THE Helen Clark FOUNDATION

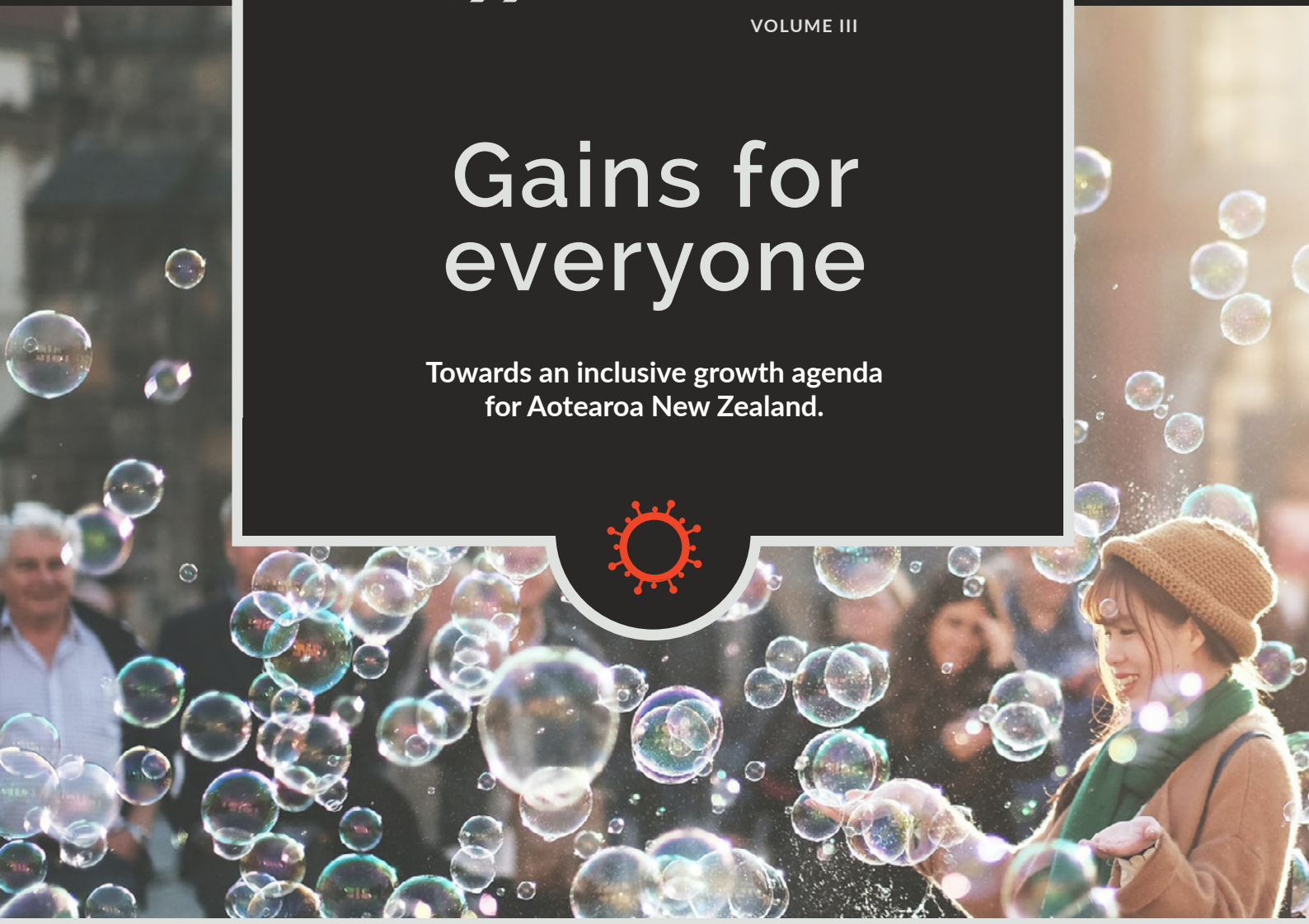
NZIER NEW ZEALAND INSTITUTE OF ECONOMIC RESEARCH

POST PANDEMIC FUTURES SERIES

VOLUME III

Gains for everyone

Towards an inclusive growth agenda for Aotearoa New Zealand.



A DISCUSSION PAPER BY

TODD KRIEBLE

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ABOUT THE HELEN CLARK FOUNDATION

The Helen Clark Foundation is an independent public policy think tank based in Auckland, at the Auckland University of Technology. It is funded by members and donations. We advocate for ideas and encourage debate; we do not campaign for political parties or candidates. Launched in March 2019, the Foundation issues research and discussion papers on a broad range of economic, social, and environmental issues.

Our philosophy

New problems confront our society and our environment, both in New Zealand and internationally. Unacceptable levels of inequality persist. Women's interests remain underrepresented. Through new technology we are more connected than ever, yet loneliness is increasing, and civic engagement is declining. Environmental neglect continues despite greater awareness. We aim to address these issues in a manner consistent with the values of former New Zealand Prime Minister Helen Clark, who serves as our patron.

Our purpose

The Foundation publishes research that aims to contribute to a more just, sustainable and peaceful society. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them. We welcome your support: please see our website **helenclark.foundation** for more information about getting involved.

ABOUT THE NEW ZEALAND INSTITUTE OF ECONOMIC RESEARCH

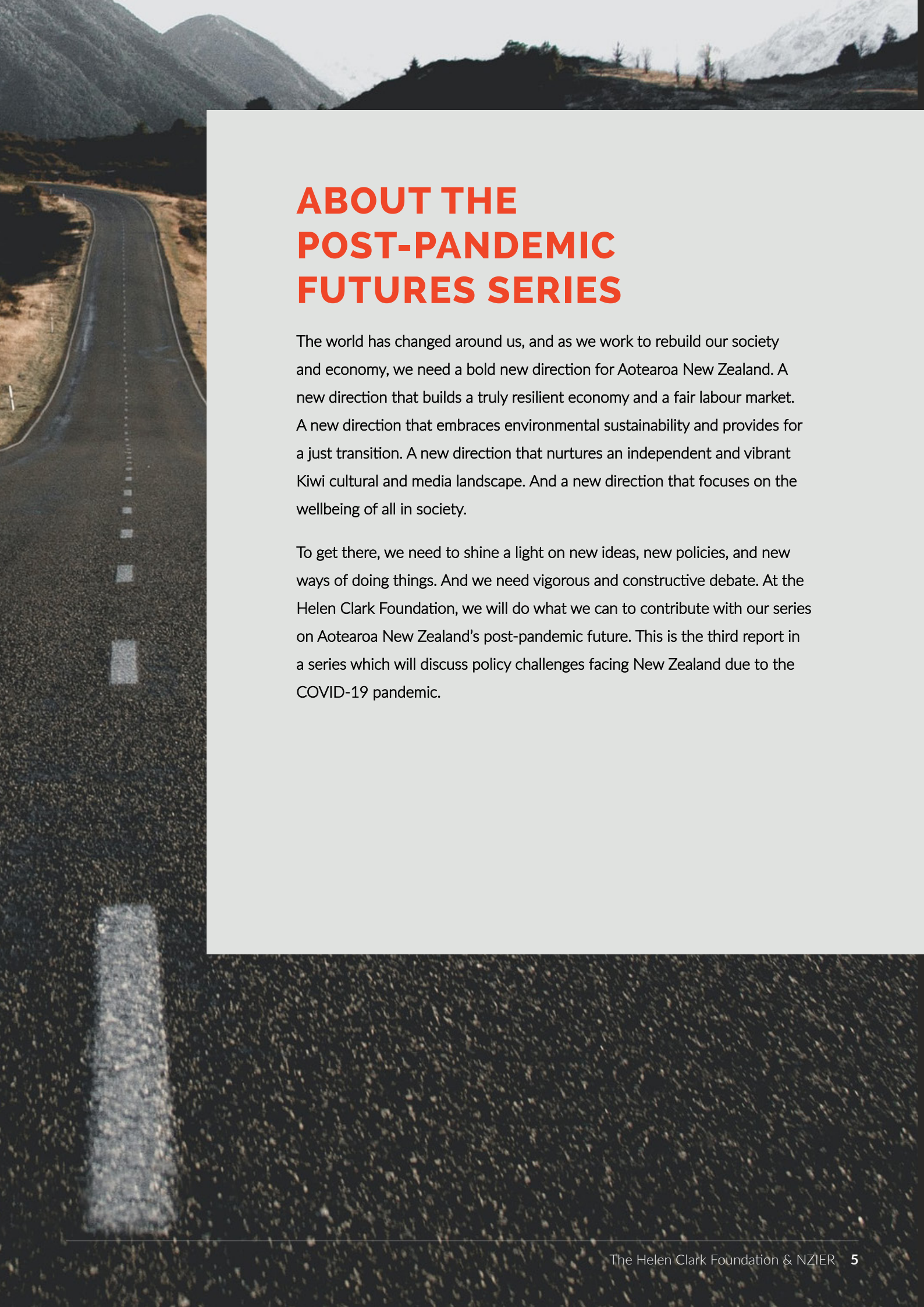
The New Zealand Institute of Economic Research (NZIER) is a non-profit economic research organisation. We undertake independent economic research in the interests of the public good.

Each year, NZIER devotes resources to undertake and make freely available economic research and thinking aimed at promoting a better understanding of New Zealand's important economic challenges.

As an independent organisation, our work is free from any political or commercial influence. Our work is designed to provoke reactions and advance New Zealand's understanding of economic challenges and opportunities.

We publish think pieces ranging from short *Insight* notes to applied research papers that inform policy and academic debate. We support Data1850 – an interactive website that allows users to explore, visualise, compare and download long-term economic data for New Zealand.

NZIER's Public Good Fund is also used to inform visiting diplomats and officials from international bodies about the New Zealand economy, speak at conferences and promote economics in New Zealand though our annual NZIER Economics Award.



ABOUT THE POST-PANDEMIC FUTURES SERIES

The world has changed around us, and as we work to rebuild our society and economy, we need a bold new direction for Aotearoa New Zealand. A new direction that builds a truly resilient economy and a fair labour market. A new direction that embraces environmental sustainability and provides for a just transition. A new direction that nurtures an independent and vibrant Kiwi cultural and media landscape. And a new direction that focuses on the wellbeing of all in society.

