Can We Be Any More Productive?

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How are we faring, productivity-wise? Not badly at all - but debates about it are a minefield of misinterpretation and dud information, writes Ian McAuley.

"Productivity isn't everything, but in the long run it is almost everything", said Paul Krugman, an economist generally seen as being on the "progressive" side of politics.

Over last week two reports re-ignited the productivity debate. On Wednesday the Australian Human Resources Institute (AHRI) released a survey showing, with great claims to authority (and completely at odds with assessments by the OECD and the IMF) that Australia's economic performance was among the world's worst. Then on Thursday the Government released its commissioned report (pdf) evaluating the Fair Work legislation, which found, contrary to partisan claims, that Labor's legislation, had not been responsible for any loss in productivity.

Both reports have elicited partisan comment. On one side it's about the union-dominated Labor Government strangling the economy, the way an Abbott government would (or more confidently "will") cure all our economic ills and so on. On the other side is a spirited defence of the Fair Work Act and the spectre of a return to the dreaded WorkChoices legislation. Both sides, however, seem to be locked into a badly dated model of economic relationships.

The AHRI report is a work of ingenious creativity. In relation to Australia, Peter Wilson of the AHRI states, "Economic performance is ranked at 34 [out of 51 countries surveyed], and highlights Australia's stuttering productivity record over the last ten years relative to our global competitors." By some extraordinary analytical process (which is not revealed), the report finds that our economic performance ranks well below that of Venezuela, Italy, Nigeria, Ireland, Mexico and Portugal. As an illustration of its wackiness it reveals that the countries with the most unequal distribution of income are Japan and the Nordic countries, while Chile has the greatest equality. (This stems from an error in understanding the Gini Coefficient, a standard economic measure of inequality.)

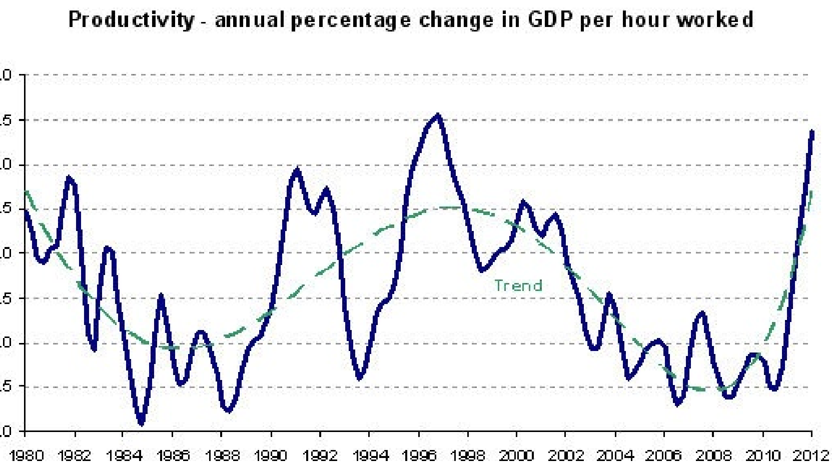
Those bizarre findings and opaque methodology didn't bother The Australian, which ran a headline: "Productivity gap holding back growth as survey ranks Australia second last", quoting yet another weird figure from the report showing that only Botswana has poorer productivity than Australia. (The top performers according to the report are Italy and Argentina!) A little examination of the report shows that it is referring to growth in what is known as "total factor productivity", a measure based on somewhat arbitrary weights, which tends to be low in developed countries with capital-intensive industries, and, being based on growth, favours those countries coming off a low base. The AHRI claims that it engaged the Economist Intelligence Unit to undertake its research, but those who have access to the EIU website won't find any reference to it there.

The evaluation of the Fair Work legislation is more rigorous and orthodox in its methodology. It finds that the Fair Work Act has not been a drag on productivity; in fact, productivity as measured by GDP per hour worked (the most common measure) fell during the WorkChoices period and has subsequently picked up sharply. The graph below, showing movements in Australia's labour productivity since 1978, confirms this finding.

A partisan rendition of this data, perhaps written by a journalist with a mirror-image bias to that shown by The Australian, might read: "Australia's productivity slid under the Fraser government, but was rescued by the Hawke-Keating Labor government, before going into a longer slide during the years of the Howard government. The Rudd-Gillard Government, however, has managed a dramatic turnaround, and this must, in no small measure, be due to the passage of the Fair Work Act."

This would be no less reasonable than The Australian's uncritical acceptance of Tony Abbott's response to the report when he said "There's a flexibility problem, there's a militancy problem; above all else there is a productivity problem". In fact labour turnover (a measure of flexibility) has remained unchanged over the last 10 years, industrial disputes have continued their downward trend, and productivity is rising steeply.

It is hardly surprising that the Government's Review found that the Fair Work Act had little, if any, influence on productivity. Changes in productivity have many sources and there can be some counter-intuitive figures generated. For example, an economy slipping into recession will generally show increasing labour productivity, because the least productive workers are usually the first to lose their jobs. The recent productivity trough and upsurge are a result of a lag between investment and production, mainly in the mining sector. Industrial relations policy has at most a minor explanatory role. The quality of management is far more important.



A 2011 survey by Ernst & Young found that 54 per cent of workplace respondents identified "people management" as the biggest factor influencing productivity. Some 40 per cent of respondents believed that their organisations did not have the right technology or training on how to use it, and 20 per cent said their organisations were too bureaucratised. Similarly, a report (pdf) released later in 2011 covering the service sector and published by the Society for Knowledge Economics found that the most important factors supporting productivity had to do with management of human capital.

Contrary to the notion that productivity stems from hard-driving management, it found that high-performance organisations were distinguished from low-performance organisations by high scores on procedural and distributive fairness, job satisfaction and well-being. In short, a set of workplace relationships characterised by mutual respect.

That should hardly surprise anyone who has paid attention to 80 years of studies in management. Yet culturally, many of our assumptions and practices are stuck in a nineteenth century model of class struggle, which involves a combative relationship between "labour" and "capital", or "workers" and "managers".

Trade unions, "employer" organisations, political parties and managers of some of our old established companies are entrenched in this way of thinking. To one side "flexibility" is about the managerial prerogative to hire and fire and to determine who works when. Some may even look nostalgically to the days when waterside workers would have to tune into the radio at 5am each morning to hear whether their gang had work that day. That thinking is a relic of an era when managers thought of labour as a fungible commodity, a source of brute force which can be turned on or off as one can do with electricity or water.

For the other side the workplace is the scene of an ongoing battle to protect hard-won rights, and where only dogged solidarity can match the malign power of the bosses. Each side acts so as to reinforce the other side's combative behaviour.

Those who uncritically accept such a Marxist view of economic relationships (and there are many people on the "right" who hold such a view) do not see any alternative. Yet if they look around, they will see different models in successful small and large business where people don't think of themselves as "workers" and "managers", but as people who come together to create and share wealth, for their investors, customers, communities and, of course for one another.

Our industrial relations model has passed its use-by date, and unless they embrace a fundamentally different view of economic relationships, both unions and "employer" organisations, and even our two big political parties, will consign themselves to a shared graveyard of irrelevance.