



The Quest for Prosperity:

HOW CAN NEW ZEALAND KEEP LIVING
STANDARDS RISING FOR ALL?



ONE DOLLAR

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Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that influence the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.

About the Legatum Institute Foundation

The word 'legatum' means 'legacy'. The Legatum Institute Foundation is focused on tackling the major challenges of our generation—and seizing the major opportunities—to ensure the legacy we pass on to the next generation is one of increasing prosperity and human flourishing. The Legatum Institute Foundation is an international think tank based in London. Our work focuses on understanding, measuring, and explaining the journey from poverty to prosperity for individuals, communities, and nations.

Our pursuit of prosperity goes beyond the material. We believe that true prosperity is a combination of economic and social wellbeing. Our annual **Legatum Prosperity Index™** uses this broad definition of prosperity to measure and track the performance of 149 countries of the world. For a decade The Prosperity Index has been offering a unique insight into how prosperity is forming and changing across the world. Based on an updated methodology developed over the last 2 years with input from world leading advisers including Nobel Laureate Angus Deaton it measures global prosperity covering a variety of categories: Economic Quality, Business Environment, Governance, Education, Health, Safety & Security, Personal Freedom, Social Capital, and the Natural Environment.

The Prosperity Index is a powerful tool that shows us how prosperity is forming and changing around the world. This provides a greater understanding of those nations that are becoming more prosperous as well as those that are becoming less prosperous and, crucially, what lessons we can draw from them.

Our research work, born out of our metrics, identifies and advocates for policies and practices that move individuals, communities, and nations from poverty to prosperity. Our analysis and our policy solutions are founded on robust evidence.



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Foreword

The concept of prosperity is an important one for Chartered Accountants. In our day-to-day work we make essential contributions to the wealth and wellbeing of our communities and our country. The quest for prosperity unites us all.

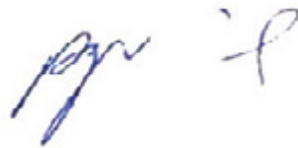
This paper examines New Zealand's prosperity – where are our strengths, where are we falling behind and what do we need to do to keep living standards rising for all? It does so from an international perspective, drawing on the work of the Legatum Prosperity Index and other sources.

The findings show New Zealand has much to be proud of. We are masters of doing a lot with relatively little. However, this paper also points to three major challenges to our future progress – housing, inequality and global competitiveness.

Our aim is to assist whoever is in government after September 2017. We urge the members of that government to be bold in their thinking.

The Quest for Prosperity: How can New Zealand keep living standards rising for all? is part of our *future[inc]* series. It seeks to stimulate public policy discussions about how we plan for our long-term prosperity.

Please read this paper and join the debate.

A handwritten signature in blue ink, appearing to read 'Peter Vial', is positioned above the name and title of the author.

Peter Vial CA

*New Zealand Country Head
Chartered Accountants Australia
and New Zealand*

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Executive Summary

National success is about far more than just GDP. It is about a healthy and happy life, a good education for our children, a clean and protected environment, family and communities we can rely on, a safe place to live, opportunities to start a business or get ahead, and the freedom to be who we want to be. This is true prosperity.

In lifting living standards, securing economic and social progress, or put simply *delivering prosperity*, New Zealand has seen much success over the past decade.

It topped the Legatum Prosperity Index™ (the Prosperity Index) in 2016 principally due to its strong social capital and the openness of the economy. It has also recorded the largest prosperity surplus – delivering more prosperity than its wealth would suggest – for the past decade.

This paper is a data-led contribution to the debate on what is needed to keep living standards rising. It first examines the strengths of New Zealand's prosperity through the lens of the

Prosperity Index, and the areas where, in comparison to international peers, further improvements can be made.

By focussing on living standards and economic growth, New Zealand has the right approach. However, while New Zealand tops the Prosperity Index it cannot afford to be complacent. The challenges to prosperity for the next generation are such that government needs to be much bolder in tackling the issues that threaten prosperity.

We identify three key challenges in keeping future prosperity growing for **all** New Zealanders.

Summary of New Zealand's performance

Sub Index	Explanation of measure	Rank 2016	Change since 2007
Economic Quality	Openness of economy, macroeconomic indicators, foundations for growth, economic opportunity, and financial sector efficiency.	1	+2
Business Environment	Entrepreneurial environment, its business infrastructure, barriers to innovation, and labour market flexibility.	2	+9
Governance	Effective governance, democracy and political participation, and rule of law.	2	+3
Education	Access to education, quality of education, and human capital.	15	-7
Health	Basic physical and mental health, health infrastructure, and preventative care.	12	+6
Safety & Security	National security and personal safety.	18	-1
Personal Freedom	National progress towards basic legal rights, individual freedoms, and social tolerance.	3	-
Social Capital	The strength of personal relationships, social network support, social norms, and civic participation in a country.	1	+2
Natural Environment	The quality of the natural environment, environmental pressures, and preservation efforts.	13	-11

1. **Inequality, particularly in education, threatens future prosperity in low income, Māori, and Pasifika communities, especially as technology changes the nature of work.** Many of these issues are linked and their impacts are not equally felt. Bolder action will mean redefining the core skills that the education system teaches and tackling enduring education inequalities so that disadvantage is not entrenched for a generation. It will mean addressing housing unaffordability to ensure that New Zealand's strong society is not eroded. It will mean better protecting the environment, empowering local government to drive regional growth, and working to build New Zealand's future export markets.
2. **Falling housing affordability threatens to erode New Zealand's strong social capital (a measure of how strong society is). This could affect the country's ability to secure rising prosperity for an ageing society.**
3. **Globalisation means that New Zealand must continually improve its competitiveness if it is to see prosperity grow. In particular this includes increased protection of the environment, which is critical to New Zealand's brand overseas.**

Perhaps the biggest challenge of all is that many of the threats to prosperity are not universal. Prosperity is not felt equally across New Zealand and neither are the challenges. This paper is the story of what New Zealand needs to do to keep living standards rising for all. It is the celebration of New Zealand's areas of competitiveness and a warning for areas where New Zealand is falling behind. It is a contribution to help whoever is in government after the General Election in September 2017 make the decisions needed to keep New Zealand moving forward. We urge that government to be bold. The Prosperity Index has charted New Zealand's success over the last decade. We hope this paper proves helpful in making the next decade even more prosperous for all New Zealanders.

	Considerations for government:	Questions for business:
Inequality in education	<ul style="list-style-type: none"> • Raise the school leaving age to close the retention rate gap for low income, Māori and regional communities. • Invest in alternative streams of higher education that teach desirable non-academic skills. • Develop a post-16 education system that explicitly looks to teach skills that reflect the disruptive technology challenge. 	<ul style="list-style-type: none"> • How does disruptive technology affect your workforce and what can you do now to invest in upskilling? • How can you work with government to fund more opportunities and training schemes for lower-skilled workers? • Could you develop and offer your own targeted apprenticeship scheme to help close the opportunity gap for young Māori or Pasifika New Zealanders?
Housing affordability	<ul style="list-style-type: none"> • Reform the Resource Management Act to ease restrictions on home building. • Support regional growth through infrastructure investment to ease housing pressures in major cities. • Develop further schemes to help those priced out of the market. • Undertake a review of the tax settings for property. 	<ul style="list-style-type: none"> • How can you support employees affected by rising housing costs (e.g. flexible or home working allowing them to move further out of town)? • Can your business contribute by developing or supporting a social enterprise with your expertise?

**Global
competitiveness:
The environment
and trade**

Considerations for government:

- Protect and strengthen New Zealand's green credentials.
- Examine existing barriers to service export growth to widen the export mix.
- Assess the future role of local government and develop a sustainable devolution and funding model that supports internal competition and innovation at a local level.
- Develop a long-term skills strategy for immigration.

Questions for business:

- What can your business do to contribute to environmental protection?
- What are the barriers to greater exports in your industry?
- What talent do you need to attract and invest in now to thrive in the long term?
- How does local government enable or constrain business growth in your local area?



1. Introduction

“Wealth matters, but as a means not an end. Wealth is only useful if it translates into higher living standards for everyone.”

On traditional measures of national success, New Zealand is a strong performer. In 2016 it was one of the few OECD nations to run a surplus, government debt is well below the OECD average, and unemployment is low.

This is where the success or failure of most nations stop: an ultimate focus on GDP. As argued earlier in the *future[inc]* series, GDP remains the measure of choice when it comes to assessing national progress, even though it is insensitive to much that a nation truly values.¹

New Zealand is a thought leader in this respect. The New Zealand Treasury, in developing their Living Standards Framework (see box), has initiated a shift of focus.² Wealth matters, but as a means not an end. Wealth is only useful if it translates into higher living standards for everyone. This has also informed an important shift in its policy approach, away from a traditional focus on public spending towards capital investment to secure a long-run

return in the form of higher living standards.

Alongside New Zealand’s national progress indicators, *Tupuranga Aotearoa*³, that include both economic and social measures, the Living Standards Framework is an important step towards policy-making and accountability that focuses on securing broader progress for New Zealand.

However, progress is not made or lost in isolation. Globalisation has meant that rising living standards not only depend on lifting outcomes at home, but also on improving international competitiveness. This is particularly important to a small, open, trading economy like New Zealand, and current progress measures do not offer this international comparison.

TOWARDS NATIONAL PROGRESS: THE LIVING STANDARDS FRAMEWORK

New Zealand is one of the few OECD nations who have made a clear commitment to the development of a measure of, and approach to, national progress that goes beyond GDP.

The NZ Treasury have developed the Living Standards Framework, a five dimension approach that includes a broad range of material and non-material factors that impact on wellbeing. At its heart are four critical sources of capital that New Zealand should be investing in to lift living standards: economic (financial and physical), natural, social, and human.

“Our vision is to be a world-class Treasury working for higher living standards for New Zealanders. By living standards we mean much more than just income or GDP.”

In this paper we consider New Zealand’s national progress through the lens of the *Legatum Prosperity Index™*. The Prosperity Index looks at both economic and social progress in 149 countries globally through nine pillars (right), using both objective and subjective data to capture the full richness of a truly prosperous life. It is one of the few global indices to reflect both the creation of wealth, and its use, adding an international dimension to the Treasury’s own approach to wealth as an important means to a broader end.

Developed economies across the world face many common challenges as they try to keep prosperity rising for their people: inequalities persist, populations are ageing, and automation is threatening jobs. New Zealand shares these challenges, and as a small economy so dependent on its interactions with the rest of the world for its success, being in a strong position to face these challenges is important to secure prosperity for the future.

The end we strive for - higher living standards, economic and social progress, or put simply *prosperity* – is one that has to be fought for, even at the top of the rankings.



Figure 1: Pillars of Prosperity.

02

Prosperity in New Zealand: Measuring the last decade





In 2016, New Zealand ranked 1st in the Prosperity Index and has ranked 1st for six of the last ten years. Underpinning this impressive performance is an unrivalled ability to turn the wealth generated by the economy into prosperity for New Zealanders (see box).

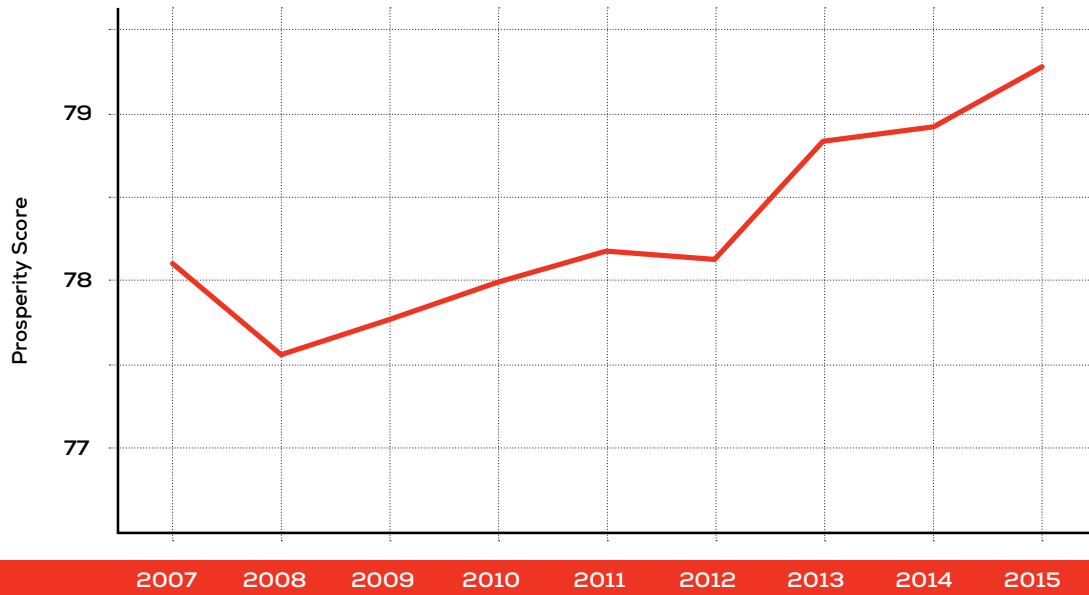


Figure 2: Prosperity in New Zealand 2007-2015.