To get there, we need to shine a light on new ideas, new policies, and new ways of doing things. And we need vigorous and constructive debate. At the Helen Clark Foundation, we will do what we can to contribute with our series on Aotearoa New Zealand's post-pandemic future. This is the third report in a series which will discuss policy challenges facing New Zealand due to the COVID-19 pandemic.

EXECUTIVE SUMMARY

The global COVID-19 pandemic has caused a major social and economic shock to Aotearoa New Zealand. These impacts have not been distributed evenly. Those already facing systemic disadvantage – Māori, Pacific people, people with disabilities, young people, and women – have disproportionately shouldered the burdens caused by job losses and economic uncertainty.

However, the paradigm-shifting nature of this truly global event also presents a unique opportunity to create a more equitable economic model, crafting a post-pandemic Aotearoa New Zealand characterised by more-inclusive growth for the next generation. Inclusive growth is that which shares gains and does so in a sustainable way. This paper draws on the OECD Framework for Policy Action on Inclusive Growth to outline an inclusive growth agenda that could work for Aotearoa New Zealand.

Key underpinning themes:

- Pre-distribution: backing the potential of younger generations, which is likely to reduce the need for future redistribution from the state.
- Investing in the workforce: nurturing home-grown talent by expanding the skill levels of New Zealanders.
- Co-design: enabling greater participation from citizens and stakeholders in policy design.

These themes acknowledge the significance of the challenges Aotearoa New Zealand is experiencing as well as the inequities that characterised the pre-COVID-19 economy and society. The paper deliberately has not looked at the structure of the economy or formed recommendations which pick winners or which suggest major changes to tax and transfer policies. It suggests the following six opportunities for developing an inclusive growth agenda in Aotearoa New Zealand, by investing in people and places currently left behind by:

1. identifying and removing barriers to skills development and learning for those 'stuck' in low-wage jobs

2. identifying and providing social support to reduce precarity (a state of persistent insecurity with regard to employment or income) such as childcare and accessible transport.

It further suggests supporting business dynamism and inclusive labour markets by:

3. placing less emphasis on short-term disemployment effects and more on a medium to long-term view of significantly raising the minimum wage to encourage investment in upskilling and gains to productivity when reviewing the minimum wage

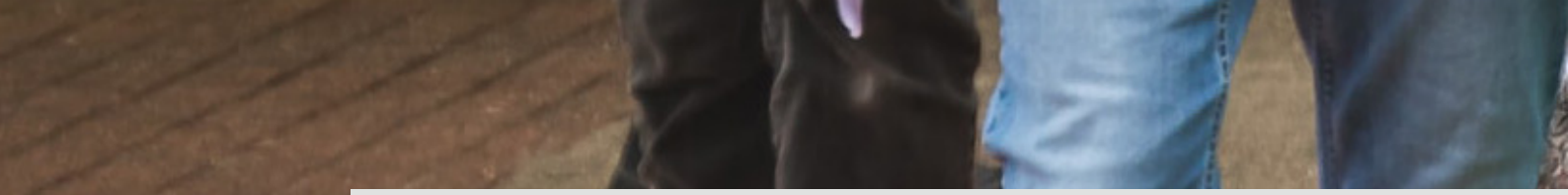
4. supporting entrepreneurship, innovation, and dynamic markets to lift firm performance and, when necessary, worker transitions to firms and sectors with a more positive outlook.

Finally, it suggests the enhancement of efficient and responsive government by:

5. using good-practice participatory engagement tools to involve citizens and service users in the design of policies and programmes that affect them

6. requiring child and youth impact assessments for major policy proposals with likely intergenerational distributional impacts.

Aotearoa New Zealand's strong response thus far to COVID-19 and the attendant disruptions to the status quo have opened the door to real and inclusive step change. The aim of this paper is to explore the possibilities and to generate further constructive discussion in this area.



INTRODUCTION

The COVID-19 pandemic has dramatically changed the social and economic outlook for Aotearoa New Zealand. Thousands of jobs have disappeared from the economy, especially in the hospitality and tourism sectors – jobs that were previously often filled by migrants or low-paid local workers. Job losses, however, have also had a significant impact on Māori, Pacific people, people with disabilities, young people and women. While immigration remains tightly restricted because of border controls to prevent importing COVID-19, labour will become relatively more scarce and costly. On the other hand, capital has never been cheaper as the Reserve Bank lowers interest rates. This combination of tightly restricted migration and low-cost capital has rarely existed in our nation's history. It will require a new economic model, and should enable a more equitable one.

There is now an opportunity to boost Aotearoa New Zealand talent, especially by bringing previously excluded groups into higher-skilled, higher-paid work that will lift Aotearoa New Zealand's overall productivity and yield more-inclusive growth. This is a difficult challenge for any country. To achieve it, Aotearoa New Zealand will have to be bold, flexible, and nimble.

New policies are needed to drive this transition. These include boosting wages to encourage firms to innovate, supporting frontier firms, and helping employers and employees with high-end skills training and policies that make labour-market participation easier, especially for those currently out of work or long-term unemployed. Inclusive growth also depends on using better government assessment and more creative ideas to improve the distributional impacts of policy proposals. This discussion paper proposes an agenda that departs from the more traditional approaches to promote inclusive growth.

THE CHALLENGE:

WHY WE NEED A BREAK FROM CURRENT POLICY AND PRACTICE TO RESPOND TO THE SHOCK OF COVID-19

Aotearoa New Zealand's COVID-19 pandemic response in March and April 2020 knocked three years of GDP growth off the economy in under three months (Leroy de Morel et al. 2020).

Around the world, the GDP of advanced economies is expected to be down 6 percent in 2020 (International Monetary Fund 2020).

The impacts of this economic shock are not yet fully understood (Hawke 2020), but we know that they have not been evenly distributed. Small businesses and low-wage jobs have been the worst affected to date (Stats NZ 2020a), and it is likely that many of the jobs lost will not return (Stiglitz et al. 2020).

Inclusive societies sustain improvements in social and economic outcomes. Strong institutions support prosperity, growth, and sustained development (Acemoglu and Robinson 2012; Lloyd and Lee 2016; Ostry et al. 2019). Aotearoa New Zealand has an opportunity now to strike an integrated balance of social and economic reform so that gains are shared in a 'productivity-inclusiveness nexus' by broadening the productive base of the nation (OECD 2018c).

The New Zealand Government has responded to this challenge with an unprecedented level of support to families and businesses and a strong and successful public health response. This has provided short-term stability and leaves the country poised to recover more quickly than many others (Eichenbaum et al. 2020). However, the Government's pandemic relief to date has not been specifically targeted, which is unsustainable. The need to reset government policies and programmes presents an opportunity to craft a post-pandemic Aotearoa New Zealand with more-inclusive growth for the next generation. As Joseph Stiglitz notes, the new economy will require new rules (Stiglitz 2020).

With a range of monetary and fiscal policies being discussed, including long-term infrastructure investment, it is important to consider who will reap the benefits. Focusing on inclusive growth means that everyone has a stake in progress. This includes thinking beyond current

forms of redistribution (such as social security payments) to include concepts of predistribution (such as significantly higher wages) for a more-inclusive future.

Workers who are well paid can feel a stronger sense of loyalty and belonging to their colleagues and employer (Bunker 2015). Better-paid workers are more motivated, which in turn encourages employer investment in training and development (Clark 2015). Firms like Tonzu (featured on page 31) have seen this effect in action. If employers pay living wages, there is less need for the state to redistribute through taxes and transfers after employment income. This helps to promote a sense of social and economic inclusion, belonging and participation (Bunker 2015). This kind of predistribution makes sense now because the economy is undergoing a reset.

As well as lifting wages, Aotearoa New Zealand needs to invest in nurturing home-grown talent, retraining and upskilling the existing workforce and removing barriers to workforce participation for individuals and households that are currently excluded.

The pandemic, which has caused great upheaval in people's lives, may eventually produce a wealth of new opportunities arising from creative destruction and renewal (*Schumpeter* 2020). For example, disabled people who were previously excluded from work and/or underemployed could benefit from the embedding of work from home opportunities that did not exist before COVID-19.

An inclusive transition depends on ensuring that those previously excluded are in a position to participate when new opportunities emerge. For employers, this will require a capabilities-based view (Teece and Brown 2020). Capabilities are comprised of the physical assets, staff skills, organisational systems, and leadership of a firm or organisation that can be sustained into the future.

All of that will require a particular focus on the wellbeing of young New Zealanders – the future workforce. It is impossible to thrive, learn and upskill from a position of distress and deprivation. Young people in Aotearoa New Zealand and around the world are facing multiple challenges. More than 50 percent of respondents to an OECD survey about young people and COVID-19 named mental health, employment, and income as their biggest challenges (OECD 2020b). Similar experiences were echoed in Aotearoa New Zealand in a Youthline survey during the Alert Level 4 lockdown, with 73 percent of young people reporting that the lockdown had a negative impact on their mental health (Youthline 2020). It is important to understand the immediate and future challenges faced by young people here, and to design and assess policies to address these challenges.

THE KEY CONCEPT:

WHAT EXACTLY IS INCLUSIVE GROWTH?

Inclusive growth is growth that sustains and shares the gains of growth across society.

