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Transcript of presentation and Q&A:

Challenges to and opportunities for improving productivity in a post-Covid world

Kia ora tātou, pleasure to be here. Even if it is remotely. I've nearly got used to this technology, but we have to start all over again given it was a few months for me when we were back in the real world and now back to online. So I'll just check if I can share my screen with a bit of luck and with a bit of luck that should come through for you to all see my slides. I suppose yes, starting from scratch.

My name is Ganesh. I'm a first-generation New Zealander born and bred here in Wellington. I acknowledge Māori as tangata whenua of Aotearoa. I acknowledge your tūpuna, my tūpuna, and our tūpuna who have travelled to these lands and done a lot of hard mahi and left us quite a lot for us to look after and indeed pass on to future generations. And I am actually should say, I'm humbled to not just be here, but to be in a part of the world where we can enjoy the fruits of our endeavour and indeed, in all honesty, being a part of the world where many many many others in the world would give their left and right arms for. And I think that's a tale that I will be honest I don't think, I think there are some who, I'm not sure many, but there are some New Zealanders who unfortunately don't realize just how in the jargon, I suppose that's a bit flippant, but just how lucky we are over the last 12 months having been here and in terms of a little bit of luck, obviously in terms of being far away from the rest of the world and being a little bit of an island and it's sort of easy to lockdown but even despite all of that even with those advantages a lot of challenges.

And it's a credit to us as a community and as a nation to have got through Covid reasonably unblemished. And that's not under playing the many many individuals and families and whanau and businesses who have done it hard for the rest of us, are doing it tough and again, are doing it tough given the lockdown again. But I'm sure with all the opportunities that we've got in front of us and indeed all the benefits we've got on this part of the world, we will definitely make it through even further.

Now my role now, and it's a little bit new, only a month on into being chair of the Productivity Commission and it's a new challenge for me and I pick it up with both hands and it's an exciting challenge and with you and many other organizations and people across Aotearoa I look forward to not just improving productivity in a post Covid world, but to make the most of all of the challenges and the opportunities that are in front of us. And I suppose if I just push forward to the first slide, if I can where are we, the technology, there we go. Just telling you stuff that you probably know already and don't need telling.

I think the important thing is that we're an independent Crown entity. We are not a government Ministry or department and we do act independently and our critical purpose which I take from the legislation, that set us up 10 years ago, I think summarizes my kaupapa very well. And this is one of the reasons I did accept this challenge here despite wanting to stay in my comfort zone of 20 years of BERL and looking forward to retirement. As for most things in life when challenges or opportunities come in front of you, you pick them up. The purpose there to provide advice to government on improving productivity, and in

my opinion most importantly, is to read beyond that in that clause: to improve productivity in a way that is directed to supporting the overall wellbeing of New Zealanders having regard to a wide variety of communities of interest and population groups in New Zealand society. And whatever I say today I should put this out bluntly and openly despite some of my initial comments and thoughts being misinterpreted by some. I think mischievously by some as well. Anything I say is in no way critical of what the Productivity Commission has done over the past 10 years.

I believe they have picked up their purpose well and have done amazing pieces of research and inquiries and contributed to the policy effort and inquiry and evidence and knowledge base that we need here in New Zealand. Having said that, I know I'm different to the previous Chair and I will be cast a different eye as to the previous Commissioners. I make no apologies for that, there may be different emphasis. I make no apologies for that. But in defence of taking a new perspective or even just a slightly different perspective, it is a new world and it's a cliché but I think that New Zealanders have got to realize that that 'business as usual' model that some of us yearn for, you know, just let's open the borders and let's go back to normal like it was in 2019, is not going to happen immediately. It's probably not going to happen in the short term and to be honest it's probably not going to happen for quite a long time, if ever. Because there are lots of other challenges that were there even before we close the borders that are becoming even more and more pressing. And so that point about supporting overall wellbeing is critical and the point about the variety of communities of interest in population groups that we have here in Aotearoa is also critical. Yes, improved productivity, but not that is not the end. That is the means to the end. In the end is the overall wellbeing of all New Zealanders and we have to look at productivity in a way to make sure that it does contribute to wellbeing, not just of New Zealanders, but dare I say of all New Zealanders. And I suppose my thinking about productivity.

