MANIFESTO 2017

What the next New Zealand government should do

Oliver Hartwich
Foreword by Roger Partridge

THE NEW ZEALAND INITIATIVE

MANIFESTO 2017

Published by
The New Zealand Initiative
PO Box 10147
Wellington 6143
New Zealand
www.nzinitiative.org.nz

ISBN
978-0-9941445-2-2 (print)
978-0-9941445-3-9 (online)

RR34

Designed and typeset by Angela Whitney,
www.angelawhitney.com

Cover image: © Chameleons Eye/Shutterstock.com

Printing arranged by True North New Zealand Ltd

MANIFESTO 2017

What the next New Zealand government should do

Oliver Hartwich
Foreword by Roger Partridge

About the New Zealand Initiative

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

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

About the author

Oliver Hartwich is the Executive Director of The New Zealand Initiative. Before joining the Initiative he was a Research Fellow at the Centre for Independent Studies in Sydney, the Chief Economist at Policy Exchange in London, and an advisor in the UK House of Lords. Oliver holds a Master's degree in Economics and Business Administration and a Ph.D. in Law from Bochum University in Germany.

Acknowledgements

This Manifesto is based on the work The New Zealand Initiative has produced over the past five years. I do apologise for simplifying some complex and technical arguments in the interests of producing an easy-to-read and accessible essay. The original works are available (free of charge) on our website to anyone who wants to read the full story.

I thank Roger Partridge and Bryce Wilkinson for their drafting recommendations. I am proud of my colleagues' research and acknowledge their contributions to political debate in New Zealand. I am indebted to our Operations Manager Chelsy Blair for her constant encouragement and great common sense. And I acknowledge Mangai Pitchai, who has done a superb job of editing our publications over the years, including this one.

Last but not least, I am grateful to the members of The New Zealand Initiative for their faith, support and money to create a great little think tank for our great little country.

Contents

Foreword

When talking of the need for economic reform, EU Commission President Jean-Claude Juncker once infamously commented, "We all know what to do, we just don't know how to get re-elected after we've done it."

We do feel some sympathy for the politicians' plight. In an age dominated by opinion polls, short news cycles, and celebrity culture, it must be easy to lose any appetite for reform. It is, after all, hardly sexy.

As we know only too well, New Zealand is not immune from this affliction. Indeed, under proportional representation politicians face extra-strong incentives to avoid making tough decisions. With a history of wafer thin majorities, the MMP electoral system hardly favours the brave.

The New Zealand Initiative takes its cue from this context. Think tanks mobilise experts to conduct research and make policy recommendations. At their best, they can capture the attention of politicians, public servants and, most importantly, the public. And in doing so they can trigger change.

The Initiative was formed in 2012 with the mission of creating a more prosperous New Zealand for all New Zealanders. A New Zealand that once again tops global prosperity rankings; has a competitive and open economy; and enjoys a free, fair and cohesive society. We undertake evidence-based research on the big social and economic issues holding back the country from achieving that goal.

In this manifesto, Executive Director Oliver Hartwich draws together the Initiative's research and policy recommendations from more than 30 reports, essays and research notes published since our inception. These publications cover a diverse range of topics – from poverty to foreign investment, from planning laws to teacher quality.

Among the intractable problems tackled by our researchers are:

- New Zealand's chronic housing affordability crisis, which is not only locking out a generation from home ownership, but also causing overcrowding and poverty;
- the failure to spread education evenly across ethnic and socioeconomic groups, and the gradual deterioration of student performance in international league tables;
- the restrictive regulatory regimes stifling opportunities for growth, including overly restrictive planning laws and a protectionist overseas investment regime; and
- historically poor productivity and growth rates, which must improve if we are to afford the futures we want for ourselves and future generations.

Dr Hartwich brings a deft touch to this manifesto. Over eight chapters, he concisely identifies the socioeconomic challenges we face, and succinctly summarises the Initiative's practical yet creative solutions.

The result is an engaging and challenging manifesto for reform. It provides the perfect framework for political debate during 2017's general election. And the case for change is so compelling no politician need be frightened to adopt its recommendations.

We can only hope our politicians, of whichever political persuasion, have more gumption than the EU Commission's President Juncker.

Roger Partridge
Chairman, The New Zealand Initiative
Auckland, February 2017

1.

Almost Paradise?

Give me, give me God's own country!
there to live and there to die,
God's own country!
fairest region resting 'neath the southern sky,
God's own country!
framed by Nature in her grandest, noblest mould;
Land of peace and land of plenty,
land of wool and corn and gold!
Where the forests are the greenest
and the rugged mountains rear
Noble turrets, towers, and spires,
piercing through the ambient air …

Thomas Bracken, "God's Own Country" (1893)

There are many more challenging countries than New Zealand if you are a journalist, a think tanker, or a policy wonk.

It is not that there is nothing to do or to report on in New Zealand. Of course there is (though it is hard to tell from our newspapers).

It is just that New Zealand's problems are often far smaller than those of other countries.

New Zealand is not just doing well but doing spectacularly well on many measures. This is even more remarkable considering New Zealand is a small and remote nation. Richly endowed by nature but having little strategic geographical advantage, New Zealand is the last stop before Antarctica. But what a last stop!

In the New Zealand of 2017, unemployment is low. Most children are getting a decent education. Our public finances are the envy of treasurers and finance ministers worldwide. Our currency is stable. The air is crisp and clean (particularly in Wellington, less so in Rotorua – both for natural reasons). Our political institutions are stable, our judiciary independent, our media free, and our civil liberties well established.

> *"Richly endowed by nature but having little strategic geographical advantage, New Zealand is the last stop before Antarctica. But what a last stop!"*

Put differently, there is little of the political populism gripping many other countries. We do not have their high youth unemployment rates. We are not facing astronomical budget deficits or debt burdens. We do not have acute demographic challenges. Nor is our society fracturing along ethnic or religious lines.

Such observations may be anecdotal but the broad picture is evident in numerous international rankings. Let us go through some of them.

New Zealanders are rightly proud of the quality of life they enjoy. Since 2007, the London-based Legatum Institute has been publishing its Prosperity Index,[1] which measures economic output and assesses how much prosperity a country delivers given its wealth.

It turns out no other country does this better than New Zealand, topping Legatum's 2016 rankings. In fact, we did so six times in the 10 years Legatum has published its index.

Figure 1: Legatum Prosperity Index 2016 (149 countries)

Rank	Country	Rank	Country
1	**New Zealand**	6	Australia
2	Norway	7	Netherlands
3	Finland	8	Sweden
4	Switzerland	9	Denmark
5	Canada	10	United Kingdom

The UN Human Development Index[2] is another composite index that combines different measures (e.g. income, education, life expectancy, poverty, and gender inequality) to estimate how well countries are doing. New Zealand ranked 9th, jointly with Canada, in 2015 out of 188 countries and beating countries like the United Kingdom (14), Japan (20), and Finland (24).

Figure 2: United Nations Human Development Index 2015 (188 countries)

Rank	Country	Rank	Country
1	Norway	6	Germany
2	Australia	=	Ireland
3	Switzerland	8	United States
4	Denmark	**9**	**New Zealand**
5	Netherlands	=	Canada

The United Nations lists New Zealand among the most highly developed countries. Many other rankings too indicate New Zealand is one of the best places to do business.

The Canadian think tank Fraser Institute has since 1996 compiled an annual *Economic Freedom of the World* report. Its definition of economic freedom includes the size of government; legal structure and security of property rights; access to sound money; freedom to trade internationally; and the regulation of credit, labour and business.

The Fraser Institute's surveys firmly establish a close link between economic freedom and a number of desirable social outcomes. To quote from its latest report:

> Since our first publication in 1996, numerous studies have used the data published in Economic Freedom of the World to examine the impact of economic freedom on investment, economic growth, income levels, and poverty rates. Virtually without exception, these studies have found that countries with institutions and policies more consistent with economic freedom have higher investment rates, more rapid economic growth, higher income levels, and a more rapid reduction in poverty rates.[3]

So whether you care for economic freedom or not, the link between economic freedom and positive outcomes is so well established that even non-economic liberals should care. The good news for New Zealand is it is doing extremely well on this measure.

Figure 3: Fraser Institute's Economic Freedom of the World Index 2016 (159 countries)

Rank	Country	Rank	Country
1	Hong Kong	=	Georgia
2	Singapore	=	Ireland
3	**New Zealand**	=	Mauritius
4	Switzerland	=	United Arab Emirates
5	Canada	10	Australia

A good starting point to look at the business-friendliness of New Zealand in depth is the World Bank's annual *Doing Business* ranking.[4] Among other features, it measures the procedures required to start a business, deal with construction permits, pay taxes, get access to electricity, and enforce contracts. As it turns out, New Zealand is the easiest country on earth in which to do business.

Figure 4: World Bank Doing Business Index (190 countries)

Rank	Country	Rank	Country
1	**New Zealand**	6	Norway
2	Singapore	7	United Kingdom
3	Denmark	8	United States
4	Hong Kong	9	Sweden
5	South Korea	10	FYR Macedonia

New Zealand is among the top countries in numerous other similar rankings, whether it is for absence of corruption, freedom of press, human freedom, or competitiveness.

Instead of taking this performance for granted, we need to celebrate it. In fact, this was the motivation behind *New Zealand by Numbers*, a compendium of statistics The New Zealand Initiative compiled in 2014.[5] *New Zealand by Numbers* demonstrated the improving state of the country on issues that rarely make the headlines.

For example, the annual road toll in New Zealand has more than halved since the 1970s – despite increasing traffic and population. Maternal deaths and neonatal fatalities are far less common since half a century ago. The crime rate has dropped over the past 20 years. Best of all, educational attainment has skyrocketed.

Often, people write manifestos when there is widespread dissatisfaction with the state of affairs or a whiff of revolution is in the air. This is not one of those manifestos. This manifesto recognises all things great about New Zealand.

Some of us at The New Zealand Initiative, the author included, are migrants to this country – and we know the reasons we have chosen New Zealand. Perhaps we would not wax quite as lyrical as Thomas Bracken did more than a century ago in his poem "God's Own Country." But the sentiment behind his words still rings true to us.

So if New Zealand is such a near-paradise on earth, why write a manifesto at all? There are three reasons we have compiled this short manifesto:

1. We believe New Zealand can be made a better country for all its people, some of whom are still getting a raw deal. Areas such as housing and education are in desperate need of improvement.
2. We believe a manifesto is more than a collection of randomly assembled policies – it is an intellectual guide for imminent challenges.
3. We hope that in this election year of 2017, our manifesto will help inform debates and prevent the election campaign from being distracted by side-shows (as has happened in the past).

These are the three main motivators for us to put this short manifesto to you, our readers, and to New Zealand's politicians, government officials and opinion leaders.

There is a fourth reason, too. This year marks the fifth anniversary of The New Zealand Initiative, which was founded in 2012 to help inform public debate in New Zealand.

After more than 30 reports, and hundreds of columns and opinion pieces, it was time to condense our research output into one concise and accessible publication. This is it.

As mentioned at the outset, the political, social and economic challenges New Zealand faces are not quite on the same scale as in other countries.

For policy experts such as my colleagues at the Initiative, New Zealand does not provide the same challenges one faces in solving the Greek debt crisis, organising Brexit, or fighting home-grown extremism.

But we would not want to swap our life in New Zealand for such existential or material challenges. A country that thrills policy wonks would probably be bad for everyone else.

And the Initiative takes great pride and satisfaction in helping make our great country greater still.

2.

