



# We're all in this together

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How can business and government collaborate to address shared challenges out to 2050?

Final Green Paper for BusinessNZ  
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**SENSE PARTNERS**  
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## Key points

### **Businesses and politicians need to seek a common purpose on impending economic and social challenges**

- BusinessNZ has asked Sense Partners to prepare a Green Paper on what New Zealand Inc needs to do to navigate the structural challenges shaping the economy out to 2050.
- The business environment will become increasingly uncertain over the next 25 years. Megatrends such as climate change, complex geopolitics, rapid technology change, ageing populations and expensive housing inequities will all have disruptive and divisive effects on New Zealand's economy and society.

### **Ask not what your society can do for you, ask what you can do for your society**

- These challenges are too immense and far-reaching to be subjected to short-term political point-scoring and bickering between politicians and the business community. They require a coordinated New Zealand Inc response.
- In an increasingly uncertain world, businesses will want politicians to commit to policies that allow ready access to labour and incentivise capital investment to boost productivity and prepare for a decarbonising world. They will be seeking regulatory stability so they can invest and plan for the long term with greater confidence.
- A question then is what can businesses, small and large, do now to try to encourage such policy stability? And what might businesses be prepared to offer in exchange for it?

### **Will the last person to leave please turn out the lights? Global challenges will put more pressure on New Zealand's already-dire productivity performance**

- New Zealand Inc must make some critical decisions about how to respond to global megatrends.
- We cannot sit idly by, gazing at our own navels and expect everything to work out OK. Productivity and living standards will suffer, and New Zealand will fall further behind our peers. It will become even harder to keep New Zealand's best and brightest on our shores.
- This isn't the future we want, but it might be the future we get unless governments of all political persuasions and business can start working better together.

### **Show me the money: how are we going to fund our future?**

- Climate change adaptation, closing the infrastructure deficit and an ageing population will put huge pressure on New Zealand's fiscal position. Global competition for migrants to address worker shortfalls will demand reasoned plans to attract and provide quality livelihoods and housing for immigrants.



- There is currently little indication of any coherent, long term approach to any of these issues. We need to start having honest conversations now about how these things will be funded, and the respective roles of government and business in addressing them.
- Avoiding wasteful fiscal spending is important, of course. There needs to be *much* greater focus on evaluating the effectiveness and value for money of policy initiatives, and politicians need to be stronger in stopping initiatives that don't stack up.
- We simply won't have the fiscal headroom to accommodate the investments New Zealand needs if spending is poorly targeted or delivers low value for money outcomes.
- But this common refrain from business is not sufficient. The reality is it is very hard to materially cut most government spending without harming those who already face economic and social disadvantages.
- Tax, debt, and investment settings will need to accommodate the additional fiscal pressures coming down the pipe.

### **When the world around us is buffeting us with shocks, we need to control the controllable: our institutional settings must be better**

- The costs of getting our response wrong are high. New Zealand already faces significant geographic and scale disadvantages which are hard to overcome. Our smaller population contributes to our productivity and living standards lagging those of Australia.
- Perhaps more so than in most other countries, New Zealand's institutions, including the public service, play a vital role in influencing our economic performance.
- Yet a political environment which rewards reactionary politics, policy flip-flops and short-termism is leaving business leaders with little clue about what politicians plan to do.
- Policy stasis and weak incentives for businesses to invest in the future raise the risk of societal division, discontent, institutional entropy, and stagnation.

### **This paper sets out the case for more bipartisanship as a core element of New Zealand's economic strategy to 2050**

- It will take time and commitment to transform the New Zealand economy so that it is better prepared for the risks and opportunities associated with global megatrends.
- The chances of success will improve if government and businesses can agree on long-term priorities – i.e. a common purpose – and who is best placed to do what. And then stick to the plan.
- This allows policy levers to endure and means institutions and businesses can adapt to structural forces irrespective of electoral cycles, developing coherence and organisational efficiency and effectiveness.



## **Bipartisan politics is no pipedream: it's there if we want it enough**

- New Zealand's economic history shows that sustained progress on important economic and social issues has occurred when political parties have found consensus.
- This consensus, when won, tends to last. Our analysis of campaign promises between 1980 and 2020 finds several areas of longstanding agreement.
- While there are differences in views around the edges, there is broad bipartisanship in areas such as trade and foreign policy, monetary policy, savings, the importance of home ownership, paid parental leave and Working For Families.
- Politicians have made choices in the past to effectively de-politicise efforts to make progress in these areas, in the interests of the greater good. New Zealand desperately needs more of this bipartisanship.
- Given the magnitude of challenges that New Zealand will face in the near future, greater political consensus and clarity around institutional settings will better position the country to weather the storm and improve living standards.

## **Businesses have a unique role in creating staying power for public policy by agenda-setting, but nothing comes for free**

- Businesses have the operational timelines and resources to influence the political and economic agenda over the long term. If New Zealand Inc is to be successful in an ever more complex global environment, and there is to be more political bipartisanship, the private sector needs to come to the table with ideas and concessions too.
- A key question is whether businesses are prepared to absorb greater initial costs in exchange for greater political and regulatory certainty (and avoiding future unpredicted costs). For example:
  - If there were to be more political consensus over migration policy to provide a larger pool of workers to support labour productivity growth, could more businesses afford to and therefore commit to paying wages that were more competitive with Australia?
  - If there is an agreed infrastructure plan that was less subject to political whims, might businesses be prepared to pay infrastructure levies, promote congestion charging and support toll roads?
- If business can also support potentially controversial policies outside of their core interest, such as distributional tools like carbon dividends or greater use of the welfare system to mitigate harmful economic impacts for households from technology and climate change, this may mean politicians are less likely to make knee-jerk changes in areas like the Emissions Trading Scheme or technology regulation elsewhere.



## **Bipartisan politics is a desirable response to impending structural change from global megatrends – business needs to take the lead**

- Getting to some sense of base agreement – *a minimum viable bipartisanship* – on areas of division can create the political environment for quality policy to develop and endure.
- But this takes a willingness from businesses to get involved in divisive policy areas and give politicians permission, support, and ideas to resolve and navigate them. Without this it is likely longstanding disagreements will persist and drag on policy progress.
- We propose that businesses invest in vision setting in partnership with other community stakeholders to resolve some of the difficult trade-offs and cost-sharing arrangements likely to constrain economic transformation in the next 25 years.

### **What might be some areas to progress bipartisanship?**

- We think it is possible consensus on issues of immigration, infrastructure, investment, and decarbonisation could emerge if all sides commit to brokering coherent pathways forward.
- **A lack of density and developable land in cities is pushing up housing costs, limiting the public's appetite for migration, aggravating labour shortages, and dragging on productivity.**

Expensive cities do not serve businesses. Both major political parties should be able to agree that migration is an essential lever for nation-building as the population ages. But accommodating higher levels of migration is only possible if we make substantial investments in infrastructure and remove restrictive planning rules preventing denser cities. This comes at a cost, and businesses may need to pick up some of the tab.

- **Greater density takes investment in infrastructure and a sustained scale up of housing development. Current funding and financing settings won't get us there.**

Businesses may wish to push government to close the infrastructure gap by advocating for density regulations such as retaining the Medium Density Residential Standards, value capture mechanisms matched by effective public transit investment, project standardisation, and congestion charging policies to increase the efficiency and scale of infrastructure spend.

- **If we want young people to stay in New Zealand, a return to median housing affordability by 2050 is a reasonable objective and should be protected by an independent Commission or bipartisan target.**

Businesses can be a relentless advocate of housing for all. They should make clear this will take industrial scale investment in the construction sector, openness to foreign investment in infrastructure, proactive land supply release erring on the side of oversupply, and coordinated migration settings to ensure sufficient labour supply. Businesses can do their bit by accepting that workers will likely need more flexible working conditions and/or higher wages to stay.



- **Progressively lowering the cap of the Emissions Trading Scheme (ETS) in a consistent and stable fashion should be preferred to expensive and inefficient complementary policies; and a carbon dividend should be promoted**

Both sides of the House, and businesses, should be comfortable with carbon prices tracking higher to incentivise investments in gross emissions reductions and reduce the need for expensive offshore offsetting which doesn't do anything for New Zealand's productive potential.

While businesses may not enjoy higher carbon prices in the short-term, the trade-off is policy stability that supports longer-term planning and a decrease in regulatory uncertainty (e.g. ongoing flip-flops over biofuels mandates).

The need to reduce gross emissions will become more important as overseas buyers of our exports start demanding action on Scope 3 emissions throughout their supply chains.

The "ETS only" approach to meeting our emissions targets is overly simplistic. Complementary policies can be helpful to address specific problems (e.g. to overcome infrastructure lock-in, or address non-financial barriers to energy efficiency upgrades, etc.). But their expected emissions savings need to be subtracted from the emissions cap and their abatement costs should be reasonable.

Carbon dividends and targeted welfare tools to bolster low-income households can make consistent cap reductions – and efficient mitigation – more politically possible. Businesses might want to promote these policies more vocally.

- **Telling a better story about trade openness and technology change requires having a better story for communities experiencing high living costs.**

Amid reversions to nationalistic and protectionist policies abroad, businesses will want politicians to affirm New Zealand's commitment to free trade, openness to foreign direct investment and welfare-enhancing technological change.

But to convince those who haven't gained from the past 40 years of economic reforms, the benefits of productivity will need to be shared more widely. Businesses may want to support active labour market policies and value capture mechanisms which invest in local infrastructure to support this.

### **A consensus building process should occur not just sporadically at one election or another, but constantly across electoral cycles**

- Working together towards a common purpose is essential to sustained policy progress, but engaging and developing agreement will take more resources than before as megatrends knock New Zealand around. The focus should be on working through contradicting issues and assigning clear objectives and roles and responsibilities for action to government and businesses.
- Here businesses should take seriously their capacity to collaborate on longer-term issues, which alongside other community members, iwi, and NGOs, place them uniquely to co-



design the institutional system settings New Zealand needs to effectively respond to incoming forces.

