The Institute for Governance and Policy Studies, School of Government at Victoria University of Wellington

POLICY Quarterly

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The Digital Economy and Society
a preliminary commentary

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TE WHARE WĀNANGA O TE ŪPOKO O TE IKA A MĀUI

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Editorial Note

The Labour-led coalition, formed in late October 2017, has declared that it will be a government of 'transformation', 'aspiration' and 'inclusion'. As enunciated in the Speech from the Throne on 8 November, it has set itself numerous, often demanding, goals. There are too many to list here, but they cover many different areas of economic, social and environmental policy.

In relation to fiscal policy, the government is committed to being 'responsible', ensuring 'sustainable operating surpluses across the economic cycle', reducing 'net debt to 20% of GDP within five years', and limiting 'government expenditure as a percentage of GDP in line with historic trends'. If the promised fiscal stance is relatively conservative, other aspects of the government's economic approach may prove to be more transformative. Signalled changes include reform of the Reserve Bank Act, tax policy adjustments (but not until a second term), a commitment to raising the minimum wage substantially (to $20 a week by 2020), various regulatory changes (e.g. labour market, resource management, transport, etc.), and a reprioritization of public funding.

Remaining within the suggested expenditure cap may be difficult, depending on the medium-term macroeconomic context. The government's long-term expenditure commitments are substantial. They include additional funding (in real terms) of social assistance (including an overhaul of the welfare system), education (including three years of free tertiary education), health care, housing, regional development, research and development, conservation and environmental protection.

Of these commitments, one of the most expensive will be achieving a 'significant and sustained reduction in child poverty', as specified in the Child Poverty Reduction Bill. The pre-Christmas family incomes package will assist in meeting this objective, but is far from sufficient. Attaining the government's poverty targets is likely to require adjustments to core benefit rates (i.e. so-called 'first-tier benefits') and a revamp of existing tax credits. Meanwhile, a 'sustained reduction in child poverty' (certainly as measured on the basis of relative incomes) will not be possible without comprehensive indexation of social, family and housing assistance. As it stands, despite 80 years having lapsed since the Social Security Act 1938, some forms of welfare assistance are only partially indexed to prices, some are not indexed to prices at all, and wage indexation remains absent, except for New Zealand Superannuation. Yet establishing a principled form of price and wage indexation for the entire welfare system will be costly. Sustaining it politically will be even harder – yet essential if the government's poverty-reduction goals are to be realized.

The new government has ambitious environmental objectives. Indeed, its goal is for New Zealand to become 'world leaders on environmental issues and climate change'. Specific commitments include improving the health of the country's freshwater resources, establishing a Climate Change Commission, setting a target of net zero carbon emissions by 2050, restoring an 'effective price mechanism for climate pollution', achieving 100% renewable electricity by 2035, establishing a Green Investment Fund, and planting 100 million trees a year over the next decade. Making substantive progress on managing the country's vital freshwater resources and reducing greenhouse gas emissions is crucial. But both issues are complex and politically fraught. They will require adroit leadership, prudent policy framing, high-quality advice, robust policy processes and careful cross-party management. In recent decades, many of these ingredients have been in short supply.

Importantly, the Speech from the Throne includes a commitment to develop a 'comprehensive set of environmental, social and economic sustainability indicators'. Likewise, the coalition has pledged to craft long-term strategies in many policy domains, including mental health, education and child wellbeing, with a strong emphasis on measurable targets (as with the previous government's Better Public Services targets, which are being discontinued). Meanwhile, the Treasury is seeking to refresh its living standards framework and develop a more sophisticated approach to the management of the nation's capital stocks (i.e. financial, manufactured, human, intellectual, social and natural capital). The possibility thus exists for some significant rethinking of how the nation's progress is measured, monitored and reported. Equally, there is the potential for a much stronger focus on what matters from the perspective of genuine long-term sustainability.

This issue of *Policy Quarterly* includes important contributions on many of the issues at the heart of the new government's policy agenda. It commences with three articles on different future-focused issues: the implications of the digital revolution, the crucial role of technology platforms (or the 'sharing economy') in economic development, and recent efforts in New Zealand to enhance the application of foresight in policy-making. Other contributions cover: ways to address child poverty; efforts to secure cross-party collaboration on climate change via the recent GLOBE-NZ initiative; strategies for curbing alcohol-related harm; lessons from New Zealand's legislative experience for managing the recovery process following damaging earthquakes; protecting and enhancing the management of natural capital; reducing gender inequality in retirement; the role of licensing trusts; improving strategy implementation in the public sector; the contribution of integrated reporting to better societal outcomes; and aspects of the new government's proposed reforms to public sector management and parliamentary procedures.

Future issues of *Policy Quarterly* will continue to explore a wide range of local and global policy matters. The August issue, for instance, will include a series of articles on New Zealand's relatively poor productivity record and how it might be addressed.

Finally, my grateful thanks to the many people who make *Policy Quarterly* possible, including peer reviewers, the Editorial Advisory Board, Aleck Yee (design and layout), Rachel Barrowman (copy-editing), and Victor Lipski (proof-reading).

Jonathan Boston
Editor

Peter Gluckman

The Digital Economy and Society

A preliminary Commentary

Introduction

Virtually all technologies that humans have invented or will invent present both benefits and risks.[1] The history of humankind is that of invention, development and exploitation of technologies while managing their downsides. However, it is the speed, scope and pervasiveness of digital technological change across virtually every aspect of human endeavour that generate an enormous array of possible implications. Such characteristics undoubtedly set the digital revolution (sometimes called the fourth industrial revolution) apart from past technological revolutions in the way they challenge aspects of human behaviour and social institutions.

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Digital innovations – much like previous innovation – are created by individual entrepreneurs or private companies.[2] Thus, while profoundly affecting individuals and societies, these innovations are rarely subject to significant pre-release discussion, societal debate or anticipatory regulatory processes. Instead, 'trial by market forces' has been the history of many – but not all – technologies in the last two centuries. However, in situations where there has been anticipatory regulation to limit the use of particular technologies, this has generally been driven by perceived financial risks to existing firms rather than by any other type of risk assessment (even though the arguments may often be dressed as the latter). In other words, it is rare for there to be deliberative societal reflection and debate that goes beyond managerial risk assessment to address instead the normative ('ought we?') questions surrounding the introduction of new technologies.

In general, governments are either very precautionary or, conversely, they are rather hands-off with regard to new technologies. In the latter case, they may then have to react to any consequences that

follow. To some extent this is the classic conundrum of risk assessment, in that the arguments for or against any technology are always filtered by an assessment of likely gains and losses (and for whom).

In the case of the digital technologies, the perceived immediate and generalised benefits have meant that there has been rapid adoption of the technologies, while the broader implications have been given little robust critical consideration. Consequently, societal and regulatory precaution has largely been non-existent.

Further, the inherent nature of both current and future digital technologies means that many elements may well be beyond either a precautionary or even a *post hoc* regulatory approach. In contemplating the rapid development of the 'internet of things', artificial intelligence and machine learning, the indications suggest that we are only beginning to feel the very rapid change in societal, consumer and citizen behaviours. With such change, there are implications for the way people live their lives, how societies operate, how democracy works and the extent of state authority. Indeed, some newer technologies will challenge us in many ways. For example, to what extent will artificial intelligence ultimately affect our sense of autonomy and self-determination? As with any fundamentally disruptive technology, there will be both foreseen and unforeseen consequences and, with them, winners and losers. These issues demand deep consideration.

Beyond the obvious issues such as the changes in manufacturing processes and in service delivery that affect traditional industries and employment patterns (with both personal and political implications), there is now also a rapidly emerging set of broader issues that society must consider. There is a growing recognition of the profound and irreversible changes that the digital revolution is bringing to the role of the state, the social fabric of nations and for individual citizens and their relationships. The question is which concerns are real, which are simply alarmist, and can we adapt to the inherent challenges that arise and optimise the opportunities? Clearly, the perception of risks and benefits will differ among stakeholders. It is beyond the scope of this article to take a position on these issues; it can simply highlight them.

It is important to recognise that both direct and indirect effects arise from the digital world. For example, in some cases it is not easy to distinguish the impact of digitalisation from other trends such as economic globalisation, which, while a separate phenomenon, is greatly facilitated by the digital world.

The digital revolution has played a major part in the globalisation of economies through talent and value-chain distribution.

The benefits of digital technologies and DES: a growing list

There are undeniable and numerous manifest and potential benefits of the digital economy and society – DES – which have generally been well described elsewhere and which are self-evident. These many benefits have been heavily promoted by both governments and industry and can only be summarised here.

The OECD has published a number of reports pointing to the positive effects of digital innovation and technologies on productivity. Clearly, the digital revolution is spurring innovation, enhancing service delivery in every sector and leading to increased productivity. However, a mismatch has emerged between the extent of the expected productivity benefits of digital technology investment and the consequent impact on economic growth as measured by GDP. This mismatch may reflect the limitations of the latter measure or temporal phenomena, but the digital economy may also exert some unrecognised drag through other effects, such as the effects on labour: some of this is discussed below.

The digital revolution has played a major part in the globalisation of economies through talent and value-chain distribution. Rapid information transfer and access, data sorting and transnational capital and financial interactions have all become essential to the globalised economy. It has enabled a new wave of fiscal instruments (e.g. derivative markets) that have played a major part in the development and sustenance of some economies. Internet-based technologies have allowed a global trade in services to develop alongside that in goods. This has benefited a broad range of economies.

Big data has enormous potential for the development of new kinds of services and opportunities, such as for forecasting in financial services, policymaking, and in advancing science. The data revolution has already generated new forms of business and business models where information is gathered, often for no cost, then mined, manipulated and sold at great profit.

Some governments, such as New Zealand's, are investing heavily in data management and services specifically to support public policymaking. This investment has made it possible to use longitudinal and linked data to make more accurate life-course projections, which in turn has led to better framing of the policy intervention discourse. For society and for the individual, better data management by governments has brought practical conveniences such as e-services (e.g. passports, tax services, etc.), e-health and mobile phone-mediated health services.

Internet-based technologies have brought markedly enhanced communication capabilities and improved information access to both individuals and organisations, including companies. The consequent empowerment of individuals in both economically developing and developed countries through access to networked technologies such as smart phones and their plethora of 'apps' has conferred major benefits. In general the internet has given great benefit to individuals, organisations, companies and science.

The nearly immediate accessibility of information and knowledge can create

social mobility. For many people it has also created new social connections, reduced isolation and given a sense of personal empowerment. The use of leisure time has also changed drastically through access to a broad range of entertainment media, as well as ongoing engagement with social media. These are now the dominant forms of leisure for many, particularly for the digital native generations.

Emerging issues related to digital technologies and DES

Despite these clear benefits, the challenges of the digital revolution are also becoming apparent. These challenges will be considered here at three overlapping levels: the nation state, communities and the individual. The impact on education systems is discussed separately.

The reach and authority of the state

The digital economy and internet-based technologies more generally have led to the rapid rise of major transnational companies with unique knowledge and extraordinary access to data, and with consequent ability to influence individuals, governments and global affairs. Transnational corporations have existed for centuries (e.g. the Dutch East India Corporation, which was founded in 1602, or the Hudson's Bay Company founded in 1670). Digitalisation, however, has led to a qualitative change in the reach of today's transnational corporations. This is particularly so for the digital platform companies such as Google, Facebook etc.

For instance, the ease of access to taxation minimisation strategies is now greatly enabled, if not empowered, in a digitally connected world. Such practices are clearly challenging the traditional income base of sovereign states, which in turn throws into question the social safety net it can provide. Indeed, the sovereign authority of the state to regulate many socio-economic activities may be eroding. Regulation of marketing and some aspects of consumer protection are made more difficult with a globalised cultural economy of sales and marketing via the social media and the internet more generally (e.g. pharmaceuticals, alcohol, tobacco, or products aimed at children). Any ability to prevent harmful messaging or communication (e.g. terrorist-related, cyberbullying, sexual predation) is similarly impeded.

Within new social media there is also clear ability to engage publics and to create social movements for both good and bad. The need to protect and promote freedom of expression while sanctioning predatory practices and protecting vulnerable groups is obvious, but how best to do this is not. Are we experiencing a neo-imperialism, with de facto 'global' internet standards set by the companies with the most dominant online presence irrespective of national values? Where national values do exert themselves, they can be difficult to maintain in the face of internet giants. This is seen in the very different approaches to internet privacy taken by Europe and the United States and in the subsequent legal battles emerging over issues such as internet neutrality and rights of individuals to privacy.

The question of ownership of and access to data creates many issues. For example, the recent debate in the US over access to data on a cell phone in the context of terrorism investigations illustrates the inherently conflicted issues that are emerging.

The development of encompassing horizontal platforms such as Google has greatly accelerated globalisation and in many ways has 'flattened' traditional societal structures and hierarchies. While this can be seen as empowering for citizens, the pervasiveness and misuse of such platforms can have impacts on policymaking that are not necessarily positive. For instance, the effects of the platform technologies can diminish the power of competition policy and the regulation of commerce, not to mention undermine the power of the state to manage regulated activities such as gambling and pornography.

Even sovereign states' traditional control of financial and treasury infrastructures is not immune to the effects of rapidly advancing digital technology. The blockchain technology that underpins bitcoin represents the kind of technological development that could greatly enhance the ability of the state to reliably manage internal payments while reducing the potential for (say) welfare fraud. However, the disruptive aspects of this technology mean that the fundamental role of financial institutions (and, by extension, the state's financial regulatory reach through these institutions) could diminish. In addition, it is not clear that we have fully considered the darker possibilities of the blockchain system, particularly if associated with advanced encryption capabilities. Could these undermine traditional banking systems and undo the progress made to date on greater financial transparency?

The rise of cybercrime in the past two decades (from deception to phishing to industrial and political espionage) has created a cyber arms race in which any internet-connected system is potentially vulnerable.

Highlighting the dark side of the internet can be dismissed as fearmongering, but there is good reason for governments to be concerned. The rise of terrorist activity has clearly been greatly aided by the digital and communication revolution that allows for secure messaging, alongside broader recruitment modalities. Further, the darknet is used by criminal organisations for financial crimes and trading in illegal materials.

The rise of cybercrime in the past two decades (from deception to phishing to industrial and political espionage) has created a cyber arms race in which any internet-connected system is potentially vulnerable. Cyberattacks and cyber-espionage can pose major threats to the security of states as well as to legitimate

enterprises within them. Cybersecurity relies both on technology and on human factors. While human factors have always been a risk for companies and states, the volume of information that can be accessed and analysed, and thus the potential impact of security breaches, have magnified enormously. Further, not only are risks created by commercial and security espionage, but also by the insertion of malware and misleading information into critical systems. We have seen increasing evidence of cyberespionage affecting democratic processes and being used to harm individuals as well. In this new context, traditional libel laws seem to become less meaningful.

The nature of warfare is changing as a result of the digital revolution, including the potential for new forms of asymmetrical warfare. With an increasing amount of personal, professional and government transactions conducted online, we have created new targets for attack and the risks of cyber sabotage create new challenges for national security. The dependency of society on an effective integrated digital system may create points of extreme vulnerability; a Carrington-level solar radiation event would be a natural equivalent.

At the same time, there has been a massive rise in the ability of sovereign states to monitor activities of individuals and enterprises. With this ability, however, comes the risk of a shift in the perceived and actual relationships between the state, private citizens and the public safety apparatus. While big data offers enormous opportunities for states (and businesses) to provide better and more targeted services to citizens and to inform public policy, the risks to individual privacy or of other forms of misuse by governments mean that transparent and well-understood social consensus is needed between the state and citizens regarding data use. The recent concerns over an integrated health data system in the United Kingdom highlighted the fears of the public and the challenges created if nation states move ahead of social consensus. The Data Futures Partnership[3] is an important part of New Zealand's attempt to reach such a consensus.

The ability for quite misleading information to be widely distributed can affect, and in some countries has already affected, democratic processes, as well as how societal consensus is formed.

Similar concerns over the misuse of data that is held by private sector companies will almost inevitably boil over at some stage. At the moment, most of us are probably relatively unaware of the amount of data held by companies in exchange for our ability to use their apps. Indeed, corporations are able to extract large amounts of data (presumably for financial gain) from individuals whose broad consent is tied to installing and opening their software. As data from the private sector gets onsold, the potential for misuse by unknown groups grows. Such onselling without known consent is likely to be impossible to regulate across national borders. A now famous experiment at Facebook[4] that intentionally manipulated the mood status of unwitting users without their consent and with totally inadequate ethical oversight highlights the potential power over individuals and society that lies in the hands of platform companies.

The greater access and immediacy of information (of variable quality and reliability) to private citizens is also affecting the nature of democracy and public discourse. The nature of journalism and the fourth estate more broadly has been changed dramatically by the digital revolution. It has been argued that this is having an impact on democracy, at least as it has been practiced for the last few decades.

The rise of transnational social media and citizen journalism, while empowering citizens, has also challenged the traditional institutions on which democracy relies. The extent to which this is a direct effect of digitalisation may be debated, but there can be no doubt that this shift is empowered by the digital revolution. Internet-based and social media have accelerated the demise of traditional journalism, an institution of democracy that is marked by its rigour, its ethics and its professional codes of practice. By contrast, citizen journalism may open the landscape to a diversity of voices, but how many of these meet standards of professional journalism? Unfortunately, the marketplace dictates that extreme opinion and sensation is more lucrative online than journalistic rigour.

Budgets are cut and serious media outlets are losing their capacity as an instrument of true democracy. In the competition for an ever-distracted readership, complex issues are trivialised through either sound bites, clickbaiting or sensationalism. Effectively, there is no editorial responsibility for accuracy. The apparent decline in the quality of national discourse is amplified by the echo chamber effect of social media whereby individuals' biases are reinforced by only hearing from people with similar views. Similarly, the algorithm-driven 'news' delivered by media platform companies reduces the diversity of stories and analysis that individuals may receive. Has democracy been harmed by an increasing disregard for both accuracy of information and quality in-depth analysis?

Representative democracy has long been the mechanism by which elected individuals are charged with understanding, assessing and making decisions about complex issues on behalf of citizens. However, now the immediacy of digital interaction is such that a more direct engagement is emerging. Unfortunately, this engagement is not always underpinned by quality information and thus limits the scope of serious and informed public discussion and debate. The ability for quite misleading

information to be widely distributed can affect, and in some countries has already affected, democratic processes, as well as how societal consensus is formed.

While it is now widely remarked that ours is a 'post-truth' and 'post-trust' era, it is equally observed that this is really nothing new. False claims have been made for centuries in search of political gain. What is new, however, is the pervasiveness, speed and unaccountability of (intentional and unintentional) misinformation, and coming at a time when many communities feel disenfranchised and are thus primed to receive it.

Filtering the mass of highly variable information is made more difficult because of the conscious and unconscious biases we deploy in the way we select, curate and evaluate it (not to mention the way the information is selected for us via scripted software algorithms).

Impacts on society

Emergent issues of privacy and data ownership are growing rapidly. There are fundamental questions related to the balance of rights between an individual's privacy, freedom of expression and the importance of free enterprise in societies. In general, all countries have yet to resolve how the 'right to privacy' should be maintained in a digital world, on the one hand, and how this is to be balanced with the promotion of public policy and commercial innovation on the other, especially now that big data is the new gold rush for many sectors.

A further issue has been highlighted in a recent White House report which considered the potential risks posed by biased algorithms that affect various uses of data, such as decisions over individual credit ratings, and, indeed, even decisions made by government (e.g. in sentencing guidelines). Algorithms need to be both transparent and tested for potential or latent bias. Accountability for algorithm-derived decisions will also need serious consideration: who is accountable when artificial intelligence decisions lead to adverse unintended outcomes?

There is a related set of concerns developing around artificial intelligence, automation and the future of employment. This is a major topic and will not be given extensive consideration here, apart from recognition of the widespread acknowledgement that digitally-driven innovation is reducing traditional job opportunities as firms move toward greater efficiencies through jobless growth.

Even with vocational retraining, success in regaining jobs lost to automation may be lower than is frequently stated. The rise of machine learning and artificial intelligence will almost certainly lead to further losses in vocational areas that, to date, have been relatively immune to job loss. The policy issues that emerge from this are already challenging to governments and societies, and can only grow.

In turn, disruption of the traditional labour market may have major implications for the social structure of societies, signalling the need for a social safety net to support those affected, at least for the transitional generation. This is in fact one of the arguments that underpins a growing discussion about universal basic income policies. The pace of digitally-driven innovation may well lead to major generational divides. Effort will be required to maintain inclusivity for those who could be excluded by age, locale or disadvantage.

Paradoxically, the digital world can also compromise the work–life balance in the opposite direction by virtue of the fact that many workers are never truly 'switched off'. This situation is exacerbating work inequality, increasing the workload of some while compromising the work potential of others.

Taken together, these issues surrounding the digital revolution are probably factors contributing to a growing sense of societal discomfort and the rise in antagonism to globalisation in various sectors of society. The issue becomes how to address this unease, given the irreversibility of the digital revolution. Similar discomfort and concerns surrounded the first industrial revolution – although the Luddite movement which was a symptom of this concern was not, as it is sometimes portrayed, anti-technology.

Impact on education systems[5]

Because so much of the impact of the digital revolution will be borne by the current younger generation, it seems fitting to look specifically at the education system that is initiating them into this world.

Much is made of new digital and networked technologies used in schools to promote what are called 21st-century skills. Here there are numerous implications for education systems. These various trends increase the need for an educational system that can give children and adolescents the skills needed to cope with and distinguish the burden of information, while also critically and constructively using that information.

There is data to suggest that new technologies may have the effect of shortening attention spans of learners. This must affect the fundamental construct of education and pedagogy. New digital technologies also influence the skill sets that should be provided to young people, not just in matters digital but also in areas such as critical thinking so that they are better able to identify reliable from less reliable information. Executive non-cognitive skill development, which starts in early childhood, will become even more

> The ubiquitous use of digital tools and environments afforded by mobile devices, social media and the internet creates both risks and opportunities for the development of young people's social, emotional and critical thinking skills.

critical if automation replaces many jobs with low requirements for such skills.

The ubiquitous use of digital tools and environments afforded by mobile devices, social media and the internet creates both risks and opportunities for the development of young people's social, emotional and critical thinking skills. For example, multitasking is common in schools that have widespread digital adoption. This includes presentation of multiple sources of information on a single monitor screen, working on several open windows, using interactive whiteboard technology and engaging in activities in online or video game formats. Multitasking has both costs and benefits for cognitive and brain development. There can be costs in terms of efficiency and accuracy of performance, especially for younger children whose attention systems and executive functions are immature.

There are positive impacts on academic performance and cognitive development from multitasking and from wider digital environments, including games. The benefits accrue when tasks are sufficiently complex and developmentally appropriate, where there is greater self-regulation and engagement, and where there is substantial teacher guidance. There is evidence to suggest that there can be positive effects on self-control, collaboration and cooperation from games and computer-mediated activities, especially when the design of the activities, the game platform and teacher guidance and feedback enable these. Adding games to business as usual in the classroom is associated with significant positive outcomes on intrapersonal measures (conscientiousness, intellectual openness, work ethic and self-evaluation).

There may also be other adverse effects. The duration of use of digital devices is emerging as a risk for cognitive and social development, with increased distractibility being associated with higher amounts of use for younger children and also addiction-like behaviours or pathological engagement for older children. Cyberbullying among children and adolescents is a growing concern, particularly in schools. It has effects on proximal measures of health and school performance (e.g. dropout rates and academic performance), as well as longer-term costs. It seems plausible that the access to digital devices is increasing both the nature and the prevalence of bullying.

An issue we are yet to consider is the potential impacts of artificial intelligence and machine learning on our sense of autonomy and self-control.

Impacts on individuals

Given the plasticity of the human brain at younger ages, it is not clear what impact digital technologies may have on long-term brain function, emotionally, socially and physiologically. It may be that they affect emotional and personality development, while the altered leisure patterns clearly affect physical health (e.g. contributing to obesity).

The ubiquity of the internet and social media has led to fundamental changes in the way we communicate with others. Networks of people (often misleadingly called 'friends') are expanded, with multiple and uncertain consequences. These may variously reduce or paradoxically increase social isolation and even play a part in the selection of romantic and sexual partners. There may be deeper consequences: evolutionary biology suggests our brains are designed for much smaller networks than many that people often now have.

The upside of this changed nature of interpersonal communication may be obvious, but it has led to a number of concerns. Certainly, anonymity allows for changes in communication that break previous social norms. One might also point to other radically changed behaviours in the rise of 'selfie culture' and the sharing of previously private matters with a potentially global audience. New expectations that go unfulfilled could lead to new and complex mental health implications. Furthermore, there may be effects arising from greater sexualising practices, particularly of youth, which are not yet fully understood.

An issue we are yet to consider is the potential impacts of artificial intelligence and machine learning on our sense of autonomy and self-control. It is generally accepted that emotional health is heavily dependent on these two concepts, but these emergent technologies may impact on both in uncertain ways.

Final comments

The digital revolution is unstoppable and irreversible. The speed, scope and pervasiveness of digital technologies is profound. Like every other technology-driven change, it has benefits and challenges. Further, the direction of change is largely driven not by the deliberative decisions of citizens and their representative governments, but by the private sector and by social movements that are given emphasis through the echo chamber of social media. Conventional tools of governance, regulation and accountability are now thrown into question.

This article has attempted to outline some of the issues that will continue to challenge government, society and individuals. Much of the change will be highly beneficial, but it will not be without cost. The challenge, as with all technologies, is how to maximise advantage while minimising negative impacts.

However, in contrast to the growing level of public debate about biotechnologies, for instance, digital and networked technologies have not been the subject of systematic and deliberative public reflection. One need only consider that it took over a century for the downsides of a fossil fuel-based society to be understood against the background of manifest benefits. Can societies and governments be more proactive about maximising the opportunities and minimising the risks of the digital revolution?

1 This commentary emerged from an invited discussion at the OECD Science Technology and Innovation Advisory Group meeting in April 2016. The topic of that meeting was the 'digital economy and society (DES)', one of the outcomes of which is the OECD's current Going Global project. In the course of the original discussion, it became clear that the expected societal impacts and unintended consequences of digitalisation and internet-based technologies are under-analysed. This article is a slightly expanded version of my OECD commentary, and takes the New Zealand context into account. It is not meant to ignore or downplay the positive effects and innovative potential of digital technology, nor, conversely, to take an alarmist position. Rather, it seeks to highlight potential issues that are emerging from the inevitable and rapid digital revolution and which merit reflection. The digital revolution certainly creates some challenges that appear beyond obvious means of societal regulation or control (beyond 'the market'), yet have far-reaching implications at all levels of social organisation, from the individual right through to the nation state itself. In itself this merits the development of a far deeper discourse between policymakers (both nationally and globally), scientists and innovators, public and private sectors, and civil society.

Note that this commentary is designed to prompt reflection and discussion rather than undertake rigorous research and analysis of each issue raised. Hence, issues are presented in a very general way and on the understanding that each one will engender value judgements about the opportunities and risks of digital technologies, depending on one's position; the commentary is not a definitive argument.

2 Throughout this article the term 'digital world' refers to internet-based and related technologies. These include, but are not limited to, machine learning, artificial intelligence, remote applications, social media and crowd-sourcing, accessible big data, and now, increasingly, the 'internet of things', to name the most current. The impacts of such technologies include not only the manifest benefits of new digital technologies, but also the implications of what may be the largest and fastest shift in individual, societal and economic relationships and power structures that humankind has ever faced.

3 http://datafutures.co.nz/.

4 http://www.pnas.org/content/111/24/8788.full.pdf.

5 I thank Professor Stuart McNaughton, the departmental science advisor to the Ministry of Education, for his help with this section.

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PLATFORMS IN AOTEAROA

OUR FAST-GROWING SHARING ECONOMY

Kevin Jenkins

The Otago Farmers Market Photo: Liz Sinclair

My favourite farmers' market in Aotearoa is in Dunedin. Over the warmer months it has the best fresh produce in New Zealand: Central Otago apricots the size of peaches, old-school gooseberries, greengage plums. But the Otago Farmers Market also offers a physical pun. It's at Dunedin's famous Railway Station, and there on the station platform you'll also find many artisan products, like seaweed condiments, craft beer, and bread of every kind. A 'platform', according to Choudary and Parker, is 'a business model that uses technology to connect people, organisations and resources in ecosystems to exchange goods, services and ideas' (Choudary and Parker, 2016). Take a broad view of 'technology' and the Otago Farmers Market is a platform on a platform.

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Digital platforms

Talk of 'platforms' – or the 'sharing economy' – sometimes seems to be ubiquitous. But how significant is this model, and what kinds of policy and regulatory issues is it raising?

As Facebook, Amazon, Ali Baba, Tencent, Uber and so on have grown to dominance over the last decade, these huge digital marketplaces have become the face of the model. However, the repeated citing of just this small group of behemoths has obscured the true depth and breadth of the platform phenomenon, and also the pace of change. The model is expanding and innovating quickly, and much of this is at smaller, local scales.

With the focus on the big international players, it's easy to overlook the fact that this model is becoming pervasive here in New Zealand. The collective benefits these local platforms will provide will be enormous, making the lives of New

Zealanders better. But, as throughout the world, there are also significant policy and regulatory challenges that need to be worked through.

How we talk about digital platforms

The language we use to describe digital platforms is not yet settled, and this matters because it in part reflects different perspectives and interests, as Kenney and Zysman have pointed out. 'Platforms' is the term used by more academic commentators, but common parlance generally favours 'the sharing economy', which suggests something more unambiguously benign. Kenney and Zysman write: 'Its boosters have called it the Creative Economy or the Sharing Economy, whereas those less convinced of its beneficence have dubbed it the Gig Economy or the Precariat'. They point out that Facebook is not based on 'sharing', but rather on monetising human effort and consumer assets, and they link this to some key policy and regulatory challenges: 'the advantage of platform-based companies often rests on an arbitrage between the practices adopted by platform firms and the rules by which established companies operate, which are intended to protect customers, communities, workers, and markets' (Kenney and Zysman, 2016, p.62).

Rob Stock argues that calling platforms 'the sharing economy' is misleading, because very few of the people involved are actually sharing anything. Rather, platforms are about 'good, old-fashioned deals being done between asset owner, and asset hirer'. Using New Zealand-based platforms as examples, he breaks down those involved into 'sharing opportunists' (generating extra income from an existing asset, like renting out a motorhome on Mighway); those driven by economic necessity (renting out a room on LookAfterMe, an Airbnb-like platform for mature women); and, finally, those involved for purely commercial reasons (buying a car specifically to rent it out on Yourdrive) (Stock, 2017).

The power of the platform

It seems that successful platforms have three key characteristics (Choudary and Parker, 2016). First, they enable exchange of value between producers and consumers (the 'why'), often with added value through an algorithm (so that users receive only the most valuable information). Second (the 'how'), they enable a great user experience when attracting, facilitating and matching transactions. The third characteristic is the layering of new interactions (Uber Eats is a recent New Zealand example).

> Choudary and Parker use the Uber example to explain why platforms are so powerful:they eliminate gatekeepers, unlock new supply and demand and create community feedback loops. Uber, for example, performs a matching service that serves as a virtuous cycle. More demand is met by more opportunistic drivers, which increases geographic coverage, which leads to faster pickups, which encourages more customers to join the platform and more people to sign up as drivers. Driver downtime is lowered and so are prices, which leads to more scale. (ibid.)

They also note that this network effect is different from that of the 20th-century industrial era, which was primarily about monopolies based on supply economies of scale. Digital platforms, by contrast, enable the possibility of monopolies based on demand economies of scale.

A 2011 collection of essays on platform economics suggests that two-sided platforms arise where there are externalities and where there are transaction costs that otherwise prevent the two sides solving the externality directly (Evans, 2011). A 2016 report by global technology firm Accenture adds that platforms 'enable scale by allowing others to generate profits in the "long tail" of the distribution curve – avoiding diminishing returns associated with traditional (linear) value chain models'. They also enable asymmetric growth and competition by 'driving the demand of a core market through complementary markets, which are often subsidized (or free) to users and which cross industry lines' (Accenture, 2016).

Parker and Van Alstyne (2016) argue that platforms *invert* companies, transforming their traditional focus on internal value creation to an outward focus on external value creation. They also note that their use of assets that they don't own allows them to grow much faster than traditional firms.

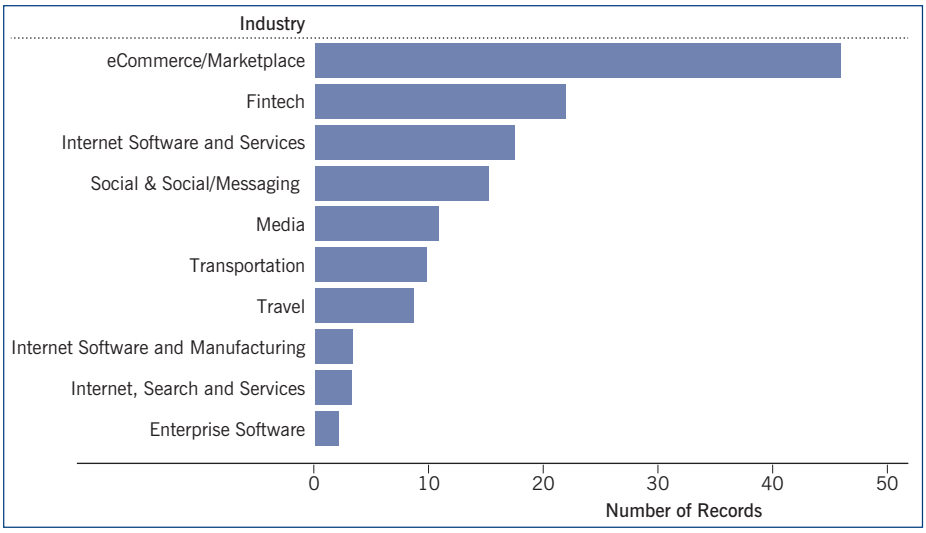
A 2016 report by global technology firm Accenture adds that platforms 'enable scale by allowing others to generate profits in the "long tail" of the distribution curve – avoiding diminishing returns associated with traditional (linear) value chain models'.

Non-profit and cooperative platforms

But not all platforms are about making money for their owners. There is also a less visible world made up of 'many platforms that have created massive value, but have never made a profit, and don't even strive to make money – on purpose' (Evans and Schmalensee, 2016, p.2). Both MasterCard (starting in 1966) and Visa (in 1971) were not-for-profit membership associations that charged just enough to cover costs, until they were IPO-ed into profit-making in the 2000s.