Yeah, I've done obviously a lot of thinking about it as have many many others and 40 odd years ago when I first learned about productivity in my first stage one economics classes down here in Victoria University, sitting in front of white boards, and learned professors and lecturers. I learnt all about productivity being the residual from labour and capital inputs. And what was left over in terms of growth that we couldn't subscribe or ascribe to increases in labour or increases in capital, we thought of as productivity.

And so yes, I know all about inputs and outputs and to be honest I still hold that as my definition of productivity, but it's just broader because we haven't got two sets of inputs now. We have to openly acknowledge that there's more than just capital and labour or human capital as some people call it. We do know that natural capital is important. It is one of our reset of resources that we've got to use as inputs into our production process. But also this thing that Treasury has called Social Capital and those four sets of resources on the slide which together make up an element of the Living Standards Framework. And while I'm not a huge fan of the Living Standards Framework, I do applaud Treasury in terms of building this framework to give us a perspective on how we can think.

Not just in terms of productivity, but how we can think in terms of our economic system and how it delivers wellbeing. The four sets of resources which really isn't that difficult for us as economists to think about it. Economists call them 'resources', accountants call them 'capitals'. I call them 'taonga' or 'treasures' because I like that frame. Some people don't like the word capital some people don't like the word inputs.

It depends on the audience you're talking to and if you don't like any of those words, I like the word assets, because they should appear on our balance sheet as a nation and indeed they probably should appear on each of your individual balance sheets, whether you're a business organization or a not-for-profit or a community group.

You all have balance sheets, you all have assets on them and it's those assets, how we use those assets, how we apply those assets, how we get the best out of those assets, all those resources, all our taonga, that then determine our overall wellbeing. And that's productivity - how we use each of those four resources. And we can talk about the definitions of each of those and I will in a bit. I think that's a bit of a peek into later on in my talk that social capital element is something that we need to look into quite deeply in terms of just how important it is in our drive for productivity and for wellbeing.

It's no news to any of us in this room or it shouldn't be - our productivity performance over the last couple of decades at least and probably a bit longer. Obviously the data is a bit difficult to match up but this is the data that's the consistent set of series from Statistics New Zealand.

Gives us a picture of a quite, I suppose sobering performance, in terms of productivity improvements. It's slowing. I suppose we can say it's still above the axis in terms of above zero, but that's really not much comfort for people like me who actually do want to get some wellbeing out later, those who have missed out and in a nutshell the less we do on this particular graph the much harder it is for us to not just look after those assets that we've been given from our past generations, but to improve those assets and deliver wellbeing out of them. So that it's a tough ask, but we've actually got to start taking productivity seriously. We've got to start understanding productivity properly as well. The, I suppose, the interesting or the opportunity point that we've got is that Covid does provide us with a bit of a reset opportunity and a bit of a challenge for all of us if we needed it all to actually until question ourselves about whether we actually do want to go back to business as usual. Just what was so great about business as usual that we want to go back to and to be honest look at that graph that's in front of you that was not a great performance and that was long before Covid.

And out of that performance, obviously, there has been wellbeing implications for many in our communities. The overall impact of Covid and this is very short term, not as bad as it was, not as bad as we originally feared, and I think that's a credit to many businesses and workers here in Aotearoa who have done the hard yards and taken a lot of hits on the chin to make sure that the rest of us can get through.

But there are some long-standing challenges that we all know about. Also though out of the Covid experience, it's highlighted some of our, I suppose some of the strengths that we do know, and one of those is again a bit of an indicator of the future, is that strength in our communities, in our sense of social inclusion and that sense of Social Capital that I will just hint at for the moment. Some of the challenges that have been here for a while that I think we ignore at our peril, and we really have got to get serious about this. If we're talking about human capital or dare I say social capital, we've got some large skill gaps across our ethnic groups and this is a just a challenge, it's an indictment of our efforts over the past couple of generations. It's an indictment of all of our collective efforts, and we've all got to own up to this. We haven't done well in terms of bringing our communities together and providing them with the skill base to engage in the modern economy. The pictures there in terms of a third or more of our Maori and Pasifika communities in the low achievers in terms of maths, science and reading. And I suppose my concern shared by many we know what happens with lockdowns and in terms of school closures. The concern is that these disparities get worse and these disparities will not just hit the Maori and Pasifika communities, they will hit the wellbeing of all of us, because it is those resources that enable our productivity to improve and to enable the delivery of wellbeing.

