, US corporations have come to face increased international competition due to the rapid increase in imports to the United States (the ratio of US imports of goods and services to real GDP increased from 9.1% in 1985 to 14.1% in 1996). This also inhibits corporations from raising prices.

In the past, when inflationary psychology prevailed, there was a tendency for consumers to have buying crazes. US companies were thus able to raise prices easily, while foreign companies were able to avoid profit erosion in home currencies by raising prices in dollar terms when the dollar depreciated. Inflation developed a vicious cycle when US companies took full advantage of the price increases imposed by foreign companies.

The recent consumer trend toward being more discriminating about the price of goods and services inhibits US companies from easily raising prices to increase profit. Consequently, foreign companies are forced to be more cautious in raising dollar denominated prices, since if they enforce price increases, they could lose market share. This, in turn, restrains US companies from jumping on the price‐increase bandwagon. Effectively, the rate of increase both for domestic and import prices is held down at low levels.

Under circumstances in which both domestic and international factors restrain US businesses from easily raising prices, the remaining strategies to increase profit are rationalization, improving efficiency and productivity. This limited choice has led US companies to invest more heavily in facilities and equipment, cut the number of workers, pursue higher productivity, and cut costs. Technology innovation, especially in electronics, contributes to making such investments more effective, and results in corporate earnings rising even while inflation is low.

Increasing Competitiveness by Curbing Labor Costs

As it has become more difficult in the United States to casually raise prices ever since the recession of 1990, corporations have vigorously pursued the strategy of restructuring, reengineering (which inevitably expands investment in plant and equipment, especially in information processing machines), and cutting labor costs by reducing the number of employees. Increases in labor costs are restrained by other factors as well:

- The job market is unfavorable for workers because of company staff cuts.
- Labor unions are laying emphasis on acquiring job opportunities, rather than on raising wages.
- Companies are constraining increases in fringe benefits by hiring more part - timers and temporary workers.
- Another factor contributing to reducing the wage increase rate in the long run is the weakening of labor unions, for which there are several reasons:
- Because of technology innovation, labor unions have become less significant for companies; for example, in factory management.
- As companies are hiring more part - timers and temporary workers, collective bargaining is not necessarily an effective negotiating strategy for labor unions.
- Because union members are becoming less homogeneous, unions find it more difficult to create consensus.
- As wage differentials continue to increase among workers, it has become less attractive to join a union.

US labor unions are trying to stop their demise and, if possible, to restore their former power. However, issues such as the decline in workers' real wages, increases in wage differentials, and difficulties in securing jobs are caused by major changes in the job market such as more intense international competition and technology innovation, which make it mostly beyond the negotiating skills of the labor unions of any one country to change the tide.

Changing Employment Policies and Development of Two - tier Employment Dynamics

As is evident from the above, it is now a key policy of US corporations to curb payrolls, and even when they do employ new workers, to hold down the cost of wages by hiring part - timers and temporary workers instead of permanent workers. This tendency will unavoidably create various problems for the well - being of US workers (who are also consumers), and consequently for the continued rather high economic growth of the United States.

With the coming of the Reagan administration at the beginning of the 1980s, deregulation was introduced in many areas, intensifying domestic competition. This was followed by the extensive internationalization of the economy in the second half of the 1980s, so that corporations had to face global competition as well. This new environment forced US corporations to cut costs, mainly personnel expenses, to sustain and strengthen their competitiveness. At the same time they must avoid employing permanent workers as much as possible in order to meet changes in consumer needs with flexibility.

One of the strategies adopted by US

corporations to decrease the number of employees is reengineering, which is based on the following principles:

- Going back to “basics" when making decisions on “what should be done and how"
- Carrying out “fundamental reforms", inventing a completely new process by which to accomplish tasks
- Bringing about “dramatic changes"
- Developing “new processes", action beginning with various input and resulting in the creation of meaningful value added for customers

Reengineering aims to reduce the number of workers drastically — thereby decreasing labor costs—by carrying out a major reorganization in the production process of goods and services by extensive utilization of computers

The second change to the employment policies of US corporations is the adoption of a just - in - time employment method. This method has the aim of decreasing fringe benefit costs by hiring more temporary workers, maintaining human resource flexibility by having the necessary workers provided by temporary agencies only when necessary, which at the same time avoids lawsuits and other legal problems caused by laying employees off.

In 1995, the American Management Association released a “Survey on Downsizing and Assistance to Displaced Workers". This report provided important clues to understanding the employment policies of US corporations. According to the report, the proportion of member corporations that reduced the number of employees in net figures (newly employed minus released employees) was as high as 42.3% during the recession years of 1990 - 1991, but declined substantially to 27.3% in 1994 - 1995. In addition, the net decline in the number of employees was 8% in 1990 - 1991, but dropped sharply, to 1.1% in 1994 - 1995.

