

Possibilities and (lack of) passion: lifting productivity, for our kids' sake

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¹⁶ You will know them by their fruits. Do men gather grapes from thornbushes or figs from thistles? ¹⁷ Even so, every good tree bears good fruit, but a bad tree bears bad fruit. ¹⁸ A good tree cannot bear bad fruit, nor can a bad tree bear good fruit. ¹⁹ Every tree that does not bear good fruit is cut down and thrown into the fire. ²⁰ Therefore by their fruits you will know them. (Matthew 7:16-20)

Introduction

In opening I'd like to thank Presbyterian Support Northern for organising this series of lectures and inviting me to be part of it.

There are lots of things I won't be talking about today; for example:

- the Child Poverty Reduction bill, or other specific child-focused measures,
- or inequality
- or the welfare system,
- or culture. I think the evidence is pretty clear that getting and staying married and getting and holding a job are the surest ways for parents and their kids to have a decent life. But that is the cross-section, and my focus is over time.

I'll be focusing on just the one thing I was asked to address: productivity and the possibilities that doing so much better would open up. My focus isn't on specific policy ideas for how to lift average productivity. Instead, this is really a plea to our politicians and officials to recover the belief - and starting acting as if they believe it - that New Zealand can do a whole lot better on this score. It can.

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Some history

Imagine a country in which the average age at death was only about 45, 6 per cent of children died before their first birthday, and another 1.5 per cent before they turned five. Not many children are vaccinated.

Most kids get to primary school - in fact it is compulsory - but only a minority attend secondary school. By age 15 not much more than 15 per cent of young people are still at school. Only a handful do any post-secondary education (total university numbers are about 1 per cent of those in primary school). Houses are typically small - not much dedicated space for doing homework – even though families are bigger than we are used to. Perhaps one in ten households has a telephone and despite the street lights in the central cities most people don't have electricity at home.

Tuberculosis is a significant risk (accounting for seven per cent of all deaths). Coal fires – the main means of heating and of fuel for cooking – mean that air quality in the cities is pretty dreadful, perhaps especially on still winter days. Deaths from bronchitis far exceed what we now see in advanced countries. There isn't much traffic-related pollution though – few cars, so people mostly walk or take the tram. The biggest city is finally about to get a proper sewerage system, but most people outside the cities have nothing of the sort. And washing clothes is done largely by hand – imagine coping with those larger families.

Maternal mortality rates have fallen a lot but are still ten times those in 2018 in advanced countries. One in every 50 female deaths is from childbirth-related conditions - which leaves some kids without mothers almost from the start.

Welfare assistance against the vagaries of life is patchy. Most people don't live long enough to be eligible for a mean-tested age pension. Orphans aren't in a great position either, and there is nothing systematic for those who are seriously disabled. There is a semi-public hospital system, but most medical costs fall on individuals and families, and there just isn't much that can be done about many conditions.

There are public holidays, and school holidays, but no annual leave entitlements. No doubt the comfortably-off take the occasional holiday away from home, but most don't, because most can't (afford it). Only recently has a rail route between the two largest cities been opened - but it takes 20 hours for cities only 400 miles apart.

I wouldn't choose to live in that country. Would you?

And yet my grandparents did live there - they were all kids then. This was New Zealand 100 years or so ago, just prior to World War One. I took most of that data from the 1913 New Zealand Official Yearbook².

And if it all sounds pretty bleak, New Zealand was probably the wealthiest place, with best material living standards, of any country on earth. In the decade leading up to World War One, New Zealand's per capita income was (on average) the highest in the world³ (jostling with Australia and the US, with the UK a bit further behind). The historical GDP estimates are inevitably a bit imprecise, but on statistic after statistic in that 1913 Yearbook, New Zealand showed up better than the other rich countries the compilers had data for. Life expectancy is a pretty good indicator: Matt Ridley's book *The Rational Optimist* records that in 1920 New Zealand had the highest life expectancy of any country anywhere.

It was an era when prominent visitors came from Europe and the Americas to check out all that New Zealand had achieved. Some went away and wrote books about what we'd achieved.

But remember those atrocious statistics. By our standards, life in 1913 New Zealand - whether for children or adults - left a huge amount to be desired. On some metrics things were worse than they are in poor countries today. Four per cent of Papua New Guinean babies now die before their first birthday - a bit less than New Zealand's when we were the richest and most productive country in the world.

