Rebuild New Zealand

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"New Zealand has done better than most other countries in terms of saving lives, the challenge now is to save livelihoods.

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The big questions facing New Zealand

The COVID-19 pandemic and its profound impact has left New Zealanders facing fundamental questions about our future and the kind of country we want New Zealand to be. In this special report we explore:

- Now that the immediate COVID-19 health crisis is receding, how do we focus on rebuilding our economy so that it is better than before?
- How do we keep people in work or get them back working as quickly as possible?
- Who will pay for the recovery and how will it happen?
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- How can we ensure the benefits of the recovery are shared fairly across all segments of society?

We don't pretend to have all the answers. However, we want to contribute to what is an incredibly important debate. We firmly believe that New Zealand's economy is capable of recovering more quickly and strongly than most others, so that it is better than before. This means that New Zealanders can get back to work and the benefits of greater prosperity are experienced across all segments of our society. We want to help make that happen.

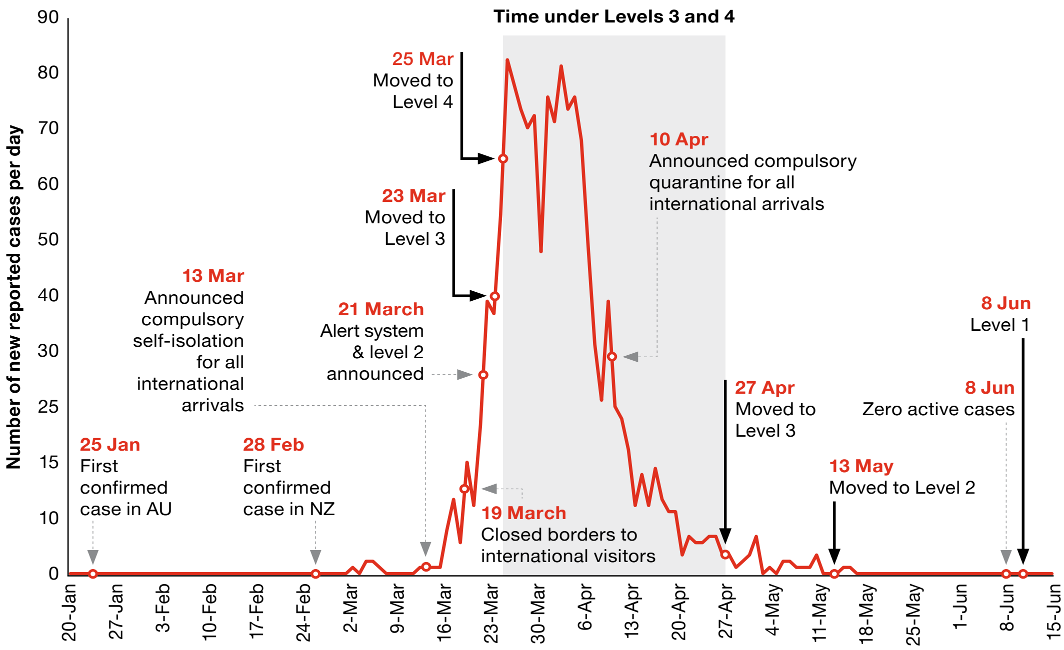
What just happened?

On 28 February 2020 the Ministry of Health confirmed the first official case of COVID-19 in New Zealand, just over four weeks after Australia had its first confirmed case, and around three months after the virus first emerged in Wuhan, China.

As at 8 June 2020, some three months later, New Zealand is free of COVID-19. New Zealand has had a total of 1,504 cases, of which 1,482 have recovered. Sadly, 22 people died from the virus in New Zealand. Looking at the experience in other countries, the toll could have been far worse.

At the time of writing, New Zealand has enjoyed 17 consecutive days with no new cases being reported, and no one has been hospitalised with the virus for 12 days. Over that period, nearly 40,000 people were tested. The country moved to Level 1 on 9 June.

Figure 1: New Zealand's response to the COVID-19 pandemic



Source: COVID-19 current case details, Ministry of Health. Available from https://www.health.govt.nz/our-work/diseases-and-conditions/covid-19-novel-coronavirus/covid-19-current-situation/covid-19-current-cases/covid-19-current-cases-details

As we become accustomed to the more relaxed COVID-19 Level 1 environment following the severe lockdown that the country endured through late March and most of April, it is timely to congratulate ourselves on what we have achieved as a nation, and at the same time reflect on the enormity of the challenge that lies ahead.

