

The Power of Productivity

**WEALTH, POVERTY, AND THE
THREAT TO GLOBAL STABILITY**

William W. Lewis

The University of Chicago Press, 2004

National Bank of Poland

Warsaw

June 2, 2004

THE MCKINSEY GLOBAL INSTITUTE

- McKinsey's independent economic research institute
- Founded in 1990 in Washington D.C.
- In-depth economic diagnostic of 13 countries and 25 economic sectors
- Participation by leading economists (e.g., Robert Solow)

MGI WORK OVER TIME

The building blocks (1990-95)

- Service sector productivity
- Manufacturing sector productivity
- The global capital market
- Employment performance
- Capital productivity
- Healthcare productivity

Country studies (1996-2001)

- U.S.
- Japan
- Germany
- France
- Sweden
- Australia
- The Netherlands
- UK
- Korea
- Brazil
- Poland
- Russia
- India



Focused on U.S., Germany, and Japan

SECTORS STUDIED BY MGI

Agriculture	Wheat farming Dairy farming	
Manufacturing	Steel Automotive Computer manufacturing Semiconductors Apparel Wheat milling Dairy processing	Confectionery Chicken processing Cement Oil
Utilities	Telecom Power generation Power distribution	
Services	Retail Housing construction Wholesale Airlines Retail banking	Hotels Health care Securities Software

PARTICIPATING ECONOMISTS

U.S.

- Robert Solow – MIT
- Martin Baily – IIE
- Dick Cooper – Harvard
- Orley Ashenfelter – Princeton
- Paul Romer – Stanford
- Alan Garber – Stanford
- Ken Arrow – Stanford

Europe

- Olivier Blanchard – MIT
- Stephen Nickell – LSE
- Edmond Malinvaud – INSEE
- Hans Gersbach – Heidelberg

Other countries

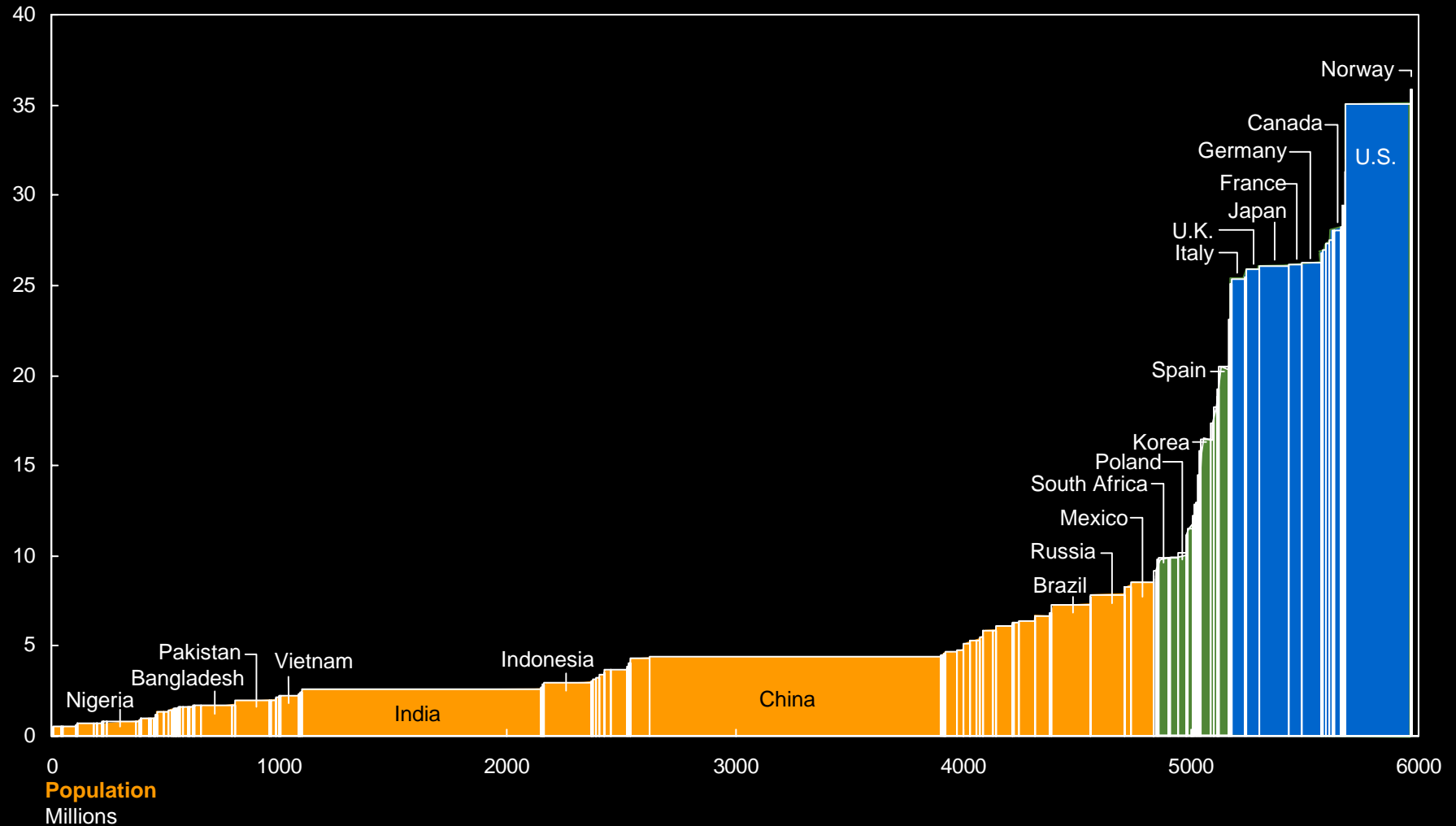
- Montek Singh Ahluwalia – IMF
- Masahiko Aoki – Stanford
- Jose Scheinkman – Chicago
- Andrei Illarionov – Russian Government
- Leszek Balcerowicz – Polish Central Bank

