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***Creating a Productive Future: social and  
economic challenges, policy and governance***

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## **INTRODUCTION**

Thank you Tom for your kind introduction.

I acknowledge the traditional owners of the land on which we meet today and in a spirit of reconciliation pay my respects to elders past and present.

I am honoured to open a symposium which in its own way celebrates the United States - Australia alliance.

This is especially so, because I was born in the US, but migrated to Australia with my parents, enough years ago to lose my American accent.

United States Ambassador Jeffrey Bleich has talked about the “unstoppable ability of Australians and Americans working together”<sup>1</sup>.

We’ll celebrate that ability here during this Symposium.

It is a great privilege to join with Harvard colleagues to consider the question of creating a productive future by tackling social and economic challenges and considering policy and governance implications.

## **AMERICAN AND AUSTRALIAN PRODUCTIVITY EXPERIENCE**

The United States is still a world leader in productivity performance.

Australian labour productivity was only 81 per cent of the US level in 2011.

US labour productivity growth slowed over the past decade, with a brief surge in 2010 following the end of their recession.

Australia’s productivity growth has slowed since the 1990s.

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<sup>1</sup> [http://blogs.state.gov/index.php/site/entry/us\\_australia\\_friendship](http://blogs.state.gov/index.php/site/entry/us_australia_friendship)

Our productivity growth averaged 1.8 per cent per year from 2000 to 2011.

However, it has lifted to 2.3 per cent over the year to the December quarter 2012.<sup>2</sup> Let's hope this continues.

After all, productivity growth continues to be responsible for almost all of any increases in GDP per capita.

Australia's productivity needs to continue to lift if we are to remain competitive internationally.

The advantages conferred by our resources sector are, of course, significant.

But Australia's challenge is not just about using resource wealth efficiently.

Investment in people is crucial to building long-term prosperity.

## **INVESTING IN PEOPLE FOR PRODUCTIVITY**

Work we commissioned in 2009 from KPMG Econtech highlighted the potential economic benefits of investing in people.

Their modelling estimated that Government investments in early childhood could generate up to a 1.5 per cent increase in labour force participation and a 1.2 per cent growth in productivity by 2040.

Achieving the national goal of 90 per cent of K-12 students completing Year 12 or equivalent could generate up to 0.6 per cent more GDP and 0.4 per cent more employment, every year to 2040.

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<sup>2</sup> [This was measured using real Gross Value Added per hour worked in the market sector, in trend terms, from ABS \(2013\), Australian National Accounts: National Income, Expenditure and Product, December quarter 2012 \(ABS Cat. No. 5206.0\).](#)

Econtech also estimated that reaching national higher education and training targets could generate up to 2.9 per cent more GDP each year to 2040.

Taken all together, GDP could be \$108 billion higher every year than the baseline, from 2010 to 2040.

This equals a gain of about \$4,000 per person every year.

It could represent more than half a million additional jobs in the Australian economy.

Analysis by PriceWaterhouseCoopers tells us that achieving world leading standards in K-12 schooling could generate an extra \$3.6 trillion for Australia's economy over the life of a child born now.

Their report said that "accepting a less-than great education system imposes opportunity costs on Australia".

These opportunity costs include people earning less than they could otherwise, because they haven't got the higher order skills needed to succeed in the global economy.

All this work shows that investment in people matters.

The then Chairman of the Productivity Commission Gary Banks said last year that:

"investment in human capital development is fundamental to innovation and related productivity improvements".

## **FAIRNESS BOOSTS PRODUCTIVITY**

So I have argued that investing in people's skills and potential is an essential pre-condition for increasing productivity.

But you can invest in people in a fair and inclusive way; or conversely, in a way that leaves people behind.

In Australia we know that, unfortunately, a likely explanation of a gap in K-12 school performance between two children of the same age is that one is from a wealthy background and one is not.

The labour force participation rate for Australians of working age with a disability was 54 per cent in 2009, compared with 83 per cent for people without disability. This gap has persisted for over a decade.

Aboriginal and Torres Strait Islanders continue to have worse health, education and income than other Australians.

