

The Treasury

Productivity Commission Inquiry into Maximising the Economic Contribution of New Zealand's Frontier Firms: Terms of Reference Information Release

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Insights from the international experience of productivity institutions

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Executive Summary

The international experience

Advanced economy governments around the world have established a range of agencies and processes that are focused on strengthening productivity performance – and economic outcomes more broadly.

Three primary archetypes of these productivity institutions can be identified. First, a standard Productivity Commission model that adopt a ‘micro’ approach to productivity – normally organised around analysis of specific sectors or issues, with a view to identifying distortions and inefficiencies (the Australian Productivity Commission is the best example). Second, institutions that have a broader focus on the underlying competitiveness of the economy and that are often focused on the performance of internationally-oriented sectors (such as Ireland’s National Competitiveness Council). And third, time-limited processes, often involving a wide range of private and public sector stakeholders, which consider specific strategic challenges and opportunities and develop recommendations as to how to respond (such as Singapore’s Committee for the Future Economy).

Each of these models has different strengths and weaknesses. There is no optimal model, and each is a response to specific national characteristics and context. The first type of institution is often formally independent of government, and undertakes detailed analytic work as well as stakeholder engagement to develop recommendations. This Productivity Commission model provides high quality work on issues nominated by the government. But it can be difficult to trace a clear link between this work and a meaningful impact on productivity performance (even taking the inquiries collectively).

The second archetype provides high quality analysis, commentary and reporting on national productivity performance and issues, but is less engaged on providing detailed policy recommendations to government. The less formal nature of these organisations – and the absence of a formal commissioning mechanism – can detract from the impact of their analysis and recommendations.

The third archetype – processes around emerging strategic issues – has been used effectively by several governments. Because these processes often include leadership by senior Ministers there is a higher likelihood of impact. And the engagement of senior business, union and academic representatives – as well as analytic support by officials – can lead to the development of new insights. However, the downside is the political nature of the process, which means that there is a risk that the process can be stopped, or the recommendations ignored, when the government changes.

This varied experience allows some key success factors to be identified in terms of the likelihood of impact of productivity outcomes. These factors include: a focus on important strategic issues; high quality analytical and other resources; the ability to distil insight into actionable recommendations; broad engagement and well-developed public communications strategy (that reaches beyond a public sector audience); as well as transparency and independence around the analysis.

Application to New Zealand

The New Zealand Productivity Commission is most similar to the first archetype. Indeed, the Australian Productivity Commission was the explicit inspiration for the establishment of the New Zealand Productivity Commission, with a view that improving regulatory quality across the economy was central to lifting New Zealand's productivity performance. There are, however, aspects of the second archetype in the self-directed research activity of the Commission (currently about 15% of its activity). This research activity aims to shed light on the drivers of New Zealand's weak aggregate productivity performance, as well as providing a platform for firm-level productivity research and convening productivity researchers (such as through the Productivity Hub).

The Commission's strengths and weaknesses are in line with the international experience of these archetypes. The combination of high quality analytical staff, formal independence, and stakeholder engagement means that the Productivity Commission has developed a strong reputation for its work on the specific inquiries. Many (not all) of its recommendations have been accepted by the government – suggesting impact, and it is widely seen as a valuable addition to policy capability in the public sector. Similarly, its internally-driven research programme – and its engagement on productivity in New Zealand and with international peers, such as the OECD – has also made a valuable contribution.

However, the Commission has not been used to focus deeply on issues that would lead to a material improvement in New Zealand's productivity performance. The focus of the selected inquiries constrains the productivity impact of the Commission. It is being largely used as a high quality source of analytical capability for complex policy issues, from new models of tertiary education to housing affordability. These are important policy issues, and there is value in an organisation with the capability and bandwidth to undertake in-depth analysis. But this is not the same as a focus on raising aggregate productivity, particularly in a small economy context with distinctive productivity challenges.

Recommendations

The Commission is well-placed: it has a strong reputation, operational independence, and high quality capability. The primary issue is how the Commission is to be used.

A series of changes can be made within the terms of the existing institutional arrangements, and the Commission's basic working model, that would strengthen the Commission's contribution to productivity outcomes. I make three classes of recommendation, drawing on good practice from the international experience.

First, that a more structured approach be taken to commissioning inquiries. A case should be made as to why a particular inquiry topic makes a material contribution to aggregate productivity performance, given the specific nature of the New Zealand context. This would put 'New Zealand productivity' back into the New Zealand Productivity Commission, and move it away from being an outsourcing resource of high quality (general) policy capability for hard questions.

The Productivity Commission's focus on specific, actionable inquiries – relative to more conceptual or diagnostic work on New Zealand's overall productivity performance – is understandable and appropriate. But this focus on identifying specific actions can be maintained while developing a more direct focus on inquiries that address productivity-related issues. The existing analysis – including in the Commission's productivity narrative – suggests a range of issues where inquiries might yield actionable implications that could have a material impact on New Zealand's productivity performance.

A variant on this approach is to retain the current, more general, focus of the inquiries given to the Commission: continuing to use it as a high calibre policy shop that undertakes analysis on big, complex, cross-cutting policy issues. This approach would continue to place emphasis on its mandate to '(support) the overall well-being of New Zealanders' as much as 'improving productivity'. But even in this case, a more structured commissioning process would be useful – to be explicit about why the particular inquiry topic has been selected, and the types of benefit that are expected or desired (including the impact on productivity).

Second, although the inquiry format – 12-18 months of work on a particular topic – seems to work well as an operating model, there may be value in moving away from a linear sequencing of reports. At least for some inquiries, a more thematic approach may be appropriate in which the focus is on structured analysis of the issues and options from a range of perspectives, but not necessarily with a view to providing detailed policy recommendations to the government (a structuring of the issues and providing more general policy guidance may be the valuable contribution). This may also provide a more flexible model in which the Commission can inform strategic policy processes underway, without compromising its independence.

Third, that the Commission be tasked with additional public communication on New Zealand's productivity performance. In particular, there would be value in a systematic programme of national productivity reporting and benchmarking against peer countries – perhaps in the form of an annual productivity report along the lines of Ireland and others. This could in turn inform productivity analysis as well as the choice of future inquiry topics and themes.

Note that these three recommendations are independent, and can be implemented separately. However, they are mutually reinforcing and I think that there is value in introducing these changes together in a coordinated way.

Introduction

This note provides an international comparative analysis of the New Zealand Productivity Commission, drawing on the international experience to develop a perspective on the Commission's working model, inquiry structures and reporting formats. The paper is structured in three Parts.

Part I surveys the international experiences with respect to agencies and institutions that perform similar functions as the New Zealand Productivity Commission – with a particular focus on small advanced economies that have a similar organisational and policy context as New Zealand. Different countries make different design choices, and several different archetypes are identified.

The strengths and weaknesses of these different archetypes are discussed. And drawing on the international experience, the effectiveness of these institutions is assessed in terms of their contribution to strengthening productivity outcomes through higher quality public policy.

Part II then applies the insights from the international experience to the New Zealand context. How does the New Zealand Productivity Commission compare to international comparators; what are its strengths and weaknesses relative to other agencies; and to what extent is it advancing its core purpose of providing advice to address New Zealand's longstanding modest productivity performance? This section will also assess the inquiry structure and reporting formats followed by the New Zealand Productivity Commission.

Part III provides recommendations with respect to further strengthening the contribution of the New Zealand Productivity Commission in terms of inquiry selection, its working models and the nature of its productivity research and reporting agenda.

New Zealand Productivity Commission

New Zealand's Productivity Commission was established by legislation in 2010, and commenced operations on 1 April 2011. It was deliberately modelled on the Australian Productivity Commission. The specific proposal to establish the New Zealand Productivity Commission came as part of the government formation process after the 2008 election, in response to long-standing concerns about New Zealand's productivity performance.

The New Zealand Productivity Commission Act (2010) states that "The principal purpose of the Commission is to provide advice to the Government on improving productivity in a way that is directed to supporting the overall well-being of New Zealanders, having regard to a wide range of communities of interest and population groups in New Zealand society." To achieve this, the Commission:

- undertakes in-depth inquiries on topics referred to the Commission by the Government (the Commission's core business);
- carries out productivity-related research that assists improvement in productivity over time; and
- promotes understanding of productivity issues

To date, the Commission has completed ten enquiries, and has two more in progress: Measuring and improving state sector productivity (draft report released in December 2017); and Transitioning to a low emissions economy (draft report released in April 2018). The completed inquiries are: Better urban planning (March 2017); New models of tertiary education (March 2017); Using land for housing (October 2015); More effective social services (September 2015); Regulatory institutions and practices (July 2014); Boosting productivity in the services sector (June 2014); Opportunities to improve regulatory performance in local government (May 2013); The impacts and benefits of further economic integration between Australia and New Zealand (November 2012); Housing affordability (April 2012); International freight transport services (April 2012).

In addition, the Commission undertakes a self-directed programme of productivity research. For example, it has prepared a series of research papers on productivity issues – including a productivity narrative paper, chairs and convenes the Productivity Hub, and engages with domestic and international productivity researchers (such as those at the OECD).

Part I. The international experience of productivity institutions

1. Institutional archetypes

This international comparative assessment of the New Zealand Productivity Commission considers other Productivity Commissions, as well as other productivity institutions that have mandates that are relevant to the New Zealand Productivity Commission.

The most relevant comparator institutions are those in other small advanced economies, for a few reasons. First, they tend to have similar resource constraints, operate within recognisably similar governmental structures, and can engage with the public and stakeholder groups in a reasonably similar manner. Second, small economy productivity institutions are frequently established in response to a specific set of concerns about productivity performance (as was the case in New Zealand) rather than being part of a more generic set of public institutions (as is often the case in larger economies, like the US or France). Third, small economies share particular properties with respect to the national productivity agenda, with similar challenges and opportunities as in New Zealand.