Housing: Restoring the Great Kiwi Dream

> *If the freedom to build is not restored soon, many young people will be barred from the housing market for decades.*
>
> **Michael Bassett, Luke Malpass, and Jason Krupp, *Free to Build* (2013)**

New Zealand is clearly a fantastic country with a strong economy. But for some of its people, this strong economic performance is not translating into a better standard of living.

The biggest wedge between economic performance and living standards is housing.

You cannot overestimate the importance of housing to society. Houses are the single biggest asset for most home owners, with mortgage payments and rents constituting a substantial share of regular outgoings.

This is why an affordable housing market matters. The more affordable our homes, the less households will struggle to make ends meet.

Unaffordable housing has ripple effects across the economy. It forces households to put all their investment eggs in one basket. It limits people's ability to move to places with better job opportunities. It limits employers' options in recruiting staff, especially for low- and medium-income jobs. It unduly ties the country's fortunes to the property market.

However, the worst outcome of escalating home prices is they split society into property owners and those permanently locked out of the market. The property ladder, which once allowed New Zealanders in their 20s to own a home, has lost its bottom rungs.

> *"... Though individuals can get wealthier (or feel wealthier) on the back of rising house prices, countries cannot get richer by housing market booms"*

Of course, a booming property market creates winners as well. It favours the old, the wealthy, and anyone with a stake in housing – even people with gargantuan mortgages, since the least they can afford is a fall in prices.

Booming house prices work wonders for incumbent politicians, too. Then Prime Minister John Key was blunt in *The New Zealand Herald* in August 2015:

> Aucklanders are getting wealthier … They either own a home, want to buy a home, or have sold a home … The point is there is [sic] over 500,000 Aucklanders that own a home. They are significantly wealthier. I go around the rest of the country and people say to me "Can we have a few of those Chinese buyers in Wellington and other parts of New Zealand because actually we want our house prices to go up."[6]

Despite such 'winners' created by escalating house prices, the downsides of property booms are far greater. In short, though individuals can get wealthier (or feel wealthier) on the back of rising house prices, countries cannot get richer by housing market booms.

To understand why, let's try adding two zeros to every property price in the country. Every property owner would feel a hundred times wealthier, but it would not change their relative position on the property ladder. Nor would it change New Zealand's economic output or improve its productivity. But it would remove the prospect of home ownership even further from those outside the market and also increase social divisions.

Booming property markets thus create a mirage of wealth but not wealth itself.

At The New Zealand Initiative, we have been concerned about the state of the housing market from the beginning. Indeed, unaffordable housing was one of three focus areas in our first research plan in 2012, along with education and foreign direct investment.

Our first housing report, *Priced Out: How New Zealand Lost Its Housing Affordability*, opened with a bold but depressing statement:

> "Affordable housing" is New Zealand's public policy problem du jour. Of all the "cost of living" political issues, it is the one that hits the average person the hardest. New Zealand's house prices have increased by a staggering amount over the past 30 years, aided by a mixture of policies and social and cultural changes that have forced up the price of building or buying a house. Housing affordability in New Zealand is a serious national economic issue.[7]

If we were to publish a similar report today, we would not have to change this statement. Except perhaps to make it sound even more alarming.

Priced Out was released in June 2013, when the average Auckland home cost $639,385. Three years later, in December 2016 to be precise, it rose to $1,047,179.[8] In other words, the average Auckland house earned more money than the average

Aucklander over the three and a half years. No wonder young New Zealanders want to study to become a house.

This is not just an Auckland phenomenon. All parts of New Zealand (except for Buller and Grey District) have seen price increases since 2013, with the national average rising by 42.3% over the same period.

Research trilogies: The New Zealand Initiative approach

Call us old-fashioned, but we believe think tanks should do the research before making recommendations. That is why for our focus areas of research, we use a trilogy of reports to arrive at policy recommendations.

The first report contains a problem definition and a stocktake of New Zealand's circumstances. New Zealand may be unique in many ways, but it also shares some of the challenges facing other parts of the world. That is why we should learn from our peers' experiences – both what works and what doesn't. So for the second report, our researchers travel to other countries and spend time with local experts, academics and policymakers to compare their experiences with ours. Only after this domestic and international evaluation do we form our conclusions and present policy recommendations in the third report.

Admittedly, our research process takes more time and effort than desk-based reports. But we find this process well suited to produce novel, innovative and tried-and-tested policy ideas.

The other things we need not change from our original trilogy of publications (see box) on housing affordability are the analysis of the problem and recommendations to fix it.

Our research identified a number of interrelated reasons behind New Zealand's worsening housing affordability problem that contribute to restricting housing supply.

New Zealand's housing market is indeed like Economics 101: Demand has outstripped supply, and prices have skyrocketed. Housing supply needs urgent reform.

> *"Our research identified a number of interrelated reasons behind New Zealand's worsening housing affordability problem"*

When we started our research, there was no recognition of a housing supply problem. On the contrary, housing demand was widely blamed for the affordability crisis. Pundits held migrants, population growth, and excessive lending responsible for price increases.

Such explanations miss the mark. In fact, as Jenesa Jeram argued in *Empty Nests, Crowded Houses*, imminent demographic changes from declining household sizes will require building even more houses.[9]

The problem with supply is New Zealand does not build enough homes for three reasons:

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

The first two problems are rooted in the planning system. As Michael Bassett and Luke Malpass explained in *Priced Out*, there was not much of a planning system until 1953. That is when New Zealand introduced the *Town and Country Planning Act*. Before that, landowners could build (almost) whatever they wanted on their land.

Even after the 1953 Act, planning was a fringe activity. In the mid-1960s, Auckland University had only three lecturers in planning, and councils employed few planners.

The situation has changed markedly. Planning is now pervasive, with Auckland Council employing hundreds of town planners. Not only are there more planners but their professional ethos too has changed from facilitating development to preserving land and addressing social and environmental issues.

To be fair, politicians recognise that the planning system is hurting development. Ironically, this recognition led to the *Resource Management Act* replacing the *Town and Country Planning Act*. The RMA was meant to replace 'needs based' planning with speedier development, but it has not lived up to that goal despite best intentions.

The problem with the RMA is not so much that it is restrictive but that it facilitates councils that want to be restrictive. It takes ages to draw up plans under the RMA – and probably even longer to amend them once they are in place.[10] It also makes subdivisions difficult.

The RMA thus has become the vehicle that prevents the organic development of cities. The public is often divided on whether cities should grow up or out (i.e. increase densities or allow cities to use more land on the fringes). In practice, the combination of the rural-urban boundary and height and density rules means cities cannot sufficiently grow up or out. As we argued in *Up or Out?* they should be able to do both.[11]

The Initiative remains critical of the RMA and New Zealand's town planning culture, and serious housing reform needs to start elsewhere. Much more important than the planning framework are the incentives that guide the actions of those working within it.

For the international leg of the series on housing affordability, we visited the United Kingdom, the United States, Germany and Switzerland. Long-term house prices in real terms in Germany and Switzerland have been flat for decades (while house prices in the English-speaking world of London, Vancouver, Sydney and Auckland have soared).

The research, published in *Different Places, Different Means*, found that a different council funding mechanism – financial incentives – for councillors and planners in Germany and Switzerland is the most important difference with New Zealand planning.

> Germany's system of local taxation and capitation grants by states to localities on a population basis has its advantages. Money follows people who are more mobile than land. Because the localities cannot really raise revenue themselves through taxes or rates, there is a great incentive to attract new businesses and people.[12]

Different Places, Different Means also explored a novel way of funding local government infrastructure: Municipal Utility Districts allow councils to outsource infrastructure development. Bonds are issued to raise capital to develop water infrastructure. Once delivered, MUDs tax residents and repay the debt.

The MUD model helps overcome anti-development attitudes as new residents pay for their own infrastructure without burdening anyone else. Councils stop being in the business of delivering infrastructure and only oversee and regulate its delivery.

In summary, our research has comprehensively dealt with housing affordability issues. We analysed the pernicious effects of New Zealand's planning system on land supply (*Priced Out and Up or Out?*); listed the challenges of an ageing population (*Empty Nests, Crowded Houses*); and revealed lessons from abroad on incentivising planning and alternative ways of delivering local infrastructure (*Different Places, Different Means*).

Our recommendations followed in *Free to Build*,[13] and were reiterated and expanded in countless opinion pieces, speeches and interviews. This work on housing has informed other streams of our research, particularly natural resources and local government finance. The insight that incentives for council matter holds true in the other areas, too.

Our recommendations for restoring New Zealand's housing affordability are simple but require political courage as they go against decades of development direction:

- abolish all rural-urban boundaries;
- abolish all height and density controls;
- strengthen property rights by introducing a presumption in favour of development into the *Resource Management Act*;
- incentivise councils for development by letting them capture the GST component of new buildings; and
- introduce MUDs but ideally give them a more appealing name (maybe Community Development Districts).

After a decade of rampant house price inflation, restoring housing affordability must be a top priority for the government. New Zealand must build the homes its people need.

3.

Education: Returning to World Class

> *The true test of the quality of an education system should be determining the value it adds to its students in school and later life.*
>
> **Martine Udahemuka, *Signal Loss* (2016)**

If unaffordable housing is the single most important issue preventing New Zealanders from enjoying the fruits of our buoyant economy in the short run, education is the single most important issue capable of securing New Zealand's future.

As Paul Krugman once put it: "Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker."[14]

We do not always agree with Krugman, and of course we are aware of John Maynard Keynes' warning about how 'we are all dead' in the long run. Other than that, we cannot deny that the long-term prosperity of a country depends on productivity.

Or can we?

A well-educated workforce is a prerequisite for productivity, which means education matters most for a country's long-term prosperity. This has never been truer than today.

Previously, even people with low or modest formal education could find a job, with plenty of unskilled jobs going around.

But technological developments and competitive pressures from developing economies changed the paradigm. Unskilled jobs have either disappeared or been outsourced to lower cost countries.

With the rise of automation and arrival of artificial intelligence, these changes will accelerate further. Warnings that almost every second job is about to disappear within the next 15 years may be alarmist exaggerations, but there is a grain of truth to them.[15]

Indeed, a rich and growing body of economic literature has revealed the returns on education and how important education is to individuals and countries.

In a 2014 paper for *Science*, David H. Autor showed the difference education levels have made to wages in the US economy.[16] Real wages are lower today than in the early 1960s for the least educated men in the United States. The higher the level of education attainment, the more pronounced are improvements in real wages (see Figure 5).

Although this is an American study, its core finding applies to New Zealand and other developed economies. In an increasingly globalised and technologically sophisticated world, only premium skills can attract premium wages.

The benefit of education to individuals is also reflected in the close link between higher education attainment and higher labour force participation, and lower unemployment. This has been well documented for New Zealand.[17]

The value of education for our country's future and people is universally accepted in politics and academia. This makes some trends in New Zealand's education system deeply worrying.

We should, however, acknowledge that New Zealand provides a decent education to the majority of its students. In 2015, 83.3% of all 18-year-olds attained the equivalent of NCEA Level 2 or above, with 52.8% of all school leavers achieving Level 3 or above. Both figures have risen in recent years.[18]

These positive sounding statistics have two problems, though. First, significant variations exist in the education attainment distribution among ethnic and socioeconomic groups. Second, school leavers with NCEA Level 3 and above show big differences by ethnicity.

Although the percentage of students reaching NCEA Level 3 and above has improved across all ethnicities, absolute differences between ethnic groups have remained almost unchanged (see Figure 6). Between the best performing group (Asians) and the worst performing group (Maori) lies a 44% gap.

