

Annotated bibliography of Reserve Bank materials relating to productivity

1. Documents directly about productivity

Bollard Alan (2005) 'New Zealand's potential growth rate', *RBNZ Bulletin*, Vol 68, No 1, March.

<http://www.rbnz.govt.nz/research/search/article.asp?id=3806summary>

- Looks at the contributions of capital, labour and productivity to New Zealand's growth and the benefits of lifting labour productivity as the population ages and labour force growth declines.

Drew A (2007) 'New Zealand's productivity performance and prospects', *RBNZ Bulletin*, Vol 70, No 1, pp19-33.

http://www.rbnz.govt.nz/research/bulletin/2007_2011/2007mar70_1drew.pdf

- At the total economy level, labour productivity growth in New Zealand appears poor relative to other OECD economies, implying little prospect of income levels converging towards average (or higher) OECD levels. However, when non-market or hard-to-measure sectors are excluded from productivity measures the picture appears more rosy.

Kite H (2005) *Is New Zealand's PPP-based GDP ranking plausible?*, Reserve Bank of New Zealand internal paper #1930107.

- While the data and methodology used to calculate PPPs could potentially have distorted country rankings, there is no evidence that New Zealand has been systematically disadvantaged relative to other countries. Rather, the lack of improvement in the GDP ranking is more likely to be a case of New Zealand not having grown fast enough for long enough to have made substantial progress up the ladder.

Shapiro M D (2003) *Has the rate of economic growth changed? Evidence and lessons for public policy*, RBNZ Discussion Paper DP2003/07.

http://www.rbnz.govt.nz/research/discusspapers/dp03_07.pdf

- This paper presents some estimates of the rate of technological change in New Zealand and compares them to similar measures for the United States and elsewhere. It finds that New Zealand has not participated in the increased pace of technological progress seen elsewhere since the mid-1990s. The paper also looks at how public policy should take into account technological change.

Fabling R and L Sanderson (2009) *Exporting and performance: the impact of destination characteristics on learning effects*, paper prepared for 2009 conference on Comparative Analysis of Enterprise Data, Tokyo, October 2-4.

Available from: http://gcoe.ier.hit-u.ac.jp/CAED/papers/id052_Fabling_Sanderson.pdf

- The paper examines the effect of export market entry on firm performance, including productivity. Firms that enter exporting expand in employment terms, and this is probably good for aggregate productivity growth (because labour is reallocated to more capital intensive firms). However, the study finds no 'learning effect' on productivity from entering exporting – exporters appear more productive than non-exporters because good firms self-select into exporting.

Fabling, R and A Grimes (forthcoming) *The 'suite' smell of success: complementary personnel practices and firm performance*, forthcoming RBNZ Discussion Paper.

- The study finds that adopting better human resource management (HRM) systems has an economically significant effect on firm performance: raising productivity and improving staff retention. Workers also share in the productivity gains, receiving higher average wages. Performance advantages conveyed by good HRM systems extend beyond the manufacturing sector. However, within the service sector, the effect is concentrated in industries with a higher proportion of professional staff.

2. Impact of monetary policy and interest rates on productivity

Gillmore, D (2008) 'The costs of inflation', *RBNZ Bulletin*, Vol 71, No 3, September.

<http://www.rbnz.govt.nz/research/search/article.asp?id=4068>

- This paper is an up-to-date look at the evidence for why the best contribution monetary policy can make to trend growth and productivity is to maintain low and stable inflation.

RBNZ (2007) *Finance and expenditure select committee inquiry into the future monetary policy framework: submission by the Reserve Bank of New Zealand*.

<http://www.rbnz.govt.nz/monpol/about/3074316.html>

- This submission contains a wide-ranging set of papers on the general topic of the impact of current monetary policy arrangements on economic performance. Supplementary paper A5 discusses monetary policy and productivity, investment and exports specifically.

Smith, Christie (2004) 'The long run effects of monetary policy on output growth', *RBNZ Bulletin*, Vol. 67, No 3, September.

<http://www.rbnz.govt.nz/research/search/article.asp?id=3788>

- This article looks at how interest rates and inflation affect growth in the capital stock, labour supply, and technology, the main determinants of long-run economic growth. The evidence indicates that keeping inflation low and stable makes a positive contribution to long-run economic growth.

3. Monetary policy and its effects on economic performance

RBNZ (2007) *Finance and expenditure select committee inquiry into the future monetary policy framework: submission by the Reserve Bank of New Zealand*.