New Zealand is both better and worse positioned to manage the COVID-19 crisis

New Zealand has done better than most other countries in terms of saving lives, the challenge now is to save livelihoods. We have been served well by our remoteness, and our ability to promptly close our borders meant we have not only ‘flattened the curve’ but have quickly been able to pivot to an elimination strategy. Trust in our leaders has enabled much of the response to be communications-led, as opposed to requiring regulation or coercion. This provided the Government with a social licence to implement unprecedented restrictions on our civil liberties, which were met with relatively little resistance.

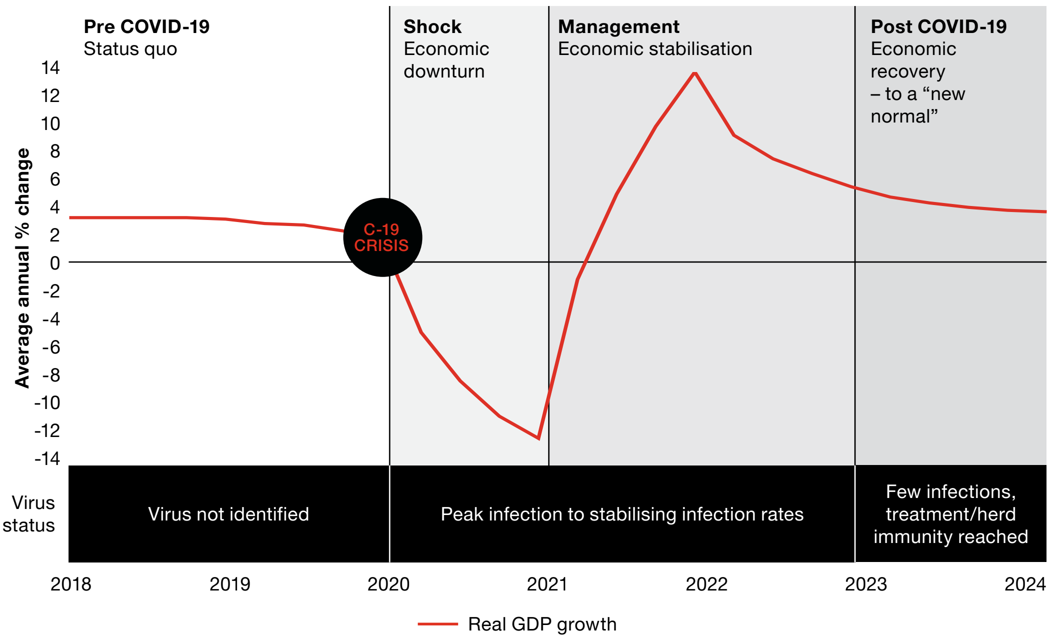
However, our economy needs to be rebuilt following the economic devastation that has occurred locally and globally as a result of the COVID-19 health crisis.

The Government’s Budget 2020, released on 14 May 2020, forecast that New Zealand’s real GDP growth would decline from 2.8% in the year ending June 2019 to -4.6% in the year ending June 2020, driven by a dramatic quarterly decline in GDP of over 20% in the June 2020 quarter. The International Monetary Fund (IMF) warned that New Zealand could be one of the worst hit economies in the Asia-Pacific region, with its forecast (released in April) suggesting New Zealand’s GDP will decline by 7.2% this year.

One of the key contributing factors to the severity of the economic impact for New Zealand is our significant reliance on tourism, with the New Zealand economy being the fifth most exposed economy in the world to this industry segment, which accounts for 20% of export revenues and contributes approximately 6% of GDP (or closer to 10% once the impact on other industries such as retail and hospitality is included). On the other hand, dairy is our other major export industry and it has not been greatly impacted so far.

As the immediacy of the health crisis begins to recede, businesses, government and society are naturally focussed on the immediately relevant ‘shock’ and ‘management’ phases (see Figure 2). It is important to look beyond these immediate phases to consider what our economy and our nation might look like in a post-COVID-19 world.

