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Losing the productivity race

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*The construction industry illustrates why productivity should be lifted, write **John Daley and Marcus Walsh**.*

In 1990, Australian and US construction workers produced about as much as each other for every hour they worked. But by 2005, Australian construction workers were about half as productive as US workers.

In just 15 years, this sector had fallen from being one of Australia's better performers relative to the US to the second worst. Many international businesses say it takes considerably longer, and costs more, to build infrastructure in Australia than in comparable countries.

But construction is not alone. Fourteen of 19 major sectors of the Australian economy had lower productivity growth in the 2000s than in the 1990s, according to a recent Grattan Institute report, *Australia's Productivity Challenge*.

Because productivity growth – producing more from the same inputs – is the only way to enjoy high living standards over the long term, Australia urgently needs to understand why its recent productivity performance is so weak.

As Treasury secretary Martin Parkinson warned in a speech last week, Australia's declining productivity performance is the reason that "the rate of improvement in the living standards of Australians . . . has already begun to deteriorate". The Grattan report points to four areas where reform is needed to raise our productivity performance. These are an acute and rising shortage of skilled labour, competition-stifling regulation, inadequate infrastructure and a lack of innovation.

Construction provides an excellent case study in how these four failings affect the economy. It is a large industry, comprising one in every 10 hours worked. Its effects on the productivity of the rest of the economy are substantial. And, according to the federal government, it is one of the sectors in which skill shortages are likely to be greatest.

Even now, before the mining boom peaks, Australia needs more skilled project managers, surveyors, stonemasons, electricians, glaziers, plumbers and engineers, among others. The problem is not that these are unattractive jobs – construction workers are paid above the national average. The problem is supply.

Without targeted investment in training to lift the number of appropriately skilled workers, Australia's productivity performance in construction is likely to stay poor.

The Grattan Institute's latest report, *The Housing We'd Choose*, highlights a series of disincentives in the residential construction industry – from financing and land issues to high material and labour costs – that prevent it from addressing a substantial unmet demand for town houses and apartments in the middle suburbs of Sydney and Melbourne.

A cumbersome, slow and uncertain planning system also hampers competition in construction. A recent Council of Australian Governments report into development assessment performance found that most applications to build town houses and apartments in NSW and Victoria were not decided in the statutory time. The 2008 COAG agreement on a Seamless National Economy mandates a national approach to construction standards, licensing of occupations, health and safety, and electronic conveyancing for property settlements, among other areas.

But progress on many of these issues has stalled as governments bicker over whose approach is better or who pays. The lack of vigorous competition in construction does little to foster innovation.

Competition in the US and Europe has led to the introduction of more efficient prefabrication construction methods and better building materials that are not yet widespread in Australia.

Finally, bottlenecks at ports and in road and rail transport hamper the construction sector's ability to get jobs done on time and on budget.

And since the construction sector builds roads and bridges, its poor productivity performance inevitably exacerbates the delays and weaknesses in Australia's general infrastructure regime.

There are many areas in which federal and state governments could act to lift productivity growth, and thereby lift the living standards of all Australians.

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