

The Treasury

SWC-21-SUB-0218 - Productivity Commission Inquiry into Economic Inclusion and Social Mobility – *A Fair Chance for All*

June 2022

This document has been proactively released by **Minister of Finance (Hon Grant Robertson)** on the Treasury website at

<https://treasury.govt.nz/publications/information-release/finance-portfolio-cabinet-material>

Cabinet Document Details

Title: **Cabinet Paper: SWC-21-SUB-0218: Productivity Commission Inquiry into Economic Inclusion and Social Mobility – *A Fair Chance for All***

Date: **9 December 2021**

Creator: Office of the Minister of Finance

Information Withheld

No information has been withheld.

Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.

Productivity Commission Inquiry into Economic Inclusion and Social Mobility – *A Fair Chance for All*

Proposal

1. This paper seeks agreement to the attached Terms of Reference for a New Zealand Productivity Commission (“the Commission”) inquiry into “Economic Inclusion and Social Mobility – *A Fair Chance for All*”.

Relation to government priorities

2. Better understanding of the drivers and impacts of economic inclusion and social mobility will be a step towards ensuring all New Zealanders have the opportunity to realise their potential and make the most of their talents.
3. It is proposed that the inquiry into economic inclusion and social mobility focuses on the drivers and dynamics of *persistent disadvantage*. This proposal aligns with Government’s values of *Ōritetanga* (equality) and *Whakaritanga* (opportunity). Breaking the cycle of persistent disadvantage and providing a fair chance for all is part of building a just society founded on equality and fairness.
4. This proposal will support several of the Government’s manifesto commitments and priorities, including:
 - 4.1. the Child and Youth Wellbeing Strategy,
 - 4.2. reducing the number of children living in poverty,
 - 4.3. ensuring a strong recovery from COVID-19 for all,
 - 4.4. lifting Māori and Pacific incomes, skills and opportunities, and
 - 4.5. lifting incomes, skills and opportunities for disabled people.
5. New insights about the dynamics and drivers of persistent disadvantage, and the recommendations the Commission can provide, will also contribute to other Government priorities. These include modernising our welfare system so all New Zealanders can live with dignity, ensuring affordable housing for everyone, and promoting regional economic development and boosting productivity.

Background

6. The Commission is an independent Crown entity. It generally undertakes two inquiries per year following referral from the Minister of Finance and other referring Ministers as required. It is established practice to gain Cabinet agreement to inquiry Terms of Reference before referral.
7. In April 2021, I, along with the Minister of Immigration, referred the Terms of Reference for an inquiry into Immigration Settings for New Zealand's Long-Term Prosperity and Wellbeing to the Commission. I also asked the Treasury and the Commission to develop a Terms of Reference for an inquiry into social mobility and economic inclusion. I encouraged the Commission to conduct in-house research on these issues, and to start a public conversation with agencies, experts and academics, and relevant stakeholders. The outcomes of both streams of information were used to inform the Terms of Reference attached.
8. The Commission engaged with a wide range of organisations and interested parties, holding meetings with over 180 people, representing more than 60 organisations. It received 875 responses to its online survey (including 10% from Māori respondents) and 81 formal written submissions, as well as direct correspondence. Sponsored media partnerships achieved significant public reach and engagement. The Commission will publish a summary of themes from engagement, after the release of the Terms of Reference.
9. The feedback from engagement was used to help develop the Terms of Reference. For example, a strong message was that a significant evidence base already exists, and what is needed now is action. The Terms of Reference acknowledges this evidence base and directs the Commission to bring together and build on previous work. Other common themes were the need to draw on the lived experience of people affected by disadvantage; to take a strengths-based approach; and to explore ways of better supporting Māori-led and Pacific-led solutions. These points are also reflected in the Terms of Reference.
10. In terms of the drivers of disadvantage, the two most common themes were housing and education. The impact of colonisation and systemic racism also was raised through both public and agency consultation. The proposed Terms of Reference provides the Commission scope to consider how these factors may influence persistent disadvantage at a system-wide level. However, in order to contain the scope of the inquiry, the Terms of Reference does not require the Commission to assess individual programmes or to undertake detailed analysis into every sector and area raised through consultation. This is consistent with the Commission's 'data-driven approach' which will allow them to focus on the most significant drivers of disadvantage and system-level recommendations to effect change.
11. Following the funding decisions made in Budget 2021, the Commission has scope to start this second inquiry. Given the cross-cutting relationship between the topic of the inquiry and the objectives of the Government, I have nominated the Ministers for Child Poverty Reduction, Māori Development, Pacific Peoples, Revenue, and Social Development and Employment as fellow referring Ministers for this inquiry.
12. The topic of this inquiry is aligned with the Commission's principal purpose of providing advice to the Government on improving productivity in a way that is directed to supporting the overall wellbeing of New Zealanders. As set out in the current Letter of Expectations, I have encouraged the Commission to look beyond GDP as a measure

of success and to have the wellbeing of current and future generations of New Zealanders front of mind as it generates new knowledge and advice.

