

# POTENTIAL IMPEDIMENTS TO IMPROVING AUSTRALIA'S PRODUCTIVITY PERFORMANCE

PRESENTATION TO A CONFERENCE HOSTED BY THE  
PRODUCTIVITY COMMISSION

CANBERRA – 13<sup>TH</sup> DECEMBER 2016

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# Five potential impediments to improving Australia's productivity performance

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- ❑ Politics
- ❑ Quality of our human capital
- ❑ 'Manufacturing fetishism'
- ❑ Romantic but misguided notions about small business
- ❑ The obsession with 'security'

# It will be very difficult to promote the case for productivity-enhancing reforms in the political climate which has emerged this year

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'Facts are stubborn things, and whatever may be our wishes, our inclinations, or the dictates of our passion, they cannot alter the state of facts and evidence

— John Adams (2<sup>nd</sup> President of the United States), 4<sup>th</sup> December 1770

Post-truth - an adjective defined as 'relating to or denoting circumstances in which objective facts are less influential in shaping public opinion than appeals to emotion and personal belief'

— Oxford Dictionaries [Word of the Year 2016](#)

'People that say that facts are facts — they're not really facts. Everybody has a way of interpreting them to be the truth or not true. There's no such thing, unfortunately, anymore of facts'

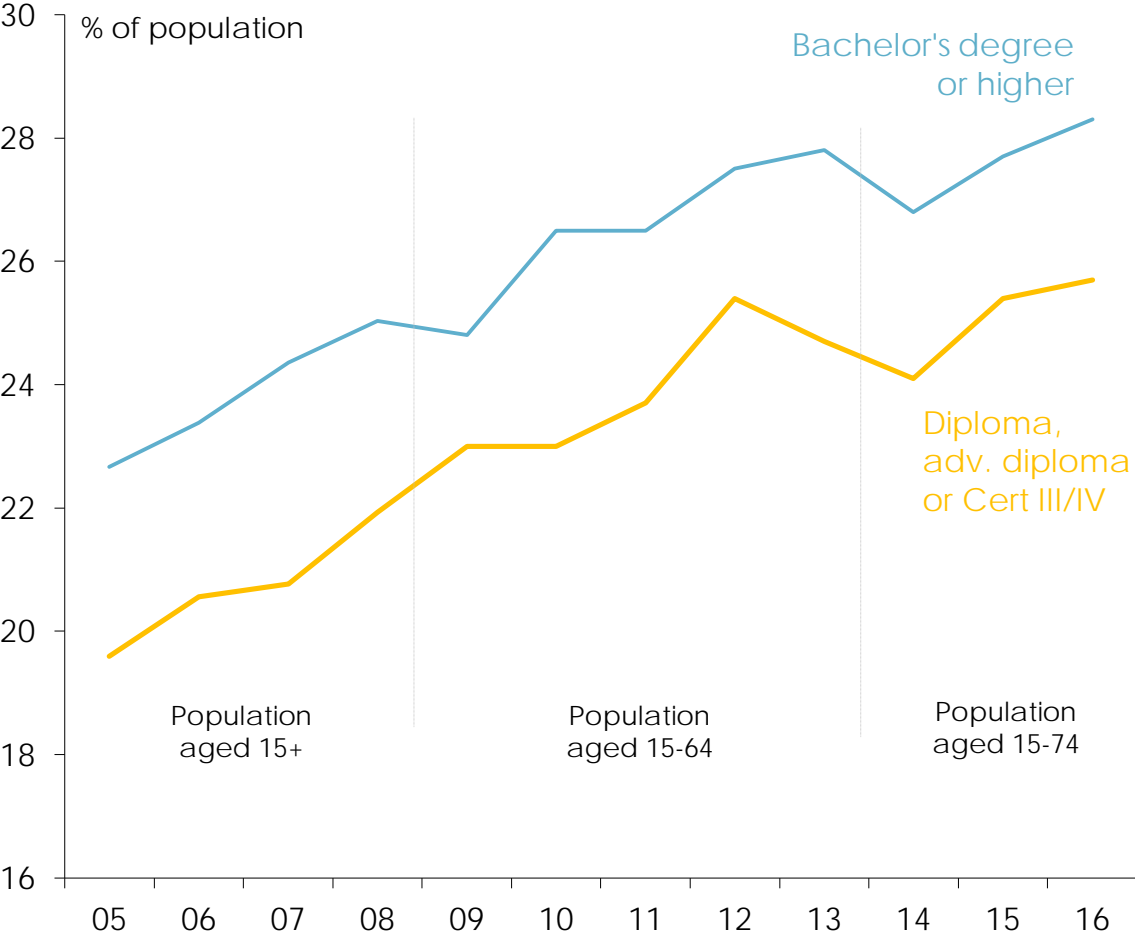
— Scottie Nell Hughes (Political Editor of 'Rights Alerts', CNN commentator and prominent Donald Trump supporter), 30<sup>th</sup> November 2016

'People in this country have had enough of experts'