New Zealand has seen prosperity rise in real terms since 2007. It shares strong structural foundations of prosperity with other developed Commonwealth peers. Its free and open markets have pushed it to 1st for Economic Quality, and it has the highest level of social capital (a measure of how strong society and communities are) in the world.

New Zealand has built on these foundations since 2007, delivering a sharp improvement in areas like the Business Environment and Health.

Sub Index	Rank 2016	Change since 2007
Economic Quality	1	+2
Business Environment	2	+9
Governance	2	+3
Education	15	-7
Health	12	+6
Safety & Security	18	-1
Personal Freedom	3	-
Social Capital	1	+2
Natural Environment	13	-11

WHY GDP DOESN'T ALWAYS MATTER: EXPLAINING NEW ZEALAND'S SUCCESS

With a comparatively low GDP per capita, New Zealand is a testament to the fact that GDP itself does not matter as much as what you achieve with it.

At USD \$37,575 per head, New Zealand's GDP per capita is just 71% of the top 20 average. Yet it has always sat in the top five for prosperity.

Globally, the Prosperity Index finds that wealthier countries tend to be more prosperous as they are able to invest more in factors that contribute to prosperity such as health or education.

Yet New Zealand has always stood out for its ability to turn the wealth generated by its economy into prosperity for its people. This is because of strong structural foundations: free markets, high levels of personal freedom, and a strong society. The result is a country that is 44% more prosperous than its GDP would suggest in 2016. This is the largest prosperity "surplus" in the world, and has been for the past decade. Prosperity need not depend on rising GDP alone, but can come from using existing income better.

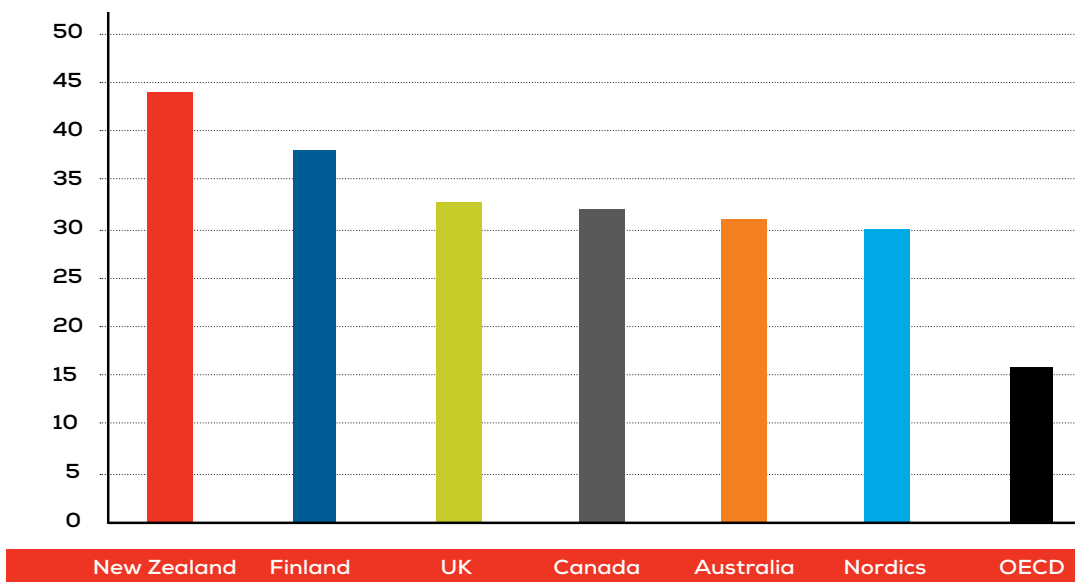


Figure 3: Prosperity surplus (top 5 largest and comparison groups), expressed as a % of expected prosperity level.

However, prosperity growth has been slower than the OECD average and slower than key peers like the UK. Despite being top, there remains room for improvement. New Zealand cannot afford to be complacent.

This section will look at prosperity in depth area by area. It will consider the strengths of New Zealand's prosperity over the past decade and identify areas where improvement is needed.

SCORING PERFORMANCE SINCE 2007: THE SCORECARD



We have compared New Zealand to a group of 32 high income OECD peers along with Hong Kong and Singapore. We look at New Zealand's rank in 2007 and in 2016 against these peers for each variable.

We consider New Zealand's competitiveness on each measure, defined using the standard deviation within the peer group. Competitive (green) indicates that New Zealand is within one standard deviation of the peer leader. Uncompetitive (red) shows that New Zealand is within one standard deviation of the lowest ranked peer. Amber puts New Zealand in between the two.

Progress is scored based on the real change in New Zealand in absolute terms since 2007. Green = the measure has improved. Amber = it has stayed largely the same. Red = the measure has seen decline over the past decade.

Defining the prosperity rankings

The rankings in this report are based on a comparison group made up of 34 countries mentioned above, not the 149 countries from the global Prosperity Index. In most cases however, the top 34 countries in the global Prosperity Index are comprised from the countries in this comparison group.

We have developed a scoring system for this report to give a clear visual indication of progress.		
Score	Measures how well NZ performs relative to other peer countries (wider peer group identified as OECD plus Singapore and Hong Kong).	
	Competitiveness is based on a standard deviation of NZ's value from the max and min values.	
	Progress measures the real terms change in New Zealand since 2007 to chart the direction of policy travel within the country.	
Green is positive or good	Amber is no change or average	Red is negative or poor

The data used in this report was the latest available at the time of publishing the 2016 report. The data that was used to determine the 2016 rankings was based primarily on data collected in 2015 because this was the latest data that was available. Because of this many of the graphs show years running from 2007 to 2015 (not 2016). We have decided to do this to show progress at the time data was collected, rather than at the time the data was available.

Economic Quality

The Economic Quality sub-index ranks countries on the openness of their economy, macroeconomic indicators, foundations for growth, economic opportunity, and financial sector efficiency.

Rank 1st (up two places since 2007)

1st New Zealand

2nd Netherlands

3rd Sweden

4th Switzerland

5th Germany

Prosperity requires an economy capable of not only delivering growth, but good

quality, sustainable and equitable growth to its people. This sub-index includes traditional economic indicators like unemployment, but also measures of economic opportunity.

The Global Financial Crisis saw Economic Quality fall into sustained decline across developed economies. Within the top 20, only Singapore has risen above its pre-crisis peak.

However, over the last ten years, New Zealand has emerged as a global leader,

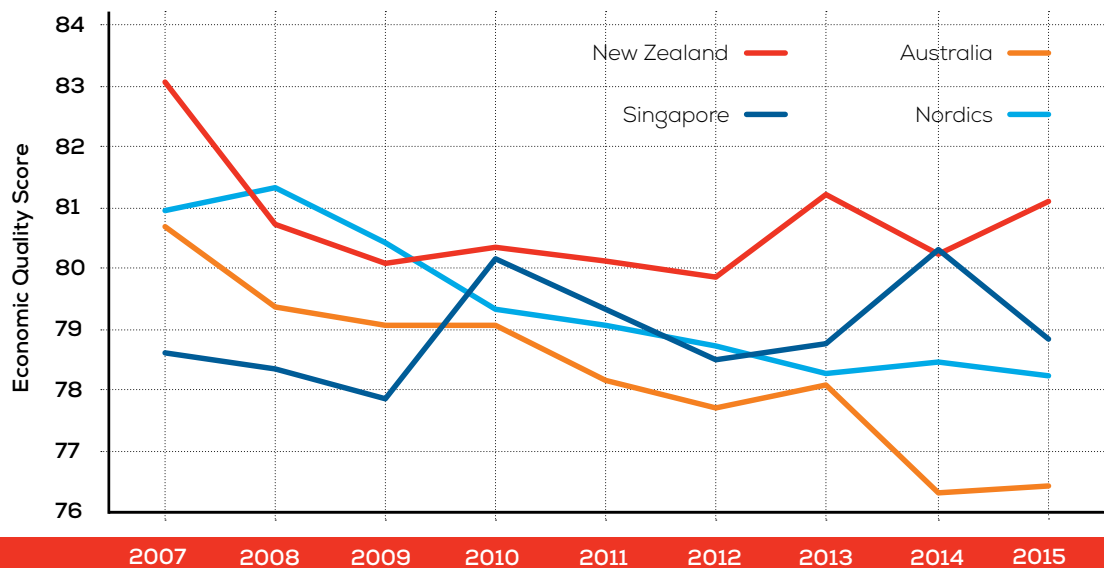






Figure 4: Change in Economic Quality performance since 2007.

Scorecard









Economic openness

New Zealand is one of the world's top performers on this measure, but has been declining alongside the rest of the world since 2007.

Variable	Rank	Competitiveness	Progress
Trade barriers	3 (-2)		
Anti-monopoly policy	4 (+1)		





Foundations for growth

New Zealand is less competitive in this area, a concern for its ability to deliver a competitive rate of growth in future. Progress in this area has been mixed.

Variable	Rank	Competitiveness	Progress
Export diversity	23 (+1)		
Export quality	33 (+1)		
Labour force participation	7 (+1)		
Female labour force participation	10 (-1)		











Macroeconomic indicators

While unemployment has risen from a very low level in 2007, it is still low in comparison to other countries in 2016.

Variable	Rank	Competitiveness	Progress
5 yr GDP growth	13 (+6)		
Unemployment	10 (-3)		

Economic opportunity

This is a key area of strength for New Zealand, with strong competitiveness and good progress. The only area for improvement is relative poverty or inequality.

Variable	Rank	Competitiveness	Progress
Feelings about household income	3 (+7)		
Financial engagement	3 (-)		
Standard of living	4 (+2)		
Absolute poverty	1 (-)		
Relative poverty	22 (-)		

rising above both those countries more affected by the crisis, and those like Australia that were less exposed.

New Zealand's competitive edge in this sub-index predominantly comes from its economic openness and opportunity. However, there is still room for improvement. If New Zealand is to remain economically competitive to deliver rising living standards long term, then: economic openness must be defended against a global trend toward protectionism; more needs to be done to ensure gaps in economic opportunity across ethnic and income lines continue to close; and greater investment must be made in improving core foundations of growth.

Trade barriers

Increasing obstacles to trade are a threat to New Zealand's prosperity long-term.

Free trade matters for the wealth creation needed to drive prosperity. New Zealand's free and open markets are reflected in its third and fourth rank for non-tariff trade barriers and anti-monopoly policy respectively. However, in line with global trends, New Zealand businesses are encountering these barriers with increasing frequency elsewhere, raising a red flag for progress.

While not a fair response to New Zealand's own policy, it reflects the growing prevalence of non-tariff measures (NTMs)⁴, for example customs delays, in key export markets. Estimates put the cost of NTMs in the APEC region alone at three times the cost of formal tariffs. For New Zealand exporters, this equates to nearly US\$6bn and growing.⁵

It is unsurprising then that businesses favoured faster customs clearance over

new FTAs when asked about desired policy towards trade.⁶ Globally, New Zealand ranks just 55th in the World Bank's measure of trading across borders. The average cost of export is 41 hours and US \$404 and the average cost of import is 26 hours and US \$447. The majority of the costs come from border rather than documentary compliance.⁷

New Zealand already pursues policies like authorised economic operators (AEO) programmes to lower NTMs at the border. As a result, New Zealand exporters were three and a half times less likely to see their goods held for examination upon entry to the US than Australia, despite Australia's FTA with the United States.⁸ The expansion of such programmes to cover a greater percentage of exports with a greater number of trade partners would have a real economic effect for exporters.

Foundations for growth

A focus on competitiveness.

New Zealand has produced a competitive rate of growth and low unemployment (though not as low as in 2007), but has not made much progress on laying foundations for the future growth needed to keep prosperity rising.

Developing a more complex and diverse economy (higher value activity spread across more sectors), and the exports to match, is a long-run project for New Zealand given its comparatively large primary sector. Diversification depends on innovation, something New Zealand is working hard to secure. This is reflected in initiatives like the Global Impact Visa, aimed at attracting high impact, innovative start-ups to New Zealand, and the work of NZTE in securing

investment and helping companies to grow internationally.

High labour force participation is important to drive growth. New Zealand may be just outside the group of peer leaders, but it has been making progress. Female labour force participation has been improving as government has introduced measures like shared parental leave payments and free childcare (though many parents face additional charges).

Poverty and economic opportunity

Improving but not reaching all.