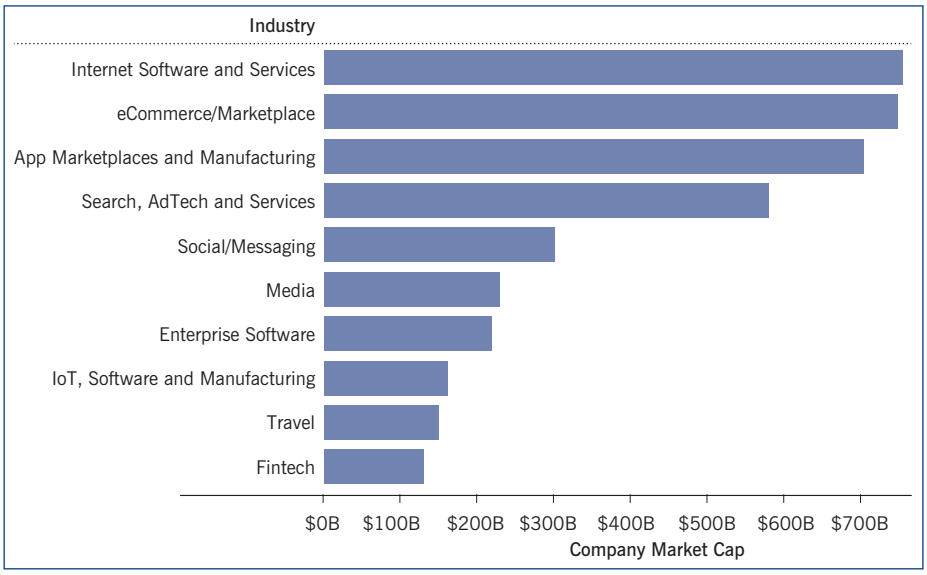
Many other multi-sided platforms haven't made the leap to profit. Standard-setting organisations (SSOs) help members agree on standards and publish them at low cost, or even free. These include those relating to mobile carriers, handset makers and chip providers. Evans and Schmalensee claim there are almost 1,000 SSOs, and that SSOs

Figure 1: Ranking by number of companies



Source: Evans and Gawer, 2016, p.17.

Figure 2: Ranking by market value



Source: Evans and Gawer, 2016, p.17.

published more than 200,000 standards between 1975 and 2011. A recent study also found that these platforms were responsible for 'a significant amount of economic growth in the last several decades' (ibid.). Certainly, both Apple's iOS and Google's Android are only possible because of SSO-created standards.

In response to 'death star platforms' like Airbnb, so called for their pursuit of world domination, we have also been seeing the rise of platform cooperatives (Johnson, 2016). One example is Fairmondo, a co-operative version of eBay founded in Germany.

Despite all this, one recent article notes that platforms 'are still being underestimated. Incumbents and business management literature title them as modern "middlemen", not recognising the value-add' (Uenlue, 2017, p.1).

The growing dominance of the big platforms

The first global survey of platform companies valued at US$1 billion or more identified 176 large platform companies, valued collectively at over US$4.3 trillion (Evans and Gawer, 2016). The survey report divided these companies into four categories. There were 160 transaction platforms (social media, marketplaces, media, music, finance and gaming); five innovation platforms (software firms like Salesforce which 'derive much of their value and innovation from co-creating products and services'(p.14)); six integrated platforms (which, like Apple, for example, combine double-sided markets with manufacturing supply chains); and five investment platforms (like Softbank, which isn't a platform as such, but has invested in Yahoo! Japan, Ali Baba, Housing.com in India and others).

Evans and Gawer investigated which sectors the platform firms were most active in, and found that ranking sectors by the number of platforms in each one revealed a different pattern than ranking by market value. (Evans and Gawer, 2016, p.17)

This first international survey discovered that there are some sectors where platforms are yet to make much headway. Despite there being hundreds of workplace platforms like TaskRabbit, which match demand for tasks with individuals and their skills, none has got close to a US$1 billion valuation. Evans and Gawer wondered if 'inherent fragmentation by type of work and by geography may have caused lack of scaling' (ibid., p.17). The healthcare sector is another example. On the other hand, the lack of progress in those sectors may simply be a case of 'watch this space'.

A number of traditional firms are now striving to add platforms (ibid.). Daimler, for example, bought RideScout, a US transaction platform that aggregates transportation and parking options in real time, and MyTaxi, a German ride-sourcing platform akin to Uber. Time will tell how successful the traditional firms will be at disrupting themselves, but many of the commentators on disruptive technologies are backing the new entrants. On the other hand, Bughin, Catlin, Hirt and Willmot distinguish between incumbents that move boldly and those which don't:

> Incumbents moving boldly command a 20 percent share, on average, of digitizing markets. That compares with only 5 percent for digital natives on the prowl…we found that revved-up incumbents create as much risk to the revenues of traditional players as attackers do. And it's often incumbents' moves that push an industry to the tipping point. That's when the ranks of slow movers get exposed to life-threatening competition.

The Accenture report mentioned above cited a prediction that by 2018 more than half of large enterprises will either create or partner with platforms. It claims that 25% of the world's economy will be digital by 2020 (compared with 15% in 2006), and with platforms representing a fast-growing proportion of that. It adds:

> Largely driven by platform strategies, there are more than 140 'unicorns' with a total valuation of more than [US]$500 billion – 'unicorns' are startups with valuations of $1 billion or more based on fundraising. Within five years, a core component of corporate valuations and capital markets will be based on their platform ecosystems and digital assets. (Accenture, 2016, p.38)

Platforms are outpacing policy and regulation

The rise of the platforms is important for public policy for several reasons. The digital economy is becoming a dominant part of the world economy, and the new platforms are on the way to becoming the dominant business model in the digital economy. The new model has created a plethora of new or radically changed marketplaces that are disrupting current rules and demanding new ones. As well as crossing technologies, they are disintermediating markets and adding value to both sides: this has significant implications for officials who are assessing relevant benefits between suppliers and customers in order to determine whether there is a need to intervene and, if so, how to intervene.

The platform phenomenon also raises issues for the current machinery of government. Most policy advice is generated by sector agencies, and those agencies have already been grappling for some time with how to shift from silos to successful cross-agency work. The new digital platforms are reinforcing the need for new multi-sector approaches.

Much legislation and regulation predates the digital world, and is difficult to apply or enforce in this new context. Kenney and Zysman talk about how the rise of platforms is challenging current policies and regulations. A local example is Uber's arrival in New Zealand, which sparked a high-profile public debate about regulation of the ride-sourcing industry, leading to eventual changes to legislation. Victoria University law professor Gordon Anderson also remarked recently that New Zealand's current employment law is ill-equipped to cope with the new 'gig' economy: 'You can't use a mid-20th century legal structure to deal with a whole new mode of employment' (Harris, 2017).

Kenney and Zysman go further than this, though, arguing that, as many have suspected:

> Platform entrepreneurs increasingly believe that if they possess a first-mover advantage, they can, in fact, remake existing law by creating new practices on their platforms that essentially establish new norms of behavior. It is often said in Silicon Valley, 'Don't ask permission; ask for forgiveness' ... The code writers, taking Uber as an example, have already reshaped social behavior. Government rules will influence how the new technologies are deployed and their consequences, but in a platform economy, government decisions may be constrained by the 'facts' in the software. (Kenney and Zysman, 2016, p.67)

Governments often welcome the rise of platforms as a way of spurring innovation and improving productivity through better utilisation of assets (Evans and Gawer, 2016). On the other hand, they also realise that platforms present challenges across a range of policy issues, including labour, tax, competition, use of data and privacy.

Some platforms are creating piecework 'jobs' outside the ambit of traditional employment law, and others are disrupting regulated industries like taxis and hotels (Kenney and Zysman, 2016). Berlin is an example of a city that has restricted Airbnb, not to protect the traditional hospitality sector (e.g. hotels), but to preserve supply in another sector – that is, residential rentals. In New Zealand, Queenstown is doing the same. Interestingly, Airbnb's own data shows no diminution in Airbnb supply in Berlin, indicating that the restriction may have had little effect there (Morris, 2016), although arguably this is simply a matter of time. Kenney and Zysman also cite the European Commission's taking on of US platforms around anti-trust policy, and the clashes between ICT firms and platforms around intellectual property. They also point to issues raised about network policy driven by clashes between traditional carriers and platforms, such as some US carriers blocking advertisements on smartphones. Policy-makers and regulators are scrambling to keep up.

> Another challenge is that network effects mean that platforms often grow exponentially, with this pattern only being noticed when scale is achieved and, again, 'facts' have changed.

Under the broader heading of 'digital trust', the 2016 Accenture report raised the issue of data ethics, encompassing ethical questions going beyond simply privacy – such as who owns data, who can use it and who can access it.

How might policymakers and regulators respond?

Policymakers and regulators face some big challenges. The usual approach of identifying issues first is made more difficult by the nature and speed of innovation. A feature of disruptive technologies is that they are not always easy to identify early on, because they often emerge from a different industry: for example, an online site from the world of ICT allowing TradeMe to displace printed 'trade and exchange' publications.

Policymakers and regulators need to find the right lens or lenses to give a coherent picture of what's happening. Looking at issues through an historical regulatory lens immediately raises the question of which regulatory regime should apply, or whether a new sector has emerged that requires a new regime.

Another common default is to look at issues through the lens of specific technologies, such as artificial intelligence or smart devices. However, that has the risk of being too narrow, because many platforms integrate different technologies. A technology lens also carries the risk that many innovators themselves may not fully understand the implications of the technologies they are driving, let alone the policymakers and regulators. Further, by the time they do grasp the implications, further 'layers' may have been added and other 'facts on the ground' may have emerged.

Another challenge is that network effects mean that platforms often grow exponentially, with this pattern only being noticed when scale is achieved and, again, 'facts' have changed. Some of these regulatory challenges – including speed of change and the need for a wide-angled lens – were explored recently in this journal in a discussion of 'regulatory stewardship' as involving 'a whole-of-system view, and a proactive, collaborative approach to the care of the regulatory system(s) within which an agency works' (Winson, 2017, p.3, citing New Zealand Government, 2017).

The Cambridge Core website summarises some key points made by Brownsword and Goodwin:

> If law and technology are to work together to improve the basic conditions of human social existence … this presupposes a regulatory environment that supports the development, application and exploitation of technologies that will contribute to such an overarching purpose, an environment properly geared for risk management and benefit sharing.

They list four key challenges for regulators:

> Relative to such a project, regulators are liable to be called to account if:
> 1. they fail to take sensible precautionary measures relative to the risks presented by emerging technologies;
> 2. the purposes or objectives that they are pursuing (or, the manner and means by which they pursue those objectives) are judged to be illegitimate;
> 3. their interventions are ineffective and not fully fit for purpose; or
> 4. they have failed to make an initial targeted and sustainable regulatory connection; or, where regulation has become disconnected, they have failed to make an appropriate reconnection. (Brownsword and Goodwin, 2012)

… traditional regulatory model of policy development and review cannot cope with the rapid-fire disruptive change we are seeing, the familiar model risks simply being too slow.

Policymakers and regulators in Aotearoa face the challenge of truly understanding the business models underpinning the emergent platform firms, both globally and domestically, as they are evolving at pace and growing exponentially, as well as blurring the lines between sectors and driving the emergence of whole new sectors.

Platforms in Aotearoa: origins and recent developments

TradeMe was an early New Zealand platform, established in 1999, quickly followed by Bookabach in 2000, Holiday Houses in 2003 and Holiday Homes in 2004 (Charity, 2015). Since then, local platforms have started to emerge exponentially. None may have hit the US$1 billion benchmark yet, although some have faith in accounting platform Xero, but there are many in the race.

Transport is a fertile area here. MyCarYourRental matches people wanting to rent a car with people overseas who have parked their car at Auckland Airport: instead of paying for parking, the travellers can make cash. YourDrive matches people seeking cars for casual rental with car owners seeking to share their cars when they don't need them. Transfervans describe themselves as an 'Uber style delivery service for over-sized items', matching customers with van or truck owners and focusing on the 'last mile delivery network'. Zoomy is a local competitor to Uber in the related ride-sourcing sector.

There are also lots of new local financial services platforms, such as Sharesies, which allows people to invest $50 in the same options as people investing $5,000, and Harmoney, self-described as a 'peer-to-peer money marketplace'. The Financial Markets Authority listed eight crowdfunding services in New Zealand in November 2017: two examples are Snowball Effect, for investing and capital raising, and self-described as a 'curated marketplace which simplifies access to a range of investment opportunities', and PledgeMe, which has funded commercial and other initiatives, including some that are both (like Eat My Lunch).

In fact, local platforms are multiplying everywhere. Boosted 365 is 'here to remove every possible barrier between artists and backers', and has funded a Māori trading card game, an annual arts and theatre event for shoe lovers, and more. Shuttlerock, a software content marketing platform, became a 'layer' on Facebook's global platform when they became one of 15 Facebook partners globally. Housesitters and Kiwihousesitters compete in the

house- and pet-sitting market, while Sharedspace does the same for commercial space. Platforms for platforms are emerging too: there are now 'collaborative economy meetups' in Auckland – organised via an online platform – that are designed for people to share how to share.

Parkable and Campable: home-grown disruptive platforms

It is worth looking at a couple of local platforms more closely. Parkable is an excellent example of a home-grown app-based disruptive transaction platform that displays Choudary and Parker's three characteristics of successful platforms.

Parkable addresses the difficulty in finding a car park in our cities, where a third of congested downtown traffic is simply looking for parking (Barter, 2013). The Parkable app matches demand with supply (reported 'live' via an Internet of Things network of sensors), creating value for both – the first characteristic of success. The original idea was to access – or 'share' – unused parking spaces for events, such as residential driveways near Eden Park during big rugby games. This is still part of the business, but Parkable has found that higher-frequency demand embeds habits faster, and it now focuses on daily employee parking. One key innovation has been on the supply side, with most of the over 4,000 places they manage in Auckland being non-traditional parking areas such as underutilised church, supermarket and school parking lots, vacant lots, and areas that are between tenancies.

Thousands of drivers are now using the app. It is growing fast both in Auckland and in other cities. This demonstrates the second characteristic – a great user experience when attracting, facilitating and matching transactions.

Things really get interesting, though, when we look at how Parkable is layering new interactions, the last of the three key characteristics. As it learns from how people behave on both sides of the platform, Parkable is innovating furiously. One fast-growing example is Parkable for Business, which manages excess demand and underutilised supply of parking spaces within an organisation. One of the platform's clients allocates its best corporate parks to its senior executives, who often don't use them; other corporate parks are available for long-term or casual renting to firm employees. Parkable has enabled an internal day market for those parks. Different payment regimes can apply (for example, who gets the payment and at what price). This enterprise approach has multiple benefits, including less demand on the city's overall parking supply, easier access to parks for all employees, and cash benefits to either the 'park owner' or the firm. Another value created is that clients can include a visitor car park when they send meeting invitations.

Brody Nelson, the founder of Parkable, also launched Campable, which matches motorhomes with private land. It solves the problem of excess demand for traditional motorhome parks by adding private land to the supply, and it also eases the freedom camper problem. There is much debate in Wellington about freedom campers congesting and even befouling the south coast, because of the limited space and toilet facilities. Campable allows a visitor to find a local person willing to let them park in their driveway – and perhaps use some of their facilities – for a fee.

So Campable adds value to both sides, and its growing business shows that it is offering a good experience. It also tantalises with the prospect of spreading economic benefits wider with what it calls 'micro-tourism'. We know that authentic experiences are the new 'tourism gold', and making it easy for tourists to spend a night on a lifestyle block off the usual tourist paths, and to meet working locals and consume locally made product, is very attractive.

Brody Nelson, founder of Parkable and Campable

A mash-up of platforms to address accommodation and transport issues

A second layer of the rise of platforms locally, and a perfect illustration of how descriptors are not keeping pace with the real world, is a mash-up of platforms currently taking physical form in one fast-growing New Zealand centre. A shortage of worker accommodation there is exacerbated by limited public transport and increasing traffic congestion. A developer is planning a new build of 300 apartments (many already pre-sold to employers for worker accommodation), with several platforms integral to the design. Each apartment will have its own bedrooms and bathroom, but other facilities will be shared, such as cooking, lounge and laundry. This reflects a trend in places like New York called 'co-living', or a 'disruptive alternative to the way people live' – one example is WeLive's 200-unit fully furnished and fully serviced site at 110 Wall Street, Manhattan (Winston, 2016).

The New Zealand concept does not stop there though. Parkable will manage its car parks, cars for casual use will be provided by a car-sharing platform, and the facility will run buses with bookings online.

The regulatory challenge in Aotearoa

So far, so exciting. However, both Parkable and Campable run the risk of getting ahead of existing laws and regulations. Two districts have banned Campable, seemingly because of fears of negative impacts on local motorhome parks (akin to cities looking to ban Airbnb due to fears of a negative impact on local hotels and motels).

Another obstacle is the Camping-Grounds Regulations 1985, which were issued before mobile telephony and the internet. The regulations require landowners to obtain a resource consent before they can have more than one motorhome stay on their land, but local authorities can issue exemptions.

The motives for regulation in this area are obvious: to ensure appropriate capacity and environmental management, and to set health and safety standards. Again, though, the facts are getting in the way. Freedom camping is arguably a response to lack of supply in the right places. Further, Campable displays the second characteristic of good platforms: that is, it uses algorithms to provide valuable information to all sides. Drivers can access real-time amenity and capacity data and feedback from others about their experience. Landowners can access feedback about drivers. Regulators can access data about usage, feedback from both sides and so on. In other words, Campable offers a different way of meeting the objectives of the regulations, and one that provides a lot more data about compliance.

We are no different from the rest of the world: 'The current New Zealand regulatory framework does not provide effective regulations for apps such as Uber and Airbnb' (Henderson, 2016, p.5).

A more responsive regulatory model for the platform era

Experience of the platform era so far seems to be telling us that the traditional regulatory model of policy development and review cannot cope with the rapid-fire disruptive change we are seeing: the familiar model risks simply being too slow.

A major part of the problem is getting timely intelligence about new business models and new technologies. Traditionally, our officials have had a deep understanding of the particular industry they create policy for and regulate; but in our new world of cross-discipline, cross-technology platforms, New Zealand's policymakers and regulators are grappling with the problem that disruption to their industry may well come from outside it. They therefore also need to be aware of what's happening outside their industry and beyond its traditional technologies.

Armed with better intelligence, officials then need to be able to apply a new, higher level of forecasting capability. By getting more intelligence earlier, then responding to it quickly and effectively, officials will be able to aspire to something approaching 'real-time' regulatory change.

This is a massive challenge, but New Zealand officials do have one advantage here: the opportunity to learn from overseas experience. We are certainly not trailing the international field, but there are some frontrunners whose regulatory responses we can dissect and learn from, whether in competition law or property rights or other fields. Developing new regulatory models in Aotearoa for the age of the platform will depend on us successfully applying lessons from abroad.

Conclusion

Back on the platform at my favourite local farmers' market, Dunedinites are connecting, sharing and exchanging – including talk and ideas, not just berries from the Taieri Plains – but doing it in their largely pre-digital ways (there's a bit of EFTPOS). In parallel, though, many of the products are also being sold online, and – naturally – a new New Zealand platform was launched in November 2017. It's called Ooooby, and its website notes: 'We deliver fresh fruit and vegetables from local and organic growers to you every week. It's like food delivery from a farmers market.' That kind of local dynamism is driving much of the growth and innovation among digital platforms, beyond the big, oft-cited players like Facebook and Amazon.

Here in Aotearoa, the digital platform phenomenon is as pervasive – and as fluid and exciting – as anywhere else. As around the world, our policymakers and regulators are reckoning with the quickening pace and unpredictability of the phenomenon, with its tendency to go off in quite unexpected directions. Platforms have been getting ahead of the curve, raising complex issues in regulatory areas such as tax, employment, health and safety, consumers and competition. Those who make and enforce policy in this country have the critical job of managing and influencing that growth, through providing a regulatory framework that will allow the considerable promise of platforms in economic and social benefits to be realised.

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Malcolm Menzies

A Partial History of Futures Thinking in New Zealand

What is futures thinking?

> Futures Thinking offers ways of addressing, even helping to shape, the future; it is not about gazing into a crystal ball. It illuminates the ways that policy, strategies and actions can promote desirable futures and help prevent those we consider undesirable. It stimulates strategic dialogue, widens our understanding of the possible, strengthens leadership, and informs decision-making (OECD, 2017).

Defining futures thinking (also known as foresight) is like trying to pin the proverbial tail on the donkey. But in public policy terms it might best be characterised as anticipating tomorrow's problems, protecting the long-term public interest and endeavouring to 'future proof' the state. For New Zealand, that includes managing a distinctive set of risks (Boston, 2016).

However defined, futures thinking is important because many developments, particularly those that affect the development of people, or a country's infrastructure or economic base, or the sustainable development of its environment, are extremely long-term processes. It is important to set off on the correct path now. To find out in several decades' time that the wrong turning has been taken would be disastrous, and futures thinking aims to reduce the chances of this happening (Menzies, Newell and Peren, 1997).

No one can credibly predict the future, as can be illustrated by many amusing examples of people who tried and spectacularly failed.[1] Being right in retrospect is not necessarily helpful. Forecasts based on extrapolating from current trends can be useful, but if they extend over more than five years in a complex and fast-changing world[2] their reliability diminishes considerably (New Zealand Treasury, 2013, 2016). More than five years out, projections might be informed by a number of different techniques, such as horizon scanning, cross-impact analyses and Delphi panels. Projections are usually also based on a range of assumptions and often underpin two, three or four scenarios of possible futures. It is generally accepted that all these might be upset by a 'disjunctive shock' (James, 2017) that either can't be foreseen or is not

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registered despite the presence of warning 'straws in the wind'. An example is the global financial crisis, which came as a shock, but not to everyone.[3]

The use of the plural in 'futures thinking' is deliberate, since futures thinkers argue that from the standpoint of the present there is no one future, and the one that finally arrives is not predetermined. On the other hand, it has to be recognised that for a small country like New Zealand, there are some outcomes that are highly likely (an aged population structure) and some that are less within our power to influence (such as the growth of artificial intelligence).

Indeed, there may be 'probable' futures in the near term, 'possible' futures which depend on a whole range of factors, and 'preferred' futures able to be shaped by human agency. All of these will overlap. Preferred futures bring into play notions of 'visioning' and 'backcasting', wherein a future is imagined so that strategies and plans can be developed and implemented in order to get there. Visioning processes are challenging and take many forms. George Bush senior once laconically referred to 'the vision thing' while campaigning for president, and this remark summed up many people's ambivalence (Menzies, 2000). On the other hand, in 1999, Singapore, which is very future-focused (and perhaps less cynical, yet successful on many counts), proposed a new national vision for the 21st century.[4]

Scenarios are particularly useful tools for testing how robust strategies are in the face of multiple possible futures, and for detecting signals of the actual, emergent future. However, like many futures thinking concepts, scenario planning is interpreted in a number of ways (Börjeson et al., 2006), and can even be misused.

Done properly, futures thinking is a creative process which often overturns conventional mental models (Johnson-Laird, 1983). Eminent futurologist Jim Dator goes so far as to say that 'any useful statement about the future should appear to be ridiculous'. The OECD (2017) uses more conventional language, but along the same lines. Futures thinking:

> uses a multidisciplinary approach to pierce the veil of received opinion and identify the dynamics that are creating the future. … A variety of methods – qualitative, quantitative, normative, and exploratory – help illuminate the possibilities, outline policy choices, and assess the alternatives. … Futures thinking looks beyond immediate constraints. It helps people remember that existing attitudes and frameworks, which often seem immutable and insurmountable in the short term, are ripe for change in the long term. Futures thinking creates an environment for deeply informed decision-making with a sustainable balance between short- and long-term policy goals, smoothing the transition toward a positive future.

How does New Zealand rate?

Boston (2016, 2017b) describes the challenges to be faced and the institutional arrangements required for 'anticipatory governance'. Drawing on various studies and other available data (e.g. Ryan and Gill, 2011) Boston finds it reasonable to conclude that 'many of New Zealand's governance arrangements, policy settings and regulatory frameworks are appropriately future-focused and suitably anticipatory' (2016, p.17). There are certainly some forward-looking elements contained within public sector management and reporting frameworks (e.g. statements of intent and performance expectations). Social investment is an inherently future-focused process (albeit controversial) and a more analytical approach is being taken in assessing new budget bids (O'Fallon, 2017).

There have also been attempts to address short-termism by setting up 'arm's length' Crown entities to advise governments on long-term issues: for example, the Productivity Commission and commissioners for Children, Race Relations and Retirement. The Office of the Parliamentary Commissioner for the Environment has a greater degree of autonomy and independence since it reports to Parliament, rather than the government of the day.

However, when measured against 17 criteria, New Zealand gets at best a mixed scorecard for the quality of its anticipatory governance (Boston, 2016, 2017b). While there are a number of 'commitment devices' to protect future-oriented interests (e.g. the Public Finance Act 1989 and the Reserve Bank Act 1989),[5] still in many policy areas outcomes are poor, often with significant intergenerational implications. For example, there remain relatively high rates of childhood poverty, high rates of obesity, major housing challenges and weak environmental performance.

These poor outcomes are deemed to reflect (inter alia) the unwillingness of successive governments to make hard policy choices and confront vested interests. Furthermore, no government can bind its successors and there is a focus on the short term, exacerbated by our three-year election cycle. But a more fundamental barrier to futures thinking is human beings' inherent 'presentist bias'. We would rather have things today than wait until tomorrow,[6] and a general lack of demand for future-oriented policies causes a lack of response within the policy system. There is clearly room for improvement:

> By comparison with many other democracies, including small ones, New Zealand invests relatively little in formal foresight processes and reviews. We have no dedicated, high-level foresight unit in central government, no academic research centre devoted to foresight methodologies and

… no government can bind its successors and there is a focus on the short term, exacerbated by our three-year election cycle.

> assessments, no national scenarios to use in such assessments, no parliamentary committee focused on emerging and long-term policy issues, few serious evaluations of the societal impacts of emerging technologies and important scientific discoveries, and only sporadic efforts by major departments and agencies to undertake horizon-scanning and scenario analyses in their respective areas of responsibility. (Boston, 2017b)

Back to the Futures Commission?

Recently a call was made for the formation of an apolitical Futures Commission to decide what New Zealand should look like in 50 years' time, and to determine what needs to change if we are to realise that vision (Macdonald, 2017). The idea may have some merit, but there has already been a statutory Commission for the Future and it met an untimely end. Before proceeding further with the notion of a new organisation, it makes sense to review the history of futures thinking in Aotearoa New Zealand, to see what lessons can be learned. This article seeks to provide such a review, while fully cognisant of its partial nature, in both senses of the word. Over the last 20 years the author has been involved in several of the initiatives described below and there is inevitably an element of personal reflection, particularly when it comes to discussing possible ways forward. Second, even setting aside possible selection bias, a totally comprehensive history of futures thinking in Aotearoa New Zealand is almost impossible to achieve. An early draft of this article, discussed at a roundtable meeting held at Victoria University's School of Government in July 2017, revealed a large number of overlooked or hitherto unknown futures thinking initiatives.

There are also questions of scope. For example, some books or campaigns on 'national identity' (Laidlaw, 1999; the New Zealand flag referendum) embody a degree of futures thinking. Many leadership programmes aim to build future capability, and a number of sector-specific initiatives assess wider future impacts (e.g. Gill et al., 2010; Gluckman, 2012; Hawke et al., 2014). The word 'future' can be appropriated for all sorts of purposes: former prime minister Mike Moore wrote a book entitled *A Brief History of the Future* to support his bid to become director-general of the World Trade Organisation (Moore, 1998). An additional challenge is presented by the ephemeral nature of many futures thinking initiatives. A plethora of policy papers, organisations and websites have come and gone over the years, leaving little trace of their existence.

Like other explorers who set out towards geographical unknowns, [Kupe] must have imagined a future time when he and his companions would arrive somewhere new.

What follows is focused mainly on *institutions* and *processes* of futures thinking or foresight, with reference to some key individuals and related literature. Most emphasis is placed on Aotearoa New Zealand, but acknowledgement is made of the inherently internationalist nature of futures thinking. A full treatment awaits the attention of some future PhD scholar.

Early days

Kupe was perhaps the first futures thinker to reach New Zealand. Like other explorers who set out towards geographical unknowns, he must have imagined a future time when he and his companions would arrive somewhere new.[7] Early European adventurers would have experienced a similar convergence of place and time in their respective imagined futures.

Those who signed the Treaty of Waitangi had future generations in mind, and in the second half of the 19th century colonial treasurer Julius Vogel raised debt to pay for the infrastructure that would underpin New Zealand's economic development. Vogel also wrote a science fiction novel set in the year 2000 which anticipated air travel (though by airship, not aeroplane) and a world where women would hold many positions of authority – including the presidency of the United States (Vogel, 1889).

There was no shortage of individual visionaries leading change into the 20th century, but the beginning of institutionalised futures thinking has been traced by the Sustainable Future Institute (now the McGuinness Institute) to the work of the Institute of Public Administration (IPANZ), formed in 1936.[8] In the 1960s, IPANZ published papers on planning and forecasting in New Zealand. Indeed, formalised planning seemed to take off in the 1960s. A widely representative Industrial Development Conference was held in 1960 (Industrial Development Conference, 1960) and national development conferences were held in 1968[9] and 1972.

Wallace (2012) reports thus on the 1960 conference:

> Very briefly, its purpose was to establish an agreed direction for diversifying the New Zealand economy away from its dependence on primary agricultural products (wool, butter, meat carcasses, etc.). The conference opened with plenary addresses from the prime minister, Walter Nash, the head of the Department of Industries and Commerce, W.B. Sutch, and the farmers' official representative, W.P. O'Shea. The gesture of inclusion towards the farmers, as the dominant force in economic production, backfired. O'Shea used his centre-stage opportunity to tell the exact opposite story to the one the government was trying to have heard: he claimed that if the farmers were only given enough resources, they could solve New Zealand's economic problems all by themselves – i.e. by producing more of the same – for as

long as anyone present was likely to be interested in the matter.

Wallace goes on to describe the National Development Council system. The council and its satellite committees provided the institutional arrangements for gathering data from all sectors of the economy and setting targets for future output. A vital tool for the management of this process was the computerised model of the economy. Bryan Philpott became the leading New Zealand exponent of econometric modelling. As described later by the Task Force on Social and Economic Planning (1976), the aim was to 'produce an economic model which could be used to assess where the economy was heading on current trends, what it could feasibly or optimally achieve and what were the policy implications of the optimum blueprint'. According to Wallace this approach was an example of a Newtonian/mechanical approach to planning for the future. But economies and societies are too complex for this to work satisfactorily, and there followed a rise of faith in free-market, 'self-organising' mechanisms. Over time in markets, however, the long-term view can be lost and the pendulum tends to swing back to some kind of external organising framework.[10]

As a follow-up to the two national development conferences, the New Zealand Planning Act 1977 formally established two sibling bodies, the New Zealand Planning Council and the Commission for the Future. In summary, the functions of the Commission for the Future were: to study the possibilities for the long-term economic and social development of New Zealand, with particular reference to developments in science and technology and trends and events in New Zealand and overseas; to report to the minister and inform members of Parliament; and to publish and promote discussion and education about the future. The particular reference to science and technology is significant, because many futures initiatives and the people involved have come from the natural and physical sciences.

The Commission for the Future did not last. It attracted the ire of Prime Minister Robert Muldoon and was abolished by the government in 1982. The commission's chairperson, James Duncan (a professor of chemistry) responded by setting up the New Zealand Futures Trust, which maintained a significant base of corporate and individual members into the early 2000s and continued to carry out research and produce a journal (*Future Times*) up until 2012.[11] James Duncan also wrote a substantial book on *Options for New Zealand's Future* (Duncan, 1984).

The Planning Council, with its medium-term horizon, survived until 1990, when it, too, was disestablished.

Into the new millennium

At this stage, institutionalised approaches to futures thinking were on the back foot, but the 1990s onwards saw a flurry of disconnected planning and futures-related activity. For example, the Porter Report outlined ways to upgrade New Zealand's competitive advantage (Porter, Crocombe and Enright, 1991). The Ministry of Research, Science and Technology (MoRST) ran a science priority-setting process which was grounded in a report on future prospects for New Zealand (Strategic Consultative Group on Research, 1994) and morphed into a wide-ranging Foresight Project, followed by MoRST's FutureWatch programme and then the Navigator Network to provide 'early alert' advice about emerging science trends and innovations.

A book entitled *Vision Aotearoa: kaupapa New Zealand* was published, based on interviews with 20 New Zealanders (Capper, Brown and Ihimaera, 1994). And the New Zealand Futures Trust produced a collection of ten essays for the new millennium, entitled *Our Country: our choices* (Menzies, Newell and Peren, 1997).

The National government set out futures frameworks: for example, in Path to 2010 (Bolger, 1993) and subsequent updates, and *Strategic Result Areas for the Public Sector* (New Zealand Government, 1994), which were agreed policy priorities set by Cabinet for government departments – presaging today's Better Public Services targets (State Services Commission, 2017). The Department of the Prime Minister and Cabinet carried out an annual review of progress against the strategic result areas, which also gave rise to key result areas for chief executives. The Ministry of Commerce ran an extensive consultation on how to encourage the growth of a knowledge economy, resulting in a report entitled *Bright Future: making ideas work for New Zealand: 5 Steps Ahead* (Ministry of Commerce, 1999).

Then, in 2001, Prime Minister Helen Clark co-chaired the high-profile Knowledge Wave conference, which sought to identify strategies for New Zealand's transition into a knowledge society. At the conference there were echoes of the 1960 National Development Conference stand-off, when a speech by the then governor of the Reserve Bank almost prompted a walkout by trade union representatives, highlighting the inherent risks of a 'conferencing' approach to futures thinking (Wallace, 2012).

A separate agency emerging from discussions held at the Knowledge Wave conference was the future-focused New Zealand Institute, which operated for a number of years before merging with the Business Roundtable to become the New Zealand Initiative. Also in 2001, as part of a campaign heralding the introduction of Kiwibank, New Zealand Post invited New Zealanders to submit visions for the country's future.

The Local Government Act 2002 required local authorities to develop long-

At this stage, institutionalised approaches to futures thinking were on the back foot, but the 1990s onwards saw a flurry of disconnected planning and futures-related activity.

term plans, to cover a period of not less than ten years and among other things 'provide a long-term focus for the decisions and activities of the local authority'. The act also specified some consultative procedures – later repealed – for developing long-term plans. Specific regional futures exercises were carried out in Auckland (to produce a 100-year long-term sustainability framework) and in Waikato, where the Creating Futures Project 'created tools to inform communities about the long-term effects of current development patterns and trends and to enhance community involvement in choosing and planning for desired futures' (Regional Growth Forum, 2007; Waikato Regional Council, n.d.).

Also in 2002, as a result of the Review of the Centre, the State Services Commission started in-house futures research and then a Futures Programme which included working with public service chief executives to build their shared understanding of the future.[12] This led to an upsurge in futures thinking projects in the public service and the commission's development of a network (the Future Practitioners' Forum) to support public servants undertaking futures projects.

Between 2004 and 2009 the Future Practitioners' Forum had around 200 members (from across the state sector, not just the public service) and met monthly, with 70–120 members attending meetings. It collected a repository of shared futures resources in a very early online shared workspace. As well as continuing to work with chief executives, the Futures Programme expanded to include work with the commission's Leadership Development Centre to build futures capability among senior managers. Latterly, a cross-agency Strategic Futures Group with around 70 participants has been rebuilt in the public sector.

In 2004 an amendment to the Public Finance Act required the Treasury to produce a report every four years on New Zealand's long-term fiscal position, with a horizon of at least 40 years. Mostly these long-term fiscal statements – a form of 'commitment device' – have been low-key affairs, but in 2013 there was an exceptionally high-profile process of consultation and publication. This had little impact, but Treasury was undeterred and made another attempt to influence thinking with production of the 2016 long-term fiscal statement (New Zealand Treasury, 2013, 2016). Treasury also produced a forward-thinking Living Standards Framework to convey a vision wider than one based only on traditional economic measures.[13]

There have also been a number of private initiatives, including commercial consultancies providing futures-related services, professional organisations' research programmes and blogs.

