A PRODUCTIVITY CONVERSATION

PRESENTATION HOSTED BY BEVINGTON GROUP

27TH & 28TH MARCH 2025

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CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Productivity matters

"Productivity is the prime determinant in the long run of a nation's standard of living, for it is the root cause of per capita national income. High productivity not only supports high levels of income but allows citizens the option of choosing more leisure instead of longer working hours. It also creates the national income that is taxed to pay for public services which again boosts the standard of living. The capacity to be highly productive also allows a nation's firms to meet stringent social standards which improve the standard of living, such as in health and safety, equal opportunity and environmental impact"

– Michael E Porter, *The Competitive Advantage of Nations (1991)*

"Productivity … isn't everything, but in the long run it's nearly everything'"

– Paul Krugman, The Age of Diminished Expectations (1994)

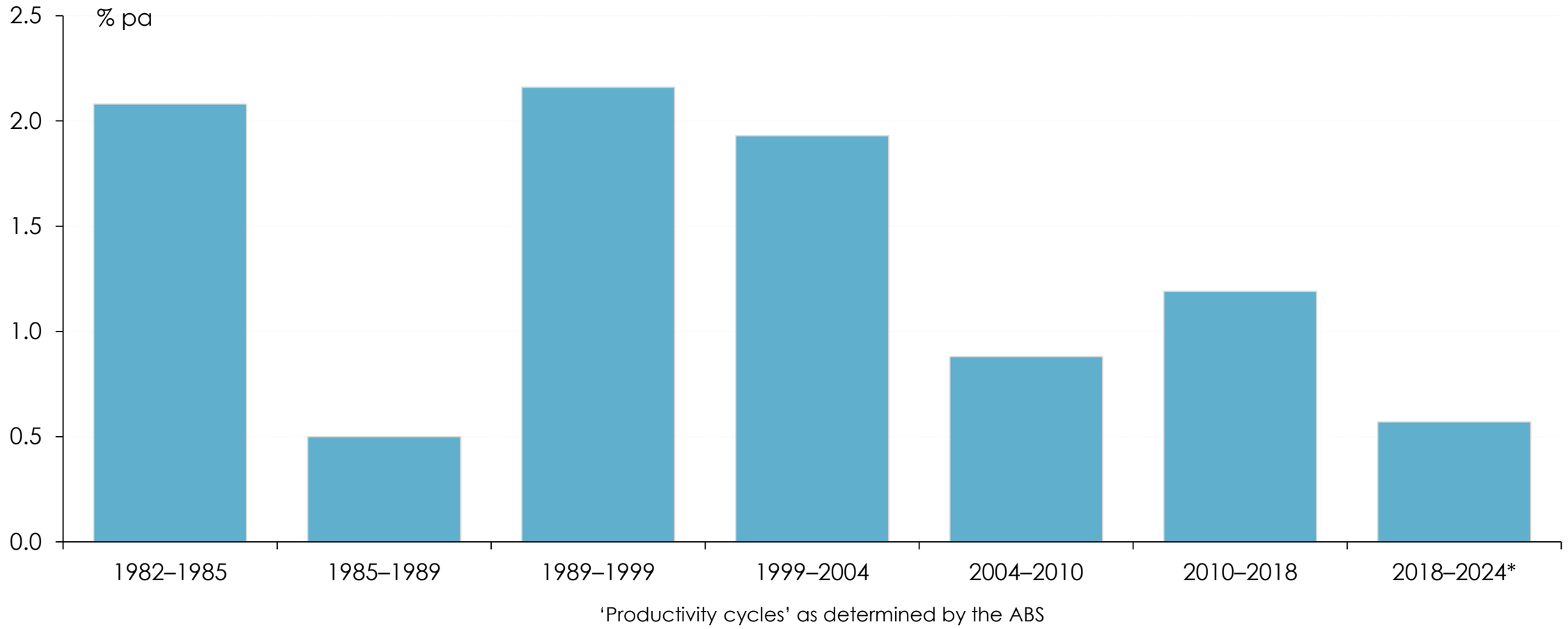
Three types of productivity

- **Labour productivity** – output of goods and services per unit of labour input (ideally, hours worked)
- **Capital productivity** – output of goods and services per unit of 'capital services' (a constructed measure of the value of machinery and equipment, buildings and structures, and intellectual capital used in production)
- '**Multi-factory productivity**' (sometimes called 'total factor productivity' – that part of changes in the output of goods and services which can't be attributed to increases in labour or capital inputs
  - often taken as a proxy for 'technological change', 'innovation' etc.

When economists talk about 'productivity', they're usually talking about labour productivity

Australian labour productivity growth has slowed significantly over the past two decades

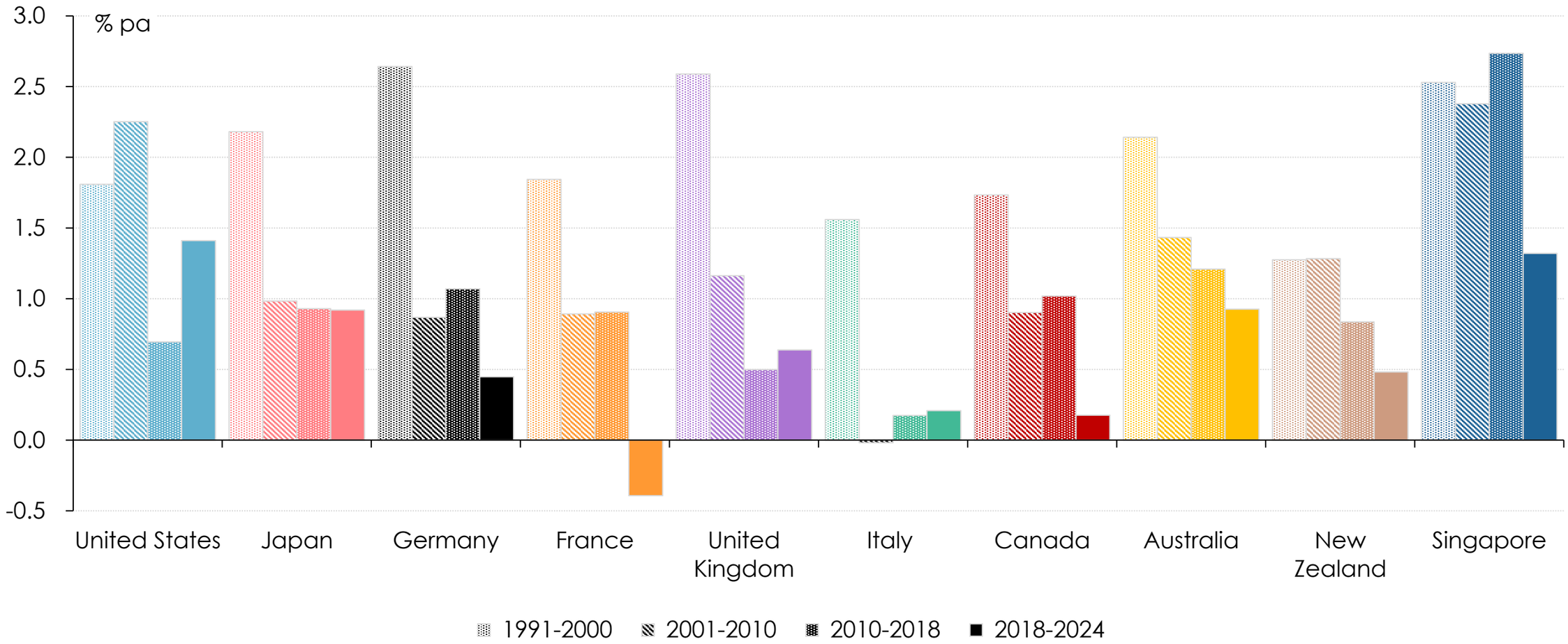
Australian 'market sector' labour productivity growth, 1981-82 to 2023-24



Note: The 'market sector' excludes public administration & defence, education & training, health care & social assistance and ownership of dwellings. 2018-2024 is an incomplete productivity cycle.
Sources: Australian Treasury, *2023 Intergenerational Report*, August 2023; ABS, *Australian System of National Accounts*, 2023-24, October 2024, Table 13.

Australia's productivity experience is by no means unique – most 'advanced' economies except the US have had a similar slowdown

Labour productivity growth, selected 'advanced' economies, 1990-2024



Note: 'Labour productivity' here is GDP (in 2022 US dollars at purchasing power parity exchange rates) per hour worked.
Sources: The Conference Board, *Total Economy Database*, May 2024; Corinna.

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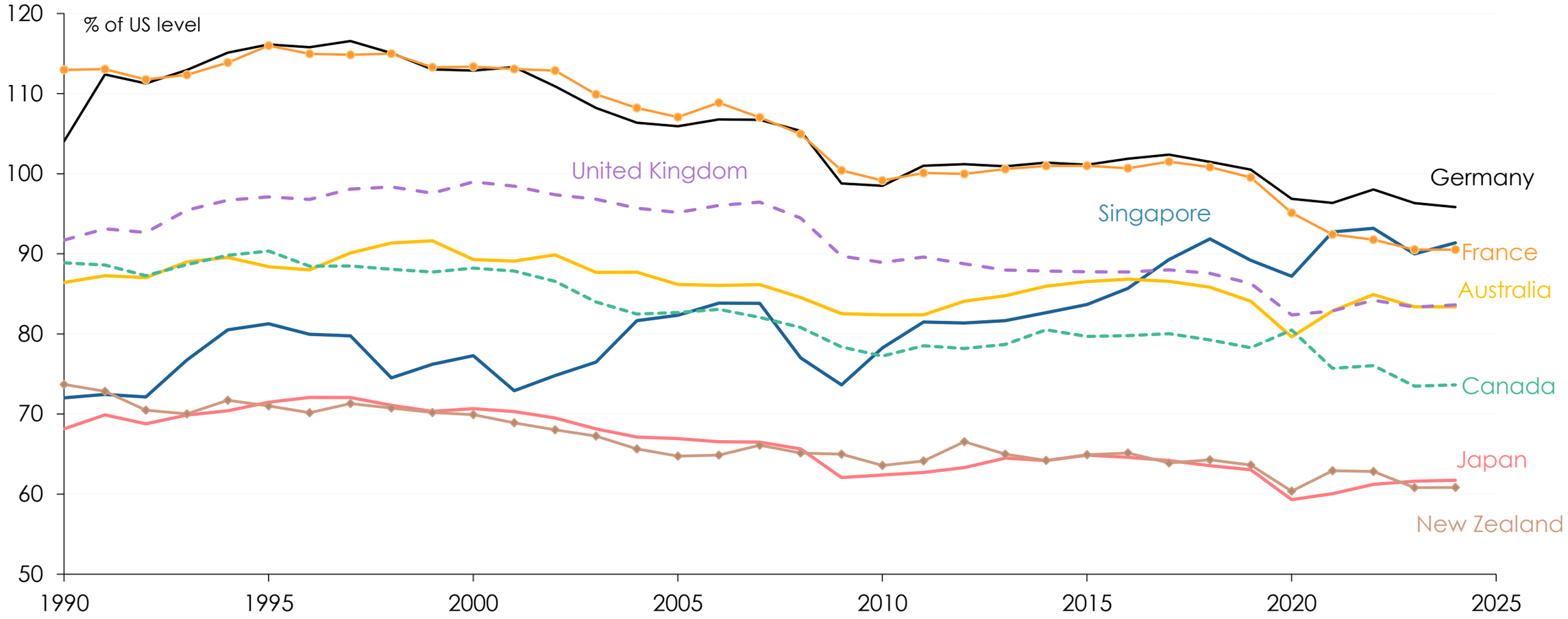
Labour productivity in most ‘advanced’ economies has fallen relative to that of the United States over the past two decades

Labour productivity as a percentage of US level, selected ‘advanced’ economies, 1990-2024



Note: ‘Labour productivity’ here is GDP (in 2022 US dollars at purchasing power parity exchange rates) per hour worked.
Sources: The Conference Board, *Total Economy Database*, May 2024; Corinna.

