# NZIER INSIGHT

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# Social investment – new right agenda or new wine in old bottles?

## Social investment is the new Prime Minister's signature policy

The Prime Minister, in his first press conference, signalled his commitment to continuing to drive the government's 'social investment approach'. The new Deputy Prime Minister is also strongly associated with this new and evolving approach to social spending.

Critics claim that the government has a hidden agenda to cut government spending on social policy.[1] The Treasury's recent long-term fiscal projections[2] suggest the opposite – under some scenarios, **increased** spending **now** on well-designed programmes would reduce forward spending liabilities by up to 5% of GDP in 2060.[3]

### So, what exactly is the social investment approach?

It is notable that 'social investment' has been advocated at various times by parties across the political spectrum. What is also clear is that social investment can mean very different things to different people. In continental Europe, for example, it is linked with income redistribution, greater social inclusion and addressing chronic unemployment, especially via greater public expenditure on human capital formation (i.e. education and skills training); while in the UK it is used to describe funding social enterprises that use business models to achieve social purposes.

NZIER is partnering with Victoria University's Institute of Governance and Policy Studies (IGPS) to explore the New Zealand version of social investment. The first fruit of that collaboration, a foundation paper investigating the dimensions of social investment will be available shortly.

Social investment, Kiwi-style, represents an internationally unique way of thinking about, designing and implementing social policy – or at least certain kinds of social policy.

Some aspects of the current approach are not new; they represent 'old wine in new bottles'. Seeking to improve the lives of New Zealanders through early interventions and focusing on outcomes, not outputs, have been features of successive governments' social policies.

New elements include using administrative data to identify people at risk and model life courses, and preparing life-time benefit financial liabilities and then tracking changes in these to measure progress.[4]

There are three innovative features of New Zealand's social investment approach.

The first is **market segmentation**: identifying groups and individuals with very specific needs. This is an example of using data, including administrative data, more effectively.

The second is **product sophistication**: tailoring interventions to better address the specific needs identified through market segmentation, setting very clear expectations about the returns sought from the intervention and measuring those returns. There is a clear shift in focus away from broad programmes covering large groups of people (e.g. the unemployed, single mothers, the injured, the disabled, etc.) to designing interventions that are focusing on specific clients with specific characteristics.

The final, and perhaps most novel but still least developed, feature of the social investment approach is a new mode of **governance**. Both Mr English and Ms Bennett have stated that they are not just looking for new ways to spend more money on policies that are unproven. The social investment approach involves harnessing the power of non-government providers of social programmes for hard-to-reach clients. This will require new ways of commissioning and working with providers contracted to deliver outcomes. This could include more collaborative approaches, such as 'Collective Impact'.[5] This contrasts with the traditional approach under which providers were

1 Rosenberg, B. 2015. 'The 'Investment Approach' Is Not an Investment Approach'. *Policy Quarterly*, 11(4): 34-41.

2 'Background paper for the 2016 Statement on the Long Term Fiscal Position' http://www.treasury.govt.nz/government/longterm/fiscalposition/2016/ltfs-16-bg-bsipp.pdf

3 To put that in perspective 5% of GDP is the similar order of magnitude on the fiscal balance as increasing GST to 17.5 % or adding 2 years to the retirement age for NZ Superannuation.

4 Edwards, D and E. Judd 'Measuring Tomorrow's Outcomes Today, Adopting an Investment Approach within the Ministry of Social Development'. 2015. Paper presented at the New Zealand Society of Actuaries biennial conference, Brave New World: data, longevity and ERM, Dunedin

5 http://www.collaborationforimpact.com/collective-impact/

contracted to deliver defined services or outputs. Exactly how the new approach will work is still being developed.

## Social investment in New Zealand is still a work in progress

While Ministers – at least the new Prime Minister and his Deputy – have a strong commitment to the social investment approach, it is still early days. We have yet to see a consistent understanding across agencies about what social investment means, how the approach will be operationalized in different areas of social policy, and how the new accountability framework will be applied in practice.

Rather than the centre creating a single blueprint and driving a consistent change in direction, change is being sought through an organic “bottom-up” approach. Ideas from different portfolios are being used as examples of what might be applied more generally. Examples include ACC’s focus on return to work and Work and Income using active labour market policies. Experimentation and learning will require ‘fast failures and franchising successes’: which will be challenging for Ministers, bureaucrats and providers.

## Social investment still has its critics and its doubters

As noted, some critics of social investment see it as just another example of a centre-right government finding ways to cut social spending.

Others are concerned about how the approach is being implemented,[6] the feasibility of funding for outcomes, that focusing on reducing forward financial liability risks poor outcomes.[7] For example, if you give someone the responsibility to reduce the forward liability for income-support for the unemployed, then someone getting a good job will have the same effect on the liability as someone being forced off a benefit and into begging.

A recent workshop held by NZIER and IGPS on social investment highlighted the wide gap between thinking about policy in Wellington and the experience of people with multiple needs and often complex lives. Working more closely with providers who are closer to the intended customers of the social investment approach remains a challenge.

## Let’s avoid the perfect being the enemy of good

There is widespread agreement that for a range of sub-groups of the population, improved economic performance since the mid-1990s has not been reflected in improved livings standards and life chances. This is despite years of active policy interventions and billions in social spending. There is a very limited evidence for many of the current programmes.[8] We often only know what they cost. This is not due to a lack of caring, dedication or hard work on the behalf of front-line workers. But there are competing uses for public finances; and many voters/taxpayers remain unconvinced that all social spending is cost-effective. More money, by itself, is often insufficient – or even unnecessary – to fix the problems.

The social investment approach signals a commitment to improving Kiwis’ life chances while enhancing the government’s long-term fiscal position. This will require carefully targeted interventions, based on sound data and experience, delivered by skilled providers who are held accountable for delivering real, measurable, improvements in peoples’ lives. But is it doable?

Is the social investment approach going to have a material impact on improving the lives of some of the most disadvantaged Kiwis? It is too early to say but it is worth having a go. There are some positive developments afoot that, if successful, could contribute to the long-term aims of all governments; a New Zealand free from sustained cycles of disadvantage, with higher rates of social mobility, improved life-chances and greater wellbeing.

As NZIER’s joint project with IGPS proceeds, we will continue to explore the social investment approach. In particular, we are looking next at what is required to make the social investment approach succeed, what are the key constraints and obstacles and where it may be most usefully applied. Subsequent NZIER *Insights* in 2017 will report progress on addressing these issues.

This Insight was written by Peter Wilson and Derek Gill at NZIER in December 2016. The assistance and insights from participant at the first workshop on Social Investment is gratefully acknowledged.

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6 James, C. 2015 ‘The "investment approach" – liabilities or assets?’ Institute for Governance and Policy Studies Working Paper 15/01

7 Chapple, S. 2014. ‘Forward Liability and Welfare Reform in New Zealand’. Policy Quarterly, 9(2): 57-62

8 See NZIER Insight No. 64 http://nzier.org.nz/publication/a-learning-system-for-evidence-informed-social-policy-nzier-insight-64