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Contact: Charles B. Henderson, (314) 444-8311

St. Louis Fed's Poole: Are the 1990s the Beginning of a New Age of Productivity?

MARTIN, Tenn. -- Although some have argued that new technologies such as computers and the Internet have created a "new economy" in the United States, statistics indicate that overall U.S. productivity growth has increased from about 1 percent in the 1980s to about 2 percent per year currently. New technologies will have a larger effect in the future, but businesses and organizations may require many years to take full advantage of the new information age.

William Poole, president and chief executive officer of the Federal Reserve Bank of St. Louis, offered those views in a speech titled "Productivity Puzzles." He delivered his comments at the University of Tennessee-Martin to more than 200 students, faculty and area bankers.

Poole said a primary mystery of accurately measuring productivity lies in "improvements in process," which are difficult to pinpoint. "Total factor productivity soaks up the effects of everything from rearranging a warehouse so that popular items are near the loading dock to sweeping changes introduced by innovations like electricity or computers," he said. "It shouldn't surprise us that it is difficult to measure the contents of the pigeonhole where we dump the effects of fuzzy but profound concepts like creativity and innovation."

To illustrate how problematic the issue of measuring productivity is, Poole noted that all or most of the increase in productivity growth for the entire U.S. economy can be attributed to a single industry: computer manufacturing, which amounts to about 1.5 percent of the economy. "When you take out the durables manufacturing sector, where computers come from, and look at what's left," said Poole, "productivity growth looks downright tepid. In other words, there is productivity growth where computers are made, but not where they are used. This conclusion, however, doesn't seem consistent with businesses choosing to invest in computers."

Poole noted that there are two ways to interpret this apparent discrepancy. "Economists took almost a decade to recognize a productivity slowdown in the 1970s," he explained, "so it's not inconceivable that it will take us a long time to be sure of a turnaround. Also, much of the economy produces things that are extremely difficult to measure, and the share of this sector -- services, broadly speaking -- keeps growing. Outside of agriculture and manufacturing, where it's more or less possible to count things in order to measure output, we should be extremely suspicious of productivity numbers."

Discussing the actions of the Federal Reserve on productivity and economic growth, Poole said that monetary policy can contribute to general economic stability, and that the central bank makes valuable contributions to the efficiency and safety of the payments system, which, he said, "is an essential piece of infrastructure for a modern economy."

Nevertheless, Poole observed that "as important as these central bank responsibilities are, it is clear that the central *government's* activities have far more to do with growth than anything

the central bank does." Citing examples, Poole noted, "The soundness and efficiency of the legal system, the degree of safety of citizens, tax policy, government spending and regulation -- all affect productivity growth to a vastly

greater degree than central bank policy. The major contribution of the central bank," he emphasized, "is to maintain low and stable inflation."

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