Treasury Guest Lecture

Guest Lecturer: Arthur Grimes

Reinterpreting Productivity: New Zealand’s Surprising Performance

Abstract

Adam Smith, in *The Wealth of Nations*, argued that “consumption is the sole end and purpose of production”. This observation is almost entirely ignored in productivity analyses, both of officials and in the academic literature. Instead ‘productivity analyses’ typically measure technical efficiency (i.e. the quantity of outputs produced for a given bundle of inputs) and ignore the income available for consumption. The latter is a function both of technical efficiency and allocative efficiency. We compile measures of productivity, conceived as the income available for consumption while maintaining the capital stock intact. This focus means we also account for capital depreciation and resource depletion. When we measure productivity based on this approach, we find that New Zealand had very low productivity growth from 1970 to the early 1990s. Since then, however, New Zealand’s performance has been impressive and is stronger than for most other developed countries. The results are consistent with prior studies, based on consumption measures, that show New Zealanders have a high material standard of living compared with many other developed countries.

About the presenter

Arthur Grimes
Professor of Wellbeing and Public Policy at Victoria University of Wellington’s School of Government and Senior Fellow at Motu Economic and Public Policy Research. He is a former Chairman and Chief Economist of the Reserve Bank of New Zealand. His research now focuses primarily on the economics of wellbeing.