<http://www.rbnz.govt.nz/monpol/about/3074316.html>

- As noted above, this submission to the FEC contains a set of papers on the general topic of the impact of current monetary policy arrangements on economic performance. Supplementary paper A4 discusses why New Zealand interest rates are higher on average than in other OECD countries.¹ Other papers in this collection discuss other institutional arrangements (taxation etc.) and their bearing on stabilisation policy.

4. Stabilisation policy in more detail

RBNZ (2007) *Finance and expenditure select committee inquiry into the future monetary policy framework: submission by the Reserve Bank of New Zealand*.

<http://www.rbnz.govt.nz/monpol/about/3074316.html>

¹ Also see the RBNZ Bulletin article by Paul Bedford on the New Zealand national balance sheet:

http://www.rbnz.govt.nz/research/bulletin/2007_2011/dec08.html

Ref #3735367 v1.7

- Supporting papers in the submission cover the potential for other instruments to assist in economic stabilisation – especially Supporting Paper A9: Foreign exchange intervention, Supporting Paper A8: Prudential regulatory policy and the business cycle, and Supporting Paper A7: tax and other fiscal instruments.

Buckle and Drew (2008) ‘The business cycle, housing and the role of policy: summary of a recent conference held by The Treasury and the Reserve Bank of New Zealand’, *RBNZ Bulletin*, Vol 71, No 1, March.

<http://www.rbnz.govt.nz/research/search/article.asp?id=4048>

- Research covers investigations of recent shocks to the New Zealand business cycle, including the role of housing and the influence of fiscal policies. Research considering the monetary policy transmission mechanism and the roles that fiscal and prudential policies might play in macroeconomic stabilisation is also discussed. One of the papers – Barker, Buckle and St Clair (2008) ‘Roles of fiscal policy in New Zealand’ – is a Treasury piece that looks at the role of fiscal policy in contributing to macroeconomic stability and growth. It touches on the issue of using fiscal rules. This paper is available from:

<http://www.treasury.govt.nz/publications/research-policy/wp/2008/08-02/>

Dunstan, Ashley, David Hargreaves and Ozer Karagedikli (2007) ‘The impact of fiscal policy on the business cycle’, *RBNZ Bulletin*, Vol 70, No 1, March.

<http://www.rbnz.govt.nz/research/search/article.asp?id=3973>

- This article suggests that fiscal policy has a significant influence on cyclical conditions in New Zealand. Simple measures of the stance of fiscal policy, such as the Treasury's measure of fiscal impulse, are useful, but the details of fiscal initiatives also need to be analysed to determine macroeconomic impact. For example, tax changes can have very different effects: tax cuts designed to spur savings could be mildly contractionary, while company tax cuts will tend to be expansionary.

RBNZ (2006) *Supplementary stabilisation instruments: initial report to RBNZ and Treasury*.

<http://www.rbnz.govt.nz/monpol/about/2452274.pdf>

- This contains similar material to that on potential stabilisation policy instruments in the RBNZ's submission to the FEC, but with more details on specific policies.

RBNZ (2006) *Testing stabilisation policy limits in a small open economy: proceedings from a macroeconomic policy forum*.

<http://www.rbnz.govt.nz/research/workshops/12jun06/tspl-complete.pdf>

- This covers a range of policy issues concerned with stabilisation policy in a small, open and indebted economy. The first chapter, by Bob Buckle and Aaron Drew, summarises the papers and discussion.

5. Exchange rates and economic performance

Munro, Anella (2004) ‘What drives the New Zealand dollar?’, *RBNZ Bulletin*, Vol 67, No 2, June.

<http://www.rbnz.govt.nz/research/search/article.asp?id=3781>

- A backgrounder explaining short- and long-run exchange rate dynamics.

Smith, Mark (2004) ‘Impact of the exchange rate on export volumes’, *RBNZ Bulletin*, Vol. 67, No1, March.

<http://www.rbnz.govt.nz/research/search/article.asp?id=3774>

- Analysis finds that the real TWI exchange rate has a sizeable effect on export volumes; the low measured elasticity of export volumes needs to be considered in light of the large cyclical movements in the TWI exchange rate. Export sectors respond differently to the same exchange rate movement, with exports of services volumes (which include tourism) more exchange rate sensitive than export volumes from the agricultural sector.

Sanderson, L (2009) 'Exchange rates and export performance: evidence from the micro data', *RBNZ Bulletin*, Vol 72, No 2, June.

