

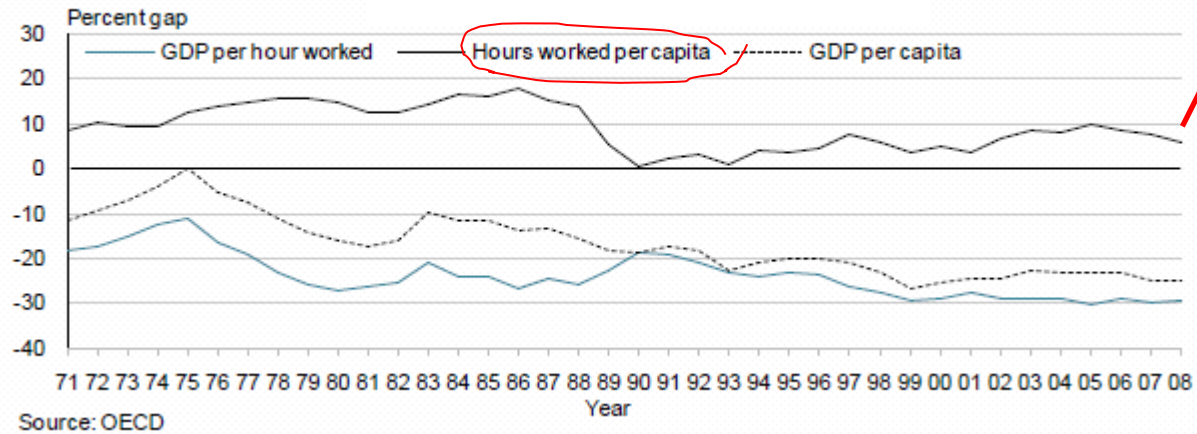
# A (small) idea for a (slightly more) **Productive** Economy