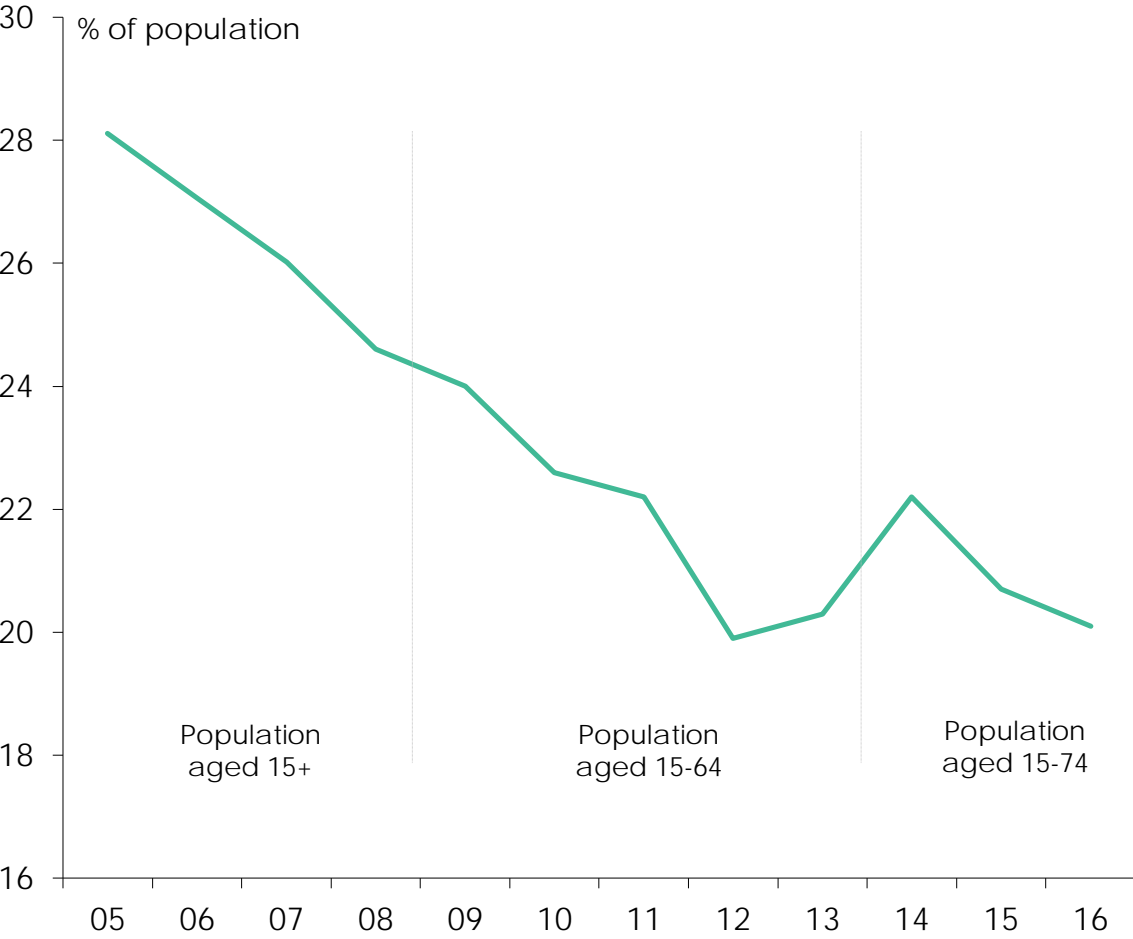
— Michael Gove (former UK Justice Secretary and prominent 'Leave' campaigner), when asked to name any economists who supported 'Brexit', 3<sup>rd</sup> June 2016

# More Australians are getting more education ...

## Australians with some kind of post-secondary school qualification



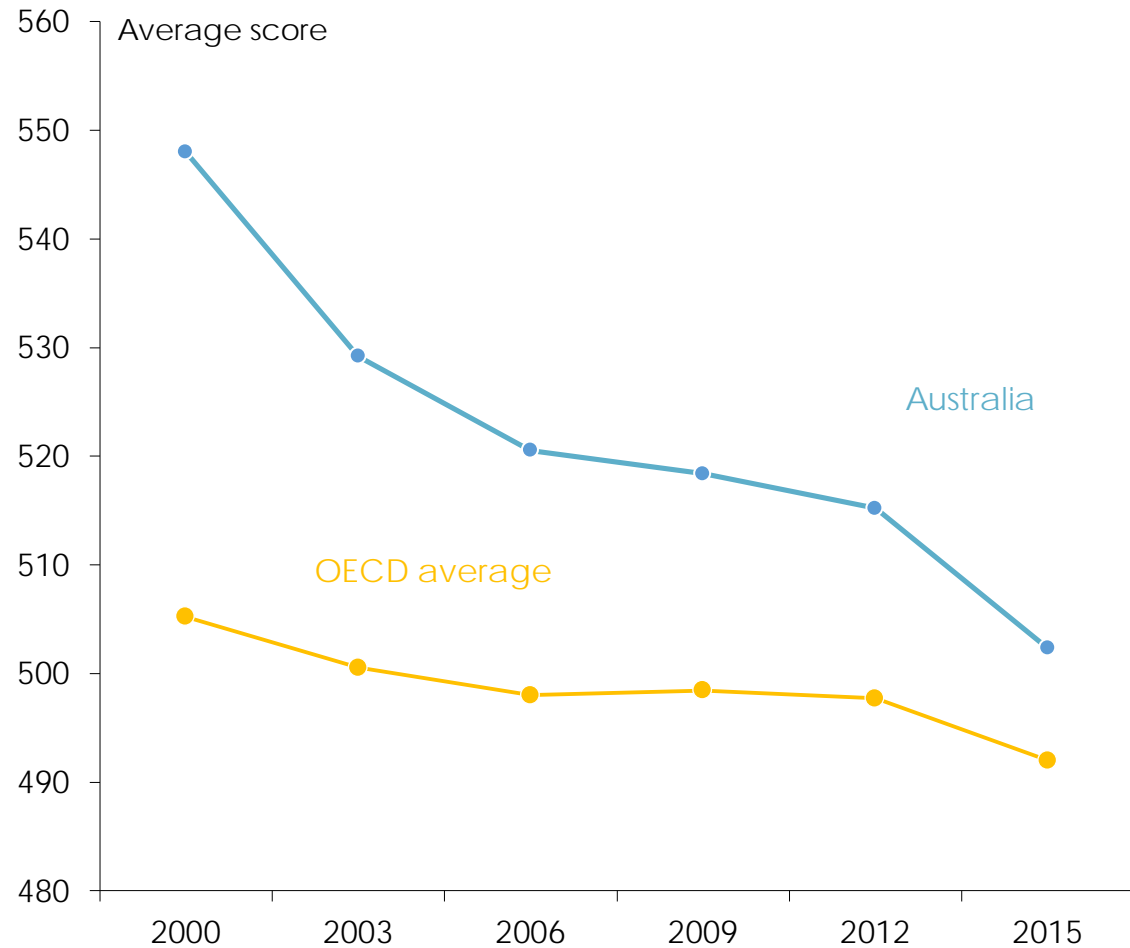
## Australians with no formal educational qualification beyond Year 10



