



TE TAI ŌHANGA
THE TREASURY

He Tirohanga Mokopuna 2021

Feedback document

Summary of feedback received on the draft for consultation of the
Long-term Fiscal Statement and Long-term Insights Briefing

September 2021

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Introduction

At least every four years the Treasury is required by legislation to produce 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 the key drivers that underpin them, such as an ageing population, climate change and rising healthcare costs. This year we have combined the Long-term Fiscal Statement (LTFS) with the Treasury's first Long-term Insights Briefing (LTIB). Producing an LTIB is a new requirement under the Public Service Act 2020 for all government agencies. The purpose of our first LTIB is to analyse key trends and their potential long-term fiscal impacts alongside a range of policy options available to address them. Legislation requires us to consult with the public on both the scope and draft of the briefing.

This document summarises the feedback we received in the second phase of consultation on the LTFS/LTIB. While phase 1 focused on the proposed scope of the statement,¹ this phase sought feedback on the draft LTFS/LTIB and engaged as broadly as possible in line with consultation guidance from the Department of the Prime Minister and Cabinet (DPMC).² This included:

- inviting online submissions from the public over a four-week period (we received 21 submissions in total)
- engaging with Māori and Pacific groups through the Treasury's existing networks
- engaging with other government agencies including the Ministry for Women and the Ministry for Youth Development
- seeking a youth perspective through engagements with university and high school students
- meeting with academics, economists and other subject matter experts to get in-depth feedback on key themes such as demographic change, retirement policy, and climate change. We met with some experts individually and some as a group.

Feedback covered many aspects of the draft statement, from the framing and language used and the accessibility of the document for the general public, to gaps and opportunities in the analytical content. The Treasury would like to thank everyone who made submissions and those we met with. The feedback has been highly valuable in helping to shape and inform the final document. Given the breadth of feedback, we have not been able to reflect all of it in the final document, but it will still help to inform our future policy advice and development of future stewardship products such as the Wellbeing Report, which will be published next year.

¹ Summary of phase 1 consultation: <https://www.treasury.govt.nz/publications/consultation/long-term-fiscal-2021>

² DPMC (2020) *Good Practice Guide for Community Engagement*. Available from <https://dPMC.govt.nz/publications/good-practice-guide-community-engagement>

The remainder of this document summarises the feedback received within key themes.³ Although there was a lot of positive feedback, we have focused this summary document on the key gaps and opportunities highlighted through engagement, as identifying these was the main intent of releasing a draft for consultation.

The final 2021 statement has now been released on the Treasury's website and can be found at: <https://www.treasury.govt.nz/publications/lftp/he-tirohanga-mokopuna-2021>

³ Note that this document is not intended to cover all the specific feedback received on the draft LTFS/LTIB; rather, it highlights and summarises (at a high level) the key themes and points of conflict.

Overall summary of feedback

The breadth of our engagement process resulted in wide-ranging feedback from stakeholders. This feedback was also received at different levels. For example, some submitters provided very detailed feedback specific to certain chapters in the draft document, whereas others focused on more general comments. In some cases, there were conflicting comments across topics such as tax and immigration. Despite this, several common themes and messages came through consistently throughout a number of submissions and engagements and these are set out below. Further detail on these key themes is provided in the remainder of the document.

- **What governments spend on has equal importance for managing debt and fiscal sustainability.** A key message from discussions with stakeholders (and noted in several submissions) was that, alongside debt levels, governments also need to focus on ensuring they are spending in areas that deliver high value for money and will improve wellbeing for people in the future. If we invest in the right areas now (for example, skills and education for our rangatahi and building our resilience to shocks), this will also have positive implications for fiscal sustainability.
- **Climate change is a significant issue that is happening now, and we shouldn't underestimate its impact on the New Zealand economy.** There was almost unanimous agreement among submitters that climate change requires action now (with a focus on both mitigation and adaptation efforts) and that this is broader than just an environmental issue, as it is likely to have significant social, economic and fiscal implications for both current and future generations.
- **Inequities and wellbeing disparities that exist require further consideration in the document.** We received feedback that it was important to focus on inequities across a range of dimensions, including between and within ethnic groups. This message came through strongly across all engagements, particularly given the wider social and economic implications of policy options discussed across tax, superannuation and health in the document. Many submissions went one step further and suggested options and avenues to improve inequity, including looking at system level changes and how tax could potentially play a greater role in reducing wealth disparities.

