

POLICY

Quarterly

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IN FOCUS

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Editorial Note

This issue of *Policy Quarterly* focuses on some of the important policy issues facing New Zealand as it enters the 2017 general election campaign. There are ten invited contributions from researchers drawn from a range of disciplines and perspectives. The topics covered are mostly those of an enduring nature: ensuring good governance, improving the quality of regulation, enhancing productivity and managing the impacts of technological change, funding the welfare state (including education, health care and pensions) and protecting the environment. For various reasons, some of the topics addressed here – like poverty, housing and migration – are currently highly topical and politically salient. Over the coming weeks they will no doubt generate much commentary and debate. One of the aims of the analyses and proposals offered in this issue of *Policy Quarterly* is to help inform that debate.

While all of the contributions are independent and discrete, many of the issues discussed are interconnected. Housing affordability, for instance, has undoubtedly been affected (especially in Auckland) by strong inward migration over recent years; and declining housing affordability has, in turn, exacerbated income-based poverty and material deprivation, with evidence of greater homelessness and overcrowding.

In addition to the invited commentaries on specific election issues, four other contributions cover such topics as intergenerational governance, protecting heritage buildings, the setting of pension rates for individuals and couples, and the design of family assistance.

In many respects, New Zealand is fortunate. Compared with many other advanced democracies, our political landscape is marked by relative stability, continuity, tolerance and civility. We lack Australia's revolving-door prime ministers. Populist movements of the kind which have marred domestic politics in Europe and the US are also largely absent. Nor is there much sign of the growing intolerance and illiberalism that is afflicting Eastern Europe, most notably Hungary and Poland.

Likewise, New Zealand lacks a political entrepreneur like Emmanuel Macron who can remake the political order; and we lack the conditions for such an entrepreneur to flourish. Equally, there are no egotistical figures like Donald Trump to demonise the Wellington establishment, exploit humanity's negative propensities, challenge widely accepted political conventions or dispense with truth and decency.

Political stability and civility are, of course, never guaranteed. Indeed, many critics of the mixed-member proportional (MMP) electoral system introduced in the mid-1990s confidently expected governments to become less stable and less effective. Some commentators also predicted a transformation of the party system, and thereby the end of the long-standing dominance of National and Labour. Yet, more than two decades after the referendum decision favouring MMP, National and Labour remain resilient. Admittedly, their combined share of the party vote fell briefly to 62% in 1996, but for much of the MMP era it has been closer to 80%, which compares favourably to the late 1970s and early 1980s. On current polling, the combined support for Labour and National in September 2017 is likely to be close to 70%.

How might the relative resilience of the two major parties be explained? Electoral rules provide part of the answer. MMP requires parties to secure at least 5%

of the party vote or win at least one electoral seat to secure parliamentary representation. These hurdles are demanding. Since 1996 only a few minor parties – ACT, the Alliance, the Greens, New Zealand First and United Future – have succeeded in crossing the 5% threshold. Of these, only the Greens have consistently secured at least 5% of the party vote. Many other parties, such as the Christian Coalition and the Conservatives, have consistently failed the test. Whether the Opportunities Party can surmount the hurdle is uncertain. But on current polling, it seems unlikely.

No doubt New Zealand's relative political stability has deeper causes. By international standards the country is tolerably well-governed. Our elected officials and their advisers are broadly competent and effective. They are able to set priorities, initiate reforms and respond promptly to natural disasters. Public services are delivered with reasonable efficiency. Corruption, while not absent, is mercifully less severe than in many democracies. Recent decades have witnessed few serious political crises or destabilising governmental scandals. Thankfully, political violence is rare, and man-made disasters, like Pike River, are uncommon.

But there are certainly no grounds for complacency, as the contributors to this issue of *Policy Quarterly* demonstrate. New Zealand faces numerous governance and policy challenges. Aside from the enduring need for sound economic policies (including prudent fiscal management), various other long-term issues deserve particular mention.

First, New Zealand must confront at least four critical environmental challenges: achieving zero net greenhouse gas emissions (or something close), ideally by mid-century; adapting to the escalating impacts of climate change, not least sea level rise; significantly improving the management of its freshwater resources; and protecting its precious biodiversity. These challenges pose complex governance and technical issues. They will require astute political management, a significant reprioritisation of policy goals, and, in some cases, substantial public investment.

Second, New Zealand must confront its deep and debilitating problems of poverty (especially among children) and inequality, including gender and ethnic inequalities. Various policy options are available, as discussed by several contributors in this issue, but they all pose political and fiscal challenges.

Finally, New Zealand must continue to invest in enhancing its democratic institutions and improving the quality of its governance, including its public management system. As Bob Gregory highlights in his contribution, good governance requires honest debate, openness and transparency, constant vigilance and ongoing reform. This depends, in turn, on an informed, active and engaged citizenry – one that is passionately committed to the common good, safeguarding humanity's long-term well-being, and upholding fundamental democratic values, such as truth, integrity, accountability, human dignity and equal rights.

I am very grateful to Girol Karacaoglu, the Head of the School of Government, for his advice and support in the preparation of this issue of *Policy Quarterly*. The articles published here provide thoughtful and timely perspectives on critical policy issues. They deserve careful reflection.

Jonathan Boston (editor)

Bob Gregory

A Ride on the RIDGEWAY BUS

'And it took me back to something
That I'd lost somewhere, somehow along
the way.'

'Sunday Morning Coming Down', by Kris Kristofferson

Introduction

I grew up in Mornington, in those days a largely working-class suburb of Wellington, in the city's south-western hills. My father was a government tradesman (for all of his working life). As it happens, a next-door neighbour was one of the three public service commissioners. It was the late 1950s, and after work my father and the commissioner would often ride home together on a Wellington Tramways bus, departing from Courtenay Place and winding upwards through the steep streets of Vogeltown towards the Ridgeway terminus. They were both happy to be called 'public servants', though carrying out entirely different roles in New Zealand's

'homely state', as described by Janet Fraser, wife of former Labour prime minister Peter Fraser. My father and his fellow commuter were third-generation New Zealanders. Whereas the commissioner had received a tertiary education, my father, later a hungry reader, had left school at the age of 14. On the bus they talked mainly about how to coax the best vegetables out of their large and adjoining gardens. A spare man, the commissioner always alighted at the 'penny section' preferring to walk the remaining quarter of a mile to his house, instinctively frugal as well as mindful of his need for healthy exercise. Neither of them ever displayed or expressed any interest in sport, and they had not been caught up in the 1956 national obsession, All Black victory over the touring Springbok rugby team.

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Notwithstanding Mrs Fraser's sentiment, New Zealand in the 1950s was no democratic utopia. The nationwide industrial conflict of 1951 had demonstrated a government's readiness and ability to heavily suppress New Zealanders' civil and human rights, and although in those days there were no beggars on Wellington's main streets, unlike today, there was massive inequality between the largely non-Māori urban areas and rural Māori, before the latter began to migrate in large numbers to the towns and cities. Yet the welfare state, built

lack of manifest accountability: Cave Creek 22 years ago (14 dead), and more recently the Pike River mine (29 dead) and the CTV building collapse (115 dead), to mention just three deplorable cases. (Similar accountability shortcomings are apparent in the Hawke's Bay water contamination incident last year.) There is a dearth of even semi-intelligent current affairs commentary during evening prime time television, with the state broadcaster driven by commercial imperatives rather than public service values; the absence of any political party of the left that clearly and

other factors have given the 'homely' state today a much less comforting feel. As declining polling numbers have shown, in a country that could once boast of exceptionally high voting turnouts, today far too many New Zealanders appear to be switched off by 'politics', which they have come to associate with self-interested opportunism, deceit and naked personal ambition.

As I was reminiscing, along came two books – published almost simultaneously – which on the face of it have little or nothing in common. The first was *Hit and Run: the New Zealand SAS in Afghanistan and the meaning of honour*, by investigative journalists Nicky Hager and Jon Stephenson, and the second was *Making Sense of Corruption*, by Swedish political scientist Bo Rothstein and his research collaborator, Aiyysha Varraich. Hager and Stephenson claimed that the New Zealand Defence Force (NZDF) hierarchy covered up from public scrutiny a botched raid involving the country's Special Air Service (SAS) personnel on a couple of villages in Afghanistan in August 2010, which caused a number of civilian deaths, including that of a three-year-old girl. The authors called for a full and independent inquiry into the matter, in the public interest, especially to see whether war crimes might have been committed.

In the second book the authors reason that, 'If corruption is a special form of decay of the political system, we need to know what the opposite of this process is ... in the absence of a single unified definition of corruption' (p.10). In their view, which they admit is 'far from uncontroversial' (p.102), the opposite of corruption is *impartiality*. The impartiality they are concerned about relates to the 'output' side of the governing process – that is, the system of public administration/management that implements public policy. In their words, 'impartiality is not a demand on actors on the input side of the political system but first and foremost an attribute of the actions taken by civil servants and professionals in public service, law enforcement personnel and the like (i.e. the actors on the output side)' (p.98). There can be no such thing as an 'impartial' public policy, only impartiality in its

... 'impartiality is not a demand on actors on the input side of the political system but first and foremost an attribute of the actions taken by civil servants and professionals in public service, law enforcement personnel and the like ...

largely by the first Labour government of 1935-49, was founded on an enduring political consensus, embodying a strong commitment to fairness and social equity. While New Zealand had been a world leader in introducing live radio coverage of parliamentary sittings, virtually all political commentary was conducted through the provincial daily newspapers. For Wellingtonians, the *Evening Post* and the *Dominion* provided the daily frames of largely establishment political reference, while the only radio news bulletin of the day, at 9pm, was prepared by government officials (there was no television). The nostalgic notion of 'Mother' England remained an integral part of the collective Pākehā consciousness, and many people regularly tuned into the news on the BBC's World Service.

These memories were sparked by the invitation to discuss 'governance issues' for this pre-election edition of *Policy Quarterly*. In preparation, I noted down far too many to cover. They included the blame-shifting responses to tragedies that affect the lives of fellow New Zealanders, and the consequent

unambiguously promises to advance the interests of people who struggle to maintain decent living standards for themselves and their children; and the incarceration of growing numbers of young New Zealanders – disproportionately Māori – in more and more prisons. Not to mention issues of housing affordability, environmental protection, immigration, mental health care, and so on. Collectively, they show that the idea of egalitarianism as fairness is today not as strongly embedded in the national psyche as it once was, and with markedly increased income inequality there is today greater social distance between those who are privileged and those who are much less so.

The continuing dominance of technocratic neo-liberalism in New Zealand public policymaking since the mid-1980s, the betrayal of its own traditions by the fourth Labour government, the blindly ideological excesses of the National government's 1991 'Mother of all Budgets', the emasculation of trade unions under the Employment Contracts Act 1991, and

execution. Therefore, ‘quality of government’ can be ‘operationalized and measured’ only on procedural (administrative) and not on substantive (policy) grounds. In this, impartiality means that, ‘when implementing laws and policies, government officials shall not take anything into consideration about the citizen/case that is not beforehand stipulated in the policy or the law’ (p.136).

This approach does not imply that all public policies should provide equal treatment to all, only that all those who are directly affected by a policy should be treated impartially – without fear or favour, or consideration of any extraneous factors. They argue that while output impartiality in and of itself offers no guarantees against the adoption of morally reprehensible public policies (the Nazi perpetrators of the Holocaust could implement the ‘final solution’ impartially), nevertheless empirical research shows that higher levels of ‘quality of government’, but not representative democracy, are positively correlated with human well-being and political legitimacy, and also are more likely to produce ‘morally good outcomes’. In short, the essence of ‘good government’ is to be found in due process.

Rothstein and Varraich argue that patronage, clientelism, patrimonialism and ‘state capture’ are all forms of corruption, even though officials who do not exercise impartial judgement and decision-making in their use of discretionary authority may not be seeking or accepting bribes or engaging in any other form of egregious malfeasance that is commonly understood to be corrupt. ‘State capture’ is largely a function of clientelism or patronage, whereby a mutually supportive and exclusionary relationship – often perfectly legal and institutionalised – is established, which ‘excludes all citizens outside of the group from almost all parts of the political process in general’ (p.95). Established institutions ‘take advantage of and misuse the public trust’ (p.96). For example, the presence of a manifest ideology within a country’s judiciary, according to Rothstein and Varraich, would ‘remove the impartiality that the institution is meant to exercise in its judgements’ (p.96). In

their view also, conflicts of interest fall within the ‘grey zone’ of corruption, because they involve ‘the distortion of impartiality’ (p.97).

A corruptive failure of responsibility

Both books provide amply fuel for debate, in their own right, and the former has already generated a great deal of public discussion. On the other hand, discussion of the merits of Rothstein’s and Varraich’s arguments are likely to be confined to academics and others interested in the nature of governmental corruption and how to combat it. So what is the connection between the two publications?

Prime Minister Bill English has since rejected the call for a full and independent inquiry into the claims made by Hager and Stephenson. He was satisfied with

New Zealand citizens. Secondly, his decision smacks of clientelism, patrimonialism and state capture. It is clientelist to the extent that the NZDF and the political executive enjoy what they deem to be a mutually supportive relationship beyond direct public scrutiny. It is patrimonial in its arbitrary dismissal of the possibility that the SAS committed war crimes: that is, breached the rule of international law. And it is an example of state capture to the extent that all those citizens – even if a minority – who would like to determine the truth of this matter will be denied the opportunity to do so, thus greatly limiting their ability to engage in the political process.

It may be objected that if Rothstein’s and Varraich’s arguments are to be accepted, then ‘corruption’ can mean

The honorific ‘Right Honourable’ should be manifestly justified rather than automatically assumed, lest the ancient proverb that ‘a fish rots from the head down’ is confirmed.

assurances given him, along with some video evidence, by the chief of the NZDF, Lieutenant-General Tim Keating, who, in a news media presentation, pointed out some geographical errors in the book, while conceding that there could have been some civilian casualties. However, English’s decision not to hold a full and independent inquiry into the matters raised by Hager and Stephenson offends the principle of impartiality, as expressed by Rothstein and Varraich, and was thus corrupt and a manifestation of ‘bad government’. First, it means, in effect, that New Zealand’s head of government does not wish to determine – through a process that is and is seen to be impartial – whether soldiers acting with the approval of his office (in fact, his predecessor, (now Sir) John Key) were responsible for civilian casualties during the raids in question, and may therefore have committed war crimes, all in the name of

virtually everything and nothing, and that it is better, for both analytical and remedial purposes, that governmental corruption be understood as bribery, kickbacks and manifestly dishonest behaviour for private gain. As deputy prime minister, in 2009 Bill English paid back \$32,000 in parliamentary housing allowances to which he was not clearly entitled under the rules, after his claims on the taxpayer had been brought under public scrutiny by the *Dominion Post*. The extent to which this affair damaged his reputation is not known. However, it is unarguable that a prime minister, as head of government and *primus inter pares* among his or her Cabinet colleagues, while fully entitled – even constitutionally obliged – to act as a partisan politician, also has an obligation to impartially promote and protect the procedural safeguards that are essential in maintaining ‘good government’.

One measure of a political community's commitment to seeking and maintaining 'good government' must be its manifest desire to protect the principle of impartiality, because if its political leaders are expected merely to act only as partisan political loyalists, then honour – a value that Hager and Stephenson are deeply concerned about – will have little relevance in the face of what may be widespread political mistrust and cynicism, with weakening political legitimacy. It seems plausible that the head of the government has a particularly important role to play, as a necessary but insufficient condition to safeguard against

Vietnamese 50 years ago – yet we perpetuate an Anzac narrative that (misleadingly) extols the defence of democratic freedoms, while not being strongly motivated at home in the defence of those perceived liberties.

A new face of patrimonialism?

As a public service commissioner, my father's bus companion was jointly responsible for running a personnel system from which political corruption in the form of patronage had been formally expunged since the introduction of the Public Service Act in 1913 (notwithstanding the continuation and growth of political

Today, according to Rothstein and Varrach we also see a hybrid system of 'neo-patrimonialism' – not just in the public sector – which has the external appearance of impartial, legal-rational administration but 'in practice, power within the system is exercised according to the personal preferences of the leader instead of following the prescribed laws in place' (p.92). Although the authors themselves do not say so, it can be argued that this form of corruption occurs whenever an individual is 'invited' to apply for a formally advertised position – which might have been created for the prospective applicant – and does so with a tacit understanding that he or she will be given the job in preference to other, perhaps equally qualified, applicants. In such cases, the formal rules of job specification and recruitment can be meticulously followed even though the substantive outcome is predetermined. Doubtlessly, over the decades legal-rational administration has always been imbued with various degrees of patrimonialism – 'it's not *what* you know but *who* you know', as the saying goes – but a widespread 'shoulder-tapping' approach to governmental employment, while it may be good for some individual egos, ultimately diminishes people's trust in 'the system'. At best, governmental appointments become increasingly restricted to a group of like-minded, 'politically sound' partisans. At worst, neo-patrimonialism can enhance the scope for 'trading in influence' in governmental decision-making.

If 'greed is good', so 'ego is good': as Rothstein and Varrach argue, economic interpretations of political and bureaucratic behaviour, especially in the form of 'public choice' theory, see all government officials as being egoistic rent-seekers whose behaviour greatly devalues the principle of impartiality (p.102). In this view, all are seen to be corrupt, and corruption becomes, at least implicitly, a normative default position, supplanting what was once quaintly known as 'the public service ethos'. It can also be argued that the impartiality embodied in the idea of 'political neutrality' may have segued from being faithful and dutiful service to the elected

Barring the emergence of a major scandal that reeks of corruption as commonly understood, it seems unlikely that in 2017 the issue of 'good governance' in New Zealand, let alone arcane matters of 'honour', will feature as pressing election issues.

this. He or she must be and be seen to be fair, just and honourable. The honorific 'Right Honourable' should be manifestly justified rather than automatically assumed, lest the ancient proverb that 'a fish rots from the head down' is confirmed.¹

The prime minister was fully entitled to assess the political pros and cons of establishing a formal inquiry into the claims made by Hager and Stephenson. In doing so, he probably came to the view that a majority of New Zealanders, if they were interested at all in this controversy, probably have greater confidence in the integrity of the NZDF than in what they believe to be a partisan political agenda behind the authors' allegations. Ironically, New Zealanders are usually willing to buy into other people's wars one way or another – having been involved in a multitude of conflicts since our support of the United States' war against the

patronage in the appointments to the boards of many state agencies). The paradoxical idea of 'political neutrality' – whereby public servants are required to act as if they were faithful and dutiful partisans in serving whatever government of the day has been legitimately elected to office – had become well entrenched. This system was, of course, heavily bureaucratic and cumbersome, and amidst the neo-liberal fervour of the times few people lamented its passing when the State Sector Act 1988 came into force. Yet the unified state sector career service was squarely grounded on principles of transparency and fairness: a complex system of appeals was available to anyone who believed that as a state sector employee they had not been given a 'fair go'. While it was seen by many to comprise excessive red tape, for others it provided an essential procedural safeguard, at the heart of which was the principle of impartiality.

government of the day, to becoming a spurious justification for protecting ministers from legitimate public scrutiny, especially by an overly partisan manipulation of the requirements of the Official Information Act 1982 (Ellis, 2016; Rashbrooke, 2017).

Conclusion: how much do we care?

Barring the emergence of a major scandal that reeks of corruption as commonly understood, it seems unlikely that in 2017 the issue of ‘good governance’ in New Zealand, let alone arcane matters of ‘honour’, will feature as pressing election issues. We may rest assured that all is well, especially as the country is again ranked by Transparency International’s Corruption Perceptions Index as the least corrupt in

the world. Right? A sense of nationalistic well-being and evaluations of ‘good government’ in ‘Godzone’ are probably much more dependent on New Zealand’s international sporting success than on any concern over the ethical integrity of individual political leaders, especially at a time when favourable public images can be manipulated by sophisticated technological means.

New Zealand is now a far less insular and conformist society than it was in the 1950s, of course, but maybe we have not outgrown as much as we like to think we have either the authoritarian instincts that were displayed in 1951 or – relatedly – the national obsession with rugby that dominated the national psyche five years later. And it is much less likely today that

two people so separated in occupational status would not also be socially separated, and therefore less able – and willing – to talk together on the Ridgeway bus.

At that time those men may have expressed other priorities, but if I were pressed today to nominate a single policy initiative that would most significantly enhance New Zealand’s prospects for both ‘better governance’ and a better society, I would suggest that, while simultaneously protecting and enhancing Radio New Zealand’s resources, we find the means to establish a dedicated, enlightened and impartial public service television system.

¹ At the time of writing, the Todd Barclay affair, including Bill English’s role in it, was still playing out in the news media.

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Cathy Wylie

Education in or for the 21ST CENTURY?

The main policy problems facing education in 2017 relate to its resourcing, its structure, and the measurement of its performance and impact. Underneath the questions of whether government funding matches the greater expectations placed on education over the last decade, and whether structures need changing, or new players introduced, lies the question of what should be given most priority.

Should education be most valued in terms of its contribution to increasing New Zealand's productivity and economic well-being, which has been more and more to the fore in tertiary policy? Should it be most valued in relation to what can be quantitatively measured, focusing on achievement in the traditional '3Rs' through national standards, and secondary qualifications, the emphasis in the first set of Better Public Services targets? Should it be most valued in terms of how well students develop the capabilities to contribute as citizens, form flourishing families, think critically and creatively, problem-solve, and act well in the face of an increasingly

volatile natural and human world? Such capabilities are included in the New Zealand curriculum from 2010 and in the objectives statement of the Education (Update) Amendment Act 2017.

Resourcing

This year's Budget brought to the fore the increasingly vexed question of whether our education system is sufficiently funded for the deeper and more complex expectations we have. Raising expectations for all students, and closing the achievement gaps that exist, have been an objective of government policy for some time.

The government points to increases in the overall proportion of New Zealand's GDP spent on education, or to overall increases in funding. Early childhood education, school and tertiary sector groups' analyses of per student or per service funding in real terms paint a different picture – namely of decline over time since 2008 in early childhood

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education, failure to cover the costs of inflation in tertiary, and failure to keep up with new and rising costs (NZEI, 2017; ECNZ, 2017; Jones, 2017; Universities New Zealand, 2017). OECD figures show that per student funding for institutions at the primary level is lower than the OECD average, around average at secondary, and below average at tertiary level (Crossan and Earle, 2016, p.16).

New Zealand education has become more reliant on attracting international students: 53% of secondary principals in 2015 said they needed international students so that their school could provide a good breadth of courses (Wylie and Bonne, 2016, p.136). Almost a third of first-time tertiary entrants (including for sub-degree study) are international students (Crossan and Earle, 2016, p.27). Tertiary education has extended beyond its original purpose to become valued as a significant contributor to the economic well-being of the communities in which the institutions are based.

What are the costs that current educational funding is not meeting? In schools, new costs include digital technology; to fully provide for Māori-medium education and the inclusion of te reo Māori in English-medium education; and to meet the needs of all students, including students with additional learning needs, the increasing number of students whose first language is not English, and those with mental health issues. Property issues are a mounting concern. Support for leaders and teachers to make the most of new curricula, and the greater emphasis on teachers and leaders evaluating their own practice in order to keep improving are other concerns. The government agencies themselves struggle to provide schools with the support and resources and frameworks they need so that they do not have to reinvent the wheel: a question of capped staffing, the cost of digital infrastructure and some loss of relevant knowledge.

Early childhood education sector groups have raised concerns about the viability and sustainability of some services, given no increases in their funding since 2008, and the cutbacks in funding for high levels of qualified staff

once the target of having all staff fully qualified by 2012 was dropped. A focus on raising participation has not been accompanied by as much attention to ensuring that children experience good quality if they are to realise the benefits of early childhood education. The Education Review Office notes ‘considerable variability in quality’ (Education Review Office, 2017, p.7). Private equity firms have invested in chains of centres that benefit from economies of scale, raising others’ concern that public money intended for education is being lost in private profit (Cowlishaw, 2017). Generally positive reaction to the update of Te Whāriki, the early childhood

Universities note that per student funding is now below the OECD average, raising questions of whether they can sustain teaching quality. Most institutions have cut some subjects in recent years. Members of TEU, the tertiary union, give examples of pressures to pass students (Collins, 2017a). However, New Zealand universities rate well in overseas rankings, which have become important as sources of reputation.

Structure

There has been growing recognition of the shortcomings of the self-managed school ‘system’ introduced in the 1989 Education Act, which made New Zealand

Universities note that per student funding is now below the OECD average, raising questions of whether they can sustain teaching quality.

education curriculum, was underscored by the lessons learnt earlier about the need to provide good quality professional development for all centres if the curriculum was to be well understood and provided (Early Childhood Council, 2017).

The current review of education funding systems, covering schools and early childhood services, has the aim ‘to develop a new funding system in which children are adequately supported to make at least a year’s worth of progress against the curricula each year’ (Office of the Minister of Education, 2016, p.1). Hopes have been raised that this may improve real resourcing, although working out the cost of such progress (and the definition of progress) is no easy or purely technical matter. Nor will it be an easy matter to measure the efficiency of educational provision, with which the Productivity Commission has recently been tasked.

While the 2017 Budget increased money for research at universities, it also reallocated \$17 million away from public institutions to private tertiary providers.

an international outlier in terms of its reliance on individual schools acting independently to address issues of quality and equity (Wylie, 2012). The most significant structural change to the provision of compulsory education in recent years was announced in early 2014. This involves the promotion of voluntary collaboration between schools to improve the student pathway through primary, intermediate and secondary school, and ideally with early childhood education and tertiary institutions included. Currently, around two thirds of schools are members of a Community of Learning | Kāhui Ako. Significant new funding at a national level has gone into new roles that principals and teachers combine with their existing roles. The Ministry of Education talks of ‘the shift to an education system of Communities of Learning | Kāhui Ako’ (Ministry of Education, 2017, p.13). The Education Review Office indicates the value of ‘pooling the best resources available across the network to those areas in greatest need’ (Education Review Office, 2017, p.11). But such pooling is some way in the future. This 21st-

century turn to purposeful collaboration as an effective way to raise capability and capacity is being grafted onto the existing competition between schools, with much left to each of the (so far) 190 Kāhui Ako to work out on their own. Collaboration takes time and energy: school workloads are already sources of strain. Useful resources to support Kāhui Ako are still in development. The evolution of this new system will not be rapid nor smooth. It is likely to be some time before the provision in the recent Education (Update) Amendment Act to allow a single board to govern the schools in a Kāhui Ako is used.

The amendment act also makes provision for the spread of online

existing achievement reporting and cover the 21st-century capabilities included in the much-loved and internationally well-regarded New Zealand curriculum that came into effect in 2010, capabilities which are consistent with what employers look for. However, these are not easily measured through linear progressions, and insufficient support has been given to schools to weave these through their curriculum. The momentum building towards a more engaging and sophisticated curriculum and reporting of student performance clashes with the growing policy and political interest in evidence of impact, which is reliant on quantitative data sets.

Ministry of Education to include achievement challenges which touch on 21st-century capabilities, sometimes as ‘process’ challenges.

Gauging improvement

In the 21st century education is more genuinely for all than it was in the 20th century. There has been better attention paid to the diversity of needs and strengths of students, and increasingly to the improvement of the quality of learning experiences. But the efforts on the ground and in policy settings have not resulted in system-wide improvements in student achievement at the primary level, whether measured through national standards or through the international tests in which New Zealand participates. These measures have their limits: they do not cover the whole of the New Zealand curriculum, including the (21st-century) capabilities. National standards judgements and the use of them to improve teaching and learning continue to be highly variable (Bonne, 2016).

Achievement in NCEA *has* shown improvements over time, particularly for Māori and Pasifika students, reflecting the opportunities of standards-based assessment. Some deeper questions have also been raised about the relationship between standards gained and pathways into tertiary education and work, and the cost to students and teachers of a credits-based assessment system that is time-intensive, and can narrow teaching and learning to a particular standard (Hipkins, Johnston and Sheehan, 2016; Johnston, 2016). NCEA also stretches secondary qualifications over three years, whereas most countries have a single secondary qualification or graduating standard. This is because NCEA was grafted onto a qualification hierarchy designed for an era when School Certificate (now the equivalent of year 11) signalled the end of secondary school for many.

New Zealand’s results in the international tests of 15-year-olds paint a different picture, of some decline over the last decade, possibly flattening out in 2015. We do continue to rank highly compared with other countries in science and reading, and to a lesser extent mathematics, but we have fewer students

We do continue to rank highly compared with other countries in science and reading, and to a lesser extent mathematics, but we have fewer students performing at the top level than previously.

schooling beyond Te Kura (formerly the Correspondence School) and the Virtual Learning Network of existing schools, and potentially to private and international providers. While digital devices are widespread in schools, this provision attracted concern because this 21st-century model of educational provision has not borne out enthusiasts’ hopes in the United States. Reservations have also been expressed about an erosion of existing provision. No doubt this concern is deepened by the controversial introduction of partnership schools,¹ which are also intended to be innovative.

Measurement of performance and impact

The update of the Education Act heralds a tightening of school (and early childhood education) planning and reporting around five-yearly statements of National Education and Learning Priorities. The consultation documents for the update indicated interest in a common set of measures that could go further than

A sobering note for many of the pioneering Kāhui Ako has been the need to frame their achievement challenges (shared goals with set targets) in terms of the system measures of national standards and NCEA. In the original framing, student achievement was described more broadly (Wylie, 2016, p.2). Principals and teachers were excited by the thought that they could work together to improve 21st-century capabilities such as communication, critical thinking, problem-solving, and student agency and self-management, thinking of the rapidly changing economic and social world their students would face. A similar drive to better equip their students for the future was evident in wanting to focus on STEM (science, technology, engineering and mathematics) or STEAM (which incorporates the arts) through cross-curricular work and designing joined-up curricula through primary, intermediate and secondary. But only a couple of Kāhui Ako have secured agreement from the

performing at the top level than previously. Māori and Pasifika students' average scores have improved, but they are still below the OECD average. This decline has been linked to the use of standards-based assessment, when this is also used for performance measures (other systems with this linkage, such as England, Australia and the United States, have also shown declines in OECD's PISA); it has also been linked to the quality of New Zealand students' opportunities to learn before they get to secondary school (Collins, 2017b). Some changes have occurred in our student demographics. The tests and qualifications do not measure the same things. PISA does not matter to individual students or their schools; NCEA results do.

Where to next?

There is no escaping the questions around sufficient resourcing, and how to spend public funds most effectively. That needs a concerted and coherent work programme engaged in by government agencies working together with the sector, supported by analysis that draws on a range of disciplines and expertise. We need to look at resourcing the whole system, including the government agencies, and not just its direct providers of education.

While New Zealand has thankfully avoided the narrower curriculum and mechanistic accountabilities that mar much education in England and the United States, we do need to better support our 21st-century curriculum, and to match it with valid measures. We need

to include 21st-century capabilities and knowledge in the achievement challenges of Kāhui Ako if they are to flourish as the new education system. We will need to give Kāhui Ako more support also, if we are to move to the more coherent education system that we need.

¹ The partnership school model provides government funding for organisations such as NGOs and iwi to provide schooling for disadvantaged groups, and widen their choice. There have been ten partnership schools funded since they began as part of the National-led government's agreement with the ACT party in 2013. They have attracted criticism on the grounds that they are not sufficiently accountable; that they have not improved student achievement for all their intake; that they are better funded than state schools; and that they make it difficult to take a coherent approach to school provision in an area. See, for example, <https://saveourschoolsnz.com/category/partnership-schools/>.

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Jacqueline Cumming

HEALTH POLICY

Introduction

Improving health and well-being and promoting equity in outcomes are long-standing goals of New Zealand governments (for example, Department of Health, 1989; King, 2000; Ryall, 2007; Ministry of Health, 2016a, 2016b).¹ New Zealand's publicly funded health system delivers millions of high-quality services each year to achieve these goals. Our level of expenditure per capita on health care is slightly below the OECD average, but our health care system provides good overall health outcomes for the money we spend (OECD, 2015). Both our life expectancy and health expectancy (the years we live in good health) are increasing, although the former is increasing faster than the latter, leading to an increase in the number of years New Zealanders spend in poorer health; a key challenge is to improve our quality of life as people age (Ministry of Health, 2017a). Sadly, however, there are significant inequities in health, with Māori, Pasifika and lower-income people having poorer health than other New Zealanders (Ministry of Health, 2017a).