Figure 5: Changes in real wages in the United States by education (1963–2012)

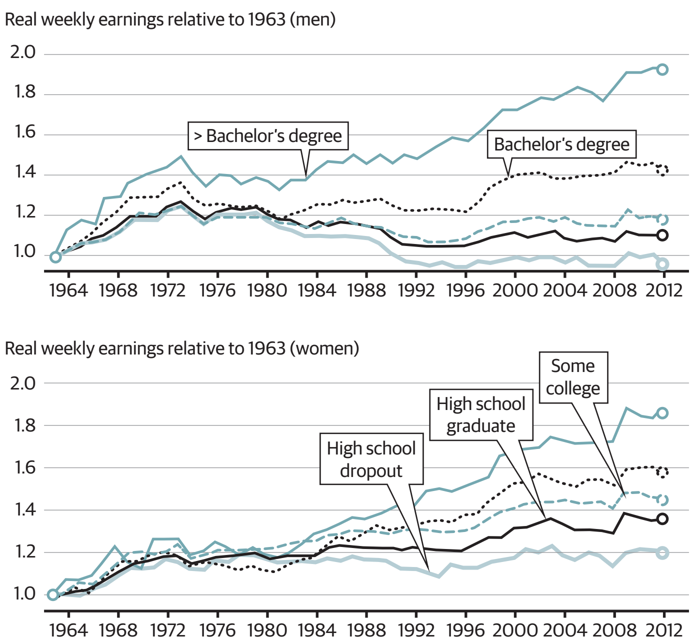
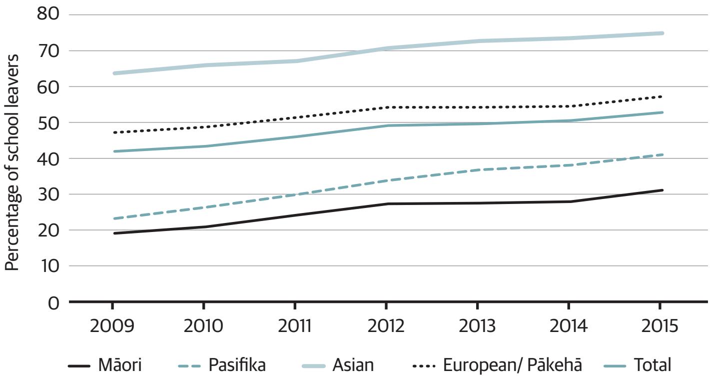
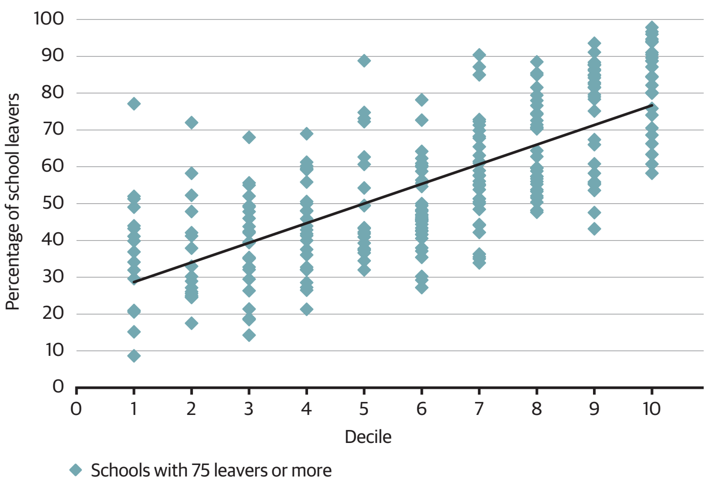


Figure 6: Percentage of school leavers with NCEA Level 3 or above, by ethnicity (2009–15)[19]



NCEA Level 3 attainment across various socioeconomic groups also shows a similarly disturbing scenario.

Figure 7: Percentage of school leavers achieving NCEA Level 3 or above, by school decile (2015)[20]



It is disturbing that our education system, though producing good results in general, does not spread attainment evenly across ethnic and socioeconomic groups. One would assume children born into different groups are not on average more or less intelligent than others. Such huge variations in education attainment are thus a product of the family environment and parents' expectations for their children, not to mention cultural differences. Schools need to ensure children from lower socioeconomic backgrounds receive a good education, but Figure 7 shows not all are fulfilling this role adequately. In some outlier decile 1 schools 80% of students are gaining NCEA Level 3, but what stops the rest from achieving similar results? How can such good practice be scaled up?

> *"If you are lucky enough to be born into the right circumstances in New Zealand, your education is likely to be very good. But an education system that claims to be world class cannot put at risk the academic attainment of parts of the student population"*

In New Zealand, this phenomenon is described as "the long tail of underachievement."

University of Canterbury Professor Garry Hornby once said New Zealand had the largest gap between high and low achievers of any country in the OECD. "Without it New Zealand would be at the top of the OECD tables for educational achievement."[21] He is right: If you are lucky enough to be born into the right circumstances in New Zealand, your education is likely to be very good. But an education system that claims to be world class cannot put at risk the academic attainment of parts of the student population.

Another cause for concern is New Zealand's declining performance in international rankings. Our generally improving national education performance should mean we are also rising in international rankings. The reality in fact is a mixed picture (see Figure 8).

Figure 8: Trends in international test scores (TIMSS, PIRLS and PISA)

	Maths	Science	Reading
Year 5s	+22 ↑ between 1994 & 2014	+1 ↑ between 1994 & 2014	-1 ↓ between 2005 & 2010
Year 9s	-8 ↓ between 1994 & 2014	+2 ↑ between 1994 & 2014	N/A
15 year olds	-28 ↓ between 2003 & 2015	-17 ↓ between 2006 & 2015	-20 ↓ between 2000 & 2015

Year 5 students are doing a lot better in maths than 20 years ago.[22] But since the early 2000s, 15-year-olds have dropped dramatically in international test scores. In maths, science and reading, they have lost in the double digits. As a rule of thumb, 50 points in the PISA study equal about one year of schooling. That means between 2003 and 2015, New Zealand students were behind more than half a year's worth of learning in maths.

There is thus a paradox. NCEA statistics suggest improvements on average, while international studies have recorded a decline not necessarily in our rankings (because other countries too have declined) but certainly in our absolute scores.

Unfortunately, there is no easy way to make sense of this discrepancy. My colleague Martine Udahemuka says there is a subjective component to national performance measurement. “Teachers can decide which assessments to use to determine whether each of their students is below, at, or above National Standards,” she explained in an opinion piece on the 2016 TIMMS results.[23] It is plausible that our performance in standardised international tests reveals more about the true state of our education system than the national measures we control domestically.

So there are reasons for concern about New Zealand’s education system even if it performs well on average and for the majority of students. The link between education outcomes and socioeconomic status, the wide gaps between students of different ethnicities, and the decline in international rankings all call for urgent school reform.

At the Initiative, we have been dealing with this task since we started. Our first report in this field, *World Class Education?* by John Morris and Rose Patterson, highlighted the challenges mentioned above.[24] It also analysed in-depth the quality of teachers, widely recognised as the single most important in-school factor for student achievement.

The good news is New Zealand teachers are relatively well qualified, with 86% holding a bachelor’s degree. However, that is not good enough. For one, a degree on its own does not tell us much about a teacher’s qualifications to teach specific subjects. In fact, nearly half of all schools are dissatisfied with the quality of teacher graduates. Also, one-third of Year 9 maths teachers do not have a maths qualification – a problem we revisited in *Un(ac) countable: Why Millions on Maths Returned Little*.[25]

The real problem lies much deeper. For many university graduates, teaching is a career of last resort. Surveys show the reputation of teaching is low and career options within teaching limited. For aspirational young people, teaching does not offer the prestige, performance management, or professional development other career paths do.

The second report has been the most extensive comparative study the Initiative has undertaken to date. Our researchers visited six countries (Singapore, Germany, Finland, England, Canada and Australia) to find out how they attain a consistently high quality of teacher. The result was *Around the World: The Evolution of Teaching as a Profession*.[26] The title is our main finding in a nutshell. We found evidence of a global shift towards the 'professionalisation' of teaching, and the most impressive teaching in countries with high entry qualifications and attractive career paths (Finland and Singapore).

Our final report in the series was *Teaching Stars: Transforming the Education Profession*,[27] that is, to teach (future) stars, we need star teachers in the classroom. Based on our domestic and international research, the report recommended measures to improve the quality of teachers and replace New Zealand's ageing teaching workforce.

A supplementary report looked at school clusters. *No School is an Island: Fostering Collaboration in a Competitive System* argued that clusters aid in the professionalisation of teaching by helping teachers learn from one another and spread good practice.[28]

In *Signal Loss: What We Know About School Performance* (2016), Martine Udahemuka analysed the Education Review Office's (ERO) assessments of schools[29] and confirmed performance differences based on ethnicity and socioeconomic status. Most disturbingly, some schools remain classified as underperforming for several years despite interventions, in some cases for more than a decade. This is not acceptable. The Education Ministry and ERO need to formally evaluate which interventions work, which do not, and why.

Our research on education over the past five years has thus covered teacher education, recruitment and careers; maths teaching; school clusters; and school performance measurement. Our core recommendations can be distilled as follows:

- create an attractive career structure for teachers;
- provide tailored professional development for teachers;
- monitor teacher performance and introduce performance-based appraisals;
- evaluate systematically the impact of interventions on school performance; and
- expand school clusters as a means of sharing best practice.

Even so, education reform requires action beyond these points. The New Zealand Initiative is committed to conducting more research in this field. After all, nothing is more important for New Zealand's long-term prosperity than the quality of its education system.

4.

Foreign Direct Investment: Open to the World

> *There is much that New Zealand could and should be doing to make New Zealand more attractive for domestic and overseas investors alike. Indeed, this needs to be done if New Zealanders are to achieve standards of living more commensurate with what could be achieved.*
>
> **Bryce Wilkinson and Khyaati Acharya, *Open for Business* (2014)**

The world in recent years has witnessed a global backlash against globalisation and free trade. The Brexit campaign (mainly run by liberal internationalists) was successful only because it tapped into widespread anti-foreign sentiments. US President Donald Trump successfully used his opposition to trade deals in his election campaign. Populists across Europe are riding high on a wave of anti-globalisation rhetoric.

New Zealand is not immune to this global movement towards economic nationalism and protectionism – with rising concerns about the effects of economic openness to the world. Politicians and parties too are trying to exploit such fears to their advantage – recall the hype over the proposed sales of Crafar Farms and Lochinver Station.

However, a crucial difference exists between New Zealand and other developed economies like the United States or the United Kingdom. The United States has the world's largest economy, and Britain's economy is still several times larger than New Zealand's (and geographically closer to large economies on the European continent). The US economy is so large it might just get away with withdrawing from the world.

A small and remote nation, New Zealand has no such advantages. Hiding behind protectionist bars would have painful and costly consequences.

> *"Fortunately, New Zealand has left behind its dark, protectionist past to become one of the world's most free-trading nations. This policy change has worked wonders for our economy"*

Indeed, older New Zealanders still remember what isolation was like. Reserve Bank permission was needed to subscribe to international magazines. Licences were needed to import products. Items readily available in foreign department stores and supermarkets could not be bought in New Zealand. Cars were extraordinarily expensive.

Fortunately, New Zealand has left behind its dark, protectionist past to become one of the world's most free-trading nations. This policy change has worked wonders for our economy. The free trade agreement with China, signed by the Clark government, was crucial in seeing New Zealand through the global financial crisis. In just a few years, China displaced Australia as New Zealand's major export market.

The New Zealand Initiative celebrates the firm acceptance of free trade across most of the political spectrum. But New Zealand's integration into the world economy is still unfinished.

It takes more than openness to trade in goods and services to be part of the global economy and reap the benefits.