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

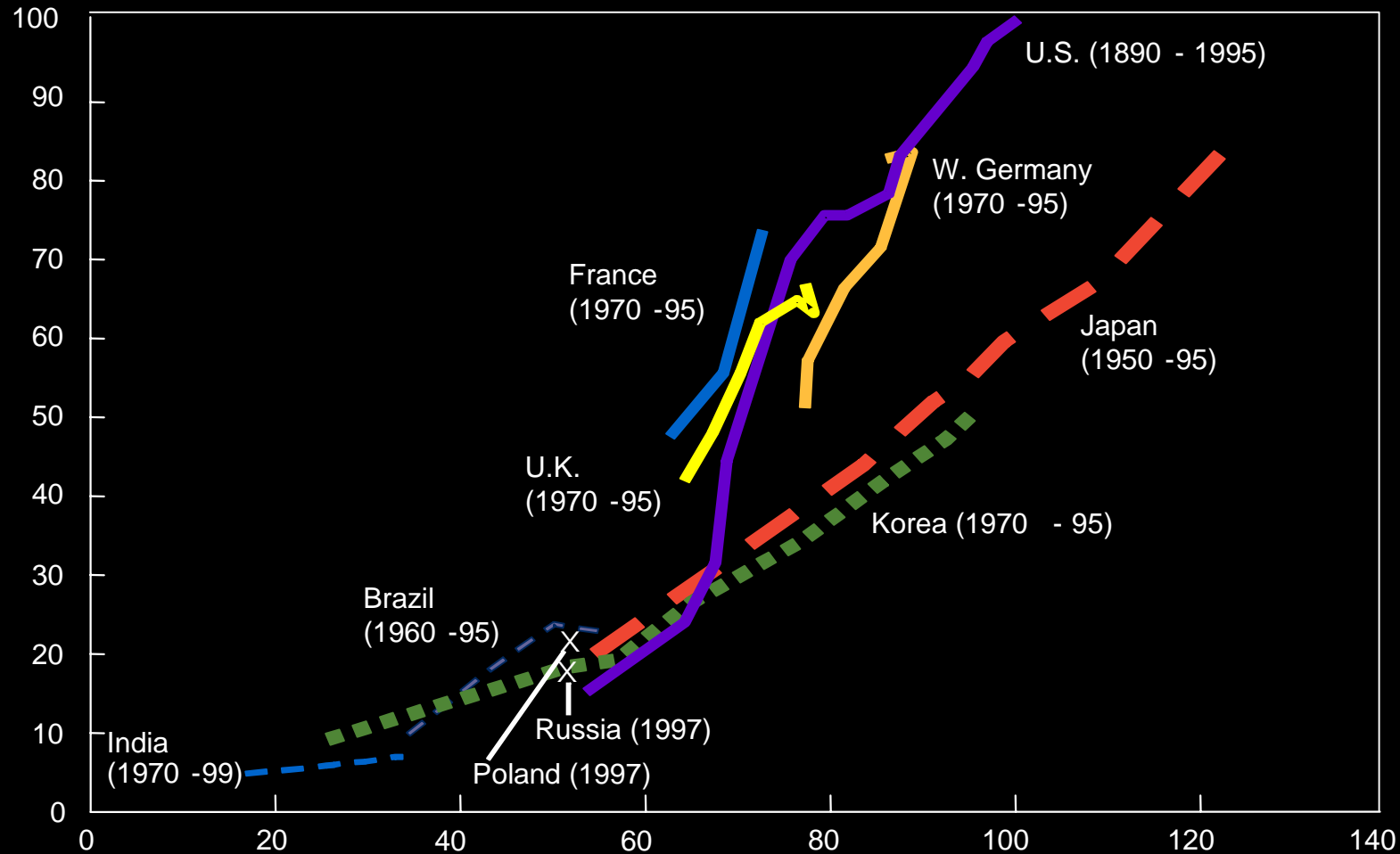


ECONOMIC DEVELOPMENT PATHS

Percent U.S. 1995 level

GDP per capita

Percent



Total labor and capital inputs per capita

GDP per
capita



Employment
Capita



Labor
productivity

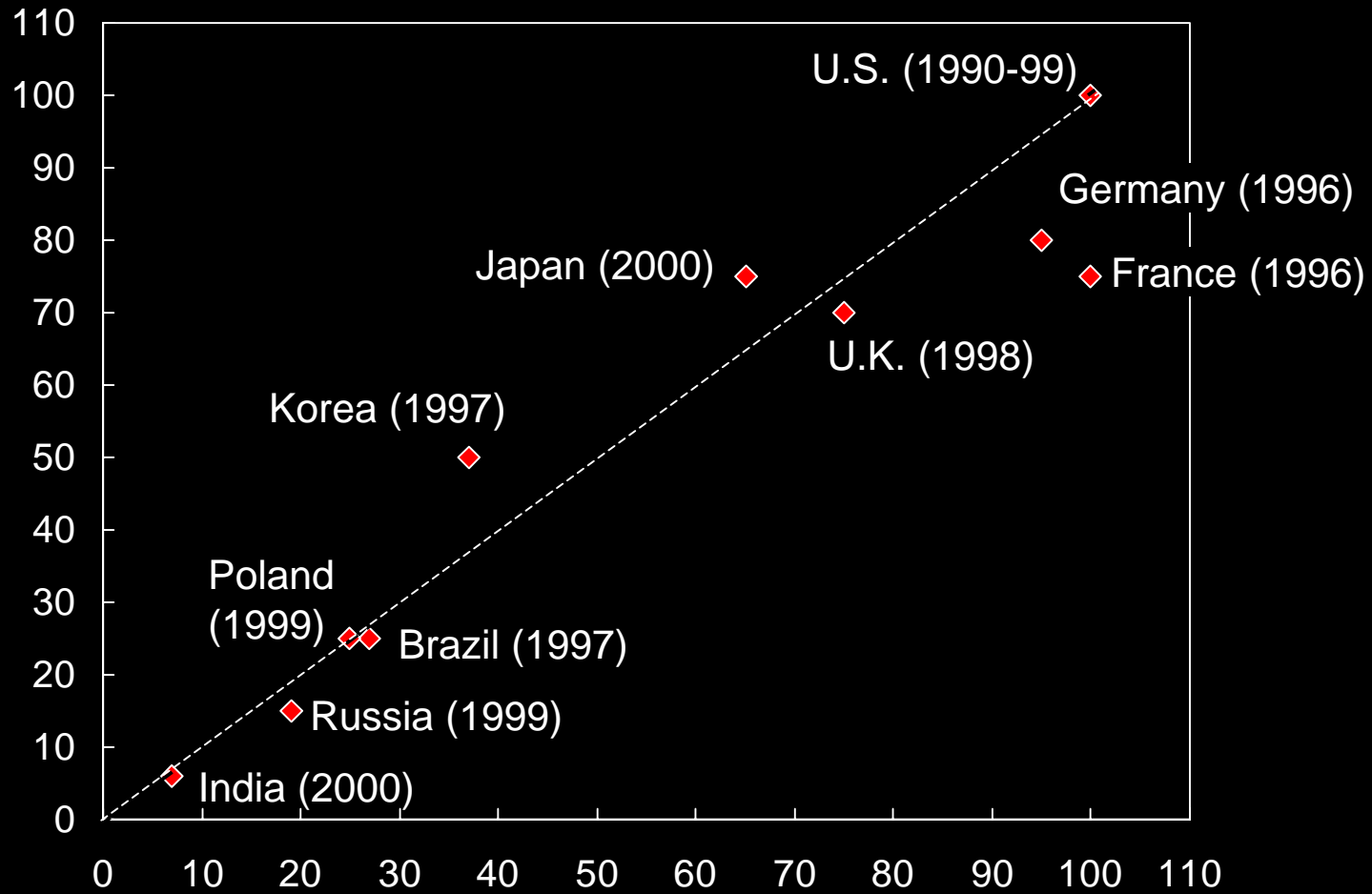
- Skill level of personnel
- Organization of functions and tasks, marketing and other operational factors

