OECD Policy Brief 2009

We have now reviewed international comparative rankings of various aspects of the New Zealand economy and examined what Treasury have identified as failings/challenges in their 2008 Productivity series of papers. Now we examine papers prepared by large organisations such as the OECD to see what their opinions are with regard to the factors which may account for the under-performance of the New Zealand economy. We start with the OECD's 2009 NZ Policy Brief.

This roughly 18-monthly paper or 12 pages in 2009 focussed on imbalances in the economy such as the high current account deficit, low savings, and high banking sector dependence upon short term offshore funding. It also examined the economy's outlook in emerging from the global financial crisis and recommended actions to lock in growth. It also looked extensively at the need for health reform to meet the needs of an aging population, and made some recommendations for policy changes in order to address factors they feel contribute toward reduced competition in the economy and therefore sub-optimal productivity growth.

The factors they note need addressing to boost productivity growth include the following.

- The Emissions Trading Scheme and Resource Management Act where clarity and streamlining are required.
- Local authority ownership of port assets
- Distortions to saving, investment and work incentives created by the tax system.
- Infrastructure quality.
- Low public sector productivity.
- Excessive restrictions on foreign direct investment.
- Government ownership of energy and transport assets.

They also note the country's small size and geographic isolation.

Two weeks ago the OECD released their latest 18 monthly review of New Zealand and made the following recommendations.

- Introduce a capital gains tax on realisation of assets.
- Raise the retirement age.
- Lower Kiwisaver subsidies.
- Place a ceiling on public spending.
- Target budget surpluses above 2% of GDP.
- Lower corporate and personal tax rates.

The OECD focus is and always has been on reducing the size of government and the extent of the regulatory environment, and the Policy Brief and latest Economic Survey of NZ largely take these impediments as given in whatever form they happen to manifest themselves and concentrate on policy recommendations. That is not the focus of our research yet therefore there is little to be learnt from the OECD Policy Brief beyond what we have already identified apart from explicit enunciation of difficulties with the Resource Management Act and ETS.

OECD Update – Going For Growth April 2011

This publication from the OECD explicitly examines impediments to growth in OECD countries and makes recommendations for reforms. For New Zealand they make the following recommendations

Electricity, Transport, Telecommunications
Dismantle barriers to competition in international air transport and rail. Fund investments in road, energy, and water and use tolls and congestion pricing to restrain demand. Continue to review and clarify the competition framework in network industries. Ensure greater broadband penetration. Remove all remaining tariffs.

Foreign Direct Investment Screening
Have clearer, fewer and more efficient regulations as part of the government's programme to raise living standards. Pass the Regulatory Responsibility Bill. Remove consent rules for foreign acquisitions of 25% or more in larger firms, and clarify the criteria for protecting "sensitive land". Continue to streamline environmental impact assessments for investment projects.

Educational Underachievement of Some Groups
Provide early intervention to raise literacy and numeracy levels of weaker students. Support the ongoing development of a high-quality teaching workforce by improving teacher education and ongoing learning and development, strengthening professional leadership and enhancing recognition, reward and progression within the teaching profession.

Research and Development
Reinstate the R&D tax credit, cull less efficient research grants, boost direct public R&D funding and improve R&D policy co-ordination. Orient immigration, education, and labour market policies toward supplying more innovation skills.

Health Sector Efficiency
Boost value for money in health care by developing better output and quality measures, strengthening public health providers' accountability for performance, and using more competitive contracting for public funds. Continue to improve access and service quality for minority groups with an increased focus on the prevention and management of chronic illnesses.

2025 Taskforce Second Report

The second report of the 2025 Taskforce set up under the terms of the Confidence and Supply Agreement between the National and ACT parties following the 2008 general election devotes its attention to explaining the rationale behind policy proposals contained in the first report aimed at promoting economic growth, productivity growth, and closing the widening income gap between New Zealand and Australia. For our purposes the report contained the following broad factors considered causative of our productivity growth underperformance.

- Excessive size of government
- Excessive state asset ownership
- High taxes
- Inadequate business investment
- Inadequate infrastructure
- Overly restrictive foreign direct investment regime
- Overly restrictive Resource Management Act
- Inadequate private research and development
- Small domestic market size
- Distance from market.

None of these factors have not already been identified in the material we have already examined. But the true usefulness of the 2025 Taskforce reports is in enunciating policy options for addressing the identified deficiencies.

Economic Development Indicators - 2011

The fourth edition of this Ministry of Economic Development report which first appeared in 2003 contains an extensive list of indicators measuring New Zealand's medium term economic performance. At the front there is a section devoted to the underlying determinants of productivity growth and factors considered as presenting challenges for New Zealand. These include the following.

- Low readings for innovation measures such as R&D and patents granted.
- Low medium to high-tech products in exports.
- Innovation linkages are weak apart from business-CRIs.
- Weak venture capital market.
- Small sharemarket.
- Weak outward FDI.
- Low export sector as a proportion of GDP.
- Weak management skills – of people in particular.
- Low inclusion of 15-19 year olds in education or training.
- Inadequate infrastructure for electricity and roading, and expensive ICT.
- Small domestic market size.
- Distance from other countries.

The report, like earlier versions, gives considerable attention to the role of innovation in driving productivity growth and notes "On broader measures of innovation, New Zealand firms have higher rates of marketing and product innovation, but relatively lower rates of process and organisational innovation. New Zealand businesses focus their innovation mainly on production for the domestic market rather than international markets, and innovation for international markets is low relative to firms in the EU."

But while noting many measures of weakness in innovation, little insight is given into why our innovation record is not good.

NZ Trade and Enterprise – How We Are Viewed Offshore

In a commentary on the NZTE website originally published in August 2008 NZTE referenced research commissioned from Neilsen showing the following perceptions of NZ businesspeople by customers in Australia, the United States, China, Japan and the United Kingdom.

"…our business people are seen as a mixed bag – nice but naïve, clean and green but complacent, honest but not very world wise."

"Overall our business culture is perceived as "high in human values and low in business acumen","

From Australia the key result is …
"The problem is they don't hear enough from us. New Zealand's modesty, rather than Australia's parochialism, is what is preventing us from getting more business in Australia."

"Our exporters are said to not knock on enough doors in Australia while in Japan and China they're seen as "half hearted". In the US and UK, they're seen as lacking hunger."

"In all countries taking part in the research, New Zealand companies and brands are said to have little or no impact on public consciousness."

"The finger is also pointed at New Zealand businesses for not spending enough time in international markets. Too few are basing themselves in their markets or going to the trouble of learning about them."

From Japan and China…
"…we are not seen as strong business partners because our businesses are not committed to the market long-term and are seen as unsophisticated."

Enhancing Productivity – MED Occasional paper 11/01

One of the key contentions in this paper is that taking into account New Zealand's size, location and other characteristics we are largely where economic theory says we "should" be on the OECD ladder. That is, in the bottom half.

New Zealand is effectively a part of Australia and just as people migrate to the capital cities in Australia so too will Kiwis naturally migrate to them unless our own large city of Auckland offers the vibrant lifestyle, interactions and income they are seeking. Hence the importance of developing Auckland in order to minimise the net loss of Kiwis to Australia.

High foreign direct investment in New Zealand, while allowing the easy importation of ideas and generally better management, can impede the economy's internationalisation. This is because if a firm internationalises it is likely to become merely a New Zealand based branch of the international business rather than the head office and ultimate profit centre.

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Tony Alexander, Chief Economist, Bank of New Zealand 04 474-6744, tony.alexander@bnz.co.nz
www.tonyalexander.co.nz