My reading of the international experience of productivity institutions is that there are three primary ‘archetypes’ of organisational form:

- a standard ‘Productivity Commission model’, with a largely microeconomic focus
- agencies that are focused on aggregate productivity performance, with a focus on ‘competitiveness’
- time-limited processes established around specific strategic economic questions or challenges

I use these three archetypes to describe the operating models of a range of productivity institutions around the world, and to benchmark the New Zealand Productivity Commission. A fuller description of several of these national productivity institutions is contained in the Appendix.

The ‘Productivity Commission model’

The primary focus of Productivity Commissions is on boosting productivity by identifying distortions in the economy that hinder efficient resource allocation: it is primarily a microeconomic approach to productivity. The underlying idea is that the removal of these distortions and inefficiencies in specific areas of the economy will, over time, lead to improved aggregate productivity outcomes.

These institutions are commonly formally independent of government, at least in an operational sense. They will frequently be tasked by the government to undertake inquiries on specific policy issues or questions. After a process of analysis and stakeholder engagement, recommendations are made to the government on policy and regulatory reform.

The Australian Productivity Commission is the best example of this approach; this was used as the basic template for the New Zealand Productivity Commission. Its legislative arrangements, inquiry structure, and working model are very similar to New Zealand (it is described in more detail in the Appendix).

The OECD notes the increase in the number of Productivity Commissions around the world, building on the perceived success of the Australian Productivity Commission.¹ In addition to New Zealand, Mexico and Chile have recently established Productivity Commissions.

And over the past several years, Denmark and Norway have established time-limited Productivity Commissions, although on a smaller scale. The Danish Productivity Commission was established in 2013 in response to ongoing concerns about poor productivity performance, and was staffed by Danish academics. The mandate was to report back to the government on policy and regulatory reforms that could be taken to lift productivity. Norway established a Productivity Commission in 2015, borrowing from the Danish experience, to identify ways to lifting productivity performance in the context of an economy hit by weak oil and gas prices. It comprised a group of experts with a mandate to provide reform recommendations. The time horizons for both Commissions were 1-2 years.

The substantive focus of these efforts is often – not always – on domestic sectors of the economy. For example, recent inquiries by the Australian Productivity Commission include: Human services; National water reform; Collection models for GST on low value imported goods; National disability insurance system costs, Electricity network regulatory frameworks; Disability services and support (DisabilityCare Australia); Benchmarking regulation of planning and zoning; Benchmarking regulation by local governments; Impacts of ‘Council of Australian Governments’ reforms; and so on. One recent addition is that in 2016 the government tasked the Commission to prepare a 5-yearly Productivity Review: to ‘provide an overarching analysis of where Australia stands in terms of its productivity performance, and to develop and prioritise reform options to improve the wellbeing of Australians by supporting greater productivity growth’. The first of these reports was released in 2017.² However, this report continued the Commission’s standard focus on addressing distortions and inefficiencies from domestic markets.

Similarly, the analytic focus of the work of the Danish and Norwegian Productivity Commissions was to identify specific constraints and distortions in economic regulation, labour market behaviour, public sector efficiency, and so on, in order to lead to improved productivity performance over time. And the Chilean and Mexican examples seem to share a similar approach to Australia, trying to inject a productivity lens into new legislative and regulatory proposals.

Although these Productivity Commission models vary in terms of scale, the length of their history, and their organisational permanence, there is a common approach. The contribution to productivity is made

¹ Andrea Renda and Sean Dougherty, ‘Pro-Productivity Institutions: Learning From National Experience’, OECD Productivity Working Papers, 2017-07, OECD.

² <http://www.pc.gov.au/inquiries/completed/productivity-review/report>

through a bottom-up, microeconomic focus on removing distortions in specific areas of the economy. Commentary or analysis on aggregate productivity performance is generally a secondary priority.

In terms of the impact of these Commissions, there is variation in the extent to which the recommendations made are accepted and implemented (more in the Danish experience, less in Norway, too early to say in Mexico and Chile). But there is a sense that these Productivity Commissions have made a contribution to the quality of policy analysis and public debate. Unsurprisingly, there is less evidence on the ultimate impact on productivity. However Gary Banks cites estimates that the work of the Australian Productivity Commission may have contributed to policy reforms that generated an additional 5% of GDP or more (including the major structural reforms of the 1980s).³

A competitiveness mandate

There is another set of productivity institutions that have a more broadly-defined mandate, and adopt a more aggregate, macroeconomic perspective on productivity performance. These institutions appear more commonly in small advanced economies where a core part of the productivity challenge is seen to relate to strengthening the competitiveness (productivity) of internationally-oriented sectors (and supporting domestic sectors).

This framing lends itself to a more expansive set of considerations that bear on aggregate productivity performance than just domestic efficiency. These institutions are frequently more focused on international dynamics, the competitive positioning of the economy, and the extent to which firms and sectors are expanding into international markets (or foreign investment is being attracted). The policy debates that are informed by this analysis and commentary are often about how policy and other government action should act to better position the economy for success in a changing international context.

The organisations that fall within this archetype are more varied than the Productivity Commission model, which is more standardised. A good example of this organisational archetype is Ireland's National Competitiveness Council. This Council, established in 1997, has a focus on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position. The Council has a legislative mandate to prepare annual reports on the competitiveness of the Irish economy, and on the key competitiveness challenges to which policy should be addressed. It approaches productivity issues through the lens of national competitiveness in a changing global economy. They are an independent organisation, located within the Ministry of Business, Enterprise and Innovation (and with a small secretariat of officials). It is chaired by an academic, and has a board of private and public sector representatives.

The Council has developed a competitiveness framework, and reports regularly on dynamics underpinning Ireland's competitive position. These outputs include occasional policy papers, together

³ Gary Banks, *'Institutions to promote pro-productivity policies: Logic and lessons'*, *OECD Productivity Working Papers*, 2015-01, OECD.

with an annual flagship report that reports against selected competitiveness metrics. The reports are taken seriously, and the government is now required to formally respond to the recommendations made by the Council. But there is not clear evidence that the Council has had a marked impact on the economic policy agenda.

Another example is the Growth Agency in Sweden (Tillväxtanalys). This is an independent agency within the Swedish Government that evaluates and analyses Swedish growth and innovation policy, including commentary and data on productivity. At a less formal level, there are several countries that prepare official reports with benchmarking, analysis and commentary on national competitiveness and productivity. For example, the Estonian central bank prepares a formal competitiveness report on an annual basis.⁴

And more structured activity in this space is likely. In 2016 the European Commission recommended that each member country have a lead National Productivity Board that would undertake analysis on productivity and competitiveness: including productivity diagnostics, policy options, and annual reporting.⁵

Two other organisations are instructive, although it is only aspects of their work that is relevant. The CPB in the Netherlands is an independent body but which is affiliated to the Ministry of Economic Affairs.⁶ The CPB prepares economic and fiscal forecasts for the Netherlands, as well as the widely-followed international trade and international production series. It is the nominated National Productivity Board in the Netherlands, and undertakes research (and prepares publications) on developments in current and future economic growth, policy measures that may improve structural growth (looking across a wide range of policy areas, including those proposed by politicians and policymakers), and identifying factors that may constrain national productivity growth.

SITRA in Finland is also interesting, although the mandate of this agency is a lot broader than economic issues.⁷ Part of the work of this organisation is to identify new strategic opportunities for Finland and to get involved in policy experimentation. It is independent and funded through a large endowment. Its work is organised in themes that include a carbon neutral circular economy and ‘new working life and a sustainable economy’. SITRA is also well known for its work on futures and foresight.

Time-limited processes

The third archetype of productivity institution is time-limited processes that are established to consider productivity in the context of emerging strategic economic issues – such as how best to respond to changing patterns of globalisation or disruptive technologies. These processes are different from the time-limited Productivity Commissions of Denmark and Norway discussed above in that they have a broader substantive focus as well as markedly different organisational arrangements.

⁴ <https://www.eestipank.ee/en/publications/estonian-competitiveness-report>

⁵ <http://www.consilium.europa.eu/en/press/press-releases/2016/09/20/national-productivity-boards/>

⁶ www.cpb.nl

⁷ www.sitra.fi

These productivity processes are more commonly observed in small advanced economies – perhaps because the lower level of organisational complexity and higher levels of social capital (where everyone knows everyone else) better lends itself to this approach than in larger, more complex countries. There is also a sharpness around strategic issue identification in small advanced economies that allows this process to proceed in a coherent way.

Singapore and Denmark are two countries that have deployed these strategic processes most frequently and most effectively: for example, Denmark’s Globalisation Council and Production Council, and Singapore’s Economic Strategies Committee and Committee for the Future Economy. This approach reflects the preparedness of the governments in these two countries to explicitly consider strategic issues that play out over a longer time horizon and a tradition (for quite different reasons) for the key stakeholder groups (governments, business, unions, academics and others) to work together on key policy issues.

These processes have a few common elements. First, the establishment of these processes is often in response to either a crisis or forcing event or a growing sense of a strategic threat or opportunity to which a new policy response is required. For example, the various processes in Singapore were established to upgrade the economic policy approach in response to either a crisis (SARS, the global financial crisis), or to a set of structural concerns about economic performance. In Denmark, the motivating concerns have been longer term in nature: the changing patterns of globalisation or the implications of disruptive technologies such as automation and AI.

Second, these processes are sponsored and led by senior Ministers (and so are not independent of the elected government) but involve a very wide range of stakeholders and are relatively open and transparent – particularly in Denmark.

Third, the analysis and recommendations have a strong competitiveness flavour to them – they are focused on positioning the economy effectively in the external context in order for it to be successful. Of course, these recommendations will touch on domestic sectors – the functioning of labour markets or public sector productivity – but these are framed as strategic in nature, and set out to chart a strategic direction for policy in a way that will generate improved economic outcomes (including productivity).

