Professional employer organizations

In the early 1980s, a new type of company became a significant part of the economy: the professional employer organization (PEO). This type of company helps other firms manage their employees' benefits, process payrolls, comply with regulations, and handle other human resources management issues. Economists have learned some important facts about the use of PEOs, but many unanswered questions remain about the PEO industry, a sector that grew by 386 percent from 1992 to 2002. In an effort to dig deeper, Britton Lombardi and Yukako Ono have written an article entitled "Professional employer organizations: What are they, who uses them, and why should we care?" (*Economic Perspectives*, Federal Reserve Bank of Chicago, fourth quarter 2008).

A PEO typically takes human resources employees from its client companies and places them on its own payroll; the PEO then "leases" the companies' own employees back to them. This can cause problems in calculating changes in the sizes of companies and industries. For example, employment in manufacturing reportedly decreased by 4.1 percent from 1989 to 2000, but it has been estimated that manufacturing employment would have grown by 1.4 percent if the manufacturing employees on PEO payrolls had been included.

Using data from the Census Bureau, Lombardi and Ono find that 4.6 percent of transportation industry employees work for PEOs, making transportation the industry with the highest concentration of PEO employees. Among all the U.S. States, Florida has the highest percentage of leased employees—3.6 percent.

On the whole, larger manufacturing plants are more likely to use PEO services than are smaller plants. Plants where there is a greater likelihood of work-related illnesses and injuries are slightly more prone to using PEOs than are safer plants. Newly built plants are much more likely to use PEOs than older plants, probably because it is usually more important for new plants to focus on their core activity to ensure their survival. Firms that are more diversified—across States and/or industries—also use PEO services more, probably because greater diversification leads to greater difficulty in complying with regulations. As PEOs do more and more business, Lombardi and Ono believe it will become increasingly important to find the best ways to incorporate leased employees into labor statistics.

China and India: two paths to prosperity

Both China and India have experienced rapid economic growth in the last several decades. In 1980, annual per capita income was $556 in China and $917 in India (2007 dollars). By 2006, China's annual per capita income had increased to $4,766 and India's had risen to $2,534. The growth has been especially pronounced since 1995: China's income increased 8.4 percent per year since then, while India's increased by about 5 percent per year during the same period. In a recent study of these two emerging economic powerhouses ("China and India: Two Paths to Economic Power," *Economic Letter*, Federal Reserve Bank of Dallas, August 2008), economists W. Michael Cox and Richard Alm compare the different strategies employed by the two nations on their way to rapid economic development.

The general change in strategy for both countries involved opening their markets to foreign trade and investment and encouraging more private enterprise. For its part, China took what the authors call the "traditional route." Following the earlier model provided by Japan and South Korea, China became a center for low-wage manufacturing of goods for export (for example, clothing, toys, and electronics). India, by contrast, recognized that it would have difficulty competing with China and instead used its large English-speaking labor force to focus on exporting services—by, for example, establishing international call centers and data-processing operations for multinational corporations.

Although both countries have achieved rapid and sustained economic growth, the figures cited earlier suggest that China's manufacture-for-export strategy has been more successful so far. But Cox and Alm argue that the wealthiest nations in the world "tend to concentrate employment and production in services." Historically, nations have moved toward a more service-oriented economy relatively late in their development. But India took advantage of the global economy and new technologies such as the Internet and telecommunications to create a niche for providing high-tech services to clients around the world. Thus, in the long term, India's strategy might be more sustainable than China's. As the authors explain, to continue their development, China and India will both have to "shift their economies toward producing the more sophisticated goods and services associated with higher incomes." □