One area for focus in New Zealand is poverty. The Prosperity Index measures relative poverty, defined as having less than 50% of the median income. With the proportion of the population in relative poverty sitting at just under 10%, New Zealand slips behind the Nordics (supported by the large state interventions of the Scandinavian model), although it remains in a better position than Australia. However, relative poverty has worsened over the last 25 years: in 1990, only 5% of the population were living below 50% of the median wage.⁹ Over the same time period, the number of households below 60% of median wage grew from 13% to 18%. Most of this growth took place in the 1990s.

For several years there has been sustained attention in New Zealand on child poverty in particular. A common statistic often cited is that, in 2015, there were 295,000 New Zealand children living in households whose income (after housing costs) was less than 60% of

the median.¹⁰ Of concern is that certain minority groups are over represented here – around a third of Māori and 28% of Pasifika children live in such low-income households, compared to 16% of Pākehā (European) children.

However, it's important to look beyond a relative poverty measure. The Ministry of Social Development has developed a list of 17 everyday essentials and services, such as suitable clothing, doctors' visits, and functioning appliances. Fourteen per cent (155,000) of New Zealand children go without 7 things on the list they need, and 8% (85,000) of New Zealand children go without 9 of the things on the list.¹¹ Around 75,000 children live in households reporting a major problem with dampness, mould, and heating in winter.

A prosperous society is one where everyone enjoys the fruits of economic growth. However, addressing the needs of those who are most vulnerable, particularly children, requires a common understanding of the nature of the problem. When understanding the nature of poverty, it is important to look at both relative measures alongside the actual level of material deprivation. Public debate and action needs to be shaped by commonly shared understandings of what New Zealanders understand poverty to mean. A good start would be building and reporting on a consistent measure of poverty that has broad-based support (the Children's Commissioner's Expert Advisory Group in 2012 recommended a child poverty measure).¹² This would help government and communities measure the success of their actions in reducing poverty.

Business Environment

The Business Environment sub-index measures a country's entrepreneurial environment, its business infrastructure, barriers to innovation, and labour market flexibility.

Rank 2nd (up nine places since 2007)

1st United States

2nd New Zealand

3rd Canada

4th Hong Kong

5th United Kingdom

Competitive, innovative, and diverse economies are best placed to deliver prosperity to their people. Much of this

depends on the health of a country's private sector. This sub-index looks at the environment required to start and scale businesses.

In 2011, there was concern within the New Zealand Treasury that New Zealand's business environment was struggling to stay competitive against a backdrop of the pursuit of aggressive business friendly policies around the world.¹³ At the time, New Zealand ranked seventh globally for Business Environment in the Prosperity Index, up from eleventh in 2007. However, it has since rocketed to second.

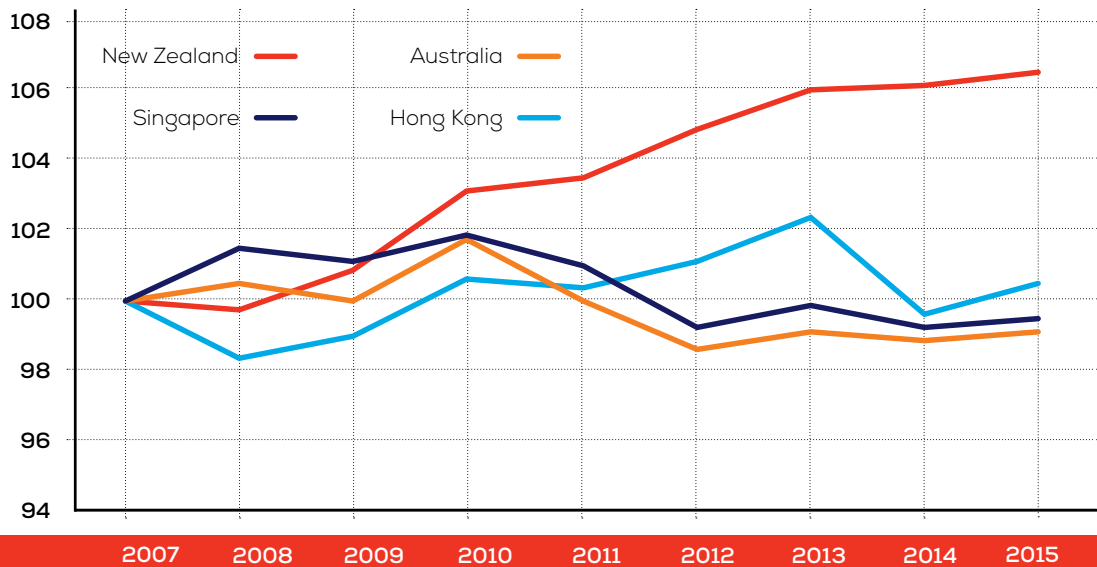








Figure 5: Growth in Business Environment performance (2007=100).

Scorecard







Entrepreneurial environment

This is a strong area of performance and progress for New Zealand.

Variable	Rank	Competitiveness	Progress
Working hard gets you ahead?	10 (+9)		
Good place to start a business?	21 (-1)		
Ease of starting a business	1 (+2)		









Business infrastructure

Better infrastructure is the only part of New Zealand's business environment where the country could do more to lift competitiveness. However, some progress is being made.

Variable	Rank	Competitiveness	Progress
Logistics Performance Index	22 (-3)		
Broadband infrastructure	17 (+3)		
Electricity costs	24 (+1)		





Barriers to innovation

The only challenge here has been the insolvency market, but recent reform led by insolvency practitioners and the Government will likely see New Zealand climb sharply in this area.

Variable	Rank	Competitiveness	Progress
Affordability of financial services	8 (+14)		
IP protection	5 (+8)		
Ease of resolving insolvency	26 (-9)		
Access to credit	1 (+1)		

Labour market flexibility

A flexible and competitive labour market is important in achieving business growth in New Zealand. Good progress has been made in this area.

Variable	Rank	Competitiveness	Progress
Redundancy costs	1 (-)		
Hiring and firing practices	14 (+6)		

New Zealand has outperformed both the OECD average and in particular regional peers in developing a competitive business environment over the past decade. This is the result of an improving entrepreneurial environment, with rising perceptions of opportunity and lower barriers to entrepreneurship. Further gains could be made by improving business infrastructure within the constraints imposed by New Zealand's geography.

Entrepreneurial environment and labour market

Strong performance for New Zealand.

New Zealand is a fundamentally better place to start a business than ten years ago, reflected in the progress made on the three indicators of entrepreneurial environment, and an increasingly flexible labour market.

Barriers to starting a business are the lowest in the world, there is only one registration procedure and this takes less than a day.¹⁴ As the country looks to attract more high growth entrepreneurs and businesses to fuel innovation, diversification, and economic growth, maintaining this strong entrepreneurial environment is important. Having risen from 55% to 60% since 2007, the proportion of New Zealanders who think the country a good place to start a business is improving. However, it is still far behind Sweden's 73%, and could be improved further through the expansion of existing grant and accelerator projects.

Business infrastructure

Investment needed to keep New Zealand's economy competitive.

Business infrastructure is the one area where New Zealand is not competitive when compared to peers. Unsurprisingly given the geographical challenges of reaching small populations outside urban areas, broadband access is a key issue.

However, investment by the Crown is likely to lift New Zealand's performance. The 2015 expansion of the Government's 2009 Ultra-Fast Broadband (UFB) programme to reach an additional 151 towns, covering 80% of the population by 2020, will secure further acceleration in this area. So too will the Rural Broadband Initiative (RBI), which aims to improve speeds using mobile technology for those outside UFB areas.

Investment has extended into other infrastructure projects, like the Waikato Expressway, aimed at driving regional economic growth and productivity gains, and more has been announced ahead of the 2017 General Election.

However, no progress has been made on improving the infrastructure that connects New Zealand businesses to global markets. New Zealand performs particularly poorly for the ability of businesses to obtain competitively priced freight services.¹⁵ This is largely a function of market size (smaller economies are less able to compete for shipping routes).

However, whilst United Nations Conference on Trade and Development (UNCTAD) data shows that the volume of shipping and air freight has increased, connectivity to global shipping routes (measured by the number and size of ships, frequency of services, and the number of companies operating) has not changed significantly since 2004.¹⁶

Not all of these challenges are the result of size and location. The lack of competition to push down prices is also the result of policy. In aviation, regulation may have affected competition. New Zealand has only recently relaxed the rules on foreign ownership of its airlines. As part of its Air Transport Policy, the Government has also sought to relax rules for cargo-only airlines, which in time may help stimulate the competition needed to push down shipment prices.

Governance

2nd

The Governance sub-index measures a country's performance in three areas: effective governance, democracy and political participation, and rule of law.

Rank 2nd (up three places since 2007)

1st Finland

2nd New Zealand

3rd Norway

4th Netherlands

5th Sweden

Democratic, effective, and accountable governance is an important foundation for national success if wealth is to translate into broad prosperity. Despite ranking in the top five in 2007, New Zealand has still

managed to secure ongoing improvement, lifting three ranks to second by 2016. New Zealand's strength in this area comes from considered and smart evolution of institutions.

The broader question for New Zealand is what governance needs to look like long-term if the country is to compete more widely on an international stage. While competitive now, some aspects of New Zealand's governance, particularly local government, are relatively rigid. In the long-term this may restrict the country's ability to adapt and innovate in response to global challenges.

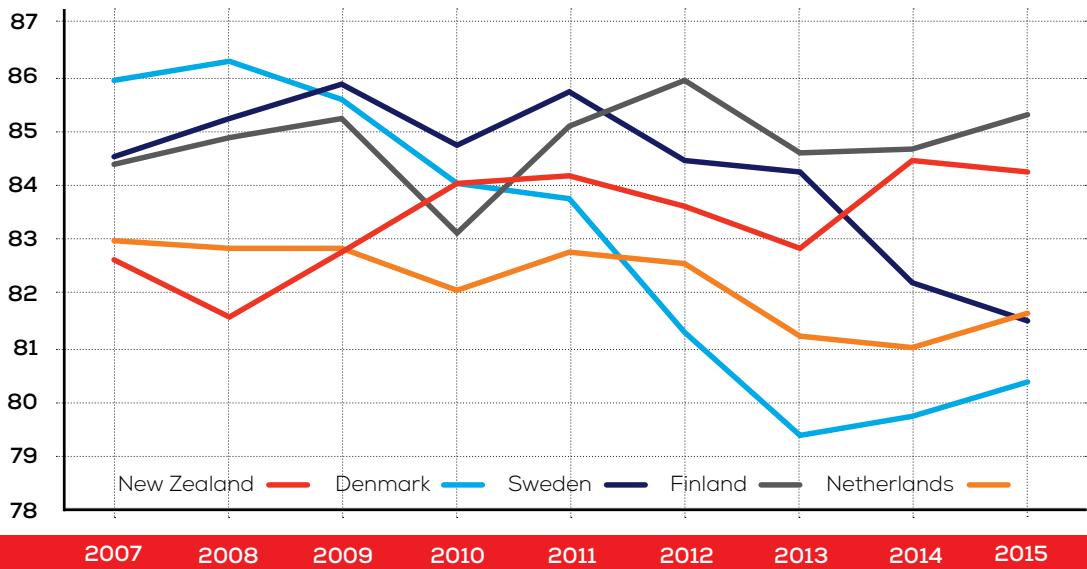








Figure 6: Change in Governance performance.

Scorecard











Rule of law

Like many advanced democracies, New Zealand is highly competitive in this area and has achieved progress despite already ranking highly.

Variable	Rank	Competitiveness	Progress
Rule of law	4 (+4)		
Corruption Perceptions Index	4 (-3)		
Judicial independence	1 (+1)		











Effective governance

New Zealand enjoys some of the most effective governance in the world, and has been improving performance in this area.

Variable	Rank	Competitiveness	Progress
Confidence in national government	6 (+2)		
Efficiency of legal system in challenging regulation	2 (+1)		
Government effectiveness	4 (+9)		
Regulatory quality	3 (+5)		
Transparency of government policymaking	2 (+6)		

Democracy and political participation

New Zealand achieves the maximum level on democracy and voting rights, however is less competitive when it comes to people exercising those rights at the ballot box.

Variable	Rank	Competitiveness	Progress
Confidence in honesty of elections	6 (+4)		
Democracy level	1 (-)		
Political participation and rights	1 (-)		
Voter turnout	9 (-1)		
Women in national parliament	11 (-2)		

Democracy and political participation

Diversity and engagement.

New Zealand's area of focus to lift its governance performance should be diversity within, and engagement with, the political process. While falling voter turnout is common to many developed economies, New Zealand has seen a larger than average fall, the result not only of fewer people voting, but also fewer people being registered to vote.

The Electoral Commission suggests that around 90% of the eligible population was on the electoral roll in 2016, down from 93% in 2011. Turnout too has been falling, from 80% in 2005 to 77% in 2014.

Part of the challenge of raising turnout is making people feel represented by the people seeking office. New Zealand, with its representative MMP system, has an advantage here as smaller, credible parties, focused on particular issues or groups, can seriously contest elections and gain parliamentary seats.