Our real incomes today are about four times what our forebears enjoyed on the eve of World War One. Things had already come a huge way by 1913 - New Zealand really was, by the opportunities of the day, the land of milk and honey. But by today's standards, my grandparents - as kids in 1913 in middle class families - were poor.

The huge difference between material living standards then and now is about productivity, my theme today.

Productivity isn't, usually, about working harder. On average, New Zealanders today work less hard - in the market, or around than house - than our ancestors 100 years ago did. Most adults were working by 14 and dead before 65.

Productivity means possibilities - and many more of them. Growth in productivity - businesses, new and old, finding new markets, finding better stuff to make, and better ways of making existing stuff - is what made those much better material outcomes⁴ possible. Things are better almost entirely not because we redistributed the cake - whatever the

² Supplemented by the on-line *Te Ara: An Encyclopaedia of New Zealand*, and G T Bloomfield's *New Zealand: A Handbook of Historical Statistics*

³ Angus Maddison's database of historical estimates of real GDP per capita.

⁴ I'm not one who champions the cause that everything is better now. Thus, for example, Stephen Pinker's recent book appears overblown in its claims, let alone in its arguments about causes.

benefits of that at any specific point in time - but because we found ways collectively and individually to make the cake a lot bigger.

Towards the future

100 years from now, our descendants - and those of the kids we worry about today - are likely to be much better off materially than we are now. Even if one believes that productivity growth can't continue for ever, there isn't any particular reason to suppose that will occur this century. Apart from anything else, so many more people are now getting an education, and access to opportunities to add to the leading-edge of innovation, than previously. Think of China, India, Pakistan, Indonesia and - these days - emerging Africa

Sustained productivity growth of just 1 per cent per annum - hard to even measure reliably on an annual basis - means, all else equal, potential material living standards 100 years from now will be almost three times those now. Manage 1.5 per cent annual productivity growth - a benchmark we often used when I was a public-sector economist - we'd have incomes 4.5 times current levels in 100 years' time.

What does that "4.5 times" mean? Well, New Zealand incomes today are 4.5 times those in lower middle-income countries like Guatemala, Philippines or Morocco⁵. It isn't a perfect comparison - many teens in Guatemala no doubt have smartphones too - but it gives a bit of a sense of what a difference productivity (or the lack of it) makes.

But again, my focus isn't on this almost-impossible-to-conceive distant future, but on what can be done with today's technologies and ideas. In much of the discussion so far, I've proceeded as if New Zealand was still at, or near, what economists term "the frontier" - not a physical frontier, such as the wild west or the central North Island bush, but rather the best (economic) results anyone is managing anywhere. At the frontier you can't just - as a whole society - get richer by copying or adapting someone else's ideas, you are breaking the path yourself, constantly having to find new and smarter ways to do things. We were there, or thereabouts, in 1913 - through some combination of world-leading technologies⁶ in dairy, refrigerated shipping, and abundant land relative to the number of people.

But that was then. These days, New Zealand is miles off the pace.

The most widely-used measure of productivity is real GDP per hour worked⁷. The best cross-country comparisons suggest a group of countries who mark out the frontier, with real GDP per hour worked of around US\$70⁸:

⁵ Using IMF 2017 PPP estimates of real GDP per capita.

⁶ Discussed in detail in J B Condliffe's 1930 *New Zealand in the Making*.

⁷ Total factor productivity measures are superior in principle but are considerably less reliable empirically (especially when calculating the level of productivity rather than the year to year rate of change).

⁸ Conference Board or OECD, using 2011 PPP exchange rates.

Belgium
United States
Netherlands
Germany
Denmark
France

There are both large and small countries in that group: country size doesn't really matter in this business. Of other countries, Norway is quite a bit better off (with huge amounts of oil and gas and not many people) and Singapore is coming up behind the top-tier group (and has GDP per hour worked about equal to two other northern Europeans, Sweden and Switzerland).

These days New Zealand is only about 30th on the list. That top tier group of countries has output per hour worked of about US\$70, but our number (in equivalent terms) is about US\$42 an hour. As best we can measure these things, we manage to produce only about 60 per cent as much, for each hour we put in, as those top northern Europeans and Americans.

Let that sink it. It means it would take a two-third increase in our level of productivity to catch those countries. Our real GDP per hour worked has increased by about two-thirds since the early 1970s - so it is as if we are 45 years off the pace.

