

An aerial photograph of a valley in New Zealand. In the background, there are large, rugged mountains with some snow patches. The middle ground shows a town with many houses and buildings, surrounded by green fields and trees. To the right, there is a large, blue lake. The foreground is a steep, grassy hillside with some trees and a rocky outcrop.

The New Zealand Initiative
RESEARCH PLAN FOR

2017
—
2020

**THE
NEW ZEALAND
INITIATIVE**

FOREWORD

The New Zealand Initiative's 2015–17 Research Programme tackled the tough big issues facing New Zealand, particularly in education, housing, inequality and immigration.

We showed that hardship and inequality were largely driven by the country's housing dysfunction.

We offered a new direction for local government reform.

We demonstrated that New Zealand can do a better job in measuring and improving school performance.

And we summarised all our research findings and policy solutions in Manifesto 2017.

The Initiative also helped frame a more policy-focused 2017 election around housing and immigration.

Our 2017–20 Research Programme aims to shape the policy agenda for the 2020 election, and tackle the big issues facing the country.

We want better infrastructure and a stronger, more capable public service for New Zealand. We want superior educational opportunities

and prospects for our youth. And we want a better standard of living, a robust healthcare system, and a world-leading freshwater management system.

The programme reflects the policy issues we believe will matter most in 2020. If the 2017 election or other events take the country in a different direction, we will shift our focus accordingly. Manifesto 2020 will pull together our policy recommendations for the incoming government.

Thank you for your interest in our work. Together, we can produce a more informed and constructive policy debate, both during 2017–20 and in the lead-up to the 2020 election.



Dr Oliver Hartwich
Executive Director







RESEARCH PROGRAMME

The New Zealand Initiative is New Zealand's leading think tank.

The Initiative produces accessible, evidence-based research (available in print and online) with a focus on policy areas we believe are vital for a free and prosperous New Zealand.

Our researchers appear in the opinion pages of the country's leading newspapers and online magazines, including a weekly column in the *National Business Review*. They also regularly comment in their areas of expertise, both through media releases and as go-to experts on radio and television.

Our recent publications include:

- A series on local government incentives to improve housing affordability
- A study of poverty and inequality in New Zealand, and the role of housing costs
- A series on better measuring and improving school performance, and
- A set of reports on ensuring the sustainability of New Zealand's recreational fisheries.

We host forums in which our members – the CEOs of New Zealand's major companies – discuss policy and regulatory issues. We brought our members on a policy mission to Switzerland, to study its localist approaches to policymaking. We also facilitate public addresses by leading national and international speakers, and host an annual debating tournament.

A great little country like New Zealand needs a great little think tank. We promote innovative policy solutions that help keep New Zealand a few steps ahead of the rest of the crowd.



Opportunity is lost when people are forced to choose between overcrowded housing near employment and living in places with poor work choices. Regions with substandard transport links are being left behind. In the Auckland area, bottlenecks in transport and water infrastructure have contributed to the housing affordability crisis. Indeed, one reason Auckland has failed to zone sufficient land either for 'building up' or for 'building out' is inadequate infrastructure financing.

A robust and cost-effective infrastructure network is key to building and maintaining opportunity.

But developing New Zealand is not just about transport and housing infrastructure. Our public sector infrastructure also needs attention.



Our Research

Transport Infrastructure

In the first of a two-report series, we will explain the state of our transport infrastructure – road, rail, shipping and air networks – and the vulnerabilities inherent in New Zealand's geological environment. The second report will assess a robust, cost-effective transport system for an earthquake-prone country.

We will also consider infrastructure financing for road, rail, shipping and air networks. To what extent should users cover infrastructure costs? What is appropriate cost-sharing between the Land Transport Fund and local councils, and how should the fund prepare for the rise of electric cars? Can policy changes unlock opportunities?

A Policy Infrastructure for Affordable Housing

New infrastructure financing methods can unlock land for new housing, reducing costs. Developers abroad fund local infrastructure through a bond issue repaid by a special ratings area established for the development. This allows new developments to cover their own infrastructure costs (without triggering council debt constraints), unlock new housing, and reduce costs. A Research



“The Investment Approach also requires a rethinking of traditional vote allocations for cross-cutting projects, with incentives for ministries wishing to protect their own budgets”

Note will accompany this report to provide a practitioner’s guide: best practice for infrastructure financing given current policy settings, and policy changes needed for more effective financing.

