



NZ Manufacturers and Exporters Association  
The independent voice of manufacturers and exporters

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Dr Don Brash  
c/- PO Box 328  
Shortland St  
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Dear Don

Thank you for meeting with our members to discuss your task in regard to accelerating productivity growth in the New Zealand economy. We very much appreciated you taking the time to speak to us. This is the follow up I mentioned at the meeting.

We agree that higher productivity is required if living standards are to improve. The natural world, tourism, the "cultures" are important but they have intrinsic limits to growth. Higher, faster growth will only come from the added value activity applied to our comparative advantages, and hopefully in some cases arise from the creation of new products and services in the elaborately transformed sector.

The decline, over decades, of earnings per capita in New Zealand, in comparison to other developed economies, suggests either that our people just don't have the intrinsic ability to create and add value or our policy settings are hostile to that activity. The fact that the "cultures" function in the absence of subsidies and that post the 80's reforms manufactured exports increased by 50% through the 90's suggest that the problem sits with policy not ability. Sadly the growth in the 90's has not been continued in the past decade and our relative decline has continued – no matter how good we are it seems we can't win right now.

Don, this has to change and quickly or we might will lose our ability to function as a developed, complex economy. If our export profile continues to simplify and default to commodities we can only anticipate that our terms of trade will decline over time. As an export exposed economy the non-traded economy will, in the end, mirror that decline.

New Zealand's small domestic market requires trade, complex products and services require investment that must be amortised across more sales that the domestic can supply; that is we must export. This is the "must trade" imperative faced by New Zealand innovators, succeed in export markets or fail. As a result the real economy, trade and added value should be the starting point of all policy; every setting should be subordinated to that "must trade" reality. It looks to us that our policy frame work subordinates everything to the needs of the non-traded economy; we have it backwards in regard to our long term success.

A policy framework targeted at the traded economy would look much more like Singapore: a broad tax base, compulsory savings, exchange rate stabilisation, investment incentives for the real economy - all critical to success in trade. In my experience New Zealand is full of capable real economy players, but even the best are now finding it hard to deal with the clobbering supplied by our non-traded policy bias, a bias that must change if our long term decline is to be reversed.


The elaborately transformed sector requires a pluralistic approach that enables success to emerge, that success is hard to predict, winners cannot be picked. A pluralistic policy framework removes barriers and supports the underlying behaviour that are precursors of innovation: investment in R&D activity, investment in modern plant and equipment, investment in people, investment in early stage companies. Such incentives, or at least the absence of disincentives, are best delivered through fiscal policy.

You will recall your question on the rate of corporate tax, generally lower or sector targeted. We are strongly in the targeted camp. We need to support local elaborate transformation, innovation and investment is doing things; growing the real economy, so support via fiscal policy does two things, it encourages winning behaviour and helps winners emerge without decisions by the great and the good being imposed on the process – pluralism not intervention.

Don, we noted your restricted resources for the work you are leading, if we can help you we will, please let us know if we can make a contribution to your work.

Yours sincerely

**John Walley**  
Chief Executive

A handwritten signature in black ink, appearing to read 'John Walley', written in a cursive style.