

Productivity growth in Australia: Are we enjoying a miracle?

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Key messages:

- Strong productivity growth provides the foundation for opportunity and prosperity
- Strong productivity growth in the 1990s was the intended outcome of a commitment to policy reform
- There is scope for further strong productivity growth
- Ongoing policy commitment required

Outline of paper:

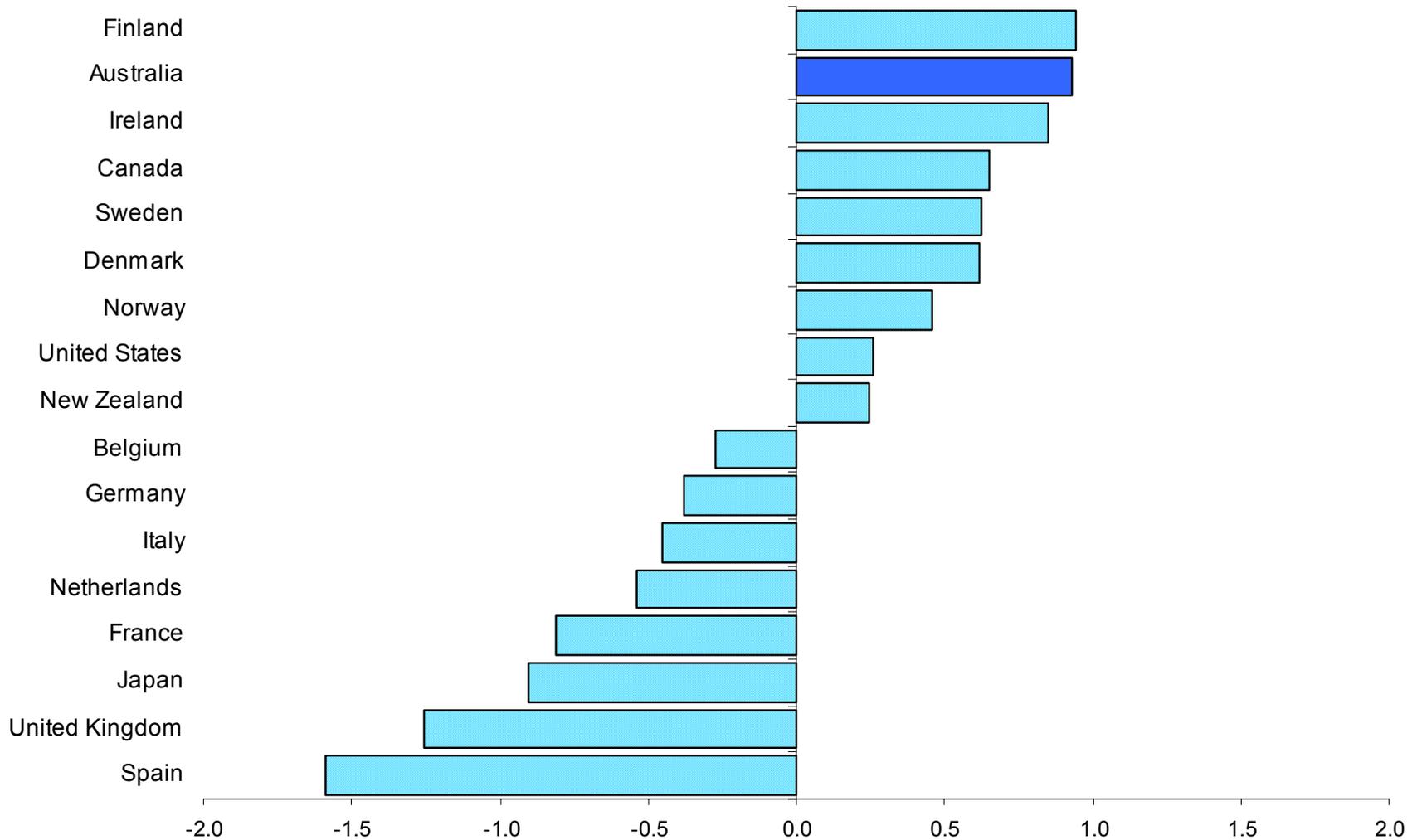
- Key features of Australia's productivity performance
- The drivers of the productivity surge
- Australia's productivity and prosperity in an international setting
- The productivity outlook

Australia's productivity performance in the 1990s

- Longest period of continuous productivity increase on record (9 years)
- Record rate of underlying productivity growth (1993-94 to 1999-2000)