In addition to these themes, we received commentary on key policy areas discussed in the draft LTFS, such as **tax, health and superannuation** settings (including some conflicting views on the appropriateness of changes in these areas to improve fiscal sustainability). Further detail is provided on this in the sections below.

Lastly, **other feedback** touched on the selection of topics chosen for discussion, the broad range of shocks and uncertainties that New Zealand might face that would impact our future fiscal position, possible changes to the role of government in the future and the role of immigration in supporting New Zealand's economic prosperity. These issues are also discussed further below.

Detailed feedback on key themes and policy areas

Value-for-money spending

What governments spend on has equal importance to managing debt and to fiscal sustainability.

- Several submitters noted that the focus of the LTFS/LTIB is on managing debt; however, debt can be balanced by the right investment. They highlighted the importance of investing in the economic determinants of wellbeing to support rangatahi now. This is particularly of note given that Māori and Pacific Peoples are likely to make up a greater proportion of the working-age population in the future and so will need to be well equipped to support future retirees. Specific examples included investing in lifting education outcomes and improving access to capital for small businesses (which is currently a significant barrier for these groups).
- Building on this, one submitter wanted to see targeted interventions for all youth (not just Māori and Pacific rangatahi). Targeted and well-informed interventions for the current youth population can encourage skill development, independence and autonomy. This may improve long-term trends in labour productivity, reduce welfare dependence, and improve overall population health.
- One of the submissions noted the importance of investing in research and innovation. Investment in this area should be seen as a way to enhance the evidence base from which to inform decisions on prioritisation and policy actions. Future governments need to incorporate evidence to make informed choices and therefore funding for research is critical.
- Other feedback mentioned the need for a stronger focus on building New Zealand's overall resilience to mitigate the effect of shocks such as the COVID-19 pandemic. Proactively investing to strengthen our systems, processes and infrastructure (for example, better public health units and earthquake-strengthened buildings) will improve both fiscal costs and outcomes over the long-term. Often a large proportion of spending is reactive and focused on fixing, for example, economic failures and emergencies.
- There was also feedback on how debt and fiscal sustainability were framed in the draft document as the primary goal of concern. It was not clear to some submitters why we think debt is a binding constraint in the current environment. These submitters felt that debt should be balanced alongside the benefits of additional public expenditure and public investment in infrastructure. COVID-19 has meant that debt levels have increased internationally and, despite New Zealand's significant fiscal response, our debt levels are still comparatively low.

Climate change

Climate change is a significant issue that is happening now, and we shouldn't underestimate its impact on the New Zealand economy.