A 2013 amendment to the State Sector Act 1988 established the notion of 'stewardship' and defined it to be the 'active planning and management of medium- and long-term interests, along with associated advice'. The purpose of the amended act is to 'uphold a State sector system' that, among other things, fosters a 'culture of stewardship' as defined above.

The New Zealand Defence Force has strong futures capabilities, and the Ministry of Transport produced a set of scenarios for the future of transport along with a dedicated futures page on its website, and provided advice and mentored new teams on futures approaches. In 2016 and 2017 the ministry sponsored several well-attended '101' foresight courses for the public sector.

Non-governmental initiatives

Other futures-related activities in the 2000s included a 'Being there in 2025' series of scenario debates broadcast by Radio New Zealand in partnership with the New Zealand Futures Trust;[14] the 2025 Taskforce;[15] and a visioning process promoted by Anew New Zealand, a privately-run non-governmental organisation.

Secondary Futures was an OECD-affiliated project which engaged New Zealanders in an extended national conversation about their vision for the 20-year future of secondary education in New Zealand. It was funded but not driven by government, being put instead under the direction of four independent 'guardians' of the conversation.[16] The New Zealand Council for Educational Research has produced *Key Competencies for the Future* (2014), and the New Zealand Curriculum for schools contains future-focused key competencies and encourages students to look to the future by exploring such significant issues as sustainability, citizenship, enterprise and globalisation, and to explore possible futures.

Continuing with the youth theme, in 2007 the Families Commission published a report on how young New Zealanders imagined family, friends and relationships across the course of their lives (Patterson et al., 2007). Generation Zero is a youth-based activist organisation with a focus on achieving a safe, zero carbon future.[17]

The FutureMakers initiative[18] was a collaborative partnership between Victoria University's Institute for Governance and Policy Studies, Secondary Futures and Landcare Research to cast a light on the challenges and choices facing New Zealand over a 20-year horizon and to build capability for taking the long view. Landcare Research explored possible futures for New Zealand under the rubric of 'building capacity for sustainable development', using a series of participatory workshops supplemented by expert input and reflection and followed up with over 2,000 people at 34 conferences and workshops.

There have also been a number of private initiatives, including commercial consultancies providing futures-related services, professional organisations' research programmes and blogs.[19] A consultancy

with a commitment to building public futures literacy designed and managed three free, game-based public futures conversations in partnership with Crown research institutes and centres of research excellence. The first conversation, Magnetic South, was in partnership with Landcare Research in 2011 on the long-term future of Christchurch. The next two, both called Pounamu, were on science and the future of New Zealand, and were run in 2012 in conjunction with the MacDiarmid Institute for the Royal Society's Transit of Venus event (Gluckman, 2012) and in 2013 with Professor Shaun Hendy, with support from the MacDiarmid Institute and other centres of research excellence. These futures games engaged New Zealanders from nine years old to 90 and from Kaitaia to Invercargill.

Foresight and futures research have been built into public policy courses at the University of Canterbury. The Tourism Group at Victoria University has undertaken a considerable amount of futures work, and in 2012 produced *Tourism 2050: planning for the future* (Moriarty, 2012).

The McGuinness Institute has collected a repository of futures resources in the James Duncan Memorial Library. In recent years, several specifically futures-oriented books have been written by New Zealanders (Gilbert, 2005; Carden and Murray, 2007; Wallace, 2011; Kelsey, 2015; Palmer and Butler, 2016; Boston, 2016, 2017a, 2017b; Harris, 2017; James, 2017).

In 2016 the New Zealand Labour Party published reports on the future of work (Future of Work Commission, 2016). In the same year, as a way of winding up the New Zealand Futures Trust (latterly known as Futures Aotearoa) an online series of interviews on the future with both prominent and young New Zealanders was posted on the Institute for Governance and Policy Studies website. Television New Zealand aired a series of interactive programmes on New Zealand's future (*What Next?*) in 2017.[20]

The international scene

Boston's two books on the theme of governing the future (Boston, 2017a, 2017b) draw on his studies of other countries' approaches to futures thinking. Finland seems to be particularly strong in this area, with its requirement for governments to produce a report on the future every parliamentary term, but there are many other international examples of futures thinking. To pick just a few, Scotland's Futures Forum commissions in-depth studies and undertakes scenario-planning; Wales has a Well-being of Future Generations (Wales) Act; Possible Canadas is a partnership of diverse organisations which share the goal of supporting forward-looking conversations about the future of Canada; Switzerland has prepared an Outlook 2030 review of opportunities and risks for federal policy.[21] Singapore has a Research, Innovation and Enterprise 2020 Plan aimed at 'winning the future through science and technology', and in July 2017 that country organised an International Risk Assessment and Horizon Scanning symposium involving government agencies, think tanks and businesses from around the world, including representatives from New Zealand.[22] The European Foresight Platform is a network-building programme supported by the European Commission. It aims at building a global network which brings together different communities and individual professionals to share their knowledge about foresight, forecasting and other methods of future studies.[23] The OECD created a similar International Futures Programme to explore potential emerging sectors or future domains of interest for member economies, and has hosted annual meetings of the Government Foresight Community: in 2016 this meeting, of over 60 experienced foresight practitioners from 23 governments, considered 14 case studies of success in government foresight.[24]

There are also a number of international initiatives with New Zealand representation: for example, the World Future Society, the World Future Studies Federation, Oxford Analytica and the Mont Pelerin Society, not to mention the World Economic Forum, the Club of Rome and the United Nations Millennium Project. All these are eminently searchable online, as is the Project for the Study of the 21st Century, an impressive collection of individuals who characterise themselves as a 'global think tank for a new global era'. National Geographic has a website dedicated to exploring (mainly technological) futures.[25] Alongside these initiatives are journals of futures thinking (*Futures, the Journal of Futures Studies and Foresight*).

Globally in the private sector there is anecdotal evidence of an explosion of futures consulting:

> Trevor Hardy, the CEO of forecasting consultancy The Future Laboratory, which has clients including Diageo and Google, has seen the sector explode in recent years. 'Five years ago we drew up a list of competitors in the UK, which was four agencies. Now our competitive list here is over a hundred,' he says. Hardy estimates that the future gazing industry, comprising traditional trend forecasting companies, futures consulting businesses, and future-facing insight and intelligence, is now worth $100bn (£77bn) globally. (Cassidy, 2017)

Unfortunately, efforts to promote futures thinking in Aotearoa New Zealand have often become bogged down in topic-based approaches which may capture attention, but inevitably become political and present-centred.

The future of futures thinking

It is clear that there are many excellent developments in futures thinking going on in New Zealand, yet they tend to be disconnected from one another and struggle for acceptance or to become embedded in public institutions and processes. This is a fate shared by many cross-disciplinary fields, but an additional challenge in an evidence-driven world – along with growing threats to that world – is the obvious inability to collect evidence from the future.

This won't change, yet for futures thinking to thrive it may be necessary to 'double down' with an even more cross-disciplinary approach, including contributions from the humanities, arts, social media and communication technologies. Scenario planning is an excellent example of the way different disciplines might be blended, given that scenarios are essentially stories derived from research and analysis, imagination and vision, and are able to be falsified (or not) as time goes on.

There are also lessons to be learned from other fields where there have been attempts to change ways of thinking: for example, in retirement income planning, where people are encouraged to think more about their future selves and the trade-offs required between different time periods. Financial behaviours are susceptible to applied behavioural economics or 'nudges' (Thaler and Sunstein, 2008), such as automatic enrolments in KiwiSaver. Some of the commitment devices identified by Boston (2016, 2017a, 2017b) are analogous to nudges, although others might better be characterised as 'shoves'.

Unfortunately, efforts to promote futures thinking in Aotearoa New Zealand have often become bogged down in topic-based approaches which may capture attention, but inevitably become political and present-centred. There is also a tendency for these efforts to become dependent on one person or a few people, and this is not sustainable. There is a thin base of human capital for futures thinking.

For futures thinking to rise across a complex system, the yeast of human capital will be required. A fruitful strategy would be to concentrate on capability building and development of the necessary competencies. That will require the involvement of institutions of learning, probably one or more universities. An applied Centre of Future Studies with a solid endowment could develop a new generation of futures thinkers while also carrying out research and scholarship, providing consultancy services and acting as a futures advocate. Programme graduates will eventually fan out across the public and private sectors and bring futures thinking to bear at all levels.

The problem is that generational change takes a generation, and there is not that much time available. A few 'shoves' are required. In choosing what these should be, there is likely to be a continued tension between institutional (centralised) approaches, which are vulnerable to political shifts, and process-based (devolved) approaches which may lack alignment with each other. Returning to the question of whether the time is right for oversight from a new Commission for the Future, Boston has a very forthright answer:

> a commission with a generalised responsibility to represent all future interests is unlikely to be effective. Such a task is simply too sweeping, diffuse and open-ended. There are, after all, a multiplicity of future interests. No commission, however well resourced, could adequately investigate, let alone represent, all these interests. (Boston, 2017b)

This assessment rings very true. Furthermore, dependence on a single mechanism – particularly one that is centralised – is unlikely to bring about the desired change in a complex and constantly changing world. Progress is more likely to come from a whole-of-system, multi-faceted approach.

While promising no simple solutions, Boston (2016, 2017b) effectively provides a recipe for ways to enhance anticipatory governance in New Zealand. Ingredient objectives include: constitutional reform; improving long-term reporting; improving foresight capability; strengthening futures-focused institutions; embedding the future within policy frameworks; nurturing a future-focused political culture; and improving environmental stewardship and adaptive governance. A particular argument is made for instituting commitment devices that require the policy 'system' to conduct regular foresight exercises, undertake periodic long-term forecasts and projections, and develop long-term plans (e.g. for conservation, infrastructure and other forms of public investment).

Boston has effectively laid out a manifesto for change, which provides a basis upon which Aotearoa New Zealand can build a global reputation as a futures thinking nation. In the short term, leadership would best be provided by a dedicated Futures Unit within the Department of the Prime Minister and Cabinet. The time is also right for a commission of inquiry into anticipatory governance, to see which of Boston's proposals can be implemented, and how.

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1 Some of these have taken on the characteristics of urban myths, such as the Decca executive who declined a contract with the Beatles on the grounds that 'guitar bands are on the way out', or Lord Kelvin who pronounced that flight by heavier-than-air machine was impossible. Niels Bohr is commonly attributed with the statement 'prediction is very difficult, especially about the future', but others may have said it first.

2 Sometimes referred to as TUNA conditions of turbulence, uncertainty, novelty and ambiguity.

3 The author had a conversation in about 2000 with American futurist Professor James Dator in which he clearly described preconditions – particularly, unsustainable levels of household debt in the United States – that already indicated to him the likelihood of a major 'correction' in the financial system.

4 http://eresources.nlb.gov.sg/history/events/66f2445b-43c1-407a-a3e8-a89083d6f868.

5 To these might be added section 5 of the Resource Management Act 1991, section 6 of the Conservation Act 1987, and sections 15 and 16 of the New Zealand Superannuation and Retirement Income Act 1991, which lock in indexation for New Zealand Superannuation.

6 Economists describe this preference in terms of a 'discount rate', which, when it comes to money, indicates how an individual values an amount received today compared to in the future. For example, when a sample of older Australians were asked the following question: 'if you had a choice between receiving $10,000 now, or a greater amount of money one year from now, what is the minimum amount you would need to receive in one year in order for you to choose this option instead of $10,000 now?', the median response was $15,000 – a discount rate of 50%. There are a number of possible explanations for this large discount rate, but it suggests an extreme preference for immediate funds over future funds (Higgins and Roberts, 2012).

7 In the Māori language, the past is 'mua' (in front) and the future is 'muri' (behind). This makes sense in a culture that looks first towards ancestors, and is a reminder that there are many kinds of human understanding of time.

8 The McGuinness Institute has produced A History of Future Thinking Initiatives in New Zealand 1936–2010: learning from the past to build a better future (2014), which reviews 18 initiatives in an effort to learn lessons from the past and to develop a useful model for the future. The current article presumes to continue that tradition of review and reflection.

9 A sense of how diverse were the perspectives brought to bear, and how things have changed in 50 years, can be obtained from the photograph at https://teara.govt.nz/en/photograph/22318/national-development-conference-1968.

10 For an interesting viewpoint from a business leader, see https://www.mainfreight.com/nz/en/news/don-braid-on-the-

upcoming-new-zealand-election.aspx.
11 Approximately 30 years worth of Future Times have been archived at www.futuretimes.co.nz
12 I am indebted to Stephanie Pride for much information on these developments in the public sector, the FutureMakers initiative and associated activities.
13 http://www.treasury.govt.nz/abouttreasury/higherlivingstandards/his-usingtheframework-v2.pdf.
14 Recordings of these are to be archived in Ngā Taonga Sound and Vision.
15 See http://www.treasury.govt.nz/publications/reviews-consultation/2025taskforce.
16 See http://www.oecd.org/edu/school/34923187.pdf.
17 http://www.generationzero.org/.
18 See http://igps.victoria.ac.nz/events/Ongoing_research/futuremakers/futuremakers.html.
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Conal Smith

TacklingPovertyNZ

the nature of poverty in New Zealand and ways to address it

Introduction

Poverty in New Zealand is one of the foremost challenges we face as a country. Child poverty rates remain persistently above rates in many other developed countries and well above the rates prevalent in New Zealand during the 1980s. Poverty is of particular concern in a number of parts of provincial New Zealand, where it coincides with high rates of drug dependency, poor health outcomes – reaching Third World standards in some areas – high crime and victimisation levels and multi-generational cycles of disadvantage (Ministry of Social Development, 2010; New Zealand Treasury, 2017a).

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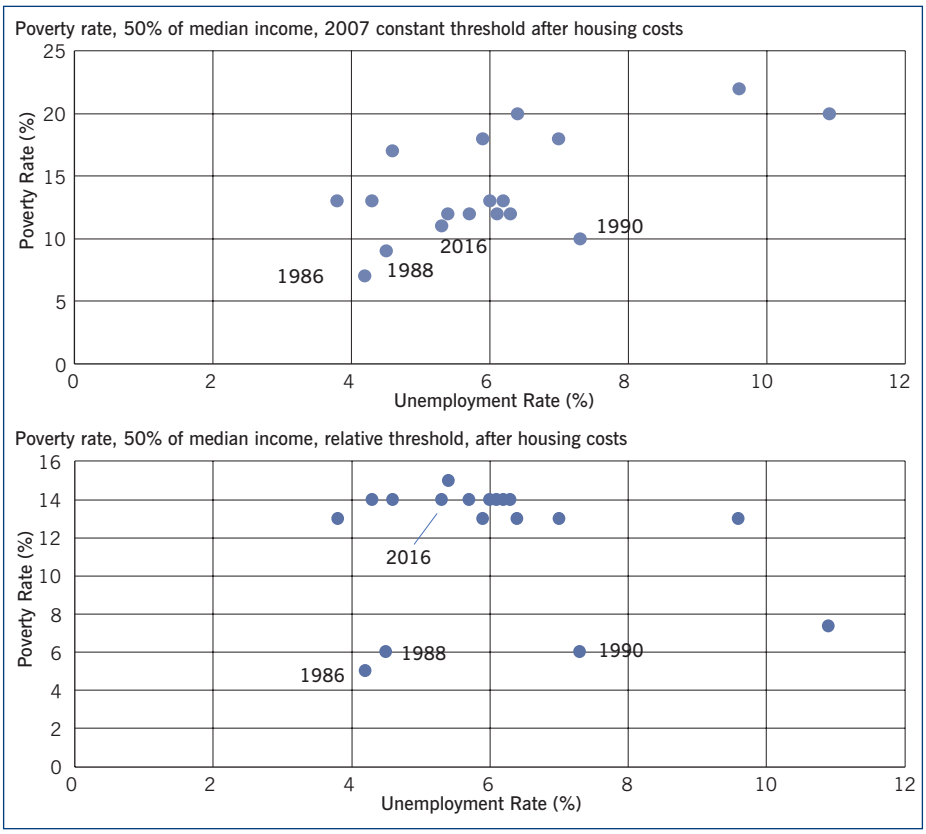
Historically high employment rates and unemployment rates that are low in terms of both international and historical comparison have failed to make a significant dent in New Zealand's poverty rates. The persistence of poverty despite a strong economy suggests that there is room to improve policy settings. In 2012 an expert advisory group on child poverty was established by the Office of the Children's Commissioner to look at solutions to child poverty and a report outlining a wide range of proposed policy reforms was released in 2013 (Expert Advisory Group on Solutions to Child Poverty, 2013). Although the proposed reforms achieved little traction immediately following their release, the Labour Party manifesto for the 2017 election committed the party to introducing legislation to set a child poverty reduction target during its first 100 days as a new government. With the formation of a Labour-led government following the October 2017 election, it is timely to consider approaches to tackling poverty.

In 2016 the McGuinness Institute launched TacklingPovertyNZ, with a focus on identifying new approaches to addressing poverty that were grounded in

Figure 1: Proportion of the population below 50% of median income, constant threshold and relative threshold, vs unemployment rate, 1986 - 2016



Source: Household Incomes Report, Perry, (2017); Infoshare, Statistics New Zealand

community experience and that might not have been identified through a process centred on Wellington. TacklingPovertyNZ brought together New Zealanders from a diverse range of backgrounds in six regional workshops aimed at gathering ideas on how to tackle the problem. Now, more than ever, ideas such as these will be important.

This article situates the TacklingPovertyNZ workshops in the context of what is known about the level and distribution of poverty in New Zealand and describes the main findings from the workshops. In particular, the article focuses on what the workshops reveal about how poverty is seen as a social issue outside policy circles, and explores ideas for addressing poverty that emerged from the workshops. In deciding which proposals to focus on, a conscious decision has been made to highlight ideas that fall outside the mainstream of policy discussion in New Zealand, but which nonetheless retain sufficient prima facie plausibility to warrant a second look. In doing so, the intent of the article is to complement the work of groups such as the Expert Advisory Group and the Child Poverty Action Group, which have focused more closely on the tax–benefit system and particularly (in the case of the Expert Advisory Group) on child and family tax credits.

Poverty in New Zealand: what we know about low incomes and how to address them

The primary source of information on trends and levels of poverty in New Zealand is the regularly updated *Household Incomes in New Zealand* report published by the Ministry of Social Development (Perry, 2017), which provides information on income poverty trends using a number of different measures. Prior to the 1990s poverty rates in New Zealand were relatively low, ranging from 6% to 14% depending on the measure used (ibid., 2017). During the early 1990s poverty rates increased dramatically, and then stabilised to some degree over the last two decades. It is over this time that the choice of measure matters, with rates of relative poverty remaining high, while constant value measures of poverty – particularly before housing costs – fall significantly.[1] Poverty rates after adjusting for housing costs, however, have remained well above 1980s levels, even using a constant value threshold.

It is not the intent of this article to review poverty trends in detail, but there are several features of poverty in New Zealand that are worth highlighting here. Figure 1 examines the relationship between poverty and unemployment. Despite a clearly expressed view from many politicians of both the left and right that jobs are the best tool to bring down poverty rates, it is evident that there is only a weak relationship between unemployment levels and poverty as measured against a constant value threshold, and there is essentially no relationship between unemployment rates and relative poverty. It can also be seen that the changes to the benefit system in 1991 resulted in a significant increase in poverty: poverty rates for the years prior to the cuts (1986, 1988, 1990) are lower than for subsequent years with equivalent unemployment rates. Note, however, that the impact of the 1991 benefit reforms was much larger when using a relative threshold than when poverty is measured using a constant value threshold.

While a wide range of different government programmes have an impact on both the prevalence and severity of poverty, in the English-speaking world anti-poverty policy has tended to focus on changes to the benefit system, tax credits, and often childcare. For example, tax credits, benefit changes and childcare were at the core of the Tony Blair Labour government's 1999 commitment to end child poverty in Britain (Main and Bradshaw, 2015). The New Zealand government's Working for Families package introduced in 2004 was centred on family tax credits to an even greater degree. More recently, the Expert Advisory Group's main recommendations centred around a review of benefit rates, changes to the child tax credit and changes to housing policy. A wide range of more targeted proposals were also included, but the tax credit and benefit changes formed by far the most substantial part of the proposed programme, with an estimated cost of $1.5–2 billion (Expert Advisory Group on Solutions to Child Poverty, 2013).

Both the tax–benefit system and policy changes aiming to encourage employment

are sensible ways to target poverty. However, as with all policy programmes, there is a law of diminishing returns. While there is a strong case for improving aspects of the existing system (including increased benefit rates or levels of tax credits – see ibid.), it remains the case that existing levels of poverty in New Zealand will become increasingly hard to eliminate with tools that are already extensively used. It is against this background that the McGuinness Institute launched TacklingPovertyNZ (see Box 1).

Going beyond low incomes

In order to make sense of the proposals that emerged from TacklingPovertyNZ, it is necessary to have a sense of what the participants thought they were developing solutions to. In preparing for the TacklingPovertyNZ workshops, the McGuinness Institute considered both of the main definitions of poverty found in the literature on poverty measurement: 'absolute' poverty, where income is insufficient for a person or family to meet their basic needs; and 'hardship' poverty, where an individual or family is unable to achieve a 'decent' standard of living relative to New Zealand society (the 1972 Royal Commission on Social Security described this standard as 'participation and belonging'). Both the absolute and hardship definitions of poverty are income-focused, and the main difference between them lies in how the income threshold defining what constitutes poverty is calculated.

In contrast to this, it was evident that most workshop participants saw poverty in different terms. In particular, poverty was viewed not simply as a state of low income, but as an outcome of low income, poor coping skills, and a 'culture' of poverty at the family level; of challenges grounded in poor regional infrastructure and opportunities; and of problems in resource allocation at the national level. Similarly, workshop participants saw poverty as a problem, not simply because low income is undesirable, but because low income is associated with other poor outcomes in the areas of health, housing, work, education and social contact. In other words, where poverty measurement has traditionally focused on incomes, the workshop respondents saw poverty as fundamentally multi-dimensional, and as best considered in terms of the negative outcomes associated with it.

Although there are good practical reasons for economists and others interested in measuring poverty to use precise and narrow definitions of the concept, it is important to acknowledge that the intuitive view of poverty put forward in the workshops is, in many senses, the more relevant.[2] We care about families with low incomes because of the effect of low incomes on other aspects of quality of life now, and because they contribute to low quality lives in the future. If low incomes did not cause hardship, poverty would not be a major social policy issue.

Acknowledging the multi-dimensional nature of poverty has several implications when thinking about how to tackle poverty in New Zealand. First, there is not going to be a single solution that can 'fix' poverty. Multiple causes mean that what drives one family into poverty may not be responsible for the situation of another family. Finding a job for a family where the parents are both unemployed may address poverty in one instance, but is unlikely to help in a different case where poverty is caused by drug and alcohol dependency. Second and relatedly, it is crucial to think beyond incomes. No feasible transfer system – no matter how generous – can entirely eliminate poverty. An adequate income is clearly necessary to address poverty, but it may not always be sufficient. Finally, it is important to consider the interactions between the different consequences of poverty. These are non-linear, meaning that disadvantage in multiple fields may have a more severe impact than would be anticipated from the simple cumulation of effects associated with each area of disadvantage in isolation.

Tackling poverty

What can be done? TacklingPovertyNZ highlights some basic points that must underlie any strategy to address poverty. First, there is a distinction between those factors that meet people's basic needs in the short term, and those factors that allow people to take control of their lives in the longer term. The former 'sustaining

Box 1: TacklingPovertyNZ

TacklingPovertyNZ began as a three-day policy workshop run in December 2015 by the McGuinness Institute, a non-partisan think tank based in Wellington, in collaboration with the New Zealand Treasury. This workshop saw 36 New Zealanders aged between 18 and 25 brought together to discuss poverty in New Zealand and how it might be tackled. A key suggestion from the workshop was that poverty is a complex issue and that a centrally driven approach might not lead to the best solution. Following up on this suggestion, between March and September 2016 the McGuinness Institute organised a series of regional workshops.

In total, six TacklingPovertyNZ workshops were held, in Queenstown, Manawatū, Rotorua, Gisborne, Kaitāia and Kaikohe, involving 400 participants. Each workshop was run with the support of local councils and included both local and national speakers, as well as participants from a diverse range of backgrounds. Each workshop focused on different issues self-selected by participants and related to the nature of poverty in their area and how to address it. In total, the TacklingPovertyNZ workshops identified 240 ideas or proposals for tackling poverty in New Zealand. These 240 ideas are described in the McGuinness Institute working paper *TacklingPovertyNZ 2016 Tour: methodology, results and observations* (McGuiness and Bunge, 2017). They include a wide range of suggestions focused at the individual, family, community, regional and national levels, and addressing a number of causes and consequences of poverty.

factors' address the basic needs that must be met for subsistence before any thought can be given to the longer term, while the latter 'empowering factors' cover the capabilities required to exercise control over one's life (McGuinness and Bunge, 2017). Tackling poverty requires addressing both sustaining and empowering factors. A second point is that the drivers of poverty occur at different levels. Some things, such as human capital, are specific to the individual or family. Others, such as the local job market or transportation infrastructure, are primarily regional in nature, while some factors, such as the social assistance system, are national issues.

Another important point highlighted in TacklingPovertyNZ is the role of security as part of meeting basic needs. While there are useful pieces of work looking at income security and poverty (see Easton, 2014), most analyses of poverty focus on the status of an individual or family at a particular point in time, or, if they do consider longer periods of time, focus on the average situation of the family. However, for any given situation the level of security experienced by people has important implications for their overall level of well-being (De Neve et al., 2015) and for their behaviour (Mani et al., 2013).

Civic literacy was also widely discussed. The need for more education on the role of government, the purpose of taxation and the rights of people in New Zealand were brought up many times in the workshops. This was a crucial element of the empowering factors identified in TacklingPovertyNZ. One of the key things that distinguishes those trapped in a cycle of poverty as opposed to those able to move to a better situation is an ability to proactively make use of government support to achieve longer-term goals.

Finally, TacklingPovertyNZ emphasised the range of possible responses to poverty. Where current policy settings represent a considered and evidence-based view of what is likely to be the most effective, given commonly accepted parameters for the nature and scope of anti-poverty measures in New Zealand, the aim of TacklingPovertyNZ was explicitly to widen the debate. Because of this, ideas widely discussed elsewhere – such as a universal basic income and reforms to social housing – are not considered further in this article in favour of proposals that have been given less consideration, and which are grounded in the TacklingPovertyNZ workshops.

Prior to 1991, New Zealand's benefit system was built around higher core rates for the main benefits, accompanied by a much narrower range of supplementary assistance and discretionary grants.

A wider range of policy options

Not all of the 240 ideas generated through TacklingPovertyNZ are viable, and many of those that are viable are either highly specific to a particular set of circumstances or very general indeed. Nonetheless, within the wide range of options proposed it is possible to identify seven proposals that are worth highlighting. None of the seven ideas draws on just one comment from the workshops. Instead, they reflect themes or suggestions that were repeated more than once. Each of the proposals was selected on the grounds that it has sufficient prima facie validity to be worthy of further development, although in all cases the value of the proposal would depend crucially on the precise details that emerged through the policy development process. The seven proposals are to:

1. simplify and standardise the benefit system;
2. introduce special demarcation zones in regions of high need;
3. revisit the role of the state as employer of last resort;
4. apply a social investment approach to investment in 'hard' regional infrastructure;
5. invest significantly in mental health;
6. target the behavioural drivers of poverty; and
7. introduce asset-based assistance for high-risk children.

Simplify and standardise the benefit system

The current welfare system (1991 to the present) is built around relatively low core welfare benefit rates and an extensive array of supplementary and discretionary assistance to meet the needs not covered by the core benefits. This has the advantage of targeting expenditure very closely on need while maintaining a relatively large gap between core benefit levels and wages. However, it also has disadvantages. Implementing the system is expensive, with Ministry of Social Development (MSD) operating costs of approximately $1.5 billion per year. It is difficult for those in need of benefits to understand what they are entitled to, and obtaining discretionary assistance can be a significant drain on beneficiary time and effort that could be better used elsewhere. Mani et al. (2013) argue that policy designers should beware of imposing cognitive taxes on the poor and note that 'filling out long forms, preparing for a lengthy interview, deciphering new rules, or responding to complex incentives all consume cognitive resources'. Equally importantly, the system is very badly designed from the point of view of encouraging benefit recipients to manage independently. The existence of extensive supplementary and discretionary assistance is both directly contrary to an ethos of self-reliance, and also requires both beneficiaries and MSD case workers to devote extensive time to requesting and processing additional assistance.

Prior to 1991, New Zealand's benefit system was built around higher core rates for the main benefits, accompanied by a much narrower range of supplementary assistance and discretionary grants. While the 1991 benefit cuts were intended to improve work incentives by reducing

benefits relative to wages, in fact the net amount received per beneficiary declined by much less than the cut in core benefits because of the increase in usage of supplementary and discretionary assistance. Rather than creating a strong work incentive, the most important effect was to move the burden of managing additional costs from the benefit recipient to the state.

Serious consideration should be given to simplifying and standardising the benefit system around a limited number of relatively higher core benefits but with reduced scope and eligibility for supplementary and particularly discretionary assistance. This would necessarily create both winners and losers within the benefit system. Nonetheless, a change of this nature would have several clear advantages. It would lower administrative costs for MSD, reducing the government's net fiscal burden even if the fall in supplementary and discretionary assistance is not quite as large as the increase in core benefits. A simpler system would reduce the cognitive burden on beneficiaries, resulting in a net gain in well-being even without behavioural change. Finally, a simpler system with less discretionary assistance would encourage a culture of managing on a fixed income. Moving from a benefit into work would no longer involve a distinct adjustment from a need-based system to a fixed income.

Devolve resources for empowerment-related programmes to the regions in special demarcation zones

It is abundantly clear that much of New Zealand's poverty is regional in nature. While differences between individuals and families undoubtedly explain a lot about poverty, there is strong evidence that region plays an important role. Northland, the East Cape and some areas of the central North Island have a long history of disadvantage spread across multiple different outcome areas (Ministry of Social Development, 2010; New Zealand Treasury, 2017a). Despite this, comparatively little social assistance is targeted specifically at a regional level, and the little existing regionally targeted assistance is spread across multiple agencies and allocated by central bureaucracy. The TacklingPovertyNZ workshops highlighted the uncoordinated nature of many regionally focused social services. This issue is exacerbated by the mismatch between the regional boundaries used by different government agencies (see McGuinness and Bunge, 2017 for examples).

One way to address this would be to create special demarcation zones in a limited number of high-need areas. Regional demarcation zones would place a sizeable proportion of the funds currently allocated to contracted social services by central agencies (ministries of Health, Social Development, Education, Justice and Corrections and the Department of Internal Affairs) in the hands of a regional body able to allocate funding within the zone. The zones would decentralise control by empowering a governance board of people who reside in the area and are part of the community to direct resources in a way that addresses local needs and to experiment with new models of service provision. The governance board would be put in place with a clear purpose, measurable goals and an agreed demarcation boundary. Supported by an external advisory board that includes government officials, the local governance board would have the authority to both allocate resources, and possibly also set aspects of local economic regulation in order to achieve its targets.

Such zones would represent a significant break from the past, and would carry significant policy risk. However, they would also have three key advantages. First, they would significantly reduce gaps in the need–decision–provision cycle for social services, and would contribute to more targeted and responsive service provision. Beyond this, special demarcation zones would allow for experimentation at the programme level and more rapid roll-out of programmes that worked locally. Finally, special demarcation zones would allow for experimentation at the regional level with different models of regional development (see also the section below on applying a social investment approach to investment in 'hard' regional infrastructure). The emphasis on experimentation here is deliberate. It is likely that any significant devolution of funds will involve a non-trivial risk of failures – particularly as the proposed regional governance boards are likely to have less experience and infrastructure to support social policy decision making. However, devolving spending power to the regions creates opportunities to try out new things and learn – both from success and from failure – in a way that current structures have difficulty providing.

New Zealand's existing policies aimed at addressing poverty are predicated on the view that the whole labour force is employable, and that benefits exist to support people while they look for work.

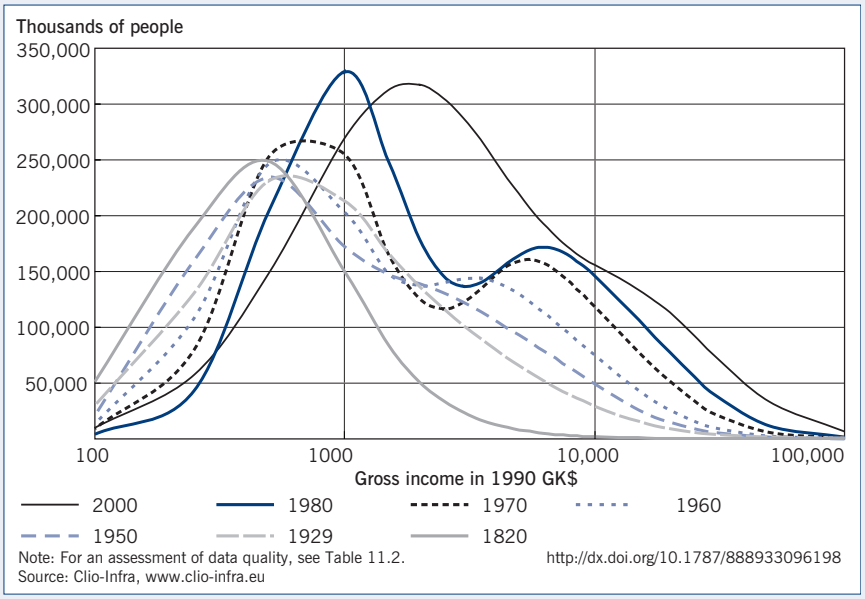
An employer of last resort

New Zealand's existing policies aimed at addressing poverty are predicated on the view that the whole labour force is employable, and that benefits exist to support people while they look for work. Exceptions to this state of affairs are viewed as the result of economic cycles rather than long-term historical trends. However, long-term trends do matter, and a proportion of New Zealand's labour force may simply be unemployable in the current context. During the post-war period, wages for unskilled labour were set domestically, meaning that it was possible for someone with very low human capital to earn a reasonable living in New Zealand through their own work. Globalisation has altered this, with wages for the low skilled in developed countries converging with those

Box 2: The changing global income distribution

Figure 2 shows the distribution of incomes at a global level between 1820 and 2000 (Van Zanden et al., 2014). Prior to the Second World War (1820, 1929), the global income distribution had a single peak corresponding to working-class incomes in both the developed and developing world. However, in the years 1960, 1970 and 1980 the global income distribution evolved two peaks as the incomes of blue-collar workers in the developed world pulled away from those of the developing world working class. By 2000, however, the impact of globalisation has pushed the distribution back to a single peak corresponding to the incomes of the working class in low- to middle-income countries such as China.[3]

Figure 2: Global income distributions in selected years, 1820-2000. Thousands of people at given level of income in $US, 1990ppp



Source: How Was Life?, Van Zanden et al. (2014)

in developing countries (see Box 2).