Health policy is one of the most challenging for any government. Many more health needs could be met with new funding; indeed, the demand for health care is virtually insatiable. There are significant inequities in health to ameliorate. There are workforce shortages and salary inequities to overcome. There are demands for new technologies. And there are rising demands for services arising from ageing populations and a growing burden from long-term conditions. These factors pressure governments every day to spend more.

This article explores some key questions to ask of potential future governments in relation to health policy in New Zealand. First, I look at issues relating to the health of New Zealanders. Second, I discuss recent health expenditure trends. Third, I turn to focus on how we are doing with respect to primary health care, an area that has been at the forefront of New Zealand health policy debate in recent years. Finally, I draw some overall conclusions.

Improving the health of New Zealanders

A first key question is how much government funding is allocated to health care as opposed to other areas. It may well be that key gains in health will come from spending outside the health care vote. New Zealand needs to do better

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in initiatives to reduce poverty, support access to affordable healthy homes, reduce violence and improve education outcomes, especially for specific groups in the population. There is good evidence that spending in such areas can pay off in terms of improving health and potentially reducing the demands on health care services over time (World Health Organization, 2013; Taylor et al. 2016).

A second key question surrounds government priorities within health care. There is a tendency for those issues on the front pages of the newspapers to dominate our thinking. What is often missing, however, is a careful assessment of our current health status and its distribution across the population, and a clear outline of where key priorities lie. Those contesting the election should explain how they intend to tackle our key health concerns, such as mental health issues (including suicide), cancers, cardiovascular disease, diabetes, musculoskeletal conditions, dementia, injuries and oral health (Ministry of Health, 2017a). A number of these concerns have common underlying risk factors, including smoking, poor diet, lack of physical activity and abuse of alcohol and drugs, alongside occupational risks. These are issues that will take sustained attention if we are to reduce their impact over time (World Health Organization, 2013; Taylor et al. 2016).

A third key question relates to inequities in health. In 2012–14, life expectancy at birth was 77.1 years for Māori females and 73.0 years for Māori males, compared with 83.9 years for non-Māori females and 80.3 years for non-Māori males. It was 78.7 years for Pasifika females and 74.5 years for Pasifika males (Statistics New Zealand, 2015). With respect to amenable mortality (premature death that could be avoided, given effective and timely health care), Māori have rates 2.7 times higher and Pasifika peoples have rates 2.4 times higher than the non-Māori, non-Pasifika population (Ministry of Health, 2017a). We should be challenging potential future governments to be clear on what they intend to do to tackle such inequities. In recent years there appears to have been little clear policy aimed at reducing such inequities.

Figure 1: New Zealand Health Expenditure 1993-2018 \$m

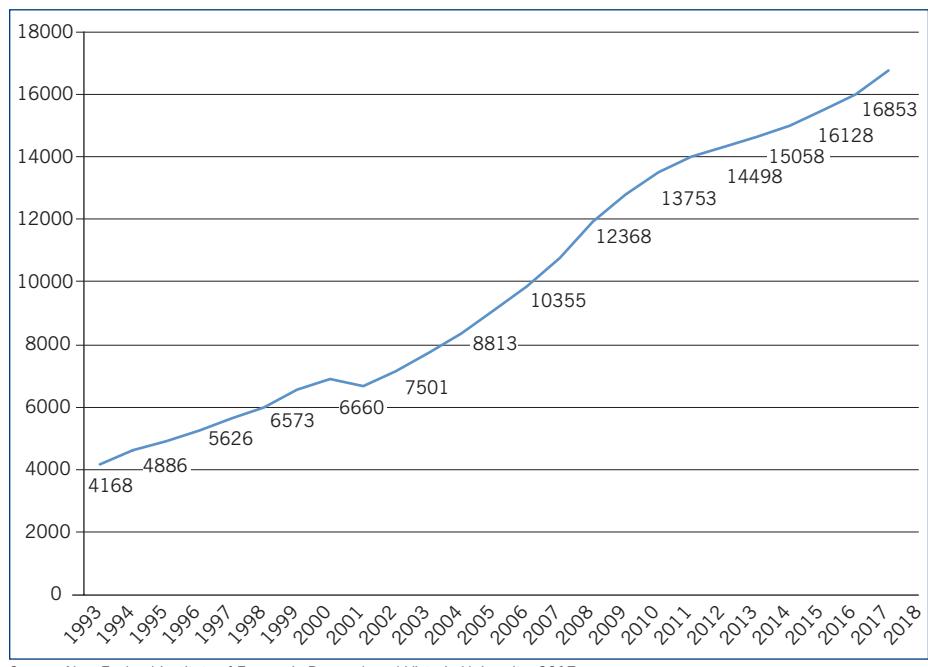
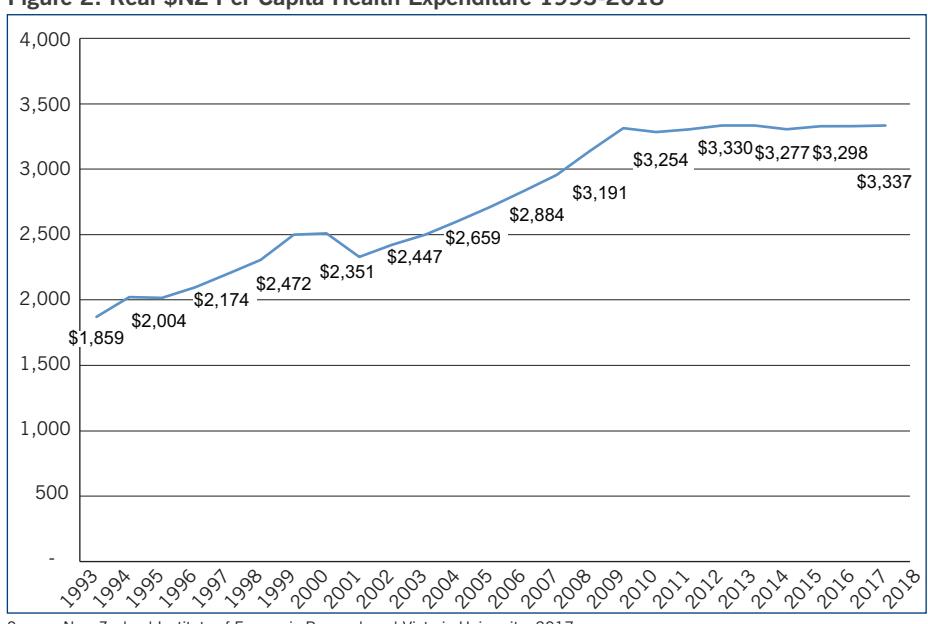


Figure 2: Real \$NZ Per Capita Health Expenditure 1993-2018



Trends in health care expenditure

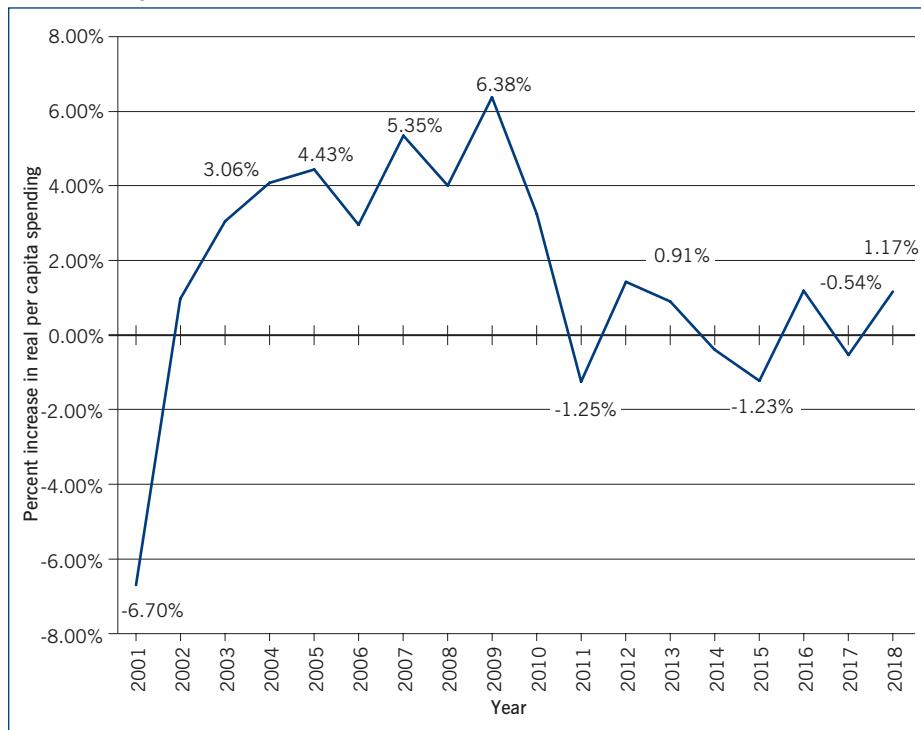
A fourth key question is how well governments are supporting our health care system in terms of spending. New Zealand escaped the worst of the effects of the 2008 global financial crisis and our governments have continued to increase the funding available to health care (Figure 1).

But we have a growing population and rising prices and simply focusing on total expenditure levels, as governments currently do, does not tell the full picture of how far that spending will go. An analysis of data by the New Zealand Institute of Economic Research and

Victoria University (Figure 2) shows trends in real (inflation-adjusted) health expenditure per capita in New Zealand, clearly demonstrating steady increases during the 2000s but a flatter profile since 2009/10.

Figure 3 shows the percentage increase (or decrease) in real per capita health expenditure year on year, showing a real per capita decline in spending in 2010/11 and 2014/15, and significantly lower overall rates of growth in the 2010s than in earlier years. The data show a lot of variability in increases year on year, something that the sector no doubt

Figure 3: Year-on-Year Percentage Increase in Real Per Capita Health Expenditure 2000/01-2017/18



Source: New Zealand Institute of Economic Research and Victoria University, 2017

struggles with in terms of planning, with local peaks often around election years.

Estimates by Infometrics for the New Zealand Labour Party suggest that if cost increases and increases in the population had been fully funded since 2009/10, the sector would have an extra \$2.342 billion in funding to support health services. That funding, however, must come from somewhere and we need to ask ourselves what we would have been prepared to give up for it to be allocated to health.

A fifth question is how, then, are resources allocated to key priorities within the New Zealand health care sector? Unfortunately, getting a handle on priorities is not straightforward: information on these is not often consolidated in one place. For example, New Zealand currently sets out the following as potential key priorities:

- Better Public Service targets (State Services Commission, 2017);
- health targets (Ministry of Health, 2017b);
- a number of strategies (e.g. the New Zealand Health Strategy (Ministry of Health, 2016a), Healthy Ageing (Associate Minister of Health, 2016));
- a number of plans (e.g. Living Well With Diabetes (Ministry of Health,

2015), Childhood Obesity (Ministry of Health, 2017c));

- specific programmes (e.g. the prime minister's youth mental health project (Ministry of Health, 2017f), bowel cancer screening);
- other general priorities identified in an annual minister's letter of expectations (e.g. improving quality, health technology and workforce) (Ministry of Health, 2017d);
- a new Systems Level Measures performance framework, identifying key targets for district health boards (e.g. reducing ambulatory-sensitive hospitalisations for 0–4-year-olds; reducing amenable mortality; babies in smokefree homes) (Ministry of Health, 2017e).

All the while, district health boards have to 'live within their means': i.e. not overspend their budgets (Ministry of Health, 2017d). There is an urgent need to streamline the processes for signalling on priorities and demonstrate how key priorities and targets and the new Systems Level Measures framework relate to one another and to gains in health.

Tracking expenditure within all these areas is not done in the New Zealand health care system, making it difficult to identify if

priority areas are being funded and to what extent. And tracking performance against these priorities – both at national and district health board levels – is also no easy task. There is no one place for New Zealanders to go to clearly see how our health system is performing over time. We also cannot easily tell where we might be getting less service than in the past. And even if there are increases in service delivery in nominal terms, we need to examine the increases in per capita terms, while measures of unmet need, waiting times and other aspects of quality of care are also important in gauging how well our system is doing in meeting needs. A single place where we can go to get an overall sense of the performance of the health system is urgently needed to provide more transparency in health policy.

A closer look at primary health care

Since 2001 New Zealand has had a Primary Health Care Strategy (King, 2001) which aims to strengthen primary health care services, and deliver services 'closer to home': that is, in community settings such as general practice clinics, with general practitioners, nurses, pharmacists, social workers and allied health professionals increasingly working together to provide more 'integrated' care. A key reason for emphasising primary health care is the growth in the number of New Zealanders living with longer-term conditions that affect their health (such as cancer and diabetes), requiring services that work more closely with people over time and in local settings.

The strategy's overall direction was confirmed through changes of government and ministers, in the form of *Better, Sooner, More Convenient* in 2007 (Ryall, 2007) and a ministerial review group report in 2009 (Ministerial Review Group, 2009), and most recently in a 'refreshed' New Zealand Health Strategy (Ministry of Health, 2016a, 2016b). The minister of health's most recent letter of expectations for district health boards (2017/18) notes: 'In particular, I want to see a strong focus on providing care in the community and for services to be provided closer to home, especially for the management of long-term conditions' (Ministry of Health, 2017d).

New money for primary health care to reduce the fees people pay when accessing such services and to extend primary health care services was a feature of the 2000s (Cumming and Mays, 2011; Cumming, Mays and Gribben, 2008). Early research demonstrated some of the developments arising from the Primary Health Care Strategy, including extended services, and an increase in both GP and nurse consultations (Raymont and Cumming, 2013). However, very little research is available examining more recent progress (though see Lovelock et al., 2014). Overall, this means that it remains difficult to determine what progress is being made with respect to primary health care in New Zealand. Here, I focus on several concerns.

First, an enhancement of primary health care services requires New Zealanders to understand the reasons for change, including the increase in long-term conditions that we face and the need for people to take some responsibility for their health and well-being. The distinct roles of primary health care and hospital services need debate and discussion. A cynical public may well view the concept of ‘closer to home’ as meaning fewer hospital services – and, more specifically, fewer *public* hospital services – and people having to fall back on their own and family/whānau resources when needing care. Much more attention needs to be given to engaging with New Zealanders on the changes that are occurring in health care.

Second, we would expect a significant increase in the proportion of health care spending going to primary health care services in recent years, given their emphasis in policy. However, analyses undertaken by General Practice New Zealand show this not to be the case. In 2008/09, subsidies to support service user access to first-contact primary health care services sat at 4.51% of Vote Health; they then fell each year to a low of 4.24% in 2015/16. General Practice New Zealand estimates an accumulated shortfall of \$139.5m over this time for first-contact primary health care services (personal communication). Some increases in funding for very low-cost access-funded practices (practices which get additional

funding for keeping fees low) and to support free services for those aged between 6 and 13 have supported primary health care services; but overall General Practice New Zealand finds a total shortfall of \$92.7m in funding between 2008/09 and 2015/16.

Third, little new funding has been made available to support further reductions in the fees charged for primary health care services. Consequently, fees for some people are now above the levels in the early 2000s when the Primary Health

39.3%, with 48.8% of Māori women signalling issues with access. For those in the least well-off group (quintile 5) the total rate was 35.7%, and for women in that group 42.3%. Inability to obtain care within 24 hours has become the most common reason for lack of access, at 17.5% of the population, the highest rates being among women aged 35–44 (29.3%) and Māori women (27.2%). Unmet need due to cost sits at 14.3% of the population, with high rates for women aged 25–34 (27.9%), Māori women at 29.1%, Pasifika

Although New Zealand is achieving gains in health, further progress is required in key areas. These include reducing unmet need in key areas (such as mental health) and reducing inequities in health.

Care Strategy was first introduced (Cumming and Gribben, 2007). Ministry of Health data show that in very low-cost access-funded practices, between 2008 and 2017 fees have fallen for those aged 18 and over by just over a dollar per visit, to a weighted average of \$15.47, ranging from \$0 to \$18.00 per visit. This is a bit lower than the averages in 2001 prior to the introduction of the Primary Health Care Strategy. In other practices fees have gone up on average by between \$11.32 and \$13.45, around a 40% increase, and to a weighted average of \$41.85 per visit, ranging from \$0 to a high of \$69 per visit.

Fourth, these fee levels result in alarmingly high rates of unmet need for primary health care. Unmet need is defined here as a person not being able to access care when they felt they needed it within the last 12 months. From recent New Zealand health surveys we can see that, in total, 28.8% of New Zealanders noted such unmet need, with over 35% of women aged 25–34, 35–44 and 45–54, Pasifika women and women in quintile 4 (the second most deprived of five quintiles) demonstrating unmet need. For Māori the total rate of unmet need was

women at 25.7% and women in quintile 5 at 24.4%. It is worth noting that the survey asks about at least one occasion on which such unmet need existed. It may well be that some in the population experience the problem multiple times in a year. There are also high rates for unfilled prescriptions for Māori (at 14.9%) and Pasifika (19.3%) and those in quintile 5 (12.9%) compared with the total population at 6.3%.

Fifth, we would expect to find an increase in the number of primary health care consultations, and an increase in the number of consultations with nurses and allied health professionals. According to Ministry of Health data, the total number of GP consultations has gone up by around 1.4m (11.87%) between 2008 and 2016, while the number of nurse consultations has increased by 1.87m (131.94%). The average number of GP consultations per person per year has increased from 2.9 in 2008/09 to 3 in 2015/16, and the average number of nurse consultations has increased from 0.4 per person per year in 2008/09 to 0.7 in 2015/16. The data also show, however, that higher health need groups (Māori

and Pasifika peoples, and those on lower incomes) do not have a significantly higher mean number of GP visits (at 3 per annum) and have only a slightly higher mean number of nurse visits (0.9 per annum for high needs groups compared with 0.7 for non-high needs groups), suggesting that key barriers to access to primary health care services for these population groups in New Zealand remain a problem. The data also show what happens when fees reduce: those aged between 6 and 13 have had free care since 1 July 2015, and the average total (GP and nurse) consultation rate for those aged 5–14 has risen by 16.57% between 2014/15 and 2015/16.

Finally, it is crucial is to understand the overall impact of the new spending that has gone into primary health care services, including whether service users are more satisfied with access and the services they use, how new service delivery

is improving health, and health system outcomes: i.e. is it leading to the reductions in hospital service use that we expect? Unfortunately, such analyses are not available in New Zealand, leaving a major gap in our understanding of the impacts of primary health care policy here.

Conclusions

Although New Zealand is achieving gains in health, further progress is required in key areas. These include reducing unmet need in key areas (such as mental health) and reducing inequities in health. We also need to be better at setting priorities – many new technologies are emerging and we are not going to be able to afford them all. Much clearer information on the performance of the health sector would help us all to judge how the sector is doing. Although New Zealand (like other countries) is emphasising primary health care services, we cannot make significant

progress without ensuring that the fees that people pay remain affordable. New Zealand data suggest that funding is not moving to primary health care and that our funding decisions continue to support hospital care. New funding to reduce the fees people pay when they use primary health care services would help encourage New Zealanders to better use such services, but further investigation is needed to understand why services and funding may not be as quickly being moved into primary health care settings. Finally, increased research and evaluation around key policy changes in primary health care are crucial if we are to be sure that the ongoing focus on primary health care is generating the improvements we expect.

¹ Promoting the independence of people with disabilities is a further goal. Issues relating to disability policy are beyond the scope of this article.

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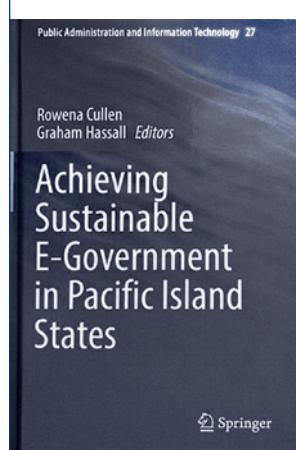
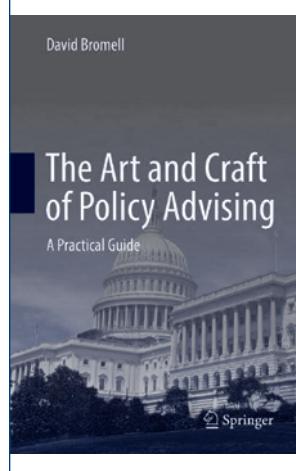
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Arthur Grimes

HOUSING Pressures and Policies

Introduction

Do we have a housing crisis in New Zealand that is in need of a ‘policy fix’? It depends on where you are and who you are. Imagine, for instance, that you bought a house in Auckland in March 2007 and wanted to sell in March 2017, a decade later. Provided you chose to leave Auckland, you would have done very well financially. Over the decade to March 2017 the typical Auckland house doubled in value: the REINZ house price index (HPI) for the Auckland region showed an increase of 102%. By contrast, the price of the typical house in the Manawatu–Wanganui region increased by only 17%, which was slower than the rate of consumer price inflation of 21% over the same period. Figure 1 shows a time series for house prices (indexed to 100 in January 1992) for Auckland, Manawatu–Wanganui, New Zealand and New Zealand ex-Auckland.

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The capital gain in Manawatu–Wanganui was less than the after-tax compound return (39%) on a bank deposit over the same period.¹ Nationwide average hourly earnings rose by 32% during the decade. Quite clearly, housing would have been a poor investment in Manawatu–Wanganui over the past decade. More generally, an analysis of housing affordability conducted by the Ministry of Business, Innovation and Employment shows that national-level housing affordability for both first home buyers and renters in June 2015 was broadly on a par with affordability levels since 2005 (Ministry of Business, Innovation and Employment, 2017). However, given the rise in the HPI for New Zealand since 2015, first home-buyer affordability is likely to have deteriorated nationally since then.

These contrasting experiences tell us two things: (1) the Auckland housing market is facing severe pressures, with house price rises greatly exceeding those in incomes and in prices of other goods and services; and (2) not all regions are suffering severe housing stress. In

addition, these experiences affected different people in different ways. People wanting to purchase their first home were likely to have been priced out of the Auckland market, while, in real terms, houses in Manawatu–Wanganui became more affordable.

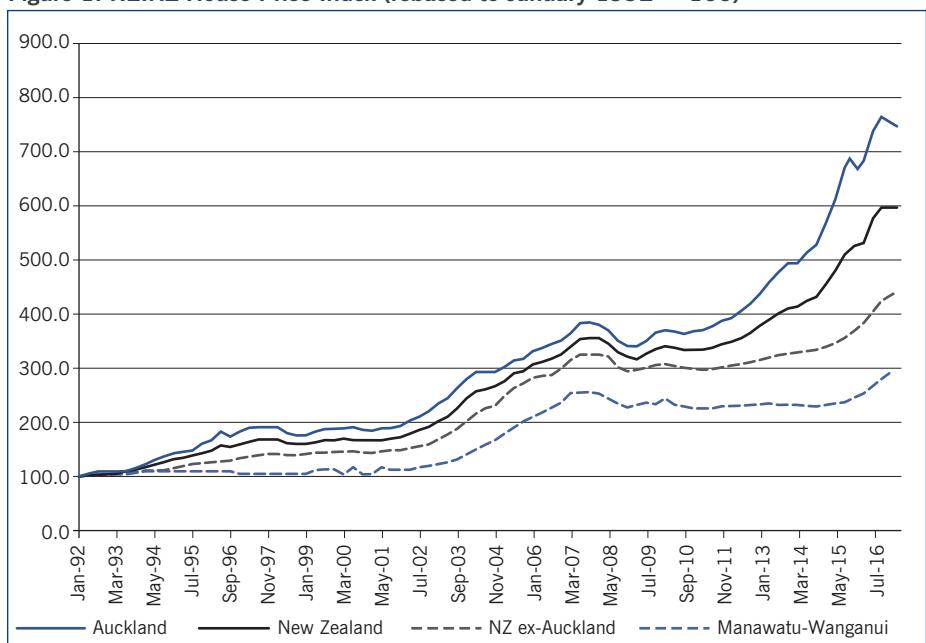
Given these contrasting experiences, housing policies must be flexible enough to cater for differing circumstances in different regions. Section 2 of this article provides a framework to help understand what determines house prices and other housing outcomes; section 3 discusses policy issues in relation to this framework. Section 4 concentrates on a national-level housing issue concerning housing quality. Even in regions where housing stress – as reflected in rents and house prices – is absent, quality issues still abound and are an important area to be addressed.

Understanding housing markets

Factors that affect local housing affordability are multifaceted, and include housing supply, land availability (affected by both geographical and planning constraints), interest rates, construction costs, housing subsidies, taxes and migration. Based on a number of papers by the author,² we can consider four relationships that interact to determine housing outcomes at the settlement (town or city) level for: house prices, population, land prices and the housing stock (number of dwellings).

The first relationship is for house prices, which are determined primarily by (after-tax) finance costs, incomes and the ratio of population to the housing stock. As interest rates decline, people can afford to increase their expenditure on housing, so house prices rise. Higher incomes – including through government-funded subsidies such as the accommodation supplement – enable prospective purchasers (and renters) to spend more on housing, so rents and house prices rise. As the population rises relative to the available housing stock, house prices increase since people have to bid more to purchase (or rent) a dwelling. Goodyear and Fabian (2014) report that between 2006 and 2013 the number of dwellings in Auckland rose by 7.6%, while Auckland's actual population rose by 8.5%. The

Figure 1: REINZ House Price Index (rebased to January 1992 = 100)



prospective population (if houses had been available at former prices) would have risen by a much greater rate, and this gap is likely to have widened since 2013 as population growth has outstripped new housing supply, contributing to house price growth.³

The second relationship is for regional population. People from within and outside the country are attracted to regions that have high wages, attractive natural amenities and attractive civic amenities. Their choice of location is also affected by the cost of housing (both rental and owner-occupied).

The third relationship is the responsiveness of new housing supply to changes in prices and costs. The supply of houses increases over time until the market price of a house equals the sum of all costs of producing a new house. These costs include the price of land associated with the dwelling (i.e. the 'section price'), construction and other costs (including regulatory costs). The time taken for this convergence to occur will, in part, be affected by the regulatory process.

The fourth relationship is for section prices. The average section price rises in a city as the local population expands, since land close to the city centre becomes more sought after. While the section price on the urban fringe may stay low – determined crucially by the strength of planning and geographic constraints – the

increased price of land in existing parts of the city will increase the average section price of the city.

These four relationships interact with each other to produce long-term housing market outcomes. Short-term outcomes may diverge temporarily from the long-term relationships, possibly due to 'bubbles', or to short-term migration swings. Nevertheless, concentration on the long-run determinants of housing outcomes helps direct where housing policies should focus.

Policy issues

Given these four relationships, policy needs to focus on multiple factors if the concern is to alleviate housing stress. Here I concentrate on key aspects that should receive policy focus.

There is strong evidence that population flows have affected house prices markedly (upwards and downwards) across New Zealand. Some population flows relate to New Zealanders moving within the country; others relate to New Zealanders leaving for overseas or moving back to New Zealand. Little can be done to alter these flows.

Inward migration of citizens from other countries is, however, subject to policy influence. Many factors determine how many, and which, migrants we wish to attract to this country. Humanitarian concerns (e.g. family reunification and

refugees) and economic concerns (e.g. attracting skilled migrants and attracting unskilled migrants to undertake jobs such as fruit picking) are likely to remain major determinants of our immigration policies.⁴ Nevertheless, given their effect on housing outcomes, especially in ‘gateway cities’ such as Auckland, the effects of migrants on housing outcomes should also enter the migration policy calculus.

The expeditious supply of new dwellings (houses and apartments) is another major policy issue. Local authority zoning and planning regulations need to be sufficiently flexible to enable new land to be brought into urban use quickly in growing settlements. In addition,

amenities and existing residents’ housing quality and enabling new supply to come on stream. Growing cities inevitably intensify as land becomes more expensive. The planning regime (including urban aspects of the Resource Management Act) needs to be addressed so that planning restrictions (e.g. building height limits) can be revised as cities grow.

Financial factors affecting regional housing outcomes, such as incomes and interest rate setting, are outside the remit of housing policy. However, two financial-related policy areas require attention. The first is the accommodation supplement. When housing becomes unaffordable, one policy option to mitigate the short-term effects is to increase the accommodation

people with specialist skills. There is, therefore, an important longer-term policy issue of expanding, and retaining, the construction workforce over time. Volatility in the construction sector often sees workers departing for Australia during a local downturn, with few returning.

An explicit policy of promoting house construction is one avenue that can be considered to help reduce this volatility. When economic conditions deteriorate, house construction diminishes, and it is at these times that local and central government could implement policies that underpin the financing and construction of (pre-designed and pre-consented) houses (as one form of Keynesian stabilisation policy). By contrast, a government policy of building more houses during a construction boom does little or nothing to assist housing supply, since this is likely just to crowd out private sector construction.

Policy-promoted construction of houses during economic downturns could also be used to address a second housing concern. Developers of new subdivisions typically find that larger houses have higher profit margins than smaller houses; hence the size of houses built in New Zealand is substantially larger today than it was three decades ago (Coleman, 2017). This construction pattern increases the price of the average dwelling, since the average dwelling keeps getting larger. Government agencies could promote construction of smaller dwellings, thus supplying the market with more affordable dwellings. (Current Housing New Zealand policy is to build homes in a ‘range of sizes’.)

infrastructure needs to be provided early enough to enable the construction of new dwellings and commercial premises. This requires forward planning on the part of local authorities rather than a reactive (or just-in-time) approach, but financing such infrastructure is an outstanding policy issue. A combination of financing mechanisms, including central government funding for local councils in fast-growing areas⁵ and local government borrowing,⁶ plus development contributions are likely to be required. Another option is value capture, in which a portion of the value uplift of land rezoned as urban and/or serviced by new publicly funded infrastructure is taxed to help fund the infrastructure costs (Coleman and Grimes, 2010).

The second important financial policy issue is taxation. It is now well established that housing is tax-favoured relative to other savings instruments, such as Kiwisaver (Coleman, 2017). Rather than tinkering with the tax system, a fundamental review of the tax treatment of housing relative to other forms of saving is a policy priority.

A major constraint with respect to new housing supply in New Zealand is the shortage of skilled workers in the construction industry. This is not an issue that is amenable to fast policy action, other than through increased migration of

Housing quality and quality policymaking
Many New Zealand houses are of poor quality. The ‘leaky building’ saga has left legacy issues which still need to be dealt with. Another major issue is the high number of damp and/or cold houses with insufficient energy-efficient heating (Howden-Chapman et al., 2012). There is a strong evidence base to support high benefit–cost ratios of targeted policy actions to insulate older houses, and strong evidence also for other interventions to improve housing quality (see, e.g. Keall et al., 2017).

Some of the advantages of improving housing quality accrue privately to house owners. However, information asymmetries and power relationships between landlords and tenants mean that renters are less likely to have access to warm, dry houses than are homeowners. Even for homeowners, there are spillover (externality) benefits of programmes that improve housing quality. Most health care in New Zealand is funded by taxes. Thus, interventions that reduce health costs have a social payoff beyond the private owner. A social investment approach should theoretically take these (large) benefits into account. To date, there is little evidence that it has done so. A key policy issue over coming years is, therefore, whether a state-supported programme of improving housing quality will be reinvigorated.

This example highlights another issue of policy importance: the silo approach to public policy. The termination of the insulation programme, which had a demonstrated high benefit-to-cost ratio, may have been due to a research finding that the Warm Up New Zealand: Heat Smart insulation scheme led to large health benefits but to only a small reduction in energy use (Grimes et al., 2016). Officials concerned with energy efficiency may not have supported a scheme that did not reduce energy bills. Meanwhile, health officials, concentrating on health system issues rather than housing issues, may not have focused on the health benefits flowing from a ‘housing’ scheme.

In the end, despite the existence of a social investment approach that is supposed to prioritise evidence-based

policy, policymakers did not utilise the existing evidence base to support a programme that had high benefits relative to costs. An additional lesson, therefore, is that the broader policy process related to housing requires as much attention as do individual housing policies.

