

Productivity Gain Without Downsizing

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Productivity Gain

A little over a half a century ago, during World War II, a large portion of the U.S. labor force was shifted into the military services. Simultaneously, factories across the country that had been producing consumer goods shifted to producing goods for war. The automobile industry stopped producing cars for the public and thousands upon thousands of tanks, armored cars, jeeps and LSTs (Landing Ship Tanks). rolled off assembly lines and into action. Factories that the American people had known for many years as major producers of consumer goods such as household products, cosmetics, clothing, etc. were converted to ammunition, K rations, uniforms, etc. Many people entered the labor force, people who had not been there previously, most notably women. And, there was enormous urgency. We needed to get vast quantities of war materiel produced with this relatively inexperienced work force.

And, we did it!

The factories across the United States affected the war effort every bit as much as the courageous fighting men on the fronts. The Axis powers that had changed the maps of Europe and the Pacific to German and Japanese territories were crushed and there is no doubt but that the thoroughly unified effort of the American people made a huge difference. They fought well and they worked well. And, throughout the duration of the war they did without most of the products and services that they had been accustomed to prior to the war. With the end of the war they were ready to turn the enormous productivity that they had achieved for the goods of war to the production of the consumer goods that they had sorely missed.

The military services were demobilized putting several million men and women back into the civilian labor force. Soon the shelves began to fill with the goods of peace. During the 1950s productivity in the United States steadily rose. In fact, productivity increases were so high that soon a new concern began to surface. We were running out of work. There was a lot of talk about shortening the work week and rising unemployment.

Perception of Running Out of Work

Our country had begun with a common work week of close to seventy hours, sun up to sun down, six days a week. This had steadily declined and was approaching a mere forty hours. All the time that the work week was contracting our productivity increases more than offset the shorter hours and we wound up with more, not less. In the Fifties it was speculated that the work week would continue to decline, in response to our new found burst of productivity. And, many people looked forward to this continuing decline with pleasure.

While the prospect of shortening work hours did not cause concern, increasing unemployment was seen as a serious threat. Economic authorities across the United States became convinced that our rapidly rising productivity would soon result in massive unemployment. In 1955, a highly acclaimed economics authority visited UCLA and told an auditorium full of students, myself included, that by the year 1970 the United States would have 90% unemployment and that by the year 2000 our national unemployment level would reach 98%. He had based his calculations on what appeared to be an obvious relationship. If you find more productive ways of doing work, you need fewer people to do that work. Therefore, as the national productivity continues to increase the number of people required to get that work done would steadily decrease.

This relationship between productivity and unemployment is essentially true with respect to any specific piece of work. However, when we use it to forecast a nation's unemployment we inject an extremely critical and incorrect assumption. That assumption is that the amount of work to be done by the nation is fixed - that the amount of goods and services that the society can or should or will supply to its people is some fixed quantity. Or, phrased a little differently, this assumption treats standard of living as a constant. The work of society does not have to be constant if the people are free to improve themselves. It will increase as long as free people continue to pursue dreams of better lives. Those people will use the time that becomes available with their increased productivity to organize themselves to do more. The people who were projected to be unemployed are actually freed up by productivity improvement and become available to supply goods and services that would not be available otherwise. That is what the people of the United States chose to do and our free enterprise society has helped them to do it.

Productivity Gain Becomes Increased Standard of Living

Since the Fifties it has become increasingly clear that productivity improvement has generated increased standard of living, not unemployment. When nations that guard the freedoms of their people experience high productivity increases, they do not turn those increases into high unemployment rates. Rather, their unemployment rates remain low because their people find many new things to do. New companies churn out vast arrays of new products and services. As these products and services win acceptance, large numbers of new jobs are created to provide them. The people produce more and they have more. Their standard of living rises.

This accomplishment of a vastly expanded Standard of Living should not be misinterpreted as some sort of national materialistic obsession, simply lining up more cars in the driveway and filling ever larger houses with more and more possessions. It applies regardless of the value systems of the people and in the U.S. has served a very wide range of values. The time freed up as a result of increasing productivity has been channeled into health care, education, art forms, mobility, security, entertainment, research, etc. In short, it goes towards whatever the people value.