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compared  
to

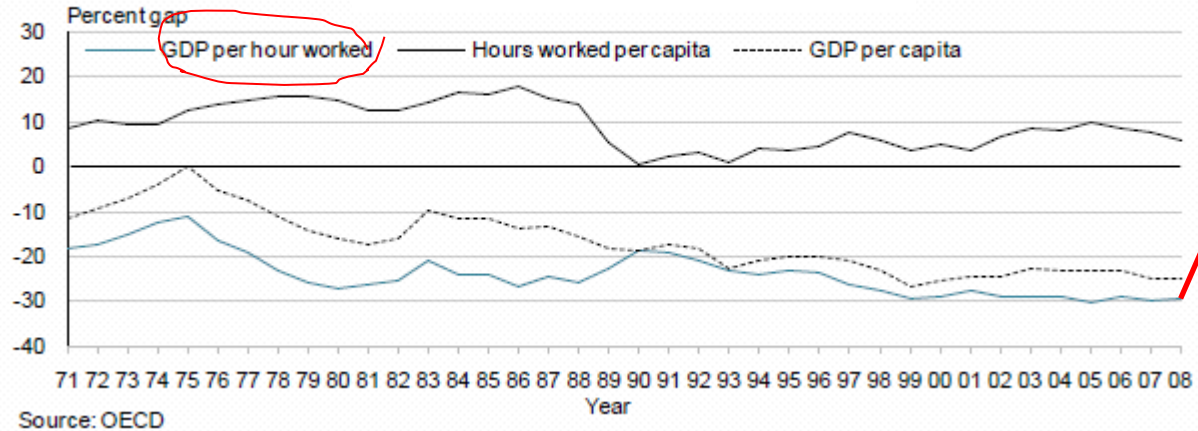
Australia

# NZers work more hours...



More than  
AUS

# ... but earn less per hour worked



Less than  
AUS

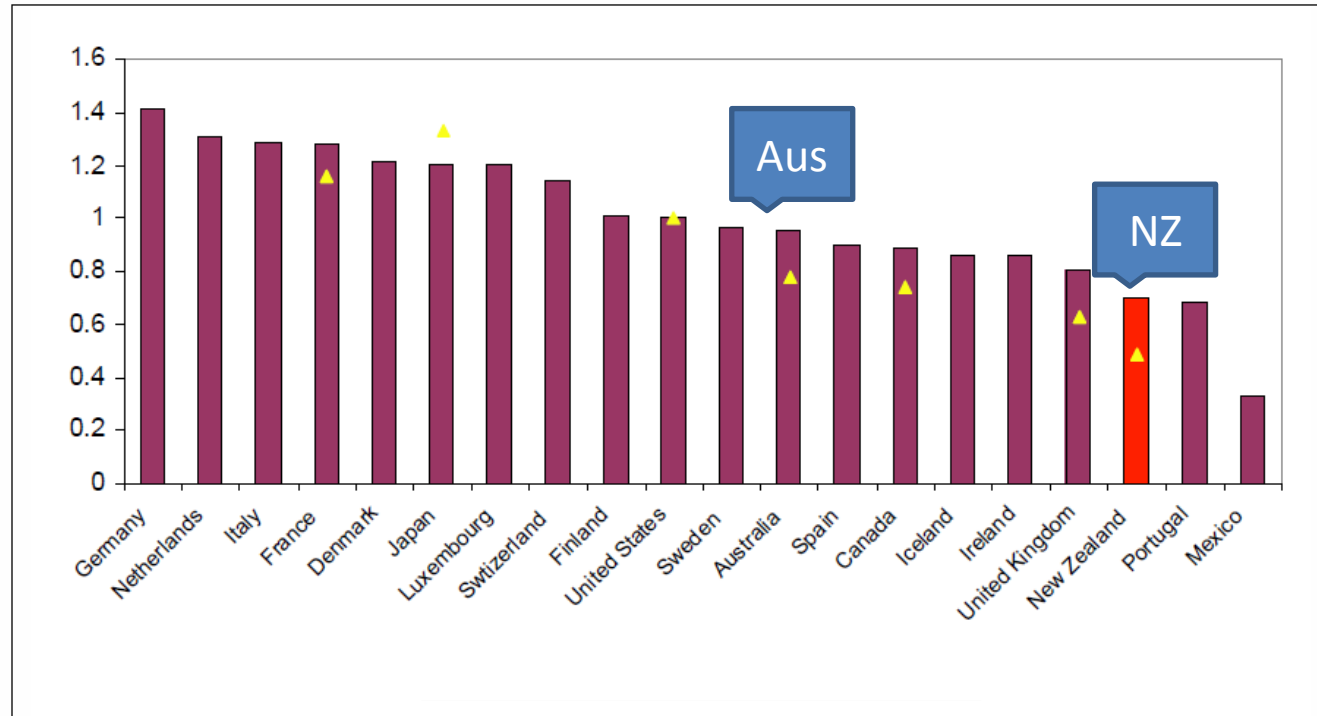
So what's the solution?

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



Source: Investment, Productivity and the Cost of Capital: Understanding New Zealand's "Capital Shallowness"  
New Zealand Treasury Productivity Paper 08/03  
April 2008

But...

choice of capital is made by  
managers

What can Government do  
about it?