¹ Based on a person with a 30% tax rate, investing in six-month bank term deposits (Reserve Bank of New Zealand statistical series).

² See Grimes and Aitken (2010), Grimes and Hyland (2015) and Greenaway-McGrevy, Grimes and Holmes (2016).

³ Another aspect to consider is household structure. An ageing population, family break-ups and a trend towards fewer children all increase the demand for dwellings relative to a given population size.

⁴ Fry and Wilson discuss these issues further in this issue of *Policy Quarterly*.

⁵ The government has announced a \$1 billion Housing Infrastructure Fund for high-growth areas, but the 2017 Budget Economic and Fiscal Update shows that only \$200 million of this fund is set to be allocated in the year to June 2019, with only \$600 million to be allocated by June 2021 (Tarrant, 2017).

⁶ Local governments have publicly stated an intention to limit their borrowing, because of a desire to retain their AA credit rating. It is unclear why this particular rating – and hence the self-imposed tight borrowing constraint – has been adopted.

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School of Government Te Kura Kāwantanga

Forthcoming Events

Title	Panel	Date
Policy Forum – New Zealand General Election	Panel being confirmed	Friday 15th September: 12:30 – 1:30pm Rutherford House, lecture theatre 2 23 Lambton Quay. RSVP: maggy.hope@vuw.ac.nz
For further information on SOG Events visit our website http://www.victoria.ac.nz/sog		

Julie Fry and Peter Wilson¹

Immigration Policies that Would Enhance the Well-being of New Zealanders

Introduction

Two stories wax and wane in New Zealand debates about migration. With record arrivals, falling departures and high net migration (Figure 1), current public concerns are around pressures on housing, infrastructure and publicly funded services like schools and health care. In 1979 people fretted about whether the last one to leave would be turning out the lights.

Why have immigration?

Immigration is normally seen to be part of labour market policy and as a solution to problems of a shortage of labour or specific skills (an inability to find skilled employees is a consistent theme in the New Zealand Institute of Economic Research's Quarterly Survey of Business Opinion). Where there is insufficient

domestic labour willing to relocate to address localised skills shortages, as occurred in Christchurch after the 2010–11 earthquakes, immigration can also reduce the need for economy-wide tightening of monetary policy to reduce wage pressures.

Immigrants boost international connections and can increase trade,

tourism and foreign direct investment. Working-age migrants bring significant short-term fiscal advantages, although longer-term impacts are negligible.

Immigration policy is also connected to population policy, and in New Zealand this is evident in discussion around migration replacing departing New Zealanders. As Figure 2 shows, non-citizen inflows have more than compensated for citizen departures since 1992.

Figure 2 also shows that the number of departures and arrivals by New Zealand citizens is a key driver of net migration in New Zealand. While the government can control the number of non-citizens who arrive in New Zealand, it has no control over the numbers of people leaving or the number of citizens (and residents with return rights) returning from overseas. These numbers are both material and volatile, and this makes planning difficult.²

Arguments for increasing the population highlight the potential benefits of scale and agglomeration: the idea that a larger population, especially in Auckland, our largest city, is a necessary, if not sufficient, condition for improving the

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living standards of all New Zealanders. This narrative is based on several themes:

- There are ‘agglomeration’ effects from cities that can be (only) captured in a larger Auckland.
- Related to this, high-paying jobs are created in the CBDs of big cities, and the bigger the city, the more high-paying jobs.
- Auckland must be larger to ‘compete’ with other regional cities, with Sydney and Singapore cited as examples. This competition includes attracting migrants, who are themselves a source of economic prosperity – so we have an ‘Auckland has to grow so it can grow even more’ element here.

More generally, more population is seen as helping firms counteract the disadvantages of New Zealand being small and distant from world markets; encouraging firm growth and innovation through increasing competitive pressure; and reducing the per capita cost of infrastructure with high fixed costs. However, increased scale is neither necessary nor sufficient to improve per capita well-being: there are small prosperous nations and large unproductive ones.

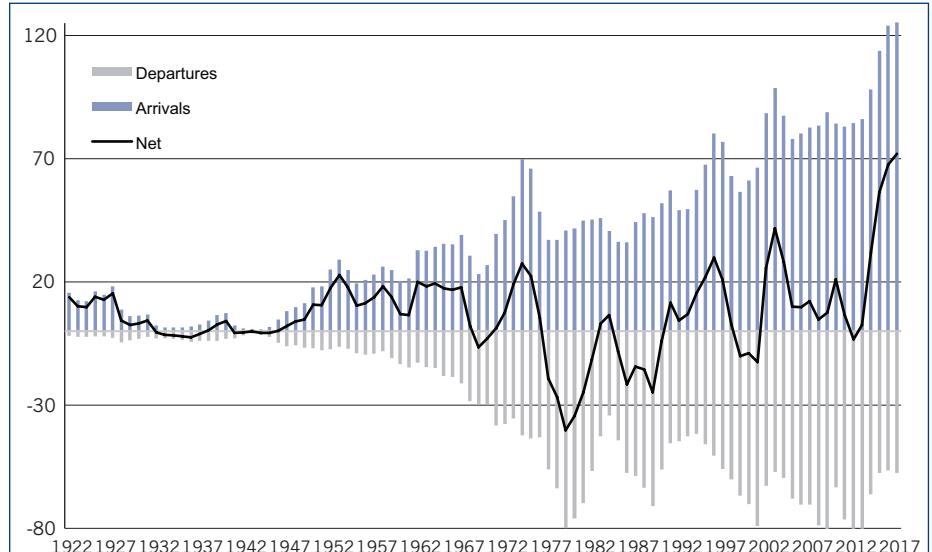
The economic effects of current policy

There is an extensive literature on the effects of migration on both migrants and the people and economy of the receiving country.³ This literature mainly uses economic output (gross domestic product, or GDP) and components of GDP as the benchmarks against which migration should be judged. It concludes that when measured on a per capita basis, migration has a small positive effect on modern, developed host countries like New Zealand.

Immigration comes with costs, too. Migrants need somewhere to live and work, and at a macroeconomic level these demand effects can initially outweigh supply effects and lead to shortages, congestion and price rises.

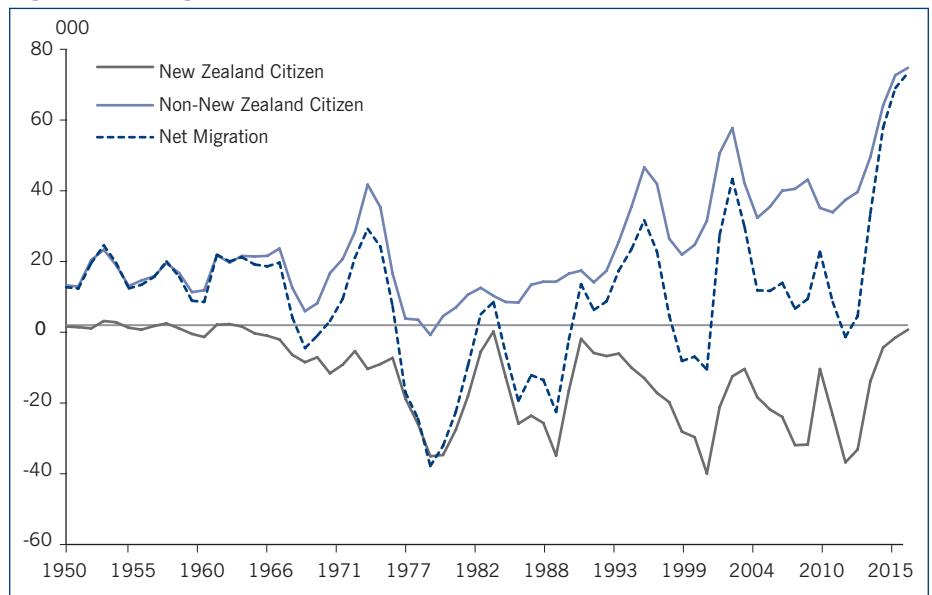
Because immigrants increase both demand and supply in the economy, their net impact on the wages and employment of others is modest. Immigrants increase the likelihood of employers finding suitable workers. Highly skilled migrants are more likely to have complementary skills that can make firms more productive, including

Figure 1: Arrivals and departures (including New Zealand citizens)



Source: Statistics New Zealand

Figure 2: Net migration of New Zealand citizens and citizens of other countries



Source: Statistics New Zealand

through ‘spillovers’, although whether this happens in practice depends on whether their skills can be used effectively in local industries. Less-skilled migrants are more likely to substitute for local workers.

An alternative framework: migration and well-being

GDP measures, in a single number with no double counting, the value of all the production in an economy in a single year. Its great utility is that it is comprehensive and comparable, both through time and between countries. Its drawbacks as a measure of welfare are well documented.⁴ Some of the more important are that it ignores the distribution of income;

it only captures flows, not changes in stocks of physical capital; it does not capture the effects of production on the environment (other than measuring the costs of remediation); it does not measure consumer surplus; it only covers goods and services traded in markets; and all consumption is given equal weight. GDP says nothing directly about social cohesion or the value of norms and institutions.

Despite considerable effort, no single number approach has been developed to replace GDP.⁵ There are, however, several multidimensional concepts of welfare that can be applied to test policies.⁶ Measures have been developed which provide a richer definition of welfare, but at

Table 1 Aspects of well-being related to migration

Dimension	Migration policy objectives
Housing	The economy should have the capacity to house all migrants and existing residents to a standard that is acceptable.
Income	We should aim to select migrants who have higher than average productivity because they are likely to increase the overall incomes of New Zealanders.
Jobs	We should avoid bringing in large numbers of migrants with average skills or skills that are in reasonable supply locally, since they may have adverse effects for locals in the short- to medium-term (increased labour market insecurity and unemployment, decreased wages and employment).
Community	We should consider the quality of the support network that New Zealand can provide, since migrants, like everyone else, need social capital to thrive.
Education	We should manage migration flows so that we do not mask policy failures in the education system. Our goal should be to admit people who do not have skills that could be supplied by properly educated and trained locals.
Environment	We should aim to bring in migrants who will maintain or increase environmental quality. More research is needed to determine which factors are most important in New Zealand.
Civic engagement	We should explore whether there are interventions (such as access to settlement support) that will help migrants more quickly become engaged citizens.
Health	We should seek migrants who can supply skilled medical labour that cannot be supplied locally at reasonable costs. We should seek migrants (both individuals and in aggregate numbers) that the local health system can treat cost-effectively.
Life satisfaction	We should target migrants who increase the life satisfaction of locals, balancing the benefits migrants bring from skills, and the wider range of experiences greater diversity can provide, against concerns about safety, access to housing and any negative effects on the labour market.
Safety	We should target skilled migrants, who are likely to have a positive impact on public safety. We should minimise the numbers of unskilled migrants we bring in, and where feasible, ensure that migrants are supported.
Work-life balance	More research is needed to determine the impact of different groups of migrants on work-life balance in New Zealand.
Treaty of Waitangi	When setting migration policy, we should be mindful of the Crown's obligations under the Treaty of Waitangi.

Source: Wilson and Fry, 2017

considerable cost to tractability. Value judgements are inevitable to weight the dimensions and adding-up problems must be solved.⁷

We consider that a better way to assess migration is to examine well-being impacts. This does not make policymaking easier, but it includes more things that matter and makes trade-offs more transparent.

Amartya Sen defines well-being as the capability to lead the kind of life a person values and has reason to value.⁸ Welfare increases when the set of capabilities each individual possesses increases (Stewart, 2013). Using the framework underlying the OECD's Better Life Index (see OECD, 2011a, 2011b), we have developed a tentative list of the features of well-being

that are relevant to migration policy in New Zealand today: see Table 1.

This framework is directed at improving the well-being of New Zealanders. This does not imply that we should adopt a 'beggar-thy-neighbour' approach, especially in relation to developing countries, which are the source of many migrants, both skilled and unskilled.⁹

What to do

Migration is here to stay. The world is increasingly interconnected, through trade, travel and the internet. New Zealand is a multicultural nation.

While we have international commitments that need to be honoured, including to refugees, the trans-Tasman travel arrangement, and reciprocal visa agreements and our special relationships with New Zealand territories and other Pacific states, as an independent country we have the freedom to decide what sort of society we want to be and what role migration policies should play in achieving our goals.

We now examine each of the dimensions of well-being relevant to migration in turn.

Housing and the environment

We know that, in addition to strong internal migration to the upper North Island, many migrants will want to settle in Auckland. If Auckland cannot or chooses not to provide sufficient new housing (and associated infrastructure) to accommodate people to the standard that we consider acceptable (in terms of quality and price and environmental footprint), then migration should be reduced, since preventing migrants (or indeed anyone else) living in Auckland is likely to be impossible.

Income

We should aim to attract migrants who have higher than average potential productivity and who will increase other dimensions of well-being if they settle here. Predicting who will be successful in increasing well-being is hard, because success is multidimensional. Being both more selective and willing to take calculated risks will require a nuanced,

discriminating set of criteria and an acceptance that not every migrant will make a positive contribution.

Jobs

Migration can be an effective way of ‘greasing the wheels’ of economic growth, by increasing the short-term supply of people with required skills. But in the long term we want to ensure that everyone in New Zealand has the freedom to live the life they value and to be able to make choices that translate their potential to be or do a variety of things into actual beings or doings.

In some areas, like health, where there are worldwide shortages of skilled professionals that New Zealand alone can neither correct nor be isolated from, migrants will continue to make a valuable contribution to providing the public services that New Zealanders value. But migration should not be a long-term substitute for the development of New Zealanders.

Community and civic engagement; life satisfaction and safety

Migrants, like everyone else, need social capital to thrive. We want migrants to lead a good life and enhance the lives of the communities they join.

Apart from a limited number of refugees and asylum seekers, we expect migrants to either bring social capital with them (which often means coming from countries similar to New Zealand) or build it themselves once they arrive, often with the help of earlier migrants. We worry that if migrants do not behave according to the norms and institutions of New Zealand, the life satisfaction and feelings of safety of the country will suffer, yet we do little to promote those behaviours.

We should consider how to help migrants to develop the social capital they need to contribute to increases in well-being across all its dimensions. At the same time, we need to avoid monoculturalism, since inward-looking, isolated societies are less likely to flourish.

Treaty of Waitangi

Migration is an area where the Crown continues to act as if the Treaty of Waitangi gives it carte blanche. Ranginui

Figure 3: New worker visa approvals by entry category

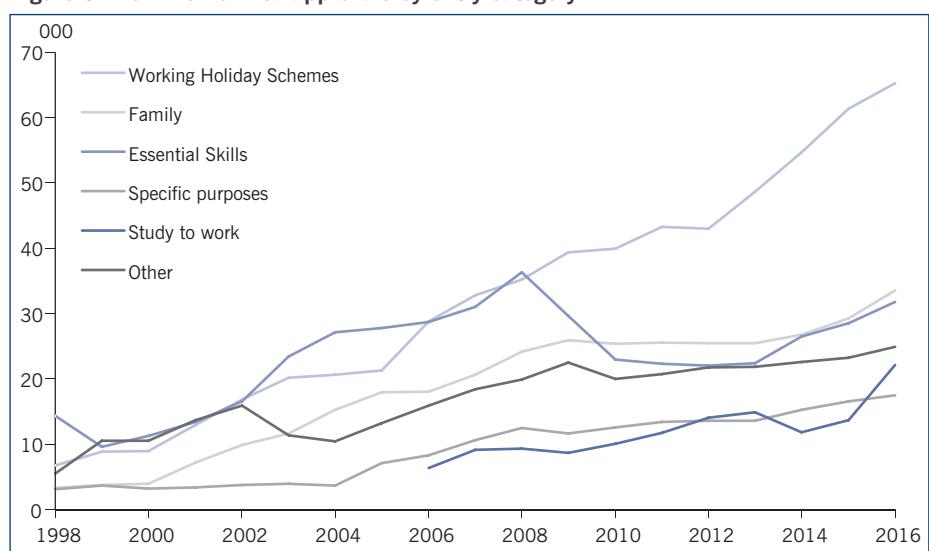
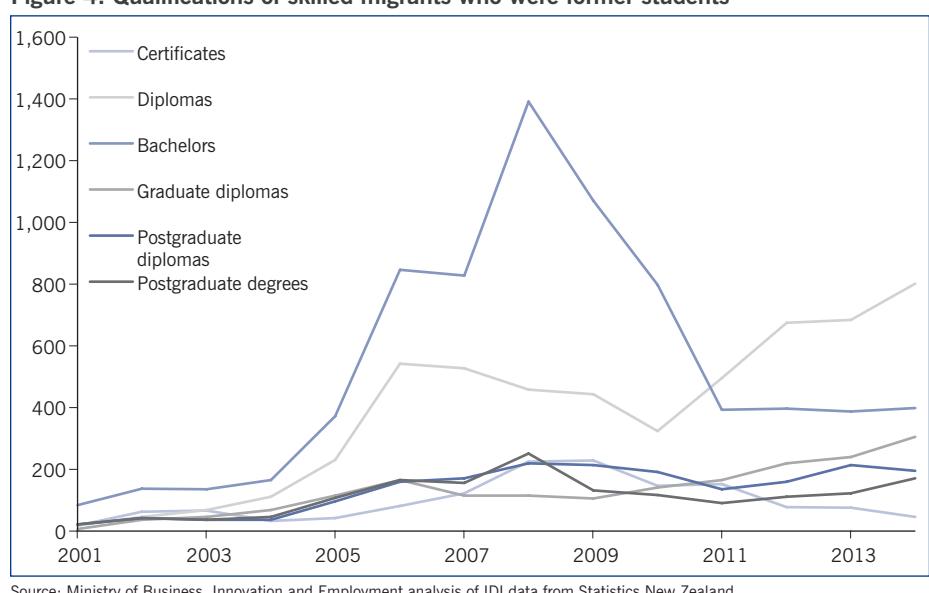


Figure 4: Qualifications of skilled migrants who were former students



Walker, however, saw the Treaty as a contract between the British Crown and iwi which granted permission to bring in British subjects, but did not envisage the multicultural society that has resulted from policies directed at skill and labour shortages rather than based on country preference (Walker, 1993).

The liberal values that have led many Pākehā to see that the Treaty should be honoured are the same set of values that also saw the ‘white New Zealand policy’ as no longer appropriate. Expecting the Crown to be liberal when it comes to Māori but having a different approach to foreigners might be asking too much. Reconciling the Crown’s current migration policy with Treaty is an issue yet to be addressed.

Policy changes

Applying the well-being framework suggests three changes to policy:

- reducing flows of less-skilled migrants;
- increasing the calibre of skilled migrants; and
- targeting transformational migrants.

We need to consider both temporary and permanent flows. In the year to June 2016, 192,688 work visas were approved, compared with 52,052 residence visas (see Figure 3) (Ministry of Business, Innovation and Employment, 2016, pp.40, iii). Almost 5% of the New Zealand labour force hold a temporary work visa (Fry and Glass, 2016, p.58).

New Zealand does not have a shortage of unskilled labour: uncontrolled flows of

working holidaymakers and students with work rights are the result of foreign policy and export education objectives being prioritised over the well-being of locals. Reducing inflows of unskilled and low-skilled temporary migrants should be a priority. The skill level of both temporary and permanent 'skilled migrants' has been declining over time. As Figure 4 shows, successful applicants for New Zealand residence under the Study to Work category increasingly hold lower-level diplomas. These are lower levels of skills than were anticipated when the policy was designed.

It does not make sense to provide permanent residence to people working in low-earning retail management jobs or those in the tourist and hospitality industries. If there are areas of labour shortage, they are more appropriately dealt with through temporary visas, and through training New Zealanders.

Migrants who have the potential to enhance the well-being of New Zealanders across more than one of the dimensions of well-being should be a priority, although our ability to identify such people is low: at present we have difficulty selecting migrants who have the potential to contribute to GDP per capita.

Targeting people likely to make a bigger difference can involve greater risk, but there are ways to manage this. The Edmund Hillary Fellowship is currently recruiting the first cohort of 100 fellows who will be eligible to enter New Zealand on a three-year global impact visa. Rather than emphasising traditional screening measures such as age, previous experience and detailed business plans, fellows – who can include whole start-up teams – are being assessed based on recommendations from pro-social networks, their potential to develop ventures in New Zealand that could create global impact, and the extent to which their proposed ventures are consistent with New Zealand's values and needs.

There would also be value in making the immigration process easier for small numbers of very highly skilled people. Although New Zealand may never be the first choice for the world's most driven people, greater efficiency and certainty would make us more attractive to top talent looking for alternatives as other countries tighten their border controls.

Conclusion

Migration has been good for New Zealand, but it has not been great. We

think using a well-being framework has the potential to make it better. Focusing on smaller numbers of more highly skilled immigrants, and considering important broader issues that a simple focus on per capita GDP allows us to ignore, should lead to more effective and more sustainable immigration policy for New Zealand.

¹ Full disclosure: both authors are migrants. This article draws on work sponsored by the New Zealand Institute of Economic Research's public good fund (Wilson and Fry, 2017), for which support we are grateful. We also thank Jonathan Boston for helpful comments on the draft. Any remaining errors are our responsibility.

² Relative to our population, New Zealand has a large diaspora, with estimates of numbers living offshore ranging from 600,000 to more than a million (Fry and Glass, 2016, p.33).

³ Fry and Glass (2016) provide an accessible recent summary.

⁴ See Stiglitz, Sen and Fitoussi (2009) and the papers published at: <https://www.insee.fr/en/information/2662494>.

⁵ For a survey, see Fleurbaey and Blanchet (2013).

⁶ Some of the better known are the United Nations Development Programme's Human Development Index and the OECD's Better Life Index.

⁷ In measured GDP, all production is converted to dollars using market prices and then summed. Multidimensional measures are often based on scales, like 10 to 1, meaning that the units of measure have no particular meaning.

⁸ For a good summary of the capabilities approach, see Dalziel and Saunders (2014).

⁹ The health sector is an example. The efficient operation of our public health system relies on migrant health professionals. At the same time, there is a worldwide shortage of such professionals, especially in developing countries. We need to have regard to the effects of our migration policies on such countries.

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Jonathan Boston

ALLEVIATING POVERTY

issues and options

Introduction

New Zealand was among the first countries in the world to implement a relatively comprehensive welfare state. But almost 80 years after the passage of the Social Security Act in 1938, serious social problems persist, not least significant levels of poverty – especially child poverty – and income inequality. In recent years, such problems have attracted growing public concern, as reflected in opinion polls and political debate.

Admittedly, income inequality (using the Gini coefficient and the Palma measure) does not appear to have increased since the mid-1990s. Nevertheless, it rose very

substantially between the late 1980s and the mid-1990s (e.g. from a Gini of around 27 in the mid-1980s to around 33 a decade later) (Perry, 2017a, pp.80-

90; Rashbrooke, 2013). Likewise, poverty rates increased dramatically during these years, particularly when assessed after deducting housing costs from incomes. For children, the poverty rate in the mid-1990s on one commonly used measure (i.e. 60% of median disposable household income, after adjusting for housing costs) was nearly three times higher than a decade earlier, and has remained close to double the rate of the mid-1980s ever since (Perry, 2017a, p.140). Such outcomes are troubling and rightly deserve public and political attention. Hopefully, they will generate thoughtful discussion during the 2017 election campaign.

This article briefly discusses the nature and measurement of poverty in developed countries, outlines the main trends in poverty rates in New Zealand over recent decades, comments on why poverty matters, and assesses recent government policy changes designed to alleviate poverty, especially child poverty. It also outlines what further measures will be required if New Zealand is to meet its commitments under the United Nations Sustainable Development Goals to halve poverty rates by 2030. In effect, this would entail returning poverty rates to the levels witnessed during the mid-

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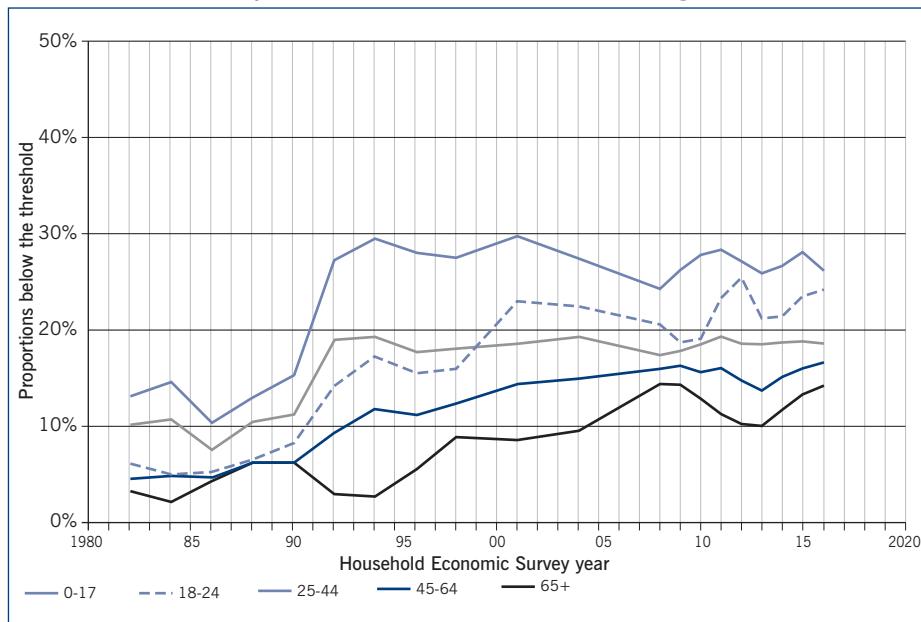
Table 1: Deprivation rates* in 13 countries comparing children with older people and the total population in 2007 (Europe) and 2008 (New Zealand)

Country	Children 0-17	Aged 65+	Total population
Netherlands	6	3	6
Norway	6	1	5
Sweden	7	3	6
Spain	9	11	11
Germany	13	7	13
Slovenia	13	18	14
Ireland	14	4	11
United Kingdom	15	5	10
New Zealand	18	3	13
Italy	18	14	14
Czech Republic	20	17	20
Hungary	42	35	38
Poland	39	41	44

* The deprivation rates in this table are based on the proportion of households who lack at least three items from a list of nine because they cannot afford them. All nine items are regarded as essential by the majority of the population.

Source: Perry, 2009, pp30-33

Figure 1: Proportion of all individuals in low-income households by age, based on a moving line (or annually adjusted relative) poverty threshold set at 60% of median disposable household incomes, after housing costs



Source: Perry (2017a, p.125)

1980s and reducing material hardship rates to Scandinavian levels.

Measuring poverty

In brief, poverty means not having enough of those things which most people regard as essential; it implies insufficient resources to satisfy basic human needs or meet an acceptable minimum standard of living (Boston and Chapple, 2014, pp.22-

5; Perry, 2016, pp.91-7; Stephens, 2013). By contrast, inequality is about having more or less of something (e.g. income or wealth) than someone else. In developed countries like New Zealand there are two primary ways of measuring poverty: those based on income and those based on levels of material deprivation (or hardship). Both methods use various criteria to determine appropriate thresholds or

benchmarks: those living in households with incomes or material deprivation rates below the relevant thresholds are deemed to be living in poverty. The two approaches capture different aspects of poverty and both have an important role to play in any measurement regime.

The most commonly used income-based poverty thresholds, at least in developed countries, are either 50% or 60% of median disposable household incomes (i.e. after deducting income taxes and including transfers). Such poverty rates are thus a relative measure and will vary depending on the median income, the income threshold adopted, whether or not housing costs are taken into account (and, if so, how), and the nature of the equivalence scale adopted (i.e. how adjustments are made for the size and composition of households). Significantly, income-based poverty rates are sensitive to relatively small movements (up or down) in the generosity of social assistance, including benefit payments and tax credits. This is because such changes can shift large numbers of families above or below particular poverty thresholds.

Income-based poverty measures make no allowance for the other resources to which people may have access (e.g. savings, intra-family transfers, charitable donations, etc.), whether they own property or a business, or their level of debt. Accordingly, it is helpful to supplement such measures with assessments of material deprivation (see Perry, 2015, 2017c). The latter measures attempt to capture the actual day-to-day living standards or circumstances of a family. They do this by assessing whether families lack important consumption items because they cannot afford them. The items selected are generally those which most people consider to be essential to meet basic needs or highly desirable if people are to participate fully in society. Surveys and/or focus groups are often used to decide which items should be included and to set specific thresholds of material deprivation.

To some extent, deprivation rates reflect a country's real per capita incomes: that is to say, they are higher in countries with lower living standards (i.e. as measured by GDP per capita) than those

Table 2: The number of poor children in New Zealand based on selected poverty thresholds, 2001-16 (rolling averages since 2008)

	Before housing costs (BHC) are deducted			After housing costs (AHC) are deducted					
	BHC 'anchored line (2007)' HES year	Before housing costs 'moving line'		After housing costs 'moving line'			After housing costs 'anchored line (2007)'		
50% (07 ref)	50%	60%		40%	50%	60%	50% (07 ref)	60% (07 ref)	
2001	225,000	120,000	250,000	115,000	215,000	310,000	285,000	380,000	
2004	175,000	150,000	265,000	115,000	200,000	285,000	240,000	320,000	
2007	135,000	135,000	210,000	115,000	175,000	240,000	175,000	240,000	
2008	130,000	135,000	210,000	105,000	190,000	260,000	180,000	250,000	
2009	115,000	130,000	225,000	140,000	210,000	285,000	195,000	265,000	
2010	105,000	135,000	240,000	120,000	210,000	295,000	185,000	265,000	
2011	120,000	145,000	245,000	125,000	210,000	305,000	190,000	270,000	
2012	115,000	135,000	230,000	130,000	210,000	285,000	200,000	260,000	
2013	105,000	125,000	220,000	135,000	205,000	275,000	185,000	245,000	
2014	-	135,000	230,000	-	210,000	280,000	180,000	240,000	
2015	90,000	145,000	235,000	130,000	215,000	300,000	170,000	240,000	
2016	75,000	140,000	215,000	140,000	210,000	290,000	155,000	220,000	

Source: Perry, 2017b, p.49

HES refers to the Household Economic Survey

There are approximately 1,060,000 children (0-17 years) in New Zealand; 40% of median AHC income poverty figures and 50% of BHC figures are not reported for HES 2014 because of data issues for some beneficiary incomes.

that are relatively wealthy. Hence, deprivation rates across all age groups are generally higher in Eastern European countries than in their richer counterparts in Western Europe (see Table 1). But variations in real per capita incomes are not the only reason deprivation rates differ. After all, some countries with broadly comparable living standards (e.g. Germany and Sweden) have different deprivation rates. Also, some countries with significant childhood deprivation rates (e.g. 12% or more, as in Britain and New Zealand) have much lower deprivation rates among the elderly.

Not all countries, however, have such marked differences in poverty rates across different age groups. The fact that countries with comparable overall living standards have significantly different poverty rates (as well as different rates for different age groups) suggests that policy settings matter a good deal. In other words, to some extent governments can choose, via their tax and benefits systems, what the poverty rate will be for their citizens, including whether to favour specific population groups over others.