	1981-82 to 1993-94	1993-94 to 1999-2000
Labour productivity	1.7	3.0
Multifactor productivity	0.7	1.8

Acceleration in trend multifactor productivity growth in the 1990s in OECD countries



Industry contributors to productivity surge

- Not 'traditional' contributors
 - *Agriculture, Mining, Manufacturing*
 - *Electricity, gas & water, Communications*

- New service contributors
 - *Wholesale, Finance & insurance*
 - *ICT related*

Drivers of productivity surge

- Importance of (microeconomic) policy reforms
 - *not seeking productivity via a predetermined direction*
 - *but through incentives and flexibility*
 - *provides resilience to adverse shocks and ability to adjust to take advantage of unanticipated positive developments*
 - *productivity surge — not recession, not worldwide boom, predated US ICT-related surge*
 - *first wave — continuing catch-up*
- ICTs
 - *second wave — similar to US takeoff in terms of ICT use*
 - *platform for other innovations*
 - *uptake and gains from use driven by incentives and flexibility*

Australia's productivity and prosperity in an international setting

$$\frac{\text{GDP}}{\text{Persons}} = \frac{\text{GDP}}{\text{Hours worked}} \times \frac{\text{Hours worked}}{\text{Employees}} \times \frac{\text{Employees}}{\text{Persons}}$$

