

# PRESCRIPTION FOR PROSPERITY

2023 Briefing to the Incoming Government



**THE  
NEW ZEALAND  
INITIATIVE**

[www.nzinitiative.org.nz](http://www.nzinitiative.org.nz)

# THE NEW ZEALAND INITIATIVE

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## About the New Zealand Initiative

The New Zealand Initiative is an independent public policy think tank supported by chief executives of major New Zealand businesses. We believe in evidence-based policy and are committed to developing policies that work for all New Zealanders.

Our mission is to help build a better, stronger New Zealand. We are taking the initiative to promote a prosperous, free and fair society with a competitive, open and dynamic economy. We develop and contribute bold ideas that will have a profound, positive, long-term impact.

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# Executive Summary

As the 2023 general election approaches, New Zealand stands at a precipice. Persistent inflation has triggered a cost-of-living crisis. Prospective homeowners face some of the most unaffordable housing in the world. Despite the ballooning size of our core public service over the past five years, our public service outcomes continue to deteriorate. Students are leaving the state school system with declining literacy and numeracy rates. Waiting lists in the public health system are growing, as are shortages of medical professionals. The domestic crime wave sweeping across the country is devastating lives and livelihoods. Increasingly polarised voters are threatening social cohesion. New Zealand's world-class status is showing cracks.

These problems, both longstanding and new, need fresh thinking for enduring solutions.

Over the past decade, the researchers at The New Zealand Initiative have produced a substantial body of work addressing many of the most pressing issues facing our nation. We have offered practical proposals to improve housing affordability, enhance education outcomes, restore price stability, streamline regulations, increase productivity, and increase government accountability.

Some of our recommendations have been adopted by the government of the day. Some have found their way into political party manifestos but are not yet public policy. This manifesto summarises our recommendations

for the incoming government to adopt. The "Summary of Recommendations" below lists our recommendations in an easily digestible format.

Controlling inflation is the immediate priority. Stable prices are the key to solving the cost-of-living crisis. They are also critical to economic growth and prosperity.

Beyond inflation, the big three areas for reform are education, health and housing. These are all fundamental to the good life. Yet all are areas where New Zealand faces crises.

Four easy recommendations offering immediate "wins" are 1) fixing immigration settings; 2) easing inward flows of foreign capital; 3) reintroducing fiscal discipline for spending decisions; and 4) restoring flexibility to New Zealand's labour markets.

More generally, without improving productivity growth, New Zealand will be forced to make tough choices, such as aggressively raising the pension age, cutting entitlements, rationing healthcare, or substantially increasing taxes and debt.

The incoming government can spare New Zealanders the looming tough times only by implementing bolder, faster and more comprehensive reforms to secure a stable and sustainable path to prosperous future for all New Zealanders.

# Summary of recommendations

Public policy challenge	Policy recommendations
<b>ECONOMIC POLICY</b>	
<b>1. Fiscal priorities</b>	<ul style="list-style-type: none"> <li>• Avoid increasing or introducing new sources of tax revenue.</li> <li>• Reform retirement income policy for significant fiscal savings, including:               <ul style="list-style-type: none"> <li>– Abolishing subsidies to KiwiSaver.</li> <li>– Amending indexation of NZ Superannuation and raising the age of eligibility by two years, linking further changes to health-adjusted life expectancy.</li> <li>– Suspending NZ Superannuation Fund contributions.</li> </ul> </li> <li>• Undertake a comprehensive expenditure review to identify and reduce low-quality expenditure.</li> <li>• Establish an independent fiscal council as a parliamentary body to keep spending decisions under scrutiny.</li> </ul>
<b>2. Monetary policy and inflation</b>	<ul style="list-style-type: none"> <li>• Amend the Reserve Bank of New Zealand Act to specify a single objective for monetary policy – long-term price stability.</li> <li>• Shift the regulatory role of the Reserve Bank of New Zealand (RBNZ) to another institution to improve governance and reduce politicisation of the monetary policy role.</li> <li>• Limit the RBNZ's budget to cover its monetary policy role and restrain it from getting deeper into matters unrelated to its monetary policy role.</li> <li>• Return the inflation target to 0-2%.</li> <li>• Stop the implementation of deposit insurance.</li> <li>• Limit the RBNZ's discretionary ability to purchase securities to government paper.</li> <li>• Ensure a credible timetable for reducing the RBNZ's balance sheet to pre-Covid-19 levels.</li> </ul>
<b>CENTRAL AND LOCAL GOVERNMENT</b>	
<b>3. Public service</b>	<ul style="list-style-type: none"> <li>• Repeal the Public Service Act 2020 or, at the very least, amend the Act to:               <ul style="list-style-type: none"> <li>– Specify clearly that the purpose of the public service is to assist the democratically elected government with policy development and implementation.</li> <li>– Provide that the primary function of the Public Service Commissioner is to ensure the public service operates in the interests of the government of the day.</li> <li>– Reinstate the contracting model to improve the accountability of departmental chief executives to the responsible minister and remove the intermediation of the Commissioner.</li> </ul> </li> <li>• Review the expansion of the core public service since 2017 with a view to achieving a more efficient, cost-effective, innovative, and responsive public service.</li> <li>• Consider more fundamental reform of our hybrid Westminster-style public service model to improve New Zealand's democracy by doing the following, among others:               <ul style="list-style-type: none"> <li>– Permit an incoming government to directly appoint senior civil servants in key departments.</li> <li>– Improve independent political scrutiny of policy implementation and state sector effectiveness and efficiency.</li> <li>– Expand the role of advisers independent of the public service to increase access to fresh thinking.</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>- Devolve local and regional decisions currently made in central government departments to unitary regional bodies with local democratic accountability.</li> <li>- Devolve decisions taken at a national level to local bodies to strengthen community involvement in decision-making.</li> </ul>
<b>4. Local government</b>	<ul style="list-style-type: none"> <li>• Change the incentives faced by local government by paying local communities a share of the benefits that accrue to central government from extractive industries and growth.</li> <li>• Better define the responsibilities of central and local government to preclude cost-shifting and blame games and enhance accountability.</li> <li>• Allow councils to initiate policy trial areas (or "special economic zones") to increase flexibility and regional innovation in economic policy.</li> </ul>
<b>SOCIAL POLICY</b>	
<b>5. Education</b>	<ul style="list-style-type: none"> <li>• Amend the Education and Training Act 2020 to enshrine educational attainment as the paramount objective for state schools.</li> <li>• Replace the New Zealand Curriculum (NZC) with a new, sequenced, knowledge-rich curriculum, incorporating structured progression in literacy and numeracy.</li> <li>• Replace the National Certificate of Educational Achievement (NCEA) assessment system with a simplified, more coherent, and more reliable system of internal and external assessment.</li> <li>• Reform initial teacher education, teacher registration criteria and the Standards for the Teaching Profession to ensure all teachers better understand effective teaching methods.</li> <li>• Create a more attractive career structure that recognises effective teachers through higher remuneration and status.</li> <li>• Facilitate schools recruiting skilled professionals with expert disciplinary knowledge in curriculum areas in short supply to ease teacher supply shortages, including by paying such professionals a salary premium.</li> <li>• Introduce new, nationally consistent assessments in primary schools to measure student progress in reading, writing and mathematics. Make individual student results available to parents via a new online portal.</li> <li>• Refocus the New Zealand Council for Education Research (NZCER) to pilot and evaluate systematically the effectiveness of teaching and learning initiatives and the impact of school interventions.</li> <li>• Introduce greater school choice by reinstating and extending the Partnership Schools model.</li> </ul>
<b>6. Health</b>	<ul style="list-style-type: none"> <li>• Evaluate funding incentives, accountability mechanisms, and integrating health and social services to better address accessibility, unmet needs, and disparities in health outcomes.</li> <li>• Address critical shortage of general practitioners (GPs) with the following urgent steps: <ul style="list-style-type: none"> <li>- Retain and extend the current GP workforce by aggressively recruiting overseas-trained doctors, developing funded bridging programmes for foreign doctors, and increasing medical student intake in Auckland and Otago universities.</li> <li>- Explore role and task substitution without compromising patient care.</li> <li>- Provide extra funding to improve primary and community care productivity and encourage service design and delivery innovation.</li> <li>- Introduce community-embedded medical programmes.</li> <li>- Reform central agencies to support local solutions.</li> <li>- Use stock-and-flow and scenario modelling for health planning.</li> </ul> </li> <li>• Reconstitute the composition of the Covid-19 Royal Commission of Inquiry and modify its terms of reference.</li> </ul>

	<ul style="list-style-type: none"> <li>• Introduce changes to Pharmac’s modus operandi by: <ul style="list-style-type: none"> <li>– Using more international benchmarking of Pharmac’s procurement performance.</li> <li>– Restoring the principle of equal treatment.</li> <li>– Assessing the goals of the pharmaceutical subsidy budget and how to measure progress towards that goal.</li> </ul> </li> <li>• Require Medsafe to recognise approvals from trusted overseas regulators for vaccines, drugs or treatments.</li> </ul>
<b>7. Housing</b>	<ul style="list-style-type: none"> <li>• Incentivise councils to facilitate development by providing grants tied to development. The GST from new buildings is a workable benchmark.</li> <li>• Create better tools for Local Government infrastructure funding and financing, including long-term, limited recourse infrastructure bonds.</li> <li>• Abolish rural-urban boundaries.</li> <li>• Abolish height and density controls.</li> <li>• Repeal or, if not passed prior to the election, do not enact the Natural and Built Environment and the Spatial Planning Acts and, instead, strengthen property rights by: <ul style="list-style-type: none"> <li>– Introducing a presumption in favour of freedom to build in the Resource Management Act 1991 (RMA).</li> <li>– Confronting objectors with the cost to the community of the foregone use of privately owned property by compensating property owners for regulatory takings.</li> </ul> </li> <li>• Implement the current government’s proposal of a national planning framework defining zones, with councils able to paint those pre-set zones onto their district maps.</li> <li>• Introduce constraints on the proportions of land in the least permissive (caps) and most permissive (floors) for councils with affordability problems.</li> <li>• Longer term, replace the RMA with new planning laws that respect property rights and tackle externalities from development using market mechanisms.</li> </ul>
<b>8. Immigration</b>	<ul style="list-style-type: none"> <li>• Recognise migrants’ important contributions to the community and the economy.</li> <li>• Encourage a return to a customer-service focus at Immigration New Zealand. Ease bureaucratic hurdles that prevent skilled migrants from moving to New Zealand.</li> <li>• Ease policy settings <i>at least</i> to their pre-pandemic levels, but with revised settings that are simple and predictable.</li> <li>• Adjust the points-based system for migrants by attributing points based on the salary offered to migrants.</li> <li>• Explore opportunities for bilateral free movement agreements with other countries.</li> <li>• Build on recent trials of sponsored refugee systems to enable more refugees to build new lives here.</li> <li>• Ensure that work visas do not grant employers undue power over migrant workers.</li> </ul>
<b>9. Social development</b>	<ul style="list-style-type: none"> <li>• Ensure social policy is not formulated or implemented in silos but as a whole-of-government task. Identify New Zealanders with special needs and adopt a ‘social investment’ approach to improve their ability to live fulfilling lives. This will also reduce the cost to the public purse over time.</li> <li>• Treat fixing the housing affordability crisis as a crucial component of social policy to address both income-related poverty and inequality concerns.</li> <li>• Treat education reform as essential to providing all New Zealanders with good life opportunities.</li> <li>• Ensure targeted support for students from lower socio-economic households takes precedence over untargeted programmes such as fees-free and interest-free tertiary education programmes.</li> <li>• Increase innovation in providing social services, including through social impact bonds and extending the successful Individualised Funding Model for disability support services to the aged care sector and mental health services.</li> </ul>

## REGULATION

<b>10. Regulation and regulators</b>	<ul style="list-style-type: none"><li>• Prohibit introducing any new laws or regulations without a cost-benefit assessment that demonstrates real gains for the public and that costs are shared in a principled manner.</li><li>• Subject New Zealand's existing stock of regulations to the same cost-benefit review and ensure responsibility for the review lies with a senior Minister.</li><li>• Ensure the regulatory culture within the public service shifts from one of ticking boxes and managing risk to encouraging greater flexibility and innovation.</li><li>• Reform the governance of the Commerce Commission and refocus the Commerce Commission's market studies powers.</li><li>• Create a Regulator Assessment Authority to review every three years each of the three all-of-economy regulators – the Commerce Commission, the Financial Markets Authority (FMA) and the RBNZ – and report the results to Parliament.</li><li>• Create an independent agency to ensure all governance appointments to regulatory agencies are subject to robust, independent scrutiny and a standardised process.</li></ul>
<b>11. Foreign investment</b>	<ul style="list-style-type: none"><li>• Abolish the Overseas Investment Act. No general FDI regime should exist except for a limited protection against foreign ownership that could threaten our national security.</li><li>• Subject all investors, domestic and foreign, to the same rules.</li><li>• Protect New Zealanders' freedom to sell to whomever they wish. In cases of national security interventions, appropriate compensation should be made.</li></ul>
<b>12. Labour markets</b>	<ul style="list-style-type: none"><li>• Abolish the Fair Pay Agreements Act 2022.</li><li>• Amend unjustified dismissal procedures so they do not apply to highly paid employees.</li><li>• Re-introduce lower youth minimum wage rates to foster youth employment and also the 90-day trial periods for all employers to encourage employment of the unemployed.</li></ul>
<b>13. Digital regulation</b>	<ul style="list-style-type: none"><li>• Modernise copyright laws to aid creativity and innovation.</li><li>• Improve access to open data without compromising confidentiality.</li><li>• Amend anti-money laundering legislation.</li><li>• Regulatory Impact Statements should consider whether compliance with rules from comparable jurisdictions is adequate for New Zealand.</li></ul>
<b>14. Disaster management</b>	<ul style="list-style-type: none"><li>• Enact legislation, with appropriate democratic deliberation, for emergency powers that might be invoked in the next weather or earthquake emergency.</li><li>• Modify earthquake strengthening and heritage protection regimes to require councils to:<ul style="list-style-type: none"><li>– Reassess heritage status for high-risk, low-value buildings to balance preservation and costs.</li><li>– Enhance support for owners, assist in processes, and fund heritage-sensitive repairs.</li><li>– Restrict the number of properties that can be heritage-listed to avoid over-designation.</li></ul></li></ul>
<b>15. Lifestyle regulation</b>	<ul style="list-style-type: none"><li>• Refrain from implementing soda or sugar taxes and instead focus on targeted interventions, such as public health campaigns and education, to promote healthier diets.</li><li>• Promote a vibrant night-time economy by adopting successful international approaches, such as Melbourne's agent of change principle and Amsterdam's night mayor, and decentralising decision-making to reflect communities' needs and interests.</li><li>• Adopt South Dakota's 24/7 regime, which allows judges to impose monitored no-alcohol conditions for repeat alcohol-related offenders.</li><li>• Maintain a liberal regime for reduced-harm nicotine products.</li><li>• Abandon recently adopted Smokefree 2025 policies, including Very Low Nicotine Content regulations, sharp reductions in the number of allowed retail outlets, and tobacco-free-generation rules.</li></ul>

