Competitiveness and Productivity- The Way Forward For Successful Economic Development

The St. Lucia National Competitiveness and Productivity Council (NCPC) hosted its inaugural meeting on October 18, 2013. The aim of the Council is to identify the key issues related to competitiveness and productivity in St. Lucia as well as provide timely and effective recommendations to policy makers, private sector and other stakeholders. The Council intends to do this through research, broad based stakeholder consultations, providing technical assistance, coordinating and assisting in strategies that will enhance and sustain Saint Lucia's productivity and competitiveness.

The NCPC understands that the concepts of productivity and competitiveness, although not new need to be properly defined. Over fifty years ago, St. Lucia's very own Sir Arthur Lewis in his Theory of Economic Growth addressed issues of productivity and competitiveness. In his 1954 article on the dual economy, a major contribution to the field of Economics, he urged capitalists in the traditional sectors to be more profit maximizing. He argued that capitalists in the more productive sectors should save out of their profits to expand thus contributing to growth.

According to Paul Krugman, "Productivity is not 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 United Kingdom's Office of National Statistics (ONS) Productivity Handbook, defines productivity as the relationship between inputs and outputs in the production process. According to the Oganisation of Economic Co-operation and Development (OECD), productivity is defined as a ratio between the output volume and the volume of inputs. Therefore, it measures how efficiently production inputs such as labour (workers/employees) and capital, are utilised in an economy or a firm to produce a given level of output. In other words, how efficient is a firm in using the workers, capital, plant and equipment in producing given amounts of a good or a service. Productivity is vital as it is the fundamental determinant of the growth of a country's standard of living. In some industries where commodities are price elastic, goods that are produced more efficiently would result in more output being produced. This increase in output leads to a fall in commodity prices. This in turn means that more consumers are able to afford these commodities and therefore leads to an increase in demand.

For example, as labor productivity rose in the American car industry during the 1920s, it took fewer and fewer hours to assemble a Model T. The price of automobiles fell, and the real standard of living of Americans increased. This was reflected in the number of cars registered in the country, which rose from 6.7 million in 1919 to 23.1 million in 1929. As the result of productivity improvement, the number of households with access to automobile transportation more than tripled in the short span of a decade.

As we turn our attention to defining competitiveness, we must remember that in order to be competitive, we must first be productive.

The World Economic Forum defined competitiveness as being – “the set of institutions, policies and factors that determine the level of productivity of a country”.

Harvard University Professor and the Director of the Centre for Competitiveness, Dr. Michael Porter is a leading authority in competitive strategy. Dr. Porter cites competitiveness as being “defined by the productivity with which a nation utilizes its human, capital and natural resources”. He goes on to say that “To understand competitiveness, the starting point must be a nation's underlying sources of prosperity. A country’s standard of living is determined by the productivity of our economy, that is, the value of goods and services we produce relative to the resources that we use in production. Our productivity depends both on the value of the nation’s products and services- measured by the prices they can command on the open markets- and by the efficiency with which we can use our natural, capital and human resources to produce those goods and services”.

Given the explanation on both productivity and competitiveness, we understand that the task of enhancing our productivity and competiveness is not an easy one. However, it becomes achievable if we embrace this task together each of us doing our part.