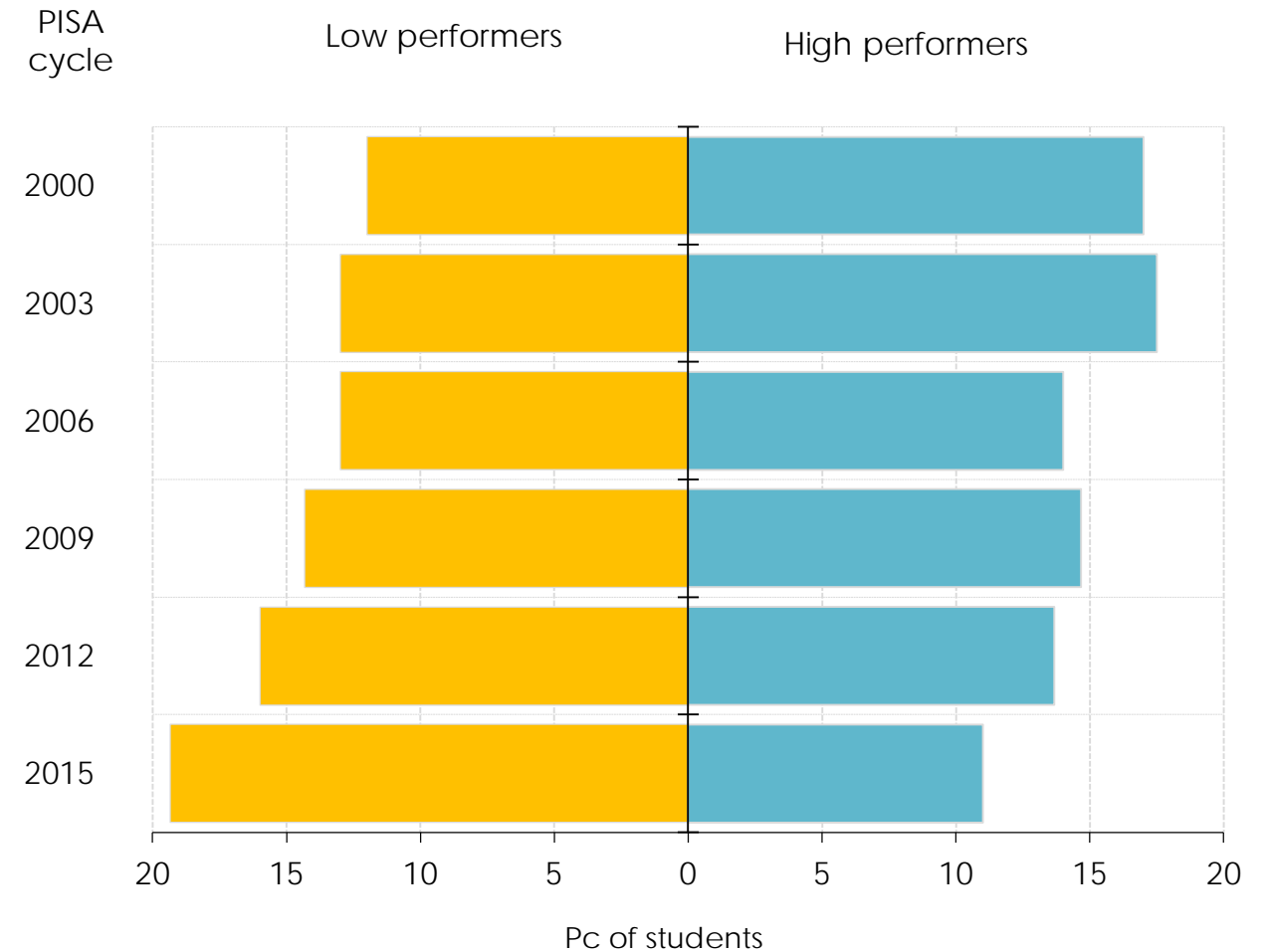
Source: ABS, Education and Work (6227.0).

# ... but they may not be getting *better* education

## Australia's average PISA scores compared with OECD average



## High and low performers in Australia

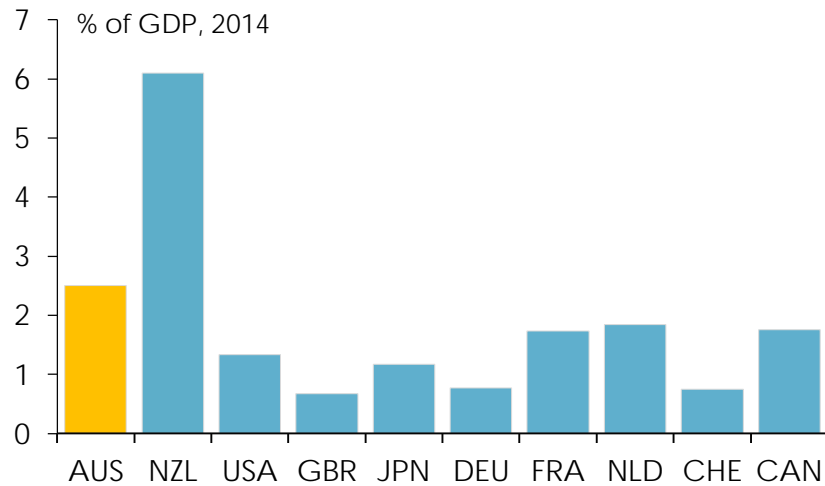


Note: Scores are averaged across reading (2000 onwards), mathematical literacy (2003 onwards) and scientific literacy (2006 onwards).

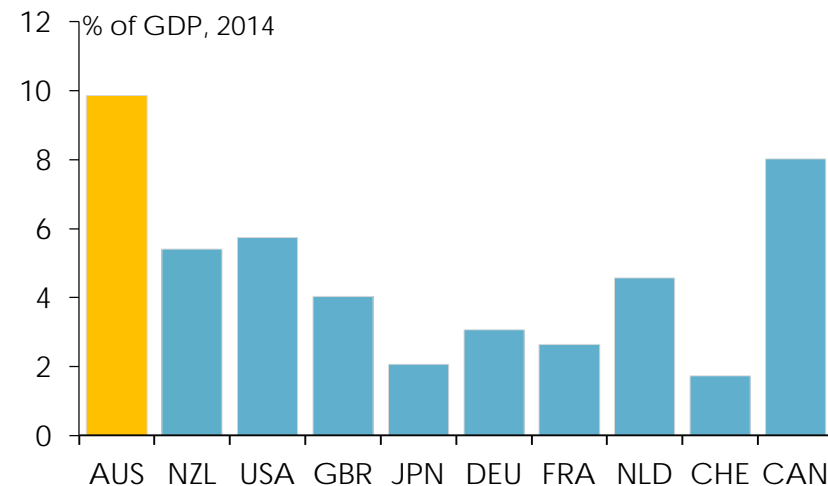
Source: Sue Thomson, Lisa De Bortoli and Catherine Underwood, [PISA 2015: A first look at Australian student's \[sic\] performance](#), Australian Council for Educational Research, December 2016.

