Lifting New Zealand's game on productivity

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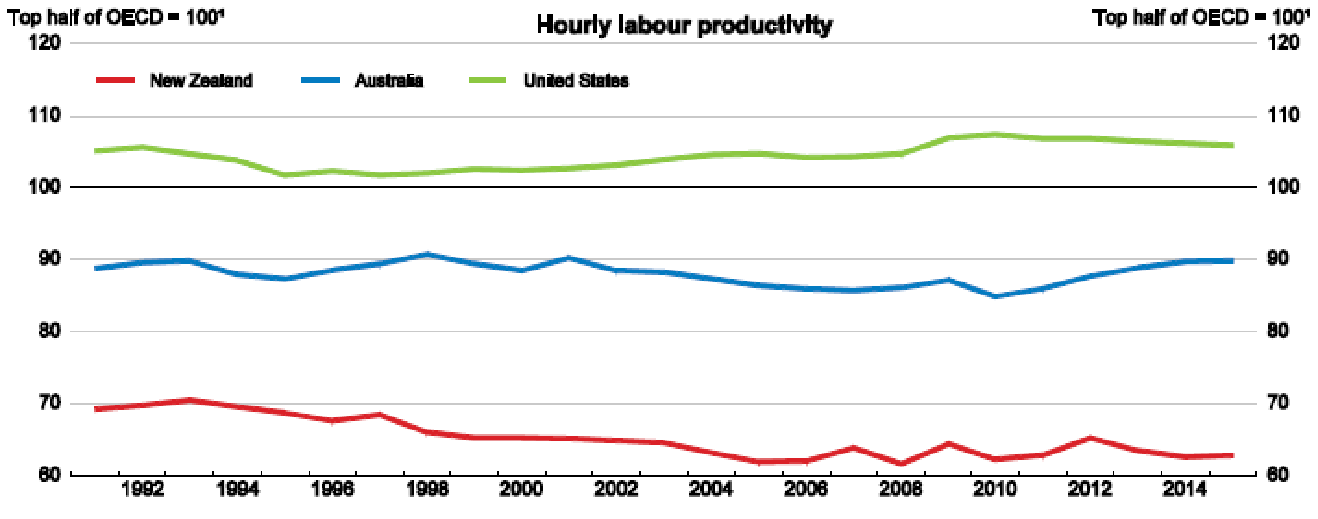
Productivity growth will be the main driver of global economic growth and prosperity over the coming decades. For New Zealand, this represents both a challenge and an opportunity, as NZ productivity is below that of leading OECD countries (Figure 1). This problem is not new, and previous OECD work has shown that distance from markets is a substantial part of the explanation. The key question, considered in the 2017 *OECD Economic Survey of New Zealand*, is what can be done to improve generally sound policy settings in New Zealand so as to boost productivity, in spite of the economic challenges posed by its remote location.

Figure 1. Labour productivity continues to lag leading OECD countries



1. Population-weighted average for the top 17 OECD countries for labour productivity, calculated using 2010 purchasing power parity exchange rates.

Source: OECD (2017), Productivity database; OECD (2017), *Economic Policy Reforms: Going for Growth 2017*.