Our nearest neighbour Australia has also fallen off somewhat. But it would still now take almost a 40 per cent increase for New Zealand to catch up with average productivity in Australia. We just haven't been finding as many smart things to profitably do here as people in those other countries have.

In part we make up for these quite bad productivity numbers by working longer hours (including more people working later in life) than in most other advanced countries. But that isn't - or shouldn't be - much consolation. Plenty of people enjoy work, but most do it largely for the income. Time is the ultimate scarce factor, and time spent working is time not doing other stuff, including spending more time with the kids or grandchildren.

There are plenty of places worse than us - productivity in New Zealand, for example, is estimated to be still three times that in China. But if we look at how far from the frontier we are - and remember that we were at that frontier ourselves not much beyond living memory - we can see just how large the catch-up possibilities are. 50 years ago, Singapore was as far behind France and Germany as we are behind them now. Singapore has almost caught up.

Perhaps you don't think comparisons with the US are particularly attractive. If not, focus on the other top-tier countries, places like Belgium, France or Denmark. There are a lot of differences across those countries, but the key point is that they all - now - do so much better than we do.

And since the focus of this series is on children, that means that all of those - individually different - countries, each with their own problems, have many more resources to meet the needs and aspirations of children and their families (and everyone else). And their people don't even need to work as long as we do to get hold of those resources and opportunities.

What about redistribution?

Perhaps some of you are drumming your fingers impatiently, thinking that this is pie-in-the-sky stuff. If so, you are (mostly) wrong. Of course, you are right that a focus on economywide productivity, beginning today, doesn't help the struggling family, the vulnerable child, today. Then again, if we'd successfully tackled the productivity problem 10 or 20 years ago, it would have made a huge difference to today's kids.

Nothing that policy can do today to redistribute - to cut the cake differently - will make anything like the difference to the economic possibilities that a couple of decades of strong productivity growth would have made.

That isn't an argument for doing nothing now. And even if we'd known in 1913 what living standards would be like today, that wouldn't have been a reason to do nothing specific then or since about child wellbeing. After all, each child is an individual. And each of us is a child only once. But, equally, no child-focused policies adopted in 1913 could have given kids and families 2018 material living standards then. Productivity growth is what enables it now.

And it is worth bearing in mind two things about even the best-designed redistributive policies:

- First, they typically leave the economy a bit smaller than it otherwise would be. These are deadweight costs of tax you sometimes here economists talking about.
- And, second, often enough even the worthwhile redistribution we do is largely just attempting to make up for the costs we've imposed on (poor) people and their kids by other regulations. Why are far more kids in cold, damp or overcrowded homes - and rented homes at that - than we like, or think proper? Much of it is because of choices of successive governments to make urban land artificially scarce has given us some of the most expensive house and urban land prices (relative to incomes) anywhere in the world. You can buy the median house in picturesque Boise, Idaho - fastest growing city in the US last year - for US\$250000 (less than \$400K New Zealand) and household incomes are higher there. Plenty of significant growing US cities are cheaper than Boise.

Anyone here working at the coalface, dealing with struggling individual families today, will know that housing is one of the more important immediate challenge for many. Fixing that at source - technically easy, if politically challenging - could make a more immediate material difference for the country's struggling children than almost anything else

governments can fix. Our hosts – PSN - have an explicitly moral dimension to their vision⁹: against that backdrop, in this forum, I don't think it is going too far to call current housing/land policy evil – in effect if not in intent. It relentlessly redistributes from the poorer, the younger, the more marginal parts of society. Those are precisely the groups where most of the severely materially disadvantaged kids are found.

But my focus today isn't housing – disgraceful as that situation is - but productivity

Productivity is where the biggest long-term gains lie

Economists famously talk of there being no such thing as a “free lunch”. But lifting productivity is the closest thing there is. Achieving higher productivity - producing more with what we have (people, skills, natural resources) - means there is more to go around. The New Zealand debate seems increasingly to have lost sight of that.

It isn't helped by the heavy focus on relative poverty measures. In the first lecture in this PSN series, Andrew Leigh noted¹⁰, more or less in passing, that the child poverty rates in New Zealand and Australia were about the same (around 14 per cent). But, of course, these are relative poverty measures, largely defined relative to the median income in each country. Productivity - GDP per hour worked - in Australia is almost 40 per cent higher than that in New Zealand. That means, to a first approximation, that a child defined as living in poverty in Australia is likely to be around 40 per cent (materially) better off than such a child in New Zealand. Those gaps are still widening.

