A (small) idea for a (slightly more) Productive Economy

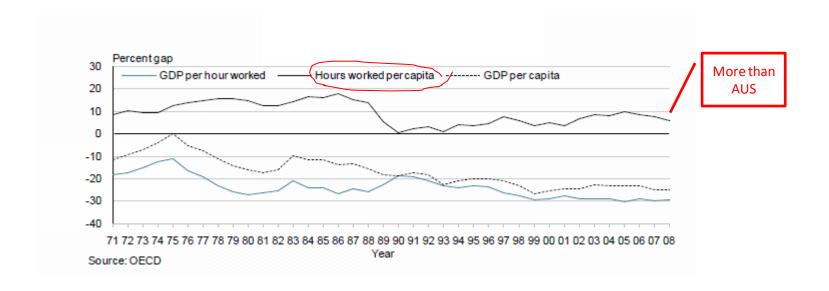
Rhema Vaithianathan
Department of Economics
Centre for Applied Research in Economics (CARE)

Presentation for

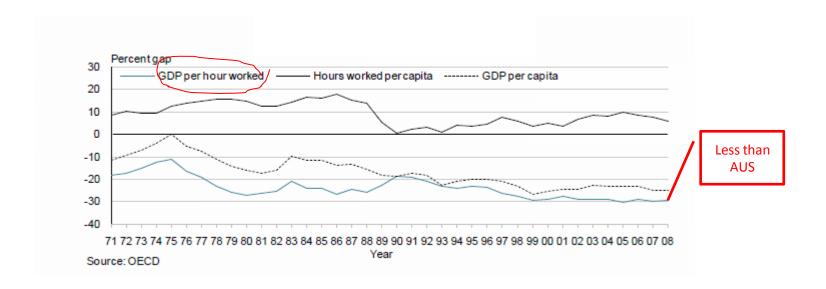
compared to

Australia

NZers work more hours...



... but earn less per hour worked



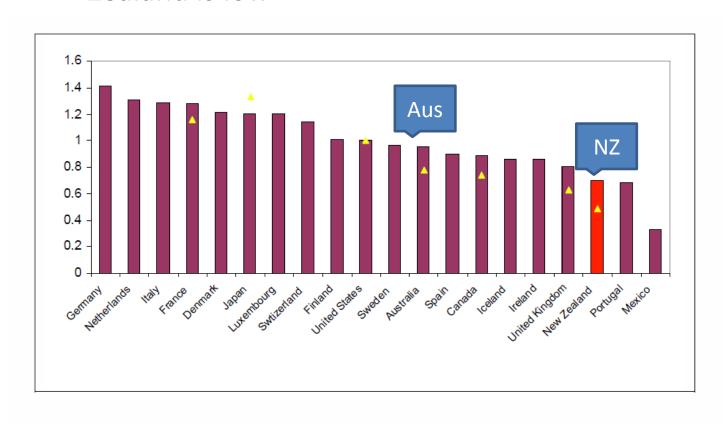
So what's the solution?

Workers have too little capital to work with

"We need to increase capital"

"We need to save"

True...capital per worker in New Zealand is low



But...

choice of capital is made by managers

What can Government do about it?

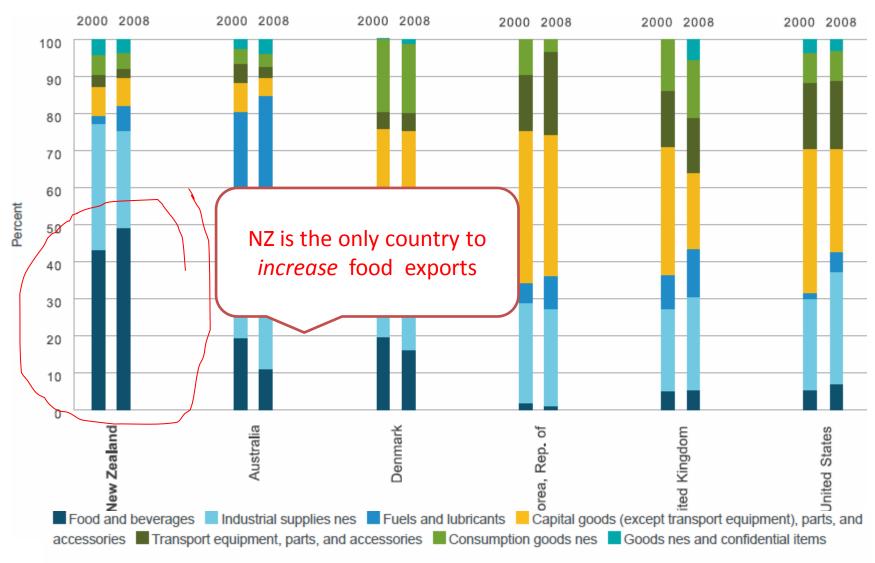
Too much reliance on commodities"