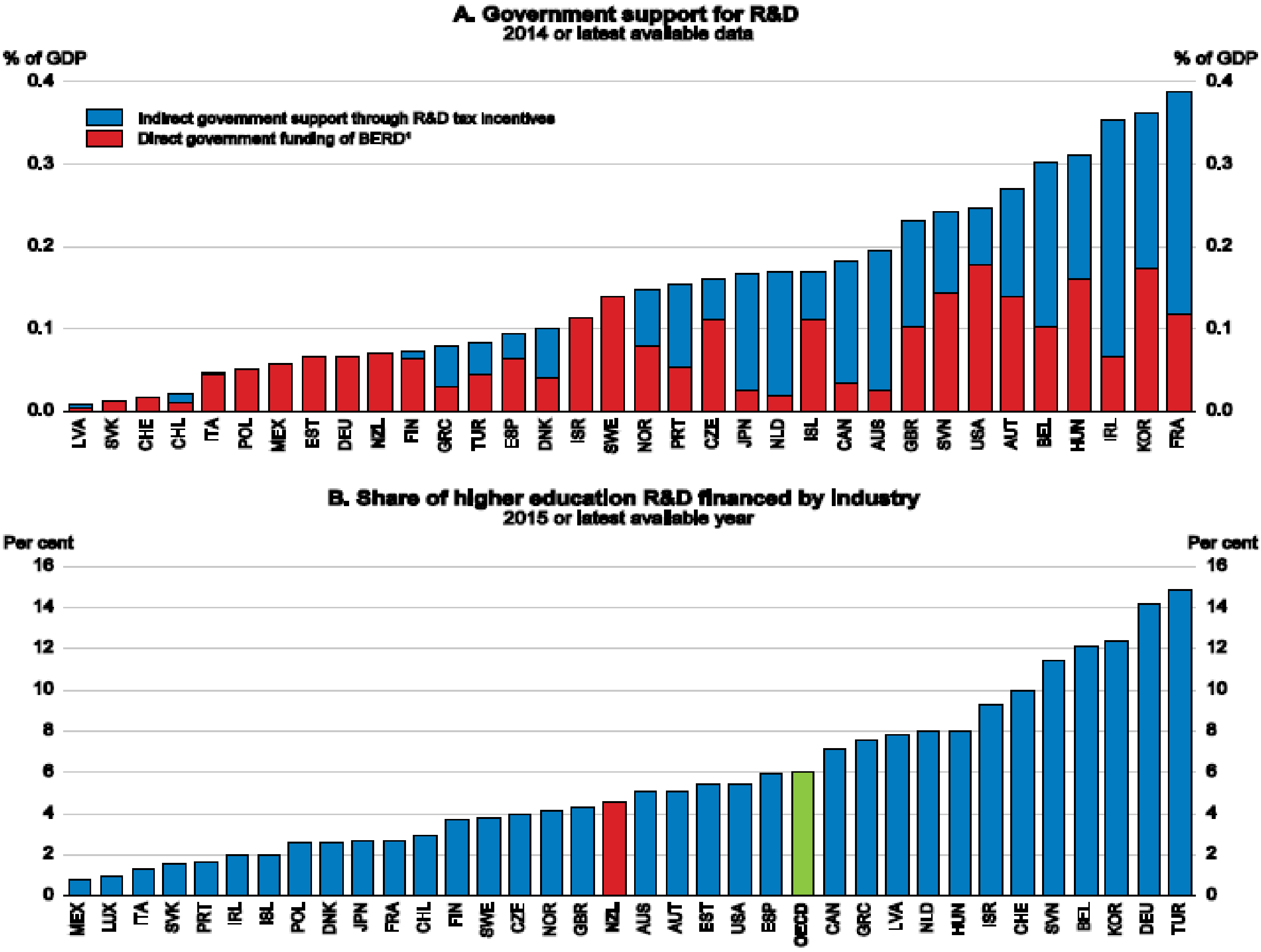
Overcoming distance barriers means that New Zealand needs to do everything possible to increase benefits from international connections. As a small country, it is reliant on foreign direct investment to provide access to global supply chains and markets, promote local competition and drive technological, skills and managerial quality transfers. New Zealand's comprehensive foreign investment screening regime should be narrowed, while reducing compliance costs and increasing predictability for investors. Although New Zealand has few other barriers to trade, there would be benefits from cutting remaining tariffs, strengthening trade facilitation measures and improving recognition of foreign licenses to practice. Digitalisation offers increasing opportunities for trade that is not affected by distance, heightening the importance of continuing efforts to modernise information technology infrastructure.

Facilitating international connections would also deliver benefits through increased competitive pressures, which can improve productivity through resource reallocation to the most productive firms, greater diffusion of existing technologies to laggards and increased incentives for innovation. Competition could also be improved by giving the Commerce Commission the power and resources to undertake market studies and through improving the efficiency of the insolvency regime.

Another key factor in New Zealand's poor productivity performance is a low rate of capital investment. Options to address low investment include decreasing the high effective corporate tax rate through lowering the statutory rate, and increasing national saving through reducing taxation of non-housing saving vehicles. Reforms to urban planning and infrastructure funding arrangements will be important to address the drag on productivity from inflated house prices.

Finally, innovation is a key driver of productivity growth. Government support for R&D is low in New Zealand, and there is a low level of collaboration between firms and higher education and research institutions (Figure 2). Fiscal support for R&D should be increased, firm-level caps on R&D grants need to be removed, and support for successful collaboration between research institutions and industry should be maintained or increased.

Figure 2. Government support for R&D is low, as is industry-university collaboration



1. Business enterprise expenditure on R&D.

Source: OECD (2017), R&D Tax Incentive Indicators, http://oe.cd/rdtax and Main Science and Technology Indicators, http://oe.cd/msti; Statistics New Zealand.

References

OECD (2017), *OECD Economic Surveys: New Zealand*, OECD Publishing, Paris.