In the last five years in New Zealand child poverty and related issues have had a whole new level of visibility and political salience. There was plenty of debate about child poverty in last year's election campaign. But almost nothing on the thing that would make the really big long-term difference.

Sure, you heard a bit about productivity from both parties. National tried to tell you we had one of the best-performing economies in the advanced world. Labour pointed out from time to time that it wasn't, but they never offered a joined-up plan that could credibly be argued to make much difference. And not once did I hear any political figure make the straightforward point that lifting productivity - even just getting halfway to Denmark, Belgium or France - would radically transform the outlook for all New Zealanders, children or not. Or that without fixing the productivity problem, there will only ever be so much any government can do to patch up the current symptoms, and to lift living standards for our kids.

⁹ “With compassion, understanding, respect and integrity, we strive to support people in a way that demonstrates the life and teachings of Jesus Christ.” <https://www.psn.org.nz/about-us/vision-mission>

¹⁰

http://www.andrewleigh.com/what_can_new_zealand_and_australia_learn_from_each_another_about_reducing_inequality_speech_auckland

From time to time, governments affect to care, for a while. Perhaps some individual members even do. Take just one example. Almost a decade ago now, the then new government unenthusiastically signed on to a goal of catching up with Australia by 2025. There was even a government taskforce set up (as a Treasury official at the time, I helped them). Their first report had been officially and publicly discarded - binned – by the Prime Minister before it was even released. The Taskforce itself was eventually wound up, and not another word was heard of that goal. It wasn't as if the government said "oops, wrong advisers...we need better/deeper analysis from other people", or as if the Opposition said "isn't it disgraceful that the government has simply abandoned the goal - but we care about our kids, all our kids, and we are going to pour our energies and resources into getting to the bottom of the issue, to campaign on an aggressively plan to get New Zealand back to where it deserves to be". The goal just disappeared.

Those Australia comparisons matter for New Zealand. Australia is another resource dependent country, with Anglo institutions, far from anywhere. But it is also the exit option that almost everyone who is a New Zealand citizen has open to them. That has been great for individual New Zealanders who've gone - a three-hour flight to a fairly similar culture, and average wages that are perhaps 40 per cent higher than they are here (even if house prices in Sydney and Melbourne are about as ruinous as those here). That move has substantially lifted material wellbeing for many individuals and families.

It comes at price. There has been a net loss of almost a million New Zealanders in my lifetime - almost 800000 since 1980. It is certainly one solution. But it is a pretty unattractive one, relative to fixing the problem at source. Kids detached from cousins and grandparents – from their own national heritage - mightn't seem as serious as a cold damp house, but the two shouldn't be – and don't need to be - alternatives. And I suspect we underestimate the longer-term importance of a shared commitment to a common national project at our peril.

And don't be deceived by the current temporarily small net outflow. In part that is about temporarily high unemployment in Australia, and perhaps a bit about growing recognition of the "guest worker" status of many current New Zealand emigrants. On current policies, the big outflows will either resume again - which would be a mixed blessing - or we'll be left with an economy that is still underperforming but in which people no longer perceive a viable exit option¹¹.

But at a political level, all we seem to get is "gotcha" parliamentary questions - where one side or the other attempts to find a statistic and a timeframe on which we might have done better or worse (according to interest) than Australia. But there is no serious analysis of the

