

# Productivity and GEAR

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A competitive economy is critical to South Africa. One of the fundamental pillars of competitiveness and economic growth is productivity.

There is much about productivity that requires careful explanation if the links between it and growth, GNP, the standard of living and employment are to be understood. Productivity is measured by Output over Input

GDP = Output  
Input = Labour and capital

GDP = (Labour and capital X productivity)

GDP growth = (Labour growth and capital growth) X productivity growth

Economic growth is a function of three prime factors: growth in labour (employment growth), growth in capital (investment growth), and growth in productivity. These factors operate individually as well as interdependently. Generally speaking, the higher these factors, the higher the rate of economic growth. However, it is also possible to achieve economic growth by optimising the combined contribution of the three factors.

## Stages

In its initial stage of development, a country depends on its labour supply to generate growth (labour-driven economy). Subsequently capital investment replaces labour as the primary factor driving growth (investment-driven economy). In the third stage, Innovation becomes most

important, as the prime consideration turns to making the best use of the already invested resources (innovation-driven economy).

In South Africa, some sectors of the economy are in stage one, others in stage two and others are in stage three. Taking cognisance of this fact is critical to any industrial development strategy.

## Sources of growth

Long-term sustainable growth cannot depend solely on expansion. An economy will face competition from other countries offering similar, or even better, incentives. A better option is to strive for productivity-driven economic growth, involving accumulation of labour and capital inputs and their qualitative improvement. Of these, the quantitative aspects of capital and labour improvement are the most important.

The structural factors that determine long-term productivity growth are capital intensity (CI) and Total Factor Productivity (TFP).

CI measures expansion in the physical material (fixed assets) allocated to each employee. This ratio indicates whether an enterprise adopts a capital-intensive or a labour-intensive policy. Higher CI provides the advantages of capacity, quality, volume and speed to help raise output, and hence it helps to improve productivity.

TFP measures the efficiency of the utilisation of both capital and human resources. It is also regarded as a measure of the degree of technological advancement associated with economic growth. Higher TFP

indicates efficient utilisation and management of resources, materials and the inputs that are necessary for the production of effective goods and services for consumption.

There is a close relationship between changes in productivity, CI and TFP. Productivity growth is the sum of TFP growth and weighted CI growth. For a given productivity growth, the percentage contribution from TFP and CI growth must total 100.

Generally, the sources of TFP growth are:

- changes in the level of education and training of labour;
- the extent of economic restructuring;
- changes in the capital structure relative to construction and works;
- technical progress;
- intensity of demand.

#### South Africa's performance

During the period 1970 to 1994, growth was mainly investment-driven. Total employment (labour input) rose by 0,8% per annum between 1970 and 1994, while the quantity of fixed capital increased by 3,5% per annum. Growth started slowing down after 1985. TFP in the private economy remained virtually unchanged between 1970 and 1994. This was the net effect of the labour productivity increase (1,1% per annum) and a decline in capital productivity.

#### GEAR

In the appendices to the GEAR document it is stated that "annual GDP growth averaging 5% or higher, fuelled by strong private formation, export growth and improvements in labour productivity leads to employment growth of some 500 000 annually, increasingly dominated by higher formal sector wage growth".

This statement, and the fact that GEAR assumes a productivity growth rate of between 0,1% and 2,2% per

annum, with an annual average increase of 1,1% for 1995 to 2000, clearly calls for a concerted effort to improve productivity.

GEAR was rather conservative in its productivity assumptions. It is the experience of the rapidly developing economies, especially the Far East, that productivity increases of 6% to 8% per annum are quite possible if it is sufficiently emphasised.

Productivity improvement also requires a mind-set change. This common goal is largely driven by four core values:

- Every employee (management as well as labour) should have an entrenched focus on the customer, in other words be fully committed to ensure that his/her output is truly acceptable to the recipient of the output.
  - Every employee should at all times want to maximise the utilisation of his/her own time and of the capacity resources which he/she controls.
  - Management and workers should have a systemic view of the organisation as a whole.
  - Trust and a preparedness to share relevant information are prerequisites to instilling productive behaviour.
- A mind-set change is not enough. There are certain guiding principles that must underpin the change:
- There should be no employment loss as a result of productivity improvement.
  - Management should not only focus on spending less per unit of output but also on earning more per unit of input.
  - The gains from productivity improvement must be shared equitably amongst capital, labour, government and consumers.

These principles should be embraced by the social partners to form a framework for productivity improvement.