"We need to diversity"

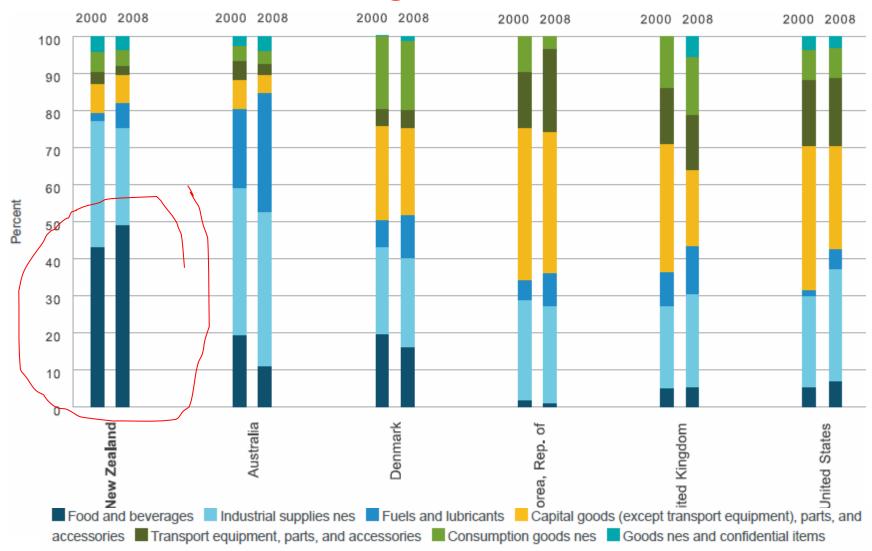
"We need to back winners"

"We need another knowledge wave"

True... Merchandise Exports by Broad Category



... and the only country to have 50% earned in a single sector



But choice of industry is made by firms

What can Government do about it?

My Proposal: Management for Dummies

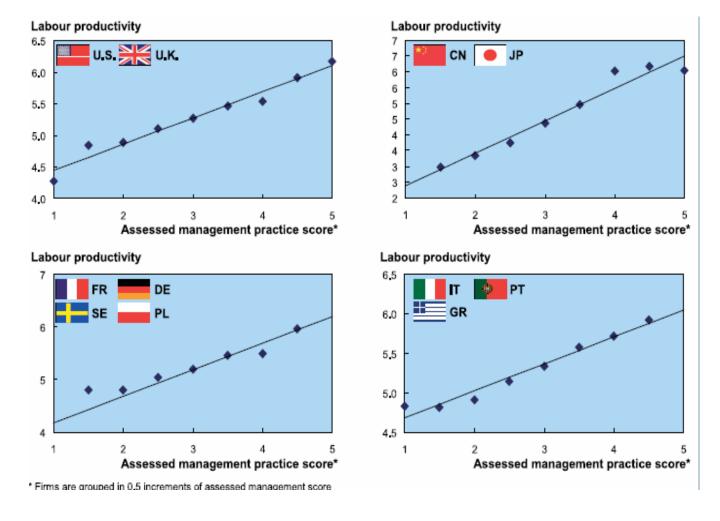
A training programme for Medium Sized Businesses

Making managers smarter

Makes their choices smarter

Bloom, Nicholas and John Van Reenen. 2007. "Measuring and Explaining Management Practices across Firms and Countries." *Quarterly Journal of Economics*, 72(4), pp. 351.

