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### **OECD Recipe Falls Short of Necessary Growth Strategy**

Ten days ago the latest OECD economic survey of New Zealand was released.

The Paris-based Organisation for Economic Co-operation and Development is a forum where governments compare policy experiences, seek answers to common problems, identify good practice and work to coordinate domestic and international policies.

The quality of its two-yearly economic surveys of New Zealand has been patchy.

Its 2005 survey contained the ludicrous headline statement that New Zealand was “on track towards achieving the government’s longer-term objective of lifting GDP per person back into the top half of the OECD”.

The Business Roundtable had been pointing out that the Labour-led government’s anti-growth policies would weaken New Zealand’s productivity performance and see it move down, not up, the rankings, which is exactly what happened.

Coming shortly before the 2005 election, the survey’s assertion was professionally incompetent and politically irresponsible.

The latest report comments on the high quality and success of New Zealand’s earlier reforms, and criticises the backsliding of the past decade.

But it also makes the equally ludicrous statement that the reforms did not yield “the improvements in productivity, economic growth and living standards that were promised by the reformers”, at least in terms of magnitudes.

But never did the Treasury, the OECD or anyone else forecast greater gains – growth rates at Ireland’s level, for example.

Indeed, in its 2005 survey the OECD itself said the gains were “a deserved reward for the wide-reaching macroeconomic and structural reforms put in place over the past 20 years.” It did not say that we deserved more.

This time it might have been expected that the OECD would make the central focus of its report the new government’s goal of catching up with Australian income levels by 2025, and offer its best advice on how to achieve it.

Instead the goal is barely mentioned, and the policy prescriptions fall well short of a credible agenda.

In a meeting with the OECD mission preparing the report, the Business Roundtable argued that it should note for a start the simple point that fast growth (say 4% plus per capita annually) could not be achieved on a sustained basis with total government spending at New Zealand’s level of over 40% of GDP – no other OECD country had achieved that.

But this point is not made. Not for the OECD – which includes the big-government European welfare states – the Hong Kong strategy of “big market, small government”, although it notes weakly that “large government size may be detrimental to growth in living standards” and criticises the “disquieting” recent rise in government spending.

There is other dubious analysis in the report.

The OECD talks of New Zealand’s low labour productivity growth as though this has been an unbroken trend.

Yet Statistics New Zealand data for the measured sector of the economy (around 73% of GDP) show a dramatic improvement in the 1992-2000 period, followed by the subsequent alarming slump.

The OECD also suggests the slump may be due to the absorption of many low-skilled people into the workforce, but Statistics New Zealand analysis refutes this hypothesis.

The report goes on to suggest size and distance to markets are factors reducing New Zealand's GDP per capita – by about 10% in respect of distance, it claims.

But how does this square with its own observation that in the early 1970s per capita GDP in New Zealand was 15% above the OECD average? It also claims that Australia suffers a similar 10% penalty for remoteness, so New Zealand's income gap with Australia cannot be explained on those grounds.

There is a lot of 'politically correct' material in the survey.

Nowhere do its authors engage with the high quality research that casts doubt on the previous government's mantra about New Zealanders' poor savings habits.

The report discusses telecommunications, but says nothing about the government's plans on broadband, which are questioned by some observers, or about the major issue of labour market regulation, which the government seems reluctant to address.

It recommends amending the emissions trading legislation to introduce a price cap, but doesn't consider a carbon tax which most economists prefer.

And without any regulatory impact analysis of the kind the OECD promotes, it advocates a retail deposit insurance scheme for the banking sector.

There are many sound recommendations in the report on such issues as flattening the income tax scale, privatisation, opening up ACC to competition, and the eligibility age for superannuation. These are economically unexceptionable and must form part of a serious growth strategy.

In respect of new thinking, the OECD supports the Business Roundtable's call for introducing direct constraints on government spending in the Public Finance Act, and for similar constraints on local government spending.

But the OECD fails to comment on a major current initiative, the proposed Regulatory Responsibility Act.

Overall, this survey is better than recent ones but its economics should have been more rigorous and its recommendations more challenging.

The commission to be set up to advise the government on how to catch up with Australia by 2025 must do better.

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