# The sum of the different sectors' shares of GDP can't be more than 100%

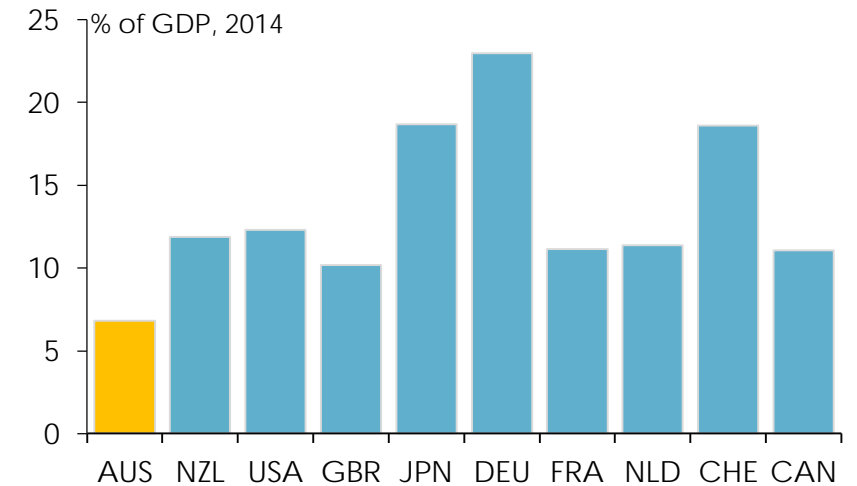
## Agriculture, forestry & fishing



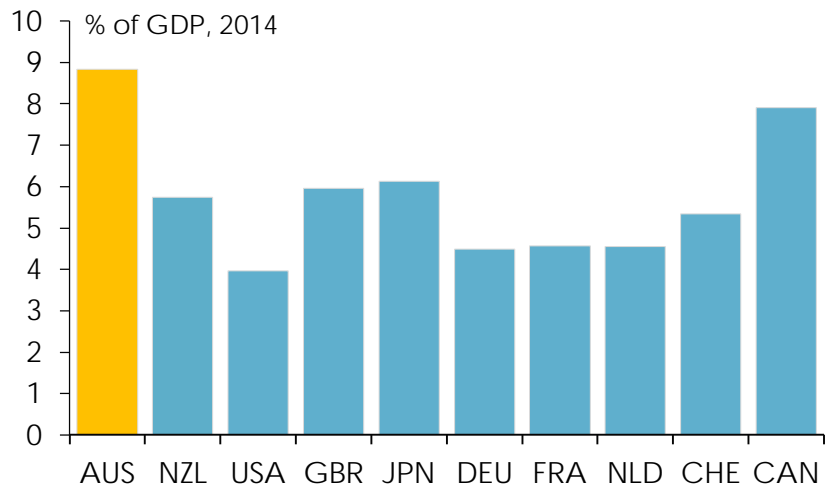
## Mining and energy



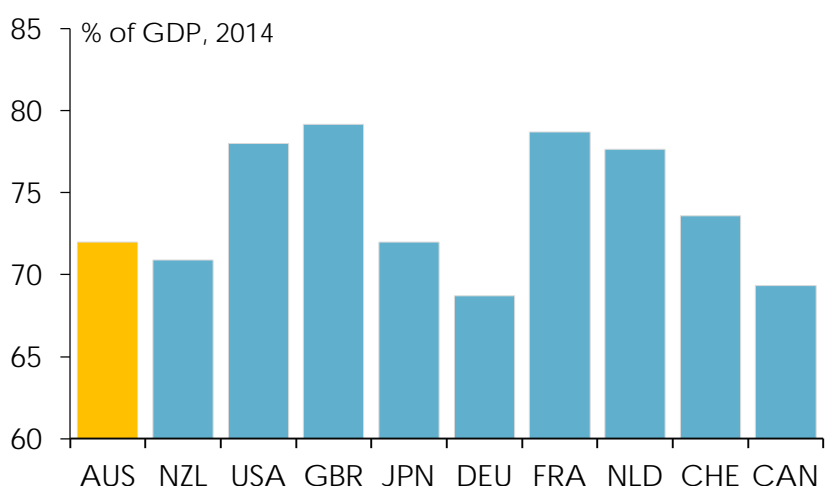
## Manufacturing



## Construction



## Services

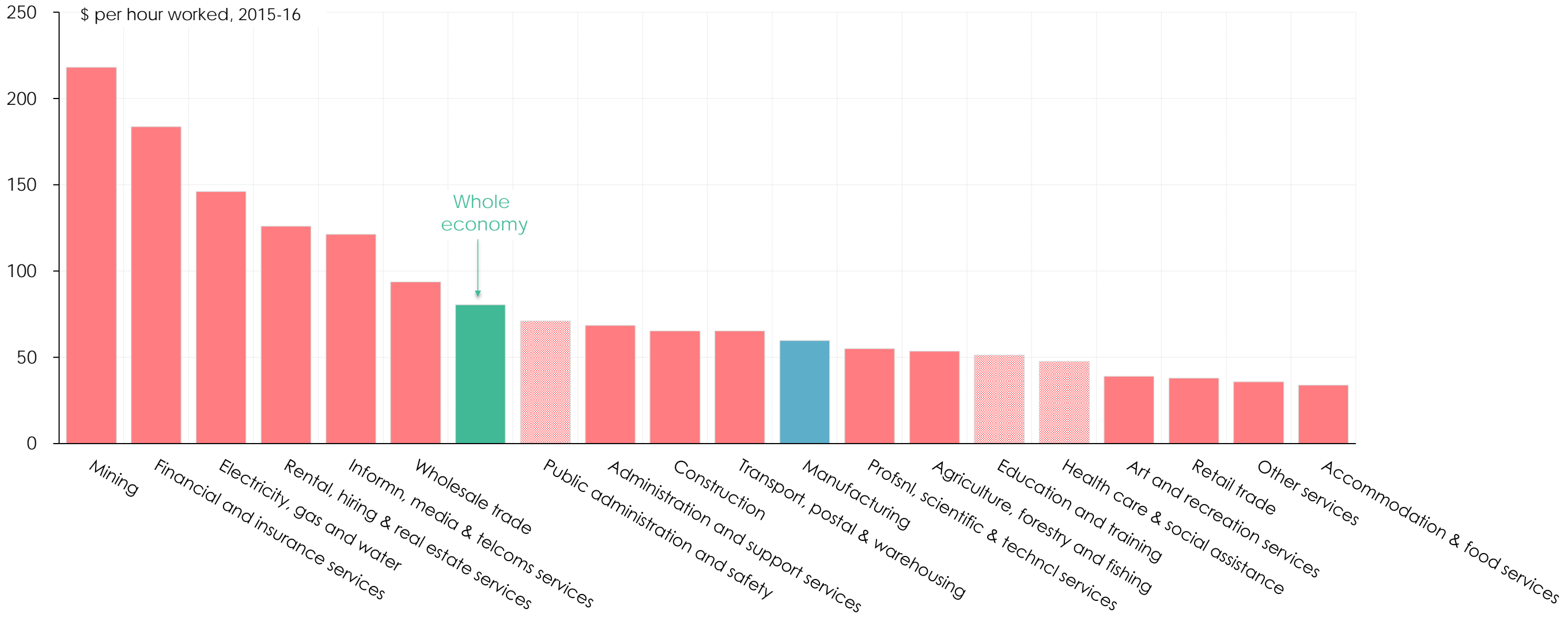


Note: Figures for New Zealand and Canada are for 2012. Mining and energy is derived as 'Industry' minus manufacturing.

