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IS THE U.S. ECONOMIC GROWTH LAGGING THAT OF EUROPE ?

Tourism May Be Increasing, But It Is Unlikely To Be Enough

While the relatively cheaper US dollar is, already, resulting in increased tourism to The Land of The Free and The Home of The Brave, it is not the panacea to cure that which ails the economy of this superpower.

The key to understanding the growth of the US economy lies in an analysis of the rate of growth of labour productivity, or, put another way, the output per man hour of work, not income from tourism, brought about by the fact that the US appears to be cheaper in terms of its wilting currency to foreign investors/travellers.

According to The Beige Book of the US Federal Reserve Board, published last Wednesday:

> *'Tourist activity strengthened in several districts* (of The Fed). *Boston said that increased business travel, corporate spending, citywide conventions and increased international travel boosted hotel occupancy rates. Occupancy rates were also up in the San Francisco district, and the number of Japanese visitors to Hawaii has returned to pre-September 11 levels. New York noted that tourist activity was higher both upstate and in New York City where Broadway theaters set a box-office record during the last week of the year. In addition, the Atlanta report indicated that tourism was strong and that central Florida theme parks were filled to capacity. Kansas City indicated that some ski resorts in the district reported near-record levels of visitors. Richmond reported that because of unseasonably mild weather, hotels were booked to capacity in coastal areas and that some were turning tourists away during the week after Christmas.'*

The Beige Book, also, stated:

> *'But some manufacturing sectors weakened … textiles and apparel shipments continued to decline … Atlanta reported layoffs at a computer circuit board plant, and Dallas noted slowing demand in consumer communications equipment … Cleveland reported that sales at automobile industry suppliers slowed at year-end. St. Louis said that firms in the fabricated metal product, wood product, chemical, and apparel industries announced plant closings and layoffs.'*

The Fed is one of those branches of the US Government that is known for its forthrightness and honesty so that one may rely on the statistics, produced by this interdependent Government body.

The US Economic *'Engine'*

Long-term productivity growth is a driving force in improvements in living standards of the average family unit, not just in the US , but also in nearly every country of the world, today.

Sustainable increases in the rate of growth of labour productivity since about 1995 have been the single, most-important factor in the economic development in the US .

Rapid technological changes, especially in **I**nformation **T**echnology (IT), were the spur that prodded the economy to its recent levels.

US industries' investment in IT resulted in greater efficiency, leading to dramatic increases in labour productivity.

This took place, especially, in the decade between 1995 and 2004.

However, questions could be raised as to the validity of some of the economic statistics, which flood out of the various departments of the US Government on a daily basis.

As President George W. Bush employed doublespeak in respect of the US Government's invasion of Iraq in March 2003, labelling it as the liberation of the Iraqi people from the yoke of the oppressor's wrong, so statistics, spewing forth from US Government departments, may belie the true situation, at least to some extent.

This could result in the realisation that the economic *'miracle'* of the US is nothing more than a mirage in an arid economic landscape.

In the 3rd quarter of 2004, productivity growth in the US decelerated, markedly.

In fact, it slowed, Year-on-Year, from 5.70 percent, at its peak in the 4th quarter of 2003, to about 3.10 percent, according to the US Government's own statistics.

Also, in the 3rd quarter of 2004, non-farm employment rose by about 400,000 workers, an increase of about 1.30 percent, Year-on-Year.

However, the statistics, also, indicated that the growth in industry in the US was heavily labour intensive, the number of working hours per employee, rising materially, while, at the same time, the number of hours per employee was up about 1.50 percent in the 3rd quarter of 2004, compared with the like period in the 3rd quarter of 2003.

In effect, therefore, investment by US industry in IT either was not present during this period of time, or it was not employed during this period of time, for one reason or another.

That being the case, the gains in the 3rd quarter of 2004 must have been the result of other factors, not associated with investment in IT, at least, not in total.

Comparing productivity growth in the US with that of Europe, especially in what is, today, referred to as eurozone, one notes that there are material differences in productivity statistics, brought about by semantic and determinations in respect of measurement methods, used in the 2 important economic areas.

Productivity is, usually, the quotient of real output and labour input, however, it may be approximated by employing the concept of output per employee.

Gross **D**omestic **P**roduct (GDP) – the total value of all goods and services produced within a country in a fixed period of time, minus net income from investments in other countries – is differentially calculated in the US from that in euroland.

GDP in euroland includes the public sector value, whereas, in the US , official data refers only to non-farm private sector and includes public sector corporate entities.

Looking at the total GDP of the US, that is trying to compare the statistics of euroland with those similar statistics, extrapolated from the mass of data, released by the US Government, suggests that, perhaps, the growth of productivity in the US is not all that it is cracked up to be.

According to The Organisation of Economic Cooperation and Development, the average annual labour productivity in the US rose by a little more than 2 percent per annum from 1995 to 2003.

This is a little different from the US Government's calculations of about 3.10 percent per annum.

Last Wednesday, Federal Reserve Board Governor Ben S. Bernanke, in a talk, presented to the C. Peter McCologh Series on International Economies, Council on Foreign Relations, stated that the rise in productivity in the US since 1995 has been due, in part, to *'the product of rapid technological progress and increased investment in new information and communications technology (ICT) during the 1990s.'*

He cited how ICT advances also promoted productivity growth outside the ICT-producing sector.

He, then, went on to give euroland a bit of a black eye, by stating:

> *'Throughout most of the post-World War II period, labor productivity growth in Europe exceeded that in the United States, reflecting, first rapid gains during the postwar reconstruction and then a gradual convergence of European technology and business practices to American standards. By one estimate, on average, European productivity increased from 44 percent of the U.S. level in 1950 to 94 percent in 1995 (Gordon, 2004). However, since about 1995, productivity growth in Europe has slowed, in contrast to the U.S. experience, and productivity levels in the United States and Europe have begun to diverge.'*

Ah, well, numbers prove!

Governor Ben S. Bernanke, also, stated that there are big differences between productivity growth in euroland and the US with regard to ICT *'where U.S. strengths in the development of information technology have been offset by European leadership in communications.'*

He suggested that the economies of Europe *'have been less successful in applying new technologies because of a relatively heavy regulatory burden that inhibits flexibility.'*

Governor Ben S. Bernanke stated:

> *'Recent empirical research has generally found that economies with highly regulated labor and product markets are indeed less able to make productive use of new technologies … Industry-specific regulations may also be an important barrier to productivity improvement; for example, some writers have argued that restrictions on land use and on shopping hours in Europe have impeded the development of "big box" retail outlets, denying European firms the economies of scale that have been important for productivity growth in the U.S. retail sector.'*

Governor Ben S. Bernanke ended his little talk by saying that *'future responses of consumption and investment spending to changes in the pace of productivity growth are likely to be less powerful than those of late 1990s, if for no other reason than that we may have learned to be more careful in our enthusiasms.'*

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