BNZ Insights

April 2011

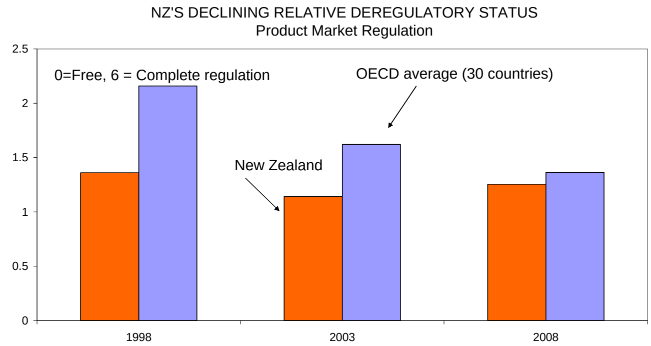
Policy Impediments To Competition

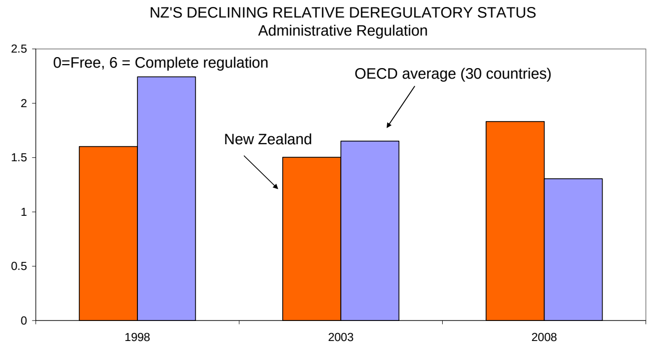
The OECD have undertaken substantial analysis of the ways in which government policies promote or impede competition in economies and have created a large number of indexes gauging the extent of this interference across a range of industries for the years 1988, 2003, and 2008. This BNZ Insights looks at the OECD work to see if there are areas in which New Zealand now appears relatively highly regulated compared with other countries. In particular we want to gain some researched insight into whether some of the concerns expressed by respondents in the likes of the Global Competitiveness Report and other surveys are in fact valid – namely too much bureaucracy, and too high a level of government ownership of assets.

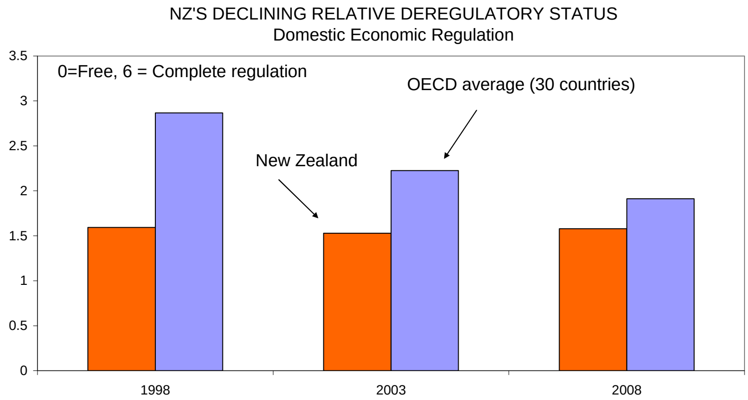
The full data can be found at the following OECD web page.
http://www.oecd.org/document/1/0,3746,en_2649_34117_2367297_1_1_1_1,00.html

Our analysis starts by comparing New Zealand's ratings in the regulation measures against the averages for the 30 OECD economies covered to identity areas where restrictions are greater than normal. Overall New Zealand scores well with slightly below average (meaning less impeded) Product Market Regulation and Domestic Economic Regulation. It is only in the high level category of Administrative Regulation that the country scores an above average reading of 1.83 compared with the average of 1.31. The difference is not great but with the other two readings for NZ being 0.12% and 0.33% better than average there is little basis any longer for claiming that in aggregate New Zealand is one of the most deregulated economies in the OECD.

In fact our relative deregulatory status has been lessening in recent years as our absolute ratings have changed by little but other economies have become more deregulated.







The readings range from zero, the complete absence of any regulatory or government role, to six, reflecting essentially a complete lack of competition.

Out of the 30 countries covered in 2008 we ranked 14th for Product Market regulation, 26th for Administrative regulation, and 10th for Domestic Economic regulation. Overall then our ranking is 17th. We are essentially average with regard to having a deregulated economy.

Of note, New Zealand has below average ratings for State Control in terms of both Public Ownership and Involvement in Business Operation. The government in other words is not a large player in its own right in the economy. There are also below average barriers to Trade and Investment which somewhat counters the concern expressed in the Heritage Foundations' Economic Freedom Index regarding restrictive biotechnology, sanitary, pharmaceutical, and phytosanitary regulations and services market access barriers.

With regard to the high level category of Administrative Regulation we have drilled down into the results and identified the following.

In the utilities sector, or Energy, Transport and Communications, the overall rating shows below average regulation but with some particular areas above average. They are,

	NZ	Average
Airlines, Public Ownership.	**4.58**	**1.56**
Telecommunications, Market Structure	**4.01**	**2.87**
Electricity, Public Ownership	**4.5**	**3.65**
Gas, Vertical Integration.	**6.0**	**2.94**
Post, Public Ownership	**4.96**	**4.02**
Rail, Entry	**6.0**	**2.95**
Rail, Market Structure	**6.0**	**3.41**

These ratings reflect government majority ownership of Air New Zealand, the small number of large telecommunication companies, government ownership of electricity companies, lack of competition in the total gas sector from extraction to sale to retail customers, ownership of NZ Post (though such ownership is common), ownership of Kiwi rail and the near impossibility of a new operator creating a new railway system.

