



TE TAI ŌHANGA
THE TREASURY

Looking to the future:

New Zealand's long-term fiscal challenges

**Summary of Public Submissions
Consultation on the proposed scope of the Treasury's combined
Statement on the Long-term Fiscal Position and
Long-term Insights Briefing**

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This document summarises public submissions received on the proposed subject matter for the Treasury's combined Statement on the Long-term Fiscal Position and Long-term Insights Briefing, due to be published in September 2021.

Introduction

The Treasury will report later this year on its view of the country's long-term fiscal position.

COVID-19 has had an unprecedented impact on the economy, and there is still considerable uncertainty about its future effects. But the Treasury is also focused on the potential effects on our economy of long-term macroeconomic trends like population and climate change.

At least every four years the Treasury produces a Statement on the long-term fiscal position of the government, looking at least 40 years into the future. We do this to inform commentary and discussion on New Zealand's significant long-term fiscal challenges, and to help decision makers assess the long-term impacts of policy options that might be considered in these areas.

Statements on the long-term fiscal position describe trends and pressures on spending, revenue, the fiscal operating balance and public debt. These descriptions are based on current policy settings, recent history and likely long-term developments in key factors such as demographic, social and environmental conditions.

Since 2004 the Treasury has produced four such Statements: see [Long-term fiscal position](#) on the Treasury website.

This year, the report will also incorporate our first Long-term Insights Briefing to the Minister of Finance, as required by the Public Service Act 2020, looking at the medium to long-term trends, risks and opportunities to New Zealand through the Treasury's core fiscal stewardship lens.

The first phase of consultation on the Treasury's 2021 Statement on the long-term fiscal position focused on the proposed scope of the Statement. We provided a consultation document that outlined the proposed subject matter for the 2021 Statement: [Looking to the future: New Zealand's long-term fiscal challenges](#). The document was posted on the Treasury website and submissions were invited for a four-week period, which closed on 26 March 2021.

We received five written submissions and held interviews with eight subject matter experts in fields such as retirement, productivity, economic forecasting and business.

We will publish and invite public feedback on a draft of the Statement in mid-2021.

That draft will discuss how we have incorporated the public feedback received through this first phase of consultation.

The Treasury's final Statement will be published in September 2021.

Summary of feedback on the topics for the Statement

The main topics proposed for the Statement were tax revenue, government and health expenditure, and superannuation. Not all submitters commented directly on the suitability of the topics, but those who did considered they were appropriate areas to focus on.

There was considerable feedback on the topics themselves and possible directions government could take. Broad themes are summarised below, and further details are provided in the remainder of this document.

- Submitters highlighted a need to consider the overall purpose of the tax system, and whether it is intended to improve wellbeing, incentivise behaviours, or raise government revenue.
- Government expenditure depends on what risks governments choose to insure against. This leads to big questions on what an appropriate role for government is relative to individuals.
- Submitters acknowledged the need for a strong fiscal position but noted that this must be balanced against the potential intergenerational wellbeing improvements of that investment.
- Submitters noted that there were large risks to how prepared future generations would be for retirement, and they questioned if current retirement schemes (such as New Zealand Superannuation) were fit for purpose.
- Rising healthcare costs was considered a primary future fiscal risk, with submitters noting that governments will need to find a balance between the level of private versus state-subsided healthcare, as well as seek more proactive measures to improve healthcare outcomes.
- Submitters also commented on other aspects such as housing, productivity, and global uncertainty.

Taxation

The purpose of the tax system needs to be reviewed.

- Submitters highlighted the need to review the purpose of taxation. Is it used to incentivise and modify behaviour, to increase general public wellbeing, or simply to raise money for government?
- One submitter commented that the tax system in New Zealand was effective compared to other OECD countries, being broad-based and low rate. However, the system needed to be evaluated and reviewed constantly, particularly in light of how to fund the legacy we want for future generations.
- It was observed that most tax revenue in New Zealand – over 90 percent – is received by central government, which is a higher figure than the rest of the OECD. One submitter suggested that in the long term, New Zealand should consider marginal fiscal impacts of development from a local versus central government perspective, examining the incentives of economic development for local councils.
- One submitter suggested that tax cuts for small businesses should be considered to stimulate growth. It was observed that some 97 percent of New Zealand businesses employ 20 people or fewer. They contribute approximately 25 percent of GDP and 30 percent of overall employment. However, these businesses have suffered from the effects of COVID-19. They are also vulnerable to the increasing dominance of international tech giants, which have benefited from governments being unsure of how to tax them and from people being forced by COVID-19 to stay at home and shop online.
- It was acknowledged that discussing tax is challenging because it is perceived as taking money away from the general population.