In particular, New Zealand still has not shed its capital xenophobia – the fear of foreigners doing business here. It was this fear, on display in the Crafar Farms affair, that triggered our inquiry into New Zealand's foreign direct investment regime.

The brief for Bryce Wilkinson was simple: document the real state of New Zealand's integration into the world economy and lay out the facts to inform debate on net external indebtedness and foreign investment, which is all too often based on emotions.

The research project turned out to be a massive undertaking. A vast domestic and international statistical database needed to be understood and interpreted. It was a technical exercise because the measures are based on statistical distinctions connected by underlying economic relationships unfamiliar to most lay readers. To our surprise, the kind of analysis we were looking for had never been undertaken in New Zealand.

It took almost two years and three large, technical reports to assemble the facts relevant to current policy concerns, explain their statistical basis, put them in a longer term policy context, rebut persistent myths and misunderstandings, and provide recommendations for policy reform. In doing so, the Initiative's three publications have tackled many myths and markedly influenced public policy debate on these issues, while providing enduring value for future researchers.

The first report, *New Zealand's Global Links: Foreign Ownership and the Status of New Zealand's Net International Investment*, meticulously documented New Zealand's integration into international capital flows since its colonial days.[30] Explanations of statistical definitions and underlying economic relationships were accompanied by no fewer than 84 spreadsheets on every conceivable aspect of the project.

Statisticians and economists in government agencies found the report useful for staff training.

It was quite a challenge to explain the need for careful interpretation to a non-technical audience of journalists and laypeople why myths were myths and misunderstandings were misunderstandings. Fortunately, the key findings can be summarised easily:

- New Zealand's economic development has depended on capital inflows since colonial times. Keynesian deficit spending policies, funded considerably from overseas borrowing from the mid-1970s to the mid-1980s, substantially increased our debt to the world – and we are still paying the price for these policies by servicing it.
- Fears about a foreign takeover of New Zealand are unfounded. The stock of FDI as a percentage of GDP was hovering over the 50% mark for a decade since the mid-1990s. It has fallen appreciably in recent years.
- Fears about becoming "tenants in our country" are also exaggerated. Out of 28.7 million hectares of land, foreigners own just over 1 million hectares.
- There is no Asian takeover of New Zealand. When we published the report in 2013, more than 55% of all FDI was of Australian origin. The United States was next, owning 10.9%. All ASEAN countries combined owned only 3.1%. The 2016 data shows Hong Kong and China combined account for only 6.3% of our FDI stock.

Given these figures (and many more in the report), we argued that the public's agitation and, indeed, fears of foreign capital being deployed in New Zealand were unfounded.

We did not stop at making a case against the fears. The next two reports in the series argued for greater openness to capital inflows by comparing New Zealand to other developed economies on international capital flows. The findings were sobering.

On UNCTAD's index for FDI attractiveness, New Zealand slid from the 73rd place in the world in 2000 to 146th in 2011. Statistics New Zealand consistently showed a long decline in the inward stock of FDI relative to GDP, whereas globally FDI has accelerated in importance. A 2012 OECD study found that out of 57 countries surveyed, only 6 had more restrictive FDI regimes than New Zealand.

We were so shocked by this last ranking we made it the topic of a research note, *Verboten! Kiwi Hostility to Foreign Investment*. We found that New Zealand's poor ranking was mainly due to its unduly demanding screening regime. In most countries, the commercial benefits of capital investments are judged by investors themselves. But New Zealand's legislation presumes investors have no commercial investment background, and that bureaucrats are better placed to evaluate investment decisions.

This stifling investment regime reduces the value of New Zealand resources. We miss some opportunities entirely, and get less value from those we acquire. For example, *Capital Doldrums: How Globalisation is Bypassing New Zealand* noted that Australia attracted 45% more inwards FDI per capita than New Zealand.[31]

The findings are of concern to New Zealand because international research shows that well-managed FDI benefits an economy. Countries that draw international investors typically boost their competitiveness by attracting not just foreign capital but also the accompanying technologies, management expertise, and access to overseas markets.

In fact, our research found a paradox. New Zealand is one of the easiest places in the world to do business, but its regulatory regime is one of the most unwelcoming and unduly expensive for international investors, thus harming our own standard of living.

To make it worse, FDI rules have no real benefits. The central legislation governing FDI, the *Overseas Investment Act 2005*, deals with purchasing 'sensitive land' (encompassing 99.2% of New Zealand's non-urban land area) and 'significant' business assets (worth at least $100 million, or $501 million for Australian non-government investors).

For transactions caught by the Act, good character, financial commitment, business experience and acumen, and immigration considerations are checked by bureaucrats. This cumbersome process is a waste because once admitted, all foreign investors have to play by the same legal and regulatory standards that apply to domestic investors.

So what gaps in New Zealand's many laws relating to immigration, business activity, and financial and national security justify this cumbersome overseas investment screening regime? However hard we searched, we were unable to find a satisfactory answer. New Zealand law simply does not contain gaps to justify the regime's existence.

We might accept the need for the *Overseas Investment Act* simply because it exists. But other developed economies like the United Kingdom do not even have such laws.

The final report on FDI, *Open for Business*, recommended that our investment laws should not discriminate between foreign and domestic investors – and that we should abolish the *Overseas Investment Act*.[32] At the very least, it should be much less costly for New Zealanders dealing with foreign investors, and the screening regime must be eliminated.

This may sound radical, but the OECD and the Treasury too reached the same conclusions and offered the same following recommendations we did:

- Abolish the *Overseas Investment Act.* There should be no FDI regime.
- Subject all investors, domestic and foreign, to the same rules.
- Protect New Zealanders' property rights, including the freedom to sell to whoever they wish. In cases of public interest, appropriate compensation must be made.

In a world of anti-globalisation and anti-foreign rhetoric, it takes courage to explain to the public and politicians the benefits of international economic integration. But that is exactly the charge of think tanks like the Initiative.

5.

Better Regulation: Costs and Benefits

> *Wasteful government spending and regulation make the good things in life, including greater safety, less affordable.*
>
> **Bryce Wilkinson, *A Matter of Balance* (2015)**

A popular catchphrase making the rounds in global policy circles is the eminently plausible and laudable 'better regulation.' Sadly, it is also meaningless.

As a rule, if the opposite of a slogan is clearly idiotic, the slogan makes no sense. Since nobody campaigns for *worse* regulation, 'better regulation' is an idiotic slogan.

This is a shame as regulation in New Zealand *does* need to be better – a lot better.

To start with, there is too much regulation, with 2,009 statutes and 27 new bills listed on Parliament's Order Paper at the time of writing.

In its 2014 inquiry on regulation, the Productivity Commission noted that between 2009 and 2014, New Zealand produced four times more new legislation than the United Kingdom (despite having only 1/14th of the British population).

The sheer volume of new laws is already a matter of concern. Even if there was nothing wrong with the new regulations being introduced, it would still be disruptive since any new legislative or regulatory regime creates uncertainty when introduced. As any practitioner of regulation and law can attest, teething problems are inevitable.

Unfortunately, not all new regulations are well crafted. Advisory firm Sapere reviewed 50 agency regulatory impact statements in 2015 for the Treasury and found only 30% met quality standards.[33] The Productivity Commission cites a survey in which two-thirds of public sector CEOs agreed agencies had to work with outdated or ill-suited legislation.[34]

This is not acceptable. Citizens should know the law and comply with it. Conversely, regulators and legislators should know what they are doing and do it well.

For example, our 2015 research note titled *A Matter of Balance* examined new WorkSafe regulations[35] to reduce injuries caused by falls from heights in residential construction. Although the regulations were laudable, the process of introduction was most deficient. As it turned out, repairs of this nature cost homeowners several thousand dollars each time, costing New Zealanders a total of $100 million per year in conservative estimates.

Our investigations found that this policy was introduced with no attempt to show greater offsetting costs. Only a scaffolding association with vested interests had conducted an early after-the-event study – a study in which we identified many weaknesses.

Indeed, much greater safety benefits can be achieved by spending less money on safer roads. That is without taking into account the health and safety cost for homeowners who fail to repair or maintain roofs or walls because of the additional costs or, perhaps worse, fall off ladders trying the job themselves. Public policies must be properly justified to the public, who are incurring the costs, or stopped. Neither step has been taken.

This is a perfect example of how not to regulate: flying blindly on costs and benefits.

Another example is of how in questioning Uber executives in 2016, Parliament's transport committee members only revealed their own ignorance about the ride-sharing company's business model.

MPs were unaware Uber cars cannot be hailed, that they do not use taxi ranks, and users know they are riding an Uber even when the car is not branded.[36] As my colleague Jenesa Jeram commented in our *Insights* newsletter, "Even if it looks like *Fawlty Towers* and sounds like *Fawlty Towers* … it might just be another transport committee hearing."

> *"We are unconvinced that proposed alternatives such as Treasury's so-called Living Standards Framework will produce the required intellectual rigour"*

On a more abstract level, in our 2015 report *Reducing Unnecessary Regulatory Costs* we identified six procedural reasons for New Zealand's underperforming regulatory system:[37]

1. Over-reliance on primary legislation: New Zealand's over-reliance on primary legislation is unusual by international standards. Other countries use more secondary and tertiary legislation to amend outdated rules. Most regulatory changes in New Zealand require amendments only Parliament can make.
2. Ministerial leadership: If ministers do not demand quality policy analysis and regulatory performance, they are unlikely to get it. We are not sure ministers are demanding enough of such analysis.
3. Policy formation processes: Regulatory agencies naturally lean towards solutions promoting their area of expertise and views, and against shrinking their budget and powers.

Yet it is vital to identify and consider worthy non-regulatory options.

4. Defining the scope of a regulator's powers: Good delegation principles need attention in giving decision-making powers to regulatory bodies.
5. Regulatory appointments: Appointees to regulatory bodies should have commercial experience and subject matter expertise.
6. Regulators' incentives: There is often no equivalent 'voice for innovation' to balance the 'voice for risk.'

Dealing with such procedural issues is vital to improve the quality of regulation. We regularly highlight the need for proper cost-benefit assessments in our research and commentary. We are unconvinced that proposed alternatives such as Treasury's so-called Living Standards Framework will produce the required intellectual rigour.[38]

Careful weighing of costs and benefits should be a key feature in all regulatory decisions for central and local government. One example is the interaction between seismic strengthening and heritage protection (see *Deadly Heritage*).[39]

Deadly Heritage pointed out the conflicts in preparing a city like Wellington for earthquakes while preserving heritage buildings. Some buildings simply cannot be cost-effectively strengthened without partly compromising the building's historical character.

While owners of earthquake-prone heritage buildings face high strengthening costs, it is the broader public that reaps the safety benefits of reinforced facades and improved streetscapes. But too few public resources are spread too thinly over too many heritage buildings with little historic value. It is a sound tax principle that those who benefit from a public good should pay for it.

Do the benefits to the wider public justify the cost of producing that benefit if it were borne directly by the public? The public may prefer spending on a city's real gems of public buildings and facades, and let the owners of other buildings pay for the strengthening tenants are demanding. The proportion of heritage listed buildings in any one city could also be capped.

We would like to see such thinking and our key recommendations applied to regulations:

- No new law or regulation shall be introduced without a cost-benefit assessment that demonstrates real gains for the public and costs fairly shared.
- Regulatory reform cannot be delegated to a junior minister but needs real commitment from the prime minister down.
- The regulatory culture should shift from one of ticking boxes and managing risk to encouraging greater flexibility and innovation.

