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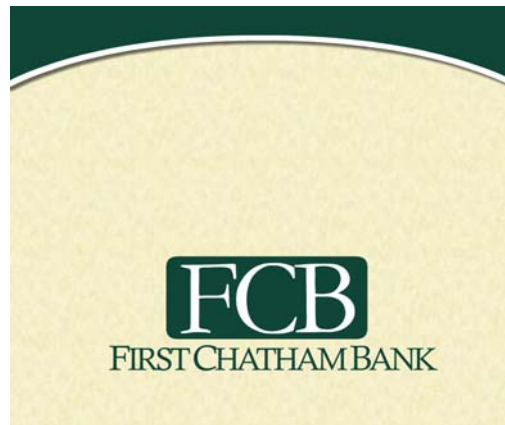
Story



Free Enterprise: Productivity may ride to the economy's rescue

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MICHAEL REKSULAK | Saturday, November 10, 2007 at 12:30 am



The economy seems to have hit rock bottom - or so one hopes. An avalanche of bad news has spooked markets.

Appearing before Congress on Thursday, Federal Reserve Chairman Ben Bernanke made a valiant attempt to express confidence in the "resilient" economy without giving the impression that the Fed underestimates the seriousness of the situation. His quizzical hosts, many of who are only too aware of their constituents' economic

worries, were clamoring for action.

The truth of the matter is, however, that the Fed does not have many tools freely at its disposal to assist the economy while it is working its way through this rough patch, which may yet turn into the real boogeyman - a recession.

What is happening is that not only the subprime problems, but also a whole chicken coop of troubles are coming home to roost.

The recent 300-point drops in the Dow Jones index are, indeed, related to colossal write-offs by big Wall Street firms.

However, this is amplified by other developments, such as investors around the world reacting to lower interest rates and persistent (and unsustainable) growth in public debt obligations in the U.S. This number has reached 9 trillion (yes, with a "t") dollars and around 1.4 billion are added every day.

When one of the largest holders of dollar-denominated debt obligations, China, indicated this week that it may shift toward euro-denominated assets, it was

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seen by others as an alarm signal.

The subsequent continuation of the amazing dollar's slide (almost exactly five years ago, one dollar bought a little more than one euro; today, business and travelers have to pay \$1.47 for the European currency) only adds to the troubles. It makes it more likely for oil to hit the psychologically important \$100-a-barrel mark, which - once it "trickles down" - is feared to stymie consumer spending during the holiday season.

Furthermore, while it may help exporters to sell their (now cheaper) goods abroad, it makes imports more expensive. The concomitant inflationary pressure on prices is something that really needs to worry a [Fed](#), which may already have created a situation conducive to price level increases with its recent rate cuts.

Given that confluence of unwelcome events, one release of data this week provided the proverbial silver lining. A report by the Labor Department revealed a surge in productivity while simultaneously showing an easing of wage pressures. The latter is a euphemism for the fact that workers, although they produce on average more per hour worked, are not seeing large increases in remuneration.

Although that may not sound like good news to paycheck recipients, it is for the economy.

The productivity numbers - reflecting an almost 5 percent increase (the largest in four years) - indicate that the underlying economy still exhibits reassuring strength. Moreover, the drop in unit-labor cost by 0.2 percent (annual rate) eases some of the inflation fears in the economy that - by themselves - could throw a monkey-wrench into the ability of the system to recover from the current crisis.

The bottom line: Apparently, the [U.S.](#) economy may still be able to continue its astonishing display of strength in the face of numerous obstacles. Furthermore, if people feel they are driving this by working harder while not necessarily being paid for higher productivity, they (now) have a (data) point.

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