Figure 2: New Zealand’s real GDP growth forecast and illustrative COVID-19 impact



Source: Budget 2020, Fiscal Strategy. Available from https://budget.govt.nz/budget/2020/wellbeing/fiscal-strategy/index.htm#reference-6

> Our success in combating the health crisis will not automatically translate into success with the forthcoming economic challenge.

As a nation, we appear to have almost eliminated the COVID-19 virus, avoiding a large scale pandemic which would have overwhelmed our under-resourced hospital system and could have resulted in hundreds, if not thousands, of fatalities.

We should be proud of our political and public sector leaders who have largely made good decisions. These include implementing a strict Level 4 lockdown at a fairly early stage in the pandemic's growth curve, closing our international borders and introducing quarantine measures, as well as ramping up our ability to carry out widespread contact tracing and dramatically increasing the testing regime. The counter view is that we had no choice because our health system was under-resourced and could not have coped with a large scale pandemic such as occurred in Italy, Spain and the UK.

In the wake of combating the health crisis we cannot afford to lose sight of the mental health needs of New Zealanders, especially our youth and those most severely impacted by the economic crisis; as well as the catch-up required to address other healthcare needs, such as delayed cancer treatments.

There is however no doubting that these COVID-19 response measures have made a difference, as evident by the fact New Zealand has emerged from the immediate COVID-19 health crisis earlier than most other countries. Even Australia, which encountered its first cases over a month before New Zealand, is still confronting new cases in some states and territories.

Although New Zealand has weathered the health crisis well and we are now at the next stage in terms of looking to revive our economy, we are not alone in this regard. Other countries are doing likewise, and at the same time international borders are starting to reopen and domestic activity is ramping up. Our success in combating the health crisis will not automatically translate into success with the forthcoming economic challenge. We live in a globally-competitive world, and New Zealand's economy is not insulated from what is happening elsewhere. Fortunately Australia looks like its economy will rebound reasonably well, which assists New Zealand given the significance of our trading relationship with our nearest neighbour.

As part of the immediate response to COVID-19, there have been a wide range of economic support measures introduced, including those that preceded Budget 2020, such as the initial round of wage subsidy support that cost approximately $11 billion, along with more comprehensive measures outlined in Budget 2020 and subsequently.

There is a risk that New Zealanders will quickly move on, believing the health crisis has passed and hoping to return to something similar to our previous 'normal' with the least amount of pain from widespread unemployment and business failures across multiple sectors.

In our view, such nostalgia would be a mistake; the pace and scale of the shock caused by COVID-19 means that New Zealand has already changed in a fundamental way, and further change is inevitable.

The enormity of the change, including the massive public expenditure programmes being contemplated, also presents a unique opportunity for New Zealand to reshape and rebuild itself, so that our economy recovers more strongly and in a way that delivers greater prosperity for all New Zealanders in a sustainable manner. We need to move quickly with this economic leadership otherwise this debt burden will act as a handbrake on future generations.

This report outlines the initial response by both the Government and private sector, and the resulting implications for our economy in the near term. We then list nine forces of change that will shape our recovery and identify structural weaknesses already present in New Zealand's economy pre COVID-19 that create greater fragility. Offsetting this, however, we give reasons why New Zealanders should feel optimistic about our ability to recover strongly and quickly. Finally, we describe seven core planks we have identified as fundamental to rebuilding New Zealand's economy for the better and list follow-on areas where more policy consideration and undoubtedly some fresh thinking is required.

Initial responses by the public and private sectors

From the third week in March, the New Zealand Government's response to COVID-19 can be described as dramatic, swift and agile. Although some will debate the timing and detail of particular actions, there can be no doubting the outcome. The relatively small number of cases, absence of widespread community transmission, lack of any large scale hospitalisations, and comparatively small number of fatalities, all vindicate the Government's actions.

These actions have been successful because the vast majority of New Zealanders played their part, adhering to restrictions on their ordinary freedoms and behaviours, constraints that would have been unimaginable at the start of 2020.