In large urban areas there may be sufficient demand for labour in local (non-tradable) services to support a level of unskilled employment at First World wage levels, but this demand is missing in much of regional New Zealand. Further, the demand for low-skill labour in the service sector may not align well with the skills of the unemployed in the regions (e.g. a 50-year-old ex-freezing worker may not adapt well to provision of elder care as a career). In regional areas those without marketable skills may simply be unemployable at any wage rate acceptable within New Zealand society (Moretti, 2012).

While it is beyond the government's power to rewind the global economy to the post-war period, it is not unfeasible for the government to provide employment directly (as it currently does with approximately 47,000 civil servants and 300,000 people in the wider state sector). In fact, this was arguably part of the New Zealand government policy mix prior to the reforms of the 1980s when the Railways Department functioned as a significant buffer on the unemployment rate. In considering the role of the state as an employer of last resort in the 21st century, it is not envisaged that New Zealand should return to placing the burden of employment on a key piece of the country's transportation infrastructure. Nor is it envisaged that the state should enter into competition with the private sector on a large scale. Instead, any direct employment solution must meet three criteria.

First, it should focus on jobs that are labour intensive, low skilled, and which are currently not provided by the market. Green jobs, including contributing to the government's goal of making New Zealand predator free by 2030, are obvious candidates. A second consideration is that the employment would need to represent real jobs, not 'work for the dole'. In other words, the jobs would need to pay at least the minimum wage, and would have the standard leave and other benefits associated with any job. Not only will this increase the likelihood of participation and more meaningfully contribute to reducing poverty; it will also have a direct impact on well-being (Boarini et al., 2013). The evidence suggests that the non-pecuniary costs of unemployment are so high relative to the impact of income that providing a job should be preferred to providing a benefit, even if the benefit rate were at the same level as the income from the job. Beyond the impact on the current well-being of the employed person and their immediate family, being in work could contribute to helping build a culture of work and provide a vehicle for human capital development, contributing to better outcomes in the future.

Apply a social investment approach to investment in 'hard' regional infrastructure[4]

Many countries – both developed and in the developing world – have specific regional development plans. In contrast to this, New Zealand tends to take a relatively centralised approach. This is grounded in the small size of the New Zealand population and centralised governmental structure. However, despite its small population size, New Zealand is a relatively large country geographically, with significant differences in infrastructure across the country. Poor infrastructure coincides geographically with areas that are among the most disadvantaged in social and economic terms, including Northland, the East Cape and parts of the central North Island. It is certainly not coincidental that these areas are the regions where iwi were most successful at holding onto their land during the 19th century, and which are subsequently characterised by high levels of Māori land ownership and historically low levels of infrastructure investment from central government.

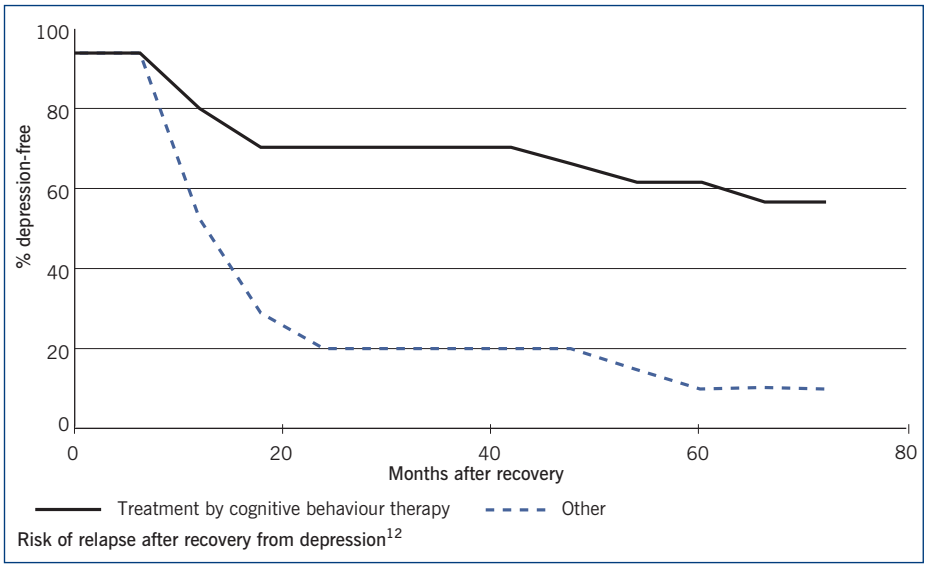
Direct investment in regional development, particularly through 'hard' infrastructure such as roads and bridges, is one obvious way to address regional disadvantage. Strategic national infrastructure decisions are currently made centrally on the basis of a cost-benefit analysis that is heavily weighted towards areas with more people and higher levels of economic activity. A broader social investment approach to regional infrastructure would weight regional economic development and the social gains from better regional infrastructure towards deprived areas more heavily.

Building the infrastructure would, itself, direct economic resources into the regions, with a strong tilt towards areas of work that employ lower-skilled labour. Beyond this, there are two additional gains. Tourist numbers in New Zealand are currently high, placing significant pressure on traditional tourist destinations (LGNZ, 2016). Investing in regional infrastructure in places like the East Cape or rural Northland would increase tourist numbers in these areas – providing an economic boost – and assist in spreading the burden of tourism more evenly across the country. In addition, improved infrastructure would contribute to addressing another key issue repeated across the TacklingPovertyNZ workshops – the difficulty of access to services in rural areas.

Invest significantly in mental health

Poor mental health is closely associated with poverty. This is because poverty can cause mental health issues (e.g. stress leading to depression) and because mental health issues can cause people to end up in poverty (e.g. substance abuse leading to job loss). In the 2012/13 New Zealand Health Survey, 17.1% of adults living in the most deprived areas had been diagnosed with a common mental disorder at some time in their lives, a rate 1.6 times higher than among adults living in the least deprived areas (after adjusting for age, sex and ethnic differences). However, mental health remains the poor cousin of physical health in the New Zealand health system. The irony here is that there are mental health treatments that work, and that such treatments show a very high return on investment whether in terms of medical outcomes (e.g. quality-adjusted life years; Layard, 2006) or individual well-being (Layard, 2005). Cognitive behavioural therapy,[5] for example, has been shown to work well in a British context, and would likely have similar effectiveness here (Figure 3).

Figure 3: Risk of relapse after recovery from depression by treatment type.



Source: Layard, (2006).

Increased investment in mental health is already a priority within New Zealand's social policy mix and it recently received significant additional funding as part of the 2017 Budget (New Zealand Treasury, 2017b). However, it was a consistent theme across the TacklingPovertyNZ workshops that this could be further strengthened and more proactively targeted towards those in need. A particular concern with mental health service provision is that, like other forms of health services, it is most effectively used by those with relatively high levels of human and economic resources to draw on. In contrast, to make a difference to poverty, mental health services will need to reach those who are least able to reach out themselves.

The gains from increased investment in mental health are clear. In addition to being a major source of misery in and of itself, poor mental health has a strong negative impact on employment and is associated with higher levels of deprivation. A concerted effort to address mental health – particularly in the more deprived areas of the country – would combine a significant direct effect on poverty through increased employment and incomes with a less direct, but important, effect on poverty by increasing the mental resources and coping skills of those managing with limited incomes.

Target the behavioural drivers of poverty

A common theme emerging from the TacklingPovertyNZ workshops was the impact of a 'culture' of poverty and the role of alcohol, gambling and loan sharks in trapping families in poverty. These issues revolve around human irrationality in behaviour and limits on decision-making capability. The effort involved in coping with life on inadequate resources leaves little energy for dealing with internal biases. Thinking rationally is tiring (Kahneman, 2011), and hard to do for a person who needs to spend all their energy on simply coping with life in the absence of adequate resources (Mani et al., 2013).

One policy lever to address poverty is to focus on the environment in which people find themselves and help remove the most obvious environmental pressures towards patterns of damaging behaviour. Loan sharks, for example, thrive fundamentally on the irrationality and short-term bias of their clients. Gambling and alcohol are other industries that disproportionately target human vulnerabilities, and which particularly affect the population at risk of poverty. Akerlof and Shiller (2016) characterise such industries as 'phishing for phools', but the reality is that many participants in the TacklingPovertyNZ workshops also identified these sorts of issues.

While crude bans on social 'bads' of this sort have not historically been particularly effective, it may be worth investigating whether policy can be more effectively targeted at either eliminating some of the techniques by which negative industries 'phish' for people (i.e. the ways in which systematic biases in people's behaviour are exploited for commercial ends) or if there are effective 'nudges' that can be deployed to discourage people from consuming social 'bads' excessively. The effectiveness of anti-tobacco campaigns is worth considering here, even though this model has been most effective in higher socio-economic groups.

A policy focus on the behavioural drivers of poverty would represent a relatively low-cost approach to addressing poverty and, if well implemented, could achieve significant results. Focusing on the behavioural drivers of poverty also allows for nuance in policy. For example, it suggests recognising that whether a behaviour such as drinking is destructive depends heavily on context. This recognition might, for example, suggest targeting bottle store locations but continuing to allow pubs or other institutions that serve a socially useful purpose (Dunbar et al., 2016).

Introduce asset-based assistance for high-risk children

One of the key determinants of the life chances of children is the asset base with which they enter adulthood. Children from most New Zealand families will finish their schooling with a strong base level of human capital and the support of their parents in implicitly underwriting the risks involved in starting a business or undertaking further study. Poverty is closely associated with a lack not just of current income, but of the assets that underpin better outcomes in the future (Kim and Sherraden, 2011). Simply topping up current incomes does not automatically address the capital deficit associated with long-term poverty.

One idea that focuses on the issue of assets and capital stocks is the concept of asset-based social policy. This was influential in the United States during the late 1990s (Ackerman, 1999) and with the British government in the first decade of the new millennium (Emmerson and Wakefield, 2001; Dolphin, 2009). In New Zealand, asset-based welfare was influential in establishing the KiwiSaver scheme. Most asset-based social policy initiatives focus on building up savings or even endowing people with a small quantity of savings as an inducement to save. However, the core idea behind asset-based welfare was never limited to relatively small savings incentives. In fact, proponents of asset-based social policy have often argued that a desirable goal would be to endow all school leavers with a significant asset that could then be used to fund further education, a business idea or housing, or simply form the basis of lifetime savings (Ackerman, 1999). Although interesting conceptually, none of the asset-based programmes actually implemented have ever involved large sums, simply because of the fiscal cost of instituting such a programme for all school leavers.

Poverty is closely associated with a lack not just of current income, but of the assets that underpin better outcomes in the future ...

In fact, asset-based social policy would be an inefficient use of government funds if targeted widely. As mentioned above, most young adults leave home with strong human capital and the support of parents who – even if they cannot provide them with a large lump sum of money – nonetheless do form a sort of safety net in the face of life's risks. However, those children most at risk of future poverty often lack both high levels of human capital and the support of a family with strong resources. This is particularly the case for those most at risk: wards of the state. Because this group is relatively small, it would be possible to implement an asset-based scheme focused on wards of the state that both involved significant enough levels of assets to make a difference to life chances and was fiscally reasonable. Similarly, the negative consequences of becoming a ward of the state are high enough that there is comparatively little risk of inducing negative behavioural change (i.e. people trying to make their children wards of the state in order that they are eligible for assistance).

The proposal is therefore to use wards of the state to test the impact of a relatively generous asset-based social policy scheme, with an endowment in the tens of thousands of dollars. Clearly, like existing savings schemes, the endowment would have limits on when the assets could be accessed and for what purposes. Education, starting a business and buying a house, for example, would all qualify. A scheme of this sort would have three positive effects. First, it would direct a significant asset to some of New Zealand's most disadvantaged citizens at a crucial juncture in their lives, having a direct effect on their ability to manage the post-school transition. Second, the mere fact of having an asset would have a positive impact on how people evaluate their options during secondary school. Knowing that the cost of tertiary education can be managed or that the capital exists to start a small business can affect the perceived pay-offs of staying in school and putting the effort in to achieve there. Finally, the proposal would provide a strong test as to whether asset-based social policy actually works at a relatively limited cost.

Conclusion

The explicit aim of TacklingPovertyNZ was to give a jolt to the New Zealand policy discourse with respect to addressing poverty and to try and shift the range of options that are given serious consideration. It is often the case that credible policy options are simply considered out of scope for reasons of perceived political feasibility, lack of profile or degree of difference from the status quo. Politics, in its normal mode, is incremental. In fact, it is possible

to imagine that policies to address any issue fall into three main groups: (a) policies that won't work; (b) policies that work and are politically feasible; and (c) policies that might work but that are not politically feasible for one reason or another. Policies in category (a) are undesirable, and it can be assumed that most policies falling into category (b) are either already implemented or under consideration. TacklingPovertyNZ, and the ideas presented in this article, are focused on trying to identify policies in category (c).

A traditional policy response to the range of options identified through TacklingPovertyNZ would be to consider the relative merits of each and arrive at a recommendation as to the preferred course of action. No such attempt to identify a 'best' option is made here. There are two reasons for this. The first reason is that poverty is multi-dimensional, both in its causes and in its consequences. This suggests that anti-poverty policy also needs to be multi-dimensional. A suite of different approaches to addressing poverty is likely to be more effective than placing too much weight on a relatively narrow set of policy levers. This is true both from the perspective of the net impact on poverty, and also in terms of the political viability of proposals to address poverty. Maintaining a broad base of support for measures to eradicate poverty is difficult when the policies in question are seen to benefit only a narrow slice of society (Korpi and Palme, 1998). In contrast, a suite of different measures has a better chance of engaging support from different parts of society.

More generally, the increasing availability of data on social outcomes and ability to analyse it suggests moving from an ex ante evaluation strategy for policy (where options are considered upfront and resources channelled to the preferred choice) to an ex post evaluation strategy that is more experimental in nature and places an emphasis on trying many things and evaluating what works. To be successful, however, such an approach requires, not only data on social outcomes, but also a relatively high tolerance for failure, and places a high premium on variety. It is in this context that the range of options identified in TacklingPovertyNZ are of greatest interest. Four of the options in particular – 2, 3, 5 and 7 – would lend themselves strongly to an experimental approach. However, this also highlights the limitations of a community-driven consultation such as TacklingPovertyNZ. While ideas are generated, fully developed policy proposals are not. Moving from idea to policy proposal to experiment is an area where collaboration between communities, social entrepreneurs and local government might be fruitful, particularly if this is supported by significant data and analytical expertise from central government. However, it is not immediately clear how best to catalyse such action.

1 With a constant value poverty threshold, poverty is defined as having an income below a threshold set relative to median income in a given year and adjusted to remain constant in real terms thereafter. A relative threshold defines poverty as having an income below a threshold set relative to median income in each year.

2 Distinct from narrow definitions of income poverty, a multi-dimensional view of poverty actually has strong empirical and conceptual foundations. Sabina Alkire, for example (Alkire, 2008), grounds a multi-dimensional conception of poverty in Amartya Sen's capabilities approach to measuring welfare (Sen, 1998). Here, poverty is seen as deprivation in the capabilities required for a person to pursue the sort of life they have reason to value.

3 Note that, from a global perspective, this shift in incomes represents a significant welfare gain to the large numbers of people moved out of absolute poverty in places such as China and India.

4 Social investment involves investing resources upfront to enable people to thrive in the longer term, with a particular focus on using data to identify people's needs and to help understand the impact of government expenditure on the government's future fiscal position. In this context, it involves recognising that hard physical infrastructure has social as well as economic benefits that should be taken into account.

5 Cognitive behavioural therapy is a type of psychotherapy which focuses on helping a patient to develop personal coping strategies that target current problems and on changing unhelpful beliefs or attitudes. It is one of the most widely used and best supported empirically mental health treatments for anxiety and depressive disorders.

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Kennedy Graham

Cross-party Collaboration on Climate Policy

the experience of GLOBE-NZ

Background

Climate change has been described as the greatest challenge humanity has ever faced (Ban Ki-moon, 2014). No surprise, then, that it is challenging human problem solving, to an unprecedented degree. The 2015 Paris Agreement was a breakthrough in climate diplomacy, but progress is confined so far to the political psychology of achieving universality for emission reductions, a quarter of a century after the United Nations Framework Convention on Climate Change (1992) called for a return to baseline levels within a decade (article 4.2(a)). The 2015 agreement acknowledges that the Paris commitments are inadequate for a target of 2°C, yet in 2016 emissions have begun to climb again.

There is a need for change in the political mindset at international and national levels. The former involves the world's diplomats; the latter involves its parliamentarians.

GLOBE International

GLOBE International was founded in 1989 as a non-profit entity under Belgian law by legislators from the United States (with senators Al Gore and John Kerry leading) plus the European Union, Japan and Russia. Its mission is to advance action by cross-party collaboration in legislation and budgetary oversight on sustainable development, with special emphasis on climate change, environmental accounting and governance, and forestry. GLOBE International believes members can, by working together, 'make more of a difference to unblocking political

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logjams at the multilateral level' and to 'holding governments to account for the implementation of international commitments' (GLOBE International, 2017).

GLOBE undertakes various activities: expert studies on national climate legislation,[1] ministerial dialogues coinciding with G20 summits, and parliamentarian forums coinciding with UN conferences.[2] Membership is open to parliamentarians from any country. Membership may be individual or MPs may establish national chapters.[3] The secretariat is currently based in Mexico City, and the president of GLOBE International is Senator Alejandro Encinas Rodríguez.

GLOBE-NZ

In mid-2015, with COP21 approaching, discussions got underway with GLOBE International on the idea of establishing a New Zealand chapter.[4] Once national statutes were finalised I approached MP colleagues across the floor of the House, inviting them to sign up. Interest was strong and membership grew to 35 MPs out of 121, from all seven parties.[5] An executive committee of six MPs, one from each of six parties, was formed, with a chair and two vice-chairs.

Since late 2015, GLOBE-NZ has hosted briefings for its members from recognised experts: New Zealand climate ambassadors, climate scientists, economists, business chief executives, visiting political leaders and foreign legal experts. These briefings provided the 'glue' that began to bind a disparate group of New Zealand parliamentarians in seminar style, focusing on what is one of the most contentious subjects in New Zealand politics.

The Vivid report

The expectation had always been that, if the New Zealand Parliament were to make progress towards anything approaching a broad policy consensus, we would need to go beyond briefings to a shared study of some kind. Having already met several times with the UK Committee on Climate Change, I sought their advice on consultants who might be equipped to undertake an expert study on domestic emission reductions in New Zealand. Several agencies were considered and, in December 2015, an exploratory meeting was held with Vivid Economics in London on the possibility of such an undertaking, following which a project proposal was developed.

> [The report] is also probably the most independent, in the sense of being undertaken by overseas experts and commissioned by a cross-party group, rather than by the government for the government.

It became clear that philanthropic funding was needed, since the overall project costs would exceed the capacity of MPs to fund, even collectively.

A group of foundations, companies and individuals, spearheaded by Sir Stephen Tindall and his Tindall Foundation, agreed to cover project costs provided the study was genuinely cross-party. Three embassies agreed to cover travel costs. Ten MPs from six parties used portions of their office budgets to collectively cover the costs of a Wellington-based expert to facilitate the visits by the Vivid team to New Zealand. Altogether the project cost $240,700, whose external funds I managed in a separate bank account as GLOBE-NZ chair.[6]

The terms of reference for Vivid were: to provide a consultancy paper for developing alternative, but equally effective, pathways for New Zealand's transformation toward a low-emission economy, consistent with the achievement of net-zero emissions of CO_2 ('carbon neutrality') at a rate consistent with the global goal of limiting temperature rise to levels identified in the Paris Agreement.

The Vivid team was comprised of five experts, three of whom visited New Zealand (in August 2016, December 2016 and March 2017). The team met with several hundred people throughout New Zealand, including iwi representatives in Rotorua, and in Parliament met on each visit with the speaker, the climate minister and GLOBE-NZ members.

The Vivid report, *Net Zero in New Zealand: scenarios to achieve domestic emissions neutrality in the second half of the century* (Vivid Economics, 2017), was launched in the Beehive Theatrette at Parliament on 21 March 2017. Launches were also held by the Christchurch City Council on 22 March and the Auckland Council on 23 March.

The report has come to be recognised as one of the most comprehensive, thorough and influential studies undertaken on New Zealand climate policy. It is also probably the most independent, in the sense of being undertaken by overseas experts and commissioned by a cross-party group, rather than by the government for the government.

The report engages in 'scenario planning', a relatively new methodology designed to offer policymakers a choice of futures in response to a developing problem or crisis. The goal of zero net emissions for New Zealand at some time in the second half of the 21st century responds to the commitment in the Paris Agreement for net zero global emissions within that period. Vivid sought to depict scenarios with that global obligation, shared by all 197 states parties, in mind.

The report identifies four scenarios, as follows:

- *Off-track*: New Zealand largely focuses on exploiting low-cost emission-reduction opportunities, but does not significantly alter its land-use patterns.
- *Innovative*: New Zealand considerably reduces the emissions

intensity of its economic activity through technological advances, accompanied by a structural shift away from pastoral agriculture to a more diverse range of land use, alongside extensive afforestation.

- *Resourceful*: New Zealand does not pursue extensive decarbonisation of the energy sector (because global progress is less rapid), but extensive afforestation is pursued.
- *Net Zero in 2050*: New Zealand combines the most ambitious aspects of the Innovative and Resourceful scenarios, sector by sector, and undertakes industry closure across the aluminium, oil refinery and iron and steel industries as required to reach net zero.

The report contains five conclusions:

1. Any pathway to reducing the country's domestic emissions will involve substantial change to patterns of energy supply and use, including moving towards a 100% renewables grid and substantial electrification of the passenger vehicle fleet and low-grade heat.
2. It is possible for New Zealand to move onto a pathway consistent with domestic net zero emissions in the second half of the century, but only if it alters its land-use patterns.
3. If New Zealand does seek to move its domestic economy onto a net-zero-consistent trajectory, there is a choice between the extent to which it is able to make use of new technologies and the extent to which it needs to embark upon substantial afforestation.
4. If it chooses to substantially afforest and it is fortunate enough to benefit from the extensive availability of new technologies, it could be possible for the country to achieve domestic net zero emissions by 2050.
5. Although afforestation will likely be an important element of any strategy to move to a net zero emissions trajectory in the period to 2050, alternative strategies will be needed after that.

There are nine recommendations; in short:

Policy

1. A trajectory for emissions price policy values should be factored into all government analyses, consistent with the Paris Agreement, implying higher values than currently in the emissions trading scheme.
2. Extension of a robust, predictable price to biological emissions would encourage land-use decisions to account for emissions intensity.
3. Emissions pricing should be accompanied by a range of changed market and regulatory arrangements, infrastructure deployment mechanisms, and specific support to address additional barriers and market failures.
4. Further investment in recommended in the research and development of low-emissions technologies.

Institutions and principles

5. Political parties should reach common agreement in areas of climate policy in order to enhance coherence and predictability, while allowing room for an informed debate and party difference over policy design.
6. Independent institutions, backed by statute, can help assist Parliament and government in developing coherent national climate policy.
7. A holistic approach to policymaking, including economic and cultural interests, should be adopted, with meaningful consultation with iwi under the Treaty of Waitangi's principle of partnership.
8. There is an important need to upgrade the evidence base to support New Zealand low-emissions pathway planning.
9. Improved understanding is needed of the distributional implications of differing low-emissions scenarios, and investigation of policy responses for alleviating any concerns.

The parliamentary debates

Such was the extent of public interest that Parliament convened a special debate on the report. The debate, on 13 April 2017, was perhaps a unique occasion; it is certainly rare for the House to suspend its normal legislative agenda to focus on a specific report. Subsequently, a series of informal debates on the report, involving MPs from most parties, was convened around the country by various organisations, in Blenheim, Dunedin, Christchurch and Hamilton.

> Following the debates, the executive committee turned its attention to 'where to from here' ... it had always been recognised that, ... the hard part for cross-party dialogue would be focusing on short-term national policy issues.

Intimation of future policy progress was reflected in the April debate. MPs from every party spoke. New Zealand First and Māori Party MPs indicated 'personal views' that net zero by 2050 was a crucial goal for New Zealand. The Green co-leader James Shaw formally committed the party to that goal. Labour MPs called for stronger action by New Zealand to meet the goals of the Paris Agreement. The National MP on the GLOBE executive described 'this very fine Vivid report' as

> an example of our Parliament working, I think, at its very best. That 35 members of this Parliament - representative of every party in this House - could come together to embark upon a project of common interest, of shared interest in climate change and climate change issues, is, I think, a historic and momentous event.

The minister for climate change issues also commended the report: 'you cannot blame me for wanting to read it and take some bits out of it and think about how that kind of shapes the work that I am doing as a Minister'. All speakers acknowledged that a broad consensus was beginning to develop (Hansard, 2017).

The Statement of Collaborative Purpose

Following the debates, the executive committee turned its attention to 'where to from here'. It had always been recognised that, beyond receiving briefings and commissioning studies without advance commitment as to content, the hard part for cross-party dialogue would be focusing on short-term national policy issues. With the Vivid report in, and parliamentary debates concluding, the hard part was 'now'.

After several committee meetings, a Statement of Collaborative Purpose was agreed upon. This was new for the national chapter, being the first substantive occasion on which the group had spoken with one voice:

> Members of GLOBE-NZ, in pursuit of the group's purposes as identified in Article 2 of its Statutes:[7]
>
> 1. Accept the formal commitment in the Paris Agreement (December 2015) to holding the increase in global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C, and the associated global goal of zero net emissions in the second half of the 21st century, with developed countries continuing to take the lead with economy-wide reduction targets,[8] recognising that this means New Zealand reaching 'net zero' domestic emissions as early in that period as possible;
> 2. Note the invitation to communicate to the UNFCCC, by 2020, a mid-century, long-term GHG emission strategy in accordance with the decision adopting the Paris Agreement (Paris, December 2015);[9]
> 3. Note, further to the call for long-term strategies, the 2050 Pathways Platform launched at COP22 (Marrakesh, November 2016), in which New Zealand is one of the 22 countries that 'have started or are about to start a process of preparing a 2050 pathway',[10] recognising that six Parties have already communicated their national strategies;[11]
> 4. Welcome the report by Vivid Economics, commissioned by our group, entitled *Net Zero in New Zealand: scenarios to achieve domestic emission neutrality in the second half of the century* (March, 2017), which identifies four scenarios for emission reductions, two of which are consistent with the goal of 2°C and one of which may be consistent with the goal of 1.5°C; and also the study underway by the Productivity Commission which will complement the work of the Vivid report;
> 5. Accept, as the basis for discussion as to their respective merits, the Innovative and Resourceful scenarios identified for New Zealand; and the Net Zero in 2050 scenario as a serious aspirational goal;
> 6. Plan to develop, through further expert advice, an indicative pathway (bounded by quantitative ranges) towards domestic emissions neutrality, having regard to the report's conclusions and recommendations, noting that the report applies 'scenario analysis across the New Zealand economy … to help illuminate long-term low-emission pathways' (Executive Summary);
> 7. On the basis of such an indicative pathway and at an appropriate time, commence a dialogue within our group on policy measures, with an appropriate combination of market, regulatory and educational measures, to ensure a timely and just transition to a net zero or a low-carbon economy by 2050.

With the statement as its 'post-Vivid departure point', the executive considered what could be done, within the three months before the [2017] general election …

With the statement as its 'post-Vivid departure point', the executive considered what could be done, within the three months before the general election, to advance progress. Steps 1 through 4 were seen as relatively uncontentious. Step 5, however, represented forward movement in so far as all parties accepted Net Zero in 2050 as a 'serious aspirational goal'.

The two final steps – an indicative pathway towards emissions neutrality (step 6) and appropriate measures to that end (step 7) – represented the substantive challenge which GLOBE-NZ had been working towards. Accordingly, four MP members from three parties collaborated in commissioning two Wellington-based experts to produce reports on these subjects. These 'consultancy papers' were completed and circulated to GLOBE-NZ members in mid-September. Finally, acting in my capacity as outgoing chair, I circulated to all GLOBE-NZ members some personal thoughts about the progress of the group over the two-year period, and the potential challenges likely to confront the 'second-generation' group in the 52nd Parliament.

The consultancy papers

The two consultancy papers comprise a précis of where New Zealand climate policy thinking was at in late 2017. Nothing stands

still; new policy formulation is already underway by the Labour-led government. But the two papers, both of exceptionally high quality, provide as good a torchlight into long-term planning, and short-term policy considerations, as anyone could hope for, including perhaps the executive branch.

Towards a 2050 Pathway for New Zealand

This paper (Young, 2017) breaks new ground. Taking the Vivid report's relevant scenarios as its departure point, it develops a 'broad-banded indicative pathway' to the end-goal. As noted in the paper, the scenarios were presented by Vivid as snapshots of the year 2050, but 'with the trajectory between now and then undefined' (p.8). The Young paper, in response to the terms of reference provided, develops a 'broad-banded indicative pathway that spans the three scenarios that place New Zealand on track to net zero emissions in the second half of the century' (p.10).

To that end, the paper uses the Resourceful and Net Zero in 2050 scenarios to define the boundaries of such a pathway (p.12). It analyses the sectoral (and sub-sectoral) pathways that would collectively produce the upper and lower bounds of the total national pathway. The figures, in summary, are shown in Table 1.

As depicted, the broad-banded pathway would commence from 56.7 MT (metric ton) net emissions in 2014 to reach a range in 2050 of 20.2 MT (upper limit) to 1.8 MT (lower limit). The main sectoral reductions would be found in energy, from 32.1 MT to 9.4 MT (lower limit) and in agriculture, from 39.6 MT to 24.7 MT (lower limit). Forestry sequestration would increase from 24.2 MT in 2014 to 36.5 MT (lower limit).

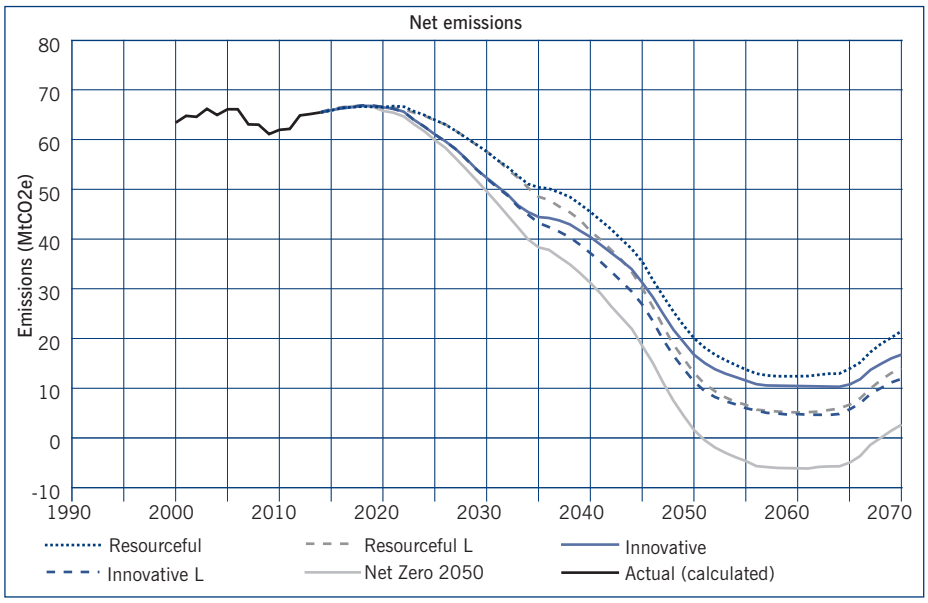
If the lower range of 1.8 MT is thereby achieved, this is effectively domestic emissions neutrality by 2050. The pathway to the 2050 range of 20.2–1.8 MT is a major step forward in national domestic climate policy planning. The sectoral and sub-sectoral paths through each year are depicted in graphs constructed by the author.

The other advance reflected in the paper is the extension of the pathway beyond the 2050 limit set by Vivid, out to 2070. This is critical because it illustrates that, not only is the heavy reliance on forestry sequestration in the first three decades essentially a credit card approach to neutrality, but even the lower limit (i.e. the most ambitious reduction pathway), which would effectively achieve neutrality by 2050, will return to positive emissions around 2068. That is sobering news. This is depicted in Figure 1.

Table 1: Emissions profiles in 1990, 2014 and 2050

		1990	2014	2050	
				Resourceful	Net zero
Energy	Electricity	3.5	4.2	3.3	0.7
	Transport	8.8	14.1	5.8	3.9
	Other fossil fuels	10.2	11.9	8.3	3.0
	Fugitives	1.3	2.0	2.8	1.8
	Sub-total	**23.8**	**32.1**	**20.2**	**9.4**
Industry		**3.6**	**5.2**	**4.2**	**1.4**
Agriculture	Enteric fermentation	26.3	28.6	18.7	14.3
	Manure management	0.7	1.3	1.0	0.9
	Soils, liming, urea	7.3	9.7	8.8	9.5
	Other	0	0	0	0
	Sub-total	**34.4**	**39.6**	**28.5**	**24.7**
Waste		**4.1**	**4.1**	**3.8**	**2.7**
Gross		**65.8**	**81.1**	**56.6**	**38.3**
Forestry/LULUCF		*-28.9*	*-24.2*	*-36.4*	*-36.5*
Net		**36.9**	**56.7**	**20.2**	**1.8**

Figure 1. The Indicative Broad-banded Pathway to Net-zero Emissions by New Zealand



Source: Improving Emission Pricing in New Zealand (Catherine Leining, September 2017)

Improving Emission Pricing in New Zealand

This paper (Leining, 2017) reviews the history, and weaknesses, of the emissions trading scheme (ETS), before providing a new assessment of what is feasible and effective in the short-term future. The paper considers the use of emissions trading and/or carbon taxes as instruments for achieving a 'robust and predictable emissions price' as called for in the Vivid report. It does not recommend the level of emission price ambition, which, in the author's view, is ultimately a political judgement.

Three options are considered: reforming unit supply and price settings in the current ETS; replacing the ETS with a carbon tax; and complementing the ETS with a carbon tax. The paper concludes

that, if well-designed and based on good information and sound assumptions, an ETS or a carbon tax can deliver comparable outcomes. Both instruments would need to be positioned strategically within a broader and coordinated climate change policy portfolio to help deliver on national targets. A carbon tax is easier to understand than an ETS, but 'no less vulnerable to the winds of political change'. If a jurisdiction is starting from a blank slate, then either will do if it is done well and with commitment.

However, common perceptions that carbon taxes automatically offer more price ambition, more investment certainty, more revenue and better revenue recycling, more simplicity, more transparency and fewer business hand-outs 'do not hold true in theory or practice'. Changing instruments mid-course could result in the costs outweighing the anticipated gains.

In terms of ETS reform, the paper proposes a seven-step approach:

1. set an initial fixed five-year cap, and fix future caps for a full five years in advance;
2. add a price floor to be implemented as a reserve price at auction;
3. implement the price floor and price ceiling, using a unit reserve under the cap;
4. add indicative ten-year trajectories to the cap and price band, to guide future extensions;
5. require participants' use of international units to displace other supply under the cap;
6. introduce auctioning with a price band as soon as possible;
7. enlist independent advice, for stronger foundation of public and cross-party support.

The two approaches outlined in these papers – identifying a banded pathway and reshaping the pricing mechanism consistent with such a pathway – are complementary. Together the papers provide an excellent, possibly an essential, route to parliamentary and governmental discourse on climate policy over the next critical few years.

Conclusions from the 51st Parliament

The lessons learnt from the '51st experience' are perhaps the following:

> GLOBE-NZ in the 51st Parliament had a significant role, I believe, in helping the coalition government of the 52nd to formulate a long-term policy on climate change consistent with the objectives of Paris [Ageement].