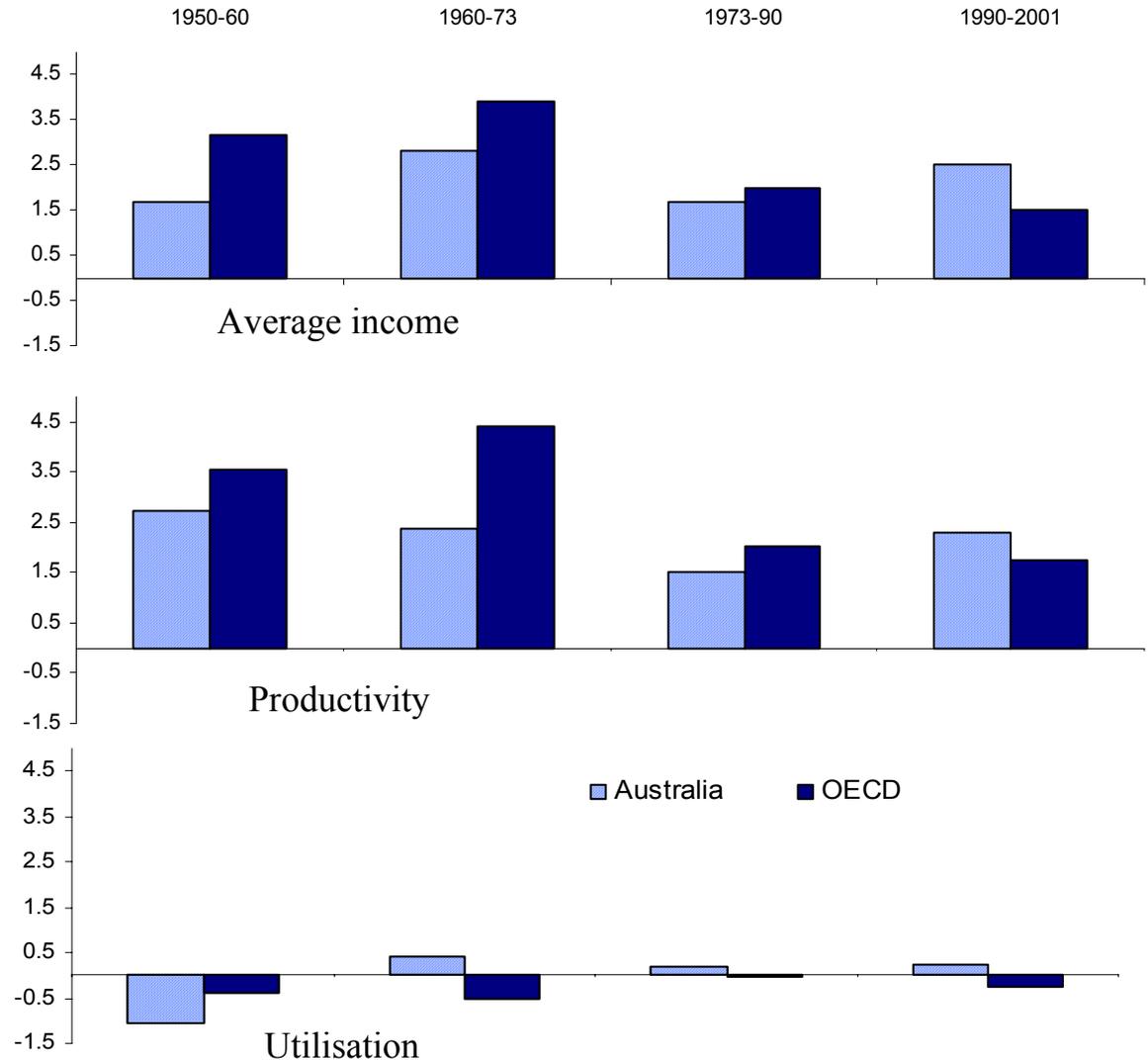
Or, in other words,

$$\text{GDP per capita} = \text{Labour productivity} \times \left[\frac{\text{Average hours worked}}{\text{Employment ratio}} \right] \quad (1)$$

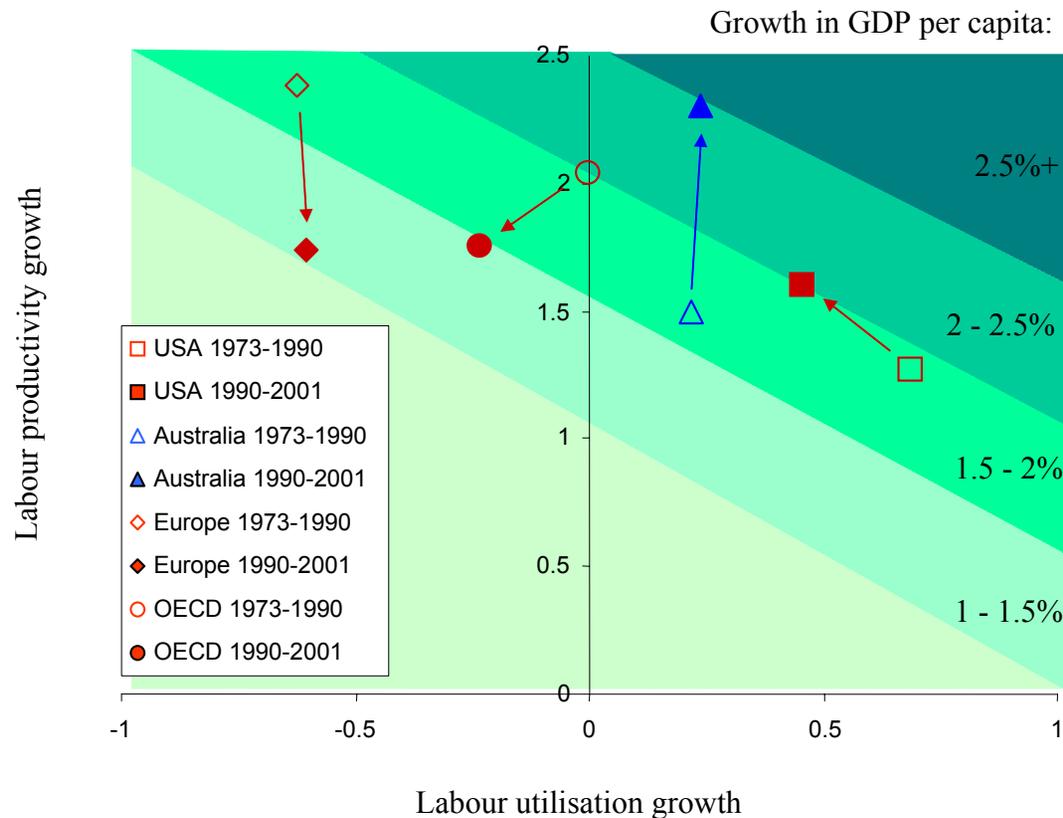
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Labour utilisation

Australia moved ahead of the OECD average growth in GDP per capita in the 1990s

■ Australia
 ■ OECD



The 1990s productivity surge gives Australia comparatively strong growth in average income



