Is the cheque in the mail?

some comments

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- From France, at first sight, New Zealand looks like paradise:
  - Low unemployment
  - High employment rate
  - Solid growth
  - Sound public finances
- However, France has something that New Zealand lacks :
  - High labour productivity
- But there is, at least, something that France and New Zealand have in common :
  - Low labour productivity growth.
- And I am glad the paper I am discussing is about this thing our two countries share.

- At first I found it puzzling that labour productivity was not growing faster in New Zealand.
- Remember, I leave in Paris, where OECD has it headquarters,
- And OECD is telling us that the secret behind labout productivity growth is dereglementation and liberalization of product and labour markets.
- And if you look at OECD indices that measure the level of reglementation in the product market (PMR) and the level of protection on the labour market (EPL), New Zealand is among the countries that have the lowest indices.

- In addition to low reglementation indices, New Zealand, the home country of inflation targeting, has an up to date monetary policy,
- And even the OECD Pisa survey, which measures how good teenagers are at reading, and solving problems and equations, ranks New Zealand as one of the best performing countries when it goes to educate children.
- So now you understand the problem that New Zealnd authorities face : from monetary policy to education they do everything right, unemployment is very low, participation to labour market is very high, so growth can come only from labour productivity growth.

- One could characterize recent economic growth in New Zealand as « extensive growth », as opposed to « intensive growth »,
- In extensive growth episode, you mobilise as much input as you can, regardless of their quality : as a result productivity does not change much.
- In intensive growth episode, the quantity of input does not change as much as does the output, and part of the growth comes from improving the input quality or the quality of the combination of inputs : productivity goes up.

- So the core of the paper is to evaluate whether New Zealand is going to switch from extensive to intesive growth ?
- And to answer this question the author evaluates by how much the extensive growth process has dampen labour productivity growth over the period 1998-2005.
- How does he do that ?
- By « removing » from the wage distribution the new employees (those who joined the labour force during 1998-2005) and recomputing the new average wage.

- What does he find ?
- The « new average wage » is 8.4% higher than the average of the total wage distribution.
- So the conclusion is that over the 7-year period considered, the new workers contributed to reduce the productivity by 8.4% (i.e. reduced the labour productivity growth by 1.2% per year).
- This is a huge effect !
- Under different assumptions on the wage of new workers, the effect on annual productivity growth ranges from 0% to 1.6%
- So one cannot rule out that the difference in labour productivity growth between New Zealand and OECD countries comes from the absorption of new workers by the Newzealandese labour market.

- To comment on this paper I’ll ask 2 questions ?

1. Do I buy the main conclusion ?
2. Is the conclusion good news ? (i.e. « is the cheque in the mail ? »)

1 - Do I buy this conclusion ?

- Yes and No
- I am sympathetic to the idea that including less experimented (and less efficient) workers into the production process dampens labour productivity growth.
- This is what we believed also happenned in France recently.
- This is also the thesis put forward by Gordon and Dew-Becker in a recent paper: the slowdown in European labour productivity cannot be explained neither by less ITC investment than the US nor by tighter regulation but by the labour market reforms (albeit slow), which resulted into luring more people back to work.

1 - Do I buy this conclusion ? (cont.)

- But precisely because the same thing probably happenned in many OECD countries, the benchmark to which New Zealand productivity growth should be compared is NOT the OECD average, it should be the US.
- So the difference in productivity growth that has to be explained is not a mere 0.5% per year over the period 1998-2005, it’s probably much higher.
- So I am no sure that the New Zealand employeemnt dynamics is enough to explain the productivity growth differential between NZ and the US.

2 – Is the conclusion good news ?

- Same answer : Yes and No
- Yes, because one could think that because firms can longer tap into the pool of inexperimented workers, wages are going to increase, and firms are going to have to improve the production process.
- That should boost labour produuctivity growth,
- And it should not be that difficult since firms just have to catch up to the frontier technology (and not to push it forward).
- Policy recommandation : Relax, Wait, and See

2 – Is the conclusion good news ? (cont.)

- But it's bad news if it's too late.
- There might be some irreversibilities in the production process and technology adoption :
- It has been shown that firms in Florida were late to adopt new technology because they had plenty of cheap labour (from Cuban immigrants) to use before having to switch to new technology.
- And if you take into account dynamics, it might be the case that because of this late adoption of IT, Florida will never catch up with early adopters.
- The same might happen to New Zealand.
- Policy implications : boost research, welcome qualified immigrants ……