Mutual respect

In many sections of society the quality of mutual respect among protagonists is taken as a given. Not so in New Zealand politics, and especially not over climate change, which has witnessed some heated parliamentary exchanges. Out of chamber, however, it proves easier to develop mutual respect in informal settings, progressing from personal respect to a constructively critical regard for another party's positions. Without this, it's game over from the beginning.

Information sharing

The subtle, but in hindsight crucial, experience of the group was that we were assembling across parties, in however informal a manner, a shared dossier of information on the subject. Instead of entering the debating chamber with information and judgement from each party's expert armies to argue the case, we were beginning to use information in a common context. It makes a difference.

Incremental progress

Cross-party activity can be of various kinds. The weakest is a dialogue among parliamentarians who fundamentally disagree over certain issues. The next is a commissioning of studies, without commitment, to share in ownership of information. The strongest is collaboration to find a broader range of views that can form a consensus. GLOBE-NZ 51 began with the first of these in 2015 and finished with the third in 2017. In this respect progress was made.

Backcasting

With respect to climate change, the progression in international thinking in the recent COPs to look ahead to the long term (2050 and out to 2100) was mirrored in the work of the New Zealand chapter. The method of 'backcasting' – to find agreement through scenario methodology on a long-term goal (2050), proceeding back to 2030 and from there to 2020 – is proving more conducive to policy consensus. It's easier, of course, to agree on a long-term scenario, but if the proven methodology suggests that this is a precondition of a more insightful exchange for the short term, then so be it.

Constitutional sensitivity

The group's two-year experience produced some intriguing moments which challenged constitutional niceties. The first was the role of the minister and her relationship with a cross-party group of backbenchers, including from her own party. While nothing formally would preclude a minister from membership of a parliamentarian group, it would have been regarded as awkward and problematic. This has implications for the new government in the 52nd Parliament, whose climate minister was a leading member of the group in the 51st.

A second issue was the relationship between each MP on the GLOBE executive and his or her own caucus. On a few occasions, particularly as the group began to approach substantive policy issues (such as the Common Statement), each individual had to 'chance their arm' a bit before reporting back to their caucus. This

is, however, the essence of true cross-party initiative. It put transparency and trust to the test, and executive members came through well enough.

Challenges for the 52nd Parliament

GLOBE-NZ in the 51st Parliament had a significant role, I believe, in helping the coalition government of the 52nd to formulate a long-term policy on climate change consistent with the objectives of Paris. It may also have gone some way to bridging an entrenched divide between the two major blocs in Parliament. The dynamics revealed some interesting, and to some surprising, moments, in which individuals were seen to be expressing reasoned views, with more political fluidity than would normally be found in the debating chamber.

Each parliamentary term is unique, as to both spread of membership and choice of government. The national chapter of GLOBE-NZ in the 52nd Parliament will be different from that in the 51st. Some 26 of the 35 MPs who were members in 2016-17 are returned to the new Parliament, but only two from the GLOBE executive are returned and both are ministers. So GLOBE 51 will need to reconstitute itself, not from scratch but as a new group. One issue is who should chair. There is an argument that the chair should always be an opposition member. This begs some nuanced matters of political judgement beyond scope here, but they will need to be addressed.

Can the experience of GLOBE 51 on climate change be emulated in other areas of pressing national policy: child poverty, housing, water quality, substance abuse? The New Zealand Parliament is not especially well developed on cross-party work compared with European counterparts. One instance exists on human rights to some good effect, and progress was achieved a few years ago in health through cooperative select committee work, but it is not the norm in the default adversarial nature of politics in Australia and New Zealand.

Some potential may exist in the areas cited above. But I believe it was a combination of long-term planning, together with a sense of moment and a need for policy predictability, that facilitated progress on climate change. The urgency felt around the world, post-Paris, plus a certain chemistry and dynamic particular to the group explained the progress made in this area at this particular stage. A positive attitude, from an appropriate distance, by the portfolio minister was another critical ingredient.

Time will tell whether something similar eventuates with other issues, and indeed whether further progress is made on climate in what is, in the 52nd Parliament, a fundamentally different setting.

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1 The first edition of GLOBE's Climate Legislation Study was published in 2010, covering national legislation in 16 countries (including New Zealand); the fifth edition, covering 99 countries, was published in 2015.

2 These include parliamentarian summits coinciding with the 1992 Rio Earth Summit and the 2005 G20 Ministerial Dialogue, and a series of biannual GLOBE legislator forums for cross-party policy dialogues. From 2008 the organisation established international policy commissions, specifically on 'climate and energy security' and 'land-use change and ecosystems'. The GLOBE Copenhagen Legislators Forum, coinciding with COP15 in 2009, adopted a set of forestry and terrestrial carbon position papers to support specific national legislative proposals in members' countries. In 2012, GLOBE convened the first world summit of legislators working on sustainable development and climate change, to coincide with the Rio+20 United Nations conference, producing the 'GLOBE Rio+20 Legislators' Protocol'. In 2013 the GLOBE Climate Legislation Initiative was launched at a parliamentarian summit in the UK, followed by a policy programme for environmental accounting at a second summit in Germany. In 2015, coinciding with COP21 in Paris, a GLOBE International Legislators' Summit on the impending Paris Agreement was convened in the French senate, and submitted a communiqué to the UN conference.

3 There are currently members from over 80 countries, with 40 national chapters established.

4 I had had a continuing relationship with GLOBE over the years, having visited Washington in 1989 from New York for discussions on climate issues with Senator Al Gore several times, and witnessing its establishment that year. In 1990 I convened an international parliamentarian workshop on climate change in Bellagio, Italy, involving the senator's advisers. As an MP I was part of the GLOBE delegation to the COPs in Copenhagen (2009), Doha (2012), Warsaw (2013) and Paris (2015), presenting for New Zealand in Paris, and also COP22 in Marrakech (2016). I had also participated in GLOBE's climate legislation study in 2010 and attended the GLOBE Legislators Summit at Rio+20 in 2012. It had been a long-standing promise on my part to set up a national chapter.

5 Membership in 2017 from parties was 11 National, 10 Green, 8 Labour, 3 New Zealand First, 1 Māori Party, 1 United Future, 1 ACT: see https://www.parliament.nz/en/get-involved/features/mps-collaborate-across-party-lines-in-response-to-climate-change/.

6 The GLOBE-NZ statutes preclude the group managing finances. As a result, I maintained a personal account for the non-MP project funds. The funds were duly declared in my annual MP statement of pecuniary interests, and on completion of the project the account was formally audited before being closed.

7 'Article 2. The promotion of global, regional and national policy processes for climate and environmental protection …; 3. The promotion of a cross-party discussion and cooperation on the environment, climate protection and nature conservation, as well as sustainable development.'

8 FCCC/CP/2015/10/Add 1 (Annex, Articles 2(1(a), 4(1 and 4).

9 FCCC/CP/2015/10/Add 1 (Decision 1/CP.21, para 35; and Annex, Article 4 (19).

10 http://newsroom.unfccc.int/unfccc-newsroom/high-level-climate-champions-launch-2050-pathways-platform/.

11 http://unfccc.int/focus/long-term_strategies/items/9971.php: Mexico, US, Canada, Germany, Benin, France.

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Doug Sellman, Jennie Connor, Geoff Robinson, Sam McBride and Tony Farrell

Law, Liquor and Love

Introduction

This article discusses attempts at alcohol law reform in New Zealand between 2008 and 2017. First, it describes a major review of alcohol by the New Zealand Law Commission, headed by Sir Geoffrey Palmer, who had overseen liberalisation of alcohol regulation 25 years earlier. The main recommendations of the commission's final report featured progressive reform of the alcohol laws regulating marketing, price, accessibility and age of purchase. Second, it outlines the response to the commission's report by the National-led government, including an Alcohol Reform Bill that ignored the key recommendations of the commission. This 'non-reform' bill was the outcome of a political process of obfuscation, delay and inaction led by then prime minister, John Key. Third, the article describes the factors that have contributed to the lack of effective alcohol law reform, despite the review and high public support for change over the past decade. We conclude that 'the love of money' is at the heart of the barriers to change. Finally, we propose three main policies that would make a significant difference to reducing alcohol-related harm in New Zealand and suggest how these could be advanced.

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Background

Ethyl alcohol is not unlike water: it is a ubiquitous and colourless natural substance. However, unlike water, which is inert, alcohol has a compelling psychoactive effect on the majority of users and has been regularly consumed by humans for over 10,000 years for this effect. Alcohol is a drug, which when consumed heavily and frequently brings about changes in the brain that can lead to a habitual compulsion, referred to as addiction. Addiction to alcohol affects about 5% of people in New Zealand. However, the harms of alcohol are considerably more extensive across the population than addiction alone because the majority of the harms occur in people who are not addicted to alcohol. High quality research has revealed that at least 25% of drinkers in New Zealand are heavy drinkers, in that they score above the threshold for hazardous drinking on the World Health Organisation screening tool, the Alcohol Use Disorders Identification Test (AUDIT) (Wells, Baxter and Schaaf, 2006). This translates into a national muster of at least 700,000 heavy drinkers. The more alcohol consumed, the greater the risk of harms, which fall into two main domains. Acute harms relate to the consequences of intoxication, such as alcohol poisoning, injuries and violence, often involving harm to others. Chronic harms relate mainly to chronic diseases such as liver cirrhosis and various cancers. The cost of alcohol consumption in New Zealand has been estimated to be in the billions of dollars ($4.4 billion per year) (Slack et al., 2009).

While alcohol is associated with considerable harm in New Zealand, it is a legal and highly commercialised product, which many citizens enjoy access to. Governments have been concerned from early in New Zealand's colonial history to strike a balance between providing this access, meeting the desire of the alcohol industry to make profit out of their alcohol businesses, and minimising the burden of harm from alcohol across the population. This article focuses on recent history and begins in the early 1980s.

Two contrasting liquor reviews

In 1984 the fourth Labour government came to power in a landslide victory, and quickly began enacting a set of economic reforms, which have become known as neo-liberalism. Central to this new thinking, championed by Roger Douglas, Labour minister of finance at the time, was the idea that decreasing regulation in the economy would allow the free market to be more efficient and deliver the best solutions for society.

A review of the liquor laws was established by the new government, headed by Sir George Laking. A crucial decision of the review group was to ignore the established association between increased availability of alcohol and alcohol-related harm and argue for the liberalisation of the supply and sale of alcohol. New legislation, the Sale of Alcohol Act 1989, subsequently reflected this new deregulation philosophy, the most noticeable evidence of this being the presence of wine in supermarkets. The rationale was that by making alcohol more available and part of everyday life, New Zealand would become a sophisticated drinking nation like France, where a strong normalisation of alcohol was seen to exist. This thinking conveniently ignored the fact that France was among the countries with the highest rates of cirrhosis in the world at the time (Mokdad et al., 2014), and had a very different underlying pattern of drinking.

The outcome of this liberalisation experiment was not the advent of a sophisticated drinking nation, although the proportion of wine consumed by the population began to rise, as the domestic wine industry expanded. A further wave of liberalisation was ushered in by the National-led government in 1999, involving liquor sales in grocery stores in addition to supermarkets, adding beer to wine for these sales, and lowering the overall purchase age of alcohol from 20 to 18 years.

Over the next ten years the rate of consumption per head of population increased by about 10%, in contrast to it having been previously steadily falling from a peak in 1978 (New Zealand Law Commission, 2009b). New liquor outlets began to appear, which were particularly evident in poorer communities, and there was a growing sense of unease among the public as various harms, including violent assaults, were increasingly being publicised by the media.

A violent armed robbery resulted in the death of a liquor outlet owner in June 2008. Subsequent public protest triggered the Labour-led coalition government of the time to announce a comprehensive review of the liquor laws, a generation after the Laking report. Geoffrey Palmer was appointed the head of this Law Commission review and Lecretia Seales was a key member of the review team. An issues paper outlined the review team's intention: 'The Law Commission project to review the law on the sale and supply of liquor aims to examine the whole scene from top-to-toe for the first time since Sir George Laking and his committee reported in 1986' (ibid., p.iii).

> Over the next ten years [since 1999] the rate of consumption per head of population increased by about 10%, in contrast to it having been previously steadily falling from a peak in 1978

One of the team's first undertakings was questioning the value of the 'conscience vote' on liquor law in Parliament (New Zealand Law Commission, 2009a). The review team argued that the conscience vote can produce statutes that 'lack coherence and structural logic'. Public submissions were then invited on the extensive issues paper, and a record number (2,939) were received by October 2009. These were analysed and considered, along with substantial other information and evidence obtained by the review team, which, remarkably, submitted its monumental final report, *Alcohol in Our*

Lives: curbing the harm (New Zealand Law Commission, 2010), to the minister of justice, Simon Power, in April 2010.

The report emphasised the need for a 'suite of measures' to produce 'an integrated package, the various elements of which are mutually reinforcing'. Although drink-driving measures were not included in the initial terms of reference and not specifically referred to for public comment following the dissemination of the issues paper, the Law Commission nevertheless received over 1,240 transport-related submissions. The final report commented that the review team agreed with the majority of submitters that the blood alcohol limits for driving must come down.

At the beginning of 2009 a new medically-led alcohol law reform group, Alcohol Action NZ, was formed and began advocating for scientifically-based alcohol law reform.

Alcohol Action NZ

At the beginning of 2009 a new medically-led alcohol law reform group, Alcohol Action NZ, was formed and began advocating for scientifically-based alcohol law reform. Its first aim was to provide scientific information to Sir Geoffrey's review team and encourage colleagues and interested members of the general public to put in submissions to the Law Commission's review.

A key publication available at the time was the World Health Organisation-sponsored *Alcohol: no ordinary commodity* (Babor et al., 2003). Alcohol Action NZ formulated an easy-to-remember summary of the most effective measures for reducing population-based alcohol harm from this publication, called the '5+ Solution', as follows:

1. raise alcohol prices;
2. raise the purchase age;
3. reduce alcohol accessibility;
4. reduce alcohol advertising and sponsorship;
5. increase drink-driving countermeasures;

plus: increase treatment opportunities for heavy drinkers. (Sellman, 2010)

The final report of the Law Commission strongly reflected the 5+ Solution, as seen in the main recommendations:

- increasing the price of alcohol through excise tax increases in order to reduce consumption;
- regulating promotions that encourage increased consumption or purchase of alcohol;
- moving, over time, to regulate alcohol advertising and sponsorship;
- increasing the purchase age of alcohol; and
- cutting back the hours licensed premises are open.

Alcohol law reform, New Zealand style

The approach adopted by the National-led government to deal with the reforming spirit of the Law Commission's final report, and in particular the main recommendations listed above, was a model of political obfuscation, delay and inaction. The process has been described in detail in a paper titled 'Alcohol reform – New Zealand style' (Sellman et al., 2017). The main features of the process were as follows:

- setting the bar of expectations low at the outset by agreeing that New Zealand was in the mood for change but not a 'major overhaul';
- using the well-known industry assertion that major reform would be unfair to 'responsible drinkers';
- declaring early on that the government had no intention of raising alcohol taxes, and thus dismissing the single most effective and easily enacted measure advocated for in the Law Commission report;
- announcing that it would adopt 126 of the 153 recommendations in the Law Commission report but conveniently ignoring the substantial ones that would be reformative;
- including the possibility of a raising of the purchase age in the Alcohol Reform Bill to deflect attention away from the lack of marketing and pricing reforms;
- establishing a very liberal default for on- and off-licence alcohol sales (7am–4am), while putting the responsibility for establishing more restricted hours onto local government, thereby setting up drawn-out, expensive processes involving communities, local councils and the alcohol industry;
- breaking an undertaking to introduce new legislation within six months by delaying by over a year and a half;
- timing public submissions on the new bill to coincide with the Christmas/New Year holiday period;
- naming the new legislation the Alcohol Reform Bill while including only one potential reform in it: an untested change to the minimum legal age of purchase;
- introducing more delays by timing the second reading of the bill for the month before the general election in November 2011 and therefore leaving no time for it to be debated;
- withholding publication of the results of a Health Sponsorship Council survey showing that the majority of the public wanted strong reforms around alcohol;
- introducing further delays before the bill was finally debated and passed in August 2012;
- using the conscience vote and an unusual two-step voting strategy to see off the raising of the age of purchase of alcohol;
- using parliamentary processes to sweep away 22 supplementary order papers on the bill;
- falsely claiming the bill was a great success when the truth was that this so-called reform bill contained no reforms, the minister resorting to the well-known alcohol industry mantra of striking a balance reducing harm and not penalising responsible drinkers;

- continuing to use further alcohol industry neo-liberal mantra about the importance of individuals changing their heavy drinking behaviour, when the evidence had become even clearer by then (Babor et al., 2010) that stronger regulation of marketing, pricing and accessibility is required to change the heavy drinking culture.

To recap:

- New Zealand has an alcohol crisis, a normalised heavy drinking culture causing enormous damage to individuals, families and communities, and generally not recognised as a crisis;
- there is very good scientific evidence on how a society can reduce its alcohol-related problems, which amounts to alcohol law reforms in the areas of marketing, pricing, accessibility, age of purchase and drink-driving, in addition to providing more treatment opportunities for heavy drinkers;
- the Law Commission's outstanding review of the liquor laws provided detailed recommendations related to the five key areas of reform;
- a majority of the New Zealand public support these reforms;
- the National-led government ignored the science, the Law Commission and public opinion, and instead delivered an alcohol non-reform bill, which will maintain the heavy drinking culture.

The obvious question is, why did it do this?

What is driving the government's opposition to real alcohol law reform in New Zealand?

The reasons must be compelling if a government would be prepared to ignore scientific evidence, public opinion and the recommendations of a prestigious organisation such as the New Zealand Law Commission, and engage instead in a campaign of obfuscation and inaction. The driving force behind this may be found by examining the motivations of each of the three key actors: the government, the public and the alcohol industry.

The government

It can be assumed that people aspire to become members of Parliament because they want to influence society in the direction of their personal objectives and values. Being in government, rather than opposition, is by far the most effective way of achieving this. No politician craves being in opposition. As former MP Jim Anderton once said to an Alliance Party conference: 'One bad day in government is worth a thousand good days in opposition' (Eyley and Salmon, 2015, p.155).

MPs are no different from the people they represent in being prone to human vanity and grandiosity, and susceptible to flattery and subtle threats, which can add up to them being vulnerable to lobbying by private vested interests such as the alcohol industry. This lobbying can make them at least more timid about advancing progressive policies in the public interest, if not actively reinforce the status quo that favours those vested interests.

The public

Alcohol is a well-known, highly intoxicating recreational drug which induces a range of pleasant effects in the majority of users, depending on the dose and setting. A common pattern is an initial decrease in anxiety, along with an increasing sense of euphoria, disinhibition and a feeling of energy. As drinking progresses a feeling of numbness, dissociation and warmth ensues. Alcohol induces pleasure, while concurrently dissolving life's worries, troubles and pain. These positive effects have been noted for millennia, and even given divine status. Alcaeus of Mytilene, a lyric poet from the Greek island of Lesbos in the 6th century BC, regarded alcohol as a gift from the gods, and his poetry appears to have been inspired by alcohol's psychoactive effects:

> Let's drink! Why are we waiting for
> the lamps? Only an inch of daylight
> left. Lift down the large cups, my
> friends, the painted ones;
> for wine was given to men by the son
> of Semele and Zeus
> to help them forget their troubles.

As the dose of alcohol increases, so do the harms, clumsiness, poor judgement and aggressiveness giving way to loss of consciousness and even death during one-off drinking sessions, while ongoing heavy weekly dosing is associated with a plethora of chronic diseases, including cancer. Further, when consumers engage in a pattern of frequent heavy drinking, changes in the brain occur which take habitual behaviour to another level. The person begins to crave alcohol even when they know drinking is going to result in problems: they become compulsive users of alcohol, the central feature of addiction (Sellman, 2010). The hedonic motivation that drives people to consume alcohol can develop into a craving that overrides rationality and results in ongoing use despite the harm.

As the dose of alcohol increases, so do the harms, clumsiness, poor judgement and aggressiveness giving way to loss of consciousness and even death during one-off drinking sessions …

The alcohol industry

The alcohol industry loves alcohol not for its psychoactive effect but for its financial effect. Alcohol is an excellent product for making money and yields for the alcohol industry enormous profits. Exactly how much profit is derived is unavailable for public scrutiny. However, the enormity of alcohol industry profit can be appreciated by considering that the industry pays around $1 billion to the government annually as excise tax (Acohol Healthwatch, 2010).

The alcohol industry works hard to appear pro-social but it has been known for decades that this friendly public persona is a front for the serious business activity of making money out of a potentially dangerous substance. An influential editorial written 25 years ago (Wallack, 1992) warned that 'the alcohol industry is not your friend', and outlined four key tactics the industry utilises to maintain its influence and its respectable image and distance itself from the harm that alcohol creates in the societies the industry colonises. First, it markets alcohol as part of the 'good life', especially to young people, associating its use with a range of human needs: having fun, having sex, being accepted and being independent. Second, it attempts to downplay the extent of heavy drinking by linking alcohol problems with an 'irresponsible' minority of losers who 'can't handle' alcohol or have a genetic predisposition to experiencing alcohol-related problems. Third, it works strategically to be seen as part of the solution rather than central to the problem. The industry distances itself from being responsible for its harmful product by advocating personal responsibility for users and saying that it is simply helping people fulfil lifestyle choices. Finally, the industry attacks people who throw light on its questionable commercial activities by trying to marginalise them, portraying them as 'neo-prohibitionists' or in other denigrating terms.

In more recent years the alcohol industry has become a global phenomenon, with alcohol corporations possessing a combined wealth that is greater than the gross national product of many non-industrialised nations (Babor et al., 2010). With this enormous power, these corporations are able to scale up their influence on governments and public opinion. They use marketing strategies that utilise the best science informing human choice, decision making and consumer behaviour, but they also position themselves positively within society through ostentatious philanthropic giving and so-called 'social responsibility' activities. Corporate social responsibility includes such things as alcohol information websites and social marketing of ineffective harm-reduction campaigns, partnerships with government related to drink-driving, and funding scientific research. However, these activities do not comprise a social service focused on public health, but rather provide cover for maintaining a heavy drinking culture that yields enormous profits for private shareholders.

The scientific evidence is clear: a substantial reduction in alcohol-related harm could be brought about through three main strategies – dismantling marketing, increasing pricing and decreasing accessibility ...

All of the major religions and life-guiding philosophies identify greed as one of the great vices of humanity. In the Christian tradition, 'the love of money is the root of all evil' (Timothy 6:10) is a popular way of expressing this human weakness exemplified by the insatiable quest for more private profit in spite of obvious harms borne by consumers and others, the costs of which are met by the public purse.

In conclusion, then, the answer to the question of why the National-led government was so limp in its response to the robust report of the Law Commission, the major recommendations of which have been shown to be supported by a majority of the public, must involve the alcohol industry and its successful lobbying of the government behind closed doors. Driving the alcohol industry is a relentless pursuit of private profit.

The way forward

The key issue is how to regulate the alcohol marketplace in a way that will reduce harm to the population from alcohol. The industries that profit from maintaining and increasing alcohol consumption will not change their behaviour for the good of the population's health and welfare, but this is a central aim of good governance and so it is the government's business. And only the government is big enough to enact policy that could be effective. Controls on the tobacco industry, such as reforms of tobacco marketing, pricing and accessibility for the sake of the health of New Zealanders, provide an effective model from which to learn. However, the situation is rather more complex and there is no equivalent of 'smoke free', the rallying call for tobacco. 'Drunk free' might be more apt for alcohol, where reductions in heavy drinking and the acceptability of occasional drunkenness would lead to reductions in harm. However, although the overall goal is not complete public abstinence from alcohol, considerable harm is also caused by chronic drinking in a 'low risk' manner, and so non-drinking needs to become a socially acceptable option.

The scientific evidence is clear: a substantial reduction in alcohol-related harm could be brought about through three main strategies – dismantling marketing, increasing pricing and decreasing accessibility (Babor et al., 2010); i.e. by direct intervention in the alcohol 'free market'. The Law Commis-sion provided a blueprint for dismantling marketing over a five-year period (New Zealand Law Commission, 2010). Further, it recommended both excise tax increases and consideration of minimum pricing as a combined approach to increasing the price of alcohol. Along with these marketing and pricing reforms, making alcohol less accessible goes against a liberal business mantra of 'more is better', but is necessary to reduce harm. The government has the power to set more stringent default hours for purchasing alcohol, such as those for wine and spirits in Finland – 9am–8pm Monday–Friday, 9am–6pm Saturday – rather than continuing with the expensive,

time-consuming battle between local government and the alcohol industry, as was set up by the previous National-led government's local alcohol policy innovation.

A distinct change has been signalled by the new Labour-led coalition government, a broadening of its focus from a narrow neo-liberal economic agenda to explicitly measuring and improving the well-being of all citizens. While improving the lives of people can be challenging to achieve politically, dealing to New Zealand's 'pathological relationship' with alcohol is an obvious area for a progressive government to work on because of the well-established damage that alcohol inflicts at a personal and social level (Connor, forthcoming). Drawing from the experience of tobacco, real change will probably require alcohol reform to become a special interest for the government, in the same way as tobacco reform became important to the fourth Labour government when Helen Clark was minister of health and introduced smoke-free legislation. The Smoke-free Environments Act 1990 initiated observable improvements in the health of New Zealanders over the subsequent decades. A true alcohol reform bill, which includes reforms of marketing, pricing and accessibility, in contrast to the fake Alcohol Reform Bill introduced by the previous government in 2010, would significantly improve the health and well-being of New Zealanders in the years to come, as well as raise the quality of social life in this country.

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Sarah Kerkin

Earthquake Recovery Legislation learning from experience

The Canterbury earthquake sequence sparked a series of constitutional seismic shifts whose after-effects look set to continue long after Christchurch's regeneration is complete.[1] At the heart of the Canterbury earthquake legislation[2] was a Henry VIII clause that gave the executive the power to modify almost all primary legislation for a broad range of purposes related to recovery. The Henry VIII clause was supported by privative clauses shielding government decisions from judicial review.

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While the Henry VIII clause caused some concern, the executive's use of it was both proportionate and restrained (Kerkin, 2017, p.164). It is, therefore, unsurprising that the executive turned to it in responding to the Hurunui/Kaikōura earthquakes.

The Hurunui/Kaikōura Earthquakes Recovery Act 2016 (the Kaikōura Act) contains a Henry VIII clause modelled on the Canterbury legislation, with some important differences. The Kaikōura Act strengthens, and imposes some new, safeguards on the Henry VIII clause. But it struggles with the same constitutional challenges as the Canterbury legislation. Further development is desirable in this constitutional evolution.[3]

What's the issue with Henry VIII clauses?

Henry VIII clauses empower the executive to modify acts of Parliament using delegated legislation (law made by the executive using powers delegated by Parliament). This transfer of power from the legislature to the executive has traditionally been treated with suspicion as possibly constitutionally inappropriate (McGee, 2017, p.465). As a general rule, only Parliament should amend law that it has made.

This general rule separates Parliament's and the executive's functions and, by so

doing, supports the rule of law (Waldron, 2012). It reflects Parliament's authority to make the law, which comes from its sovereignty and from its constituent members, who are the people's elected representatives (Geddis and Fenton, 2008). Parliament should make law, particularly where it affects human rights, property interests, access to justice or expenditure of public money (Legislation Advisory Committee, 2014, ch.13.1).

Yet there can be a place for Henry VIII clauses in the modern legislative toolkit. New Zealand's recent legislative history suggests they have found a place in the context of disaster recovery.

Why use a Henry VIII clause for disaster recovery?

The Canterbury legislation's Henry VIII clause was intended to put the legal authority for recovery activities beyond doubt.[4] There were both pragmatic and principled reasons for doing so. Pragmatically, recovery would have been slowed if people hesitated to act for fear of breaching the law or delayed acting until they had obtained legal advice or an indemnity. The principled reasons related to questions of fairness and legitimacy. It would have been unfair to hold people liable for contravening laws made in 'peacetime' that could not be complied with, or no longer quite made sense, in the post-earthquake context (Nick Smith in Hansard, 2010). It was more consistent with the rule of law to ensure that the law made sense and could be complied with.

Ideally the method of changing the law would uphold the law's legitimacy. Legitimacy is a core tenet of a constitutional framework, and is necessary for public acceptance of, and compliance with, the law. Public confidence in the legitimacy of lawmaking enhances acceptance of the law and shores up legitimacy of the underpinning constitutional settings.

The Canterbury legislation's Henry VIII clause caused some consternation, partly due to its breadth and partly because there were few constraints on the use of that power. On paper the clause ran lawmaking, implementation and coercive action into Waldron's single gestalt (Waldron, 2013) centred on the executive.

In practice, the executive's lawmaking power was exercised with restraint. The Regulations Review Committee's scrutiny did not identify any significant unresolved concerns (Regulations Review Committee, 2010, 2011). Only once was the validity of an order made under the Henry VIII clause called into question, due to an irregularity in the Canterbury Earthquake Recovery Review Panel's make-up. Even here, the Regulations Review Committee did not conclude that the order was invalid, although it suggested validating legislation just in case (Regulations Review Committee, 2015).

> Parliament heard submissions suggesting that other core constitutional statutes be removed from the Henry VIII clause's ambit as a signal about constitutional no-go areas.

While the Henry VIII clause did raise some constitutional concerns, it also resonated with the New Zealand constitutional value of pragmatism (Kerkin, 2017, p.284). There is a paradox at the heart of the parliamentary lawmaking process. In an unwritten constitution, procedure is important, and often *is* the protection: 'without good process, good law is much more difficult to achieve' (McLeay, Geiringer and Higbee, 2012, p.14). In the right circumstances these procedural protections can undermine public confidence if they are too cumbersome, too slow, or a disproportionate investment for the matter at hand. Here, they may weaken trust and confidence in the lawmaking procedure, the executive and Parliament (Kerkin, 2017, pp. 272, 283-5). In the right circumstances and with the right safeguards, a Henry VIII clause might carry more legitimacy in the eyes of the public than more traditional ways of legislating.

The Kaikōura clause has evolved from experience in Canterbury

The Kaikōura clause takes a more deliberate approach to constitutional safeguards, so that executive restraint is not completely left to chance.

It has a narrower application than the Canterbury clause

The Canterbury clause (s71) allowed all but six core constitutional statutes[5] to be amended by order in council. It was first enacted in the 2010 act.

The 2010 act was passed just 10 days after the initial earthquake. Officials invited Canterbury local authorities 'to compile a "wish list" of the legislative changes that they may require to promote a more efficient recovery' (Gall, 2012, p.234). This line of questioning invited a focus on matters of bureaucratic inconvenience rather than a methodical assessment of business needs. It resulted in an unfocused and abstract response (ibid.) that was unlikely to have instilled confidence that the local authorities knew precisely which legal barriers they faced. In light of that, the executive considered the only practical way forward was to enact a generic Henry VIII clause (Gall, 2012; Gerry Brownlee in Hansard, 2010).

By 2011 agencies had a clearer idea of what activities would be needed, and the kinds of legal constraints in play. Parliament heard submissions suggesting that other core constitutional statutes be removed from the Henry VIII clause's ambit as a signal about constitutional no-go areas. On a practical note, Orion Energy Ltd (the electricity supplier to much of Christchurch) suggested adding statutes to the list of those expressly subject to the clause to improve certainty and limit the need to rely on ministerial discretion (Local Government and Environment Committee, 2011, pp.101-2). The government of the day rejected these submissions and the 2010 Henry VIII clause was carried through unchanged into the 2011 act.

By contrast, the Kaikōura clause (Kaikōura Act, s7) permits only those

statutes listed in Schedule 2 to be modified. Schedule 2 statutes mostly relate to land and buildings, conservation, environment and marine legislation, civil defence and earthquakes, revenue, local government, transport and food safety.

The act preserves flexibility for the executive. Schedule 2 can itself be expanded by order in council. The minister[6] may seek to extend Schedule 2 if satisfied that it is necessary or desirable for the purposes of the act, and the order would not breach specified exclusions from the regime. The minister must give a draft of the order and the minister's reasons to each leader of the political parties represented in Parliament. The order can be made only if there is unanimous or near unanimous support for the order from those leaders. This approach seeks Parliament's imprimatur in a less formal way than more traditional procedures such as affirmative resolution, while achieving a substantially similar result. Any order extending Schedule 2 can be revoked if not approved by the House (s19).

No 'expedient' amendments

Parliament's Regulations Review Committee has traditionally taken the view that Henry VIII clauses should be avoided unless demonstrably essential, and has recommended they be used only in exceptional circumstances (McGee, 2017, p.465).

Section 71 of the 2011 act allowed orders in council to 'make any provision that is reasonably necessary or expedient' for the act's purposes, which were themselves drawn quite widely. The term 'expedient' is not often used in delegating Parliament's power to legislate, and no explanation was given for it. The minister's examples to the House of where the lawmaking power was to be used were at the 'necessary' end of the spectrum, such as allowing heavier than allowable loads to be taken to landfills and streamlining processes for dealing with dangerous buildings (Gerry Brownlee in Hansard, 2010).

The use of 'expedient' was particularly troubling for some. For instance, the Legislation Advisory Committee submitted that:

> the words 'or expedient' just shouldn't be there. It should be limited to things that are extraordinary and need to be done because they're absolutely necessary to give effect to the purpose of the Act, not things that are simply expedient to do. (Local Government and Environment Committee, 2011, p.31)

By contrast, the Kaikōura Act does not use 'expedient'. It allows orders to be made where 'necessary or desirable' for the purpose of the act. For practical purposes, the difference may be semantic, but the language of desirability seems more positive than that of expedience. However, the inclusion of 'desirable' means that the Kaikōura Act still strays from the ideal of 'demonstrably essential'.

Enhanced transparency and accountability through reasons

A requirement to give reasons aids the transparency of decision making under the act. Transparency promotes legitimacy in two ways. First, it promotes understanding of why certain decisions have been made. Understanding promotes acceptance: people are more likely to accept a decision, even if they disagree with it, if they understand why the decision maker has made it. Second, transparency is a precursor to accountability: a transparent decision-making power gives people the means to hold decision makers to account.

The Canterbury legislation did not contain any requirements to give reasons for using the Henry VIII clause. The Canterbury Earthquake Recovery Review Panel (the Canterbury Panel), which advised the minister on draft orders, tended not to give reasons for its decisions. By giving reasons the Canterbury Panel could have created a body of decision-making jurisprudence, which would have helped departments learn from the experiences of others and informed the public about the acceptable tolerances within which the Henry VIII clause could be used (Kerkin, 2017, p.164).

Section 88 of the 2011 act required the minister to report quarterly to Parliament on his use of powers under the act. As enacted, section 88 did not require reasons to be given or details to be specified, and the minister's section 88 reports did not give any (Kerkin, 2017, pp.187-8; Minister for Canterbury Earthquake Recovery, 2011).

By contrast, the Kaikōura Act includes reasons requirements. The minister must give reasons for recommending an order in council under section 7, including why the order is appropriate (s10). The Hurunui/Kaikōura Earthquakes Recovery Review Panel (the Kaikōura Panel), which reviews draft orders in council made under section 7, must give reasons for its recommendations (s14(6)). Finally, any proposals to amend Schedule 2 must also be accompanied by reasons (s20).