The Initiative plans to closely examine regulatory bodies and issues, particularly the 'lifestyle regulations' analysed in Jenesa Jeram's *The Health of the State*, and the regulations of the charitable sector, which Jason Krupp studied in *Giving Charities a Helping Hand*.[40]

'Better regulation' may be an idiotic catchphrase but it is worth our attention and effort. Keeping up with new regulations is such a time-consuming and tiring process, it is only a matter of time that it is itself regulated. If only for (mental) health and safety reasons.

6.

Social Policy: Investing in Success

> *Governments do not have a monopoly on good ideas when it comes to delivering social services, and other parties could well take the lead in putting good ideas into action.*
>
> **Bryce Wilkinson and Jenesa Jeram, *Investing for Success* (2015)**

At the heart of The New Zealand Initiative's mission is the goal to create a better New Zealand for all New Zealanders.

We acknowledge that New Zealand does well on many fronts for a majority of its people. But doing well is not good enough.

Of course, people on higher incomes and from wealthier backgrounds enjoy a decent lifestyle. They live in suburbs where their children attend the best schools, they have good medical insurance, and they draw on the best opportunities New Zealand offers.

However, a country's performance cannot just be measured by how well the wealthiest New Zealanders are doing or how good the averages are. We need to care about people in disadvantage. Their situation also defines New Zealand's success as a country.

Over the years, social debate has been shaped by two different narratives. The National-led government's 'investment approach' identifies early people with special needs and challenges to help improve their prospects – and reduce long-term cost on the public purse.

On the other hand, the media have often taken a sensationalist approach on social issues that amplifies new and often conflicting claims on poverty, inequality and deprivation. It is hard to ascertain the facts behind these stories, which are often used by pressure groups to lobby for their particular goals.

Against this general background, The New Zealand Initiative has conducted its own research into social policy, particularly social impact bonds. We see value in the investment approach and openness to novel ways of delivering social services.

On poverty and inequality measures, we defined the issues and then produced separate reports on each issue. Poverty is not the same as inequality, and vice versa. To have a proper debate, we undertook a stocktake of different ways of looking at both.

Poorly Understood: The State of Poverty in New Zealand reported on various measures of poverty.[41] The title was also the executive summary in a nutshell because, as Bryce Wilkinson and Jenesa Jeram explain, the true extent of poverty depends on how it is defined – yet there is no unanimous definition in New Zealand. Poverty is indeed poorly understood.

'Poverty' means different things to different people in different places. Being poor in New Zealand today is different from being poor 50 years ago. It is also different from the poverty experienced in other countries.

Poverty is often thought of as a condition relating to household incomes. Such income-related poverty exists in households with incomes 50% or 40% below the national median disposable income. But this focus on household incomes or poverty of income obscures the real problem: the material hardship some households experience.

In measuring hardship, the question is not about how much less money a household has compared to a national median household. It's about a household having enough resources for a minimum standard of living.

Among the items that determine hardship are the availability of food, the ability to pay for clothing and furniture, and the means to attend social and leisure activities. An often-used catalogue compiled by the European Union includes 13 such categories.

Comparing income poverty and material hardship measures reveals a smaller overlap than one assumes. For example, around 50% of those experiencing relative material hardship are in households whose incomes exceed 60% of the median income.

As my colleagues argued:

> In our view, measures of material hardship are more compelling motivators of concern than the level of household equivalised income, particularly for the dubiously low relative to consumption reported incomes in decile 1. Low reported income, for example, from self-employment, retirement, lifestyle choice, or hidden unlawful income, does not necessarily mean low wealth or consumption. Conversely, a higher reported income does not mean being comfortably off if household expenses have to be abnormally high for misfortunate reasons.[42]

On New Zealand's performance on such measures of hardship, two findings stand out.

First, often-heard claims that New Zealand is a poor performer in international poverty rankings are not founded in fact: "The proportion of New Zealand's population experiencing material hardship in 2008 on the EU-13 measure was 11% – the same as for Austria, Belgium, Spain, the United Kingdom, and the median for 20 EU countries."[43] On the severe hardship category, which indicates an even higher level of deprivation, New Zealand's 4% stands below the European Union's median of 6%.

In other words, though there is reason to be concerned about parts of our society and the circumstances they face, the media's reporting on poverty is unduly alarmist.

Second, there are big differences between ethnic groups and their experience of hardship. This is clearly visible, for example, in the number of children experiencing deprivation in at least four of the Ministry of Social Development's hardship categories. In 2008, only 15% of European children in New Zealand faced such hardship – but for Pacific and Maori children it was 51% and 39%, respectively. Among benefit-dependent households it was 59%.

Although focusing on hardship measures is preferable to income measures, income measures do reveal the extent to which the housing market has contributed to poverty.

If you ignore housing costs, the proportion of children living in households whose real disposable incomes (adjusted for household composition) was below 60% of the 1998 median income reduced by eight percentage points from 1982 to 2014. Once housing costs are deducted from measured disposable income, the proportion shows a five percentage point increase over the same period.

Poorly Understood thus underlined the need to improve housing affordability, and also reminded us to pay special attention to those facing real hardship in our society. We saw the same story in our education research, which supports the government's investment philosophy: The likelihood of experiencing income poverty or material hardship is obviously not distributed randomly – it is greatest among clearly defined parts of society.

Distinct from hardship is inequality. Whereas hardship is an absolute concept, inequality is relative. One can only define inequality in reference to other people.

The attention to inequality has increased in the past few years. Indeed, Thomas Piketty's book *Capital in the Twenty-First Century* put inequality firmly on the political agenda.

In *The Inequality Paradox*, we investigated whether there is valid cause for concern as the media hype on inequality suggests.[44] What we found were a couple of paradoxes.

Figure 9: Inequality measures and inequality reporting in New Zealand (1984–2014)

The first paradox can be seen in Figure 9. The blue and the black lines show Gini coefficients for disposable income and expenditure. The Gini coefficient is the standard measure of inequality – the higher the Gini coefficient, the more unequal the distribution.

Gini coefficients take values between 0 and 1. Zero means everything is distributed evenly; 1 means one person has everything and everyone else has nothing.

As Figure 9 shows, Gini coefficients for disposable income and expenditure recorded a modest increase in inequality from the late 1980s to the early 1990s. Income inequality has not changed much, but spending inequality has dropped to the 1984 level. Housing costs aside, inequality has not risen in the past 20 years on these measures in New Zealand. In other words, the international narrative about increasing inequality of the last decade or so does not play out in New Zealand.

What has changed is the way inequality is reported – the dotted line in Figure 9 records the number of articles on inequality in the *New Zealand Herald*. Not many years ago, the *Herald* reported every couple of weeks on inequality. Nowadays, it does so eight times a week on average.

The obvious challenge is to find a reason for the discrepancy between real inequality and reported inequality. Our researchers succeeded in doing just that.

Figure 10: Proportion of households with housing costs outgoing-to-income (OTI) ratios greater than 30% by income quartile (1988–2015)

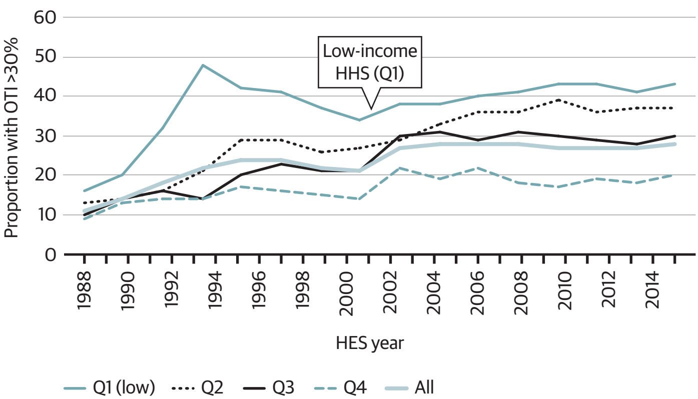


Figure 10 shows the proportion of households with housing outgoings-to-income ratios greater than 30% by income quintile from 1988 to 2015. Although this sounds technical it is quite straightforward.

First, we divided the population into five groups by income: Q1 to Q5. Group Q1 has the lowest incomes, and Q5 the highest. Then we saw how many households in each group have to spend more than 30% of their household income on housing.

> *"The housing market is responsible for a major portion of our poverty challenges, and hugely contributes to inequality in New Zealand"*

What we found was markedly different from the Gini coefficients. In 1990, all income groups were relatively close on housing costs to income. Only 10% of top income earners spent more than 30% of income on housing. For the poorest households, it was 20%.

Today, the top income households are practically where they were at the beginning, but not the income-poorest households. More than 40% of all low-income households now spend more than 30% of their incomes on housing.

This is the most likely explanation of the inequality paradox: Not much has changed on the income distribution side. What has changed is the New Zealand housing market.

Our inequality research aligns with our poverty study: In both cases, the effects of housing have been pernicious for the disadvantaged members of society.

The first conclusion from our research is the need to increase efforts to fix New Zealand's housing crisis. The housing market is responsible for a major portion of our poverty challenges, and hugely contributes to inequality in New Zealand.

The second conclusion is the groups most affected by social deprivation also show the lowest market incomes, reflecting some combination of low working hours and low wage rates. Both are associated with low levels of education.

In 2015, 58% of those over age 15 with no educational qualifications were not in paid work, compared to 39% with an upper secondary school education, and 17% with a post graduate degree. The average weekly wage for those with a post graduate degree was nearly four times that of someone with no educational qualifications.

Education deficits matter. Or, to turn it around, addressing social issues and helping people move ahead in life, providing education opportunities, and ensuring access to paid work have to be top priorities.

Unfortunately, we are not doing a good enough job of school education as a country. The previous chapter on education showed the deficiencies in this area. And we are failing the same groups a second time by not providing them with tertiary education despite a massive subsidy in the form of zero-percent student loans.

The Clark Labour government introduced interest-free loans a decade ago, saying the loans would allow students from less affluent backgrounds to study. As our research shows, tertiary education attainment has not increased, certainly not in lower socioeconomic groups, but the policy cost the country about $6 billion over 10 years.[45]

It may not sound like an obvious area of social policy, but if we care about social outcomes for the least well-off in society, we have to improve their education chances.

With more than twice as many students from decile 9–10 schools going on to tertiary study as students from decile 1–2 schools, zero-percent loans are proving to be a regressive policy. They favour the rich, not the poor.

Instead of providing windfall gains to all students, we should target those who would not otherwise have had a shot at tertiary education and give them appropriate support, especially better career counselling and guidance in schools.

Education policy (primary, secondary and tertiary) is social policy, and education, particularly in marketable skills, lays the foundation for successful and fulfilling lives.

Access to paid work is important in its own right. Policies need to preserve incentives for firms to create jobs and for individuals to take them. Our poverty report noted an OECD estimate that in 2011, the effective tax rate for a sole parent moving to full-time employment was over 80%. This means a previously unemployed sole parent stands to lose four-fifths of any income earned because of reductions in benefit payments.

Housing policy is social policy, too: Without affordable housing, we condemn large numbers of people to a life at the margins of society.

This requires a whole-of-government approach. Social policy cannot be relegated to a single department, least of all one that organises welfare payouts. All government departments need to work together and find ways to help those facing hardship.

This is also the essence of the government's investment approach. We therefore support its objective of trying a new, more holistic way of providing assistance to people who need it.

For example, social impact bonds are a novel and potentially more effective form of social service delivery. We explained how they worked in *Investing for Success: Social Impact Bonds and the Future of Public Services*.[46] However, as the government's pilot on social bonds showed, their success depends on how well bureaucracies deliver them.

In summary, our research on social policy issues led to the following recommendations:

- Social policy is not a silo and should be regarded as a whole-of-government task.