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Productivity growth 'happens' in three broad ways

- **Improvements in productivity within individual firms**
  - as a result of giving workers more or better tools (increasing the 'capital-labour ratio')
  - as a result of innovation in product design, production methods or the organization of work
  - these are tasks for the managements of firms (though government policies, eg on IR, R&D, investment etc can help)
- **Improvements in productivity within industries as a result of 'factors of production' (labour and capital) moving from lower- to higher-productivity firms**
  - as a result of new (more productive) firms entering and old (less productive) firms exiting an industry, or more productive firms taking over less productive ones in the same industry
  - or as a result of changes to regulations affecting particular industries which allow them to implement new or more efficient ways of working, or to increase their investment
- **Improvements in productivity across the economy as a result of 'factors of production' (labour and capital) moving from low- to higher-productivity industries**
  - as a result of (for example) removing 'protection', subsidies or tax breaks for low-productivity industries
  - or regulatory, environmental or technological changes which encourage increased investment and employment in higher-productivity industries

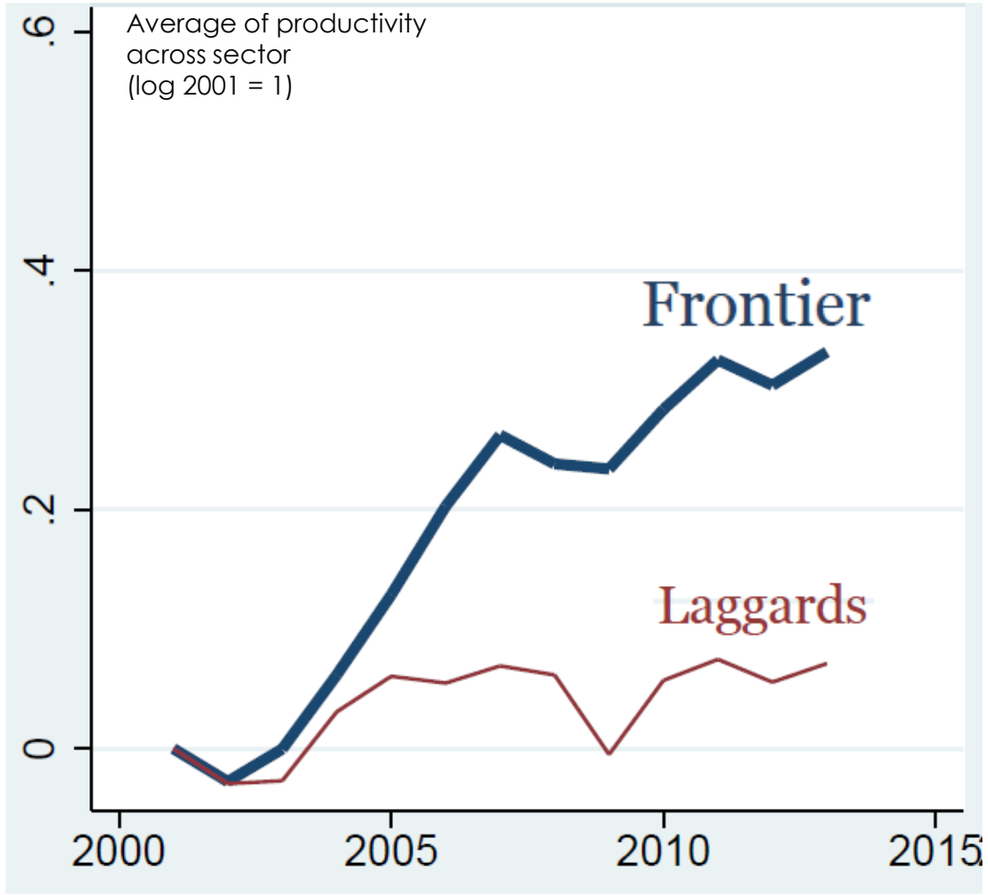
The problem in Australia is that the second and third of these 'engines' have been going backwards (and it's not clear that the first 'engine' is really firing either

- productivity has been falling in some of our more important industries (eg mining, construction and health care)
- and 'factors of production' have been migrating towards intrinsically lower-productivity industries (eg in the 'care economy' but also tourism and retail

One contributor to the global productivity slowdown has been a widening gap between 'frontier' and 'laggard' firms

The labour productivity gap between global 'frontier' firms and other firms

Manufacturing



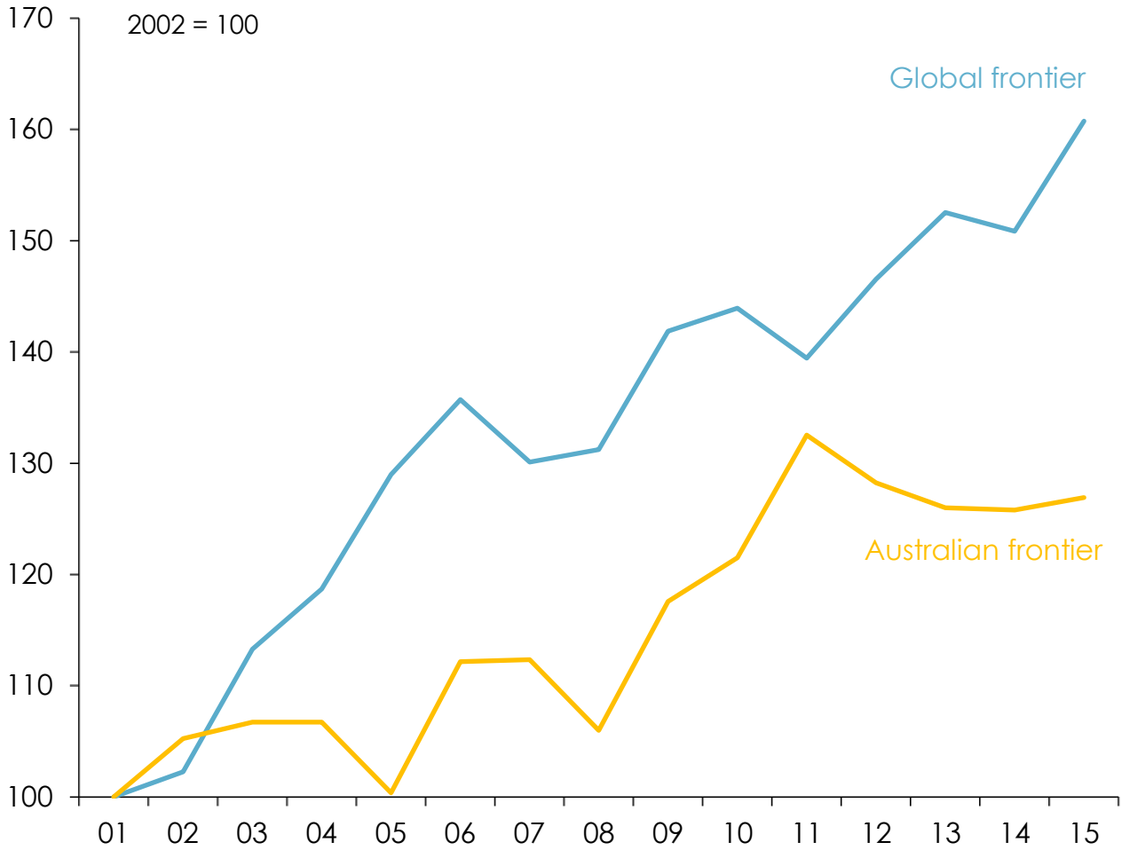
Services

Source: Dan Andrews, Chiara Criscuolo and Peter Gal, *The Best versus the Rest: The Global Productivity Slowdown, Divergence Across Firms and the Role of Public Policy*, OECD Productivity Working Paper No. 5, November 2016.

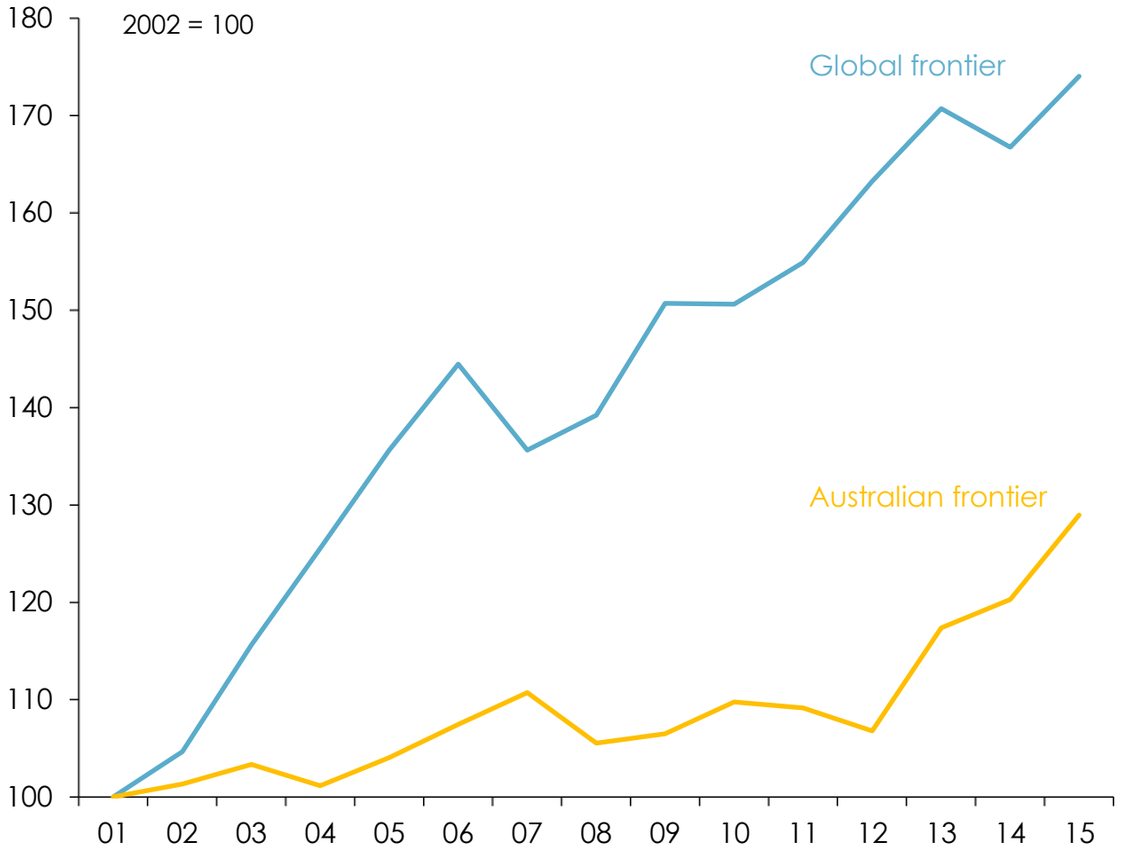
Australian firms have been slower than world-leading firms in adopting innovative technology or organizational methods

