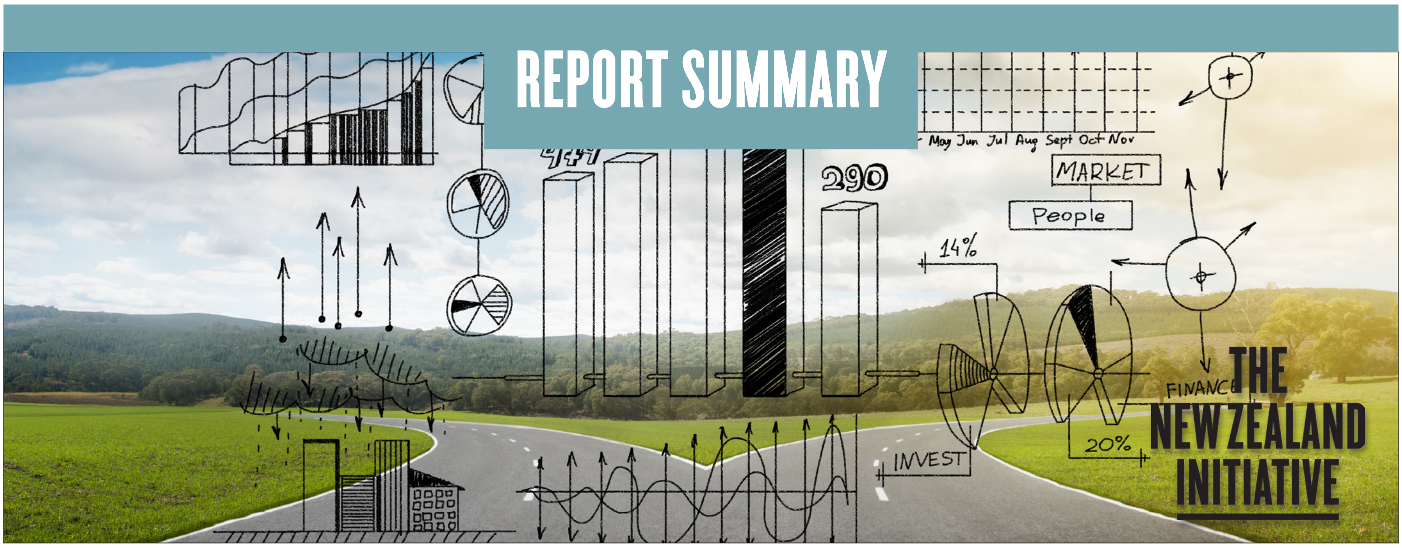

Roadmap for Recovery

Briefing to the Incoming Government

The New Zealand Initiative 2020

New Zealand faces its worst recession in nearly a century. Unfortunately, the economic response to the challenges of Covid-19 leaves much to be desired. Most new policy initiatives proposed in the run-up to the 2020 general election range from trivial at best to economic sabotage at worst. New Zealanders deserve better.

The scale of the problem is immense. The OECD predicts our collective income or Gross Domestic Product (GDP) could fall by as much as 10% in 2020 alone. While Treasury's Pre-election Economic and Fiscal Update forecasts are more optimistic (with GDP falling by 3.1% in 2020), GDP figures released by Statistics New Zealand for the June quarter reveal our collective income fell by 12.2% compared to the previous quarter.

Even before Covid-19 New Zealand struggled with long-standing productivity problems, with productivity growth being crucial to raising living standards in the long-term.

Employment has been supported by $14 billion of wage subsidies which are now coming to an end. Unemployment is now on the rise. Indeed, in the final week of June the unemployment rate was 6.2% with 11,000 fewer employed people than the previous quarter. The OECD predicts New Zealand's unemployment rate could climb as high as 8.9% in 2021.

Finally, public debt is projected to balloon from 19% of GDP in 2019 to 28% in 2020. After peaking at over 56% of GDP in 2026, it is only projected to modestly fall to 48% in 2034. This will place a huge burden on future New Zealanders.

This country desperately needs sensible policies to protect the livelihoods of all New Zealanders, now and in the future.

New Zealand's labour market settings are performing well overall, delivering relatively high participation rates, job creation and low levels of unemployment before Covid-19. Labour market settings do not require a radical overhaul, although flexibility in the labour market should be further enhanced to support employment. Recent and proposed reforms to the labour market, however, threaten employment and the flexibility required to deal with the aftermath of the Covid-19 crisis.

