

Productivity and Globalization

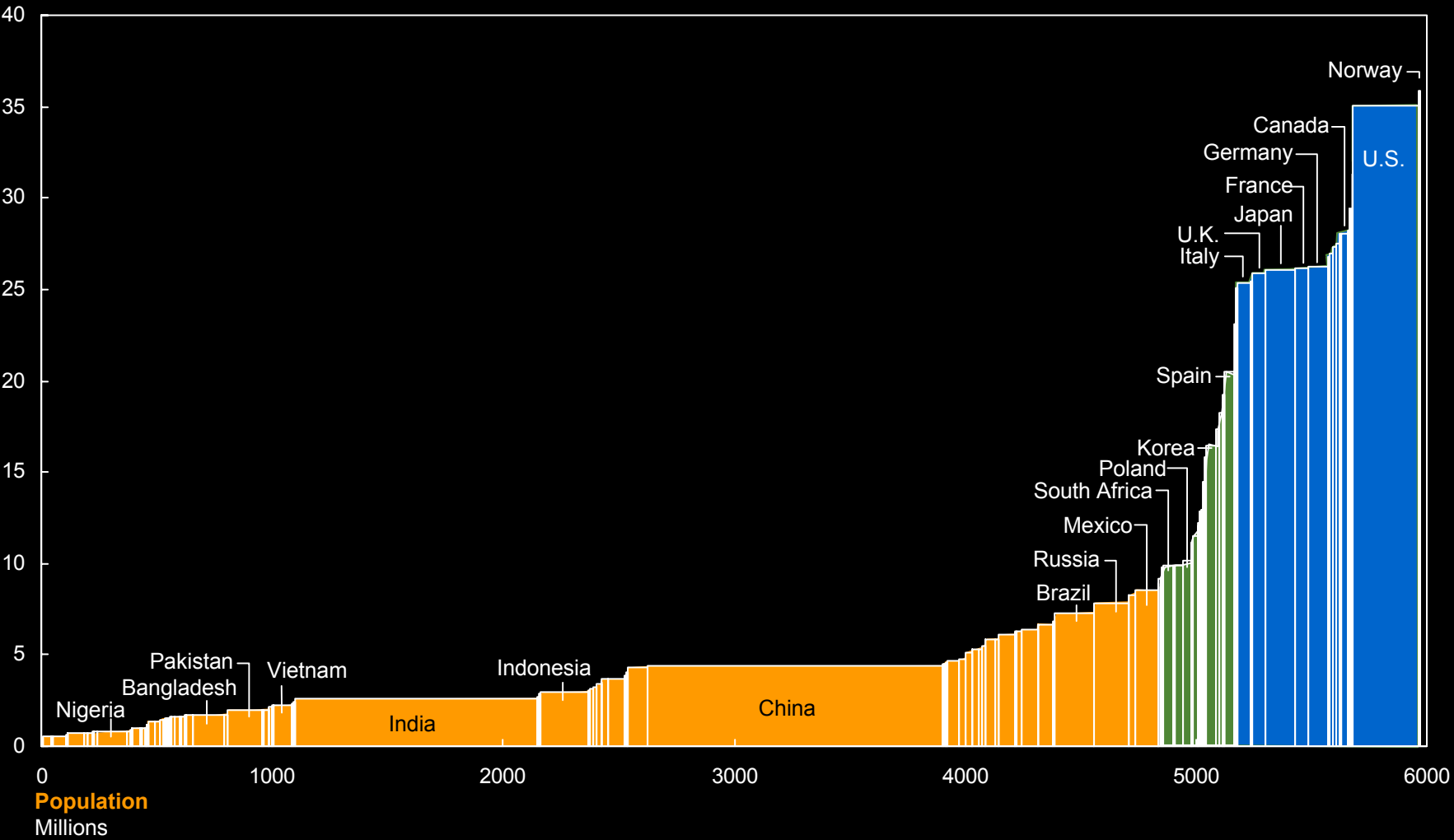
The Royal Swedish Academy of Engineering Sciences
October 26, 2006