Cumulative growth in labour productivity at Australian and global 'frontier' firms

Manufacturing



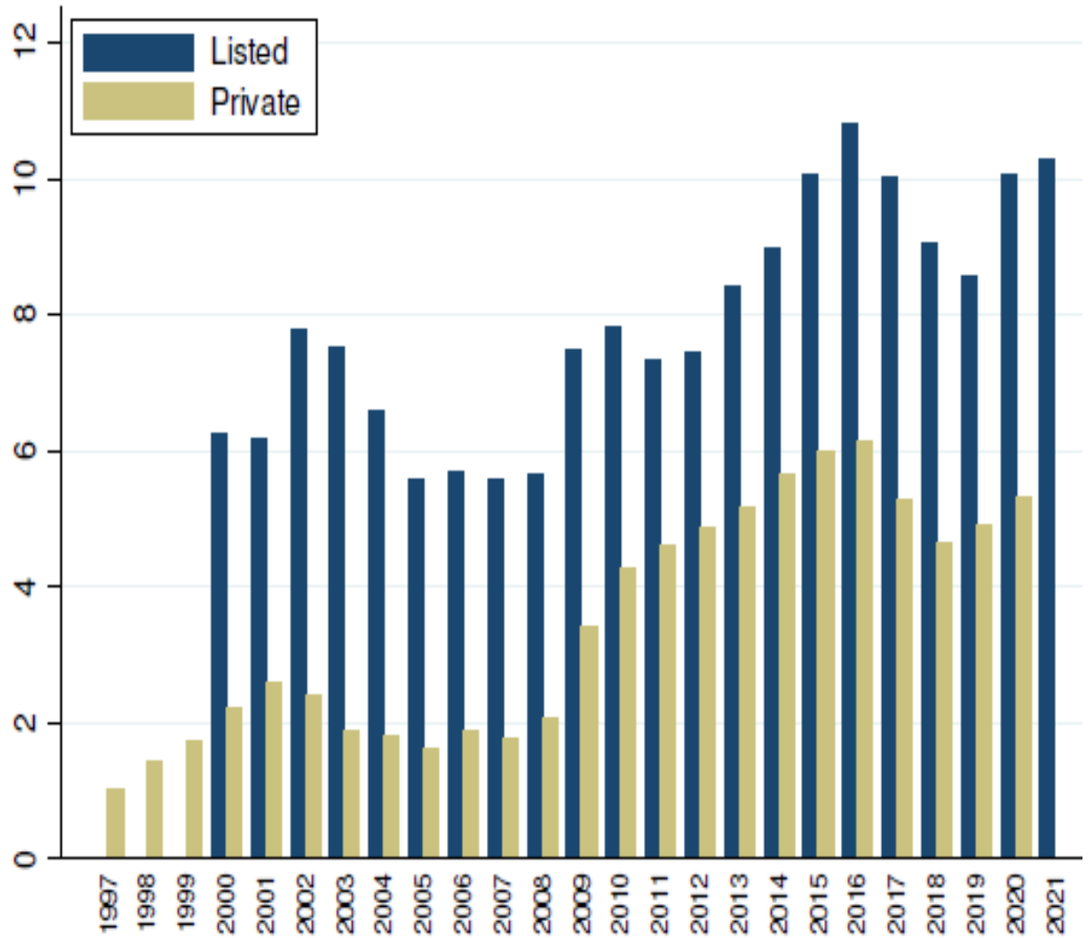
Services



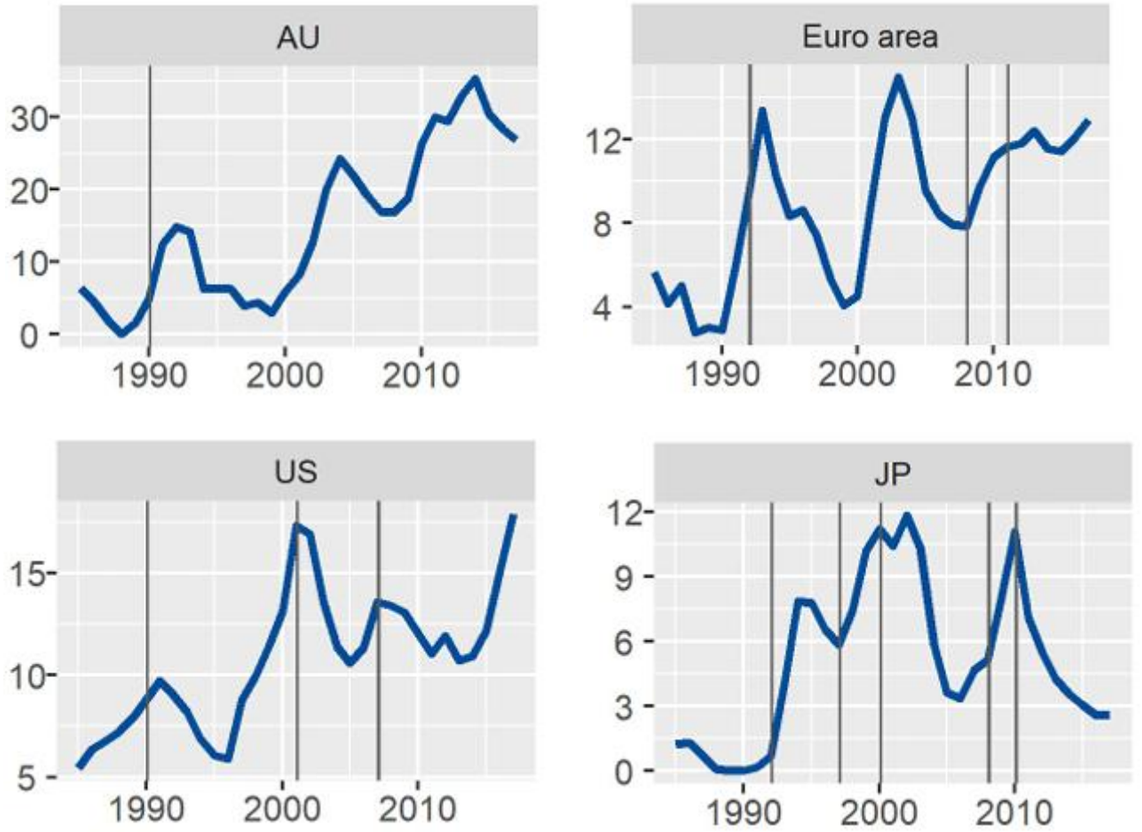
Sources: Dan Andrews, Jonathan Hambur, David Hansell and Angus Wheeler, *Reaching for the Stars: Australian Firms and the Global Productivity Frontier*, Australian Treasury Working Paper No. 2022-01, January 2022; Aruna Sathanapally, Sam Bennett, Peter Breadon, Brendan Coates, Jordana Hunter, Tony Wood and Kate Griffiths, *Orange Book 2025: Policy priorities for the federal government*, Grattan Institute, March 2025.

Another global factor has been the proliferation of ‘zombie firms’

Global share of ‘zombie firms’



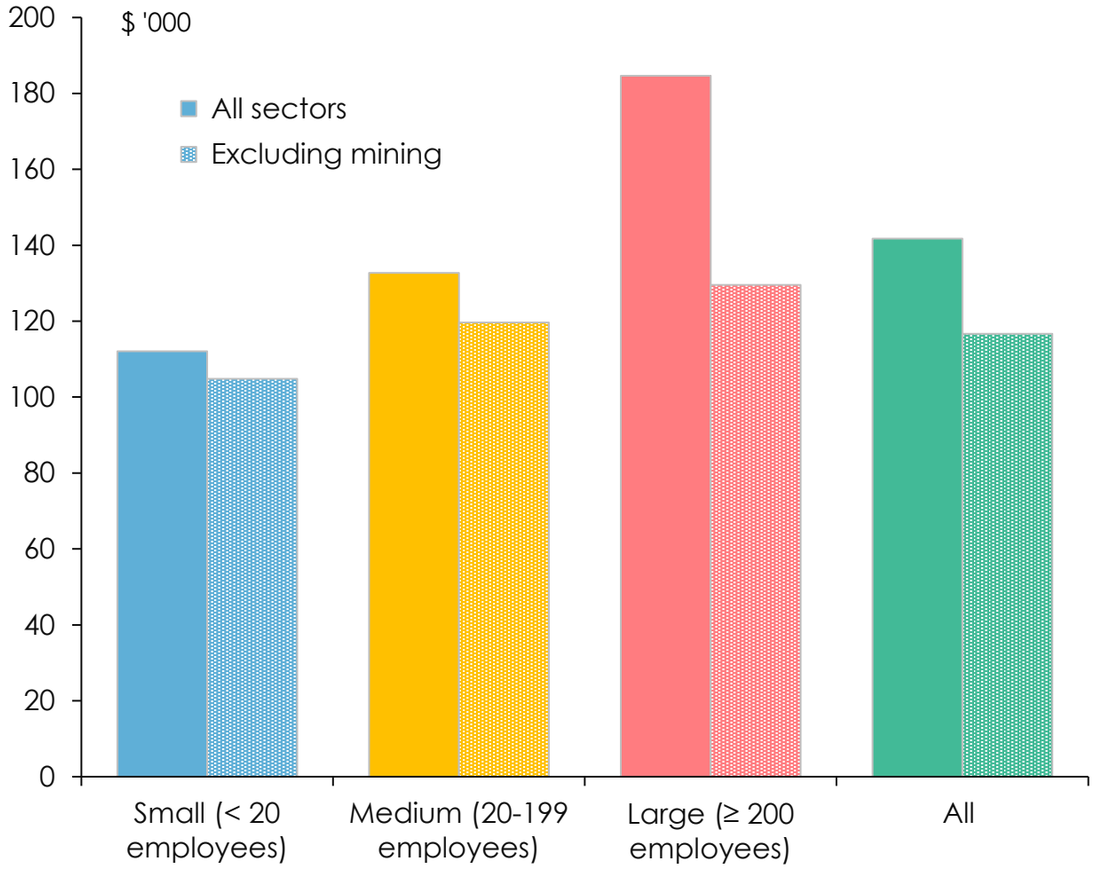
‘Zombie firms’ share in selected economies



