



Boosting Productivity in the Services Sector Terms of Reference



Office of Hon Bill English

Deputy Prime Minister
Minister of Finance
MP for Clutha-Southland

1 March 2013

Mr Murray Sherwin
Chair
New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143

Dear Murray

TERMS OF REFERENCE FOR SERVICES SECTOR INQUIRY

The services sector accounts for a large proportion of New Zealand's output and employment, and has a significant impact on the everyday lives of New Zealanders.

Improving productivity in the services sector would contribute to a number of Government goals, such as increasing exports and lifting New Zealand's long run productivity growth rate.

We are therefore pleased to refer to you the Term of Reference for a New Zealand Productivity Commission inquiry into Boosting Productivity in the Services Sector.

We wish you all the best as you commence the inquiry and look forward to your results.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Bill English".

Hon Bill English
Minister of Finance

Boosting productivity in the services sector

Context

1. Services are often described as things you can buy or sell but cannot carry. From browsing the internet, dining out, buying and selling a home to receiving an education or medical treatment, services make up a wide and diverse range of activities that impact on the lives of all New Zealanders on a daily basis
2. The services sector stands out in New Zealand's economy, accounting for over 70 percent of registered businesses, national output and employment. Services make up a critical part of New Zealand's export revenue. In 2009, New Zealand's services exports were valued at \$12.7 billion and represented 22 percent of all exports. Travel and transportation services accounted for 77 percent of services exports.
3. Furthermore, services form a valuable input to many of New Zealand's exports. Nearly half of the value of New Zealand's exports can be attributed to value-added from the services sector.
4. Despite the clear importance of the services sector to the New Zealand economy, relatively little is known about the impact and drivers of service sector productivity. Measurement can be difficult, but overseas experience suggests that there is considerable variability in the degree to which countries have benefited from improved services productivity growth. In New Zealand, there has been considerable variation in productivity performance across the services sector.
5. Improving productivity in the services sector would contribute to a number of Government goals including to materially lift New Zealand's long-run productivity growth rate while maintaining our high rate of labour force participation, and to increase the ratio of exports to GDP to 40% by 2025.
6. Given the significance of the services sector to New Zealand's economy but the relatively small amount of study into the sector's productivity performance, the Government is commissioning a Productivity Commission Inquiry into Boosting Productivity in the Services Sector.

Purpose and Scope

7. The purpose of the inquiry is two-fold: to provide an overview of the role of services in the New Zealand economy and to provide policy options to lift productivity in the services sector.

A. The role of services in the New Zealand economy

8. This part of the inquiry should provide an overall assessment of the role and performance of the services sector in New Zealand. This assessment should:
 - a. describe the recent productivity performance of the services sector, including the extent to which employment has shifted from high to low productivity sectors;
 - b. assess the impact of the services sector on the New Zealand economy overall, including how it affects the performance of the primary and manufacturing sectors; and
 - c. assess the performance of the New Zealand services sector against the experience of OECD and other small open economies.

B. Policy options to lift productivity in the services sector

9. Given the diversity of industries within the services sector, policy recommendations and lessons for lifting productivity are likely to be better informed by looking at selected issues or parts of the sector in more depth.
10. Informed by part A above, this part of the inquiry should provide detailed analysis on a selection of issues that are critical for lifting productivity in the relevant parts of services sector. This analysis should lead to policy recommendations to lift productivity in those parts of the services sector.
11. The Commission should have regard to the following criteria when determining the issues or parts of the sector on which it will undertake more in-depth analysis:
 - a. whether the issues or parts chosen for further analysis have the potential to make a significant impact on New Zealand's overall productivity performance;
 - b. the extent to which the analysis will be able to identify impediments to increasing productivity in the services sector and lead to concrete recommendations for changes to government policy which can overcome those impediments.
12. In applying the criteria above, the Commission should take into account the following aspects when determining the issues or parts of the sector on which it will undertake in-depth analysis:
 - a. The increasing importance of services to GDP, to global trade, and as a contributor to the Government's goal of lifting the ratio of exports to GDP to 40% by 2025.
 - b. The wide variation in the productivity performance of services subsectors and industries, and the ability to draw lessons from high performing subsectors (for example financial and insurance services) and to lift productivity in relatively poor performing subsectors (for example administrative and support services).

c. The importance of information and communications technology in other OECD countries as a contributor to strong productivity growth and as an explanation for differences in productivity growth across countries.

13. The Commission should seek views from interested parties when determining the services sector issues on which it will undertake in-depth analysis.

Other matters

14. Consideration of productivity in the services sector should be limited to market-provided services and therefore exclude study of services provided directly by the public sector. The Government has a wide programme underway to improve public sector productivity, detailed consideration of this sector is not possible within the time available to the Commission, and measurement issues in this sector also make analysis difficult.

15. The Commission should prioritise its effort by using judgement as to the degree of depth and sophistication of analysis it applies to satisfy each part of the Terms of Reference. In making this prioritisation, the Commission should emphasise the importance of making concrete policy recommendations in part B that maximise the impact on New Zealand's overall productivity performance.

Consultation requirements

16. In undertaking this inquiry the Commission should consult with key interest groups and affected parties.

Timeframe

17. The Commission must publish a draft report and/or discussion paper(s) on the inquiry for public comment, followed by a final report, which must be submitted to each of the referring Ministers by 28 February 2014.

Referring Ministers

Hon Bill English, Minister of Finance

Hon Steven Joyce, Minister for Economic Development