- Fixing New Zealand's housing affordability crisis is crucial to addressing both income-related poverty measures and inequality concerns.
- To provide all New Zealanders with good life opportunities, special attention needs to be paid to education. More targeted support for students from lower deciles should take precedence over untargeted programmes such as interest-free student loans.
- Taxes and regulations should not choke off employers' incentive to create jobs for the available skills or deprive those with those skills of the incentive to work.
- The government's plan to trial new ways of delivering social services such as social bonds is laudable.

Ultimately, the goal of all policy is to maximise the opportunities available for all New Zealanders. An effort combining housing, education and social services reform should help us move towards that goal.

7.

Local Development: Incentives to Grow

> *If central government wants local government to play its part in improving the prosperity of New Zealand, it needs to let councils and the communities they represent share in the benefits of this growth, not just the costs.*
>
> **Jason Krupp, *The Local Manifesto* (2016)**

If you want to work for a think tank, do not expect your research to make you popular. It is the role of a think tank to challenge misperceptions, even where they are widespread.

The Initiative's work on local government is a good example of this.

It is safe to say local government in New Zealand has an image problem. Many people believe it is an inherently wasteful, incompetent and annoying part of government.

Local government is also emphatically unglamorous. Turnout in local government elections is low, and most people would struggle to name more than a few of their councillors. Fewer still would know how local government is organised or what it does.

The most conscious interaction the majority of New Zealanders have with local government is the payment of the council rates bill. But paying bills, particularly when they seem to become bigger each year, hardly creates warm feelings towards local government. Business owners also tell countless horror stories about their interactions with councils, particularly on consent and planning issues.

In short, nobody likes local government. If New Zealand held a referendum tomorrow, chances are people would vote to abolish councils altogether.

We knew of these perceptions when we started the Initiative. In fact, some of our friends and members thought like that too.

So if we had really wanted to make ourselves unpopular, we should have ventured into a research programme to strengthen local government, promote local democracy and devolve government services.

"In short, nobody likes local government. If New Zealand held a referendum tomorrow, chances are people would vote to abolish councils altogether"

Which is exactly what we did. And we are proud of our work.

We acknowledge some things about local government in New Zealand are wrong and need fixing. We fully understand ratepayers' frustrations about their bills, and we certainly understand businesses' concerns about the time it takes to interact with councils.

Where we differ is in the analysis of the reasons behind these problems. All the observed 'failures' of councils are really design flaws in the constitutional set-up of New Zealand.

To many New Zealanders, this view may sound strange – and requires some explanation.

Three things stand out about local government. First, New Zealand has relatively few councils by international standards.

Second, local government accounts for a low share of total government spending. And third, local government funding is unusually dependent on property taxes. All three factors affect local government performance.

On the small number of councils, many New Zealanders believe we are over-governed and that there are too many councils. Facts belie this impression.

New Zealand has 67 territorial authorities (12 city councils, 53 district councils, Auckland Council, and Chatham Islands) and 16 regional councils (of which 5 are unitary councils) – a total of 78 sub-central councils (or roughly 60,000 people per council).

New Zealand would have 620 councils if it were like Germany; 1,920 councils if it were like Switzerland; or 2,600 councils if it were like France. Admittedly, the precise functions of councils or communes in these countries is not directly comparable, but the notion that New Zealand has too many sub-central government units does not match facts.

On the small relative share of local government spending, the OECD has found that only in Ireland and Greece is central government more dominant than in New Zealand.

In New Zealand, central government accounts for 91% of all government spending. The OECD average is about two-thirds central and one-third sub-central (which means local and, in federations, states).

Finally, New Zealand is unusual in that the bulk of local government funding comes from rates, i.e. property taxes, while in most other countries it is through a combination of sales taxes, personal and corporate income taxes, levies, fees, and property taxes.

This means we should not expect much jurisdictional competition between councils. Whether a council does a good or a bad job, it will always be able to tax its property owners regardless of how many businesses and people are leaving, or do not come. Councils doing great work to attract new businesses and facilitate more housing for their people are not automatically financially remunerated for their efforts.

For central government more people earning more income means more government revenue at unchanged tax rates. For local government, land area does not change. Local government might find it easier to increase rates revenues when land values rise. It is, of course, perfectly possible to create an artificial land scarcity through restrictive planning. But obviously this option is not conducive to local economic development. Neither is it what local communities should expect.

Our centralistic structure thereby means central government typically reaps the benefits of economic development, whereas local government often pays for the infrastructure that makes it possible. We have already dealt with one of the consequences of this in the previous chapter on housing.

A comprehensive alternative to the way New Zealand is governed is promulgated in our reports on localism. The basic philosophy was presented in my essay *A Global Perspective on Localism* (2013).[47]

The essay took a historical, philosophical, economic and research-based perspective on local government. It emphasised the importance of subsidiarity, the idea that tasks are best dealt with at the lowest possible tier of government. It applied Tiebout's theory of competitive federalism to local government in New Zealand. It also compared New Zealand to countries that had either never centralised or had recently decentralised.

A Global Perspective on Localism was based on a speech delivered to the 600 delegates of Local Government New Zealand's July 2013 conference in Hamilton. The essay was launched later that year at an event in Wellington, at which (then Deputy) Prime Minister Bill English was the main speaker.

These were probably New Zealand's first ever events dedicated to localism. Since the abolition of the provincial councils in colonial times, New Zealand government has been highly centralised, and thus what we presented was the antithesis to more than a hundred years of New Zealand history.

We have since witnessed a growing acceptance of our localism philosophy, which we have applied in a number of our research projects.

Jason Krupp's mini-series exploring and using natural resources in New Zealand, *Poverty of Wealth: Why Minerals Need to be Part of the Rural Economy and From Red Tape to Green Gold*, showed how a localist approach can unlock economic growth potential.[48]

The two reports noted that, perhaps surprisingly, New Zealand is a mineral rich country. We often do not realise the latent potential for mining and oil and gas exploration because it is still a relatively small sector of the economy, employing fewer than 7,000 people. Rather, New Zealand's resource potential is far greater than this figure suggests.

We are not making more of our natural resources for many reasons, chiefly the regulatory complexity mining companies face from the *Resource Management Act*.

But the local government system too plays a role in the lack of resource development.

It is a classic mismatch of central and local government incentives. Royalties and taxes from mineral projects go to central government only, while local communities bear the cost of mineral extraction directly. Councils deal with the downsides (pollution and traffic), and only receive some indirect benefits (a more attractive local labour market).

Local councils are also unable to recover costs from the consenting process, or indeed any appeals that often follow. Unsurprisingly, councils and local communities are often not great promoters of resource exploration in their regions, given that they have little to gain from it.

We thus recommended more than just regulatory reform to grow the resources sector. At the very least, central government should provide a funding stream for local councils to compensate them for the costs they incur as consenting agents.

Beyond this, central government could also share royalties from mining developments with local councils, perhaps proportionally to the costs of consenting. This would be a significant incentive for local government to welcome resource sector developments.

In another major report, my colleagues Eric Crampton and Khyaati Acharya explored the concept of special economic zones for New Zealand. *In the Zone: Creating a Toolbox for Regional Prosperity* applied localism to broader economic reform.[49]

The starting point was realising big policy reforms take time. Parliamentary majorities are rare, and there will always be enough naysayers to delay genuine policy innovation.

But why wait for Parliament? Why not do reforms incrementally – or rather, locally?

Under special economic zones, parts of the country could opt out of parts of national legislation and try their own ideas. Buller could speed up mining consents. Wellington could relax FDI rules. Auckland could ease residential construction regulations.

Such deviations from national legislation would encourage creative policy. Councils could receive a share of the higher tax revenue generated locally. This is common practice in countries such as Switzerland, and is being introduced in Manchester.

Other councils should be allowed to deviate from national legislation once one council has been allowed to do so. Thus once one council has started its trial, 77 others would be watching. Over time, good ideas would prevail while the bad would be limited to just one council. This would enable more economic reform and more creative local policy.

Our final series on localism was produced in 2015 and 2016 and stretched over three reports: *The Local Formula: Myths, Facts & Challenges*, *The Local Benchmark: When Smaller is Better*, and *The Local Manifesto: Restoring Local Government Accountability*.[50]

The three reports reviewed the state of local government and its alleged financial mismanagement. The research found no financial crisis in local government, and that debt was low and manageable. However, current arrangements and lack of financial incentives may make it hard for councils to invest adequately in future development.

We then studied local government internationally, visiting The Netherlands, the United Kingdom, Switzerland and Canada. With its extremely devolved governance and plenty of incentives for councils to promote growth, Switzerland impressed us. Manchester showed how local and central government can work together to achieve better results through devolution. Montreal was an amalgamated super city gone so wrong it had to be de-amalgamated. The Netherlands has an impressive civic spirit of regional cooperation.

The final report, *The Local Manifesto*, made recommendations encompassing not only a clearer delineation of responsibilities between central and local government, but also fiscal incentives for local government we had already promoted in many of our previous publications.

Three core recommendations from our localism research over the past five years are:

- Local communities should share the benefits that accrue to central government from extractive industries and growth. Local government should receive financial benefits for creating economic growth (and suffer a loss when it does not).

- Central and local government need to better define their responsibilities to preclude cost-shifting and blame games, and enhance accountability.
- Special economic zones would increase flexibility and regional variability of economic policy.

Localism is more than just local government. It is a fundamental rethink of the relationship between government and the citizens it is supposed to serve. It is about empowering citizens and communities to find better solutions for their circumstances. It is about bringing government closer to the people and making it accountable to them, not giving local government more money and power.

To paraphrase Abraham Lincoln, localism is to facilitate government of the people, by the people, for the people – and closer to the people.

We need much more of this kind of government in New Zealand. We have been a centralistic country for much too long.

8.

A Platform for Growth

> *Unless we can demonstrate that economic growth is our best way of reducing long term poverty, enhancing environmental quality, and providing the best possible future for our grandchildren, we cannot expect politicians to implement policies that work to those ends.*
>
> **Eric Crampton and Jenesa Jeram, *The Case for Economic Growth* (2015)**

Over the past five years, our researchers have produced a substantial body of work dealing with some of the most pressing issues facing New Zealand. They have also offered practical proposals to improve housing affordability, improve education, streamline regulations, and make government more accountable to citizens.

There is an overarching theme behind our work encapsulated in our mission statement: to help create a competitive, open and dynamic economy and a free, prosperous, fair and cohesive society.

New Zealand is doing well when compared internationally. We have every reason to feel confident about New Zealand. At the same time, we should not be complacent. Some areas can be improved, particularly for people experiencing hardship.

There is no silver bullet to these challenges, but economic growth does come close.

It has become fashionable in some circles to belittle the role of economic growth, saying it does not make us happy, it degrades the environment, or it leads to social polarisation.

Eric Crampton and Jenesa Jeram looked into these prejudices in *The Case for Economic Growth*.[51] Their verdict could not have been clearer:

- Instead of ruining the environment, economic growth helps manage and preserve it.
- Instead of making us unhappy, economic growth enables us to lead longer, healthier and more fulfilling lives.
- Instead of depleting our resources, economic growth helps us find alternative ways of satisfying our needs.

"More growth can give us better healthcare. We will be better prepared to cope with natural disasters and have fewer casualties when they occur. Our children will have better job opportunities. And we can better care for our ageing society"

The authors went through an impressive list of time series, statistics and research to find economic growth is not just a number that matters to economists but rather to all of us.

As the authors quipped in a Monty Python manner: "Apart from longer life expectancy, better health, improved education, a cleaner environment, better opportunities for our children and a happier country, what has economic growth ever done for New Zealanders?"