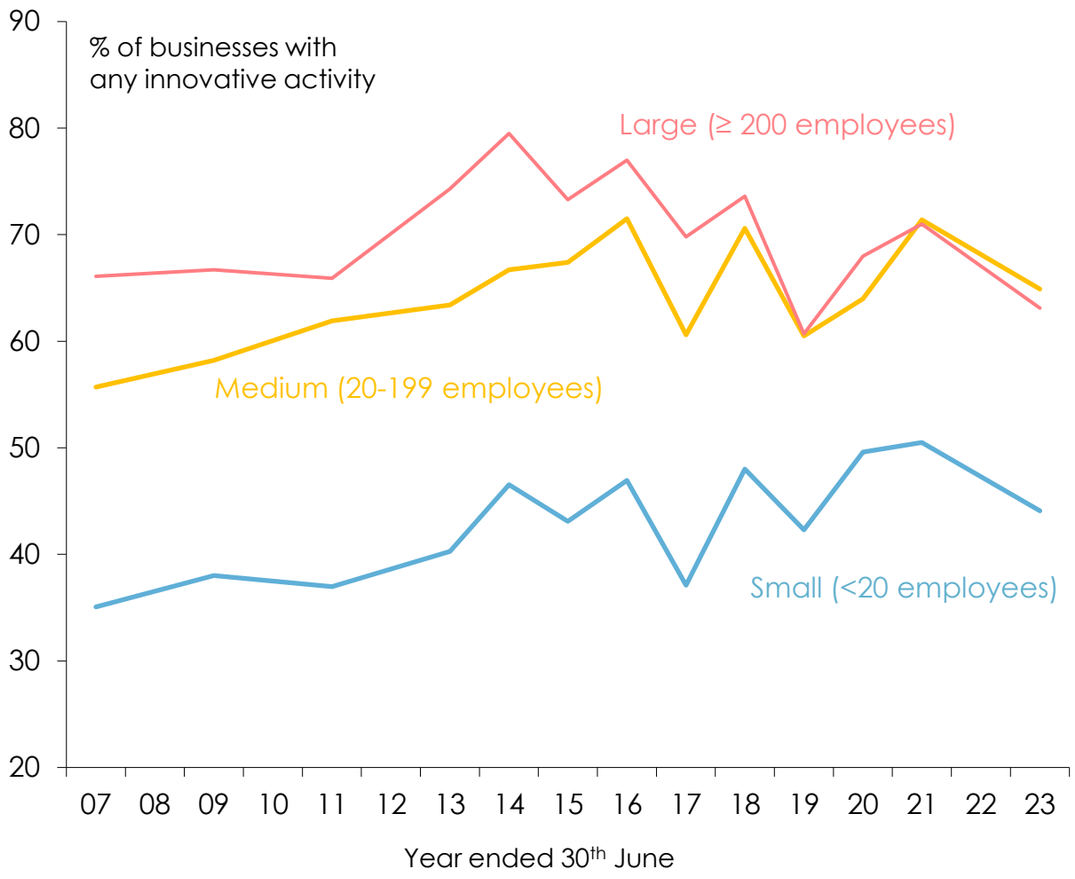
Note: ‘zombie’ firms are those with an interest coverage ratio of less than 1, and a leverage ratio above the median for the firm’s industry. Data sourced from S&P Compustat (for listed firms) and ORBIS for private firms. *Sources:* Bruno Albuquerque and Roshan Iyer, *The Rise of the Walking Dead: Zombie Firms Around the World*, IMF Working Paper No. 125, November 2023; and Ryan Banerjee and Boris Hofmann, *Corporate zombies: Anatomy and life cycle*, BIS Working Paper No. 882, January 2022.

Australian ‘small business fetishism’ is bad for productivity, because productivity in small business is 21% below the average for all businesses

Gross value added per person employed, by business size, 2022-23



Business innovation, by business size, 2006-07 through 2022-23



Sources: ABS, *Australian Industry*, 2022-23 financial year, and *Innovation in Australian Business*, 2022-23 financial year.

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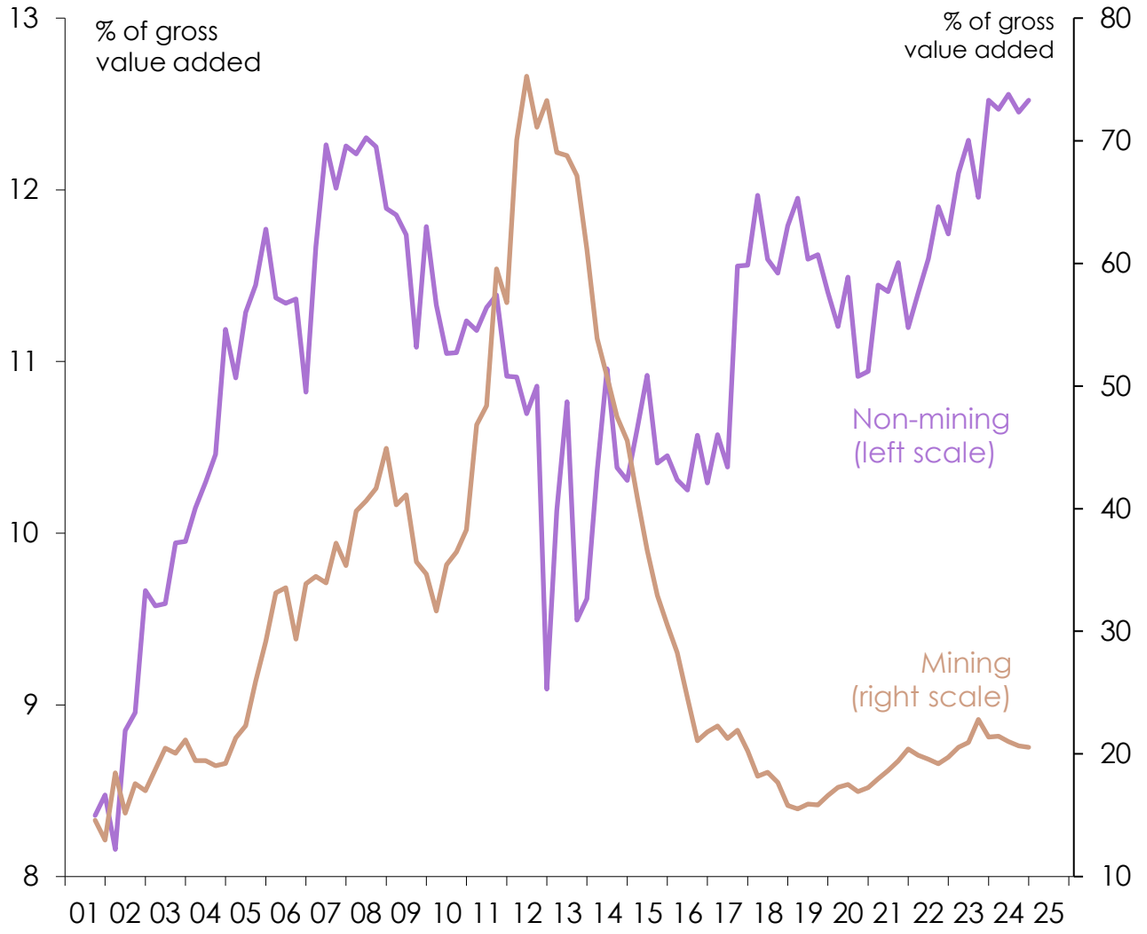
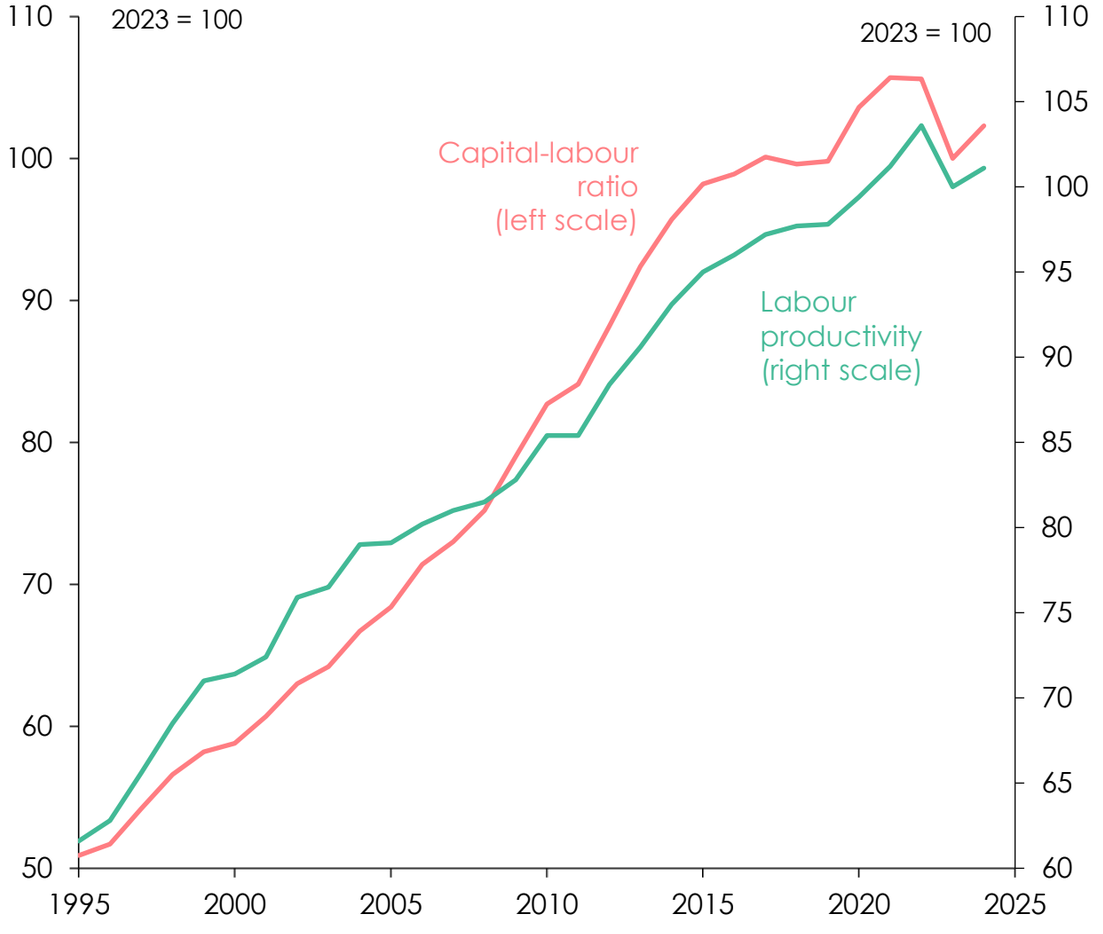
A decline in business investment after the GFC has almost certainly contributed to the slowdown in Australian productivity growth