Other models

The analysis in this paper focuses on productivity institutions that sit within the public sector, both independent and non-independent. However, there are other approaches that are worth noting.

First, there are some privately-organised initiatives that are responding to poor aggregate productivity performance by working with firms. This is motivated by the research that suggests that poor management practices within firms are a key driver of weak aggregate productivity performance. For

example, ‘Be the business’ was recently established in the UK, and is focused on spreading management practices, ideas, and so on, to help upgrade productivity in UK firms. It is privately funded.⁸ Relatedly, there are public sector versions of this as well: for example, though various enterprise agencies such as NZTE equivalents around the world that seek to lift firm-level productivity.

Second, in addition to establishing independent institutions to think about productivity and competitiveness, many governments focus parts of the permanent bureaucracy on productivity issues in a concerted, ongoing fashion. This is often done in central agencies, with a cross-cutting mandate across agencies, and with a forward-looking view: what are emerging economic issues that require strategic thinking; such as new technologies and business models, changes to globalisation, and so on. Examples include Singapore agencies (PMO, MTI), the PMO in Finland, the National Economic Council in Israel, and so on. Although this focus can be crowded out by other urgent work, many of these government agencies are able to sustain a reasonable focus on important productivity issues, convene officials and external experts to debate and shape policy advice to Ministers, and so on.

2. Strengths and weaknesses

These three archetypes of productivity institutions cover a wide range of organisational forms and approaches. Each of these archetypes has strengths and weaknesses, which will be discussed in this section. These strengths and weaknesses are assessed in terms of the quality of the work that is produced; the extent to which the organisation is effective in terms of making recommendations that are accepted and shape the policy debate; as well as the impact on productivity outcomes.

This assessment of strengths and weaknesses is made from a small economy perspective, bearing in mind that small economies are not simply scaled-down versions of large economies and have particular productivity dynamics and behaviours.

Productivity Commissions

The spread of Productivity Commissions around the world is testament to a sense that they have been effective on a range of dimensions. In Australia (and elsewhere), these institutions are seen to produce high-quality analysis on complex issues (including on issues that may be politically challenging); to produce actionable recommendations, many of which are picked up by the government; and to shape the public debate in a broader way.

A key strength of the Productivity Commission model is the combination of analytic resourcing and capability, combined with editorial independence. Once the inquiries have been commissioned, the analysis by the Commission is independent and informed by stakeholder engagement. This allows for high quality analysis and recommendations to be made, which are not constrained by interest groups and political considerations. The time frames of the inquiries also allow for sustained focus in a way that similar functions inside core policy agencies often struggle to achieve.

⁸ www.bethebusiness.com/about/

The formal nature of the commissioning process from government makes it more likely that the Commission's work is focused on important issues and/or issues that the government is particularly interested in. In turn, this makes it more likely that the recommendations will be accepted and implemented by the government (the evidence suggests this) and that there will be an eventual impact on productivity outcomes (more difficult to assess). The independent and high quality nature of the Commission also makes it more likely that the analysis and recommendations will be taken more seriously by stakeholders; and less likely that they will be politically opposed.

In short, the Productivity Commission model has worked well: they tend to be well-resourced organisations, with strong technical expertise in microeconomics, and produce respected, credible analysis that carries real weight with policy-makers. They are open, explain their work, seek public submissions in the process of analysis, and undertake research in a technocratic way. And they are explicitly integrated into the policy process, by virtue of their reporting arrangements with Ministers and Parliament.

However, these Commissions work on the basis of a relatively narrowly defined view on productivity, and on the basis of government direction. This means that they are restricted (in practice) in their ability to engage on big strategic issues that may not be on the government's agenda. As one example, the Australian Productivity Commission does not have a formal mandate with respect to analysis of national productivity performance that institutions such as Ireland's Competitiveness Council have.

From a small economy perspective, the key constraint of the Productivity Commission model is that it is heavily focused on structural policy and regulatory reform in the domestic economy and less focused on the performance of internationally-oriented sectors of the economy (which are the productivity engines in small advanced economies). Of course, the efficiency of domestic sectors is important for overall performance, but this is unlikely to be transformational for small advanced economies in the way that a focus on positioning the economy for emerging strategic challenges and opportunities will be.

The limited scale of domestic markets, the intrinsic lack of competitive intensity, and so on, which are characteristics of small advanced economies, act to constrain productivity levels and growth rates in domestically-oriented sectors. In contrast, externally-oriented sectors offer the potential for productivity levels and growth rates to converge towards the global productivity frontier.

The implication is that the substantive focus that is typically seen in Productivity Commissions is more valuable in a larger economy context than in small advanced economies. A broader, more balanced approach to improving productivity is important in a small economy context.

A competitiveness mandate

Institutions like Ireland's National Competitiveness Council and Sweden's Tillväxtanalys (Growth Agency) are also effective. The core strength of these institutions is that they have an explicit mandate to focus on issues that bear on aggregate productivity performance. As just noted, this broader focus is important in the context of the productivity performance of small advanced economies.

The productivity analysis and reports that these institutions prepare contribute to shaping the public policy debate. For example, the annual competitiveness report that is released by Ireland's National Competitiveness Council is high profile. And the recommendations that are made by the Council to the government now require a formal response by the government (a change recently made, in the context of the Action Plan for Jobs process that specified actions that the Irish government should take to restore economic growth).

However, the fact that they are part of government agencies (even with a measure of independence) means that they can have a lower public profile. And some are quite small in terms of analytic resourcing, and can struggle to carve out a position that can compete with line agencies. Ireland's National Competitiveness Council, for example, has a secretariat of 5 (staffed by officials) in addition the 12 Council members. The Swedish Growth Agency, on the other hand, has a staff of around 40 – but again sits within the public sector.

In short, the substantive focus on aggregate productivity performance is the key strength of this archetype. The organisational design and resourcing is the key weakness.

Time-limited processes

These processes have been effective in introducing new ideas into the economic policy debate, achieving a measure of consensus among key stakeholder groups on strategic economic issues and the available policy options, and in terms of impacting on government policy. Of course, this is partly because governments have deliberately established them to develop a policy agenda. But the design of these processes also has some valuable features.

First, these processes focus on important, strategic issues that are confronting the economy and to which new policy ideas are required in order to sustain or strengthen productivity. This means that there is a political demand for this analysis and thinking, and also that the ideas when implemented are likely to have a more material impact on policy. This has been the experience in Singapore and Denmark.

For example, the Economic Strategies Committee process was useful in rebalancing the Singapore growth model away from labour force growth towards labour productivity as well as for paving the way for increased investment in research and innovation. Similarly, the Production Council (which has evolved into the Disruption Council) in Denmark, with a focus on automation, AI, 4IR, and so on, has helped to shape the policy agenda (as well as business understanding) of the economic and social challenges and opportunities of these disruptive technologies. These contributions can be expected to have meaningful impacts on productivity outcomes over time by providing the basis for higher quality strategic policy choices.

Second, the involvement of senior stakeholders from a range of sectors (business, unions, academics, as well as government) over an extended period of time allows for robust discussion of a broad range of perspectives. This allows for a shared understanding of the issues, as well as some consensus on the

way forward. In reality, differences on the way forward may remain across participants, but this process contributes to achieving a consensus.

The involvement of senior Ministers as well as senior business and union leaders will make this a high profile exercise, which is more likely to be taken seriously – and to have an impact on the broader public debate. This senior engagement may also have an impact on the quality of analysis, by bringing together a wide range of insights and perspectives that may not be fully available to a public-sector led exercise (even in a Productivity Commission model).

Third, the nature of these processes allows for them to be used as a platform for broader public engagement; and also for a wide range of experts to contribute. For example, in addition to the formal stakeholder engagement and participation, it is common to invite local and international experts, to convene conferences and workshops, as part of the process. This contributes to a broader public understanding of the issues.

There are some downsides and limitations to the model. In particular, the direct involvement of the government can constrain the effectiveness of these processes in two ways. First, the direct sponsorship of the incumbent government may limit the permanence of the process and the resulting recommendations. For example, the Globalisation Council in Denmark was not taken forward after a change in government – the project was seen as a political exercise, and the incoming government did not want to pick it up (even though much of the analysis was of high quality).

And second, the dominant role of the government in these processes can also mean that there is a certain direction of travel, which constrains the independence of the analysis and the way in which the analysis is used to inform recommendations. The lack of political independence can be a problem in terms of developing new ideas. The Singapore processes have developed new initiatives, for example, but largely in the context of the prevailing policy approach. More fundamental policy challenge and debate was limited.

3. Key success factors

Looking across the different archetypes of productivity institutions, with their accompanying strengths and weaknesses, provides a basis to identify key aspects of good practice that allows these institutions to influence productivity outcomes through better public policy. Context matters importantly, and talk of best practice should be treated very cautiously: there is no one optimal organisational model that can be simply replicated. But nevertheless, there are some key success factors that can be identified.

Indeed, there is an emerging consensus from the international experience of the growing number of productivity institutions in terms of the characteristics that seem to make a difference in terms of the

quality of the analysis and the impact of the recommendations. The OECD has recently surveyed a selection of productivity institutions. The authors summarise their analysis as follows:⁹

‘We find that well-designed pro-productivity institutions can generally improve the quality of the policy process and political debate, and can make a significant contribution to evidence-based policymaking. Our findings also support the view that concentrating knowledge and research on productivity in one independent, highly skilled and reputed body can help create the momentum and the knowledge that are required to embrace the challenging task of promoting long-term productivity growth. We also find evidence that while institutions located outside government have more leeway in promoting reforms that challenge vested interests and produce results over a time span that goes beyond the electoral cycle, the existence of smart government bodies can allow experimental policymaking and a more adaptive, evidence-based policy process. We also find that it is of utmost importance to provide these bodies with sufficient resources, skills, transparency and procedural accountability to fulfil their tasks; a sufficiently broad mission, oriented towards long-term well-being and at both supply-side and demand-side considerations; policy evaluation functions; and the ability to reach out to the general public in a variety of ways, from consultation to advocacy, use of social media, and other forms of communication.’

