

# PILLARS

THE SEVEN PILLARS OF GROWTH



A NEW ZEALAND PERSPECTIVE



The voice of business

# COMMITTED TO NEW ZEALAND'S SUCCESS BY PROMOTING SUSTAINABLE GROWTH THROUGH FREE ENTERPRISE

Business NZ is New Zealand's largest business advocacy body representing the combined members of regional business organisations EMA Northern, EMA Central, the Canterbury Employers' Chamber of Commerce and the Otago-Southland Employers' Association, which offer services and support to 14,500 companies. Business NZ also represents 56 national industry associations, with a combined membership of some 76,000 employers in the private sector, from large firms to the self-employed. Together, these employ around 80% of private sector employees. [www.businessnz.org.nz](http://www.businessnz.org.nz)

# THE SEVEN PILLARS OF GROWTH

Refers to the things necessary for the New Zealand economy to grow – infrastructure, a business-friendly environment, sustainability, responsible government action in taxing and spending, skills and productivity, investment, innovation and entrepreneurship, and trade. These are ‘pillars’ because they are all essential to support the economy: take any one away and the economy will not perform to its potential.

**Taken together, the seven pillars equate to a single necessity – an environment that recognises business as the main driver of growth. Seven pillars of growth is a reminder of that obvious but sometimes overlooked truth.**

For each pillar this publication contains a short list of ‘what New Zealand businesses want right now’. These are policies or actions that our member businesses say would most help them prosper and grow. Some of them are things that business itself needs to attend to and others can be addressed only by government. Policymakers and political parties seeking to improve the environment for business in New Zealand may find suggestions worth pursuing here. The lists aren’t exhaustive, but represent what business wants, expressed as simply as possible.

This publication also includes indicators to check on our progress towards improved growth. Business NZ will report on progress against the indicators from time to time. New or modified indicators may also arise with time, consistent with our dynamic, evolving economy. It’s our hope that readers may suggest new or improved indicators, and enter into dialogue on this important topic.



**PHIL O'REILLY**  
CHIEF EXECUTIVE, BUSINESS NZ





INFRASTRUCTURE

Effective investment in  
infrastructure to eliminate  
constraints and foster  
growth and development

# 1. INFRASTRUCTURE

A healthy economy requires good infrastructure – well-maintained roads, railway track, ports, airports, power plant and cabling – the physical assets that make it possible to travel, communicate and do business. A nation's infrastructure needs to adequately support business now and enable investment in future growth.

A nation's infrastructure is often the most visible clue to the health of its current and future economy.

## Business NZ's vision for New Zealand's infrastructure is a first world nation with world-class, well-maintained infrastructure assets.

We need indicators to tell whether we are making progress towards the vision. Given the current state of our roading and electricity infrastructure, two relevant and important indicators are:

1. Expenditure on roading as a percentage of GDP – a good trend would be for spending to increase in the medium term, then remain reasonably constant at a level similar to other developed nations
2. Percentage of growth in GDP per energy input – this indicator measures economic growth per input of energy, indicating the level of efficiency in energy infrastructure; a good trend would be for the percentage to rise over time

### Infrastructure – here's what New Zealand businesses want right now:

- ▾ Resource Management Act consent processes streamlined to reduce delays in building infrastructure
- ▾ Petrol tax money spent on roads, not siphoned off into the consolidated account
- ▾ The Land Transport Act changed to give higher priority to building and maintaining roads
- ▾ Privatisation of more state owned generators, to get more competition and lower electricity prices
- ▾ Faster upgrading of the Transpower grid to improve certainty of power supply
- ▾ Relevant legislation changed to make it easier to get private sector investment in infrastructure





A BUSINESS-FRIENDLY ENVIRONMENT

Positive attitudes to entrepreneurship and wealth creation; central and local government regulation consistent with business growth

## 2. A BUSINESS-FRIENDLY ENVIRONMENT

A business-friendly environment is characterised by positive attitudes towards entrepreneurship and wealth creation. In a business-friendly environment new legislation is carefully framed so that it is consistent with business growth and does not inadvertently impose compliance costs and constraints on businesses.