WORLD DISTRIBUTION OF PER CAPITA GDP BY COUNTRY

U.S. Dollars, at PPP

- High income countries
- Middle income countries
- Low income countries

GDP per capita, 2002
U.S. 2002 \$ thousands

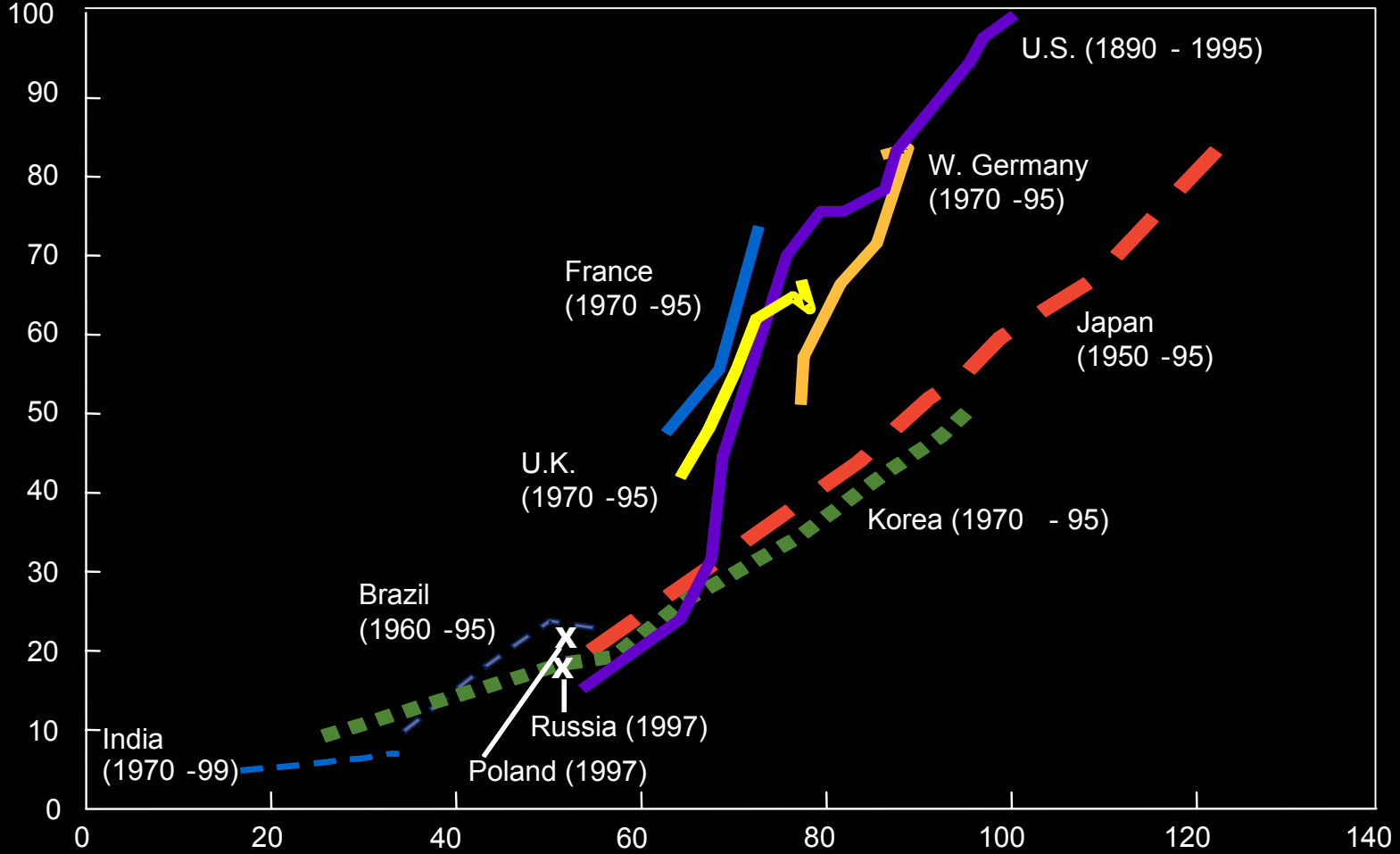


ECONOMIC DEVELOPMENT PATHS

Percent U.S. 1995 level

GDP per capita

Percent



Total labor and capital inputs per capita

GDP per
capita



Employment
Capita



Labor
productivity

- Skill level of personnel
- Organization of functions and tasks, marketing and other operational factors