ENVIRONMENTAL POLICY	
<b>16. Planning</b>	<ul style="list-style-type: none"> <li>• Abolish rural-urban boundaries.</li> <li>• Abolish height and density controls.</li> <li>• Repeal or, if not passed prior to the election, do not enact the Natural and Built Environment and the Spatial Planning Acts and, instead, strengthen property rights by: <ul style="list-style-type: none"> <li>- Introducing a presumption in favour of freedom to build in the RMA.</li> <li>- Confronting objectors with the cost to the community of the foregone use of privately owned property by compensating property owners for regulatory takings.</li> </ul> </li> <li>• Implement the current government's proposal of a national planning framework defining zones, with councils able to paint those pre-set zones onto their district maps.</li> <li>• Introduce constraints on the proportions of land in the least permissive (caps) and most permissive (floors) for councils with affordability problems.</li> <li>• Longer term, replace the RMA with new planning laws that respect property rights and tackle externalities from development using market mechanisms.</li> </ul>
<b>17. Climate policy</b>	<ul style="list-style-type: none"> <li>• Use the Emissions Trading System (ETS) as the primary regulatory instrument to reduce greenhouse gas (GHG) emissions.</li> <li>• Assess non-ETS measures on the cost-per-tonne of GHG reductions, with that cost reported for each.</li> <li>• Set clear guidelines for the Climate Change Commission to focus on net emissions rather than gross emissions.</li> <li>• Revise the price cap to track the volume-weighted average price in international carbon markets.</li> <li>• Fix the number of unbacked carbon units.</li> <li>• Rather than distort the ETS to achieve desired distributional outcomes: <ul style="list-style-type: none"> <li>- Transfer revenues earned through government auction of ETS credits to households as a carbon dividend.</li> <li>- Supplement those transfers through other additional payments to targeted households, if necessary.</li> </ul> </li> </ul>
<b>18. Freshwater management</b>	<ul style="list-style-type: none"> <li>• Set catchment-level cap-and-trade smart-markets for water drawing rights to ensure that water flows to its highest valued uses while embedding critical environmental bottom-lines.</li> <li>• Consider over the longer term more complex catchment-based smart markets in nutrients and sediment.</li> </ul>
INFRASTRUCTURE, ENERGY AND TRANSPORT	
<b>19. Energy</b>	<ul style="list-style-type: none"> <li>• Drop the goal of achieving 100% renewable energy and instead rely on the ETS to deliver carbon reductions at the lowest cost.</li> </ul>
<b>20. Infrastructure</b>	<ul style="list-style-type: none"> <li>• Partner with the private sector to fund and execute infrastructure projects for efficient and high-quality work.</li> <li>• Give local authorities more decision-making power and resources to manage and fund infrastructure projects for more responsive and targeted development that better serves local communities.</li> <li>• Streamline the consenting process and reduce red tape to foster a positive approach to growth and development.</li> </ul>
<b>21. Transport</b>	<ul style="list-style-type: none"> <li>• Introduce urgently a practical and durable system of congestion charging in New Zealand's congested urban centres.</li> <li>• Provide a transparent congestion dividend system to maintain public support and prevent accusations of revenue grabbing or social engineering.</li> <li>• Build on the 1998 "Better transport, better roads" reforms more broadly for a more reliable land transport system.</li> </ul>

# Introduction

New Zealand has great potential as a democratically free, multicultural nation. We have a youthful population. We are blessed with beautiful geography and abundant resources. We have a history of stable governance. And we are strategically located in the rapidly growing Asia-Pacific region.

Our nation has also been a destination of choice for newcomers and our migration and integration policies have been hailed as some of the best in the world. This is a testament to our societal resilience and cohesion.

But, as the 2023 general election approaches, New Zealand stands on the edge of an abyss.

Persistent inflation has triggered a cost-of-living crisis. Prospective homeowners face some of the most unaffordable housing in the world. Despite the ballooning size of our core public service over the past five years, public service outcomes for New Zealanders continue to deteriorate. Our state school system is failing Kiwi students, with troubling levels of illiteracy and innumeracy among school leavers. Growing waiting lists in the public health system are matched by shortages of medical professionals. A domestic crime wave is sweeping across the country, devastating lives and livelihoods. And polarisation in the electorate is threatening social cohesion.

Some of these problems are new, but others are longstanding. Either way, new thinking is needed to solve them.

The New Zealand Initiative's research offers fresh, evidence-based ideas to the political debate to achieve both public outreach and policy change. We help the New Zealand public better

understand the challenges facing the nation and the options available to solve them. We show how to create an open, competitive and dynamic economy, and a free, prosperous, fair and cohesive society.

In the face of an ageing population and increasing costs of superannuation and healthcare, the country must improve productivity growth. As Nobel laureate Paul Krugman put it, "Productivity isn't everything, but in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise output per worker."<sup>1</sup>

With higher annual productivity growth, we can remain on a stable and sustainable path to prosperity. Without this, New Zealand will be forced to make tough choices, such as aggressively raising the pension age, cutting entitlements, rationing healthcare, or increasing taxes and debt.

Economic growth is sometimes portrayed in a negative light. Critics claim that it does not improve happiness and causes environmental degradation and social polarisation. However, the evidence is to the contrary. As we demonstrated in *The Case for Economic Growth* (2015), growth contributes to longer, healthier and more fulfilling lives. It makes a cleaner environment more affordable and helps find alternative ways to satisfy our needs.<sup>2</sup>

Over the past decade or so, our researchers have produced a substantial body of work addressing many of the most pressing issues facing our nation. We have offered practical proposals to improve housing affordability, enhance education outcomes, restore price stability, streamline

regulations, increase productivity, and make government more accountable to citizens. Some of our recommendations have been adopted by the government of the day. Some have reached political party manifestos but are not yet policy. This manifesto summarises the recommendations we believe the incoming government should adopt.

For ease of reference, this document is organised by subject areas. The order should not be taken as an indication of relative importance. For the incoming government, some areas of reform will be more important or more urgent to implement than others. Controlling inflation is arguably the priority in terms of timeliness. Stable prices are critical to getting on top of the cost-of-living crisis. They are also critical to economic growth and prosperity. Beyond inflation, the “big three” areas for reform are education, health and

housing. These are all fundamental to “the good life” and areas where New Zealand faces crises. Other areas offer immediate “wins.” Fixing immigration settings, easing inward flows of foreign capital, reintroducing fiscal discipline for spending decisions, and restoring flexibility to New Zealand’s labour markets are four obvious examples.

Moving forward, we urge the incoming government to implement bolder, faster and more comprehensive reforms. To that end, the non-partisan New Zealand Initiative is committed to cooperating with the parties in power and in opposition. We hope the ideas and policy recommendations in this manifesto or roadmap for the incoming government will help create a more prosperous, inclusive and sustainable future for all New Zealanders.

# **ECONOMIC POLICY**

## CHAPTER 1:

# Fiscal policy priorities

The Covid-19 pandemic has left countries around the world tackling hard decisions about how to balance budgets and ensure economic growth. The New Zealand government's response to the pandemic has included a significant increase in spending and borrowing. As a result, the Treasury's 2023 Budget and Economic Fiscal Update showed total Crown borrowing in 2023 at 56% of GDP compared with its pre-Covid December 2019 forecast of 37% of GDP. This is an increase of \$46,000 per household.

Borrowing to this extent without a rigorous cost-benefit assessment of projects comes at a significant cost in the short term. In the long term, it endangers the sustainability of the country's fiscal health.

This chapter summarises the Initiative's key recommendations to the incoming government on fiscal policy concerns.

### I. Avoid increasing or introducing new sources of tax revenue

Cross-country research has found that increasing taxes tends to affect GDP growth more adversely than reducing government spending.<sup>3</sup>

Far too much government spending is ill-justified, with even the Auditor-General expressing concerns about inadequate accountability for government spending.<sup>4</sup> Spending discipline is therefore the need of the hour.

The incoming government should not increase or introduce new sources of tax revenue without thoroughly reviewing spending

quality. High taxes discourage investment and entrepreneurship, leading to slower economic growth and lower living standards.

Europe aside, New Zealand's tax burden is relatively high. The prosperous Asian countries have incomparably lower tax burdens. And the tax revenue ratios for Australia, Ireland, Switzerland and the US are all historically materially lower than New Zealand's.<sup>5</sup>

As we outlined in *Roadmap for Recovery* (2020), wealth taxes raise practical issues, including the risk of tax avoidance, unfairness, capital flight and other distortions.<sup>6</sup>

Hence, we recommend that instead of increasing taxes, government should focus on measuring the effectiveness of public spending and improving the efficiency of public services.

### II. Reform retirement income policy for significant fiscal savings

The incoming government can make significant fiscal savings without adversely affecting frontline public services like health, education or welfare. Improving the value for money of the country's retirement income policy will provide the most significant expenditure savings.

Government subsidies to KiwiSaver are both poorly targeted and ineffective. These subsidies should end. Government subsidies to KiwiSaver amounted to \$964 million in 2021–22. Ending subsidies to KiwiSaver in 2024 could reduce total Crown borrowing by 9.9 percentage points of GDP in 2037.

The New Zealand Initiative's research in 2020 showed that increasing the age of eligibility for New Zealand Superannuation by two years from 2028 and reducing the growth of individual payments slightly from 2024 would lead to significant fiscal savings over time.<sup>7</sup> If implemented, government debt as a share of GDP in 2037 could drop by 12.4 percentage points. Making people plan for an additional two years before retirement would be a challenge, but phasing in increases to the eligibility age over a longer period could help manage the transition and achieve similar reductions in debt over the medium term.

Contributions to the New Zealand Superannuation Fund (NZSF) should also be suspended or the fund should be wound up early. With the government forecasting persistent budget deficits, it should not borrow additional billions to make further contributions to the NZSF. Treasury's projected balance of the NZSF in June 2024 is \$68 billion, which would go a long way towards repaying the government debt incurred to fund the government's response to the Covid-19 pandemic.

### III. Undertake a comprehensive expenditure review

Numerous other opportunities exist for reducing public spending by identifying and reducing low-quality expenditure. The incoming government should thoroughly investigate other public sector programmes and initiatives that fail to meet their objectives or provide poor value for money. KiwiBuild, Fees Free tertiary education,<sup>8</sup> and the Provincial Growth Fund (PGF) are strong contenders for removing such wasteful expenditure.

Identifying ineffective programmes and initiatives is not easy. And rigorous evaluation of policy programmes and investment projects is relatively rare in New Zealand. However,

without proper cost-benefit tests, projects that are of poor quality and offer little value could burden future generations with massive debt and taxation.

Following the global financial crisis, many countries, particularly in Europe, undertook comprehensive expenditure reviews to reduce low-quality expenditure. A similar exercise should be undertaken in New Zealand to identify and eliminate wasteful expenditures in addition to those identified above.

For example, *Decade of Debt: The cost of interest free student loans* (2016)<sup>9</sup> showed that the interest-free student loan scheme is not fit for purpose. No compelling public policy case for universal subsidised student loans exists. The policy hardly moved tertiary participation rates. Nor did it lead to any improvement in tertiary equity. Yet, by 2016, the scheme had resulted in almost \$6 billion of taxpayers' money being written off. Our research showed it is a costly and ill-targeted scheme and should be abolished in favour of means-tested scholarships for promising students, and stronger preparation for post-secondary study.

### IV. An independent fiscal council

Longer term, the efficacy of existing and proposed spending programmes need better scrutiny. New Zealand should establish an independent fiscal council to strengthen the effectiveness of fiscal rules through public monitoring and reporting.<sup>10</sup> The proposed office would:

- Help reduce Parliament's dependence on the Executive.
- Monitor the Executive's compliance with fiscal responsibility principles.
- Monitor Treasury's expenditure control, assessment procedures, and functions.

- Assess the degree to which the Executive has a credible programme to address identified fiscal pressures, such as those in Treasury's long-term fiscal projections.
- Assess the performance of government agencies administering major spending programmes in detecting and avoiding waste through lack of clarity about objectives, failure to adequately consider alternatives, poor administration, and diffuse accountability.
- Improve the servicing of Parliament's Finance and Expenditure Committee.

## CHAPTER 2:

# Monetary policy reset to control inflation

Restoring price stability must be the new government's immediate priority. Rising prices hurt consumers, workers and businesses alike. They are the principal cause of the cost-of-living crisis.

The Reserve Bank of New Zealand (RBNZ) has fuelled inflation through its excessive monetary policy responses to Covid-19, resulting in massive losses to taxpayers, a house price whiplash, and a cost-of-living crisis – harming savers, consumers and overall well-being.<sup>11</sup>

Conflicting goals, grandiose aspirations and distractions, an excessive budget, and lack of core expertise in key appointments have contributed to the monetary policy failure. RBNZ Governor's Adrian Orr's forays into non-monetary areas such as climate change policy have heightened concerns about the Bank's focus and capabilities.

The Initiative's policy recommendations to reset monetary policy and promote prosperity are summarised below.

### I. Amend the RBNZ Act

The incoming government should amend the Reserve Bank of New Zealand Act 2021 to specify long-term price stability as the single monetary policy objective. By narrowing the focus of the RBNZ's mandate, policymakers can ensure the central bank remains dedicated to its core purpose. Long-term price stability is essential for fostering economic growth and, therefore, prosperity, as it allows businesses and households to make well-informed decisions about investment and consumption.

### II. Shift the RBNZ's regulatory role to a new institution

The RBNZ's regulatory role should be transferred to another institution. Separating monetary policy and prudential regulatory functions is common elsewhere in the world. Closest to home, it is the approach taken in Australia. The Reserve Bank of Australia is charged with monetary policy. The Australian Prudential Regulatory Authority (APRA) is tasked with financial regulation.

Separating the functions into two organisations would improve governance and reduce the risk of political interference in the RBNZ's core mission of price stability. Creating a separate prudential regulatory body would also ensure a more streamlined approach to financial oversight, allowing the RBNZ to focus on maintaining price stability.

### III. Limit RBNZ's budget

The RBNZ's budget should be limited to cover its monetary policy role, preventing the institution from engaging in matters beyond its scope, such as climate change and promoting the Māori economy. While these issues are undeniably important, they fall outside the purview of a central bank. By constraining the RBNZ's budget to its core function, policymakers can ensure the central bank remains focused on its primary objective of price stability.<sup>12</sup>

#### **IV. Return the inflation target to 0–2%**

The RBNZ's inflation target should be returned to the 0–2% range. This adjustment would represent a shift from the current target of 1–3%, which has proven to be insufficient in maintaining long-term price stability. A lower target range would encourage the RBNZ to pursue more prudent monetary policies, minimising the risk of excessive inflation and promoting sustainable economic growth.

#### **V. Stop the implementation of deposit insurance**

The implementation of deposit insurance should be halted. While deposit insurance schemes can provide a sense of security for bank depositors, they risk inadvertently creating moral hazard by encouraging banks to engage in riskier lending practices. By refraining from implementing such a scheme, regulators can maintain market discipline and encourage banks to act more responsibly, thus promoting financial stability.

