

# LONGTERMNZ



## 2012 YOUTH STATEMENT

On New Zealand's Long-term  
Fiscal Position

2012~2052



# PURPOSE

The document sets out the challenges of the next 40 years, develops a policy tool to explore solutions and outlines five key messages.

We are 27 young people from around New Zealand. Like all young New Zealanders, we are thinking about the next forty years of our lives, the kind of country we want to live in, and how the government can help us achieve it. The Public Finance Act 1989 requires Treasury to produce a statement on the Crown's long-term fiscal position at least every four years. These statements provide 40-year projections on the fiscal position. This document aims to mirror the Treasury document.

Our vision for New Zealand in 2052 is a country with high living standards, where those who want to work can. We live in strong, socially connected communities where people have access to basic needs and those who have retired are provided for. Environmental quality is maintained. Ingenuity and fairness are upheld. People are entrepreneurial and see themselves as global citizens. There is integrated thinking across sectors. Crime rates are low and the justice system focuses on rehabilitation and preventive justice. All New Zealanders can get a good school education, and an affordable tertiary education that balances critical thinking with relevant skills for the job market.



In early December 2012, the McGuinness Institute, supported by the Treasury and Victoria University, gave us the opportunity to attend the 'Affording our Future' conference. The conference woke us up to the reality that over the next 40 years, money will be limited, and there will be increasing demands on government resources, so hard trade-offs need to be made.

We think those trade-offs should be guided by six values: unity and diversity, everyone having a fair go, social and personal responsibility, ambition, empowerment, and sustainability.



Younger people are often criticised for focusing too much on impossible dreams, and older people are often criticised for focusing on the obstacles that face us. If New Zealand is to meet its fiscal challenges over the next 40 years, we will need to both dream and be practical. Having laid out our vision and the values that will guide us, this document examines the fiscal reality we face and asks: how can we use the choices available to us to create the kind of New Zealand we want?



In the next forty years New Zealand will be faced with some significant challenges, three of which are listed below. To cope with the increasing costs on society, we need to be a resilient nation with an economy that can respond and adapt to foreseen and unforeseen risks, while being open to emerging opportunities.

### 1. Costs are growing

New Zealand has an ageing population. Baby boomers are beginning to enter retirement, people are living longer and they are not having as many children as they used to. Healthcare spending will also increase as we treat a wider range of diseases, as the population ages, and as long-term care costs increase.

This creates a challenge for the government.

- Superannuation and health will crowd out other spending
- There will be fewer workers to support the elderly
- Voting power will shift towards older age groups because there will be proportionately more older voters and the 65+ age group tends to have a high voter turnout compared to other groups.

### 2. Risks and shocks are inevitable

Two of the most significant events for New Zealand's fiscal situation in recent years could not have been predicted – the Global Financial Crisis and the Christchurch earthquakes. While we can take action to mitigate risks like these, we can't prevent them happening. We need to keep public debt at prudent levels so we can borrow money to cope with unexpected crises.

### 3. Opportunities exist

While there are tough decisions to be made, we also have opportunities to address problems that are currently cooking before they create bad fiscal outcomes. In general, prevention is always better than an ambulance at the bottom of the cliff.

Nowhere is this more true than in health and justice spending. We believe that by taking a broader, integrated view and focusing on root causes, government could cut costs in the long term and improve the lives of New Zealanders. It may be worth taking on more cost in the short term to achieve this.

Examples include climate change, child poverty, and obesity. Failure to decarbonise our economy creates fiscal risks – particularly if we come under a new binding emissions agreement. Likewise, rates of child poverty and obesity will worsen with income inequality – increasing health spending in the long term.

# 1

## FISCAL FRAMEWORKS AND PROJECTIONS



“Delay risks leaving future generations carrying a growing probability of having to make bigger, more abrupt policy adjustments later on.”

– Gabriel Makhoulouf

“Increasing debt levels today will be a burden on taxes tomorrow.”

– Bob Buckle

“We would need sustained higher fertility or higher migration levels if we are to achieve faster population growth.”

– Geoff Bascand

“We have challenges ahead and they are manageable.”

– Girol Karacaoglu

# 2

## THE CONTEXT FOR OUR CHOICES



“Choosing to be Iwi or Kiwi or both.”

– Chris Cunningham

“Any policy choice to close the fiscal gap will have distributional consequences.”