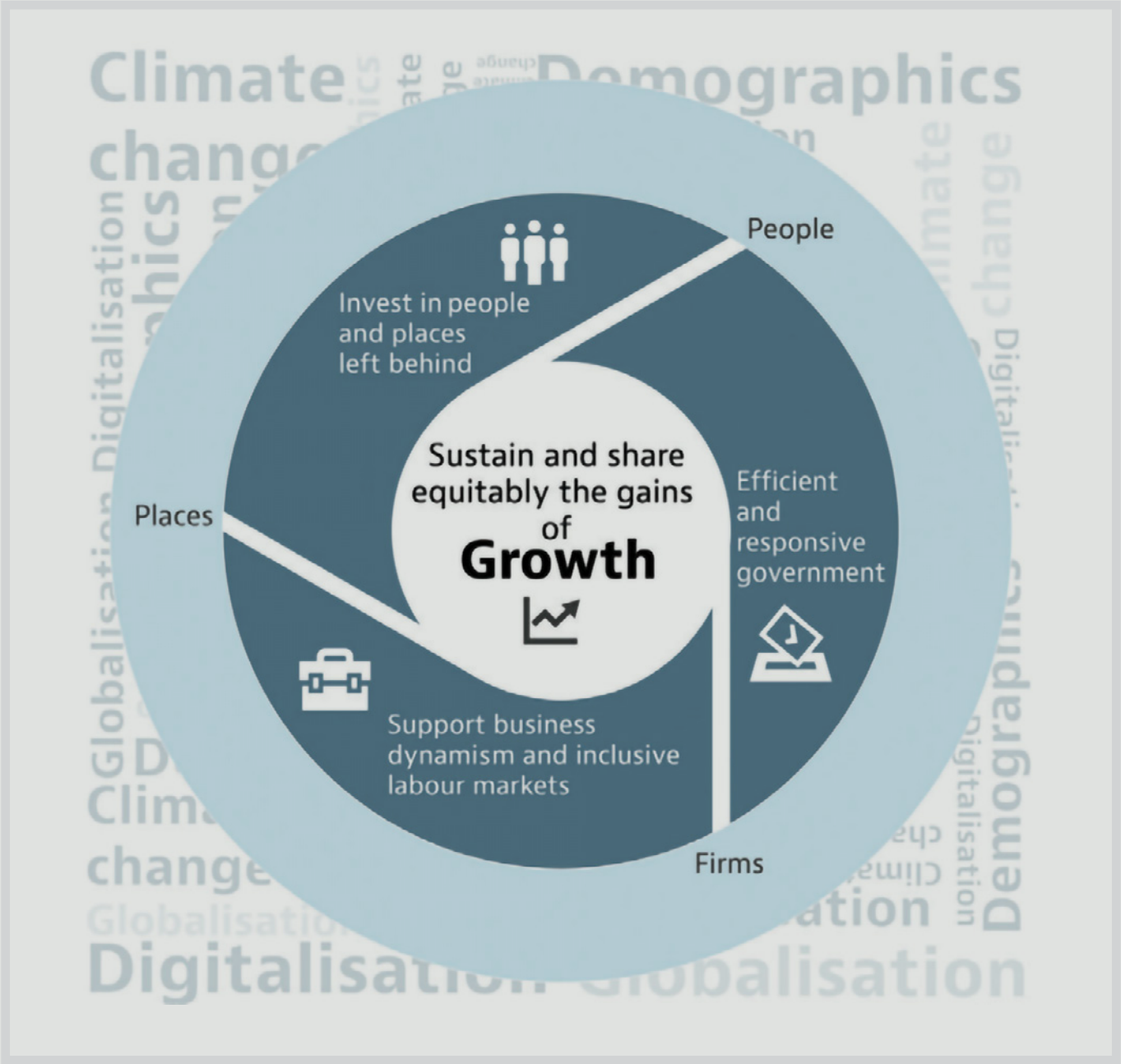
A Brookings Institution survey identifies several ways to define inclusive growth (Dooley and Kharas 2019). Inclusive growth can include an absolute definition, such as poverty reduction or relative growth which means that the incomes of the poor grow faster than the average. Some definitions include non-income variables such as access to education and health. These definitions are not mutually exclusive. In practical terms, it means that the incomes of those in poverty grow faster than the incomes of wealthy people. To define inclusive growth in measurable terms, growth is inclusive when it leads to increased household consumption, and when those consumption gains are broadly distributed across society, with those on the lowest incomes being lifted the most.

The OECD's Framework for Policy Action on Inclusive Growth allows us to consider an Aotearoa New Zealand response. The framework is based on:

- investing in people and places left behind – for example, vocational and tertiary education
- supporting business dynamism and labour markets – for example, supporting staff to retrain
- efficient and responsive government – for example, involving young people in policy design.

In the context of the next generation of New Zealanders, investment starts with improved life chances in childhood and opportunities in adolescence and young adulthood (OECD 2018a).

Figure 1: The OECD Framework for Policy Action on Inclusive Growth



Source: OECD 2018b

THE STARTING POINT:

CURRENT BARRIERS TO INCLUSIVE GROWTH

Measurement is important for tracking whether and where our growth is inclusive.

Even before the shock of COVID-19, Aotearoa New Zealand was facing multiple challenges to inclusivity, including high levels of wealth and income inequality, entrenched poverty and material hardship, and limited intergenerational mobility (New Zealand Government 2019).

Inequality as a measure of exclusion and inclusion

It is important to understand how well a country's social and economic policies work to reduce underlying inequality or disadvantage. There are a number of ways to measure this, including the Palma Index, the 80/20 index, and the Gini coefficient, all of which seek to measure the degree of inequality in either wealth or income across a population. Aotearoa New Zealand, like many other countries, relies on a 'tax and transfer' system, collecting revenue from taxation and redistributing this via social security payments and tax credits in an attempt to ensure that everyone has adequate income on which to survive. One way to understand how well this is working is to look at how much a country's underlying income inequality is reduced after tax and transfers have been applied. On this measure, Aotearoa New Zealand is not performing as well as it could. Its tax and transfer policies reduce inequality in the working-age population by about 25 percent, which is similar to the effect in Australia and the UK, but much less than that in Denmark, France, and Austria, which have seen 33–36 percent reductions. (The OECD median was 27 percent in 2013.) When measured across the entire population, not just those of working age, Aotearoa New Zealand performs even worse, seeing a 28 percent reduction in inequality after taxes and transfers, compared to an OECD median of 35 percent (Ministry of Social Development 2019).

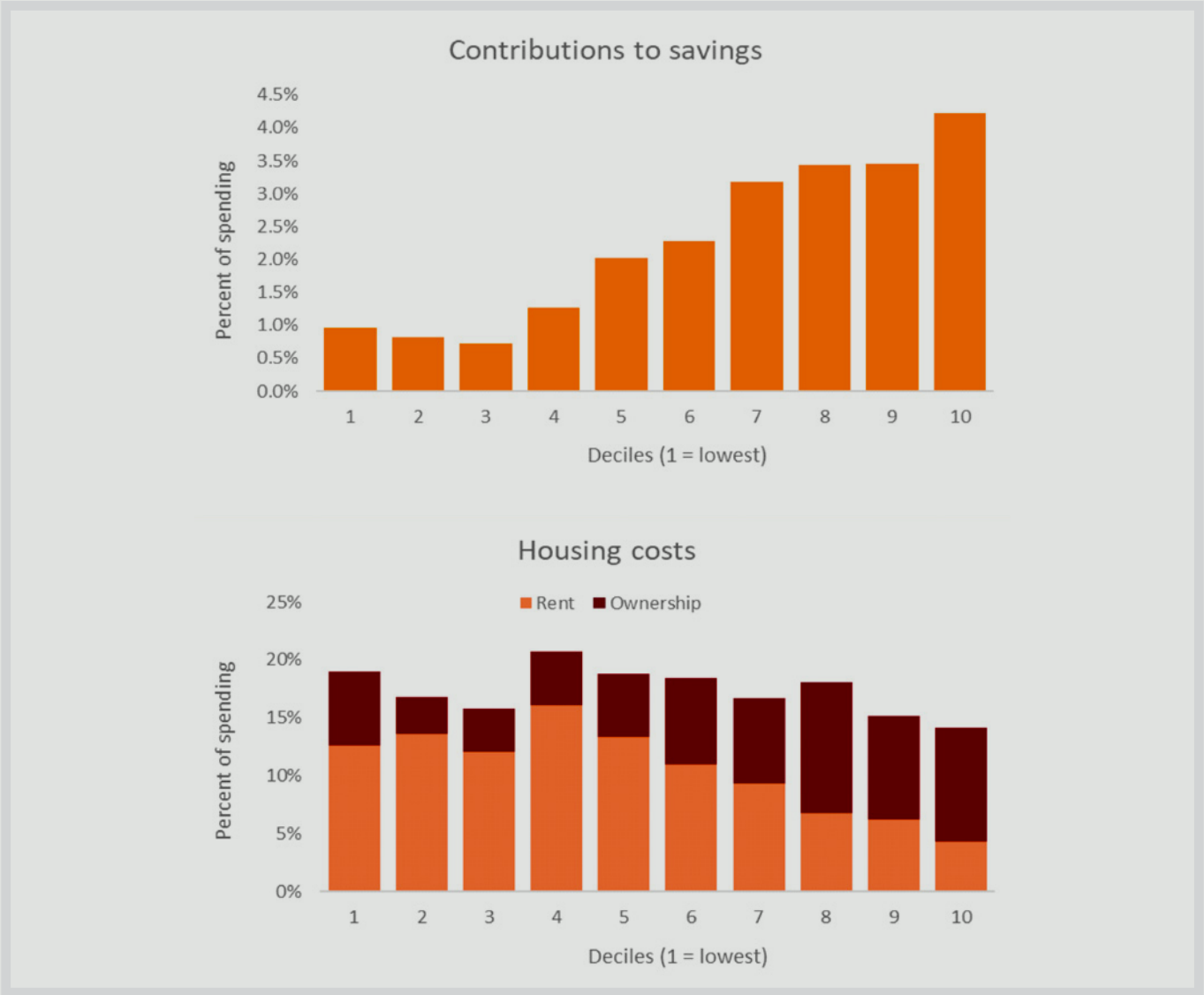
Furthermore, low-decile households in Aotearoa New Zealand have much lower rates of savings and home ownership than high-decile households, which compounds income inequality with wealth inequality. Housing is New Zealanders' main store of wealth, with 61 percent of Aotearoa New Zealand households' financial assets invested in the family home (Stats NZ 2020b). Home ownership rates have been falling steadily for 30 years. With lower-decile households continuing to save less, that gap is increasing.

Home ownership for people aged 25–40 dropped from 46 percent to 35 percent between 2001 and 2013 (Stats NZ 2016).

These changes have been felt unevenly. In the last 25 years for example, home ownership has fallen faster for Māori than for the non-Māori population. Since 1986, homeownership is down 20 percent for Māori, compared with 15.3 percent for the total population. The falls in home ownership did not just occur in the largest cities. For Māori, falls in home ownership were close to 40 percent in the Whangārei, Southern Auckland, Tauranga, Rotorua, and Hastings urban areas (Stats NZ 2016).

These trends matter, because home ownership is not only a store of wealth. It also provides stability of tenure for schooling, social connection and generally better-quality housing. That, in turn, can lead to improved psychological and physical health (Krieger and Higgins 2002).