Table 3: Material hardship rates (%) and numbers of children: rolling two-year averages

Household Economic Survey year	MSD's less severe hardship threshold, equivalent to the European Union's 'standard' threshold	MSD's more severe hardship threshold, equivalent to the European Union's 'severe' threshold			
		rate (%)	number	Rate (%)	number
2008	16	170,000	8	80,000	
2009	16	180,000	9	85,000	
2010	18	190,000	9	95,000	
2011	20	220,000	9	100,000	
2012	19	200,000	9	95,000	
2013	16	175,000	9	95,000	
2014	15	155,000	8	90,000	
2015	14	155,000	8	85,000	
2016	12	135,000	6	70,000	

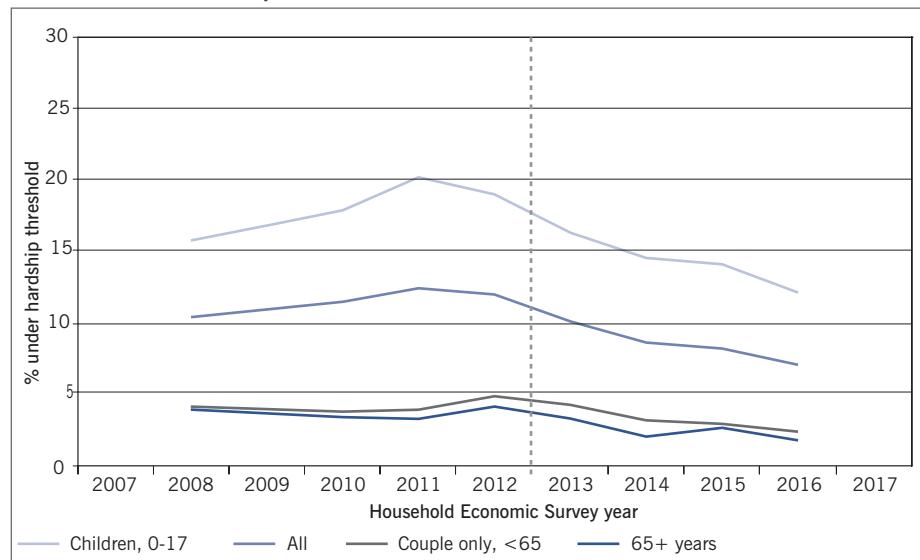
Source: Perry, 2017b, p.48

Poverty rates in New Zealand

Since the early 1980s poverty rates in New Zealand have changed markedly (see Boston and Chapple, 2014; Dale, O'Brien and St John, 2011; Perry, 2017a, 2017b, 2017c). There have also been notable changes across age groups and household types. As highlighted in Figure 1, income-based poverty rates (using a moving line or relative measure, after adjusting for housing costs) increased substantially for

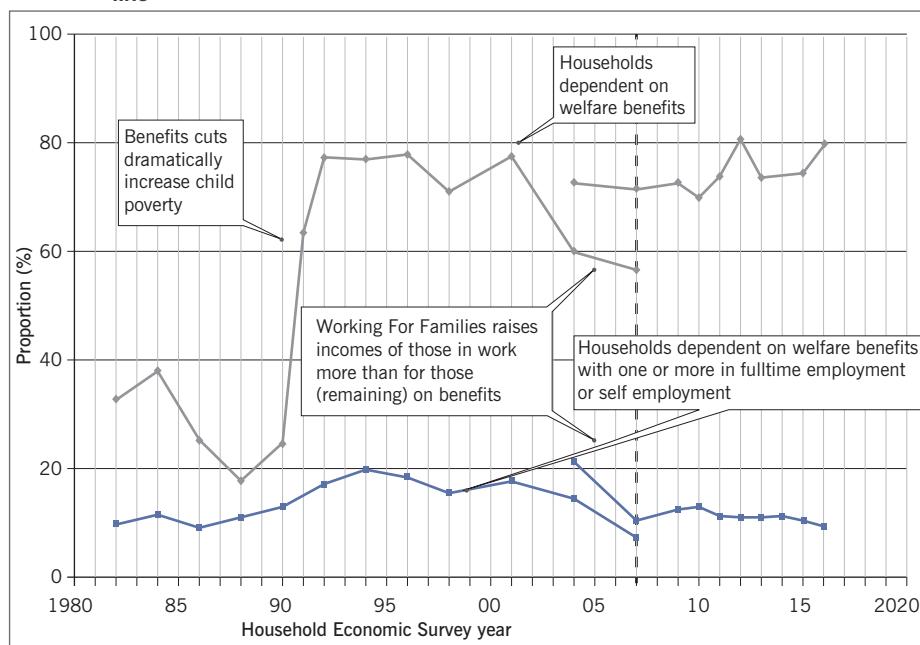
most age groups in the late 1980s and early to mid-1990s. As previously noted, on this measure the poverty rate for children (aged 0-17 years) almost tripled during these years, to close to 30% in 1994. It subsequently eased back to about 22% in 2007, due in part to the reintroduction in the early 2000s of income-related rents for families living in state housing and the implementation of the Working for Families tax credits during 2005-07. It

Figure 2: Material hardship trends, 2007 to 2016, selected groups based on less severe hardship threshold



Source: Perry, 2017c, p.74

Figure 3: Poverty rates for children in ‘workless’ and ‘working’ households, based on a poverty threshold set at 60% of median disposable household incomes, fixed line



Source: Perry, 2017, p.148

Note: The discontinuity at 2007 arises because of the change of reference year from 1998 to 2007.

The 2004-07 changes are shown using both reference years

subsequently rose to almost 30% in 2010 (following the global financial crisis) before declining modestly since then (to around 27%).

Table 2 shows that income-based poverty rates (in this case for children) differ significantly depending on:

- the specific poverty threshold chosen (e.g. 50% or 60% of the median income);
- whether the measure employed is anchored to a specific reference year (and thus held constant in real terms,

but adjusted annually for price inflation) or is based on a moving line that alters when the median incomes change; and

- the treatment of housing costs (i.e. whether or not housing costs are deducted).

Poverty rates are typically lower before housing costs are deducted than after they are deducted. These differences reflect the relatively high cost of housing in New Zealand. Hence, enhancing housing

affordability must be a crucial component of any long-term anti-poverty strategy.

Depending on the income poverty threshold selected, there were between 75,000 and 290,000 children living in income poverty during 2015-16 (Perry, 2017b, p.49). Likewise, depending on the hardship threshold used, the number of children experiencing material hardship during the same period was between 70,000 and 135,000 (see Table 3).

As previously noted, rates of child poverty compare unfavourably with those of other age groups, especially the elderly. This applies both with respect to income-based measures (see Figure 1) and material deprivation measures (see Figure 2). The higher rates of poverty among children reflect a failure by governments over several generations first, to design and implement sufficiently generous family assistance programmes, and second, to index such programmes to prices and/or wages. By contrast, there has been a multi-party commitment since 1993 to set the rate of New Zealand superannuation at a level that minimises income poverty among the elderly, and adjust the rate in line with movements in both prices and average ordinary time weekly earnings. The living standards of superannuitants are thus protected in real and relative terms.

As highlighted in Figure 3, there have been marked differences since the early 1990s in child poverty rates depending on whether parents are dependent on a welfare benefit or in paid employment. In the late 1980s only about 20% of children in ‘workless’ households were in poverty (using a fixed-line or constant value measure based on 60% of median disposable household income after deducting housing costs); by the early 1990s the figure had almost quadrupled. Despite various social policy reforms in the early to mid-2000s, the poverty rate for children in ‘workless’ households was still around 60% in 2007. By contrast, the poverty rate for children in ‘working’ families (on the same measure) has barely exceeded 20% since the early 1980s, although the rate in the mid-1990s was certainly higher than during the previous decade. The discrepancy between the experience of ‘workless’ and ‘working’

households reflects several major policy changes, notably the substantial cuts in the real value of welfare benefits in the early 1990s and the introduction of an in-work tax credit in the mid-2000s.

Importantly, poverty rates among Māori and Pasifika children are around double those among Pākehā/European children (Perry, 2017b, p.50). Similarly, Māori and Pasifika children are almost twice as likely to be living in severe income poverty and face a higher risk of remaining in poverty for extended periods of time (Imlach Gunasekara and Carter, 2012). Likewise, rates of material hardship for Māori and Pasifika children are several times the European rate. Child poverty in New Zealand is also concentrated spatially (e.g. in Northland, Gisborne, South Auckland, Porirua, eastern Christchurch and South Dunedin), and is higher among families with significant physical disabilities and/or mental health issues.

Why poverty matters

A substantial body of empirical evidence indicates that poverty, and especially child poverty, has harmful consequences (see Duncan, Ziolkowski and Kalil, 2010; Duncan and Magnuson, 2013; Expert Advisory Group, 2012, pp.14-17; Gibb, Fergusson and Horwood, 2012; Ladd, 2012). For example, compared with their better-off counterparts, children experiencing poverty in New Zealand:

- have a 1.4 times higher risk of dying during their childhood;
- are three times more likely to suffer ill health, 1.5 times more likely to be hospitalised, and twice as likely to be admitted to hospital for acute infectious diseases;
- are much more likely to live in homes with no heating (because there are no heaters, there is no money to use heaters or no electricity due to unpaid bills);
- are less likely to participate fully in early childhood education and extracurricular activities; and
- are less likely to leave school with NCEA level 2, which is the entry-level qualification to skilled employment (see Expert Advisory Group, 2012, p.15).

Moreover, as Greg Duncan and his colleagues have highlighted based on US evidence, child poverty often has a long reach (Duncan, Ziolkowski and Kalil, 2010; Duncan and Magnuson, 2013). It can fundamentally affect a person's whole life-course, contributing to protracted and repeated ill health, limited employment prospects, insecure housing and semi-permanent poverty.

Strategies for reducing poverty

Given the harmful effects of poverty, and especially poverty that is prolonged, severe or that occurs during early childhood, there are good reasons for seeking low poverty rates. Two questions then arise: what should be the policy goal in relation to poverty; and

poverty and material deprivation among those aged 65 years and over, at least by international standards. Halving these rates would be challenging from a policy perspective. Against this, halving the current rates of child poverty (especially as measured on an income basis) is certainly feasible. After all, as previously discussed, 30 years ago New Zealand had child poverty rates around half their current rates. Also, there are currently countries in Europe (most notably in Scandinavia) with child poverty rates around half those in New Zealand. Likewise, it should be readily possible to achieve substantial reductions in rates of income-based poverty among Māori and Pasifika.

Faced with mounting evidence of, and public concern about, family poverty, the government introduced a Child Hardship Package in the 2015 Budget.

how can this goal best be achieved?

With respect to goals, New Zealand has endorsed the United Nations Sustainable Development Goals, which were agreed to in 2015 by virtually every country. The first of the 17 goals focuses on alleviating poverty and includes an explicit target for 2030, namely to 'reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions'. In practical terms, this would imply New Zealand halving rates of both income-based poverty and material deprivation, and seeking to do so for all population groups.

Such a goal, of course, is demanding. For one thing, reducing rates of material deprivation is inherently more difficult than cutting rates of income-based poverty. This is because deprivation rates depend on many factors over which governments have little control, including how families choose to allocate and utilise their financial and other resources. For another, as noted earlier, New Zealand already has low rates of income-based

The next question, therefore, is how to achieve goals, such as those embraced within the Social Development Goals, and to do so in a cost-effective and lasting manner. In broad terms, as Perry (2016, p.8) argues, there are three strategies available:

- increasing household income, whether through higher total earnings or increased government cash assistance or reduced taxation;
- reducing the demands on the core household budget (e.g. through increased government services and higher government subsidies for such things as health care and childcare); and
- enhancing the capacity of families to manage their resources (e.g. through improved budgeting skills, better family functioning, enhanced life skills, and better access to government and community services).

In terms of increasing household income, governments have two basic options (see OECD, 2009, 2011). The first focuses on paid employment. This

involves policy measures designed to boost incentives for employment, raise overall employment levels, and enhance the availability of employment – particularly employment that is relatively secure and adequately paid. The second option is to enhance the redistributive effectiveness of the tax-welfare system, most notably by increasing the financial assistance available to those without paid employment and those with inadequate market incomes. In New Zealand, recent governments of different political persuasions have employed both options to some extent, but their efforts thus far have fallen well short of what is required to halve poverty rates, whether generally

financial assistance available under the family tax credit of about \$101 per week (which applies to the first child in a family aged 16–18 years) was frozen in nominal terms. Equally significant, the accommodation supplement – which is the largest single source of housing assistance to low-income families and individuals – was not inflation adjusted.

Faced with mounting evidence of, and public concern about, family poverty, the government introduced a Child Hardship Package in the 2015 Budget. This took effect on 1 April 2016. The most significant measures included an increase in core benefit rates for welfare beneficiaries with children by up to \$25 a week (the first

substantial increases in financial assistance via the accommodation supplement. The government estimates that, if fully implemented, the package will benefit approximately 310,000 families via the changes to the family tax credit, while the adjustments to the accommodation supplement will benefit around 136,000 low-income households (Joyce, 2017). The precise impact on poverty rates is difficult to calculate, but it is expected that around 50,000 children will be lifted above one of the more demanding income-based poverty measures (i.e. 50% of median disposable household incomes, before housing costs are deducted) (*ibid*). This constitutes about a third of the children living in households which currently fall below this threshold (see Table 2). The impact on the proportion of children living in poverty as calculated on the basis of higher thresholds is likely to be significantly less.

Unfortunately, unless the package is amended over the next few years, its medium- to long-term impact on poverty rates will be modest. First, while the changes to the family tax credit will increase the level of financial assistance for most children in low-income families, the package also lowers the abatement threshold and increases the abatement rate, thus reducing the level of assistance available to families further up the income hierarchy. Second, and more important from a longer-term perspective, neither the family tax credit nor the in-work tax credit are linked to consumer prices, let alone average wages. Similarly, the accommodation supplement remains non-indexed. Hence, even in a period of relatively low price inflation, the level of assistance to low-income families will gradually erode in real terms. Third, if the objective is to halve poverty rates – and especially those for children – the aggregate level of governmental assistance (i.e. via tax credits and subsidies for housing, childcare and health care) remains too low. Indeed, the aggregate level of government expenditure on Working for Families tax credits in 2018–19, following the introduction of the Family Incomes Package, will remain much lower in real terms than it was during and immediately after the global

In the weeks leading up to the 2017 general election, various political parties – including the Greens, Labour and the Opportunities Party – have proposed a range of anti-poverty initiatives.

or for specific population groups, such as children.

As noted earlier, the Labour-led government (1999–2008) introduced the Working for Families package in the mid-2000s. While this provided significant additional financial assistance to families in paid employment (especially via the in-work tax credit which replaced the former child tax credit in April 2006), it provided no similar gains for families who are largely dependent on welfare benefits. As a result, the high poverty rates experienced by beneficiary families since the 1991 welfare cuts have largely continued.

Subsequently, in the wake of the global financial crisis, the National-led government made various policy changes that reduced the overall generosity of Working for Families and lowered public expenditure on family assistance. In particular, the abatement threshold for the family tax credit was reduced (gradually from \$36,827 to \$35,000), the abatement rate was increased (gradually from 20% to 25%) and the top rate of

increase in real terms in more than a generation), a modest boost to the in-work tax credit and more generous childcare subsidies. While helpful, the changes to benefit rates were too modest to have a substantial impact on poverty, whether measured on the basis of income or material deprivation. Moreover, they constituted a one-off adjustment.

More recently, in the 2017 Budget, government announced a new Family Incomes Package. This will take effect on 1 April 2018, assuming there is no change of government following the 2017 general election. Under the package there are at least three main changes that will assist low-income families. First, there are changes to several tax thresholds which will boost incomes (e.g. by \$11 a week for those earning above \$22,000 per annum). Second, there are significant changes to the structure and generosity of the family tax credit. Overall, these changes will provide particular benefits to families with young children and those with two or more children. Third, there are

financial crisis (see St John in this issue of *Policy Quarterly*).

A new approach to alleviating poverty

If poverty rates in New Zealand are to be reduced substantially on a durable basis, a more comprehensive package of measures will be required. In the weeks leading up to the 2017 general election, various political parties – including the Greens, Labour and the Opportunities Party – have proposed a range of anti-poverty initiatives. These deserve careful scrutiny and proper public debate.

Ideally, it would be best if a cross-party accord could be negotiated, with the key elements embodied in legislation, as happened in 1993 regarding New Zealand Superannuation. But securing such an agreement on an anti-poverty strategy is likely to be difficult. Among other things, there are significant differences between the current parliamentary parties over such matters as:

- the amount of additional public expenditure that should be allocated to anti-poverty measures;
- the appropriate mix of universal and targeted forms of social assistance;
- the appropriate mix of cash and non-cash benefits;
- the design of housing policies (see Grimes in this issue of *Policy Quarterly*);
- the desirability and effectiveness of incentives for paid employment (such as the in-work tax credit and the use of sanctions within the benefit system) (see St John, 2006, 2013; St John and Dale, 2012); and

- the extent to which priority should be given to families with young children.

It is not possible to explore all the issues and options here, but in my view there remains much merit in the strategy recommended by the Expert Advisory Group on Solutions to Child Poverty in 2012, albeit modified to take proper account of more recent policy initiatives and international agreements, such as the Social Development Goals. While the group's 78 recommendations focused exclusively on child (or family) poverty, it would be readily possible to adapt and extend these recommendations to cover individuals and couples without children. In broad terms, a strategy of the kind proposed by the Expert Advisory Group would contain the following elements:

1. A clear set of medium- to long-term poverty-reduction targets, ideally embodied in legislation. Such targets could be based on those identified in the Social Development Goals but tailored for New Zealand's distinctive social context. Such targets could be differentiated by age and ethnicity, and varied depending on whether they apply to income-based measures or material deprivation measures. Priority should be given to reducing the most severe and protracted forms of poverty, especially in childhood.
2. A thorough, independent review of the structure and level of family assistance and welfare benefits, perhaps similar in nature to the Royal Commission on Social Security in 1972. Part of the aim of such a review would be to investigate the costs of different kinds

of households achieving specified standards of living.

3. A principled and comprehensive approach to the indexation of all forms of social assistance, including income support for families and subsidies for housing, childcare, early childhood education and primary health care.
4. For families with children, a mix of universal and targeted assistance (e.g. with an element of universal income support for children when they are very young, and a greater reliance on targeted assistance as they grow older, as parents become able to undertake more paid employment).

Plainly, to be effective, any anti-poverty strategy will involve significant fiscal costs (see Boston and Chapple, 2014). While there may be some scope for fiscal savings in certain areas of public policy, realistically most of these costs will need to be met via additional public expenditure. A critical political issue, therefore, is what priority should be given to reducing poverty. This, surely, ought to be a matter of vigorous debate during the 2017 election campaign and beyond. It goes to the heart of the question of what kind of society we should strive to build. It also raises the fundamental issue of whether New Zealand will honour its international commitments and moral obligations.

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Norman Gemmell

Reforms to New Zealand Superannuation Eligibility are they a good idea?

Introduction

The National-led government of Prime Minister Bill English recently announced changes to the eligibility rules for receipt of New Zealand Superannuation (NZS). In 2037 the age from which New Zealand residents become eligible to receive NZS will begin to rise – by six months each year – from the current age of 65 to reach 67 by July 2040. Residency requirements will also rise, to 20 years from ten (five of which must be after age 50).¹ This is a dramatic change for the new PM, who had been part of the previous Cabinet under Prime Minister John Key which, since 2008, steadfastly

refused to consider changing the eligibility conditions for NZS. Treasury projected that without such changes the fiscal costs of NZS would rise from 4.8% of GDP in 2015 to 6.3% in 2030, reaching 7.9% by 2060 (Treasury, 2016).²

This article addresses two key NZS policy-relevant questions. Is it sensible to raise the age of eligibility? And is the timing – delaying adjustments until 2037–40 – appropriate? Initial public debate on both these questions has focused on two aspects. First, is raising the age to 67 consistent with intergenerational equity? Second, by delaying the changes for another 20 years, has ‘the horse already bolted’? That is, does the future fiscal affordability of NZS require more urgent change? The next sections address each of those issues in turn.

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Table 1: Ageing, pensions and intergenerational equity

Ageing: generation	P/T _{i+1}			P/T _i		
	None	Longer retirement	Reform	None	Longer retirement	Reform
1	0.46	0.46	0.46	1.50	1.50	1.50
2	0.46	0.53	0.47	1.50	1.73	1.60
3	0.46	0.61	0.50	1.50	1.97	1.70
4	–	–	–	1.50	2.24	1.80

Intergenerational equity

The first problem with assessing impacts on intergenerational equity is defining it. Sidestepping the issue of what is meant by a ‘generation’, in the context of state pension provision, intergenerational equity is often represented as an equal contribution by each generation to fiscal balances (taxes paid and pensions received).³ This is usually taken to mean that currently working taxpayers, funding pensions for the previous generation of workers, now retired, should be able to rely on the same pension benefits when they retire, paid for by the next generation of working taxpayers.⁴ This is the basis of a so-called PAYGO (pay as you go) superannuation system, whereby current pensions are paid for out of current tax revenues.⁵ Coleman (2012) produced New Zealand estimates of net tax paid to fund pensions and the pensions received on average since 1976. These indicate that New Zealanders have typically paid taxes during their working (and retired) lives that amount to less than half the value of the pensions they receive.⁶

This may seem unsustainable, but need not be. Consider the New Zealand case, where the state pension is indexed to wages. In any accounting period pension expenditure, E_p equals the average pension received, p , multiplied by the number of pension recipients, N_p :

$$E_p = pN_p \quad (1)$$

In a PAYGO system the tax revenue required to pay for pensions, T_p , is levied in the same period and can be described by:

$$T_p = atwN_w \quad (2)$$

where t is the average tax rate applied to wages, w , N_w is the number of taxpayers, and a is the fraction of tax revenue used to finance pension spending. (For simplicity it is assumed here that only workers

pay tax, and only non-workers receive pensions.) Setting (1) equal to (2) gives the tax rate required to finance pensions:

$$t = (1/a)(pN_p/wN_w) \quad (3)$$

Equation (3) can be thought of as applying to different cohorts or generations, illustrating the components contributing to intergenerational equity. In particular, intergenerational equity might reasonably be taken to imply that the tax rate, t , should be constant across generations. Similarly, the fraction of tax revenue used to finance pensions (and hence unavailable for other public spending), a , should remain constant. This leaves the term (pN_p/wN_w) on the right-hand side of (3) and raises the question of whether intergenerational equity requires that p/w is constant across generations – a constant average pension relative to the average wage – or requires that the ratio of total pension spending to total wages, pN_p/wN_w , is constant across generations, or both.

If there is no population ageing, then N_p/N_w is constant and the question is irrelevant. But with population ageing, N_p/N_w will increase over succeeding generations such that p/w would need to fall to keep pN_p/wN_w constant.⁷ Thus, should intergenerational equity require that each *individual* in each generation is treated equally or that each generation *as a whole* is treated equally? The former view (p/w constant) inevitably implies less private spending in the later, more aged generation, and/or less tax to spend on other public transfers or services. But this also seems inconsistent with intergenerational equity.

A longer version of this article, Gemmell (2017), illustrates these impacts of ageing using an overlapping generations simulation for a simplified case where a new (equal-sized) generation, i , is born

every 30 years, and each individual works for 40 years, retires at age 65, then lives for a further 20 years. All individuals earn wages and pay tax at a constant tax rate while working, then receive a pension but pay no tax when retired. The pension level, p , is set at a fraction of the current average wage, w . Based on setting the $p/w = 0.25$ for each $i = 1 - 4$, the model yields values for total pensions (P_i) and tax revenues (T_i). Table 1 shows the resulting ratios of generation i 's pensions to their own tax payments, and to the tax payments of the next generation (P_i/T_i and P_i/T_{i+1}).

The table shows three scenarios: no ageing; ageing in the form of two years' longer retirement for each successive generation; and a ‘reform’ case where pension receipt for generations 2–4 is delayed by one, two and three years respectively. When there is no ageing both ratios remain constant across generations. However, with ageing (longer retirement), both ratios increase across generations and are inconsistent with intergenerational equity: later generations have to commit a higher fraction of their incomes to support the previous generation. The ‘reform’ case, however, moves the two ratios substantially towards the no-ageing case of $P_i/T_{i+1} = 0.46$ and $P_i/T_i = 1.5$, suggesting that suitable ‘tweaking’ of retirement ages in response to increased longevity can deal with those fiscal dimensions of intergenerational equity.

Finally, the above analysis assumes that policy continues to link future pensions to future wages. If this policy was to alter, for example by instead indexing pensions to price inflation, then, as equation (3) makes clear, there is greater potential for increased intergenerational inequity as p/w falls over time.

Non-fiscal intergenerational equity dimensions

Some recent arguments suggesting intergenerational inequities in current superannuation arrangements or the proposed reforms relate to other intergenerational equity dimensions. These include concern that baby boomers (born approximately between the mid-1940s and mid-1960s) have benefited from a particular generational advantage. They are a historically large cohort – due to the post-war ‘baby boom’ – which can afford to retire at or before age 65, and with expectations of a longer retirement period than previous generations. The allegation is typically that this advantage is at the expense of a larger burden on the current/next generation of wage earners to fund baby boomer pensions.

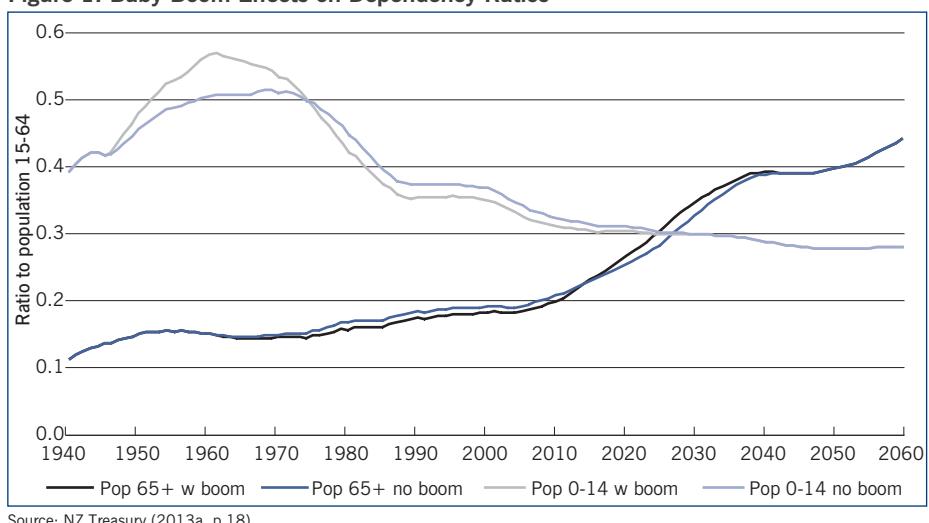
But this ignores two other important intergenerational equity dimensions. First, there are non-fiscal generational transfers *from* baby boomers *to* later generations. Second, most of the fiscal-related intergenerational equity phenomenon has little to do specifically with the baby boomer generation. Each of these argument is examined in turn below.

Transfers from baby boomers

The phrase ‘standing on the shoulders of giants’, used by Isaac Newton in 1676 to describe his scientific advances, also captures the externalities that each succeeding generation benefit from due to the advances (scientific, economic, social etc.) made by previous generations. Few would deny, for example, that the considerable sacrifices of the suffragette movement in the 19th century brought many and substantial benefits to later generations of women – and society more broadly – that far exceeded the benefits they themselves enjoyed from their efforts.

Likewise, the post-World War II decades witnessed increases in per capita incomes in New Zealand such that average real income in 2013 was around 2.5 times average real income in 1950.⁸ Reliably identifying the sources of this income growth is a complex exercise, but it undoubtedly arose in part in response to the entrepreneurial activity, innovation and investment by the post-1950 generation.

Figure 1: Baby Boom Effects on Dependency Ratios



Source: NZ Treasury (2013a, p.18)

Much of this would involve sacrifices of current consumption to generate higher future incomes which both reward the investing generation and provide a higher platform of living standards (the giant’s ‘shoulders’) that later generations can enjoy and from which they can launch further income growth. The baby boomer generation has therefore in some sense ‘bequeathed’ an externality of higher living standards on future generations, and from which their state retirement incomes are funded.

A baby boomer-specific problem?

Despite much popular rhetoric, the intergenerational ‘fiscal transfer’ due to population ageing is associated only to a limited extent with the baby boomer phenomenon. This is illustrated by Figure 1, from Treasury (2013a). This shows two forms of age dependency ratio: the population aged 65+, and the population under 15 years, both as ratios of the population aged 15–64 years. The figure covers the period from 1940, with future years based on Statistics New Zealand’s median demographic projections to 2060.

Two profiles are shown for each dependency ratio, based on (1) actual data (‘w boom’); and (2) a hypothetical ‘what if’ scenario assuming no baby boom in post-war birth rates (‘no boom’). It is clear from Figure 1 that, although there was a substantial boost to the under-15 age group in the mid-40s to mid-60s period, the impact of this 40–50 years later on the 65+ dependency ratio is relatively small.

The increasing upward trend in the 65+ ratio from around 2010 is not substantially due to the earlier baby boom. Rather, it is due to the various medical and other advances, especially in the post-war period, which raised the survival rates of children and the longevity of the elderly. Combined with a steady decline in fertility rates over this period, the outcome is a sharp rise in the 65+ age ratio which is first evident from the 1970s and is expected to continue for at least several decades into the future.

Debate over retirement income policy reform could, therefore, usefully focus more on how to deal fairly with a general and persistent ageing phenomenon (which, of course, brings many benefits to future generations), and less on whether baby boomers have gained some form of unfair generational advantage.

Educational (dis)advantages?

A commonly heard intergenerational equity argument regarding an especially favoured baby boomer generation relates to their state-funded education, particularly at the tertiary level. Whereas the costs of baby boomer tertiary education were generally heavily subsidised by the state, this is much less true for recent cohorts of tertiary students who have to privately fund a larger fraction of their tertiary education. With expectations of delayed retirement (via an increased age of eligibility for NZS), it can seem that current and future generations of young people are being fiscally squeezed at both ends of the life cycle, compared especially to baby boomers.

There is some merit to this argument. The growth in public spending in the post-World War II period was associated with unsustainably rising public debt, especially from the 1970s. It provided a sizeable subsidy to those 18–25-year-olds who entered tertiary education, but was progressively withdrawn from later cohorts when governments began to recognise the need for greater fiscal restraint in the 1980s.

However, before concluding that this post-1980s restraint represents an intergenerational inequity, it is worth noting two pertinent aspects. First, the fraction of the student-age cohort entering tertiary education has been steadily rising over the 20th century. As a result, the *total subsidy*

be argued that concerns about intergenerational equity should not simply focus on whether a given generation is treated fairly relative to *future* generations, but also with respect to *past* generations. By its nature economic growth necessarily treats early (relative to late) generations ‘unfairly’ by virtue of the lower living standards the former experience. Since this ‘inequity’ cannot be corrected *ex post*, it begs the question whether, with growing incomes, policy should aim to favour each current generation to some degree by utilising resources that would otherwise accrue to future generations. Of course, difficulties identifying how much favouring is appropriate and how inevitable

the especially rapid increase in the over 65s occurs around 2010–40. But changes to any pension arrangement require a reasonable lead time to give those approaching retirement opportunity to adapt to reduced future incomes. The best time to act – or at least to consider it seriously – was therefore well before 2010 so that suitable funding arrangements could be put in place and the relevant trade-offs addressed.

This was indeed the driving force behind the ‘Cullen Fund’ set up in 2001, to pre-fund the expected increase in NZS due to ageing, although substantial payments *out of* the fund are not expected until the 2050s at the earliest. So, there is an argument that the age of eligibility for NZS should have been raised some time ago to make it more fiscally affordable and to improve intergenerational equity. At least *notification* some time ago of an increase around 2020 would have made sense, enabling eligibility changes to better match the post-2010 boost in NZS spending. But, having delayed the decision to 2017, the proposed 20-year lead time before implementation represents a compromise between tackling the imminent fiscal ‘problem’ while giving those currently aged in their 40s and 50s enough time to prepare for delayed NZS receipt.

Gemmell (2017) compares the proposed lead times between announcement and implementation for NZS changes with similar reforms in various OECD countries. This suggests that the New Zealand government has selected one of the longer lead times for its NZS eligibility increase. Given the imminent sharp increase in the 65+ population noted above, arguably a shorter period before implementation could have been justified.

