

The relationship between productivity and standard of living



Usually, when it comes to “standard of living”, we are prone to consider whether we are well off. Basic necessities such as adequate food, clothing and housing are fundamental to wellbeing. We merely ask people: “How is your standard of living today?” because it is an economic concept generally measured by standards such as real income per person and poverty rate. In addition, there are also other measures to assess the standard of living: such as health care, life expectancy, income growth inequality and educational standards (The Standard of Living: The Tanner Lecture on Human Values, Amartya Sen). As the development of economy, people’s standard of living is constantly increasing and changes are large over time.

According to the principle in the textbook, “A country’s standard of living depends on its ability to produce goods and services”, we can clearly see that there are some links between standard of living and productivity. Here, productivity means the amount of goods and services produced from each hour of a worker’s time.

It is related to the concept of efficiency. As we know, the growth rate of a nation’s productivity determines the growth rate of its average income. In developed countries, workers are more productive and they can produce a large quantity of goods and services per unit of time, so they enjoy a high standard of living (Standard of Living: The Measure of the Middle Class in Modern America - by Marina Moskowitz, 2004); Though some countries, such as the USA, outsource or import goods from abroad, they still have a higher standard of living than those developing countries.

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How to explain the relationship between productivity and standard of living?

In most examples, we can draw a conclusion that productivity is the primary determinant of standard of living. No matter we compare the statistics of a certain country in different period of time, or different countries in a specified period of time, it is obvious that only a good foundation of economy can assure the quality of life. Maybe many people will doubt that in these two variables: living standard and productivity, which is the independent variable and which is the dependent variable? Why are we so sure that “ productivity determines living standard”? Though the standard of living is more volatile, we can easily deduce from the logical concept that a high productivity is the basis of enjoying a high living standard. That is to say, productivity and standard of living indeed have a close link, and the former influences the latter greatly. It is certain that the level of productivity is the most important determinant of a certain country’s standard of living, with faster productivity growth leading to an increasingly better standard of living. (The link between productivity growth and living standards, April, 2000)

Now we can take concrete examples to further discuss this topic: Canada and China.

Undoubtedly, if we look beyond the economic data to measure well-being, which would further include social indicators such as health and educational outcomes, Canada is one of the best nations in which to live. However, since the 1980s, because of a weak macroeconomic record and a relatively slower growth rate in productivity in Canada, it has seen its standard of living erode relative to that of other advanced countries. Canadian government took a series of economic strategy to broader social index of well-being – especially <https://assignbuster.com/the-relationship-between-productivity-and-standard-of-living/>

for economic well-being. From 20th century till now, the living standard of Canadians has been improved steadily and at a breathtaking pace.

Consequently, Canada emerged from the Second World War as the second-wealthiest industrialized country of the world. (Canada's Productivity and Standard of Living: Past, Present and Future – by Daniel J. Shaw, 2002)

Here is a figure demonstrates the close relationship of living standard and productivity in Canada from 1976 to 2001. As an important indicator, the GDP, measured the labor productivity in constant 1997 dollars per hour worked, was \$28. 79 in 1976 in Canada; and by 2001, it amounted to \$38. 81.

Source: Statistics Canada, GDP Data – CANSIM, 2001.

Definitely, there is a link between productivity and standard of living, but the link is not direct. In algebraic form, a precise mathematical formula does exist to explain this relationship:

Another example is about China since its opening policy and reform since 1979. We can see that People's Republic of China, the world's most populous country, though founded in the middle of 20th century, has made a great stride not only in economy but also in many other aspects. As we know, when the People's Public of China was founded in 1949, China was likely to go the same way as the Soviet Union. As a result, the standard of life cannot be improved and people lived in famine and poverty.

Since 1979, China has made continuous progress in economic domain and even almost every aspect. In 1987 the standard of living in China was much

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lower than in the industrialized countries. In addition, there was a positive trend toward rapid improvements in living conditions in the 1980s as a result of the economic reforms. Nowadays, China has been growing rapidly and its GDP, as an indicator favored by economists to measure the affluence, rises in an astonishing speed each year. China's GDP increased by three times in 1995 from 1980, the per capita GDP also jumped three times in 1997, and China's per capita gross domestic production (GDP) topped 800 U. S. dollars by the end of 20th century. (\$123, 000, 000, 000, 000: China's estimated economy by the year 2040. Be warned. – by Robert Fogel, 2010) It is predicted that in 2040, the Chinese economy will reach \$123 trillion. Accordingly, the Engel coefficient decreases as the China's living standards improves. Now China has transformed from a very underdeveloped country to the world's second largest economy. Chinese people enjoy a higher and higher living standard and they are living a rich life at an unprecedented level.

In all, Canadian as well as Chinese living standards will surely keep increasing in the next decade as the economy keeps growing, but their average growth rate may be less than that of labor productivity because of some demographic factors. Growth in their living standards, as is shown above, is closely related to growth in productivity. Of course, it is also suggested that factors other than labor productivity have influence on standard of living such as unemployment rate, social security, health care system, life expectancy, etc.

How to boost the productivity and raise the standard of living?

The relationship between productivity and standard of living has profound implications for not only public policy of a country but strategic plans of a company. They are the respectively in the macroeconomics and microeconomic domains: For a country, to boost the productivity can therefore raise the level of people's living standard and the country will be more harmonious; For a company, to increase productivity can enhance the efficiency of labor so that more profit can be made. In nature, their goals are the same.

The government is thinking out many ways to develop the economy. A new theory suggests that the increased contribution that productivity has on economic growth is largely due to the relatively high price of technology as well as its exportation via trade. At the same time, domestic use due to high demand is also an important factor. Increases in productivity can also influence society more broadly, by improving living standards, and creating income. However, this is a combined effort of science, technology, education, and almost every aspect of society.

It is a bit simpler for companies. Companies can increase productivity in a variety of ways. Among all methods, the most obvious ones involve automation and computerization. Production is, in essence, the combination of three major variables: materials, manpower, and machines. (Productivity and Living Standards – by Jules Backman and M. R. Gainsbrugh) The general rule is to minimize the tasks that must be performed by employees so that machines are taking a more and more important place and have a drastic effect on office productivity.

Furthermore, we are now facing with the trend of globalization, which is a strong driving force behind vast improvements in the human condition over the past half century. If we, no matter a country or a company, take advantage of the trend of globalization, long-term improvement in productivity and standard of living can be promoted.