Source: OECD, [Value added by indicator](#)

# Manufacturing is *not* a high (labour) productivity industry – at least, not in Australia ...

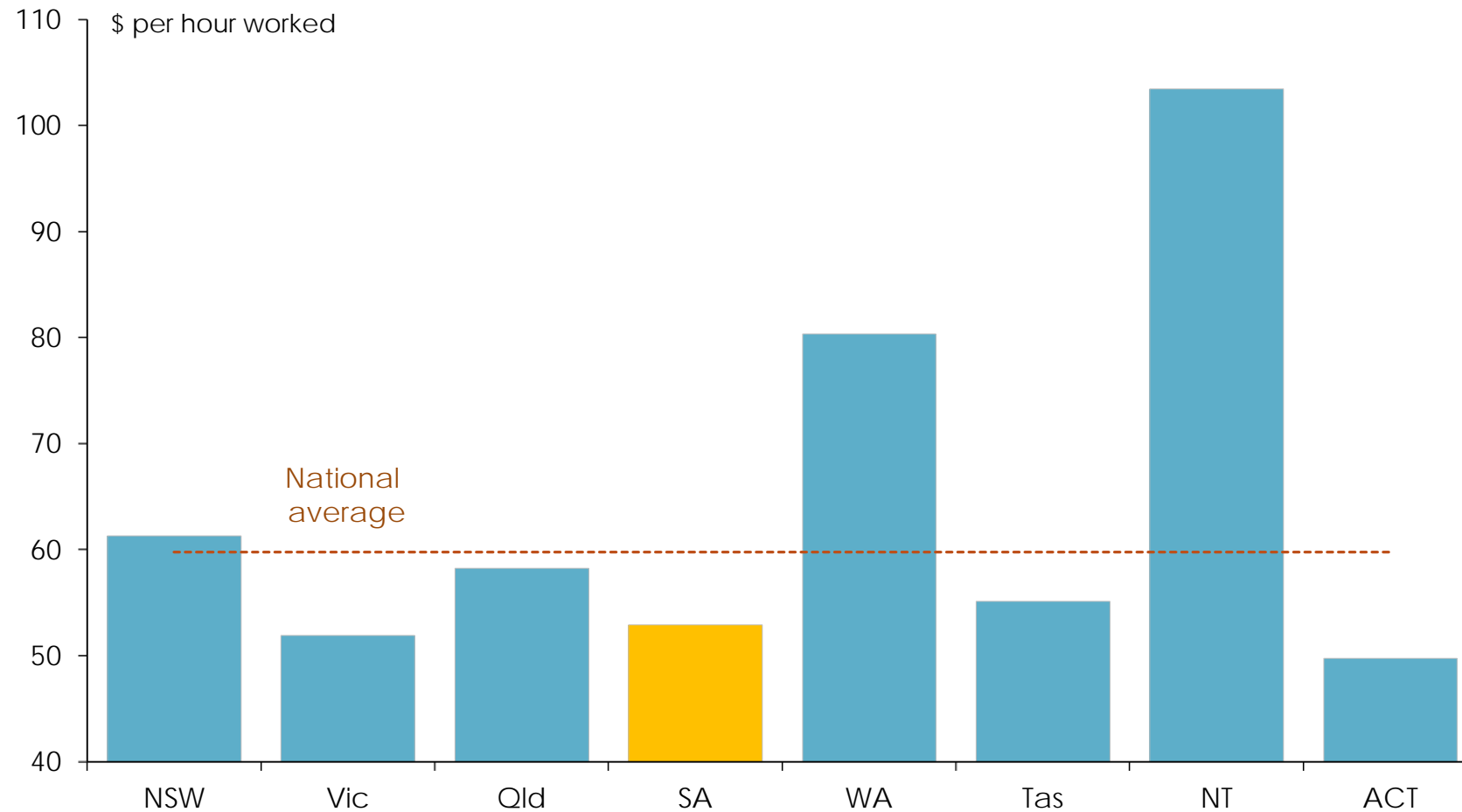
Gross value added per hour worked, by industry, 2015-16



Note: Hours worked for each sector derived as the average of hours worked in the labour force survey week for the middle month of each quarter of 2015-16, multiplied by 52, and multiplied by the average of employment in that sector over the middle month of each quarter.  
 Sources: ABS, Australian System of National Accounts (5204.0) and Labour Force, Australia, Detailed, Quarterly (6291.0.55.003).

