

New Zealand's industries are struggling. Let's help by privatising the public sector.

The Productivity Commission has been asked by the Government to [review the Social Services Sector](#). Their brief is broad including social development, the education sector including schools, polytechnics and universities as well as hospitals and the wider health sector. The Commission's role is to look at the policy, regulations and legislation that hamper 'productivity'.

The NZ social care sector, as defined by the Productivity Commission, has a total annual spending of \$34bn per annum and the issues paper they have released for consultation talks mostly about market-based options for delivering and targeting social care, including charter schools and social impact bonds, and hardly at all about the enormous role that the Public Sector has in providing these services.

Leaving aside whether [productivity](#) is a suitable lens through which to view what is of value in humanity, and the potential backlash when the recommendations of the Productivity Commission are rolled out in new legislation and voters who didn't realise they were voting for a 'market in social care' see valued public services privatised, there is another important question to ask. Is the Productivity Commission's role really about productivity or is it rather an ideological body established in order to 'justify' cuts to the public sector and to protective regulation? In trying to make an argument that this is not the case and productivity is a pressing issue, why are other far more promising productivity initiatives being ignored. Here are some far better candidates for increasing New Zealand's productivity.

Ineffective use of technology

According to some reports NZ companies aren't using technology well enough to get productivity gains. About 2/3 of small businesses do not have a web site. A recent article by Belinda Nash at [Westpac](#) says that 80% of NZ businesses are underscoped in their use of technology. For those businesses their lack of investment and capability with the web and social media is the equivalent of each of them simply burning \$150,000 of their own money each year.

On the same theme a group of influential business leaders has identified the lack of internet savvy as one of the major causes of poor productivity in New Zealand. The Innovation Partnership's [digital vision](#) adds that businesses that use the Internet effectively are six per cent more productive than average. "Put another way" it says "these businesses are four years ahead of their competition". If all New Zealand's SMEs made effective use of the Internet, the Innovation Partnership website says that it would add **\$34 billion** in productivity gains to the economy.

So why hasn't the government asked the Productivity Commission to investigate the policies, legislation and institutional arrangements that cause NZ businesses to be operating at sub-optimal levels with enormous losses from missed productivity?

Positioning of our dairy products

Fonterra's productivity is at the very low end of international milk companies. Although the revenue was [\\$22.3 billion for the 2014](#) year a [recent presentation by Rod Oram](#) shows that Fonterra sells its milk products for almost one third of the amount per litre that DANONE earns.

Investigating the productivity of the dairy industry, could yield much greater productivity gains than putting social services out to tender. Failing to do this while allowing continued dairy intensification is like trying to fill the bath with the plug out. If Fonterra lifted the value of its products it could bring billions of dollars into the economy and this in turn would put the dairy business on a firmer footing for the future. This kind of approach is suggested by the [Riddet Institute's](#) call to action for agriculture, which identifies low levels of industry research as part of the problem.

So why hasn't the government asked the Productivity Commission to investigate the policies that cause the dairy industry to be operating at sub-optimal levels to the extent that Fonterra's milk is sold for a fraction of the value made by other dairy companies?

Structure of the electricity industry

A third productivity option would be an investigation into developing the solar industry in New Zealand. Photo-voltaics are growing worldwide [at greater than 20% year on year](#). In Germany a change to the legislation so that power companies had to offer a fixed feed-in tariff helped develop its solar-photovoltaics (PV) industry. McKinsey reports that in less than a decade, the sector has transformed from a cottage industry [to a \\$100 billion business](#) with global reach.

Further new research shows that in future large investments in renewables will actually [produce more energy](#) than investments in oil. Small scale solar photo-voltaics would help to build a resilient electricity system that could power a clean energy vehicle fleet in NZ in years to come. Without this additional capacity in the electricity supply system widespread use of clean tech cars will remain a pipe dream.

So why hasn't the government asked the Productivity Commission to investigate the policies and regulations that would give New Zealand a resilient, modern electricity supply, support a low emissions vehicle fleet and develop the ability to take a role in one of the world's fastest growing industries?

There are readily identifiable examples for enormous, transformational and profitable productivity gains in NZ. That the government's instructions to the Productivity Commission would effectively hobble our still excellent public services is to demonstrate a near criminal lack of clarity about the real opportunities that could lie ahead for NZ. The focus on public services 'productivity' is a poorly hidden ideological attempt to make the case for further cost cutting across our public sector and for auctioning off more public services to private owners for profit. As many countries hit harder than New Zealand during the Global Financial Crisis have shown, the "public austerity to support growth" paradigm has been found sadly wanting, but that is apparently no reason for our government not to pursue it enthusiastically.

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