

# Living standards set to suffer strain

**Productivity growth sluggish, says study**  
**Emerging markets show improvement**

By Chris Giles in London

Rich countries will struggle to achieve the rises in living standards their citizens think are normal unless they sustain faster increases in economic efficiency, according to a report today from the Conference Board, the international business organisation.

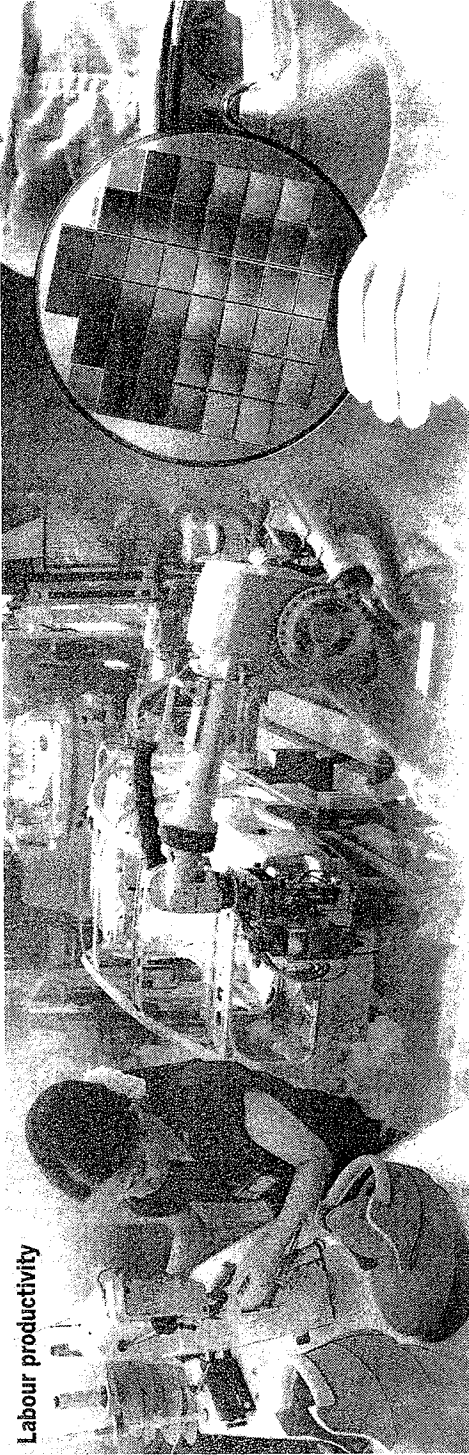
The board's international comparison of labour productivity in 2007 shows sluggish growth in advanced economies compared with rapid improvements in many emerging markets.

Although the EU scored slightly higher on growth in output per hour worked than the US for the second year in a row, the important difference says Bart van Ark, executive director of the Conference Board, is between increasingly sustainable productivity growth in countries such as China and much lower growth rates in advanced economies.

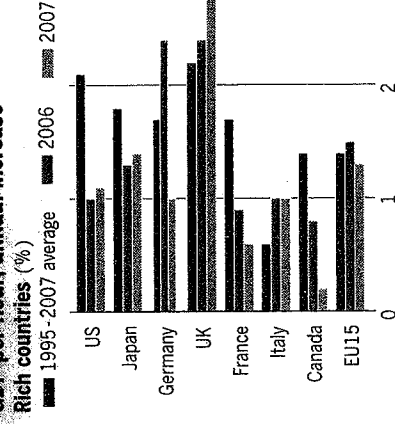
"With a projected slowdown in the growth of the labour force relative to the total population, advanced countries will need to raise productivity growth rates to well beyond 2 per cent a year over the next two decades to maintain current per-capita income growth rates," the report says.

In 2007, the US experi-

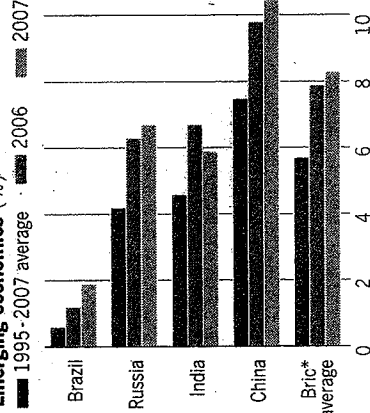
## Labour productivity



### Rich countries (% annual increase)



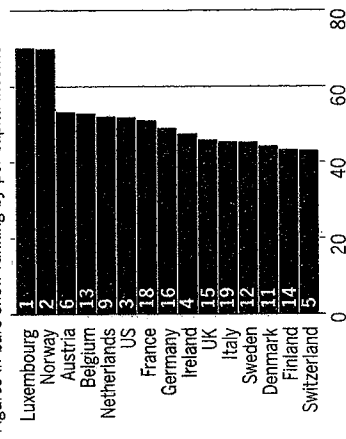
### Emerging economies (%)



### Top countries

#### GDP per hour (\$)

Figures in bars show ranking by per capita income



of rising incomes is likely to diminish, leaving rich countries more reliant on achieving greater advances in efficiency. Unless current low levels of productivity growth can be increased, central banks will also have to become more restrictive in setting interest rates, since it will reduce the speed they can grow without generating inflation.

In contrast, many emerging economies now seem able to sustain much faster increases in economic efficiency as they catch up with their richer counterparts. China's productivity growth rate has been accelerating to more than 10 per cent in 2007, something Prof van Ark thinks is now more sustainable because there is increasing evidence of innovation and the movement of people from agrarian living to industrial working.

India is also sustaining rapid productivity growth, but not all emerging economies are alike, with Brazil struggling with low productivity growth and its economic improvement coming from more employment.

High levels of labour productivity alongside low unemployment enable countries, and their citizens, to make different choices over how hard they work. Austria, for example, has higher output per hour worked than the US and similar levels of employment, but its employees work 15 per cent fewer hours a year, reducing its GDP per person to 15 per cent below US levels.

cent in that period, allowing sustained reasonable economic expansion.

In Europe, labour market reforms have been successful in reducing unemployment rates to 6.8 per cent, compared with 5 per cent in the US, the smallest gap for many years. But this source

representing higher economic growth alongside similar employment growth.

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enclosed another dismal year of productivity growth, with gross domestic product per hour worked rising just 1.1 per cent, much slower than the US average of 2.1 per cent between 1995 and 2007.

It was the third year of weak US productivity performance representing what Professor

Photos: Getty Images; AP

\* Brazil, Russia, India, China

Sources: Conference Board, Groningen Growth & Development Centre

FT montage: Mario Lendvai