In summary, the ‘NZS ageing’ horse hasn’t bolted. Persistent population ageing will require continued scrutiny (and probably upward adjustment) of the age of NZS receipt. But, by delaying a decision to 2017, with implementation from 2037, recent New Zealand governments have bequeathed to future governments an imminent, rapidly growing fiscal commitment for NZS payments. This will undoubtedly lead to more difficult trade-

... by delaying a [eligibility rules for receipt of New Zealand Superannuation] decision to 2017, with implementation from 2037, recent New Zealand governments have bequeathed to future governments an imminent, rapidly growing fiscal commitment for NZS payments.

for earlier cohorts of students may be much less than that for recent and current cohorts. For example, data on university enrolment and population by age group shows that the ratio of enrolled students to all 15–24-year-olds rose from 4.2% in 1951 to 28.5% in 2013, and trebled from 1971 when most baby boomers were in the relevant age group.⁹ So, even if *per capita* real state subsidies to tertiary education are more limited for recent student cohorts, the *total* real tertiary subsidy seems likely to be greater. In addition, with greater numbers entering tertiary education recently, working life begins later, on average, for those cohorts.

Finally, it was argued earlier that, like generations before them, the baby boomer generation ‘bequeaths’ a positive externality on future generations in the form of higher living standards. However, it could

uncertainties surrounding future generations’ economic conditions should be treated render these intergenerational equity judgements extremely difficult in practice.

Has the horse already bolted?

Even if, in principle, raising the age of eligibility for NZS represents a move towards greater intergenerational equity, is the proposal to delay it to 2037–40 sensible?

As is well known, Prime Minister Key refused to consider increasing the NZS age when seeking election in 2008 despite Treasury showing that there was a strong case for considering it (Treasury, 2006). Labour finance minister at the time Michael Cullen was also rumoured to have dismissed the 2006 report as ‘alarmist tendentious nonsense’. As Figure 1 shows,

offs over the next 10–20 years over how far taxes should rise to pay for this increased fiscal burden, and how far to compromise on other public spending objectives potentially impacting disproportionately on those under age 67. However, both retired and working individuals over this period will be likely to face the consequences of those choices. Inevitably there is no single ‘best choice’ here. Decisions of whether and when to raise the age of NZS eligibility involve several interpersonal and intergenerational trade-offs where preferences and value

judgements legitimately vary across individuals.

- 1 Details of the changes and the case for change are set out in New Zealand Government (2017).
- 2 A cut of around 1% of GDP by 2060 is projected if the age of eligibility for NZS is increased to age 67 in the 2020s.
- 3 There are, of course, much wider definitions of intergenerational equity beyond fiscal dimensions. For example, environmental debates often focus on the intergenerational impacts on natural capital stocks: see Gemmell (2017) for more details.
- 4 How ‘the same pension’ is defined is often unclear in intergenerational equity debates. It could be defined as constant in real dollar terms, relative to the wages earned by retirees when they were working, or relative to the wages of the current workers paying the wages of current retirees.
- 5 The alternative is a SAYGO (save as you go) system, where each cohort of workers pays for its own future pensions through age-related savings schemes, usually involving some tax-favoured status. See Creedy and Van De Ven (2000).

The New Zealand system is essentially PAYGO with a small recent SAYGO element through KiwiSaver.

- 6 Coleman’s ‘pension-financing taxes’ are based on assuming that all the value of pensions paid in a given year are effectively entirely tax-funded, i.e. ignoring the allocation of any public deficit-financed expenditures.
- 7 Note that if the population ages purely via people living longer, this can be represented as a population increase for the additional years in which the relevant individuals now remain alive: see below.
- 8 See <https://data1850.nz>.
- 9 Census age groups are 15–19 and 20–24: see Gemmell (2017).

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Marie A. Brown and R.T. Theo Stephens

Big Issues, Bigger Solutions are bottom lines enough?

Introduction

The life-supporting capacity of New Zealand's environments has been much reduced and the pace of degradation shows little sign of abating (Ministry for the Environment and Statistics New Zealand, 2015). Few countries are experiencing greater biodiversity loss, more rapid freshwater deterioration or greater per capita increases in greenhouse gas emissions (Myers et al., 2013; Parliamentary Commissioner for the Environment, 2016; Gluckman, 2017). The climate is changing fast and it is already clear that a number of communities cannot be sustained for more than another decade or two in their current locations (Parliamentary Commissioner for the Environment, 2017).

Marie Brown is a researcher and consultant interested in good governance of the environment. Theo Stephens is a retired conservation scientist interested in understanding why good governance of the environment is so elusive.

The degradation of fresh water and loss of freshwater ecosystems is currently the most observable, culturally offensive and publicised environmental issue. Pathogens in drinking water are causing serious illness in increasing numbers of people, and it is only a matter of time before the availability of fresh water and its pollution constrain the national economy (OECD, 2017). However, freshwater management is only one of a range of environmental problems that diminish our quality of life and threaten our well-being.

The politics of environmental management have been brought into focus over the current election cycle, but environmental connections with social and economic management have yet to capture public attention. Economic and social issues such as New Zealand's dependence on commodity exports, weaknesses in the tax system, high levels of private debt, wealth inequality, land price inflation and the housing crisis are typically debated separately and without recognition of the potential for environmental policies to contribute to their resolution. Given the plethora of competing and serious issues, the electorate may be looking for more than vague assurance and marginal improve-

ment this year. Here, we suggest that principled integration of novel policies and institutions across environmental, economic and social realms is necessary to make the best of opportunities and minimise the pain and suffering of restructuring.

The policy debate

The fundamental issue for New Zealand is that social, environmental and economic sustainability is simply not possible under current policy settings, and therefore a wide-ranging and potentially painful restructuring is inevitable. Winning sufficient and timely public support for reform is one problem; another is how reform should be designed to make restructuring as orderly and fair as possible.

Central to environmental policy debates is whether it is reasonable for the public to impose constraints on private economic opportunity reliant on consumption of public environmental goods. Those debates unfold quite predictably, because many of those in power depend on support from private interests who are concerned with protecting their right to extract from nature at minimal cost. The interest of the general public in maintaining environmental quality is typically diffuse and politically weaker. Consequently, policy debate is usually dominated by private concerns about additional costs and loss of commercial returns. Although many rally to defend environmental values that are less easily expressed in dollars, there is little political motivation to properly address their concerns, and few actions are undertaken that result in improved environmental outcomes.

The framing of policies depends on beliefs about the fundamental drivers of environmental degradation. A popular narrative is that the main causes of degradation are lack of knowledge about natural values, overestimation of nature's assimilative capacity, and ignorance about less damaging ways to do things. From this belief, it follows that appropriate and reasonable policies provide information, education and awards, with regulation and sanction only as a last resort. An alternative narrative is that harming the

environment is a crime that should simply be strictly regulated and penalised. We think it is abundantly clear that neither approach alone is tenable in New Zealand: the first is clearly insufficient to halt ongoing environmental degradation, and the second politically unsustainable.

A technocratic narrative and belief – the one we represent here – is that environmental degradation results from the unequal power of public and private vested interests. The benefits of environmentally degrading activities are usually attained rapidly and are concentrated in the hands of comparatively powerful, motivated and organised private interests whose rational interest is

forward by a consortium of academics, NGOs, industry representatives and others (the 'freshwater rescue plan' available at <https://www.freshwaterrescueplan.org/>). As a contribution to that trend, in this article we discuss two approaches that could potentially be taken to solving New Zealand's environmental problems – one essentially regulatory, and the other essentially economic. Both, of course, rely on sufficient mandate for reform.

Solving the problem

New Zealand could add a suite of clearly defined bottom lines to its present regulatory approach to addressing environmental harm. The aim would be

The integrated economic approach uses a suite of taxes and trading schemes to promote efficient use of the natural environment by recovering environmental costs, restraining environmental consumption ...

to maximise private benefit. The environmental costs of their activities are longer term, cumulative and dispersed. Costs are largely borne by members of the wider public (including future generations), who, though numerous, are comparatively disorganised and distracted, with more limited access to power. This allows the overall costs of environmental degradation to substantially exceed the value of benefits extracted.

Unfortunately, the only way out of this entrenched pattern is for those who represent public interests in the environment to organise and mobilise more effectively to win a mandate for the external costs of development and production to be absorbed by those who reap most benefit. This requires political activism. But having gained that mandate, meaningful change will require cohesion and clarity in the solutions proposed. There are signs of this emerging, for example in the recent proposal put

to issue consents and allow for permitted activities only within a carefully defined system of biophysical bottom lines for all aspects of concern (nitrogen, phosphorus, sediment, pathogens, abstractions, discharges, run-off, greenhouse gas emissions, habitat protection, landscapes, threatened species and biodiversity, etc.). In this approach, bottom lines are negotiated via planning processes and implemented via consenting processes, and compliance with conditions and limits is strictly enforced. In this scenario, regulatory plans and consents constrained by bottom lines form the system of defence against social and economic drivers of environmental degradation. This puts environmental regulation in competition with social and economic goals, leading to a focus on trade-offs instead of the wider benefits potentially available with policy integration.

An alternative approach, usually framed as 'polluter pays', is essentially economic.

The integrated economic approach uses a suite of taxes and trading schemes to promote efficient use of the natural environment by recovering environmental costs, restraining environmental consumption and, most importantly, contributing to the resolution of social and economic problems. This approach is underpinned by plans based on environmental goals, the regulatory biophysical bottom lines to achieve those goals, and systems to administer the purchase of resource allocations. We posit that bottom lines act as cap parameters for the resource trading schemes and that resource consents create the right to purchase a portion of that resource cap.

Economic approaches along these

person has an environmental footprint from which private benefits are obtained.

Many private benefits gained from land ownership and environmental footprints fall outside our current tax system. This creates investment bias towards property ownership and environmental degradation. This investment bias has driven growing concentration of wealth among property owners and contributed to current social and economic issues, including:

- housing affordability due to property price inflation relative to income growth;
- lack of affordable housing due to tax-driven bias towards investment in

insufficiently addressed by the footprint tax. The footprint tax is a land tax levied annually on all landowners according to property area and footprint depth estimated from the level of environmental degradation discernible from satellite imagery. This form of tax was first proposed during property tax reform discussions in Germany (Bizer and Lang, 2000, cited in Brandt, 2014) and has been further developed for the New Zealand context by Stephens et al. (2016). In essence, the footprint tax is an annual payment to the public purse for private benefits now gained from past consumption of public environmental goods. The tax creates incentives for maintenance and restoration of biodiversity and ecosystem services. It is a form of economic instrument suitable for maintaining aspects of the environment that cannot be addressed by resource trading schemes. Biodiversity and landscape quality are important aspects of the environment that defy quantification by simple units of measurement needed for resource trading schemes to operate. We assume that revenue from environmental taxes will be partly recycled via cuts to other taxes such as income, company and GST.

The footprint tax cannot provide certainty about environmental outcomes because specified bottom lines are not a part of its design. Furthermore, evidence from satellite imagery is a poor proxy for some critically important aspects of environmental consumption (e.g. water takes, nitrogen loading and greenhouse gas emissions) that are unlikely to be sufficiently reduced by the footprint tax. Therefore, resource cap-and-trade schemes will be needed to create the additional incentives necessary to achieve desired outcomes. These schemes depend on the existence of negotiated regulatory bottom lines to create a ‘cap’ for the trading system. The cap provides certainty about the overall quantum of emissions allowed and must be easily defined in commodity units, such as litres of water, *E. coli* cells per litre, kilograms of nitrogen and tonnes of CO₂ equivalents, in order to be able to be divided fairly. The trade of individual allocations promotes efficient resource use and provides flexibility for

The footprint tax cannot provide certainty about environmental outcomes because specified bottom lines are not a part of its design.

lines have been proposed and some are active in particular areas (for example, Lake Taupō nitrogen trading). While such piecemeal economic approaches (such as regional-scale water, nitrogen and carbon trading) could support achievement of some bottom lines, they are unlikely to contribute much to resolution of wider environmental, social and economic issues. The real value of an integrated economic approach lies in environmental policy tools being specifically designed to help resolve issues in other policy realms. This is the essential difference that distinguishes the integrated economic approach from the regulatory bottom lines approach.

Our conception of the integrated economic approach is founded on the following ideas:

- the tax system should tax all forms of benefit equally in order to be fair and minimise harmful economic distortion;
- a fair polluter-pays approach would touch every individual because every

large properties and deep environmental footprints;

- investment bias towards commodity production businesses with large environmental footprints relative to small-footprint, value-adding enterprises;
- high levels of foreign-owned private property debt now posing a risk to financial stability.

A comprehensive system of land and environmental taxes is necessary to correct the social and economic damage resulting from its absence. Implementation of such a system presents opportunities to raise productivity and well-being by shifting the tax base away from social goods such as employment, enterprise and trade and on to social bads such as environmental degradation, harmful products and high-risk activities.

We envisage an integrated economic approach comprising a tax on everyone’s environmental footprint, supplemented by resource-specific cap-and-trade schemes to address environmental issues

businesses to respond to increased environmental costs in whatever ways best suit their particular circumstances. In addition, resource-specific taxes, also termed royalties, may also be applied as recompense for the private consumption of publicly owned resources and to cover administrative costs. These taxes can be stand-alone systems (e.g. royalties on mined minerals) or built into trading schemes as a charge per unit. The charge may be fixed or determined by auction.

The distributional characteristics of both the footprint tax and resource trading schemes are highly progressive. Land area owned and footprint depth (i.e. environmental resources consumed) are strongly correlated with wealth. However, if that wealth is largely debt funded, then the footprint tax and/or the cost of obtaining resource allocations will be problematic for its owner. Clearly a generous transition period will be important to provide time for financial restructuring, but other solutions may also be appropriate. One is to distribute footprint tax liability according to owner equity so that the owner is liable only for the portion of the business or property owned and the lender is liable for the debt-funded remainder. This would give financiers some much-needed incentive to consider the environmental costs of the enterprises they lend to. The other solution is to defer payment, potentially until the land is sold.

We anticipate that the corrective contribution of environmental taxes to social and economic goals should confer acceptability and resilience unattainable with environmental policy that is independent of, or in competition with, other goals. Furthermore, opposition to environmental reforms may be assuaged by accompanied lowering of income and company tax rates, plus the marketing opportunities provided by known and diminishing environmental footprints.

Costs and benefits of the two approaches

On their own, regulatory bottom lines are minimum standards that in theory should protect the public interest in nature from the damaging activities of humans. They have several key ingredients: limits that stakeholders can abide (so they

actually make it into policy); a regulated community to adhere to them; and an agency to take action when they do not. The benefits of regulatory bottom lines include:

- clear thresholds that are publicly known;
- an indication of agency commitment to addressing a given issue;
- some assurance that minimum protections are in place over which extraction and use of resources is allowed; and

reliance on consent monitoring and enforcement to bring about behaviour change. This may be expensive, costs may be difficult to recover from environmental consumers and poor outcomes are likely (Brown, 2017).

- Bottom lines are also likely to conflict with existing social and economic objectives and can thus be subject to long-running and litigious argument.
- The benefits of the integrated economic approach include:

Environmental management seems certain to be an important election issue, both in 2017 and over the coming decades.

- simplicity, in that there is little need for engagement and integration with other policy realms.

However, costs and uncertainties of regulatory bottom lines can be significant. They include:

- Planning processes may be expensive and cumbersome as environment–economy trade-offs are contested in the absence of accompanying economic institutions.
- Pollution rights are allocated on a first come, first served basis and there is no mechanism to transfer these rights to the most efficient resource users. This is a constraint on economic productivity.
- Outcomes are uncertain, because parties whose activities may cause environmental damage are likely to contest the parameters of bottom lines or to render them too high to drive sustainable behaviour.
- Parameters may not be technically straightforward to set: they will of necessity be numerous, and will need to differ among locations and may require frequent adjustment.
- Weak incentives to adhere to regulatory limits place significant contributions to amelioration of systemic social and economic sustainability issues;
- increased supply of ecosystem services and reduced area of land unable to supply basic ecosystem services;
- better care and maintenance of natural areas on private land;
- outcome certainty created by bottom lines required for cap-and-trade schemes; and
- improved economic productivity as resource use rights transfer to the most economically efficient users.

The costs of implementing such ambitious reform are substantial and include:

- design, including understanding the effects on environmental and investment behaviour sufficiently to achieve desired social, economic and environmental goals and avoid or remedy potentially perverse outcomes;
- that vested interests may be able to influence the design of economic instruments to the extent that the desired incentives and revenues are unachievable (Leining and Kerr, 2016);

- setting up the institutional and administrative arrangements to implement novel systems for which extant public agencies are probably not well equipped (which will include disestablishing agency functions made redundant by these systems);
- potential failure of businesses that cannot afford to pay environmental costs (because their present model relies on common resources provided at no charge).

Proposed or recommended course of action

Environmental management seems certain to be an important election issue, both in 2017 and over the coming decades. Few days go by without concerns about freshwater degradation, climate change or biodiversity loss being expressed

rising bottom lines and tighter regulation are more feasible if the components of our environmental and economic systems do not work against each other as they do at present. We propose an integrated national suite of economic instruments based on the polluter-pays principle to address environmental problems and many systemic economic and social sustainability issues as well. It has three major components:

- a tax on everyone's environmental footprint akin to that proposed by Stephens et al. (2016): a form of land tax on every landowner's environmental footprint, with inbuilt economic incentives for best-practice land use, sustainable management of natural values, including permanent forest sinks, covenanting of significant

restrictive to ensure that prices paid provide net revenue after administrative costs;

- robust monitoring and reporting on outcomes to enable the success of different approaches to be evident to the public and for scheme adjustments to be made in order to improve effectiveness and fairness.

The overall system should be designed to generate substantial revenue. Public support for implementation is likely to be stronger if revenue is used to lower taxes on social goods such as employment and trade and to fund social and economic objectives. Its success could be enhanced by ending environmentally degrading funding (such as that for mass irrigation in dryland environments, and for fossil fuel exploration and production). Some revenue should be returned to Māori in recognition of Treaty of Waitangi rights, and some used to help turn around centuries of freshwater and wetland degradation.

In the background there will need to be a concerted effort to limit the influence of vested interests in environmental governance. Much environmental degradation has been enabled and promoted by political and agency capture (Office of the Auditor-General, 2011; Clare and Krogman, 2013; Brown et al., 2015; Brown, 2017). The auditor-general has recognised this and plans to examine several aspects of the problem in 2017–18. It is also the subject of action 7 in the recently released freshwater rescue plan mentioned above. Policy solutions are needed that motivate politicians and agency managers to resist pressure from vested interests and promulgate effective policy solutions that protect the public interest in social, environmental and economic sustainability.

Owners of highly leveraged businesses involving intensive land uses would be most affected by our policy prescription. Liability would be large relative to profit (made small by debt-servicing costs) and any company tax cut would be likely to be small relative to environmental payments. In contrast, people with little property on low incomes are likely to be very much better off. Members of this group typically have small environmental footprints and

Policy solutions are needed that motivate politicians and agency managers to resist pressure from vested interests and promulgate effective policy solutions that protect the public interest in social, environmental and economic sustainability.

in the mainstream media. Recent attempts to introduce and lift New Zealand's environmental bottom lines and tighten regulation for fresh water have not yet been successfully implemented in the face of conflicting economic policies and without adequate economic incentives. To address its environmental problems, New Zealand clearly needs major policy reform, not the legal and policy fiddling witnessed to date.

If environmental policy is to be aligned with social, fiscal and economic policies, or at least not in conflict with them, then economic instruments to incentivise efficient use of the environment and give private interests plenty of choice about how to manage individual liabilities may be more politically viable than conventional approaches relying on regulated bottom lines alone. Gradually

habitat and other restoration initiatives;

- cap-and-trade systems for greenhouse gases, nitrogen and water take. Regulated bottom line caps, set at a national level for greenhouse gases and at local catchment scale for nitrogen and water but subject to overarching national cap-setting rules to protect wider public interests, must underpin each system. For example, people downstream need their interests protected from the excesses of those upstream. The right to use a resource (the consent) should be distinct from the amount of resource that can be used (the individual's allocation). This should be purchased by auction to encourage the transfer of allocation to the most efficient users. Caps should be sufficiently

would be beneficiaries of any accompanying income tax cuts. Their environmental costs would lie in what may be passed on in rents and in the higher cost of consumer products with large environmental inputs. The ultimate winners could be those living in apartment buildings. Although the footprint of an apartment block is deep, it is small in area and shared by many people. Ordinary suburban home owners with land of only a few hundred square metres would feel

more impact, but some may nevertheless be better off following cuts in other taxes.

In summary

Environmental degradation is more and more evident to the voting public. A new government in 2017 will take power at an important crossroads for the sustainability of New Zealand's social, economic and natural systems. Progress towards sustainability will require rather more ambitious proposals than have been implemented in recent years. The

best chance of success will come from robust regulatory changes, backed with effective and responsive policy solutions that integrate environmental objectives into the economic and social policy context. These initiatives will be most likely to occur in a context that dilutes the influence of extractive interests and better provides for the interests of future generations.

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EARLY
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Te Kura Kāwanatanga

Paul Conway

PRODUCTIVITY and Changing Technology

An orbital-class rocket with a 3D-printed engine launches into space from the Māhia Peninsula. A self-driving car crosses the Auckland Harbour Bridge. A pizza company begins testing delivery using airborne drones. While these may sound like things of science fiction, they are in fact stories that have been in the New Zealand media over the last year.

These stories provide a glimpse of how technology is changing. Changes are not just happening around the edges but could be as disruptive to models of production as earlier industrial revolutions. As the World Economic Forum noted:

The First Industrial Revolution used water and steam power to mechanize production. The Second used electric power to create mass production. The Third used electronics and information technology to automate production. Now a Fourth Industrial Revolution is building on the Third, the digital revolution that has been occurring since the middle of the last

century. It is characterized by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres. (Schwab, 2016)

New technologies associated with a fourth industrial revolution include advanced robotics, artificial intelligence, autonomous vehicles, nanotechnology, the internet of things, biotechnology, 3D printing and quantum computing. This short article discusses in broad terms what these new technologies could mean for New Zealand.

Given our geography (our distance from major markets) the news should be good: there are opportunities from a shift

to a more ‘weightless’ economy based on trading knowledge-intensive products down fibre-optic cables (Skilling and Boven, 2007; Conway, 2016). However, getting to that point takes time, as innovation runs ahead of people’s capacity to adjust. So rapid technological progress, while ultimately improving productivity and living standards, carries with it the risk of a period of disorienting and uncomfortable change. Policy action is required to make the most of rapid technological change and mitigate any negative side effects.

Productivity and economic development

Since the global financial crisis, New Zealand has enjoyed good growth in average income compared to most other OECD economies. Labour participation is strong and our public finances are in relatively good shape. But one area holding the economy back is our persistently weak labour productivity, which is a measure of the economy’s ability to turn resources into goods and services. Between 1995 and 2014 labour productivity growth in New Zealand was the fourth lowest across OECD countries (OECD, 2016a).

This is important for a number of reasons. First, productivity is a major

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income driver: for example, the wages of New Zealand workers increase more rapidly when labour productivity growth is strong (Conway, Meehan and Parham, 2015). So with weak productivity growth, many jobs created by New Zealand's strong labour market are low value-add and do not pay very well.

Improved productivity is not just about higher incomes. By delivering more for less, higher productivity brings more opportunities and choices. For the country this means better quality services such as health care and education; excellent roads and public transport; safer communities; stronger support for people who need it; and a 'cleaner and greener' environment. For individual New Zealanders, productivity improvements mean more choices and a higher standard of living, including more time available for leisure (Conway and Meehan, 2013).

Making the most of new technology

Over the last 10-15 years the world's leading firms in a number of different industries have experienced strong productivity growth as new technologies and ideas have driven improvements in efficiency and value-add. In contrast, a long tail of firms with slow productivity growth that are unable to keep up with leading firms has also emerged (OECD, 2016b). This growing 'productivity gap' between leading and lagging firms highlights a stalling in technology diffusion and helps explain why aggregate productivity growth has slowed in a number of countries from the mid-2000s, despite good productivity gains by global frontier firms. It also offers a potential explanation for increased dispersion in household incomes in many countries, as greater productivity differences across firms translate into greater wage inequality (*ibid.*).

With 'stickiness' in technology diffusion, the movement of resources across firms is also a key productivity driver. Economies in which labour and capital flow more easily to productive firms enjoy higher aggregate productivity growth than economies in which resource allocation is more rigid across firms.

Resource reallocation is particularly important when technology is changing

rapidly. The productivity gains from innovation are magnified when innovative firms quickly gain market share and expand at the expense of unsuccessful competitors. Making the most of new technologies associated with the fourth industrial revolution also implies changes in economic structure, highlighting the importance of smooth resource reallocation from 'sunset' to 'sunrise' industries.

The New Zealand experience

The New Zealand Productivity Commission's work shows that technology diffusion and resource reallocation do not work as well as they could in New Zealand.

resources employed by relatively small and old firms.

Disconnected and stuck

There are a number of underlying reasons for these weaknesses in technology diffusion and resource reallocation. First, most New Zealand firms operate in very small markets. Compared to other small countries, New Zealand firms are not well connected internationally and domestic markets are often small and insular, particularly in the regions. So technology diffusion is weak and productive firms cannot grow and expand, while unproductive firms do not feel the heat of competition and exit.

The New Zealand Productivity Commission's work shows that technology diffusion and resource reallocation do not work as well as they could in New Zealand.

While some firms are very successful, productivity growth in leading New Zealand firms more generally has been much less than in leading international firms, suggesting limited international technology diffusion.

Productivity spillovers within the domestic economy have also been relatively slow, especially in some service industries and the construction industry. Many firms in these industries operate in small local markets insulated from competition and learning opportunities.

Productivity-enhancing resource reallocation is also weak, with a disproportionately large share of employment and capital employed by low-productivity firms (Meehan, forthcoming). Further, firms are born small in New Zealand and grow much more slowly than in other OECD economies, particularly service-sector firms operating in small and insular regional markets (Meehan and Zheng, 2015). This indicates a lack of 'up or out' dynamics, with a large share of productive

Second, the economy is capital shallow: investment is low as a share of GDP and especially relative to employment. In part this reflects fast population growth, including strong migration inflows. The cost of capital in New Zealand may also be relatively high – we have a significant real long-run interest rate premium – while labour is relatively cheap. This might also contribute to low capital per worker.

Third, indicative evidence suggests that New Zealand firms have been slow to invest in knowledge-based assets, which are becoming increasingly important in driving productivity improvements. For example, investment in R & D is low, and the available evidence suggests that managerial capability is weak within New Zealand firms. New Zealand firms do not seem to be incentivised to turn themselves inside out to make the most of new ideas and technologies.

Importantly, aspects of this story are self-reinforcing (Figure 1). For example, New Zealand firms are small because they operate in small and insular markets.

Figure 1: Drivers of impaired diffusion and reallocation



So they struggle to learn from global frontier firms and have limited revenues to invest in capital, including knowledge-based assets. In turn, this restricts productivity growth, making it more difficult for these firms to connect into larger international markets. And so it goes.

What this means for policy

Policy needs to adapt as our understanding of the underlying reasons for New Zealand's poor productivity performance and the opportunities and risks implicit in the fourth industrial revolution improve. As such, a key challenge is to better integrate our growing understanding of these issues into the policymaking process. Data and economic research can play a powerful and practical role in developing policy and monitoring its impacts. After all, public policy has a much greater chance of success when based firmly on the economic evidence.

A reform agenda

Improving productivity is the most

important public policy issue for lifting living standards and fostering inclusive, sustainable economic growth in New Zealand. With this in mind, the Productivity Commission recently published a 'productivity narrative' laying out a high-level reform agenda aimed at attacking the economic feedback loops that restrict New Zealand firm productivity (Conway, 2016). The Commission has now also published ten inquiries on various topics, which include a large number of detailed policy recommendations aimed at improving performance in specific areas.

In a nutshell, the policy challenge is to improve the flexibility and resilience of the New Zealand economy, with an emphasis on adapting to change, rather than resisting it. This includes a trade policy refresh designed to facilitate New Zealand firms engaging in new ways internationally. With new technologies changing the global trading environment, a growing window of opportunity is opening for small firms in remote

locations to exploit highly specialised niches within global value chains.

To make the most of these opportunities, policy needs to help build comparative advantage in new areas of economic activity. Most importantly, a highly skilled labour force enhances the economy's ability to acquire and absorb new knowledge and win the race between education and technology. As such, New Zealand's education system must become more flexible and responsive to demands coming out of the labour market. A strong and deliberate focus on high-skilled migration would also help lift human capital in potential areas of comparative advantage, while improvements in the housing market would allow more people to live where their skills are most valued.

The science and innovation systems could also do more to build deep pools of relevant knowledge and expertise. A greater focus on research areas in which New Zealand firms have strengths and the possibility of global visibility – such as the primary sector, digital effects and business software – could be part of this strategy. For example, reducing agricultural emissions, which is critical if New Zealand is to meet its climate change objectives, could generate valuable frontier technologies for New Zealand firms to roll out internationally. More generally, negative externalities of various kinds need to be properly priced to avoid encouraging environmentally damaging activities.

The performance of the services sector has an increasingly important impact on the extent to which New Zealand firms can connect internationally. As such, policy changes aimed at lifting competition in the services sector would help build comparative advantage for firms operating internationally and improve resource allocation more generally.

While this agenda entails an active role for government, it would not mean picking winners at the individual firm level. Rather, the focus needs to be on supporting thematic platforms, with associated investment in research and information dissemination, regulation, skills and world-class infrastructure.

Even if policy is set just right to ensure that the productivity benefits of the fourth

industrial revolution are large and widely spread, a social safety net will still need to catch people who fall through the cracks and equip them to bounce back. Accordingly, policy must ensure that social support and services function effectively to deal with the side effects of rapid technological change.

As our understanding of the links between policy and productivity grows – for example, the impact of tax settings on productivity growth – these policy suggestions will adapt and evolve.

The Business Growth Agenda

In response to New Zealand's productivity challenges and opportunities, the government has implemented the Business Growth Agenda, with the aim of building a more productive and competitive economy. The Business Growth Agenda is structured around six key themes: export markets, investment, innovation, skills, natural resources and infrastructure. In addition, there are three cross-cutting themes: Māori economic development,

regional economic development and regulation.

The Business Growth Agenda is targeting key areas in which improvements in policy and performance would help break the economic feedback loops that have constrained New Zealand's productivity performance. However, as discussed in detail in Conway (2016), the agenda needs to be strengthened to reflect our growing understanding of New Zealand's poor productivity performance if it is to achieve its objectives.

Conclusion

The fourth industrial revolution poses some new challenges and opportunities for the New Zealand economy. To an extent, the impact of these changes is already being felt, with some promising recent signs, such as increasing export diversity and a growing high-tech sector. This suggests that in some areas of economic activity the forces that have worked to limit the productivity of New Zealand firms may be loosening their

grip. For example, with dramatic falls in the price of transmitting data over distance, a window of opportunity is opening for some firms to engage in new ways internationally. This trend is likely to continue, given the 'servitisation' of manufacturing and strong growth in digital products that can be marketed and delivered worldwide through fibre-optic cables.

Making the most of these opportunities and avoiding the risks requires some fresh policy thinking. Nothing is guaranteed and unless we work on understanding and addressing New Zealand's productivity weakness, we may fail to make the most of the opportunities these new technologies could provide. The challenge is to continuously inform and improve policy in line with our growing understanding of the reasons for low productivity. Only then will productivity-enhancing innovations, such as those mentioned in the first paragraph above, become the basis for strong, inclusive and sustainable economic growth.

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John Yeabsley and Chris Nixon

Quality Regulation why and how?

Regulation: where is it? What is it?

Is this a real issue?

A hundred days out from the election a number of issues are buzzing: housing, immigration, water, climate change, electricity bills, and the perennials, economic growth, incomes and taxes and law and order. Based on previous contests, some of these will become the raw material of the political debates while others will fade to the background.

So why are we writing this piece about the quality of our regulatory system? The simple answer is that most of the things mentioned above depend to a greater or lesser extent on the working of one or more aspects of the regulation system. So, despite the lack of visibility, its effect is widespread and it is going to feature one way or another in the campaigns.

We are focused on economic aspects of regulation and on the high-level design factors that ensure that our regulatory mechanisms are fit for purpose, and

remain fit for purpose. Limited space means we will not deal with operational quality and the need for skilled people to deliver the services effectively.

How do we think about regulation?