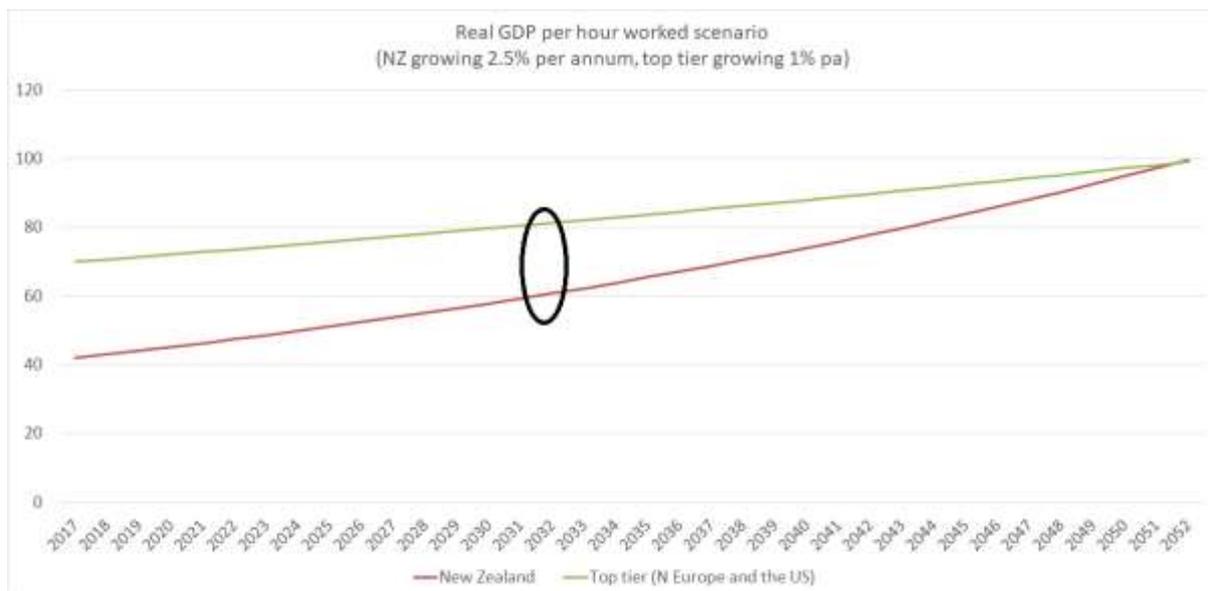
¹¹ Although, just possibly, a diminished exit option might motivate greater interest ("voice") in fixing the underlying New Zealand failure.

issues. No burning passion - whether for the sake of our kids, or just not to be beaten by Australians - to actually make a real and sustained difference.

Of course, it is easy to call for, if harder to do. Especially when it is might mean persevering for decades. There is line, apparently from Nietzsche (although I first encountered it as the title of a book by a Presbyterian minister), about “a long obedience in the same direction” being the way in which fundamental change happens. We can’t wave a wand and again quickly be as wealthy/productive as the countries at the northern Europe frontier, or even Australia. Even if we get the pre-conditions right, we’d need to stick with them.

But it isn’t as if the end point is the only gain - we aren’t chasing some single pot of gold. Every year we record faster productivity growth we give ourselves, and our kids, and our needy and vulnerable, options we don’t have today. Each year we grew faster than those top tier countries, we’d be making inroads.

Just to illustrate the point, I did a little scenario. Suppose those top tier countries achieved productivity growth of 1 per cent annum, and we managed to find a way to grow productivity by 2.5 per cent per annum. We’d halve the gap in 15 years or so (marked on the chart) and close it entirely in 30 years. How about a target of catching the top tier by 2050 - complementing perhaps the carbon target the government is adopting? Think what a difference it would make for our kids, and their kids.



Could it be done? Well, on OECD numbers G7 countries have managed productivity growth in the last 15 years of about 1.1 per cent per annum, and plenty of OECD countries - each in catch-up mode - have matched or exceeded 2.5 per cent annual productivity growth. Mine is just a scenario, but it doesn’t look like one that should be beyond New Zealand - unlike

any of those other countries, we were the richest and most productive country in the world barely a century ago.

I could get more concrete. In the last 5 or 6 years, New Zealand productivity (real GDP per hour worked) has increased by only about 1.5 per cent. Not per annum, but total. But around a quarter of the OECD countries have been managing five-yearly productivity growth averaging around or more than 2 per cent **per annum**)¹². What if that had been us, and New Zealand had managed 10 per cent growth in productivity in five years? All else equal, the New Zealand economy this year would be almost \$25 billion bigger. That is almost \$5000 per person - man, woman, and child¹³.

Every quarter when the wages data are released voices are heard bemoaning low rate of wage increase. Wages should be the main source of income in most households with children. And the biggest single influence on the level of wages, in the longer-term, is productivity. We've had very little recently.

Those are huge lost opportunities. Today's kids - the three-year-old in 2013 who is now eight - (and their families) bear the direct consequences of that failure.

And who suffers most when economies underperform like this? It is typically the least able, the least skilled, the people with fewest connections, with fewest qualifications. Many professional people can always find a way out, or even if they can't life here won't be too bad. Inequalities tend to widen in underperforming places, because some have options and others don't. And for those at the bottom, (and rightly or wrongly) the willingness of the rest of the population to provide support, to redistribute, isn't limitless.