– Omar Aziz

“Government needs to remove barriers and disincentives to labour productivity.”

– Ross Guest

# 3

## POPULATION AGEING AND THE ROLE OF THE STATE



“Reliance and dependence on the support of the state is likely to continue.”

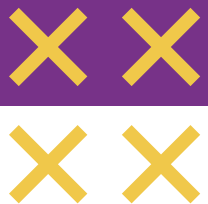
– Michael Belgrave

“We need to say no as often as we say yes.”

– Patrick Nolan



## AFFORDING OUR FUTURE CONFERENCE



# 4

## TAX



“In future, older people will be paying a higher share of tax.”

– Norman Gemmell

## 5 RETIREMENT INCOME POLICY

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“Sustainability of the Kiwi dream should be at the root of our long-term fiscal planning.”  
– Diana Crossan

“While there is huge support for universal super we should consider the role income testing, through the tax system, may play alongside raising the age.”  
– Susan St John

“For the first time in human history net transfers are going from the middle aged to the old.”  
– Andrew Coleman

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These are the quotes that resonated most when listening to speakers at the ‘Affording our Future’ conference, 10-11 December 2012.

The Affording our Future conference was co-hosted by the Treasury and the Chair in Public Finance in the Victoria Business School at Victoria University of Wellington.

## 6 HEALTH POLICY

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“As nations become more affluent, they spend more on health.”  
– Nick Mays

## 7 THE PROCESS FOR CHANGE

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“Increasingly there are calls for and provision for wider ‘citizen participation’ in decision making. There is evidence the public (or, more accurately, some of the public, some of the time, on some matters) now expects more participation than just voting in elections and has less respect for elected representatives than 40 years ago.”  
– Colin James

“Not even tertiary education is guarantee of a job.”  
– Jess Booker

## 8 POLITICAL ECONOMY PERSPECTIVES

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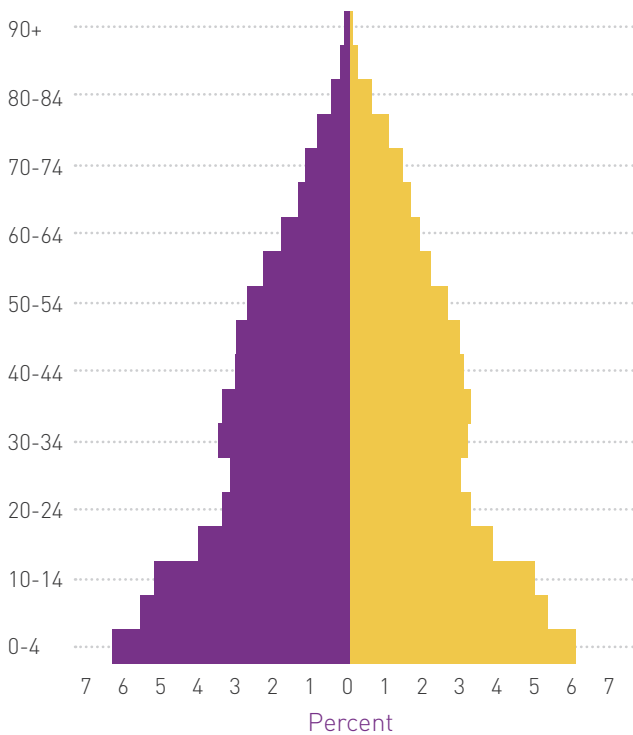
“We should not leave our children and grandchildren harder choices than we are willing to make for ourselves.”  
– Michael Cullen

“New Zealand has for the moment the opportunity to act pre-emptively on its own terms rather than in response to external pressures. That relatively benign position will not last. The opportunity should be grasped so that change is not precipitate and citizens and taxpayers can adjust their circumstances with time to spare.”  
– Simon Upton