These reasons requirements mean that the minister and the Kaikōura Panel will have to justify their decisions. Committing those reasons to paper means thought will be given to their defensibility. In this way, reasons requirements provide political accountability that will be felt immediately. While not formal legal accountability, the introduction of reasons requirements in the Kaikōura Act is a safeguard that can systematically encourage reasonable and restrained use of the Henry VIII clause.

While not formal legal accountability, the introduction of reasons requirements in the Kaikōura Act is a safeguard that can systematically encourage reasonable and restrained use of the Henry VIII clause.

Enhanced legitimacy through engagement

Participation in decision-making procedures enhances legitimacy in several ways. It gives people an opportunity to influence and inform decision makers, and helps them to understand the decision. It can help decision makers to ensure they have the right information, are aware of all relevant perspectives, and can anticipate the decision's consequences.

The Canterbury legislation was influenced by an assumption that public and parliamentary participation is time-consuming and could impede a timely recovery. The purpose clause (s3) made that clear: the act was to enable a focused, timely and expedited recovery and enabled community participation only to the extent that it did not impede that.

By contrast, the Kaikōura Act strengthens engagement expectations. First, it strengthens parliamentary engagement by requiring the minister to engage with the Regulations Review Committee or, if the House is adjourned, with the leaders of parliamentary parties, on draft orders (s8(1)(c) and (d)). That early engagement should promote legitimacy and reduce the potential for disallowance.

Second, it broadens the perspectives brought into the order in council process through membership of the Kaikōura Panel. The panels established under the Canterbury and Kaikōura acts were intended to inject rigour into the process through their expertise and independent advice. The Canterbury Panel had four members with relevant expertise or appropriate skills, and the chair was to be a former or retired judge of the High Court or a lawyer (s72(1)). By contrast, the Kaikōura Panel may have up to six members, who must possess relevant skills in one or more of:

- law, public administration or local government;
- mātauranga Māori (Māori traditional knowledge) and tikanga Māori (Māori protocol and culture);
- environmental protection;
- the nature of the affected communities and the earthquake-affected area. (s12)

In appointing members, the minister must have regard to the views of Local Government New Zealand and one or more organisations or representatives who have knowledge, skills or experience relating to mātauranga Māori and tikanga Māori in the earthquake-affected area.

Most significantly, the Kaikōura Act requires that in developing orders in council, the relevant portfolio ministers must identify people who ought to be consulted. There is a procedure – albeit highly truncated – for ministers to follow. If ministers consider engagement is impracticable, they must publish their reasons for not following the engagement procedure with the order (s9). Committing those reasons to paper should ensure ministers consider the defensibility of their preferred approach.

> [The Kaikōura Act] also seeks to find a better balance between the executive and legislative branches, to mitigate the centralisation of power in the executive created by the Henry VIII clause.

The ongoing constitutional challenges

While the Kaikōura Act has evolved from the Canterbury legislation, there are still some outstanding constitutional challenges.

A broad purpose

Purpose is relevant to disallowance (the process by which Parliament supervises and controls delegated legislation). Parliament may disallow delegated legislation that makes an 'unusual or unexpected' use of the lawmaking power (standing order 319). That ground for review will be undermined if the empowering act's purpose clause is all-encompassing: the wider the act's purpose, the less likely an instrument is to stray beyond it. Thus, disallowance may not be an effective remedy against executive overreach.

While some were uncomfortable with the breadth of the 2011 act's purposes, the government maintained that the purpose was clearly defined (Kerkin, 2017, pp.161-3). And the question did not arise in orders made under the Canterbury legislation, due to careful use by the executive (Kerkin, 2017, p.133).

In debating the Kaikōura Act, then shadow attorney-general spokesperson David Parker noted that the powers in the Canterbury legislation 'were not abused, but the possibility of their abuse existed from the breadth of the legislation' (Hansard, 2016a, p.15467). Some submitters on the Kaikōura Act considered the purposes to be too broad (Geddis and Knight, 2016; Hopkins, 2016a).

There may not be an easy way around this problem. Both acts take a holistic view of recovery, viewing it in terms of environmental, social, economic and cultural well-being (2011 act, s3; Kaikōura Act, s3). In the Kaikōura Act, the holistic approach to recovery tends to be compounded by the act's coverage of greater Wellington (which extends to the Wairarapa), where a state of emergency was never declared.

A broad purpose does not sit easily with the ideal of the use of Henry VIII clauses only where 'demonstrably essential'. This tension is likely to be felt in any future disaster recovery statute that uses a Henry VIII clause.

Continued discomfort with inroads into parliamentary supremacy

There is a continuing unease with the use of Henry VIII clauses in relation to disaster recovery. In part that unease may come from the fact that not all recovery decisions are equally urgent. In the early days of recovery, urgent amendments may be needed to get people into safe, weathertight accommodation, to open access to the affected area, and to ensure that businesses do not fail due to disruption. But longer-lasting decisions about the rebuilt

environment may lack legitimacy if made without engagement with the affected communities. Disaster recovery 'is a slow and long-term process riven with choices that raise difficult questions. To put this simply, disaster recovery is about policy' (Hopkins, 2016b, p.201).

As a remedy, it has been proposed that all orders made under the Henry VIII clause should be subject to affirmative resolution by Parliament that would validate the measure (Geddis and Knight, 2016; Hansard, 2016b, p.15735). That approach would mean the orders would not come into force until affirmed by Parliament (McGee, 2017, p.474), which could significantly delay their commencement depending on when they were made and whether the House was sitting at the time. For some orders that might not matter; for others, it might be critical.

A more nuanced approach is probably needed. Ideally, the Henry VIII clause would be reserved for those situations where the parliamentary process is too slow and where waiting for that process risks undermining public confidence in the lawmaking process. The Kaikōura Act's engagement clause (s9) may provide ministers and officials with an informal rule of thumb: if the context warrants – and allows for – a full engagement process, consideration might be given to making amendments by primary legislation, not by order in council. At the same time, a full engagement process might largely mitigate the harm done by using the Henry VIII mechanism in terms of decision quality and legitimacy.

Privative clauses remain a constitutional irritant

The Canterbury legislation contained two privative clauses, which were viewed as inflammatory, and experts were divided over whether they would be effective (Kerkin, 2017, p.160).

The privative clauses were carried over into the Kaikōura Act, and much the same concerns were raised again. While the act clarifies that there is a residual judicial review right, it is not as wide as some members would have liked. David Parker observed:

> But I, personally, think we should not be at all limiting judicial review rights. The bill does limit judicial review rights around process decisions and other decisions that the Minister takes under the Act. I do not think that was necessary. There is already a very wide discretion for the Minister. The test of his decision making is a subjective one – it is not an objective one – which gives him great latitude, and I do not think we should be scared of the courts having a judicial review function. (Hansard, 2016b, p.15733)

Conclusion

Henry VIII clauses are likely to be a long-term feature of the disaster recovery landscape. Where legislative change is needed urgently, parliamentary processes can be too slow and inefficient. Reliance on Parliament would have opportunity costs, in terms of the time needed both for a bill's passage and for the other legislation it displaces on the order paper. It may, paradoxically, weaken public confidence that the executive and legislature can act decisively and pragmatically in the face of disaster. Although they present some constitutional challenges, Henry VIII clauses are a pragmatic approach to making precise amendments to statutes in post-disaster recovery contexts.

The Kaikōura Act shows how Henry VIII clauses can evolve to make use of informal safeguards against disproportionate or arbitrary use. It seeks to ensure that ministers' decisions are informed by wider perspectives, and that a broader parliamentary consensus is reached where possible. This promotes good decision making by ensuring that ministers are aware of all relevant considerations before making a decision. It also seeks to find a better balance between the executive and legislative branches, to mitigate the centralisation of power in the executive created by the Henry VIII clause.

The new safeguards in the Kaikōura Act are a step in the right direction. They reduce the 'possibility of abuse', although the levers are more informal and incentive-based than some would like. Challenges remain to ensure that disaster recovery Henry VIII clauses have a clearly defined and proportionate scope and that their use is properly controlled and supervised by Parliament and the judiciary.

1 This article contains the author's personal views and does not represent government policy or the position of the Ministry of Justice.
2 Canterbury Earthquake Response and Recovery Act 2010, which was repealed and replaced by the Canterbury Earthquake Recovery Act 2011. The Henry VIII clause in the 2010 act was carried through without change.
3 That evolution is continuing apace, with the introduction to Parliament on 4 December 2017 of the Christ Church Cathedral Reinstatement Bill, which contains a Henry VIII clause to facilitate reinstatement of the cathedral. An addendum to this article considering the effect of this bill will be included in the next issue of *Policy Quarterly*.
4 This is implicit in the general policy statement on the Canterbury Earthquake Response and Recovery Bill 2010: www.legislation.govt.nz/bill/government/2010/0215/latest/DLM3233004.html.
5 The Bill of Rights 1688, Constitution Act 1986, Electoral Act 1993, Judicature Amendment Act 1972, New Zealand Bill of Rights Act 1990 and Parliamentary Privilege Act 2014.
6 In this article 'the minister' means the minister with delegated responsibility for earthquake recovery.

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Jonathan Boston

Investing in New Zealand's Future Well-being

protecting and enhancing our natural capital

Introduction

The election of the new centre-left government in New Zealand provides an opportunity to reflect on the enduring question of how societies should invest for a prosperous, secure and sustainable future, one where all generations can flourish. This article focuses on the contribution of natural capital to human well-being and suggests a series of policy reforms designed to protect and enhance New Zealand's natural assets.

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Natural capital is essential for intergenerational well-being: without a healthy, vibrant and resilient environment, economic and social sustainability are impossible. Natural capital can be defined in various ways, but basically it embraces the total inventory of the earth's natural resources, including biodiversity, across three main biophysical domains, namely the atmosphere, the terrestrial environment and the marine environment.[1] These multiple resources can, in turn, be divided into two broad categories, namely stocks and flows. The stock of natural capital includes non-renewable resources, like minerals and fossil fuels; unconditionally renewable resources, like sunlight; and conditionally renewable resources, like soil, aquifers, forests and fisheries. Nature also produces an extraordinary diversity of what are often called 'ecosystem services'. These services are essentially flows or streams of goods and services. There are four main types: 1) *supporting services*, such as soil formation, water and nutrient cycling, and plant pollination; 2)

provisioning services, such as energy, water, food, fibre and genetic resources; 3) *regulating services*, such as pest and disease control, water and air purification, carbon sequestration and climate regulation; and 4) *cultural services*, such as the opportunities for recreation, scientific discovery, education, spiritual refreshment and therapy.

Collectively, these ecosystem services sustain the planet's remarkable biodiversity and productivity. In so doing, they enable multiple forms of human flourishing. Importantly, too, ecosystem services are intricately connected and interdependent, with many complex feedbacks. Some of these have long-term, if not irreversible, effects. Hence, significant damage to one particular ecosystem service, such as the planet's system of climate regulation, can have harmful and enduring implications for many other ecosystem services, such as the rate of carbon sequestration, the productivity of ocean and freshwater fisheries or the survival of vital pollinators. Such negative feedbacks will, in turn, have deleterious impacts on intergenerational well-being. It is imperative for prudent environmental stewardship and long-term sustainability that we gain a better understanding of these sorts of effects, non-linearities and environmental limits.

The state of natural capital in New Zealand

How well is New Zealand managing its valuable and often unique forms of natural capital? Unfortunately, our environmental performance, as judged against a range of biophysical indicators (i.e. atmospheric, terrestrial and marine), is falling far short of the widely acclaimed aspiration to be 'clean and green', if not '100% pure'.[2] In many areas, in fact, the natural environment – in terms of both stocks and flows – is declining. By definition, this is unsustainable.

New Zealand has one of the world's worst records for loss of biodiversity and native habitat. In 2011, close to 800 native species were threatened with extinction, with more than 400 species in a critical state. This includes a significant proportion of freshwater fish, reptiles, marine mammal species, and bird species that breed in New Zealand. Nitrogen levels have worsened in the majority of monitored river sites in agricultural areas, largely because of the intensification of dairy farming in recent decades. Similarly, soil erosion remains a serious problem, with the rate of soil loss annually about ten times the global average. Soil productivity is also being reduced as a result of the compaction caused by large dairy herds. Limited monitoring of the country's marine and coastal environments makes it difficult to assess trends, but there is no question that many coastal ecosystems have been degraded. The problems include marine pests, large inflows of nutrients, climate change, high rates of sedimentation, seabed dredging and trawling. Finally, the country's gross greenhouse gas emissions per capita increased by 23% between 1990 and 2014 and are among the five highest in the OECD (OECD, 2017, p.20). Net emissions during the same period rose by over 60%, primarily due to high rates of deforestation and reduced replanting.

Many factors have contributed to this unsatisfactory state of affairs. Above all, there has been a tendency for decision makers over many decades to prioritise short-term interests over long-term interests, and a related propensity for a silo mentality or sector-specific considerations to prevail over more holistic, system-based approaches. Other related problems have included (see Brown et al., 2015; OECD, 2017):

- weak and indifferent environmental governance, including inconsistent, reactive and otherwise defective regulatory frameworks and a lack of proper ecosystem-based management;
- an unwillingness by policymakers, often in the face of powerful vested interests and short-term political pressures, to constrain negative environmental externalities (whether through price-based mechanisms or regulations), identify acceptable thresholds and benchmarks, and impose safe biophysical limits;[3]
- poor environmental monitoring and a widespread lack, across multiple levels of government, of stringent environmental enforcement (Brown, 2017);
- a misalignment between land use planning and investment in infrastructure;
- a failure to give adequate attention to cumulative effects, interdependencies and path dependence; and
- the relative non-inclusion of natural capital in critical strategic, planning and performance management frameworks – including governmental investment strategies, annual budgetary processes and national accounting regimes.

> … any strategy for greater economic, social and environmental sustainability must, at a minimum, ensure that the quantity, condition and value of New Zealand's natural capital does not decline over time.

Policy principles and goals

How might these deficiencies be rectified? To start with, we need broader and more systematic frameworks for analysing policy issues and options, as well as more comprehensive ways of measuring progress.[4] More specifically, any strategy for greater economic, social and environmental sustainability must, at a minimum, ensure that the quantity, condition and value of New Zealand's natural capital does not decline over time. This minimum requirement is consistent with the principle, based on the so-called Lockean proviso, that each generation should leave its successors with natural resources that are 'equally as good' as, or

at least in a broadly comparable state to, those which it inherited.

Interpreting such a principle, however, poses problems. For instance, should it apply to both non-renewable and renewable resources or only to the latter? Likewise, does it have implications only for the *aggregate* quantity and condition of natural resources (somehow assessed) or does it apply to each and every distinct kind of natural capital, including individual species and ecosystems? Among the many issues at stake in this regard are the extent to which different types of natural capital are readily substitutable (including being substitutable for other types of capital), what unit of measurement should be employed and hence what constitutes the appropriate level of disaggregation, what is meant by a 'broadly comparable state' and hence what forms of compensation for losses are acceptable, and how biophysical thresholds should be set and the related risks assessed.

These are complex matters and there is not the space to explore them in detail here. Several brief points must suffice. First, in terms of protecting aggregate stocks of natural capital, the economist Dieter Helm has proposed two possible policy rules. The first, and stronger, rule would require that 'the aggregate level of renewable natural capital should be kept at least constant and the value of the economic rents from the depletion of non-renewable natural capital should be invested in renewable natural capital' (Helm, 2015, p.64). This would imply that all surplus revenues from the extraction of minerals and fossil fuels should be used to restore and improve renewable natural assets (e.g. forests and wetlands). The second, and weaker, rule would require that 'the aggregate level of renewable natural capital should be kept at least constant, and there should be *general* capital compensation for the depletion of non-renewables' (ibid.). Under the latter rule, it would be legitimate to compensate for the extraction and use of non-renewable resources through investments in other forms of capital (e.g. human or manufactured capital). Both rules would require significant changes to current policy settings in New Zealand, the former more so than the latter.

Second, a good case can be made that it would be incompatible with the requirement for each generation to leave its successors with natural resources that are 'equally as good' to focus exclusively on protecting *aggregate* capital stocks, such as the total quantum of all types of renewable resources. This is because each and every form of natural capital has a distinctive value and most forms are non-substitutable. On this argument, therefore, replacing one type of renewable natural capital (e.g. fish stocks) with a totally different type (e.g. additional forests) would be unacceptable. Rather, the full range of species and ecosystems (and the many services they provide) must be protected.

Third, irrespective of how a requirement to preserve existing stocks of natural capital is interpreted, a more demanding and ambitious goal is worth striving for. After all, since human settlement in New Zealand there has been widespread environmental degradation and destruction. Hence, mere preservation or maintenance of what remains is not sufficient. Instead, the nation's goal should be *betterment* – that is, *renewal*, *restoration* and *regeneration* (see, for instance, Brown Weiss, 1989) This would entail repairing, wherever technically feasible and affordable, the environmental damage inflicted by previous generations and thus improving the overall condition of the country's natural capital across multiple types and domains. In so doing, we would become probably the first generation in history to leave the natural environment in a better, rather than worse, state.

> … in the context of global climate change, ocean acidification and large-scale biodiversity loss, New Zealand lacks full control over its environmental destiny.

Policy implications – how to make things better

How could such an ambitious goal be realised? What kinds of policy and regulatory reforms might enable New Zealand to lift its environmental performance in a durable manner, and thus leave a lasting positive legacy?

There is no silver bullet. The challenges facing policymakers are large, multiple, deeply rooted and urgent. The pursuit of wise environmental stewardship is beset with deep uncertainty, complexity, path dependence, interdependencies and various incommensurable goods, and poses difficult intragenerational and intergenerational trade-offs. Moreover, in the context of global climate change, ocean acidification and large-scale biodiversity loss, New Zealand lacks full control over its environmental destiny. In such circumstances, an effective governmental strategy for sustainable development, including betterment where possible, must be systematic, multi-pronged yet adaptive, with sufficient flexibility to cope with unexpected contingencies.

There are doubtless many ways to improve long-term environmental outcomes in New Zealand.[5] Among these are: better enforcement of existing rules; new legislation and policy instruments to promote the decarbonisation of the economy; amendments to resource management legislation to enhance proactive environmental stewardship; additional price-based mechanisms to incentivise cost-effective efforts to reduce negative environmental externalities; extra public funding to support major conservation initiatives, such as the goal of a predator-free New Zealand by 2050; new public–private partnerships and collaborations, including better ways to tap voluntary contributions and effort; and

new funding instruments to facilitate equitable and effective adaptation to the impacts of climate change, especially sea level rise.

Yet while policy reforms of this kind are desirable, arguably broader, more profound changes are needed, not just in policy terms but also in relation to public attitudes and ethical norms. Above all, there must be a transformation in humanity's understanding of its relationship with, and dependence upon, the natural environment and hence a radical shift in how nature is valued and treated. Consistent with this, consideration of natural capital and ecosystem services must move from being largely marginal, optional or residual in human decision making, whether governmental, corporate or individual. Instead, sound environmental stewardship must occupy a pivotal place in our economic, social and political institutions, including all relevant decision-making frameworks, systems and processes. In other words, nature must be fully 'embedded' in the societal norms, intellectual 'infrastructure' and infor-mation systems that govern our collective and individual decision making. This includes our conceptual and analytical frameworks, measurement and reporting systems, public and corporate systems of accounting[6], and performance management systems.

A strategy of embeddedness

In practical terms, pursuing a 'strategy of embeddedness' has at least four implications. First, it means improving the range and quality of the information available to voters, investors and policymakers about environmental performance and the likely impacts of their choices on natural assets and ecosystem services. This will require additional investment in research, monitoring and evaluation. Second, it means devising more open, transparent, deliberative and accountable decision-making arrangements, ones which ensure that the environmental consequences of decisions (including the failure to make decisions) are more readily apparent. Third, it means enhancing the ecological awareness and knowledge of citizens and decision makers through better and more extensive educational programmes. This must include a clearer understanding of the wide range of nature's stocks and flows that provide humanity with benefits. Finally, and perhaps most fundamentally, a strategy of embeddedness means changing societal preferences so that nature is perceived differently and valued more. This must include a proper recognition of nature's current and future *use value*, as well as its *non-use value* (e.g. its existence value and bequest value). Collectively, these use and non-use values constitute the 'total economic value' of nature. Too often, however, the full value of nature is not recognised. What is needed, therefore, is an ethical transformation – or what Pope John Paul II once called an 'ecological conversion'. This implies not simply the provision of more and better information about the natural environment, but also a profound normative shift and a reprioritisation of individual and collective goals.

From a policy perspective, there are various ways to pursue a strategy of embeddedness. Two broad proposals are considered here. The first is to develop and implement a so-called 'natural capital approach' to sustainability and the integration of this approach comprehensively across all budgetary and regulatory processes, preferably within both the public and private sectors. The second proposal is to enact a statutory requirement for governments to prepare periodically a detailed, integrated, long-term plan to maintain and improve the nation's natural capital and enhance environmental outcomes. Ideally, such plans should be formulated via strongly participative and deliberative processes, with a high degree of community engagement.

Both these tasks constitute formidable undertakings, conceptually, analytically, ethically and practically. They will doubtless take many years to design and complete. But the scale of the challenge provides no grounds for despair or delay. While the aim must remain ambitious and bold, there is nothing wrong with starting small, and moving forward methodically and incrementally until the tasks are eventually complete.

A natural capital approach

In brief, a 'natural capital approach' entails constructing a systematic framework for measuring, monitoring, reporting, valuing and accounting for natural capital. This means, among other things, measuring natural capital (i.e. in terms of its physical extent and condition, as well as its monetary value) and establishing stock and flow accounts. To design and implement a natural capital approach comprehensively and holistically would require many separate actions. These could include:

- enhancing the current regime of environmental reporting under the Environmental Reporting Act 2015, including the development of a more comprehensive set of performance indicators and a risk register for all vulnerable and threatened forms of natural capital;
- incorporating natural capital more explicitly and fully into the annual budgetary process in central government, including the preparation of commentaries for the *Budget Policy Statement and Fiscal Strategy* Report outlining the expected impacts of planned

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budgetary changes on the stocks and flows of natural capital;

- incorporating natural capital into the Treasury's four-yearly *Investment Statement*, with explicit analyses of: a) how natural capital contributes to current and future well-being; b) the relationship between natural capital and other capital stocks, including issues of substitutability; and c) whether, and by what means, the government's planned long-term investment programme will meet the goal of maintaining and enhancing the quantity, condition and value of the country's natural capital;
- gradually incorporating natural capital into the Crown accounts, as part of a wider strategy to develop more complete assessments of the nation's 'inclusive' or 'comprehensive' wealth. This will entail the eventual creation of a national balance sheet reflecting the value of New Zealand's natural assets, estimates of the depreciation of these assets (to the extent that such depreciation occurs), and a corresponding redefinition of how income and savings are measured in the national accounts;
- ensuring that ecosystem services are properly identified, quantified and valued, and taken into account in all planning and resource management decisions;
- promoting natural capital valuation, accounting and reporting in the private sector, in recognition of the fact that a significant proportion of the country's natural capital is privately owned and managed; and
- taxing more fully the depletion of all non-renewable natural assets (i.e. minerals and fossil fuels) and establishing a national wealth fund that can contribute to the restoration of depleted or degraded renewable natural capital and the protection of biodiversity.

There is not the space here to reflect in detail on each of these initiatives. But some brief comments on the idea of natural capital accounting – which is perhaps the most complex and controversial of the suggested changes – may be helpful.

The idea of natural capital accounting is not new. Much analytical work has been undertaken over several decades.[7] New accounting standards for the development of natural capital accounts (also known as environmental accounts and natural resource accounts) have been agreed internationally via the United Nations Statistical Commission and have been enshrined in the UN System of Environmental Economic Accounting (SEEA). The SEEA framework embraces a rigorous regime of concepts, definitions, classifications and accounting rules designed to enable the production of authoritative, comparable, consistent and reliable statistics on environmental performance and to facilitate the integration of economic and environmental statistics.[8] The accounting structure adopted is broadly consistent with the System of National Accounts that is used to generate GDP data. Under the SEEA framework, more detailed advice has been developed to guide accounting for specific resources or sectors, such as energy, water, fisheries, agriculture, land and ecosystems. Alongside the SEEA framework, the World Bank launched an international partnership in 2010 to advance natural capital accounting. Known as Wealth Accounting and the Valuation of Ecosystem Services (WAVES), the partnership involves a growing list of developed and developing countries. The aims of WAVES include the implementation of accounts that are relevant for policymaking, the development of methodologies for ecosystem accounting, and the provision of training and knowledge sharing.

Various governments have started to employ the methodologies for measurement and valuation enshrined in SEEA to prepare accounts of their natural capital. In Britain, for instance, the Office of National Statistics committed in 2012 to producing a comprehensive set of national natural capital accounts by 2020. This includes developing eight broad habitat accounts, as well as monetary estimates for the value of the country's aggregate natural capital. Significant progress has been made in recent years. New Zealand has yet to make a similar formal commitment. Nevertheless, since the early 2000s Statistics New Zealand has undertaken various analyses of natural capital accounting and produced a series of environmental accounts for specific resource stocks, drawing on the SEEA framework. Recent releases include: fish monetary stock account (1996–2016); forestry physical stock account (1995–2016); forestry monetary stock account (1995–2016); and water physical stock account (1995–2014).

Plainly, efforts to quantify, assess the condition of, and place a monetary value on different types of natural capital, together with the ecosystem services they provide, face formidable challenges. Putting a price on nature is inherently problematic. There are many different methodologies for assessing the value of non-market goods and services (including their use and non-use value), and these can generate very different valuations. Accordingly, all estimates must be treated with caution. At best they can only ever be indicative, not definitive.

There is also room for caution about the political and policy impacts of having better data on trends in natural capital (or, indeed, wider estimates of a nation's 'comprehensive wealth' incorporating

Various governments have started to employ the methodologies for measurement and valuation enshrined in [the UN System of Environmental Economic Accounting] to prepare accounts of their natural capital.

other forms of capital). Admittedly, some researchers are optimistic. Kirk Hamilton and Cameron Hepburn, for example, believe that a more rigorous and comprehensive asset-based approach to governmental accounting could help transform how governments and citizens think about progress. In so doing, it could alter how policy options are assessed and change intertemporal preferences. In particular, it could increase public pressure for longer-term wealth-enhancing policy initiatives, including greater investment in natural capital, rather than short-term income-boosting measures. To quote Hamilton and Hepburn:

> If wealth numbers were widely available … they would be used, and they would provide us with a key tool in tackling a whole host of intertemporal and intergenerational problems, ranging from infrastructure provision, investment in education and innovation, and addressing environmental problems such as biodiversity loss and climate change … Country wealth rankings, or ranking of changes in wealth, may shift the focus away from short-term consumption and towards long-term investment … People might tolerate lower levels of consumption today if it is clear that this is to generate wealth, and thus higher consumption, in the future. In short, focusing on wealth might lead to greater investment in human, social, and physical infrastructure, innovation, and the maintenance of underlying productive asset bases, including natural capital, and greater long-run welfare. (2014, pp.2, 4-5)

These hopeful expectations may be correct. Having robust and comprehensive natural capital accounts – and ultimately even broader measures of comprehensive wealth – could result in elected officials, policy advisers, financial markets and citizens viewing economic performance and societal progress differently. The 'economy' would be seen through a different and broader lens. In particular, changes in the nation's assets – such as declining stocks of natural capital – would be given a sharper focus. In this way, both the current state of affairs and the implications for the future would be made clearer and more concrete. The so-called *availability heuristic* is relevant here (Kahneman, 2011). Hence, policymakers would be under greater political pressure to take corrective measures and make more prudent long-term investments. They would also be more politically accountable for their stewardship of the nation's capital stocks, not just changes in GDP.

But various caveats are worth noting. Better measurement of capital stocks does not guarantee better management of resources or improved long-term governance. The data generated via the creation of natural capital accounts may neither be compelling nor attract much media or political attention. Alternatively, any worrying results may be contested. For one thing, the available data are always likely to be partial and incomplete. As noted, measuring natural capital stocks and ecosystem services is highly complex, with fundamental issues over the appropriate unit of measurement and what to include and exclude. There also remains extensive scientific uncertainty over where the critical thresholds lie for the long-term sustainability of many renewable resources. Hence, any measures of the current quantity or economic value of such resources may give little indication of their actual future viability. For another, the results generated will depend hugely on the methodologies chosen – not least what is included and excluded.

Hence, while developing national natural capital accounts has significant merit, such an exercise is unlikely on its own to alter fundamentally citizens' mindsets or governments' policy preferences. Transformative change requires more than better national balance sheets. But such balance sheets should help rather than hinder the goal of sustainability.

An integrated, long-term environmental plan

Recent New Zealand governments have committed to several important long-term environmental goals (e.g. to be pest free and net carbon zero by 2050). They have also issued various national policy statements under the Resource Management Act covering specific areas of environmental policy (e.g. relating to coastal management, urban development, freshwater management and renewable electricity generation). But New Zealand has never developed a comprehensive, integrated, long-term environmental plan covering all relevant domains and sectors. Having such a plan would provide an authoritative mechanism for devising, agreeing upon, and then enforcing a national strategy for environmental sustainability. And the process of drafting such a plan could furnish a unique opportunity for vigorous, in-depth public engagement, education, deliberation and consensus building.

Obviously, a long-term plan could take many forms. One option would be to follow the approach being adopted in Britain, which is currently formulating a 25-year environment plan based on the recommendations of the Natural Capital Committee (NCC) (which is an independent, expert advisory group to the government). As proposed by the NCC, the plan would have several distinct elements:

One option would be to follow the approach being adopted in Britain, which is currently formulating a 25-year environment plan based on the recommendations of the Natural Capital Committee (NCC) …

- a clear, understandable and ambitious national vision (e.g. to arrest the long-term decline in the natural environment, make 'a net positive contribution to the global environment' and demonstrate international leadership in sustainable management);
- specific goals covering multiple domains;
- explicit, measurable, evidence-informed targets and milestones;
- a strategy to achieve the plan's objectives; and
- a governance framework for allocating responsibilities, monitoring and reporting results, and ensuring accountability for outcomes.

The goals, for instance, could cover such things as air quality standards, freshwater quality standards, greenhouse gas emission reductions, access to local green space and recreation, protecting the habitats of threatened species, the sustainable management of soils, restoring contaminated sites, enhancing resource efficiency and reducing waste, and securing an overall net increase in natural capital (including both renewable and non-renewable resources). Alongside these goals, the NCC suggests the specification of a more detailed list of targets and the development of investment strategies to enable these targets to be met. In accordance with such an approach, the formulation and prioritisation of the specified investments in natural capital should be based on the best available scientific evidence and an explicit valuation and accounting framework, with 'detailed institutional natural capital accounts' covering both the public and private sectors (as discussed above) (Natural Capital Committee, 2017, p.8).

If New Zealand were to follow this model, it would be imperative to give proper attention to the principles of the Treaty of Waitangi and mātauranga Māori. Careful attention would also need to be given to the question of substitution, namely the extent to which it is legitimate and desirable to substitute one form of capital for another (e.g. natural capital for manufactured capital or non-renewable resources for renewable resources). Plainly, too, any plan would need to be a living document, capable of iteration and updating in the light of changing circumstances and evidence.

Obviously, any attempt to develop an integrated, long-term environmental plan in New Zealand would be a major undertaking. It would require sustained, high-level political leadership, detailed coordination across numerous government agencies, an in-depth dialogue between national and subnational government, and deep engagement with interest groups, the business community and the wider public. Without these ingredients such an exercise is likely to falter and fail.

Conclusion

New Zealand needs an inspiring and ambitious national vision for the management of its extraordinary natural environment. At a minimum, such a vision must include arresting the long-term decline of many of our natural assets and ecosystem services. Ideally, however, it would also embrace a commitment to a long-term strategy of betterment – that is, renewal, restoration and regeneration. To achieve such a goal will require new policy frameworks and tools, as well as a significant investment of time, effort and public resources. Such an investment will, in turn, require dedicated political leadership and a transformation of societal values and priorities. Is this possible? Future generations must surely hope that it is.

1 See, for instance, Helm, 2014, 2015; Helm and Hepburn, 2014; Natural Capital Committee, 2013, 2014, 2015.
2 See, for instance, Brown et al., 2015; Chapman, 2015; Joy, 2015; Ministry for the Environment, 2017; OECD, 2017; Parliamentary Commissioner for the Environment, 2017; Warren, 2014.
3 For analyses of the problem of short-termism in democratic decision making see, for instance, Boston, 2017a, 2017b; González-Ricoy and Gosseries, 2016.
4 See, for instance, Au and Karacaoglu, 2015, Boston, 2017a, 2017b; Helm, 2015; Helm and Hepburn, 2014; Stiglitz, Sen and Fitoussi, 2009.
5 See, for instance, Ministry for the Environment, 2017.
6 See the article by Jane Diplock in this issue of *Policy Quarterly*.
7 See, for instance, Arrow et al., 2012; Gleeson-White, 2014; Hamilton, 2014; Hamilton and Hartwick, 2014; Hamilton and Hepburn, 2014; Sukhdev et al., 2008; Wentworth Group of Concerned Scientists, 2016.
8 Further analytical work has continued, including the development in 2012 of the SEEA Experimental Ecosystem Accounting (EEA) standards. These cover the measurement of the flow of services supplied by ecosystems, as well as the condition of ecosystems (i.e. their capacity to provide services). The SEEA EEA has yet to be adopted as a UN statistical standard.

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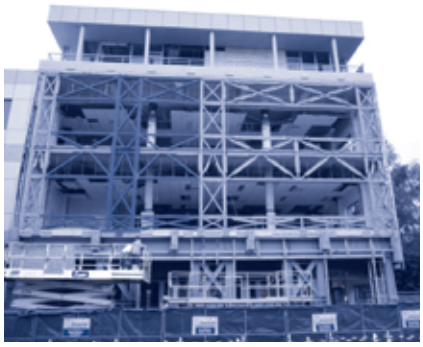

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the retirement disadvantage of being female

Introduction

The gender pay gap in New Zealand is often discussed in terms of hourly wages or represented by the idea that women effectively work for free from 14 November until the New Year (Lawless, 2017). What isn't often considered is how the disparities in earning, promotion opportunities and time out of the workforce for family can compound into an exponential affect on retirement savings, like so much interest never received. According to the ANZ bank, the average woman retiring in 2017 will have $80,000 less in her KiwiSaver account than if she were male (Edmunds, 2017b), and the gap is growing: back in 2015 it was $60,000 (Parker, 2017; ANZ, 2015).

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To illustrate how this can play out, we follow Anna, a hypothetical New Zealander, through her adult life to see how she fares saving for her retirement. We meet Anna on her 18th birthday: she can expect to live for another 75 years (Statistics New Zealand, 2017). She probably hasn't thought about it yet but let's assume she will retire at 67, meaning she will have to fund 26 years of retirement.

Much debated, the gender pay gap is by now an indisputable fact, although the causes are complicated (Ministry for Women, 2017). If we look we can see clearly that the story gets worse when viewed through the lens of retirement savings. The effects of the many causes are multiplied, and for women the outlook isn't pretty. It seems unlikely that Anna's generation will receive government superannuation at the current level of generosity. It's even less likely that she can afford to worry about this now. First she must climb the financial hills of her student loan, and attempt to enter the housing market, before she can focus on providing for her retirement. Unfortunately, the effect of compounding interest means that

failing to save early in her career will have a large effect on Anna's nest egg later in life.

