



Productivity Growth

Overview

Productivity growth is one of the key mechanisms that drives the overall economy and incomes upward over time. Rising productivity allows us to produce more from the same inputs – and leads to incomes rising as a result.

This programme incorporates projects to search for means to improve productivity, in particular labour productivity, through a range of potential measures such as increasing the skills base in the Cook Islands and encouraging capital investment.

Productivity growth ultimately leads to increased wages and greater efficiency in the use of resources. Improving productivity has been a challenge for much of the world in recent years, with growth slowing in many developed countries. Addressing these challenges will be difficult, and solutions will take time to implement – with many likely to be strongly related to education and training through the Cook Islands. The extension of the Fees Free Initiative is closely related to this goal.

Aside from education and training, an important driver of productivity in an economy is access to capital investment and improving technology. This means that this particular programme has strong links to other ERR Programmes such as Reducing the Cost of Borrowing, Infrastructure Investment and Barriers to Business Performance, as greater competition can help foster productive innovation, as can beneficial public investment. An ambitious goal of this workstream is to improve take-up and access to capital, thus enabling productivity growth, though this goal has proven difficult to achieve for governments in many other parts of the world.

Due to these links, this programme will involve less stand-alone aspects, and instead focus on tailoring outputs in other ERR programmes to support increased productivity growth.

What does this involve?

This workstream is open-ended as the details that come out of the research and information gathering in other ERR programmes are needed to identify additional projects as the exact nature of productivity-enhancing reforms can be difficult to determine without that work. To pre-empt the results of any research and data gathering might result in a path being chosen that doesn't yield the best results, and this challenge is particularly difficult for governments.

However, some lessons can be drawn from programmes in other parts of the world that have worked on these issues:

1. the first lesson is the key role played by education and training in increasing the skill base in an economy by investing in human capital. This is an area that will be investigated further, as well as the Fees Free Extension as the centerpiece.
2. another lesson is that larger businesses tend to be more productive, through aspects such as economies of scale and agglomeration within the organization. For an economy the size of ours however, this poses a challenge as it is often in conflict with a desire to increase competition in the economy. Finding a balance between these factors will be important.

One factor that many places have encouraged is greater uptake in technology and capital investment. With access to more capital and equipment, labour becomes more productive, so this is likely an area the Cook Islands economy can see improvement in through greater access to capital investment. Combined with other aspects of the ERR the overall programme is anticipated to encourage more investment in technology and other productivity-enhancing measures.

Research has also suggested that measures which improve transport links or provide incentives for research and development can help to improve productivity. These options will be investigated through the research component of this work, to determine how they might apply to a Cook Islands context.

The research component of this work will investigate initiatives that have been used in other jurisdictions around the world and take lessons around what has been successful and unsuccessful. Initiatives that are applicable to the Cook Islands will be identified, and any necessary adjustments to ensure the most appropriate fit to our economy for any potential reforms.

While this may appear to leave the door open to large-scale government investment on behalf of the private sector, this particular project will not directly consider that type of action. That may be a recommended approach undertaken, however ultimate recommendations surrounding government capital investment need to consider a range of factors as well as the impact on productivity and as such have a stand-alone workstream under the ERR (please refer to the programme note on Infrastructure Investment for further information).

Engagement

This project is lead by the Economic Planning Division in MFEM, and will engage across government and the private sector as needed. Government agencies such as Infrastructure Cook Islands, the Cook Islands Investment Corporation, the Office of the Prime Minister and the Ministry of Education will be involved in collecting information and investigating potential options to grow productivity.

Outputs

As one of the more abstract components of the ERR, the exact outputs of this workstream is not known before the key research is undertaken, but generally is intended to promote growth in GDP beyond current projections. The specific outputs will be determined by the first phases of the programme which will provide recommendations around measures which are identified to lead to higher productivity growth.

Estimated Costs

Overall costs are anticipated to be low, and confined to costs around consultation and policy development, and as such are anticipated to be below \$100,000. There may be costs associated with some of the measures identified to increase productivity growth, however funding for these will be subject to standard budget processes.

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