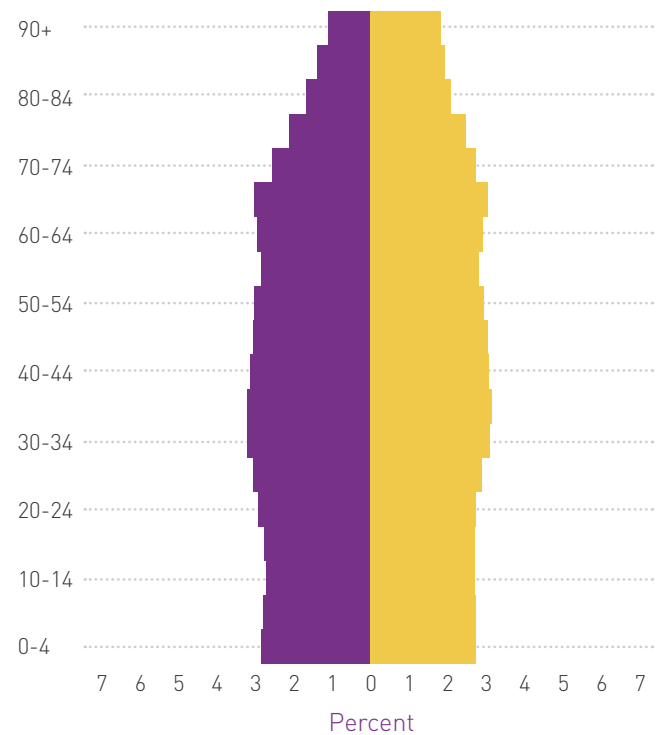
# DATA

This is the data discussed at the conference that resonated most with the participants.

## Demographic Projections for New Zealand 1960

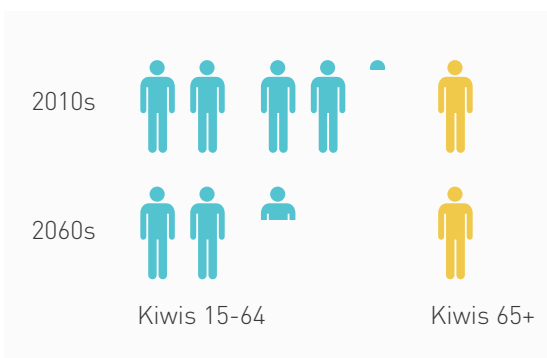


## Demographic Projections for New Zealand 2060



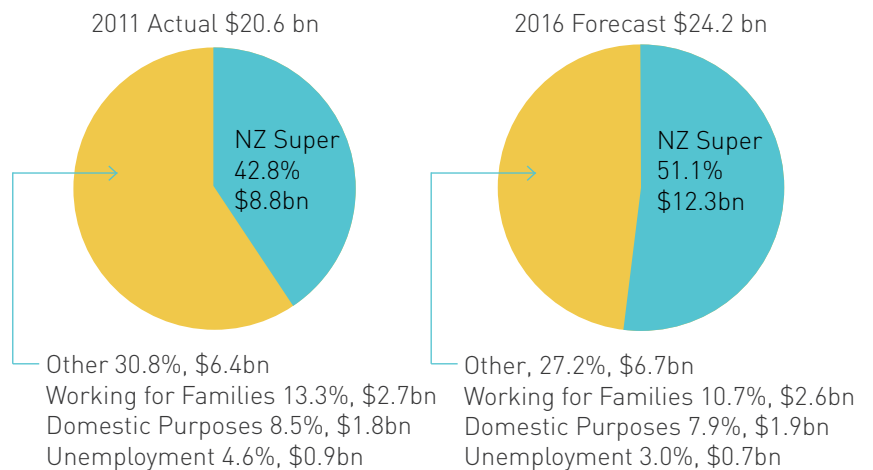
Source: Buckle & Cruickshank, 2012

## Dependency Ratio 15-64 to 65+



Source: Girol Karacaoglu, 2012

## Components of social assistance expenses



Source: Budget 2012

# \$60 BILLION

In 2011, the nominal value of student loan balances surpassed \$12 billion. By 2050 this is expected to reach \$60 billion.

Source: Ministry of Education, 2011

# 11.1%

Assuming New Zealand's existing entitlements and policy settings do not change, state spending on providing health services could rise from 6.9% of GDP in 2010 to 11.1% of GDP in 2060.

Source: Gabriel Makhoul, 2012

# 2°C

According to mid-range projections, mean New Zealand temperatures will increase by about 1° Celsius by 2040 and 2° Celsius by 2090 (relative to 1990).

Source: Ministry for the Environment

# 9,736

The Royal Household of the British Monarchy sends congratulatory messages to Commonwealth citizens when they reach the age of 100. In 1952, just 255 centenarians received a congratulatory message. In 2011, the total number of 100th-birthday messages was 9,736.

Source: Official website of the British Monarchy, 2012

# 30.2%

The percentage of New Zealand voters aged 65+ is projected to increase from 18.1% in 2010 to 30.2% in 2050.