A subsequent report will list the other factors that need reform to restore housing affordability. Even if infrastructure and land use policy were set perfectly, other barriers would remain. We will look at those barriers: the *Overseas Investment Act*; constraints against importing building materials; visa constraints on foreign construction workers; councils’ duty of care and liability; and the costs imposed by New Zealand’s regulatory approval processes. Fixing land use and infrastructure planning will help substantially. But if other critical barriers remain, we will miss our opportunity.

Quality Infrastructure for Public Service

Enabling social service innovation: Performance contracting and budgeting

The Initiative, and the New Zealand government, have great ideas for harnessing the power of big data and civil society for emerging social issues. But a critical problem needs attention: lack of basic capabilities in writing contracts.

The government’s Investment Approach outsources service provision to community groups able to deliver outcomes. But this requires the government to negotiate contracts based on performance, through contracts with performance-based compensation or contracts subject to renewal on meeting targets. But inadequacies in government’s ability to negotiate performance-based contracts and monitor outcomes limit the initiative’s potential.

The Investment Approach also requires a rethinking of traditional vote allocations for cross-cutting projects, with incentives for ministries wishing to protect their own budgets.

Our report on social impact bonds suggested radical and innovative reform to social service delivery. But it cannot work unless the government is able to write outcome-based performance contracts.

We will examine the government’s recent record in performance-based contracting and make recommendations to strengthen capabilities.



The Weight of the State

The size of government is often measured by government's share of Gross Domestic Product, or by the fraction of workers employed by government. Growth in spending has been limited under the *Fiscal Responsibility Act* to projected revenues. Caps on ministries' employment have restricted employment in the public sector. But government then has incentive to achieve its objectives by choosing regulation rather than spending, and by hiring contractors rather than employees.

We will develop a broader measure of the size and scope of government to provide a better picture of the state's current role in the economy – and opportunities for improvement.

Protecting the Privileged?

New Zealand's labour laws offer a great deal of protection for workers against employers exercising unfair power over employees. Those protections may have their place, but should they apply to contracts between companies and highly paid professionals?

We will examine the case for exempting managers and other professionals with earnings in the top 10% from the *Employment Relations Act*, reverting to law of contract. Legislation is already being considered by Parliament to allow workers earning over \$150,000 per year to contract out of personal grievance provisions.

Governance

Governance has not been an area in which New Zealand's public entities have fared well recently. We will examine the state of governance in two key sectors: local government and commercial regulators.

We will assess the evidence to support a 'best practice' model for governing the various commercial regulators and improvements in the quality of regulatory decision-making, regulatory efficiency, respect for regulators, and overall welfare.

Together, these entities control a substantial part of the economy. If their governance is weak, the country misses big opportunities.



SCHOOL

High-quality schools that adapt as the world changes are critical for building opportunities for the next generation. It is important for children and parents, and it is important for ensuring a thriving democracy, a capable, high-quality workforce and ambitious entrepreneurs for the years ahead.

The Initiative's work in education has identified a growing gulf between international and national data on performance. It has also found severe inadequacies in how the education system identifies and addresses failure, measures and manages performance, and spreads success. We found teacher quality and school leadership to be of fundamental importance. We need to nurture great schools and principals so that excellent practice can be disseminated across the system.

Our work identified excellent international practice in finding out what works, achieving high performance, and developing systems that swiftly identify and address poor performance.

Our research plan builds substantially upon that work, aiming for a collaborative school system empowered by sound incentives.

Our Research

We will pursue two complementary streams of research. The first will examine the overall structure of the education system and how it can be improved. The second will use Statistics New Zealand's Integrated Data Infrastructure for better education outcomes.

Assessing the Curriculum

NCEA is relatively well-embedded in secondary schools, but few parents understand all the options. What is taught in the schools, and how does it relate to our international education rankings? How does the curriculum and the assessment regime balance domain-specific knowledge with generic skills? And does NCEA provide universities with the information they need to select students?

NCEA is advertised as providing tailored options to fit students' circumstances, but critics argue the wide array of options does a disservice to many students. The weight given to internal teacher assessments will be examined with respect to validity and impact on module choices, particularly across schools in different deciles. We will also assess how the curriculum compares internationally.

Zoned Out

School zones substantially constrain student choices. When high-performing schools cannot grow to meet demand, zoning ensures that children can attend the neighbourhood school. While that is laudable, it also generates a highly inequitable consequence: bidding up the price of housing near desirable zoned schools and locking the poor out of the best public education. We will assess the alternatives that can help build a more equitable system for all students.

Tomorrow's Schools

Education reforms in 1989, titled *Tomorrow's Schools*, created a highly decentralised school system. Boards could make substantial decisions about the running of schools. While some autonomy has since been unwound, our school system is still among the more autonomous internationally. But *Tomorrow's Schools* has been critiqued for providing inadequate support for boards, leading to underperformance in some schools. This report will investigate how to make school autonomy work.