Regulation is difficult to define, but Black (2002) has identified three ways in which state authority is exercised to change behaviour. Regulation is:

- the promulgation of rules by government accompanied by mechanisms for monitoring and

enforcement, usually assumed to be performed through a specialist public agency;

- any form of direct state intervention in the economy, whatever form that intervention might take; or
- all mechanisms of social control or influence affecting all aspects of behaviour from whatever source, whether those mechanisms are intentional or not.¹

Regulation takes many forms. It can be legislation, standards, advice, education or exhortation, legal rules, codes of practice (formal and informal), or a combination of these. Regulation includes domestic laws and international treaty commitments; it comes from international bodies, central, regional and local government, and self-regulation.

Regulation design is usually about choosing a balance between the various aspects of the issue, positive and negative. Clearly, some members of society get enjoyment out of alcohol, gambling and illegal substances such as marijuana. However, there are downsides. The sweet spot is not fixed. By ‘the sweet spot’ we mean getting the right balance, which – in this instance – reflects societal views (e.g. as proxied by current regulation), current scientific knowledge (e.g. around addiction), overseas trends (e.g. partial

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legalisation of marijuana in US states) and the ability to implement (are the regulations workable?).

What's at stake?

So regulation abounds. But the role of the modern state is complex and covers subtle goals. Its aims in economic management go beyond just growth, particularly as we become more wealthy. Income distribution, safety at work and at play, the state of the environment, our views of what is right – all are vital features in the design of the regulatory system in 2017.

Regulation affects our efficiency, in terms of both cost impositions and how easy it is to innovate. For example, it is much easier now to set up a company in New Zealand than ever before; however, businesses are monitored much more closely. It is highly unlikely that root stock from the Hayward kiwifruit variety, which became the basis of the kiwifruit industry, would be allowed into New Zealand under current regulations. This creates fundamental challenges and opportunities for our international competitive advantage.

Like other aspects of our institutions, this system is surrounded by, and acting in, a constantly changing environment. To stay up with the play the system's components need to be designed to flex and adjust.

The New Zealand Productivity Commission has put some numbers around the effort the state makes: 'New Zealand has a large and complex regulatory sector, made up of 200 or so regulatory regimes. More than 10,000 people work in regulatory roles' (Productivity Commission, 2014, p.1). Further, the regulatory reform project (2011–14)² and the Productivity Commission identified that the quality of regulation is important. The regulatory system underpins economic and state activity, seeks to protect the rights of people and their property, delivers goods and services in an efficient and equitable fashion, and encourages innovation.

The real impact (as intimated above) is the constraining of the range of economic activities possible. While tighter guidelines can produce new, more useful (to society) innovations – for example, greater incentives for greener technologies

create greater demand for more efficient electricity storage batteries – poor regulation can rule out useful innovations.

Where are we?

Efficiency given societal norms

The purpose of New Zealand economic regulation is to 'promote and protect a market based economy that increases economic growth and maximises the wealth and prosperity of society' (Scott, 2011). Like Australian and United States law, our focus is on economic efficiency. Economic efficiency needs to be considered in the light of the institutional

controls. The results were mixed. While efficiencies were achieved and some regulatory approaches have been successful (Searancke et al., 2014), privatisation and regulation of telecommunications did not have the desired impact.

The light-handed approach was not just a New Zealand problem. The failure to regulate financial institutions has been cited as one of the main contributors to the 2007–08 global financial crisis. Locally this approach was superseded by a ministerial enquiry and the creation of a more heavy-handed regime in part 4 of

Better regulation benefits all, while mis-specified, poorly designed or badly implemented regulations have significant costs.

settings that determine the social, cultural, environmental and economic behaviour of New Zealanders. Regulations frame the political discourse; decision-makers focus on the specific policy trade-offs, and the institutions form the mechanism by which the state carries out its functions.

Better regulation benefits all, while mis-specified, poorly designed or badly implemented regulations have significant costs. Therefore, given the dynamic environment, the stock of regulation should always be under scrutiny. This is especially pressing since we have no cookbook solution to achieving 'better regulation', and even after it is enacted we have a monitoring problem.

Good regulation uses sound principles, but is fit to the situation. It is thus always under review, as situations are fluid. So the best regulation systems include the ability to adopt a plan B as part of the design. As an example, in the 1980s the creation of state-owned enterprises out of government monopolies (electricity, telecommunications and railways) gave rise to economic regulation. The initial approach to network industries (Mladenovic, 2011), was a 'light-handed' regulatory stance with the threat of

the Commerce Act. This brought us more into line with other OECD countries. Internationally, the light-handed approach did not deliver a convincing framework for further integration with our near neighbour Australia and other Pacific Rim trading partners.

The current settings are a series of regulatory interventions that focus on specific problems (electricity, housing, immigration, etc.). There are inconsistencies: how we value saving a life, for example, depends on what services you access – search and rescue, health, road accident. There are good practical reasons for this, which often have more than a little to do with international practice (in health and safety, the Robens model in the 1970s, for example), and deal with the presenting issue but lack a well-developed, consistent intellectual framework. They are also subject to political boundaries rather than logical ones. What determines the inclusion of industries in a closely monitored regulatory regime, and how do airports stay out? Why is the limit of lightly regulating consumer trusts set at a fixed number of consumers? Why did it take another – they occur at about 30-year intervals – mine tragedy to bring about

reform of the health and safety policy approach?

Another vital design consideration is the clear economic and social advantage of a relatively stable set of institutions (North, 1991). This points towards ‘durable policy settings’ (NZIER, 2016). The simple case is to design interventions that are able to stand considerable change in the environment without being forced back to the drawing board.

Improving regulatory durability in a dynamic environment

How can designers maximise chances of durability in a dynamic system? By durability we mean a focus on policy and

‘cut them off at the pass’ model will not prevent citizens from having access to internet-borne materials. A different approach is called for. Typically it entails thinking harder about the mischief: just what is it about pornography that is socially objectionable, and how should it be controlled? Previously the physical manifestation was the problem, so its control was the aim.

Discussions about uniqueness in relation to regulation typically stress the value of being able to choose our own way of doing things. In a closely related point, discussions often become strongly emotive about ‘sovereignty’. The key issues are understanding the elements of

Regulation is often driven by a messy political imperative to do something. Regulation is undertaken with fuzzy objectives and problem statements that address symptoms, not root causes. The mechanisms in place to evaluate, monitor and review tend to be weak and lack resources.³ In the experience of the New Zealand Institute of Economic Research, in its quality reviews of policy papers, monitoring and review components are often seen as add-ons, not integral to the policy paper design. This leads to more resources being put into devising new regulation and a lack of detailed learning from past regulatory efforts, characterised by the Geoffrey Palmer quip that ‘New Zealand is the fastest lawmaker in the west’.

Regulation requires special measures because it has features that set it apart from other forms of intervention. Active evaluation of the stock of regulation is needed to prevent failure and remediation in the climate of blame.

Using the right tools and techniques to demonstrate what changes need to be made is a crucial part of reaching desired regulatory aims and objectives.

how designers meld the politics, efficiency and effectiveness and implementation objectives in a dynamic setting. Recognising this, the Treasury has created a demand by insisting on, from other government agencies, a whole-of-system, life cycle view of regulation that includes monitoring and care of systems (Treasury, 2017a).

The regulatory reform project identified cross-cutting themes where improvement in design and system features can have a significant impact. The following themes have an impact on regulatory quality and durability.

New Zealand-centric features

Features of New Zealand society are unique. They affect the way we want to live as well as creating the conditions under which we live. One example is the ‘iron laws’ of geography, which mean we are isolated. They also mean we are dwelling on land surrounded by water. The island border becomes a natural regulatory device. Thus, Customs and other border agencies have long had a special regulatory function. But as technology changes, so does the fit of the intervention: the simple

uniqueness, their value and how they might be reflected in specific regulation design (if at all).

Certainty and discretion

Certainty and discretion affect the quality and durability of regulation. This entails balancing New Zealanders’ values, policy objectives, implementation mechanisms and outcomes. The variety of areas covered by regulation and a changing external environment suggest that durability is maximised by building in an ‘allowance’ for the extreme cases: a principled discretionary approach would address ‘one-offs’ that stretch regulatory rule design.

Monitoring, review and evaluation

New Zealand aligns with other OECD nations in having a management system for regulatory responsibilities. It focuses on the flow of new regulation rather than reviewing, evaluating and monitoring existing regulations, although there is a stewardship responsibility. This reflects a long-standing focus on passing and implementing regulation without explicit consideration of its longer-term impact.

Experimentation

Typically, the likely detailed impact of a regulation is unknown prior to implementation. Experimentation can provide valuable information about the workings of options. The idea is small-scale adoption of a new regulatory regime to assess effects. If successful, the regime can be rolled out with failures having provided evidence to be learnt from. This tests new ways, checking for unexpected consequences.

The New Zealand attitude to pilot studies is not always encouraging. They can be seen as giving a group or region preferential treatment. The political environment also sees risk in pilots, given the emphasis on success and certainty.⁴

Have we got the right tools?

Change is certain. Adapting the stock of regulation to reflect changing market conditions, technology and societal attitudes is a challenge. Using the right tools and techniques to demonstrate what changes need to be made is a crucial part of reaching desired regulatory aims and objectives. The Treasury, for example, is ‘encouraging’ departments to use a cost-benefit analysis tool (CBAx) as part of

their Budget bids to monetise impacts and do return on investment analysis.⁵

An instance: discretion and delegation

Best-practice regulation design includes allowing for the variety of likely cases to come under state authority. It is usually extremely difficult to draft a rule that fits all possible states of nature that will emerge. The normal way of dealing with this is to provide for the delegation of discretion to a ‘regulator’. But inevitably the exercise of discretion means potential for error. Under regulation, courts act to check judgements.

What happens when courts fail to ensure that the regulator acts in a reasonable way? In the 2007 Unison judgement, the court was loath to interfere with a specialist regulator’s finding unless it was blatantly at fault.⁶ This has created a high bar for correcting important but not gross errors.

Where does this take us?

Many of the issues that are going to be debated this election year involve difficult regulatory policy. The New Zealand system is setting high standards. But we are still concerned about the capacity of the wider public sector to produce durable regulation in difficult cases.

Remaining with the status quo

The status quo is sometimes prudent. We know its strengths and weakness, and New Zealand’s strong public management can often improve the quality of the regulation delivered without serious policy revision, particularly in social policy. Moreover, ongoing improvements are afoot. We are becoming smarter (with tighter emphasis on data and analytics), and the spotlight is firmly on the problem definition.

Better monitoring and review systems would also contribute to a learning system

that provided more confidence in the stock of current legislation and possibly resulted in fewer major changes in regulatory regimes in the long run.

A more decentralised approach to quality

Would devolving more regulatory power to the regions improve things? The short answer is no. Duplication of resources occurs (for example, IT systems), and the sophistication of some regulatory problems demands scarce skills simply not available in all regions. But regional government may have a role: specific local knowledge or tailored implementation needs (as in water governance) suggest a

This is vital for a small country where changes in regulatory approaches (such as breaking the telecommunications monopoly) have seen more retail competition, cheaper and varied services, and increased investment in the industry.

New Zealand cannot afford to stop pushing for better regulation, wherever we rank internationally. All countries compete on the quality of their institutions. So, if a high standard of regulation is part of our competitive advantage, then further improvements are needed.

In sum: it’s about strengthening durability through marginal gains. Three

... if a high standard of regulation is part of our competitive advantage, then further improvements are needed.

mix of central and regional approaches. But the choice of mechanism may require attention: for example, compared to Australia we appear to have too many district health boards (NZIER, 2017).

Building incremental capability

Building incrementally on the status quo by paying more attention to the problem statements and audit and review process, and being more systematic about the steps towards developing new regulation, may assist in improving the quality and reduce the amount of regulation.

This is not a result that catches the imagination, particularly politically. However, just as improving diet and doing more exercise might increase your life span, incremental system advances are likely to improve the stock of regulation.

factors are important: clearer fundamentals are required, with a focus on the problem definition; more resources need to be allocated towards monitoring and review; and more effort is required in working with sectors to socialise policy approaches.

1 Our wording here is based on Black.

2 Described in Frankel and Yeabsley, 2014, introduction.

3 This can be seen in regulatory impact statements, where the monitoring evaluation and review sections are often minimal.

4 See discussion on this type of bias and the treatment of the Department of Corrections in Yeabsley, 2017, referencing Gill, 2010.

5 See <http://www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis/cbax>.

6 See Unison Networks Limited v Commerce Commission NZSC 74 SC12/2007 at [55], where the operative section is: ‘The courts in those circumstances are unlikely to intervene unless the body exercising the power has acted in bad faith, has materially misapplied the law, or has exercised the power in a way which cannot rationally be regarded as coming within the statutory purpose.’

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Susan St John and Yun So

Does the Living Wage Ensure an Adequate Standard of Living for Families?

Introduction

New Zealand was once held up as a model of egalitarianism to other countries. Today New Zealand is far from being that leader, with high income and wealth inequality and an unacceptable level of family poverty and homelessness. Children are particularly affected, suffering the highest levels of material deprivation in New Zealand (Perry, 2016).

Living Wage Movement Aotearoa New Zealand (LWMA) has argued that raising wages is the best way to address this problem. They believe the minimum hourly wage rate is too low and that employers ought to pay a higher 'living wage rate' (LWR). Currently (in 2017) the margin between the minimum wage rate of \$15.75 and the LWR of \$20.20 is \$4.45.¹

Since 2013 when the LWR was first introduced, more employers have signed up to be living wage employers. Recently,

the Wellington City Council implemented policies to pay a living wage rate, not just to its employees, but to all staff of council-controlled organisations (Devlin, 2016). The new mayor of Auckland, Phil Goff, has also committed to paying the LWR, first for those directly employed, and then for contracted workers (Furley, 2016). In 2017, 64 firms or organisations are identified as 'accredited living wage employers'.

This article argues, however, that while better wages are essential, on their own

they are an insufficient response, especially to the inadequacy of family incomes.² Higher basic wages must be accompanied by strengthening the generosity and effectiveness of tax-welfare policies (Boston, 2013). To this end, changes to the way the living wage rate is calculated are suggested.

The living wage in New Zealand

Over the last decade the living wage movement has gained prominence in countries such as the United States and the United Kingdom. The living wage campaign first emerged in New Zealand in 2012 as a response to the increasing disparity between high- and low-income groups. The key drivers of the movement in New Zealand have been dissatisfaction with stagnant wages, and the belief that 'wages should be based on need and not left to the market' (LWMA, 2016a). One of the key aspirations is 'to reduce poverty'. In particular, Living Wage Movement Aotearoa New Zealand places a strong emphasis on child poverty. Its website refers to there being 'up to 285,000 children ... living in poverty and of those children 40% come from families where at least one adult is in full time work or self-employed' (LWMA, 2016b).

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Defining the living wage

The report of an investigation into defining a living wage for New Zealand describes the living wage rate as ‘the hourly wage a worker needs to pay for the necessities of life and participate as an active citizen in the community’ (King and Waldegrave, 2012, p.3). Unfortunately, the terms ‘living wage’ and ‘living wage rate’ are often used interchangeably. Importantly, having sufficient money to live on is a function both of the living wage rate *and* the number of hours worked.

The living wage reflects the basic expenses of workers and their families for commodities such as food, transportation, housing, childcare, health, education and

recreation. The actual standard of living achieved by families who are paid the LWR hinges critically on the subtle interplay of five main factors:

- the gross hourly rate;
- the number of hours worked;
- the taxes payable, including effects of GST;
- the value of tax credits for children;
- the social wage of tax-funded health, education and housing assistance.

In the initial exercise to set the LWR, the focus group results were judged to give an income that was ‘much higher than researchers expected’. The average of HES

supplement is estimated.³ King and Waldegrave produced a range of final ‘disposable household income levels’ for different gross income values. The desired disposable income was then selected and the relevant gross hourly wage rate determined as the LWR (King and Waldegrave, 2012, pp.44–5).

Updating the living wage rate

The LWR has been updated on a regular basis by the Family Centre Social Policy Research Unit (King and Waldegrave, 2012, 2014). The method is to link the LWR to growth in ‘average ordinary time hourly earnings’. Changes in this variable are published every quarter by Statistics New Zealand (Statistics New Zealand, 2014, 2016a, 2016b).

In 2014 King and Waldegrave also reviewed and updated values for rents, food costs and other living costs. While the cost inflation-based estimates and the expenditure estimate gave a higher increase for the LWR than the movement in the average ordinary time hourly rate (2.1%), it was decided to use the wage adjustment.

The rate of \$18.80 is chosen as the 2014 recalculated living wage, because the living wage is a wage in the market, and it was decided the updates should relate primarily to movements in wages rather than the CPI or the higher household costs as measured by HES. (King and Waldegrave, 2014, p.3)

It is intended that the LWR be recalculated and the methodology reviewed after five years, implying that there will be a review in 2017. In the meantime, the wage link was used to update the LWR in 2017.

King acknowledges that the use of the wage adjustment for determining the LWR each year is dependent on policy on transfers remaining unchanged:

Because such policy changes tend to be infrequent, it is possible to maintain the currency of the living wage rate over the medium term by linking it to annual wage movements,

The living wage rate of \$20.20 an hour delivers the required standard of living only if the couple actually works 60 hours a week, 52 weeks of the year.

recreation. The actual standard of living achieved by families who are paid the LWR hinges critically on the subtle interplay of five main factors:

- the gross hourly rate;
- the number of hours worked;
- the taxes payable, including effects of GST;
- the value of tax credits for children;
- the social wage of tax-funded health, education and housing assistance.

Calculating the living wage

Commissioned by the living wage movement, King and Waldegrave (2012, 2014) constructed a model to find the living wage rate that enables an ‘income necessary to provide workers and their families with the basic necessities of life. A living wage will enable workers to live with dignity and to participate as active citizens in society.’ The methodology proceeds in two steps: first, the determination of what total disposable income is necessary for a given standard of living; and second, the gross wage rate required to achieve this.

First, focus groups are used to identify an average level of expenditure required

values for various categories such as ‘food’, ‘housing’, ‘clothing and footwear’ and ‘childcare’ spent by the lower-income groups (deciles 1–5) was taken to be a more realistic measure (King and Waldegrave, 2012, p.8). The annual expenditure calculated on this basis became the ‘disposable household income’ needed to ensure the required standard of living.

The next step finds the gross income level (before income tax, and other deductions such as KiwiSaver, are taken into account and tax credits are applied) for a family of a given structure that achieves the necessary level of effective disposable income (after these adjustments). The LWR estimates are based on a family that has two children under 13, and one and a half income earners who between them work 60 hours per week for 52 weeks per year.

Entitlement to Working for Families tax credits (the in-work tax credit and family tax credit) is determined by the initial gross income for households with two dependent children. Then, depending on the initial gross income of the family and actual rent paid, an accommodation

as happens with the New Zealand living wage. (King, 2016, p.21)

For 2017 the LWR of \$20.20 corresponds to a gross (before-tax) income of \$63,024 for the standard family. The final disposable income of \$59,887 deemed to produce the desired living standards for this family is made up of Working for Families tax credits of \$5,932 and after-tax income of \$53,955. While in 2017 some families on this gross living wage amount may be entitled to a small accommodation supplement, especially if in high rent areas, this policy is ignored in the analysis below.

Critiques of the living wage

Undoubtedly, workers who would otherwise have been paid the minimum wage benefit significantly when paid the higher LWR. Nevertheless, there are some concerns that go to the heart of how the LWR is constructed.

The Treasury (2013) outlined some of the limitations found in the methodology adopted by Family Centre Social Policy Research Unit. In particular, their report criticises basing the living wage on a household of two adults and two children, when the group on low incomes is actually very diverse. Families comprised of two parents and two children are only 6% of the group earning below the LWR, and hence scarcely representative. Treasury also noted that the LWR will be too high in low-housing-cost regions and insufficient for those living in high-cost regions.

Statistics show that 47% of poor children in New Zealand come from sole-parent households, while 64% of all the sole-parent households are identified as being poor, in contrast to 15% of two-parent households (Perry, 2016, p.151). Poverty rates for children in full-time working families are much lower than for those in beneficiary families, and about three out of five of poor children come from families not supported by a full-time worker (*ibid.*, p.137)(Perry, 2016). Paying the LWR is clearly not sufficient to address, let alone eradicate, child poverty in New Zealand (Scott, 2014; Treasury, 2013).

The Treasury report also suggests that at the living wage rate, adults who are single would be relatively overpaid

compared to adults with dependent children. In response to this particular criticism, the Family Centre Social Policy Research Unit says:

even though a single young person generally has lower costs than a family of four, a living wage enables young people to save, pay for further education or eventually place a deposit on a house. (King and Waldegrave, 2014, p.7)

Undoubtedly, an increase in the wage level would have a significant and welcome

In theory, in a targeted system of income support, payment of the LWR will increase income over the threshold and reduce the amount of state-funded Working for Families credits received. But it also runs the risk of facilitating more deliberate reductions in the value of these tax credits over time.

In the case of the UK, Mabbett notes that a packaging of the living wage with reduced tax credits has given rise to a 'looking glass world', where policies are sold as a package but actually work in opposite directions:

In theory, in a targeted system of income support, payment of the [living wage rate] will increase income over the threshold and reduce the amount of state-funded Working for Families credits received.

impact in easing the financial burden of the young with student loan debts and allow them to enhance their savings. Other groups, however, such as sole parents, large families, or two-parent families with only one working, may continue to find it difficult to save, repay student loans or buy a house, even at the current LWR.

Deborah Mabbett from the UK raises concerns about the practical implications of the living wage concept, arguing that a living wage cannot act as a substitute for social security. She warns that the framework of the living wage campaign implicitly endorses an ideological norm of a certain family structure and behaviour. The concern is that those who do not live in families of the preferred type and/or work enough hours for whatever reason do not achieve the living wage outcome. It must be acknowledged that even the standard family may struggle to achieve 60 hours a week for 52 weeks of the year. The danger is that their plight may be dismissed as evidence that they just need to increase their work effort.

The Prime Minister's current favourite profile: a family with two children where both adults work full-time on the minimum wage. They will, he claims, be better off by 2020 under the government's new policy combo of reduced tax credits and a higher living wage. A quick check of HMRC statistics shows that there are just 135,000 households receiving tax credits (out of 3.3 million working households) comprising a couple with children where both adults work full-time. (Mabbett, 2015, p.465)

Thus, as in the UK, a cost-cutting government may encourage the living wage movement so that it can push more of the costs of children onto employers by eroding children's payments over time. Thus, the deliberate attrition of Working for Families in New Zealand (see below) may be less resisted if more families earn a living wage rather than a minimum wage.

Does the Living Wage Ensure an Adequate Standard of Living for Families?

Table 1: Working for Families Tax Credits, children under 16, 1 April 2017

	Maximum 2017 values (weekly)
Family Tax Credit (FTC), first child	\$92.73
- additional child under 13	\$64.44
- each additional child 13-15	\$73
In Work Tax Credit (IWTC), one to three children	\$72.50
- each additional child	\$15
Threshold, joint income (annual) abatement rate 22.5%	\$36,350

Were there alternatives? In the UK case Mabbett argues:

A more robust approach to the living wage would have been to take a stand on the appropriate role for in-work benefits. For example, the living wage could have been set to ensure that a single person in full-time work could make a living without needing benefit top-ups, and estimates of the additional costs faced by those with children could then have been used to make the case for adequate child benefits and childcare provision. The available data suggest that the living wage estimated this way would be above the new minimum ... On this basis, it would be crystal clear that low-income families with children need support from the state even when a living wage is paid, and that increases in minimum wages do not substantially alter this fact. (*ibid.*, p.467)

This approach is also taken by Australian Council of Social Service, described as a 'peak body of the community services and welfare sector and a national voice for the needs of people affected by poverty and inequality':

Our starting point is that the Federal Minimum Wage (FMW) should be designed to at least provide a decent living standard, well above poverty levels, for a single adult and that the tax-transfer system should meet the basic costs of raising children in a low income family. The FMW should not be directly designed to cover the costs of children because that role is best performed by the social security system. However the FMW together with family payments should be sufficient to prevent a family from falling into poverty. The minimum wage itself should be set well above

poverty levels, in keeping with Australian public policy tradition, and the need to maintain a gap between maximum social security payments and minimum wages to preserve work incentives. (Australian Council of Social Service, 2016)

Interestingly, the New Zealand Council of Trade Unions has advocated for a substantially higher minimum wage set at two thirds of the average wage. In 2016 this rate was \$19.88, almost exactly the level of the 2016 LWR.

The minimum wage needs to be two-thirds of the average wage, this would make it much fairer (two-thirds of the average wage would be \$19.88 per hour). Working people have been advocating for this change as a way to make real and measurable progress in improving the lives of some of our poorest families. (New Zealand Council of Trade Unions, 2017)

In spite of questions about the basis of the living wage calculations, the living wage campaign has succeeded in securing higher wages for an increasing number of low-waged workers in a climate hostile to such improvements. This has helped stem the drift to an ever-widening of the income distribution, and growth in profits at the expense of wage income. However, there has been little attention paid to the critical issues of cutbacks to family assistance or a questioning of the fundamental basis of the living wage calculation itself.

How Working for Families works

Given the critical importance of tax credits in the achievement of the desired standard of living from the LWR, this section briefly explains how Working for

Families works.

Child tax credits, family benefits, basic income, family rebates and tax relief are possible ways for society to help families with the costs of raising children and to prevent poverty. Child-related payments in New Zealand now come under the umbrella of Working for Families, a system of weekly, child-related tax credits paid to the caregiver targeted on total family income. The main family-related tax credits, the family tax credit and in-work tax credit, replaced the existing tax credit system and were fully phased in by 2007, making a significant difference for those families who gained access to the maximum entitlement. All low-income children qualify for the family tax credit, while the in-work tax credit is available only to families with parents who work the required hours each week (30 hours each week as a couple and 20 hours per week as a single parent).

Indexation of tax credits is a vitally important issue. Unlike New Zealand Superannuation, which is updated annually to the consumer price index (CPI) but also linked to the net average wage, family-related tax credits are adjusted only when cumulative inflation reaches 5% (see St John and Dale, 2010). The last adjustment under this rule was on 1 April 2012, when all but the rate for those aged over 16 were increased. Table 1 summarises the maximum weekly payments to households for children under 16 in 2017 (Inland Revenue, 2017).

The inflation rate is measured to the year ended September to give Inland Revenue enough time to implement the adjustment in the following April. As cumulative inflation since September 2011 had not exceeded 5% by September 2016, no inflation adjustment to any part of Working for Families was made in 2017. By 2018, cumulative inflation is likely to be approximately 7%, and after six years an adjustment would have been expected. However, increases to family tax credit rates announced in the 2017 Budget for 1 April 2018⁴ appear to be instead of the legislated adjustment. Hence, unless there is a change of government later in 2017, and a subsequent change of policy on family income assistance, the new family tax credit rates appear likely to remain unindexed for several years.

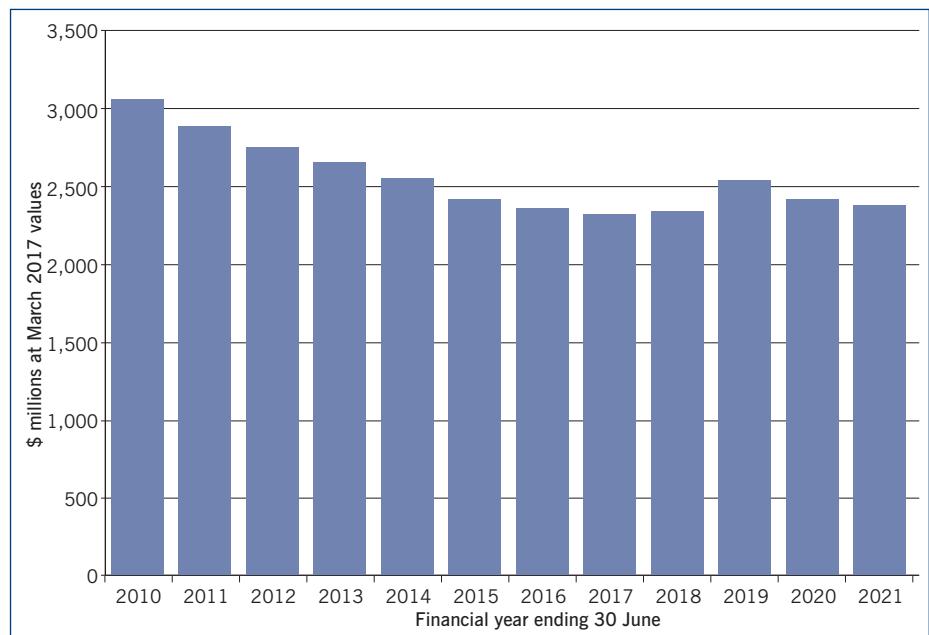
If the living standards of low-income families are to be protected, all parts of family assistance must be, at the very least, adjusted automatically for inflation every year. Arguably, they should be linked to average wages, the same as for New Zealand Superannuation and the LWR itself. This is very important in times of low measured CPI inflation but high housing and increased living costs for most families (Statistics New Zealand, 2016a).

Far from automatic indexation, the 2010 Budget froze the threshold for abatement at \$36,827. The 2011 Budget introduced further cost saving by, over time, increasing the rate of abatement from 20% to 25% and further reducing the abatement threshold to \$35,000 (Inland Revenue, 2017). For every dollar earned above the threshold, the abatement rate is first applied to the family tax credit, which is eventually reduced to zero, then to the in-work tax credit. From April 2016 the rate of abatement was increased from 21.25% to 22.5% and the maximum in-work tax credit entitlement had a belated, one-off inflation adjustment from \$60 to \$72.50.

Overall, the loss of indexation to all parts of the Working for Families package is illustrated in Figure 1, which shows the decline in real expenditure on Working for Families. By 2017 another \$700m was needed to restore spending to 2010 levels (keep the bars the same height). The cumulative loss to families from 2010 to 2017 was around \$2 billion. The projected expenditure for 2018/19 shown in Figure 1 is higher because of the changes to Working for Families outlined in the 2017 Budget (Treasury, 2017), but real spending then continues to fall away again.

Table 2 clearly demonstrates the slow erosion of Working for Families. For working families the biggest impact is from the failure to update the income threshold at which abatement becomes effective. If the threshold, currently \$36,350, had been price-adjusted (to the CPI) from 2005 when it was \$35,000 to the first quarter of 2017, it would be \$45,000, or \$50,916 if adjusted by wages. To illustrate: if a family on \$35,000 in 2005 entitled to the full Working for Families experienced the average growth in wages, its income would be \$50,916 in the first quarter of 2017, but its entitlement

Figure 1: Real spending on Working for Families (Treasury, 2017)



Source: Treasury, 2017

Table 2: Weekly Working for Families (children aged under 13) adjusted to CPI and growth in average wages

	Nominal values WFF 2005-7	Adjusted for CPI to Q1 2017	Adjusted for changes in average wage to Q1 2017	Actual 2017-2018	New 2018-2019
FTC	\$82	\$105	\$117	\$92.73	\$101.98
-each additional child	\$57	\$73	\$81	\$64.44	\$91.25
IWTC					
one to three children	\$60	\$75	\$83	\$72.50	\$72.50
Plus \$15 for each additional child	\$15	\$19	\$21	\$15.00	\$15.00
Threshold, joint income (annual)	\$35,000	\$45,000	\$50,916	\$36,350	\$35,000

to Working for Families would have been reduced by \$3,277 per annum using the actual 2017 threshold.

Critiques of Working for Families

A major problem was that when Working for Families was introduced, the poorest families gained some extra from the family tax credit but they were excluded from the in-work tax credit and there were offsets to core benefits, which meant that 'the WFF package had little impact on the poverty rates for children in workless households' (Perry, 2016, p.142).

Being paid the LWR is no guarantee of enough hours of work or immunity from recessions, sickness or redundancy. The in-work tax credit has been criticised on many grounds, including that it

discriminates against the poorest children and is in breach of the fundamental human rights legislation. In casualised labour markets, families can lose entitlement to the in-work tax credit, worth a maximum of \$72.50 per week, or more for larger families, simply by losing hours of work. The rise in informal work without guaranteed adequate hours or other protections increases the vulnerability of these families and their risk of debt.