Source: NZ Electoral Commission & Statistics New Zealand, 2012 cited by Nolan, Thorpe & Trewhitt, 2012

# 18.1%

In 2011, 18.1% of Year 10 Māori students were regular smokers.

Source: Action on Smoking and Health Survey, 2011

# 27.7%

# 27.8%



The percentage of obesity in New Zealand adults has risen from 9% (males) and 11% (females) in 1977 to 27.7% (males) and 27.8% (females) in 2008/09.

Source: Ministry of Health, 2012

# 270,000

In 2012, approximately 270,000 New Zealand children live in poverty.

Source: Office of the Children's Commission, 2012



**THE  
AUNTIE  
GERTRUDE  
CHALLENGE**



Auntie Gertrude is a retiree.

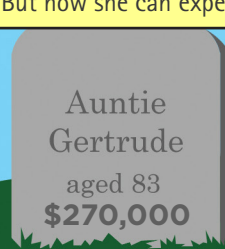


The government had expected Auntie Gertrude to die at the average age of 83, costing the government 18 years of superannuation. But now she can expect to live to 90 ...

... this is a further 7 years! If we do nothing now, Auntie Gertrude will cost the government \$375,000.



Currently, when she turns 65, she will receive \$15,000 in superannuation per year from the government until she dies.



What are the implications?

option one



Auntie Gertrude continues to receive the same level of superannuation until she dies at age 90. However, this will require the government to increase our debt, raise taxes or cut spending, diverting resources from Gertie Jr and reducing the likelihood of her receiving superannuation when she retires.

(\$15,000 x 25 years = \$375,000)

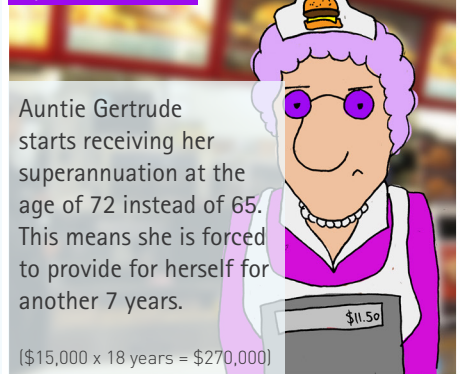
option two



Auntie Gertrude has the superannuation she would have received over 18 years spread out over 25 years. However, this means she will struggle to make ends meet on \$10,800 a year.

(\$10,800 x 25 years = \$270,000)

option three



Auntie Gertrude starts receiving her superannuation at the age of 72 instead of 65. This means she is forced to provide for herself for another 7 years.

(\$15,000 x 18 years = \$270,000)

option four



Auntie Gertrude is means-tested to determine whether or not she should be eligible for superannuation. However, this reduces her incentive to save and it is easy to cheat the system through loopholes.

By 2061  
the number of Auntie Gertrudes will have increased from  
600,000 in 2012 to 1,500,000!

Note: The proportion of the population aged 65+ is 14% in 2012 but will increase to 26% in 2061.

Should we prioritise child poverty or feeding Auntie Gertrude – the status quo chooses Auntie Gertrude over hungry Gertie Jr – is that the best option for 'all New Zealanders'?

There is no simple answer. We all love Auntie Gertrude but the bottom line is with Auntie Gertrude living another 7 years we have to act now.

