

Demystifying Productivity and the Importance of Choices

Paul Winter, May 2009

A sense of aspiration to achieve our potential is a great motivator; whether experienced at an individual level, as a business or as a total NZ community. However, to work towards being more productive, we must get the balance right between thinking and doing - or expressed another way, inspiration and perspiration – otherwise aspiration can be like sitting revving an engine and going nowhere.

At a national level there is a growing appreciation that productivity is the most important key to raising the standard of living and quality of life we desire. However, as a nation we have some way to go to develop a shared sense of what we understand by productivity in a wealth creating context, and what the best choices at the individual, business and national levels might be.

The Treasury tends to talk to us as if we were economists. They get technical and talk labour productivity and multi-factor productivity. They also separate out other important issues like the proportion of our population that are of an age to work, as well as the proportion participating/contributing in some way in the labour market. Yet the total impact of all these factors comes together in what for me is the best overall comparator of each nation's relative productivity; real GDP per capita.

Concepts like each nation taking responsibility for their ratios of dependent people, and how they redistribute wealth, need to be kept separate from the discussion on how contributions to raise our overall productivity and GDP per capita are maximised.

There is plenty of evidence that, business owners/managers, workers and even media commentators, have important differences in their perceptions of productivity compared to economists. These differences can get in the way of developing broad agreement on the best strategies for increasing productivity.

I recently found myself disagreeing with a definition of productivity that Matt Nolan used in an interesting Dominion Post opinion piece – 'Beware politicians bearing gifts of productivity growth'. He described the essence of productivity as "making more output with the same amount of input."

That definition is far too narrow for me, unless the word 'output' is also given a value dimension to add to its quantity implications. It would be more helpful to say 'making more and/or more valuable output with the same amount of input'. Rod Oram in a subsequent article – 'Private sector's mission from hell' – concluded that "by far the most important definition of higher productivity" was "dramatically increasing the value of what we do".

I agree with Rod's emphasis on the important contribution higher value must make to improving productivity. However, we need to take care in doing so

that we don't devalue anyone's contribution, no matter how small the added value, if we want to foster an empowering culture, rather than one of encouraging dependency. That too is a choice that even the poorest countries find they must make. So too is whether we are prepared to embrace the concept of life long learning even as we work, and more importantly apply what we learn. The power of choice lies within each of us to continually grow the value of our contribution for our benefit, our family and the wider community.

If informed commentators can differ so much in their views, it is far less surprising to find workers, entrepreneurs, employers and politicians using the word productivity in a way that reflects their past conditioning and paradigms.

A worker being told that he or she must be more productive, almost instinctively perceives the meaning of productivity as just working harder. Whereas, if during the same period of work the quality of the output of product is improved, it will as a minimum lead to less rejected product. By definition the productivity and value of the worker's output will also have increased without working harder.

Some may prefer to express my definition as two separate concepts; 'we need to be more productive and to add more value'. Who is technically right is not the point. It is being clearer about the meaning of the words we use and what we need to do to have a better quality of life.

Life is not solely about productivity as Matt Nolan's article argued well, despite him using the extreme illustration of shooting the least productive person in each firm to raise the 'average' productivity of those that remain. We can't afford to be distracted from the real social goal of how we make the most of each person's contribution to raise the nation's total productivity and wealth.

Intuitively we know that a better quality of life is linked to the availability and increased production by nature and ourselves of valued products and services which can be shared and enjoyed now, or stored for future use by our society. As a final bonus these productivity benefits are increased through international trade, as we make the most of each nation's comparative advantages. The choices are ours.