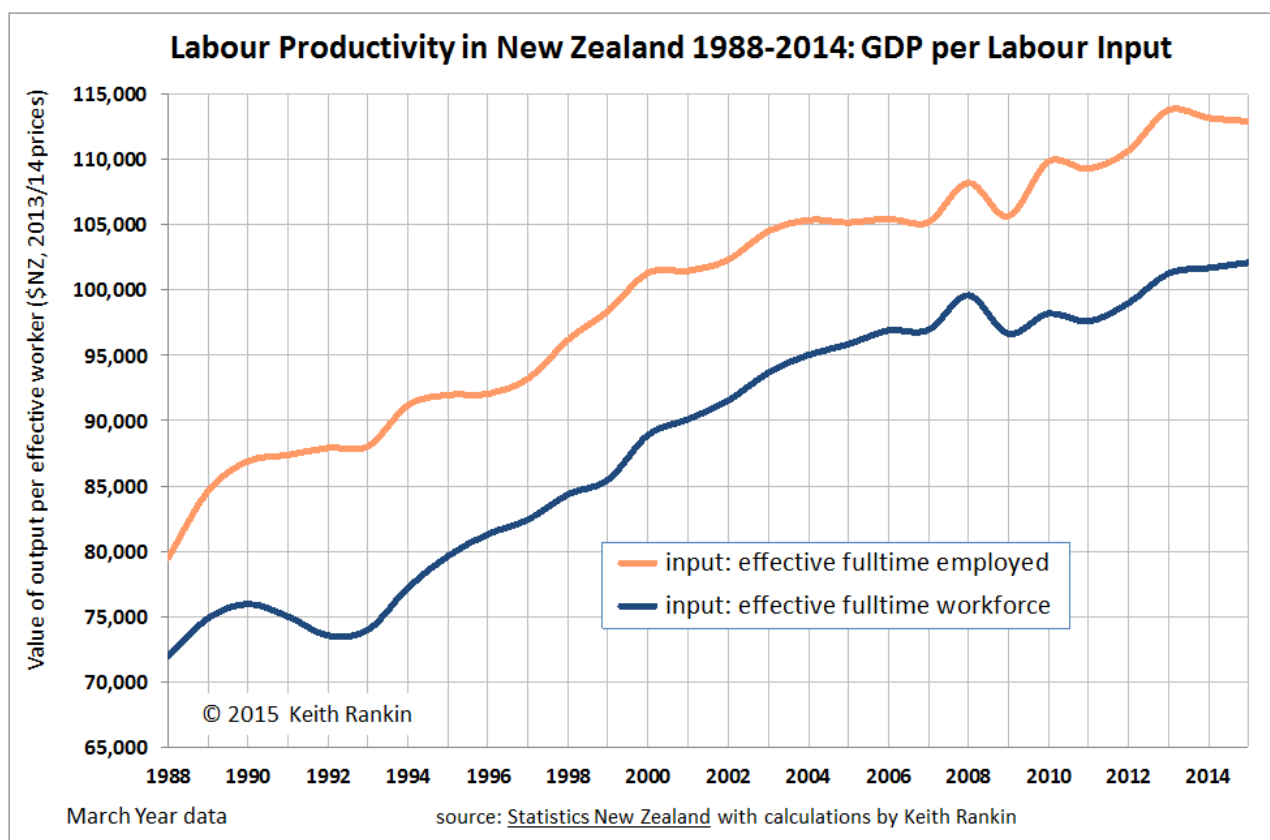


Chart for this Week:

Labour Productivity in New Zealand 1988-2014

Keith Rankin, 26 August 2015



[Productivity: It depends on the denominator](#)

When economists talk on the media, we often hear the word 'productivity'. Interviewers' eyes glaze over. To many, 'productivity talk' is code for blaming the workers for whatever economic ailments we might have, and for employers wanting to reduce labour costs more so they can make more gizmos for anybody but their own workers.

The 'productivity' concept is important, however, because it really is an indicator of economic success. It's a ratio. Business commentators focus on the numerator; the outputs over the inputs. And most economic policymakers think we should achieve high productivity growth by having strong input growth and even stronger output growth. That's not very intelligent thinking, at least for advanced economies.

In advanced (ie already high-productivity) economies, gains in living standards and sustainability come from reducing the denominator. Thus productivity increases through continuing to produce at present levels, while reducing inputs; especially reducing labour inputs. In advanced economies, such as New Zealand, continued increase in living standards arise from less labour, not more gizmos. Labour is a cost (input), not an output.

The chart here shows labour productivity rising more slowly after the mid-2000s.

I show two measures of productivity. One (top) is a measure of output per actual employed person (with part-time workers counting as half). The second measure is of output per person who is or would like to be employed. People who would like to be employed part-time are counted as half, and I have taken all people aged over 15 classed as neither employed nor retired nor students nor caregivers as counting as 'half' within the denominator. Thus the lower line is a more correct measure of productivity; of output per willing worker.

The difference between the two lines is a result of joblessness, which is a broader concept than narrowly-defined 'unemployment'.

The ideal future has three components: increasing productivity, convergence of the two lines (the elimination of joblessness), and reductions in employment. On the latter matter, the ideal target could be that everyone who wants to be part of the workforce has 20-25 hours per week employment. The target then, to achieve future labour productivity gains, is to eliminate most full-time employment (as well as eliminating joblessness), while maintaining output and income at present aggregate levels.