- Capital and technology
- Scale and capacity utilization

PRODUCTIVITY AND GDP PER CAPITA ACROSS COUNTRIES

Index U.S. = 100 in 1996

GDP/capita



Labor productivity

CONCLUSIONS

- Sector level analysis is necessary to find causal factors of economic performance
- Education is not as immediately important as most people think
- If poor countries take care of their productivity problems, they will get the needed capital
- Foreign direct investment has the potential to cause poor countries to grow faster than anybody thinks
- Distortions in competition in product markets are more important than labor or capital market problems
- The Washington Consensus about good economic policy for developing countries profoundly underestimated the importance of a level playing field for market competition
- Distorting markets to achieve social equity objectives is usually a bad idea
- Today's big governments in poor countries are a handicap today's rich countries did not have when they were poor
- The elites in poor countries have not accepted the hard lessons from the economic experiments of the past 50 years
- Consumers are the only political force that can stand up to producer interests, big government, and the technocratic, political, business, and intellectual elites

CONCLUSIONS

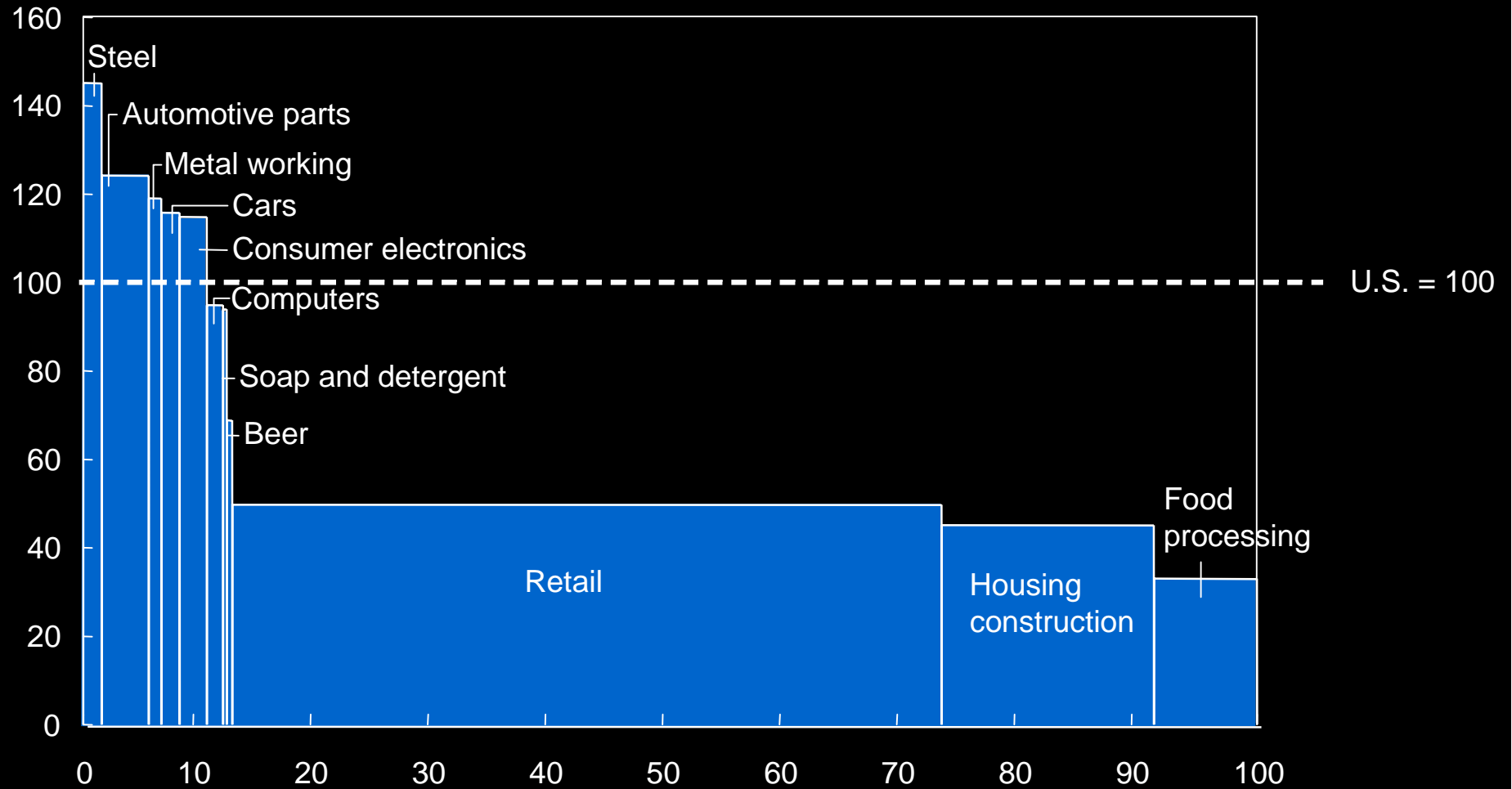
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DUAL ECONOMY IN JAPAN

11 Industries

Relative productivity levels

Index U.S. = 100



Employment

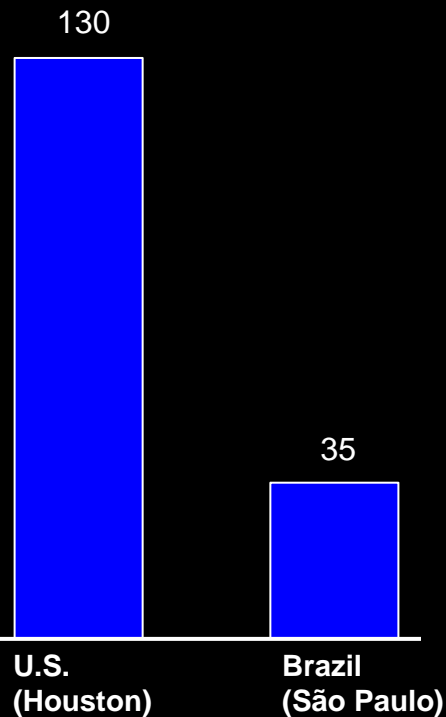
100% = 12.473 million employees

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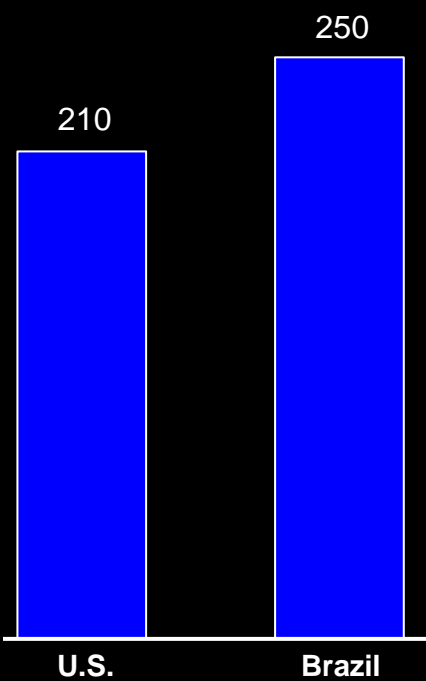
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BLUE COLLAR TRAINABILITY – CONSTRUCTION OF SUBSIDIZED HOUSING