These statistics seem to draw the conclusion that “the employment situation has improved since 1990, reflecting economic recovery and expansion". However, when the increase and decrease in employment are studied separately, instead of the net figures, a new picture emerges in which structural factors, aside from cyclical factors, are affecting net employment figures.

First of all, the report shows that 36.4% of the corporations surveyed cited “an increase in demand due to economic expansion" as “the only reason" for increasing the number of employees; 24.6% said it was one factor of several for doing so. This accounts for 61% of those surveyed, showing that the increase in employment after 1990 was due mostly to cyclical factors. On the other hand, 48.6% pointed to reengineering and 67.8% to restructuring as the reasons for curbing employment, which shows that structural factors have played their part in the decline of employees since 1990.

Although cyclical factors were the major determinants in employment fluctuation in the United States in the past, two separate factors have created two - tier dynamics since 1990. Structural factors such as reengineering and restructuring that reduce employment are at constant play as the bottom tier, while cyclical factors, such as the increase or decrease in employment due to favorable or unfavorable economic conditions at the top tier.

Problems Emanating from the Changes in Employment Policies of Corporations, and their Counter - Measures

Asymmetry between Economic Expansion and Recession

As the economy recovered after the

1990 recession, the tendency to reduce employment was expected to stop once corporations had finished carving off extra fat. However, the two - tier structure described above seems to indicate that such an assumption is an illusion and that the employment squeeze caused by reengineering has become a constant factor, regardless of the economic situation. US corporations will continue to be under pressure to pursue efficiency through reengineering and restructuring as long as they are forced to meet tough competition not only domestically, but also from foreign companies in the global economy. However, if such an employment policy is followed, it will lead to a more cautious attitude on the part of consumers. This will mean that even during economic recovery the employment upswing from cyclical factors will be depressed by the structural factors that reduce employment and achieve only moderate recovery.

It is also highly possible that when the economy hits a downturn, the employment situation will worsen drastically. When, for some reason, demand slows down, corporations that have been increasing employment because of an increase in demand will inevitably cut employment by a major degree because of a decrease in demand. Needless to say, there will be even more active reengineering and restructuring to cut personnel expenses during a recession. Under such circumstances, the only factor that will expand employment opportunities would be an increase in the number of positions created through reengineering and restructuring, such as positions related to information processing. However, such positions cannot be many in number, and will be exceeded by employment reductions. If otherwise, there would have been no point in corporations' reengineering. As a result, the employment situation in the United States will rapidly and drastically worsen during a recession. In other words, the US economic cycle paints an undesirable picture of asymmetry where “recovery is slow and downturn is rapid". To minimize the undesirable effects of asymmetry, US corporations will have to make further efforts to increase exports and compensate for the slowing of domestic demand during a recession by increasing exports, while the US government will extend various measures to support such action. This forecasts a greater possibility of trade friction in various areas.

Negative Effect on Human Resources

The current tendency of US corporations to pursue employment reductions (downsizing) and hiring of more part - timers and temporary workers is eroding the employer - worker relationship that had developed since the Great Depression at the beginning of the 1930s. This relationship was based on mutual obligation and expectation which meant that achievements were rewarded, loyalty considered invaluable, and workers were a significant part of corporations. The employer - worker relationship was comparable to that of the parent - child relationship, but now it appears more that “the workers have to look after themselves".

There are various criticisms of current employment policies, the key one being the damage to human resources. Needless to say, there is a demoralizing effect on those who have been laid off as a result of downsizing, but the same effect is seen among those who manage to keep their jobs. Temporary workers are given low evaluations by corporations, seen as lacking in loyalty, long - term perspective, and innovative spirit. Temporary workers, for their part, feel discontented at being treated as second class citizens.

Even if the psychological pressure on workers is put aside, the employment policies of American corporations are often criticized as “leading to a decreasing investment in human resources, which is harmful to US industry in the long run". With the further globalization of the economy, capital and production can be moved around the world, while a human resources remain behind in a country. While even this is changing due to innovations in information and communication technology, the persistent manner in which American corporations are cutting personnel expenses will have the negative effect of demoralizing and losing the loyalty of workers, which will have negative consequences on productivity. They will also lose the experience and know‐how of employees and become lacking in improvement in the quality of workers as they cease to take on long‐term employment and become less willing to provide education and training to workers.

Social Problems

The constant downsizing of corporations has created problems not only for the economy, but also for US society. In the past, companies laid off workers only when business deteriorated, but now, even when sales are soaring, profits are growing, and dividends are increasing, workers could be laid off. This has caused negative consequences to develop in society. Not only is employment unstable and future income uncertain, but real income is declining or leveling off in the long run and the wage‐earners of US families must work longer or take on second jobs. In many cases, even that has become inadequate to maintain the standard of living, and thus more housewives are forced to find jobs for financial reasons. Consequently, there is less time for children. There is a growing recognition that the breakdown of the family is shaking the foundations of social stability of the United States.

