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Premier's Award for Productivity.

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As most of you will realise the measurement of productivity is one of the notoriously unreliable areas of economics. Put simply, the concept of productivity relates output - or production - to units of input such as capital and labour. Usually, however, productivity at the factory level has been measured in terms of output per unit of labour, or at the national level by dividing the gross national product by the number of people employed.

This formula has often seemed adequate for firms with tangible output, such as in the manufacturing area. However, rapid technological change is making this approach increasingly unreliable.

The measurement of productivity becomes even more hazy in areas of economic activity where output or production is less tangible - and there are many endeavours, in both private and public sectors, where this is the case.

I'm sure it's the intangible nature of a great deal of governmental activity which sometimes leads to arguments that government spending is unproductive or even wasteful.

However, an analysis of the argument may lead to a question of measurement and not whether the government is slack whilst the public sector is dynamic.

A great deal of production in the private sector fits into this "intangible" mould. I'm thinking, for instance, of advertising firms, legal practices, management consultants and the computer industry, indeed, economists are now talking about a new growth area, known as the "quaternary" sector or information processing industry, which includes telecommunications, computers, electronics, radio and television. This is now the fastest growing employment area and last year 30% of our workforce was employed in this sector compared with 35% in the tertiary sector and less than 25% in manufacturing.

Productivity in this growth area is difficult to measure just as it is with government workers or safety inspectors.

For instance, if productivity concepts are to be used, how does one calculate the output of a school teacher. One approach would be to tally the numbers of school children per teacher. But most people would say that if our education system is to be really productive class sizes should be small, with fewer children per teacher.

It boils down, then, to the question whether quality has anything to do with production. I think it does.

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Productivity increases do, of course, occur in the public sector but they are rarely if ever, measured. Lets look at an example, before antibiotics were discovered, many people suffering from diseases and infections died or required intensive care. With antibiotics and other drugs, many formerly serious illnesses can be cured in a few days. This freed medical resources for other challenges, allowing them to be more productive in other areas of medicine.

But this kind of increase in production in the public sector and in some areas of the private sector, does not register in Australia's national accounts, nor did it, for instance, when we improved the quality of education by reducing class sizes.

Two decades ago, a greater proportion of the output of our society was of a tangible nature and, therefore, the traditional formula for measuring productivity was both accurate and relevant.

Assuming that most of the tangible output comes from manufacturing - although building and mining are two exceptions - what happens to productivity when we have a situation where we have gone from about 30% employment in manufacturing in 1960 to 20.8% in 1976?

During that same period there has been a vast increase in service industries - such as banks, finance and retail activities - where productivity is again hard to measure.

Thus, for structural reasons, we may find it hard to maintain a given measured rate of increase in productivity in future years.

By mentioning this dilemma of measurement I am not trying to denigrate those people who try to obtain productivity gains. Indeed, there is no doubt that vastly improved productivity has been a major source of improved economic well being in the western world.

However, increased productivity through technological change need not run counter to increased job satisfaction by workers. Indeed, the more progressive elements within Australian management have adopted the view that they will be only able to cope with increased economic pressures and the changing values of the workforce if they involve their employees in decisions which previously were the sole prerogative of management.

Certainly, companies which have adopted this stance are likely to be in a better position to cope with the inevitable restructuring of the Australian manufacturing industry. Indeed, its difficult to conceive that restructuring can occur in any rational way without the full support and involvement of employees.

I think the recent telecom dispute underlines my point. Basically, the dispute was protracted because of poor communication and lack of consultation at an earlier stage. The workers naturally feared for their jobs in an area of almost frightening technological change. Quite frankly, as I told the Sydney Chamber of Commerce last week, I fear that unless organisations involved in such change do consult their workers, we are in danger of inspiring a generation of electronic luddites.

I don't often get the chance to praise a Minister in the current Federal Government. But at this point I would like to thank Ian McPhee, the Minister of Productivity, for his efforts during the past year to bring common sense to questions of employer participation and job reform.

At our International Industrial Democracy Conference in June he called upon employers, employees and trades unions to question present practices and assumptions and to explore new possibilities. He called for direct participation and meaningful involvement of employees in decisions that affect them in the work place, rather than what are sometimes cosmetic, consultative mechanisms.