- Capital and technology
- Scale and capacity utilization

CONCLUSIONS

- **Industry level is where globalization affects productivity**
- **Education is not the binding constraint on globalization**
- **Distortions in competition in product markets are the biggest factor limiting globalization today**
- **Distorting markets to achieve social equity objectives is usually a bad idea**
- **Consumers are the only political force that can stand up to producer, worker, and political elites benefiting from market distortions**

CONCLUSIONS

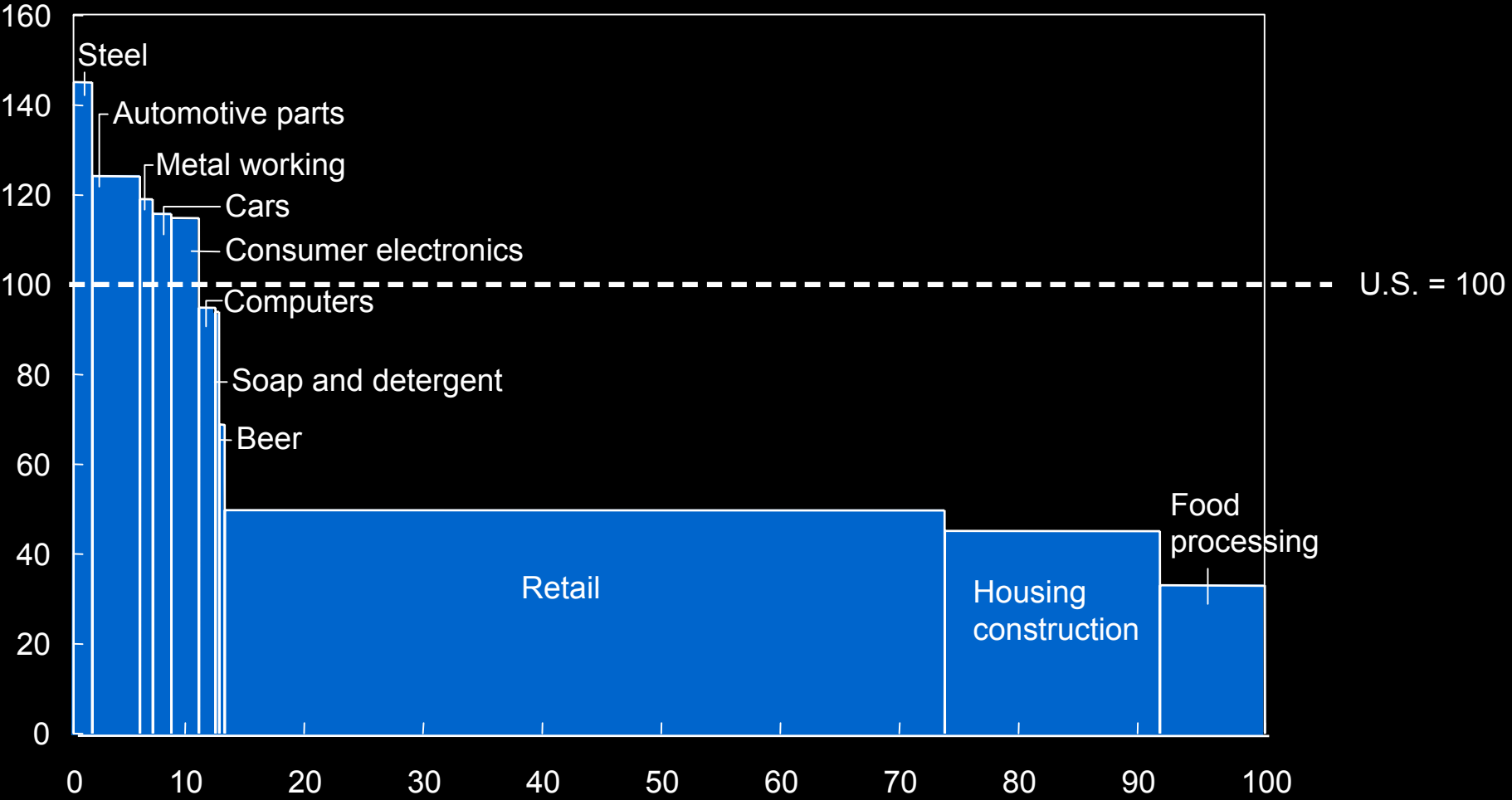
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DUAL ECONOMY IN JAPAN