Note: We have not accounted for the time value of money in our calculations

Sources: Andrew Coleman, 2012; Statistics New Zealand, 2012

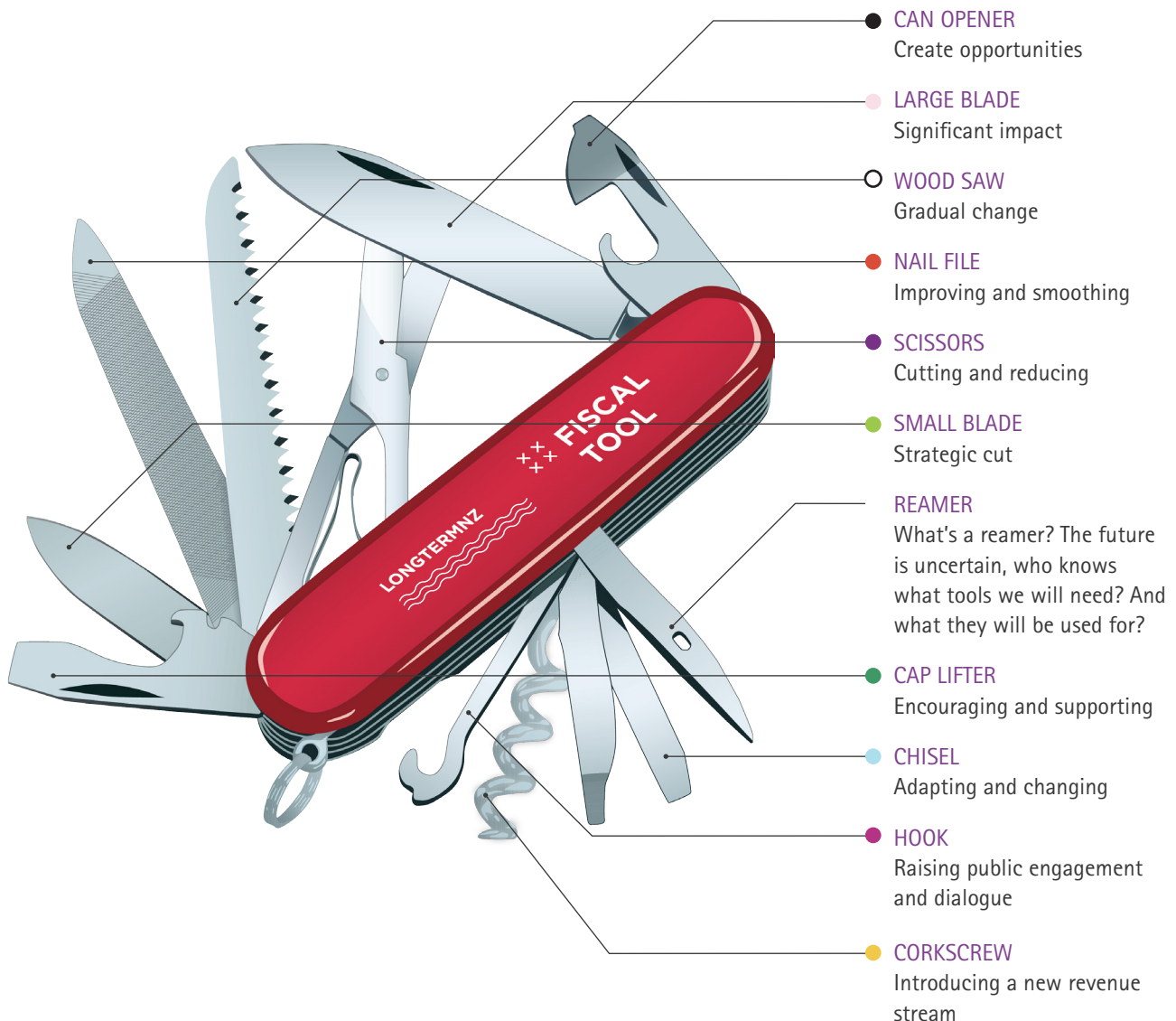




The pocket knife illustrates the combination of tools we could use to address three significant challenges: costs are growing, the inevitability of risks and shocks, and making the most of existing and emerging opportunities. If used well, these tools can help us achieve our vision.

We have the tools, we simply need to decide how best to use them for the benefit of New Zealand. This may include thinking of new possibilities or using the tools that already exist in different ways. After much discussion, we concluded that there are six main areas to focus on: reduce costs, increase tax revenue, increase savings, build human capital, improve productivity, and improve social cohesion.