### **Trust is hard won and easily lost**

- In return, businesses need to feel confident government will hold their end of the bargain and maintain focus on the long-term. With gazes set to near-term electoral wins, politicians are not well incentivised to do this and are likely to prioritise short-term solutions.
- A consistent and effective economic strategy for coming decades thus requires ongoing effort from firms and communities to shore up and protect consensus on long-term issues.
- How consensus is best achieved and protected is an area for discussion and community innovation – it calls for a shift in the way we do politics. When agreement is brokered, bipartisan objectives should be protected as far as possible with appropriate levers and financing mechanisms, clear lines of accountability, and decentralised responsibilities that make the most of private sector's capabilities.



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# 1. Introduction

## 1.1. Context

### **High noon for transformation - change won't be costless**

Closing out the first quarter of the 21<sup>st</sup> century, New Zealand appears locked into a short-term, low risk, low return political economy.

There is little boldness of political vision as the major parties battle for the median voter and seek to avoid rocking any boats. The next election is all that matters. Businesses engaging with politicians are almost inevitably drawn into this short-term thinking.

Meanwhile, a series of huge challenges are bearing down on New Zealand that will shape our collective future: climate change, technological revolution, demographic shifts and the geopolitics of power.

Against this backdrop, BusinessNZ asked Sense Partners to outline a conversation on economic strategy and produce a Green Paper based on what could be required to adapt to the structural challenges ahead.

We argue if New Zealand is to make the transformative change required, we (businesses, politicians, government, society) need to start converging on some basic agreements on our direction of travel – our national ambition.

None of this will be easy. Consensus rarely is. It will require trade-offs from all involved. For example, it might involve businesses making some concessions and bearing additional short-term costs in exchange for assurances of greater political consensus and regulatory certainty.

### **But the cost of flip flops and stasis is higher**

It is no coincidence that the areas in which New Zealand has progressed in the past 40 years – economic reform, foreign policy, nuclear-free, trade openness – have been areas with broad cross-party support and clarity on the respective roles of government and the private sector.

Areas without this bipartisanship and clarity – housing, tax, welfare, the role and size of government, the implications of the Treaty of Waitangi – remain confused and controversial.

If New Zealand is to thrive in an increasingly challenging world, there needs to be some general sense of an agreed pathway, even if around the edges politicians and businesses inevitably disagree on how precisely to go about it.

The longer reactionary politics are relied on to inch forward, the greater the risk of leaving future generations a country of falling prosperity and maladapted risks.



## Coherence and durability have clear returns to business and the economy at large

Businesses benefit where government coordinates institutions effectively and assigns roles and responsibilities logically across the social system – then sticks to the plan.

This doesn't mean that government simply 'gets out of the way' on major issues. Rather, it means government plays to its strengths – vision setting, coordination, coherence across policy areas – and executes those roles consistently and effectively.

It also means government understands its limits and partners with business and local government to do what they can't.

### We're all in this together – or should be

We explore impending structural changes (megatrends) and develop a concept of *minimum viable bipartisanship* to make recommendations for where the business community might focus its conversations with government and communities and rally for cross-party agreements over coming decades.

Throughout we ask readers to think about what can be done in their sectors to consolidate momentum in areas affected by persisting disagreement. The ideas detailed in this Green Paper will be shared in a range of CEO forums and outlets across the country in late 2023 and early 2024.

Of course, we write from our perspective as economists but invite a wide range of views. We lay out some of the challenges and constraints, but it is up to New Zealand communities – households, whānau, businesses, government – to determine and protect a collective vision.

## 1.2. Structure

The rest of the report has 3 sections:

- Section 2 looks at the role of vision, consensus, and durability and coherence in economic strategy, how consensus is forged and where areas of persisting disagreement have arisen or resolved in New Zealand since 1980.
- Section 3 looks at the megatrends shaping this century which make it harder to reach consensus, the case for economic transformation, and the risks of maladaptation.
- Section 4 sets out the implications for strategy makers and sets out issues for businesses to navigate in instigating, brokering, and protecting, structural change in New Zealand's current context.

Our analysis culminates in discussion points for businesses and policymakers which will be used to frame the Business NZ forum series in mid-2023.

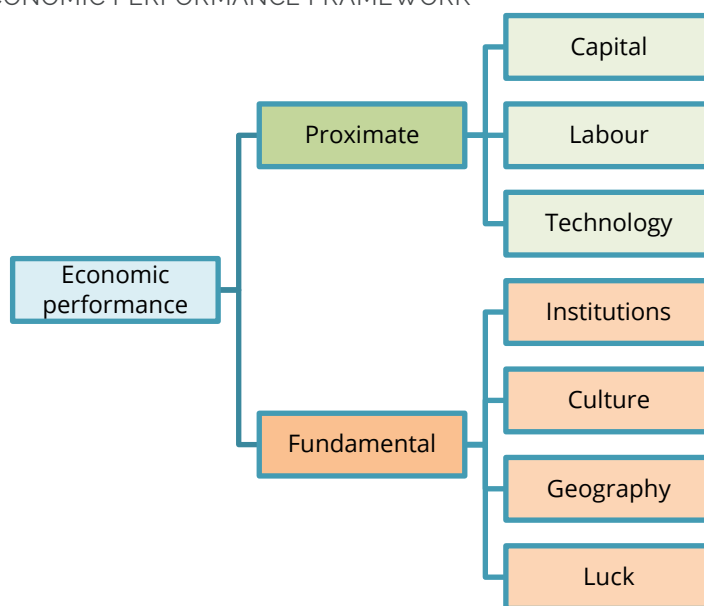


## 2. Pre-conditions for progress

### Economic performance is determined by resource endowments and more fundamental drivers

When we talk about the economy, it is usually some aspect of capital, technology, or labour being held in view. These are the proximate 'explainers' of economic performance, indicators which show us how well we are doing in generating and distributing resources across society.

FIGURE 1: ECONOMIC PERFORMANCE FRAMEWORK



SOURCE: ACEMOGLU ET. AL, 2005.

The underlying drivers of economic performance, our institutions, culture, geography, and luck are less often investigated and assessed. These are the fundamental drivers of the economy with which we are endowed or co-create which set us up to adapt and prosper.

### Institutions as guardrails

Of the fundamental drivers, economic institutions are the main lever that we can control.<sup>1</sup>

Institutions describe the settings which shape the incentives of key economic actors in society and influence investments in physical and human capital and technology. They organise production and distribute resources. At any point in time, these settings are collectively determined, reflecting the political power of de facto (e.g., lobbyist power) and institutional (e.g., parliamentary power) groups.

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<sup>1</sup> In New Zealand institutions are especially relevant given the constraints on our geography, small population, and distance from other markets.



Politicians can influence geography with infrastructure investments or trade policy that reduces the tyranny of distance. They can try to change luck by anticipating where readiness and capacity to respond to unforeseen events might be needed (e.g., for biosecurity hazards or earthquakes). But for the most part, the public sector’s work is managing the performance of a broad array of soft and hard powers.

FIGURE 2: GOVERNMENT AS A SYSTEM FRAMEWORK

Influence	Engage	Design	Develop	Resource	Deliver	Control
Advising	Listening	Connecting	Championing	Charging	Nudging	Devolving
Lobbying	Informing	Engaging	Agreeing	Incentivising	Educating	Providing assurance
Agenda setting	Consulting	Analysis	Partnering	Contracting	Building	Licensing
Role modelling	Convening	Forecasting	Planning	Co-funding	Providing	Regulating
Auditing	Collaborating	Modelling	Commissioning	Targeting	Reforming	Intervening
Governing	Negotiating	Testing	Interpreting	Investing	Safeguarding	Enforcing
Publishing	Running elections	Piloting	Drafting	Funding	Preventing	Sanctioning
Scrutinising	Setting standards	Evaluating	Legislating	Recovering	Protecting	Prosecuting

How effectively coordination of these powers occurs towards baseline objectives determines long-run economic performance.<sup>2</sup> A country’s outlook is as much about the arrangement of these social and political institutions as natural resources or sectoral strengths.

The ability of small economies (on average) to adapt settings in periods of disruptive change has led to their “consistent overperformance” over the past several decades.<sup>3</sup> This includes decentralising responsibilities to partner with the private sector where this is efficient and effective.

### Agreement on a vision matters too

What is made of new challenges depends on whether we have the vision to correctly identify what’s coming, make necessary policy and commercial strategy adjustments, and continuously position to mitigate institutional entropy.

As Acemoglu and Johnson argue “the direction of progress, and consequently who wins and who loses, depends on which visions society follows.” They suggest that “in modern societies, it is the power to persuade – even more so than economic, political, and coercion powers – that is critical in these decisions.”<sup>4</sup>

<sup>2</sup> Ibid.

<sup>3</sup> Skilling, 2023.

<sup>4</sup> Acemoglu & Johnson, 2023.



This makes the quality of vision an essential pre-condition of progress. Economic strategies are formed in processes which see base objectives endorsed by the public and well-calibrated institutions used as guardrails to help a sense of national ambition endure.

## **Kiwi households' and firms' concerns are well understood – but not translated into objectives**

The issues concerning New Zealanders change around the margins but there is some reasonable consistency over-time. Election campaigns promises in the early 2000s echo similar concerns to those in the IPSOS 2021-2023 surveys, for instance. Housing affordability, law and order, healthcare, and jobs have all been headlining election issues for over 25 years.

For businesses, common and enduring concerns relate to the availability and cost of labour and capital, challenges in accessing overseas markets, and the costs of regulatory compliance.

Despite this underlying consistency around what matters most to society, there is little evidence of long-term strategies being developed to address these challenges. Policy for many domains is instead formed in response to new events which raise or lower the relative importance of issues in the media landscape.

This tends to make election issues feel new or emergent, when in fact they have often endured for many decades.

## **Enduring political agreement is hard, but we sometimes achieve it**

Our analysis of New Zealand election campaigns between 1980 and 2020 show several areas where agreement has emerged and deteriorated over time (see Figure 3 for a summary and Appendix 1 for detailed summary).