Rationale for selecting this topic

13. All of society loses out whenever people or collectives are not supported to thrive and fall into persistent disadvantage. Costs to government arise through lower tax revenues and higher welfare costs, on top of wider negative impacts, such as lower general skill levels, and increased crime and victimisation. The cost of lost productivity from working age people is even greater, at a time where the nation faces an ageing population. While it is fairly common for people to experience temporary disadvantage at some point in their lifetime (e.g. periods of low income), the persistent loss of one factor can erode other factors necessary to succeed. Children are particularly vulnerable to persistent disadvantage. Early influences, during pregnancy and their first 1,000 days, as well as intergenerational factors, such as the income of the parents or their housing status, will determine their ability to thrive throughout their lifetime.
14. The trends in indicators for economic inclusion and social mobility in New Zealand are not widely understood. More light needs to be shone on how the dynamics and drivers of economic inclusion and social mobility impact on individuals, different population groups and wider society, and how these impacts link to productivity and wellbeing.
15. As part of this inquiry, the Commission will produce a summary of the evidence and trends available that are relevant to the cultural and historical context of New Zealand. This will help to build a coherent and accessible narrative on the links between reducing persistent disadvantage and improved wellbeing, as well as higher productivity and better economic performance.
16. Due to the lack of data that surveys the same people and households over time (i.e. longitudinal data), little is known about how many people are in persistent disadvantage, or which people move out of versus remain in disadvantage, and why. The Commission will look at different possible approaches for quantitative research to better understand the dynamics and drivers of disadvantage that persist across people's lifetimes and generations.
17. Persistent disadvantage is a complex and multi-dimensional challenge. People thrive when they have the resources they need, are empowered to grow and develop, and can connect with their community and other individuals. People and collectives trapped in persistent disadvantage often experience multiple, inter-related challenges which have a cumulative impact on their life opportunities and wellbeing (e.g. unemployment, insecure and poor quality-housing, disability, chronic illness, family violence, drug or alcohol dependency). The use of He Ara Waiora¹ and qualitative research will provide further insights into how life events or intergenerational circumstances can become a route into, or out of, persistent disadvantage, the experience of people, whānau, and communities facing persistent disadvantage, and what they find works or would work to help them advance.
18. This inquiry will generate insights to support the work the Government has started through the Child Poverty Reduction Act 2018 and the Child and Youth Wellbeing Strategy. The Commission will work with the Treasury to leverage from potential synergies between the inquiry and the Treasury's Wellbeing Report – to be published in late 2022. The Commission will also draw on the existing analysis behind other

¹ He Ara Waiora is a wellbeing framework that presents a holistic, intergenerational approach. While its principles are derived from mātauranga Māori, many of its elements are relevant to lifting the intergenerational wellbeing of all New Zealanders. It is used by the Treasury alongside the Living Standards Framework in the development of policy advice.

major reviews such as the Welfare Expert Advisory Group, the Expert Advisory Group on Solutions to Child Poverty, as well as their own previous studies, such as the *More Effective Social Services* inquiry. The independent inquiry can investigate systemic issues across funding streams and delivery silos (rather than at the level of individual programmes and policies).

19. As with other inquiries, consideration of the Commission's findings will allow us, if we choose, to make further decisions to break or mitigate the cycle of disadvantage, both within a person's lifetime and intergenerationally (including through any formal government response in 2022 to the inquiry).

Timing of the inquiry

20. I propose that the Commission be asked to deliver a final report by 31 March 2023.

Consultation

21. The following agencies have been consulted on this paper including the Terms of Reference: Ministry of Business, Innovation and Employment, Oranga Tamariki, Ministry for Pacific Peoples, Ministry for Women, Te Puni Kōkiri, Ministry of Education, Ministry of Justice, Social Wellbeing Agency, Ministry of Housing and Urban Development, Ministry of Health, Ministry of Social Development, Mental Health and Wellbeing Commission, Office of the Children's Commissioner, Human Rights Commission, Stats NZ, Te Arawhiti and the Department of Prime Minister and Cabinet.

Financial Implications

22. This paper has no fiscal implications.

Legislative Implications

23. This paper has no legislative implications.

Impact Analysis

24. This paper has no regulatory implications.

Human Rights

25. This paper has no human rights implications.

Population Implications

26. The proposed inquiry has potential to benefit disadvantaged population groups including Māori, Pacific Peoples, ethnic communities and disabled people.

Communications

27. I will announce the referral of the Terms of Reference to the Commission shortly. I will work with the referring Ministers to produce a press release.

Proactive Release

28. I intend that the Treasury will proactively release this Cabinet paper within 30 days of the announcement of the Terms of Reference.

Recommendations

The Minister of Finance recommends that the Committee

29. **agree** that the Terms of Reference (see annex one) be referred to the Productivity Commission.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Annex One – Terms of Reference

Terms of Reference - New Zealand Productivity Commission Inquiry into Economic Inclusion and Social Mobility – *A Fair Chance for All*

Issued by the Ministers of Finance, Child Poverty Reduction, Māori Development, Pacific Peoples, Revenue, and Social Development and Employment.