However, MMP has not made Parliament fully representative of the population yet. While it does help secure ethnic representation, such as the Māori Party's two MPs (one electorate, one list), female representation in parliament, at 31%, is still low compared to peer leader Sweden at 44%. Representation matters if decisions are to lift the prosperity of all.

New Zealand could easily follow the Nordics' lead in getting more women into Parliament. They too have proportional representation systems like New Zealand, coupled with voluntary party quotas on the percentage of the list that must be women. With its electoral system, New Zealand is well placed to achieve one of the highest ratios of female MPs in the world. Progress is being made with some party lists showing 50/50 representation.

Education

The Education sub-index ranks countries on access to education, quality of education, and human capital.

Rank 15th (down seven places since 2007)

1st Switzerland

2nd Netherlands

3rd Finland

4th Australia

5th Norway

14th Canada

15th New Zealand

16th Germany

Education, and the skills it gives a country, is an essential part of that country's ability to deliver prosperity. Better educated workforces can generate greater wealth per head to drive up living standards. This sub-index measures education in the workforce, as well as issues like education access and quality.

The biggest challenge to New Zealand's quest for growing prosperity comes in its education system, where the country has fallen both internationally, and in real terms since 2007.

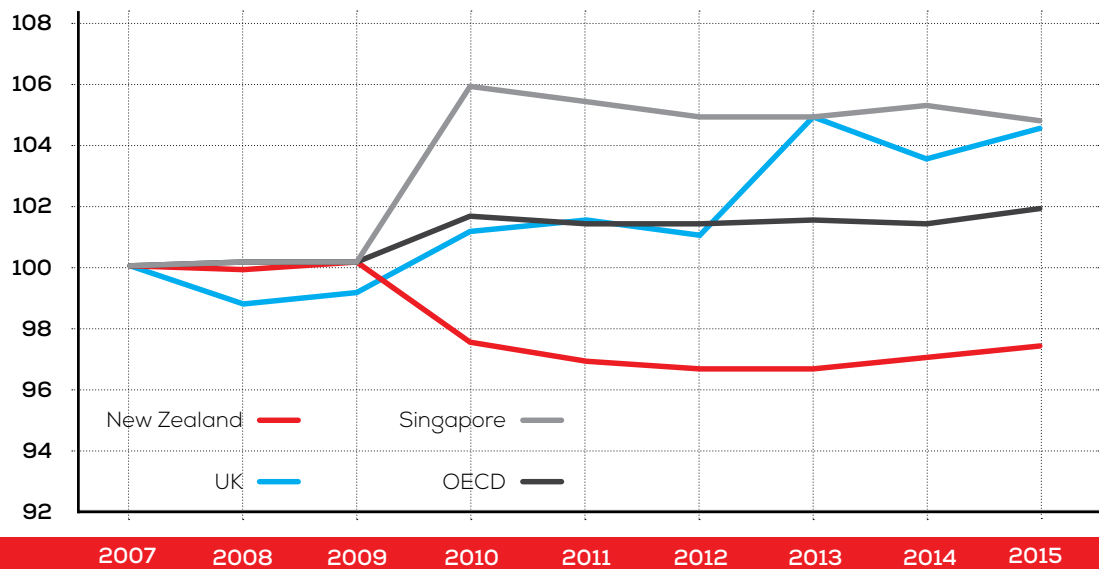


Figure 7: Growth in Education performance (2007=100).

The decline in New Zealand's education performance is notable compared to key regional and international peers. Both the UK and Singapore have achieved notable improvements in this area since 2007. Britain has risen eight places to sixth, and Singapore five places to tenth, while New Zealand has dropped seven places to fifteenth. This divergence in absolute levels of education outcomes between the UK and Singapore, and New Zealand is particularly striking (see below).

New Zealand may have achieved rising satisfaction with the education system, but not enough to offset the decline in skills. Not only is this a challenge to New Zealand's short to medium-term prosperity growth, but long-term prosperity is also severely threatened with the workforce entering a period of technological disruption with already uncompetitive and declining skills.

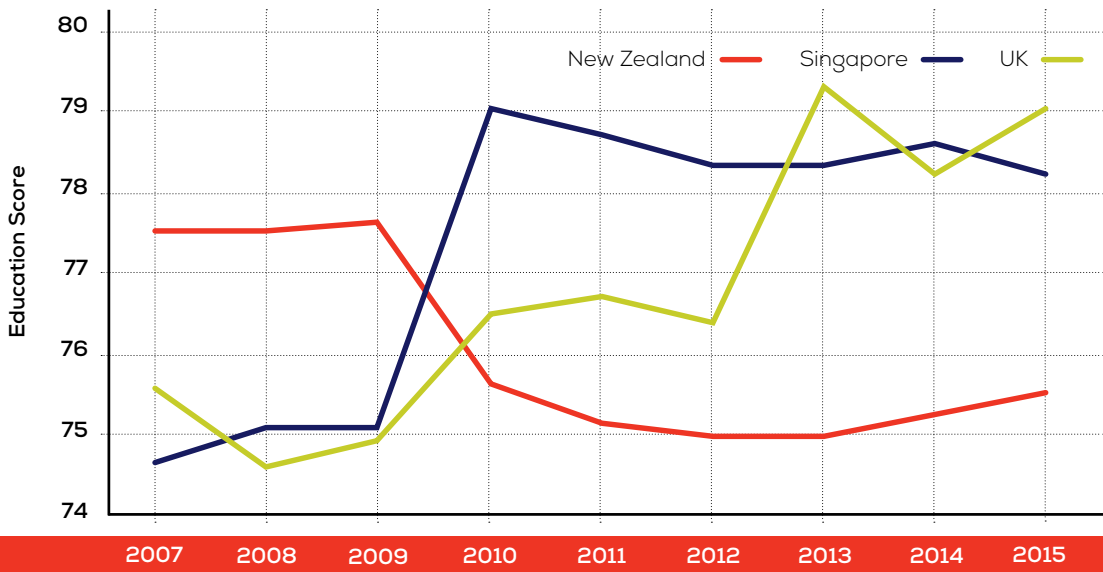










Figure 8: New Zealand education is in decline compared to improvements in the UK and Singapore.

Scorecard

Access to education









New Zealand has seen little change in this area. Differences in outcome by income make education inequality a priority for improvement.

Variable	Rank	Competitiveness	Progress
Education inequality index	19 (-3)		
Girls to boys enrolment ratio*	31 (-12)		
Youth literacy	17 (-6)		
Adult literacy	17 (-2)		

* This metric is based on divergence from a full enrolment of girls and boys in each age bracket for schooling. New Zealand's result actually shows more girls enrolled, which might be an indicator of adult education enrolments.









Quality of education

New Zealand's tertiary education is more competitive than its secondary education, though overall satisfaction is high and rising.

Variable	Rank	Competitiveness	Progress
Secondary education quality	15 (-)		
Perception that children are learning	21 (-12)		
Satisfaction with education quality	10 (+4)		
Tertiary education quality	7 (-)		

Human capital

This is a significant area of concern for New Zealand, with the skills level in the workforce low and declining compared to peers.

Variable	Rank	Competitiveness	Progress
Primary completion rate	21 (-7)		
Secondary education per worker	32 (-9)		
Technical/vocational education	27 (-8)		
Tertiary education per worker	10 (-7)		

Human capital

Declining skills threaten New Zealand's continued prosperity.

A nation's prosperity relies heavily on its education system to give the workforce the skills needed to compete. This matters more as economies face the effects of disruptive technologies. It is estimated that 46% of New Zealand jobs face a high risk of automation, the majority of which are lower-skilled, with 75% of labouring jobs under threat compared to just 12% of professional roles.¹⁷

Of concern is the fact that New Zealand's workforce has more lower-skilled and fewer higher-skilled people than its peers. One quarter of New Zealand's adult population are only educated to lower secondary level or less, higher than peers including the UK, Australia, and Ireland (around 20%), and North America (below 10%). 34% of New Zealand adults have a tertiary qualification, compared to 43% in the UK and Australia. This makes the country relatively more exposed to the challenge of automation.¹⁸

New Zealand's education performance has weakened over the last decade as the result of poor comparative secondary completion and tertiary enrolment rates. The issues stem in part from compulsory education only lasting to 16, and a relatively strong job market drawing young people out of education.

New Zealand needs to upskill its workforce. This means focusing on training, further education for the

low-skilled adult population, keeping young people in education longer, and attracting high-skilled migrants.

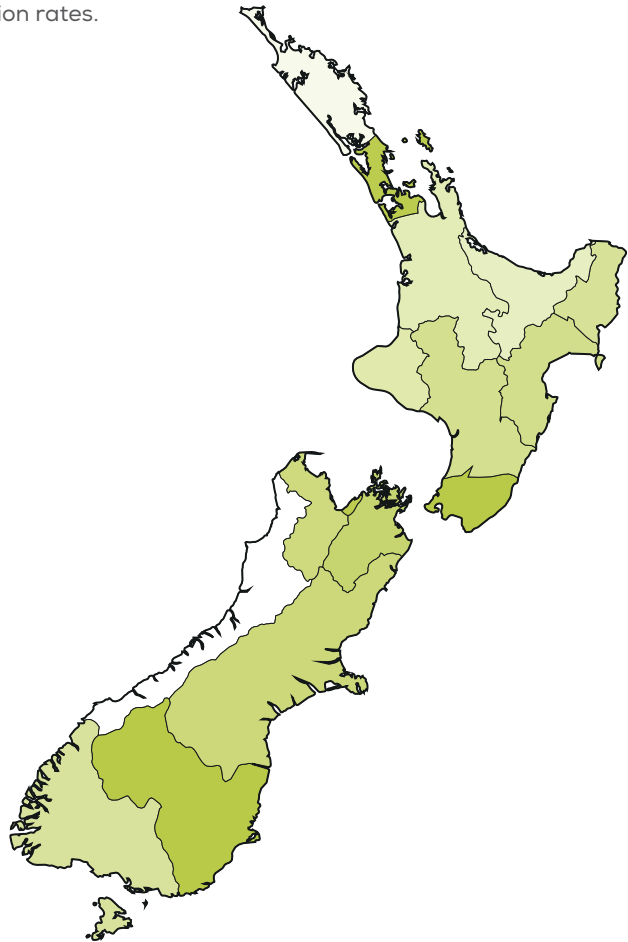
There are some signs of improvement. The labour force participation rate among the 15-19 age group has fallen over the past decade, from 56% in 2007 to 47% in the four quarters to March 2016. This is positive as it suggests greater participation in education beyond lower secondary level and is reflected in improving retention rates to at least age 17 across New Zealand, rising from 79.3% in 2009 to 83.9% in 2015.

However, there is significant internal discrepancy within New Zealand. While the gap between Māori and non-Māori retention has closed by 2.8 points since 2009, it is still significantly lower (69.8%) than any other ethnic group, including Pasifika (82.5%) and Pākehā (86%) students. Socio-economic status also matters regardless of ethnicity, 92.6% of students from decile 9 and 10 schools remained at school at age 17, compared to 74.3% of students from schools in the lowest two deciles.¹⁹

There is also significant regional variation, ranging from a high of 87.3% in both Wellington and Otago, to a low of 75.3% on the West Coast (Figure 9). Tackling these disparities in school retention rates would do much to improve New Zealand's overall skills. Unless these skills gaps are closed now, New Zealand risks the jobs losses associated with automation being concentrated in areas like West Coast, and among Māori and Pasifika communities, deepening existing regional and ethnic inequalities.

Figure 9: Regional variation in school retention rates.

Region	Retention to at least 17
Northland	76.3
Auckland	86.8
Waikato	79.4
Bay of Plenty	78.7
Gisborne	81.3
Hawke's Bay	82.4
Taranaki	80
Manawatu-Wanganui	82
Wellington	87.3
Tasman	83.2
Nelson	86.7
Marlborough	84.4
West Coast	75.3
Canterbury	83.6
Otago	87.3
Southland	81.1



Access to and quality of education

New Zealand's hidden inequalities.

New Zealand achieves average performance among peers in terms of the access to and quality of education it provides its children. There is rising satisfaction with local education systems, and a reasonably stable perception

that children have wider opportunities to learn and grow. However, this average performance hides significant variation among different ethnic and socioeconomic groups.

New Zealand has stabilised its position in the top half of nations in the OECD's Programme for International Student Assessment (PISA) education quality scores and ranks 15th among peers on

the Index's quality measure, based on a number of international tests. However, the country performs worse than the OECD average in terms of outcome by socioeconomic status.²⁰ This is reflected in New Zealand's nineteenth rank among peers for education inequality, a measure that reflects how equally educational achievement is distributed across income groups.