Our success as a nation in combating COVID-19, and saving lives as a result, has come at a very real cost. A great many New Zealanders from all walks of life have lost income and consumed savings. In some cases, this will be quickly recovered, but for others it will be long-lasting. Businesses have been disrupted or have failed, in the process destroying what may have represented decades of hard work. There have been enormous sacrifices. Some individuals and communities, businesses and sectors have borne a disproportionate cost, as part of the national effort to keep New Zealand safe from COVID-19 and prevent large-scale hospitalisation and loss of life.

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Public sector response

In addition to its immediate health response to COVID-19, led by the advice from the Ministry of Health and a range of health specialists and academics, the Government has quickly moved to deploy a range of support mechanisms to help individuals and businesses combat the immediate financial implications.

Government measures have included:

- The Wage Subsidy Scheme, now entering its second iteration, enabling businesses expecting to experience a greater than 40% decline in turnover to claim further wage subsidies for an additional eight weeks running to the end of August;
- A tax-free Income Relief Payment of $490 per week (or $250 per week for those employed part time) payable for a 12 week period that can be claimed by those who have lost their jobs because of the pandemic;
- Funding support for businesses, through the Business Finance Guarantee (BFG) Scheme and the Small Business Cashflow (Loan) Scheme (SBCS), both of which are aimed at providing additional funding for predominantly small-to-medium-sized enterprises (SMEs) who typically lack ready access to the public capital markets and are especially vulnerable;
- Delivery of specific support for businesses particularly affected, such as the $900 million standby credit facility for Air New Zealand and additional funding for other organisations such as the TAB;
- Deployment of more targeted or sector-specific support packages, covering sectors such as the arts, sport, aviation and tourism;
- Changes to New Zealand's tax regime to provide cash flow support for businesses, such as the restoration of depreciation on industrial and commercial buildings and the ability to carry back current year losses resulting from COVID-19 to obtain a refund of taxes paid in the prior year;
- Establishing a $3 billion fund for 'Shovel Ready' infrastructure projects, building on the $12 billion infrastructure stimulus package announced in January 2020;
- A range of general support measures designed to assist businesses to cope, such as mortgage holidays for those whose incomes have been affected by the economic disruption from COVID-19, e-commerce and digitisation support for small businesses, business consulting support, and a R&D loan scheme to be administered by Callaghan Innovation.

The measures announced to date by the Government, including those summarised above, and those contained in Budget 2020, involve aggregate expenditure in the order of $30 billion. On top of this, the Government has indicated that up to an additional $20 billion is available for further spending initiatives designed to combat the economic consequences of COVID-19 and assist New Zealand's economic recovery.

This level of government spending is unprecedented. The Government's support measures will be funded through a public borrowing programme, the scale of which is evident by the fact that New Zealand's net core Crown debt as a percentage of GDP is forecast to increase from around 20% pre COVID-19 to more than 50% by 2023.

The scale of the Government's response is dramatic in every respect. What is also significant is the speed with which the Government has deployed these initiatives. It has been able to deliver the cash flow support such as the Wage Subsidy Scheme payments and SME loans virtually immediately, in marked contrast to other highly-developed economies that have struggled to deliver support with any degree of urgency.

The Government is also commended for its agility. There have been a number of instances where Ministers have demonstrated an ability to amend previously stated positions in response to either public opinion or changing circumstances, such as the relaxation of the numbers permitted at social gatherings during Level 2; and the acceleration of the date for considering a move to Level 1.

Within the health sector itself, reforms have occurred with extraordinary pace, as the country, by necessity, moved to a virtualised care model that was primary care-led, with a massive shift to telehealth. This makes much better use of limited health resources so why would we go back?

The crisis has also seen New Zealand's public sector collaborating and working in a truly cross-agency manner to facilitate the policy, strategy, communication and economic response to the crisis. The All of Government cooperation within the COVID-19 response has been a culture shift for what can often be a siloed public sector.

Speed, agility and coordination are not traits typically associated with public sector decision-making. The Government's performance in this regard is to be applauded. It is now vital to maintain these traits and culture shifts as they are equally important to enable the economy to recover quickly and strongly.

Private sector response

Alongside the Government, New Zealand businesses and business leaders have also played a significant role.

Fortunately, New Zealand has a robust banking system and banks have generally shown a high degree of flexibility in terms of how they have supported their customers' needs at this time. Many borrowers have requested facility extensions, asked to postpone scheduled debt repayments, or sought covenant waivers to avoid defaults under existing borrowing arrangements. The banks have largely been understanding and accommodating of these requests.