KiwiSaver to the rescue?

KiwiSaver is often touted as the remedy which will enable the new generations to retire comfortably without government super. But alas, Anna's parents did not sign her up to the scheme prior to 2015. Hence, she will not receive the $1,000 kick-start payment and must start her savings from zero.

Anna completes a bachelor's degree and starts her career at 23; she gets a job with the average graduate salary of $45,000 (Collins, 2016). For simplicity's sake, let us assume that she joins KiwiSaver at the outset and contributes the minimum 3%, plus the minimum employer contribution of 3%, for her entire working life. Anna works hard and is rewarded with a 2% pay rise each year. Given a 7% return and member tax credit of $521 a year, she will save $1,213,000. It's a healthy sum, but a theoretical one, and there are a few realities standing in the way of her comfortable retirement.

After five years Anna applies for a promotion with a $5,000 pay rise. Being female she's unlikely to get it, because her employer perceives that as she's nearing 30, Anna might start a family (Economist, 2017). The promotion goes to her male co-worker. Even if he never receives another pay bump, and Anna does not take time out of her career, he'll retire with an extra $62,000 from this one intervention alone.

The cost of producing the next generation

Anna's situation worsens if she starts a family: she will suffer the 'motherhood penalty'.

> When women give priority to caring for toddlers they fall behind. A recent American study put the motherhood penalty – the average by which women's future wages fall – at 4% per child, and 10% for the highest-earning, most skilled white women. A British mother's wages fall by 2% for each year she is out of the workforce, and by 4% if she has good school-leaving qualifications. (Economist, 2017)

Using the 4% figure, given that Anna holds a degree, if she takes five years out to be a stay-at-home mum she'll return to work earning $11,000 less. This results in a whopping $339,000 less available to fund her retirement, even if Anna can return to a full-time position.

Much has been made of the new government's move to extend paid parental leave from the current 18 weeks to 22 weeks in 2018, and to 26 weeks in 2020. However, given that the payments are capped at $538.55 a week (before tax), only a little over half what Anna was earning as a new graduate at 23, she faces a major decrease in income even during this period. KiwiSaver deductions are not taken from paid parental leave unless Inland Revenue is specifically instructed to do so, and given that Anna will have outgoings to cover we can assume that she doesn't opt for this, so no help there.

Anna has a good wage so she's fairly well off compared to women in low-income jobs, such as care workers, who are likely to opt out of KiwiSaver altogether; their disposable income simply doesn't allow for such contributions. The same applies to many single parents, almost 85% of whom are mothers (O'Brien, 2017).

Things get worse again when we consider compounding factors, including but not limited to, that:

- women predominate in lower-waged jobs;
- mothers often return to the workforce on reduced hours;
- higher-paid roles which attract bonus payments and employer contributions beyond the minimum are more likely to be held by men; and
- women live longer than men.

Damsel in distress! Will a brave knight come to her rescue?

Many will dismiss Anna's plight, arguing that she will marry, and so the gender bias is neutralised by her partner benefiting from higher earnings; together things will even out. This argument is deeply flawed: by the assumptions that Anna wants to have a partner, that she would choose a man, that he is or ought to be the primary breadwinner, and that they will live happily together for the rest of their lives despite the current 50% divorce rate. For a reality check see Jane Gilmore's excellent blog post describing the financial paths of a divorced couple (Gilmore, 2017).

Divorcees and widows in middle age frequently find themselves in a situation where they are unable to find work paying a reasonable wage, as they are passed over in favour of younger applicants (Edmunds, 2017a).

> The new Labour-led government has pledged to eliminate the gender pay gap within the core public sector and encourage the private sector to do the same ...

What kind of 21st-century society tells a woman she should accept an unfair system on the basis that she can marry a man to improve her situation?

Solutions won't come easy

Despite discrimination based on gender being illegal for many years, New Zealand still needs policy to better address the underlying causes of the gender pay gap. Requirements to publish salaries paid by gender and other transparency measures must be implemented.

The new Labour-led government has pledged to eliminate the gender pay gap within the core public sector and encourage the private sector to do the same (Ardern, 2017). This is an admirable goal, but New Zealand law already prohibits discrimination on the basis of sex, yet the pay gap remains. Reporting from the Human Resource Capability (HRC) survey of all public service departments conducted by the State Services Commission showed that the gender pay gap for the public

services was 14% in 2015 (State Services Commission, 2015). The Human Rights Commission (2016) has proposed the compulsory reporting of gender pay gaps to shine a light on the issue.

Progress is being made. The Government Communications Security Bureau (GCSB) recently reported that it has reduced its pay gap by half simply by increasing the pay of female employees who 'for no other discernible reason, were getting paid less than their male counterparts' (Kirk, 2017). To reduce the gap further the agency will need to actively recruit women for high-paying technical roles, but in this example at least half of the problem was due to simple sexism, a phenomenon which is likely replicated across both the public and private sectors. The GCSB acknowledges that it is legally and ethically right to ensure that people are being paid fairly, but there is no mention of compensation for lost wages or employer retirement contributions.

Sweden has made progress in reducing the motherhood penalty by providing 480 days of paid parental leave, three months of which is available only to fathers. This encourages dads to have a turn at being the stay-at-home parent, returning the mother to the workforce earlier, and more generally normalises time away from work to raise children, increasing the perceived value of parenting (Sweden, 2017). Some companies in New Zealand, such as MYOB and the ANZ, are recognising the issue, announcing schemes which continue employer contributions during maternity leave (MYOB, 2017; ANZ, 2015).

Retirement schemes which are tied to individual contributions increase inequality across gender and income generally. If universal government superannuation becomes unaffordable and must be rolled back, payments could be continued through an approach which included a central savings scheme funded by taxes, such as an expanded New Zealand Superannuation Fund. Costs could be reduced through means testing to target payments to those in genuine need, and avoid providing transfers to the already very wealthy. This type of arrangement increases equality, as those on higher incomes contribute more, and those who are not able to save sufficiently for their own retirement can receive a top-up to complement their private savings, ensuring a basic standard of living. High wage earners who wish to enjoy a more extravagant retirement can choose to save additional funds (Coleman, 2014, part 2.2).

Conclusion

Without meaningful and effective policy changes, Anna faces a significant disadvantage, due entirely to her gender. Attempts to legislate away the gender pay gap have so far failed, and measures to address the motherhood penalty do not go far enough. While paid parental leave offers families relief at a time of financial stress, it doesn't contribute significantly to the deficit women face over their working lives. Women who take time out of their careers to raise the next generation are hit three times: they lose most or all of their income for that period; they miss out on the employer contributions and tax credits which would have built their retirement savings; and then on returning to work they receive a significantly lower income. Increased paid parental leave is a step in the right direction, but even under the expanded policy settings it will do little to address the retirement savings issue.

The previous government's policy of increasing the age of eligibility for superannuation was significant in that it could be viewed as the first stage in a move away from a government-funded superannuation scheme which provides a liveable if basic income. Future governments may choose to move further towards a system where everyone must self-fund their retirement through private savings. In addition to penalising the generation caught up in this transition, this kind of system would be inherently unfair to women. KiwiSaver was set up to provide incentives and the mechanism for retirement savings. However, should future generations need to rely more heavily on private savings, KiwiSaver will do nothing to address the injustice of the gender pay gap and its inevitable erosion into a gender savings chasm.

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Bernard Teahan

Licensing Trusts IN NEW ZEALAND

Licensing trusts in New Zealand are a statutory form of community enterprise now existing for over 70 years. Thirty were established between 1944 and 1975. Over the years since they have generated wealth of $250 million through their business units, benefited their areas in many ways, and through their community support donations programmes[1] distributed significant profit back to enhance their community's quality of life. Today, 18 continue to operate (mainly hospitality) businesses, and provide support to their communities.

Their presence, successes and failures offer insights into this form of statutory enterprise and also the wider sphere of enterprise controlled by defined communities and accountable to them. Yet licensing trusts are relatively unknown in their entirety. To redress this and to confront misconceptions, in July 2017 *A Great Social Experiment* (Teahan, 2017)[2] was published. Key policy conundrums concerning their existence and performance are debated in the book:

- What is the justification for their existence today?
- In today's more fluid communities, how could the 50–70-year-old, street-by-street definitions of trust communities be relevant?
- What is the role of community enterprises in a global world?
- Are democratically elected boards too hit and miss in delivering the necessary talents to govern a competitive enterprise?
- Is it unwise to mix social/community goals with economic goals under one management?
- What are the 'mystical' elements endearing community enterprises to their communities?
- Who are the owners of a licensing trust?
- How have they performed in meeting their statutory objectives?

This article reviews some of the answers *A Great Social Experiment* yields, with emphasis on the lessons they provide for the growing global world of social and community enterprises.

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History: a better way

The sale of liquor in New Zealand has long been controversial, as it has in many countries. In the 1940s, the liquor laws were widely accepted to be a mess.[3] It was a time of war, and an uncertain climate for social change. New Zealand was still a young country, barely a generation away from its pioneering days, when the excesses of alcohol brought about prohibition in many areas.

The concept of licensing trusts was born out of a desire to create something better but not to give rein to the excesses of the past. The parliamentary debates record that it was based on a liquor control scheme originating in Carlisle on the Scottish/English border. But it is most likely that its unique features were the

design of a remarkable man, the minister of justice, H.G.R. Mason.[4] He sought to establish 'a body corporate for the purpose of providing for the establishment of model hotels … in the interests of the public well-being, and of providing for the sale of intoxicating liquor in the district, and to provide for the distribution of the profits for public purposes' (Hansard, 1944, p.716). The then prime minister, Peter Fraser, with his socialist beliefs[5] and his keen sense of community, was also a noted supporter.

The Invercargill Licensing Trust Act 1944 was passed on 17 April 1944. The Masterton Licensing Trust Act followed in December 1947 and the Licensing Trusts Act in 1949. Over the years those acts have been merged into the sale of liquor legislation.

Structure and governance

The 30 licensing trusts were formed between 1944 and 1975. Thus, no trust has been established for over 40 years. While that in part suggests that the circumstances giving rise to trusts no longer exist, it should be remembered that the 1980s through to the late 1990s or early 2000s was very much a time when the market philosophy and private enterprise dominated. The charitable trusts legislation too is an easier structure through which to establish a community enterprise. A further influence was the business and government climate during the earlier decades. As Bollinger (1967) and others caustically record, often the business and political climate had not been supportive for licensing trusts, even though trusts had been enthusiastically supported by their communities.

To form a licensing trust was never easy. First, the community had to decide whether it wished to do so, in a public poll. The alternative choice was private enterprise.[6] A constitution notice was then promulgated through the Ministry of Justice. Elections were called for (generally six) trustees to represent the community. Once elected, the hard work began. The trustees had to find a property, engage builders, and, most difficult of all, find the necessary finance. Invariably, trusts started out with over 100% debt financing, which was always a significant hurdle to overcome. They then had to efficiently operate a licensed premises, with all its associated problems and challenges.

Financing a start-up licensing trust was a problem that collectively the trusts never really solved. The more supportive Labour government had guaranteed bank overdrafts and advanced funds from the Consolidated Fund for the Invercargill and Masterton trusts during their establishment stage, and both trusts quickly repaid that support with a speed of providing new premises and achieving profitability that removed the need for the guarantee. But from the 1950s onwards government support was very limited, predominantly restricted to guaranteeing the last 25% of any overdraft funding.

As a body corporate, the trust was vested with the necessary powers to operate a business. It was required to pay taxes, and be audited by the controller and auditor-general. Its meetings are subject to the Local Government Official Information and Meetings Act 1987 and an annual public meeting must be held where its annual accounts and report are open to scrutiny.

Performance over the years

To gain a perspective of the performance of licensing trusts over the 70 plus years of their existence, and their value as a form of community enterprise, a number of benchmarks are desirable:

- their collective financial performance;
- their individual range of performance;
- their success or failure in delivering benefits to their communities;
- their comparative performance relative to alternative forms of ownership, notably private enterprise;
- their demise rate and why some have failed to continue to exist, primarily to assess whether there are generic causes relative to their structure.

Reason for being

A logical starting point justifying the existence of licensing trusts is the objectives they were given, first in the legislation of the 1940s, and today in the Sale and Supply of Alcohol Act 2012, the current legislation for licensing trusts.

The well-being of their communities, particularly in the sale and provision of sensitive products, is the initial unique distinguishing feature. Caring for their communities to the extent that profit was not pursued at the expense of people's welfare was a prime motivator in their formation. Mason described it this way: 'although the Board should be primarily a commercial body, we should like to see the element of social welfare developed to the fullest extent … so that it should predominate strongly in all the operations of the trust, as well as in the distribution of money' (Hansard, 1944, p.719). In the current legislation, as with the Licensing Trusts Act 1949, there is no overt mention of this well-being factor, but take away this accountability to their local community and there is little meaning to licensing trusts' existence that could not be achieved by private ownership. They are required to report back to the electors of their defined district in a number of ways, none (arguably) more influential than the triennial elections to decide which trustees should represent the community.

The second unique reason for existence is the distribution of profits back to community organisations in support of community activities. Today this function is one of the major areas of activity for trusts, and one which, not surprisingly, endears them to their community. But first trusts must make profits. They need to be

Caring for their communities to the extent that profit was not pursued at the expense of people's welfare was a prime motivator in the [Licensing Trust] formation.

Table 1: Licensing trusts' financial indicators

	1990	2008	2014*
Annual revenue	$286.633m	$356.852m	$349.787m
Assets employed	$224.785m	$313.053m	$342.802m
Equity	$151.215m	$231.813m	$245.828m
Community support donations	$2.162m	$33.444m	$26.930m
Equity ratio	66.6%	74.05%	71.70%
Profit	$2.280m	$41.687m	$45.977m
Return on equity	1.56%	17.98%	18.70%

* These three years are the occasions when collective studies were undertaken.

efficient and commercially sound or they will not survive.

The various acts of Parliament over the years have defined the objectives of trusts as being to provide licensed premises for the sale of alcohol, and the provision of meals and accommodation. That business segment, frequently and loosely called the hospitality sector, has been where licensing trusts' commercial activities have been predominantly concentrated. What has resulted have frequently been attractive and significant hotels, taverns, restaurants and bottle stores; so much so that in some communities the licensing trust facilities have been the catalyst for the generation of new economic activity, notably tourism, providing sustained employment. Examples are the hotels in Invercargill (Ascot Park Hotel is a modern facility with 116 accommodation rooms, bars, a restaurant and conference facilities), Solway Park Hotel in Masterton (102 rooms) and Waipuna Hotel (148 rooms) in Mount Wellington, Auckland. Not all of the over 130 trust facilities are of this standard, with some trusts providing more modest social premises of bars, bottle stores and gaming lounges. Some trusts have used the 'catch all' objectives clause in the legislation[7] to broaden their trading base into other sectors: for example, aged care, supermarkets, housing, and property as landlords.

Philosophical underpinning

Inherent in the structure of licensing trusts are the concepts of a love of community, a sense of self, solidarity and enterprise,[8] which collectively are the driving forces behind community enterprises seeking to enhance the well-being of their community. It is these components that endear community enterprises like licensing trusts to their communities, and why they have endured. Throughout its history since the signing of the Treaty of Waitangi, New Zealand has had a love affair with the concept. In the nature of love affairs, at times the relationship has been close; at others, distant. The renewed international and national interest[9] in community enterprises of recent times once again emphasises their need in a more globally driven world, in which communities seek to protect their interests and enhance their quality of life. Simply put, community enterprises, and their sister organisations, social enterprises, are primarily concerned with the well-being of their defined community.

How, then, have licensing trusts performed in carrying out this mandate, and what is their collective size and range?

Alcohol care performance

In the writer's experience, this subject is, at best, one of those 'deep-grained' elements embedded in trusts' fabric. The elected nature of trusts' governance invariably demands a supportive and timely response to community pressure.

Arguably, the design and quality of licensed premises has been a major influence on the use of alcohol in licensing trust communities. Just as the Carlisle scheme designer's sensitive knowledge of social needs led to improvements in social habits, many licensing trusts have led their communities. That this has been a force in trusts' behaviour should not be too surprising. It is human nature for trustees to want the best for their communities, because, at the least, that also reflects well on them. But this trait has also brought about trusts' failures, where the product or premises was not supported by the market, as in the failures of the Orewa, Hornby and Stokes Valley licensing trusts.

There are no objective statistics that 'prove' licensing trusts have more caringly managed the sale of alcohol in their communities than private enterprise has. Crime, alcohol-related incidents, drunkenness, social excesses, all are influenced by too many variables – unemployment, poverty, education standards, the relative wealth of the community, among some – to provide meaningful answers. What are available are stories, often influenced by the opinions and mindset of the teller, but nonetheless 'real' in the sense that they are contestable. In their submissions on the Law Commission review in 2009 of alcohol law in New Zealand, the New Zealand Licensing Trusts Association recorded a number of examples (see New Zealand Licensing Trusts Association, 2009).

Assets and financial performance

Table 1 summarises key financial indicators from trusts' annual accounts.

These results collectively provide evidence of good returns and sound equity. Annual returns on equity of around 18% demonstrate good management, and yearly donations approximating $30 million are noteworthy.

Community support donations

This function has grown considerably over the last 20 years, to where today the funds donated to the community in support of a very wide range of organisations and activities significantly enhance the quality of community life. The growth has come partly as trusts have matured, and substantially as they moved to provide gaming lounges when legislation in New Zealand authorised 'pokie machines' in licensed premises. Gaming, like alcohol, is a 'sensitive' product requiring management with care, and the trusts were well placed to even-handedly balance availability with the tendency to excess for some people.

Some of the larger trust donations – for example, Invercargill, Waitākere, Portage and Masterton – have been very sizeable, frequently hundreds of thousands of dollars, and sometimes in the millions. The Invercargill Trust's support and facilitation of Stadium Southland, with its indoor

cycle track of international standard, is but one example of an exceptional facility that would be unlikely, arguably, to exist without the trust's efforts. Other examples are Henley Lake in Masterton, the Portage and Waitākere trusts' Trusts Arena in Henderson, and Lake Hood in Ashburton. *A Great Social Experiment* estimates that the total of these cash donations over 70 plus years exceeds $500 million. To that may be added another sizable sum of 'in kind' support, such as no charge for use of facilities, and sponsorship greater than commercially justified.

However, it is the many small donations, of a few hundred or thousand dollars, that are the lifeblood of many trust communities. It is these that consistently endear trusts to their communities. An example of this activity is listed in the Trust House[10] annual reports (Table 2).

Table 2: Trust House donations

	2012	2011
Amount of donations	$2.754 million	$2.886 million
Number of donations	322	349
Total donations last 10 years (2003–12)	$31.537 million	$31.150 million

Why trusts have demised

There is a theme expressed from time to time by the critics of licensing trusts that they are an impractical ideal incapable of reasonable performance.[11] After all, say the critics, if you are going to operate a business, the private ownership model is widely understood, has clear lines of ownership and commitment, and has been proven to be the structure to best deliver the most efficient business performance. All that is true at least in the sense of widely accepted business beliefs. But as we come to the end of three decades during which the market philosophy and neo-liberalism dominated, we have learnt again that other structures provide opportunities to pursue a range of objectives wider than profit generation. For, as Jensen and Meckling record in their seminal essay 'The nature of man', we 'care about not only money, but about almost everything – respect, honor, power, love, and the welfare of others' (Jensen and Meckling, 1994).

There is another challenge here that, in the harsh limelight of the media, licensing trusts have not addressed well, or been allowed to address criticism:

> In reality, trusts became unpopular with most New Zealanders because they succumbed to the normal stultifying consequences of smallness and monopoly. Their return on investment was poor, their accountability weak and their service to consumers dismal, the trusts serving up booze barns, slack service and inferior financial management ... The vast majority of New Zealanders long ago saw through the warm fuzzies that underpin the trust concept (*New Zealand Herald*, 2003)

When opinions such as this are aired, arguably the record should be balanced. In the West Auckland circumstance referred to here, the community by their votes overwhelmingly rejected the editorial's views, but such comment has a way of lingering, and even being accepted as the prevailing truth, if not consistently refuted. Even in recent times a request to the editor to redress significant errors in a *Dominion Post* article drew no response (Du Fresne, 2017).

The common causes of business failure – misreading the size of the market, inadequate management and governance skills, overinvestment, lack of equity – are just as relevant for trusts. The lack of equity capital was especially debilitating, and frequently required trusts to borrow all their capital and their start-up costs. Profits then had to be generated immediately. When start-up problems occurred, at times exacerbated by the inexperience of the trustees in running a tavern or hotel, sometimes it was little short of a miracle the trust survived. Often, the volunteer effort by trustees was remarkable.[12]

The failure of the Stokes Valley trust within a few months of opening its doors for trading was to cast a long shadow over the licensing trust concept for decades to come. To fail within such a short period of time inevitably fuelled the view of some that trusts were inherently flawed. The critics had a field day with their 'told you so' wisdom. The reality evidenced by archived correspondence and reports,[13] and hindsight, shows that there were a number of contributing factors. The flaws of the licensing trust model, notably the lack of equity capital, did contribute, but the conflicting requirements of the regulating agencies were far more destructive. The Licensing Control Commission required accommodation (16 rooms) to be provided for the travelling public to address their concern about the shortage within the wider Wellington region; and the Lower Hutt City Council opposed the location of the premises on the one site at the entrance to the Stokes Valley where there was a (limited) chance of a reasonable market from the travelling public. From this conflict, the worse outcome resulted: an overcapitalised hotel located in the middle of the Valley catering to the largely incompatible markets of the residents and the visitor. Failure was thus inevitable.

Less defensible was the failure of the four Wellington trusts in the late 1990s. Major shortcomings in governance and management were the significant factors.

The 'failure'[14] rate of trusts can be reasonably compared to the similar rate for private enterprise companies. While one-off failures or a small number comparison need to be viewed with caution, the 70-year period of licensing trust existence gives more credibility. The more credible statistics suggest about 25% of new businesses do not survive the first year, 50% do not survive five years and 71% ten years. That, after an average existence of 45 years for the 30 trusts, the demise rate for licensing trusts of 40% is remarkably good.

Footprint today

The 18 licensing trusts existing today are an integrated and integral part of their communities. They range from the largest, Invercargill, with assets exceeding $100 million, annual revenues exceeding $90 million and community support donations of over $100 million since 2007, to the smallest, Hawarden, which has recently closed the only tavern servicing

its very small community of 250 for 45 years. Five – Wiri, Mount Wellington, Birkenhead, Portage and Waitākere – are in metropolitan Auckland; four – Invercargill, Porirua, Rimutaka, Flaxmere – in cities; and nine – Mataura, Clutha, Ōamaru, Geraldine, Ashburton, Hawarden, Cheviot, Masterton and Te Kauwhata – in provincial New Zealand.

Weaknesses, challenges and the future

The community assets generated are now quite significant. In most cases they provide both a springboard to the future and insulation against the lows of business cycles. But there are warning signals for licensing trusts: the hospitality industry is often over-supplied, with frequently low profitability and returns, and subject to a number of societal threats. Some traditional segments for trusts – for example, bars and bottle stores – may have a limited future for the trusts without the restrictive mandates. Some of the smaller trusts, which have but one outlet providing a bar for their residents, are providing services for a market that time has largely passed by.

Supermarket sales of wine and beer at low margins dominate the take-home liquor sales market. What is left is increasingly captured by a proliferation of traders who operate corner stores in a way similar to the traditional corner diary. Trusts are not able to compete easily with this business model of family living on the premises, long hours for low pay and internal 'family' financing. Further, the tendency for these operations to complement their liquor business with the sale of recreational drugs – commonly called party pills – further accelerates the demise of this market for trusts, who see these sales as abhorrent and detrimental to the well-being of their community.

A further challenge for trusts is their ability to obtain or retain the level of management and governance skills necessary to make the changes required to remain relevant in the future. Some smaller trusts have met that need by association with a larger licensing trust nearby: for example, the shared resources of Portage and Waitākere in West Auckland, and the management grouping of Masterton, Flaxmere and Rimutaka existing prior to 2015 for nearly 30 years.

Four trusts continue to maintain limited monopoly rights within their constituted area: Portage, Waitākere, Mataura and Invercargill. So long as these rights continue to exist, supermarkets can not sell beer and wine, and private operators can not own and operate taverns in these areas. Only the community can vote to remove these rights. Invariably, any such poll is funded and organised by the supermarket chains wanting to access the benefits of beer and wine sales.[15] While these monopoly rights remain, these four trusts have an appreciable degree of protection and are less buffeted by market forces. Their ability to influence their communities beneficially in the use of alcohol and gaming is also significantly greater.[16]

A further challenge for trusts is their ability to obtain or retain the level of management and governance skills necessary to make the changes required to remain relevant in the future.

Societal changes too are having an impact on licensing trusts, at times beneficially. Communities are concerned about the abuse of alcohol and are imposing restrictions. It is unlikely that these constraints, which also reinforce the original ideals of licensing trusts, have peaked.

A few trusts have broadened both their geographic and trading segment base. Masterton is the notable example, owning businesses away from its home area and hospitality. Aged care (since exited), supermarkets (also since exited), residential housing and a small hydro electricity scheme are examples of its diversification.

What we can learn from licensing trusts' experience

Although only a niche of New Zealand society, licensing trusts' presence in rural, provincial and metropolitan areas, and their existence for over 70 years, give important lessons for today's more globally interdependent world:

- Community (and social) enterprises provide an important balance to globalisation. Communities can thus better ensure essential services are available; sensitive products are managed in their best interests; the poor, disadvantaged or other subsets of their community are supported; employment or economic development is pursued; or the community is protected from a monopoly position.
- Community well-being goals and business goals can be successfully achieved in concert provided they are clearly established and regularly reviewed.
- There is no substitute for good, committed people governing and managing. If the necessary skills are not available (through the ballot box in licensing trusts' case), they must be brought in. Ideals must be tempered with reality.
- Accountability to their owners, the community, is essential if the extremes of poor performance and excesses are to be avoided.
- The 'dividend' of surplus profits generated from the business units can be deployed to enhance the community's quality of life. Donations to support cultural, artistic, recreational, educational and sporting organisations can in turn allow these groups to better function.

Conclusion

Alcohol sales in the interests of the community's well-being were both the reason and the vehicle for the establishment of licensing trusts. Today, that remains the dominant trading base for them, with gaming added as the second sensitive product.

For the 18 trusts remaining, the future is diverse. A few have not been able to evolve out of their, mostly small, hospitality trading base and their future in their present form is challenging. Others are determinedly changing to ensure their relevance for the decades ahead, while successfully providing appreciated community services.

Collectively, licensing trusts have contributed much to their communities, and while there have been less than laudable stories and failures, their architects, H.G.R. Mason and Peter Fraser, were they alive, could be forgiven if they took some quiet pleasure in their successes. That they have survived for 70 years and achieved the collective size and support for their communities they have is a notable legacy.

1 These extensive lists of donations are recorded in their annual reports and on their websites.
2 The book's title derives from the 1944 parliamentary debates. The author sees the words as a question for the reader to decide.
3 For example, see Bollinger (1967) and the many references during the parliamentary debates on licensing trusts in the 1940s.
4 Rex Mason was minister of justice (as well as holding a number of other portfolios) from 1935 to 1949 and 1957 to 1960. He is now regarded as making 'possibly the greatest contribution of any politician to law reform in New Zealand in the twentieth century' (Round, 2011). Among his many reforms, he reorganised and modernised New Zealand law in the major Law Reform Act 1936, established the Law Reform Commission of 1937, and, through his persistent efforts over many years, decimal currency in 1967.
5 See Bassett and King, 2000.
6 Remarkably, and overwhelmingly in the polls, communities chose licensing trusts in 57 areas. By comparison, there were nine areas where private enterprise was chosen ahead of a community licensing trust. Often the mandate was well over 90%.
7 The Sale and Supply of Alcohol Act 2012 provides (section 305) that a trust may also 'carry on any other business that, in the Trust's opinion, can be conveniently carried on in conjunction' with their hospitality functions.
8 This article does not intend to discuss how these concepts interweave to underpin community enterprises. For more on this, see Teahan, 2007.
9 For example, see Laville, 2003; Salamon, 2003; Bollier, 2002; OECD, 1999; Department of Trade and Industry (UK), 2002. Teahan (2007) explores why this growth is occurring.
10 Trust House Limited is the operating company for the Masterton Licensing Trust; it also provides some services for the Flaxmere and Rimutaka trusts, and more recently the Porirua Community Trust.
11 For example, at the time that four Wellington licensing trusts failed in the late 1990s there was considerable editorial agitation in the local newspapers. Also, in 2003, at the time of the West Auckland competition polls (see Teahan, 2007, chapter 6), editorials were often bitterly opposed to the trusts; when the trusts comfortably won with significant support from the community these unbalanced comments became an ironic epitaph.
12 As recorded, for example, in an unpublished account of the first 25 years of the Flaxmere Licensing Trust.
13 The files of the Ministry of Justice at Archives New Zealand are a rich source of information.
14 Demise is a better term than failure. As for private enterprise companies, cessation will often be voluntary: for example, because time has passed the market opportunity by, or there is no longer a wish to continue.
15 Originally, 13 trusts had limited monopoly rights. In all, with some multiple challenges, there have been 16 polls, with six favouring retention of the monopoly rights for the trust, and ten favouring open competition. Only in Invercargill has no poll ever been called. These polls have complex influences: see Teahan, 2007 and 2017.
16 An example arose during research into the West Auckland polls in 2003: the number of gaming machines in Portage and Waitākere was one third the occurrence in the rest of New Zealand.

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Amelia Cina and Stephen Cummings

Open innovation communication

Improving strategy implementation in the public sector

When Jørgen Knudstorp took over as CEO of the LEGO group in 2004, the toy company was in a state of decline.[1] A lack of innovation and loss of market position led to the group posting their first loss in 1998. LEGO had lost sight of the needs of their customers. "We were not making toys that were sufficiently interesting to children. We failed to innovate enough," commented executive vice-president of the group Mads Nipper (The Telegraph, 2009).

Realising a need to reconnect with their customers, LEGO launched programmes to engage users in the development of products. An online crowd-sourcing platform called 'Cuusoo' (Japanese for 'dream' or 'wish') allowed customers to interact, share and vote for ideas regarding the kind of products or services they would like to see LEGO implement. Opening lines of communication with users in this way enhanced engagement with their growing customer base and strategic developments came to be informed by the user community, propelling the company into greater sync with industry trends. Largely thanks to Cuusoo and other related projects, LEGO has come to be recognised as a world leader in toy innovation, boasting high levels of growth and posting a record profit of USD $1.87 billion in 2016.

The LEGO story, and others like it about 'open innovation', have important implications for implementation of strategy in the public sector

Organisations have traditionally relied solely on internal knowledge to drive innovation. However, this limits the flow of ideas, and can perpetuate negative groupthink (Sunstein & Hastie, 2015). Open innovation recognises that organisations can and should use both external and internal ideas to develop products and services that meet the needs of customers, community members and

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citizens (Ihl & Hilgers, 2010, Bughin & Johnson, 2008).

The Better Public Services programme was launched in 2012, aiming to drive a more efficient public sector through a collaborative and holistic approach to service delivery across ten key result areas in New Zealand. Result 10 in particular aims to place customers at the centre of service design and delivery: "People have easy access to public services, which are designed around them, when they need them" (State Services Commission, 2017). This has introduced a user-focused perspective on service delivery, and involving external stakeholders through open innovation can provide greater opportunities for public engagement with government agencies, and ensure that outcomes meet the needs of citizens.

This article explores the role of open innovation and communication in the successful development and implementation of strategy, drawing on key insights from literature and a case study of international revenue agency practices. A framework for open public sector strategy implementation is developed based on the classic strategy framework of Rindova and Fombrun (1999).

Figure 1: Traditional linear "silo" model of strategic management/development

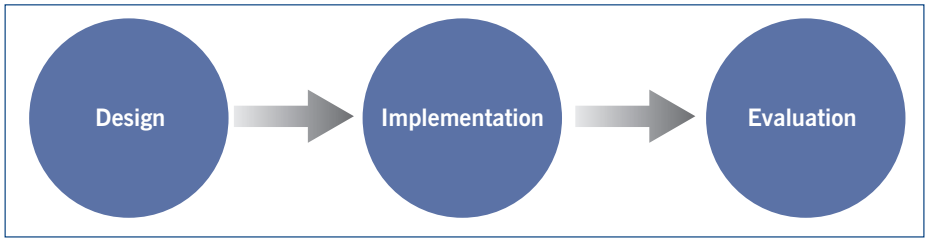
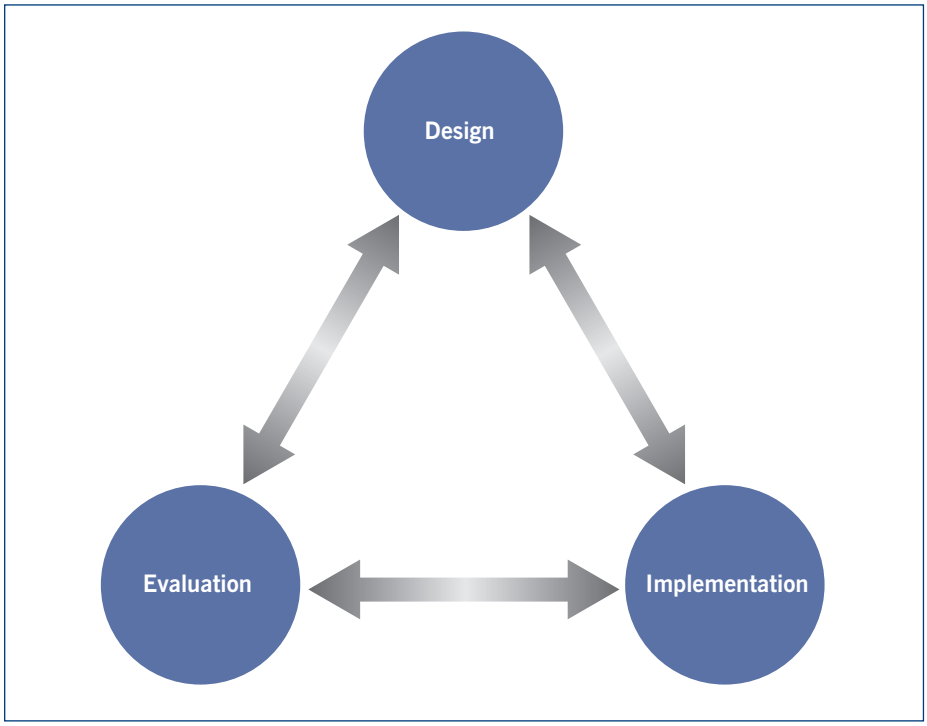


Figure 2: Preferred intergrated model of strategy development



Successful implementation requires an integrated approach to strategy in any sector

Even though implementation is often the last element considered in a strategy development process, and consequently under-resourced, it may be the most important part of a strategy, for even the most brilliantly conceived plan will amount to little if execution fails or is misdirected (Blahová & Knápková, 2011).

Organisations often tend to treat the implementation of strategy as a stand-alone process focusing on delivering what has been agreed and waiting until the evaluation stage to incorporate any insights gained along the way (see Galbraith, 1980; Hrebikiak & Joyce, 1984; Higgins, 1985; Pierce & Robinson, 1994).