What might that mean in practice?

Higher productivity is about identifying smarter better ways to do the stuff we always do, finding new products and services that can be developed and/or sold from here.

But recall that in New Zealand we mostly aren't at the frontiers. There are individual firms and sectors that might have internationally pathbreaking technologies. But when your economy is so far behind that of the leaders, the biggest issue isn't really breaking totally new paths. It is great if it happens - and probably will for a few companies - but moving out towards the frontier is itself enough for us all to be a great deal better off. Recall that those top-tier countries have productivity two-thirds higher than that here.

¹² 9 per cent total growth in real GDP per hour worked 2011 to 2016 (the last year for which there is complete data).

¹³ Spread over additional returns to both labour and capital. All capital is, of course, ultimately owned by people.

Productivity isn't mostly about stuff governments actively do. Governments don't usually run leading-edge businesses. Governments didn't invent the steam engine, or any of those other inventions and innovations that were critical to the industrial revolution.

Often enough the biggest and best contribution governments can make to a climate that generates greater economywide productivity is to simply stop doing dumb stuff. I say "simply", but often it is anything but, since almost every policy in place has people who believe in it fervently, and perhaps vested interests (people) who benefit from it directly. At one stage, we had 20 TV factories in New Zealand¹⁴ - because of the belief (which had its own vested interests) that the government should tilt the playing field by law to favour making things in little New Zealand, even when they could be produced abroad much more cheaply. And the more any particular beliefs reflect established elite opinion, the harder it is to bring about change. Recall that elites can hold views that are just as wrong, as reprehensible, as any of the rest of us - anyone for eugenics in its day¹⁵? Blind spots are real, and vested interests are also real.

Often when people talk about productivity, or this or that country catching up, they highlight the real (and big) difference a market economy can make. Freedom can take you a long way - even rather attenuated economic freedom Chinese style. But that isn't the issue for New Zealand. We have long scored quite well on those indexes of economic freedom.

If that isn't a helpful approach, what is? One approach might be to say "well, if Belgium, France, and the US are at the frontier, lets check out the policy frameworks in those countries". That sort of approach helped when we took off the cocoon of protectionism (and got inflation and the government accounts under control) back in the 1980s.

But that approach isn't much use now. One particular study the OECD did a few years ago reckoned that comparing their chosen subset of our policies with those of Belgium we should be richer - and more productive - than them, not considerably poorer. The people who did that study were obviously - and almost by definition - focusing on the wrong variables: not irrelevant ones, but just not ones that explain how we are now so much off the pace (even further than 30 years ago).

Where might we focus?

There are daft ideas out there. As an extreme example, raising minimum wages - whether or not that is a good idea in itself - isn't going to make any sort of contribution to solving our productivity failure. It inverts the logic - we are (relatively) rich because we live in a (relatively) productive economy, not because we legislate to pay each other a lot.

¹⁴ *Electric Household Durable Goods: Economic Aspects of their Manufacture in New Zealand*, an NZIER Research Paper published in 1965.

¹⁵ For example, <http://www.ncregister.com/blog/matthew-archbold/7-beloved-famous-people-who-were-wildly-pro-eugenics>

I'm sceptical too of R&D tax credits (or grants). The evidence globally that they work is thin, but more importantly when your economy is so far away from the frontier, research-led innovation seems unlikely to be really pressing issue. Too many policy initiatives in the last 20 years seem to respond to scattered symptoms, not to an in-depth understanding of why we lag so badly.

There are some ideas that might be part of the answer, but where I (at least) haven't been convinced. Fixing the over-regulated urban land market would fix the housing market, but some people reckon it could make a big difference to productivity as well. I'm a bit sceptical of that but - as I've already touched on - reform in that area is vital anyway, so unjust are housing and land outcomes.

And there are some ideas that do seem promising to me. For example, I was a young economist in the Reserve Bank in the mid-late 80s. At that time, domestic experts and visiting overseas ones¹⁶ recognised that one of the symptoms of New Zealand's failure (to then) was an overvalued real exchange rate. It never really corrected then, and in the last 15 years, the real exchange rate has gotten even more out of line with our (relative) productivity performance. I suspect we need to recover that 1984 insight - after all, the market itself suggests that, over time, our exchange rate should be perhaps 30 per cent lower. As those same experts knew decades ago, one of the indicators of success when firms operating here can sell a lot more stuff abroad (abroad being a lot bigger market than home). In New Zealand - unlike the catch-up countries - our exports (and thus our imports) have been shrinking as a share of GDP.