The gap between the region in Australia with the lowest unemployment rate and the region with the highest, widened during the global financial crisis and has not yet closed.

While Australians pride themselves on being egalitarian and giving people a 'fair go', this is not the lived experience for some people.

So I would argue that not only is investing in people's potential a pre-condition of increasing productivity; but that doing it in a way which creates opportunities fairly, should also be seen as a pre-condition.

## **PRODUCTIVITY IS CREATED IN WORKPLACES**

And once these important pre-conditions are met, let's not forget that it is people, in their places of work, who actually create productivity.

The Governor of Australia's Reserve Bank, Glenn Stevens said recently:

“Sometimes when we talk about productivity I think there is a tendency in community discussions to think of this as a very nice, soft, wonderful concept and that we can just dial it up, but it actually does not work that way; it works by firms, managements and workforces grinding out difficult changes to the way they do things every day. That is where the productivity comes from and from implementing new technology, new equipment and new ways of doing things. Workplaces are the engine room of the economy. It's where everything comes together to produce the goods and services that we and others consume.”

And Australian economist Saul Eslake has noted that workplaces are “where the decisions that actually lead to higher levels of productivity are formulated and executed”.

To improve productivity, workplaces need to innovate, harness technology and focus on efficiency.

## **GOOD LEADERSHIP, MANAGEMENT AND CULTURE INCREASES PRODUCTIVITY**

But we also know instinctively, that people in happy, engaged, safe and well managed workplaces will go the extra mile.

They will offer more effort and simply be more productive.

Good leadership, management and organisational culture can significantly increase productivity in workplaces.

Our department commissioned research that compared workplaces performing well on employee satisfaction, wellbeing and commitment, to workplaces not performing as well.

The high-performing workplaces were 12 per cent more productive than the low-performing workplaces.

They had 23 per cent less staff turnover.

They spent 30 per cent more time with their employees.

Their average profit margin ratio was 15 per cent compared with 5 per cent in the low-performing workplaces, amounting to a \$40,000 difference in profit per full-time employee per year.

It's compelling stuff.

But if the link with productivity is so obvious, why are there still chief executives who are loathed by their employees?

Why are there still bullies at work?

Why are there unsafe and unhealthy workplaces?

Why aren't measures of employee satisfaction taken as seriously as the profit and loss statement?

Luckily, there is a growing movement in Australia of companies, unions and governments seeking to raise the bar on leadership, management and culture.

An important new initiative in Australia is the creation of a national Centre for Workplace Leadership, announced by the Minister for Employment and Workplace Relations, the Hon Bill Shorten MP, last year.

There are 1.3 million bosses in this country and they deserve to be the best they can be.

The Centre will offer them training.

It will lead public debate on the importance of good leadership and drive a broader movement to do things differently at work.

I am excited by this initiative because great leaders help create great places to work.

We all want to work somewhere great, where the boss cares for us in a genuine way, where we are motivated by the company's vision, where we don't have to leave our personalities at home and where people reach out when we need help.

Workplaces where people are involved in decisions that affect them and where their voices are heard.

About 4000 people work in our Department of Education, Employment and Workplace Relations.

We administer more than \$30 billion a year to give Australians quality childcare and preschool, great schools, good jobs and fair and safe workplaces.

In our department, we have managed budget reductions for three years, yet we are doing more for Government and Australians.



To do more with less, we have streamlined business processes and rationalised programs.

But last year we also did something new: we asked everyone in the department what work we could stop or change.

Thousands of ideas came in. Some were simple, such as defaulting printers to black and white. Some were bigger, such as being brutally clear about our priorities, and valuing our people over all.

The crucial element is that we are involving our people directly in shaping their own futures, even in a constrained budget environment.

When our 2012 staff survey results came in, employee satisfaction had gone up, even though we are managing a reduced budget.

Our people rated the department well above Australian averages on almost every measure. This is a tribute to people in all our workplaces.

I am convinced that greater employee satisfaction pays off in greater productivity.

## **DIVERSITY ALSO HELPS**

It is also my view that a diverse workforce is a driver of increased productivity.