There are also significant ethnic disparities in attainment. In the 2015 PISA test, Māori and Pasifika students performed well below the New Zealand average in maths, science, and reading,

and below the OECD average. In contrast, Asian and Pākehā students outperformed the New Zealand and OECD averages (see below).²¹

However, with addressing inequality a significant focus for the Ministry of Education, there are some positive signs in national exams, with significant improvement in attainment by Māori and Pasifika students recorded in 2016's final results. Year 12 NCEA Level 2 achievement by Māori students increased from 51.6% in 2008 to 74.9% in 2016, and achievement by Pasifika students increased from 50.5% to 79.5%.²²

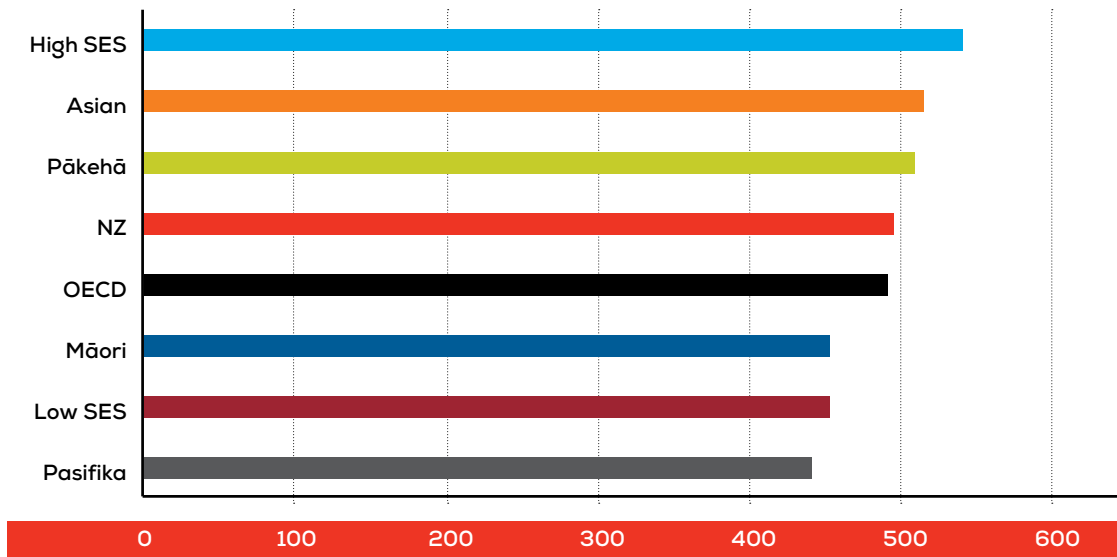


Figure 10: Maths performance by social group.

Health

12th

The Health sub-index measures a country's performance in three areas: basic physical and mental health, health infrastructure, and preventative care.

Rank 12th (up six places since 2007)

- 1st Luxembourg
- 2nd Singapore
- 3rd Switzerland
- 4th Japan
- 5th Netherlands
- 11th Belgium
- 12th New Zealand**
- 13th Norway

A population that is healthy, both physically and mentally, is important for both the economic and social development behind rising prosperity. New Zealand's health system has undergone significant structural reform over the past decade, as the "alliance" model has brought together practitioners and management from across all local health services to collectively make decisions about how best to deliver care in their area.

Since 2007, New Zealand has delivered steady, real and relative improvement in its healthcare, particularly in basic

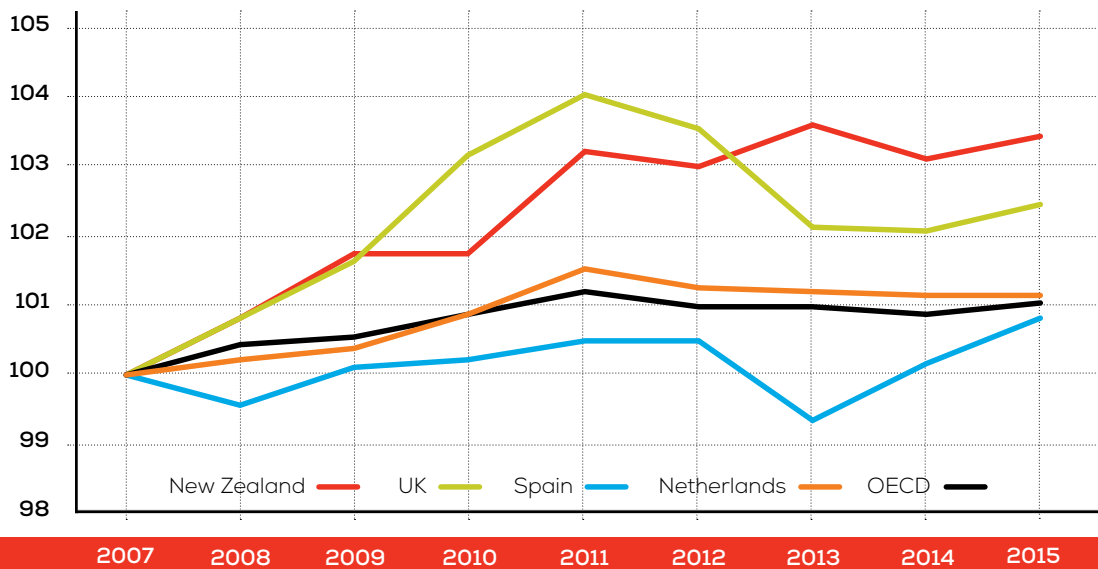


Figure 11: Growth in Health performance (2007=100).









physical and mental health, as well as infrastructure and prevention. The performance compares favourably with similar public health systems, for example the UK and Spain, and with top performers such as the Netherlands, which has an insurance model.

It is unclear how much of this improvement can be attributed to the structural reforms started in 2008, but it is clear that the improvement has come in key outcomes like life expectancy, and much improved immunisation rates. However, urgent action is needed to address rising obesity

Scorecard









Basic physical and mental health

New Zealand performs well here on both mental and physical health. While falling in real terms, one eye should be kept on mortality as New Zealand's performance here is average.

Variable	Rank	Competitiveness	Progress
Joy	6 (+1)		
Sadness	3 (+16)		
Life expectancy at birth	13 (+2)		
Mortality	18 (-3)		









Health infrastructure and prevention

New Zealand has achieved significant improvement in immunisation rates; however, more can be done to lift rates to levels seen in top ranked nations.

Variable	Rank	Competitiveness	Progress
Satisfaction with healthcare	10 (+2)		
Immunisation DPT	28 (+5)		
Immunisation measles	24 (+10)		
Improved sanitation facilities	12 (-)		

Illness and risk factors

This is the main area of challenge for New Zealand. Both diabetes and obesity are poor and worsening, a concern in the development of a fit and competitive workforce and future health care costs.

Variable	Rank	Competitiveness	Progress
Diabetes rate	21 (-)		
TB deaths	7 (-3)		
Obesity	34 (-)		
Health problems	11 (-8)		

and diabetes rates if the population is to stay healthy. This is in part about maintaining a healthy and prosperous society, but it is also about securing the sustainability of the health system long term.

Illness and risk factors

Shifting the focus from treatment to prevention.

Like many developed nations, New Zealand's challenge in its health system is one of managing rising demand on health services. As populations age, and medical science advances, we are all living and living through illness longer. The cost pressures on health systems are immense.

The result is a need to focus on the sustainability of the system, not just on treating the need today. This means a focus away from cure and towards prevention, where there are significant red flags for New Zealand.

Most notable is the country's worsening obesity problem. Obesity sat at 26.5% in 2007 and has since risen to 29.2%. This is the 13th highest in the world, and second only to the United States in this peer group.

New Zealand's diabetes rate is rising, moving from 8% in 2007 to 9.1% in 2016. In contrast, the UK has managed to reduce its diabetes rate by a comparable amount.

In order to secure both improvement in basic health measures like life expectancy as well as the long term sustainability of the health system, the trend in obesity and diabetes must be reversed. This fits with New Zealand's long-term investment approach to policymaking. The cost to the health system over a lifetime far exceeds the cost of early intervention to prevent obesity. The good news is that the alliance model is better designed than other governance structures to achieve this, though further policy intervention may be required to turn these statistics round.

As calls in New Zealand for a sugar tax grow, the UK experience is worth consideration (see case study). A multi-pronged approach from government, business, and communities is likely to have greater impact than a sugar tax alone. Government intervention can be magnified by action within communities and by large food producers.

CASE STUDY: ALTERNATIVES TO THE SUGAR TAX

Sugar taxes are already in use in the US and will be introduced in the UK in 2018. Their purpose is to bring the cost of consumption in line with the costs associated with that consumption, including ill health. However, they are a blunt tool that imposes a highly regressive tax predominantly on the poorest.

They do not recognise that poor diet is often the result of poor education around healthy eating and cooking. Nor does it recognise the responsibility of food manufacturers for the products they put on the shelves.

The UK is implementing a sugar tax, but its anti-obesity strategy is wider. It involves food manufacturers reducing the sugar added to products as well as the size of portions. Cereal firm Kellogg's committed to removing 723 tonnes of sugar from its products in 2016, and Unilever, the manufacturer of brands like Ben and Jerry's are reducing serving sizes. Ice creams are shrinking, but their prices are not.

Such initiatives are also being supported at a community level. A number of UK food banks include basic cookery lessons with their food packages, helping the most vulnerable in society with affordable healthy eating.

Safety & Security

18th

The Safety & Security sub-index ranks countries based on national security and personal safety

Rank 18th (down one place since 2007)

1st Singapore

2nd Luxembourg

3rd Japan

4th Iceland

5th Denmark

17th Finland

18th New Zealand

19th Australia

National security and personal safety are important prerequisites for prosperity. In national security terms, New Zealand is one of the safest countries in the world. It is predominantly its absence of terrorism that sets it apart, both from close ranked Australia and Canada, and from higher ranked nations in Europe, where the most recent attacks have yet to be recorded in the Prosperity Index.

However, it is personal safety that lets New Zealand down and keeps it out of the global top ten in this sub-index. While access to food and adequate shelter is

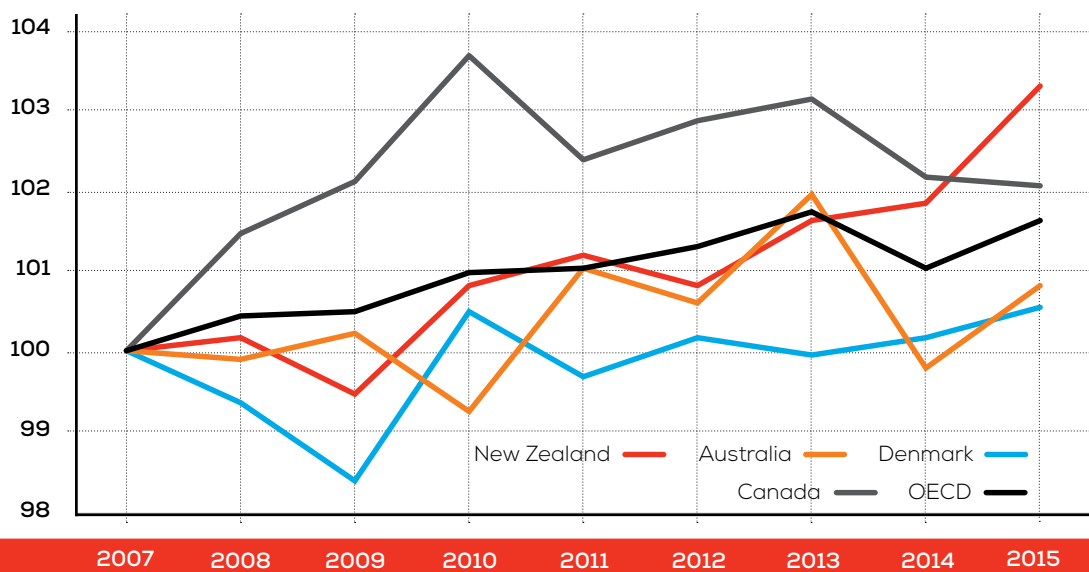












Figure 12: Growth in Safety and Security performance (2007=100).

Scorecard













National security

New Zealand is one of the safest countries on earth from a war/terrorism perspective. Terrorism deaths cannot get better than zero. The ranking for refugees must be considered in context, representing just 0.0004% of the population.

Variable	Rank	Competitiveness	Progress
Battlefield deaths	1 (-)		
Civil war casualties	1 (-)		
Political Terror	1 (-)		
Refugees	20 (-5)		
Terror attack deaths	1 (-)		

Personal safety

While New Zealand is making broad progress, it remains uncompetitive in key areas like crime and road deaths.

Variable	Rank	Competitiveness	Progress
Adequate shelter	1 (+3)		
Food security	9 (+6)		
Homicide	20 (-6)		
Theft	26 (+8)		
Road deaths	28 (-2)		
Safe walking alone	28 (+2)		

strong, crime and road safety does not compare favourably to that of peers. New Zealand is making real progress in these areas, but not at a fast enough rate to see it climb the ranks.