This assessment broadly coincides with my assessment of the international experience from productivity institutions in small advanced economies. But the small economy productivity context has some distinctive characteristics, and it is important that the design choices of productivity institutions reflect these characteristics.

My assessment is that the key success factors for effective productivity institutions in small advanced economies include the following:

Substantive focus on the key drivers of productivity growth: National economic context matters, and effective policy institutions are tightly focused on the specific challenges and opportunities that impact most meaningfully on national productivity performance. There are specific features of the small advanced economy context that create different productivity challenges and opportunities – and these should be reflected in the operating model of the productivity institution.

In particular, internationally-facing sectors are key productivity engines in small economies. There is upside productivity potential in these sectors, as firms can get to scale beyond the domestic market. Overall economic performance in small economies will be directly related to the scale and productivity performance of these sectors. The performance of this part of the economy is an important focus for effective productivity institutions in many small economies (e.g., Ireland, Sweden, Denmark, Singapore).

In contrast, the limited size of the market imposes constraints on productivity performance in domestic sectors (there is frequently a steeper gradient in productivity levels between tradable and non-tradable sectors in small economies than in large). Although improvements in domestic sector productivity

⁹ Andrea Renda and Sean Dougherty, ‘Pro-Productivity Institutions: Learning From National Experience’, OECD Productivity Working Papers, 2017-07, OECD. Note also Gary Banks, ‘Institutions to promote pro-productivity policies: Logic and lessons’, OECD Productivity Working Papers, 2015-01, OECD.

through structural reform can make a contribution, these will generally not be transformational – particularly for countries that have a reasonable starting point in terms of policy and regulatory quality.

This is why there is often a difference between the micro focus of productivity institutions in larger countries (such as Australia) and the ‘competitiveness’ focus of productivity institutions in small advanced economies. Consistent with this focus on competitive positioning, small economy productivity institutions are often directed to engage on emerging strategic issues and options (such as globalisation, technology, and so on). In a small economy context, this can lead to more effective, impactful productivity institutions.

High quality staff, as well as access to external experts: The more effective institutions have resourcing that allows them the time and space to develop high quality work. In addition to the amount of capability, there is value in access to a range of perspectives to allow for constructive challenge and new ideas to be injected. The Productivity Commission model in Australia is a good example of building strong internal capacity; and the Danish Globalisation Council and Singapore’s Economic Strategies Committee are good examples of supplementing public sector capability with external expertise to strengthen the quality of analysis and insight.

Independence of work: The ability to work independently, without political interference, is important to the quality and credibility of the analysis and recommendations of productivity institutions. This is particularly apparent in the Productivity Commission model, but also in institutions such as Ireland’s National Competitiveness Council. The ability to exercise some autonomy in the nature of the work programme – an ability to undertake research and projects on issues outside those that are formally commissioned by the government – is also an important element of independence.

Stakeholder engagement: the successful institutions have an ability to engage in a structured way with key stakeholder groups on a sustained basis on the issues, options, and recommendations. In the archetype 3 ‘process’ approaches, stakeholders are often directly involved in the proceedings; whereas in the Productivity Commission approach, stakeholders are consulted rather than being directly involved.

Public communications: The risk with institutions that conduct technical analysis, even if on important policy issues, is that the work does not become central to the public debate. Finding ways to communicate and engage is important to effectiveness – and can also help to shape the political appetite for the analysis and recommendations. Public communications activities are important in supporting the recommendations made to government, to educate the public and stakeholder as to why the recommendations have been made.

Political leadership and support matters: without (bipartisan) political willingness to support and engage on the work of the productivity institutions, it is more difficult for these institutions to deliver impact. Institutions cannot be fully effective if they are swimming against the tide of the political climate.

In sum, good practice elements are an operationally independent institution, with a broad mandate to focus on aggregate productivity and competitiveness issues, which have the staff and resourcing required in order to develop credible, distinctive new insights on current and emerging economic issues, and with a well-developed stakeholder engagement and public communications capability. And particularly in a small economy context, effective productivity institutions need an appropriate substantive focus as well as appropriate governance, organisational and resourcing arrangements.

The ideal combination of these various characteristics is not fully found in a single archetype (or existing institution). Given the particular features of a small economy context, the appropriate model will require an approach that is able to integrate key elements of good practice from across these different archetypes.

II. Assessment of the New Zealand model

This section draws on the insights from the international experience described in Part I to assess the New Zealand Productivity Commission. This discussion will consider the organisational form of the Commission, noting the similarities and differences with productivity institutions in other countries; and then consider the strengths and weaknesses: to what extent is the Commission characterised by the key success factors associated with effective small economy productivity institutions?

Organisational archetype

The New Zealand Productivity Commission most closely resembles the first of the three archetypes described in Part I. This is not surprising given that the Australian Productivity Commission was the explicit model for the construction of the New Zealand Productivity Commission (as is clear from the initial Cabinet papers).

The organisational structure, operating model, and governance space of the New Zealand Productivity Commission are very similar to the Australian Productivity Commission. The New Zealand Productivity Commission is independent by legislation, inquiries are commissioned by the responsible Minister, has (by New Zealand standards) a resourcing base that gives it critical mass in terms of analytical capability, and has a requirement to actively engage with stakeholders and the broader public.

And the motivation for establishment was similar. As in Australia, the New Zealand Productivity Commission was established in response to persistent concern about relatively weak national productivity performance. In New Zealand's case this remained the case even after an extensive programme of economic reform – and being routinely ranked as one of the better advanced economies in terms of the quality of economic policy. The political motivation for the establishment of the Commission was a sense that improving regulatory quality was a key driver of improving New Zealand's productivity performance.

However, the New Zealand Productivity Commission also has some elements of the second and third archetypes of productivity institutions. Although the New Zealand Productivity Commission is a permanent, independent institution that conducts inquiries, it also has some autonomy to undertake analysis with a broader focus on New Zealand's overall productivity performance.

This is made possible alongside the traditional 'Productivity Commission' model because of the independently-directed research output from the Commission (research papers, chairing the Productivity Hub, conference presentations, and so on). Since establishment this self-directed programme of productivity research has accounted for about 10-15% of the Commission's budget, and is focused to a greater extent at understanding the drivers of New Zealand's overall productivity performance – and identifying ways to improve this performance.

Overall, the New Zealand Productivity Commission is largely the first archetype but with some elements of the second and third archetypes incorporated.

Assessment of impact

The impact of the New Zealand Productivity Commission can be assessed on a several dimensions: the quality of its analysis, operations, and recommendation; the extent to which its recommendations are accepted and implemented; and ultimately in terms of higher levels of productivity as a consequence of its work. It is too early to say much on the impact of the Commission on actual productivity outcomes. But there are observations on the first two dimensions. I note also that the Commission has a well-structured performance reporting framework, and that it actively solicits feedback on its inquiries and research from stakeholders and experts.

Most of the external feedback is very positive. The New Zealand Productivity Commission has earned a good reputation for high quality technical analysis, running an inclusive, transparent, and non-ideological approach to often sensitive policy issues, and being able to shape the public debate through a proactive public communications strategy. It has also built a reputation for being a repository of productivity expertise within the government system, and has built a strong professional staff. It is a valuable source of capacity in a relatively small public sector.

The policy impact of the Commission's work has varied by issue. Some has been picked up and implemented – for example, on better regulation and on increasing housing supply – whereas other projects have languished because of an absence of political interest (for example, a joint report prepared by the Australian and New Zealand Productivity Commissions on trans-Tasman economic integration). This is not surprising, reflecting political realities more than any deficiency in the Commission.

In addition, the Commission's independent analysis of New Zealand's productivity performance – and its various convening activities on productivity topics – has also made a valuable contribution to the ongoing productivity debate in New Zealand.

Strengths and weaknesses

The strengths and weaknesses of the New Zealand Productivity Commission model follow directly from the strengths and weaknesses of its primary archetype. In terms of the strengths of the New Zealand model, it has many of the key success factors that are associated with effective productivity institutions. The following discussion summarises these.

High quality staff, as well as access to external experts: The Productivity Commission has developed strong internal capacity, and is seen as having a critical mass of high quality policy capability. The staffing of the Commission seems to have been well matched against the inquiries it has been given as well as its internal research programme. However, my sense is that the Commission's staff is 'policy-heavy', with many coming out of government agencies – or being on secondment. This is not surprising, and has some advantages in terms of preparing analysis that can be readily integrated into policy and political processes. But it perhaps reduces the diversity of perspective and approach.

Independence of work: The Commission's work is independent, and is not seen as partisan. The observation that the previous government has disagreed with (or not accepted) recommendations from the Commission suggests a degree of editorial independence. And the Commission has recently navigated a transition of government with no apparent issues.

Stakeholder engagement: The feedback and reviews rate the Commission well in this regard, and it is something that the Commission seems to take seriously (judging by the number of external meetings and engagements). It has developed an ability to convene stakeholders and to get them to engage.

Public communications: This is challenging for any policy organisation, and particularly in New Zealand with a relatively thin media that provides coverage of productivity and policy issues. But particularly on inquiry topics with public interest (housing affordability, transition to a low emissions economy), the Commission does have an impact on the public conversation. And the Commission's public communications is as good as anything I have seen elsewhere from productivity institutions around the world (such as its website, social media engagement, the design of the reports and other collateral, as well as traditional media and public speaking).

Political leadership and support: In general, there has been a good level of political engagement and support. There is some variability in engagement across inquiry topics, but in general the Commission has operated in a reasonably supportive political environment.

