RESEARCH REPORTS

Reviews of new research at public agencies and private institutions

"Service Sector Productivity."

McKinsey and Co., 1101 Pennsylvania Ave. N.W., Washington, D.C. 20004. 138 pp. Privately circulated.

That the United States has *not* fallen behind the other advanced nations in productivity should not be news. In 1990, gross domestic product (GDP) per capita in the United States was $21,450—16 percent greater than in West Germany, 22 percent greater than in Japan, and 23 percent greater than in France. Where the United States has been lagging, at least until lately, is in its rate of productivity growth. What *is* surprising, note the authors of this report from McKinsey and Co., an international management consulting firm, is that nearly a half-century after the end of World War II, a greater convergence in GDP per capita has not occurred. Technology and capital now can move freely among the advanced nations, and workers are equally healthy and well-educated, yet national differences in productivity persist.

Part of the reason is that in the United States, the two-worker family has become common, and so a larger proportion of the populace is employed. If productivity is measured by GDP per *employed* person, France and Germany improve their relative standing. Even so, substantial differences in productivity remain.

To get a better picture of what is going on, the authors focus on the market economy (leaving out government, health, and education). This shows the United States still the leader in GDP per employed person, with Japan, surprisingly, pulling up the rear (with productivity in 1989 only 61 percent that of the United States). The explanation? While Japanese manufacturing firms dominate certain world markets, they account for only a fraction of Japan's economy; many other Japanese firms are not very efficient or productive.

According to a 1992 study of the world's Big Three manufacturing countries by two Dutch economists, Japan's manufacturing productivity was 80 percent that of the United States, as was Germany's. It appears that the United States will retain a modest lead for some years to come. U.S. manufacturing productivity has been growing by 3.5 percent annually in recent years but growth in Japan and Germany has slowed to 4.6 and 1.1 percent, respectively.

In all the advanced economies, the service sector dwarfs manufacturing. Productivity in services is much harder to measure. The McKinsey analysts looked closely at five service industries (airlines, telecommunications, retail banking, general merchandise retailing, and restaurants) and found that, with only one exception (restaurants), the United States had higher productivity. Poor management and archaic practices accounted for some of the productivity deficit overseas. Banks in the United Kingdom "still encode checks in branches, while [U.S.] banks . . . have centralized this function and gained productivity." U.S. service industries, the analysts believe, derive much of their advantage from the rigors of competition. Japanese retailing and other service industries are shielded behind protectionist walls. The chief barrier blocking convergence of the advanced nations, they conclude, is government policy and regulation in Europe and Japan.

"Post-Communist Economic Revolutions: How Big a Bang?"

Center for Strategic and International Studies, Ste. 400, 1800 K St., N.W., Washington, D.C. 20006. 106 pp. $9.95
Author: *Anders Åslund*

Is economic "shock therapy" killing the patient in Eastern Europe? Some official statistics paint a grim picture. Since Poland lifted controls on prices in January 1990, for example, its gross national product (GNP) has plunged by more than 20 percent. Critics contend that the former communist nations should only gradually move from a command economy to a free-market one. Åslund, director of the Stockholm Institute of East European Economics, argues that a comparison of the economic fever charts of the various postcommunist nations indicates just the opposite: A rapid transition works best.

"The poorly elaborated, gradual reform programs pursued by Bulgaria, Romania, and the Soviet Union before fundamental change of the economic system began have proved extremely costly," Åslund says. The drop in GNP since 1990 in Romania has been about 30 percent; in Bulgaria, 40 percent, and in most of the former Soviet Union, probably about 50 percent. Hungary, where the shift has been gradual and relatively successful, "seems an exception to the rule." There, as in the former Czechoslovakia, which moved relatively quickly toward a market economy, the drop in GNP was only about 16–18 percent. But Hungary, which had a large private sector to begin with, is "a very special case," Åslund says.

All of the countries, including gradualist Hungary, suffered from high inflation, Åslund notes, but after two years of radical change, unemployment in Poland, for example, did not rise above "a West European level" (11.4 percent). In Bohemia and Moravia (now, the Czech Republic), unemployment actually *fell* from six percent at the start of 1992 to three percent last summer. A gradual transition does not ensure less joblessness. Hungary, Åslund says, "seems to be heading for the highest unemployment rate in Eastern Europe."

Given the extensive hardship in these postcommunist nations, Åslund says, it is remarkable how little social unrest there has been. "People clearly want a fundamental change of their societies, and they are prepared to accept quite a bit of suffering to achieve it."

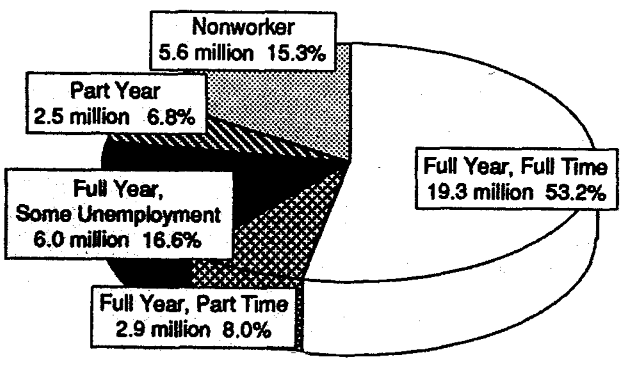
The slower the move toward democracy, Åslund says, the more difficult the economic transition has been. Hungary and Czechoslovakia had legitimate elections in March and June 1990, respectively. Poland, on the other hand, waited until late 1990 and 1991, allowing foes of reform to exploit discontent. In Romania, Bulgaria, and Albania, Åslund points out, former communists won the first elections, suggesting that only a slow democratic awakening had taken place. In Russia, too, democratization has been sluggish.

"If there is a gradual path [to capitalism]," Åslund says, "it appears very difficult to find."

Who Lacks Health Insurance?

(By Work Status of Family Head)

Some 36.3 million people—16.6 percent of Americans under the age of 65—went without health insurance, private or public, during 1991, according to the nonprofit Employee Benefit Research Institute. Of these, more than half—19.3 million—were in families whose head worked full time for the entire year. Only 5.6 million people were in families whose heads were out of the work force entirely. Of all the uninsured, 9.5 million were children.



36.3 Million Uninsured under Age 65

From **"Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 1992 Current Population Survey,"** Employee Benefit Research Institute, January 1993.