- A consistent message received from the feedback was that the physical impacts of climate change are not something that New Zealand must manage only in the future. In reality, the impacts of climate change are already starting to occur, such as an increase in the incidence or severity of flooding caused by storms and drought, and therefore adaptation efforts should already be under way. Submitters noted that climate change is not just an environmental issue: there is a problem in the way that humans use resources and this has cascading impacts that go beyond the environment.
- Submitters noted that the economic and fiscal costs modelled in the climate change chapter seemed like an underestimate and that there are potentially other overlooked costs. These include costs arising from rising sea levels, flooding, reduced rainfall, wildfires and droughts. These costs may manifest as higher insurance premiums, electricity rates, grocery prices and so on. The costs of inaction could have also been covered by the draft statement, as well as the effect of cumulative shocks. Responding fiscally to the impacts of storms every few years is not the same as dealing with a pattern of repetitive storms in close succession.
- There was also feedback on socioeconomic and equity-related costs, for example how governments respond to extreme weather events and support those who are most impacted. The feedback suggested the document should discuss broader distributional and socioeconomic factors that need to be taken into consideration when designing mitigation and adaptation policies. For example, the impacts on environmental refugees, those who are overrepresented in the primary sector, those who live in coastal areas and those whose assets may be uninsured should be considered. Māori and Pacific Peoples are also likely to be more affected by adverse weather shocks, given their significant representation in horticulture and other labour-intensive industries that are more weather dependent.
- The draft statement frames research and development in low-emissions technology as a cost. However, research and innovation are long-term investments and framing them as expenditure with a negative fiscal impact is not accurate. There is opportunity to change perceptions around expenditure on environmental research and development.
- One submission noted that many of the economic impacts considered in the draft statement relate to extreme drought and storm events. The impacts on agricultural and aquacultural production seemed to be missing. Droughts and storms raise the level of uncertainty about food security and raise biosecurity risks. This uncertainty is particularly relevant for Māori and Pacific Peoples through their interests in the primary sector.
- Finally, there was commentary on balancing any flow-on implications of climate change regulations. For example, how will climate change policies impact on land use (particularly given the significance of land for Māori). What is the trade-off between the environment and economic activity and how can greater certainty be provided to businesses without stifling them?

Inequity and wellbeing

Inequity and wellbeing disparities require further consideration in the document.

- Existing inequities was one of the strongest themes that arose from the feedback. Submitters often spoke about the need to consider policies that will tackle wellbeing disparities, which have been building over the last few decades. Feedback called for appropriate and diverse solutions to reduce health, wealth and wellbeing disparities, taking an intergenerational lens – issues highlighted in the various chapters of the LTFS. One discussion emphasised that *“equity enables both growth and self-determination and should be prioritised in the design and delivery of policy measures that determine progress in human development”*.
- Many submissions noted that inequity is a driver of poverty, poor housing, poor education outcomes, decreased physical health, and high rates of mental illness and incarceration. Some submitters spoke of the concern that, if not addressed, inequity will lead to intergenerational divisions and a breakdown of social cohesion.
- While many submitters commented positively on the use of the He Ara Waiora framework throughout the document, some submitters felt the framework could have been used more effectively to consider wealth and wellbeing inequities for Māori related to the policy chapters on tax, health and NZ Superannuation. With the inclusion of references to Te Tiriti o Waitangi, the statement could also be more explicit when it came to equity.
- One of the key messages we received from engagements was that equity, in particular intergenerational equity, should have been at the centre of the narrative. It was noted that all policy options mentioned in the document (tax, health and NZ Superannuation) will have equity implications for Māori and Pacific populations in particular. The social and economic wellbeing of these ethnic groups is important given that they will likely make up a larger segment of the country’s future workforce. It was noted that under the current system, Māori and Pacific Peoples will not be reaping the same benefits from New Zealand’s future prosperity as other ethnic groups.
- We received a number of submissions concerning the current housing shortage and the implications this has for intergenerational equity. The primary concern raised was that, for most Kiwis, wealth is derived from the inflation of asset prices, and those who have a property (or properties) are going to be better off than those who don’t. Changes in patterns of home ownership also have significant implications for retirees and their level of wealth if they need to pay rent past the age of 65. Several submitters mentioned a capital gains tax or a wealth tax as a potential solution.