Business investment



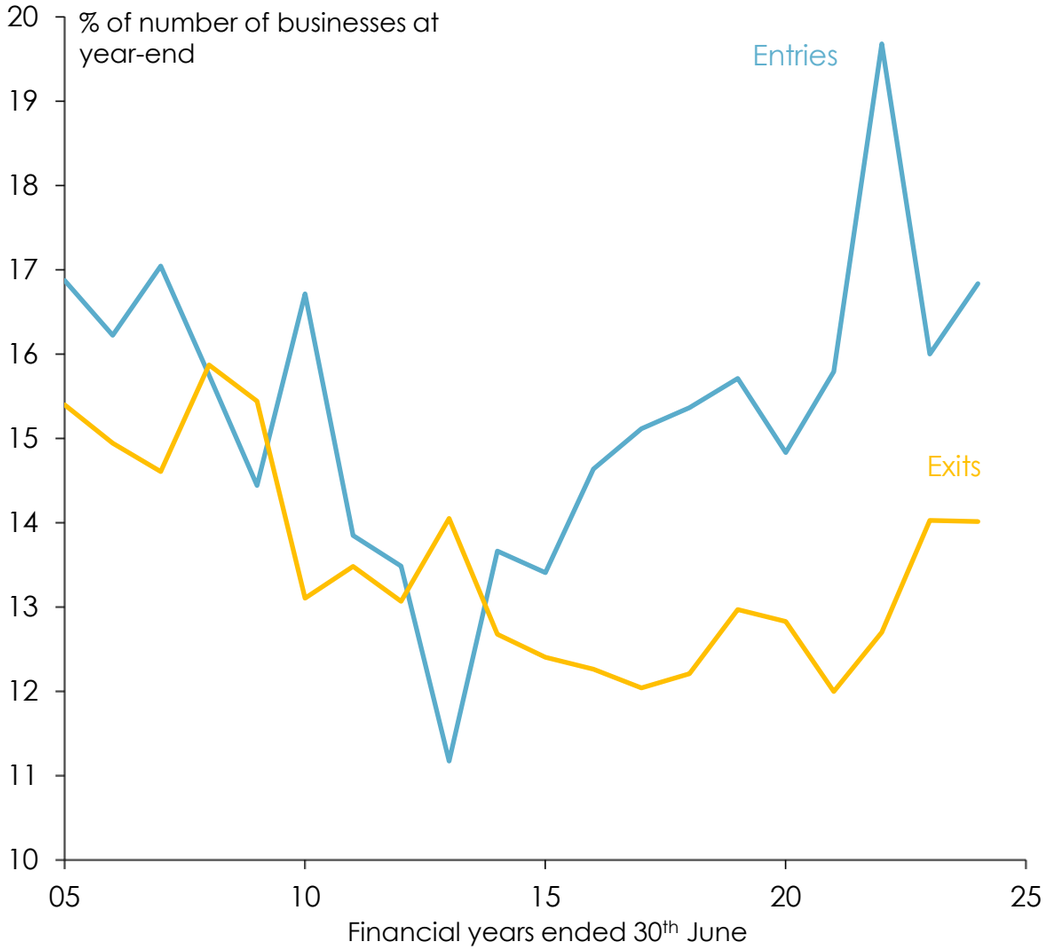
Capital-labour ratio and labour productivity



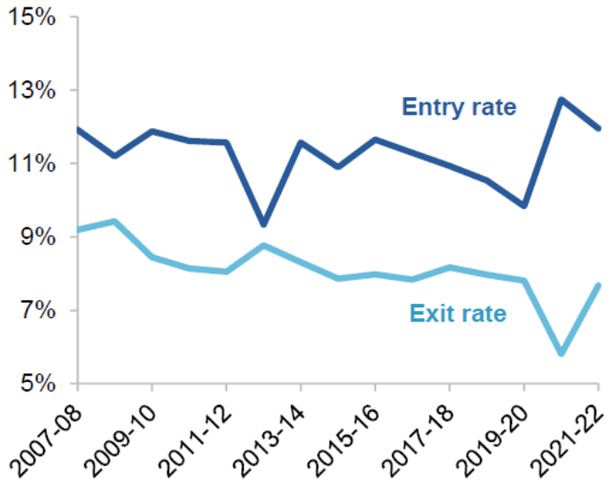
Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, December quarter 2024, and *Australian System of National Accounts*, 2023-24.

A decline in 'business dynamism' has also likely contributed to the slowdown in Australian productivity growth

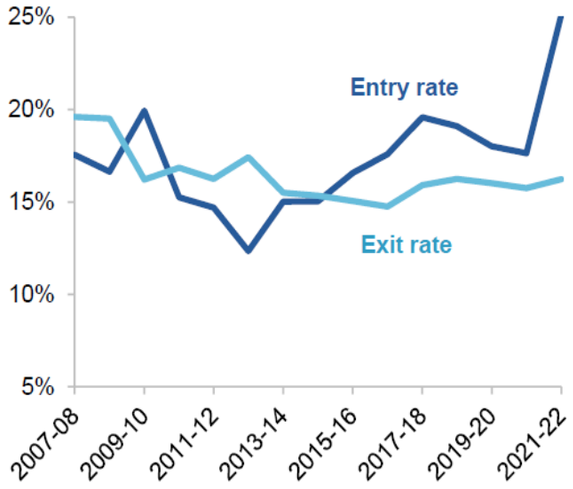
Business entries and exits



Employing businesses



Non-employing businesses

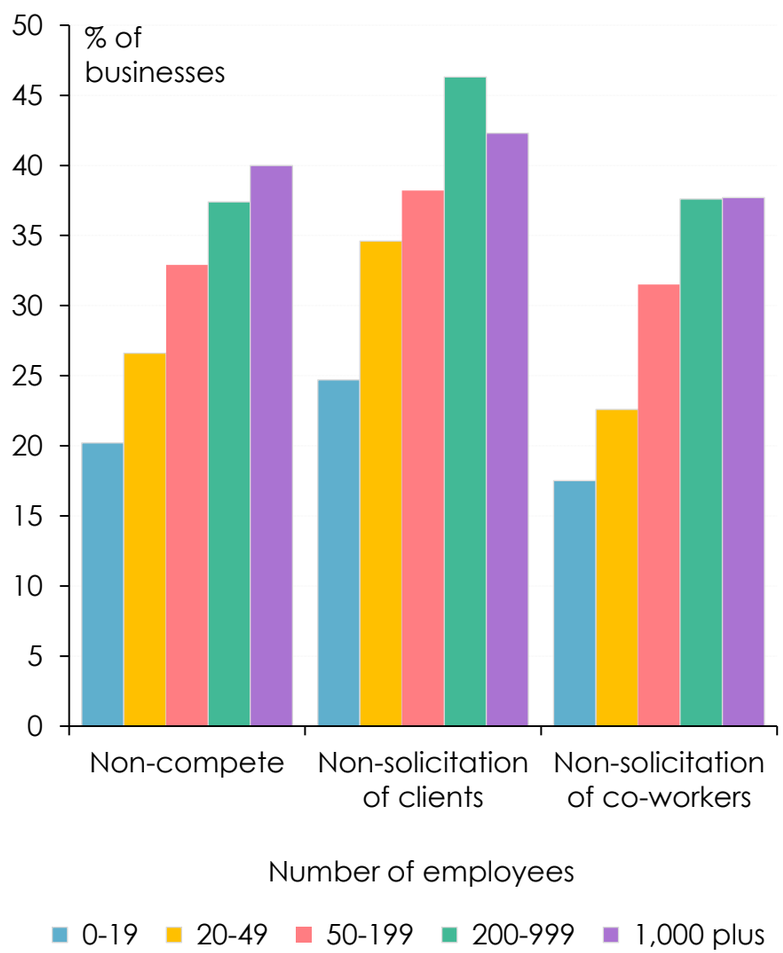


Sources: ABS, *Counts of Australian Businesses, including Entries and Exits*, July 2020-June 2024; Productivity Commission, *Submission to the Inquiry into Promoting Economic Dynamism, Competition and Business Formation*, House of Representatives Standing Committee on Economics, March 2023.

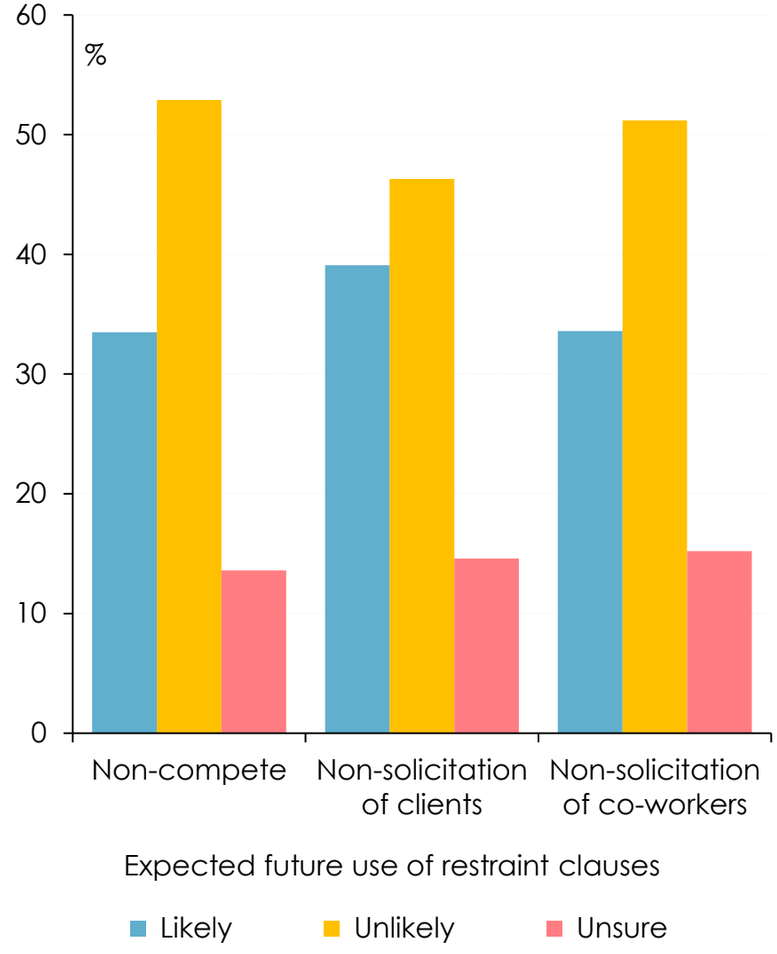
‘Job-switching’ in Australia has declined – possibly as a result of the proliferation of non-compete clauses in employment contracts

Employee tenure

Use of ‘restraint clauses’



Future use of ‘restraint clauses’



Sources: ABS, *Labour Force, Australia, Detailed*, January2024; and *Restraint Clauses*, 2023 (note data shown here excludes ‘non-disclosure’ restraint clauses.