The other, I suppose telling you again what you probably know already and has been communicated well by others in terms of income and in terms of labour market participation and in terms of unemployment rates. Maori and Pasifika again being the wrong end of the queue in terms of those unemployment statistics. Those are some of the challenges. You could argue those challenges have been here for a long time. Those unemployment rates have been above the rates for other people in the community for quite a while even before Covid. The problem of course with Covid is they're going the wrong way. Some of the

opportunities - our distance has helped, but of course once you close the borders it does make life a lot more difficult for many sectors, in particular tourism and education that do rely on open borders.

We have got lots to think about here in Aotearoa about what do we do with our tourism industry and indeed what we do with our international education industry. Again, are we serious about having a conversation about whether business as usual is what we want to go back to? Or are we serious about having a conversation about reorienting these industries towards something? Towards industries and sectors that will deliver high productivity growth and deliver good wellbeing across our communities. And again that goes back to how do we use our resources? Do we want to make sure that those sectors use our human capital resource, our natural capital and our social capital resources, our taonga properly, not just properly, but maintain and look after them and deliver wellbeing.

Whoops going backwards. Sorry one slide too many.

On the natural capital, there was a little bit of a plus in terms of when we did with lockdown. Lots of stuff happened. I know I enjoyed a very very good environment here in Wellington in terms of doing my training runs down the middle of the road, around the bays, with no cars around and the birds were out and you could listen to them. And dare I say it was a nice time. It was a brief interlude in the way we run our lives.

But we've actually got to be serious about our carbon intensive economy. And we've had some recommendations and policy recommendations come out quite recently and I'll come to them in a second as well. I think the big plus that has come out of our Covid experience, and I don't think I can overstate this and some people may say I'm over reading it, but one of the big reasons we've got through the Covid-19 experience, even up till now, even despite the, I suppose the couple of glitches that we've had in the last couple of weeks, is our sense of community, is our sense of inclusion and our sense of being part of a team. And I know some people cringe at the team of 5 million, or whatever you want to call it, or we're all in the same boat. He waka eke noa. But that sense of cohesiveness is actually a very very huge asset that I think we underplay here in New Zealand. It is an asset that I think we can look to using even better in times when we are not faced with a crisis. We have a habit of coming together as a team when there's a crisis, but how do we then take those advantages and make them work for us when we're not in a crisis situation? I think that's one of the challenges that I put in front of me and I'll talk to that in a second. I have a few more minutes and then we'll open it up for questions. In terms of opportunities, again going down those four capitals or those four assets root, and it is that balance sheet if you're a business person, if you're an economist, it's the assets, it's the resources we've got to play with. How do we make those resources go better? Physical capital, the bricks and mortar.

The problem and it's been alluded to already, but the Covid uncertainty will discourage and I don't say may will discourage investment, probably over the short-term and definitely from the private sector and that's understandable despite the interest rates that we can get, we can get funds for, and I think undoubtedly, there's a clear role for government, for the public sector to play, to make sure that our investment program does not stumble.

And the flip side of that of course and I do take the point that there is a capacity constraint in terms of some of our construction sector that we need to get round. And I think that's again a challenge, but we do need to make sure that an infrastructure program continues. We need to make sure that our existing assets are used better. Transport, congestion charging. As a boring economist, we do go to prices to change behaviour. We do need to change our behaviour in terms of the way we use transport, the way we use our transport infrastructure. And the other element undoubtedly is the three waters discussion that we've got to have. As a boring Economist, yes we go to prices to change behaviour. Having said that we've got to make sure that those whose behaviour we are trying to change, the groups in the population

who can change their behaviour, as opposed to those who will be forced to. And these are questions and conversations to have around just transition in that conversation.

