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Overblown Productivity?

A strange thing happened on the way to the 21st century: American workers became increasingly more productive. Productivity at business establishments (excluding farming) averaged growth of 1.9 percent per year in the 1990s—a half-percentage point higher than in the 1980s. But the real stellar performer was the manufacturing sector. In the 1990s, productivity in this sector grew at a phenomenal 4 percent annual rate, which means that people working at manufacturing firms produced considerably more output per hour each year. And the intriguing part is that this productivity growth occurred as average employment at these firms actually *fell* half of a percentage point each year during the 90s. Talk about know-how in American manufacturing!

Across all businesses, though, the story's not as glamourous. Yes, productivity growth during the 90s was up half of a percentage point a year from the 80s. And, yes, employment growth at private nonfarm businesses in the 90s was slower—though almost imperceptibly slower—than in the 80s. But total employment (unlike manufacturing employment) was still *growing*—an average of 1.9 percent a year during the 90s versus 2 percent in the 80s—while productivity was rising.

Does this mean that employees at manufacturing firms work faster than others? Not at all. One simple explanation is that manufacturing firms generally add capital to their production processes faster than nonmanufacturing (or service-oriented) firms, which enables manufacturing workers to increase their productivity faster. Is this, then, the end of the story? Not quite.

The figures for productivity growth at manufacturing firms are a bit misleading. The problem is that when the Bureau of Labor Statistics counts the people working at manufacturing firms, it counts only those who are on the payrolls of the firms. People who work at these plants, but are paid by someone else—such as a temporary employment agency—are not counted, *even though they are producing output for manufacturers*. Thus, the productivity figures are slightly exaggerated because the number of workers actually producing the output is larger than what's reported.

How much larger is the number? Economists Marcello Estevão and Saul Lach noted in a recent study that manufacturing firms employed about 890,000 temporary workers between 1991 and 1997, a figure that represents about 5 percent of the 18.5 million or so workers on the books of these firms. While not a tremendous amount, the number is not insignificant, either. And when Estevão and Lach added the temporary workers to the productivity measure, they found that the official manufacturing productivity growth figures were overstated by about half of a percentage point per year. In other words, including *all* of the workers lowers manufacturing productivity growth in the 1990s from 4 percent to about 3.5 percent each year.

—Adam M. Zaretsky

For more information, see the forthcoming article in the July 2000 issue of the St. Louis Fed's The Regional Economist.