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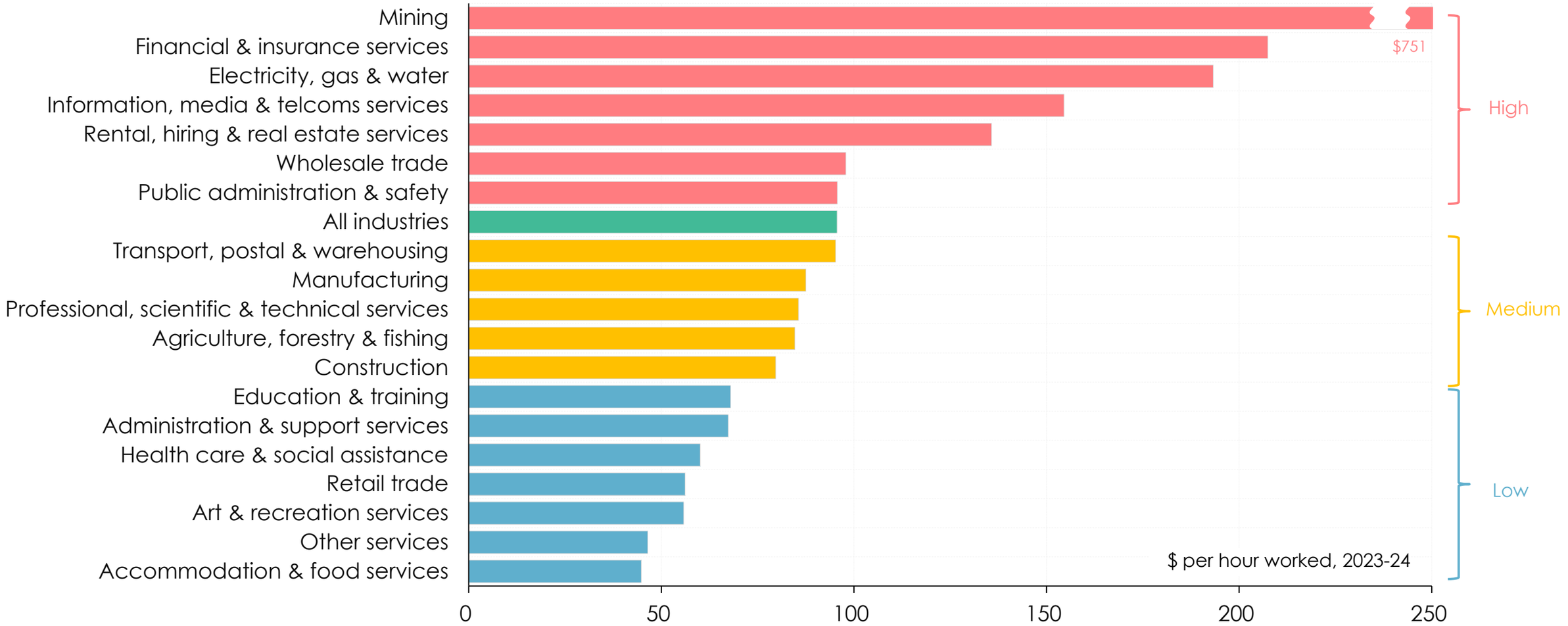
Some industries have much higher labour productivity than others

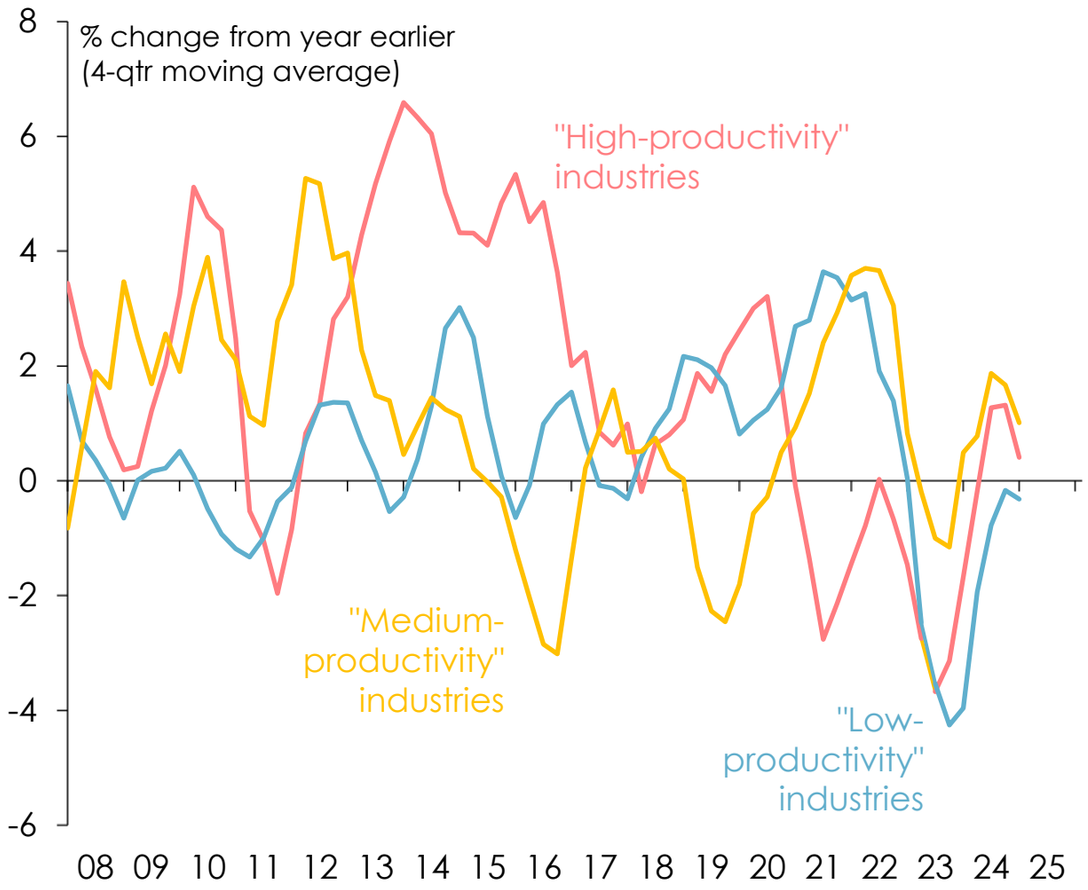
Australian labour productivity (gross value added per hour worked) by industry, 2023-24



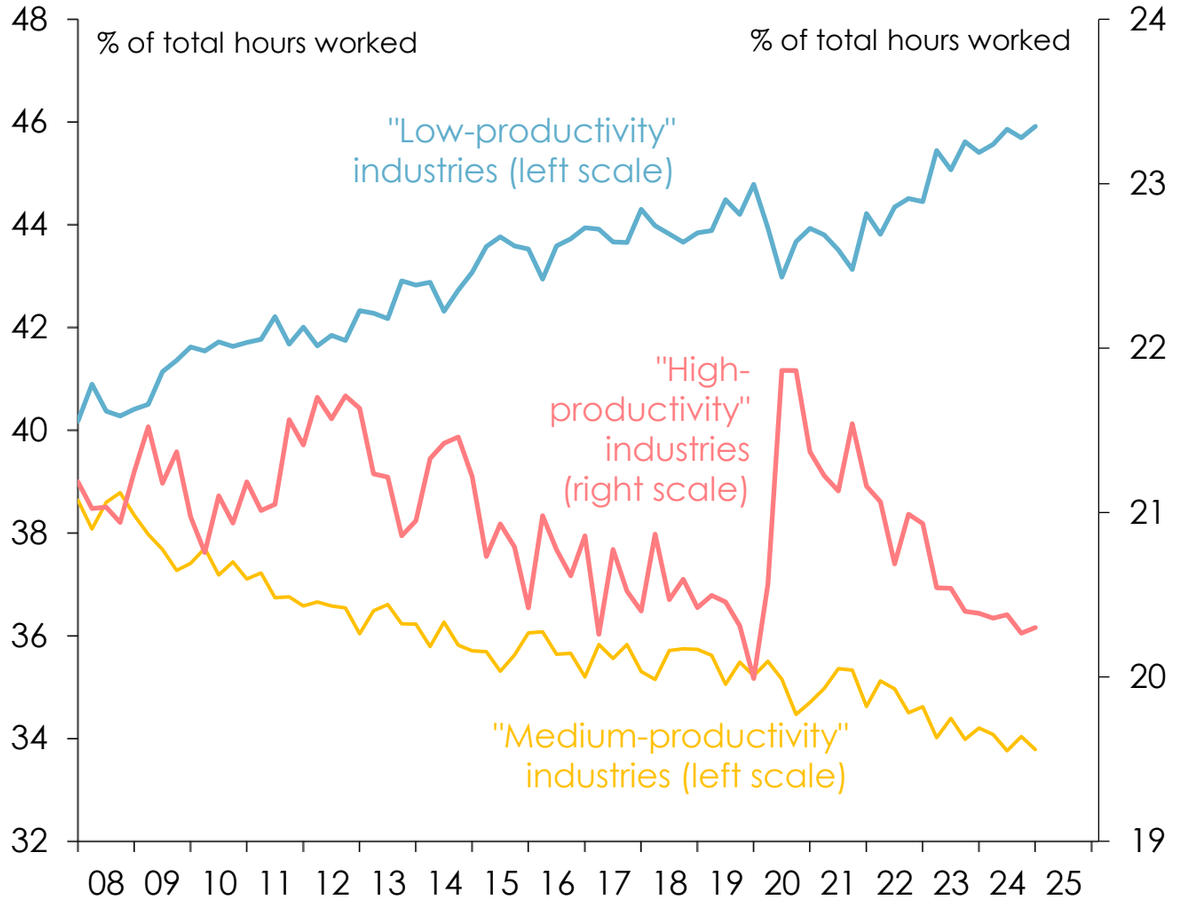
Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, December quarter 2024, and *Labour Account, Australia*, December quarter 2024.

