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Business

Web posted Sunday, May 14, 2006

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Darrell Parker on the economy

Some of the economic news has been pretty good in recent days.

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Economic growth rebounded at a strong 4.8 percent rate in the first quarter.

Real compensation paid to workers rose by 3.6 percent and productivity rose by 3.2 percent.

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While each of these numbers has a bearing on the economic outlook, the most encouraging series is the increase in productivity.

Higher productivity is the key to job creation, rising wages and continued economic expansion. Ultimately what workers are paid is determined by how much they produce. The ability of a firm to increase compensation is limited by its own capability to increase the productivity of its workforce. The competitiveness of the economy is tied directly to the productivity expectations.

Many people who look at economic issues such as outsourcing and international competitiveness simply compare the hourly wage between locations. The fear is that those countries with lower hourly wages will attract the firms and jobs. The actual determination is not just the hourly wage, but the full hourly compensation relative to the productivity expected in that location.

For workers in this country, our first evaluation of a job is the direct comparison of take-home pay. For first-time workers, the difference between the agreed hourly wage and the net pay after withholdings is always a shock on that first paycheck. More experienced workers evaluate jobs not just on the basis of wages but the full benefit package offered.

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Employers must do the same calculations. If workers are not generating the productivity to cover wages plus the cost of fringe benefits, the business cannot continue to profit and survive. Business with increased productivity can expand and compete in the labor market for the best workers.

Another aspect of the productivity result is the interpretation of inflationary pressures within the economy. In an environment where wage pressure is rising, one concern is the extent to which the increased compensation to workers represents compensation for real productivity or the emergence of inflationary pressures within the labor market.

As the Federal Reserve evaluates its ongoing interest rate policies, the real data on the performance of the economy will foreshadow future changes. Recently rates have been rising to remove the expansionary pressure for the economy. The fear is that continued monetary expansion will outpace real productivity growth and result in inflation. The strength of the productivity numbers suggests that the monetary policy will also require sufficient expansion to accommodate this real growth.

The recent economic data indicating that real productivity growth is occurring encourages the Fed to pause its interest rate increases. Economic growth, low interest rates and low inflation are compatible. The occurrence of this happy combination is built upon expansion of our real productive capacity. That requires continued productivity growth.

Darrell Parker is the William Freeman Distinguished Professor of Free Enterprise and Directs the School of Economic Development in the College of Business Administration at Georgia Southern University. He can be reached at parkerd@GeorgiaSouthern.Edu. For further information about GSU's Macc/MBA programs or the Center for Management Development call 681-5767.

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