Substantive focus on the key drivers of productivity growth: The substantive focus of the Productivity Commission's inquiries has been primarily on domestic sector issues, with a secondary focus on issues that will make a material difference to New Zealand's productivity performance (note the listing of inquiry topics in the Introduction section of this paper). In that regard, I note that there is a gap between many of the productivity challenges identified in the Commission's productivity narrative paper (and its related productivity research) and the 'micro' focus of many of the enquiries that it is tasked to undertake.¹⁰

The inquiries have often been focused on important policy questions, with an economic impact over time; e.g. affordable housing, the quality of regulation, and so on. But for the most part it is unlikely that a focus on improving regulatory and policy quality in New Zealand in specific (largely domestically-oriented) sectors will lead to a step-change in productivity performance. There are worthwhile improvements to be sure, but these are not likely to be transformational.

The inquiry that came closest to a topic with a meaningful potential impact on aggregate productivity performance is 'transitioning to a low emissions economy': New Zealand's ability to navigate this will have a material impact on its overall economic performance (both in terms of managing costs as well as capturing new opportunities).

The New Zealand Productivity Commission has been used as a high quality policy agency for hard cross-cutting questions where sustained analysis is required without distraction of operational issues – and

¹⁰ For example, Paul Conway, 'Achieving New Zealand's productivity potential', November 2016.

where an arms-length relationship from government is useful. It is a valuable addition to policy capability: it has been hard to establish these functions in central agencies. But I am not persuaded that it is being used to its full potential to address the binding constraints on productivity growth or to identify new opportunities.

The Productivity Commission Act states that the ‘principal purpose of the Commission is to provide advice to the Government on improving productivity in a way that is directed to supporting the overall well-being of New Zealanders’. The choice of inquiries seems to place more weight on the second half of this mandate – to support overall well-being through higher quality public policy rather than directly on ‘improving productivity’. Bluntly, productivity is a bit of a misnomer for what the Productivity Commission currently does through its work on inquiries: the direct productivity focus is much more evident in the Commission’s self-directed work programme.

Indeed, in its 2016/17 Annual Report, the Productivity Commission talks about its role in the policy process in general policy terms, emphasising its broader policy contribution as distinct from a sharp focus on productivity:

‘The Productivity Commission is now in its seventh year and has an established place in the public policy infrastructure of New Zealand. Our sense is that the Commission is playing a valuable and valued role, filling gaps that have opened up over the past couple of decades in the way the New Zealand public service operates. Those gaps include integration, system-wide analysis of complex public policy issues, and providing frank, evidence-based advice developed after close engagement with a very broad range of stakeholders.

Our success as an independent Crown entity depends on us continuing to fill gaps of that sort – bringing something distinctive to the public policy dialogue and decision-making processes, something valuable and influential.

Our ability to be effective also depends on the nature of the mandates that the Government chooses to give us. In that respect, we have been very well served throughout our formative years. The range of inquiries we have been asked to undertake encompasses a broad range of issues, all critical to the wellbeing of New Zealanders.’

This is a function of the way in which the inquiry selection process is undertaken. In seeking suggestions for two new inquiry topics in 2015, the Treasury noted that ‘Potential inquiry topics will be selected based on the degree to which they: use the Commission’s unique position as an independent agency with high quality analytical ability and a focus on public engagement have the potential to deliver practical policy recommendations to improve productivity and support the overall well-being of New Zealanders; and require a substantial degree of analysis to resolve a complex set of issues.’¹¹ This does not suggest a tight focus on productivity, but rather a much more general focus on policy analysis.

¹¹ <https://treasury.govt.nz/publications/information-release/productivity-commission-information-releases>

Overall

The New Zealand Productivity Commission has built substantial capability, prepares high quality work, and is a valuable platform for productivity analysis and research in New Zealand (as well as offshore, in collaboration with organisations such as the OECD). My assessment is that the internal working model and the quality of its operations compare well relative to international peers. There are some improvements that could be explored to the internal functioning of the Commission (described in Part III), but there are in the spirit of further strengthening the core model.

However, my assessment is that there are also some weaknesses in the Commission's functioning, which largely relate to the inquiries that are commissioned. This reflects the use of the Australian Productivity Commission model as the starting point, which has a microeconomic view on productivity, as opposed to the more broadly framed approach to productivity commonly found in productivity institutions in other small advanced economies (such as Singapore, Ireland, and Denmark). In terms of the substantive focus (but not the institutional architecture), there are lessons to learn from the archetype 2 and 3 productivity institutions that have a broader focus than the archetype 1 institutions (on which the New Zealand Productivity Commission is largely based).

Some of the feedback on the draft version of this paper suggested that the nature of the inquiry commissioning was a deliberate design choice: to focus the Commission on specific topics in order to generate actionable recommendations and to improve productivity in concrete ways step by step. However, I do not see a conflict between a focus on sharp, actionable, solution-focused inquiries (which is a desirable objective) and a tighter focus on inquiries that are directly focused on identifying ways to strengthen New Zealand's productivity outcomes in a material way.

A focus on aggregate productivity performance does not simply mean more analysis documenting New Zealand's productivity under-performance or the various reasons for it. Although further insights on these issues would be valuable, my sense is that there is broad consensus on the areas in which improvement is needed in order to sustainably lift productivity performance. Sharp, focused work on the available policy options to improve performance in these areas is something that the Productivity Commission could usefully do – both in terms of the inquiries that it is given, as well as through its ongoing internal research programme. The discussion in the next Part of the paper will provide some more detailed suggestions on the type of topics that could be relevant in this regard.

III. Proposed options for the Productivity Commission

This section describes options for the New Zealand Productivity Commission to enhance its contribution to the productivity agenda in New Zealand. These options are aimed at preserving and strengthening the Commission's core capabilities, while focusing its activities and outputs more sharply on strengthening New Zealand's productivity performance.

The recommended changes can be made within the terms of the existing institutional arrangements and the Commission's basic working model (such as the 12-18 month inquiries, the ability of the Commission to undertake some self-directed work; and the emphasis on engaging with stakeholders and informing the public debate).

These recommendations deliberately draw on aspects of good practice in all three organisational archetypes described in Part I. Rather than being a clone of the Australian Productivity Commission, there is value in the New Zealand Productivity Commission more closely reflecting the key areas of good practice of small economy productivity institutions. Small economies are the more relevant group of peers for New Zealand.

The recommendations build on the current Productivity Commission model (archetype 1), but suggest that the substantive focus be moved in the direction of archetypes 2 and 3. The three recommended changes are:

- a more structured approach to commissioning inquiries on productivity topics
- a more thematic approach to undertaking the inquiries
- A mandate for public reporting and commentary on aggregate productivity

Note that these three recommendations are independent, and can be implemented separately. However, they are mutually reinforcing and I think that there is value in introducing these changes together in a coordinated way.

1. A more structured approach to commissioning inquiries on productivity topics

I noted in Part II that the nature of the inquiries has been such that the Commission has become more of a source of high quality capability for policy analysis on complex issues – with a less direct focus (in its inquiries) on New Zealand's productivity performance. In order to focus the Productivity Commission more tightly on improving aggregate productivity performance in New Zealand, a more structured approach could be taken to commissioning inquiries. Rather than commissioning inquiries simply on topical policy issues where high quality, independent analysis is seen to be useful, there is scope to focus the inquiries more explicitly on strengthening productivity.

To do this, a case should be required as to why a particular inquiry topic makes a material contribution to New Zealand's aggregate productivity performance, given the specific nature of the New Zealand context. Why is it the case that analysis and recommendation on a specific inquiry topic will make a difference for New Zealand's productivity performance? This more explicit productivity filter for inquiry

topics would put 'New Zealand productivity' back into the New Zealand Productivity Commission, and move it away from being a standing resource of general (high quality) policy capability.

This suggestion for a more structured process is not intended to provide a straitjacket, preventing inquiries on topics that may fall outside of a direct productivity focus from time to time – or unduly constraining the government of the day from commissioning inquiries on issues or questions that it considers important. Rather, the goal of this proposal for a more structured commissioning process is to increase the likelihood that, over time, the inquiries make a more direct, material contribution to New Zealand's overall productivity performance given the small economy context. And productivity is an expansive theme, which makes it likely that governments with different political priorities should be able to identify themes that are of interest.

This need not be (and should not) be a formal, quantitative analysis, but an effort should be made to trace out the expected impact and transmission mechanisms from the inquiry topic to productivity outcomes. There are a few starting points for such a structured filtering exercise.

First, the previous Productivity Commission analysis on the factors that matter particularly for New Zealand's productivity performance: the productivity narrative provides a good foundation for the various classes of issue that have a bearing on New Zealand's productivity performance; as could a more structured productivity benchmarking process (described in the third recommendation, below) that would identify specific areas of productivity concern or opportunity. These products could give a 'long list' of thematic issues or questions.

Second, emerging strategic challenges and opportunities that will plausibly impact on New Zealand's productivity performance – and to which a policy response is required. The Commission's current inquiry on transitioning to a low emissions economy is a good example of this type of inquiry. The focus of 'archetype 3' institutions provide additional examples of these thematic topics: managing the impact of disruptive technologies (to reduce risk, capture upside); the future of work; sector-based studies (for key sectors) to identify options for policy responses to specific challenges and opportunities.

And third, my assessment is that there should be a bias towards inquiry topics that relate to the externally-oriented sectors of the New Zealand economy. This inquiry selection process should take the small economy context seriously, focusing on the binding constraints to productivity growth in a small, remote economy like New Zealand. Relative to the inquiries that have been commissioned to date, this would likely result in an increased emphasis on factors that shape New Zealand's performance in international markets.

To make this more concrete, this could include issues around how best to respond to changes in the global environment, such as disruptive technology, changing globalisation, and a low emissions model; and important domestic issues, such as the impact of migration (and population) on New Zealand's productivity performance. Developing an appropriate policy response to these strategic issues will likely have a material impact on New Zealand's overall productivity performance.