Personal safety

Improving road safety.

The main reason for New Zealand's nineteenth rank for Safety & Security

is its performance on measures of personal safety. In particular, violent crime like homicide and non-violent crime like theft is relatively high. It is perhaps unsurprising then that New Zealanders do not feel as safe as others walking alone at night. However, apart from a relatively static homicide rate, improvement is being made.

One area where improvement is not coming fast enough is in road deaths. New Zealand's high road death rate

has been falling, but remains one of the highest among peers. The Government's Safer Journey's strategy running since 2010 aims to address risk in five high priority areas: young drivers, drug/alcohol impaired driving, safer roads and roadsides, motorcycling, and safer speeds.²³

Notable progress has been made specifically in terms of deaths involving young drivers and/or drugs and alcohol. Since 2010, deaths as the result of drink or drugs and young drivers have fallen by around 30%.²⁴ Initiatives such as the introduction of a zero alcohol limit for drivers under the age of 20 in 2011 have helped to push these figures down, and a lower limit for those above 20 introduced in 2014 will likely push death statistics down further.

The ongoing challenge is speed. Deaths from open road crashes (80-100km/h) have fallen less than 9% since 2010.²⁵ Bringing New Zealand's road deaths down further will require a focus on speed as a contributory factor, to achieve the same reduction in deaths as seen elsewhere.

While demerit points do act as a deterrent, the monetary penalties in New Zealand are quite low. Some countries like Finland and the UK (see case study) have speeding penalties based on income. Tougher monetary penalties for speeding, where the inconvenience of the punishment is equal to all, could be a useful tool for New Zealand to further reduce its road toll.

CASE STUDY: FINLAND AND UK: TOUGH FINES FOR ALL OFFENDERS

New Zealanders caught between 10 and 20 km/h over the speed limit can currently expect a \$120 fine. On average, Finns would pay \$600-\$750 for a similar offence, based on average incomes. The fine is based on the daily 'spending money' an individual has, based on his income and fixed costs. That day rate is then multiplied by a fixed number of days according to the severity of the offence up to a maximum of 120.

The UK adopted a similar policy in April 2017, with penalties for minor speeding offences starting at 50% of weekly take home earnings, with a minimum fine of £60 (around \$110).

On average UK incomes, the fine for minor offences would be over \$700. As the severity of the speeding increases, the multiplier increases to 100% of weekly pay, and then 150%.

This acts as a far stronger deterrent for the majority than a fixed fine by making the punishment equally inconvenient to all.

Personal Freedom

The Personal Freedom sub-index measures national progress towards basic legal rights, individual freedoms, and social tolerance.

Rank 3rd (no change since 2007)

1st Luxembourg

2nd Canada

3rd New Zealand

4th Iceland

5th Ireland

Freedom is important for prosperity, with legal rights allowing individuals to flourish and tolerance being particularly vital if a

country is to attract talent from all over the world. Flourishing and talented individuals generate prosperity.

New Zealand's high levels of freedom are one of the key reasons why it is able to generate so much prosperity with its wealth. However, there are a number of factors in Personal Freedom that can distinguish free and developed nations. Despite New Zealand's rights and freedoms sharing the same origin in law as a number of other countries (e.g. Canada, Australia, and the UK), the freedom

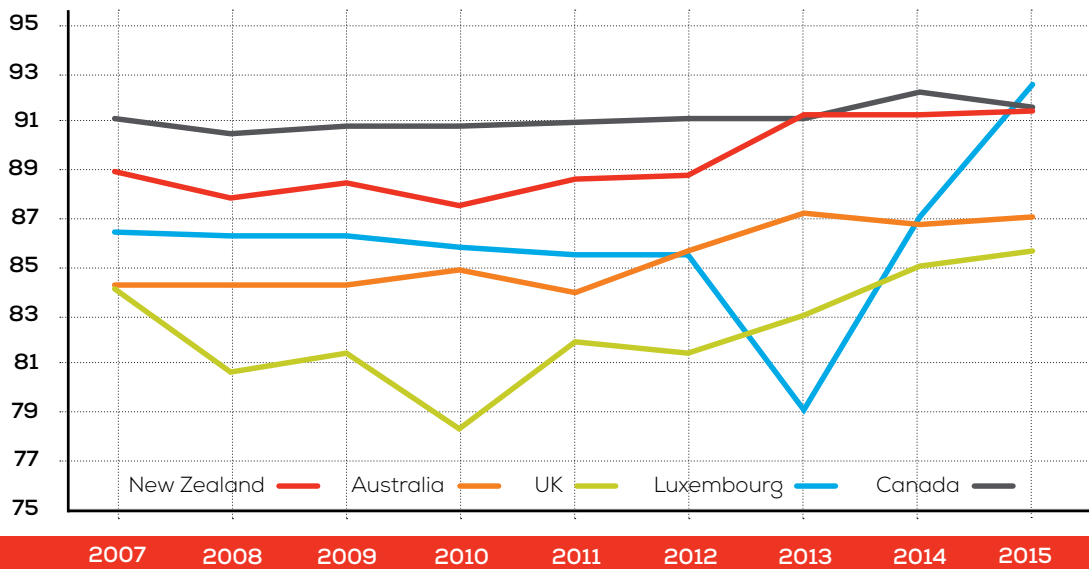










Figure 13: Change in Personal Freedom since 2007.

Scorecard









Basic legal rights

New Zealand performs strongly here, with only one red flag for declining press freedom.

Variable	Rank	Competitiveness	Progress
Civil liberties	1 (-)		
Death Penalty	1 (-)		
Conscription	1 (-)		
Press freedom	14 (-6)		









Individual freedoms

Again this is a highly competitive and improving area for New Zealand.

Variable	Rank	Competitiveness	Progress
Government religious restrictions	2 (-)		
Satisfaction with freedom of choice	4 (+9)		
Gay marriage	1 (+4)		
Property rights equality	1 (-)		

Social tolerance

New Zealand is the most tolerant nation in the world of immigrants. LGBT tolerance is high but less impressive, and some social restrictions on religion are rising.

Variable	Rank	Competitiveness	Progress
Tolerance of ethnic minorities	2 (+2)		
Tolerance of LGBT	14 (-6)		
Tolerance of immigrants	1 (-)		
Social Hostilities Index	7 (-2)		

experienced in these countries is quite different. Canada and New Zealand top the group, but Australia (still with only civil partnerships for same-sex couples) and the UK (with relatively poor performance on the Social Hostilities Index) languish notably behind.

For New Zealand to rise to first place within the cluster at the top, the focus must be on press freedom and some aspects of tolerance, including tolerance towards LGBT groups and social hostility towards different religious groups. 75% of New Zealanders think their country a good place for LGBT people in 2016, compared to 85% in Canada and 81% in Luxembourg.

Social tolerance

Rising intolerance a risk for New Zealand.

While overall New Zealanders are tolerant towards different minorities, including immigrants, ethnic minorities, and the LGBT community, there is evidence captured by the Prosperity Index of an undercurrent of rising intolerance that could threaten to damage New Zealand's free and prosperous society.

The Social Hostilities Index,²⁶ records hostility towards or restrictions on religion within society, and it has been on the rise in New Zealand. Between 2007 and 2014, there has been a notable rise in intolerance, including cases of harassment and property damage fuelled by religious hatred. Such cases continue, earlier this year a Muslim New Zealander was attacked in Huntly for wearing a hijab.²⁷

While these incidents are unusual, they do highlight that New Zealand cannot take its top three spot for granted when it comes to freedom. Recent rhetoric in the run-up to the 2017 General Election, particularly towards immigrants,

echoes similar populist sentiments seen elsewhere in the developed world. However, New Zealand cannot forget that its current and future prosperity depends on attracting some of the best talent from around the world. Its current reputation for freedom and tolerance is vital for its ability to do that.

Basic legal rights

Protecting press freedom.

There has also been a decline in press freedom since 2007 in New Zealand. This has neither been the result of legal changes, nor more recent economic challenges to the industry, but instead from the political sphere. Freedom House, who compile the measure, cite incidents such as raids on media offices during the 2011 election campaign and the "Dirty Politics" saga during the last election as the reason for the decline. With another election on the horizon, New Zealand has an opportunity to improve its performance by demonstrating clear water between the freedom of journalists to report the news and the desire of politicians to control the agenda.

Social Capital

1st

The Social Capital sub-index measures the strength of personal relationships, social network support, social norms, and civic participation in a country.

Rank 1st (up two places since 2007)

1st New Zealand

2nd Australia

3rd Canada

4th United States

5th Iceland

Strong society is an important part of prosperity. Trust is linked to higher economic growth, and communities do much to drive social development and improve wellbeing. This sub-index

measures all these things. Strong performance in social capital is one of the most important aspects not only of prosperity, but of the ability of nations, in particular New Zealand, to turn the wealth created by the economy into prosperity for citizens.

The comparative strength of New Zealand's social capital comes predominantly from the strength of society's close relationships. 99% of New Zealanders said that they had family or friends to count on in times of need in 2016, the highest of any country in the world.

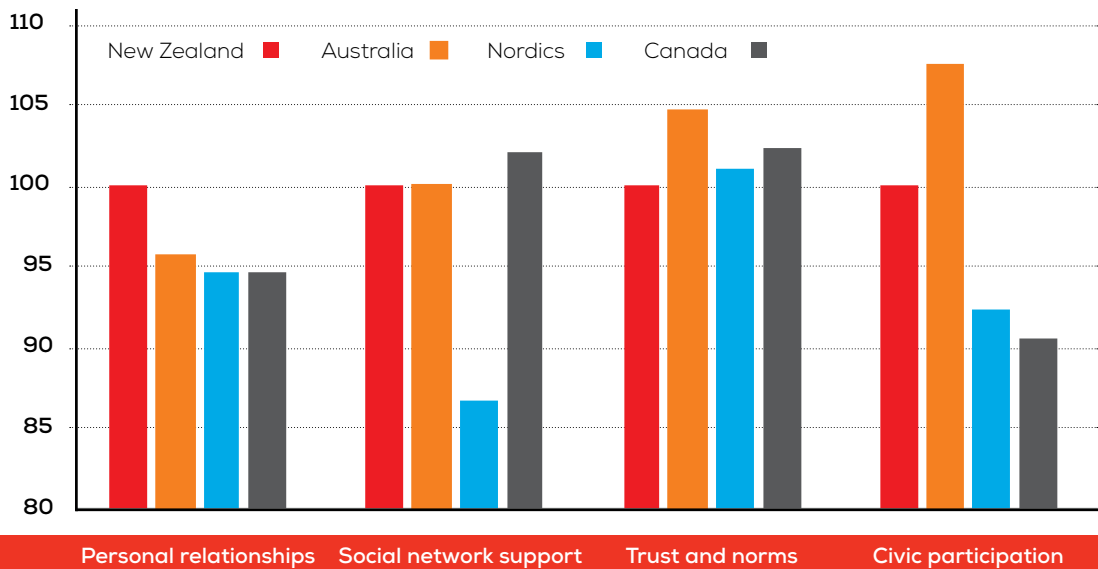






Figure 14: Social Capital by Area (NZ=100).

However, trends such as the increasing unaffordability of housing threaten to erode New Zealand's strong social structures. If this happens then the country could find itself in a much weaker position.

Scorecard





Personal relationships

This is the strongest part of New Zealand's social capital, putting it top among peers.

Variable	Rank	Competitiveness	Progress
Count on to help	1 (+2)		
Opportunity to make friends	1 (+1)		





Social network support

While strong, fewer New Zealanders are giving money or goods informally to help out others than before. However, this may represent a shift from informal to greater formal giving (e.g. to charity).

Variable	Rank	Competitiveness	Progress
Help a stranger	4 (-1)		
Informal help	4 (-1)		









Social norms

This is the measure of trust in a society, and New Zealand not only performs well, but has achieved significant improvement.

Variable	Rank	Competitiveness	Progress
Respect	11 (+5)		
Trust in local police	2 (+12)		

Civic participation

Like in governance, New Zealand is less competitive on democratic participation measures, but performs strongly on community participation.

Variable	Rank	Competitiveness	Progress
Charity donations	2 (+7)		
Volunteering	2 (-)		
Voter turnout	8 (+2)		
Voiced opinion to public official	20 (-)		

Personal relationships and trust

New Zealand's stand out performance.

The strength of New Zealand's family and friendship networks is unmatched by any other country in the world. This is important for prosperity as it means that every dollar spent by government on social or community projects is magnified by people's own support networks, and by the community itself (New Zealand ranks 2nd for volunteering rates). This strong social capital is one of the reasons why New Zealand is able to achieve high levels of prosperity with its average wealth.