Sometimes political consensus is forged in formal cross-party agreements (e.g., as with the Medium Density Residential Standards in 2022, but abandoned in the lead up to the election) or protected in institutions (e.g., the Reserve Bank of New Zealand's inflation targeting powers). But most often it is won by default or inertia when an incoming party tacitly chooses not to reform or undo a previously implemented policy.

Some areas of policy like tax, housing supply, welfare, employment protections, centralisation versus localisation, and private-public infrastructure investment, have been in long run states of controversy and disagreement. By contrast, approaches to Working for Families, KiwiSaver, skilled migration, economic reform, and trade openness have all enjoyed relatively consistent and enduring policy objectives.

Ideally objectives are protected in institutional settings that preserve strategic intent over time. These should be matched with appropriate funding and financing mechanisms which give institutions teeth to succeed. Accountability structures should incentivise operational effectiveness and organisational learning over time.



While the institutionalisation of objectives cannot always prevent flip flopping, the process of embedding bipartisanship increases the costs of undoing previous agreements, making it less politically appealing for politicians to undo agreed policy when seeking election.<sup>5</sup>

A strong example of embedding long-term thinking in institutions is the Welsh *Well-being of Future Generations Act 2015* and Future Generations Commissioner. The Act requires public bodies in Wales to think about the long-term impact of their decisions, to work better with people, communities, and each other, and to prevent persistent problems such as poverty, health inequalities and climate change.<sup>6</sup>

### **Government be coherent, don't get out of the way.**

A common refrain from businesses is the desire for government to 'get out of the way' and let businesses get on with their work. Often this comes from frustration when public institutions do not move to the same logic – incongruence, incoherence or overreach is experienced by those interacting with the state.

An example might be where the central government is signalling to the private sector that more housing is urgently required, but they are not funding or consenting the infrastructure networks necessary for development to occur.

A call to 'get out of the way' is often by proxy a call for better policy coordination, clearer and more decentralised (or centralised, depending on the context) roles and responsibilities, and commitment to meet well-established public objectives.

Policies like KiwiSaver show what is possible when policy settings are well aligned to objectives and successive governments commit to maintaining these institutions and decentralise responsibilities in partnerships with the private sector (see Box A).

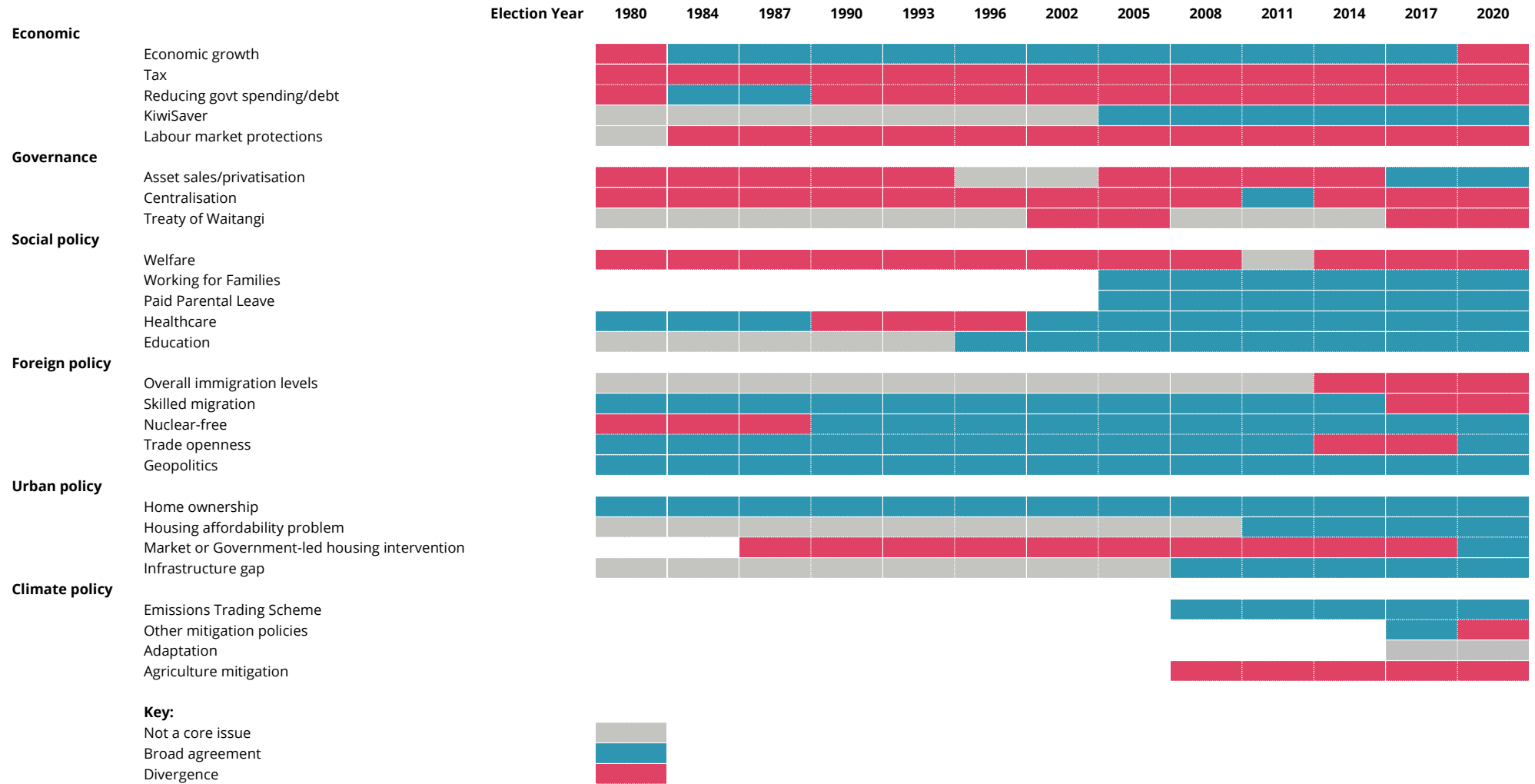
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<sup>5</sup> Ostrom defines transaction costs as planning costs, which require information, coordination, and strategic planning, and are incurred in advance, and transformation costs, which are the production costs (e.g., the capital, labour and technology) and political capital (the effort and time required to change citizen preferences) required to make change. Generally, the higher the planning costs, the higher the transformation costs. Institutions can therefore help to embed objectives by making these explicit (and costly to change).

<sup>6</sup> Future Generations Commissioner for Wales, 2023.



FIGURE 3: ISSUES HEAT MAP – CONSENSUS, WHEN WON, TENDS TO LAST.





### **Box A: Power of coherence? The case of KiwiSaver**

KiwiSaver was a very fast launched policy, taking just three years from first mention in 2004 to launch in 2007. The primary objective has been to encourage a long-term saving habit and asset accumulation by individuals who are not able to enjoy standards of living in retirement like those in preretirement. Addressing the savings deficit was and remains a well-recognised issue.

It has been generally well designed and implemented. The scheme uses automatic enrolment and a simple choice architecture to sign up workers as they enter the workforce.

It is delivered entirely by the private sector, with government playing a strong regulatory and accountability role to drive down fees, as well as a facilitating function via the IRD. System risk is less concentrated than under a 'one large fund' model.

The link to the IRD as a central clearing house also limits account fracturing that often occurs in other OECD regions and allows workers to move between jobs without making burdensome administrative changes. This function has been described as a "crown jewel" and "world-class".

Some areas still require improvement. The scheme is not well-suited for low-income groups. KiwiSaver's design encourages near-universal enrolment, but for those living week-to-week or in high-cost debt, other savings goals (like initial stability and exit from debt) make significantly more financial sense than the scheme's two retirement or housing deposit goals. There are no alternative government subsidised saving supports for low-income groups outside of KiwiSaver.

Despite the equity challenges, the policy has endured for 16 years and outcomes track closely to the desired objectives set in 2007. Revisions are still likely to improve coherence, for instance, to remove or reduce government subsidies, increase contribution rates, remove first-home-buyer withdrawals, or add business start-up withdrawals and better options for those in financial hardship. But overall, it appears highly unlikely the scheme will be abolished entirely given the outcomes being achieved. It has thus proven highly scalable and earned staying power as 'popular' policy.





## 3. Challenges to transformation

### 3.1. Megatrends create risks and opportunities

#### **The ground is shifting – everywhere, all at once.**

The changing global context is making it more difficult to find agreement and maintain momentum with national ambition. Megatrends increase not only the stakes and urgency for structural change, but maladaptation to these forces also shifts the social environment of decision-making and governance towards factionalism and entrenched division.

Overcoming these risks will take more resources than before – both to engage to find consensus and to invest in response to changing capital, infrastructure, and demand needs.

We focus on five disruptive forces as examples for how New Zealand's operating environment is changing the ground underneath us:

- (i) Climate change
- (ii) Geopolitical tensions
- (iii) Technology acceleration
- (iv) Demographic shifts
- (v) Cities as theatres for inequality and social cohesion.

These all create risks and opportunities for economic performance. These are some of the irreversible certainties changing our economic potential whether we want them to or not.

### 3.2. Climate change a certainty

#### **Steady march to 1.5 degrees**

Climate crisis is unleashing widespread global damage.