A second problem is that policies set in place from 2010, as described above, have steadily undermined Working for Families for low-income working people. There is no secure legislated basis to protect Working for Families and, despite some one-off increases, the direction signalled

Table 3: Parameters of Working for Families faced by the standard living wage family (two children under the age of 13)

	Actual Values Q1 2017	Fully adjusted for changes in the average wage 2005-07 to Q1 2017
FTC two children, \$per week	\$157.17	\$198
IWTC two children, \$per week	\$72.50	\$83
Total Max WFF	\$229.67	\$281
Annual max entitlements	\$11,943	\$14,611
Threshold, joint income (annual)	\$36,350	\$50,916

for 2018 indicates ever-tighter targeting will continue. These changes affect the ability of the living wage to achieve the required outcome, even for families who are working full time at the LWR.

The interdependence of the living wage rate and Working for Families

As explained above, estimation of the LWR incorporates adjustments for Working for Families. This section asks two hypothetical questions: for the standard family on which the LWR is based, what would the gross rate have to be if there were no Working for Families?; and what would the LWR be if Working for Families had been properly adjusted since its inception?

Setting family tax credits to zero, the corresponding hourly LWR as calculated for 2012 would be \$21.16. Updating this for wage growth using the same method used by King and Waldegrave to update the LWR suggests that the LWR for July 2017 would be approximately \$23.23, or around \$3 an hour more than the current 2017 LWR of \$20.20. Of course, the higher LWR would apply to all workers and be too much for a worker without children, but not enough for families with more than two children or on fewer hours than the standard family.

The second question asks: what would the LWR be if Working for Families had been properly adjusted since its inception? If the Working for Families threshold and the entitlement amounts had been adjusted in accordance with the rise in the average wage rate, the LWR could be correspondingly lower. Again, determining this is a hypothetical exercise, as Working for Families has never been adjusted for average wages. Table 3 that shows the wage-adjusted Working for Families maximum for the standard two-

adult, two-child family is \$14,611. The wage-adjusted abatement threshold is \$50,916. Had this family earned \$53,101 gross, its after-tax income would be \$45,768. Adding the wage-adjusted abated Working for Families of \$14,119 would achieve the 2017 living wage disposable income target of \$59,887. This means the gross LWR for 2017 could be \$17 per hour.

Both of these calculations are illustrative only, but show the importance of these tax credits and how they are indexed in determining the adequacy of the LWR.

Discussion

The living wage is based on a model family profile that is unrepresentative of actual households. The living wage rate of \$20.20 an hour delivers the required standard of living only if the couple actually works 60 hours a week, 52 weeks of the year. For example, if one of the parents (usually the mother, working part time) cannot work due to care-giving responsibilities (for young children, a disabled child, or a sick parent) or events such as an earthquake or recession, the family would lose her gross income but gain an additional Working for Families tax entitlement of \$4,727. While this extra Working for Families entitlement has a vital role in cushioning the loss of the partner's income, it does not allow the family to have a living wage standard of living.

While the living wage movement has done well in getting more employers to sign up to the LWR, as higher wages are desperately needed, the LWR and Working for Families must operate as complementary mechanisms to achieve the shared goal of improving family income adequacy and preventing poverty.

Wages are too low, not because Working for Families subsidises greedy employers, but due to a range of factors,

including loss of union power. Mabbett's comments for the UK are relevant here:

Wages do indeed seem to be in something of a low-level trap, but not because tax credits are keeping them there. Most people in low-paid work do not receive tax credits, because they are too young (under 25) or do not have children. The main reasons why wages have stayed so low lie elsewhere: the erosion of unemployment benefits, the lack of financial support for students, the elastic supply of labour from elsewhere in the EU, the government's own pay policy for public sector workers and, of course, the decline of collective bargaining. (Mabbett, 2015, p.466)

All families, not just those on the LWR at 60 hours a week but the bulk of other families with fewer hours of work or supporting more children, need a robust system of income support. Instead, the Working for Families programme has been dangerously undermined and is in urgent need of restoration and improvement. As the Council of Trade Unions notes:

While Working for Families softens the effects of low wages for those households who qualify, some minimum wage workers do not qualify and its benefits are weakening as a result of thresholds not being adjusted for inflation. The government forecasts it will spend \$2.392 billion on it in the year to June 2016 and \$2.352 billion in the year to June 2017 compared to \$2.796 billion in the year to June 2010 – worth \$3.066 billion in June 2016 dollars. There has therefore been a sharp fall in Working for Families support (22 percent between 2010 and 2016) in real terms. (New Zealand Council of Trade Unions, 2016)

While the 2017 Budget signalled an increase in real spending on the family tax credit for 2018, as shown in Figure 1, the price has been a lower abatement threshold of \$35,000 and a higher abatement rate of 25%. This particularly

affects the living wage standard family working 60 hours at the LWR.

The accommodation supplement, for those families who qualify, recognises the impact of higher housing costs and is tailored to different regions and for different family configurations. As noted, this payment has been of minor significance for the standard family at the living wage income level and has been ignored in this article. This issue should be revisited, however, in the promised 2017 review of the living wage calculations in light of the rapid increase in housing costs in some areas, and the increases to the accommodation supplement from 2018 announced in the 2017 Budget.

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- More importantly, there must be greater awareness of the inverse relationship between the LWR and Working for Families and an active support of the enhancement of Working for Families as an intrinsic part of achieving adequate living standards for all family types.
- Perhaps the review might also consider a different starting point. If the LWR is set to ensure that an adult without children working 40 hours has a living wage, it should be clearer how important it is to strengthen and solidify into legislation a reform of Working for Families. All working families of different configura-
- tions on the LWR should have a living wage standard of living.
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- 1 Other groups have promoted pay equity and equal pay with some success. A recent settlement sees a significant rise in the hourly rate for careers in the long-term care industry (Kirk and Williams, 2017). At the heart of all these campaigns is the belief that the minimum wage is too low.
- 2 This article updates our earlier paper published by the Child Poverty Action Group: *Children and the Living Wage* (St John and So, 2017).
- 3 The accommodation supplement is not applicable at 60 hours at the living wage and is ignored here.
- 4 The families income package (Treasury, 2017) increases the rates of the family tax credit so that there will be two weekly rates from 1 April 2018, \$102 for the first child and \$91 for subsequent children, offset by a reduction of the threshold to \$35,000 and an increase in the rate of abatement to 25%.

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When is a Policy Past its Use-by Date?

Differential superannuation payment rates: a case for ongoing monitoring of long-term policies

Introduction

In 2011 the prime minister's science advisor, Sir Peter Gluckman, drew attention to the need for clear monitoring and evaluation of key policies and programmes in New Zealand, stating: 'The importance of well evaluated interventions both at the pilot stage and after scale-up is critical, as the costs and implications of inferior science or wrong data leading to policy decisions are immense', and that 'excellent social science, if done well, can be immensely valuable. That said, this is an area more than any other where inept science or a scientific vacuum can lead to policy

decisions based on dogma and ideology rather than on the knowledge needed to lead to better outcomes' (Gluckman, 2011, p.15).¹ He also expressed concern about a lack of capability in the state sector to achieve good science or formal evaluation of policy, saying that the deficits in how government gets and uses evidence must affect the quality of policy formation. Cumming and Forbes (2012) also commented on the role

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monitoring and evaluation plays in improving government services, and the *Better Public Services Advisory Group Report* noted the importance of public service performance to the overall performance of the New Zealand economy and the need to ‘do the right things in the right ways at the right time’ (Better Public Services Advisory Group, 2011, p.13).

Given the focus on improved outcomes, all long-term government policies should be regularly reviewed to determine their current applicability. This is particularly the case in a small country like New Zealand, with rapidly changing demographics and a volatile economy. One example of a long-term policy is New Zealand Superannuation (NZS). There has been considerable debate about the overall income provision policy for superannuitants and whether or not it should be applied universally, but there has been less about the policy of having different rates for married and single recipients, or for those living alone. This article does not debate the need for, or value of, universal superannuation but looks at the long-term policy of having differential payment rates, and suggests that it should be reviewed regularly to ensure that it is still achieving the desired outcomes and that scientific evidence should be produced to determine whether or not this policy is past its use-by date.

Brief overview of New Zealand Superannuation

Universal (i.e. not means-tested) National Superannuation was introduced in 1977 to replace a contributory scheme set up in 1974 by the Labour government. Since then there have been a number of task forces (e.g. in 1986 and 1992) and reviews of state provision of superannuation. In 1993 a political accord between the National, Labour and Alliance parties led to the appointment of a Retirement Commission, a programme of regular reports on retirement income policies and a change of name from National Superannuation to New Zealand Superannuation. The changes made to NZS and wider retirement policy include:

- a change to the way annual NZS payments are adjusted (by price or wage movements);

Table 1: New Zealand Superannuation maximum weekly payment rates (1 April 2017).

Type of superannuitant	Weekly payment rate		Annual Rate
	Before tax	Taxed at 'M' (no other income)	Taxed at 'M' (no other income)
Single, living alone	\$450.10	\$390.20	\$20,290.00
Single, sharing	\$413.60	\$360.18	\$18,729.36
Married, civil union or de facto couple (both partners qualify)	\$340.80 each	\$300.15 each	\$15,607.80 each
Married, civil union or de facto couple* (one partner qualifies, other included)	\$322.78 each	\$285.28 each	\$14,834.56 each

Sources: Ministry of Social Development, 2017; Commission for Financial Capability, 2017

- the removal and restoration of a minimum value for the proportion of the average weekly wage that is the payment rate for married couples;
- the introduction and abolition of a taxation surcharge;
- progressive rises, from 1992 to 2001, in the age of eligibility from 60 to 65 years;
- a referendum (in 1997) which rejected a compulsory retirement savings scheme;
- introduction of a Super Gold discount and concessions card in 2007;
- the introduction of KiwiSaver, a long-term voluntary savings scheme, in 2007. (Preston, 2008; Todd, 2008)

Key policy changes relating to having different rates for different living arrangements were:

- 1977 – gross rate for married couples fixed at ‘70 percent of the average ordinary weekly wage (to be increased to 80 percent from August 1978) and the gross rate for a single person fixed at 60 percent of the gross married rate’;
- 1990 – ‘A living alone allowance of \$20 gross per week was introduced for single people, which brought the after-tax payment for those who qualified up to 65 percent of the combined married rate.’ (Ministry of Social Development, 2003, p.3)

NZS today is a universal entitlement payable to New Zealand citizens or permanent residents who normally live in New Zealand and are aged over 65. Its purpose is to help senior New Zealanders

maintain their ‘social participation and independence’ (New Zealand Treasury, 2016, p.130). The amount paid depends on a number of criteria, such as whether there is a state pension from overseas, whether or not the superannuitant has a partner (married, civil union or de facto), and, if single, whether they are sharing accommodation or living alone. Weekly rates of payment (given in Table 1) to individual superannuitants with different marital or living arrangements are set out in the Superannuation and Retirement Income Act 2001, section 16, as follows:

- (a) the rate payable to married couples is between 66% and 72.5% of the average ordinary-time weekly earnings as determined by Statistics New Zealand’s quarterly employment survey;
- (b) the rate for a single person living alone is 65% of the married rate; and
- (c) the rate for a single person not living alone is 60% of the married rate.

NZS recipients can also receive supplementary payments, with 18.5% currently receiving a disability allowance, 5.8% accommodation assistance and 0.7% other additional assistance (Ministry of Social Development, 2016).

The cost of New Zealand Superannuation

Just over \$12.9 billion was budgeted for NZS in the 2016/17 financial year. It is the most expensive of the Ministry of Social Development’s benefits or related expenses, accounting for over half of all benefit expenditure. It is also the most rapidly increasing, with spending on NZS as a proportion of the total expected to rise from 55% in 2011/12 to 67% by 2019/20 (New Zealand Treasury, 2016).

Table 2: Increased cost, above the married rate, of different NZ Superannuation payments in 2015/16

Payment type	Number of recipients*	% rate ¹	Before tax	Increase above 'married/partnered' rate		
				Weekly	Annual	Total
'Married/partnered'	386,623	57%	\$326.30	–	–	–
Single, sharing	86,909	13%	\$396.17	\$ 69.87	\$3633.24	\$315,761,255
Single, living alone	172,410	25%	\$431.10	\$104.8	\$5449.60	\$939,565,536
Other (e.g. non-eligible partner)	31,993	5%				
TOTAL	677,935	100%			\$1,255,326,791	

Source: Ministry of Social Development, 2015

The major sources of the annual increase in government spending on NZS are the annual adjustments (accounting for about half the increase) and the growth in the number of people receiving NZS. According to Treasury, 'New Zealand Superannuation recipients grew by 18% (or about 105,600 recipients) between 2011/12 and 2015/16. ... The number of recipients is expected to continue to grow at a declining rate to reach an average of 794,200 recipients by 2019/20' (*ibid.*, p.70).

The ministry has supplied the numbers receiving married/partnered, single sharing, single living alone and other categories of superannuation as at 30 June 2015 (Table 2). Over a third (38%) of current NZS recipients receive an additional weekly payment over the rate paid to each person in a partnered relationship. Multiplying the number of single recipients by the difference between their payment rate and that for married/partnered persons gives a rough estimate of the cost of the different payment rates of \$1.26 billion. This may not be unnecessary expenditure, but it is a significant sum of money and hard data needs to be provided to show that it is being spent in the most appropriate way.

New Zealand is the only country in the OECD to have universal superannuation as its only government-supported scheme. The fiscal costs to taxpayers of this scheme are high, but New Zealand is at the low end of expenditure on superannuation as a percentage of GDP: 6.5% compared to an OECD range of 4.6%-15% (Parliamentary Library, 2001). Some

other countries (the United Kingdom, Australia, Canada) also have different payment rates for single people and couples living together, with a similar ratio of single to married rates as New Zealand's.

Different rates for different living arrangements arise from the widespread belief that 'it is not true that "two can live as cheaply as one"; but two living together are likely to spend less than if they live separately in order to attain the same standard of living' (Easton, 2002), by making savings on rent, insurance, power, etc. This concept of household equivalence is used to derive equivalence scales, such as the 1978 and 1988 Jensen scales used by the then Department of Social Welfare. These scales gave a weighting of 1.55 for a two-adult household to reach the same standard of living/well-being as a one-adult household (Perry, 1995). Inverting this gives the weighting of 65% for the single person living alone, as seen above.

The 'living alone' allowance

The living alone allowance introduced in 1990 was based on the application of the Jensen household equivalence scale, but this scale has been widely criticised (Perry, 1995; Easton, 2002), with Easton stating that the 'use of a non-empirically derived scale such as the Jensen ones ... is clearly unsatisfactory' (Easton, 1997, p.6). There are problems with equivalence scales, including:

- that different scales give different values (for example, the Michelini scale would give a single person a

weighting of 57%, compared to the 65% of the Jensen scale);

- that they rely on an understanding of the income/expenditure patterns of different household types;
- that equivalent standard of living needs validating (usually by specific surveys) and it is likely to be culturally and regionally specific (Stephenson, 2015) as well as change over time; and
- that they are usually generated for the entire population, not specific age groups.

Easton (2002) suggested a number of strategies when using equivalence scales, including using them all or trying to avoid their use altogether, and stated that they 'should be used with caution wherever age has some relevance to the problem being investigated.'

Recent work on equivalence scales by Michelini (discussed in Easton, 2002) and Stephenson (2015) used a publicly available aggregated Household Economic Survey (HES) data set confidentialised by Statistics New Zealand taking means of three sample points. While this retains most of the distributional properties of the underlying data, it would be preferable to use the original data set. The confidence intervals below were calculated (by Statistics New Zealand staff) using the full sample of households containing at least one member aged 65 or over in the 2013 HES, and can be considered as a per capita equivalence scale where a two-person household is assumed to have twice the costs of a one-person household. As with all surveys there are caveats on the HES data: such as that it has a relatively small sample size, is taken over a full one-year period and includes some recall questions.

The 95% confidence interval for the estimated difference in weekly expenditure between one-person households and each person (assumed to have equal expenditure) in two-person households is -\$77.20, \$41.66. This confidence interval contains zero, so the hypothesis that there is no difference in expenditure between one person and each person in a two-person household cannot be rejected at the 5% level of significance. That is, there does not appear to be any current expenditure basis for the difference in

NZS rates for persons living alone and those living with others.

Different payment rates for married and single persons

We have now had 40 years of different rates for married and single superannuitants, but equivalence scales are based on the number of people in a household, not the relationship between those people. The Ministry of Social Development claims that there are economies of scale when two people are a couple rather than single and sharing accommodation, regardless of any familial relationship, such as being siblings (Ministry of Social Development, 2016). Table 3 gives 95% confidence intervals for average weekly expenditure for single (one-person) households and for couple-only households using the 2013 HES, and these (rounded) give the estimated weekly expenditure for each person in a couple-only household as between \$417 and \$549 (each person assumed to have equal expenditure) and that for a one-person household as between \$410 and \$574. These are substantially overlapping confidence intervals, showing that there was no statistically significant difference (at the 5% level of significance) in expenditure between individual partners in a relationship and single over 65-year-olds living alone. If there is no difference in weekly expenditure between single superannuitants living alone and each person in a couple, and there is also no difference between one- and two-person households, then there would also be no statistically significant difference between the weekly expenditure for each single person in a two-person household and each person in a couple.

Reasons for reviewing the current policy

In 2016 the Ministry of Social Development reiterated that ‘the rate a married couple is paid is based on the assumption that couples will financially support each other as a single economic unit’ and ‘have the economic benefit of sharing each other’s income, assets, living costs, insurance, food and vehicles’. It states that a single person receives more as they don’t have this economic benefit, which puts them at a disadvantage. The increased rate for single persons reflects

Table 3: Weekly household expenditure (one or more persons aged 65 years or over) by household composition.

Household composition	Average weekly expenditure	95% Lower Confidence Interval	95% Upper Confidence Interval
One-person household	\$491.94	\$409.95	\$573.93
Couple only	\$965.94	\$833.98	\$1,097.90
Couple with one dependent child	\$1,032.92	\$468.17	\$1,597.67
Other ‘One parent with child(ren) only’ households	\$716.52	\$580.91	\$852.12
Other one-family households	\$952.31	\$728.30	\$1,176.31
All other households	\$1,372.07	\$1,111.35	\$1,632.78

‘the additional costs single people have’ (personal communication, 15 March 2016). However, the evidence above does not support this view and the ministry has not produced alternative evidence which does. In addition, even if it was true for the whole adult population, it may not be for the 65 and over population, and if it was true for the superannuitant population at some time in the past it may not be now. The 65 and over cohort of 40 years ago is very different from that of today.

Each cohort of superannuitants has been larger than previous cohorts; the amount of time spent aged over 65 and the proportion of men among the over 65s has increased (although the older age groups are still dominated by non-partnered women); fewer than 4% of current 65-year-olds have never been married or in a civil union; and recent over 65-year-olds are healthier and more likely to be in employment than those of 25 years ago (Khawaja and Boddington, 2009; O’Connell, 2014; Statistics New Zealand, 2013). The flood of retirement villages appearing in both urban and rural New Zealand is evidence of a move to new types of housing for the elderly. The wider household composition of married/partnered superannuitants is also changing, with, in 2013, 6.9% being couples living with children and 5% living in multiple family households. Superannuitants today are likely to have very different lifestyles and expectations to those of our parents’ and grandparents’ generations.

In the 1970s probably the dominant form of family was based on marriage, but social change over the last few decades has

made being married a poor indicator of social connection. There have been changes to the form of legal marriage (the 2004 Civil Union Act) and to the concept of de facto or social marriage, now classified simply as a partnered relationship. Statistics New Zealand data suggests a growing unwillingness to answer questions on marital status, with increasing non-response rates to census questions about both legal and partnered relationships (rising from 6.6% in 2001 to 8.7% in 2013 for legal relationships) (Statistics New Zealand, 2016).

St John et al. (2014) discuss the issues arising from differing use of marital status across social policies, including NZS, in New Zealand, stating that relationships legalised by formal marriage or civil union are easy to identify (using government’s own data-matching protocols), but other relationship arrangements are difficult to assess. The determination of a ‘de facto’ relationship given in the Property (Relationships) Act 1976 includes nine relevant matters, a number of which (such as care and support of children and existence of a sexual relationship) might be more difficult to evaluate for the over 65-year-olds compared to the rest of the population. Prosecutions of the elderly for ‘benefit’ fraud are almost unheard of. As St John et al. state, ‘there is no targeted advertising campaign, no harassment of older people and no considerable effort at governmental level to represent superannuitants as acting unlawfully, or to enforce tougher penalties on this part of the population. No peering into their bedrooms!’ (p.10). There are substantial

administrative and privacy costs involved in attempts to establish that a relationship exists, including the cost of prosecution.

The different rates for married and single superannuitants may also create perverse incentives. If a single superannuitant marries or enters a relationship, their NZS payment reduces regardless of whether or not the partners live together. The chief executive of the Ministry of Social Development does have discretion to treat a married person as single if they are deemed to be living alone (New Zealand Superannuation and Retirement Income Act 2001), but this has been interpreted as only applying when there is a clear intention to end the marriage or relationship.² Current law also enables married couples to have relationship agreements that enable them to opt out of the Matrimonial Property Act (and thereby the economic part of their relationship), but there appears to be no provision for this within NZS.

As with all blanket policies, universal NZS creates inequities at an individual level, but these are exacerbated by having different payment rates (for example, a wealthy single over 65-year-old still earning a high income and living alone will receive a higher weekly payment than that given to each of two single unemployed superannuitants who live in the same house). As St John et al. (2014) say, there are a variety of relationships among older people: siblings who live together, own property together and who might leave assets to each other in their will, for example. Existence of a sexual relationship may be the only difference between their living arrangements and those of a couple in a declared same-sex relationship, but each sibling would

receive a higher NZS payment than each person in the couple.

Without providing good scientific evidence to justify it, differentiation on the basis of marital status may be in violation of the 1993 Human Rights Act. The Bill of Rights Act requires the attorney general to report to Parliament on bills that appear to be inconsistent with this act and the New Zealand Superannuation and Retirement Income (Pro Rata Entitlement) Amendment Bill 2015 was reported as possibly discriminating (on the basis of national origin and age), but it does not appear that the original New Zealand Superannuation and Retirement Income Act 2001 was (Ministry of Justice, 2015).

Conclusion

Investigation of the current applicability of a policy to the population of the day should be a routine part of policy evaluation and monitoring. Continuation of the different New Zealand Superannuation rates seems inappropriate because of the lack of quantitative evidence to support it, because the population it affects has changed, as have social attitudes, forms of relationship and living arrangements, and it creates perverse incentives and inequities. Expenditure differences for different sized households may exist in the total adult population, but there is no justification for assuming this applies to the 65 and over age group, as the lack of statistically significant differences in average weekly expenditure between married and single superannuitants or between superannuitants in one- or two-person households in the HES indicates. Superannuitants may be very different from the rest of the population, possibly changing their living arrangements,

and so on, according to their means. In particular, the process of decumulation among the 'aged' (Dale, 2012) needs to be better understood and integrated into retirement provision policy.

As early as 1997 the Todd report recommended a standard per-person rate (Todd and Periodic Report Group, 1997). Recently, St John (2015) has also suggested that there is a case for paying the same rate to all superannuitants, with additional means-tested payments (such as accommodation supplements) where need is demonstrated, and that savings in the overall NZS bill could be made without a major impact on the living standards of those for whom New Zealand Superannuation was their only income. She suggested that one common rate could be introduced by holding the single payments at their current rates and gradually lifting the married rate until it was equal. She stated that, 'the different rates are historical and they are unsuited to a modern world of flexible living arrangements and relationships' (p.6), and that previous retirement commissioners and periodic report groups have noted that they are difficult to justify.

The onus is on the Ministry of Social Development to produce factual data to support the continuation of such a high-cost policy. The government and the public need assurance that this is \$1.3 billion well spent, not just a policy past its use-by date.

¹ I would like to thank Len Cook and Susan St John for their helpful comments and input.

² Director General of Social Welfare v W (1997) 2 NZLR 104, Wellington: High Court (Judgment of McGeachan J); King v Chief Executive of the Ministry of Social Development (2009), High Court Wellington registry, CIV-2009-485-000705 (Judgment of Williams J); Fong v Secretary for War Pensioners (2012), High Court Wellington Registry, CIV-2012-485-67 [2010] NZHC 1618 (Judgment of Williams J).

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Intergenerational Governance problems of legislation

Introduction

We look through the glass darkly at the future. We cannot see it with clarity, if at all.¹ What we do understand are the problems, the tensions and the demands of the present.

The Cabinet and Parliament are focused on those problems of the present and what to do about them in policy terms. Parliamentary questions on contemporary issues are asked. There are inquiries conducted of many different types, some parliamentary, some departmental, some through Cabinet committees. The advocacy of pressure groups and lobbying may cause new problems to be added to the list.

One of the wisest political observations on what governs the issues to be picked up and those to be left for another day is

attributed to Harold MacMillan, during his time as the British prime minister. Asked what his biggest problem was, he replied, ‘Events, dear boy, events’ (Knowles, 2001, p.488). Or, as Donald Rumsfeld said, ‘Stuff happens’.² This is as true in domestic policy and economic policy as it is in foreign policy. The immediate need to react to earthquakes, fires, floods and international financial crises that hurt people and their property often dominates the agendas of governments. But the immediate is no excuse for neglecting the future.

It is true to say that the language of politics is the language of priorities. Whatever else the Cabinet members do or do not do, they determine the priorities. They determine the order in which issues will be addressed and the resources that will be devoted to the issue. Many policies require legislation and the ministers, with the advice of public servants and the drafting of parliamentary counsel, design the legislation. Parliament passes the bills into law after select committee scrutiny. In the New Zealand democracy these ministers are connected to the voters through triennial general elections, voters to whom they are ultimately accountable through the institutions of representative democracy. Thus, ministers will be wary of public opinion and take it into account both in determining their priorities and in designing the legislation.

The very structure of the decision-making system outlined above is geared to meet the needs of the present and its problems, not to deal with the future and its problems. Elections every three years limit the time horizons within which ministers think; the next election in New Zealand is

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never far away. Public opinion polling exacerbates the tendency. Analytical advice brought before ministers will not easily prevail should it be thought that taking action upon it will imperil the government's chances at the next general election.

The policy conclusion to be drawn is that the biggest enemy of the future is the present. The problems of the present and their resolution crowds out the prospect for the future. No doubt this does not happen on every occasion on every issue, but the tendency seems to me powerful nonetheless.

The environment and fairness to future generations

It is in relation to the environment that the failure to take into account the future seems to arise in its most acute form. I hasten to add, however, that social policy, economic policy and regulatory policy could all provide strong examples of the tendency.

In the annals of international law, the principle of fairness to future generations has been part of the debate since the groundbreaking book by Professor Edith Brown Weiss, *In Fairness to Future Generations: international law, common patrimony and intergenerational equity*, was published in 1989. In New Zealand the history of climate change policy over the past 20 years provides a graphic illustration of inadequate consideration of the future because of the political pressures of the present. Think of climate change in terms of risk analysis. What is the probability that the temperature of the atmosphere will heat up the planet by more than 2° Celsius; what will the consequences be when that does occur; and what is the cost and burden of taking adequate precautions to ensure that the risks are mitigated or arrangements made to adapt to the changes (Palmer, 2015a, p.16)? The difficulty in New Zealand with climate change has not been lack of information or knowledge, but lack of political will resulting from struggles over the policy and destructive legislative activity that has rendered New Zealand legislation close to impotent in dealing with the problem (Palmer, 2015b, p.115). The lack of any multi-party agreement of the type that exists in the United Kingdom

will cost New Zealand dearly in the future. We have years of catching up to do. Neither does it help to have Australia as one's neighbour, given that country's approach to climate change policy.

Indeed, environmental issues are particularly prone to the temptation to let things go and wait and see. The political costs of taking adequate action are immediate and the benefits of improvement are often some distance away. The deterioration in the quality of New Zealand's fresh water following the intensification of agriculture has been dramatic (Palmer, 2013). Effective

thinking since 1987. It was reaffirmed by the international community at Rio de Janeiro in 1992 in principle 4 of the United Nations Framework Convention on Climate Change, and by the Johannesburg Declaration on Sustainable Development in 2002.³

In New Zealand, the Resource Management Act 1991 was explicitly based on the Brundtland Report, and one of the provisions of that act – section 5, the purpose provision – states:

- (1) The purpose of this Act is to promote the sustainable

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measures to combat the deterioration have not been forthcoming. And it is in the area of environmental policy in New Zealand that the discounting of the future has been at its most intense. We are happy to sign up to ambitious principles, but we fail to honour them in both law and in practice.

The Brundtland Report said in 1987:

Humanity has the ability to make development sustainable – to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs. The concept of sustainable development does imply limits – not absolute limits but limitations imposed by the present state of technology and social organization on environmental resources and by the ability of the biosphere to absorb the effects of human activities. (World Commission on Environment and Development, 1987, p.8)

The sustainability paradigm described in the report has dominated international

management of natural and physical resources.

- (2) In this Act, sustainable management means managing the use, development, and protection of natural and physical resources in a way, or at a rate, which enables people and communities to provide for their social, economic, and cultural well-being and for their health and safety while –
 - (a) *sustaining the potential of natural and physical resources (excluding minerals) to meet the reasonably foreseeable needs of future generations; and*
 - (b) *safeguarding the life-supporting capacity of air, water, soil, and ecosystems; and*
 - (c) *avoiding, remedying, or mitigating any adverse effects of activities on the environment.* [emphasis added]

Despite this, the evidence suggests that the needs of future generations are so heavily discounted in the resource

management space as to have almost vanished. Recent and credible research I have seen concludes:

Regional Councils overall are giving limited explicit consideration of future generations within their RPS's [regional policy statements]. In all cases, no attempt was made within the policies of the RPSs to explicitly identify what the foreseeable needs are likely to be, nor how they specifically are to be provided for. (Donaldson, 2017, p.12)

There is inadequate examination, auditing and analysis of what the regional

2013 statutory amendments were made to legal obligations placed on departments and agencies, chief executives and the state services commissioner to promote the concept of stewardship. One of the purposes of the State Sector Act is to promote a state sector system which 'fosters a culture of stewardship' (s1A(h)). Chief executives have responsibilities in this regard. So does the state services commissioner, who is enjoined to promote 'a culture of stewardship in the State Services'. The interpretation section of the act defines stewardship as 'the active planning and management of medium and long-term interests, along with associated advice' (s2).

instruments. In addition, a large number of rules and other orders are made by other agencies.

- This volume is accumulating at a rapid rate – there were more than 4,200 pages of statute law passed in 2013. In 1959 the public acts covered 880 pages. The volume of law is plainly increasing.
- A hundred agencies, excluding local government, also have power to make delegated legislation. Keeping track of this at present is a formidable problem, although a project conducted by the Parliamentary Counsel Office that is ongoing aims to ensure that all the law can more easily be found.
- The strain on the system in producing this amount of law is considerable.
- Inadequate consultation often occurs with big new statutory schemes and there is inadequate time for proper parliamentary scrutiny and public submissions to be made and heard.
- Too often, little or no effort is made once a law is passed to research whether the statutes did what they were intended to do or produced unexpected consequences. (Palmer, 2014)⁴

The New Zealand Law Society told the Standing Orders Committee in 2017 that the process of making quality legislation required some changes:

This recent focus on the concept of stewardship must be regarded as a welcome development, though how much effect it will have in practice cannot yet be judged. The chances of the present crowding out future thinking and action must be substantial, and obtaining resources to do the necessary work will also be an issue.

