

NEW ZEALAND

Trend growth of GDP per capita has slowed, and its level remains significantly below the OECD average, essentially reflecting low hourly labour productivity. Reforms have been taken to introduce market-based mechanisms to address climate change, but additional measures are required, in particular in the following areas.

Priorities supported by indicators

Reduce barriers to competition in network industries

Significant barriers to competition and regulatory uncertainty in electricity, air and rail transport, and telecommunications are hampering needed investments in these sectors and limiting productivity advances in the economy.

Actions taken: In late 2008, a comprehensive emissions trading scheme was legislated, though the new government is expected to amend it after a review is completed. A new National Energy Strategy, seeking to boost energy market competition, was announced. The mobile telephone regulatory and competitive framework is also being strengthened. However, the rail network has been re-nationalised and ownership restrictions *de facto* tightened in the case of an attempted foreign take-over of Auckland airport.

Recommendations: Remove investment uncertainties by clarifying the regulatory framework for competition, water property rights and the new emissions trading scheme. In mobile telephony, regulate termination charges and inject competition to improve broadband uptake. Divest public ownership and dismantle FDI restrictions and entry barriers in international air transport and rail.

Reduce educational under-achievement among minority groups

Long-standing and widening disparities in school achievement has left a large number of people with poor qualifications, notably in Maori and Pacific Island population groups (together accounting for 23% of the population), with adverse effects on human capital.

Actions taken: In consultation with unions, the government has attempted to place performance measures in teachers' contracts, so far without success.

Recommendations: Teachers' pay and career advancement should be linked to ongoing professional development and to success in improving educational outcomes for groups at risk of under-achievement.

Raise effectiveness of R&D support

The lack of R&D tax credits, inadequate coordination of R&D support programmes and a particularly low stock of skilled human capital in the form of researchers, scientists and engineers in the private sector contribute to below average R&D intensity.

Actions taken: Schemes have been launched to improve firms' ability to access researchers worldwide, while an ongoing review of immigration policy seeks to improve the competitive recruitment of talent. On the other hand, a recently introduced R&D tax credit has been cancelled by the new government.

Recommendations: Facilitate the transfer of knowledge between universities and private firms, for instance through collaborative research efforts and sabbaticals for researchers. Continue to adapt immigration, education and labour-market policies to supply needed innovation skills. Improve co-ordination among agencies responsible for delivery of public support and systematically evaluate programmes, ensuring that grants are delivered in a contestable and transparent manner. Consider reduced use of grants with more extensive use of tax incentives and make more public R&D conditional on private sector co-financing. Encourage the development of venture capital markets to further help fund innovative business start-ups.

Other key priorities

- **Health sector efficiency.** In the health sector, increase incentives for public sector managers to identify and implement efficiency improvements, and to this end, develop output measures for a much larger share of the sector and robust price and volume measures for major classes of inputs. Continue to improve access and service quality for minority groups, along with an increased focus on prevention of chronic conditions.
- **Road infrastructure.** Develop and implement an effective congestion charging scheme for key urban areas and relax the regulatory framework for road infrastructure to make it easier to construct toll roads.

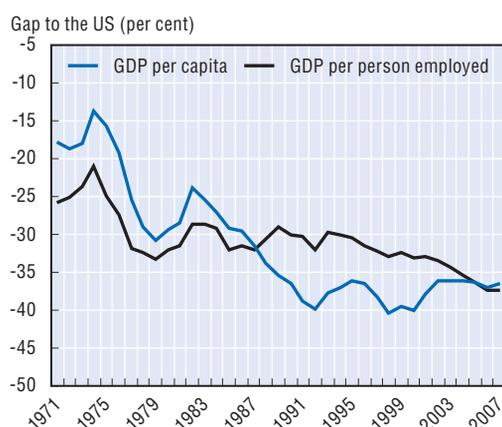
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Structural indicators

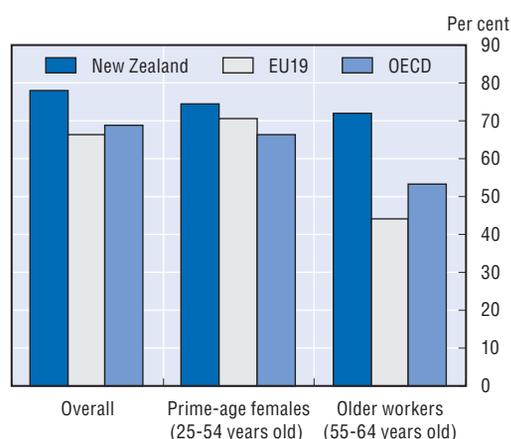
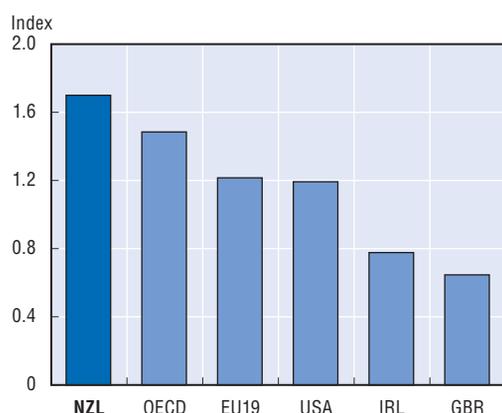
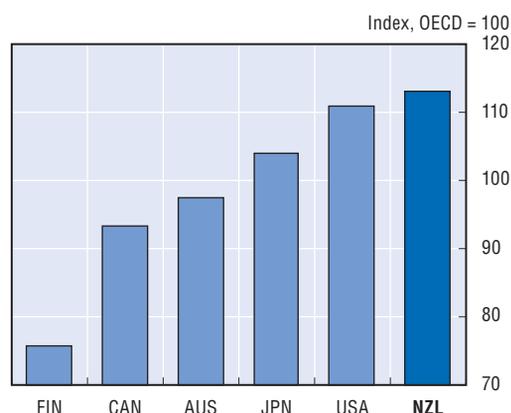
Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	1.9	2.2	1.7
Labour utilisation	0.6	0.6	0.5
of which: Employment rate	0.8	0.8	0.9
Average hours	-0.3	-0.1	-0.4
Labour productivity	1.4	1.6	1.2
of which: Capital intensity	1.1	1.2	1.0
Multifactor productivity	0.3	0.4	0.2

Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

A. Gaps in GDP per capita and productivity remain large¹

B. Employment rates are high, 2007

C. Barriers to foreign direct investment are higher than the OECD average, 2006²D. The variation in student performance is high, 2006³

1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs).
2. Indicator scale of 0-10 from least to most restrictive.
3. Average variation in student performance in mathematics, science and reading (only mathematics and science for the United States).

Source: Chart A: OECD, *National Accounts Database*; Chart B: OECD, *Labour Force Statistics Database*; Chart C: T. Koyama and S.S. Golub (2006), "OECD's FDI regulatory restrictiveness index: revision and extension to more economies", OECD Economics Department Working Papers, No. 525; Chart D: OECD, PISA 2006 Database.

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