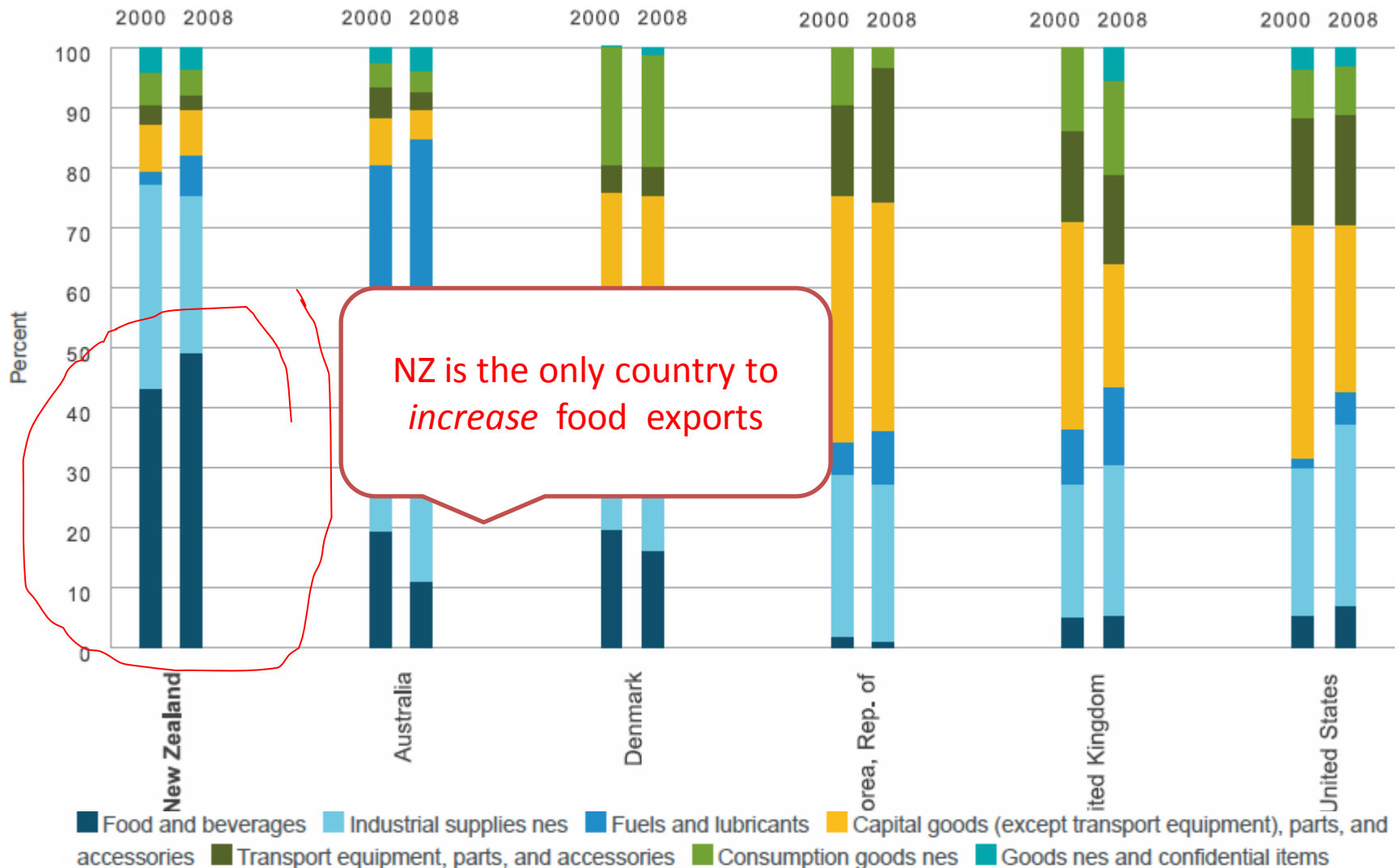
Too much reliance on commodities”

“We need to diversity”

“We need to back winners”

“We need another knowledge wave”

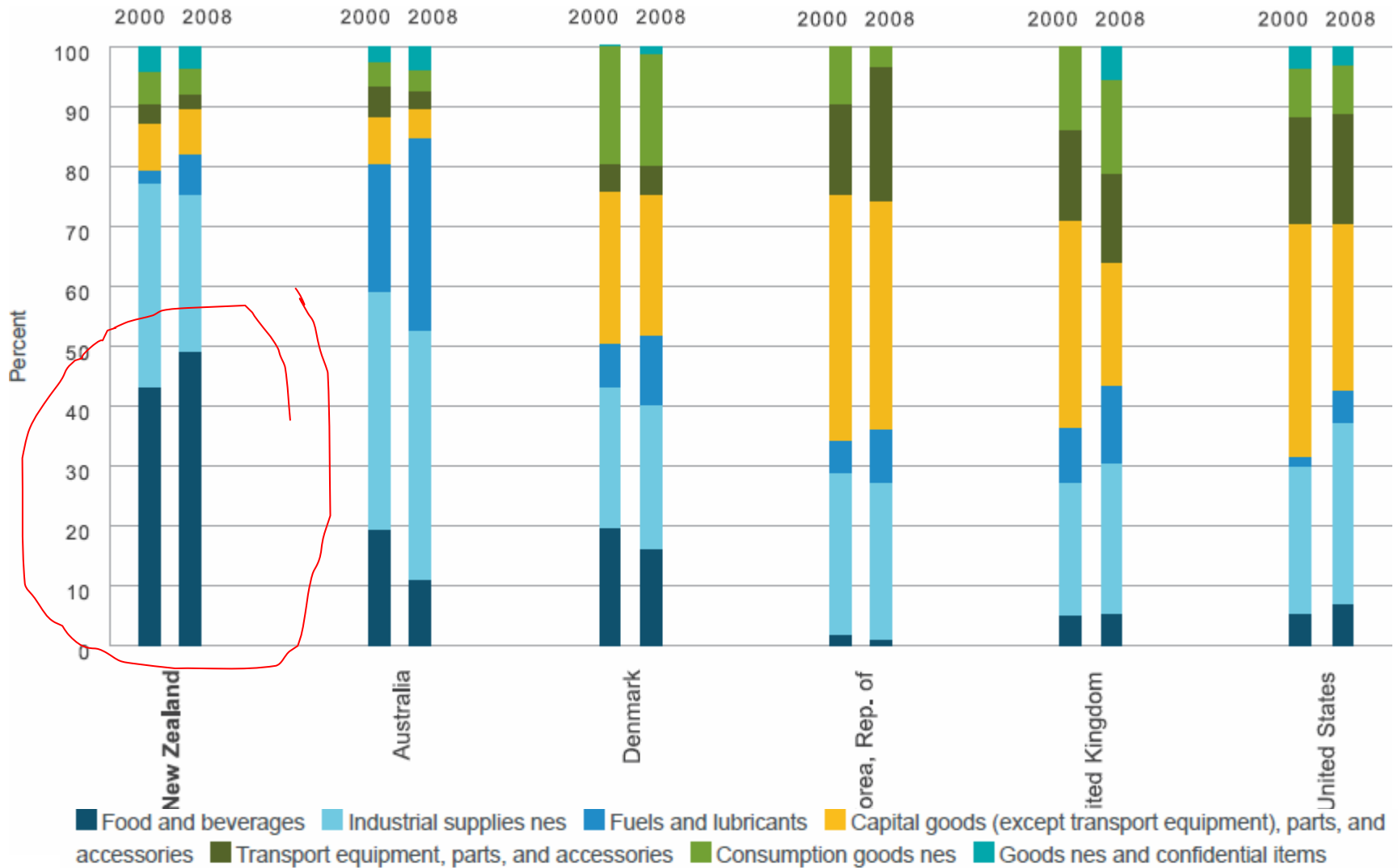
# True... Merchandise Exports by Broad Category