The existing process for designing, drafting and passing legislation is hardly optimal in New Zealand. It was seriously and systemically criticised by a report from the Productivity Commission in 2014 (Productivity Commission, 2014). While some changes have been made, they have not remedied the problem.

the Law Society considers that changes to the Standing Orders are needed to enhance the quality of legislation. New Zealand has a tendency to pass too much legislation and often too hurriedly. Unlike most democratic legislatures, the New Zealand Parliament has only one House, and it seems that this has altered the speed with which legislation is progressed. The Standing Orders cannot deal with the problems of the legislative process that arise within the Executive Branch but they can improve the quality of parliamentary scrutiny of Government Bills. (New Zealand Law Society, 2016)

With the bifurcated responsibilities for legislation in New Zealand split between the executive and Parliament, it is not easy to determine which branch of government bears the heaviest responsibility for the lack of quality and coherence that some statute law exhibits.

councils have done to our environment. We do know that the law is inadequately enforced by them (Brown, 2017).

My impression is that issues are no longer addressed in terms of 'sustainability' in policy circles in New Zealand. Efforts appear to be made to eschew the concept. One is put in mind of the famous quip of L.P. Hartley: 'The past is a foreign country; they do things differently there' (Hartley, 1953, p.5). Unkind people may think this suggests that we in New Zealand tend to treat both our own past and the future as a foreign country. And future generations tend to be treated as aliens. The way we think needs to be revised.

Stewardship

Some efforts have been made within the New Zealand system of government to remedy deficiencies in addressing future problems by amending the State Sector Act 1988 (sections 2, 1A and 32; see also State Sector Amendment Act 2013). In

Present problems with legislation

The problems are complex but they can be summarised:

- New Zealand has more than 65,000 pages of statute law and more than 36,000 pages of legislative

With the bifurcated responsibilities for legislation in New Zealand split between the executive and Parliament, it is not easy to determine which branch of government bears the heaviest responsibility for the lack of quality and coherence that some statute law exhibits. This makes sheeting home accountability for the quality and nature of the laws passed by Parliament difficult. It cannot really be said that there is ministerial responsibility for the statutes passed. In order to sharpen the accountability and make clear who is responsible for what, it is necessary to make transparent what occurs now in the legislative process before a bill comes to the House of Representatives. More openness should also help improve the quality of legislation and the ease of its scrutiny, so long as adequate time is allowed to get big legislative schemes right. A complete reconfiguration of the processes is required to improve quality and make the processes more open and transparent.

The yin and the yang between which the demand for new law in New Zealand oscillates consist on the one hand of legislating too quickly and getting it wrong, or on the other hand going too slowly so that important issues lacking political priority remain neglected. We pass legislation in New Zealand quickly because we have no second chamber and we can. Further, the pressure of the three-year electoral cycle adds to the legislative speed wobbles. It is likely that better law would be fashioned in the first place if such things were not possible.

There has been discussion recently about the demise of the Legislative Council, New Zealand's upper house, and potentially resurrecting it or something similar. There is a belief held by some that the most effective way of producing better law is to reinstate an upper house. However, such a step is neither necessary nor desirable. There are other methods of putting the legislative brakes on. If Parliament sat for more hours each year and there was a fixed four-year term, that would help. Either that, or legislate less. It is important to appreciate, however, that while sometimes the system goes too fast and impairs quality, it frequently dawdles and that means that required but usually

uncontroversial changes remain unaddressed. The House becomes a bottleneck or choke point for such measures. These two pressures work in opposite directions, but both need to be addressed and integrated into a system that is more flexible.

One prime issue relates to our failure to evaluate in any systematic or regular way what the statutes we have passed have done. Have they worked as intended, or have they produced unexpected results? Only if such analyses are carried out can we expect to control some elements in the future. Acts of Parliament are designed to produce a set of policy results into the future. Whether these will be achieved is

examining how legislation has performed in practice, this seems unfortunate.

It is only by carrying out such work that it will be possible to make definitive judgments about the quality of both the policy and the law. Some elements of the process are ineffective, and sometimes legislation misses the mark. The desire for speed is often the cause.

What a reform agenda looks like

The existing tools for designing and processing legislation require improvement. We cannot confidently face the future with the creaking and cumbersome legislative machinery we have. What is to be done?

The young tend to take a dim, pessimistic view of the future they are being saddled with, as I have learnt in my recent experiences of teaching climate change law.

not capable of being known fully at the time the law is made. Thus, efforts to compare the results that were actually achieved with those expected and desired would seem essential in any rational policymaking community. Laws are passed to make improvement and produce better outcomes. Legislation is used as an instrument to change behaviours and shape society in various ways, whether it be the economy, the environment, health, housing, education or crime. The New Zealand approach, however, seems to be to continue legislating in quantity with little attempt to see what actually happened, until something goes sufficiently wrong to require hurried legislative attention. Too often, known and reliable research is not followed or not examined and seat-of-the-pants reactions and popular sentiments are used to change the law more than careful analysis and evidence. In this age when there are a variety of social science research methodologies available for

The most difficult questions are both intellectual and institutional. Even the most gifted public sector analyst cannot foresee the future. Stuff happens. Crises occur. They must then be addressed. Let me summarise steps that could be taken that would improve the way in which legislation is dealt with, with a view to improving the way legislation is dealt with in the future. It is necessarily brief. I have written at length on these subjects over a period of many years. I can only deal with them in charcoal outline here.

We have a vast amount of law and it is increasing exponentially. Steps need to be taken to reduce the bulk and legislate only when changing the law is legally necessary. There needs to be in my view a comprehensive high-level inquiry into all aspects of the legislative process with a view to improving it. It should cover policy formation, consultation, drafting, parliamentary scrutiny and evaluation of whether the purposes of the enacted legislation have been met.

Technical scrutiny in the House of Representatives is in urgent need of improvement. Shifting home responsibility between the executive and Parliament is difficult as matters stand and the processes of designing legislation within the executive lack transparency. A main committee based on the model of that of the Commonwealth Parliament in Canberra should be adopted to improve the technical scrutiny of legislation in the House. Surprise by supplementary order paper should be stopped.

If Parliament is going to process as much legislation as it has been doing it should sit for more days in the year and more hours in order to properly scrutinise the bills before it. In order to slow the system down and ensure the legislation has been properly designed and considered, a fixed four-year parliamentary term should be adopted (Palmer and Butler, 2016, pp.44-5). Passing bills through all their stages under urgency without scrutiny should be prevented by requiring a 75% majority to grant urgency.

A reasonable foreseeability test known to tort law could have direct application to future-proofing policy and legislation. In order to foresee the future to the extent possible, literature has to be analysed, work has to be done and risks assessed from a New Zealand point of view. Resources need to be provided to government departments to enable them to carry out their stewardship responsibilities and that work should be made publicly available as a matter of course.

Do we need a secure home for future thinking and analysis that is independent? I note that in 2012 the United Nations was proposing ombudspersons for future generations in order to bring intergenerational justice into the heart of policymaking (United Nations, 2012). An independent Commission for the Future could be established as a watchdog to warn us of failures to address future issues. It could report on the stewardship work departments are doing. This may help the processes of politics to become relevant to younger voters by expanding the range of

vision. The young tend to take a dim, pessimistic view of the future they are being saddled with, as I have learnt in my recent experiences of teaching climate change law.

Our history with a previous institution that was both set up and abolished by the Muldoon government was not a happy one. But that is not a reason to abandon the idea. No one has yet found a method of ensuring that the executive takes adequate heed of the rising voices of our independent watchdogs, such as the parliamentary commissioner for the environment. We do have an excess of executive power in New Zealand.

¹ This article is based on an address given at the symposium 'Improving Intergenerational Governance', held on 23 March 2017 at the Banquet Hall, Parliament Buildings, organised by the Institute for Governance and Policy Studies.

² Response by Donald Rumsfeld as secretary of defence when asked about the Iraq war, 11 April 2003.

³ Rio Declaration on Environment and Development, A/CONF151/26 vol.1 (1992) (1992) 31 ILM 874, adopted by the United Nations Conference on Environment and Development at Rio de Janeiro, 13 June 1992; Johannesburg Declaration on Sustainable Development, A/CONF199/20(2002), p.1.

⁴ Many arguments about legislative quality, parliamentary scrutiny and accessibility of the law are fully developed in this article and some of them are deployed here.

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Liv Henrich and John McClure

The Heritage Problem is current policy on earthquake-prone heritage buildings too costly?

Introduction

Earthquakes are a major hazard around the world (Bjornerud, 2016). A recent example is New Zealand, where three major earthquake events occurred within a six-year period. The 2010–11 earthquakes in Canterbury, centred close to the city of Christchurch, led to 185 fatalities, mainly due to two collapsed buildings and crumbling facades (Crampton and Meade, 2016). In addition, the rebuild of Christchurch after the earthquakes cost \$40 billion (English, 2013), a large sum for a small country. Subsequent large earthquakes occurred in 2013 in Seddon (close to Wellington) and in 2016 in Kaikōura.

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This series of earthquakes has acted as a wake-up call for many citizens of earthquake-prone regions and has highlighted the importance of preparing for earthquakes (McClure et al., 2016). These events have also reinforced the political drive to strengthen legislative policy for earthquake-prone buildings, particularly after the Canterbury earthquakes. Earthquake resilience has become an issue in political discourse and public policy in New Zealand. Although earthquakes are unpredictable events, the damage they trigger can be greatly reduced through actions to ensure the resilience of building structures (Spittal et al., 2008). The major cause of fatalities in earthquakes is the collapse of buildings (Spence, 2007), as demonstrated in the Canterbury earthquakes. Strengthening buildings is thus a key measure to reduce harm from earthquakes, and may also provide economic benefits (Auckland Council, 2015). New Zealand, like many countries, has policies on earthquake legislation that affect these mitigation actions.

The special case of heritage buildings

Risk mitigation is vital not only for the regular building stock but also for heritage buildings, which have specific

protections in government and local council legislation. About 1,000 buildings in New Zealand in medium- and high-risk earthquake zones are categorised as category 1 or category 2 heritage buildings (Hunt, 2016). In Wellington, situated in a high earthquake risk area, the city council holds a list of all 633 earthquake-prone buildings (at February 2017). Of these, 124 are heritage listed, and 20 of these are Heritage New Zealand historic places category 1, while 42 are category 2. A category 1 historic place is defined as: ‘of special or outstanding historical or cultural significance or value’ (Heritage

masonry buildings to secure street-facing parapets and facades within a one-year time frame (Ministry of Business, Innovation and Employment, 2017), with the work part-funded by the government. As most parapets are on heritage buildings, the new legislation should reduce the risk stemming from earthquake-prone heritage buildings.

The heritage buildings problem

Despite the value of strengthening buildings for public safety, the legislation and policies are still widely debated. A key part of this debate concerns earthquake-

and remediation of difficult-to-insure buildings; the high cost of repairs due to like-for-like heritage replacement specifications; commercial tenants avoiding hazardous buildings; tenants’ unwillingness to pay a premium for strengthened buildings; and owners being forbidden from tearing down their heritage building if they find strengthening economically unviable.

Egbelakin et al. (2015) similarly noted that despite the benefits of strengthening buildings, there are other significant barriers to this work which prevent many owners from adopting this mitigation policy. One barrier is that earthquake risk is poorly accounted for in property valuations. In addition, disclosure of seismic risk is not mandatory and there is no unified system for seismic risk information. They also claim that the cost of strengthening is unlikely to be recovered, because renters are unwilling to pay an increased rent on the basis of building strengthening. High insurance premiums and a lack of risk-based insurance premiums pose another cost-related barrier. Furthermore, property owners often judge that upgraded older buildings are less in demand than newer, more energy efficient ones, and thus pose a financial loss. These barriers point to the common factor of cost, which is a major point in the discussions about the risks and benefits of strengthening heritage buildings. This issue is particularly pressing in the capital city, Wellington, where a major earthquake on one of five known faults is possible (New Zealand Government, 2015).

The alternative point of view in this policy debate argues that Wellington should preserve its heritage buildings (Hunt, 2016). This view is represented by Arts, Culture and Heritage Minister Maggie Barry, city councillor Iona Pannett, chairperson of the council’s strategy committee, and Ian Cassels, Wellington property developer. They highlight that there are relatively few earthquake-prone heritage buildings in Wellington and that there is steady progress in strengthening them, especially since the Christchurch and Seddon earthquakes in 2011 and 2013. Pannett states: ‘That [number of earthquake-

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New Zealand website). Category 2 places are defined as: ‘of historical or cultural significance or value’. Thus, heritage buildings vary in their cultural value to the country.

As heritage buildings are protected by law, their owners cannot simply demolish them and replace them with more resilient new buildings. Local councils set their own regulations dealing with alterations to heritage buildings. In Wellington, internal alterations or repairs to heritage buildings are permitted (with some exceptions), whereas any external alterations or repairs, relocation or demolition are not permitted unless the council and Heritage New Zealand approve (for details, see chapter 21 of the Wellington District Plan (Wellington City Council, 2014)). So owners of heritage buildings have to follow due process when planning to alter their building. There is a 15-year deadline for strengthening earthquake-prone heritage buildings in Wellington.

New legislation on parapets and facades was also introduced in 2017. This legislation requires owners of unreinforced

prone heritage buildings. There are two opposing arguments. As noted by Property Council New Zealand chief executive Connal Townsend, ‘Cuba Street [in Wellington] revealed a rift between the Government’s stance of focusing purely on security of life inside buildings and the public’s desire to save heritage’ (Cann and Devlin, 2016).

One point of view in this debate argues for the right of building owners to demolish heritage buildings to increase public safety. This is exemplified by the *Deadly Heritage* report, a collaboration between the New Zealand Initiative and Deloitte New Zealand (Crampton and Meade, 2016). The report argues that for many property owners the protection of heritage buildings is not economically viable and demolition should be an option ‘where demolition or protective works are needed to prevent injury or death’ (p.4). The report highlights several barriers for owners: ‘arbitrary’ national building standard guidelines; lack of knowledge among owners of heritage buildings of the rules that apply to their building and where to get help; costs of investigations

prone heritage buildings] for me is manageable. If we had a thousand heritage buildings that were prone, that would be more problematic' (Fitzsimmons, 2016). Cassels agrees: 'Take Cuba St. The combined rateable value of the quake-prone heritage buildings on the street is not particularly high – perhaps \$80 million. That's not a big job. It's not a large part of the city, but it is a huge part of the city's character' (*ibid.*).

An underlying reason for protecting heritage buildings is that these buildings serve to give a city its unique character and also provide a sense of belonging and cultural identity. They also contribute to social well-being and the quality of life in increasingly cosmopolitan societies (Tweed and Sutherland, 2007). Cultural identity is difficult to measure in economic terms, but it needs to be considered in urban policy, especially in cities like Wellington where only a limited number of heritage buildings remain.

Many people in Wellington agree that heritage buildings have value, and have expressed to the council that they put a premium on the city's architectural history: 'Heritage advocates say that historic buildings and areas build a "sense of place" that can be powerfully useful even after a disaster' (Fitzsimmons, 2016). Heritage buildings also have economic value. In 2007 the estimated annual benefit from heritage buildings in Wellington was \$39 million, mostly due to tourism (*ibid.*). Of course, these benefits may not go to the owners of these buildings.

Kaur's (2015) review of motives for strengthening earthquake-prone buildings in New Zealand highlights that many citizens hold positive views towards strengthening. These include: feeling safer around strengthened buildings; protecting a part of history; and owners gaining a financial investment by strengthening their building. These positive views, in conjunction with the relevant legislation, are reflected in the ongoing reduction in the number of earthquake-prone buildings due to strengthening and demolition. Kaur suggests that a new norm of strengthening earthquake-prone buildings is emerging parallel to the legislation which is encouraging building

owners to strengthen their (heritage) buildings.

In addition, one outcome of the recent earthquakes is that public funding for strengthening heritage buildings has increased in Wellington and nationwide. For example, heritage building owners can apply for financial support from the Wellington City Council built heritage incentives fund (increased from \$400,000 to \$3 million) and the new government-funded Heritage Earthquake Upgrade Incentive Programme (Heritage EQUIP), which provides \$12 million over four years for heritage building upgrades throughout New Zealand. In the last year (2016), 26 building owners received funds

category 1 buildings in Wellington, but no articles have examined the status of this whole class of heritage buildings. To address this issue, we review data on current strengthening upgrades to category 1 buildings, to clarify progress on this important group. This specific issue has a bearing on broader questions that form the context for this work. Do the costs really outstrip the benefits of strengthening heritage buildings, as some suggest? Does the public in earthquake-prone Wellington need to accept demolition of heritage buildings in return for greater safety? Is the policy on this issue fair?

A number of news articles have anecdotally referred to strengthening of individual category 1 buildings in Wellington, but no articles have examined the status of this whole class of heritage buildings.

through the built heritage fund to strengthen their heritage buildings in Wellington. Of course, these subsidies do not cover the costs of strengthening all heritage buildings, or even a single expensive project, but they do constitute a financial incentive to strengthen, and they do add up over time.

Progress despite regulations on heritage buildings

McRae, McClure and Henrich (2017) show that earthquake-prone buildings in general are continuously being removed from the Wellington City Council earthquake-prone buildings list, most often due to strengthening. In this article we examine whether, in spite of the costs of strengthening, there is significant progress on strengthening heritage buildings in Wellington. We focus here on category 1 heritage buildings because of their greater cultural importance. A number of news articles have anecdotally referred to strengthening of individual

What do the data on heritage buildings show?

In July 2015 there were 22 category 1 listed heritage buildings that were classified earthquake-prone in Wellington. They range from large buildings, such as Saint Gerard's monastery – one of Wellington's iconic heritage buildings – to smaller building structures such as the Fort Ballance gun emplacements. Twelve of those buildings are privately owned and ten publicly owned (see Table 2). Using the Wellington City Council's earthquake-prone buildings list, newspaper articles and other sources, we assessed the current status and strengthening activities for these 22 buildings and classified each building into one of five categories:

- No plan yet: there are no specific plans to strengthen the building;
- Planned: plans to strengthen the building have been documented but there is no obvious commitment to proceed with this plan;

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Table 1: Number of Category 1 listed heritage buildings and their progress status

Progress category	Number of Category 1 EQP buildings
No plan yet	5
Planned	5
Committed	3
Started	3
Finished	6

- Committed: building owners have committed themselves to strengthening the building/have received funds to start the building work/have commissioned planning;
- Started: strengthening work has started on the building but is not yet complete;
- Completed: the strengthening work was successfully completed (but the building may not yet have been removed from the list).

Second, we collected publicly available data from the council's earthquake-prone buildings lists at three points in time (July 2015, October 2016 and February 2017)

and calculated the reduction in the number of earthquake-prone buildings in each heritage building category (Table 3). We also obtained data on the allocation and uptake of the built heritage fund and reviewed whether category 1 heritage buildings were among the recipients.

The distribution of category 1 buildings across the five categories is shown in Table 1. Table 2 shows details of the category 1 buildings and their status. To the best of our knowledge the strengthening work for three of these buildings has been completed, but they have not yet been removed from the earthquake-prone buildings list (as of May 2017). This explains the discrepancy between the data from the city council earthquake-prone buildings list and the data in Table 1 showing the work in progress on category 1 heritage buildings.

The data in Tables 1 and 2 show significant progress on Wellington's category 1 heritage buildings. Furthermore, as shown in Table 3, steady progress has been made across all earthquake-prone heritage-listed buildings. Between

July 2015 and February 2017, 11 Wellington City Council heritage-listed buildings were removed from the list, reducing the total from 135 to 124. Two of these are Heritage New Zealand category 1 buildings (the Public Trust building and Buckle St Home of Compassion) and seven are Heritage New Zealand category 2 buildings. Table 3 displays only the number of heritage buildings that remain on the list and omits current strengthening work that will lead to removal from the list. Since 2012, 38 heritage buildings have been removed from the city council list due to strengthening or new engineering reports (Fitzsimmons, 2016).

These data show that there is steady progress on strengthening buildings, including category 1 and 2 heritage-listed buildings. We focus here on data for category 1 heritage buildings, but there is also progress for non-heritage buildings. Between July 2015 and February 2017 there was a total reduction of 74 buildings from the list, 63 of which were not heritage-listed buildings.

Table 2: Detailed classification of progress on category 1 heritage buildings (further details in Appendix)

Building	Ownership	No plans yet	Planned	Committed	Started	Finished
1. Wellington East Girls' College main block	Public				x	
2. Erskine College Chapel	Private		x			
3. St Mary's of the Angels	Private					x*
4. Turnbull House	Public			x		
5. Home of Compassion creche (BuckleSt)	Public					x
6. National War memorial bell tower	Public					x
7. Wellington Railway Station Building 003	Public				x	
8. St James Theatre	Public			x		
9. Albemarle Hotel (GhuzneeSt)	Private	x				
10. Harcourts Building	Private					x
11. St Gerards monastery and church	Private		x			
12. Rowing Club building (Taranaki St Wharf)	Private				x	
13. Karori Cemetery – Old Karori Chapel	Private					x
14. Elliot House (KentTce)	Private	x				
15. The Wellesley Club	Private	x				
16. Truby King mausoleum	Public	x				
17. State Opera House	Public		x			
18. Fort Ballance and Fort Gordon emplacements	Public	x				
19. Wellington Town Hall	Public			x		
20. St John's Church (WillisSt)	Private			x		
21. Red Cross Building	Private	x				
22. Public Trust Building	Private					x
TOTAL		5	5	3	3	6

*Main building re-opened;. The grounds and café are still to be completed.

This strengthening action is supported by the built heritage fund, to which building owners of heritage buildings can apply for financial assistance for the strengthening of their buildings. Between November 2014 and December 2016 about \$1.7 million was allocated to earthquake-prone heritage building owners in Wellington. Many category 1 earthquake-prone buildings have benefited from the fund: for example, Erskine College in Island Bay, the Albemarle Hotel in Ghuznee Street, St Mary of the Angels, and the Wellington Rowing Club on Taranaki Street wharf (Wellington City Council, 2016). It should be noted that the fund provides only some assistance and the larger portion of the cost is usually borne by the owner.

Discussion

The data reported here show that despite the negative economic factors in strengthening earthquake-prone heritage buildings, many of the most significant heritage buildings (category 1) in Wellington have been strengthened or are being strengthened ahead of the legislated 15-year deadline. This is despite the fact that some of these buildings are the most difficult and costly buildings to deal with. For others, there are clear plans that are yet to be executed. For only five of the 22 are there as yet no plans in place to strengthen them. This suggests that at least for category 1 heritage buildings there is major progress towards securing their future in terms of earthquake risk. This challenges the argument that some heritage buildings should be demolished, although this argument was posed regarding heritage buildings generally and not category 1 buildings specifically. But the data in Table 3 show that significant progress is also being made with all categories of heritage buildings in Wellington.

In New Zealand overall there is also momentum. In Whanganui the focus is on strengthening the most treasured heritage buildings (Martin, 2016), while in Masterton policies favour strengthening buildings (heritage or non-heritage) that pose the greatest threat to life (Farmer, 2016).

The *Deadly Heritage* report does not distinguish between the different

Table 3: Number of earthquake-prone heritage buildings on the Wellington City Council earthquake-prone buildings list from July 2015 to February 2017, by heritage category

	Category 1	Category 2	Only WCC listed	WCC (includes Cat. 1 and 2)
July 2015	22	49	64	135
October 2016	20	45	63	127*
February 2017	20	42	62	124

*128 if including Gordon Wilson flats that were added to the list in late 2015

categories of heritage buildings. It applies a blanket argument to all heritage buildings in terms of economic feasibility, but the cost of strengthening heritage buildings in different categories, and even within each category, is variable (for example, the high cost of strengthening St Mary of the Angels compared to the Fort Ballance gun emplacements). However, some of the most costly heritage projects are already completed (the Public Trust building, St Mary's), many with the support of taxpayers and donors. We note that even privately owned buildings such as St Mary's receive some financial support from local and central government funding (Devlin, 2017). Further, the *Deadly Heritage* report does not account for cultural, societal and tourism benefits of saving heritage buildings, whereas public policy and urban planning needs to consider such issues. The data shown here are consistent with the idea that a norm of strengthening buildings, especially heritage buildings, is emerging, as many of these buildings are being strengthened well before the 15-year deadline.

A key policy argument for demolishing earthquake-prone heritage buildings is that 'lives are literally at stake' (Krupp, 2016). However, with regard to the risk that earthquakes pose in New Zealand, the annual road toll is much higher than the death toll of even the most destructive recent earthquake in New Zealand (the February 2011 Canterbury earthquake) (Fitzsimmons, 2016). Since European settlement, the annual fatality rate due to earthquakes is only about three, and many of these deaths were due to newer buildings, not heritage buildings. The New Zealand Society for Earthquake Engineering states that 'the risks in occupying a building performing at 33% NBS equates with the risk of flying in a commercial aircraft or travelling 10,000 km or more by road per annum' (*ibid.*).

This risk comparison is no reason for complacency on this issue, but it does suggest that precipitous action to demolish heritage buildings is not justified by the annual fatality rate. No one is suggesting that cars should be banned due to the road toll.

Nonetheless, there are clear arguments for continuing to reduce the number of earthquake-prone heritage buildings. Several different policies can be applied to this task. One policy (supported by the data in this article) is to concentrate on the most precious heritage buildings (category 1) first. A second strategy is to concentrate first on buildings that are cheaper to strengthen, which may or may not include category 1 buildings. A third strategy may be to embrace opportunities when circumstances are favourable due to change of ownership or use. A fourth is to prioritise precincts, such as Cuba Street with its 18 earthquake-prone heritage buildings, which contribute significantly to the ambience of a town or city (Cann and Devlin, 2016). The data here show that there is major progress for Wellington's category 1 heritage buildings, which suggests that the council is supporting the first of these strategies. There may be a need to apply the other policies mentioned here to the lower priority heritage buildings.

Conclusions

This analysis has certain limitations. Our more detailed data on heritage buildings in Table 2 applies to category 1 heritage buildings. The significant progress in this category may exceed that for other heritage buildings. However, the data for all classes of heritage buildings in Table 3 points to significant progress across all categories, as shown by the number of buildings being removed from the list.

In considering the issue of earthquake-prone heritage buildings, it is important

to consider that under current policies, significant progress is being made on heritage (and non-heritage) buildings. At the current rate of strengthening buildings (approximately 50 buildings come off the Wellington City Council earthquake-prone buildings list each year), it would take 13 years to strengthen all earthquake-prone buildings in Wellington and 15 years to finish all listed heritage buildings.

Further, for the most valuable heritage buildings (i.e. category 1), many of which are also the most difficult or expensive to strengthen, there is major progress already, with plans or action underway on at least 17 of the 22 category 1 buildings. It is important to continue to apply policy that extends the momentum of these building upgrades, at a time when many citizens, the council and (some) owners of

heritage buildings are prepared to support work to save their heritage for the future. Policy arguments for precipitous actions to demolish heritage buildings are not supported by data on the risk from earthquake-prone heritage buildings compared to the risk from other hazards.

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Appendix

- 1 **Wellington East Girls' College main block (started, whole school upgrade to be completed in 2019)**
<http://www.stuff.co.nz/dominion-post/news/74187289/Wellington-East-Girls-College-will-rebuild-its-heart-thanks-to-39m-upgrade>
<http://www.stuff.co.nz/national/education/68629841/wellington-schools-earthquake-strengthening-ahead-of-the-game>
- 2 **Erskine College chapel (planned, not committed)**
<http://www.stuff.co.nz/manawatu-standard/business/83055440/Chapel-restored-as-plans-for-30m-Island-Bay-housing-project-at-heritage-site-unveiled>
<http://cathnews.co.nz/2016/08/23/last-chance-to-save-derelict-erskine-chapel/> <http://www.thewellingtoncompany.co.nz/news/media-releases/erskine-chapel/>
<http://www.erskine.nz/>
- 3 **St Mary of the Angels (main building finished)**
<http://www.stuff.co.nz/national/91522378/wellingtons-st-mary-of-angels-church-reopens-after-95m-quake-strengthening>
<http://www.stuff.co.nz/dominion-post/news/75691597/Wellingtons-St-Mary-of-the-Angels-Church-refit-could-show-Christchurch-the-way>
- 4 **Turnbull House (committed work will probably begin in 2017)**
<https://historicplaceswellington.org/advocacy/turnbull-house/>
<http://www.doc.govt.nz/news/media-releases/2012/historic-turnbull-house-to-close-pending-earthquake-strengthening/>
- 5 **Home of Compassion creche (Buckle St) (finished)**
<http://www.wilsonbuildingwgttn.co.nz/commercial/heritage-strengthening>
- 6 **National War Memorial bell tower (finished)**
<http://www.mch.govt.nz/pukeahu/park/national-war-memorial/carillon>
- 7 **Wellington Railway Station building 003 (started, phase 1 complete, phase 2 underway)**
<http://www.xigo.co.nz/historic-building-gets-a-seism-smic-makeover/#more-2211>
<http://www.kiwirail.co.nz/projects/major-projects/wrs-earthquake-resilience-work.html>
- 8 **St James Theatre (committed, designs finished 2016, works planned to start 2018)**
<https://www.gets.govt.nz/WCC/ExternalTenderDetails.htm?id=17606426>
<http://www.stuff.co.nz/entertainment/stage-and-theatre/89513910/earthquake-strengthening-set-to-close-wellingtons-st-james-theatre-for-a-year>
- 9 **Albemarle Hotel (Ghuznee St) (planned)**
<http://wellington.govt.nz/your-council/news/2016/03/council-helps-preserve-the-past-and-secure-the-future>
<http://wellington.govt.nz/services/community-and-culture/funding/council-funds/built-heritage-incentive-fund/bhif-funded-projects/albemarle-hotel---59-ghuznee-street>
<http://www.stuff.co.nz/dominion-post/news/9626993/Time-for-old-lady-to-have-a-makeover>
- 10 **Harcourts Building (finished)**
<https://historicplaceswellington.files.wordpress.com/2015/02/oculus-2017-03.pdf>
<http://www.stuff.co.nz/business/industries/89258286/Hilton-hotel-for-Wellingtons-restored-T-G-building>
- 11 **St Gerard's monastery and church (planned)**
<http://www.stuff.co.nz/business/property/85568190/mystery-hotel-brand-to-take-over-old-tg-building>
<http://www.radionz.co.nz/news/national/260109/harcourts-building-to-be-restored>
- 12 **Rowing Club building (Taranaki St wharf) (started)**
<http://wellington.govt.nz/services/community-and-culture/funding/council-funds/built-heritage-incentive-fund/bhif-funded-projects/wellington-rowing-club-and-star-boating-club>
- 13 **Karori Cemetery – Old Karori Chapel and crematorium (finished)**
<http://wellington.govt.nz/your-council/projects/earthquake-strengthening-projects/karori-cemetery-buildings-earthquake-strengthening-and-crematorium-renewal>
- 14 **Elliot House (Kent Tce) (no evidence of any plans yet)**
- 15 **The Wellesley Club (no plans yet)**
<http://www.stuff.co.nz/dominion-post/business/commercial-property/10013188/Business-as-usual-for-cbd-boutique-hotel-as-club-moves-out>
<http://www.stuff.co.nz/dominion-post/business/commercial-property/9182425/Wellesley-Club-faces-loss-of-heritage>
- 16 **Truby King mausoleum (no evidence of plans yet)**
<http://wellington.govt.nz/services/rates-and-property/earthquake-prone-buildings/improving-earthquake-resilience/council-properties>
- 17 **State Opera House (planned)**

'The council has included a contingency in the 2012 to 2022 Long Term Plan for the strengthening of the Opera House', <http://www.stuff.co.nz/dominion-post/news/local-papers/the-wellingtonian/7800357/Opera-House-may-close>
<http://www.stuff.co.nz/dominion-post/news/67703694/quake-costs-put-squeeze-on-building-owners>
- 18 **Fort Ballance and Fort Gordon gun emplacements (no evidence of any plans yet)**
- 19 **Wellington Town Hall (committed)**
<http://wellington.govt.nz/your-council/projects/earthquake-strengthening-projects/town-hall-strengthening/about-the-project>
- 20 **St John's Church (Willis St) (planned)**
<http://www.stjohnsinthecity.org.nz/about/complex.htm>
- 21 **Red Cross building (corner Willis St and Ghuznee St) (no evidence of any plans yet)**
- 22 **Public Trust Office Building (finished)**
<http://www.stuff.co.nz/business/73279197/wellingtons-old-public-trust-building-restoration-complete>



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