Maintaining this top performance is of even greater importance for prosperity in the future. As New Zealand faces the challenge of delivering services to an ageing population, new ideas around service delivery are emerging. Without action, Deloitte estimate that the pressures on the state from increased spending on healthcare and super could push government spending to 47% of GDP and debt to 200% of GDP by 2060.²⁸

The model that has gained traction is one of social investment, moving away from looking purely at how much government is spending towards looking at the quality of that spending and how it is lifting life outcomes. Government interventions are viewed through an investment lens, looking at return over the long term.

Part of this approach has involved an acceptance that government is not always the best agent to deliver

the change or intervention needed to increase prosperity. In New Zealand, and in peer countries across the OECD, there has been a greater focus on involving communities, charities, and social enterprises in the delivery of services or interventions. Social capital is important here. A flourishing civil society is better able to take such challenges on. New Zealand is not only one of the most focussed at government level on social investment as a model, but also perhaps the best placed in terms of the strength of community and civil society to make it work.

New Zealand has strong social capital, but trends in housing affordability threaten to undermine this long-term.

Research suggests that social capital is higher among people who are less mobile, most notably those who own a home.²⁹ This is because those who own their own home are more likely to invest time in their community and put down social roots. It is this community investment that is so important for the broad success of the social investment model.

The challenge in New Zealand is that as house prices escalate, people are increasingly priced out of the property market. Homeownership is now the lowest in 66 years.³⁰ 63% of households are in owner-occupied housing in New Zealand today, with one in three households renting. This is significantly lower than the 1991 peak of 73% of households living in homes they owned.

With lower homeownership rates, social capital is likely to suffer. Housing affordability is not simply a question of an immediate need, it is also a question of securing long-term prosperity.

Natural Environment

13th

The Natural Environment sub-index measures a country's performance in three areas: the quality of the natural environment, environmental pressures, and preservation efforts.

Rank 13th (down 11 places since 2007)

- 1st Slovenia
- 2nd Finland
- 3rd Luxembourg
- 4th France
- 5th Norway
- 12th Austria
- 13th New Zealand**
- 14th Australia

The ability of a country to secure economic progress without causing environmental harm is critical if that wealth creation is to drive better economic and social outcomes across the board and result in rising prosperity.

New Zealand is gifted with a unique natural environment that is of significant economic value in terms of both agriculture and tourism. In cities such as Seoul or Hong Kong, air pollution regularly exceeds acceptable World Health Organisation levels, but the numbers of New Zealanders exposed to these levels of pollution are negligible.

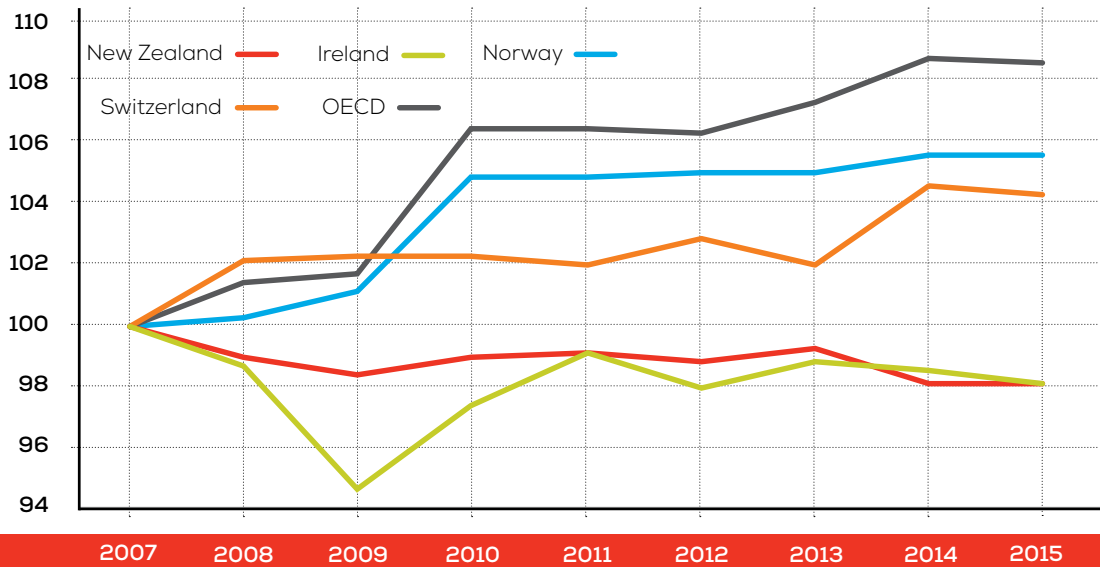


Figure 15: Growth in Natural Environment performance (2007=100).





Yet the country has been falling down the Natural Environment ranks since 2007. Small rich nations have been outperformed by the OECD average, but there is a degree of divergence in terms of performance over time. Norway and Switzerland have been improving their natural environment performance, whereas Ireland and New Zealand have seen it fall.

The source of decline among small nations like New Zealand is predominantly in the areas of environmental pressure and preservation. Overfishing in New Zealand has been a growing problem - though more recent data from the Ministry of Primary Industries suggests that this may have levelled out³¹ - and a number of preservation measures are poor and remain static.

Scorecard





Environmental quality

New Zealand achieves the maximum score in this area.

Variable	Rank	Competitiveness	Progress
Air pollution	1 (-)		
Clean water	1 (-)		











Environmental pressures

Overfishing is pulling down New Zealand's performance in this area.

Variable	Rank	Competitiveness	Progress
Fish stocks overexploited	30 (-3)		
Freshwater withdrawal	3 (-)		

Preservation efforts

New Zealand shows mixed performance here, with wastewater treatment the most uncompetitive, and a red flag for progress on satisfaction with preservation efforts.

Variable	Rank	Competitiveness	Progress
Marine protected areas	20 (-6)		
Terrestrial protected areas	10 (-6)		
Pesticide regulation	1 (-)		
Satisfaction with preservation efforts	10 (-7)		
Wastewater treatment	24 (-6)		

Pressures and preservation

Greater efforts to protect the environment required for prosperity.

New Zealand has undertaken a number of high profile efforts at environmental preservation in recent years. In 2015, the Prime Minister announced the creation of the Kermadec Ocean sanctuary, one of the world's largest and most significant fully-protected marine areas, covering 15% of New Zealand's Exclusive Economic Zone. However, the Bill creating the sanctuary has been delayed by ongoing disputes over iwi fishing rights.³²

Where New Zealand's efforts on preservation are less notable is in the treatment of its wastewater. The Environmental Performance Index estimates that only around 70% of New Zealand's wastewater is treated before it is released. This is similar to rates seen in Eastern Europe and far behind rates seen in comparable developed peers. In the UK, 96% is treated, in Switzerland and Australia, 95%, and in the Nordics the average is 82%.

This is important given the ongoing debate in New Zealand about water quality in rivers, lakes, and on beaches. Much of this pollution is the result of farming intensification, particularly in the dairy industry which has been found to have a high impact on waterways.³³ The Government's commitment to improving water quality does include measures to improve the fencing of waterways on agricultural land.

However, this measure in the Prosperity Index also captures the treatment of industrial, municipal, and household effluent. While the regular discharge of effluent into the sea fully stopped in New Zealand in 2001, it is still not uncommon for release to be necessary when urban systems become overwhelmed by storm water. Reporting from Water NZ also shows that dry weather overflows are on the rise, the result of blockages and equipment failures.³⁴ As New Zealand's population grows, particularly when concentrated in urban centres like Auckland, the required investment in existing infrastructure must be made to ensure that treatment systems can keep up with demand.

03

Future prosperity in New Zealand





The analysis of prosperity progress and competitiveness over the last decade points to three areas where New Zealand needs to take bolder action if prosperity is to grow for future generations:

1. **Tackling the inequalities, particularly in education**, that threaten future prosperity in low income, Māori, and Pasifika communities, especially as technology changes the nature of work.
2. **Addressing housing affordability** that will increasingly erode the strong social capital New Zealand needs if social investment is to deliver rising prosperity for an ageing society.
3. **Continually improve New Zealand's economic competitiveness** so that it can continue to deliver domestic prosperity in a globalised world.

New Zealand is in a strong position, with a government that is increasingly taking innovative approaches to its policymaking. Yet it could afford to be bolder in the face of the new challenges posed by an ageing population or the impact of disruptive technologies.

1. New Zealand's biggest challenge is tackling the inequalities that prevent future prosperity being enjoyed by all

Already, it is clear that current prosperity in New Zealand is not enjoyed equally by all. Low income families experience poorer health and education outcomes, and less economic opportunity. This does not make New Zealand unusual.

However, what is unusual is that ethnic, income, and opportunity inequalities often align. This means that they fall disproportionately on the same, largely Māori and Pasifika, section of society.

Future challenges, like disruptive technologies, deepen these inequalities. New Zealand is more exposed to automation than most. This is not just because it threatens nearly half of New Zealand's jobs, but also because the workforce has more low-skilled people than many peers.

Yet this exposure is not equal. It falls on the less-educated section of society, who will be the first to lose their jobs and

the hardest to retrain to find a new one.

It is New Zealand's Māori and Pasifika communities who have less formal education than their European or Asian peers. Despite great efforts and some success in lifting education outcomes for Māori and Pasifika children, this inequality persists. These children are more likely to leave school at 16, with lower grades, and with more at risk skills. They will bear the brunt of technological change, worsening the income and opportunity inequalities that already exist.

This puts New Zealand at risk of developing a section of society that has not only seen lower prosperity in the past, but that will see prosperity decline in the future.

With retention rates and attainment also varying by region, the effects of automation also threaten New Zealand's ability to develop strong economic growth and opportunity outside of already well-performing areas like Auckland.

CASE STUDY: UK

Tougher standards, increased competition

The UK's sharp rise up the Education sub-index in the last decade can be traced to a number of policies in education implemented since 2010.

Rising education levels in the workforce improvement have come from bold changes and investment in alternative paths of education. The school leaving age was raised from 16 to 18 progressively between 2010 and 2015. The effects of this have been to lift the years of education in the workforce, but also to improve life chances for those at the bottom who would traditionally have left school early with few qualifications. Those who do not meet the standard in maths and English at age 16 are required to resit exams until they meet the required standard. The 'satisfactory' category of school inspections has been scrapped, so that a school is now 'good' or it 'requires improvement'.

At the same time as extending compulsory schooling, policy has sought to vastly expand alternative paths of education. The creation of a number of University Technical Colleges, alternative secondary schools for children aged 14-19 that offer more vocational based skills alongside core academic qualifications, were a targeted response to a widening skills gap and poor social mobility.

The UK has also been careful to invest in vocational skills at less risk of automation such as engineering, design and programming, as well as ensuring that the mass expansion of apprenticeships in the economy include many at degree level, funded by a levy on large business.

The results are clear to see. The percentage of secondary pupils enrolled in technical education has risen from 18% to 32% in the UK since 2007. In New Zealand, it has fallen from 21% to 17% in the same period.

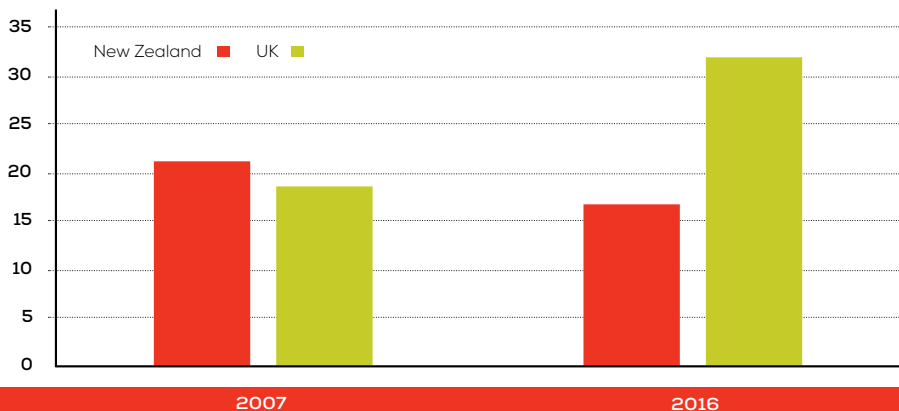


Figure 16: Secondary vocational enrolment (% total enrolment 11-18).

New Zealand risks seeing future prosperity rise for some and fall for others. Bolder action is needed to correct these inequalities if everyone is to benefit from rising prosperity.

The answer is education. In particular, it is about keeping everyone in education for longer and giving them skills that will not only offer them a job and development now, but also opportunities in a future economy. Chartered Accountants ANZ's paper on disruptive technologies points in particular to adaptable 'soft' skills, such as creative and social intelligence that can be applied to a wide range of roles.³⁵ This can be easily achieved within the existing education system, as seen in the UK.

The UK's remarkable rise up the Education ranks, as a result of very tough, traditional education reforms, may offer New Zealand a model for further improvement. It is certainly worth considering raising the compulsory education age to 18 to tackle inequalities of retention, as well as offering more alternative routes of education to produce a highly educated but broad-skilled workforce (see case study).