TOOLS



THREE CHALLENGES	AREAS TO FOCUS ON	TOOLS	POSSIBLE INITIATIVES			
Costs are growing	1. Reduce costs	Superannuation	● ● ○ ●	Introduce means testing Link the age of eligibility to life expectancy* Reduce the amount of entitlement		
		Health	● ●	Focus more on primary healthcare and nurse-led care to reduce the number of hospitals* Address root causes and encourage healthy lifestyles		
		Justice	●	Focus on rehabilitation, preventive and restorative justice to decrease imprisonment rates		
		Education	● ●	Introduce interest on student loans Raise rate of student loan repayments		
	2. Increase tax revenue	Environmental	● ● ● ●	Introduce a carbon tax* Introduce price on water		
		General	● ● ● ● ●	Introduce capital gains/land tax Introduce an inheritance tax Increase personal income tax or GST Allow fiscal drag Introduce a financial transaction tax		
		3. Increase savings	Compulsory	● ●	Make KiwiSaver compulsory	
			Voluntary	○ ●	Voluntary retirement saving schemes Provide information on how to manage money	
		Risks and shocks are inevitable	4. Build human capital 'Brain trade'	Human development	● ○ ● ● ●	Make qualification transfers for immigrants easier Make New Zealand an attractive place to live, and market New Zealand Invest in initiatives to reduce child poverty Introduce a universal basic income
				5. Improve productivity	Innovation	● ● ● ●
Technology	● ●		Build confidence and understanding in technology			
Employment	● ● ● ●		Encourage uptake of apprenticeships, including in high school Support business and community mentoring			
6. Improve social cohesion	Community engagement		● ●	Promote and create incentives for greater voluntary community service Empower communities to take responsibility for their own well-being		
			○ ●	Address Māori and Pasifika academic underachievement		
Opportunities exist						

\* see example overleaf

Using the fiscal tool, we can identify policy options to help improve our fiscal position over the short and long term. But every option has a trade-off. If we want a change in one area we must be prepared to deal with a balancing change somewhere else. This can result in tough choices, but given the challenges already outlined, they are choices that must be made. To discuss the trade-offs of every policy is beyond the scope of this document, however we have explained the link between the challenges, the tools, and the trade-offs in the following three examples.

### Example 1 Superannuation: Link the age of eligibility to life expectancy

**Which tool?** Woodsaw: a gradual change to adjust for the fact that New Zealanders are living healthier, longer lives.

**Why?** To help solve the Auntie Gertrude problem. Fewer people will be eligible for superannuation, so it reduces costs. It seems fair because people are living longer and it could have a positive impact on growth if it encourages older people to remain in the workforce for longer (though they can also work while receiving superannuation).

**Trade-offs:** Some people will be hit hard by the reduction in income. The benefits will not be shared equally between populations with different life expectancies.

### Example 2 Health: Focus more on primary healthcare and nurse-led care to reduce the number of hospitals

**Which tool?** Chisel: adapting the health system to respond to changing needs as some diseases that used to be fatal are now survivable long-term conditions (e.g. diabetes, dementia).

**Why?** Hospitals are designed for one-off interventions on life-threatening conditions. There would be less need for hospitals if people received the treatment they needed for long-term conditions before they became acute, through GPs, nurses, and patient self-management.

**Trade-offs:** Integrating services may be expensive in the short term. The public has a deep attachment to hospitals so changes may compromise their trust in the system.

### Example 3 Environmental: Introduce a carbon tax

**Which tool?** Corkscrew and cap lifter: introducing a new measure to encourage more environmentally friendly behaviour.

**Why?** It provides an extra source of revenue that the government could use to deal with the social costs of carbon emissions; encourages reductions in emissions by placing the cost on polluters.

**Trade-off:** It hurts business by hindering growth. The tax may disproportionately affect low-income groups. It may allocate carbon resources less efficiently than a well-functioning emissions trading scheme.



## 5 KEY MESSAGES

This youth statement has looked at tools for responding to three key fiscal challenges New Zealand faces. There is an urgent need to deal with spending increases in superannuation and health. We need to get into a stronger fiscal position so we can respond effectively to the next earthquake or other unpredictable shock. And there are opportunities to invest in creating a New Zealand that means the world to us by addressing climate change, child poverty and imprisonment rates.



It is also important to take a longer-term approach and imagine new ways of doing things that could equip New Zealand with the capabilities to succeed in 2052. For example, technology could be used to improve the way governments interact with the public. The internet enables a constant feedback loop between the public and the government. The traditional media tends to focus on scandals rather than substantive policy issues so can't be relied upon to engage young people in policy debate. If we can use internet platforms effectively, we will be able to reach a broader spectrum of society and move from consultation to genuine engagement. In order to achieve this, the government's online presence should be oriented to the needs of individual users, rather than public servants of government departments. Technology also offers opportunities to make traditional decision making work better; measures like online voting should be seriously considered.

We have not been able to give a comprehensive analysis of the kinds of changes that should be made. Instead, we have identified a host of interesting options available to governments – some of which tackle the long-term fiscal position, some of which tackle the aspirations of today's young people. Five key messages have emerged.