The IPCC expects on current pathways to reach 1.5 degrees average warming sometime between 2030 and 2050, increasing the likelihood of reaching 2 degrees by the end of the century.<sup>7</sup>

The World Meteorological Organisation (WMO) has forecast a 66% likelihood of exceeding the 1.5 degrees threshold for the first time in at least one year before 2027.<sup>8</sup>

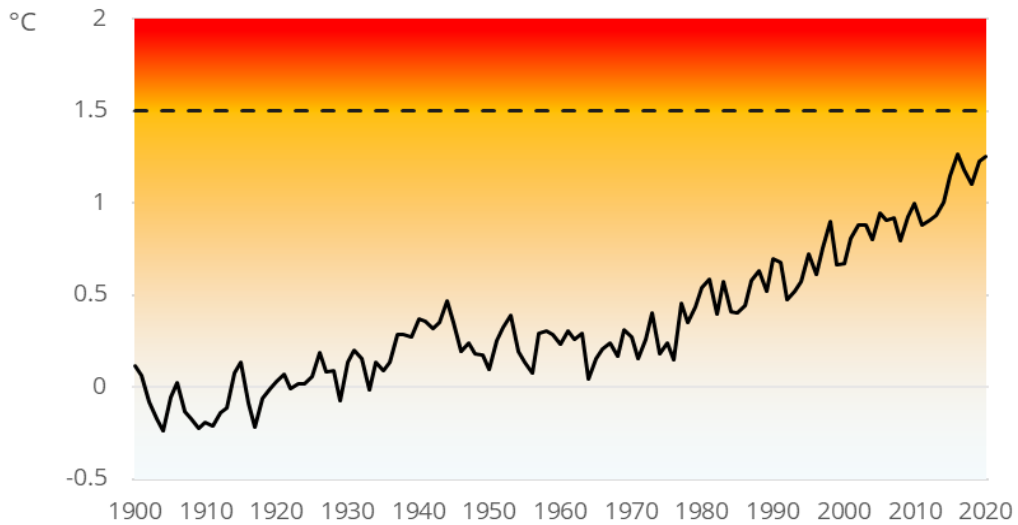
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<sup>7</sup> IPCC, 2021.

<sup>8</sup> World Meteorological Organisation, 2023.



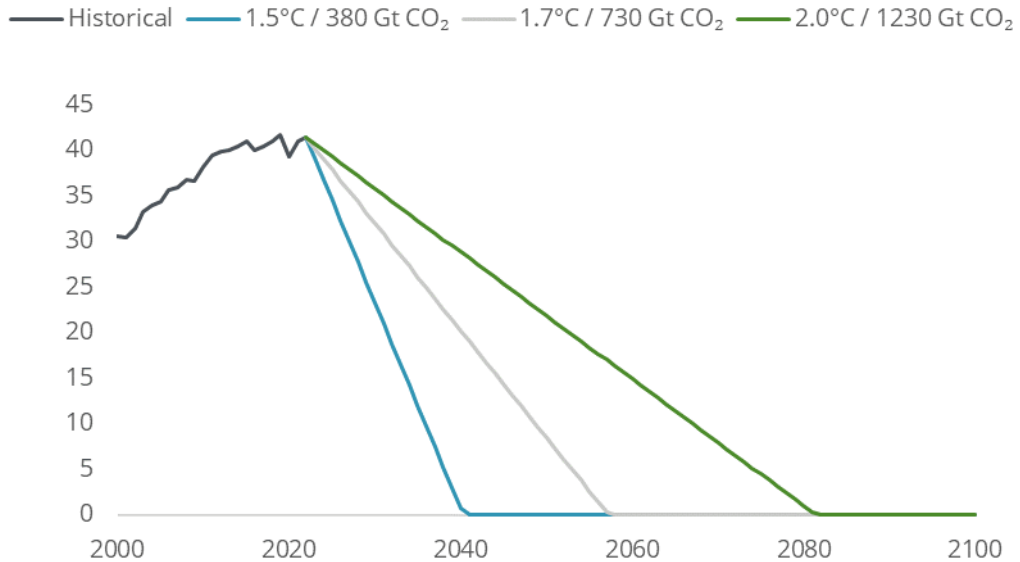
FIGURE 4: ABSOLUTE EMISSIONS TRACK WITH GREAT PROXIMITY TO 1.5



SOURCE: CEDA ARCHIVE, 2023

Although headway is being made on key green technologies, economies with decoupling emissions represent a very small share of total emissions.<sup>9</sup>

FIGURE 5: TOTAL GLOBAL EMISSIONS ARE FAR IN EXCESS OF SAFE THRESHOLDS



SOURCE: FRIEDLINGSTEIN ET AL., 2022

<sup>9</sup> The World Economic Forum have said in the next 5 years more than half of the tipping points for crucial green technologies will have been met, making them competitive in key markets (see Stern & Romani, 2023).



With significant uncertainty as to the extent, pace, and effectiveness of global mitigation efforts, there is a high likelihood that climate-induced events will cause unpredictable disruption in the economy.

Well-established risks include inconsistent temperature extremes, new health and biosecurity risks, regular infrastructure, asset, and environmental damage, and potential for life loss and coastal and floodzone retreat.<sup>10</sup>

### 3.3. Changing geopolitics

#### **Power rather than rules**

The distribution of global power and the nature of power itself are reverting to historical norms after a phase of relative cooperation post-cold war.

At the state level, the rules-based system is under threat. A swing toward military power and strategic relationships/alliances of old is underway: manifested in the Russian invasion of Ukraine, the halting of supply chains in the pandemic, and the lasting hallmarks of Donald Trump's protectionist trade policy bent.

Renewed fears are of expanding war, dominance by monolithic countries, and unstable nationalistic alliances.

This creates complexity and increased transaction costs for those trading far afield. New Zealand's square adherence to trade rules will unlikely have much punch. Power will be determined by relational influence.

#### **Populism and factionalism risks**

Cities, regions, companies, and transnational movements also hold increasing power. Connectivity, interdependence, and the pluralistic nature of systems mean national borders are not the only relevant analytical units. Communities are becoming more heterogeneous and are exposed to global media cycles, migration, and new lifestyle alternatives and ideas.

At the interpersonal level, populism is ripe and available to those frustrated by out-of-touch global powers and the downsides of globalisation, offering noisy (but likely ineffective) channels to disrupt the status quo.<sup>11</sup> At worst this could fan the flames for fascism and the rise of police states in traditionally democratic nations.

In other ruptures, transnational democratic and labour movements are pushing back against perceived coercion in social structures and inequalities.<sup>12</sup> Factionalism is a prime risk and likely outcome. This could deliver tense country level politics and fracture cohesion in communities,

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<sup>10</sup> Ministry for the Environment, 2022.

<sup>11</sup> Rates of dissatisfaction with democracy have doubled in Anglo-Saxon countries between 2000 and 2020 (27% dissatisfied to 52%) (see Foa et al., 2020). New Zealand has so far been immune, a potential advantage for attracting talent to the country in the future, but stability is not guaranteed.

<sup>12</sup> European Strategy and Policy Analysis System, 2023.



clubs, and families/household relationships. Forming and protecting common objectives will likely take more resources and effort than before.

### 3.4. Tech acceleration

#### **Creative destruction comes with costs and benefits**

Changing technology has been part of the strategic landscape for centuries and the blistering march continues. In some sectors, new technologies are transforming systems of governance and production considerably.

Strong global connectivity means techno-social tipping points, once reached, tip quickly. ChatGPT, for instance, reached 100 million users after just two months.<sup>13</sup> Wildcard events also play a role in adoption: the pandemic jolted widespread use of existing video calling technologies, particularly in demographics previously unlikely (or reluctant) to adopt these, for instance.

What matters for public systems is consequences – how much labour market scarring does a technology shift cause for a given leap in productivity? And what are the best tools for response?

#### **Building resilience requires system-wide responses**

Much of a government's response to directly mitigating job losses will be impotent given the inefficiencies of protecting specific jobs from market forces. Responses demand coordinating much broader levers: active labour market policies, education reforms, and welfare transfers, etcetera, to support resilience and reskilling to new areas of the economy.

In other areas, regulation and investment incentives have a direct role to play. Issues of Big Tech reach and power, the growing threat of cyberattacks and deep fakes, financing for green innovation, and data security will command increasing attention and spur efforts at global coordination by firms and states, e.g., as in the case of the Christchurch Call or alignment with the EU's General Data Protection Regulations.<sup>14</sup>

Balancing these trade-offs, disciplining with regulations where required, staying technology agnostic, and gearing broad settings to handle and embrace creative destruction such as those which reduce wage scarring and support retraining will be an ongoing challenge.

### 3.5. Demographic change

#### **Without change, ageing will put major pressure on fiscal settings.**

Like elsewhere, New Zealand is ageing, driven by both a fall in fertility and increased longevity. The demand for workers to fund an older population will only increase. Without change in

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<sup>13</sup> Hu, 2023.

<sup>14</sup> European Strategy and Policy Analysis System, 2023.



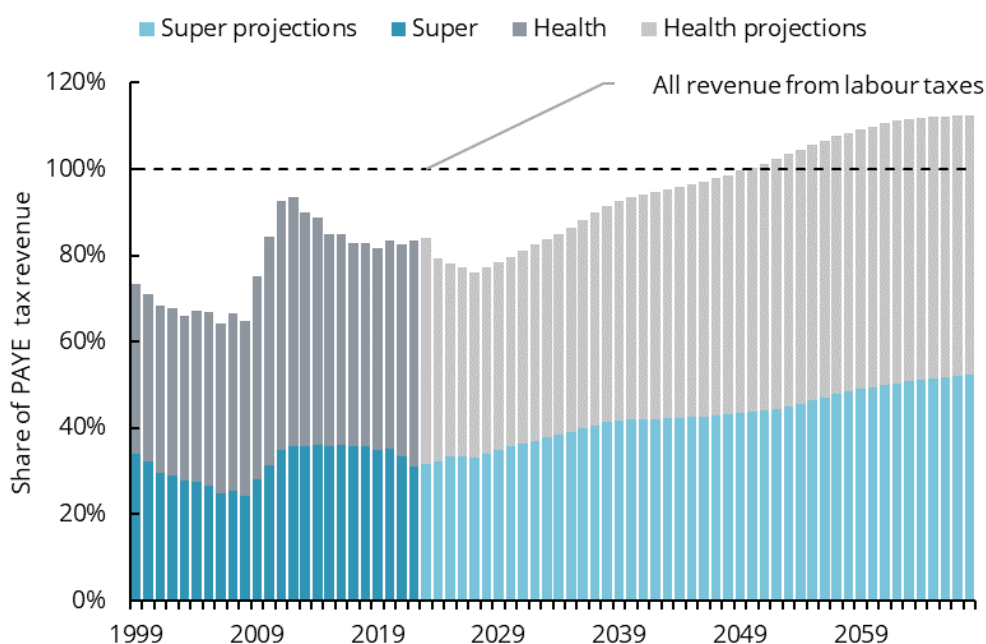
behaviour and policy settings, New Zealand could need 250,000 additional migrants to avoid increasing wage pressures from having fewer people available to meet the demands of an ageing population.<sup>15</sup>

Our taxes are collected mainly from the working age population who will be a declining share of the population. This dwindling group must pay for past promises of universal superannuation and healthcare.