Figure 2: Low deciles save less and spend more on rent



Source: Stats NZ

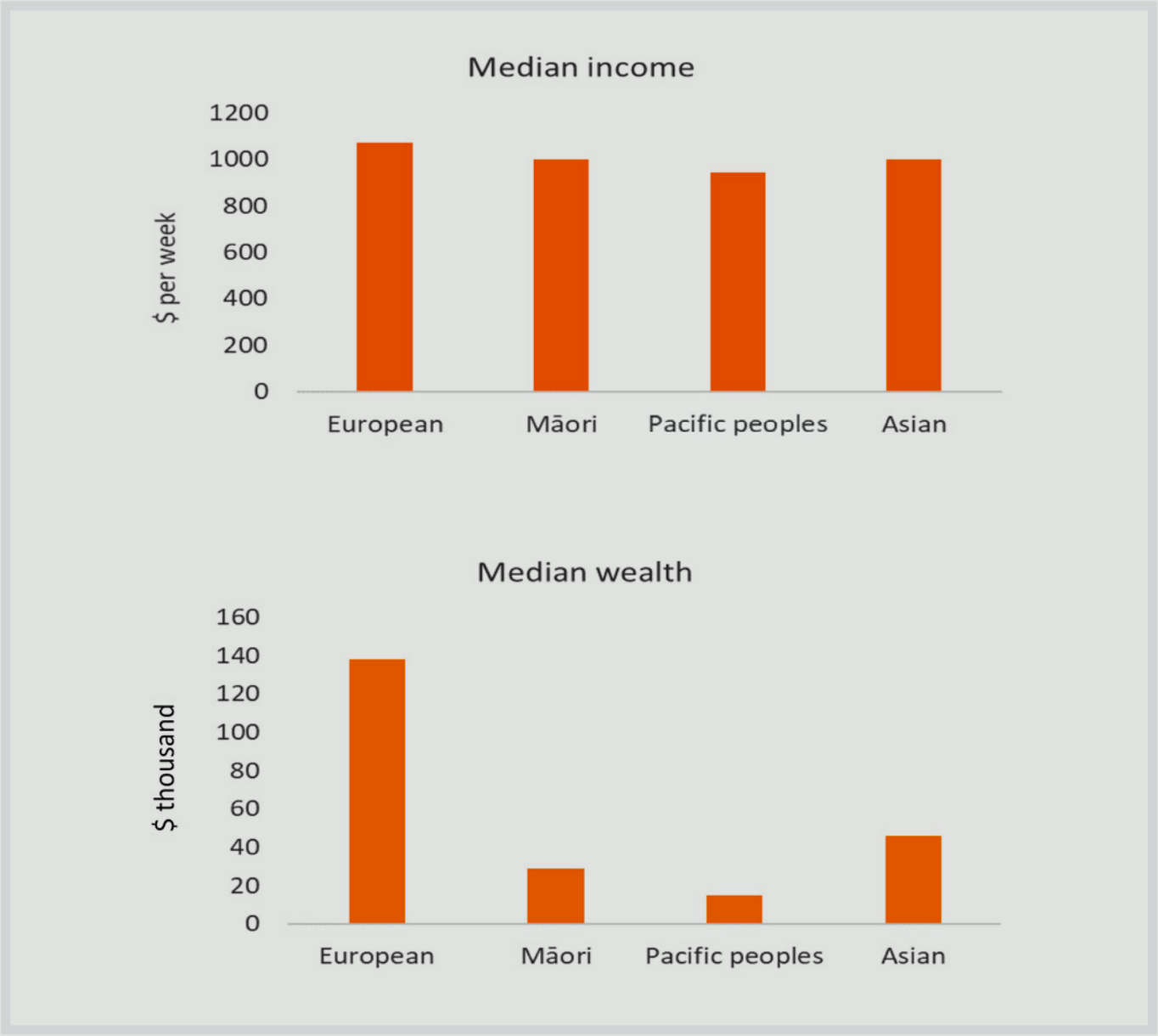
Income and wealth inequalities are compounded by ethnic inequalities. As discussed above, rates of home ownership are lower for Māori (24 percent) and Pacific people (18 percent) than Pākehā/NZ Europeans (45 percent). This is one driving factor in the far greater median wealth of Pākehā households. As Māori and Pacific people earn less on average, it is more difficult for them to build these stores of wealth.

Low levels of wealth accumulation (in housing and other stores of wealth like savings) leave children vulnerable when there are household income, housing, health, and/or relationship shocks.

Absolute poverty measures

Poverty is defined as exclusion from a minimum acceptable way of life in a society because of inadequate financial and material resources (Stats NZ 2019). Absolute poverty measures usually consider minimum adequate household expenditure (Stephens & Waldegrave 1995) but can also measure material hardship.

Figure 3: Income and wealth by ethnicity



Source: Stats NZ

The concept of material hardship as a minimum is based on non-income components such as adequate food, clothing, accommodation, heating, transport, and other items most people deem essential in day-to-day living (Boston 2013).

Absolute poverty measures can be turned into fixed-line measures. The Child Poverty Reduction Act 2018 provides for the Government Statistician to define material hardship and for the responsible Minister to set targets for reduction. A minimum standard of living is a prerequisite for inclusion. The Ministry of Social Development has developed a list of 17 key indicators deemed essential to daily life, such as a protein-rich meal at least once every two days, adequate clothing and footwear, the ability to pay basic utility bills on time, and not having to defer medical or dental treatment due to cost. Material hardship is defined as living in a household that regularly goes without six or more of these key indicators.

Severe material hardship is living in a household that regularly goes without nine or more.

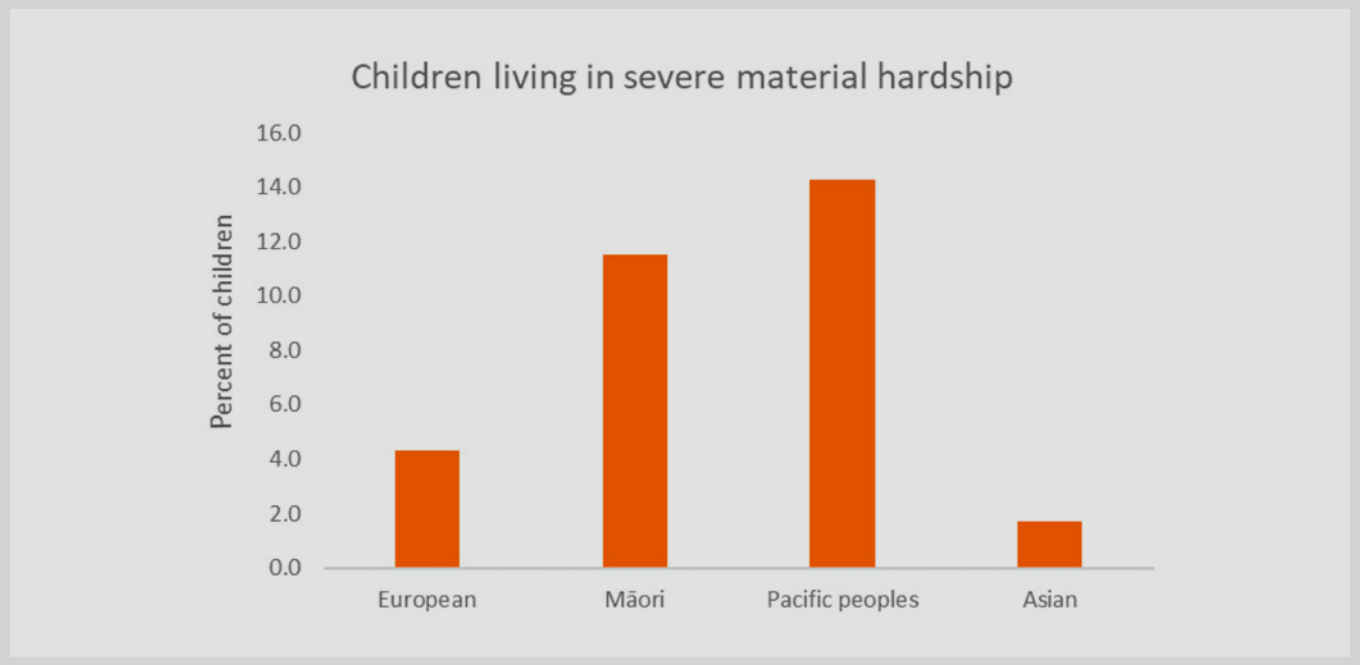
The Government's 2020 Child Poverty Report reveals that 13.4 percent of children (151,700 children) were in material hardship in 2018/19, with no change from the previous year (New Zealand Government 2020a). Stats NZ has found that 5.8 percent of Aotearoa New Zealand children live in severe material hardship. By ethnicity, the percentage of children in severe material hardship is three times higher for children in Māori and Pacific households. These children start their life journey much further back on opportunities for inclusion (New Zealand Government 2020b).

These are all pre-COVID-19 measures. The impact of COVID-19 on rates of child poverty and material hardship is yet to be fully reported, but it is likely to have produced significant shocks for those households already struggling and to have shifted more households into the categories of poverty or material hardship. The emerging evidence suggests that these impacts have been unevenly distributed and have compounded existing disadvantage. In August, following the COVID-19 lockdown, it was announced 11,000 New Zealanders had already lost their jobs as a result of the pandemic, with some indicators suggesting the losses disproportionately impacted women.

The short-term impact of COVID-19 on jobs is still being felt. The unemployment rate rose from 4.0 percent to 5.3 percent in the September 2020 quarter (NZ Stats 2020d). That is the biggest quarterly increase on record.

A Cabinet paper to the Economic Development Committee, also released in June, revealed that a further 500,000 New Zealanders could become more vulnerable to food insecurity because of the impact of the pandemic (New Zealand Government 2020c).