Considerations for government:

- Raise the school leaving age to close the retention rate gap for low income, Māori and regional communities.
- Invest in alternative streams of higher education that teach desirable non-academic skills.
- Develop a post-16 education system that explicitly looks to teach skills that reflect the disruptive technology challenge.

Questions for business:

- How does disruptive technology affect your workforce and what can you do now to investing in upskilling?
- How can you work with government to fund more opportunities and training schemes for lower-skilled workers?
- Could you develop and offer your own targeted apprenticeship scheme to help close the opportunity gap for young Māori or Pasifika New Zealanders?

2. Housing affordability threatens New Zealand's social investment model, which it needs to keep prosperity rising in an ageing society

Like any OECD nation, New Zealand is noticeably ageing and an ageing population will put pressure on public finances. High debt levels lower long-run GDP growth, limiting New Zealand's ability to generate the wealth needed to keep prosperity growing.

New Zealand's solution is to follow an investment approach to social spending, moving away from looking purely at how much government is spending towards looking at the quality of that spending and how it is lifting life outcomes. Government interventions are viewed through an investment lens, looking at return over the long term.

Strong societies and communities are critical to the success of the social investment model. New Zealand currently has very strong social capital and it is higher among home owners. However, one in three people are currently renting in New Zealand and fewer people own their own homes than at any time in the last 66 years. Social capital is likely to suffer with lower home ownership rates, which could impact New Zealand's long term prosperity. Housing affordability is a fourfold problem: restrictions on supply prevent it keeping up with demand; uneven regional economic activity concentrates demand in certain areas; poor infrastructure limits the growth of viable suburbs; and there is insufficient support for those priced out of the market.

Currently the Government is helping with affordability through projects like the KiwiSaver HomeStart grant, and with supply through changing lending limits on investment properties. However, partial interventions can just distort the

market further. Affordability measures in particular stimulate demand without tackling supply, pushing up prices further. A multi-layered problem will require a multi-pronged solution.

This will involve looking at affordability and availability together, as well as considering the role of state/social housing for those on low incomes. While other measures like greater regional growth may help ease pressures long term, bolder action is required now to address the fundamental issues in housing supply. This means looking at reform of the Resource Management Act to remove unnecessary impediments to development and reconsidering existing height limits and green-belt restrictions in light of the housing shortage.

Considerations for government:

- Reform the Resource Management Act to ease restrictions on home building.
- Support regional growth through infrastructure investment to ease housing pressures in major cities.
- Further schemes to help those priced out of the market.
- Undertake a review of the tax settings for property

Questions for business:

- How can you support employees affected by rising housing costs (e.g. flexible or home working allowing them to move further out of town)?
- Can your business contribute to the social investment model by developing or supporting a social enterprise with your expertise?

3. New Zealand needs to build an increasingly competitive economy to keep prosperity rising

As a small, open, trading economy, New Zealand's prosperity depends on the nation's ability to compete with the rest of the world. New Zealand cannot prosper alone. Central to this is building an economy that is competitive and that stays competitive.

There are three main areas of focus for New Zealand to achieve this: protecting current exports, widening the export mix, and investing in the domestic business environment.

New Zealand's current export offer – agricultural products such as meat, dairy, and fruit, as well as tourism – depends much on the country's green and clean reputation. For example, New Zealand's wine industry trades on its sustainability ambitions and credentials.³⁶

However, some of New Zealand's natural environment credentials are under pressure, particularly in terms of balancing the impact that economic activity has on the environment. This is certainly one area that government must be mindful of if the competitiveness of New Zealand's current exports is to be maintained.

The Business Environment sub-index shows that New Zealand's current export mix, in terms of the breadth of products and their value, is relatively low compared to peers. This reflects the fact that exports are far more primary sector heavy than the economy, and highlights the need to do more to lift service exports as a percentage of New Zealand's overall offer.

Part of both protecting and expanding exports is tackling the rising issue of non-tariff measures that is captured

by the Index. While the expansion of AEO programmes is an important and actionable way to reduce the non-tariff measures (NTMs) faced by business, New Zealand has the potential to be bolder in building a new global coalition for free trade (see spotlight). Such agreements, particularly with countries like Singapore and the UK, could go further in embracing the free exchange of ideas, skills, and knowledge that a modern economy needs to grow.

The final area of focus to lift competitiveness is New Zealand's domestic business environment. It is strong in some areas (e.g. business registration), but faces wider issues that hold back progress.

We have already noted the education challenges in building a more equal, skilled workforce. This is important if New Zealand is to attract global businesses and drive the wealth creation needed to keep living standards rising. For New Zealand to thrive, it needs to be ahead of the curve in attracting the skills needed to secure future as well as current prosperity.

Immigration is important here. However, the current immigration system is skewed towards short term skills shortages (many of which are manual trades at higher risk of automation). New Zealand needs to be bolder in building an immigration system that attracts the skills needed for long term prosperity growth.

The other major challenge to the domestic business environment is its ability to generate more even economic growth across the country. Concentrating economic growth in a handful of large

SPOTLIGHT: CREATING A PROSPERITY ZONE TO TACKLE NTMS

New Zealand is well placed to push forward a free trade zone that seeks to eliminate non-tariff measures (NTMs).

An idea gaining traction in a post-Brexit environment in the UK is the creation of a “Prosperity Zone”, a unit of like-minded countries aligned around open trade, competitive markets, and property rights.

The Zone would seek to eliminate formal tariffs and NTMs too by pushing the agreement deeper into areas that impede free movement of goods, services, and skills, including internal market distortions. This would be particularly beneficial to trade in services.

Partner countries with similar independent free trade policy, relatively free markets and strong institutions could include the UK, Switzerland, Australia, Singapore, and New Zealand. If the US were included at a later date (possible, but not under the current Administration’s trade approach), a 20% reduction in distortions within the zone (in nations’ legal, economic, and regulatory environments) could yield a US \$8 trillion injection into the global economy, or 12% of global GDP.³⁷

This would represent a sizeable gain for New Zealand’s exporters, and wealth generation of a significant scale that would do much to secure the basis for large improvements in living standards in New Zealand.

urban centres may help to drive prosperity, but it generates its own problems that limit prosperity too, from the lack of economic opportunity in areas left behind to the resource pressures, particularly housing, in major urban centres like Auckland.

Infrastructure is important here, and the previous section shows both how New Zealand lags peers in this respect, as well as the investment and progress that is being made. This must continue.

However, New Zealand can afford to be bolder in recognising that national government is not the only driver of economic growth. The highly centralised system of government fails to make best use of local councils.

Local government is significantly restricted in its efficiency and efficacy by limited responsibility, blurred lines of accountability, and poor transparency. Councils are answerable to both their

local residents and central government, meaning they are often blamed for decisions made in Wellington, particularly when tasks are devolved without adequate funding.

One solution, proposed by the NZ Initiative, is to push greater control to local authorities, making them solely accountable to their communities, not central government.³⁸

For a centralised model like New Zealand, the UK’s more recent experiments in devolution are perhaps the best inspiration (see case study), even though their full impact on UK prosperity remains to be seen.

With a prosperity focus and the powers and funding to match, devolution could be an important tool in securing more even regional prosperity growth in New Zealand. This requires greater clarification of the roles and relationships between local and

CASE STUDY: THE UK'S DIRECTLY ELECTED MAYORS

As part of the UK government's localism programme, a number of directly elected mayoralties ("Metro Mayors") were created in major cities like Manchester, urban areas like the West Midlands, and more rural-urban mix areas like Cambridgeshire and Peterborough.

These mayoralties include expanded powers for economic development through issues like planning, transport, skills, and housing, as well as social development through issues like health, with the Mayor having overall responsibility for local health budgets across the UK's Alliance or District Health Board equivalents. Other responsibilities include policing, fire, and justice (courts and prisons). These powers give the Mayor significant control over what services are delivered and how they are funded. It also gives local government the power to develop and execute detailed and strategic plans for prosperity growth in their local area.

national government, with clear lines of funding, responsibility, and accountability. Local government is a resource to be used boldly. More empowered local government can aid the creation of a more competitive economy, and with it, a more prosperous country.

Considerations for government:

- Protect and strengthen New Zealand's green credentials through bold and decisive actions.
- Examine existing barriers to service export growth to widen the export mix.
- Assess the future role of local government and develop a sustainable devolution and funding model that supports internal competition and innovation at a local level.
- Develop a long-term skills strategy for immigration.

Questions for business:

- What can your business do to contribute to environmental protection?
- What are the barriers to greater exports in your industry?
- What talent do you need to attract and invest in now to thrive in the long term?
- How does local government enable or constrain business growth in your local area?



Conclusion

Building prosperity for the future

New Zealand has flourished greatly as globalisation has brought trade and opportunity to its remote shores. In a world where prosperity increasingly lives or dies by the strength of a nation's competitiveness, New Zealand has thrived.

Its free and open markets, free people, and strong society have lifted it to the top of the global rankings, making it the most successful country in the world at turning the wealth generated by its economy into prosperity enjoyed by its people.

However, if prosperity is to continue to grow, New Zealand must lift areas where it is falling behind, and strengthen areas where it is already ahead.

This paper shows that while there are many reasons to be optimistic, there are also areas where New Zealand must improve if it is to emerge from future challenges on top. These may

fall in three main areas – inequality, particularly in education; housing affordability threatening social capital and New Zealand's ability to secure rising prosperity in an ageing society; and securing continual improvement in economic competitiveness, particularly through preservation of the environment – but they are all interlinked.

Perhaps the biggest challenge of all is that many of the threats to prosperity are not universal. Prosperity is not equally felt across New Zealand, and neither are the challenges. When it comes to low skills, jobs at risk, health outcomes, or homeownership, those affected are disproportionately low income and Māori and Pasifika.

This is particularly challenging for future prosperity in terms of education. The country's workforce is poorly skilled for the pressures of automation. Too many students are still dropping out of education at 16, and even among those who stay, not enough are going on to gain tertiary level qualifications.

Too many of these students are poor and from Māori and Pasifika communities, threatening to entrench old inequalities for many future generations as low-skilled jobs are lost. Inaction will not only make New Zealand's workforce less competitive internationally, threatening its ability to deliver rising prosperity in the long term, but it will also mean that for one part of society, prosperity is likely to decline.

New Zealand can focus on getting its labour force match fit for a generation of change driven by disruptive technology. Policy options include raising the school leaving age, push new forms of skills-based education, and ensure that no-one leaves education without a basic group of core skills. New Zealand can innovate in what these core skills are, with a focus on building a workforce of the future.

Unaffordable housing is eroding the foundations of New Zealand's social strength by reducing rates of home ownership. This is a threat to the strong social capital that New Zealand needs to prosper. New Zealand is ageing, not as rapidly as some, but still ageing. The Government will need to pursue new ways to deliver services if taxation and debt are to remain at sustainable levels. Communities are critical here, but communities are strengthened by home ownership and weakened when people are priced out.

As a small, open economy New Zealand cannot prosper on its own. It needs trade and it needs to be able to

compete internationally. This means that continually improving economic competitiveness is necessary for future prosperity. Be it greater efforts on water quality and environmental preservation to protect current exports, developing New Zealand's service exports, or making the domestic environment more competitive, prosperity must be continually fought for.

However, optimism is justified. The Government in New Zealand is already more in tune with what needs to happen than most, as evidenced by its long-term social investment approach. It already has metrics that help inform these decisions, focusing on lifting living standards for New Zealanders. Yet this paper argues that **in securing rising prosperity for all New Zealanders, the country will need to be bolder.**

This paper is the story of what New Zealand needs to do to keep living standards rising. It is the celebration of New Zealand's areas of competitiveness and the warning for areas where New Zealand is falling behind. It is a contribution to help whoever is in government after September 2017 make the decisions needed to keep New Zealand moving forward. We urge that government to be bold. The Prosperity Index has charted New Zealand's success over the last decade. We hope this paper proves helpful in making the next decade even more prosperous for all New Zealanders.

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³⁵ Chartered Accountants of Australia and New Zealand (2015). *Disruptive Technologies Risks, Opportunities – Can New Zealand Make the Most of Them?* From <https://www.charteredaccountantsanz.com/news-and-analysis/insights/future-inc/disruptive-technologies>

³⁶ See New Zealand Wine (2017). *Sustainable Winegrowing NZ*. From <http://www.nzwine.com/sustainability/sustainable-winegrowing-new-zealand/>

³⁷ See work of Legatum Institute Economics of Prosperity Programme. At <http://www.li.com/programmes/economics-of-prosperity>

³⁸ The New Zealand Initiative (2016). *The Local Manifesto: Restoring Local Government Accountability*. From <https://nzinitiative.org.nz/insights/reports/the-local-manifesto-restoring-local-government-accountability/>

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