Available from <http://www.rbnz.govt.nz/research/bulletin/>

- This article summarises early results from a Reserve Bank research programme on the impact of exchange rates on firm-level export behaviour. Results suggest that New Zealand firms have limited ability to respond to exchange rate changes through price-setting. Rather, explicit hedging is common and firms' trade behaviour reflects a desire to avoid the risk associated with exchange rate volatility.

Fabling, R and A Grimes (2008) *Over the hedge? Exporters' optimal and selective hedging choices*, RBNZ Discussion Paper DP2008/14.

Available from: <http://www.rbnz.govt.nz/research/discusspapers/#2008>

- This paper looks at how exporting firms manage currency exposures. It uses data to test both optimal and selective hedging theories. Optimal hedging theory hypothesises that firms hedging choices depend on the probability and cost of financial distress, underinvestment risks, scale, managerial risk aversion, information asymmetry, governance, ownership structures and tax rules. Recent literature suggests that some firms vary hedging positions relative to their optimal position in a selective attempt to beat the market. The paper finds that firms do engage in selective hedging.

6. Other major drivers of New Zealand economic performance

Bollard, Alan (2007) *Commodities, dairy prices and the New Zealand economy*, speech to the Waikato Grasshoppers, 12 June.

<http://www.rbnz.govt.nz/speeches/3037387.html>

- The fortunes of the New Zealand economy have historically been linked to world commodity markets. While commodity prices declined through the 1980s and 1990s, there are indications that things are changing. Global demand for protein has been on a structural uptrend for some time, reflecting higher demand from emerging markets.

Fabling, R and L Sanderson (2009) *Entrepreneurship and aggregate merchandise trade growth in New Zealand*, RBNZ Discussion Paper DP2009/09.

Available from: <http://www.rbnz.govt.nz/research/search/article.asp?id=4090>

- This paper presents a descriptive analysis of firm-level merchandise trade, focusing on the role of entrepreneurial exporting behaviour. It documents two aspects of the dynamics of trade: the contribution of novel export activity to aggregate trade growth and, conversely, the substantial exit rates of new trade relationships. The paper finds that novel market entry is a significant contributor to aggregate export growth. Nevertheless, much expansion in trade appears to be incremental in nature.

7. Financial stability

Bollard, Alan (2004) *Asset prices and monetary policy*, speech to the Canterbury Employers' Chamber of Commerce, 30 January.

<http://www.rbnz.govt.nz/speeches/0145812.html>

- This 2004 speech notes that to some extent, monetary policy aimed at keeping consumer price inflation under control automatically takes asset prices into account in terms of their effect on general price inflation. However, there are some limited circumstances, according to the speech, where monetary policy should look beyond the immediate inflation outlook and respond more vigorously to asset price developments. However this carries risks and is difficult to do. Overall, the Reserve Bank's position on this issue has not changed markedly – the key arguments pro and con are the same. However, the weights on the pros and cons have probably shifted in light of the evidence from the recent global crisis.

Hunter, Leni (2008) 'The relationship between monetary and financial stability', *RBNZ Bulletin*, Vol 71, No 2, June.

<http://www.rbnz.govt.nz/research/search/article.asp?id=4056>

- The Reserve Bank takes distinct actions in order to pursue its goals of monetary and financial stability. However, policy action taken for both goals should be consistent and mutually reinforcing where possible. This article examines the links between monetary policy and financial stability policy.

8. Monetary policy transmission

Drew, Aaron and Rishab Sethi (2007) 'The transmission mechanism of New Zealand monetary policy', *RBNZ Bulletin*, Vol 70, No 2, June.

<http://www.rbnz.govt.nz/research/search/article.asp?id=4014>

- This article provides an account of the process by which changes in the OCR eventually come to influence the general level of prices. In effect, the article is a guide to how the Reserve Bank sees policy decisions propagating through the New Zealand economy, and to the relative weight it assigns to the strengths of the various channels that make up the transmission mechanism.

Sethi, Rishab (2008) 'The changing transmission mechanism of New Zealand monetary policy', *RBNZ Bulletin*, Vol 71, No 2, June.

<http://www.rbnz.govt.nz/research/search/article.asp?id=4059>

- This second Bulletin article on the monetary policy transmission mechanism looks at how certain aspects of the mechanism have changed over time. A review of evidence from several sources suggests that the overall impact of monetary policy on activity and inflation has not obviously weakened. It also suggests that some intermediate links in the mechanism may have in fact strengthened over the past decade.