We have seen businesses, both large and small, acting responsibly and with a high degree of sensitivity to the issues confronting their employees. While large scale redundancies and changes to working conditions, such as reduced working hours, are inevitable for many businesses, we observe that business leaders have, wherever possible, sought to minimise the impact. Organisations have accessed the Government's support packages, particularly the Wage Subsidy Scheme, to retain staff to the greatest extent possible.

Boards of directors and senior management have exercised restraint and shown leadership by voluntarily taking salary and fee reductions, even in instances where the businesses concerned have not been directly impacted by COVID-19.

Businesses can also be congratulated for the innovation and agility they have shown as they look to navigate their way through the new trading environment they find themselves in during the lockdown period.

We have seen businesses rapidly alter their business models to make greater use of online platforms. Businesses that previously operated

solely in the B2B space have evolved to a B2C model, and virtually all businesses have quickly adapted their physical environments to provide the necessary social distancing and hygiene standards that are essential to minimising the risk of further COVID-19 outbreaks.

Remote working has become a norm for many, and there is no doubt that businesses and their staff have all learned a great deal about new ways of working, and have started to reimagine how their business and its modus operandi might look in the future.

While much about our immediate and medium term future continues to be clouded with an all pervasive uncertainty, what is now apparent from the immediate aftermath of the COVID-19 pandemic and the induced economic shutdown is:

- A dramatic decline in GDP of somewhere between 7% and 8%;
- A rapid increase in unemployment from an historical low of approximately 4% to a forecast peak of 9.8% in September 2020;
- Net core Crown debt is forecast to increase from $88.9b in 2020 to $188.7b in 2023 – i.e. from approximately 30% of GDP at the end of this financial year to over 50% of GDP by fiscal year 2023;
- The very real prospect that there will be a significant decline in consumer confidence, resulting from reduced income, rising unemployment, anxiety over potential further redundancies, and an expected decline in house prices.

The case for real optimism in New Zealand

Despite the dire economic consequences and gloomy predictions resulting from the immediate reactions to the COVID-19-induced economic recession, there is still good reason for New Zealanders to be optimistic about our ability to recover more quickly and strongly than most other countries. We have some natural and unique advantages that set us apart from many other nations.

Why New Zealanders can be optimistic about recovery:

We are a small and agile nation

New Zealand is a small country with a relatively small economy. Our nominal GDP is approximately $300 billion and our total Crown assets are around $370 billion. These figures show that New Zealand is, in comparative economic terms, smaller than some of the world's largest businesses. Amazon had 2019 revenues of NZ$431 billion and total assets of NZ$346 billion. Apple is another example, with 2019 revenues of NZ$399 billion and total assets of NZ$521 billion.

However, as we know, big is not always best. The benefit of being a small country is that it enables our economy to be nimble, meaning it can change and adapt quickly. The traditional Kiwi 'can do' attitude needs to remain at the forefront, let's talk about what we can do, not what we can't do. New Zealand's relative ease of doing business and closeness of relationships should help to get things done. All of this is far more difficult in larger economies, such as the US.

Our natural borders are our friend

Another natural advantage stems from our geographic isolation. As an island nation in the South Pacific, we have natural borders. Historically, this has helped protect our agriculture from pests and disease; and now it also acts as a natural barrier to stem the spread of pandemics like COVID-19. Our ability to quickly impose stringent border quarantine measures means that we have created a safe domestic environment, one that allows people to largely go about their lives and work on a day-to-day basis with freedoms that may still be some time away in other countries.

We have globally-competitive primary industries

Major sectors of our economy continue to be well positioned and have not suffered greatly through the COVID-19 crisis. Our largest industry being primary agriculture, accounting for over 20% of GDP, continues to perform strongly across most segments. We have a natural competitive advantage as a low cost, high quality producer of proteins, which remain in strong demand globally.

Fortunately, we continue to have access to the world's markets, especially large, growing markets like China and other Asian countries. Our exporters have also shown agility, in terms of switching between markets as global trends change. New Zealand's trade deals have been helpful. The New Zealand/China Free Trade Agreement has had an impressive impact on our two-way trade with China over the last decade.