Labor productivity
M²/thousand hours



Construction cost
U.S.\$/M²



Construction description

U.S.	Brazil
•75 M ² /unit	•40 M ² /unit
•209 units	•20 units
•1 floor	•5 floors
•Content	•Content
–1 bedroom	–1 - 2 bedroom
–1 bathroom	–1 bathroom
–AC	–No internal doors

Organization of labor

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

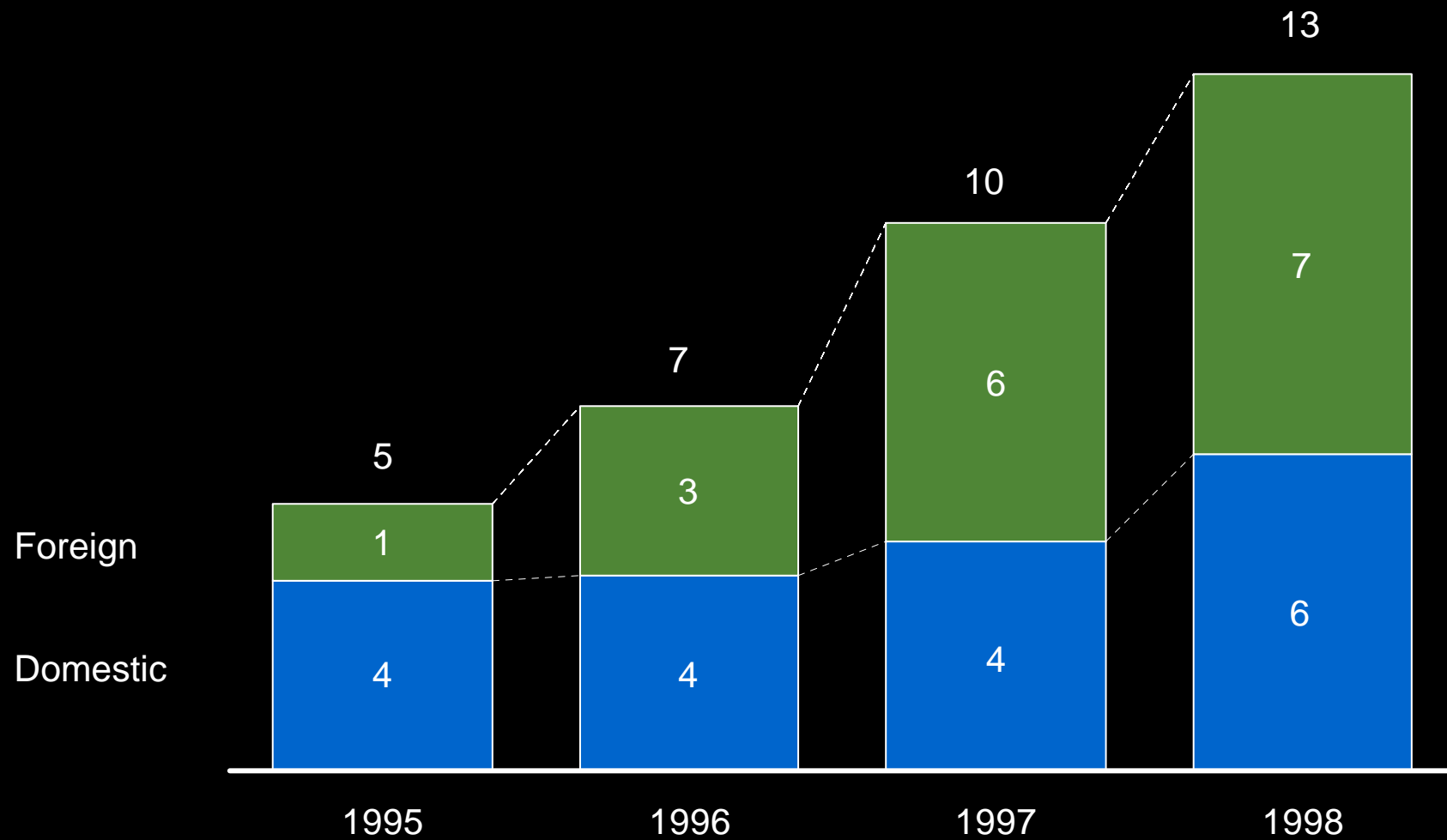
Blue collar background	Mexican agriculture	Brazilian northeast agriculture	• Similar educational background
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COMPOSITION OF PRIVATE INVESTMENT IN POLAND, 1995-98