Healthcare

- Consistent feedback from multiple submitters was that government spending on health is currently too reactive. There needs to be a focus on proactive spending, which can be more cost effective over the long-run. It was noted that the discussion on health in the draft document was somewhat narrow, and not enough attention was given to preventive healthcare, innovative forms of healthcare such as e-health, and the impact of mental health – all important contemporary issues in light of COVID-19. Mental health, in particular, has significant implications in terms of someone’s ability to work and participate in society.
- Related to the above, there was also feedback on the interdependencies that exist between health and other policy areas such as housing. Stable access to high-quality housing has a significant positive impact on health outcomes. One submission asked if we could run a scenario to illustrate how addressing the housing shortage would impact on health costs.
- A message that came through from various stakeholders was that the statement should consider the long-term implications of COVID-19 for the health system. For example, the lockdowns necessitated by the pandemic may increase the demand for mental health services in the years to come and may require more proactive spending in areas such as public health and disease prevention.
- There was also general feedback from submitters on the current inequities that exist in health outcomes for different ethnic groups (in particular, Māori and Pacific Peoples). It was suggested the statement should include a discussion on how access to healthcare can be improved for these groups and what investment is required now to reduce the disparities. One submission noted that considering fiscal cuts to the healthcare system in order to maintain fiscal sustainability is inconsistent with the Treasury’s role of ‘kaitiaki’ of New Zealanders’ wellbeing. Such cuts would negatively impact those who are at risk of adverse outcomes given their socioeconomic position. Spending cuts in areas such as health *“could well result in an intergenerational decline in the welfare of certain ethnic and socioeconomic groups”*.
- One submission noted that an infinite allocation could be directed towards the health sector and so a discussion on spending trade-offs and on funding sources other than tax (for example, insurance-based schemes) could provide more depth and is justified given the spending implications of COVID-19.

Tax

- There were conflicting submissions on tax. On the one hand, multiple submissions noted that New Zealand's current low rate and broad-based tax regime is sound and robust. There was general concern that considering tax changes in isolation (for example, an increase in personal income tax rates) will have broader implications for the system as a whole given tax rules are currently designed to reinforce each other. The statement needs to be more transparent about the trade-offs and implications associated with any tax changes, and to compare our tax approach with the rest of the world.
- On the other hand, some submissions argued for a fairer tax system, recognising the social inequities that have built up over time, and talked about wealth taxes and higher corporate taxes as a way to reduce these inequities. A small tax increase now distributed over a longer period is more equitable than a significant increase in the future to counter unsustainable government debt.
- As an alternative to increasing taxes or cutting spending, some submissions noted that focusing on 'growing the pie' and improving economic growth and productivity is a better solution, as this will eventually lead to higher tax revenue. In addition, there was a comment on ensuring that the benefits of government spending outweigh the economic costs associated with raising taxes.
- One submission commented that while the modelling in the tax section is based on increasing tax revenue by adjusting income tax rates, a substantial increase in revenue might be best met by redesigning some aspects of the tax system. This is because a tax system that raises around 40% of GDP might look substantially different from a tax system that raises around 30% of GDP.
- There was feedback from some submissions that many young people today might be pinning their hopes for home ownership on future inheritances – more so than in the past given current housing unaffordability. This means that more analysis around the societal impacts of an inheritance tax might be warranted in the draft statement.
- Many other taxes were suggested by various submitters, including taxes on sugar, carbon, elective surgery, land, inheritances and taxes for online companies. Another suggestion was that, instead of increasing tax rates to raise money, the enforcement of the existing tax code and investing resources to mitigate tax evasion were worth exploring.

Superannuation

- Several submissions addressed the prospect of raising the age of eligibility for New Zealand Superannuation (NZS), with general agreement that this is an option that may need to be considered in the future. Submissions noted that any changes to NZS settings cannot be implemented immediately. Options addressed in the consultation document should be signalled well in advance as there is a need to ensure that other interrelated system settings (such as tax rates) are adjusted, and we are adequately looking after those affected.
- There was feedback from some submitters on the distributional impacts associated with indexing NZS payments to inflation only, rather than real wages. Relative to this option, more prominence should be given in the statement on means testing and other targeted options that consider implications for equity (for example, providing a basic income to all but taxing other income at different rates).
- At a broader level, there was feedback on the statement being clearer about the links between the problem, the solution and the type of intervention required for NZS. There was no general agreement about the purpose of NZS, whether the overall system is fit for purpose and whether it is necessary to adjust the settings (and over what period).
- One submission noted that the gender gap in retirement savings is unaccounted for. Women are likely to live longer, have less savings and often have care responsibilities towards both younger and older family members. This has implications for other aspects of the economy as women will increasingly need to rely on family support benefits to care for other household members as they age.
- It was noted that NZS inequalities exist for Māori and Pacific Peoples as well. For example, for various reasons, a greater proportion of the workforce in these communities face multiple health issues by the age of 65 and struggle to work. In addition, they may not be really benefiting from the pension system as it is (mostly due to a lower lifetime savings on average), so increasing the age of eligibility will have further negative consequences for them. It was suggested that a more targeted system adapted for different life expectancies might be more appropriate.
- It was suggested that the statement could emphasise the relationship between housing and NZS. Previously people relied on owning their own home to sustain them in their retired life; however, that is no longer an option for some people heading into retirement. This has significant fiscal implications as there is an expectation by youth that in their later years the government will guarantee a minimum standard of living.