One observation of other small economy productivity institutions is that they often have a sectoral or cluster focus (for example, the ESC and CFE processes in Singapore, the Production Council in Denmark). One possibility for New Zealand is to undertake some of the productivity analysis from a sectoral perspective: for example, the challenges and opportunities facing agriculture and tourism, or the opportunities for New Zealand in the weightless economy.

This recommendation would help to integrate the type of substantive focus commonly found in archetype 2 and 3 institutions with the institutional arrangements associated with Productivity Commissions. This would better position the New Zealand Productivity Commission to act in a way more similar to other small economy productivity institutions.

This substantive focus may have implications for the required capability of the Commission. At the moment, the analytic capability of the Commissions seems well-matched to the policy focus of the inquiries: the Commission is staffed up by high quality policy analysts and advisors. But to the extent that it shifts from being a generalist policy shop to greater focus on aggregate productivity performance and emerging strategic issues, it may need access to a different set of capabilities (for example, private sector perspectives, international insights, as well as high quality economic analysis). This ought not be a major constraint, and the Commission already has some of this capability. The point is simply to note that an altered focus may have implications for the appropriate capability.

In closing, an alternative approach to this recommendation is to argue that the Productivity Commission serves a valuable and distinctive function as a high calibre policy shop that undertakes analysis on big, complex, cross-cutting policy issues (with a wellbeing focus). As the Commission itself notes, this is distinctive in the New Zealand public sector system. And it may be that the government wants an agency that is more broadly focused on a range of strategic policy issues that it regards as priority issues, not just economic outcomes and productivity.

It is of course ultimately up to Ministers as to how they would like to focus the work of the Commission. But even if the preference is to continue with the current, general approach, a more structured approach to commissioning inquiries from the Productivity Commission would still be a useful addition. This more structured, explicit approach to selecting inquiry topics would help to ensure that the inquiries are focused on issues that senior Ministers judge to be important – and on which they will be engaged when the Commission reports. But if this more general approach to inquiry selection is preferred, there should be some recognition that this is not the same as a fully productivity-focused institution.

2. A more thematic approach to the inquiries

The New Zealand Productivity Commission has developed a standard inquiry process, which involves an issues paper, stakeholder engagement, a draft report, and then a final report with recommendations over the course of 12-18 months. This model works well, and allows sufficient time and space to prepare high quality analysis and recommendations as well as to obtain input from stakeholders and other experts.

However, there is scope to adopt a less ‘linear’ approach to the inquiry formats in ways that reflect some of the observations from the other archetypes of productivity institutions.

First, for at least for some of the inquiries, it may be appropriate to reduce the emphasis given to the recommendations stage. For understandable reasons, the final recommendations are currently a key output for many inquiries, containing a view on what the government ought to do. But this is not the only valuable output from the work of a productivity institution, as the international experience shows.

In some cases, the key contribution is a structured description and analysis of the emerging challenges and opportunities, providing a platform for a range of perspectives on different dimensions of the issues, as well as identifying strategic options for consideration (which may fall short of specific, actionable recommendations for government). Aspects of the work of the Globalisation Council and Production Council in Denmark fall into this category, as with the Singapore’s Committee for the Future Economy process: although these processes did make recommendations, the structured analysis was also a key contribution.

Particularly for some of the big, forward-looking productivity issues that I suggested in the first recommendation, it may be that this structured analysis is at least as valuable as a detailed series of recommendations. Ultimately, of course, specific recommendations will need to be developed that guide the government’s policy response – but this need not always be the priority for the Productivity Commission. It may be that the Commission can add significant value by structuring the issues, describing the international experience, and providing a platform for diverse range of perspectives on the issues and possible policy options; that then serves as a basis for the policy agencies to develop a way forward. This would also provide some space for the relevant policy agencies to take ownership of the specific policy recommendations.

In a formal sense, the Minister of Finance is the client. But in addition to making recommendations to the government, there could be a measure of flexibility so that a core audience are stakeholder groups and the broader public. Of course, the Commission already has processes to engage in a structured way with these groups – but at least for some inquiries, it may be that providing analysis and insight to non-government audiences is as important as the recommendations to Ministers.

The second dimension of adopting a more ‘thematic’ approach to the inquiries could involve moving to a higher frequency of shorter papers on various elements of the inquiry theme – as opposed to the more formal, set-piece reports that are currently produced. These could help to structure the issues and options by examining different elements, bringing a broader range of perspectives – and perhaps highlighting the tensions and trade-offs between different options. One possibility is for some of these papers to be externally commissioned, rather than being prepared by the Commission staff, in order to allow more explicitly for a range of insights and views. The model adopted in Denmark’s Globalisation Council is instructive in this regard, with a wide range of external contributions.

This thematic approach may support a more sustained public conversation on these issues from both direct stakeholders as well as the broader public. The conclusion of the inquiries would involve a

discussion of the issues and the different policy options available, with the strengths and weaknesses of different approaches. One of the contributions of the Commission should be an ability to inject new ideas into the policy debate.

This may be a messier, more complex approach to inquiries – but it may also generate additional insights to a broader set of stakeholders. One of the roles of the Productivity Commission would be to provide its own perspective on these issues, which would summarise the key developments and make policy recommendations. But the intermediate outputs would receive a greater weighting in the inquiry process in this thematic approach.

This approach could also be used to inform other policy processes underway in parallel. For example, if the government has priority policy work underway (as I understand it does at the moment on the future of work), independent analysis by the Commission that analysed the issues could provide a useful input. Although the Commission’s independence means it cannot (and should not) be used as the vehicle for these processes (in the way that officials supported the archetype 3 processes in Denmark and Singapore), the Commission is a trusted, independent source of analysis and could provide the analytical basis for the policy discussions.

As is the case with the first recommendation, the spirit of this recommendation is to build on the institutional architecture of the Productivity Commission model and to make its basic working model more flexible.

Example: The economic impact of disruptive technologies on New Zealand

To make this thematic approach more concrete, this discussion sketches out a hypothetical example of a thematic inquiry on the economic challenges and opportunities of disruptive technologies (automation, AI, internet of things, and so on). As mentioned above, this is a topic that is currently on the agenda of productivity institutions and governments in several other small advanced economies.

Such an inquiry would aim to provide insight into the key disruptions at work, the challenges and opportunities that are likely to impact on New Zealand, and the nature of the policy priorities for the government (as well as priority actions for other stakeholders). This may not provide the final listing of policy actions, but by structuring the debate, providing a clear sense of New Zealand’s exposure to these disruptions, and identifying the classes of policy priorities that are relevant to responding, this inquiry could provide a strong foundation for further policy work.

The value of a thematic, less ‘linear’ sequencing, is that the inquiry can proceed through a higher frequency series of discrete papers or outputs. These could include:

- i. a clear description of the relevant disruptive technologies, and the impact that these are having globally. In addition to analysis by the Commission, this could include some commissioned work to access international expertise: this work could be presented publicly in order to help educate relevant groups.

- ii. a review of the way in which these disruptive technologies are likely to impact on New Zealand given its specific context (e.g. given the relatively low levels of business investment, the relative lack of competitive intensity, the nature of New Zealand's industry structure, and so on).
- iii. this analysis could also include various sectoral case studies for key sectors in the New Zealand economy, to identify challenges and opportunities; this work would likely have a stronger engagement with business, unions, and others.
- iv. a review of the policy responses in other small advanced economies that share similar exposures to New Zealand. This could include a series of commissioned papers from these countries, or convening workshops/conferences where relevant experts from these countries describe the nature of the policy experience.
- v. a closing final document prepared by the Commission, which summarises the key dynamics with respect to disruptive technology, the nature of the exposures, challenges and opportunities that will face New Zealand, the various classes of policy response (from labour markets and human capital, to innovation and enterprise policy), and recommendations on the immediate priorities for action.
- vi. some summary workshops involving Ministers, officials, business groups, unions, and others, to discuss the insights and lessons from the international experience.

3. A mandate for public reporting and commentary on aggregate productivity

The Commission has a valuable self-directed research function on productivity issues: it prepares research papers, chairs the Productivity Hub, convenes conferences, engages with the OECD and others, and so on. However, there is scope to further strengthen the Commission's contribution to the public debate on New Zealand's productivity performance.

Drawing on the experience of archetype 2 institutions, I would suggest that the Commission be explicitly tasked with public communication on New Zealand's productivity performance (which is consistent with provisions in the enabling Act). In particular, the Commission would be well-placed to lead on a systematic programme of productivity reporting and benchmarking against peer countries: perhaps in the form of an annual Productivity scorecard. A useful reference point for this would be the report prepared by the Irish National Competitiveness Council, both in the nature of the annual Competitiveness Scorecard – but also in terms of developing a robust and coherent conceptual framework.

There is existing reporting on economic and productivity performance by various New Zealand government agencies, but this is done by different agencies and in different ways. And in some cases, the reporting has been discontinued. This makes it a fragmented exercise, and means that the productivity performance storyline is not as well understood as it could be.

I also think that there is value in developing a clear conceptual framework to underpin the productivity reporting: which metrics are reported against, and why; showing how different measures are connected to each other (for example, relative productivity performance by externally-oriented firms and sectors); having a clear view as to which countries are the most relevant group of comparators; and so on.

Undertaking this public reporting in a structured way, with a conceptual structure, and through an independent agency would bring advantages – it would be more likely to be sustained, and less associated with a specific government. And it would not run the risk of being crowded out by other operational priorities as can be the case in line agencies.

Such an ongoing focus on productivity reporting could inform priorities for future productivity analysis as well as the choice of inquiry topics and themes. It would also contribute to public understanding and debate on productivity and broader economic performance. This report could contain some analysis and commentary, but need not have recommendations.

As a starting point, this could be an annual exercise: doing it more regularly doesn't add much value given that many of the indicators do not change very much over short periods of time. A less regular frequency (say every two years) is possible, but I think that there is value in having this done more frequently in order to ensure that these issues are part of the ongoing public debate. The audience for this is less the policy community; many of these metrics are already in the public domain in one way or another. But pulling this together in a consistent, coherent and well-communicated manner by an independent agency would make a positive contribution – and likely at reasonably limited marginal cost.