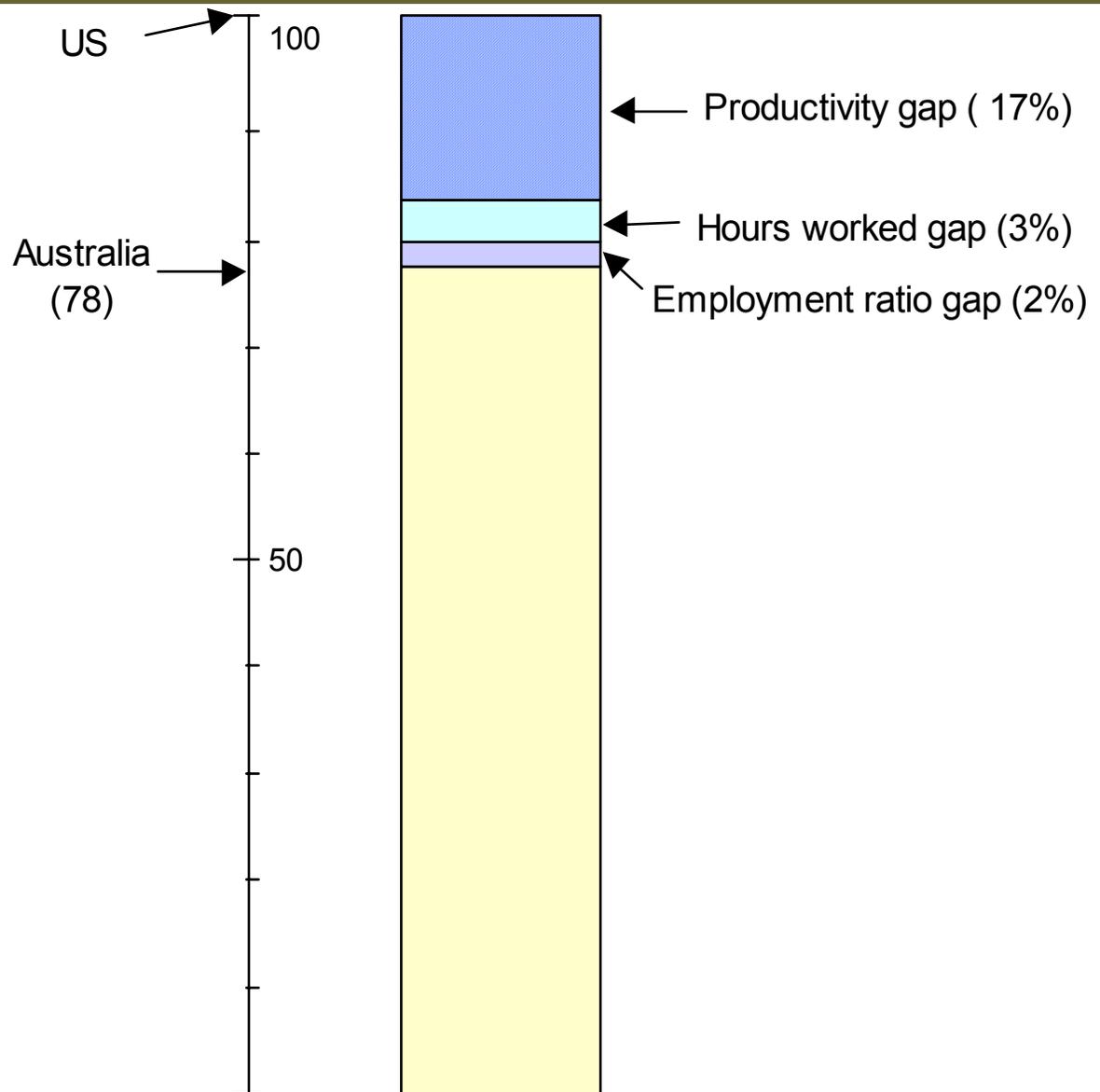
Australia's income ranking improved in the 1990s, but still a sizeable productivity gap

	1950	1960	1973	1990	2001
GDP per capita					
Australia's rank	5	7	9	15	7
% of US level	78	78	77	74	78
GDP per hour					
Australia's rank	4	5	10	15	14
% of US level	81	75	74	77	83
Labour utilisation					
Australia's rank	16	17	7	6	5
% of US level	96	104	104	96	94
Average hours worked					
Australia's rank	19	18	13	8	6
% of US level	93	99	100	99	96
Employment ratio					
Australia's rank	12	15	8	12	10
% of US level	103	105	104	97	98