This is supported by exploratory research released by Deloitte last year.

Based on a survey of employees from three large Australian companies, Deloitte found that:

“When employees think their organisation is committed to, and supportive of diversity and they feel included, employees report better business performance in terms of ability to innovate, responsiveness to changing customer needs and team collaboration”.

I’m enormously proud of the fact that in our organisation Aboriginal and Torres Strait Islander people are almost six per cent of the workforce compared to 2.7 per cent in the broader population.

We involve all our people in making Indigenous business everyone’s business.

In 2010, 28 per cent of our staff said the department’s commitment to reconciliation between indigenous and non-indigenous Australians had influenced their behaviour inside or outside work.

By 2012 this proportion had increased to 58 per cent.

From a business perspective, a commitment to diversity is not only the right thing to do but makes good business sense.

## **ASIAN EXPANSION**

Australia will have to harness every productivity advantage to remain globally competitive.

This is especially the case given the rise of Asian economies in our region.

In the past 20 years, China and India have almost tripled their share of the global economy.

They have increased their economic size almost six times over.

In the past ten years, China's share of global value-add manufacturing has doubled and China is now the world's largest exporter.

By 2025, the region as a whole will account for almost half the world's output.

Japan, South Korea, Singapore and more recently, China and India have doubled their income per person within a decade.

To put this in perspective, it took the United Kingdom over 50 years to double income per person during the Industrial Revolution.<sup>3</sup>

By 2020, Asia is expected to have more middle-class consumers than the rest of the world combined,<sup>4</sup> driving rapid growth in private consumption.

Between 2000 and 2011, the number of cars per 100 urban households in China is estimated to have risen from less than one to more than 18; the number of computers from eight to 80; and the number of mobile phones from 16 to over 200.

Between 1990 and 2009, energy consumption in Asia more than doubled and the region's share of global energy consumption increased from 25 to 38 per cent.

China is now the world's largest energy consumer, having gone from consuming less than half as much energy as the United States in 2000, to consuming slightly more, today.

Urbanisation has been staggering in Asia. 44 million people move into to Asian cities, every year.

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<sup>3</sup> Maddison A. (2010); Statistics on world population, GDP and per capita GDP, 1–2008 AD', Historical Statistics, Groningen Growth and Development Centre, [www.ggdc.net](http://www.ggdc.net).

<sup>4</sup> Homi Kharas (2010), The Emerging Middle Class in Developing Countries, Working Paper No. 285, OECD Development Centre.

This all means we are in a race even to stay where we are.

In recent years for example, K-12 students in several Asian cities and countries have for the first time, done better, on average, than Australian students in international tests for reading and math.

Four of the five top performing K-12 systems in the world are located in East Asia. Students in Shanghai, South Korea, Hong Kong and Singapore are on average 45 points ahead of the OECD average in reading.

This means that these East Asian students are more than a year in front of students at OECD average.

Engagement with Asia is another pre-condition for future growth in Australian productivity.

In launching the Australia in the Asian Century White Paper, The Prime Minister Julia Gillard said:

“Our nation has benefited from Asia’s appetite for raw materials and energy. The challenge we must now address is how Australia can benefit from what Asia will need next.”

Importantly, in terms of the arguments I have made here, the authors of the White Paper said:

“... as a nation we must do even more to develop the capabilities that will help Australia succeed. Our greatest responsibility is to invest in our people through skills and education to drive Australia’s productivity performance and ensure that all Australians can participate and contribute.”

## **CONCLUSION**

The theme of this Symposium is: Creating a Productive Future.

We can learn from the US experience, and from growth in our region.

To achieve a productive future I believe we need to keep investing in people as a pre-condition for increasing economic productivity.

And we should recognise that investing in people fairly, will generate even more productivity.

Once these pre-conditions are met, we should focus on productivity inside workplaces.

And focus on good leadership, good management and positive organisational culture.

If we can harness these opportunities, we will be best placed to remain globally competitive and to create our own productive future.

Congratulations to everyone who is part of this Symposium.

I hope you find it stimulating and enjoyable.

Thank you.

**ENDS**