



Boosting Australia's Productivity

What is productivity? Why is it so important?

- Productivity measures business efficiency by comparing inputs and outputs. Improving productivity means producing more goods or services (outputs) using the same or less capital or labour (inputs).
- Having high levels of productivity makes good business sense. At a national level, high productivity ensures a strong and growing economy, which allows Australians to continue to enjoy improving standards of living.

Why is Australia's productivity slowing down?

- Over the past decade, the Australian Bureau of Statistics (ABS) has reported that Australia's productivity levels have declined.
- The main reasons for this decline can be traced to increased costs from technological change and infrastructure and recent floods and droughts.
- Treasury and the Productivity Commission acknowledge that three industries: mining, agriculture and utilities account for approximately 80% of the ABS's reported decline in overall productivity.
 - In the electricity and water industries, productivity levels have decreased as a result of important yet large infrastructure upgrades (such as underground cabling and water security) while usage has remained the same.
 - In mining, decreases in productivity are partly a result of mining companies taking the opportunity of skyrocketing minerals prices to spend large amounts of money extracting minerals that are harder to get to.
 - Recent droughts and flooding has negatively impacted productivity levels in the agriculture sector.

Improve productivity – invest in workers

- At a broad level, the problems of decreased productivity are not as severe as they seem. However, at a workplace level productivity increases can be made. Workers can play an important part in increasing productivity levels. However, this should not be achieved by cutting wages and conditions. It should be achieved by investing in workers.

Match skills and workers

- Research shows that the skills of Australian workers are not being fully used by their employers. Employers agree, reporting that up to half of their staff are over-qualified for the job they do. Further, an Ernst and Young survey reports that 40% of workers feel that they lack the

technology or training to do their job effectively¹. What we need is improved job matching, training and technology to address both elements of the skills gap issue: underutilised skills; and the need for additional skills.

Improve management capabilities

- Australia's management skills rank well below other advanced economies. Managers play an important role in increasing productivity by appropriately matching jobs and skills, streamlining work processes and providing supportive workplaces. In the quest to improve productivity levels, management needs to step-up to provide the workplace processes and environment that will make it possible for employees to work cooperatively to enhance productivity. This will involve investing in the skills and training of management staff.

Innovate

- Increasing productivity is also about how businesses find more effective ways to produce goods and services through innovation. This may involve the introduction of more effective work processes, the integration of technology into the workplace, or improvements to the product or service itself. Australian companies who innovate are twice as likely to report increased productivity. Yet, Australia's innovation performance ranks poorly internationally. Business innovation needs to become a focus of workplaces if they seek to improve productivity.
- Collaboration between business and research and educational institutions plays an important role in this. Government also plays a key role in assisting small and medium organisation with innovation development.

What about deregulation of the labour market?

- One alleged solution to the issue of declining productivity that is being loudly championed by business and conservative commentators is deregulation of the labour market. This would mean business could spend less on labour costs (less decent wages and conditions), which could allegedly result in increased productivity.
- Deregulation of the labour market ignores the fact that influences on productivity levels are about labour inputs not costs.
- This approach does nothing to increase output levels and will most likely drive away talented and skilled staff. Further, a continuous decrease in workers conditions cannot be sustained long term.

Conclusion

- When it comes to increasing productivity, cutting wages in a race to the bottom is not sustainable, fair or proven to be successful. Increases in workplace productivity can be best made through investing in staff and creating workplace environments and processes that enable workers to achieve and perform, to their full potential.

¹ Ernst and Young Australian Productivity Pulse, November 2012, *Upturn in Australian Productivity*.