Countermeasures to Date

It is not that there are no solutions to the problems created by changes in employment policies. Although it is true that companies are curbing employment as much as possible while also trying to maintain flexible labor forces, wages are high and employment opportunities are increasing only in the high‐tech industries where the United States has an edge, in addition to information processing areas where more positions are created through reengineering. One solution to this could be for workers to acquire skills to be able to find jobs in such fields.

So far as academic learning is concerned, the United States is no exception to the increasing tendency of more people to have higher education. However, according to a survey carried out by the United States Department of Labor, the academic capacities or skills of high school graduates and university graduates have not changed much from 20 years ago, whereas corporations are demanding more sophisticated accomplishments from them because of the speeding up of technology innovation. As a result, the gap between academic capacities and skills demanded and those offered is widening, and even those with higher education cannot necessarily find suitable jobs because they do not possess the required skills.

Academic background is not the only aspect that affects the quality of labor. With the advance of technology and intensification of competition, workers must constantly improve their skills and corporations are providing training for their employees. According to the Department of Labor survey, 95.9% of corporations with more than 20 employees provide training for job skills such as sales and services, management, and computer operation.

The American government, on the other hand, is not standing idle, merely observing the problems created by changes to employment policies. The Clinton administration proposed the “Reemployment Act" to Congress in 1994. This is a proposal to reform the current unemployment insurance system, which has lagged behind the changes in the job market, so as to reflect the present situation. The current system is intended to cope with the limited needs of workers who are laid off during recession until they return to their previous jobs when the economy picks up. However, the term “lay off" is now almost an obsolete. Once a worker loses his job, it is unlikely that he will ever regain it. This new reality makes it necessary to create a new system.

The Reemployment Bill reflected such fundamental changes, and aimed to provide not only income support to the unemployed, but also assistance in finding a new job. However, the bill was not passed, as the Congress was fully occupied by deliberations on the proposal to reform the medical insurance system in 1994. But legislation to promote employment, including “the GI Bill for American workers", has been considered in subsequent years.

The federal government and Congress are also adopting measures in the education field to improve the quality of human resources. “The Goals 2000: Educate America Act" was passed in 1994, followed by “the Improving America's Schools Act". “The School‐to‐Work Opportunities Act" was also passed, under which the federal government will provide funding for measures taken by state and local governments to help high school graduates move smoothly from school to work.

Further Countermeasures

Although individuals, corporations, and the government are all taking action to secure employment, it is far from adequate in view of the changes taking place in the corporate environment. The days are long past when the term “industrial statesman" was meaningful and “the role of corporate management was to adjust to the interest of shareholders, employees, customers, and the local community".

Corporations are now exposed to intense international and domestic competition, and management is desperate to strengthen the competitiveness of their companies by raising productivity and cutting costs—especially personnel expenses—and have little room to be concerned for their employees or the local community. Investment funds dash around the globe in seconds thanks to the development of computers and telecommunication, pressuring management to provide favorable business results to investors around the world and to put the greatest possible priority on maximizing returns for shareholders. Those who successfully follow this shareholders‐first policy are rewarded with huge bonus and stock options.

However, current corporate management cannot be criticized as a whole for not having the attitude of industrial statesmanship or for placing priority on shareholder profit. It can be said that corporations are organizations created under US law and that they are simply accurately playing their required role in the current economic structure. It is probably useless to lecture them on “the pride of the industrial statesman". On the other hand, if the current situation is left unaddressed, the anger of the many workers who are left behind economic growtht will become a cry for trade protection policies, restrictions on foreign capital transactions, and legislation for inelastic employment.

What is needed now is creation of a system that brings harmony between “the need of corporations to strengthen competitiveness by cutting personnel costs as far as possible and maintaining flexible corporate structures" and “the need of workers to secure a reasonable level of income and employment, and to institute a variety of labor related legislation".

Various plans will be suggested in the future to create such a system, the beginning of which can be said was a proposal made by Senator Edward Kennedy. This proposal is aimed at giving tax breaks to “worker‐friendly" companies, that create employment opportunities, raise wages according to increases in corporate income, provide training to improve employees' skills, and which provide appropriate medical insurance and pension plans. At the same time, it proposes various tax deductions to give incentive to companies to actively pursue such measures, to revise the anti - trust law to restrict mergers and acquisitions that result in massive layoffs, and to revise labor laws to take into account the increasing number of temporary workers in the labor market.

As regards international competition, the proposal suggests that trading partners be made to honor international labor standards in order to protect US workers from having to compete with foreign workers who work for exploitative wages. With the globalization of the US economy, it may be the biggest economic challenge for the United States to improve and stabilize the US living standards while also maintaining an open economic system and dynamism. However, unless corporate management recognizes that it cannot ignore the current problems and must act, the dissatisfaction of workers will, in the end, undermine the even political stability that is the premise of corporate prosperity.

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