Figure 4: Material hardship for Māori and Pacific children

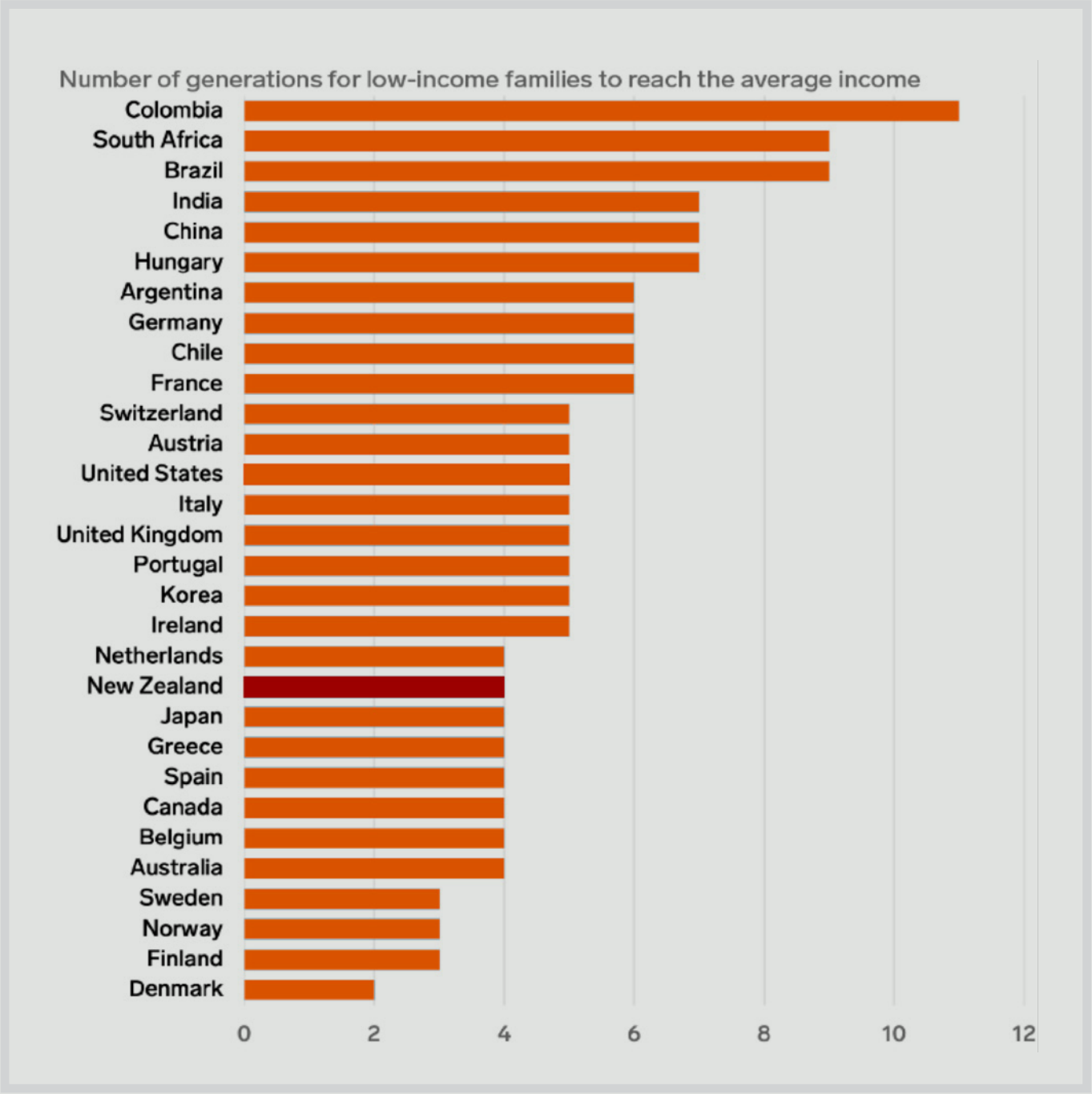


Source: Stats NZ

Intergenerational mobility as a route to inclusive growth

Intergenerational mobility is about the ability to improve on one's parents' social and economic wellbeing. One way that is measured is in income mobility – how long it takes someone born into a low-income family to reach the average income. The OECD found that it would take four generations for a young person in a low-income family to reach the average Aotearoa New Zealand income. Even the outlook for the best-performing OECD country at two generations seems too long for those caught at the wrong end of that equation (OECD 2018a).

Figure 5: Income mobility



Source: OECD

LA MARZOCCO

YOUNG PEOPLE IN AOTEAROA NEW ZEALAND IN 2020:

ARE THEY WELL POSITIONED TO EXPERIENCE INCLUSIVE GROWTH?

The confidence of youth can be a powerful force for future success.

Building on strengths

The New Zealand Productivity Commission highlights youth self-efficacy as a useful belief to foster resilience. When asked what skills and knowledge they will need for the future of work, a survey of young New Zealanders shows that it is mostly the same skills and knowledge strengths they have now (Sharman 2019). This type of cognitive bias – a belief in self-efficacy – is, however, no bad thing. Youth can be very confident in their ability, which is good, but also need to recognise that in their life course they may need to retrain as the world changes.

The What Makes a Good Life? report by the Office of the Children's Commissioner and Oranga Tamariki (2019) found that young New Zealanders generally report doing well, but that some face significant challenges. Children and young people reported that their wellbeing was intrinsically linked to that of their family and whānau, and that, in order to thrive, they needed not only the basics of material wellbeing, but also to feel accepted and respected.

While the COVID-19 lockdown was challenging for many young people, there were positive aspects and reasons to be hopeful too, such as reconnecting with important people in their lives, seeing a positive environmental impact, trusting in the Government response, and slowing down and learning new skills (ILO 2020; Youthline 2020).

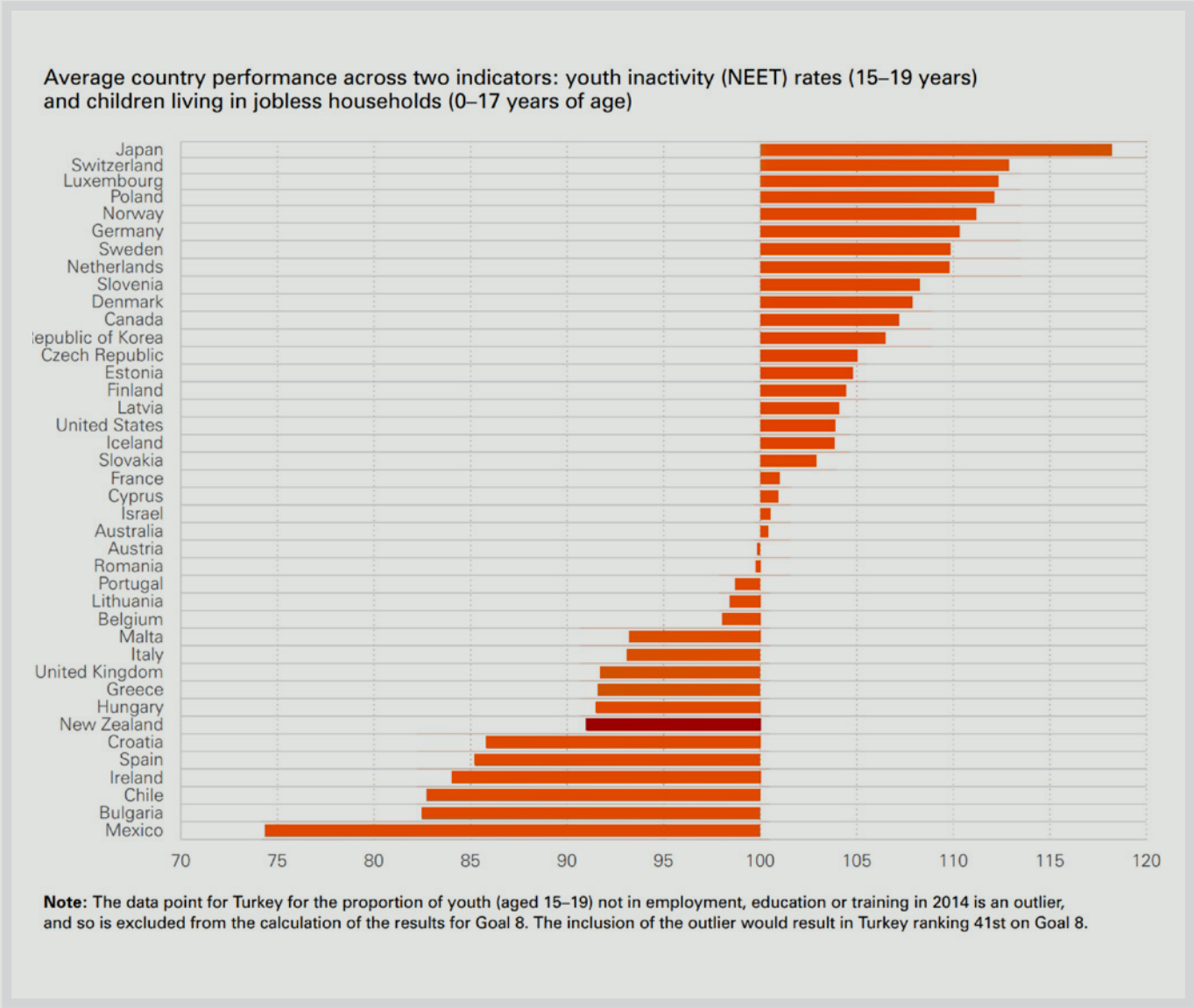
With a cohort of young New Zealanders feeling confident and ready to take on the world, they have a bank of energy and optimism to take with them as the world evolves – captured in the Māori concept of te ao hurihuri (this concept has multiple readings, but encapsulates the idea of a constant core that acts as an anchor to change occuring around.)

Challenges to inclusion from compound disadvantage

Notwithstanding the enthusiasm of its youth, Aotearoa New Zealand does have work to do to create the preconditions for inclusive growth. In *Worlds of Influence: Understanding What Shapes Child Well-being in Rich Countries*, UNICEF ranks Aotearoa New Zealand 35th out of 38 rich countries in its league table of child wellbeing outcomes based on mental wellbeing, physical wellbeing, and skills (UNICEF 2020, 11).

When it comes to setting up young people for sustainable and inclusive growth, UNICEF ranks Aotearoa New Zealand 34th out of 39 rich countries for youth inactivity (not in education, employment or training) and children living in jobless households (UNICEF 2017, 35).

Figure 6: Aotearoa New Zealand lags OECD in early warning indicators for inclusive growth



Source: UNICEF 2017

Although according to UNICEF, Aotearoa New Zealand ranks 15th out of 40 countries for quality of education, there are persistent inequalities for Māori and Pacific students. There is a strong evidence base of what could work well for those students. Teaching from the students' worldview, strongly interactive learning, quality feedback, and home-school engagement are examples of strategies which help students to realise their potential. Yet, despite such evidence, implementation of effective strategies appears patchy at best. That needs to change if Māori and Pacific student outcomes are to improve (Education Review Office 2013; Evans 2011; Fraser et al. 2020; Marsh and Eastwood 2017).

