

February 2, 2021

## Public submission to the New Zealand Productivity Commission on their report “New Zealand firms: reaching for the frontier”

I am making this submission in my capacity as a citizen of New Zealand, and not on behalf of any organisation to which I belong.

Dr. Ben Wylie-van Eerd

Thank you to the authors for their work on this report, which I found both significant and helpful.

A key recommendation of this report is for the government to implement focused innovation policy. In other words, for the government to reduce broad funding of innovation and commit significantly increased resources of both money and people to the task of supporting a smaller number of industries or areas (however broadly defined). The evidence presented does seem to suggest that this would be of significant benefit to New Zealand as a whole once the investment came to fruition. This would be expected to be seen in higher per capita GDP and greater economic activity and exporting. The evidence also seems to suggest that most other nations to which New Zealand compare ourselves to have done some version of this, and that it has succeeded for them. The report clearly indicates that the focused approach would be superior to New Zealand’s current policy around support for business, the “sub-therapeutic doses” approach - as Skilling so poetically puts it. I accept these conclusions of the report.

If the New Zealand government were to do this, it would be a significant shift in the way it supports business. As the authors note, this would be government resource committed to business at both a scale not seen before, and for a length of time not seen before. The authors have quite correctly noted that it will be necessary to have a heightened level of transparency and highly skilled

oversight of focused innovation policy. They further note that this heightened level of governance is not yet displayed by the government in current state, and will need to be developed.

New Zealand has, for a long time now, operated under a paradigm that government should be as minimally involved in business as possible. Government should not 'pick winners' or provide 'corporate welfare', and it should stay out of areas that 'the private sector could perform better'. The truth of these ideas notwithstanding, they persist in the voting public. Any attempt to mobilise government to some kind of focused innovation policy will run into opposition from people who hold these views. Changing our way of doing these things will require leaders to take the public of New Zealand along with them, and require excellent communication and transparency. This initiative will need to have champions both within the public service and on both sides of the house.

**There is therefore a significant political risk in this undertaking, which I submit is deserving of more focus by the commission.** While I do not know whether political risks fall within the scope of the commission, they nevertheless present a real obstacle to implementation of the commission's suggestions. So I propose that some effort could be usefully spent on forecasting political risks, and thinking about how they could be managed. **In this case, I suggest that the use of a citizens' assembly could be a good way to engage the public in the decision to implement focused innovation policy, and to provide more political legitimacy for it.** This could de-risk the process for the politicians who preside over it and therefore make it more likely to be implemented.

The public have a fear, entirely reasonable in my view, that the public resource expended on focused innovation policy could be captured by elites with little concern for the wellbeing of ordinary New Zealanders. A citizens' assembly (or a similar deliberative democracy tool) could be a very good way to reassure the public that they retain control over this resource, and that they are the source of legitimacy. Citizens' assemblies have been used in other countries to find answers to contentious problems in ways that are less vulnerable to exploitation for political gain than standard political systems, and less vulnerable to big media and lobby group influence than referenda. Studies have shown that views of participants become less polarised and closer to consensus through the process.

“Which industry or industries should we choose to invest focused innovation policy in?” strikes me as a perfect example of a question suited to citizens’ assembly: It has a well defined scope; it can be constructed with a clear promise of subsequent action by government; It is not hugely morally polarising; It provides an opportunity for industries to make their cases directly to the public; and it similarly provides a platform for independent experts to share their assessments. For citizens it would provide a transparent arena for them to see what the best investment decision is with their tax money. For industries it would provide a fair playing field for them to make their case to the public. And for government, it would provide reputable evidence of the preference of the New Zealand people.

Naturally, a citizens’ assembly is no replacement for excellence in oversight and governance of the project once it is chosen! These capabilities will need to be displayed throughout, and transparency maintained. But I strongly recommend that a citizens’ assembly be used to create and legitimise initial support for the big investments that focused innovation policy will require – or, alternately, to prove a strong preference of the New Zealand public against going ahead.

Yours faithfully,

Dr. Ben Wylie-van Eerd

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