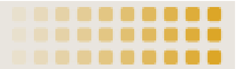
# P-Glossary



## Labor Productivity

Labor productivity is the value of goods and services produced in a period of time, divided by the hours of labor used to produce them. In other words labor productivity measures output produced per unit of labor, usually reported as output per hour worked or output per employed person. Increases in labor productivity are driven by technological change, improvements in efficiency, improvements in the quality of labor and capital deepening (where more capital is added to a given amount of labor). Most of the time, when the term "Productivity" is used, it is generally means Labor Productivity unless it is explicitly mentioned otherwise such as Total Factor Productivity or Capital Productivity, etc.

From the national perspective, the measure of labor productivity is defined as GDP per hour worked. There is a fundamental connection between productivity and economic growth. In other words:

Economic growth rate = Growth rate in labor productivity + Growth rate in total employment

From this relationship we see that an increase in labor productivity fundamentally affects the economic growth rate. More specifically, we see that increasing labor productivity is essential to expanding the scale of an economy without relying on an increase in the number of workers.
Secondly, there is a relationship between wages and productivity. When the labor distribution rate is constant, we see that:

Growth rate in labor productivity = Rate of increase in wages

Thus, so long as there is no change in the labor distribution rate, an increase in labor productivity is tied to an increase in wages. This means that an increase in productivity plays a major role in the prosperity of a nation and corporations and in individual wealth. Productivity, therefore, is a crucial indicator that has been widely used in measuring economic and corporate well-being.

Two key factors that can affect labor productivity are advances in technology and improvements in education and training. Differences in Labor Productivity are a key determinant of wage differences between industrialized and developing countries. In order for an economy to make further gains in material standard of living, workers must continue to invest in education and training, and firms must continue to invest in new technology.

*See also:*

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