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Judy Kavanagh
Inquiry Director
Productivity Commission
Via email: judy.kavanagh@productivity.govt.nz

Xero submission on Productivity Commission's report: *New Zealand, technology and productivity - Technological change and the future of work*

Dear Judy

Xero is relieved with the strength of recognition in the Productivity Commission's recent report on the link between technology adoption and improving productivity.

I say relieved because there has been a deeply concerning lack of acknowledgement to date as to just how critical technology adoption is to addressing New Zealand's stubborn productivity problem.

For New Zealand's national body charged with identifying how to improve productivity to make the following statement feels like a sharp turning point in the somewhat cyclical national conversation around our productivity problem:

"New Zealand's problem has not been too much technological change and progress; it has been too little. By failing to pick up and spread the world's best technologies, New Zealand has lost opportunities to gain higher living standards. The path to greater wellbeing lies with more technology adoption and diffusion..."

This statement is critically important, completely correct and long-overdue. Xero has always known that technology adoption is the key to New Zealand's poor productivity rates. Having this now so clearly articulated now forces New Zealand to consider the policy imperatives, which are now vital to technology adoption at scale.

Xero is also delighted to see the explicit acknowledgement of the role of government policy in technology adoption:

"Well-designed and coordinated government responses could allow New Zealand to fully realise the potential of disruptive technologies for economic productivity and social prosperity."

Policy and regulatory change to drive technology adoption, particularly across small businesses, is the single most important thing New Zealand can do to improve national productivity. It is critically important. Without policy or regulatory change, nobody should expect technology adoption to move at anything other than the current rate. The status quo is our productivity problem.

With unemployment running at less than four percent, it is obvious that New Zealand simply cannot throw more labour at our productivity problem. We must now design

and introduce policy that encourages or mandates our businesses and employers to realise the significant productivity gains through technology.

Xero is currently conducting a significant piece of independent research into how technology adoption has led to material productivity improvements in other parts of the world and we look forward to sharing this with you in early 2020.

While this research has just started, we already know that government policy must be bold and at scale if it is to drive technology adoption and improve productivity. Incremental or minor policy shifts will not deliver the productivity gains we all seek and New Zealand needs. For example, earlier this year the policy of 'Making Tax Digital' in the UK mandated businesses earning over a certain threshold to file tax returns digitally. A 'snowball effect' productivity gain for small businesses in the UK from this relatively simple policy initiative has been projected at approximately 50 billion pounds over five years.

This is an example of the scale of policy that New Zealand must now begin to urgently design and implement. Xero is concerned that failure to drive policy with sufficient reach and scale may fail to attract global best-practice technology solutions to target New Zealand. For policy encouraging technology adoption to succeed it must create an environment where global technology providers compete to deliver the solutions dictated by policy.

'Making Tax Digital' in the UK is the most current relevant example of this approach in practice. New Zealand must now focus its efforts squarely on finding the equivalent policies in the New Zealand market. For example, Singapore has a tax rebate scheme for small businesses investing in certain technologies and Xero believes an extension of a similar scheme here could potentially drive significant productivity gains while being fiscally neutral over time.

Similar reform of payroll provisions for Australian small businesses are also set to streamline and enhance small business productivity with the introduction of Single Touch payroll on 1 July 2019.

While policy must be bold and at scale, the policy is only half of the solution – supporting, coaching and helping many businesses make transitions is vital. Xero knows that across New Zealand many small businesses – too many – are still run on a spreadsheet or are still paper-based. There must be comprehensive and well-resourced programmes to support businesses going through a technology transition, even on matters as procedurally simple as filing tax returns.

Over the top of specific policy changes to drive technology uptake must sit a whole-of-government commitment to the continued technology upskilling of Kiwis and preparing people for a new, evolving way of working.

This submission is a short response to the Productivity Commission's technology and productivity paper. It seeks to set out Xero's strong support for the principles it expresses so clearly around how technology adoption must be accelerated to drive productivity and how critically important Xero believes government policy is to this goal.

I will contact you in the new year to arrange a time to share what our research is telling us about what could deliver the best productivity gains for New Zealand.

I look forward to working with you and your team in service of our joint commitment to technology driving productivity improvements New Zealand needs.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Craig Hudson', with a large, stylized initial 'C'.

Craig Hudson
Managing Director, New Zealand & Pacific Islands
Xero