#### **VI. Limit RBNZ's discretionary ability to purchase securities to government paper**

The Treasury has estimated losses on the RBNZ's Large-Scale Asset Programme (LSAP) cost taxpayers around \$10.5 billion.<sup>13</sup> That is more than three times the Bank's equity position. The Crown's exposure to losses under the LSAP happened without adequate parliamentary debate and scrutiny. The RBNZ's actions in undertaking the LSAP were facilitated by the Minister of

Finance arranging for the Crown to indemnify the RBNZ against those losses.

Better accountability is needed for such decisions. The RBNZ's discretionary ability to purchase securities should be limited to purchases of government paper. Such a restriction would prevent the central bank from intervening in the private sector and distorting the allocation of resources. By confining the RBNZ's asset purchases to government bonds, policymakers can ensure that the central bank's interventions remain focused on its core mission of maintaining price stability without unduly affecting the broader economy.

#### **VII. Ensure a credible timetable for reducing RBNZ's balance sheet to pre-Covid-19 levels**

Finally, the incoming government should establish a credible timetable for the RBNZ to reduce its balance sheet to pre-pandemic levels.<sup>14</sup> The central bank's asset purchases during the pandemic significantly radically expanded its assets and liabilities. This poses risks to long-term financial stability and price stability. Such excess balances can become highly inflationary when individual banks decide that the interest rate being paid on those balances is penal compared with what they can achieve by aggressively expanding their lending. By committing to a clear and credible timetable for unwinding these positions, the RBNZ can signal its dedication to long-term price stability and bolster confidence in the economy.

# **CENTRAL AND LOCAL GOVERNMENT**

## CHAPTER 3:

# Rethinking the public service

The country's public service is at a crossroads. Under former Public Services Minister Chris Hipkins, public sector headcount has exploded.<sup>15</sup> The ballooning bureaucracy has coincided with a dramatic increase in the public service's use of outside consultants. It also coincides with a dramatic decline in public service outcomes, including in education, health and law and order.

Alongside these issues is a growing sense that the public sector is singing its own tune rather than responding to the demands of the government of the day. The political activism shown by Rob Campbell, former chair of Te Whatu Ora (Health New Zealand), is only the most prominent example.<sup>16</sup> That Steve Maharey, chair of Accident Compensation Corporation (ACC), put his hand up for a similar offence indicates Campbell was not merely a one-off.<sup>17</sup> The idea of an impartial, apolitical public service is likely a myth. This is not because these public servants were *outspoken* with their views. Their partiality would have remained even if they had kept their views to themselves.

In combination, these developments suggest a public service re-think may be needed.

The New Zealand Initiative is undertaking further research on the topic, including international comparative research. But this manifesto sets out some preliminary conclusions for the incoming government.

### I. Repeal or amend Public Service Act 2020

Flaws at the core of the new Public Service Act 2020 may be contributing to the underlying malaise. The Act was initiated and driven by the State Services Commissioner (now Public Service

Commissioner),<sup>18</sup> and introduced into Parliament shortly before the pandemic in November 2019. It was then allowed to pass under urgency in July 2020, ahead of the 2020 election.

Chris Hipkins, then Minister of State Services, promoted the Act as a way of breaking down “silos” in the public service. But the legislation was not widely debated in the media. Yet, experts raised concerns about the implications of the Act in shifting power to unelected officials without public accountability.<sup>19</sup>

The new Act replaced the State Services Act 1988. The old Act expressly required the State sector to promote the collective interests of government. The new Act lacks a clear statement that the purpose of the public service is to assist the democratically elected government with policy development and implementation.

Nor does the new Act directly link the Commissioner's general functions with assisting the government with its policy agenda. But without the link in the old State Sector Act to the government of the day, the new Act encourages the Commissioner to conclude that his or her view of what constitute better public services should prevail. Indeed, the new Act goes so far as to require the Commissioner to opine on the priorities for the public service, irrespective of the elected government's wishes of what services or outcomes should prevail.

The new Act also drops the “contracting model,” where departmental chief executives (CEs) operated under the direct control of Ministers. While continuing to owe statutory duties to their Minister, senior CEs now sit on a public service leadership team led by the Commissioner.

This substantially increases the Commissioner’s power over officials. It makes the Commissioner the de facto operational leader of the civil service. And, as the “employer” of departmental leaders – and the person primarily responsible for their promotion – senior civil servants will inevitably feel beholden to the Commissioner.

By placing the Commissioner between the democratically elected government and its control of the bureaucracy, the changes drive a wedge between the leadership of government departments and the Ministers they report to.

The resulting loss of public sector accountability to democratically elected Ministers is a profound change to governance in New Zealand. The Public Service Act was a constitutional change whose implications seem to have been ignored by the Ministers who pushed it through Parliament.

Following these changes, no one should be surprised to see a government struggling to get things done, especially following a change of government. Incoming Ministers will find the Public Service Commissioner sitting between them and the implementation of their democratically endorsed policy agenda.

There were other ways the perceived silos problem could have been solved without putting the Commissioner in charge of the public service. Ministers could themselves direct their CEs to work with other ministries where required. This pathway would have strengthened departmental accountability to the elected government rather than weakened it.

When the Public Service Act was passed under urgency in 2020, neither opposition party voted for it. The principal objections were threefold. First, the issue of process and timing. Second, a concern that the Bill was a missed opportunity to create a more accountable public service focused on outcomes. And third, that the Bill facilitated larger government.

These objections have already proved prophetic.

The starting point to solving the public service’s woes is repealing the new statute. If not repealed, the new Act should be amended at the very least to:

- Specify clearly that the purpose of the public service is to assist the democratically elected government with policy development and implementation.
- Provide that the primary function of the Public Service Commissioner is to ensure that the public service executes the policies of the democratically elected government of the day.
- Reinstate the contracting model of the old Act to improve the accountability of departmental CEs to the responsible minister and remove the intermediation of the Commissioner.

## **II. Right-sizing the public service**

The incoming government should review the expansion of the core public service since 2017 for more efficient, cost-effective, innovative, and responsible governance.

## **III. Broader reform**

Beyond these measures, the incoming government should consider more fundamental reform of New Zealand’s hybrid Westminster-style public service model to improve our democracy, including:

- Permitting an incoming government to directly appoint senior civil servants in key departments.
- Improving independent political scrutiny of policy implementation and state sector effectiveness and efficiency.

- Expanding the role of advisers independent of the public service to increase access to fresh thinking.
- Devolving local and regional decisions being made in central government departments to unitary regional bodies with local democratic accountability.
- Devolving to local bodies decisions being made in Wellington to strengthen community involvement in decision-making.

## CHAPTER 4:

# More localism to promote more local development

Local government has a reputation for inefficiency in New Zealand. It is also widely blamed for contributing to the housing affordability crisis through excessively restrictive planning laws.

Our research suggests that an empowered local government can and should play a pivotal role in solving the housing affordability crisis and promoting growth and prosperity.<sup>20</sup> What, then, is stopping councils? The answer is the ‘constitutional’ arrangements defining the relationship between central and local government and systemic flaws in local government funding.

Four points stand out about local government.

1. New Zealand has relatively few councils by international standards: 78 local, regional and unitary councils compared with 2,136 municipalities in Switzerland and about 36,000 communes or municipalities in France.
2. Local government accounts for a low share of total government spending.
3. Local funding is unusually dependent on property taxes (i.e. rates).
4. Central government is very good at delegating tasks to local councils but very poor at providing funding to ensure councils can carry out their new responsibilities effectively.

In combination, unlike countries like Switzerland and France, New Zealand councils are poorly regarded and face very little competitive pressure. Nor do they face incentives to attract new

businesses or facilitate more housing for their populations.

For central government, more people earning income means more tax revenues. And in real time. That explains why Wellington has largely welcomed high levels of inwards migration since the mid-2000s.

But the same population growth is a costly inconvenience for local government. The burden of funding infrastructure for new homes creates perverse incentives that induce councils to oppose development (see Chapter 7 on housing).<sup>21</sup>

The same is true for economic development generally. Central government typically reaps the benefits of economic development (think tourism or mining). Meanwhile, local government often has to pay for the infrastructure that makes development possible.<sup>22</sup>

Alongside reports on housing affordability, the Initiative’s research reports and essays have suggested reforms to how local government is funded,<sup>23</sup> balancing the mismatch of incentives for central and local government. Royalties and taxes from mineral projects go to central government only, while local communities bear the cost of mineral extraction directly. Councils deal with the downsides (pollution and traffic) and only receive some indirect benefits (a more attractive local labour market).

Local councils often find themselves unable to recover costs from consenting processes, or indeed any appeals that often follow.

Unsurprisingly, councils and local communities are disgruntled about resource exploration in their regions, given that they have little to gain from it.

We thus recommend more than just regulatory reform to grow the resources sector.

## **I. Sharing the benefits from growth**

Local communities should receive a share of the benefits that accrue to central government from local economic growth, including from tourism and extractive industries (as a share of royalties). Local government should receive financial benefits for contributing to economic growth (and suffer a loss when it does not).

Central government should also provide a funding stream for local councils to compensate them for the costs they incur as consenting agents for activities benefiting central government.

## **II. Clearer accountabilities**

The incoming government should better define the respective roles and responsibilities of central and local government. Tasks should not be delegated to local government without appropriate funding. This will preclude blame games and enhance accountability.

## **III. Policy trial areas (or "special economic zones")**

To promote innovation, the incoming government should enable local trials by councils of alternative approaches from nationally prescribed legislation.<sup>24</sup> These could cover such diverse topics as consenting processes, foreign direct investment (FDI) rules, or building regulations. A one-size-fits-all approach is rarely the best.

# **SOCIAL POLICY**

## CHAPTER 5:

# Education – Returning to a world-class state school system

High-quality education grounds young people in the accumulated knowledge and creative work of the past to provide a sense of cultural location. It enables them to get better jobs, earn more money, and stay healthy. Critically, it is a circuit breaker on inter-generational poverty. At a national level, education is the key to productivity. It is also the key to New Zealand's future prosperity and social cohesion.

Yet New Zealand's once world-leading state school system is in a state of deep malaise. Objective international measures show an ongoing decline in key achievement areas, including literacy, numeracy and science. The three major international assessments of pupil performance – PISA, PIRLS and TIMSS – have charted New Zealand's decline, both absolutely and compared with our peers.<sup>25</sup> Achievement in literacy and numeracy is now mediocre by international standards. And the results of international testing show a consistent decline in the educational attainment of Kiwi students relative to past performance.

But it is not only the international studies that expose our school system's poor performance. In 2014, research commissioned by the Tertiary Education Commission (TEC) found that within a sample of 800 Year 12 students with National Certificate of Educational Achievement (NCEA) Level 2, 40% failed to meet an international benchmark for functional reading and 42% failed it for numeracy.<sup>26</sup> Since then, the continued decline of student achievement in international league tables suggests these findings would be worse today.

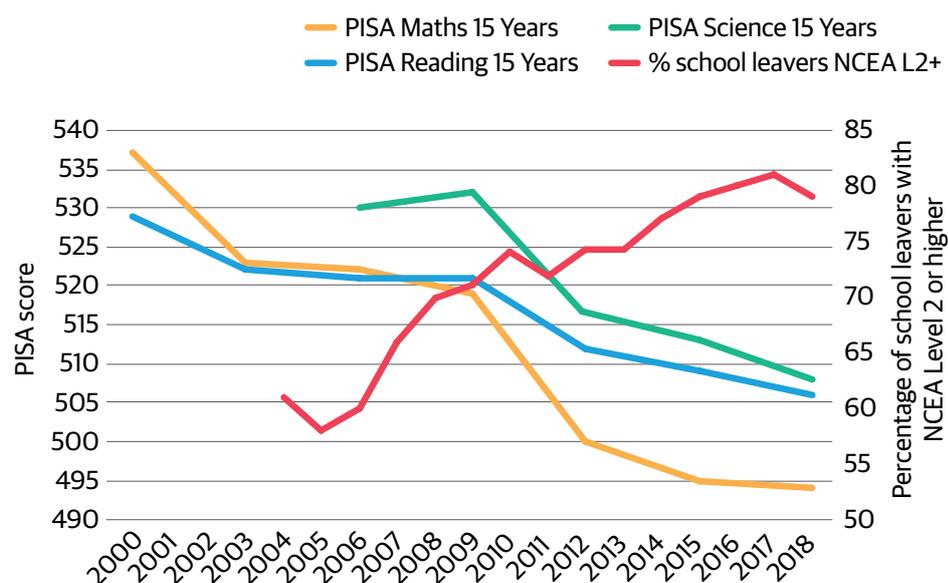
Indeed, recent trials of new NCEA standards for literacy and numeracy suggest they are much worse.<sup>27</sup> The new standards are not onerous. They are set to reflect the basic level of literacy and numeracy required to function in society and work. Yet only two-thirds of the 14- and 15-year-olds who participated in the trial met the reading standard. Just over half met the numeracy standard, and an abysmal one-third met the writing standard. In a later trial, the proportion meeting the writing standard rose to just over 40%, but the proportion meeting the reading standard fell.

Contrary to all this evidence, overall NCEA achievement rates paint an illusion of rising standards, suggesting students are doing better than ever. Only combining national and international metrics shows the very real continual decline in student scores in basic literacy and numeracy (see Figure 1).

New Zealand's education system also fails in ensuring equal attainment across ethnic and socio-economic groups. As the government's own report on Tomorrow's Schools concluded, recent evidence "ranked New Zealand 33rd out of 38 developed countries for its overall educational inequality... the current system has failed to address the persistent disparities in educational outcomes and continues to leave some groups of learners/ākonga underserved."<sup>28</sup>

The most recent PISA tests (2018) confirmed this, with New Zealand recording the strongest relationship between socio-economic background and educational performance of all its comparator English-speaking countries:

Figure 1: PISA and NCEA Level 2+ performance in New Zealand (2000–18)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
PISA Maths 15 Years	537			523			522			519			500			495			494
PISA Science 15 Years							530			532			516			513			508
PISA Reading 15 Years	529			522			521			521			512			509			506
% school leavers NCEA L2+					61%	58%	60%	66%	70%	71%	74%	72%	74%	74%	77%	79%	80%	81%	79%

Source: Education Counts, Annual reports 2004–19, Website; PISA, “New Zealand Summary Report 2018,” Website.

educational inequity is worse here than in the UK, the US, Canada and Australia.<sup>29</sup>

There are many reasons for this malaise. For the past three decades, official policy and discourse about schooling have been dominated by ideological beliefs rather than evidence. These beliefs, largely linked to child-centred philosophy, have transformed ideas about what is taught, how it should be taught, and the meaning of accountability.

Problems in curriculum, assessment, pedagogy, teacher remuneration, incentives and accountability have all contributed.<sup>30</sup>

At the same time, the Ministry of Education has been promoting a pedagogy that runs counter to scientific research evidence and makes little effort

to evaluate education policy initiatives. Teachers are ill-equipped by their training to cope not only with the academic needs of young people but, increasingly, with their social and emotional needs as well.

The sections below summarise recommendations from more than 10 years of evidence-based research from The New Zealand Initiative, drawing on other domestic and international research literature.