Research from a programme led by Joanna Kidman at Victoria University of Wellington shows that, in general, marginalised Māori and Pacific young people living in poor neighbourhoods do not feel positive about an inclusive future for themselves or their families (Funaki 2017). However, those in this group feel more positive about their futures when they have:

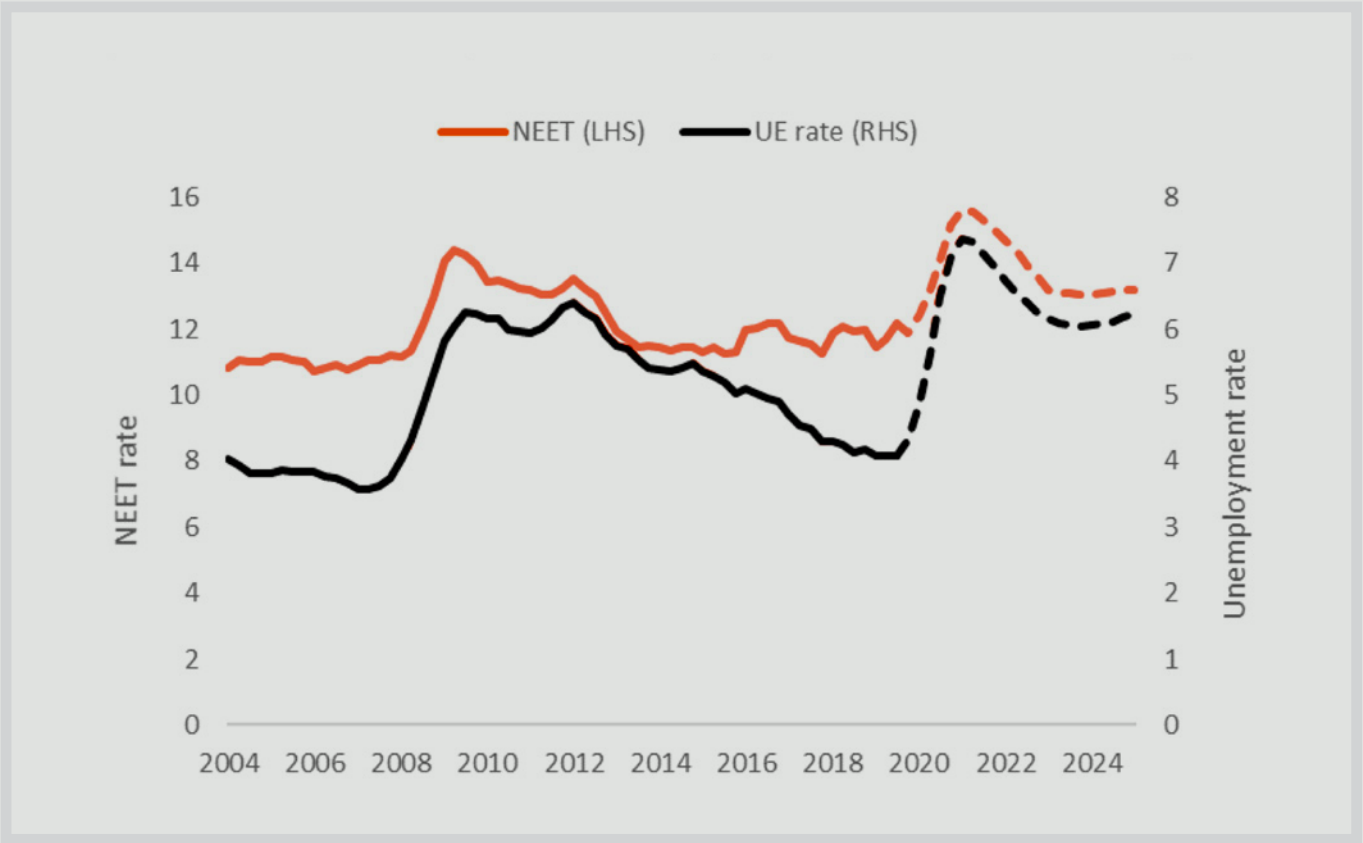
- access to recreational spaces
- places to safely gather, and
- the ability to call on advice from responsible adults.

These opportunities have inevitably been restricted at times under the public health measures required to contain the COVID-19 pandemic.

In the post-pandemic recovery, however, there are redesign opportunities.

Aotearoa New Zealand scores well against the OECD Skills Strategy on most domains including foundational skills of adults, the culture of adult education, and the inclusiveness of tertiary education, but scores poorly on improvement of skills among youth (OECD 2019a). There are long-term consequences for young adults who endeavour to enter the workforce during periods of high unemployment. Aotearoa New Zealand evidence suggests long-term scarring for young people and reduced life chances when they are unemployed and underemployed (Ministry of Social Development 2019). Backed up by international

Figure 7: Forecast rates of youth not in employment, education or training (NEET)



Source: NZIER

evidence, young adults have lower wages and fewer employment opportunities that persist for several years (de Fontenay et al. 2020). While ranking higher than the OECD average, Aotearoa New Zealand still has more than 10 percent of youth not in employment, education, or training (Stats NZ 2020c).

Post-COVID-19 prospects for this group are forecast to worsen as/if unemployment rises in 2021 (see Figure 7).

The structural reforms being implemented in Aotearoa New Zealand's vocational education will streamline administration costs and help with consistency of standards for learners. This modernisation can help Aotearoa New Zealand lift to a level comparable with the best in the OECD.

Young leaders we profile in this report – Vi'iga Alapati and Te Haua Taua – speak about their peers leaving school in order to work low-paid jobs to support their families, potentially shrinking their future aspirations.

HOW DID YOUNG PEOPLE EXPERIENCE THE COVID-19 PANDEMIC?

a Q&A with Vi'iga Alapati

Talofa lava, o lo'u igoa o Vi'iga Suesa Alapati. I was born and raised in South Auckland, and my roots go back to the village of Si'ufaga Falelatai in Upolu, Samoa and the province of Guangdong, China.

Q. Can you tell us about the work you did in your community during lockdown?

A. I worked in a Pasifika-youth-driven project called 'Bubblegum' South Seas – a response team to the needs of our youth in my community. In the first lockdown, we reached out to many young people and put together wellbeing packages: this included phone top-ups to help them stay connected with friends and families and studying supplies to assist with their learning from home. We provided vouchers for food, petrol and to a laundromat, which were redeemable at vendors in the Ōtara Town Centre as a way of putting money back into our economy. We also supplied sanitary packs for our girls and put together infant packages for young parents.

I worked mainly with the social media team engaging and sharing content about our work, themes important to young people along with important messages about COVID-19 put in a way that was easy for my fellow peers to take in during this time.

Coming out of the first lockdown, we held an event that incorporated a fun get-together and where a range of different services and information were also accessible for the youth on that day. We held a concert along with performances from school groups in the community. At the same time, a market was held where local vendors came in to sell their goods to help getting their businesses up and running again. At the same time, a variety of support groups were available to the community. For example, we had a session to assist those who needed help writing CVs and making available printers to copy documents. We also brought in legal professionals to verify documents for anyone.

Q. What are the challenges facing young people in Ōtara as we now look to recover from lockdown?

A. It's a struggle for families trying to make a living – and lockdown exposes the inequality of it. Because of this, young people in Ōtara and across South Auckland are faced with having to give up their education to work and help their families financially. It's an intergenerational cycle. It's pressuring. It's not having much of a choice. It's exhausting.

Q. Aotearoa New Zealand does better than some countries, but it still takes four generations for a young person from a lowest-income family to reach the average income according to the OECD. If social and economic gains post-COVID are more equally shared, what would that look like to you?

A. First, it would look like a huge sigh of relief from parents and families and then quite a lot of complaints for a few days about why this has not been done for so long. Second, it would be a celebration in the streets of South Auckland – a parade starting in Ōtāhuhu going to Māngere for 1 week straight. Maybe even talks about finally being able to save up for trips they've been wishing for so many years but never came around it.

The point is, this is going to change the outlook on life for many families in South Auckland. The benefit this would have starting in their household will be reflected in wider society starting with young people's approach to education and their future to come.

Q. What would you most like people to know about the challenges facing your community?

A. I would like them to not just know but to understand that it's not easy for us. As a young person, I always wondered what it would be like if my family were financially comfortable and where I would be if all my choices I made in life weren't bound to the question "How is this going to help them?" It would be nice to live in a society where we not only get to help our families but also contribute just as much to our individuality without having to prioritise one over the other.

HOW DID RANGATAHI MĀORI EXPERIENCE THE PANDEMIC?

a Q&A with Te Haua Taua

Ko Taupiri te maunga
Ko Waikato te awa
Ko Tainui te waka
Ko Waikato me Ngāpuhi te iwi
Ko Ngāti Tipa te hapū
Ko Tauranganui te marae
Ko Te Haua Taua tōku ingoa

I am currently studying towards a Bachelor of Business at AUT, and I am the undergraduate representative on the AUT Business School Student Advisory Board and Former AUT Student Association Māori Affairs Officer (2020).

My community Involvement includes working with the New Zealand Māori Council focusing on rangatahi (youth) and economic development and as a board member on the Manukau East Council for Social Services.

Q. Your job sees you work closely with Māori students and staff at AUT. Can you tell us about the impact the pandemic has had on them?

A. The stories that have stuck with me are the students that came to me seeking my immediate help as they were young parents at home with their children during lockdown and weren't sure if they could manage to study, care for their kids and keep putting food on the table. Trying to balance it all really impacted on their mental health.

AUT students were presented with various unexpected difficulties this year including isolation, financial hardship, online academic pressures and mental health problems. I heard from many students who were worried about completing their final year given the uncertainty surrounding getting an internship placement or a job. Many students faced difficulty with not having sufficient internet connection or devices at home. I worked with the university to help provide support to these students. There is no doubt it was really hard on people.

Q. Stepping back, in your view how has the COVID-19 pandemic impacted on young people's future wellbeing in Aotearoa?

A. Young people were hit from every direction by this pandemic. Students suddenly found themselves lining up at the shops to get the necessities to try and to feed the whānau, all the while having to maintain their studies and try and care for children in the household. When you refer back to holistic Māori health models like Te whare tapa whā and the focus of taha tinana (physical), taha hinengaro (mental), taha wairua (spiritual) and taha whānau (family) wellbeing you understand very quickly that isolation isn't good for people. It wasn't a natural way to live, and we had to adjust very quickly.