More growth can give us better healthcare. We will be better prepared to cope with natural disasters and have fewer casualties when they occur. Our children will have better job opportunities. And we can better care for our ageing society.

In *Guarding the Public Purse*, Bryce Wilkinson and Khyaati Acharya focused on New Zealand's long-term fiscal future.[52] Citing New Zealand's ageing population and increasing costs of superannuation and healthcare, the authors argued for the need to improve our productivity and growth performance to afford the costs of demographic change.

Because if we do not lift our performance, we will face unpleasant choices such as increasing the pension age, cutting superannuation entitlements, rationing healthcare, increasing taxes or debt – or indeed a combination of all these measures.

Imagine if we could achieve an annual productivity growth of 2% per year from now until 2060 instead of, say, 1.5%. Half a percent may not sound much. But through the power of compound growth, it makes a substantial difference to economic output.

By 2060, GDP per capita would be 22% higher (or about $22,000 per person in today's dollars) if we achieved 2% productivity growth instead of 1.5%. This uplift in economic output would be enough to produce enough tax revenue to deal with demographic change. We would still be able to keep tax revenues at a modest 29% of GDP and net debt to an equally modest 20% of GDP. That is the power of economic growth.

Creating a dynamic, growing economy is essential if we do not want to end up like some European countries that have not generated enough growth over the past decades, and are now paying a heavy social and economic price for it.

Just think of Greece's debt crisis or Spain's youth unemployment. Or read my 2015 essay *Why Europe Failed*, which former Australian Prime Minister John Howard said was "a sobering analysis of an ageing Europe, overburdened by the size of its welfare state."[53]

New Zealand can avoid Europe's problems and create a better future for itself.

With our young population, stable institutions, and geographic position amid the fast-growing Pacific region, New Zealand can be one of the rising stars of the 21st century.

No wonder New Zealand is recording such high net migration numbers, being one of the most attractive places on the planet to live. And it also speaks to how well New Zealand has been able to integrate newcomers (such as this author). Our report *The New New Zealanders* argues few countries have as successful migration and integration policies as New Zealand.[54] It is yet another aspect of New Zealand to be proud of and celebrate.

The contribution of The New Zealand Initiative is in the ideas we introduce to our political debates. In doing so, we aim to achieve two things: public outreach and policy change.

We want to help the New Zealand public better understand the challenges we face and the options available. We are doing this not just through our reports but also through media commentary, newspaper columns, events, and our popular *Insights* newsletter. Check out our *ABC of Economic Literacy* introducing economic thinking in 26 pieces, from A (Adam Smith) to Z (Zero-Sum Game).[55]

Ultimately, of course, we want to see our ideas being implemented. Under the current National-led government, New Zealand has seen some crucial reforms in tax and welfare policy, while carefully managing public finances.

I analysed the Key government's approach of 'incremental radicalism' in my 2014 essay *Quiet Achievers: The New Zealand Path to Reform* and noted:

> The price the New Zealand government pays for working through its reform agenda is its incrementalism; the price the New Zealand public pays for this incrementalism are the opportunity costs of waste and inefficiency that could have been avoided by faster reforms.

> To the frustration of political pundits, economic advisors, at least one prominent think tank, and some former politicians, the Key government's reforms do not come as a "big bang" with strident rhetoric but more like a finely crafted, slow process.[56]

Unsurprisingly, the think tank in question is us.

At the Initiative, we would like to see more reforms, bolder reforms, and faster reforms. But we also understand the constraints politicians of all parties work under. As the great sociologist Max Weber put it, "Politics is a strong and slow boring of hard boards."[57]

Considering the slow pace of politics Weber describes, the Initiative has achieved a lot in the short space of five years.

We have transformed the conversation on housing from one focused on demand side measures to one that emphasises supply. How much the planning and housing discourse has changed can be seen in an article we co-wrote with Labour's housing spokesperson Phil Twyford advocating ending height and density controls, abolishing the rural-urban boundary, and introducing municipal utility districts.[58] If all that sounds familiar, it is because our *Free to Build* report made these recommendations.

Two recommendations from *Reducing Unnecessary Regulatory Costs* have turned into private members' bills in Parliament. Both have the potential to cut red tape by tweaking existing legislations without compromising regulatory quality.

Our research note *Compensation for Live Donors*, which suggested covering the lost wages of live organ donors, was also turned into a private members' bill.[59] Parliament passed it at the end of 2016. As a result, we can expect some improvements for people who need an organ transplant and those wishing to donate one of their organs.

The government has taken the first steps towards a career structure for teachers with the Investing in Educational Success policy advocated in our series on teacher quality.

Finally, we are encouraged by the growing acceptance and, indeed, popularity of localism. Local Government New Zealand (LGNZ) has endorsed our publications on several occasions, and the Productivity Commission now regularly refers to local government incentives in its publications. In Wellington policy circles, localism has become a fashionable topic, which had not been on the agenda before we started.

The first five years of The New Zealand Initiative have been successful both for the research we produced and the policy changes we have achieved.

But there is more to be done: more research – and more policy changes.

Despite our large research programme, many areas still need attention – health, higher education, transport and infrastructure, not to mention ill-justified government regulations.

This manifesto has spelt out what we expect the next government to tackle after this year's election.

As a non-partisan think tank, it is immaterial to us which parties form the government.

What we do care about is creating a better future for a better New Zealand – and for which we offer these ideas.

Appendix: The Initiative's Policy Recommendations at a Glance

Housing and Planning:

- Abolish all rural-urban boundaries;
- abolish all height and density controls;
- strengthen property rights by introducing a presumption in favour of development into the Resource Management Act;
- incentivise councils for development by letting them capture the GST component of new buildings; and
- introduce Community Development Districts.

Education:

- Create an attractive career structure for teachers;
- provide tailored professional development for teachers;
- monitor teacher performance and introduce performance-based appraisals;
- evaluate systematically the impact of interventions on school performance; and
- expand school clusters as a means of sharing best practice.

Foreign Direct Investment:

- Abolish the Overseas Investment Act. There should be no FDI regime;

- subject all investors, domestic and foreign, to the same rules; and
- protect New Zealanders' property rights, including the freedom to sell to whoever they wish. In cases of public interest, appropriate compensation must be made.

Regulation:

- No new law or regulation shall be introduced without a cost-benefit assessment that demonstrates real gains for the public and costs fairly shared.
- Regulatory reform cannot be delegated to a junior minister but needs real commitment from the prime minister down.
- The regulatory culture should shift from one of ticking boxes and managing risk to encouraging greater flexibility and innovation.

Social Policy:

- Social policy is not a silo and should be regarded as a whole-of-government task.
- Fixing New Zealand's housing affordability crisis is crucial to addressing both income-related poverty measures and inequality concerns.
- To provide all New Zealanders with good life opportunities, special attention needs to be paid to education. More targeted support for students from lower deciles should take precedence over untargeted programmes such as interest-free student loans.

- Taxes and regulations should not choke off employers' incentive to create jobs for the available skills or deprive those with those skills of the incentive to work.
- The government's plan to trial new ways of delivering social services such as social bonds is laudable.

Local Government:

- Local communities should share the benefits that accrue to central government from extractive industries and growth. Local government should receive financial benefits for creating economic growth (and suffer a loss when it does not).
- Central and local government need to better define their responsibilities to preclude cost-shifting and blame games, and enhance accountability.
- Special economic zones would increase flexibility and regional variability of economic policy.

Endnotes

1. The Legatum Prosperity Index and related materials are available at www.prosperity.com.
2. United Nations Development Programme, "Human Development Index (HDI)," Website.
3. James Gwartney, Robert Lawson, and Joshua Hall, "Economic Freedom of the World 2016 Annual Report" (Vancouver: Fraser Institute, 2016), v.
4. The World Bank, "Economy rankings," Website.
5. The New Zealand Initiative, "New Zealand by Numbers" (Wellington: The New Zealand Initiative, 2014).
6. Isaac Davison, "Chinese wanted to buy property in regions," *The New Zealand Herald* (6 August 2015).
7. Michael Bassett and Luke Malpass, "Priced Out: How New Zealand Lost its Housing Affordability" (Wellington: The New Zealand Initiative, 2013), 1.
8. QV, "Residential house values," Website.
9. Jenesa Jeram, "Empty Nests, Crowded Houses: Building for an Ageing Population" (Wellington: The New Zealand Initiative, 2014).
10. Eric Crampton, "How to fix a crisis: An Auckland housing manifesto," *The Spinoff* (28 June 2016).
11. Jason Krupp and Khyaati Acharya, "Up or Out? Examining the Trade-offs of Urban Form" (Wellington: The New Zealand Initiative, 2014).
12. Michael Bassett and Luke Malpass, "Different Places, Different Means" (Wellington: The New Zealand Initiative, 2013), 22.
13. Michael Bassett, Luke Malpass, and Jason Krupp, "Free to Build: Restoring New Zealand's Housing Affordability" (Wellington: The New Zealand Initiative, 2013).
14. Paul Krugman, *The Age of Diminished Expectations* (Cambridge: MIT Press, 1994), 13.

15. Chartered Accountants Australia New Zealand, “Future [Inc] Disruptive Technologies Risks, Opportunities – Can New Zealand Make the Most of Them?“ (Wellington: 2015).

16. David H. Autor, “Skills, Education, and the Rise of Earnings Inequality Among the ‘Other 99 Percent’,” *Science* 344:6186 (23 May 2014), 843–851.

17. Ministry of Education, “Profile & Trends: Tertiary Education Outcomes and Qualification Completions” (Wellington: New Zealand Government, 2016), 10.

18. Education Counts, “18-year-olds with a minimum of NCEA Level 2 or equivalent“ and “School leavers with NCEA level 3 or above,” Website.

19. Education Counts, “School leavers with NCEA level 3 or above,” Website.

20. Ibid.

21. *Education Weekly*, “Child poverty and long tail bringing down NZ’s education rating” (16 December 2013).

22. New Zealand performed particularly poorly in the mid-1990s against the OECD average.

23. Martine Udahemuka, “Our maths performance results on TIMSS and National Standards,” Interest.co.nz (5 December 2016).

24. John Morris and Rose Patterson, “World Class Education?” (Wellington: The New Zealand Initiative, 2013).

25. Rose Patterson, “Un(ac)countable: Why Millions on Maths Returned Little” (Wellington: The New Zealand Initiative, 2015).

26. John Morris and Rose Patterson, “Around the World: The Evolution of Teaching as a Profession” (Wellington: The New Zealand Initiative, 2013).

27. John Morris and Rose Patterson, “Teaching Stars: Transforming the Education Profession” (Wellington: The New Zealand Initiative, 2014).

28. Rose Patterson, “No School is an Island: Fostering Collaboration in a Competitive System” (Wellington: The New Zealand Initiative, 2014).

29. Martine Udahemuka, “Signal Loss: What We Know About School Performance” (Wellington: The New Zealand Initiative, 2016).

30. Bryce Wilkinson, “New Zealand’s Global Links: Foreign Ownership and the Status of New Zealand’s Net International Investment” (Wellington: The New Zealand Initiative, 2013).

31. Bryce Wilkinson and Khyaati Acharya, "Capital Doldrums: How Globalisation is Bypassing New Zealand (Wellington: The New Zealand Initiative, 2014).

32. Bryce Wilkinson and Khyaati Acharya, "Open for Business: Removing the Barriers to Foreign Investment" (Wellington: The New Zealand Initiative, 2014).

33. Vhari McWha, Jo Smith, and Kieran Murray, "Regulatory Impact Analysis Evaluation 2015" (Wellington: The Treasury, 2015).