## I. Amend objectives in Education and Training Act 2020

The first step to revitalising New Zealand’s education system is amending the Education and Training Act 2020. The Act stipulates four

equal objectives for schools. One of them is to “enable students to achieve their highest possible standard in educational attainment.” The other three – including “ensuring schools are physically and emotionally safe places” – are not true objectives: they are strategies to achieve the first. Making them equal objectives undermines the primacy of educational attainment.

Prioritising academic achievement will encourage schools to focus on improving student outcomes and delivering the highest quality education possible.<sup>31</sup>

## II. Replace the New Zealand Curriculum

The current New Zealand Curriculum (NZC) was implemented in 2007. Since then, educational achievement has fallen precipitously. The curriculum has played a role in this decline. It is knowledge poor and does not provide teachers with sufficient guidance. Instead, teachers are charged with developing local curricula around a very loose framework provided by the NZC, a task that most teachers are not trained to carry out.

The curriculum foregrounds ‘key competencies,’ most of which represent knowledge that human beings acquire naturally. It deemphasises subjects based on academic disciplines, which need to be explicitly taught by experts. Thus, the curriculum is exactly backwards in approach: It emphasises knowledge that does not need to be directly taught and de-emphasises knowledge that does.

In a recent ‘refresh’ of the curriculum, the Ministry of Education signalled an intention to weave Mātauranga Māori, that is, traditional Māori knowledge, into every learning area. Doing this with academic disciplinary subjects will create confusion for both those subjects and Mātauranga Māori. The ontological and epistemological characteristics of the knowledge base of most disciplinary subjects

are incompatible with the knowledge base of Mātauranga Māori.

The incoming government should introduce a new curriculum. It should emphasise disciplinary subjects – a more specific and epistemically meaningful term than learning areas – much more than the 2007 curriculum does. What is to be taught at each curriculum level should be better specified, with guidance for teachers on the sequencing of learning. All New Zealand students would learn this specified knowledge. It would form a ‘common core,’ irrespective of any local variation. Key competencies should be de-emphasised in the new curriculum.

The new curriculum should also specify detailed progressions based on structured literacy and numeracy pedagogy. It should represent Mātauranga Māori and universal disciplines separately rather than trying to integrate them into the same subjects. Both should be available in English and Te Reo Māori.

## III. New assessment for qualifications

Nearly two decades old, the NCEA qualifications system is fundamentally flawed in its design.

The highly disaggregated approach to assessment under NCEA detracts from curriculum coherence. Superficial learning is often encouraged by lax internal assessment practice. Furthermore, standards in each subject are used selectively, with decisions often driven by which standards are perceived to be the most straightforward to attain. External assessment is increasingly avoided. These factors risk leaving critical gaps in students’ knowledge.

A constant ‘barrage’ of internal assessment and reporting of associated grades throughout the school year keeps students and teachers focused on accumulating credits – to the frequent detriment of deep teaching and learning.

Marking of internal assessment shows poor national consistency, with grade inflation reflected in rising Excellence grades over the years. This trend is too great to be credibly linked to improvements in learning, especially in light of the declines in key areas described above. The post-hoc moderation system is expensive to run and does not have sufficient influence to make internal assessment acceptably reliable.

To address these shortcomings, a new simplified, more coherent, and more reliable internal and external assessment system is needed to accurately measure and report student progress. Grades should not be reported until the end of each school year to keep the focus on deep learning rather than credit accumulation. Grading of internal assessment should be undertaken by New Zealand Qualifications Authority (NZQA) rather than students' own teachers, with the latter using the assessments for formative purposes only.

#### **IV. Reform initial teacher education**

Initial Teacher Education (ITE) is dominated by sociological perspectives, with very little focus on insights for teaching and learning from scientific research in cognitive psychology.

Misguided and ineffective methods of literacy and numeracy pedagogy are promulgated in many teacher-education programmes. Primary teachers are expected to become experts in the entire curriculum; specialist teachers are uncommon in the primary school sector.

The programmes themselves tend to be delivered using a rigid model, with coursework interspersed with professional placements. But neither the faculties of education nor the schools in which beginning teachers complete their qualifications tend to inculcate pedagogical knowledge and skills based on scientific research. Nor do they teach sufficient assessment literacy

to enable teachers to provide the most effective feedback to students.

To address these concerns, the incoming government should:

- Reform ITE focusing on knowledge of human cognitive processes and the implications of this body of knowledge for teaching and learning. A focus on using assessments to improve teaching and learning would be highly beneficial. To drive these changes, teacher registration criteria and the Standards for the Teaching Profession need to be amended to reflect this requirement. Many providers will need support to acquire expertise in this area.
- Because the current malaise is partly attributable to a near monopoly in teacher training enjoyed by universities, teacher educators should be released from academic publishing imperatives and focus more tightly on their core role. Barriers to competition in teacher education should be removed. New funding models should be adopted to make establishing specialist teacher education organisations much more straightforward.
- ITE for primary schools should include specialisation to improve the quality of teaching in each curriculum area and promote more comprehensive curriculum coverage.
- Because too many teachers in our schools have been trained to use ineffective pedagogy, a major professional development initiative is needed. Structured professional learning for practising teachers, based on sound scientific research, should be funded by the Ministry. While schools are free to purchase professional development of their choosing, the Ministry should only fund programmes based on generalisable scientific research evidence.

## V. Improved teachers' career structure

Teaching is a highly unionised profession. For many years, both the Post Primary Teachers' Association (PPTA, the secondary teachers' union) and the New Zealand Educational Institute (NZEI, the primary teachers' union) have fiercely opposed any changes to the 'time served' model of teacher remuneration.

Under this model, teachers' pay increments are based solely on the duration of their service as teachers, disregarding variation in merit or competence. Neither is there any flexibility to pay a premium to attract a teacher capable of teaching subjects for which it is difficult to recruit, such as mathematics and science. The current model provides poor incentives for highly competent teachers to remain in the profession, nor any impetus for incompetent ones to leave.

The incoming government should improve the career structure for teachers in the state school system by ensuring:

- Effective teachers are recognised through higher remuneration and status, using an approach similar to the four-tier structure in Australia, and
- As well as receiving greater remuneration, teachers at higher levels of the career structure should have greater responsibility. These responsibilities might include mentoring young teachers and student teachers.

## VI. Teacher supply

Teacher recruitment is constrained by both onerous bureaucratic processes for immigrant teachers and rigid qualifications requirements for prospective local ones. Male teachers comprise just 15% and 36% of the primary and secondary teacher workforce, respectively. The dearth of male teachers may partly explain why boys

continue to fall behind girls in educational achievement. There is no mechanism for skilled professionals in other areas to become teachers without expensive and time-consuming study. Schools have very limited budgetary flexibility to hire the teachers they need beyond the Ministry of Education student-teacher ratio funding formulae.

To address these concerns, the incoming government should:

- Permit schools to hire professionals with knowledge in critical subject areas but without a teaching qualification. Where schools are fully accountable to their parents and communities, teacher performance, rather than their qualifications, should be the decisive factor. Even so, schools may wish to support teachers recruited in this manner to work towards an accredited qualification. If more convenient for teachers-in-training, study could be completed online in partnership with an accredited provider. Alternatively, a new provider could be established to provide online support for this mode of teacher recruitment.
- Focus on encouraging more men to take up teaching.
- Enable schools to hire international teachers with key expertise without bureaucratic oversight. Immigration processes for these teachers should be expedited and rely only on good character checks. Teachers from non-English speaking countries should also be required to produce certification evincing sufficient proficiency in English to teach in New Zealand. Again, schools would be responsible for ensuring that these teachers meet the requirements for registration in New Zealand within a reasonable timeframe.

- Provide schools with a one-line budget, enabling them to pay a premium to staff in curriculum areas that are difficult to recruit, or who are otherwise particularly valued.
- Per-student funding should include both the operational and capital components of Vote Education and follow students who change schools.
- Ensure new principals receive mandatory, publicly funded courses focusing on management and financial competence.

## VII. Systems monitoring and providing information to parents

New Zealand has no nationally consistent assessment process at any stage of schooling. No data on student achievement is published at the school level by the Ministry of Education, limiting the extent to which schools can be held accountable for the progress and achievement of students. Neither do parents have reliable sources of achievement or progress information to guide them in choosing schools for their children.

To address these concerns, the incoming government should:

- Resource the National Monitoring Study of Student Achievement Educational Assessment Research Unit (NMSSA) to undertake a reliable sample study of achievement in reading, writing and mathematics every year, at every year level from Year 1 to Year 10. From Year 4 onwards, a sample should be selected for science as well. Other curriculum areas could continue to be monitored on a rolling basis in Years 4 and 8.
- Produce new assessment tools for reading, writing, mathematics and science suitable for teachers to assess students without the training required to undertake NMSSA

assessments. Alternatively, existing tools could be used if they are sufficiently aligned with NMSSA.

- The Ministry should support schools with statistical analysis, comparing progress made annually in each curriculum area by each year level with estimated NMSSA norms.
- A statistical model should be used to estimate the average progress expected in a year in each NMSSA curriculum area, and adjust the estimates based on all the socio-economic variables used to calculate equity index funding. The model would estimate progress norms and curriculum achievement expectations for individual schools.
- A parent portal should be available on the Ministry website. Schools could use the portal to inform parents, displaying comparisons of attainment and progress of students in each school with the socio-economically adjusted normative and curriculum progress expectations estimated by the model described above. These portals could also be used to publish other information for parents considered relevant by each school. This would give parents high-quality information to help choose schools for their children.

## VIII. The New Zealand Council for Education Research

The New Zealand Council for Education Research (NZCER) is mandated and partially funded by the Ministry of Education to study New Zealand's education system. The organisation produces high-quality assessment tools, including the Progressive Achievement Tests, which are widely used in schools. They also have a successful publishing wing. The research they conduct, however, is usually either qualitative, and therefore not generalisable, or

survey-based. While surveys produce useful information, research on, and evaluation of, Ministry initiatives such as Modern Learning Environments and child-led learning is urgently needed.

The incoming government should review and partially repurpose NZCER. Its publication function should continue as is. Its psychometric and assessment work should be expanded and resourced to carry out an augmented NMSSA. The core research function of NZCER should be refocused on large-scale quantitative, generalisable research on teaching and learning. It should employ intervention studies and other methods to elucidate the most effective methods of teaching. This would include piloting all Ministry teaching and learning initiatives and evaluating them post-implementation. Some qualitative research should still have a place, especially in conjunction with larger-scale quantitative studies. The research should be published in reports, give best-practice advice based on that research, and be made available to all teachers.

## IX. School choice

Greater school choice can help fix a state school system failing to meet the needs of its students, particularly those from low socio-economic backgrounds. The New Zealand Initiative's *Amplifying Excellence: Promoting transparency, professionalism and support in schools* (2017)<sup>32</sup> showcases how countries like England and the US significantly improved student outcomes by rewarding effective school leaders with more autonomy and flexibility in managing curriculum, school days, and resources.

Prior to their abolition in 2017, a handful of Partnership schools in New Zealand enjoyed such freedom. This empowered those schools to tailor their programmes to better suit the unique needs of their students, particularly those from disadvantaged backgrounds.

The incoming government should reintroduce the Partnership schools model and trial its extension to existing schools. Trialling greater budget autonomy and extending it to a wider range of schools could lead to a more inclusive and effective education system.

## CHAPTER 6:

# Reviving a failing healthcare system

New Zealand's healthcare system is facing critical issues of equity, accessibility and financial sustainability.

Health funding often focuses on short-term cost containment rather than long-term investment in service innovations that can improve consumer participation and independence. A new approach is needed. The ACC model, which effectively incentivises prevention, early diagnosis, and rehabilitation, provides valuable insights. Lengthening the financial horizon for health service funding and encouraging working with other social sector organisations could improve health outcomes.

The government's healthcare reforms in response to the Simpson Report fails to diagnose the problems of inadequate information and flawed incentives within the healthcare system. Focusing on centralisation is the wrong solution for the wrong problem. There is no clear evidence that structural reforms alone lead to better healthcare. Focusing on structure rather than developing models of care based on customer needs is putting the cart before the horse.

Concerns exist about the timing, cost and accountability of the current reforms, as well as potential competition between the new central health agencies. Centralisation seems to be the primary ideology driving the restructuring, but it might not be able to address the challenges facing the healthcare system.

The incoming government should prioritise funding incentives, accountability mechanisms, and integrating health and social services to better address accessibility, unmet needs, and disparities in health outcomes. The New Zealand

Initiative is researching how this might be achieved.

In the shorter term, the incoming government should address a series of more immediate healthcare challenges for which the Initiative has policy recommendations. These include:

- I. The shortage of healthcare professionals, most critically general practitioners.
- II. The need for an independent pandemic response agency.
- III. Changes to the scope of the Covid-19 Royal Commission's terms of reference and the composition of the Commission itself to attain the full benefit of the Commission.
- IV. Changes to Pharmac's modus operandi.
- V. Changes to Medsafe's approval processes.

### I. Addressing the GP shortage

The shortage of general practitioners (GPs) is due to a complex array of factors, including a lack of workforce planning, an ageing GP population, and an inadequate medical education system that has failed to keep pace with demand.<sup>33</sup>

The GP shortage has had serious implications for providing healthcare services in New Zealand. Facing long wait times to see a GP, many patients are seeking care in overcrowded emergency departments. There is also a significant regional disparity in access to healthcare services, with some areas facing acute shortages of GPs and other healthcare professionals.

In the short term, an aggressive and targeted recruitment programme for overseas-trained

doctors is necessary, which may require developing a funded bridging programme.

Increasing the medical student intake at the University of Auckland and Otago and introducing a community-embedded medical programme is also crucial for ensuring a sustainable GP workforce.

Additionally, exploring the possibilities of role and task substitution without compromising patient care should be considered. This could involve extending existing successful role substitutions and training health workers to be deployed quickly against need.

In the longer term, collaboration with primary care providers is needed to develop new operating models, including social investment practices and individual budget holdings for disabled people and those with chronic diseases.

Central agencies should also be reformed to enable and support local solutions and should undertake stock-and-flow modelling and scenario modelling to help inform health planners.

By addressing these recommendations, the healthcare system can help provide better access to primary care services and improve the overall health and well-being of New Zealanders.

## II. Pandemic response

The New Zealand Initiative contributed a great deal to the government's pandemic response, publishing more than a dozen research reports and shorter research notes, and writing dozens of columns in the mainstream media.<sup>34</sup>

Our most recent contribution, *Lifting the Lid: A critical analysis of COVID-19 pandemic management in New Zealand*,<sup>35</sup> made five key recommendations the incoming government

should implement (if they have not been actioned pre-election):

**Create a robust pandemic management plan:** New Zealand needs a plan to handle pandemics like Covid-19, with preparations for different scenarios and clear responsibilities for keeping threats out and containing outbreaks.

**Pandemic response agency:** A single coordinating body with professional governance should be responsible for executing the plan and responding to government directives.

**Include the private sector:** Any future pandemic response must involve both public and private sectors, using the expertise and experience of private individuals and organisations effectively.