One way to gauge whether a country is supportive of its business sector is to look at recently passed laws – especially tax, environmental and resource management, employment, and health & safety laws – and check whether they are positive or negative for maintaining and growing business competitiveness.

**Business NZ's vision for a business-friendly environment is one where business success is celebrated, and laws protect and enhance the business sector no less than other sectors of society.**

Indicators that tell us whether we are making progress towards the vision include:

1. Average direct tax burden on the business sector as a percentage of GDP – a good trend would be for the percentage to decline over time, and for New Zealand's percentage figure to be less than in countries that are our trading competitors
2. Trend of compliance costs over time – a good trend would be one that consistently declined

### **A business-friendly environment – here's what New Zealand businesses want right now:**

- ▾ Government commitment to reducing compliance costs
- ▾ Central and local government out of private enterprise – no central or local government enterprises setting up business in competition to private enterprise
- ▾ No carbon taxes – instead, other policies to reduce emissions that won't harm our competitiveness
- ▾ Changes to the current loose wording in the Resource Management Act that's letting trivial and ideological claimants stop legitimate development
- ▾ A better system for allocating natural resources e.g. tradeable rights for water
- ▾ The Holidays Act simplified, and 'relevant daily pay' replaced by 'ordinary pay'
- ▾ Choice restored to ACC legislation, so businesses are free to choose private accident cover if they wish
- ▾ Choice restored to the Employment Relations Act (ERA), so everyone is free to choose either individual or collective bargaining
- ▾ The union monopoly over collective bargaining removed from the ERA
- ▾ A grievance-free probation period put in the ERA
- ▾ The 'presumed imbalance of power' clauses removed from the ERA
- ▾ The 'employer presumed guilty until proven innocent' bias removed from the Health & Safety in Employment Act
- ▾ The return of the right to insure against fines under the Health & Safety in Employment Act







SUSTAINABILITY

Activity by business  
and government should  
recognise the necessity  
to achieve sustainable  
outcomes for business,  
community and  
environment



# 3. SUSTAINABILITY

Sustainability can be a controversial idea. The term has been used differently by different groups, sometimes to try to prevent any development whatever, and sometimes to undermine legitimate business activity. We reject that notion of sustainability. Our view of sustainability: the ongoing competitiveness of New Zealand business through responsiveness to the legitimate needs and interests of stakeholders including customers, staff and the community.

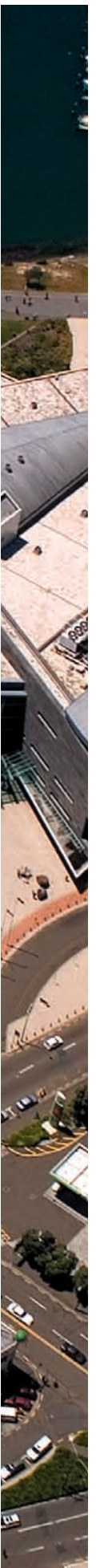
**Business NZ's vision is a business environment that sustains people, enterprises and industries.**

Indicators that would tell us how well we are progressing towards the vision are not easily defined, largely because sustainability is a relatively new concept – ongoing dialogue will be needed to refine and add further indicators. For now, usable indicators include:

1. Number of new work-related ACC claims as a percentage of total numbers employed (people or workforce sustainability) – this is an indicator of the health and safety of people in the workplace and hence the sustainability of the workforce; a good trend would be an ongoing reduction
2. Trend of business compliance costs over time (business sustainability) – a good trend would be one that consistently declined
3. Capital investment growth (industry sustainability) – the amount of capital invested in New Zealand businesses has a bearing on performance, e.g. investment in modern equipment which is safer, more efficient and less polluting helps business sustainability; the amount of capital invested also indicates confidence in ongoing business activity, on which the livelihood of all New Zealanders directly or indirectly depends; a good trend would be significant ongoing increases

#### **Sustainability – here's what New Zealand businesses want right now:**

- Continued commitment by all employers and employees to workplace health and safety and government activity supportive of that
- Government commitment to reducing business compliance costs
- Ongoing and increasing capital investment by business, underpinned by supportive government tax and depreciation policy





GOVERNMENT ENVIRONMENT

Government taxation  
and expenditure at levels  
that promote higher  
economic growth

# 4. GOVERNMENT ENVIRONMENT

An important pillar supporting economic growth is the government environment, especially regarding fiscal policy – how a government approaches taxing and spending. A government that continually increases its amount of expenditure as a percentage of GDP will be forced to increase tax levels, and high levels of tax make it difficult for businesses to invest in people and plant, to the detriment of business and economic growth.