Percent of current GDP

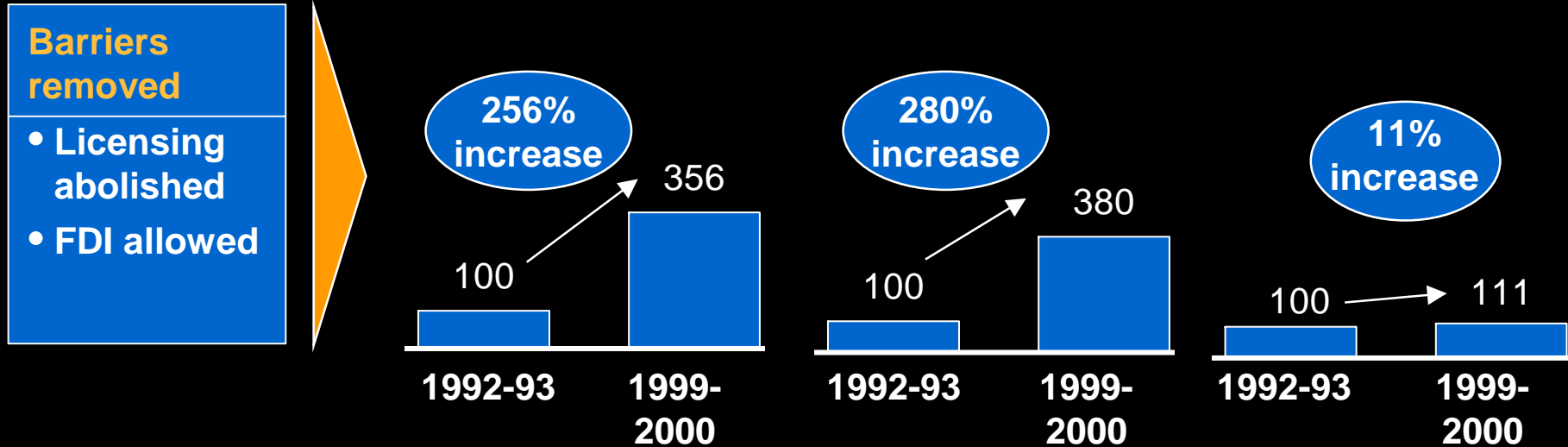


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INDIAN AUTOMOTIVE INDUSTRY

Index: India = 100 in 1992-93

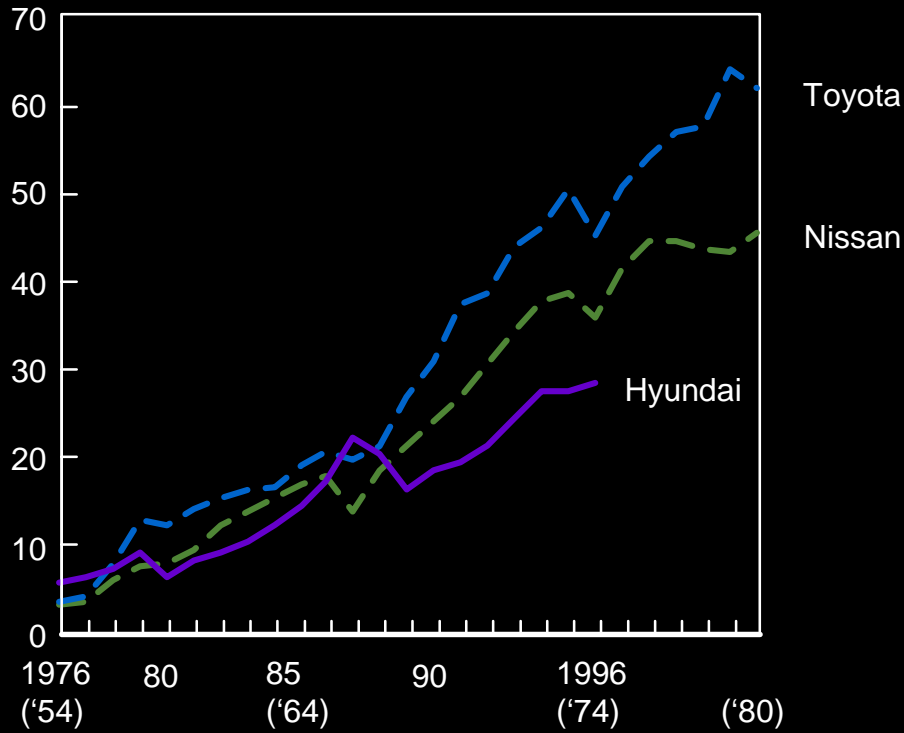


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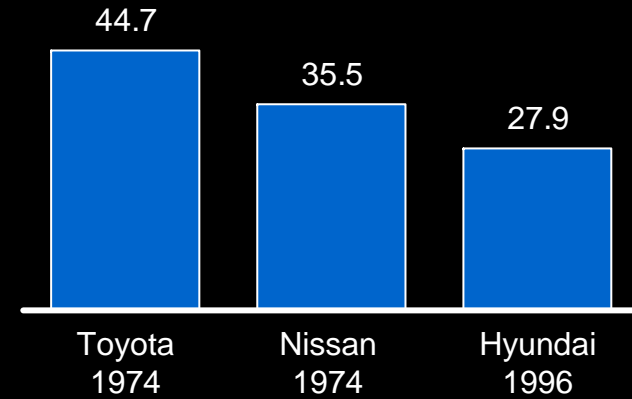
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AUTOMOTIVE LABOR PRODUCTIVITY GROWTH