**Invest in critical infrastructure:** New Zealand needs to invest in infrastructure – quarantine facilities, testing, tracing, and immunisation capacities – to avoid relying too much on lockdowns in future pandemics.

**Improve health system capacity:** The government must do more to retain and recruit health workers.

## III. Royal Commission on pandemic management

To ensure the incoming government gains the full benefits of conducting a Royal Commission of Inquiry into the government's pandemic management, we recommend the incoming government revise the Commission's composition and terms of reference.<sup>36</sup>

**Change chair of Royal Commission:** Professor Tony Blakely should be replaced by a judge as the chair of the Commission. Royal Commission chairs should be independent of the matters

covered by their inquiries. Blakely was a regular commentator on Covid-19 policy and sought to influence the country's pandemic response. He was also closely associated with the pandemic response in Australian state of Victoria.

**Change to terms of reference:** The Commission's terms of reference should be broadened. They are skewed towards assessing whether the elimination strategy worked and not whether it was the optimal strategy. At the heart of any public health response is the weighing up of costs and benefits. The terms of reference should expressly ask the Commission whether New Zealand got the balance right. The terms of reference also expressly preclude inquiry into mistakes made "in particular situations." If we are to get the full benefit of an inquiry into our pandemic response, investigating mistakes in particular circumstances should be part of the Commission's terms of reference.

#### IV. Tuning up Pharmac

Our research on Pharmac has documented its remarkable success, particularly in its first decade, in reducing the prices New Zealanders pay for therapeutic pharmaceutical medicines.<sup>37</sup>

Pharmac is nevertheless frequently criticised for factors that underpin this success and for factors outside its control. Its commercial price negotiations necessitate delays, elements of secrecy, and limits on the range of subsidised medicines for the same condition. And Pharmac is often attacked for not spending more even though its budget is fixed by government.

This latter criticism is symptomatic of the absence of any verifiable health or value-for-money criterion for setting Pharmac's budget. There is no clarity about what the problem is for which the last dollar of budget spending is the remedy. That eliminates formal accountability. Since the budget can never be large enough

to satisfy all the demand at a subsidised price, chronic dissatisfaction with the Pharmac system is a built-in design feature.

A separate problem with Pharmac has emerged more recently. For many decades, Pharmac treated all lives as having the same value. Members of one group were not given preferential access over others from a different group but with the same condition. Pharmac is bowing to strident pressure to depart from this principle. We address this problem in a second research report.<sup>38</sup>

Based on our two research reports, we recommend the incoming government:

- Adopt more international benchmarking of Pharmac's procurement performance.
- Restore the principle of equal treatment.
- Properly assess what the pharmaceutical subsidy budget intends to achieve and how to measure its progress towards that goal.

#### V. Medsafe

The pandemic experience showed that New Zealanders have delayed access to new treatments.

To address this, we recommend that the incoming government requires Medsafe New Zealand to recognise approvals from trusted overseas regulators for vaccines, drugs or treatments.

Specifically, the Initiative suggests that any product approved by at least two trusted agencies, either fully or under emergency use authorisation, should automatically receive matching approval in New Zealand.<sup>39</sup> In exceptional and rare circumstances, Medsafe could block that automatic approval if it had extraordinary reason to do so.

Patients would have faster access to new treatments that meet safety and efficacy standards.

This recommendation is far more urgent where changes in the Therapeutic Products Act make it more difficult for patients to access overseas-approved medicines.

## CHAPTER 7:

# Restoring housing affordability

House prices in New Zealand are among the most unaffordable in the world. This cost of living problem has a huge impact on the ‘average Kiwi.’ But it hits the poorest hardest. Unaffordable housing is a cause of poverty. It limits labour mobility. And it creates social division by splitting society into property owners and those permanently locked out of the market.

The housing affordability crisis is not a new problem. When the Initiative was formed in 2012, the housing crisis was the topic du jour. After 11 years, it has only become worse.

A trilogy of reports have examined both causes of and solutions to New Zealand’s housing affordability problem. *Priced Out: How New Zealand lost its housing affordability* (2012) traced the historical origins of the country’s housing affordability problem.<sup>40</sup> *Different Places, Different Means* (2013) found that unlike New Zealand, countries like Germany and Switzerland have avoided housing affordability problems by enabling council funding mechanisms that create incentives to promote infrastructure for housing.<sup>41</sup> *Free to Build* (2013) recommended solutions for unlocking the housing affordability problem.<sup>42</sup>

Subsequent reports have looked at the pernicious effects of New Zealand’s planning system on land supply<sup>43</sup> and the challenges of our ageing population.<sup>44</sup>

The fundamental cause of housing unaffordability is supply – we do not build enough homes. Our research has identified three underlying causes:

1. Planning restrictions make it difficult to increase population densities within cities.
2. Cities are also prevented from growing out because of rural-urban boundaries.
3. Any new development requires infrastructure investment, but councils find it onerous to finance such investment from new rates revenue. Consequently, councils face perverse incentives to oppose housing growth.

The first two problems are rooted in the planning system. The third stems from the limited tools available to local government to fund new infrastructure – roads and water infrastructure – for housing.

Our recommendations are summarised below. They have been reiterated and expanded upon in countless opinion pieces in the media, speeches and interviews. They have also influenced government and local government housing policy – most notably when a permissive Auckland Unitary Plan was adopted in 2016.

But along the way, aspects of government policy have gone backwards. As we explain in our 2023 submission to the Environment Select Committee, rather than alleviate housing affordability, Environment Minister David Parker’s proposals to reform the RMA will compound it.<sup>45</sup>

## I. Local government incentives

Currently, the GST or tax revenue generated by new housing and commercial buildings accrues solely to central government. Diverting this revenue to local councils would give them

incentives and resources to facilitate and fund development infrastructure and other services required by growing populations.<sup>46</sup>

## II. New infrastructure funding tools for local government

The incoming government should legislate to create new tools for local infrastructure funding and financing. Long-term infrastructure bonds, backed by specified revenue streams and without recourse to councils' main balance sheets, would enable costs to be spread over the usable life of the infrastructure. Issued by councils, these bonds would mirror the revenue bonds that constitute over 60% of US Municipal debt. Issued by private developers for funding infrastructure, backed by levies on the serviced properties, they would mirror Municipal Utility Districts. This approach would provide a stable and predictable source of funding for infrastructure, making it easier to plan and finance development projects.<sup>47</sup>

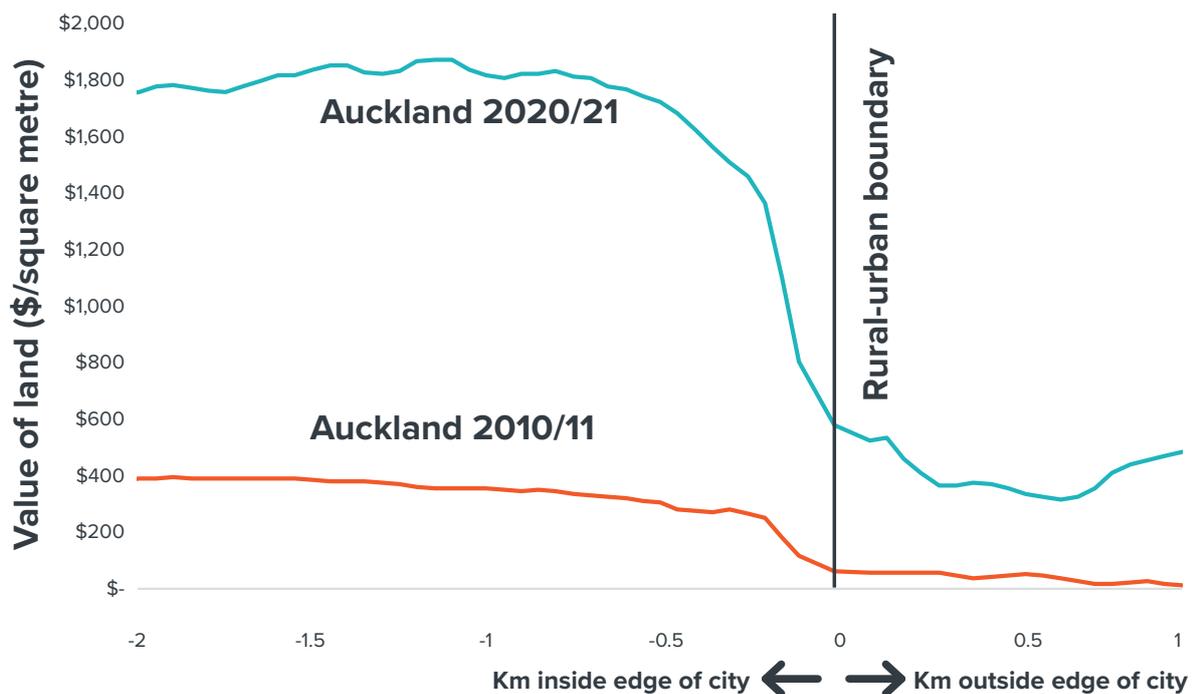
## III. Abolish rural-urban boundaries

Over the past decade, it has become easier to build new apartments and townhouses. From 2016, Auckland's Unitary Plan enabled more density. The 2020 National Policy Statement on Urban Development requires cities to allow more housing in places with good access to existing services. And the 2021 minimum residential density standards make it easier to add housing to existing lots.

Building *up* for cities has become much easier, but building *out* has not eased. The Infrastructure Commission funded a study looking at the cost of bare land on either side of New Zealand cities' rural-urban boundaries.

Published this year, the study showed land inside Auckland's urban boundary is valued at almost \$1,300 more per square metre than land just outside the boundary, after accounting for land conversion costs. Or more than \$600,000 for a 500 square metre section.<sup>48</sup>

Figure 2: Rising nominal urban land values near the edge of Auckland (2010-11 to 2020-21)



The price premium for zoned land at the city's fringes more than doubled between 2010 and 2020.

The problem is not confined to Auckland, though it is worst there. Tauranga, Wellington, Queenstown and Hamilton all show substantial premiums for land zoned for urban use after accounting for the cost of developing sections. In all cases, those premiums are higher than they were a decade ago.

The problem is not confined to city fringes. Urban land is typically the most expensive downtown, where commutes are short and amenities are near. Land prices ease as you move farther away. This urban land price gradient emerges as people decide how much they are willing to pay to avoid commutes and developers turn houses and townhouses in desirable places into apartments.

Restrictions on building at a city's fringes then don't just make new subdivisions a lot more expensive. They also make apartments and townhouses less affordable by making urban land far too costly across the entire city, suggests Treasury economist Chris Parker.<sup>49</sup>

Central government has laudably directed councils to enable more housing within cities. It needs to do the same to ease zoning at rural-urban boundaries.

The 2017 Labour-led Coalition Government pledged to "remove the Auckland urban growth boundary and free up density controls."<sup>50</sup> It subsequently backed away from this commitment, and Labour withdrew it as a campaign promise heading into the 2020 election.

The incoming government should revive the commitment. Rural-urban boundaries limit the amount of land that can be developed and increase the cost of land within the boundaries.

Removing these boundaries would increase the supply of land available for development, lowering the cost of land and making housing more affordable.

#### **IV. Abolish height and density controls**

Height and density controls should be abolished. These controls limit the height and density of buildings, which can lead to a shortage of housing in areas with high demand. Removing these controls would allow developers to build taller and denser buildings, increasing the supply of housing in areas where it is needed.

#### **V. Repeal the Natural and Built Environment and the Spatial Planning Acts**

At the time of writing, the legislation on natural and built environment and spatial planning was before Parliament. If not passed prior to the election, they should be discarded by the incoming government. If passed, they should be repealed. As we explained in our 2023 Submission to the Environment Select Committee, the reforms proposed in these two Bills are deeply flawed.<sup>51</sup> Instead of replacing many of the problems of the RMA, they perpetuate them. And they introduce a number of new threats to housing affordability (and to development and growth more generally).

Instead, the incoming government should amend the RMA to:

- Introduce a presumption in favour of development in the legislation, and
- Confront objectors to planning applications with the cost to the community of the foregone use of privately owned property by compensating property owners for regulatory takings involved in refusing planning consent. This would incentivise development and

ensure that property owners are fairly compensated for any losses resulting from planning regulations.

## **VI. New national planning framework**

We support the current government's proposal of a national planning framework defining zones, with councils able to paint those pre-set zones onto their district maps.<sup>52</sup> This approach would provide a consistent national framework for planning and development, making it easier for developers to navigate the planning process and reducing uncertainty.

## **VII. Caps and floors on restrictive zoning provisions**

The final short-term recommendation is to introduce constraints on the proportions of land in the least permissive (caps) and most permissive (floors) for councils with affordability problems.<sup>53</sup> This would ensure councils are not overly restrictive in their planning policies, which can lead to a shortage of housing and higher prices.

## **VIII. Replace RMA**

In the longer term, the incoming government should replace the RMA with a new planning regime that respects property rights and tackles externalities from development using market mechanisms.

## CHAPTER 8:

# Immigration reset

In April 2023, Statistics NZ reported a provisional net migration gain of 52,000 in the year-ended February 2023. The net gain comprised a net loss of 17,300 New Zealand citizens, which was more than offset by a net gain of 69,300 non-New Zealand citizens.

This is consistent with migration patterns before the Covid-19 pandemic, where New Zealand usually had an annual net migration loss of New Zealand citizens and an annual net migration gain of non-New Zealand citizens.

The net gain in migrant numbers will be welcomed by businesses facing acute shortages of skilled labour.

But immigration has become a highly polarising issue. Is immigration good for New Zealand? How do we assess its benefits for the nation? Are migrants squeezing locals out of the job and housing markets?

In *The New New Zealanders: Why immigrants make good Kiwis* (2016),<sup>54</sup> our researchers offered answers to these important questions.

The story of migrants who choose to move to New Zealand permanently is a very positive one. These migrants are less likely to claim a benefit and more likely to be employed – and their children have better educational outcomes than native-born New Zealanders.

New Zealand also experiences relatively little ethnic or migrant clustering; where concentrations do occur, there is no indication of high unemployment. 87% of migrants say they feel they belong to New Zealand. Surveys show New Zealanders, too, have a generally positive

view of migrants and value their contribution to the economy and cultural diversity.

Migrants certainly affect the housing market in a complex way. Economists Bill Cochrane and Jacques Poot note that high levels of migration and high house prices occur when the economy is doing well, but one does not necessarily cause the other. That is because visitors on a temporary visa, such as students, do not tend to buy accommodation but rent. In this, they compete with Kiwis in the rental market, but the effects on rents are modest.

Cochrane and Poot suggest instead it is the returning/remaining Kiwis, confident in their economic prospects, who have historically been responsible for pushing up house prices.

The perception that migrants steal jobs from native-born New Zealanders is widespread, but there is little evidence to support it. That is because the number of jobs in an economy is not fixed. Migrants also contribute to job growth by increasing demand for local goods and services.

Research into the effects of temporary migration in the decade to 2011 found a positive effect from immigration on the earnings and employment of New Zealanders. This may be because migrants fill jobs that the native born are reluctant to do, and because migrants boost the sectors in which they work.