11 Industries

Relative productivity levels

Index U.S. = 100



Employment

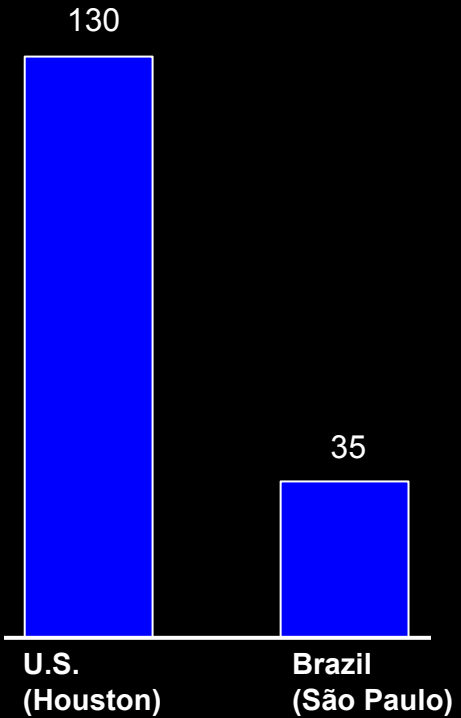
100% = 12.473 million employees

CONCLUSIONS

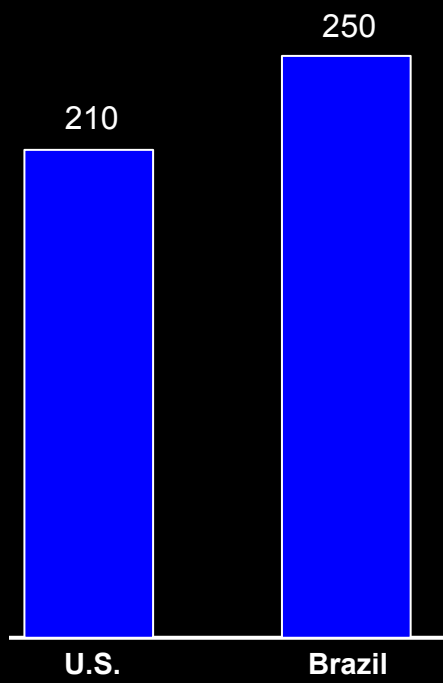
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BLUE COLLAR TRAINABILITY – CONSTRUCTION OF SUBSIDIZED HOUSING