Raising or introducing new taxes would hurt growth and is not necessary for getting the public debt back under control. Instead, there is ample scope to reduce public spending through greater efficiency and scrutiny and ending wasteful spending on costly programmes which do not deliver on their objectives. Health, education and welfare need not be affected by these changes and may even improve. Changes to retirement income policy alone could return the public debt to about 30% of GDP by 2034.

Productivity performance could also be improved with key changes to education, regulatory settings affecting investment, monetary policy and climate change.

Promoting employment, growth and productivity, and a credible path back to sustainable debt levels is critical. The New Zealand Initiative has developed a number of key recommendations, outlined in this report and summarised in the following table, which will help achieve these goals, facilitate recovery and safeguard our future prosperity.

Key Recommendations for Recovery

ISSUES	RECOMMENDATIONS
Labour market settings are performing well, but flexibility should be enhanced to boost employment. This is important for vulnerable groups (young, low-skilled, Maori and Pasifika) who's employment is disproportionately affected in recessions	Proposals to introduce Fair Pay agreements (FPAs) should be abandoned. Abandon "contractor" law reform proposals. Instead, enforce the existing regulatory settings more effectively. Amend unjustified dismissal procedures of the Employment Relations Act 2000 (ERA) so they do not apply to highly paid employees. Roll back recent minimum wage increases, which will hurt employment, and re-introduce lower youth minimum wage rates.
Public debt will increase significantly over the next 6 years due to Covid19 and poor-quality spending choices. This will place a huge burden on New Zealanders in the future who will need to pay higher taxes or enjoy less government expenditure.	Avoid increasing or introducing new sources of tax revenue, which would further dampen economic activity. Reform retirement income policy for significant fiscal savings including: • Abolish subsidies to KiwiSaver; • Amend indexation of NZ Superannuation and raise age of eligibility by two years, linking further changes to health adjusted life expectancy; and • Suspend NZ Superannuation Fund contributions. Undertake a comprehensive expenditure review to identify and reduce low quality expenditure. Stimulus, such as "shovel-ready" investment projects, must pass standard cost-benefit tests. Establish an independent fiscal council to keep spending decisions under close scrutiny.
The Resource Management Act (RMA) exacerbates resource problems by undermining private property rights and failing to internalise costs.	Replacement legislation should protect private property rights in respect of resource use. Objectors should be confronted with the cost to the community of the foregone use and compensation for regulatory takings should be permissible.
The Overseas Investment Act (OIA) is amongst the most restrictive in the OECD. Kiwis must be able to access overseas capital and know-how to enable productivity growth	The OIA should be repealed. Any replacement legislation should focus on genuine public good problems, such as national security. If not repealed, screening provisions in the OIA should be reduced, if not removed entirely. Sensitive land should be restricted to land that is identifiably sensitive and the cost-benefit test should be amended to confirm with something recognisable as a public interest test.
Putting a price on greenhouse gas emissions is the single best way of reducing New Zealand's emissions. Measures undertaken outside the ETS, even if carefully designed, risk being less effective and far less cost-effective than working through the ETS.	Use the ETS as primary regulatory instrument for reducing GHG emissions. Non-ETS measures should be assessed on the cost-per-tonne of GHG reductions, with that cost reported for each. Rather than distort the ETS to achieve desired distributional outcomes: • Grant ETS credits within the cap to existing emitters; • Transfer revenues earned through government auction of ETS credits to lower-income households; and • Supplement those transfers through other additional payments to targeted households if necessary.
Recent monetary policy developments depress savings are potentially highly inflationary, initially for asset values, and risk the independence of the Reserve Bank of New Zealand (RBNZ).	Amend the RBNZ Act to specify a single objective – long-term price stability. Shift the RBNZ's regulatory role to another institution to improve governance and reduce politicisation of the monetary policy role. Limit the RBNZ's budget to cover its monetary policy role and restrain it from getting deeper into matters related to ethnicity and climate change. Return the inflation target to 0–2%. Stop the implementation of deposit insurance. Limit RBNZ's discretionary ability to purchase securities to government paper. Ensure a credible timetable for reducing its balance sheet to pre-Covid-19 levels.
High educational achievement has fallen for two decades due to malign influence of discredited "child-centred learning."	Create a new national curriculum based on disciplinary knowledge, not competencies. Create an evidence-based profession, including designing standardised national assessments to highlight effective schools and approaches. Reinstate and extend the partnership schools model.