Academically we saw that online learning just isn't the same, especially because many in our community do not have a device to use, or an internet connection, or a quiet place to study at home. Something like a declined extension application for their assessment would cause students real distress. It was a learning curve for us all to be a lot more compassionate, understanding of people's circumstances without knowing the full details and building a level of mutual trust and understanding between the students and lecturers.

Q. Aotearoa New Zealand does better than some countries, but it still takes four generations for a young person from a lowest-income family to reach the average income according to the OECD. If social and economic gains post-COVID are more equally shared, what would that look like to you?

A. Most people can relate that when you're young and starting out in the workforce any money is good money and then as we get older, we start to realise the real pressures and limitations those low wage jobs have on our decision making. I was always told from an early age to make the most of the opportunities education has to offer as both my parents left school early and now I am the first in my whānau to both attend university and graduate from high school. Administration, cleaning, trades, warehousing and labouring are the jobs most of my immediate and wider whānau do.

There is a role for us all to play in adapting to a changing world. We must ensure we realign ourselves as a nation to ensure our people can maximise their potential. I am very keen to continue in my efforts make tertiary study more attractive and accessible for everyone.

Q. Do you think the wages people earn in your community are enough for people to have a decent life?

A. My mother was made redundant prior to lockdown and was unable to find suitable employment for a while. In order to do the basics like pay the bills and put food on the table she found temporary work stocking food parcel orders. This is reality for many Kiwis.

Inequality is still a big challenge in our country. Māori continue to earn on average less income compared to non-Māori. Māori communities know we are the first fired and last hired. There are a range of initiatives underway to address this – like 'mana in mahi' – these must be made to work.

Our communities are faced with many challenges and we must ensure that future generations are more 'work ready' and confident to take on the workforce in high paying jobs.

THE OPPORTUNITIES:

TOWARDS AN INCLUSIVE GROWTH AGENDA

Policy change is often incremental. Opportunities for step change are less frequent.

The recovery from COVID-19 is one such opportunity, and Aotearoa New Zealand should take it. Using the OECD framework, an agenda for step change in inclusive growth is proposed to support young people who are calling for transformational change (Ministry of Youth Development 2020).

Investing in people and places currently left behind

#1 Vocational and life-long learning

Identifying and removing barriers to skills development and learning for people 'stuck' in low-wage jobs is central to ensuring people are not left behind.

COVID-19 has accelerated job destruction, but also opened up new opportunities. Many face-to-face jobs and lower-skilled roles in hospitality and tourism have been lost and will not come back to previous levels. The Aotearoa New Zealand evidence shows little upward mobility for low-paid jobs where there is high attachment to that work (Pacheco et al. 2020). People stuck in low-paid work therefore need barriers to access removed because qualifications gained through apprenticeships lead to significant and enduring earnings increases for both men and women (Bratsberg et al. 2020). Aotearoa New Zealand has been in transition to a services economy requiring higher skills and higher education. Not all of the skills in the modern service economy require university-level education.

The progression to higher-skilled and higher-paid jobs remains reliant on good foundation education and training. Improving how the education system serves Māori and Pacific young people in particular is a precondition for social and economic participation.

Programmes that reduce the number of young people not in employment, education or training are especially important for sustaining inclusive growth.

Aotearoa New Zealand's science education performance has deteriorated while the equity gap has held static (OECD 2018b). Internal inequity persists, and the international performance deterioration can be growth limiting in time.

Investing in schooling and vocational training to address entrenched inequalities can lift productivity and support inclusive growth (Hyslop et al 2020; OECD 2018b).

#2 Supporting people into quality work

Identifying and providing social support for people to reduce precarity for people not in work such as childcare and accessible transport is central to ensuring people are not left behind.

Aotearoa New Zealand's low ranking on UNICEF's inclusive growth measures suggests the need for a new approach to how we think about youth/rangatahi. With 16 percent of Aotearoa New Zealand children living in households without an adult in paid work (UNICEF 2020), reducing barriers to employment in these households offers improved life chances for children.

Creating more high-skill, high-income jobs in Aotearoa New Zealand is an important way of ensuring that paid work is attractive and achievable for people who are currently unemployed. At present, some low-wage jobs simply replace unemployment with 'work poverty', and come with the added stresses of arranging childcare and transport, making them an unrealistic option for some (Singley and Callister 2003). Many people on very low incomes move in and out of work. Many of these are single parents, mostly women, who have been disproportionately affected by COVID-19. Of the 11,000 jobs lost in the June 2020 quarter, 10,000 were held by women (Stats NZ 2020a). There is some question about the accuracy of these numbers because the level of disruption during the lockdown made it hard to conduct the survey. But the message is clear – even if you adjust for some anomalies in the data, it still suggests that job losses are concentrated in the service sectors and their overwhelmingly female workforce. The changing nature of work means that this precarious state of affairs risks being entrenched for future generations (Groot et al. 2017). Specific policies for reducing this precarity in the short term include:

- improved access and affordability to transport
- social housing close to jobs
- quality and affordable access to internet for work from home
- handy, affordable and 'off-hours' childcare
- support for job-readiness
- tax policies that encourage work while receiving a benefit.

Support business dynamism and inclusive labour markets

#3 A high-productivity, high-wage economy for all

Minimum wage reviews should place less emphasis on potential short-term disemployment effects and more on a medium to long-term view of higher wages to encourage investment in upskilling and productivity gains.

Low-paid workers in high-income countries are found in hospitality, retail, aged care, and food-processing industries. The COVID-19 pandemic has adversely affected the future of these roles and some will disappear, never to return.

The body of evidence for high-income countries is that lifting minimum wages has an inequality-reducing effect (ILO 2016). This also contributes to closing the gender pay gap. Short-run economic impacts have held primacy in Aotearoa New Zealand minimum wage reviews (Ministry of Business, Innovation and Employment 2018 and 2019). The literature for high-income countries shows a wide range of effects of lifting the minimum wage, but the most frequent finding is that there is little or no adverse effect on overall employment (ILO 2016).

With many of these roles unlikely to return to the Aotearoa New Zealand labour market, employment effects, if any, may have already occurred. These annual minimum wage reviews look at short-term impacts – admittedly significant for those affected, but miss the long-term impact of restructuring to a high-wage, high-productive economy.

The short-term costs of a minimum wage boost appear significant, but are minor in the context of a $20 billion reduction in GDP following the March-April 2020 lockdown and a GDP fall of 12.2% in the June 2020 quarter.

Yet, with Aotearoa New Zealand's relatively low rates of productivity increase, an increase in the minimum wage can help increase productivity. That could begin immediately as limited migration forces the dedication of the highest skilled workers to a focus on their specific talents. Firms become more productive, and/or new firms provide high-wage roles by replacing less-productive firms over time (Teece and Brown 2020). While there may be adverse company-level impacts, the overall economy and workforce is better off (ILO 2016). With Aotearoa New Zealand experiencing low productivity growth, a higher minimum wage is worth considering as a way to reboot

Figure 8: Cost of minimum wage increases (pre COVID-19 impacts)

Source: Ministry of Business, Innovation and Employment 2019

Promoting productivity through a company culture of upskilling

Zenzo and Tonzu food products are manufactured by the Auckland-based Chalmers family. With a strong commitment to inclusiveness, the company is an example of how interpersonal and management skills development can make the difference.

The medium-size company encourages personal growth of employees. The policy of upskilling and internal promotion into management roles has led to high morale, very low turnover at 2 percent per annum and a difficult to measure but palpable commitment to quality. Employees start on the living wage – $22.10 in 2020.

The company has a 'questioning with caring' approach to improve communication, interaction, efficiency and understanding. This promotes innovation and has led to the current 32 SKU product range, leading the New Zealand market in the development of organic wholefood plant-based protein options and experiencing company growth of 40–80 percent annually for the past 5 years.

A secret to the Chalmers family success according to Co-Executive Director Jesse Chalmers has been to look deeply to identify raw talent and build confidence and self-belief. Jesse says that "with support, staff who might not otherwise put themselves forward are given the chance to shine. With them they bring a unique commitment and love for the company that cannot be taught. We embrace our differences to create a vibrant workplace. Together, we are stronger."

productivity growth and to do so in an inclusive way. In the context of the disruption and impact of COVID-19 on the economy, these costs are small. The living wage is $22.10 for 2020/21 (Living Wage Aotearoa 2020) compared to the $18.90 minimum wage.

Aotearoa New Zealand has a relatively high minimum wage relative to the median wage of full-time workers (OECD 2019b), but labour costs remain low with Aotearoa New Zealand ranked 17th out of 35 countries on the average wage indicator – measured in purchasing power parity for international comparison (OECD 2020a). Australia's average wage is 20 percent higher. In Aotearoa New Zealand there are also starting-out and training wage exemptions for stepping into work.

To the extent that a large minimum wage boost serves to reduce inequality, it is a form of predistribution. Instead of transfer payments (that come with associated stigma and reliance on the state) to low-income earners, better-paid workers may be more motivated and may be attracted to training and upskilling by their employers. The motivation cost of inequality affects not just willingness to work for disadvantaged groups, but also those around them (Gesiarz et al. 2020). The COVID-19 pandemic has exacerbated social and psychological aspects of wellbeing that are important for motivation (Anderson et al. 2020).

Having a 'good' job depends on job quality and job satisfaction and is a protective factor for inclusive growth (Clark 2015). Job quality has positive returns to the employee and employer. Job satisfaction has been trending downwards in OECD countries. High-skilled workers are more insulated and perform highly on job quality measures (OECD 2018b).

4 Encouraging frontier firms

Support entrepreneurship, innovation and dynamic markets to lift firm performance and, when necessary, worker transitions to firms with a brighter future.