These promises are unfunded liabilities. With many trying to save for future retirement, global interest rates and returns on investments are lower than in previous decades.

This risks an ugly generational confrontation. Future workers may not wish to pay for unfunded and unmanaged promises of the past.<sup>16</sup> Without material change to policy settings, we estimate meeting the future cost of New Zealand Superannuation and healthcare will soak up all labour taxes by 2049 (see Figure 6).

FIGURE 6: SOCIAL CARE WILL ABSORB A LARGER SHARE OF LABOUR TAXES  
*Projections of Superannuation and healthcare costs combining population forecasts and costs by age*



SOURCE: SENSE PARTNERS

In the past most older people reaching retirement did so owning their own home. This gave them housing and financial stability and security. But increasing number of people are reaching retirement with mortgages, or still renting. When incomes reduce in retirement, older

<sup>15</sup> Sense Partners, 2023.

<sup>16</sup> Treasury NZ, 2021.



people who do not own their own home are more likely to experience housing stress and poverty.

Already a third (~230,000) of older people experience vulnerability in a financial (low-income), health (poor physical or mental wellbeing), housing (low quality or overcrowded), social connection (living alone and unconnected to whānau or volunteering in the community) or access (without a driver's licence or vehicle-less) domain. 13 percent (~90,000) experience disadvantages in two or more of these areas.<sup>17</sup>

As the older population grows and they become poorer, there will be increasing demand for housing subsidies and assisted housing (for example social housing), adding additional pressure to the tax system.

### **Immigration can help but strategic thinking is needed too**

Migration can help ease tight labour markets and fiscal pressures. Since migrants typically arrive with a job, the costs of schooling are not carried by the taxpayer.<sup>18</sup> Immigrants usually provide a complementary set of skills to local workers, boosting GDP (although these effects are likely to be modest).<sup>19</sup>

We are not the only country with this idea. Canada and Australia have developed aggressive migration strategies. Canada has a goal of accepting 500,000 new permanent residents into the country each year by 2025, for instance, and sets and publishes new immigration targets each year. An equivalent target for New Zealand would be 65,000 new permanent residents per year.

Some communities, especially those experiencing the impact of inequality and poverty, are unlikely to embrace open borders without considerable shifts in immigration and housing policy, however. Efforts to integrate tikanga and reflect Te Tiriti and Te Ao Māori views will be needed as well as commitments to invest in infrastructure consistent with migration trends.<sup>20</sup> The public is unlikely to forget how a decade of significant migration without accompanying urban investment preceded a house price explosion.<sup>21</sup>

Without migration, tension between demands for personal/household care and paid market work will grow. At an individual level, firms might be able to compete with flexible work policies, but in general, pressure on collectivised care (for elderly parents or young children), automation investment, and wages are all likely to increase and labour shortages persist.

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<sup>17</sup> Pinto et al., 2023.

<sup>18</sup> Potential migrants are usually excluded if they have a criminal record. The requirement to have a job and connection to the labour force means migrants are less likely to commit crime, further reducing fiscal costs.

<sup>19</sup> See Felbermayr, Hiller and Sala 2010 for example.

<sup>20</sup> Previous immigration settings have "largely ignored Te Tiriti" and are "increasingly out of step with the evolution in the Crown-Māori relationship". See the Productivity Commission, 2021, 79.

<sup>21</sup> Ibid.



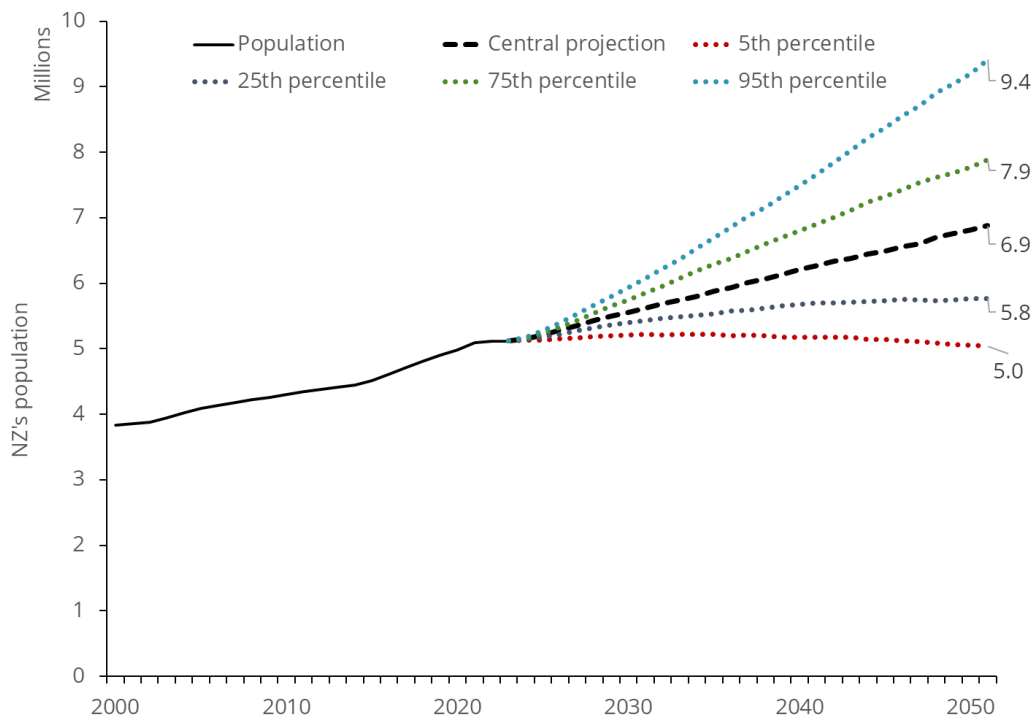
## There is considerable uncertainty around population projections

More people require additional resources to plan and fund infrastructure and housing. Our population forecasts in Figure 7 show about 6.9 million New Zealanders by 2050 – growth of between 1 and 1.1 percent a year, a little lower than the 1.3 percent population growth rate experienced from 2000 to 2022.

The most important feature of the chart is the uncertainty. Despite best efforts, population forecasts are inherently uncertain. New Zealand could experience a stronger rate of population growth (a little weaker than the growth rate New Zealand has experienced over the past ten years) that would take the population to a little under 8 million. A weaker track to a population of about 5.8 million is equally likely.

FIGURE 7: WE EXPECT MANY MORE NEW ZEALANDERS BY 2050

*Sense Partners forecasts to 2050 with high and low confidence intervals at the 5<sup>th</sup> and 25<sup>th</sup> percentile*



SOURCE: SENSE PARTNERS

## 3.6. Urbanisation

### Cities as barometers for adaptability

As megatrends bite, cities are a barometer for how well we respond. New Zealanders live predominantly in cities (64% usually do), drawn to larger urban areas with better salary



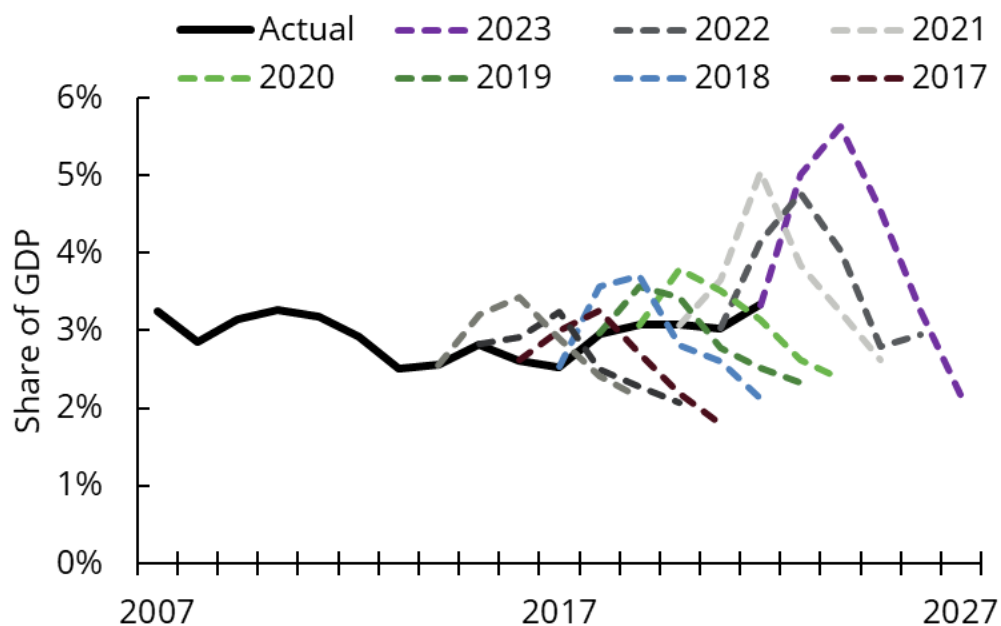
opportunities and amenity values. But high housing costs and painful commutes can push many to smaller urban areas without the opportunities cities can provide.<sup>22</sup>

## Decades of under-investment in infrastructure are hurting

Historic rates of under-building and gaps in infrastructure investment have limited affordable housing choices near workplaces, reducing the percentage of population living in cities (peaking at 66% in the mid-00s).

Planned capital resourcing for national infrastructure improved in the 2023 Budget but there is not a strong history of follow through Figure 8.

FIGURE 8 GOVERNMENT INFRASTRUCTURE SPEND: ACTUAL VS PLANNED



SOURCE: REVIEW INTO THE FUTURE OF LOCAL GOVERNMENT, 2023

Local government is still particularly constrained. While taxation as a percentage of GDP has risen over time, local government's share has stayed at around 2%.<sup>23</sup>

The cumulative effect is insufficient housing supply (see Figure 9). Even in 2022 at the latest development cycle peak, dwelling consents per 1000 households were only 60% of historic highs.