Mr. McPhee also said there should be a wider flow of information to employees and, as I have stated repeatedly, he said legislation should not be used to require the introduction of employee participation but, and I quote, "might subsequently be useful to facilitate its implementation".

Essentially, Ian McPhee and I agree also that the role of Government is to stimulate ideas and action among management, employees and trades unions, to co-ordinate, to provide information, and to provide a clearly stated commitment to the concept of increased worker participation which would serve to encourage action.

But tonight, I do not want to again explain the South Australian Government's Industrial Democracy Philosophy. I have done that in ten major policy speeches this year. But I would like to share with you tonight examples of job reform and industrial democracy in action which have, I believe, a direct bearing on productivity.

For four years, the Unit of Industrial Democracy, has been involved - at the request of management, workers and unions - with a project in an Adelaide joinery. There, semi-autonomous work groups have been established to carry out tasks. In these groups employees have control over all the immediate factors covering their work. Targets are set and boundary rules for the groups activities are agreed upon in consultation with management. Within these limits, group members organise and control their work without supervision.

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In the joinery's cabinet shop, for instance, there had been a high turnover of staff and a poor absenteeism record before the industrial democracy programme began. People were staying away from work even though they lost pay and bonuses - because their work was boring.

However, an increase in work load led to discussions amongst the cabinet makers, and with management, on how work routines could be better organised. They opted for the work group concept.

The foreman, who supported the establishment of semi-autonomous work groups, was given a furniture design job and later promoted to factory supervisor. It was decided not to fill the vacant foreman's position, a move which contributed to the decentralisation of decision-making within the sector.

The previous assembly line structure was dismantled and the Cabinet makers themselves now play a major role in finding how each batch of work should be processed. The leading hand has been supported by the workers in his new role as co-ordinator.

Management has also greater consultation with the tradesmen themselves on the design of new types of furniture, and this has fostered an atmosphere of co-operation and trust as well as greater job satisfaction. It has also led to better products, produced more economically because of suggestions from the men who know most about production problems. On one project, for instance, the company says it was able to save 500 man hours by listening to employers suggestions on how the job could be tackled better. I think you will agree that at the current labour rate that represents an excellent return.

Since the project was begun the cabinet making shop has been able to operate autonomously without a great deal of difficulty in terms of outside constraints. Not only are the employees involved in the day to day running of the workshop but they have taken up a high level of participation in decisions relating to plant layout and machinery.

The joinery as a whole also has a works council where a group of employee representatives from each section meets occasionally to discuss and overcome problems.

I would like to mention a few things they have done. They have experimented with the election of supervisors, they have become deeply involved with safety issues, with social welfare, the provision of staff amenities, job planning and factory layout.

They have also resolved demarcation problems and they have been discussing with unions the possibility of a flexitime system which is supported by employees and management.

There is no hint of worker's control. There are no directors on the board. But it's a form of industrial democracy that has worked to enhance the efficiency of the organisation.

You may have read that last week, in Sydney, I predicted that this year we could expect more than 300,000 people to be insured and more than 1,000 killed at the work place. Apart from the enormous human cost, the loss in terms of production is incalculable, and in terms of workers compensation, the financial cost is likely to be some \$350 millions.

Rather than advocating a dramatic rise in the numbers of safety inspectors I propose "self inspection" through a system operating at the local or plant level. Such a system, however, constituted, would help foster a greater awareness of safety issues. From merely enforcing minimum statutory requirements, the role of "on the job" inspector would become one of training, anticipation and education for preventative measures beyond the statutory requirements.

In Sydney I pointed out that there is a working example in South Australia which indicates that an elected safety representative system can achieve real results. In late 1977 five wool broking companies operating stores in Port Adelaide, introduced joint management/union representative structures and preliminary results have been remarkable.

Let's compare time lost through accidents for a two month period prior to the introduction of the new safety arrangements with a two month period following.

Between the 1st October 1977 and the 31st December 1977 the five companies together lost a total of 1,593 hours through accidents. However, from the 1st April 1978 until the 31st June the total hours lost through accidents had fallen to 232 hours.

By the way, the differences cannot be explained away in terms of seasonal fluctuations. The second two month period was the busiest.