The slide in Australia's overall productivity growth rate is partly due to a shift towards intrinsically low labour productivity industries …

Labour productivity growth in "high-", "medium-" and "low-productivity" industries



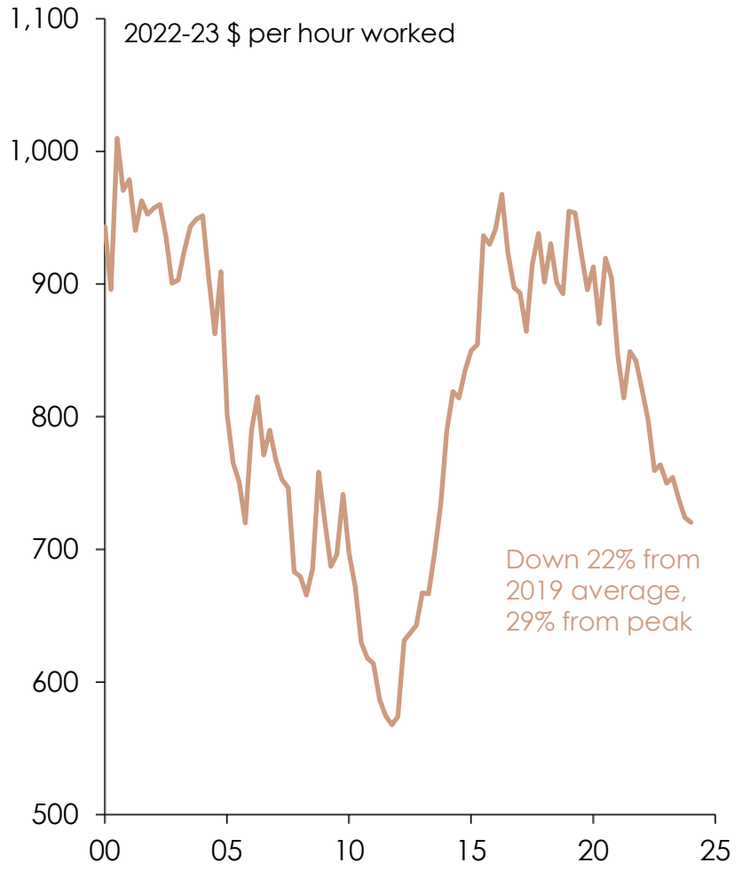
Shares of total hours worked in "high-", "medium-" and "low-productivity" industries



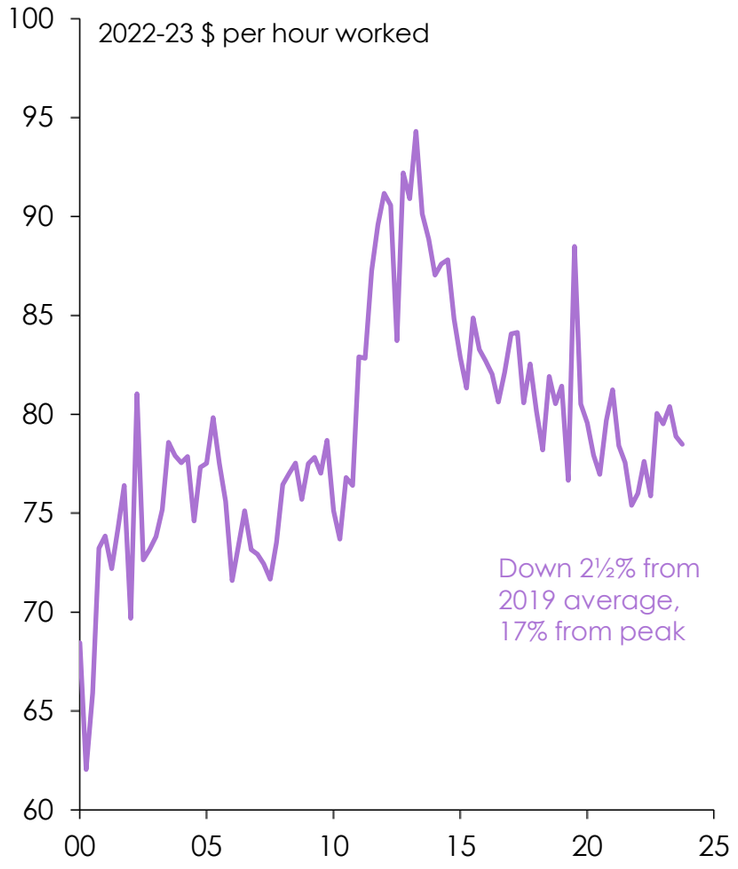
Note: "High-'", "medium-" and "low-productivity" industries are as classified in the previous slide.
Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, December quarter 2024, and *Labour Account, Australia*, December quarter 2024.

… but also because productivity growth in three of Australia's more important industries has actually been negative over long periods of time

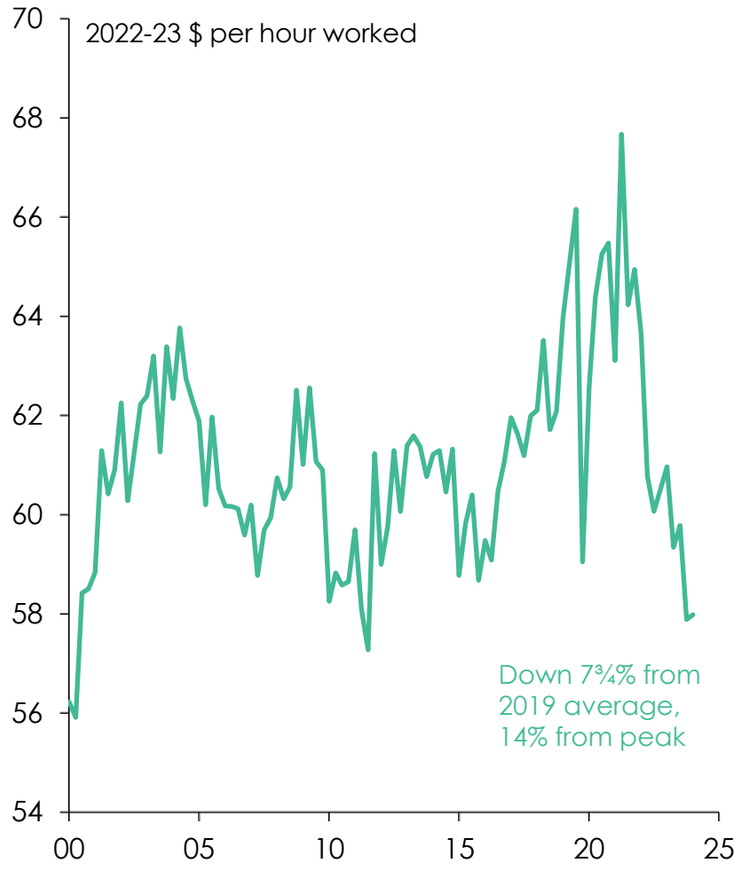
Labour productivity in mining



Labour productivity in construction



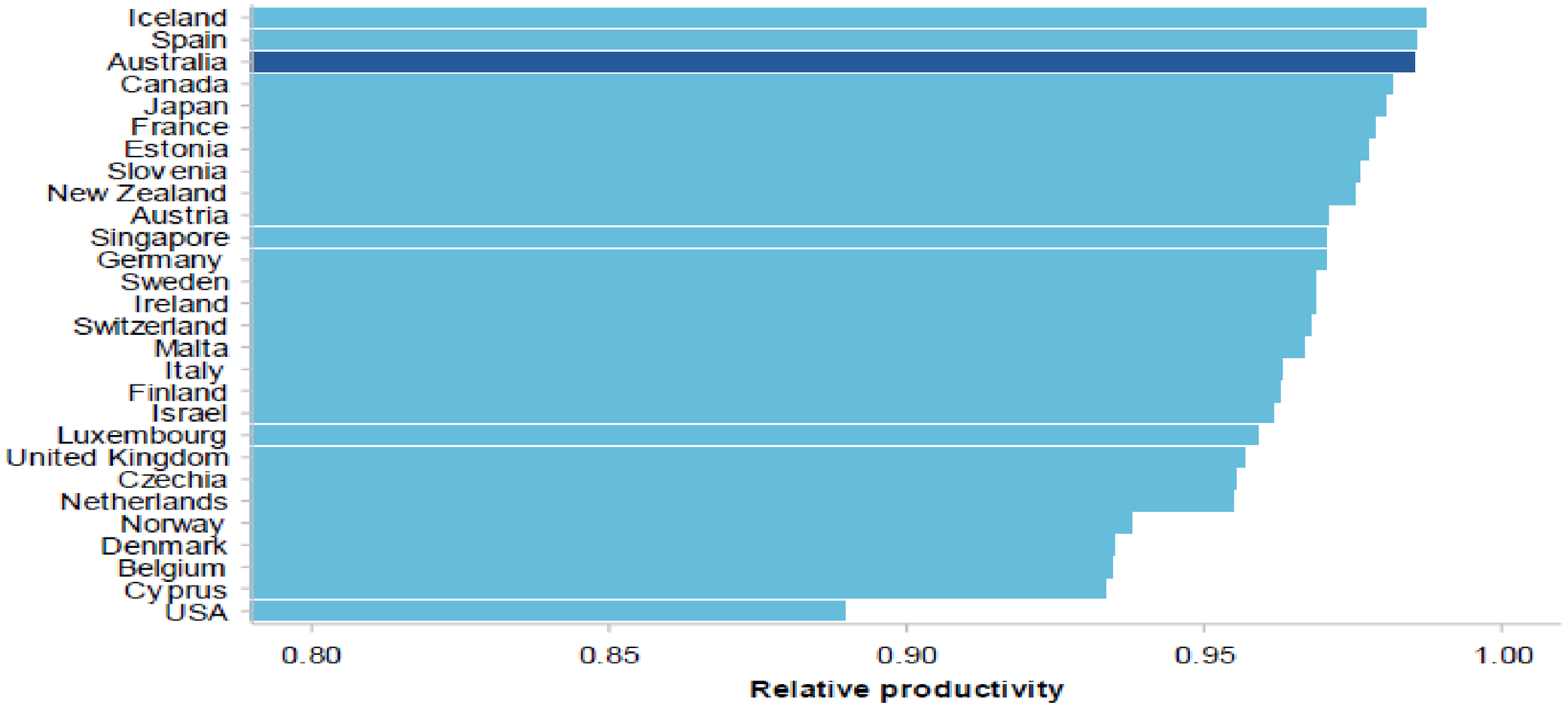
Labour productivity in health care and social assistance



Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, December quarter 2024, and *Labour Account, Australia*, December quarter 2024.