Almost 320,000 households now qualify as very financially stressed, defined as spending more than 40% of their income on housing. Two thirds of renters, 400,000 households, receive subsidies to afford basic shelter.<sup>24</sup>

<sup>22</sup> Glaeser, 2008.

<sup>23</sup> Review into the Future of Local Government, 2023.

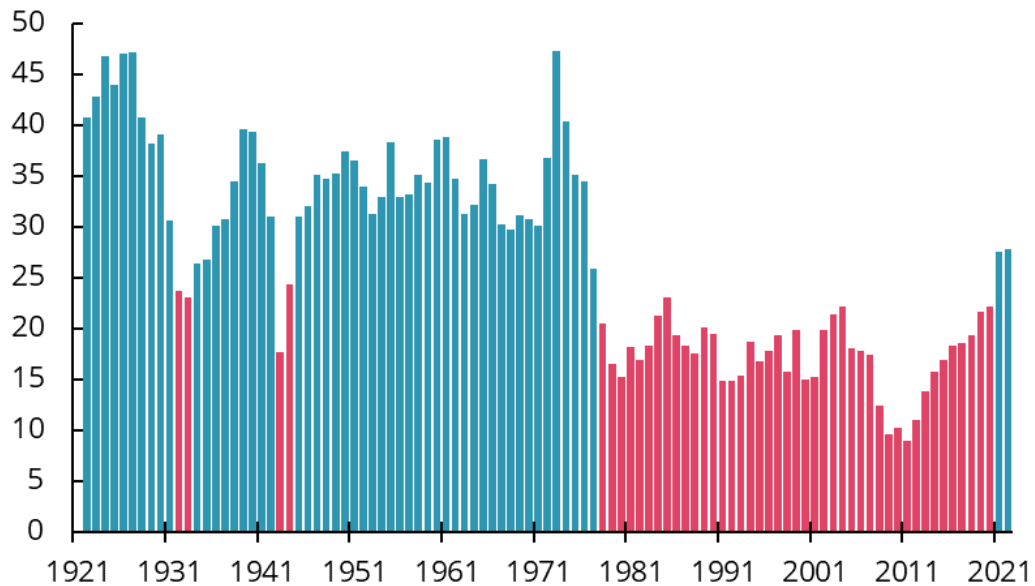
<sup>24</sup> Statistics NZ, Sense Partners analysis.





FIGURE 9: DWELLING CONSENTS PER 1000 HOUSEHOLDS

*Red years indicate undersupply relative to population growth*



SOURCE: SENSE PARTNERS ANALYSIS

The trade-off for constrained land supply is greater fiscal spend on income support. But this is not inevitable and could be capitalised into social housing investment and supported by land release.

This was achieved in Canterbury in the 2010s somewhat by chance. In the early 2000s work by Christchurch planners to complete spatial planning exercises meant significant land release could be fast-tracked after the 2011 earthquake using special powers.

Erring on the side of oversupply meant Christchurch was one of the few regions that retained stable house-price-to-income ratios in the early 2020s (see Box B).

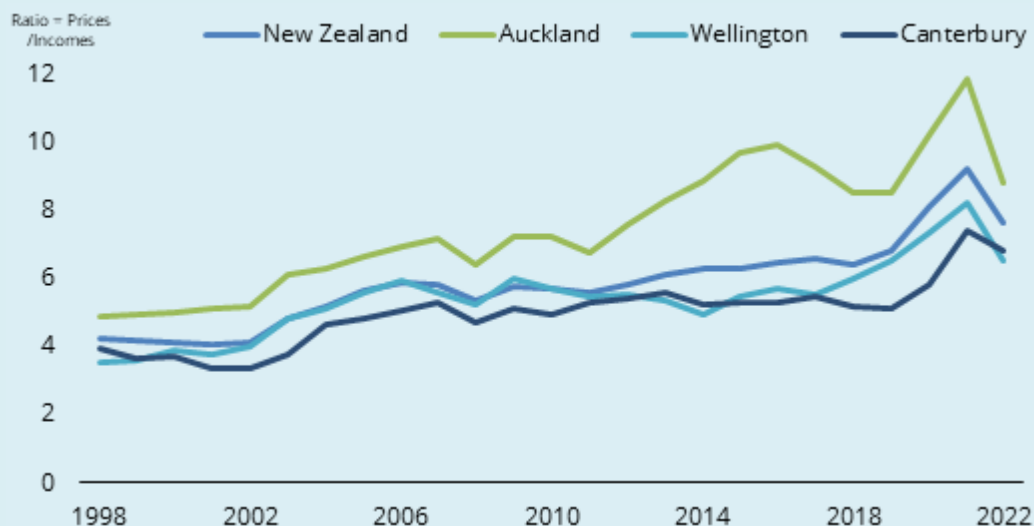


## Box B: Engage before you need to? The case of the Christchurch's Urban Development Strategy

When Canterbury lost over 28,000 homes in the earthquakes, the central government bypassed the Environment Court process using emergency 'CERA' powers to enable the already-developed Urban Development Strategy, which became the region's Land Use Recovery Plan.

The main thrust of the changes focused on where land building *could* occur, rather than place prescriptions on types of land-use. The strategy dealt with the actual urban labour market area rather than limiting plans to esoteric district boundaries.

Changes were also made to Christchurch City's district plan so provisions became simpler, removing the right for changes to be notified and reducing consenting matters. The effect was a condensed timeline for plan changes, decreasing from 2-3 years to months. Planners described it as 30 years of land supply delivered over four years. **A decade on, the region has fared relatively well on housing affordability metrics, benefitting from the large boost to land supply in the early 2010s.**



Having significant flat and open land available for residential purposes and other factors also supported the rebuild, but CERA powers to overcome Environment Court stasis became widely recognised as essential in aiding the recovery. A long period of effort to coordinate the region and engage stakeholders ahead of the earthquake – after many years of adversarial approaches in the early 2000s – paid dividends. Coordination between developers and councils, and between councils – where it happened – also sped up housing supply.

The lesson? Investment in stakeholder engagement well ahead of demand put Canterbury in a strong position for central government to step in and quickly unlock land supply when required. An inclusive approach ensured the maximum level of buy-in from all stakeholders (with some inevitable discontent from some disaffected parties).

But it is unlikely planners would have had the social license, institutional objectives, or courage to release this much supply if not for the earthquakes – raising the question of optimal pace in zoning.



## 4. The case for better coordination

### There are clear contradictions incoming

Greater public conversation is required on our revenue-raising capacity and public spending expectations ahead of the next three decades.<sup>25</sup> Nation-building and addressing past under-investment to meet the incoming megatrends will require changes to capital allocation and attitudes to infrastructure and social supports. This cannot be achieved in a low-tax, low growth environment unless appetite to take on more debt or invite overseas investment changes materially.

Some large contradictions loom under these challenges.

Relevant to businesses are tensions between **preventing density in cities and high costs of living**, which limit capacity and appetite for **immigration**, essential for addressing labour shortages.

There is also considerable **uncertainty about the likely pace of population growth** out to 2050.

**Current gaps in infrastructure funding and financing** settings, which prevent climate transition and housing affordability, are not sufficient to induce density and increasing housing capacity.

This also prevents mitigation. A tension exists between letting the Emissions Trading Scheme cap decrease to **increase carbon prices** and the need to reduce the cost of living and protect low-income households from economic pain.<sup>26</sup>

In addition, raising carbon prices too rapidly relative to our competitors could lead to carbon leakage. Emissions-intensive production could move offshore to jurisdictions with weaker climate policies, with potentially adverse effects for global emissions and domestic employment. So a careful balance needs to be struck between incentivising emissions reductions via a predictable carbon price pathway and causing undue competitiveness pressures on Kiwi firms that lead to carbon leakage.

Labour supply is essential to meeting future care, infrastructure, business, and climate transition needs. Rising demands for health and care in older populations but a squeezed and declining youth demographic raises a question of who-pays. **Taxes as they stand, especially with a heavy reliance on workers, will not be sufficient.** New revenue-raising arrangements are needed. These should be broad-based and focus on taxing externalities (e.g., carbon, congestion, pollution, waste, etc) while still incentivising productive and nation-

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<sup>25</sup> Pullar-Strecker, 2023.

<sup>26</sup> In late 2022 the government couldn't find the political will to put up the cost containment reserve of the ETS which would have allowed prices to increase, citing cost-of-living concerns. At the time they also used temporary fuel tax cuts to relieve cost of living pressures (other targeted tools could have been used). This has since undermined the credibility of the government's climate strategy.



building investments (e.g., business scaling, R&D, settings to invite overseas investment in infrastructure, and greater private-public partnerships).

Amid a return to nationalistic and protectionist policies abroad, New Zealand's approach to free trade can be affirmed and strengthened. But for communities experiencing high costs of living and inequalities, **the case to embrace technological change and trade openness is probably not clear.**

### **Megatrends demand a renewed focus on value for money**

The pressure on the public purse means we need the public service (at the direction of Ministers) to be more ruthless around pursuing effectiveness and value for money. Incentives for effective public management and review matter, with accountability linked to operational performance.

This said, it is often very hard to materially cut government spending without harming those who already face economic and social disadvantages. Faced with greater difficulty in finding agreement in more fractured, heterogeneous, and under pressure communities, politicians will need to consider doing more to share the benefits of productivity widely.

In exchange businesses need settings which favour innovation and investment, cut ineffective public programmes where required, and provide clear roles and incentives for the private sector in meeting New Zealand's care, infrastructure, and climate challenges.



## 5. Implications for businesses

### Forging minimum viable bipartisanship

It is in business' interests to have good quality evidence-based policies that last over time. Wide agreement so good policies become acceptable and popular can support this but takes considerable stakeholder engagement and ex-ante work engaging across communities to progress.