Source: United Nations COMTRADE database, DESA/UNSD

Rhema Vaithianathan, University of Auckland

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



Source: United Nations COMTRADE database, DESA/UNSD

Rhema Vaithianathan, University of Auckland

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

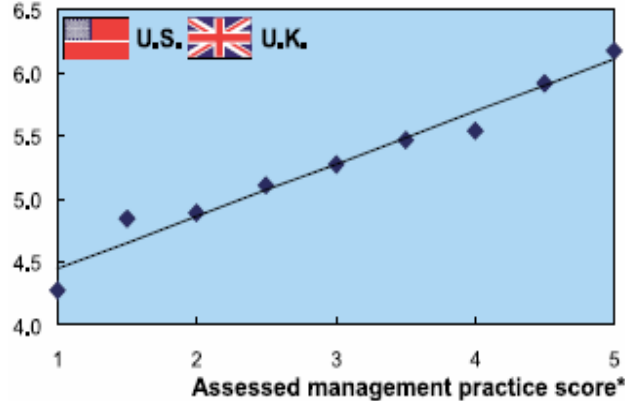
Making managers smarter

Makes their choices smarter

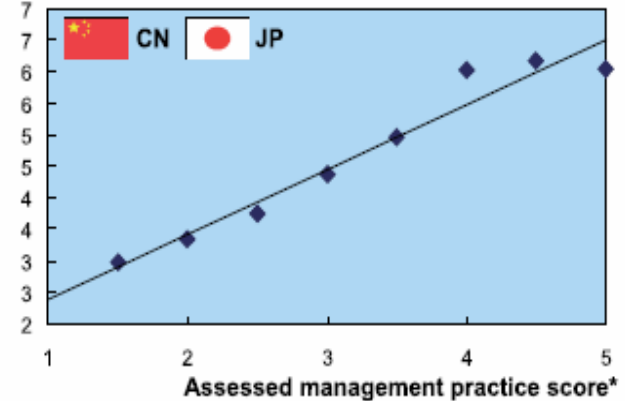
**Bloom, Nicholas and John Van Reenen. 2007.**  
"Measuring and Explaining Management  
Practices across Firms and Countries."  
*Quarterly Journal of Economics*, 72(4), pp.  
351.