The OECD has recognised the importance of business leadership in reducing inequality and promoting inclusive growth. The Business Pledge Against Inequalities by Business for Inclusive Growth (B4IG) is an illustration of this leadership (Driscoll et al. 2019). From the 2019 G7 meeting in Biarritz, France:

> *Business has a central role to play through their investments they make, the jobs they create, the products and services they provide and the supply chains on which they depend.*

Reducing the gap between high-performing frontier firms and lagging firms also reduces income inequality (OECD 2018b). Firms with poor productivity growth that do not invest and innovate will not make a long-term and positive contribution to the Aotearoa New Zealand economy. Aotearoa New Zealand firms have had relatively free rein to employ low-cost foreign workers for several decades. That has effectively discouraged Aotearoa New Zealand firms from improving productivity. Low skills, low wages, and low capital costs have the effect of shielding the economy from the type of investment that leads to high wages and high productivity (Wilson and Fry 2020). The education and training system in this scenario needs to work closely with employers to ensure that the workforce has high-skill training. For inclusive growth, that means ensuring that the education system better serves Māori and Pacific youth in particular, so that they have equal opportunities for post-school employment and training.

Migrant arrivals of non-New Zealand citizens for the border-restricted quarter of April-June 2020 quarter were 1,071 – a trickle compared to the 23,195 for the same period in 2019 (Stats NZ 2020e). Reduced supply of low-cost labour can be expected to push up wages. That in turn encourages firms to find new and innovative ways of doing business, including through more capital investment and investment in staff training.

Aotearoa New Zealand suffers from lukewarm attitudes to emerging technology, weak management capability, low levels of dynamism, and declining schooling performance according to the New Zealand Productivity Commission report *Technological Change and the Future of Work* (New Zealand Productivity Commission 2020).

To remedy the situation, Aotearoa New Zealand will require a capabilities-based view (Teece and Brown 2020). Being capabilities-based means that all skills including management skills and technical skills of workers are prioritised. While Aotearoa New Zealand's borders and migration are tightly managed, developing home-grown talent is all the more vital. Training systems need to be more accessible and flexible. The shift from employment-based apprenticeships and other on the job training to more training in educational institutions has moved relationships away from employers and reduces their forward commitment to staff. Firms that see workers as readily replaceable on the local market and world market have little incentive to invest. Improved schooling performance to reduce the disparities and higher-quality career guidance are needed. Policies such as income smoothing for displaced workers can help with the transition of workers to better-paid work in high-performing firms (New Zealand Productivity Commission 2020).

Deliver efficient and responsive government

#5 Citizen participation in policy design

Use good-practice participatory engagement tools to involve citizens and service users in design of policies and programmes that affect them.

It has never been easier to involve stakeholders in policy design. The benefits of citizen participation in participatory design are better-informed policies that endure and have a greater chance of success. The Government of British Columbia has a well-established public engagement practice for policy proposals, with guidance materials for government officials (Government of British Columbia 2020a). Their *Building BC's Recovery Together* is an example of a high-quality engagement and direction setting for COVID-19 recovery led by their Minister of Finance and Deputy Premier (Government of British Columbia 2020b).

There are established collaborative processes promoted as good practice in policy design in Aotearoa New Zealand (Department of the Prime Minister and Cabinet 2017). There are

home-grown tools such as Wellington based Loomio and the University of Otago's 1000Minds. However, if these tools are to be widely utilised in government agencies, policy staff will need to be supported and upskilled to use these processes.

The Child and Youth Wellbeing Strategy's Programme of Action calls for youth to be involved in policy development (Department of the Prime Minister and Cabinet 2019). The COVID-19 lockdown has brought the opportunities for this into sharper relief. The OECD report on youth and COVID-19 recommends promoting age diversity in consultation with government to reflect the needs and concerns of different age groups (OECD 2020). The Health Promotion Agency's COVID-19 rapid evidence and policy brief calls for involving young people to understand their role in the recovery process as part of their wellbeing (Webb et al. 2020).

#6 Transparent assessment of distributional impacts of policies

Require child and youth impact assessments for major policy proposals with likely intergenerational distributional impacts.

The Government agreed in March 2020 to suspend the requirements for regulatory impact assessments relating directly to COVID-19 up until 31 August 2020 (The Treasury 2020). During this period, the Government announced an unprecedented $12 billion stimulus package with little elaboration of the distributional effects (Leung and Gamperle 2020).

The intergenerational impacts of the stimulus require explanation for public appreciation (NZIER 2020). These impact assessments, published on government agency websites, are important because they help ensure that the regulatory process is open and transparent. They allow Aotearoa New Zealanders to see who gets what and why in policy design.

These regulatory impact statements are important for inclusive growth because they apply discounting principles as a way of determining today's value of something that will be received in the future – this matters to young people (Jensen and Thompson 2020). Determining a discount rate is not a technical exercise and often a source of disagreement. A discount rate is based on:

- time preferences
- risks
- opportunity costs.

Time preference is code for degree of impatience. Risk is discounted so that high-risk projects are more costly. When money is available for 'free' or at a zero interest rate, opportunity cost is not about alternative use of finite capital, but rather about potential constraints on labour and other inputs.

In general, high discount rates deem long-term impacts inconsequential. Low discount rates place greater importance on the wellbeing of future generations. Investment in climate change mitigation is a good example. The intergenerational case for a boost in a discount rate is for high-risk projects when the next generation bears the costs of a 'white elephant'.

In order to support inclusive growth, investment proposals can be improved by:

- strengthening the quality of regulatory impact assessment including valuation methods
- maintaining transparency of distributional impacts in assessments
- setting discount rates through more-inclusive processes.

This can include the views of young people in the assignment of values for their future costs and benefits. Done well, these values can be recorded in the Treasury CBAx database of Aotearoa New Zealand specific publicly available data. These values can then be used by agencies to value impacts with greater consistency (NZIER 2018).

WORDS INTO ACTION

Inclusive growth starts with inclusive dialogue. This paper suggests six opportunities to form the basis of an agenda for promoting inclusive growth. It proposes a series of engagements to build on and develop these opportunities. To recap those were:

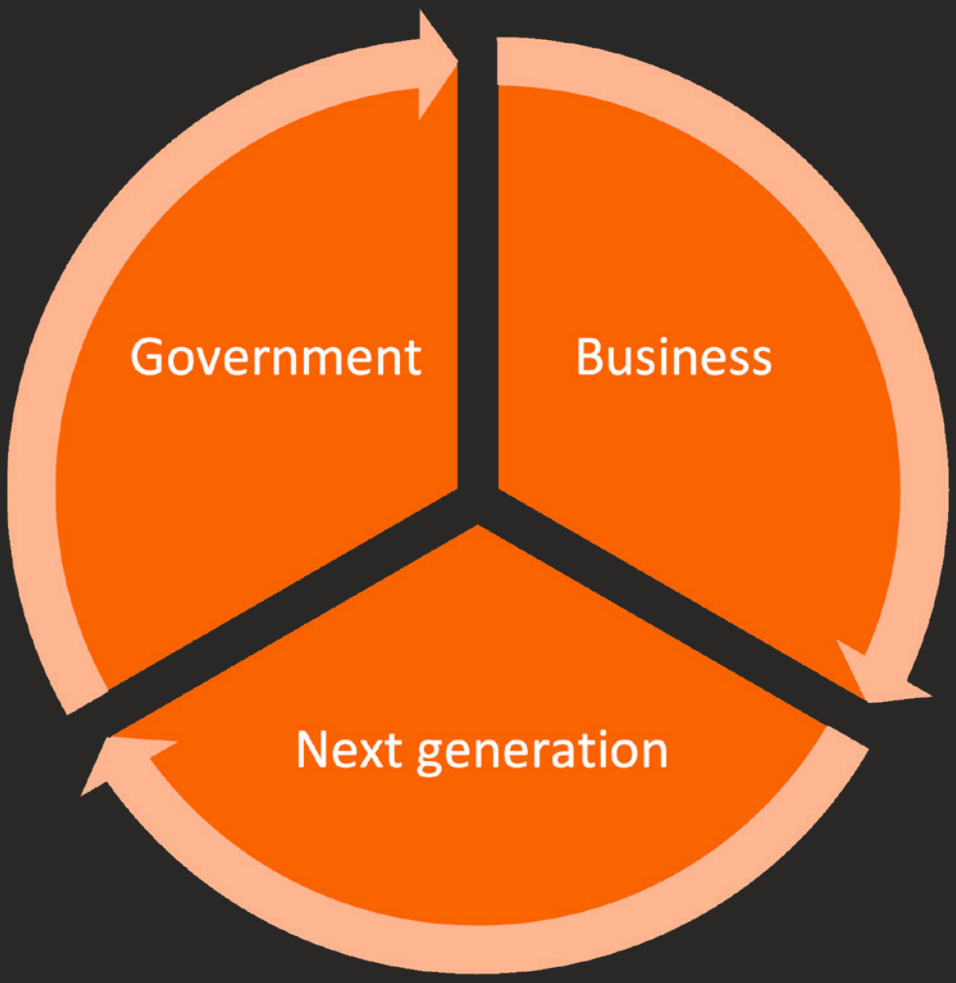
- Identifying and removing barriers to skills development and learning for those 'stuck' in low-wage jobs.
- Identifying and providing social support to reduce precarity, such as childcare and accessible transport.
- Placing less emphasis on short-term disemployment effects and more on a medium to long-term view of significantly raising the minimum wage to encourage investment in upskilling and gains to productivity when reviewing the minimum wage.
- Supporting entrepreneurship, innovation, and dynamic markets to lift firm performance and, when necessary, worker transitions to firms and sectors with a more positive outlook.
- Using good-practice participatory engagement tools to involve citizens and service users in the design of policies and programmes that affect them
- Requiring child and youth impact assessments for major policy proposals with likely intergenerational distributional impacts.

Starter questions

Taking this paper further, the paper suggests a set of starter questions:

- What does inclusive growth look like for the next generation?
- If you were to share in the gains, what would it look like?
- What are the actions for government?
- What are the actions for business?
- What are the actions for individuals and groups?

Figure 9: Virtuous circle of inclusive engagement



CONCLUSION

The social and economic disruptions caused by the COVID-19 pandemic provide an opportunity to promote inclusive growth. Inclusive growth is important because Aotearoa New Zealand's levels of inequity and low productivity growth are a drag on its social and economic development. This discussion paper proposes a break from conventional approaches in these challenging times. There are changes in the movement of goods, services, people, and capital which cannot yet be fully understood. Investing in people and firms to boost skills and productivity in a way that is shared will help set Aotearoa New Zealand on a resilient and sustainable path of wellbeing.

There are opportunities for all New Zealanders if we can construct an agenda which makes our rebound from COVID-19 an inclusive one. This paper is a contribution to that kōrero (discussion).

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