# ... and especially not in South Australia

## Gross value added per hour worked in manufacturing, States and Territories, 2015-16



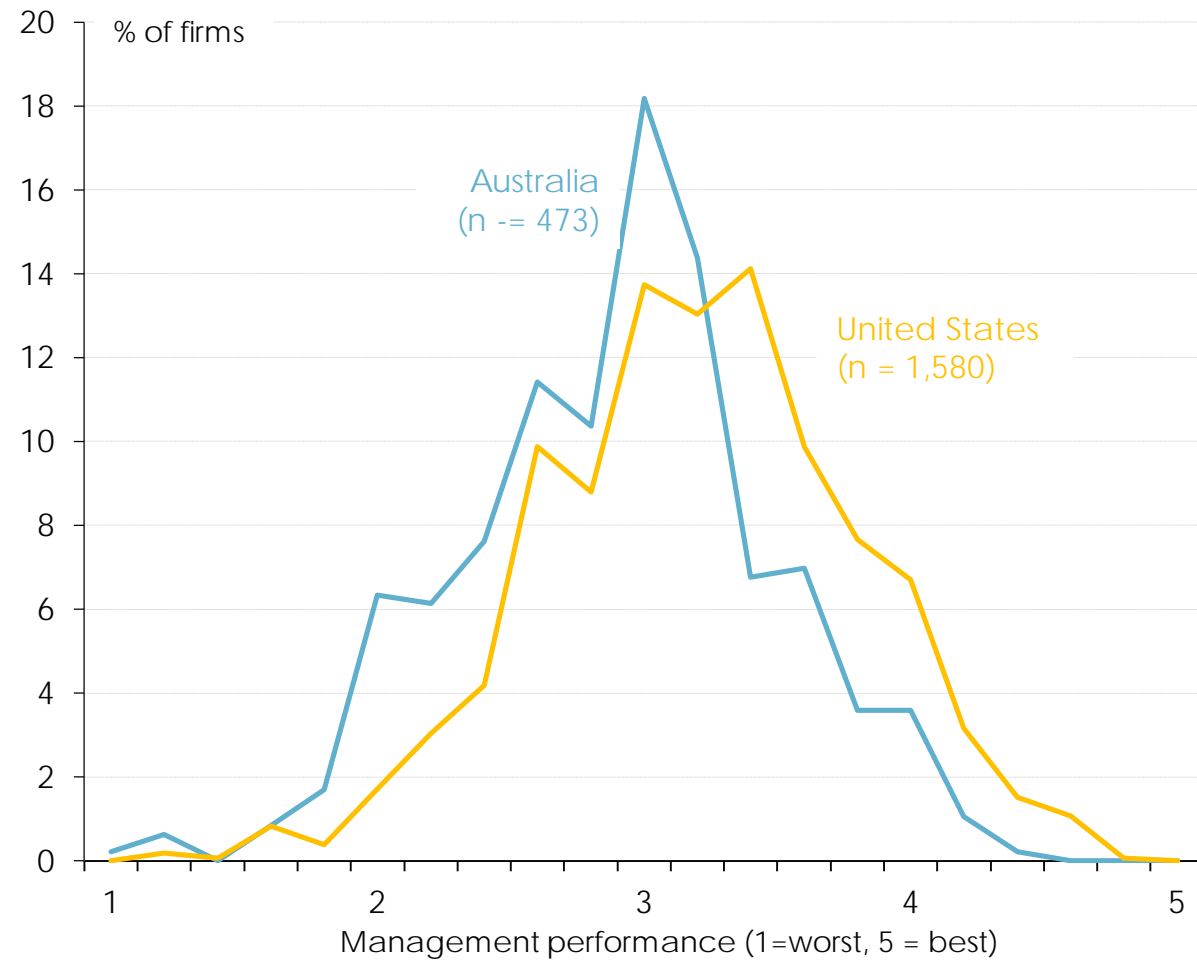
Note: Hours worked for each sector derived as the average of hours worked in the labour force survey week for the middle month of each quarter of 2015-16, multiplied by 52, and multiplied by the average of employment in that sector over the middle month of each quarter.

Sources: ABS, *State Accounts*(5220.0) and *Labour Force, Australia, Detailed, Quarterly* (6291.0.55.003).