# Management **quality** makes a difference to productivity

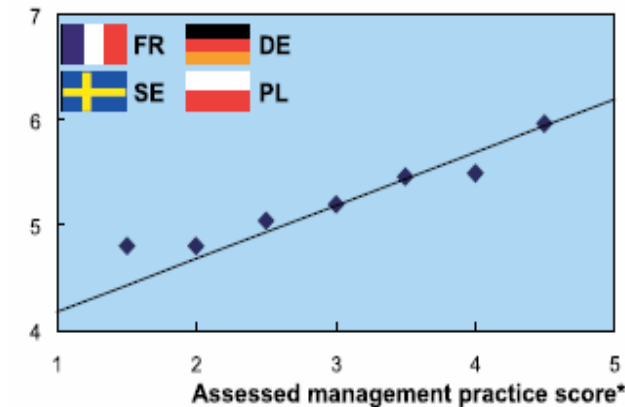
Labour productivity



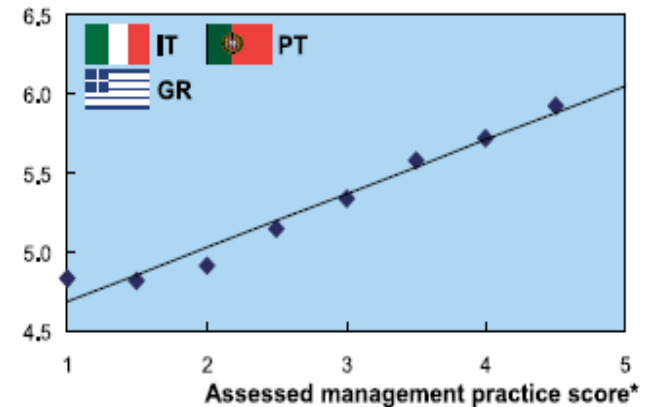
Labour productivity



Labour productivity



Labour productivity



\* Firms are grouped in 0.5 increments of assessed management score



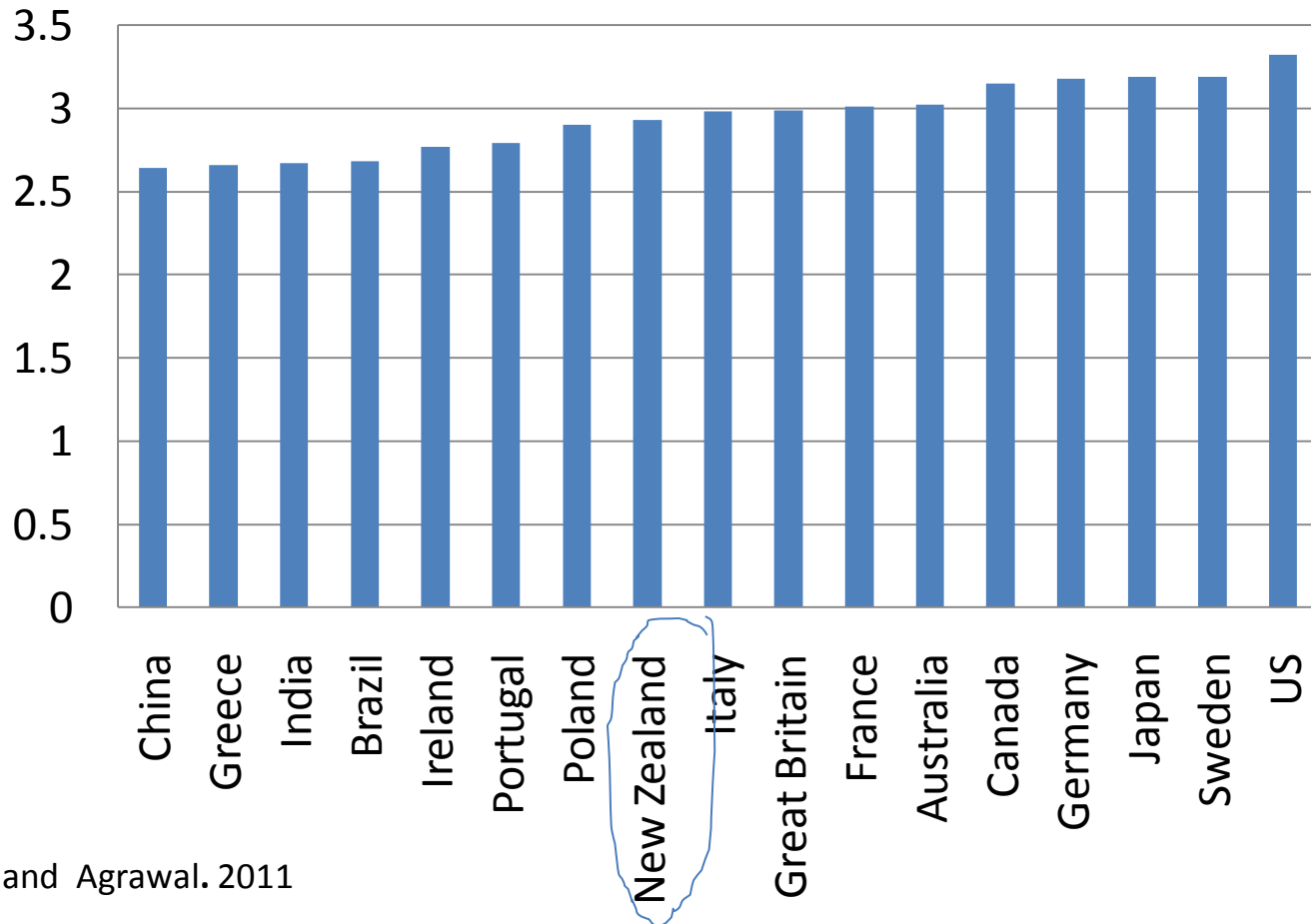
A **1 point** increase in management score

