What is Productivity and how do we compare to other countries

Productivity is the ratio of inputs to outputs in production. In simple terms it is what we achieve as an output compared to the effort required to achieve it.

It can be expressed as units of a product (e.g. cars) per worker-hour (total number of hours worked by all workers on that car). Given the cost of the worker-hour, productivity can also measure the efficiency of a company.

It is important because in most business models, profitability is a function of productivity, price, and volume. In other words, a company's success is measured by how efficiently it uses its resources to produce its product, the price it can sell its products, and how many products it can actually sell.

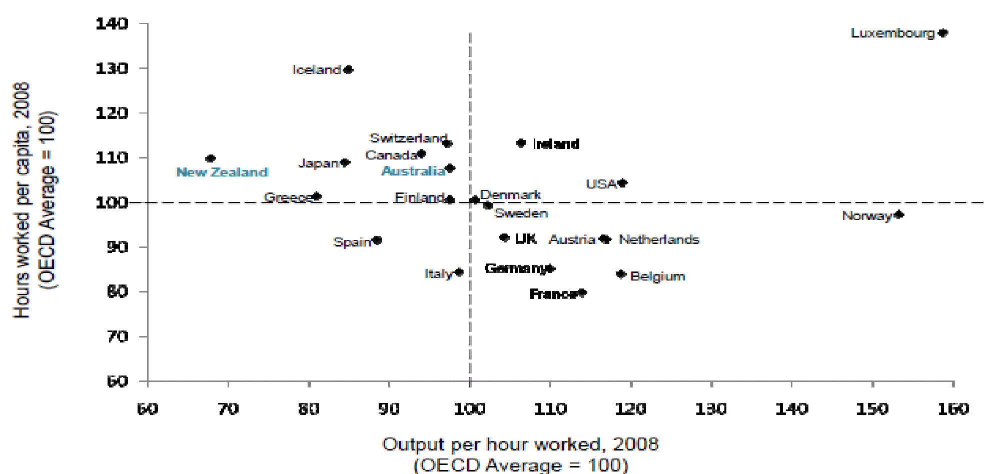
In the service sector productivity might be measured based on the revenue generated by an employee divided by his/her salary.

In 1994 Paul Krugman said “Productivity isn’t everything, but in the long run it is almost everything. A country’s ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker”.

The graph below shows how New Zealand compares to other OECD countries. The vertical axis shows the hours worked per capita with the dotted line being the average. Countries above the line work more hours than the average. The horizontal axis shows the output per hour, again 100 is the average, countries to the right achieve more than the average. Luxembourg has a high output due to a number of sectors including banking, steel and telecommunications.

Norway has significant output due to its geographical position to the North Sea and therefore oil production.

LABOUR PRODUCTIVITY IS LOW



We can see however that New Zealand sits in the worst position, we work more than the average and produce less than any country on the graph.

Productivity growth is a crucial source of growth in living standards. Productivity growth means more value is added in production and this means more income is available to be distributed.

At a firm or industry level, the benefits of productivity growth can be distributed in a number of different ways:

- to the workforce through better wages and conditions;
- to shareholders and superannuation funds through increased profits and dividend distributions;
- to customers through lower prices;
- to the environment through more stringent environmental protection; and
- to governments through increases in tax payments (which can be used to fund social and environmental programs).

Productivity growth is important to the firm because it means that it can meet its (perhaps growing) obligations to workers, shareholders, and governments (taxes and regulation), and still remain competitive or even improve its competitiveness in the market place.