The other element that I'd throw in is the way we use our city's implication. We've all got used to working remote and it's not, probably not as prevalent here as the changes that are happening in other parts of the world, but maybe thinking just a little bit further into the future. What does that mean in terms of CBDs and regional New Zealand?

If we have a world where we don't all have to get in the car and go to a CBD and sit in an office for 8 hours a day. Or dare I say have high streets that have retail shops on them all the time. What does that mean for the way we design cities into the future?

And I've missed the point around, and I will come back to it. I missed the point advisedly. I will come back to it, is the focused innovation policy, which will be one of the recommendations... And I hope I'm not speaking out of turn... It's in the draft report in terms of our Frontier firms, and the Productivity Commission's Frontier firms inquiry... the draft report was released in late December. One of the recommendations about a focused innovation policy, about our R&D effort here in Aotearoa. All of the different pieces of the jigsaw puzzle that together make up an innovation ecosystem that we need to figure out to make sure it goes better than it has been.

We've got a sense of a... I won't say disjointed, that's probably going a little bit too far, but we have got a sense of not focused and an ecosystem that doesn't function well, and we do need to spend a bit of time developing an innovation policy that will support our frontier firms to not just grow but to grow well that will then ensure that those other firms that are not quite at the frontier will get to that frontier. And that will then enable us to deliver the wellbeing in terms of high wage sectors, high wage jobs and high income communities. In terms of human capital linked to that, I think linked to that R&D, but also linked to more broad skills training, we need to, as I've signalled earlier, we need to urgently tackle those achievement gaps that are quite glaring for some in our community.

And we've had some, sorry no I won't go down that track. I've not quite run out of time, but I'll just push forward and open up for conversation in a second.

Natural capital as I signalled earlier, climate change, the Climate Change Commission report and indeed the Productivity Commission's report from the inquiry I think that was a couple of years ago on the low-emissions economy. Those recommendations, I don't think conveniently, I think obviously, do signal very similar policy requirements. And I think it's past time us putting out policy papers. Now's the time to send clear and consistent signals from the policy shops that we do have to change our behaviour in terms of whether it be the way we price our nutrients or whether the way we price transport or whether we change our behaviour in terms of the transport opportunities. The time for discussion is probably closing fast as people say the best thing that could happen I think from here on is for that clear and consistent policy and economic signals. So business and indeed households can make those behaviour changes that we've put off for too long.

And that is, and dare I say, a critical opportunity. And then I go to the last one [slide] which is social capital. We have to acknowledge that it's not just growth that we want here, it's not just productivity that we want here, and not just growth for growth's sake, it's not just productivity improvements for productivity improvements sake. Those two together deliver us wellbeing and we need to make sure that they deliver wellbeing to all not just a select few.

Because the last year has shown us that there are many in our community that are prepared to do it tough. And I think, we, some of us and privileged positions need to, I suppose have that communication back the other way, make sure that we are communicating with those groups that haven't been included

in the past, to make sure that they are part of the team, they feel part of the team, because if they become part of the team not just social capital but human capital and our physical capital indeed our natural capital. All of our resources will work together to deliver us that wellbeing and with that wellbeing will deliver us productivity growth and vice versa.

If that's too broad for some, I make no apologies. We've tried, we've done hard yards in terms of 40 odd years ago and it was all about delivering machines and people with lots of skills. The economy is way more sophisticated now. We've got a lot more competitive environment now in terms of having to keep our skills here. We've got a lot more, dare I say, we're open to a lot more shocks from other parts of the world and indeed internally. That means some of our communities and some of our people and our businesses. I include businesses and our communities. It's just that you are going to use. Some of our businesses, some of our communities are doing it tough, will continue to do it tough as shocks continue to hit our economy., And I hesitate to say the pandemic is not this won't be the last, I don't want to be the all doom and gloom, but we have to have a system that is resilient to the shocks that are going to continue to hit us. And part of that resilience is to include workers and businesses in some form of income smoothing to enable them to withstand these shocks.

