

Productivity, Productivity, Productivity



Wayne Rowe (left) with Bruce and Alan Coubray inspect a Howick H300, one of their smaller machines, exported to 28 countries.

Prior to being awarded this year's Nobel Prize for Economics last month, Princeton University's Paul Krugman had become a "patron saint of productivity" with his observation that "productivity isn't everything, but in the long-run it's nearly everything". Following on from that, we have sought comment on the relevance of productivity from the New Zealand Institute's current "resident brain", Dr David Skilling and our Secretary to the Treasury, John Whitehead, who it turns out is way ahead on this issue, with the Treasury vigorously examining all policy and substantive government actions to ensure they reinforce a focus on productivity, at the highest level.

We also spoke to former-trade-unionist-leader-turned-CEO of Skills4Work, Rosalie Webster, (see page 38) on the contribution one of our major training organisations is making on this front and Sir Roger Douglas provided some alarming statistics to get us moving.

The nub of the problems we face are that compared to most OECD countries, we have low multifactor productivity – we fail to gain as much output from our use of resources as other countries do. This depresses the returns on capital and makes us a less attractive investment destination. It also means, unlike the USA, we won't bounce back as quickly, unless we

change our thinking and get on with it.

Our productivity performance is generally seen as being critical to raising the living standards of all New Zealanders, especially as Whitehead notes "because we have an aging population and increasing dependency ratios, which means we need greater output per worker to sustain the same income per capita". Next month, we will seek input from Andrew Little, National Secretary of our biggest trade union, the Engineering, Printing and Manufacturing Union.

A paper, "Productivity, Capital-Intensity and Labour Quality at Sector Level in New Zealand and the UK" published last year by the Treasury's Messrs Geoff Mason and Matthew Osborne, carried some encouragement for local manufacturers of metal products – a significant portion of our readers. You are one of six categories where we beat the Poms; but, on average, they have invested much less in physical capital assets in recent decades than say the US, France and Germany.

So it is qualified good news, and as Sir Roger Douglas reminds us frequently, our OECD performance has been on the slide for decades. The IMF supports his view with estimates showing in 1999 average labour productivity in market sectors in New Zealand was only 73 percent of the Australian

level, down from 82 percent in 1988 and a lot worse currently.

Our Treasury's view is that our country's long-term trend of productivity under-performance is the biggest economic challenge for governments of any political persuasion in New Zealand. Whitehead finds it one of life's ironies that we expect our rugby players and athletes to beat the world and yet are content with B-grade productivity.

The consensus is that our manufacturing and engineering sector, with a better than average base, must look to itself to thrive and to be above the OECD average – thereby attracting scarce capital and luring the best talent to our shores.

Whitehead warns: "We also need to look beyond the current over-emphasis on perceived political solutions – the view that a few policy changes alone could fix the bulk of our productivity performance problems. I don't wish to understate the very important role that government plays in creating an environment in which productivity may flourish or flounder.

"But I believe that if we want to see what can be done to lift long-term productivity growth, we have to look at what makes a difference at the firm level – the level where boots get dirty, hands get greasy and mouse-clicking fingers get achy," says the Secretary to the Treasury, who lists enterprise,

innovation, skills, investment and natural resources as the key drivers of productivity. Let's look to Singapore says Dr Skilling. "There is a sense of coherency – rather than the 'silo-ed' approach of New Zealand, where we tend to look at tax, incentives, investment etcetera in isolation. They have a clear sense of how Singapore is going to be distinctive from other countries. What they are choosing to invest in; be it education, research or infrastructure. "And, most importantly, how it all fits together."

He believes we lack a sense of urgency

John Whitehead,
Secretary to the Treasury.

Within a three and a half hour flight from Auckland we can access 0.4 percent of the world's population and one percent of world GDP. Compare that with Hong Kong, where a flight of similar length would put you in reach of 58 percent of the world's population and 37 percent of world GDP.

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Kevin Kevany

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