34. Productivity Commission, "Regulatory Institutions and Practices Inquiry" (Wellington: New Zealand Government, 2015).

35. Bryce Wilkinson, "A Matter of Balance: Regulating Safety" (Wellington: The New Zealand Initiative, 2015).

36. Jo Moir, "MPs miss the point over how ride-sharing service Uber works," Stuff.co.nz/ (25 November 2016).

37. The New Zealand Initiative, "Reducing Unnecessary Regulatory Costs" (Wellington: The New Zealand Initiative, 2015).

38. Bryce Wilkinson, "Treasury's Living Standards Framework," *Asymmetric Information* 55 (2016), 7–8.

39. Eric Crampton and Linda Meade, "Deadly Heritage" (Wellington: The New Zealand Initiative and Deloitte New Zealand, 2015).

40. Jenesa Jeram, "The Health of the State" (Wellington: The New Zealand Initiative, 2016); Jason Krupp, "Giving Charities a Helping Hand" (Wellington: The New Zealand Initiative, 2015).

41. Bryce Wilkinson and Jenesa Jeram, "Poorly Understood: The State of Poverty in New Zealand" (Wellington: The New Zealand Initiative, 2016).

42. Ibid. 18–19.

43. Ibid. 6.

44. Bryce Wilkinson and Jenesa Jeram, "The Inequality Paradox: Why Inequality Matters Even Though it has Barely Changed" (Wellington: The New Zealand Initiative, 2016).

45. Khyaati Acharya with Eric Crampton, "Decade of Debt: The Cost of Interest-free Student Loans" (Wellington: The New Zealand Initiative, 2016).

46. Bryce Wilkinson and Jenesa Jeram, "Investing for Success: Social Impact Bonds and the Future of Public Services" (Wellington: The New Zealand Initiative, 2015).

47. Oliver Hartwich, "A Global Perspective on Localism" (Wellington: The New Zealand Initiative and LGNZ, 2013).

48. Jason Krupp, "Poverty of Wealth: Why Minerals Need to be Part of the Rural Economy" (Wellington: The New Zealand Initiative, 2014); Jason Krupp, "From Red Tape to Green Gold" (Wellington: The New Zealand Initiative, 2015).

49. Eric Crampton and Khyaati Acharya, "In the Zone: Creating a Toolbox for Regional Prosperity" (Wellington: The New Zealand Initiative, 2015).

50. Jason Krupp and Bryce Wilkinson, "The Local Formula: Myths, Facts & Challenges" (Wellington: The New Zealand Initiative, 2015); Jason Krupp, "The Local Benchmark: When Smaller is Better" (Wellington: The New Zealand Initiative, 2016); Jason Krupp, "The Local Manifesto: Restoring Local Government Accountability" (Wellington: The New Zealand Initiative, 2016).

51. Eric Crampton and Jenesa Jeram, "The Case for Economic Growth" (Wellington: The New Zealand Initiative, 2015).

52. Bryce Wilkinson and Khyaati Acharya, "Guarding the Public Purse: Faster Growth, Greater Fiscal Discipline" (Wellington: The New Zealand Initiative, 2014).

53. Oliver Hartwich, *Why Europe Failed* (Ballarat and Wellington: Connor Court and The New Zealand Initiative, 2015).

54. Rachel Hodder and Jason Krupp, "The New New Zealanders" (Wellington: The New Zealand Initiative, 2017).

55. The New Zealand Initiative, "The ABC of Economic Literacy" (Wellington: The New Zealand Initiative, 2014).

56. Oliver Hartwich, *Quiet Achievers: The New Zealand Path to Reform* (Ballarat and Canberra: Connor Court and The Menzies Research Centre, 2014), 41.

57. Max Weber, *Politik als Beruf*, 1919 (republished: Max Weber, *Gesammelte Politische Schriften*, 5th edition (Tübingen: Mohr, 1988), 505–560).

58. Phil Twyford and Oliver Hartwich, "Planning rules the cause of housing crisis," *The New Zealand Herald* (29 November 2015).

59. Elizabeth Prasad, "Compensation for Live Donors" (Wellington: The New Zealand Initiative, 2015).

Bibliography

Acharya, Khyaati with Eric Crampton. "Decade of Debt: The Cost of Interest-free Student Loans" (Wellington: The New Zealand Initiative, 2016).

Autor, David H. "Skills, Education, and the Rise of Earnings Inequality Among the 'Other 99 Percent'," *Science* 344:6186 (23 May 2014), 843–851.

Bassett, Michael and Luke Malpass. "Different Places, Different Means" (Wellington: The New Zealand Initiative, 2013).

———. "Priced Out: How New Zealand Lost its Housing Affordability" (Wellington: The New Zealand Initiative, 2013).

Bassett, Michael, Luke Malpass, and Jason Krupp. "Free to Build: Restoring New Zealand's Housing Affordability" (Wellington: The New Zealand Initiative, 2013).

Chartered Accountants Australia New Zealand. "Future [Inc] Disruptive Technologies Risks, Opportunities – Can New Zealand Make the Most of Them?" (Wellington: 2015).

Crampton, Eric and Jenesa Jeram. "The Case for Economic Growth" (Wellington: The New Zealand Initiative, 2015).

Crampton, Eric and Khyaati Acharya. "In the Zone: Creating a Toolbox for Regional Prosperity" (Wellington: The New Zealand Initiative, 2015).

Crampton, Eric and Linda Meade. "Deadly Heritage" (Wellington: The New Zealand Initiative and Deloitte New Zealand, 2015).

Crampton, Eric. "How to fix a crisis: An Auckland housing manifesto," *The Spinoff* (28 June 2016).

Davison, Isaac. "Chinese wanted to buy property in regions," *The New Zealand Herald* (6 August 2015).

Education Counts. "18-year-olds with a minimum of NCEA Level 2 or equivalent," Website.

———. “School leavers with NCEA level 3 or above,” Website.

Education Weekly. “Child poverty and long tail bringing down NZ’s education rating” (16 December 2013).

Gwartney, James, Robert Lawson, and Joshua Hall. “Economic Freedom of the World 2016 Annual Report” (Vancouver: Fraser Institute, 2016).

Hartwich, Oliver. “A Global Perspective on Localism” (Wellington: The New Zealand Initiative and LGNZ, 2013).

———. *Quiet Achievers: The New Zealand Path to Reform* (Ballarat and Canberra: Connor Court and The Menzies Research Centre, 2014).

———. *Why Europe Failed* (Ballarat and Wellington: Connor Court and The New Zealand Initiative, 2015).

Hodder, Rachel and Jason Krupp. “The New New Zealanders” (Wellington: The New Zealand Initiative, 2017).

Jeram, Jenesa. “Empty Nests, Crowded Houses: Building for an Ageing Population” (Wellington: The New Zealand Initiative, 2014).

———. “The Health of the State” (Wellington: The New Zealand Initiative, 2016).

Krugman, Paul. *The Age of Diminished Expectations* (Cambridge: MIT Press, 1994).

Krupp, Jason and Bryce Wilkinson. “The Local Formula: Myths, Facts & Challenges” (Wellington: The New Zealand Initiative, 2015).

Krupp, Jason and Khyaati Acharya. “Up or Out? Examining the Trade-offs of Urban Form” (Wellington: The New Zealand Initiative, 2014).

Krupp, Jason. “From Red Tape to Green Gold” (Wellington: The New Zealand Initiative, 2015).

———. “Giving Charities a Helping Hand” (Wellington: The New Zealand Initiative, 2015).

———. “Poverty of Wealth: Why Minerals Need to be Part of the Rural Economy” (Wellington: The New Zealand Initiative, 2014).

———. “The Local Benchmark: When Smaller is Better” (Wellington: The New Zealand Initiative, 2016).

———. “The Local Manifesto: Restoring Local Government Accountability” (Wellington: The New Zealand Initiative, 2016).

McWha, Vhari, Jo Smith, and Kieran Murray. "Regulatory Impact Analysis Evaluation 2015" (Wellington: The Treasury, 2015).

Ministry of Education. "Profile & Trends: Tertiary Education Outcomes and Qualification Completions" (Wellington: New Zealand Government, 2016).

Moir, Jo. "MPs miss the point over how ride-sharing service Uber works," Stuff.co.nz (25 November 2016).

Morris, John and Rose Patterson. "Around the World: The Evolution of Teaching as a Profession" (Wellington: The New Zealand Initiative, 2013).

Morris, John and Rose Patterson. "Teaching Stars: Transforming the Education Profession" (Wellington: The New Zealand Initiative, 2014).

———. "World Class Education?" (Wellington: The New Zealand Initiative, 2013).

Patterson, Rose. "No School is an Island: Fostering Collaboration in a Competitive System" (Wellington: The New Zealand Initiative, 2014).

———. "Un(ac)countable: Why Millions on Maths Returned Little" (Wellington: The New Zealand Initiative, 2015).

Prasad, Elizabeth. "Compensation for Live Donors" (Wellington: The New Zealand Initiative, 2015).

Productivity Commission. "Regulatory Institutions and Practices Inquiry" (Wellington: New Zealand Government, 2015).

QV. "Residential house values," Website.

The Legatum Prosperity Index. Website.

The New Zealand Initiative. "New Zealand by Numbers" (Wellington: The New Zealand Initiative, 2014).

———. "Reducing Unnecessary Regulatory Costs" (Wellington: The New Zealand Initiative, 2015).

———. "The ABC of Economic Literacy" (Wellington: The New Zealand Initiative, 2014).

The World Bank. "Economy rankings," Website.

Twyford, Phil and Oliver Hartwich. "Planning rules the cause of housing crisis," *The New Zealand Herald* (29 November 2015).

Udahemuka, Martine. "Our maths performance results on TIMSS and National Standards," Interest.co.nz (5 December 2016).

———. "Signal Loss: What We Know About School Performance" (Wellington: The New Zealand Initiative, 2016).

United Nations Development Programme. "Human Development Index (HDI)," Website.

Weber, Max. *Politik als Beruf*, 1919 (republished: Max Weber, *Gesammelte Politische Schriften*, 5th edition (Tübingen: Mohr, 1988), 505–560).

Wilkinson, Bryce and Jenesa Jeram. "Investing for Success: Social Impact Bonds and the Future of Public Services" (Wellington: The New Zealand Initiative, 2015).

———. "Poorly Understood: The State of Poverty in New Zealand" (Wellington: The New Zealand Initiative, 2016).

———. "The Inequality Paradox: Why Inequality Matters Even Though it has Barely Changed" (Wellington: The New Zealand Initiative, 2016).

Wilkinson, Bryce and Khyaati Acharya. "Capital Doldrums: How Globalisation is Bypassing New Zealand (Wellington: The New Zealand Initiative, 2014).

———. "Guarding the Public Purse: Faster Growth, Greater Fiscal Discipline" (Wellington: The New Zealand Initiative, 2014).

———. "Open for Business: Removing the Barriers to Foreign Investment" (Wellington: The New Zealand Initiative, 2014).

Wilkinson, Bryce. "A Matter of Balance: Regulating Safety" (Wellington: The New Zealand Initiative, 2015).

———. "New Zealand's Global Links: Foreign Ownership and the Status of New Zealand's Net International Investment" (Wellington: The New Zealand Initiative, 2013).

———. "Treasury's Living Standards Framework," *Asymmetric Information* 55 (2016).

New Zealand is a great place. On many measures, we rank among the best countries in the world.

But acknowledging what is good about our country should not stop us from improving it. Whether it is housing affordability, education opportunities or regulatory costs, New Zealand can do better.

Based on The New Zealand Initiative's research over five years, Manifesto 2017 presents practical solutions to some of New Zealand's most pressing problems.

THE NEW ZEALAND INITIATIVE