1. Youth need to participate in the debate.

We will inherit the consequences of today's decisions and we cannot afford not to care. Online voting and online platforms can engage young people at a time when traditional media cannot be relied upon to host important debates concerning the future for young people.

2. We have the opportunity to act early.

Unlike some countries struggling under heavy debt burdens, we have a window of opportunity in which to respond pre-emptively to demographic changes and rising health costs.

3. Building consensus around hard decisions is important.

Young people are willing to make trade-offs which recognise that the system must develop with changing demographics and rising health costs. Generations need to work together on this issue.

4. Other areas of spending remain important.

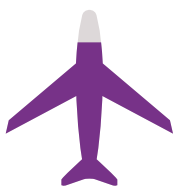
Although spending may be fiscally constrained, the future we want requires active investment in smart long-term options – like a low-carbon economy, lower imprisonment rates, and decreased child poverty. These options are often cost-effective in the big picture and over the long term.

5. There is no silver bullet, but we do have solutions and choices.

We should not rule anything out. As the examples in this statement have shown, trade-offs are inherent in all policy options, but everything should be on the table in looking forward to the next forty years.

Creating a better New Zealand over the next forty years will require us to think both imaginatively and realistically about what we want to achieve and how we can get there. We face a number of big fiscal challenges and it's important as young people to think about them seriously. If we don't, the costs will fall squarely on our shoulders and those of our children.

The first step is to understand the nature of the challenges and the tools we can use to optimise outcomes. This document aims to help achieve that. The next step is to start debating which initiatives provide the best outcomes. Challenges are no more than opportunities in disguise – it's now time to de-mask our challenges and pave the way to a Kiwi future of which we'll all be proud.



89% of LongTermNZ participants plan on leaving New Zealand.



82% of those who plan to leave New Zealand plan to come back.



37% of LongTermNZ participants believe that healthcare will be free and of the same quality in 40 years.



74% of LongTermNZ participants think primary and secondary education will be free and of the same quality in 40 years.



11% of LongTermNZ participants believe they will be entitled to a universal pension when they retire.



82% of LongTermNZ participants think the New Zealand economy as it is now is not structurally resilient to the fiscal challenges climate change presents.



32% of LongTermNZ participants are male and 68% are female. The average age is 21 years. 67% of LongtermNZ designers are male and 33% are female. The average age is 22 years.





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Bill Moran  
Sam Morgan  
Dr Patrick Nolan  
Becky Prebble  
Dr John Volpe

"If you don't go looking for risk, risk will come looking for you."

SAM MORGAN

"40 years ago, I could swim in and drink from most New Zealand rivers; I can't now. Our future involves recapturing some of our past."

ANDREW GAWITH

"We've got to shout louder."

CHRIS LAIDLAW



## ABOUT THE LOGO

The logo on the front cover was developed at the workshop. The wavy lines represent the continued fluctuations in the long-term health and productivity of the people of New Zealand. Shocks to the economy may come, but we ride the waves and continue on. The four crosses represent in roman numerals the 40 years of fiscal projection into the future. They also represent symbolically the Southern Cross as a marker of our national identity and as an ancient and trusted tool that will remain fixed, guiding us into the future.



I want a New Zealand that we WANT to live in.

We need to start NOW!

We have to begin our future savings with \$50,000 in student debt.

Prudence lies in weighing the disadvantages to each alternative and taking the least bad as good.  
– Machiavelli

We want an affordable future too.

Your choices are our consequences.

We can't pretend problems will solve themselves without a plan.

Vision needs a voice to be heard.

We're selling the Kiwi dream to build a retirement home.

The future is not one generation's to take.

Too much talk, not enough action.

In 40 years I'll be 57.

Tax justice for long-term growth and social inclusion.

We need facts to create a framework to make decisions.

## 27 VOICES

Unless we act, we'll inherit serious ecological and economic debt.

I'm angry!

Our generation is giving to the past & the future.

Give me a dollar for every apathetic young person and we've got a nice little nest egg for a few retirees.

Think about our fiscal future NOW. Legislate, don't hesitate.

I feel robbed.

Today's cost is our future's burden.

Learn wisdom in thy youth.  
– King Benjamin

Future generations are calling on us to move beyond economic growth.

We'll make a better future, but only if you let us.

Superannuation is bankrupting our country.

To compete internationally, we need to make the most of what we've got.

Need to start planning a sustainable future now.

LongTermNZ

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