Labor productivity
M²/thousand hours



Construction cost
U.S.\$/M²



Organization of labor

	U.S.	Brazil	Brazilian gap
Subcontractors	40	10	• Less specialized

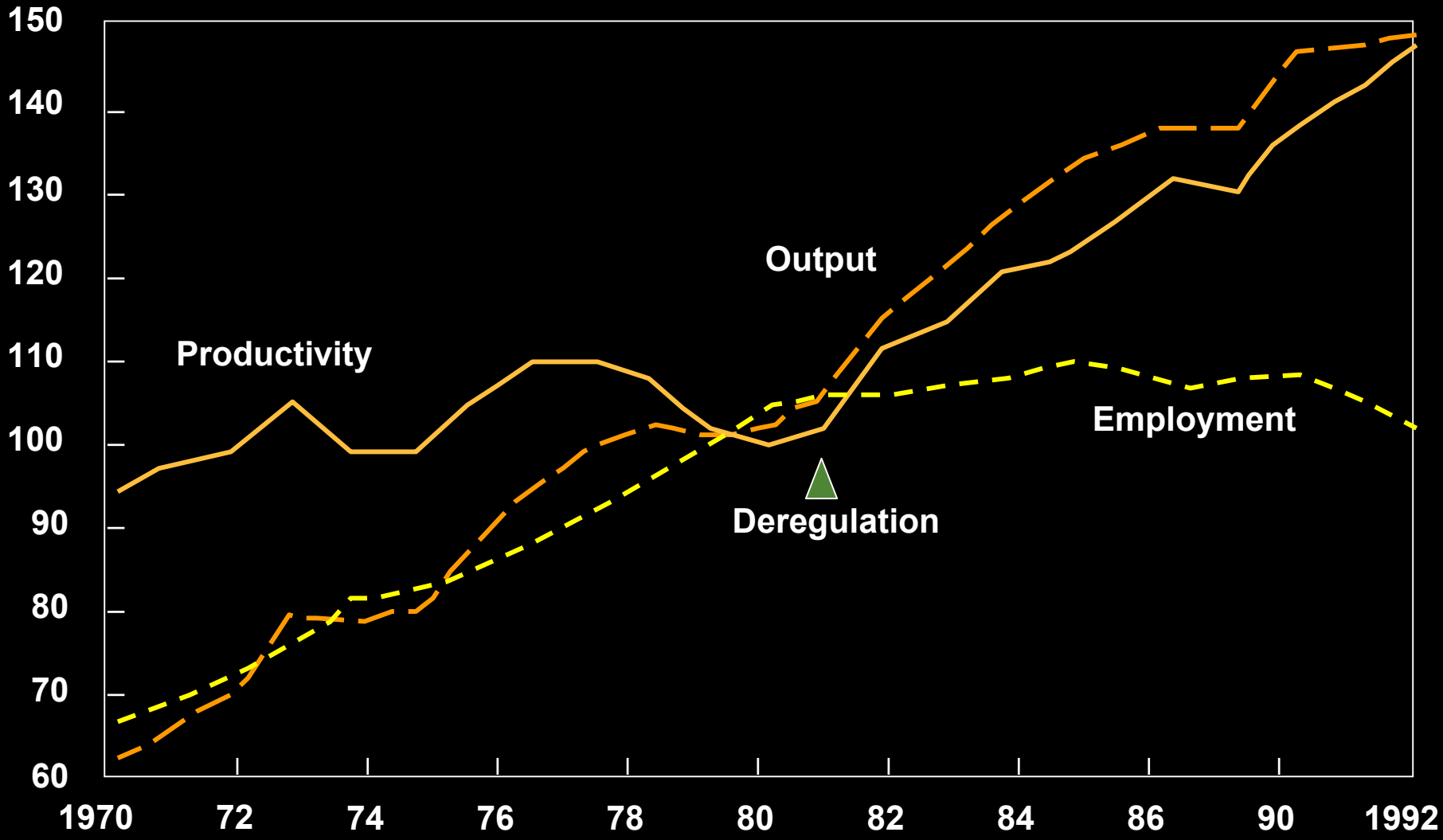
Blue collar background	Mexican agriculture	Brazilian northeast agriculture	• Similar educational background
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LABOR PRODUCTIVITY, OUTPUT, AND EMPLOYMENT IN U.S. COMMERCIAL BANKS