School Funding

National has promised to drop the decile-based funding formula. We will look at key questions in school

funding. How much does it cost to educate New Zealand students, both annually and over the course of the student's education? How does the funding formula account for differences in funding rates for schools serving different communities? Does funding follow the pupil, and if not why not? Does additional money for disadvantaged children reach intended recipients in a meaningful way?

How has funding changed over time? Why was bulk funding introduced and then overturned, and with what effect? Do parent subsidies create barriers to some families? How are Partnership Schools being funded? What fraction of education expenditure reaches the classroom, and how much stays in Wellington? Do principals and boards have the budgetary authority necessary to run their schools? How much is ring-fenced? What freedoms do principals have to pay staff as they see fit?

Co-optation Among Schools

There is a tension between cooperation and competition in an autonomous school system that encourages schools to share best practice, but funding arrangements also make schools vie for students. Can the two be reconciled? What collaboration have we achieved

so far? What if schools were more closely networked? We will look at the co-optation model within school networks.

Better Data for Better Education

Teacher Quality

There is a broad understanding that quality education requires quality teachers. We will examine teacher qualifications, with a focus on numeracy. The Initiative's earlier work showed teacher numeracy may be a barrier to New Zealand's performance in international maths rankings. This report will further examine the numeracy capabilities of our teachers: how numerate they were as undergraduates, what they learned at university, and how this has changed over time.

We have a ground-breaking project approved with Statistics New Zealand to directly link students' records from secondary school to their choices in tertiary education, then employment. It will help us build a numeracy profile for those entering teaching colleges, graduating, and becoming teachers. How much maths education do our teachers have? How has it changed over the past decade? Is the profession attracting the calibre of candidates it needs?



Two subsequent projects will build on the data work established in the first Research Report.

Rewarding Performance

Parents' use of decile rankings as indicators of school quality has had detrimental effects for the school system. NCEA league tables also fail in telling parents about real school quality: a school serving disadvantaged students and achieving a 70% NCEA completion rate may be strongly outperforming a school achieving an 87% completion rate for the children of rich and highly educated parents.

We can build a better measure of school performance that is sensitive to the students and families each school serves. Demonstrating

performance across schools when holding constant a range of student background characteristics will encourage a change in thinking about school performance. Parents can and should demand more and better information about their school's quality - information we will demonstrate the Ministry could provide if it wanted to. The Initiative's prior reports have suggested harnessing such data for teacher and school evaluation. We will now show how it can be done. This work is conditional on Statistics New Zealand IDI approval.

Guiding Tertiary Choices

Does tertiary study pay off for all the students who enrol, or could students do better by making different choices between

university degrees and trade diplomas? MBIE provides career advice showing employment and salaries in different professions, but it doesn't help a weak student to know that engineers earn a lot. Students need to know what opportunities are best for them.

We will show whether the tertiary system is providing the right mix of options, and how they pay off relative to one another. The Integrated Data Infrastructure helps compare students with similar grades and backgrounds, but making different choices in post-secondary education. Would students with a weak bachelor's degree be better off if they had chosen a trade? What does this mean for tertiary education funding? This work is conditional on Statistics New Zealand IDI approval.

A Better School System

Our final report will provide a capstone for our education policy research programme. We will show how a better school system would operate, with a focus on school and student funding arrangements, effective school and student choice, and a performance management structure encouraging the best possible outcomes so schools can give students the opportunities they deserve.



BETTER OPPORTUNITIES FOR BETTER LIVING

A cost-effective and quality healthcare system is vital for New Zealand as the population ages. How does New Zealand's mixed system hold up? Poor health outcomes constrain people's choices. But an inefficient health system constrains opportunities by consuming resources that could be better used.

Reports in this series will also take on other policy reforms to encourage better living, including a cleaner environment, stronger financial literacy, more vibrant cities, and an effective drug policy.



Our Research

Healthcare

We will first examine access to pharmaceuticals. Pharmac seems to be the best-functioning part of New Zealand's healthcare system, keeping drug costs down. But it has come under increasing pressure as newer drugs available overseas are being kept out of New Zealand. This has encouraged lobbying for drug scheduling.

We will evaluate the effectiveness of the Pharmac model and pharmaceutical access more broadly. How do other countries handle drug access in public health systems? What role does private insurance play in filling gaps left by Pharmac funding?