Disciplined government spending makes lower taxation possible, allowing companies to use more of their profits to invest in their business for the benefit of customers, staff and other stakeholders.

Disciplined spending is required to enable the government to maintain our tax levels at a rate competitive with other countries, especially Australia – an important consideration given the drain in investment, jobs and skills to that country.

On current predictions, government spending will be more than 82% higher in 2008/9 than in 1999/2000. Current government policy says there is little room for tax cuts, but this begs the question – Is such a large increase in spending more or less responsible than tax cuts?

**Business NZ's vision is a government environment with expenditure and taxation at levels that promote high economic growth.**

Indicators that can tell us whether we are making progress towards responsible taxing and spending include:

1. Government spending as a percentage of GDP – a good trend would be a continued reduction
2. Crown debt as a percentage of GDP – a good trend would be a continued reduction
3. Taxation levels (personal and corporate tax) – a good indicator would be New Zealand taxation consistently set at levels competitive with other developed countries

**Government environment – here's what New Zealand businesses want right now:**

- Government commitment to restraining spending (including Super Fund assets), to less than 30% of GDP by 2010
- Government commitment to reducing taxes, in particular the rate of company tax (to 30% immediately and to 20% over time)
- Government commitment to reducing net Crown debt (including Super Fund assets) to below -5% of GDP by 2010





SKILLS & PRODUCTIVITY

New Zealanders should have at least minimum levels of literacy and numeracy; the country needs credible qualifications, continued upskilling of the current workforce and an appropriate number of skilled immigrants with good English language skills

# 5. SKILLS & PRODUCTIVITY

For New Zealand to have vibrant economic growth into the future, its citizens must have high levels of skills relevant to dynamic, high-earning industries. New Zealanders must be equipped with sound literacy and numeracy skills, and a learning culture is needed, where people update their skills and knowledge on a regular basis throughout life. A culture of productivity improvement is also essential, so the value produced per head of population increases, compared to other nations. Size of population affects the bank of skills available to any country, and New Zealand's small population base requires an ongoing policy to bring into the workforce skilled, motivated English-speaking immigrants.

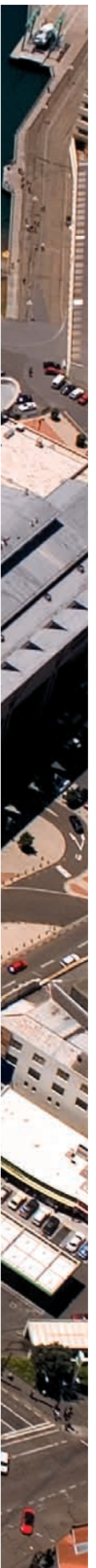
**Business NZ's vision is for a high-skill, high-wage New Zealand, where lifelong learning and a focus on productivity is the norm.**

Indicators that can signal our progress towards this vision include:

1. The percentage of school leavers with NCEA level 1 – this is an indicator of New Zealand's ability to achieve minimum educational standards across the mass of the population; a good trend would be significant ongoing increases reaching a high stable level
2. Numbers in formal industry training – this is an indicator of workforce upskilling; a good trend would be significant ongoing increases
3. Skilled migration net inflow – this provides an indication of gains or losses of skilled workers; a good trend would be an ongoing net gain consistent with business needs

## Skills and productivity – here's what New Zealand businesses want right now:

- ▾ Less public money spent on courses with low relevance and value to the economy, and more on industry training
- ▾ The cap removed from the industry training fund so apprentice and trainee numbers can grow
- ▾ Enough immigrants with relevant skills and good English to meet business needs
- ▾ Government commitment to requiring schools to achieve minimum levels of literacy and numeracy for all school leavers
- ▾ The NCEA made more reliable and easier to understand