is equivalent to

a **65%** increase in firm's capital

# New Zealand Managers are Ok overall..

## Management Score



Source: Green and Agrawal. 2011

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 rarely removed from their positions

**Worst out of 16 countries**

## Retaining high performers

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

**14<sup>th</sup> out of 16 countries**

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

## Promoting high performers

*Best practice* : Top performers are actively identified, developed, and promoted

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

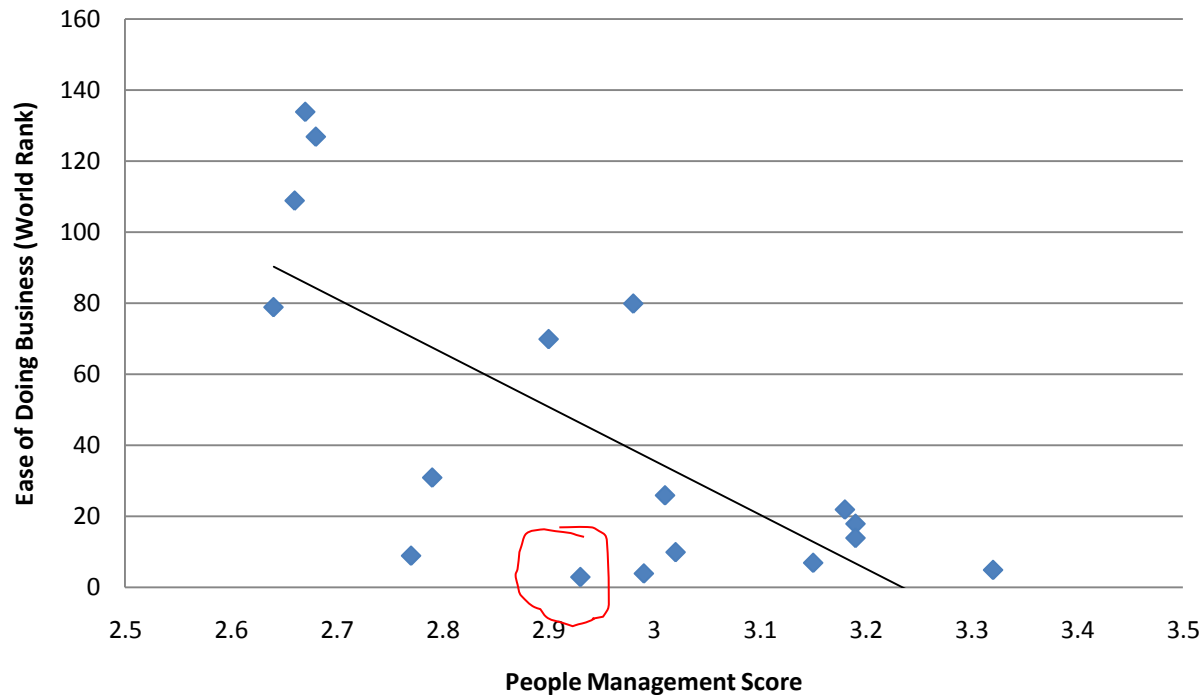
13<sup>th</sup> out of 16 countries

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

	Management Score	Ease of Doing 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
<b>New Zealand</b>	<b>2.93</b>	<b>3</b>
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	3.32	5

# 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