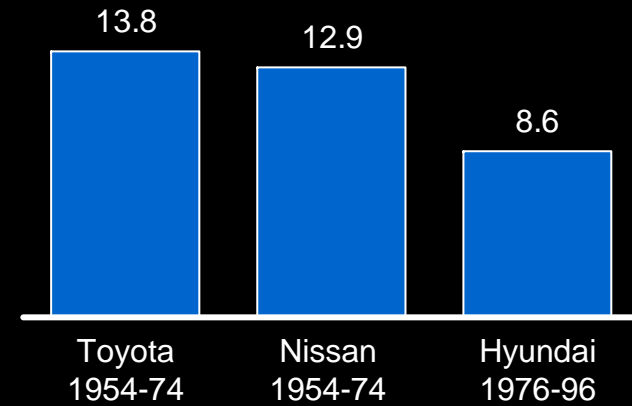
Vehicles produced per employee



Labor productivity
Vehicles per employee

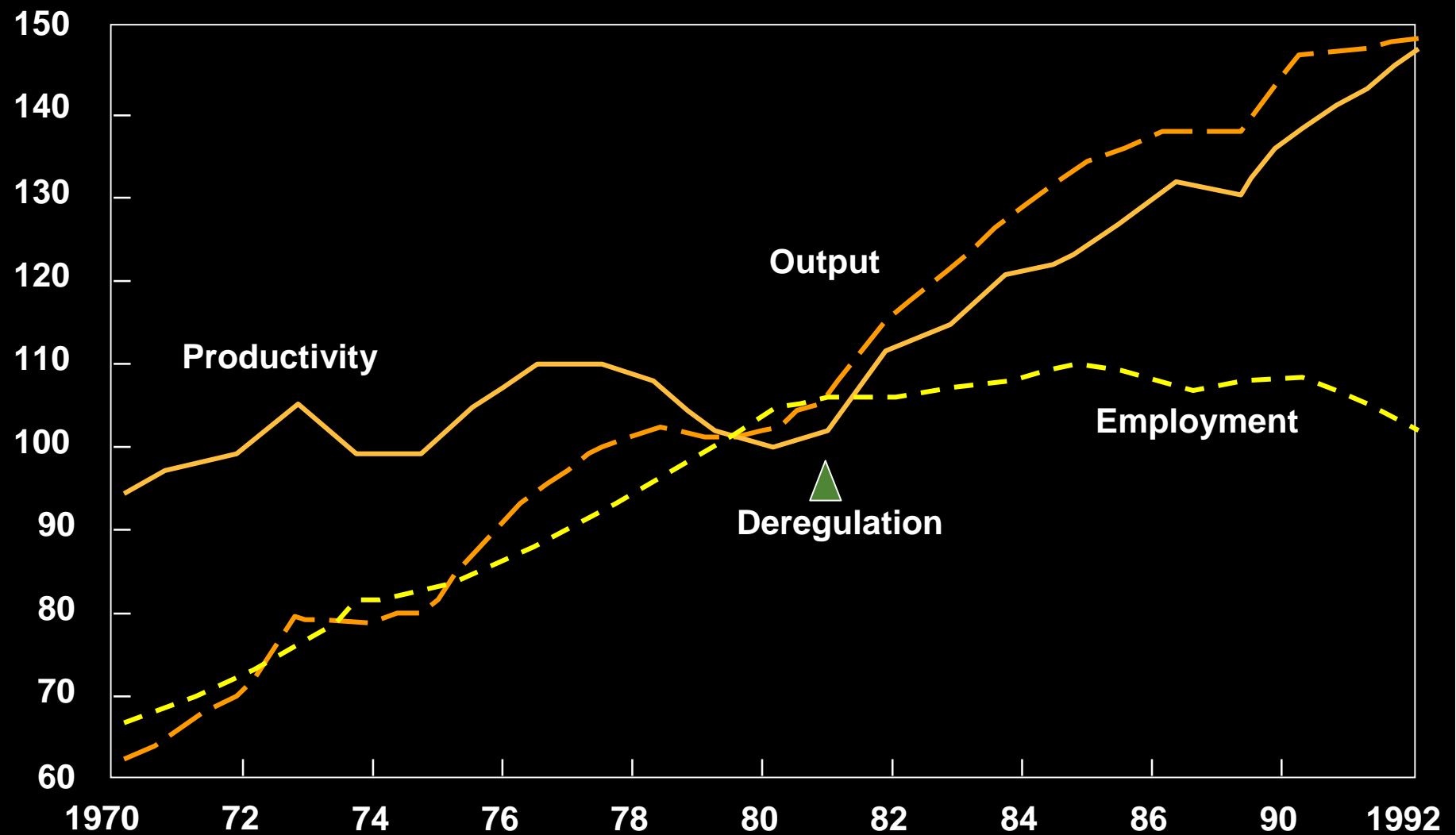


20-year labor productivity growth rate
Percent



LABOR PRODUCTIVITY, OUTPUT, AND EMPLOYMENT IN U.S. COMMERCIAL BANKS

Indexed to 1980 = 100

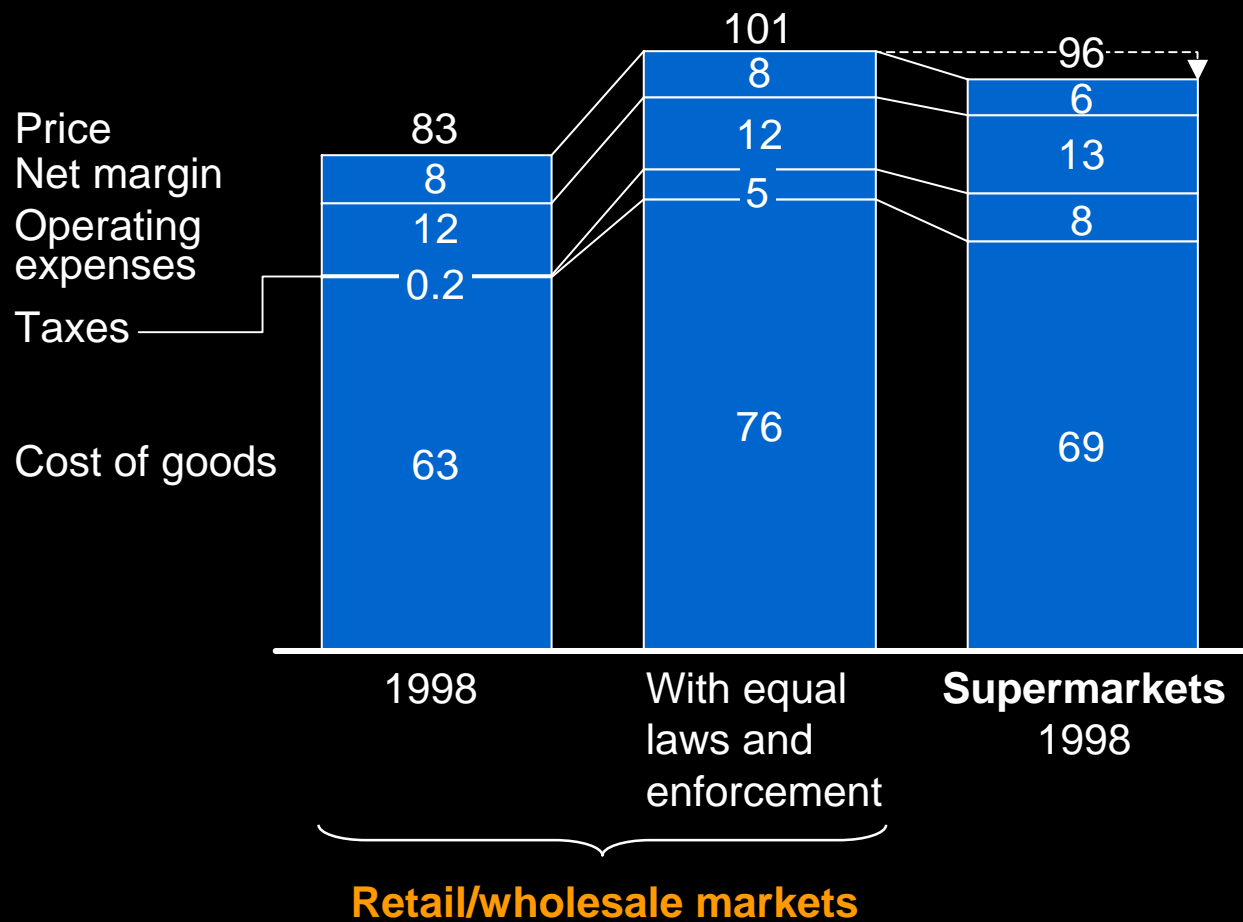