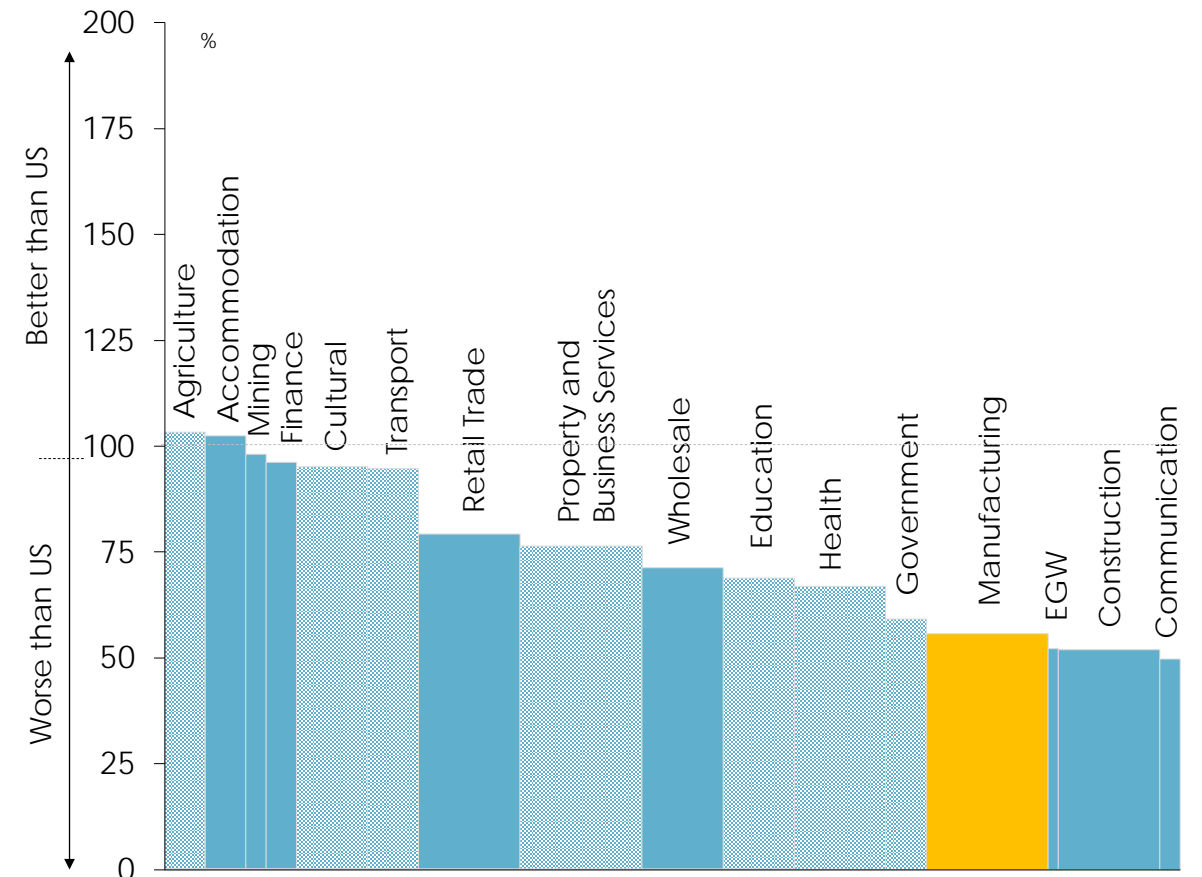


# A lot of Australian manufacturing management is well below 'best practice'

## Distribution of manufacturing management performance, Australia and US



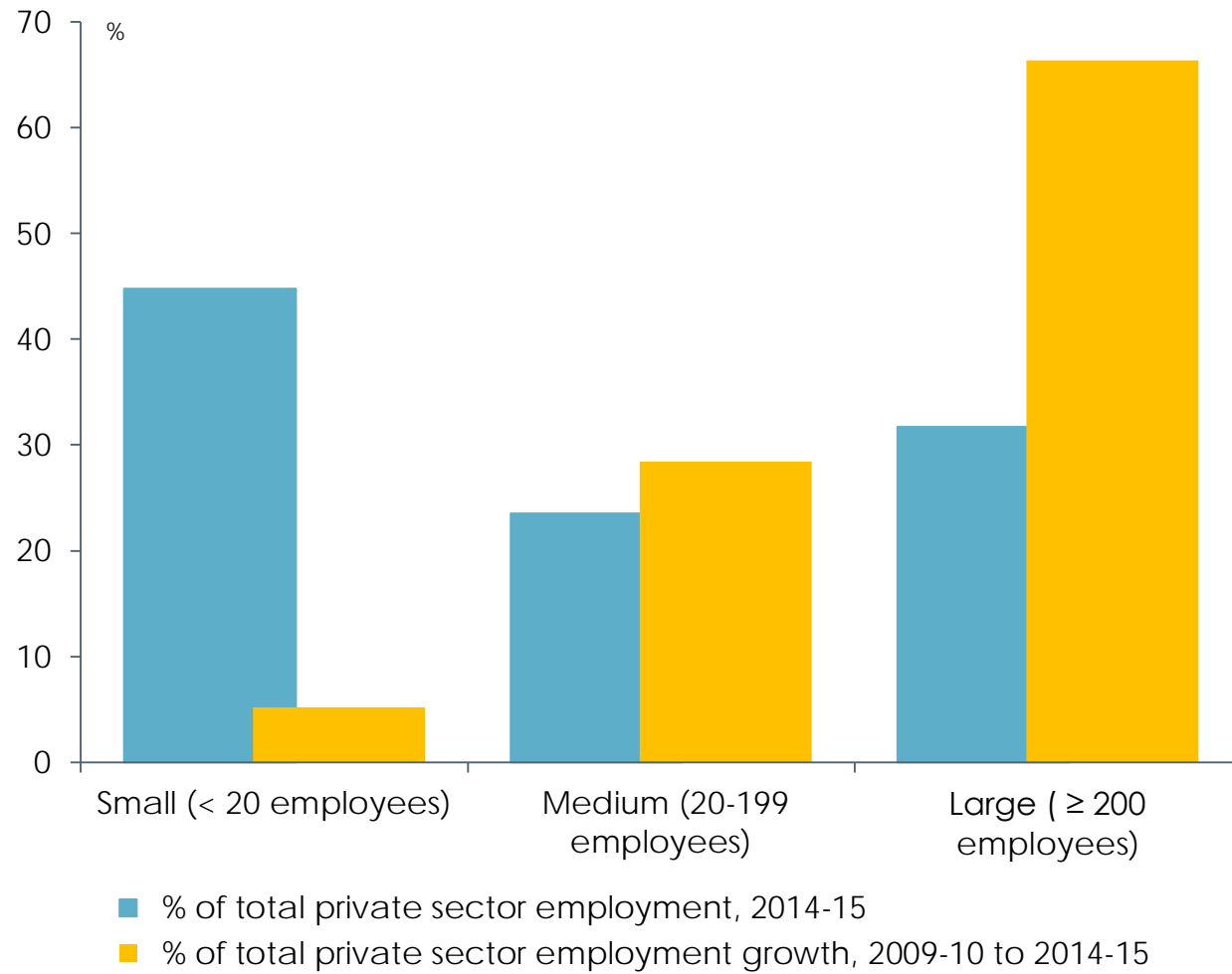
## Australian labour productivity by industry as a pc of US level, 2005



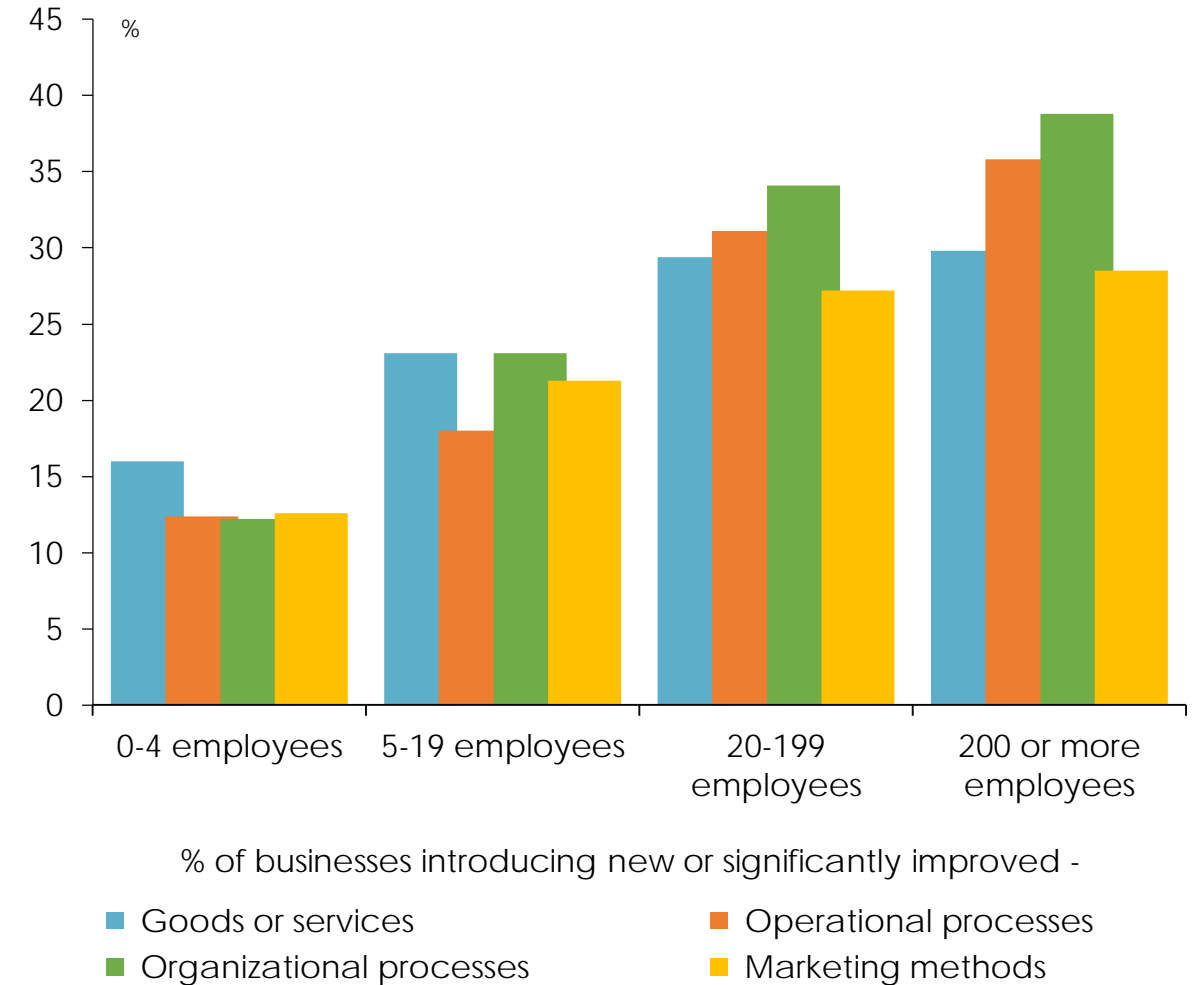
Sources: [World Management Survey](#); Adam Young, Joann Wilkie, Robert Ewing & Jyoti Rahman, ['International comparison of industry productivity'](#), Treasury Economic Roundup No. 3, 2008.