Alternatively, a systems based or integrated approach to strategy that actively engages internal and external stakeholders can continually refresh and reiterate the approach to implementation based on insights gained through the feedback loops (see Figures 1 & 2). To be effective in fast-moving environments strategy must be flexible and adaptable (Andrews et al., 2016). An integrated approach ensures that organisations learn more effectively and can respond to internal and external changes with agility.

Good communication can propel adaptive and effective strategy implementation

Strategic management, like other social sciences, is difficult to measure due to the large number of interacting variables present in the strategy environment (Safdari et al., 2014). This makes isolation of cause and effect problematic. To simplify the analysis, this article focuses solely on communication as a lens to examine implementation. Communication is "probably the most significant informal process within most organisations" (Workman, 1993, p. 415) and may offer valuable insight into effective implementation practices.

So what does good communication with regard to strategy design and implementation look like? One popular view is that good communication is that which drives consensus between parties (see Woolridge & Floyd, 1990; Rapert, Velliquette & Garretson, 2002; Noble, 1999).

However, simply aiming for consensus may not be the best measure of success. Messages that are broadcast and seemingly met with consensus may not indicate agreement with or support for a strategy. It could instead be the result of a culture that is unreceptive to criticism, or due to a lack of effective channels for providing feedback. Either situation may lead to groupthink and impede an organisation's ability to engage in learning and adaptation (Milliken & Morrison, 2003).

An alternative view is that effective communication is that which promotes interaction and feedback, and it is this type of communication that is more likely to result in the effective implementation of strategy. This kind of communication provides organisations with the

opportunity to learn from failure and adapt to change. Feedback received from both external and internal sources can serve as an early warning system to pre-emptively inform management of potential barriers and allow corrective action to be taken early on (Beer & Eisenstat, 2000).

Communication that is not only useful and tailored, but also engaging is more likely to meet the needs of the audience and increase visibility and understanding of the strategy. An open-minded approach and a willingness to evaluate and incorporate insights or criticism will help to reduce any cynicism surrounding strategy discussions (Dutton et al., 1997). Audiences must know their perspectives are valued and the best way to demonstrate this is to regard these perspectives as having the potential to actually influence and change outcomes (Beer & Eisenstat, 2000).

It is no longer realistic or effective to implement strategy by relying solely on internal knowledge

To implement strategy successfully, organisations should incorporate open innovation to actively engage both external and internal stakeholders. Gathering and then actively using suggestions and feedback both internally and externally demonstrates a clear and present commitment to putting users and other external stakeholders at the centre of service design and delivery.

Traditionally, most of the focus when implementing strategy is on internal communication (see Dooley & Fryell, 1999; Canella & Hambrick, 1989; Beer & Eisenstat, 2000; Mann, Saunders & Smith, 2009). However, the importance of interacting with external stakeholders should not be underestimated.

Inviting external stakeholders to provide their ideas, if done effectively, can encourage innovation, enhance public engagement and challenge internal thinking. These diverse perspectives can offer valuable insight on how to design services that meet user needs. This is particularly relevant for revenue agencies. Everyone pays tax; therefore everyone is a customer and a member of the community of interest. An open call to contribute ideas creates the possibility that innovations can be driven by customers, something that has shown to be a critical success factor for improving voluntary compliance (Inland Revenue, 2016).

Case Study

Inland Revenue New Zealand contacted revenue agencies from other jurisdictions to gather information about how they approached communicating their strategies to learn from their experiences. The information was provided through survey responses, direct contact and reviewing publicly available information. The Agencies who provided information were the Australian Tax Office, Canada Revenue Agency, Revenue (Ireland), Her Majesty's Revenue and Customs (United Kingdom), the Internal Revenue Service (USA) and the Inland Revenue Authority of Singapore.

Across the Agencies there were a myriad of approaches seen as good practice in strategy communication. The diversity of different communication techniques used demonstrates that there may be no single best practice way of communicating strategy and emphasises the need for flexibility.

The following analysis of these agencies, reporting on below, highlights the key trends in communicating strategy gathered from the literature our study of these revenue agencies' practices (NB: some of the names of the respective agencies are not provided to preserve their anonymity.) These trends can be related to four key insights gleaned from the study. These insights can be usefully taken and adapted to meet the needs of specific public sector strategy development processes.

To implement strategy successfully, organisations should incorporate open innovation to actively engage both external and internal stakeholders.

1. *The boundaries between public agencies and their external stakeholders are becoming increasingly permeable*

More public-private partnerships and the movement towards more open government mean there are many more opportunities for open innovation to be incorporated into public service design and delivery.

Chesbrough and Appleyard (2007) note the increasing prevalence of crowd-sourcing and the concept of openness as a means of creating value. As pioneered by LEGO communities, inviting customers to co-innovate through "citizen sourcing" adds unique insight and deepens public engagement, resulting in more effective service delivery (Hilgers and Ihl, 2012).

Two revenue agencies used citizen-sourcing techniques to interact with their external stakeholders. One ran a workshop as part of their digital transformation strategy, and sought contributors from start-ups, developers, designers, tax and accounting professionals, industry experts and students. External stakeholders were invited to work together with agency staff to create solutions to achieve voluntary compliance. Another agency ran a design challenge inviting the public to submit innovative ideas to simplify the communication of tax information.

The success of these approaches, as reported by the agencies involved, demonstrates the potential for actively engaging external stakeholders as a means for improving the adaptable and effective implementation of strategy.

2. *Agencies should take a flexible approach to communication that encourages discussion and feedback*

The often abstract nature of strategy can result in disconnects between strategy teams and the audiences they communicate with. Several agencies identified the importance of flexible communication that varies according to the audience. Including staff in conversations about communication will enhance its effectiveness by tailoring it to their needs. Open discussion can

clarify strategies that can often be very high level and less "present" than other daily workplace requirements. Personalising communication about strategy can make it more tangible and immediate to the user.

Encouraging feedback can improve people's understanding of a strategy and help them to make better decisions (Mann, Saunders & Smith, 2009). Giving staff the opportunity to contribute through feedback also increases their commitment to implementing the strategy and improves overall job satisfaction (Dooley & Fryell, 1999).

For example, Inland Revenue New Zealand communicates its strategy to staff in a number of different ways. Recently, an interactive strategy toolkit was designed following discussions with senior leaders to help them understand, contribute to, and use the corporate strategy within their teams. This represented a move away from "talking at people" to encouraging people to contribute through discussions about "what does this mean for me" and how the strategy should be used. Cathy Swanson, Senior Strategist at Inland Revenue said "We initially trialled the use of the toolkit with a business area's leadership team. The feedback was that the toolkit's questions opened up leaders' eyes to the difference between what they were assuming about the strategy, and what they could actively do to make it real within the broader planning process."

Some agencies preferred group-wide meetings supplemented with digital tools to give everyone the opportunity to contribute, and others chose a team-based approach. One agency used their intranet to enable staff to submit ideas in response to strategic initiatives. A dedicated team evaluated the ideas and suggestions and passed them on to those responsible for operational decision making to consider. This approach generated positive responses from agency staff: "It is a great feeling to know that your idea is being taken forward and being developed. The bonus for me has been that it has generated great enthusiasm and that colleagues want to get involved". As a result, key decision makers had access to a wider variety of viewpoints, increasing both the quality of decision making and staff commitment to implementation.

3. Evaluating the impact of communication will help determine whether the different needs of stakeholders are being met

Measuring success through the quantity and quality of feedback will help to determine whether key messages have been received, and subsequently, whether the audience's needs are being met.

When agencies were asked what they thought made communication successful, they most often said it needed to be proactive, constant, cohesive and concise. Communication that was well-coordinated and integrated was also cited as a key factor to successful implementation. Two agencies identified two-way communication as important to give people the opportunity to ask questions, make comments, and give feedback. This approach not only helps to ensure that messages are clear and accessible, but also enhances implementation by increasing its agility and user-centricity.

Several agencies used quantitative measures to evaluate the success of communication. For internal audiences, Inland Revenue used click-through rates and comments on intranet blog posts to monitor staff engagement. One agency used an online application during large organisation-wide events to monitor response rates and quantify engagement in real time. The application enabled live interaction with speakers, encouraging audiences to submit comments and vote for popular questions and feedback.

Another agency used an employee engagement survey focusing on staff perceptions of their ability to contribute their viewpoints and whether they thought the agency was open to ideas. Benchmarking general engagement levels with staff can enable the success of communication efforts to be monitored and tailored where necessary.

4. Rethinking the model: communicating strategy in the public sector needs to incorporate external stakeholder insights

The classic model of communicating strategy, as outlined by Rindova and Fombrun (1999), focuses on stimulating interactions with external stakeholders (Figure 3). In this model, organisations need to challenge and modify their *definitions of success* and be willing to change *allocations of resources* to respond to the needs of their external stakeholders. Strategy must therefore be communicated externally (*strategic projections*) so that feedback is received from external stakeholders about environmental conditions and trends (*the industry paradigm*). Implementation and design plans (*the strategic plot*) can then be adjusted accordingly.

Some agencies preferred group-wide meetings supplemented with digital tools to give everyone the opportunity to contribute, and others chose a team-based approach.

In the private sector, strategy has traditionally focused on achieving competitive advantage. Hence, adapting the Rindova and Fombrun model requires considering what the public sector equivalent of competitive advantage might be (Figure 4).

Competitive advantage may remain a suitable term for the ultimate outcome if one subscribes to the view that public sector agencies compete with each other for human capital and a fixed source of central government funding (Matthews & Schulman, 2005). However, this may not hold up in practice given the relatively long annual cycle of funding allocation and strong influence of policy in New Zealand and other similar countries. Research from Hansen and Ferlie (2016) suggests that

Figure 3

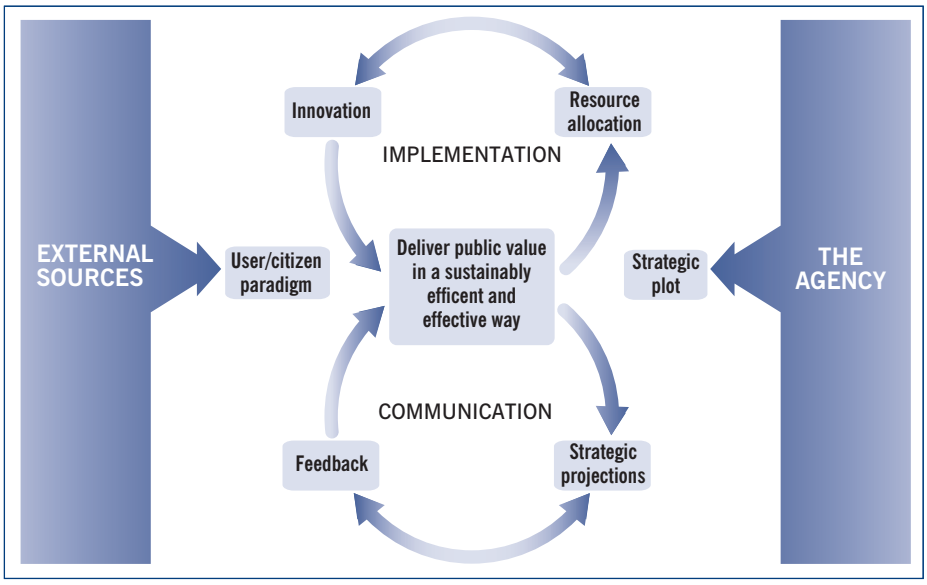
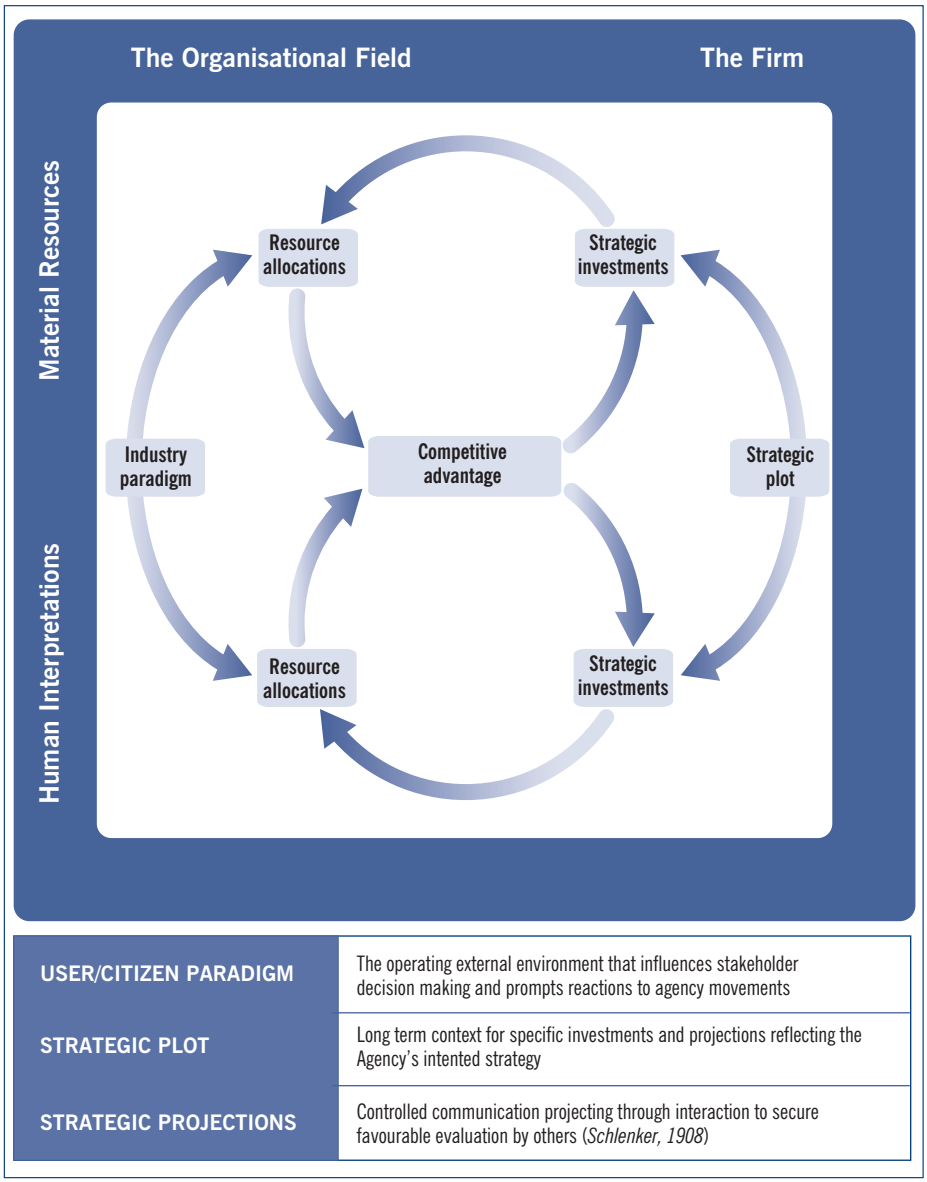


Figure 4



competitive advantage only applies to public sector organisations where the agency has a high degree of administrative autonomy, performance-based budgets and market-like competition. Revenue agencies typically do not meet these criteria.

With these kind of constraints in mind, Kaplan (2001) suggests the ultimate outcome for not-for-profits is "how effectively and efficiently they meet the needs of their constituencies". Further, this meeting of needs must be sustainable, i.e. public services must be continually improved to ensure they serve the needs of future generations. The core aim of strategy in the public sector can therefore defined as *delivering public value in a sustainably efficient and effective way*.

Thus, for revenue agencies specifically, competitive advantage may be redefined as how effectively and efficiently the agency delivers public value by collecting and distributing citizen revenue (see Figure 4).

As a result of this adaptation, the model shown in Figure 4 reflects this study's findings with regard to effective communication of strategy. It draws a clear link between implementation and strategy communication. The emergent nature of strategy development is demonstrated through the constant feedback loop by an agency continually communicating and incorporating feedback from external sources into future iterations of strategy. The importance of open innovation is identified by drawing on external sources to provide feedback and suggest innovations in collaboration with the agency. Actively seeking 'live' feedback in this way can influence allocation of resources and subsequently influences the strategy at the implementation stage. These processes together ensure that an agency may deliver public value in a sustainably efficient and effective way through its strategy.

Conclusions

Effective strategy implementation is not easy – it is highly complex, with a significant number of interacting variables. Focusing on the role of communication shows that effective implementation (and by association effective strategy development) increasingly requires focussed interaction with internal and external stakeholders to improve their understanding of the strategy and ensure the resulting products

and services meet their needs and achieve their value-adding potential. Opening up to innovation from outside the organisation via feedback is a crucial part of this evolving way of thinking. But it requires a challenging change of mindset. It requires Agencies and their strategists to embrace rather than resist other perspectives, even at late stages in the standard development horizon of strategy, and to learn and adapt quickly based on insights from stakeholders outside of the traditional corporate realms.

1 The research on which this article is based was conducted by Amelia Cina while undertaking a Summer Scholarship at Victoria Business School. This scholarship was part-funded by Inland Revenue New Zealand.

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Jane Diplock

Integrated Reporting

what is it and why should you do it?

Around the world, increasing numbers of businesses are evolving their strategic thinking, planning and reporting practices. Business practices are undergoing rapid change and as a result businesses are concluding that reporting must also change.

Disruptive business models, new technologies, increasing globalisation and big data are all having very real effects on how companies think, plan and report. We know that up to 80% of the value of a business today is accounted for by intangible factors, such as its intellectual property, productivity rates, brand and reputation (Ocean Tomo, 2017). In the past, conversations around board tables and between investors and businesses focused almost exclusively on financial and manufactured capital. This limited focus and lack of transparency around the business model and its sustainability has led to a loss of trust between businesses, their shareholders and other stakeholders. It is increasingly important that this conversation be expanded to take into account human, intellectual, social and relationship, and natural capital.

As set out in the International <IR> Framework, integrated reporting is consistent with developments in financial and other reporting, but an integrated report also differs from other reports and communications in a number of ways. In particular, it focuses on the ability of an organization to create value in the short, medium and long term, and in doing so it has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies.

It also emphasises the importance of integrated thinking within an organisation, which is the 'active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects' (International Integrated Reporting Council, 2013, p.2).

The <IR> Framework is principles-based, establishing guiding principles and core content elements for reporting. As such, companies will likely use other standards to develop data and key performance indicators that users will be looking for. Investors and other stakeholders make better decisions when they have access to information about

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strategy, the business model, and the risks and opportunities the business is facing, and when they are given insights into management's thinking.

Modern, well-run and well-governed companies want to enhance trust and are thinking strategically across the full breadth of these vital issues to address the challenges, risks and opportunities these changes present. The results of this strategic approach are reflected in an explanation of how a business model creates value over the short, medium and long term and are reflected in an integrated report.

In over 60 countries, more than 1,500 organisations are now producing integrated reports, with uptake growing rapidly each year (Corporate Register, 2017). The International Integrated Reporting Council (IIRC), which I have been closely involved with since its inception in 2010, is leading this evolution in reporting. We are working to ensure that capital allocation decisions support trust, financial stability and sustainable development. It is not an easy task, but the evidence of early adoption suggests that the impact of changing the way a business thinks and reports is significant.

Let me give a few examples. Anglo African, a small-to-medium enterprise, realised through the process of adopting integrated reporting that its business model was too short-term and that it was likely to fail if it didn't find more long-term solutions. The Malaysian energy giant Petronas Gas now receives a lower rate of interest on a loan from a Japanese bank because it is implementing integrated reporting. The Royal Bank of Scotland, which once labelled itself 'the least trusted company in the least trusted sector of the economy' (McEwan, 2014), is now moving to articulate how it creates value for customers and society through integrated reporting. We are hearing stories all the time of the very real impact integrated reporting is having on our markets.

The biggest drive for its adoption has come in markets where it is recognised as an essential and inseparable part of corporate governance.

Research evidence

Research conducted by the National University of Singapore examined the performance of 80 companies across the APEC economic region: 40 companies that had adopted integrated reporting and 40 companies that had not. Over a four-year period, every one of the 40 companies that had adopted integrated reporting outperformed their peers and benefited from a lower cost of capital (National University of Singapore and KPMG, 2015). This is supported by research from Nanyang University which explored the South African market, where integrated reporting is part of the stock exchange listing requirements. Again, companies benefited from higher share price performance, on average 9% higher than that of their non-integrated reporting counterparts.

Research by Harvard Business School demonstrates that companies applying the concepts of integrated reporting are more likely to attract long-term investors (Serafeim, 2015). KPMG France has released a study outlining the benefits to companies of attracting such long-term investors, including helping insulate management from market changes by reducing the share price change when earnings expectations are adjusted. A reduced sensitivity to market fluctuations allows management more freedom to manage the business for the sustainable and strategic long term (Garel and Rerolle, 2016).

Investor interest and understanding of the importance of basing investment decisions on more than just financial information is growing steadily. An EY survey found that 92% of investors believe that public company CEOs should lay out an explicit strategy for long-term value creation and directly affirm that the company's board has reviewed it (EY, 2017).

The study 'Why and how investors use ESG information: evidence from a global survey' similarly demonstrates that investor approaches are also evolving, with 61.2% of investors believing that the full integration of ESG (environmental, social and governance) strategies into individual stock valuation will have a positive effect. This is compared to 39.1% of investors who think that the more traditionally used negative screening approach has a positive effect (Amel-Zadeh and Serafeim, 2017).

Investor interest

We have some way to go before this approach is fully mainstream in the investor community, but significant progress is being made. We are calling on investors to signal their support for this shift by joining leading investor organisations such as VicSuper, New Zealand Superannuation, Aberdeen Standard Investments, PGGM Investment Management, Cbus Super and Hermes, among many others, who have confirmed that their investment processes require information on business models, strategy and the resources on which a business relies through support of integrated reporting (International Integrated Reporting Council, 2017). The International Corporate Governance Network, the premier international industry body for the main global investors, this year endorsed integrated reporting at its annual conference in Malaysia.

Business uptake of integrated reporting has mainly been voluntary. The biggest drive for its adoption has come in markets where it is recognised as an essential and inseparable part of corporate governance. Corporate reporting is the outcome of a corporate governance process grounded in the purpose, values and activities of the business and reflecting the thinking from the board and management team through the business. It is what we call 'integrated thinking', and helps to ensure that the business is focused on a holistic strategy for value creation, which forms the basis of an integrated report.

Global accounting and auditing standard setters

This trend is not going unrecognised internationally by accounting standard setters. The chair of the International Accounting Standards Board (IASB), Hans Hoogervorst, has reiterated in public speeches throughout 2017 that financial reporting is not sufficient for understanding value creation. Hoogervorst has stated: 'Users will need information about a company's intangibles – strategy, business model or technical know-how … Users also want to know about the external environment – competition or economic developments – in which a company operates… These elements are often included in integrated reporting' (Hoogervorst, 2017). The IASB has announced that it will revise and update its practice statement on management commentary in an effort to take into account developments in wider reporting, such as integrated reporting. The International Auditing and Assurance Board has advised on the issue of auditing non-financial information and has a specific working group focusing on integrated reporting. Currently, companies adopting integrated reporting are being satisfactorily audited and boards and auditors are comfortable that current standards are applicable and useful.

Overseas uptake

In Japan, integrated reporting has become the accepted business language of modern corporate governance, with over 300 listed companies now producing integrated reports (Corporate Value Reporting Lab, 2017). It is leading to significant improvements in the quality of dialogue between businesses and investors. In Malaysia the Securities Commission has recognised the importance of integrated reporting as a means of attracting capital and enhancing communication with key stakeholders. As a result, Malaysian companies are being called on to adopt integrated reporting as part of the Malaysian corporate governance code (Suruhanjaya Sekuriti, 2017).

In the Netherlands, a third of listed companies now produce an integrated report, with the corporate governance code speaking the language of integrated reporting by emphasising long-term value creation (Frijns Committee, 2016).

Uptake in India has been driven by a circular issued in February 2017 by the Securities and Exchange Board (SEBI), calling on the top 500 companies to start practicing integrated reporting. SEBI based this decision on its belief that integrated reporting helps companies commit to principle 16 of the global principles of securities regulation produced by the International Organization of Securities Commissions, which states that 'There should be full, accurate and timely disclosure of financial results, risks and other information which is material to investors' decisions' (International Organization of Securities Commissions, 2010). This call from SEBI has led to some of India's biggest companies producing an integrated report, such as Tata Steel, Mahindra Mahindra, ITC, Reliance Industries and YES Bank.

Companies listed on the Johannesburg stock exchange are required to produce an integrated report on a comply and explain basis. While the IIRC isn't currently calling for integrated reporting to be mandated, the unique history and market of South Africa has meant that asking companies to produce an integrated report has had significant benefits for the country. An increasing body of evidence from the country demonstrates that an integrated and inclusive corporate governance system delivers practical benefits to business and investors.

Other countries where the adoption of integrated reporting continues to build include France, where half of the top 40 listed companies produce integrated reports; the United Kingdom, where requirements to produce a 'strategic report' are closely aligned to the International <IR> Framework; and the United States, where big names such as Pepsi, Prudential Financial, General Electric, the World Bank and Jones Lang La Salle are working towards integrated reporting.

When the IIRC was formed, one of the key drivers was a perceived regulatory burden that had caused reporting to become a compliance issue. Regulatory demands for transparency had led to voluminous, uncommunicative box-ticking reports that were no longer being used for their original purpose, communicating with shareholders. When challenged on the length of General Electric's 2013 annual report, then chief financial officer Jeffrey Bornstein stated: 'Not a retail investor on planet Earth could get through it, let alone understand it' (Monga and Chasan, 2015).

Anecdotes such as this have led the IIRC and others to conclude that further regulation in this field is not the answer. The IIRC is therefore engaging with the regulatory market to encourage it to remove any barriers to the adoption of integrated reporting and signpost towards the <IR> Framework, without making it compulsory. With practice still in its early days, the goal continues to be encouraging further innovation in the field. At this stage, corporate governance codes continue to be the best way to ensure that companies are thinking strategically about their reporting. 2018 will therefore likely see further voluntary adoption, with companies using integrated reporting to go one step ahead of regulations such as the European Union's non-financial reporting directive, which is coming into effect now. Another example will likely be the Ministry of Finance of the People's Republic of China's encouragement for Chinese companies to adopt it as part of its 13th five-year plan for accounting reform and development (Ministry of Finance of the People's Republic of China, 2016).

> Eight of the N100 companies produce integrated reports, with a further 40 organisations in the public and private sectors now working towards it.

New Zealand uptake

The uptake in New Zealand is also starting to swell. Eight of the N100 companies produce integrated reports, with a further 40 organisations in the public and private sectors now working towards it. The NZX Corporate Governance Code (NZX, 2017) recommends that companies report against a recognised international reporting initiative such as Integrated Reporting. The Institute of Directors in New Zealand is currently planning an education programme around integrated reporting for company board members, while the IIRC's own accredited training partners will begin courses in the country in February 2018.

Recognised internationally as an example of best practice in integrated reporting is New Zealand seafood company Sanford, which clearly lays out its strategic objectives, explaining their importance to the ongoing viability of the company and highlighting the key initiatives that will be implemented in order to achieve them. Moana Fisheries has also recognised the value of integrated reporting. Zealandia's first integrated report has also been praised, and New Zealand Post has been recognised as a leader in integrated reporting in New Zealand.

Conclusion

All of these efforts are focused on a desire from the global coalition behind integrated reporting to effect real change in our markets, with the twin goals of financial stability and sustainable development – encouraging trust and securing the future of our markets. Integrated reporting focuses on identifying, isolating and managing risks and taking advantage of opportunities, making sure businesses have a holistic understanding of the external environment in which they operate and access to the multiple resources they need to strive and thrive in the future.

When companies are thinking in this way, they are better placed to run their business sustainably. They understand the interconnectivity of information, and the trade-offs they have to make every day; how they are creating value not just for the business, but for others as well. Integrated reporting allows the company to articulate the value it creates to its shareholders, its stakeholders and to the society in which it operates, over the short, medium and long term. We live in a world of 24-hour news cycles: either a company is willing to communicate its own story to the world, or it is content to let others do it for it.

I urge business leaders reading this article to evaluate your own reporting practices. I am confident that integrated reporting is becoming the global norm for reporting and a badge of good governance globally. In an internationally competitive market, the benefits emerging from markets where it is now best practice are too positive to ignore. An increasing number of New Zealand companies are already demonstrating global best practice in adopting integrated reporting and I recommend you join them now.

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Colin James

Reforming the Public Sector and Parliament

Chris Hipkins' Goals

Back in the late 1990s senior public servants worried at Institute of Policy Studies (IPS) roundtables that 'siloisation' of the state sector was hampering effectiveness. Also at that time an IPS roundtable of chief and deputy chief executives backed posting advice on agency websites when decisions were made or at some specific time after delivery.

Two decades on a new Minister of State Services is puzzling how to break down those silo barriers and is proposing, among a raft of changes for the public sector and Parliament, that policy advice be posted on websites.

Ho hum, another new-government shiny paint job, then back to business-as-usual when political and management "reality" cuts in? Or actual renovation?

At 39, State Services Minister Chris Hipkins has abundant energy. He needs that to manage a heavy workload: education (a critical portfolio given the changing nature of work), ministerial services and leader of the House (in Parliament) beside state services.

Hipkins needs also abundant determination if he is to wrong-foot the 'ho-hums'. He will need to carry with him his colleagues – and a public service last extensively renovated three decades back.

A core aim for Hipkins is a new Public Service Act to replace the 1988 State Sector Act which is administered by the State Services Commission (SSC). The SSC began work last year on revising the State Sector Act. Hipkins sees the SSC as itching for reform but probably more incremental than he wants.

Note the word 'public'. Hipkins shares commentators' and some officials' concerns that public servants have for a couple of decades focused too tightly on serving their ministers and too little on also keeping in mind, and thus serving, the wider and future interests and needs of the public.

In Hipkins' book that requires advice to be 'contestable' – the best advice officials can assemble on the evidence, not what best matches, or second-guesses, ministers' preferences.

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Hipkins uses the word 'stewardship', which some senior public servants have been using in the past few years. Ministers come and go. Officials outlive multiple governments.

Hipkins hopes his reform will inject more consistency into public sector governance. For example, he is bothered that Crown entities, operating under boards, have become 'laws unto themselves' on matters such as salaries. He wants them under the same governance rules and ethos as the rest of the public sector.

He wants greater public accountability for agencies' actions, akin to that for fiscal management under the Public Finance Act. Achieving fiscal targets can come at the expense of social, environmental and other outcomes if they are not tested as rigorously.

The Treasury has expressed concerns about the mechanisms for such wider accountability to Finance Minister Grant Robertson (though the Treasury's adoption of "wellbeing economics", to be incorporated in the March investment statement, is contiguous with such wider accountability). Hipkins acknowledges non-fiscal targets may need broader legislation and in any case ministers are wary of the Treasury having too central a role.

In fact, climate change emissions targets are to be legislated. And the Child Poverty Reduction Bill now before Parliament sets out ways to measure poverty, requires governments to set targets and account for meeting those targets or not and amends the Public Finance Act to incorporate that.

Note the word 'outcomes'. Hipkins is sceptical about the 2008-17 National-led government's Better Public Services targets. For example, he says, increasing the NCEA level II pass rate is in effect an output, not a genuine outcome, which is what students do with the qualification.

This output-outcome disjunction was also debated in IPS roundtables in the late 1990s. The Treasury's CBAx test for new funding and the evolving social investment approach have been searching for a pathway from simple targets to complex outcomes.

The problem is such outcomes cross 'silo' boundaries. Managing funding, action and accountability is complex when two or more agencies are involved and may have different priorities.

To overcome this in the case of children's services, the National-led government set up Oranga Tamariki with powers to buy in services for the children it serves, similarly to what the Accident Compensation Corporation does. Hipkins is cautiously positive about this as one way to breach silo walls.

Community Link centres provided a single door for those needing help but those in need are likely still to deal with several different people for different needs.

The point for Hipkins is a single 'facilitator' of services for end-users. Community Link centres provided a single door for those needing help but those in need are likely still to deal with several different people for different needs.

This is relevant in Hipkins' book because digital technology enhances access to government agencies' services and raises expectations that dealing with the agencies will be simple – citizen-centric, in Hipkins' (and Chief Information Officer Colin MacDonald's) words.

Hipkins (and MacDonald) cite registration of a birth. That once involved up to six or seven different departments. Now the registration automatically issues the child a tax number and health system number and other registrations.

Communications Minister Clare Curran is due to decide soon where in this more highly connected government sector the Chief Information Officer should sit and if there should be a separate agency.

Greater connectedness has also encouraged people to expect more access to government information, generally and through the Official Information Act (OIA).

So, reflecting the conclusion of that late-1990s IPS roundtable, Hipkins wants proactive release of officials' advice (except where there is sensitivity, such as commercial confidence or national security). The posting would be either when a cabinet decision is made or, if in the case of advice not leading to a cabinet decision, when it is delivered to the minister.

Those who now file OIA requests could thus be directed to search departmental websites. That would, or at least could, save a lot of officials' (expensive) time and reduce frustration.

Hipkins seems serious about this. Other ministers are backing it. (Should we add: so far?)

A related point Hipkins has been arguing is for briefings to incoming ministers (BIM) to be released significantly before the election, so opposition parties can test their policies against officials' thinking and evidence well in advance, as the Budget and the Pre-election Economic and Fiscal Updates do for fiscal rigour. A number of the new government's first-100-days policies have exhibited avoidable shortcomings.

The leaning toward more openness feeds into Hipkins' aims for Parliament.

Newly out of opposition, Hipkins is firm that there is a legitimate role for the opposition to scrutinise the government. He argues that if information is more readily available there would be less scope for vexatious written parliamentary questions (and, he acknowledges, more risk for ministers). National MPs, still fuming at being ousted from government, took this to an extreme late last year, tabling a deluge of such questions, many trivial or mindless.

The questions were aimed more at annoying and distracting ministers than seeking real information for the public benefit.

Hipkins also instituted a larger role in parliamentary management for the

opposition. National MP Anne Tolley was made a Deputy Speaker instead of one of the two Assistant Speakers, the previous custom. He has also given National the same five chairs and five deputy chairs of the 12 policy-focused select committees as Labour has. (The Greens and New Zealand First each have one chair and one deputy.)

He argues this will make Parliament more efficient. He also wanted smaller select committees, but National outmanoeuvred him on Parliament's first day after the change of government. This has had the unfortunate result of requiring ministers to sit on committees to make up the numbers which is constitutionally questionable.

Hipkins also aims for more predictability in the way Parliament organises its business, so it is better planned and less ad hoc. He aims to put Parliament into urgency only if the business is really urgent.

How far will Hipkins get down a reform track his predecessors either shuffled on or stalled? Will the shine wear off in a year or two and the public service revert to being a state sector, focused tightly on ministers?

The answer may lie in Hipkins' youth and the fact that post-baby-boomers command a number of the key portfolios such as Hipkins' three and health, social development, and finance. Post-baby-boomers have different ways of thinking and acting – symbolised by a pregnant Prime Minister. Post-baby-boomers are not locked into 1980s market-liberal economics or new public management.

That is some cause for public servants (and commentators) to taihoa the 'ho-hum'. Hipkins might get some way down his track. For smart, forward-looking post-baby-boomer public servants, that might spell opportunity.

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