There are inevitable resourcing trade-offs between this activity and the work on the inquiries. The resource allocation for the Commission's self-directed work is currently around 15%. Additional activities around productivity reporting and commentary would likely require additional resourcing or a rebalancing of the portfolio of activities.

Appendix: International case studies of productivity institutions

This note contains selected case studies of national productivity institutions, and how these institutions integrate with the policy advice process. I have selected country examples that I think provide useful insights for New Zealand. Aside from Australia, these examples are drawn from small advanced economies: Denmark, Ireland, Norway, Singapore and Sweden.

Australia

Australia has a long established Productivity Commission.¹² The Commission has existed in its current form since 1998, and in previous forms (such as the Industry Commission and the Economic Planning Advisory Commission) it has been in existence for several decades.

“The Productivity Commission is the Australian Government's principal review and advisory body on microeconomic policy, regulation and a range of other social and environmental issues. Its role, expressed simply, is to help governments make better policies in the long-term interest of the Australian community”. The role of the Australian Productivity Commission is to provide “independent research and advice to Government on economic, social and environmental issues affecting the welfare of Australians”.

The Productivity Commission is headed by a Chairperson and between 4 and 11 other Commissioners, who are appointed by the Governor-General for periods up to five years. Associate Commissioners are appointed by the Treasurer on a full and part-time basis. The Commissioners are appointed on the basis of expertise, not as representatives of particular stakeholder groups.

The motivation for establishing the Productivity Commission was to provide a platform for high quality microeconomic policy advice on a range of policy issues (deliberately framed more broadly than economic policy; it also covers social and environmental issues). The view was that for the Australian economy to perform at its full potential, there was a need to remove distortions from the economy and to ensure that future policy was well-designed on the basis of sound economic analysis.

The Productivity Commission spends little time on the aggregate productivity performance of the Australian economy. It does not routinely monitor or publish reports on Australia's overall economic or aggregate productivity performance, or on Australia's competitive position.

The bulk of its work is on commissioned projects that last for around a year (sometimes longer). Recent inquiries have included: recent inquiries by the Australian Productivity Commission include Human services; National water reform; Collection models for GST on low value imported goods; National disability insurance system costs, Electricity network regulatory frameworks; Disability services and

¹² The Productivity Commission's website is www.pc.gov.au Gary Banks also provides a good overview of the Australian Productivity Commission in Gary Banks, 'Institutions to promote pro-productivity policies: Logic and lessons', OECD Productivity Working Papers, 2015-01, OECD.

support (DisabilityCare Australia); Benchmarking regulation of planning and zoning; Benchmarking regulation by local governments; Impacts of ‘Council of Australian Governments’ reforms; and so on.

One recent addition is that in 2016 the government tasked the Commission to prepare a 5-yearly Productivity Review: to ‘provide an overarching analysis of where Australia stands in terms of its productivity performance, and to develop and prioritise reform options to improve the wellbeing of Australians by supporting greater productivity growth’.

The Commission sits within the Treasury portfolio, and can be directed by the Treasurer to undertake inquiries on specific topics. These government directions will also specify the timelines and the nature of the output required. The studies and inquiries that the Commission undertakes will include submissions from the public and stakeholder groups, as well as the public release of a draft and final report. Inquiries are required by legislation to include formal public consultations. This open, transparent process allows for a wide range of views to be expressed and considered – useful for both the Commission’s work, but also for the broader public debate on the issues. The Commission reports formally through the Treasurer to the Australian Parliament. The work of the Commission is fully independent.

The Productivity Commission is well-regarded and continues to produce high quality work. It has been effective through multiple governments and Treasurers, and has become a central institution in Australia. This suggests effectiveness in producing high quality economic analysis and policy advice. But, by design, it makes much less of a contribution to some of the bigger strategic debates in Australia with respect to Australia’s overall productivity performance. Indeed, many of Australia’s productivity challenges remain in place.

Denmark

As a small open economy, Denmark is deeply exposed to developments in the international economy. And although it is a high income country, Denmark has generated only modest productivity growth rates over the past couple of decades. In response, Denmark has established several time-limited institutions and processes in response to specific challenges and issues, which involve groups of relevant experts (domestic and foreign) and key stakeholders. These complement the ongoing work of government agencies, as well as the contributions of business organisations, unions, and so on.

Several institutions are worth particular attention: the Globalisation Council (2005/6), the Productivity Commission (2014/5), as well as the Production Council (2015) and the Disruption Council (ongoing).

Globalisation Council

In April 2005, the Danish Government set up a Globalisation Council to advise the Government on a strategy for Denmark in the global economy.¹³ The establishment of the Council was motivated by a sense that the global economy was changing in ways that had important implications for Denmark, and that Denmark needed to develop a view on how best to respond.

¹³ The Globalisation Council reports are available at: www.globalisering.dk; www.stm.dk/p_13631.html

The Council was composed of representatives of trade unions, industrial organisations, companies, the education and research community, and the Government. The Council was chaired by the Prime Minister, and included several senior Ministers. “The work of the Council rests on a strong Danish tradition that changes in society are prepared in dialogue and cooperation between the various groups in society”.

In mid-2005, the Globalisation Council held three meetings, in which the Council discussed the challenges of globalisation for Denmark. From August 2005 to February 2006, the Council held a total of nine theme-based meetings on topics such as education and training, research, competitive power and innovation. These meetings involved presentations from international and Danish experts, and organisations and individuals were invited to take part in the following discussions. This was the basis for discussions within the Council.

During the meetings, the Council heard a total of 48 international and Danish experts, and held discussions with 111 representatives of organisations and other individuals specially invited to the meetings. The Government published the strategy in April 2006, with recommendations clustered around 14 areas. It contained “350 specific initiatives, which together entail extensive reforms of education and training programmes as well as research and entrepreneurship, and also substantial improvements in the framework conditions for growth and innovation in all areas of society”.

This was clearly not an independent process, but it was open and transparent and involved a wide range of domestic and foreign experts. The process made a valuable contributed to the debate, and to the government’s policy agenda. But this work was discontinued when a new government arrived in office.

Productivity Commission

In response to concern about sluggish productivity growth in Denmark, the Danish Government announced the establishment of an independent Productivity Commission in January 2013.¹⁴ The Commission was to consider the causes of weak productivity growth in Denmark, and to make recommendations on initiatives to improve productivity in both the private and public sector.

The Commission was made up of independent experts (such as academics) and its work was conducted independently of government agencies. It was instructed to complete its work by the end of 2013, meaning a timeframe of a year. There was a relatively small budget to fund some technical analysis.

The focus and approach of the Commission was very similar to the Productivity Commissions in Australia. For the most part, its focus was on improving productivity in the non-tradables sector, including the public sector. It considered issues such as the intensity of competition, the effects of regulations in various parts of the economies, the way in which public sector institutions were designed to deliver services (including trade promotion activity), and so on.

¹⁴ The Productivity Commissions website is <http://produktivitetskommissionen.dk/english>; and this release describes the motivation and process for the Commission: <http://produktivitetskommissionen.dk/media/133600/Kommissoriet%20p%C3%A5%20engelsk.pdf> Note that almost all of the reports and analysis are in Danish.

The Commission's recommendations were delivered to the Government, and some progress has been made in implementing aspects of these recommendations.

Production Council (and Disruption Council)

Manufacturing (or production) has been an important part of the Danish economy, making significant contributions to employment, exporting, and so on. But production as a share of GDP has been declining in Denmark (as well as in other advanced economies); the concern was that Denmark was falling behind some of its regional peers. There was also a view that some of the developments in advanced industries (the 4th Industrial Revolution) might provide an opportunity for Denmark to create a stronger position of competitive advantage – if government, business and others worked together.

The Production Council was set up by the Danish Government in October 2014 to develop ideas and recommendations for how to strengthen the development of Denmark as an attractive country for production.¹⁵ In addition to the direct benefits of production to the Danish economy, the view was that “advanced production plays an important role for Denmark’s competitiveness”. It has a ‘top-line’ focus, trying to identify what is needed to seize new growth opportunities in a highly competitive environment, rather than a ‘bottom-line’ efficiency focus.

The Production Council was co-chaired by a senior Minister and a private sector CEO and the Council included representatives from business, labour and other expert groups. It was actively and directly supported by senior economic officials, with additional support from key stakeholders (such as business associations, like Danish Industry, that hosted a day-long international conference).

The Council received input and contributions from many people and groups, held a series of discussion meetings, and convened an international conference in Copenhagen in which a range of domestic and international experts contributed perspectives. On the basis of this work, a report was issued with a series of recommendations for the government to formally consider (such as: encourage investment by firms in new technologies; increased investment in relevant R&D; upgrading human capital).

In 2017, the Production Council evolved into the Disruption Council.¹⁶ The Danish Prime Minister, who chairs that Council, released this statement:

‘The government has today set up the Disruption Council - Partnership for Denmark's Future. The partnership is broadly composed of social partners, business leaders, entrepreneurs, academic capabilities and representatives from the rest of society... The first meeting will be held on 15 and 16 May 2017.

Prime Minister Lars Løkke Rasmussen says in connection with the establishment of the Partnership:

¹⁵ A summary of the Production Council's work is available at: <http://www.evm.dk/english/publications/2015/15-05-27-production-councils-summary>

¹⁶ There is no official website, but this Ministerial statement provides some background: <https://govinsider.asia/connected-gov/exclusive-denmarks-lifelong-learning-vision/>

‘Denmark's future draws near. With sustainable growth, which makes Denmark richer and gives us more opportunities. And with jobs with better working environment and less weariness. But to get the full benefit - and so that we all join in - we need to seize the future. We must embrace technological advances and new digital solutions. We can only do that if the right competencies are available to the labor market...

