Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: BET 1331

Topic: Productivity Boom of the 1990s

Hansard Page: Thursday 31 May, 105-106

Senator WATERS asked:

Senator WATERS: But it sounds like you are keeping on top of that and have an interest in it. So I hope to see a very fulsome and comprehensive report on that at some point in the future. I will be reading it with great interest. I have one final question. This is a backward step. I put this earlier to Treasury and it raised some mirth. How do you respond to some claims by Professor John Quiggin that there has not, in fact, been any productivity slowdown because there was not really significant productivity acceleration in the 1990s? He says that the use of productivity cycles has no theoretical basis and effectively says that the stats are misrepresenting the situation. What is your response to that?

Mr Banks: We have a rich dialogue with Professor Quiggin and it is ongoing. It occurs at different levels. We have certainly taken into account the points he has made. Some of those points go back quite a long way and have been picked up in earlier work we have done. Again, I might defer to one of my colleagues who is closer to the particular arguments.

Dr Gordon: There was a very big debate with the former branch head, Dean Parham, who did a lot of work on productivity. He looked at the effect of the reforms and ICT, which is one of the points that Professor Quiggin made, in trying to explain the productivity boom of the 1990s in terms of what actually happened. Professor Quiggin's main point is that work intensity is important, which is quite hard to measure but, in fact, is a major source of productivity growth. If people work smarter and work harder while they are at work, that will improve productivity. So it is cutting the fat of organisations, I suppose you could call it. The other point is that people are working longer hours. But the way the productivity measurement is done takes account of the hours of work. That is actually data collected through ABS surveys of individuals reporting the hours that they work. So we could measures hours properly. It is hard to measure work intensity. It does appear and it is a source of productivity growth.

Senator WATERS: I am sure everybody thinks they work very intensely.

Dr Gordon: So we were in full agreement with that. So the debate was settled back in the mid-2000s. That was the last time that Professor Quiggin was writing an academic article on that. I was having a look. He has since written a number of opinion pieces on it. He has a strong view on this and is perfectly entitled to that view. There is a question about what the data actually tells us with productivity numbers. As we pointed out, there are some difficulties with them. They do not always capture all the quality improvements. They do not always capture some of the inputs that might be measured as well, such as environmental inputs. So there are some challenges with the numbers.

But I think the world pretty much accepts productivity cycles as the best way to try and control for this variation in utilisation of capacity. This is the peak to peak that Mr Banks was referring to earlier. That is the best way. We have a very nice paper that we did looking at different cycles in different industries. We found that there is the general market cycle, and manufacturing tends to follow the same peak to peak. But some of the other industries follow quite different cycles. That makes using the market cycle for those industries a little misleading in terms of the measurement of productivity over that period. So they are some of the complexities that our research program looks at and tries to understand.

Senator WATERS: Can you provide me a link to some of those papers?

Dr Gordon: I am certainly happy to do so.

Senator WATERS: Thanks very much. That has been very instructive.

Answer:

The papers in relation to the debate with Professor Quiggin are:

Productivity Growth in Australia: Are we enjoying a miracle? (Parham 2002)

http://www.pc.gov.au/research/staff-working/pgia

The work intensity issue is directly addressed in:

Parham, D. (2004), Sources of Australia's Productivity Revival. Economic Record, 80: 239–257.

The papers on measuring productivity cycles referred to are:

Multifactor Productivity Growth Cycles at the Industry Level (Barnes, 2011)

http://www.pc.gov.au/research/staff-working/industry-multifactor-productivity

This paper identifies the peak to peak productivity cycle for the market sector industries. The analysis shows that while manufacturing followed the same cycle as the whole market sector, some industries, in particular agriculture, mining and wholesale, did not have any cycle in common with the market sector. The convention of using the market sector cycle to report multifactor productivity growth rates can be misleading. For example, for both Mining and Wholesale trade, a period of negative MFP growth over a market sector cycle is actually a period of positive MFP growth over the closest industry-specific cycle.

Investments in intangible assets and Australia's Productivity: some sectoral estimates (Barnes 2010)

http://www.pc.gov.au/research/staff-working/intangible-investment-sectoral-estimates

This paper uses experimental methodology to classify a number of types of expenditure as intangible capital instead of operational expenditure. It then looks at the implications for productivity measurement of treating such expenditures as investment in capital.