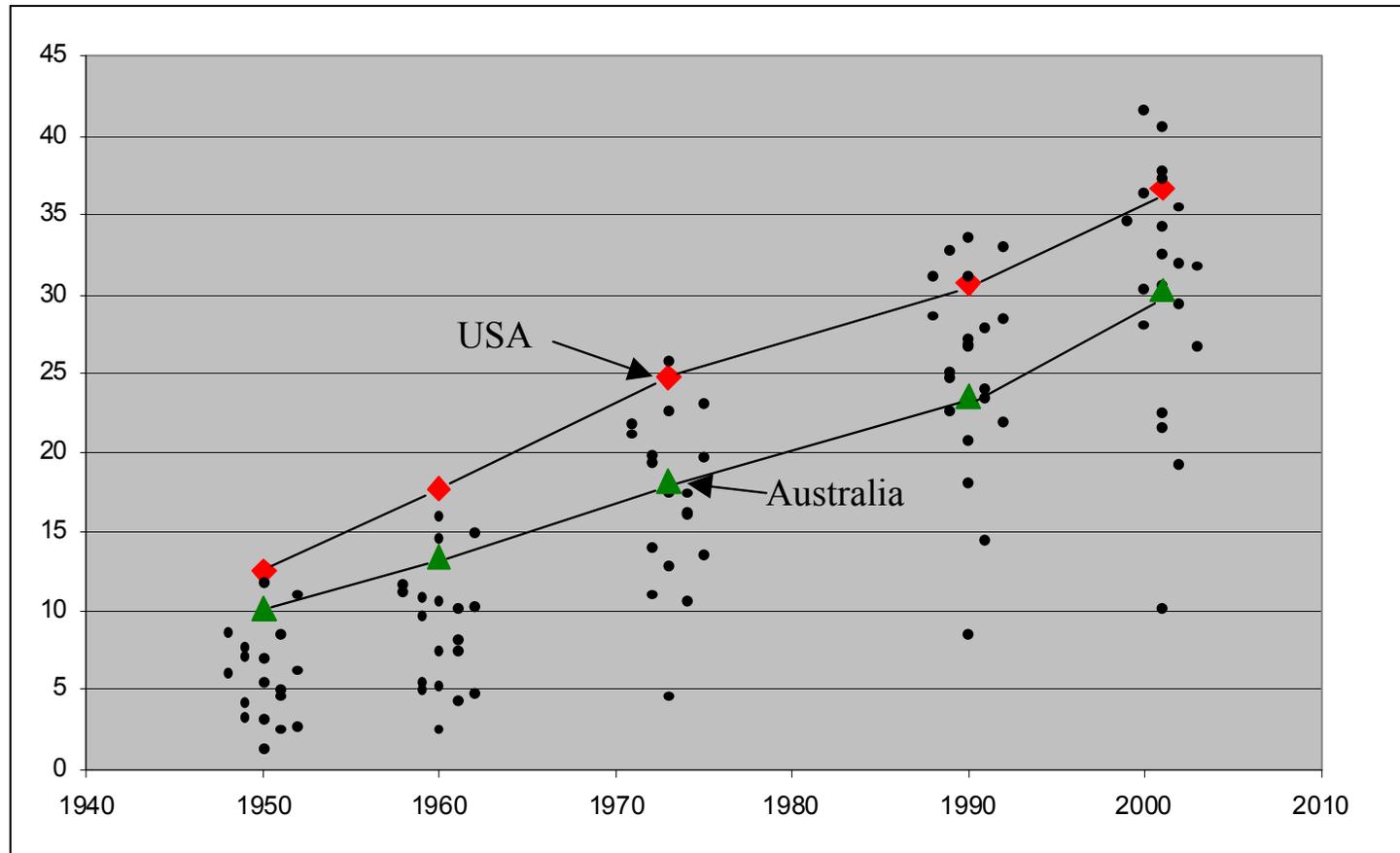


Australia's average income gap with the US

– Productivity
the priority



Australia only started productivity catch-up in the 1990s



The productivity outlook

- More dynamism and entrepreneurial vigour
- More scope to catch up (wave 1)
- More ICT-related gains (wave 2)

Policy priorities

- Productivity
 - *incentives and flexibility*
- Employment
- Distribution of income
- Innovation, skills and attitudes
 - *education and training*

Summary points

- Strong productivity growth provides strong growth in average incomes (>90%)
- Still scope for Australia to catch up on past languishing
- Still scope to move further forward with ICT-related productivity gains — the new productivity frontier
- Attention to capabilities for the medium to long term
- Ongoing policy commitment needed