And I suppose throughout it all the one element of our, I suppose our living standards framework that I do pick up quite strongly, as He Ara Waiora a pathway to wellbeing, that I like very much. It's got human capital, physical capital, social capital and natural capital all around. It's got kaitiaki which is our guardianship of our resources. manaakitanga, which is reciprocity. Not only do we want and need workers to deliver productivity growth, we need to go back the other way, we need to ensure that those workers are looked after and supported as well. And we do want Ōhanga, we do want prosperity and we definitely do want productivity.

My core role - you'll have me as the flag bearer of promoting public understanding of productivity and productivity related matters. I'll make no apologies for that. We definitely do need champions, but we don't just need champions in the business community. We need it in the broader community. We need to bring in those communities and workers and groups that are immediately turned off by the word 'productivity'. We need to bring them inside the tent, make them or engage with them to ensure they understand that they have got a huge lot to benefit once we lift productivity and turn it into wellbeing.

I'll leave that with you. I'm sure I've left a bit of time for a chat and hopefully I've got you thinking. And hopefully you can make me think even more. Kia ora.

Q&A

1. Do you support the views of the late Paul Callaghan that were needed to reset the economy away from agriculture and tourism as a way of improving our productivity?

I wouldn't say away from agriculture and tourism. I would say we definitely do need to think about different business models for both of those sectors. And I do know that agriculture has gone a long way down that track already.

I'm definitely not in the school of thought that agriculture has to do all of the adjustment, if you're talking about climate change and water. There's me and sitting in my comfortable place in the middle of urban Wellington has definitely got to think about having to jump in a car every day. So we've all got adjustments to make.

I think that where I probably share the thoughts of Paul Callaghan is around an economy that's built on knowledge, an economy that's built on innovation, and so I have no qualms about that. I would add that the agriculture sector has been one of the sources of huge productivity growth in New Zealand across history, well at least the history of the last 100 years of so in terms of New Zealand, in terms of innovation and of productivity growth, and I suppose application of that innovation. So I wouldn't think that we need to turn too much away from agriculture, but we do have to think about that business model.

And tourism, we've got some serious serious challenges there and we've got to have a serious discussion about what do we want to do with tourism. That business model we had around tourism twelve months ago, we always knew was not sustainable. I think we got as much as we could out of it and Covid has I suppose accelerated the adjustment that was going to have to happen anyway.

2. Does the Commission have a view about the extent and speed of the border opening? How does an island nation with less access to the world fit with growth and productivity?

Well the Commission has no view on whether we should open the borders or not. And that's not me sitting on the fence. It's not a conversation for me to have. I have no expertise in epidemics and vaccines and all of that sort of stuff. Obviously we'd like the border, I think everybody in New Zealand would like the border opened as soon as possible, but I will leave that for others more learned than me to decide on.

But yes, what is the future for New Zealand given a scenario where, even when the borders are opened, let's think about this. Even when the borders are open, the world is going to be different. The appetite for many people in other parts of the world to get on a plane and travel for 24 hours to come to here is not going to be as great as it was, say 12 months ago. So there's going to be that question about whether people are going to want to come here. Add on top of that, whether you want to call it flight shame or not, about whether people in terms of climate change, whether that appetite for long term plane travel.

So even if the borders are open, we've got to have a conversation about the businesses and the industries that rely on people travelling across borders and then what sort of people. So it's not just the tourists. I think the other element is our access to skills. And we've relied on a global labour market in New Zealand to hopefully get some of the cream of the crop here, because we know that New Zealanders travel abroad and so there's a little bit of replacement there and a little bit of addition.

In terms of the productivity challenges for New Zealand, we don't have control over what happens in the rest of the world. We actually probably don't have that much control over when we can open the borders or not. And that's not new for New Zealand, we actually don't have that much control over what happens in the rest of the world's markets. We don't have that much control over the price we pay for oil or

whatever it might be. And I don't wish to be flippant, but it is another constraint on us, that I think we ignore at our peril. We shouldn't pretend that it's going to go away.