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SUPERMARKETS AND INFORMAL MARKETS IN RUSSIA

Index price in gastronomy = 100

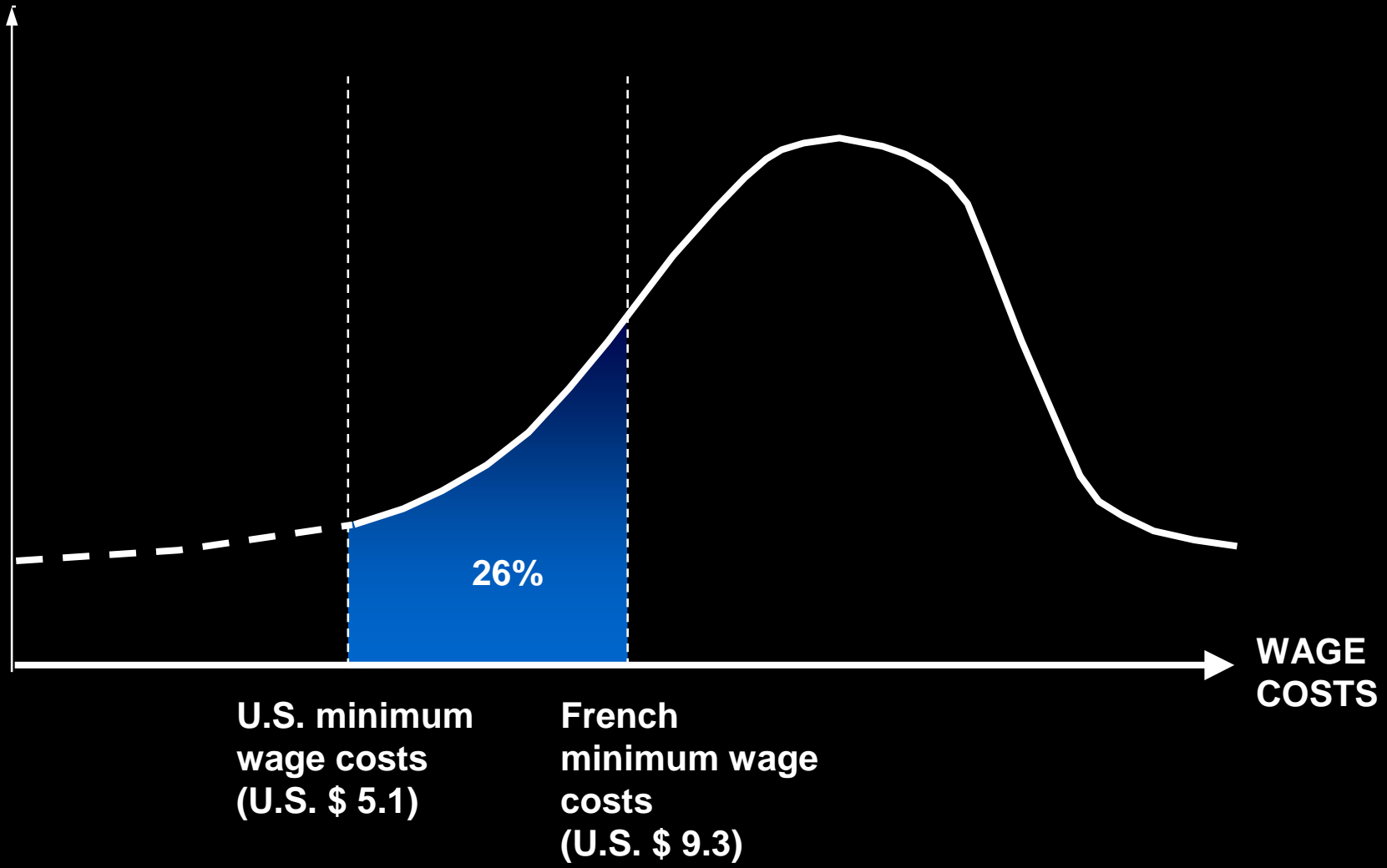


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IMPORTANCE OF LOW SKILLED LABOR IN THE U.S. – 1995

Number of jobs in the U.S.



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GOVERNMENT SPENDING VS. GDP PER CAPITA