# Preferencing small business – through the taxation system or in other ways – isn't going to boost employment or innovation

## Employment and employment growth by business size



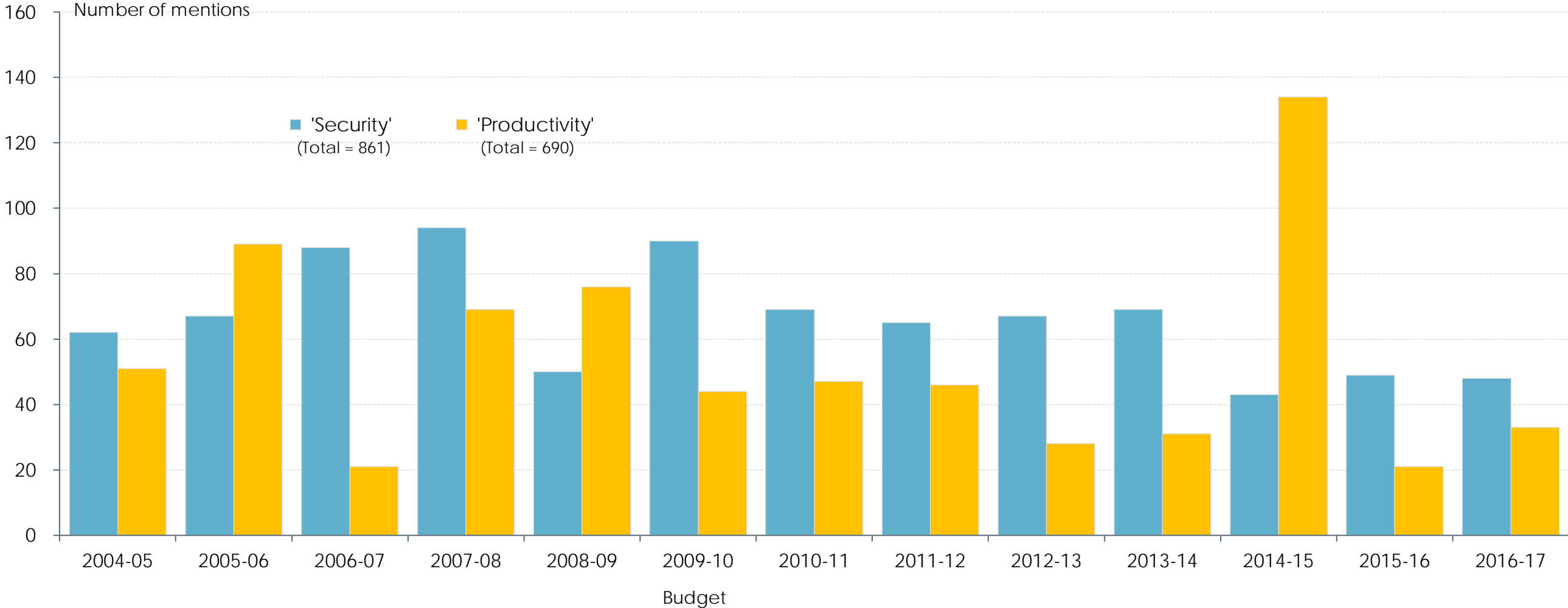
## Business innovation, by business size



Sources: ABS, Australian Industry (8155.0), 2014-15; Summary of IT Use and Innovation in Australian Businesses (8166.0), 2014-15.

# Australia has prioritized 'security' over 'productivity'

## Number of mentions of 'security' and 'productivity' in Budget Paper No 1



Note: Statement No. 4 in 2005-06 BP1 was entitled 'Prosperity and Sustainability' and contained 63 of the 89 mentions of 'productivity'; Statement No 4 in 2008-09 BP1 was entitled 'Boosting Australia's Productive Capacity' and contained 40 of the 76 mentions of 'productivity'; Statement No 4 in 2014-15 BP1 was entitled 'Sustaining Strong Growth and Living Standards', and contained 113 of the 134 mentions of 'productivity'.  
Sources: Australian Government, Budget Paper No. 1, 2004-05 through 2016-17.

# The trade-off between 'security' and productivity

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“If ageing societies do become inherently more risk averse and less supportive of innovation – as I suspect they might – then we are likely to face a greater challenge than we have to date in generating productivity growth.”

“There has been a subtle, but important, shift in the way we think about risk and innovation ... our preferences appear to have shifted in such a way that we increasingly focus on risk mitigation and risk control. There are examples of this in a whole range of activities in our society – from the nature of the legislation that parliaments pass, to the increase in compliance activities in the nation's boardrooms, to the amount of money we are prepared to spend to limit the probability of blackouts and even to our attitudes about the design of children's playgrounds. In each of these areas, our society has been prepared to limit options or to spend more of our scarce resources to reduce risk ...”

“Reducing risks is not always cost free – resources need to be devoted to the task and this means that these resources cannot be used for other tasks. And perhaps even more importantly, it might also be the case that a more risk-averse society is naturally less inclined to support and finance innovation, to implement new processes and to apply new technologies. If this is indeed the case, it has implications for future productivity growth”.

— Dr Phil Lowe, ['Demographics, Productivity and Innovation'](#),  
Address to the Sydney Institute, 12<sup>th</sup> March 2014