There are lots of conceptual and practical issues in measuring productivity in areas like health care

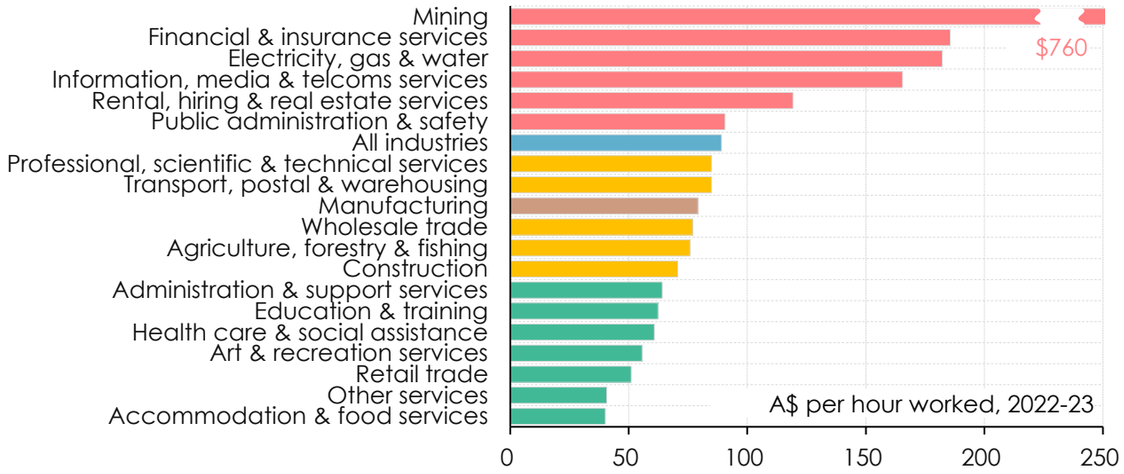
Relative health-care productivity by country, 2010-2010



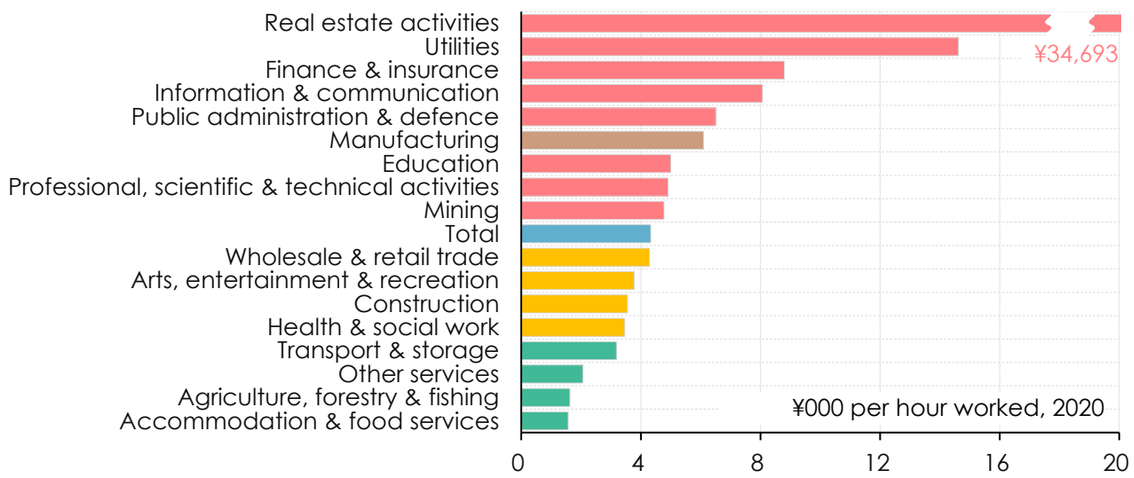
Note: 'Relative health care productivity' is health-adjusted life expectancy (HALE) relative to per capita expenditure on health, adjusted for age and differences in behavioural and environmental risk factors which affect health (such as obesity, smoking and alcohol consumption). *Source:* Productivity Commission, *Advances in measuring health care productivity*, March 2024.

‘Manufacturing fetishism’ is bad for productivity in Australia, because in Australia manufacturing has below-average productivity

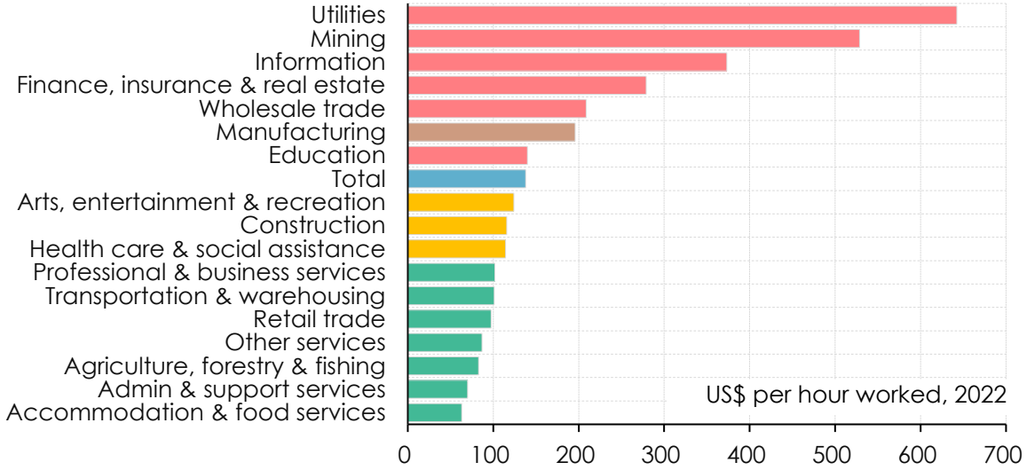
Labour productivity by industry - Australia



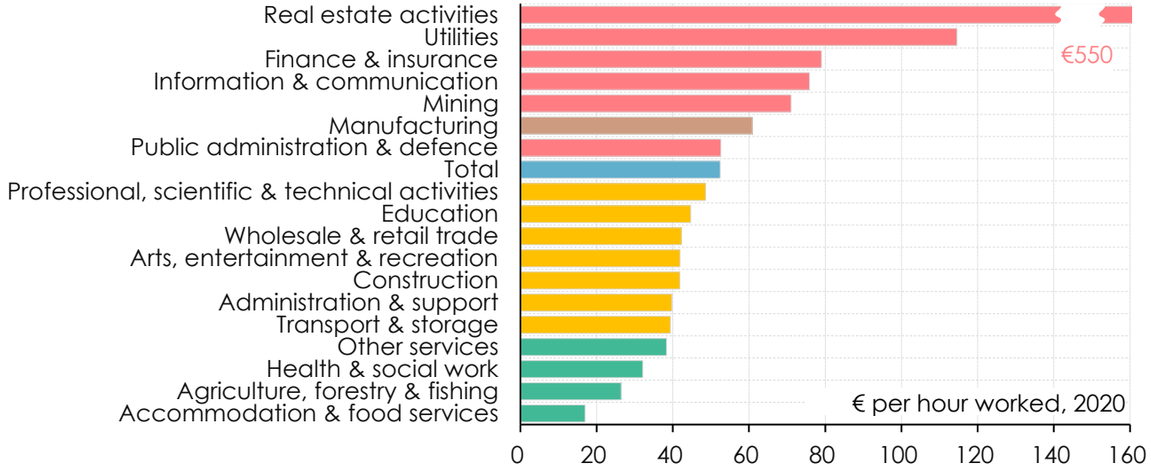
Labour productivity by industry - Japan



Labour productivity by industry – United States



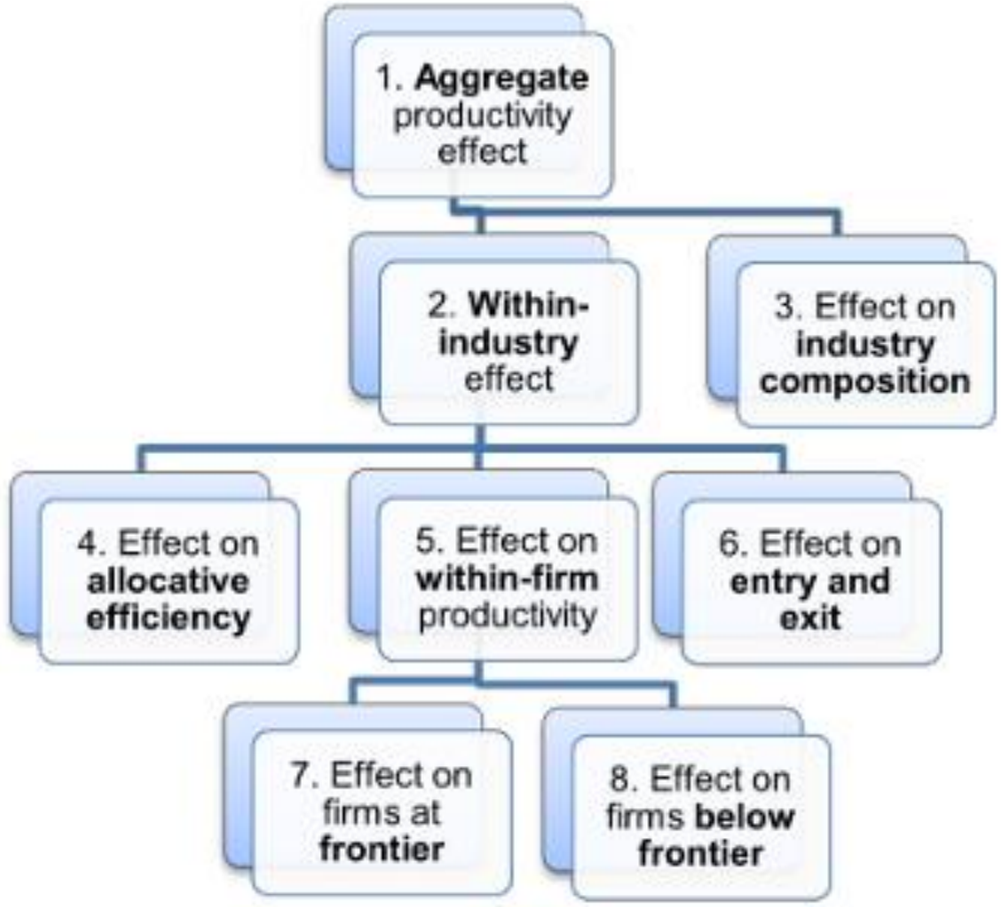
Labour productivity by industry – Germany



Sources: Australian Bureau of Statistics, *Australian National Accounts: National Income, Expenditure and Product* and *Labour Account*, December 2023; US Bureau of Labor Statistics, *Labor productivity and costs measures - Detailed industries*, 2022; Luiss Lab of European Economics, *EUKLEMS and Intanprod*, 2020.

Public policy could help boost productivity by improving incentives for innovation and experimentation, and better resource allocation

Raising overall productivity through incentives and capabilities: a stylized framework



Impacts mostly on	***Incentives***	***Capabilities***		
		Through MFP	*Through capital*	*Through labour*
Firm level productivity *near or at the frontier*	For **innovation** through competition among leaders, appropriate intellectual property rights and public procurement	By expanding the **knowledge frontier** through basic research and collaboration	By enabling **high risk investments** in (mostly) intangible assets	By raising the quality of **human capital** through education and adult training
Firm level productivity *below the frontier*	For **adoption** and **experimentation** through competition (domestic & international) and fiscal incentives	By **diffusing knowledge** across firms and workers	By removing obstacles to **private Investments** and providing quality **infrastructure**	
Allocation of resources *across firms with different productivity levels*	For better **resource allocation** through healthy business dynamism			By improving the **matching** of workers to jobs through enabling mobility

Source: Christopher André and Peter Gal, *Reviving productivity growth: A review of policies*, OECD Working Paper No, 1822, October 2024.

Important information

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