

Figures Highlight New Zealand's Productivity Crisis

Last week Statistics New Zealand delivered a damning verdict on the economic stewardship of the Clark-Cullen government.

It released productivity data for the year to March 2009, effectively the last year of that government's term of office.

Productivity is a measure of the output we get from the economic resources we use, and hence the income the country earns.

In the long term, productivity growth largely determines New Zealanders' per capita incomes – our material standards of living.

Productivity is not about working longer hours. Labour productivity is output per hour worked. Working longer would in all likelihood increase output but not measured productivity.

Immediate sources of productivity growth include increased investment (giving workers more or better equipment to work with), better education and training (human capital), better infrastructure and more innovation.

Ultimately most of these improvements depend on improvements in a country's institutions and policies. Nobel laureate in economics Ed Prescott demonstrated that high tax burdens in Europe have made its productivity performance inferior to that of the United States. Other research points to the impact on productivity of restrictive labour market regulation in Europe, especially so-called 'employment protection' laws.

What do the latest New Zealand data tell us? The answer is a truly shocking story.

In the year to March 2009, labour productivity in the measured sector of the economy (about 74% of GDP) actually fell by 1.5%.

Multifactor productivity, which reflects innovation and improvements in knowledge, and is perhaps the most important measure of productivity, fell by 3.1%.

Both results were the worst in a series dating back to 1978.

The decline cannot be put down to the recent recession. Output also fell (by a similar amount) in the year to March 1992, but labour productivity rose by 2.9% and multifactor productivity by 1.0% because the government was freeing up the economy, not stifling it.

Moreover, these figures are not an aberration. Over the whole of the last government's term of office, productivity growth was poor.

For the nine years to 2009, annual measured sector labour productivity growth averaged 0.8% and multifactor productivity did not grow at all. (So much for Helen Clark's 'knowledge economy' and 'growth and innovation strategy'.)

For the previous decade the annual growth rates were 2.7% and 2.1% respectively – a big improvement on New Zealand's earlier performance.

These statistics illustrate both the hollowness of the Clark mantra about "the failed policies of the past" and the futility of her aim of lifting New Zealand into the top half of the OECD while increasing tax and regulatory burdens on the private sector.

It is also instructive to compare New Zealand's productivity record in the measured sector of the economy with that of Australia. This is possible because Statistics New Zealand also presents figures on a like-for-like basis for a slightly smaller group of industries.

On this basis, labour productivity growth in New Zealand from 1992 – when the benefits of New Zealand's economic reforms were yielding dividends – until 2000 jumped to 3.0% a year compared with 2.7% in Australia.

Between 2000 and 2009 labour productivity grew by just 0.9% pa in New Zealand compared with 1.7% pa in Australia. Thus Australia experienced a

productivity slowdown too, partly because reform efforts slackened, but the decline was much more marked in New Zealand.

Little wonder that many complain about the slow growth in real wages (firms cannot pay workers more than their productivity warrants) and that the income gap with Australia has widened.

The measured sector of the economy largely excludes the public sector. The limited information available suggests a much worse performance for the non-measured sector. A 2008 Business Roundtable study found that overall productivity of personnel in public hospitals decreased 8% over the five years between 2000/01 and 2005/06.

The Clark/Cullen government appeared to believe that the focus of efforts to raise productivity was individual workplaces, through discussions between managements and unions.

This is only a small part of the story. The much bigger part is the effect of government decisions on spending, tax, ownership and regulation on the overall business environment.

Most of the last government's decisions in these areas went in the wrong directions, as the Business Roundtable repeatedly pointed out. It is incredible that thinktanks like the New Zealand Institute and media commentators like Rod Oram largely supported that government's programme of 'smart, active', more interventionist government.

Of course, the fallout from bad policy wasn't confined to productivity. The legacy also included a big jump in unemployment, a move from budget surpluses to deficits, and a protracted recession.

The productivity figures are a stark reminder of how difficult it will be to catch up with Australia by 2025. Unless the government moves more rapidly in the directions laid out in the 2025 Taskforce report, the task will be all but impossible.

Roger Kerr (rkerr@nzbr.org.nz) is the executive director of the New Zealand Business Roundtable.