Despite concerns that immigration is dragging down GDP per capita even as headline GDP grows, evidence suggests little reason for concern. Research from New Zealand and overseas finds that immigration improves productivity and GDP per capita growth.

A 2016 study found that migrants contributed a net +\$2.9 billion to the government's books in 2013. On a per capita level, this was equivalent to +\$2,653 per migrant.<sup>55</sup> Native-born New Zealanders contributed a net +\$540 million to the government's books, or +\$172 per person. This reflected the age structure of the native-born population, with only 47% in the economically active band in 2013 versus 60% for migrants.

On balance, the available evidence suggests that New Zealand benefits from migration, or at the very least, the country is not made worse off by it.

Against that background, questions arise in relation to the comparative hostility of the current government towards immigration following the reopening of New Zealand's international borders in the wake of the Covid-19 pandemic. Potential migrants face greater challenges in securing entry into New Zealand due to a combination of factors, including application backlogs, reduced overseas staff, and more stringent policy settings.

Our research suggests an immigration reset is needed. A summary of our recommendations to the incoming government based on our research is set out below.

## **I. Recognise migrants' contributions**

The incoming government should acknowledge and celebrate the contributions of migrants to their communities and the economy. Migrants bring a diverse range of skills, knowledge and experiences that enrich New Zealand's culture and economy. Recognising and promoting their contributions will help create a welcoming, inclusive and prosperous society for all New Zealanders.

## **II. Customer-service focus**

Immigration New Zealand (INZ) should focus on providing high-quality customer service to migrants. INZ plays a critical role in attracting and retaining migrants, and its processes and procedures should be transparent, efficient and welcoming. The government should ensure that INZ has the necessary staff and resources at home and overseas to deliver excellent customer service to migrants.

## **III. Ease bureaucratic hurdles**

The incoming government should ease bureaucratic hurdles preventing skilled migrants from coming to New Zealand. Migrants make valuable contributions to the economy, and their skills are often in demand in industries with labour shortages. The government should streamline the visa application process, reduce processing times, and simplify the eligibility criteria for skilled migrants.

## **IV. Ease policy settings**

The incoming government should ease policy settings, *at least* to their pre-pandemic levels, but with revised settings that are simple and predictable. Beyond this, the points-based system for migrants should be adjusted by attributing points based on the salary offered to migrants. This would be a more efficient way to evaluate migrants' skills than the current system of bureaucratic oversight.

## **V. Bilateral free movement agreements**

The incoming government should explore opportunities for bilateral free movement agreements with other countries. These agreements would allow New Zealanders to

travel and work in partner countries and vice versa. Bilateral free movement agreements can promote economic growth, enhance cultural exchange, and strengthen diplomatic relations.

## **VI. Build on trials of sponsored refugee systems**

New Zealand has a proud tradition of welcoming refugees. The incoming government should build on past trials of sponsored refugee systems to enable more refugees to build new lives here. Sponsored refugee systems help communities and businesses support refugees, especially with integrating them into New Zealand society.

## **VII. Oversee employers' power over migrant workers**

The incoming government should ensure work visas do not grant employers undue power over migrant workers. Migrant workers are vulnerable to exploitation, and the government should ensure their rights are protected. Tying workers to a particular employer can create a power imbalance and abuse, which should be countered with increased labour market inspection and enforcement.

## CHAPTER 9:

# A better approach to social development

New Zealanders should be a lot healthier and better off today than they were in 1970. Income-per-capita has more than doubled since then. The minimum wage is over 60% higher, inflation-adjusted.<sup>56</sup> Life expectancy is up, and child mortality is down. Medical care is better.

The numbers are tragically different. In 2012, the proportion of working-age New Zealanders on a sickness or invalid's benefit was six times greater than in 1970. Real hardship is manifest. The incidence of child abuse and neglect is shameful. All up, 11% of the working-age population were on a main welfare benefit in March 2023.<sup>57</sup> The proportion was around 2% in 1970.

Our welfare system has grown massively in recent decades, but it continues to fail many New Zealanders with complex problems. It has failed in job-ready education and access to jobs. As at June 2022, 53,500 people had been looking for work for more than a year while on the Jobseekers benefit.<sup>58</sup> Yet, the well-being literature shows involuntary unemployment is the enemy of well-being.

The New Zealand Initiative's core mission is to create a better nation for all New Zealanders. In a trio of reports, we investigated the state of poverty and welfare in New Zealand.

In *Poorly Understood: The state of poverty in New Zealand*,<sup>59</sup> we found that New Zealand's poverty statistics are heavily politicised. Alarmist reporting based on household income-based poverty measures obscures the real problem: the *material hardship* some households suffer. We found big differences between various ethnic groups and their experience of material hardship. And we identified housing costs as a major driver of material hardship.

In *The Inequality Paradox: Why inequality matters even though it has barely changed*,<sup>60</sup> we found that housing costs aside, income inequality has not changed materially in New Zealand for more than two decades. In other words, the international narrative about rising inequality over the past decade or so does not play out here. Despite this, reports of rising inequality persist. Our research also revealed that for disadvantaged members of society, rising house prices have cancelled the benefits that would have otherwise come from rising incomes.

The final report in the series, *Welfare, Work and Wellbeing: From benefits to better lives*,<sup>61</sup> evaluated the effectiveness of New Zealand's welfare system. Perhaps of most concern was the revelation that our welfare system has passively fostered a self-perpetuating cycle of benefit dependency. The evidence is stark. Benefit-dependent parents are producing benefit-dependent children. Nearly three-quarters of those on a benefit by age 25 had a parent on a benefit.

Early entry to the benefits system foreshadows long-term benefit dependence. It also indicates likely child abuse, neglect and youth justice issues. Teenage beneficiaries tend to be long-term beneficiaries. As at 30 June 2016, those with this history accounted for 75% of the future fiscal cost of working-age benefits. That is 75% of \$76 billion.

The old left vs right debates on the welfare state are futile. We should all be able to agree on the need for a safety net for those who need it. But many need more than just a welfare payment. They need non-monetary help to achieve their

potential to lead fulfilling, independent lives. It should be common ground that welfare policy should aim to improve well-being.

We summarise below our recommendations for the incoming government on what needs to change if our welfare system is to improve well-being.

## I. Joined up, early intervention

Evidence-based, early intervention makes sense. The previous National-led Coalition Government's Social Investment Approach was an early intervention strategy. It used data pooled across government agencies to assess who was at risk. It helped determine which programmes are effective. It also restructured state delivery to better help those with complex cross-agency needs.

The value of timely early intervention and taking a long-term perspective of beneficiaries' well-being should be common ground. But the impetus to evaluate successful programmes has faded since 2017.

The incoming government should reintroduce and expand the social investment approach. The Productivity Commission's 2015 report, *Better Social Services*,<sup>62</sup> provides a good template for the future. The incoming governments should use integrated datasets to identify areas that need the most attention and which programmes show results. It should empower those with the most complex needs. It should tap local knowledge, expertise and innovation. It should contract for *outcomes*. It should measure post-benefits well-being. And it should maintain the annual actuarial liability measure, which helps assess both progress and the sustainability of the welfare system.

## II. Welfare policy needs mates

Welfare policy is much more than just benefits policy. Economic growth encourages job creation. Productivity growth lifts wage rates. Education, health, labour market and housing policies should aid rather than hinder the opportunities of those who are being left behind.

## III. Increase innovation

The New Zealand Initiative's research has explored the effectiveness of two innovative, more holistic approaches to providing social assistance to beneficiaries.

In *Investing for Success: Social Impact Bonds and the future of public services* (2015),<sup>63</sup> we examined social impact bonds as a novel and potentially more effective form of social service delivery. And in *The Power of Freedom: How personal budgets for social services are transforming lives* (2021),<sup>64</sup> we described a fundamentally different funding model for social services that gives control and responsibility to recipients of support services. Relative to traditional funding models, our research suggested this form of individualised funding offers larger well-being gains through greater flexibility and responsiveness to needs and higher quality of service. Disability services use the individualised funding model. The model can be extended to aged-care and mental health services.

We recommend the incoming government embrace both these mechanisms.

# REGULATION

## CHAPTER 10:

# Better regulation and better regulators

New Zealand has too many regulations. Between 2009 and 2014, New Zealand produced four times more regulation than the UK did with only 1/14th of the British population, the Productivity Commission noted in its 2014 inquiry on regulation.<sup>65</sup>

The cost to the economy of assimilating such a huge volume of regulations is cause enough for concern. But much regulation is neither fit-for-purpose nor well-crafted. Indeed, the Productivity Commission cited a survey in which two-thirds of public sector CEOs agreed agencies had to work with outdated or ill-suited regulations.<sup>66</sup>

In *Reducing Unnecessary Regulatory Costs* (2015), we identified six procedural reasons for New Zealand's underperforming regulatory system:<sup>67</sup>

- 1. Over-reliance on primary legislation:** New Zealand's overreliance on primary legislation is unusual by international standards. Other countries use more secondary and tertiary legislation to amend outdated rules. Most regulatory changes in New Zealand require amendments only Parliament can make.
- 2. Ministerial leadership:** If ministers do not demand quality policy analysis and regulatory performance, they are unlikely to get it. We are not convinced ministers are demanding enough of such analysis.
- 3. Policy formation processes:** Regulatory agencies naturally lean towards solutions promoting their area of expertise and views, and against shrinking their budget and powers. Yet it is vital to identify and consider worthy nonregulatory options.
- 4. Defining the scope of a regulator's powers:** Good delegation principles are often absent

when legislation gives decision-making powers to regulatory bodies.

- 5. Regulatory appointments:** Appointees to regulatory bodies do not have the necessary commercial experience and subject matter expertise.
- 6. Regulators' incentives:** There is often no equivalent 'voice for innovation' to balance the 'voice for risk.'

Overcoming such procedural issues is vital to improving the quality of regulation. We regularly highlight the need for proper cost-benefit assessments in our research and commentary. We are unconvinced that proposed alternatives, such as Treasury's Living Standards Framework, produce the required intellectual rigour.<sup>68</sup> Careful weighing of costs and benefits should be a key feature in all regulatory decisions for central and local government. As we explained in, *Deadly Heritage* (2015), one example is the interaction between seismic strengthening and heritage protection.<sup>69</sup>

The copious volumes of regulation in New Zealand are matched by an army of regulatory agencies wielding enormous powers. How they exercise those powers really matters. Poor regulatory decision-making creates risk and uncertainty, stifling innovation and efficiency. Ultimately, consumers suffer through higher prices.

*Who Guards the Guards? Regulatory governance in New Zealand* (2018) found serious shortcomings in the performance of New Zealand's regulatory agencies.<sup>70</sup> The follow-up report, *Reassessing the Regulators: The good, the bad and the Commerce Commission* (2021), showed continued deficiencies. We also found damning evidence

of poor performance from one of New Zealand's most important regulatory agencies, the Commerce Commission.<sup>71</sup>

We summarise below our recommendations on regulation making, regulatory stewardship, and in relation to the governance of regulatory agencies.

### **I. Improved cost-benefit assessment**

We need to re-establish the use of rigorous cost-benefit assessment. This means evaluating the costs and benefits of *each new regulation* to ensure the benefits outweigh the costs. No new regulations should be introduced unless the benefits demonstrably exceed the costs.

Additionally, the incoming government must ensure the costs of complying with the regulations are shared in a principled manner among all parties. This will help ensure that the regulations are necessary and do not impose undue burdens on individuals and businesses.

### **II. Regulatory stocktake**

New Zealand's existing regulations should be subject to the same cost-benefit review as new regulations. Under the purview of a senior minister, this review can help remove or revise obsolete or onerous regulations.

### **III. Change in regulatory culture**

A change in public service culture from one of ticking boxes and managing risk to one that encourages greater flexibility and innovation is required.

Regulators should focus on achieving the desired outcomes of regulations rather than simply comply with the rules. This will encourage

innovation and ensure that regulations are effective.

### **IV. Reform Commerce Commission governance**

To address the Commerce Commission's poor regulatory performance, we recommend Parliament reform the Commission's internal governance. The regulator's flawed 'commission' governance model should be replaced with the 'board governance' model of the Financial Markets Authority (FMA) and RBNZ.

The commissioner's role must be made largely a governance (or 'board member') role, with substantial decision-making power delegated to the Commission's regulatory staff. This will introduce an internal governance check over regulatory decision-making.

At the same time, refashioning the governance role to one of board membership will help broaden the pool of potential commissioners, enabling recruitment of more commissioners with relevant commercial expertise.

### **V. Refocus Commerce Commission's market studies powers**

The Initiative opposed the introduction of market studies powers because they are costly, invasive and unnecessary investigations.<sup>72</sup> The Commerce Amendment Act 2018 introduced powers even more extensive than those of the police. Such powers are justifiable when the Commission is investigating alleged breaches of the law. But that does not justify compelling businesses to hand over records and answer questions under oath just so the Commission can understand how competition works in a market.

The powers are also unnecessary. The Commission's typical competition concerns

centre on the number of participants in a market. Yet potential competitors do not need powers of compulsion to work out whether market entry is feasible. Nor should the Commission. All it needs is commercial acumen.

Better regulatory outcomes could be encouraged by refocusing the Commerce Commission's market studies process to areas where the Commission has been precluded from other forms of investigation. Section 43 of the Commerce Act exempts arrangements authorised by statute. But sets of statutes and regulations can be detrimental to competition over time.

Rather than undertake one substantial market study per year, at a high cost both to the Commission and the industry sector under investigation, the Commission should undertake more frequent, smaller desk-based exploratory studies. These studies should focus on regulatory and legislative barriers to entry and their effects on competition.<sup>73</sup> If a new player wished to enter the market, would regulatory processes make entry prohibitively costly? Good initial candidates for such studies would include the markets for medical services and training medical professionals and specialists.

The Commission does not need powers of compulsion to perform this role. The incoming government should repeal them.

## **VI. New Regulator Assessment Authority**

Both the Productivity Commission's 2014 report and our two reports on regulatory governance

found deficiencies in the external monitoring of regulatory agencies.<sup>74</sup> To address these concerns, we recommend that for the three all-of-economy regulators – the Commerce Commission, the FMA and the RBNZ – Parliament should create a new “Regulator Assessment Authority” modelled on the Financial Regulator Assessment Authority (FRAA) in Australia. The new Authority should produce three-yearly reviews for Parliament on each regulator's performance.<sup>75</sup>

## **VI. New independent appointments agency**

Robust and transparent appointment processes are critical in regulatory governance and performance. Good governance structures will fail if those responsible for governing are not up to the task. Yet both the Productivity Commission's report and our research reveal shortcomings in how leaders of New Zealand's regulatory agencies are appointed.<sup>76</sup>

The UK and Canada have established independent appointment agencies to address concerns about appointments to government-controlled agencies.<sup>77</sup>

We recommend Parliament create an independent agency to subject all governance appointments to regulatory agencies to robust, independent scrutiny and a standardised process, including evaluating candidates against a published skills matrix.

## CHAPTER 11:

# Freeing up foreign investment

In a series of research reports in 2013 and 2014,<sup>78</sup> the Initiative showed that:

- New Zealand’s foreign direct investment regime residing in the Overseas Investment Act 2005 (OIA) is among the most hostile towards foreign investment of those measured by the Paris-based OECD, and
- Foreigners’ ability to invest directly in New Zealand depends on decisions by bureaucrats in Wellington.