The business community can help set the agenda and keep on course through the political cycle. Enduring change takes place when the populace and politicians can be persuaded with a clear agenda that is substantiated with evidence and nuance.

Inevitably there will be disagreements on how to meet any objectives, but agreement over the direction of travel is a good starting point.

We suggest businesses seek to build the 'minimum viable' amount of bipartisanship required to bring certainty of policy direction across changes of government in areas of disagreement. We think this bipartisanship is possible and worth pursuing, especially in areas of immigration, infrastructure, investment, and decarbonisation settings.

### Businesses can see through electoral cycles

Businesses have a unique role as their operating horizon is much longer than an electoral cycle. They have the resources and connections to maintain influence and advocate for policy direction with a wide lens across the economy.

However, businesses also face a tension between near-term shareholder obligations and the need to operate in a stable policy environment over the long-term. Incentives are not always aligned.

To access enduring outcomes, businesses need to develop long-term views of their role and responsibilities in addressing structural challenges. In practice this will require a degree of cost-sharing and a sustained commitment to brokering cross-party agreements over the medium- and long- term.

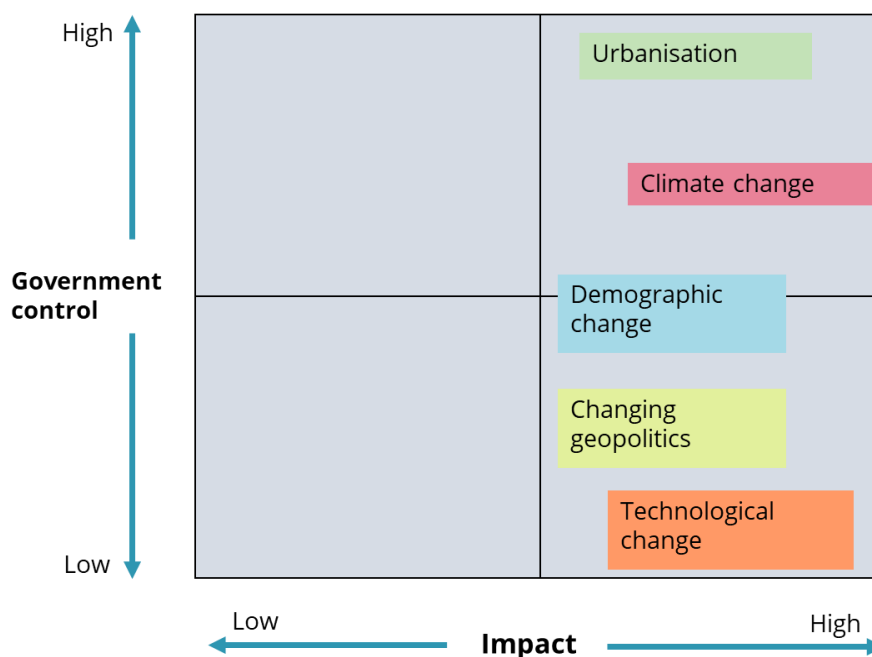
Speaking with one voice and showing where firms are willing to incur short-term costs for the sake of securing longer-term policy stability may help politicians negate commitment problems at election times and design institutions with the staying power necessary to sustain economic transformation.



## Leveraging control vs impact

Strategy requires selectivity.<sup>27</sup> The nature of transaction costs means governments need to focus on domains where they have high control and high impact to deliver initiatives with the best value for money for society.

FIGURE 10 CONTROL VERSUS IMPACT



SOURCE: SENSE PARTNERS

Climate change and urbanisation are both areas where central government has more control over outcomes than other stakeholders.

The existential nature of climate change means, globally, capital and infrastructure stocks need to transform rapidly towards green solutions. Transition will often be out of sync with existing expenditure and capital depreciation cycles and need to occur without sole regard for private profitability. Here the interests of *some* firms will not align readily with the interests of society writ large.<sup>28</sup> The government needs to set the rules of the game as efficiently as possible while overcoming non-financial barriers to transition such as infrastructure lock-in.<sup>29</sup>

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<sup>27</sup> Porter, 1996.

<sup>28</sup> Climate change is a tragedy of the commons scenario. This can explain why individual firms may act against climate regulations, even though it is in their personal and business interests for society to achieve survivability/limit weather disruption and asset damage.

<sup>29</sup> The policy mix might include policies which overcome the barriers that make carbon price signals less effective (e.g., non-financial barriers to energy efficiency uptake), those which pursue environmental policy goals beyond emissions reductions (e.g., decreasing air pollution) or those which promote long-term



For those responsible for urban form, the main problem for instigating change is the locked in duration of housing consequences. Houses have an average lifespan of 70-100 years, with 50% of current housing stock built before 1980, before insulation and weather-tightness regulations. Changing the quality and quantity of houses to meet changing climate (for cooling and warming) and urban needs (to densify) will take decades and policy must be front loaded.

Managing demographic change also depends largely on densifying urban form. Social support settings have only marginal effects in the near-term on births and deaths, and while migration can be used to support the population's labour needs, it is not a tap.

Migration requires wide agreement that migrants are welcome – and provided for – in New Zealand. We estimate 250,000 additional migrants will be required to compensate for our shrinking working age population by 2050.

Successive assessments of our ageing population have found that our tax and welfare systems will not last the distance. **Our tax base is too concentrated among workers. We need to have a much wider tax base.** Our welfare system is also too generous to older wealthy people, but too stingy and grudging to others. There needs to be a significant rejig to make taxes and welfare work in an ageing society.

Taxes should not be used indiscriminately, however. They should also be used to unlock the power of investments in technology, community, and entrepreneurship while putting charges on externalities like congestion, waste, and pollution. We need much more investment, particularly in climate change adaptation and mitigation, as well as productivity boosting technologies, systems and processes, which will make New Zealand more prosperous.

We should have strong tax incentives to invest and innovate, perhaps via expensing of a high threshold of capital expenditure and accelerated depreciation for larger investments. We could also develop settings which invite foreign institutional capital to supercharge our infrastructure development.

An ad hoc policy mix formed from reactionary platforms will not achieve the scale of change required in these domains.

## **Businesses can help give government the political mandate to coordinate urban and climate settings at scale**

Businesses might seek to agree – and persuade government – that:

- **Expensive cities do not serve businesses.** At a minimum both political parties should be able to agree that migration is an essential lever for nation-building. But this is only possible if we invest in infrastructure and scaling up housing to accommodate population growth.

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technology changes that support clean energy transition but that may not immediately result in emissions reductions (e.g., investing in storage technologies). See IEA, 2020.



Businesses may wish to push government to close the infrastructure gap by advocating for density regulations, value capture mechanisms, project standardisation, and congestion charging policies (matched by public transit investments), to increase the efficiency and scale of infrastructure spend.

- **Population growth projections are uncertain.** This has implications for urban development and infrastructure planning. Businesses could ask government to:
  - Improve the evidence-base by forecasting population often and using up-to-date forecasts.
  - Use confidence intervals around central population forecasts to assess the costs and benefits of accommodating lower or higher growth than anticipated, rather than relying on single point estimates of population. This helps manage the cost of infrastructure gaps.
  - Work harder to leverage New Zealand's image as a popular destination to attract the pool of global talent. Other countries, such as Canada, are already engaged in this strategy. New Zealand will need to do more to ensure access to migrants.
- **A return to median housing affordability by 2050 is a reasonable objective<sup>30</sup> and should be protected by a long-term commission, strategy, and/or target.** A function like the Welsh Future Generations Commissioner could take up protection of this task. Businesses can make clear this will take industrial scale investment in the construction sector, higher wage growth, pro-active land supply release erring on the side of oversupply, and coordinated migration settings to ensure sufficient labour supply. Examples of business leadership in this area includes the Sleepyhead estate in North Waikato, which seeks to establish a community with 1100 affordable homes delivered over 10 years.
- **They are comfortable with carbon prices tracking higher.** While businesses may prefer lower carbon prices in the short-run, avoiding mitigation now raises the risk of regulatory uncertainty, inefficient interventions from government overreach, and expensive offshore offsetting which doesn't do anything for New Zealand's productive potential. A strategy for carbon leakage to be managed by raising carbon prices steadily in lock step with other industrialised nations can be developed.

In addition, there are already signals from major buyers of New Zealand's exports, such as supermarkets, that they want to reduce their 'Scope 3' emissions – emissions generated by their suppliers. If New Zealand firms want to keep a presence on supermarket shelves, they will need to demonstrate what they are doing to reduce their environmental footprint. Consistent but sensible climate policy can support Kiwi

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<sup>30</sup> If we wanted to be more aggressive, setting a 2040 date for a return to median affordability would be a stretch target.





firms to invest with confidence to lower emissions and avoid losing commercial competitiveness.

While complementary policies are undoubtedly required (to overcome infrastructure lock-in, etc.), they can still be reflected in the emissions cap.<sup>31</sup> Carbon dividends, and targeted welfare tools to bolster low-income households can make consistent cap reductions – and efficient mitigation – possible. Stronger business support for distributional policies may be helpful to reduce the extent of regulatory tinkering that we are presently seeing.

### **In lower control scenarios, soft powers are likely better suited to provide regulatory certainty**

Geopolitics is one domain where government has relatively little control but politicians can still set certainty over the principles of their approach to trade openness and migration to reduce uncertainty for exporters and other stakeholders.

Technology change is another low control domain. The private sector will generally be best placed to utilise and benefit from new technologies but need incentives and regulations to direct their efforts and reduce risks.

In these domains businesses might seek to agree that:

- **Telling a better story about trade openness and technology change requires having a better story for communities experiencing a loss of spending power amid higher living costs. With** reversions to nationalistic and protectionist policies abroad, businesses will want to affirm New Zealand's commitment to free trade and technological openness.

But to convince those who haven't gained from the past 40 years of economic growth reforms, the benefits of productivity need to be shared more widely. Businesses can ask government to use other approaches to reduce scarring (e.g., from job losses or business closures) and support higher productivity and wages in their own sectors.