This misconception about productivity and unemployment continues to plague nations around the world. In some nations it has led to policies that effectively prevent productivity advancements. In others it has generated large amounts of useless busywork. A Canadian futurist, in the late 1900s, recommended to his government that Canada build reservations for the unemployed who would never be able to find work because of predicted productivity increases. He even had a name for these permanently unemployed citizens. He called them the "Techno-Peasants of Canada," being the people who would never find work because of technology. In our own country, this misconception has generated huge welfare efforts that have proved self-sustaining enough to persist in spite of the obvious fact that the predictions of unemployment did not materialize.

Another side effect of this faulty logic here in the United States, has been a major boom in our leisure industries which prepared themselves to handle the increases in available leisure time generated by the shortened work week and increased vacation time. When the increases in leisure time did not occur, the people responded to the abundant leisure facilities by taking advantage of them and cramming more leisure activities and expenditures into the limited time they had available.

And, why didn't the length of the work week, which had steadily decreased throughout the history of our country, continue to drop? It appears that the steady decreases we had enjoyed throughout the 1800s and the first half of the 1900s were not simply the result of productivity gain. Rather, they were the result of productivity gain in a specific type of work: Agriculture. Our country began as an agricultural country with close to ninety percent of the labor force at work on farms. These were family farms where the normal work week was, as mentioned above, sun up to sundown, six days a week. Increases in agricultural productivity steadily reduced the number hours that were required to produce the output of the farm. While the amount of farm product continued (and still continues) to increase, the number of hours required to produce it steadily decreased. But the result of all this farm productivity was not massive unemployment. It resulted in a shift of the majority of the labor force from farm work to other work with shorter work hours.

Today, about two percent of our labor force produces the domestic farm product that feeds and clothes our population with a good deal left over for export. As a nation we are still a major producer of farm products but we no longer think of ourselves as a farming nation because so few of us farm. And, our work week has migrated from one of self employed farmers, who could increase their standard of living with longer hours, to one where most of the labor force works for wages with fixed work hours of close to forty per week.

Even today many of our people choose to work longer hours with overtime and second (and even third) jobs for the same reason (i.e. to enjoy a better standard of living). As we watched the reduction in farm work over the first century and a half of our history, it should have been apparent that it was not producing unemployment. Given the choice, our people have consistently chosen to increase their prosperity rather than be idle. But, not knowing what lay ahead, in the mid nineteenth hundreds (and still today) many otherwise very intelligent people persistently attached ominous forebodings of unemployment to productivity improvement. Productivity improvement, which is the sole source of our magnificent standard of living should be sought at every opportunity and welcomed with open arms. Instead it has been given such a bad rap that many rational people have, out of misplaced concern for their job security (and the job security of others), intentionally sought to interfere with it.

As predicted, our national productivity has grown enormously but the unemployment that was supposed to accompany it simply did not occur. With

the clarity of hindsight we can look back at obvious reasons why. Perhaps, the 98% unemployment predicted for the year 2000 has actually occurred in the sense that only 2% or so of the labor force is doing the work that was being done back in the Fifties. But, those people who were freed up did not wind up unemployed. They wound up doing new things and providing us with products and services that we did not have then that have become a welcomed part of our standard of living today. Following is a list of a few of the millions of new jobs that are now being filled by people freed up by those productivity gains.

Examples of Improved Standard of Living

In the Fifties few people had ever flown in an airplane. Commercial jet aircraft arrived at the end of the Fifties and there were only a handful of flights per day. Today we have major airports handling thousands of landings and takeoffs every day of jet aircraft and flying has become commonplace. Result – millions of new jobs.

In the Fifties computers were huge, clumsy and rare. Today they are small, powerful and commonplace. Result – millions more new jobs.

Health care has been the fastest growing industry in the US for decades. Most of what is available today as standard health care was unavailable in the fifties. Result – millions more new jobs.

In the Fifties most families ate at home. A trip to a restaurant was a special event. As a result there were few restaurants as compared with today when eating out has become commonplace. And – millions more new jobs.

In the Fifties TV was small and black and white with 12 channels, no cable, no dish. Today it is large, in color and with hundreds of channels supporting millions more new jobs.

