

## EDUCATION, SCIENCE AND TRAINING

### SENATE LEGISLATION COMMITTEE - QUESTIONS ON NOTICE 2005-2006 BUDGET ESTIMATES HEARING

**Outcome:** 2

**Output Group:** 2.4 – Higher Education Group

#### **DEST Question No. E354\_06**

Senator Carr provided in writing.

#### **Question:**

The AVCC in its submission calls for the use of the ABS Labour Price Index, education sector. You reject that because you say that index contains “some productivity gains”.

Yet you note, don't you, that this series of indices excludes changes in the “quality and quantity of work performed”?

You describe the “productivity elements” included in these indices as related to “market pressures” as they drive up wages. How are these factors “productivity elements”? If a shortage of teachers drives up teachers' wages, what has that to do with productivity? Isn't productivity to do with “quality and quantity” of work performed, which are excluded from the index?

#### **Answer:**

##### *Indexation*

In relation to the ABS Labour Price Index (LPI), the *Review of Indexation Arrangements in the Higher Education Sector* noted that changes in the quality and quantity of work performed are excluded. This is due to the ABS seeking to hold the quantity and quality of labour input constant – output and changes to the nature of the input (such as skills or experience) are excluded.

However, the *Review* noted that “when considering price movements for labour services, no adjustment is made for productivity changes within the production processes that arise from factors such as capital investment, technological change, more efficient organisational arrangements, and entrepreneurial activities.” Thus, changes in the price index may reflect changes in productivity that cannot be attributed to labour input, but which may affect the wage cost of such input.

This is in accordance with the ABS' views in *Labour Price Index: Concepts, Sources and Methods* (Cat No 6351.0.55.001, paragraph 3.8).