Government Expenditure

Government must choose which risks it insures against, and the cost of higher debt must be balanced against its potential intergenerational wellbeing benefits.

- Much of the content of the submissions discussed government expenditure in different areas. There were also specific comments about the need for government to manage and allocate risk in order to determine spending priorities. Submitters acknowledged that a strong fiscal position was important for New Zealand, but that the cost of higher debt must be balanced against the potential intergenerational wellbeing benefits achieved by that spending.
- Public spending in areas such as health, superannuation, responses to disasters and climate change will depend on the extent to which government takes on risk or expects individuals to do so. Government has a responsibility where the market will not play a role, for example in responding to COVID-19. Where the market does not play a role government must choose which risks to insure against.
- Climate change will play an important part in the discussion about risk allocation and management. It is challenging to define when government should take the risk and when the public should do so.
- Scenario analysis could be helpful in making these decisions. Scenario analysis could also be useful in determining the impact of demographic change, particularly the ageing population.
- Scenarios could consider the implications if the role of government and the level of risk and responsibility that it undertook changed substantially.
- One interviewee suggested that scenarios could also consider the implications of high-impact shocks such as an Alpine Fault earthquake.
- Some submitters discussed the need for Public Finance reforms to ensure a longer-term approach to issues such as changing demographics, climate change and the likelihood of serious earthquakes. A more evidence-based approach was required, rather than a simple focus on annual increases in spending. Environmental impacts of policies typically took ten years or more to become apparent, emphasising the need for long-term thinking.

Superannuation and retirement

There are large risks to how prepared future generations will be for retirement.

- One submitter noted that while current retirees would likely be mortgage-free and have enough pension funds, this would not be the case for future generations. Exacerbated by the pandemic, the submitter noted that rapidly rising house prices and people getting onto the property ladder later could reduce retirement readiness for future generations by up to 15 years.
- One submitter questioned whether New Zealand Superannuation was fit for purpose in its current form or needed to be substantially reformed. How much retirement funding should be covered by government, and how much by the individual? It was possible that other parties such as the public, local government and the private sector may take on greater or lesser roles in the future.
- Another area to examine was whether superannuation should be considered as part of an overall package of social support. Regulatory impact analysis could be used to evaluate other options to benefit people in the overall social support system, for example shifting more investment towards the welfare of children as a 'front-end' approach.
- Submitters proposed analysis of various alternative systems, such as a means-tested superannuation. This could be paid as a form of universal basic income for older people but clawed back at higher incomes via a separate progressive tax regime.
- An important area to consider was whether to increase retirement age to reflect increased life expectancy. Should the principle behind determining retirement age be that a person should receive superannuation for a certain proportion of their lifetime?
- Some groups, in particular Māori, remained relatively disadvantaged because their lower life expectancy reduced the period they would benefit from superannuation. While life expectancy for both Māori and non-Māori had risen, the gap between the two had not changed. This needed to be taken into account in making policy changes.
- It was important to understand the reasons why some groups stay in the labour force for longer. There is a difference between someone doing cognitive labour after age 65 due to personal preferences and someone continuing to do manual labour after age 65 in order to have enough income. Raising the age of eligibility from 65 would have different impacts on different groups.
- One submitter noted there were significant gender issues with KiwiSaver. They noted that as KiwiSaver is based on total income, the gender pay gap and time out of the labour market meant that it typically took women longer to build adequate retirement funds.
- Another submitter thought it was important to counter a popular belief that pensions would not be available for younger members of the workforce by the time they reached retirement. The submitter's key policy question was therefore not if we can afford superannuation, but rather can we afford not to have it.
- Submitters also highlighted that governments must consider the opportunity cost of investing in superannuation versus other social investments.

Health

Healthcare costs will rise significantly in the future.

