

27 January 2010

Dr Don Brash
Chair - 2025 Taskforce

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Dear Don

Re: Catching Australia by 2025

Introduction

Following on from your presentation at Business New Zealand's Major Companies Group meeting on 1 September, we have accepted your invitation to provide the 2025 Taskforce with a brief letter outlining what Business New Zealand believes to be the main policy changes that need to be undertaken to assist in New Zealand's GDP per capita catching Australia's by 2025.

We accept that the task of catching Australia will be a significant one. However, there are a variety of significant policy changes that could be made that would allow considerable steps forward in raising New Zealand's growth over the next two decades.

While we recently published our productivity publication outlining 50 steps that could be taken to improve New Zealand's productivity, we believe the following nine recommendations should be viewed as the greatest priorities for change.

1. Significantly change or repeal Working for Families package

Business New Zealand believes the Working for Families (WFF) package comes at a price to employees, business and the economy generally. To illustrate this, we have included a paper with this letter that outlines the various negative outcomes of the package. In short, WFF creates the following distortions:

- WFF is *not* the saviour of low and middle income earners – in fact it has all the makings of a poverty trap.
- WFF potentially reduces incentives for non-working parents to return to or take up work. It may also discourage saving for retirement.
- Thousands of families who receive WFF payments and who live in state houses may end up *worse* off.

- WFF is creating problems for business, by discouraging people from accepting promotions (because they are losing some or all of their WFF payments) or promoting wage inflation to offset WFF abatements.

Recommendation: That WFF is either significantly amended, or withdrawn in favour of changes to the tax system.

2. Raising literacy and numeracy levels

Employers have long been concerned about the levels of literacy and numeracy found in the workforce. Workforce literacy is one of the key skill shortages facing the New Zealand economy. Without good levels of literacy and numeracy in the workforce, New Zealand will struggle to achieve the standards of living we all aspire to.

From a business perspective the literacy and numeracy skills developed and acquired as part of a qualification must be able to be used in the context where they will be applied. Employers must have confidence that a qualification means what it says including implied standards of literacy and numeracy. Too often employers bear the costs of providing additional training and assistance to employees who do not meet basic numeracy workplace standards.

Recommendation: That literacy and numeracy skills developed and acquired as part of a qualification must be able to be used in the context where they will be applied in the workforce.

3. Education and training part of the productivity agenda

Business NZ believes that skills need to be part of the broader productivity agenda. Education and training play an important role in developing the knowledge, skills and competencies needed by the economy and firms. The inclusion as part of the broader productivity agenda will provide a more holistic understanding of all skills and competencies that contribute to productivity growth.

Recommendation: That education and training becomes an integral part of any productivity agenda.

4. Immigration policy settings that support firms rather than acting as barriers

Immigration policy settings can impact on the level of our economic growth and productivity. Immigration brings with it resources for economic growth: capital, technology and skills, and access to international networks. We need to ensure that our immigration policy settings contribute and support economic growth and productivity improvement.

Recommendation: That immigration policies going forward contribute and support to productivity improvement and economic growth.

5. An Emissions Trading Scheme that retains New Zealand's competitiveness

A significant risk to our international competitiveness is the shape of a New Zealand Emissions Trading Scheme. At the very minimum the scheme must align with our trading partners, and be in keeping with any international negotiations. A well designed scheme should ensure that New Zealand complies with its Kyoto commitments at least cost to the New Zealand economy.

Recommendation: That New Zealand Emissions Trading Scheme does not reduce New Zealand's general competitiveness and has the least cost on the New Zealand economy.

6. Simplify dismissals and collective bargaining rules

We believe a pragmatic approach needs to be taken to aspects of legislation relating to employment relations.

In terms of priorities, there are two leading areas for change. The first involves simplifying the law regarding dismissals, with a better balance between the reasons for the dismissal and the process followed. Often, one mistake regarding the process can mean the case is thrown out, even though the reason for dismissal is justified. Second, collective bargaining rules should be simplified to enable non union employees to access the same terms and conditions as those on collective agreements.

Recommendation: That employment law is simplified regarding dismissals, as well as collective bargaining rules to enable non union employees to access the same terms and conditions.

7. Allow the private sector to re-enter accident compensation

Business New Zealand's primary recommendation to enhance productivity in the area of accident compensation is that the current prohibition of private sector involvement in accident compensation and injury prevention management should be removed.

Recommendation: That the prohibition of private sector involvement in accident compensation and injury prevention management is removed.

8. Establishment of a New Zealand productivity commission

While we fully support the intended work of the Taskforce, a firmly established and truly independent New Zealand Productivity Commission would help facilitate quality regulatory decisions and productivity enhancing policies beyond that of what the Taskforce is designed to look at for only the next three years.

Much could be learned about how the Australian operation is run, but we would see three broad areas in which a Productivity Commission would be involved:

- Powers to take on investigations into any areas of economic significance where productivity could be greatly enhanced.

- Act as an initial gate keeper to new and/or amended regulation so that it is passed through an expert set of eyes to identify any unintended consequences.
- Have representatives in all major Government departments, who are tasked with continually examining ways in which to improve the quality of regulation that department is primarily in charge of.

Recommendation: That a truly independent New Zealand Productivity Commission is established.

9. Include property rights in Bill of Rights Act

Business New Zealand believes property rights should be included in a Bill of Rights Act. New Zealanders are less protected from the possibility of their Government taking or reducing the value of their property than the citizens of most other countries, reducing the incentives to invest in economic development.

Recommendation: That property rights are included in the Bill of Rights Act.

Again, thank you for the opportunity to comment.

Kind regards,

A handwritten signature in black ink, appearing to read 'P. O'Reilly', with a stylized flourish extending to the right.

Phil O'Reilly
Chief Executive
Business New Zealand