We found there is no foundation for fears about foreigners “taking over” New Zealand’s land and resources. The stock of inward FDI as a percentage of GDP is about a third lower than it was 25 years ago.<sup>79</sup>

Conversely, our country’s stifling investment regime reduces the value of New Zealand’s resources.

International data shows that well-managed FDI benefits domestic economies. Countries that invite international investors typically boost their competitiveness by attracting not just foreign capital but also the accompanying technologies, management expertise, and access to overseas markets.

Perhaps not surprisingly, other developed economies like the UK do not even have laws like our OIA. Instead of broadly prohibiting foreign investment (subject to regulatory approval), other developed countries are more open to foreign investment, subject to national security interests.

A summary of the recommendations from our research is given below.

### **I. Abolish the Overseas Investment Act**

The incoming government should abolish the OIA. Instead, it should enact a limited protection regime against the kind of foreign ownership that could harm New Zealand’s national security interests.

### **II. Subject all investors to the same rules**

All investors, domestic and foreign, should be subject to the same rules. This will create a level playing field and remove any advantage that domestic investors may have over foreign investors. This will also promote fair competition and create an environment that encourages investment and innovation.

### **III. Protect property rights**

The freedom to sell property to whomever one wishes should be guaranteed unless foreign ownership triggers national security concerns. Where national security is at stake, appropriate compensation should be made to would-be vendors unable to sell their property to the highest bidder. This will protect the country’s interests and respect property rights.

## CHAPTER 12:

# Labour market reform

Labour market settings should be evidence-based and support the goal of improving productivity and overall well-being.

Judged by their results, New Zealand's labour market settings have performed very well over the past three decades. As we explained in *Work in Progress: Why Fair Pay Agreements would be bad for labour* (2020),<sup>80</sup> since abolishing compulsory collective bargaining and industrial awards in 1991:

- New Zealand's labour market participation rate has consistently been among the highest in the world.
- Our labour market has the third-highest rate of job creation in the OECD.
- Our unemployment rate has been relatively low compared with our OECD peers.
- Average real ordinary hourly wages have increased by 30%, with average real wage rates rising in all wage deciles. This is at a time when wages for low-income workers have been stagnating in some OECD countries for decades.

It is, therefore, no surprise that the OECD singled out New Zealand (and Denmark) as countries where real median wage growth has closely tracked productivity growth.<sup>81</sup> In other words, notably among other OECD countries, our labour market has increased wages in line with increases in productivity.

Against this background, the Initiative's research shows that it was a mistake for the current Government to pass the Fair Pay Agreement Act

2022. A system of FPAs will reduce the flexibility of labour markets and increase their operational complexity. They risk locking in inefficient practices and harming productivity growth. They will eventually harm Kiwi workers and firms, along with consumers and the unemployed.<sup>82</sup>

Several other employment reforms introduced by the previous Labour-led Coalition Government also damaged the interests of would-be workers, consumers and wider well-being. These reforms should be reversed.

Despite their good track record, New Zealand's labour markets could be even more flexible and efficient for the benefit of both firms and workers. In particular, there are strong grounds for narrowing the scope of the unjustified dismissal provisions of the Employment Relations Act 2000 (ERA), as we outlined in *Nothing Costs Nothing – Why unjustified dismissal provisions should not apply to the highly paid* (2021).<sup>83</sup>

Personal grievance procedures were designed to guard the jobs of ordinary workers from “unjustified dismissals.” But these provisions create difficulties for businesses when applied to highly paid managers and executives. As countless boards and business owners will attest, constraining firms from firing poorly performing, high-earning managers is a handbrake on boosting productivity and overall performance.

Against this background, we offer the following recommendations.

## **I. Abolish the FPA Act**

The FPA Act will take New Zealand's labour markets back to a variant of the awards system that dominated industrial relations before the 1991 reforms. The case for introducing FPAs was weak, while the case against it was strong. The incoming government should repeal the FPA Act.

## **II. Amend unjustified dismissal procedures**

The incoming government should amend the unjustified dismissal provisions of the ERA to follow Australia's approach and exclude high-income earners from the protection of unjustified dismissal laws.

## **III. Re-introduce youth rates and 90-day trial periods**

To encourage employing the young and the unemployed, the incoming government should re-introduce both:

- lower youth minimum wage rates to foster youth employment, and
- 90-day trial periods for all employees.

## CHAPTER 13:

# Digital regulations

New Zealand's regulatory framework has adapted well to enable a growing space industry but not with technological changes in other areas.

In *Analogue Regulations, Digital World* (2017), we examined a range of technological changes and whether our regulations have kept up.<sup>84</sup>

We found New Zealand's regulations have generally valued outcomes over procedural compliance, but still fall short of the necessary standards in some cases. This hinders digital innovation and prevents smaller firms from adopting productivity-enhancing innovations developed elsewhere in the world. New Zealand must urgently update its regulations to stay at the forefront of technological advances.

Based on our research, we recommend:

- Copyright laws should be modernised to allow for more creativity and innovation.
- Access to open data must be improved without compromising confidentiality.
- Anti-money laundering legislation should be sensitive to the size of potential risks so it not hinder digital innovation.
- Regulatory Impact Statements should consider whether compliance with rules from comparable jurisdictions is adequate for New Zealand.

## CHAPTER 14:

# Disaster management

The aftermath of Christchurch's earthquake offers lessons for recovery from subsequent disasters, including this year's Cyclone Gabrielle. In *Recipe for Disaster: Building policy on shaky ground* (2018),<sup>85</sup> we showed how government could simplify post-disaster recovery.

### I. Disaster preparedness:

- Central and local government should focus on providing early certainty to households and businesses about their responses to natural disasters.
- Central government should establish a pre-existing framework for any post-disaster recovery agency. It should have immediate access to 'off-the-shelf' plans and systems. Governance structures must be better fit-for-purpose, defined and constrained.
- Councils' long-term plans should include disaster contingencies. They might include:
  - Provisions for responding to a sudden shortage of liveable housing.
  - Triggers that automatically amend, suspend or remove business-as-usual provisions likely to unduly impede recovery if a natural disaster occurs.
  - Pre-agreed specific 'nice to have' projects in the event of a major rebuild opportunity. The aim is to limit delay from too much 'blue sky' debate post-event.

- Central government should provide greater clarity pre-event about post-event cost-sharing arrangements with local government. Time is lost if post-event aspirations for central government funding are unrealistic.
- Central government should consider mechanisms like the Reserve Bank's Open Banking Resolution framework for failed insurers.

### II. Post-disaster response

- Post-disaster plans should recognise not only the importance of clarity about infrastructure rebuild (roads and other essential utilities) but also the importance of regulatory (regime) certainty to aid organic development within cities.
- A recovery agency should again be set up expeditiously. Its structure should allow competent local authorities to play a full role and a more supportive role where needed.
- Anchor projects and precinct designations should be avoided.
- The planning and building functions should be separated for any future anchor projects. The skills are different.
- Government should ensure any post-disaster emergency legislation incorporates provisions for takings based on the Public Works Act rather than bespoke measures.
- Government should quickly seek declaratory judgments in key test cases arising after a major disaster.

### III. Earthquake strengthening and heritage protection

Heritage buildings make cities like Wellington beautiful but dangerous. A joint report by Deloitte New Zealand and The New Zealand Initiative studied how councils can balance earthquake readiness and sensitivity to the city's heritage character.<sup>86</sup>

Owners of heritage buildings can be in an invidious position. Some buildings cannot be cost-effectively strengthened without compromising the building's historic character. It is worse where heritage-listed apartments or flats are held under unit title by multiple owners of limited means. The complex processes prevent some projects even from getting started.

We recommend a positive way forward for the incoming government. Council should be required to reconsider the heritage status of buildings that are of limited historical value but that pose substantial risks to the public. For other buildings, the consenting process should strike a more reasonable balance between heritage preservation and consequent costs.

At the same time, councils should provide better support to owners of heritage buildings to preserve the valuable amenity. Buildings stuck in the evaluation and consenting process should be identified, and their owners helped in making headway. Where the public benefits from heritage buildings, the public purse should bridge the gap between cost-effective strengthening solutions and the repairs that are most sensitive to a building's heritage features.

One underlying problem is the over-designation of heritage buildings. Councils can heritage-list buildings without the consent of their owners, who then face substantial impediments in improving and maintaining their properties. Central government should consider limiting the proportion of properties that can be heritage-listed by councils or requiring that councils purchase an easement from owners if they wish to list a property. The resulting constraint would encourage councils to focus preservation efforts on the most valuable buildings.

## CHAPTER 15.

# Striking the balance on lifestyle regulation

Lifestyle regulations like taxes and restrictions on the sale of alcohol and cigarettes can be perilous for policymakers. Striking the right balance between public health objectives and individual freedom is often fraught with unintended consequences.

The Initiative has researched various aspects of lifestyle regulation, including tobacco harm reduction, sugar taxes, food taxes, e-cigarette regulation, alcohol policy, and the night-time economy.

Our goal is to provide evidence-based, targeted recommendations that minimise these risks and maintain individual liberties while promoting a healthier and more balanced environment for all New Zealanders.

### I. Sugar taxes

We advise eschewing soda or sugar taxes and focusing on targeted interventions, such as public health campaigns and education, to promote healthier diets.<sup>87</sup>

### II. Night-time economy

To promote a vibrant night-time economy, the government should adopt successful international approaches, such as Melbourne's agent of change principle and Amsterdam's night mayor, and decentralising decision-making to reflect communities' needs and interests.<sup>88</sup>

### III. Alcohol

On alcohol policy, we recommend shifting from population-level measures like excise and restrictive licensing conditions to measures targeting harmful use.<sup>89</sup> We encourage adopting South Dakota's 24/7 regime, where judges can impose monitored no-alcohol conditions for repeat alcohol-related offenders. This approach has substantially reduced alcohol-related offences.

### IV. Tobacco harm reduction

Our research in 2016 and 2018 on tobacco harm reduction and vaping recommended permissive regulatory environments for reduced-harm alternatives to smoked tobacco, which the Ministry of Health also supported.<sup>90</sup>

While the government's policy on vaping products has been consistent with a harm-reduction approach, its policy on smoked tobacco has not. We recommend the incoming government:

- Maintain a liberal regime for reduced-harm nicotine products, including adding Snus as an alternative.
- Abandon recently adopted Smokefree 2025 policies, including Very Low Nicotine Content regulations, sharp reductions in the number of allowed retail outlets, and tobacco-free-generation rules that will gradually shift the entire population to prohibitionist approaches.

- Re-evaluate regulations on e-cigarette flavourings and maximum nicotine concentrations to ensure vaping remains an accessible and attractive harm-reduction option for smokers.

# **ENVIRONMENTAL POLICY**

## CHAPTER 16:

# A planning system that works

The RMA has been hated almost from the time it was enacted. Conceived by the Fourth Labour Government and implemented by Jim Bolger's National Government, the RMA was to herald a new era of simplified planning laws. The new law replaced the former Town and Country Planning Act's "needs-based" approach to the grant of planning permission with an "effects-based" approach. No longer would development depend on the central planning nightmare of persuading an official that a new commercial development was "necessary." Instead, new developments would depend on satisfying officials that the "effects" of development on the environment were satisfactorily mitigated.

After more than 30 years and a couple of dozen amendment Acts, the RMA's failure is an undisputed fact.

The Initiative has long-viewed the RMA as being fundamentally unfit for purpose. The RMA has restricted environmental outcomes, blocked people from building houses where they want to live, and stymied economic development – all at enormous cost for everyone involved.<sup>91</sup>

Deep dissatisfaction with the Resource Management Act stems from matters including:

- Failing to identify the problem for which sustainable management is the solution, leading to overbroad coverage.
- Difficulty in establishing agreement over environmental bottom-lines in a system that does not recognise opportunity costs.
- Elimination of the common law test of standing, expanding the number of parties who are able to veto or to dramatically increase the cost facing anyone wishing to

do anything that requires a consent.

- Rejection of property rights: Section 85 of the original Act ruled out compensation for lost value in private property when use rights are restricted for the benefit of non-owners.
- Lack of an effective mechanisms for enforcing compliance with section 32 of the original Act, which required cost-benefit assessment.
- Failure to distinguish public good from private good situations.

These flaws led to predictable adverse consequences. If objectors are not responsible for the costs they impose, then the number of objections mushrooms. At the same time, objectors are encouraged to overstate their losses from land-use change. This makes it harder to identify cases in which land-use change would impose real and substantial harm.

The complexity of the contending considerations inevitably disenfranchised those who could not afford to hire experts. Planners determined plans ignorant of the cost of the forgone opportunities, or even knowledge of realistic alternatives.

At their heart, planning laws should help discover the best use of scarce resources. They do this by controlling externalities like pollution, and by helping coordinate the provision of public spaces and infrastructure corridors.

In place of the RMA's ill-defined objective of "sustainable development", the new regime proposes strict environmental "bottom lines." But resource use decisions involve trade-offs. Whereas the RMA permitted assessments of costs and benefits of these trade-offs, the proposed reforms

offer no such safety-net. Instead, Parliament and central planners will carve decisions in stone.

Efficiency can be a reasonable standard for assessing trade-offs between outcomes. But the Natural and Built Environments Bill (the Bill) makes no reference to property rights and price mechanisms necessary for economically efficient outcomes. Worse, equity is included as a goal for planners. Equity is vitally important but is better addressed through central government's social welfare systems.

Overlaying the Bill's principles is a Te Ao Māori concept incorporating the relationship between iwi and individual hapū and the natural environment. Called Te Oranga o te Taiao, this principle will place unspecified, undefined, and unpredictable race-based considerations at the heart of the planning framework. Planning outcomes will become less predictable as a consequence.

Problems with the existing resource management system remain under the regime proposed by the new Bill. Regional spatial strategies need not put much weight on the cost of prohibiting land use change when making determinations. The new regime still assumes that politicians, bureaucrats and planners come to the task without their own personal views and are able to assess trade-offs between conflicting objectives to reach a best outcome for the community. Those wishing to prevent a private landowner from changing the use of that land are not confronted with the opportunity cost of the restriction. Determinations are then fraught.

Fixing resource management is vital. But the proposed legislation is too deeply flawed, including:

- Setting 18 system outcomes with no hierarchy among them or ways of weighing different objectives against each other when they conflict may make

it impossible to set a National Planning Framework that could survive legal challenge and judicial review.

- Undermining both subsidiarity and the viability of local councils themselves when planning decisions are sent to regional councils instead of local councils.
- Further denigrating subsidiarity by incorporating greenhouse gas emissions into regional planning, when it is already and best handled by central government.
- Failing to address the incentive issues at the core of poor council planning.

The reforms are trying to solve a deep incentives problem in how councils plan within a far-from-perfect resource management framework by pulling planning up to regional bodies. Legislation should instead address the incentives issues that led to current outcomes while avoiding duplicating the inadequacies of the existing system.