These readings seem to encapsulate areas of competitive disadvantage identified in the global surveys we have already examined, namely lack of competition in the domestic economy and business concerns about infrastructure.

The country scores worst readings of six for two areas in the Retailing sector . They are

	NZ	Average
Licences or permits needed to engage in commercial activity	**6.0**	**3.07**
Regulation of shop opening hours	**6.0**	**3.53**

The latter reading would appear to reflect restrictions on trading over Easter, half of ANZAC Day, and perhaps Christmas. Reasons for the first rating are not clear.

In the Legal sector most NZ readings are above average indicating the sector is less competitively structured than in other OECD economies on average. Differences with norms are all minor however apart from Conduct Regulations relating to

	NZ	Average
Regulations on the form of business and inter-professional co-operation	**6.0**	**1.99**

With regard to Engineers and Architects New Zealand rates as less regulated than the OECD average in all areas. For Accountants New Zealand is slightly more regulated than the norm but with two areas of much greater than normal restriction on competitive activity.

	NZ	Average
Regulations on advertising	**6.0**	**2.1**
Regulations on prices and fees	**3.0**	**0.5**

The aim of the OECD's examination of product market regulations is to contribute toward promoting economic growth by identifying areas in which economies appear to lack competitive pressures. In New Zealand's case the regulations for Retail, Legal, and Accounting are unlikely to rate as significant deterrents to growth. However in the utilities sector the government's role is large and this on top of the goal of debt reduction is almost certainly a factor behind the Prime Minister's recent announcement of an investigation into the feasibility of reducing government ownership of assets in the energy and air travel sectors.

However, a key point needs to be made. It is not necessarily true that essentially free competition will drive developments in a sector which meet the needs of users. In the Road category New Zealand achieves the optimal non-interference rating of zero compared with an OECD average of 1.26. Yet global opinion surveys show NZ businesspeople rate the roading infrastructure as a problem. This then undoubtedly gets to the heart of the infrastructure problem in New Zealand. The country's population is small at just 4.4 million and spread over a land mass the size of Japan and the United Kingdom. Creating efficient infrastructure by world standards with such a small customer base is unlikely to happen in the absence of a massive population surge in the next few decades. Therefore this particular identified impediment to growth is unlikely to radically change in the future though efforts to overcome obvious bottlenecks, especially with regard to creating an efficient agglomeration in Auckland, are undoubtedly worthwhile.

What We Have Learnt

We have gained the best insights into factors which may account for New Zealand's low rate of growth in income per capita from the World Economic Forum's Global Competitiveness Report and the IMD World Competitiveness Yearbook. Including the KOF and Heritage Foundation reports we have the following list. Note however, in the words of a Standard and Poor's spokesman

"Generally, we look at the Government in New Zealand as being relatively small and compared to its peers it's quite efficient."

Furthermore, the spokesman said New Zealand was "relatively light" in government related entities.

He noted the Government's plans for partial asset sales, "but if you look at what's left, the sorts of government related businesses in New Zealand are quite minimal compared to a lot of other countries".
http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10706501

That is, the perception of some surveyed in New Zealand may be that the government is large but by OECD standards spending is about average and asset ownership, while nominally large, is also not unusual. So from the lists we have removed high government spending as a proportion of GDP and government asset ownership

- Inadequate roading, electricity and telecommunications infrastructure
- Low savings
- Poor domestic market competition
- Access to finance
- Tax rates, incl. low capital gains taxes.
- Lack of scientists, engineers and technicians
- High dependence upon a primary sector export base
- High youth unemployment
- Unhelpful exchange rate
- High cost of capital to businesses
- Central bank policy not helpful
- Labour market regulations, unemployment benefit regime
- Insufficient skilled labour
- Brain drain

- Poor management, especially international experience
- Small poorly trusted sharemarket
- Lack of venture capital
- Insufficient public/private technology cooperation
- Low business R&D spending
- Restrictive biotechnology, sanitary, pharmaceutical, and phytosanitary regulations and services market access barriers perhaps creating low technology transfer from FDI.

From the previous paper in this series we can add these new or more refined measures.

- Low ICT exports.
- A high 21% of people think hard work will not get them ahead in life.
- High tax burden generated by GST and ACC returns.

From the OECD Product Market Regulation analysis we have learnt

- Poor competition in the gas and telecommunications sectors.

The list above could easily have more factors added to it had we chosen them from the many lists available. But these factors stuck out as more glaringly deficient than others – and yet they also highlight that the surveys we have looked at do not in fact cut to what OECD and NZ Treasury research suggests is the main reason (or about 75% of it) for New Zealand's below average GDP per capita position. Our economy is small and we are more removed from other countries than any other OECD economy.

Therefore our next step is to examine the material which Treasury prepared and released in their 2008 series of Productivity papers to see what their analysis of actual research as opposed to simple surveying and regulatory comparisons suggests are impediments to our growth.

References

http://www.oecd.org/document/1/0,3746,en_2649_34117_2367297_1_1_1_1,00.html

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