In the Fifties a telephone was shared, one to an office and faxes and the Internet were unknown. Space exploration was trivial. Air conditioning was not yet available in cars and was a luxury few could consider for their homes. Few families had more than one automobile. Interstate highways did not exist. Everywhere we look we see the evidence of our productivity in the form of our improved standard of living.

The bottom line is that productivity does not generate unemployment as long as people choose to advance their standard of living and are free to do so. We have been free to do so and have chosen to do so.

There is a limit to the amount of gainful employment available at any given time but it is not based on needs. It is based on desire, ability, financing and organization. There must be people who have the desire to work and the ability to get it done. There must be people who are willing to supply the financing required by the work. And, processes for accomplishing the work must be organized well enough to permit people to do the work.

All this having been said, it does not help a person who is fired because of a specific productivity improvement. That person has become available. Healthy organizations channel that resource into additional accomplishment – creating additional value. Barring that, a healthy society has other growing organizations that put that resource into new accomplishment – creating additional value.

When corporate leaders treat the human resource as an expense and opt to turn productivity gains into downsizing (funneling off cash flow to themselves) they fire people and inject distrust (sometimes lethal amounts) into their workforces. During the late Eighties and into the Nineties downsizing was so prevalent that distrust of management was epidemic and invariably it affected performance..

Meanwhile, the desires of the people who were put on the street soon had most of them working again, usually for a new small business. New small businesses have accounted for almost all of the increase in the total size of the labor force over the last several decades.

Cultivating the Human Resource – With Respect

These statements should not be interpreted to mean that everyone hired is hired for life. Some people should definitely be fired. Irresponsibility and dishonesty should not be tolerated. Where employees are incompetent this should be found out as soon as possible, while they are still on probation, and if it is clear that this is work that they cannot do, or be trained to do, they should be shifted to other work if possible and if not, let go. But, it is critical that the reasons for the firings be clear. If people are fired for incompetence, cheating and stealing the firings will encourage self development and discourage dishonesty. If however, people are fired because productivity is improved, people will be motivated to do what they can to prevent productivity from improving. For the long run health of any

organization it is critical that management effectively severs the perceived connection between productivity improvement and staff reduction.

How does an organization make sure that its employees do not equate productivity gain with downsizing? Some organizations have guaranteed that no one will lose employment because of work improvement. In many cases this is not a difficult guarantee. Organizations that are experiencing steady growth can absorb people who are displaced. Done well, this results in increasing output while containing costs and employees are able to assist in keeping the improvements coming without concern over putting themselves out of work. As they keep the improvements coming they keep the organization competitive, which helps to assure the continued growth. And, there is no better resource for finding and refining improvements than the employees who do the work.

Another way of accommodating people freed up by productivity gain is to have a list of new ventures waiting to be undertaken as soon as there are resources available. Some organizations that take this approach do it by spinning off new small businesses. By doing so, they tap into the activities that (as mentioned above) account for the bulk of the new jobs in our society. When existing large businesses create new small businesses, their efforts generally have a better chance than most because they are able to provide sufficient capitalization. And, lest this appear to be an approach that is only applicable for profit making private industry, think about it. There is nothing to prevent government organizations and non-profits working with limited budgets from having a list of the dreams that they will get to as they free up the resources.

Another approach that some organizations have pursued is to convert their human resources efforts from hiring to placement. They get out and beat the bushes finding employment opportunities for employees whose work is eliminated by improvements. If their employees have portable benefits, this is an advantage.

Sometimes organizations will temporarily postpone certain changes so that they can be accommodated with normal retirement. Their records clearly show the approaching retirement dates of their staff. Careful use of retirement and transfer enables them to combine improved output with reduced costs.

It doesn't matter how it is done, the key is that employees are treated as resources to be made use of rather than expenses to be gotten rid of. And, it cannot be lip service. It must actually happen. Those managers who come up

with good, appropriate approaches for their organizations make an enormous contribution to their organizations' long term health by severing the perceived connection between productivity and unemployment.

Organizations that do it well tend to feel that there is always room for a good employee and their treatment of their employees tends to result in many very good employees. Their managers do not refer to these employees as positions or worse yet, bodies. They are people and in the final analysis they are not simply a resource, they are the most important resource of the organization.