Indexed to 1980 = 100



INDIAN AUTOMOTIVE INDUSTRY

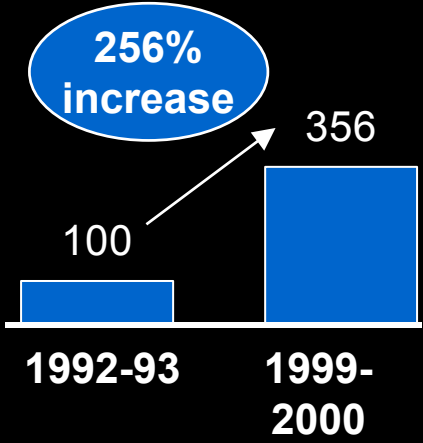
Index: India = 100 in 1992-93

Barriers removed

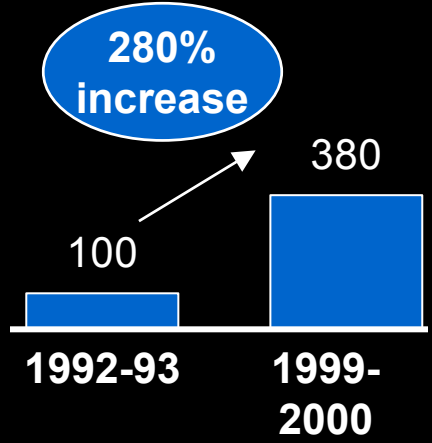
- Licensing abolished
- FDI allowed



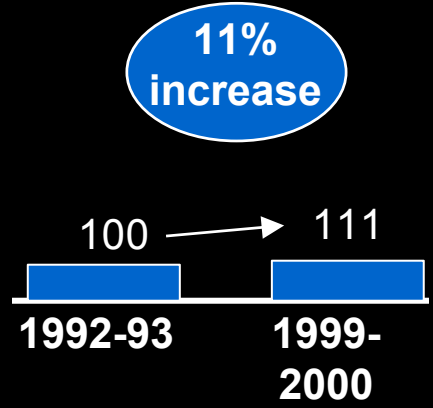
Labour productivity



Output



Employment

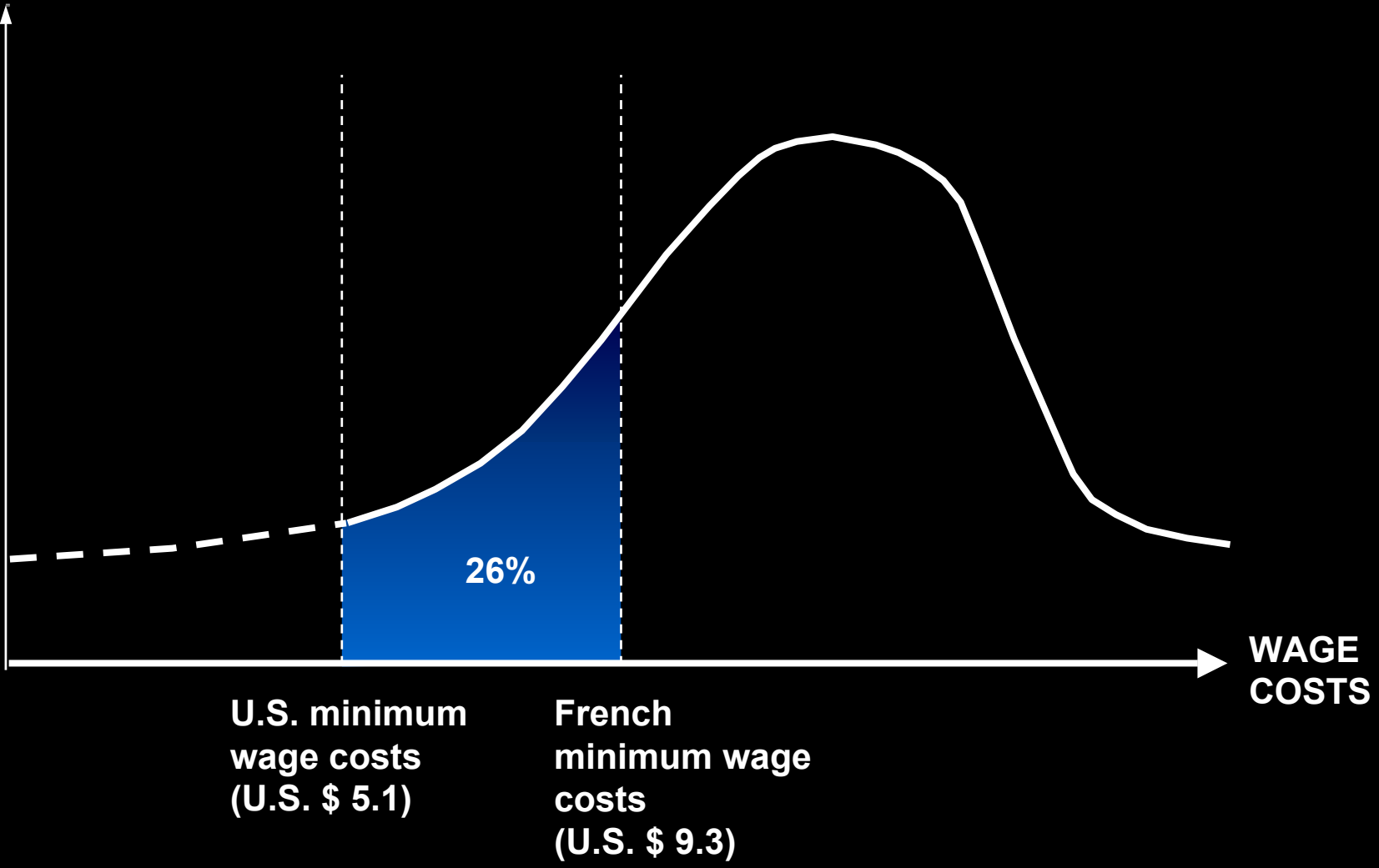


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IMPORTANCE OF LOW SKILLED LABOR IN THE U.S. – 1995

Number of jobs in the U.S.



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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.”