I do not need to tell people here of the effect industrial accidents and occupational illnesses have on productivity. I, therefore, find the results of the experiments I have just mentioned to be most exciting.

Obviously, many South Australian companies - a number of whom are represented here tonight - who do enjoy high levels of productivity and can compete well in overseas markets. However, recent ill-informed emotional statements about industry in this State can only serve to undermine productivity and profitability by lessening people's

motivation to work in South Australia. In particular, I am referring to claims that somehow South Australia's cost structure and Government regulations are inhibiting industry.

The claim that we are unreasonably overregulated doesn't bear examination, because the industries and companies which operate legitimately do not have problems with our regulations. The claim that our Builder's Licensing Act and our Consumer Protection Legislation are discentives to industry is nonsense.

The Builder's Licensing Act has been essential to the improvement of the building industry and this legislation was supported by the industry itself. Similarly, I do not apologise for Consumer Protection Legislation which requires second hand car dealers to operate honestly with their dealings with the consumer. These should be of no concern for the honest trader who wants to make an honest buck, so it's absurd to say these measures stand in the way of productivity. Indeed, I believe, they help the honest businessman to do his job better.

Let's take a look at the claims that South Australia has lost its labour cost advantage enjoyed during the Playford era. In particular, the critics cite wages, payroll tax and workers compensation.

In South Australia wages are lower than the Australian average. The latest set of statistics for average weekly earnings, for the June quarter, shows South Australian wage costs to be at least \$10 below those of Victoria, New South Wales, our principal competitors. The figures are: South Australia, \$207.30; Victoria, \$218.10; New South Wales, \$217.40 and the Australian average, \$215.50.

In payroll tax South Australia has, jointly with Victoria, the lowest schedule of payroll tax payable anywhere in the country. The only exception to this claim occurs in the case of Queensland for firms with between seven and thirteen employees, but if they expand only to fifteen employees such is the prohibitive speed with which the initial exemption phases down in that State, the firm would wind up paying more payroll tax in Queensland than here.

The wage advantage plus the favourable payroll tax position multiply together. The effect of this is that for a firm of fifteen employees paid at average weekly earnings, payroll tax payable in New South Wales is 28.5% higher than in South Australia, 6.5% higher in Victoria, 4% higher in Queensland, 3.2% higher in Western Australia and 4.2% higher in Tasmania.

In workers compensation once again South Australian costs, either for claims paid out or for premiums charged, are lower than those prevailing in the two other industrialised States, Victoria and New South Wales.

The latest year for which figures are available from the Commonwealth Statistician is 1976/77. They show premiums charged per worker in Victoria at an average of \$252 a year, in New South Wales at \$191 a year, and in South Australia at \$182 a year.

The position was even more distinct with regard to the claims paid out. In Victoria the 1976/77 figure was \$155 a year per worker, and \$152 in New South Wales. In South Australia the corresponding figure was only \$112. This evidence is not simply a fortuitous result for one year alone. Exactly the same result was obtained in 1975/76 and in earlier years.

These are the three main components of labour costs. In each case local employers fare better than their competitors in the other industrialised States. Business in this State also has the advantage of trading in easily the best industrial atmosphere found anywhere in the country. This year, yet again, days lost through strikes in South Australia are running well below the national average. On the latest figures, for the first seven months of 1978, our strike loss rate was only 42% of the national pace.

Last year, and remembering that South Australia is about 10% of the nation's work force, we had less than 1.5% of the days lost through industrial disputes. This, together with the other labour cost advantages I have just mentioned, is a tremendous asset for industry in this State.

If we are to believe some of the doom watchers, who do not want to spoil what they see as a "good story" with the facts, I may end up as the peasant leader of the peasant State. But I think I should add that in South Australia the peasants are likely to be the healthiest, best educated, most cultured and most productive peasants in the country.

Many firms in South Australia have shown a tremendous aptitude for keeping ahead with technology, design, marketing and industrial relations. Our industries still enjoy a reputation for innovation and excellence. I believe, that if we work together, we can be confident of doing well in the future.

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I would like to congratulate the Productivity Promotions Council, the productivity groups, the Department of Productivity for all the work they have put in in South Australia this year and I look forward, a little later, to presenting this year's productivity awards.

Thank you for inviting me here tonight.