- **In exchange for embracing affordability and higher wages as social objectives, businesses can ask government to prioritise stable operating conditions with no-surprise regulation approaches and clear innovation and investment incentives for businesses.** New Zealand has a strong history of free trade agreements. Businesses could ask for continued commitments in these domains and to be given clear roles and incentives to innovate and scale to solve care, climate transition, and infrastructure demands with industrial policy (e.g., a green industrial strategy, the use of pilots, or better use of R&D tax credits and targeted R&D funds for small firms, , etc.).

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<sup>31</sup> As Stern et al. (2021) argue "it is a fundamental mistake to begin the analysis of climate change under the premise that, but for the mispricing of emissions, the economy is efficient."



## 6. Conclusions

### **Short-term thinking is not going to cut the mustard as megatrends threaten to disrupt our economy and society**

New Zealanders want to be prosperous and be good stewards of environmental and social resources. But we are trapped by inertia and low productivity performance, even as tectonic economic, social and environmental shifts hurtle towards us.

The cumulative effects of the megatrends we have highlighted above are likely to increase factionalism and the risk of democratic backsliding over coming years.<sup>32</sup>

Stakeholder engagement is likely to take more effort to overcome short-termism and find shared vision.

Absent clear and consistent messaging from business and other stakeholders, we cannot rely on politicians to resolve divisive trade-offs. And we cannot accept such outcomes as inevitabilities – the cost of not changing will be damaging to society and to business.

### **New Zealand Inc needs to set a long-term agenda to deliver disruptive and enduring change**

Business is well placed to play a strong role in shaping and setting the agenda.

Enduring change happens when there is broad consensus. New Zealand has good track record in some areas, such as foreign and trade policy. Business has benefitted from this certainty. Business is better able to persuade through political cycles than politicians.

Businesses will want to shape a national conversation on pivotal issues that will unlock prosperity for New Zealand.

### **Business will need to consider what short-term costs it is prepared to bear in the interests of longer-term stability**

As a starter, we believe there are clear priorities for business and ways we can achieve them, where the narrative will be a true win-win:

1. New Zealand cannot succeed without **more immigration**, our labour shortages will become simply too intense. But that will need us to advocate for **solutions to the housing crisis and infrastructure**, especially through density in our urban areas. Business could become a relentless advocate for housing for all. Otherwise, there may not be a social license or political will to do so.
2. New Zealand cannot be prosperous without **massive additional investment**. We need it for climate change adaptation and mitigation and to upgrade our failing or

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<sup>32</sup> Foa et. al, 2020.



missing infrastructure. We need increased investment in our businesses to unlock productivity gains. This requires a significant **shift in our approach to tax** (broader base and more tax), welfare (smoothing the disruptions), and **incentives for investment, domestic and from overseas** (e.g. expensing of some investments and accelerated depreciation for other investments).

3. New Zealand needs to have a **credible climate change pathway**. Business needs to decide what path they want to take, and advocate for it with government.

There will be inevitable disruption. We can take planned and deliberate disruption with safety nets built in (consistent cap reductions combined with measures to moderate cost impacts on households) or experience greater unplanned disruption (political flip-flopping, regulatory uncertainty). Business can advocate for a credible, consistent and coherent approach to climate change that emphasises the value of a more certain investment environment.

4. Firms can emphasise the **importance of decentralised responsibilities** that utilises the skills of the entire social system and protect objectives with independent institutions. Organisations like the Climate Change Commission and Infrastructure Commission, when funded properly and given independence to deliver policies that drive towards a collective vision, make it harder for politicians to overturn these for the sake of short-termist campaign wins.
5. **Technological change** is only going to accelerate, offering massive benefits to firms and households, but potentially threatening some jobs. A risk is societal pushback against new technologies as a result, which could lead to knee-jerk policies that seek to slow down progress.

Government is not best placed to lead the charge on technology adoption and the private sector will be better placed to take advantage of the productivity-enhancing opportunities that technological change will deliver. Businesses could advocate for government to focus on generic active labour market policies to help those displaced, while ramping up their own skills development practices and ensuring the gains from productivity growth are widely shared.

In making the case for a long-term view, businesses and communities can avoid re-litigation of already agreed objectives and allow institutions to develop operational effectiveness as key levers of the response to incoming megatrends.



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# Appendix 1

## MAJOR THEMES IN POLITICAL PROMISES 1980-2020

Year	Party	Headline campaign issues	Areas of agreement	Areas of disagreement
1980	National (wins)	Maintaining economic stability, protecting traditional values, opposing nuclear disarmament.	Economic stability, job creation, promote homeownership	Acceptability of unemployment and social welfare, social values, nuclear free, labour market relations
	Labour	Reducing unemployment, promoting social welfare, supporting nuclear disarmament.		
1984	National	Tax cuts, limited government intervention.	Economic reforms, job creation, promote home ownership	Pace and scale of reforms, tax, labour market relations
	Labour (wins)	Significant economic reforms, deregulation, opening up to international markets.		
1987	National	Lower taxes, privatisation, market-oriented approach.	Economic reforms, reducing government debt	Social issues, government or market intervention on housing, nuclear free, tax, labour market relations
	Labour (wins)	Social justice, nuclear-free policies, defending economic reforms.		
1990	National (wins)	Law and order, reducing government spending, privatisation, market reforms.	Economic growth, job creation promote home ownership	Social issues, benefit cuts, economic policies, government spending, tax, labour market relations
	Labour	Social issues, healthcare, education, criticism of National's economic policies.		
1993	National (wins)	Further economic reforms, reducing welfare dependency, MMP referendum, strong defence force.	Economic reforms and reducing welfare dependency, foreign policy, promote home ownership	Nature of welfare and economic reforms, tax, labour market relations
	Labour	Unemployment, poverty, healthcare, social welfare programs.		
1996	National (wins)	Tax cuts, economic growth, law and order, education and welfare reforms.	Economic growth, job creation, education, trade policy, promote home ownership	Social issues, tax, labour market relations
	Labour	Job creation, social justice, strengthening the welfare system, reducing income inequality.		
1999	National	Economic prosperity, tax cuts, maintaining a strong defence force.	Economic growth, job creation, foreign policy, address homelessness, promote home ownership, some consensus on tax and labour market protections	Social issues, government spending, government or market intervention on housing, tax, labour market relations
	Labour (wins)	Reducing social inequality, improving healthcare and education, sustainable economic growth.		
2002	National	Tax cuts, law and order, economic growth, criticism of Labour's performance in health and education.	Economic growth, job creation, foreign policy, promote home ownership	Racial and social issues, government or market intervention on housing, tax, labour market relations
	Labour (wins)	Economic growth, improved social and education policies, health funding, continued commitment to the Treaty of Waitangi.		
2005	National	Lift living standards, end racial separatism, reduce welfare dependency, ensure security, welfare reform.	Economic growth, job creation, foreign policy, Working For Families, promote home ownership	Race and social issues, Balance between supporting vulnerable individuals and families while encouraging self-sufficiency and employment, government or market intervention on housing, tax, labour market relations, limited consensus on climate
	Labour (wins)	Economic development, reduced class sizes, increased health funding, no interest on student loans, KiwiSaver, final date for Treaty claims		
2008	National (wins)	Economic management, infrastructure investment, education reform, tax cuts, fiscal discipline, attack on gangs, RMA reform, Emissions Trading Scheme	Economic growth, job creation, investment in infrastructure, foreign policy, Working for Families, broad consensus on paid parental leave, promote home ownership	Asset sales, balance between supporting vulnerable individuals and families while encouraging self-sufficiency and employment, climate change policies, government or market intervention on housing, tax, labour market relations, limited consensus on climate
	Labour	Iraq, state assets, climate change, Working for Families, Student Loans, affordable housing, education reform, nuclear free, sustainable development		
2011	National (wins)	Strong economy, education reform, better public services, law and order, Canterbury rebuild, welfare reform, fiscal discipline	Jobs, economic growth, education, foreign policy, Working for Families, broad consensus on paid parental leave, promote home ownership	Asset sales, balance between supporting vulnerable individuals and families while encouraging self-sufficiency and employment, climate change policies, housing affordability, government or market intervention on housing, tax, limited consensus on climate
	Labour	Jobs and economic growth, education reform, affordable housing supply, savings policies, clean tech innovation, monetary policy stabilisation, No GST on fresh fruit and vegetables		
2014	National (wins)	Economic management, infrastructure investment, health and education funding, fiscal discipline, better public services, Canterbury rebuild	Economic growth, housing affordability, investment in education, foreign policy, Working for Families, broad consensus on paid parental leave, promote home ownership	Asset sales, balance between supporting vulnerable individuals and families while encouraging self-sufficiency and employment, climate change policies, government or market intervention on housing, tax, labour market relations, limited consensus on climate, overall immigration levels
	Labour	Economic development, job creation, education funding, environmental protection, health services funding, Treaty of Waitangi obligations, independent foreign policy, social policies, minimum wage increase, lower MMP threshold		
2017	National	Economic management, tax cuts, law and order, Family Incomes Package, Paid Parental Leave, first home buyer support, upgrade to National Standards and digital skills, Healthcare access for low-income families.	Economic management, education, healthcare, foreign policy, broad consensus on paid parental leave, promote home ownership, some consensus on climate	Balance between supporting vulnerable individuals and families while encouraging self-sufficiency and employment, government or market intervention on housing, tax, labour market relations, overall immigration levels
	Labour (wins)	Housing affordability, free tertiary education year, health and mental health funding, Families Package, minimum wage increase, climate change net zero legislation		
2020	National	Economic recovery, law and order, economic management, tax cuts for middle New Zealand, infrastructure development	Economic recovery following the COVID-19 pandemic, investment in infrastructure, foreign policy, promote home ownership, greater consensus on climate policy, skilled migration	Social issues, co-governance, balance between supporting vulnerable individuals and families while encouraging self-sufficiency and employment, government or market intervention on housing, tax, labour market relations, overall immigration levels
	Labour (wins)	COVID-19 response and recovery, housing and homelessness, climate change and clean energy, poverty reduction, Matariki as a public holiday, mental health support		

