The Power of Productivity

WEALTH, POVERTY, AND THE THREAT TO GLOBAL STABILITY

William W. Lewis
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ECONOMIC DEVELOPMENT PATHS
Percent U.S. 1995 level

GDP per capita
Percent

Total labor and capital inputs per capita

U.S. (1890 - 1995)
W. Germany (1970 - 95)
France (1970 - 95)
U.K. (1970 - 95)
Brazil (1960 - 95)
Korea (1970 - 95)
India (1970 - 99)
Russia (1997)
Poland (1997)
Japan (1950 - 95)

GDP per capita

Percent

Total labor and capital inputs per capita
\[
\text{GDP per capita} = \frac{\text{Employment Capita}}{\text{Labor productivity}}
\]

- Skill level of personnel
- Organization of functions and tasks, marketing and other operational factors
- Capital and technology
- Scale and capacity utilization
CONCLUSIONS

• Sector level analysis is necessary to find causal factors of economic performance
• Education is not as immediately important as most people think
• Distortions in competition in product markets are more important than labor or capital market problems
• Today’s big governments in poor countries are a handicap today’s rich countries did not have when they were poor
• Consumers are the only political force that can stand up to producer interests, big government, and the technocratic, political, business, and intellectual elites
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DUAL ECONOMY IN JAPAN

11 Industries

Relative productivity levels
Index U.S. = 100

Employment
100% = 12.473 million employees
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BLUE COLLAR TRAINABILITY – CONSTRUCTION OF SUBSIDIZED HOUSING

Labor productivity
M²/thousand hours

- U.S. (Houston): 130
- Brazil (São Paulo): 35

Construction cost
U.S.$/M²

- U.S.: 210
- Brazil: 250

Organization of labor

<table>
<thead>
<tr>
<th>Subcontractors</th>
<th>U.S.</th>
<th>Brazil</th>
<th>Brazilian gap</th>
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<tbody>
<tr>
<td></td>
<td>40</td>
<td>10</td>
<td>• Less specialized</td>
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Blue collar background

- Mexican agriculture
- Brazilian northeast agriculture
• Similar educational background
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LABOR PRODUCTIVITY, OUTPUT, AND EMPLOYMENT IN U.S. COMMERCIAL BANKS
Indexed to 1980 = 100

Output
Employment
Productivity
Deregulation
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INFORMALITY IN BRAZIL
Percent urban employment
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• If poor countries take care of their productivity problems, they will get the needed capital

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• Today’s big governments in poor countries are a handicap today’s rich countries did not have when they were poor

• **Consumers are the only political force that can stand up to producer interests, big government, and the technocratic, political, business, and intellectual elites**
5. Consumers have political clout
US Consumer advocacy

1906, Senator Robert La Follette
“The welfare of all the people as consumers should be the supreme consideration of the government.”

1914, Walter Lippman
“We hear a great deal about the class-consciousness of labour. My own observation is that in America today consumers’ consciousness is growing very much faster.”

1932, President Franklin Roosevelt
“I believe that we are at the threshold of a fundamental change in our popular economic thought; in the future, we’re going to think less about the producer and more about the consumer.”

1960, John F. Kennedy
“The consumer is the only man in our economy without a high-powered lobbyist. I intend to be that lobbyist.”