INVESTMENT, INNOVATION AND ENTREPRENEURSHIP

Active uptake of new technologies, strategically coordinated, effective research and development programmes in the private and public sectors, a regulatory framework that encourages innovation



# 6. INVESTMENT, INNOVATION AND ENTREPRENEURSHIP

Investment, innovation and entrepreneurship propel enterprises towards a more creative, differentiated and successful future. Intense global competition now demands more than efficient production of goods and services. To be competitive, firms must invest strategically, innovate constantly, and display entrepreneurial spirit. Countries seeking global competitiveness must provide the kind of environment that promotes and celebrates investment, innovation and entrepreneurship. This does not necessarily mean stability and longevity for all businesses – high levels of new business creation and the demise of less productive businesses are a sign of an entrepreneurial environment.

**Business NZ's vision is for an entrepreneurial culture, where investment brings growth through innovation.**

Indicators that can tell us whether we are making progress towards the vision include:

1. Business investment as a percentage of GDP – this is a general indicator of the amount of investment in enterprises; a high percentage offers a better likelihood of strategic or transformational investment occurring
2. Private sector research & development as a percentage of GDP – this indicates investment targeted specifically at new products and services; a good trend would be significant ongoing increases
3. Business turnover – this indicates company entry and exit, or the rate of business creation and demise, as innovative firms arise and less productive ones disappear; a good trend would be a continued net gain of new businesses

## **Investment, innovation and entrepreneurship – here's what New Zealand businesses want right now:**

- ▾ Greater deductibility for R&D and capital investment
- ▾ Better coordination of publicly funded research intended for commercial application







TRADE

An open market and  
continued increased  
access to foreign markets  
for New Zealand exports

# 7. TRADE

Trade is vital for New Zealand's future. As a nation with a small population, and therefore a small domestic market for the goods and services it produces, New Zealand's prosperity will increasingly depend on selling goods and services into larger overseas markets. New Zealand's early experience of over-reliance on a Britain as single market for agricultural produce, and subsequent shock when Britain repudiated the trade relationship to join the EEC, gave a valuable lesson on the importance of diversity of markets. Now New Zealand operates a policy of trade with as many partners as possible, and with as few trade barriers as possible. Trade agreements, both bilateral and multilateral, and a commitment to the comprehensive multilateral objectives of the World Trade Organisation characterise New Zealand's approach to trade.

**Business NZ's vision is for growing, profitable trade between New Zealand businesses and overseas trading partners, unhindered by trade or non-trade barriers.**

Indicators that can tell us whether we are making progress towards this vision include:

1. External trade (exports plus imports) as a percentage of GDP – this is an indicator of the volume of trade; a good trend would be for the percentage figure to increase significantly over time
2. Foreign direct investment stock as a percentage of GDP – this indicator is useful for a small economy with relatively low levels of domestic investment: foreign investment brings capital and an infusion of new technologies and skills while also stimulating competition, indirectly enhancing resource allocation efficiency; a good trend would be for the percentage to rise, along with improved export performance

## Trade – here's what New Zealand businesses want right now:

- ▾ Continued government commitment to working towards bilateral and multilateral trade agreements as well as a comprehensive WTO agreement
- ▾ Government commitment to policies that would allow a free trade agreement with the US
- ▾ Government commitment to policies that help, not hinder, the competitiveness of NZ companies against overseas companies
- ▾ Greater on the ground support for exporters in foreign markets
- ▾ Comprehensive trade deals that recognise foreign investment, non trade barriers and other issues as well as trade in goods and services





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Level 6, Lumley House,  
Cnr Hunter & Victoria Streets  
PO Box 1925, Wellington  
Ph 64 04 496 6555  
Fax 64 04 496 6550  
Email: [admin@businessnz.org.nz](mailto:admin@businessnz.org.nz)  
[www.businessnz.org.nz](http://www.businessnz.org.nz)