We also shouldn't lose sight either of the importance of not taxing too heavily stuff you want more of. I have in mind taxing capital income (business profits, including as they flow through to households)¹⁷. There is a great deal of emphasis at present on "tax fairness", but not that much on efficiency. We now have one of the highest company tax rates in the advanced world¹⁸, and persistently low rates of business investment. Whatever the rhetoric, most taxes on business profits are really paid by workers in the form of lower wages.

Despite our poor productivity growth, despite being a haven of stability (strong government finances, no domestic financial crises etc), we also have among the very highest real interest rates in the advanced world – and persistently low rates of business investment. Most new opportunities - productivity gains – take concrete form through investment. But these

¹⁶ For example, Anne Kreuger, at the time World Bank chief economist in a public lecture here in 1985, or Sebastian Edwards of UCLA, a leading researcher in the field in his report for The Treasury in 1990.

¹⁷ For some thoughts on this issue <https://www.victoria.ac.nz/sacl/centres-and-institutes/cpf/publications/pdfs/Towards-a-Nordic-tax-system-for-New-Zealand.pdf>

¹⁸ For domestic investors, the company tax rate is only a withholding tax, but for foreign investors it matters a lot.

persistently high real interest rates - nothing to do with the Reserve Bank - don't seem to trouble any of our leaders.

And then there are issues around remoteness that need to be taken much seriously. Too much analysis and policy debate seems implicitly seems to rest on North Atlantic comparators (where the OECD is based), or even east Asian ones (with many hundreds of millions of people - and vital shipping lanes - in close proximity). You'll know NZ was the last major land mass settled by humans. It had no foreign trade at all for centuries after that. And if transport costs today are hugely lower than they once were, strangely enough distance/remoteness seems to have become even more of an issue now than it was 100 years ago. I've argued that perhaps, given our sustained underperformance, there is something more than a little strange about having one of the largest immigration programmes anywhere in the world, putting ever more people in such a remote location¹⁹.

My point here isn't to give you the specific answers. That is a topic for another address in some other forum. Other people will have some other specific ideas. My call today is for politicians - and the public, key official agencies, the media, and academe - to take the whole issue much more seriously again. Spend what it takes to get to the answers, take the time it takes to get there (and to winnow out the snake oil salespeople), but treat as a pressing national priority. It is something the future of our kids - and their kids - depends on. It really matters.

Conclusion

Those 1913 comparisons I opened this talk with are supposed to remind you that if we - if our kids - are mostly so much better off materially today than my grandparents were as kids, it isn't mostly because of the redistributive efforts of successive governments, but because together we've made so much more of what we had. It is the same for any big future improvements - productivity is where most of the possibilities lie.

Fixing productivity isn't going to solve issues around family structures and family stability, it isn't going to fix pockets of attitudes and self-beliefs that can sometimes entrench bad outcomes. It isn't going to fix the housing debacle. But it would make a huge difference to the resources society has available, including - where that is right - to redistribute through tax and public spending. It is a real tangible difference - and I suspect one problem if that too many have lost sight of how real.

Because New Zealand has fallen a long way behind, talk about lifting productivity here isn't just some airy-fairy fantasising about technologies that future generations might have. We

¹⁹ Arguments developed in various papers and speeches here <https://croakingcassandra.com/papers-and-speeches/>

can get a long way, just by catching up again with places like the US, or the Netherlands or Denmark. We were number one after all.

The worst of it is that, from all appearances, our leaders (political especially, but also bureaucratic) have largely given up, perhaps idly hoping that something will turn up. And occasionally inserting “higher productivity” into a speech isn’t evidence of serious intent - if anything, it seems more like a substitute.

Judging by the inaction of our leaders in tackling the persistent productivity failure it seems that when it comes to crunch ours (regardless of party) care much less about the kids - of this generation and the next – than the cheap rhetoric of election campaigns might suggest. Giving up on productivity - in practice, and whatever the rhetoric – is a betrayal of our kids (and their kids). And most especially it betrays the children towards the bottom of the socioeconomic scales, those who typically end up paying the most severe price of economic and social failure.

Thank you.