In a nutshell, the RMA's architects created a tragedy of the anti-commons problem: too many veto players means any change is far too hard to come by. They disregarded how ill-assigned private property rights impair both development and the natural environment. The architects of the current reforms have made the same mistake.

At the time of writing, Parker's reforms had not been passed by Parliament but could be by election time. Either way, we urge the incoming government to reject them – and either cease the passage of the Bills into law or pass legislation repealing them.

Instead, as set out in Chapter 7, we recommend a mix of short and longer term reforms to address the adverse effects of current planning regulations on housing affordability and create a principled approach to resource management. In particular, we recommend the incoming government:

- Abolish rural-urban boundaries.
- Abolish height and density controls.
- Repeal – or if not passed, reject – the Natural and Built Environment and the Spatial Planning Acts and, instead, strengthen property rights by:
  - Introducing a presumption in favour of freedom to build in the Resource Management Act 1991, and
  - Confronting objectors with the cost to the community of the foregone use of privately owned property by compensating property owners for regulatory takings.
- Implement the current government’s proposal of a national planning framework defining zones, with councils able to paint those pre-set zones onto their district maps.
- Introduce constraints on the proportions of land in the least permissive (caps) and most permissive (floors) for councils with affordability problems.
- In the longer term, replace the RMA with new planning laws that respect property rights and tackle externalities from development using market mechanisms.

## CHAPTER 17:

# Climate change policy

Putting a price on greenhouse gas emissions is the single best way of reducing New Zealand's net emissions. Our Emissions Trading Scheme (ETS) is not perfect but improving it will be better than adding alternative regulatory measures to reduce emissions.<sup>92</sup>

Our research has shown that measures undertaken outside the ETS, even if carefully designed, risk being less effective and far less cost-effective than working through the ETS.<sup>93</sup> Worse, regulatory measures taken outside of the ETS that disregard the effects of the ETS risk being both costly and completely ineffective in reducing net emissions.

Against this background, we recommend:

### I. Rely on ETS

The ETS should be the main tool for reducing greenhouse gas (GHG) emissions. By relying on the ETS's fixed cap, government can limit the net emissions produced by those industries covered by the scheme and, using the price of carbon credits, incentivise them to adopt cleaner technologies.

### II. Rigorous assessment of non-ETS measures

Evaluate any non-ETS measures based on their cost-effectiveness. When considering other ways to reduce GHG emissions outside of the ETS, it is critical to look at the cost-per-tonne of the reductions. This means calculating how much money it takes to eliminate one tonne of GHGs using each method. By doing this, government

can compare different options and choose the most efficient ones.

The government must be transparent about the costs for each non-ETS measure by reporting the cost-per-tonne of GHG reductions. This will ensure central government, market participants, and taxpayers understand the financial implications of each method and make informed decisions about which ones to support.

### III. Focus on net, not gross, emissions

The Zero Carbon Act set a target of *net* zero. The ETS was designed to reduce *net* emissions. Reducing net emissions rather than gross emissions should be the Climate Change Commission's focus.

### IV. Revise the price cap

The ETS's price cap should be revised to track the average price in international carbon markets deemed credible by the Climate Change Commission. At the price cap, government should purchase units from credible markets to back New Zealand emission unit (NZU) releases, ensuring the New Zealand carbon price remains in line with global markets.

### V. Fix the number of unbacked carbon units

The government should fix the number of unbacked from-thin-air units that can be issued by governments between now and 2050. Those units, plus currently outstanding from-thin-air

units, would be the hard and known cap on net emissions. Cross-party agreement on the quantity would make the system more durable. At the same time, government could provide a guarantee to buyers of NZUs. If a future government issue exceeded the hard quantity of units, NZU holders would be eligible for compensation. Parliaments cannot bind future Parliaments, but they can make some actions more expensive. With a hard, fixed quantity of units, carbon budgets can become far less important – at least for the covered sectors.

## **VI. Avoid ETS distortions**

Rather than distort the ETS to achieve desired distributional outcomes, undesirable distributional consequences of relying on the ETS should be dealt with by:

- Transferring revenues earned through government auction of ETS credits to households, and
- Supplementing those transfers through other additional benefits payments to targeted households, if necessary, rather than distorting the ETS to achieve desired distributional outcomes.

## CHAPTER 18:

# Sustainable freshwater management

In two reports and an article in *Policy Quarterly*, the Initiative demonstrated how smart cap-and-trade markets can improve freshwater management.<sup>94</sup>

Successive governments' reluctance to deal with potential iwi water claims have hindered better water management.

Cap-and-trade systems provide better environmental quality at lower cost than other regulatory alternatives. But the more that a consent to draw water resembles a tradeable property right, the more likely it is to draw a Treaty of Waitangi challenge.

However, legitimate iwi claims to water in catchments where iwi rights were not ceded by Treaty, contract or sale are worth resolving for their own sake. Property rights matter. Recognising that would also enable implementing better overall water management regimes.

Environmental standards would constrain trading platforms for separate smart-markets for both water allocation and nutrient management.

We recommend that:

- Central government should fund development and implementation systems. This work would be more substantial for nutrient management than for water drawing rights.
- Initial catchment-level caps should not be lower than current use, and should incorporate room for allocation to iwi. We suggest an initial trial in Canterbury.
- Initial allocations to current consent-holders – whether agricultural, commercial, industrial or urban – can be designed to provide permanent tradeable rights, longer-term but non-renewable rights, or a bundle of non-renewable annual rights extending over the same period.
- The burden of reductions from those initial caps to sustainable limits should be shared between water users and the broader community through a combination of Crown purchases and retirement of allocations, and by a structure of initial allocations that reduce the rights held by current users over time.
- Sustainable catchment-level caps should be determined by local communities, with input from iwi and hapū. They should be informed by strong environmental science, and by information revealed over time by the trading system.
- The Crown could define minimum river flows, which would be protected by the trading system. Additional water rights awarded to local iwi and hapū above that minimum flow could be left with the river or traded.
- To be effective, the cap-and-trade systems should involve binding and environmentally meaningful caps. Those require effective monitoring and enforcement activity. Appropriate structure of the initial property rights will reduce enforcement costs.

**INFRASTRUCTURE, ENERGY  
AND TRANSPORT**

## CHAPTER 19:

# Sustainable energy policy

The Initiative's research has shown that renewable projects in New Zealand (hydro, geothermal, solar and wind) are already on track to increase their share of energy production to 95% within the next 20 years.<sup>95</sup> But further government intervention to eliminate the last 5% of non-renewables would be unduly expensive and could increase greenhouse gas emissions.

To achieve a sustainable, cost-effective, and reliable energy system, the incoming government should take a flexible and market-driven approach and scrap the goal of achieving 100% renewable energy. This target is too rigid and might increase costs for consumers.

Instead, the incoming government should focus on emission reductions through the ETS, which would allow for more flexibility in choosing the most cost-effective energy sources, including a mix of renewable and non-renewable options.

## CHAPTER 20:

# Filling the infrastructure deficit

New Zealand faces a number of infrastructure challenges. The country's infrastructure deficit is estimated to be \$210 billion, according to the New Zealand Infrastructure Commission/ Te Waihanga.<sup>96</sup> This represents the difference between what New Zealand has and what it needs.

However, simply spending more money is not the solution. As it stands, New Zealand spends around 4.5% of GDP on infrastructure. This figure encompasses both network infrastructure (electricity, telecommunications, transport and water) and social infrastructure (health and education) and is in line with other high-income countries.

What should concern policymakers are the actual returns. The World Economic Forum's 2019 Global Competitiveness Report ranked New Zealand 46th out of 141 countries for the general quality of its infrastructure, and even worse among high-income countries. These challenges are compounded by population growth and changing weather patterns, which will require the country to address difficult questions about infrastructure resilience.

Improving infrastructure is crucial to enhance the well-being and economic prosperity of New Zealand. The Initiative's research on the history of infrastructure funding and provision augments our work on housing affordability and local government.<sup>97</sup>

We summarise our recommendations to the incoming government below:

- **Embrace private enterprise:** Partner with the private sector to fund and execute infrastructure projects for efficient and high-quality work.
- **Promote greater localism:** Give local authorities more decision-making power and resources to manage and fund infrastructure projects for more responsive and targeted development that better serves local communities.
- **Strip away regulation:** Streamline the consenting process and reduce red tape to foster a positive approach to growth and development.

## CHAPTER 21:

# Making transport work

New Zealand's land transport system is not fit for purpose. The Initiative's research shows that without proper road user pricing, congestion is becoming the new normal in our urban centres, costing the country more than a billion dollars every year.<sup>98</sup> Without suitable policy action, road congestion will surely intensify. Government forecasts also show that New Zealand's total vehicle kilometres travelled might increase by as much as 66% by 2040.<sup>99</sup>

The Initiative's research shows that the transport budget system is the core problem.<sup>100</sup> Fuel tax is a blunt fiscal tool that has survived beyond its time due to the administrative convenience of collecting the tax. New Zealand's Road User Charges (RUCs), which apply to diesel-powered vehicles and will soon apply to all electric cars here, are internationally recognised as a successful test case in road funding. That said, both fuel taxes and RUCs fail to price congestion costs.

A real solution requires introducing congestion charging, which charges drivers higher road user rates at peak times in overcrowded routes. The benefits of road pricing include:

- More efficient use of roads.
- Shorter, safer and more reliable trips.
- Higher productivity and wages.
- A source of valuable information for future transport investments.
- Financial incentives for other modes of transport (public buses, cycling, walking).

Congestion charges can encourage commuters to find trip alternatives, such as other travel times, routes and transport modes. That would reduce the overuse of road services at peak times. In

return, to avoid congestion charges becoming "just another tax," commuters should expect government to commit to a revenue-neutral system. This could be achieved by reducing road user charges or by returning collected revenues to road users as a congestion dividend.

Variable peak and off-peak rates are already part of our daily lives, from electricity bills and cinema tickets to hotel rates and public transport fares. It should be no different with car use. In a sense, we are already paying for congestion through hours wasted idling in traffic jams every week. Instead of Soviet-style rationing of road space by widespread queuing, congestion charges would harness the power of the markets to solve our daily and costly road bottlenecks.

The Initiative outlined the benefits of road user charging – and how to introduce such a system – in our submission to the Transport and Infrastructure Committee on the inquiry into congestion pricing in Auckland.<sup>101</sup> We are encouraged by cross-party support for congestion charging.

We recommend the incoming government:

- Urgently introduces a practical and durable system of congestion charging in New Zealand's congested urban centres.
- Provides a transparent congestion dividend system to maintain public support and prevent accusations of revenue grabbing or social engineering.
- More broadly, considers building on the 1998 "Better transport, better roads" reforms to establish a better foundation for the land transport system.

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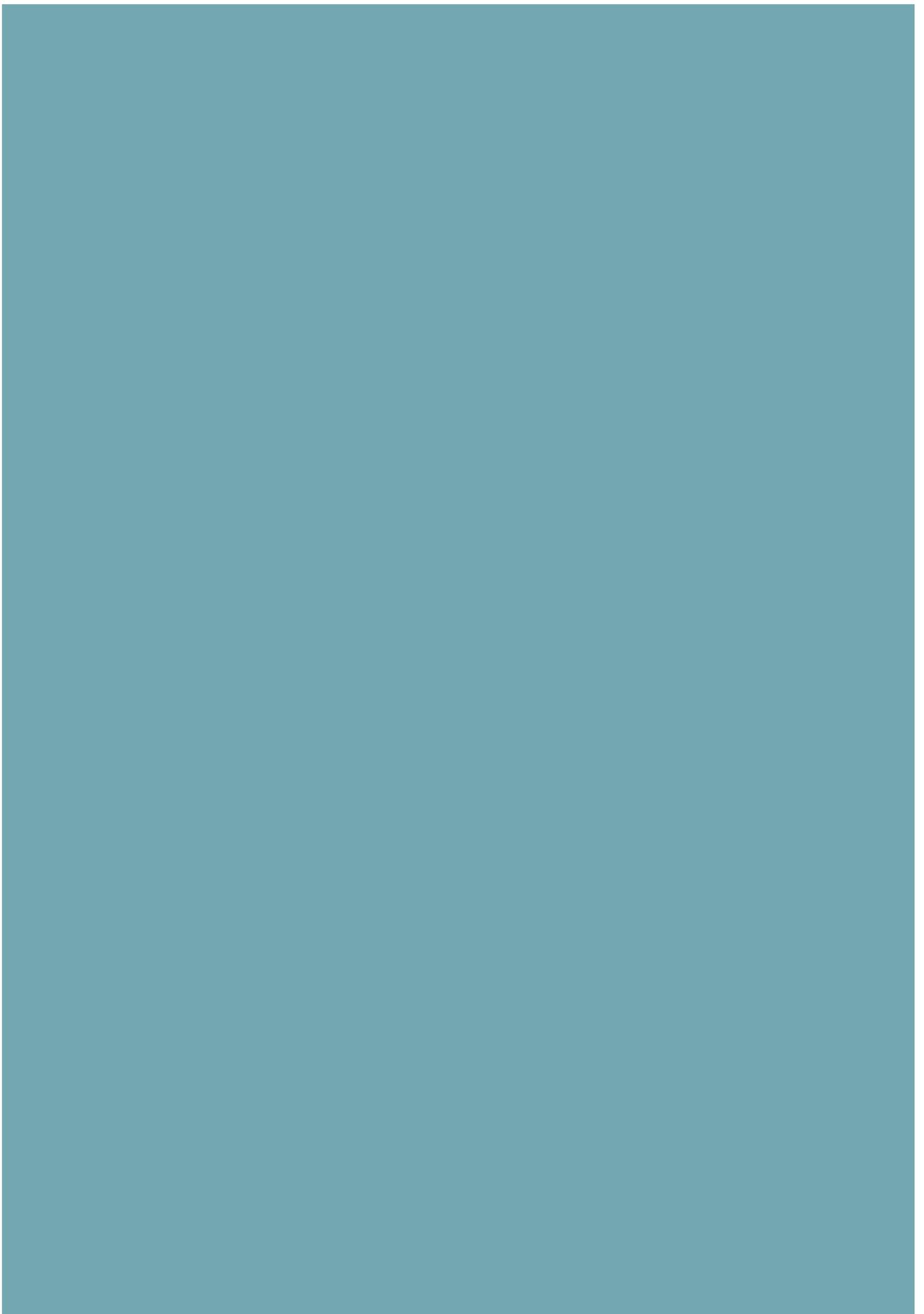
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New Zealand stands at a precipice. Persistent inflation; unaffordable housing; declining outcomes in healthcare, education and law and order; and insipid productivity growth – all threaten our world-class status.

Fresh thinking is needed to solve our problems, some new and others longstanding.

This manifesto offers practical proposals to tackle the nation's biggest public policy challenges.

Controlling inflation is our most urgent priority. Beyond inflation, the big three areas for reform are education, health and housing. These are all fundamental to the good life. Yet all are areas where New Zealand faces crises.

More generally, we will be forced to make tough choices without improving productivity growth.

Looking into the future, we urge the incoming government to implement bolder, faster and more comprehensive reforms to secure a prosperous future for all New Zealanders.

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