Government spending

As percent of GDP

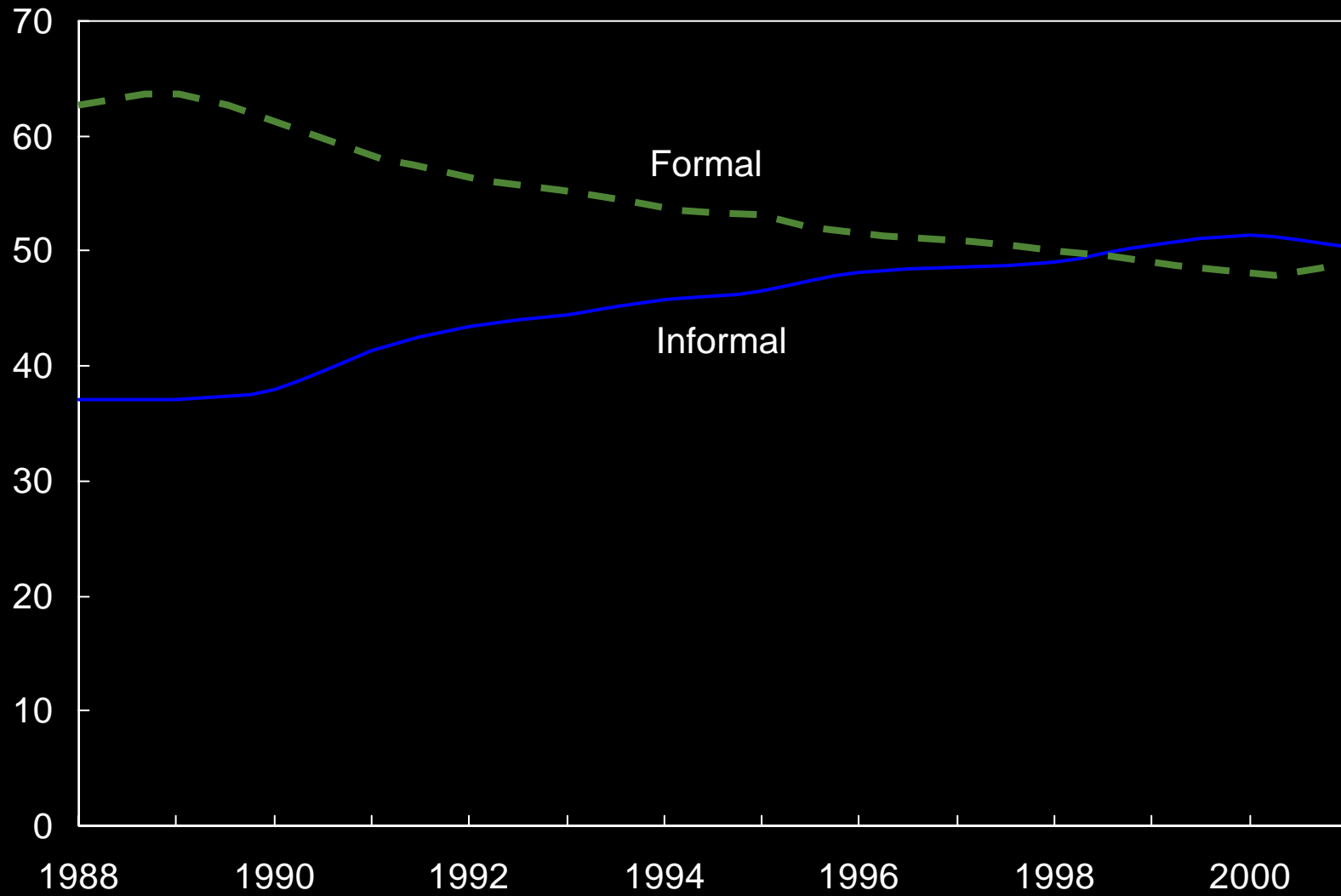


GDP per capita

1990 U.S.\$

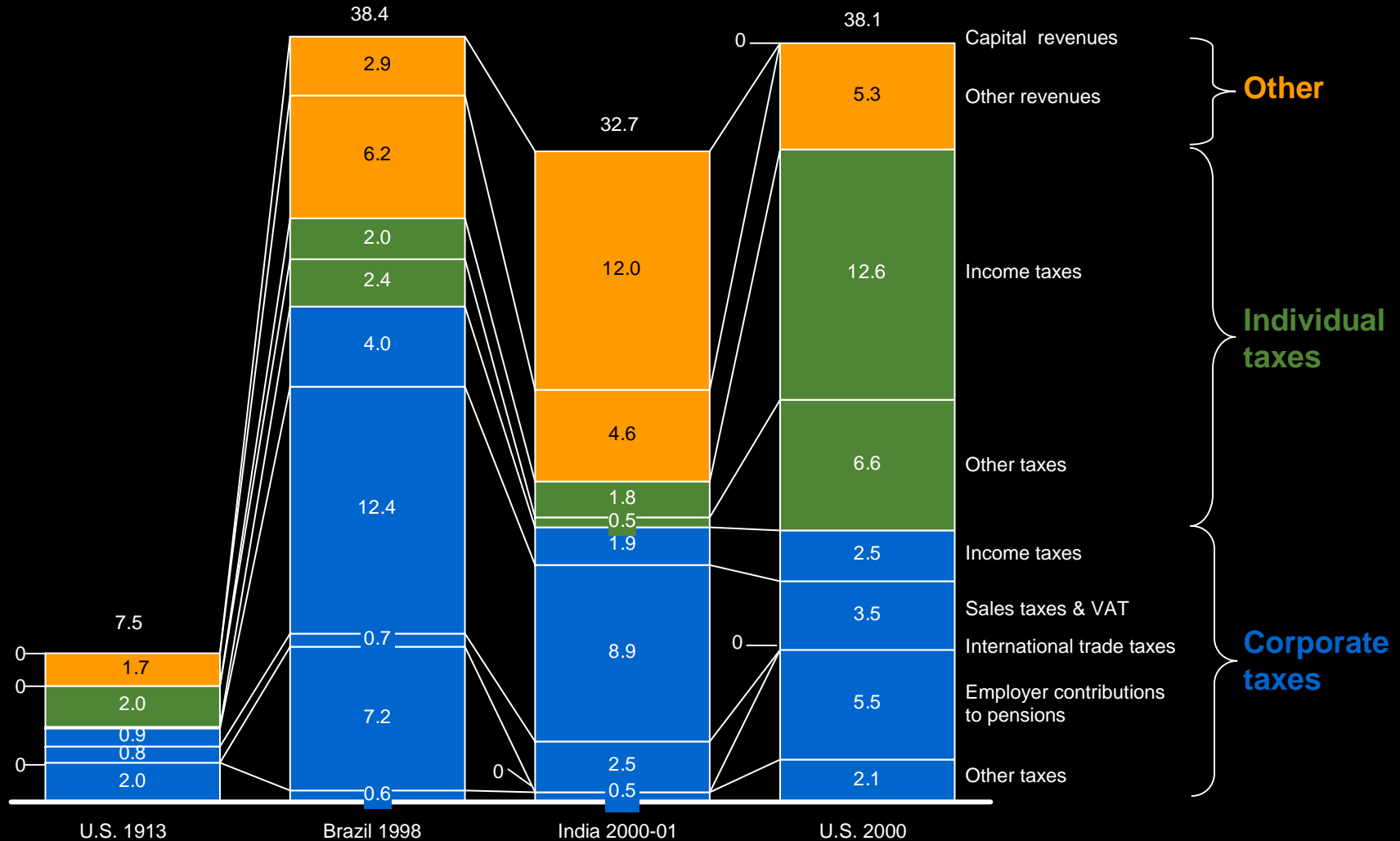
INFORMALITY IN BRAZIL

Percent urban employment



GOVERNMENT REVENUES

Percent of GDP



CONCLUSIONS

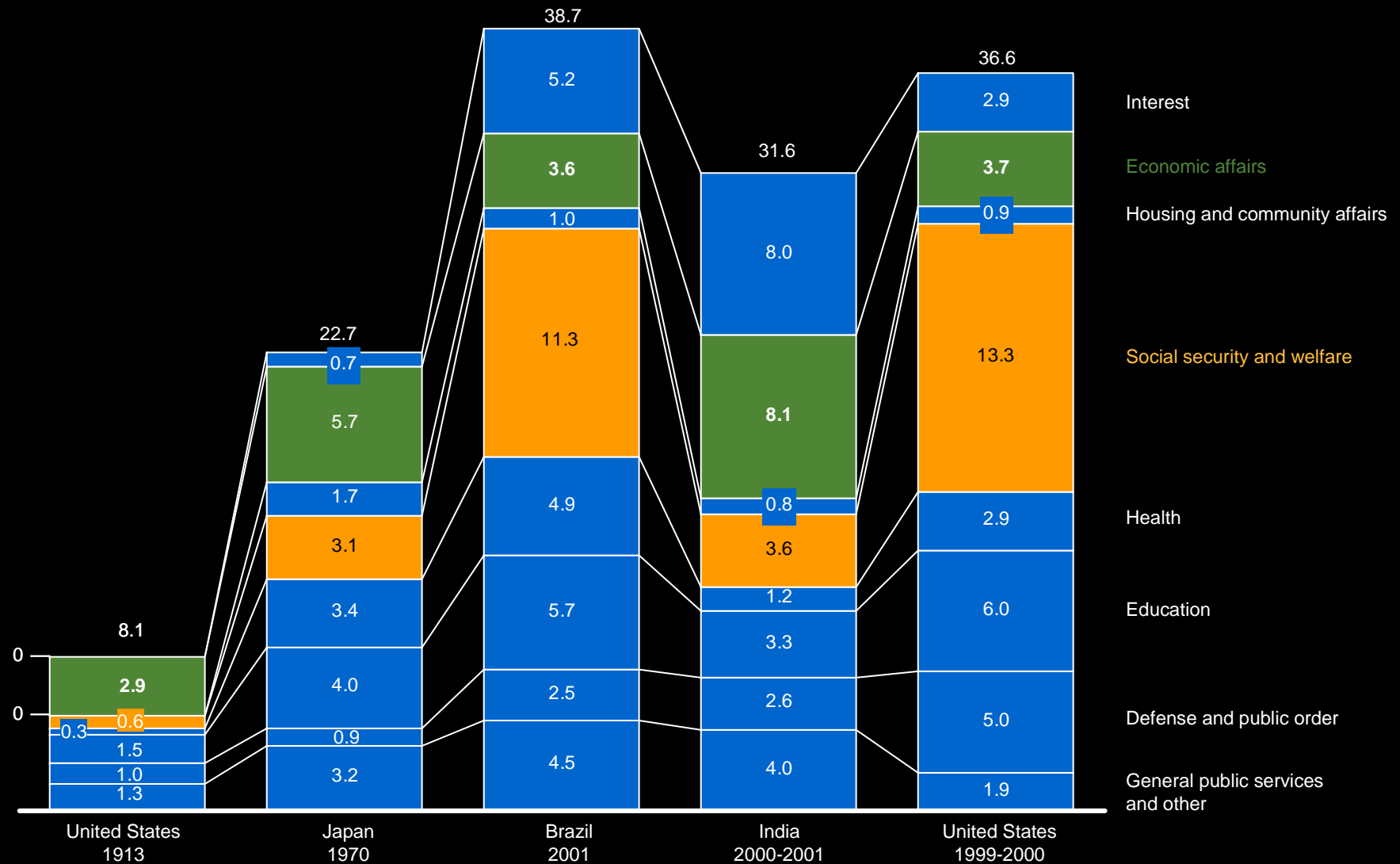
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“Super planning has to be staged by underdeveloped countries”

Gunnar Myrdal – 1956
Nobel Laureate

GOVERNMENT PROGRAMS

Total government expenditures as % of GDP



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U.S. 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 labor. 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.”