In two subsequent reports, we will provide an overview of the healthcare system and draw policy conclusions to ensure New Zealand's health system can provide the level of service and innovation the country needs. The DHB model facilitates interesting experiments, and Canterbury DHB in particular has introduced several service innovations. Do DHBs learn from each other? Which practices are particularly effective? Is the system cost-effective? Are there opportunities for greater innovation and dissemination of good practice?



And what lessons can the Pharmac model provide for other parts of the health system?

Freshwater Management

New Zealand faces two large problems with freshwater management: allocating drawing rights from rivers and aquifers, and dealing with agricultural effluent. Taupo's nutrient management regime is a promising way of mitigating the costs of more intensive dairying. How does it work? What have the outcomes been? What lessons can be drawn for other catchments?

Rand Corporation researcher Dr Fritz Raffensperger has developed a smart markets system for tradable water drawing rights on the Canterbury plains that protects environmental quality; we will evaluate and build on his work.

We will consider New Zealand's opportunities in better freshwater

management. Together, mechanisms ensuring that water flows to its highest valued uses and that effluent is dealt with efficiently would improve New Zealand's environmental and economic performance.

Opportunities in the agricultural sector will dry up if we cannot better manage our freshwater resources - and so will our children's opportunities to swim in New Zealand's rivers.

Regulation of the Night-Time Economy

This report stands at the intersection of our expertise in local government and our interest in civil liberties. Police and local government have been in increasing conflict over regulating the night-time economy, with police calls for earlier closing hours. On the other hand, some cities have embraced nightlife. Amsterdam, for example, has appointed a

'night mayor' to facilitate relations between businesses, residents and government. Rather than placing the burden of law enforcement solely with police, private security is employed to maintain the peace. Why does this matter? New Zealand's cities cannot advertise themselves as attractive, vibrant places for tourists and young professionals if regulation of the night-time economy results in towns closing at 2am.

We will explore different overseas frameworks for managing the night-time economy and relations between police and local government.

Financial Literacy and Financial Advice

There is an assumption that New Zealanders do not know much about money or retirement planning, and that government should be involved. The Commission for Financial Capability

was established to “lift the financial capability of all New Zealanders aged 5 to 105”. The Commission is involved in a range of programmes to prepare New Zealanders from school-level to adulthood for retirement. Meanwhile, financial advice regulations have been tightened to protect consumers.

We will examine adult financial literacy in New Zealand, and whether it has improved since the Commission. We will also discuss the implications of low financial literacy, including the influence of default conservative KiwiSaver portfolio allocations, and suggest improvements. Particular attention will be paid to the potential risks and benefits of robot advisers. Finally, we will look at the regulations on who can give advice, what advice they can give, and what consumer protections are necessary. Do current structures build or hinder opportunities for an ageing population?

Prohibitions

The legislative prohibition on prostitution ended over a decade ago. Was it successful? What lessons can we draw for other prohibitions on voluntary activities among consenting adults? This report will consider the costs (and benefits) of drug prohibition, and will assess the likely costs (and

benefits) of more liberal regimes. While cannabis has been the focus of most public discussion and general acceptance, our report will consider liberal regulation more broadly.

We will assess whether prohibitions build opportunities for youths by keeping them away from dangerous paths, or whether they build opportunities for criminals finding profit in illegal markets.

Northland Elegy

J.D. Vance's *Hillbilly Elegy* provided an anthropological account of life among the working and non-working poor in an Appalachian town. It was heralded as best explaining Donald Trump's appeal in many states. Vance provided a sympathetic – and realistic – appreciation of the role of culture in poverty, as well as a balanced view of welfare creating a safety net *and* perverse incentives.

New Zealand needs this kind of account of life in the bottom quartile. But producing it would require a researcher able to approach the topic the same way Vance did.



“New Zealand's cities cannot advertise themselves as attractive, vibrant places for tourists and young professionals if regulation of the night-time economy results in towns closing at 2am”



I had high expectations when I joined The Initiative in 2014; the team surpassed them in our last research programme.

We substantially shifted the debate around housing and inequality, making better policy possible. We also were nimble, picking up new opportunities when the time was ripe. In doing so, we helped fix New Zealand policy around live organ donor compensation.

Our forthcoming research plan is even more ambitious. We will be flexible and adapt to the policy environment after the 2017 election. This research plan provides our best forecast for the areas we can make the most difference, but we will adapt if other areas need our attention.

We aim to provide not only the evidence needed to build solid policy recommendations, but also communicate that evidence to the public so that good policy can be good politics. And we aim to provide policy recommendations an incoming 2020 government can pick up and implement for a better New Zealand for all New Zealanders.

Dr Eric Crampton
Chief Economist

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