- Health was another area attracting significant comment, with the ageing population and inequities between different sectors of the population common themes.
- Healthcare costs will rise significantly in the future. Causes include responding to COVID-19, the ageing population, increasing rates of dementia, greater demand for equity of access, and a sharp increase in mental health problems among the young.
- Youth mental health problems were particularly acute in certain communities and demographic groups, for example young Māori and Pasifika women, and the rainbow community. There is a need to understand the socio-economic reasons for this, rather than simply increasing investment in psychiatric care.
- The balance between state-subsidised and private expenditure in health was regarded as important, specifically in re-allocating resources to the most in-need population groups. The need to strike a balance between spending on health and retirement was also noted.
- Submitters suggested that there is a need for proactive rather than reactive health investment: addressing health concerns early before they became more difficult and expensive to manage. This was especially important for population groups such as Māori and Pasifika communities who have found it difficult to access and afford health care. A proactive health approach might require more initial investment to direct support to different population groups and ensure it was received where it was needed.
- 'Proactive' measures were not restricted to the health sector itself: for example, better education in schools about health matters could improve public wellbeing, reduce spending, and result in a healthier – and more productive – labour market.
- One submitter noted a severity of issues in our healthcare system, highlighting a pressing need to reduce waiting lists, upgrade facilities, raise wages and subsidise training in the healthcare sector.

Further comments

As well as the main topics proposed for the Statement, feedback was received on several other subjects.

Housing

- The adequacy of housing was likely to be affected by the ageing population. Submitters noted that over the next forty years, people over 65 will make up more than 25 percent of New Zealand's population. International studies show the average household size reduces as people age. This will make the housing shortage significantly worse as smaller households inhabit an insufficient stock of houses. Increasing migration and a drop in fertility rates will have the same effect.
- A further problem was that we have not factored in the low quality of the existing housing stock in New Zealand. Some new houses will be needed to replace old and outdated ones, rather than adding to total house numbers. One report suggested new houses would have to last 1,200 years based on current building rates.

Small business

- Several submitters commented on the need for more support for small business. Increased government investment in digital technology was crucial to strengthen the economy and raise living standards.
- Poor mental health was a threat to small business owners and their employees, with COVID-19 in particular putting many small businesses under severe stress. Wellbeing needed to be included in fiscal planning and the Treasury's wellbeing report due next year would be an important contributor to this.
- As detailed above, tax breaks for small businesses and an increase in research and development funding were also proposed.

Wellbeing

- One submitter noted that while the Government's wellbeing approach was a welcome initiative, it did not seem to lead to greater targeting of resources to where they were most needed, for example to address child poverty.

Productivity & growth

- There was discussion of the relationship between economic growth and the long-term fiscal position, in particular the impact of productivity growth and labour market participation.
- An important consideration was whether growth was labour- or capital-based. This would affect the sorts of policies adopted, for example whether to focus on automation or upskilling employees.
- Policies needed to be long-term in order to 'future-proof' economic growth.
- A strong fiscal position and low debt were needed to build up financial and non-financial assets and support intergenerational wellbeing.
- It was suggested that government should increase its investment in research and development, with a focus on encouraging investment in areas such as healthcare and technology. New Zealand has a history of doing well in these areas; some of our big corporate success stories are of companies taking large global market share in niche industries, and we should continue to encourage this.
- One submitter suggested greater immigration could allow New Zealand to play a greater role in international trade and value chains. However, another pointed out that evidence from the rest of the world suggested that raising migration leads to low-quality GDP growth.

Global uncertainty

- There was comment that making long-term economic predictions is challenging, as factors such as COVID-19, global warming and geopolitical tensions are causing instability and rapid change.
- Climate change could see significant changes in the way important New Zealand industries function: for example, dairy goods being produced in laboratories rather than on farms, and virtual tourism as an alternative to physical travel.
- Rapid technological change was affecting many areas of life, and even had the potential to alter the structure of government as 'platform companies' became ever more influential.
- The loss of social cohesion was identified by one submitter as the greatest issue in global society. New Zealand was a very cohesive country, with high levels of trust between people and government, as evidenced by the successful response to COVID-19. However, this cohesion could eventually be undermined by international tension and instability.
- There could be increasing intergenerational anger and conflict over asset ownership. Greater life expectancy caused older generations to hold on to assets for longer and skewed the allocation of assets against younger generations.
- It was important to consider whether New Zealand would be able to respond effectively to a future global economic crisis, particularly maintaining trust in the value of money. Suggested options included using exchange rates as a policy instrument or building up gold reserves.