*Therefore, the government has established a partnership for Denmark's future consisting of good contributions from all corners of our society. Together we will find answers to how Danes can safely meet the future and create a business that is ahead of all areas. With the tripartite agreements we have clearly shown that together we can create strong solutions. This trustworthy cooperation is a good starting point for the partnerships’.*¹⁷

Overall assessment

The model of establishing time limited process and institutions to deal with specific issues relating to Danish competitiveness has worked well, in combination with ongoing analysis of the Danish economy from economic agencies. Government sponsorship and involvement means that they are well integrated into the policy process, and the three examples discussed above have had meaningful impact on policy choices. However, this model does mean that there is not an independent body with strong economic capacity to engage on competitiveness issues on an ongoing basis and to shape the policy debate and agenda.

Ireland

The National Competitiveness Council was established by the Irish Government in 1997 as part of the Partnership 2000 Agreement. It reports to the Taoiseach and the Government, through the Minister for Business, Enterprise and Innovation, on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position. The Strategic Policy Division of the Department of Business, Enterprise and Innovation provides the Council with research and secretariat support.¹⁸

Its terms of references require the Council to prepare and submit:

- (i) an annual report benchmarking the competitiveness of Ireland's business sector against international peer countries, and
- (ii) an annual report outlining the main competitiveness challenges facing the business sector in Ireland over the medium term, and the policy responses required to meet them.

The annual competitiveness report, the ‘Competitiveness Scorecard’, is based on a bespoke competitiveness framework, which was upgraded in 2016. This provides an explicit, structured perspective on the key variables that impact on Ireland's competitiveness.

¹⁷ Translated from http://stm.dk/p_14514.html

¹⁸ <http://www.competitiveness.ie/>

The Action Plan for Jobs now requires the Irish government to report against how many Competitiveness Council recommendations have been implemented (as opposed to simply noting the recommendations, as previously).

In addition, the Council publishes a range of other papers, submissions and reports on a variety of issues of importance to Ireland's competitiveness. For example, Council's Competitiveness Bulletins focus on individual topics and highlight issues of concern to the Council, setting out briefly why a particular issue is of concern, and providing a summary of actions designed to enhance Ireland's competitiveness.

Norway

Norway established a time-limited Productivity Commission in 2014, borrowing explicitly from the Danish experience.¹⁹ The motivation was a need to lift structural economic performance in the context of weakening of the oil price.

'The Commission's main task is to promote concrete proposals that can enhance productivity and growth in the Norwegian economy, both in the competitive, sheltered and public sectors. In order for measures to be launched quickly, the Commission is urged to make recommendations and proposals for measures as soon as the work provides a basis for this. The Commission's recommendations must be socioeconomically based and aim at strengthening the entire economy's capacity for conversion and innovation.'

The Commission was a group of experts brought together to prepare a series of recommendations, as well as to engage with stakeholders. It was not a vehicle for new analysis, but to prepare recommendations. It was meant to be a multi-stakeholder initiative, but the unions decided not to participate. The Commission had 10 members and a 5-person secretariat. It made over 180 recommendations, some accepted.

The initial phase of the work, which took a year, included a comparative assessment of Norway's productivity performance and an identification of the key drivers of this performance. Recommendations were made as to priority areas for further policy attention.

Singapore

At the core of Singapore's economic transformation over the past several decades has been a clear focus on building and maintaining a strong national competitive position – providing the best location to attract and retain firms, capital and people, positioning Singapore as a hub for the region, and providing the domestic conditions for strong growth. Singapore has effectively adapted in response to changing global economic and political conditions.

The Singapore government has well-developed strategic policy processes that considers emerging issues in a structured strategic competitiveness issues on an ongoing basis (described later in this section), but occasionally it establishes more formal, set-piece processes. The Economic Strategies Committee (ESC)

¹⁹ <http://produktivitetskommissionen.no/>

processes was established after the global financial crisis; and the Committee for the Future Economy was established in 2016 to develop thinking on the structural policy agenda to drive productivity growth (previously the Economic Review Committee was run in 2001 after the Asian financial crisis (1997/98) and the SARS crisis and dotcom bust (2001)).

In addition to the short-term motivation of the two crises, the establishment of these processes was also motivated by a structural sense in the government that Singapore was at a turning point on both occasions – and that strategic policy choices needed to be made in response to a changing economic environment in order to sustain Singapore’s competitive position. This discussion considers the ESC and CFE processes, as well as the ongoing contribution of the line agencies.

Economic Strategies Committee (ESC)

The ESC was launched by the Prime Minister in May 2009 to “develop strategies for Singapore to maximise its opportunities in a new world environment, by building capabilities and making the best use of its resources, with the aim of achieving sustained and inclusive growth”.²⁰

One of the core targets that the Committee process established was to achieve annual productivity growth of 2-3%, more than double the historical average. Although not defined precisely, strengthening productivity was seen as requiring a combination of bottom-line efficiency measures (focused on the domestic economy) as well as top-line measures that were focused on making Singapore an attractive location for capital and labour and supporting the international expansion of Singapore firms into regional and global markets.

This broad focus on national competitiveness is reflected in the various working groups that were established to undertake the work of the Committee. These groups considered issues such as: seizing growth opportunities (identifying new growth areas); developing a vibrant SME sector; attracting MNCs; making Singapore a global leading city; and so on.

The ESC made three clusters of recommendations. These were: boost skills in every job (to promote innovation and labour productivity growth); deepen corporate capabilities to seize opportunities in Asia; and to make Singapore a distinctive global city.

Members of the ESC were drawn from government (Ministers), the labour movement, the private sector (including MNCs) and academia. The full Committee and the various working groups met and worked intensively over a period of several months. The work of the Committee was supported by government officials, who undertook substantial analysis and research, provided the secretariat function, and who were also involved in the drafting of the process.

Various experts and stakeholder groups were seconded onto the various committees and working groups: in addition to ministers, business leaders from domestic and foreign companies, union representatives, and selected academics and experts. There was also public consultation. In total, more

²⁰ The report and recommendations are available at <http://www.mof.gov.sg/Resources/Economic-Strategies-Committee-ESC-Recommendations>

than 1,000 people participated in generating the ideas leading to the proposals. This was a high profile process, with substantial media coverage.

In January 2010, the ESC submitted their recommendations directly to the Prime Minister. The Committee made recommendations around the broad strategic direction of the economy, suggested a new growth target, and identified many new initiatives. Most of these were directly accepted. The practical implementation and communication of these recommendations was picked up by the core government machinery.

Committee for the Future Economy

The Prime Minister announced the establishment of the Committee on the Future Economy (CFE) in 2015 with a goal to ‘develop economic strategies to position Singapore well for the future – to be a vibrant and resilient economy with sustainable growth that creates value and opportunities for all’. It was to build on the ESC, but update it for to recognise ‘rapid ranges in the global environment, technological change and a slower growth of our labour force’.

It was organised around five themes: future growth industries and markets; corporate capabilities and innovation; jobs and skills; urban development and infrastructure; and (international) connectivity. The CFE was chaired by Finance Minister, together with other senior Ministers and a 30-member Steering Committee (business, unions, academics).

The CFE was convened in January 2016, and over 9,000 stakeholders, including trade associations and chambers (TACs), public agencies, unions, companies, executives, workers, academics, educators and students were consulted in the process. The report was released in February 2017, with a long list of recommendations.²¹ One of the notable features was the proposed development of (23) sector-specific Industry Transformation Maps, which were intended to guide productivity improvements in key sectors. These have since been condensed into six clusters.

Other strategic policy processes

One of the distinctive themes of governance in Singapore is the focus on trying to detect emerging issues in the international environment. Singapore invests considerably in developing foresight capacity. Singapore has developed formal institutions and processes, as well as analytic tools and methodologies to assist.

For example, a Strategic Policy Office (SPO) is located in the Prime Minister’s Office and has responsibility for undertaking reviews and analysis of emerging trends that will impact on the policy space in Singapore (demographic trends, the shape of the emerging global economic geography, the possible nature of technological innovation over the coming decades, various scenarios regarding Singapore’s future, and so on). Advanced versions of scenario planning tools are commonly used.

²¹ <https://www.gov.sg/microsites/future-economy/the-cfe-report/overview>

Also within the SPO is the Centre for Strategic Futures. This Centre was established in 2009, with a view to thinking about longer-term strategic issues ('a dedicated group of people to think about the future'). It identifies emerging strategic issues, contributes to an integrated risk management framework for the 'whole of government', publishes various futures pieces, and engages with thinkers and experts on new issues around the world. In addition, many of the individual policy ministries will have a futures or strategy unit with a mandate to think about policy issues through a longer-term perspective.

Sweden

'Growth Analysis' is an agency that evaluates and analyses Swedish growth policy. It provides the government and other stakeholders in the growth policy process with an advanced knowledge base and recommendations to develop the government's work to promote sustainable growth and business development.²²

It focuses on how the state can promote Sweden's innovation capacity, on investments to strengthen innovation capacity and on the country's capacity for structural transformation.

'Growth Analysis works by government commission under the supervision of the Ministry of Enterprise and Innovation. Our primary target groups also include the Ministry for Foreign Affairs, the Ministry of Education and Research and the Ministry of Finance, as well as other agencies carrying out commissions within growth policy. We take an independent position in our evaluations and analyses. We employ around 40 people'.

It produces reports, prepares data on growth, and has prepared set-piece papers on Sweden's competitive position.

²² <https://www.tillvaxtanalys.se/in-english.html>

About the author

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About Landfall Strategy Group

Landfall Strategy Group is a Singapore-based research and advisory firm that provides advice on global macro, globalisation and geopolitics to governments, firms, and financial institutions, particularly in small advanced economies. Our unique focus on understanding the behaviour, performance and outlook across small advanced economies provides the basis for distinctive perspectives on issues facing specific small advanced economies, as well as on emerging global economic and political developments.

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