NZ's Productivity Disaster

A Submission on the Productivity Commission's Draft Report on Frontier Firms
Kerry McDonald (Dr), January, 2021

Preface:

This submission focuses on issues which are critical for New Zealand's overall productivity performance, including the performance of Frontier Firms. These issues must be addressed urgently and effectively or New Zealand's future will be continuing, disastrous decline. But will require dramatic changes as the relevant policies have been inadequate and ineffective for some decades.

The Fundamental Problem:

Productivity is critical in economies/societies. It determines sustainable living standards and productivity growth is the only sustainable basis for improving living standards.

For some decades (since about 1960) NZ's productivity performance has been woeful, lagging behind many OECD and other countries, including Australia. Ominously, between 2000 and 2018 only 24% of GDP growth was due to higher productivity, 59% to population growth and 17% to longer hours worked. What a disaster - but the predictable outcome of incompetent, self-serving policies.

Consequently NZ is now a relatively low income country with many serious economic, social and environmental problems - at least 50 in total (1). Importantly, the situation is getting worse with no improvement in sight, which is also a very weak basis for dealing with Climate Change and a Pandemic.

(1) For example low productivity, household incomes and living standards; and major problems with tradable goods growth, poverty, mental health, diabetes, obesity, expensive medicines, medical services generally, P/Meth, housing, low value/high volume immigrants, welfare dependency, leaky buildings, earthquake standards, ChCh rebuild, family violence, gangs/Maori crime, Auckland (a millstone!), defence capability/alliances, sovereign risk, Aus relations, China, water policy - use/waste/etc, pollution, threatened specis, conservation, freedom campers, the electricity supply industry, the quality of government (at all levels), poor Public Service leadership & performance, border protection, no overall policy strategy, no workforce strategy, excessive low/no value government spending, a dysfunctional political system, state care of minors, etc.

The Causes:

The fundamental cause is that politicians (Clark, Key and Ardern most recently) have lacked the will and leadership capability to develop and implement effective productivity policies because such policies are complex and challenging to develop and implement and difficult to "sell" politically. In contrast "bottom of the cliff" band aid policies (Working for Families, Living Wages, etc., etc.) are simple - just spend more; and easy/positive politically. Unfortunately though these "band aids" are now increasingly required to mitigate the rapidly growing number of serious problems now debilitating NZ, because the fundamental issues have not been/are not being addressed.

So, great short term politics - put out fires and get three terms. But it is a disaster that is getting worse by the day as the fires multiply and grow until the fundamentals are remedied; and "Wellbeing" is simply another political con to obfuscate the damage.

Another important cause is the lack of effective leadership from the supposedly professional, well qualified - and independent (no surprises?) Public Service. But it too often displays both a lack of effective leadership capability and, almost daily in the media, a serious lack of competence.

The Situation Now:

Productivity policy MUST be "fit for purpose" and deal effectively with these causes!

NZ is in a rapidly deteriorating situation, with no remedies in sight, wasting increasing sums on stopgap band aids to paper over the cracks, while the fundamentals get steadily worse.

Without effective political leadership the situation, already serious, will continue to deteriorate. Look at the growing pile of wrecks (major policy failures) at the bottom of the cliff!

The Productivity Commission is part of the problem. It was established to address the productivity problem but has been largely ineffective, failing to adequately highlight and explain the problem and the absolute need for effective solutions; and to get political buy in.

Priority Issues Now:

There are number of critical specific indicators of productivity policy failure which must be addressed:

- GDP/capita growth is amongst the lowest in the OECD. Once in the top 3 countries it is now in the thirties. "Wellbeing" is not an alternative.
- Export volume growth is relatively slow and tradable goods production growth is much slower than non tradables, which is a major problem.

- Capital intensity is low and the proportion of capital spending on dwellings is excessive.
- The Government expenditure/GDP ratio has basically doubled (from 20% to 40%) since 1960, including rapid growth in social spending.
- Virtually all of NZ's household wealth growth is due to higher dwelling prices.

My Relevant Personal Experience:

Productivity must be addressed at the macro (economy wide) and at the micro (organization) level. As an economist I understand the former and as senior executive/MD/director/chairman in NZ and elsewhere I have extensive, hands on experience with the development, implementation and long term operation of World-leading (and less successful) productivity systems in both the Private and Public sectors.

While the policy/leadership performance of successive governments has been consistently poor, the performance of the Private Sector has been surprisingly mixed with many leaders being reluctant/unwilling to commit to the undoubted challenge of major productivity initiatives; and the performance of the Public Service/ State Sector has been mixed - but overall weak.

Since the early 1970s I have, through some 50 speeches and papers (search kerrymcdonald) highlighted this increasingly disastrous performance and its serious implications; and also engaged with the Productivity Commission.

Learnings from this experience are:

- Fully committed, astute top-down leadership is critical for effective productivity policies.
- The requisite policy framework is challenging and complex.
- Achieving potential requires a fully engaged workforce, with leadership at all levels.
- Success is seriously satisfying and life-improving, in the broadest sense for all involved.
- Once you have been there anything else is second-rate.

Conclusions

- Genuinely committed, competent political leadership on productivity improvement is critical for achieving improved outcomes.
- A properly-led, capable and effective Public Service is also essential.
- The large number of increasingly serious and debilitating problems now crippling NZ due to past policy failures make significant, economy wide productivity improvement essential. The present is already challenging but, without change, the future will be even worse, particularly when Climate Change and Covid are added in.

- The Private Sector will respond to good policies and incentives but its productivity performance is patchy/weak reflecting the mixed quality of its leadership.
- Frontier firms are significant but the “Big Picture” Whole of Economy view is critical.

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