We have to be honest and open about it and then let's start talking about what's the new business model? About where do we access the new skills that we're going to need? Because we know we're going to need skills. How long have we got to replenish those skills by doing some serious skill training here of our own population? It's those sorts of conversations that we've got to have, rather than pretend that the borders are going to re-open and we're going to go back to normal in 12 months' time.

3. You've talked about a much broader view of productivity. How will you measure that? What does success look like? Having established the measures, what are the concrete steps that New Zealand can take in the near-medium term to achieve those success measures?

Well we're still measuring productivity. There's no issues about that. Statistics New Zealand still measures productivity. The Productivity Commission will still be putting out *Productivity by the numbers*. There's no change in any of that. I see that as essential, those are critical tools for us to measure.

I think what I put on top of it though is let's not forget that those productivity measures, if we interpret them properly, should be viewed over a longer term rather than the shorter term. So let's stop looking for changes in productivity growth over a six month or one year periods. Let's start looking at them seriously and appropriately.

But then let's start thinking about other measures. And I go to wellbeing measures, because is that productivity changes, are they actually delivering wellbeing? Let's look at productivity in the sense of... let's look at some measures about how well we're looking at the state of our assets, let's look at the state of the natural capital stock we've got, let's look at the human capital stock we've got, let's look at the physical capital stock, let's look at the social capital stock.

So if you're looking at measures I prefer measures that, I mean I can go into arguments about, but I prefer measures that look at the balance sheet rather than the P&L, because the balance sheet is what we've got to play with going forward. The P&L is very much a... I'm generalising, but it tends to be a very much a backward looking measure. It says what you've done in the past year. It doesn't give you a very good indication about what you're able to do in the next 2, 3, 4, 5, 10 years. And I think that's why the balance sheet measures are way more important. Not just from a wellbeing perspective, but dare I say from a productivity perspective as well.

So yes, let's collate the productivity numbers, but then let's also add in on them things around how is our natural capital working, what is our human capital stock, let's look at those education measures, let's look at those skill based measures. I don't have all the answers, and I don't even pretend to have all the answers. I've been looking at productivity for the last 40 or so years and I've only been in this new job for the last 4 weeks.

We'll probably be in 40 years' time still looking at productivity. It is the critical element that enables us to deliver wellbeing. We're never going to finish, we should always continue to strive at doing even better with what we've got. How are we going to measure it? Let's look at those balance sheet measures rather than the P&L.

4. With productivity growth, wellbeing can expand. What are the mechanisms by which we ensure that that wellbeing is more equitably distributed?

Well that's where I'd probably have to take my Productivity Commissioner hat on then, because I haven't gone down that track yet. I'd dearly love to but, in my mind it's that social capital element and it's social inclusion.

So as part of the way we drive productivity growth, if we do it properly means that we're including all of our communities, means we're including those who have been left out in the past. So we are, I won't say we're focusing on, I'll say we're bringing inside the tent those communities who haven't got those human capital skills that all of us have fortuitously somehow developed. Why haven't they? Why have they missed out? Let's start engaging in a policy discussion with those communities rather than pretending we can deliver them on high from Wellington or a University or from a research think tank. Because those communities have a lot of lived experiences. They have assets as well and I think we need to engage with them if we seriously believe that social capital is also part of our asset base.

5. How might we not have the tech export sector growing by only \$1billion, as the fastest growing sector, but how do we get that up to be actually long-term and more sustainable? What could we do in New Zealand to get more higher value manufacturing going or even mid-level manufacturing going, especially with the 1% interest rate opportunity that the Government might be able to pass on to us?

I'm probably in full agreement. Yes we've got to diversify. In my dark days, some of my flippant comments is that we've been trying to diversify the New Zealand economy for at least 100 years.

But that shouldn't stop us trying. Yes, high value manufacturing. I'm sure you'll find some stuff out of our frontier firms inquiry when we publish our final report later this month that will be around high value manufacturing as well as the link to R&D and innovation and I think that's critical.

And it sounds flippant but that innovation ecosystem that we've struggled with, I think that we've got to have another go at it. And let's be courageous, rather than I suppose tinkering around the edges.