Pursuant to sections 9 and 11 of the New Zealand Productivity Commission Act 2010, we hereby request that the New Zealand Productivity Commission (“the Commission”) undertakes an inquiry into economic inclusion and social mobility, focussing on the drivers and underlying dynamics of persistent disadvantage.

Context

The trends in indicators of economic inclusion and social mobility in New Zealand are not widely understood. This includes understanding how trends in economic inclusion and social mobility impact on individuals, different population groups and wider society, and how these impacts link to productivity and economic performance. In addition, some trends in New Zealand differ from other countries, such as the United Kingdom and United States. A robust, authoritative narrative about the New Zealand situation is lacking from public discourse.

A key gap in the existing New Zealand evidence is measurement and analysis of persistent disadvantage, and its dynamics across lifetimes and generations. Available evidence points to significant and growing disadvantage in the bottom income deciles, particularly in the context of rising housing costs. Covid-19 may exacerbate these trends. Children growing up in these households face the prospect of entrenched disadvantage.

The inquiry will focus on the persistence of disadvantage which will bring together the two concepts of economic inclusion and social mobility.

The purpose of this inquiry is to:

- generate new insights about the dynamics and drivers of persistent disadvantage, and the incidence/impacts across different population groups, including social and economic factors;
- develop recommendations for actions and system changes to break or mitigate the cycle of disadvantage (both within a person’s lifetime and intergenerationally); and
- help raise public awareness and understanding of trends in economic inclusion and social mobility (with a focus on persistent disadvantage) in New Zealand.

Scope

The work will promote a strengths-based approach, looking to make recommendations that would help individuals, families, whānau and communities realise their potential, and enhance their mana and wellbeing. It will recognise the importance of the Treaty of Waitangi as a key founding document of Aotearoa New Zealand.

To inform the inquiry's recommendations, the Commission should:

- bring together and build on the considerable existing evidence and many knowledge bases across a range of disciplines, including work undertaken for previous major reviews and inquiries (such as the Welfare Expert Advisory Group, the Tax Working Group, the Expert Advisory Group on Solutions to Child Poverty and the Commission's inquiry into More effective social services);
- establish definitions of economic inclusion, social mobility and persistent disadvantage;
- undertake research and analysis to better understand the dynamics and drivers of persistent disadvantage, applying relevant frameworks such as He Ara Waiora;
- draw on te ao Māori and Pacific approaches, including applying a collective as well as an individual lens to research and analysis, and the principles of mana motuhake (collective/self-reliance), rangatiratanga (independence) and mātauranga Māori (Māori-specific knowledge);
- explore how realising people's potential (through reducing persistent disadvantage) translates into direct increases in wellbeing, as well as higher productivity and better economic performance. Greater success for Māori and Pacific peoples is particularly important given their increasing proportion of the working age population in future years;
- create a clear, authoritative and accessible narrative about the trends in economic inclusion and social mobility in New Zealand.
- take into account any relevant insights and findings from other Commission inquiries, including its current inquiry into immigration settings, as well as work underway across government (including relevant reforms and work programmes such as Just Transitions and the Disability Action Plan).

Based on the above, the Commission will develop recommendations for effective actions and systems changes to help break or mitigate the cycle of disadvantage. This may include investigating:

- improvements to current measurement and data collection systems;
- the way public services are designed, commissioned, funded and delivered;

The inquiry will take a system-wide and whole-of-government perspective, look at life-course and intergenerational outcomes, and consider a broad set of impacts on, and measures of, wellbeing.

Out of scope

To avoid duplicating parts of other major inquiries (such as the Welfare Expert Advisory Group and the Tax Working Group) the inquiry will focus on non-income policies. This will not, however, preclude the inquiry from identifying income levers in its recommendations.

Constitutional reform is out of scope.

Engagement requirements

In undertaking this inquiry, the Commission should:

- engage with key interest groups, organisations and practitioners, across the public, private, not-for-profit and philanthropic sectors;
- collaborate with iwi and Māori, Pacific peoples and disabled people to explore barriers to reducing persistent disadvantage, and ways to support Māori- and Pacific-led solutions;

- draw on the lived experience of different people, groups and communities who may be affected by, or have overcome persistent disadvantage, including Māori, Pacific peoples, women, tamariki and rangatahi, sole parents, disabled people and their families, rural, provincial and urban communities, and the intersection across groups;
- partner with relevant government agencies, researchers, experts and practitioners across a range of disciplines and sectors; and
- use a wide range of modes and products (e.g. short reports, videos, graphics), including accessible modes and alternative formats, to maximise reach, and engagement with a wide range of voices.

Timeframe

The Commission must publish a draft report on the inquiry for public comment, followed by a final report or reports, which must be submitted to each of the referring Ministers by 31 March 2023.