Management quality makes a difference to productivity



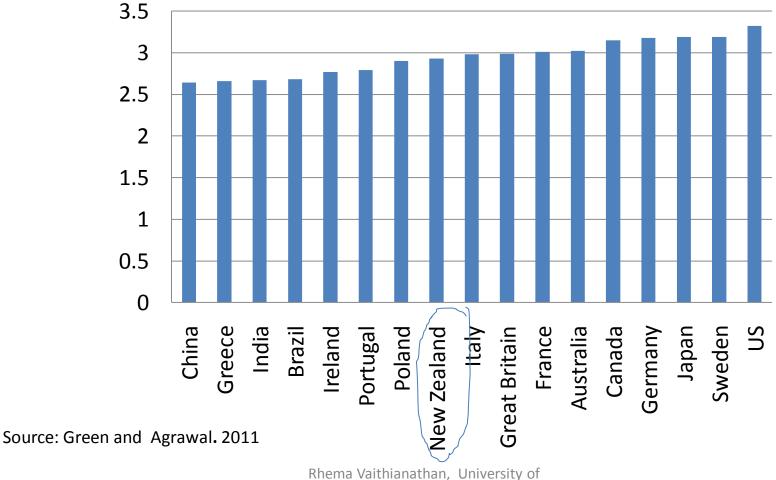
A 1 point increase in management score

is equivalent to

a 65% increase in firm's capital

New Zealand Managers are Ok overall..

Management Score



but are bad at people management

Addressing poor performance

Best practice: Poor performers are moved to less critical roles or out of the company as soon as weaknesses are identified

Worst practice: Poor performers are moved to less critical roles or out of the company as soon as weaknesses are identified

Worst practice: Poor performers are rarely removed from their positions

Retaining high performers

Best practice: Managers do whatever it takes to retain top talent

Worst practice: Managers do little to try and keep the top talent

Promoting high performers

Best practice: Top performers are actively in the diffied, developed, and promoted

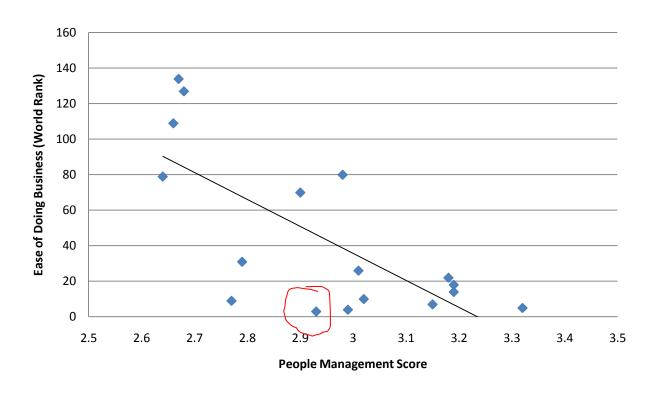
13th out of 16 could be still a second could be seen as a second

Worst practice: People are promoted primarily upon the basis of tenure

New Zealand's people management is significantly worse than Australian

What's the answer?

Market liberalisation is **not** the answer for NZ



All country which scored better in management

also ranked below New Zealand on ease of doing business

		Ease of	
		Doing	
	Management Score	Business	
China		2.64	79
Greece		2.66	109
India		2.67	134
Brazil		2.68	127
Ireland		2.77	9
Portugal		2.79	31
Poland		2.9	70
New Zealand		2.93	3
Italy		2.98	80
Great Britain		2.99	4
France		3.01	26
Australia		3.02	10
Canada		3.15	7
Germany		3.18	22
Japan		3.19	18
Sweden		3.19	14
US	Rhema Vaithianathan, University of	3.32	5
	Auckland		

Perhaps management training is?

- An intervention in India by team at World Bank
- Small businesses are offered high quality management support
- The cost of this was USD 75,000 per plant
- Increased productivity by

18% in 1 year

My proposal

 Target New Zealand owned firms employing 10-50 employees

• 30,000 firms

Firms management training is given tax credit

Similar to R&D tax credits

Cost- Benefit

 Auckland Business School PGDip in Business costs \$14,000

- Suppose a tax credit provides a 33% subsidy
- If a 50% take-up costs \$69 m
- Tax is "recouped" if it increases salary of average employee (on a 24% tax rate) by \$1,300