Other feedback

The role of government in the future

- Several submissions noted that the policy options discussed assume the status quo of the nature and role of government in the future. There was diverging feedback on what system level changes may be required to improve fiscal sustainability. On the one hand, there was feedback that government interventions (taxes and regulation) should be kept to a minimum, with a focus on those who need the most support, while encouraging saving and investment. In addition, choice and competition should be encouraged in areas like health and education to improve outcomes.
- Some submitters, on the other hand, noted that governments should be largely responsible for addressing the needs and issues that future generations will have (particularly with regard to improving intergenerational inequities). From a youth perspective, there was an expectation that the government will continue to be responsible for providing healthcare, a pension that provides a decent quality of life and adequate public housing when they are older.

Immigration and labour supply

- We received differing views on the advantages and disadvantages of a higher level of immigration to New Zealand. Some submitters referred to the economic costs exceeding the benefits, while others stressed the importance of immigration for economic growth and prosperity. In any case, submitters felt the statement lacked a focus on the impact of migration flows and that the narrative of how immigration will impact on demographic trends in the future was overly simplistic (particularly given the potential long-term impact COVID-19 might have on migration flows).
- One submission suggested that there may be (now or in the future) labour shortages that can be supported by steady immigration. Immigration should therefore also be seen as a policy solution rather than a long-term issue or challenge that will impact New Zealand demographically. Furthermore, it was noted that the vast amount of immigration is temporary, with workers issued with temporary work visas and then leaving when they expire. This needs to be factored into long-term fiscal projections.

Debt

- New Zealand's fiscal position and national debt were a focus of much of the discussion in the draft statement and in return we received much feedback about current and future fiscal settings.
- One submitter felt that the Treasury was giving mixed messages about the appropriate level of debt and this reduced the consistency of the messages and framing. For example, in the executive summary the statement seemed unperturbed about current high levels of debt. On the other hand, much of the discussion in the statement is focused on addressing the trajectory of debt growth and suggests policies for fiscal tightening.

- One submission raised the concern that the document was overly focused on net debt as an indicator and that, although net debt is a concern, it should not be a priority. It would be better to introduce policy options and then consider constraints and factors that lead to the variability of debt levels.
- Another submission suggested that it's inappropriate to use net debt as a fiscal indicator as it is not fit for purpose. Although high levels of net debt are a concern for the economy, the issue should not be the priority at present given that the economic impact of COVID-19 is not yet fully realised.

Risks and uncertainties

- We received several submissions noting that, besides the earthquake scenario covered in the statement, other risks or uncertainties that could have a significant impact on the New Zealand economy could have been discussed. The shocks mentioned most were international commerce disruptions, ongoing COVID-19 challenges, changes to global political dynamics, and potential volcanic eruptions. One submission asked how fiscally resilient we are given the realistic possibility of concurrent shocks, for example a situation where New Zealand is managing the impact caused by COVID-19 as well as higher inflation rates or an earthquake. There was also a comment that the statement refers only to negative shocks but does not consider any positive shocks that can improve fiscal sustainability (for example, technological change or an improvement in labour force participation rates).

Topic selection and broader context

- A few submitters commented on the limited selection of topics chosen for discussion in the document given the wide range of major concerns and strategic choices the country will need to face in coming years. While it was acknowledged that it would not be feasible to capture all the significant issues, they nevertheless thought the statement's focus was too narrow and it would be useful to include more context on the scope and purpose of the statement.