We can explore new infrastructure opportunities

We have the ability to stimulate our economic recovery using the much needed catch-up in infrastructure spending, although it is critical to ensure that we invest in the right projects that will deliver the best long term returns, from an economic perspective as well as broader societal and environmental returns. To do this, we may need to revisit previous assumptions about what sort of infrastructure is needed, given the enormity of the changes likely to eventuate in a post-COVID-19 world.

Our digital investment can really pay off

We have all learned over recent weeks some new realities about the digital world that we live in. New Zealand has reaped the benefit from its investment in ultra-fast broadband (UFB). More than 1.6 million households and businesses now have access to UFB and the national UFB rollout is over 85% complete, extending to more than 110 towns and cities, and now reaching more rural areas as well. Our workforce has the ability to upskill and take advantage of this digital world, as evident from our thriving technology businesses. Technology has also reduced the tyranny of distance that New Zealand historically suffered from, given our distance from most of our major trading partners.

We possess an abundance of renewable energy

With respect to climate change, which was viewed as one of the most pressing issues in New Zealand at the start of 2020, this country has some clear advantages compared to others. We are fortunate to have a high concentration of renewable energy sources in our electricity generation mix and an abundance of land for tree planting and other sequestration activities.

We have a great opportunity to leverage our heavily renewable electricity mix to address carbon emissions across other sectors, such as the electrification of vehicles, which represent nearly 20% of New Zealand's gross greenhouse gas emissions. In addition, New Zealand has an established emissions pricing mechanism through the Emissions Trading Scheme (ETS).

We have strong institutions and political stability

Finally, New Zealand continues to have strong public institutions and political stability, both of which are essential enablers to business investment. Transparency International's Corruption Perceptions Index ranked New Zealand equal first (alongside Finland) in its 2019 survey of 180 counties, indicating a very high level of confidence around the absence of corruption within our public sector. Our two major political parties are both centrist parties, and over time have demonstrated fairly similar approaches on many issues.

Nine forces of change will shape New Zealand

The pace of change triggered by COVID-19 is unparalleled in peacetime. Some changes are undoubtedly temporary, but there exist a series of forces that will shape our nation over the coming years. How these forces manifest themselves in practice – nature, scale and scope – is in large part a function of the choices that government, businesses and individuals make over the coming months and years.

The key forces are described below:

Greater government involvement

In recovery, the Government will exert more influence over our lives and the economy than it has in decades; but what form will this take – investor/owner, regulator, or reformer?

Debt and capital

Increased levels of government support lead to higher government debt and interest payments. Access to private capital may also be limited given the level of uncertainty and pricing or terms may be less attractive. We may have to contemplate a sovereign debt rating downgrade. In any event we will grow with a debt hangover that future generations will have to either live with or repay.

Consumption behaviour

The 'new way of living' will impact consumption behaviours with consumers becoming more cautious and digital. We have witnessed a step-change in online and digital behaviours. Consumption patterns will reflect changed priorities and new realities. There will be a new generation of cautious consumers emerging.

Accelerated digitalisation and data reliance

Accelerated demand for e-commerce and e-services. Businesses that have or are rapidly able to build robust digital capabilities will be in an enviable position as technology is at the forefront of change.

Productive, flexible and distributed working

Unemployment will be high, and workplace flexibility will be the new norm. Increased technological competency means new high-tech skills will be required over traditional low-skill work and productivity must improve. There's no going back.

Resilient, secure supply chains

Significant disruption affected nearly all layers of the supply chain, highlighting vulnerabilities and revealing exposures of the current local, national, and global supply chains. Supply chains may need to be shorter and will certainly require greater resilience.

Industry consolidation

With such large changes to business models likely, industry structure changes will follow. Some businesses will survive, some will not, and some will fundamentally change – resetting the basis for competition.

Tax reform

The economic crisis has undermined the ability of governments to raise revenue in their traditional ways given the disruption to business and personal incomes, and changed consumption and saving behaviours. With additional government expenditures to support the economy, the Government will be challenged to find new ways of raising revenue without stifling economic growth.

Migration

New Zealand will be a more desirable destination to live and work due to our relatively successful management of COVID-19, but it is not clear to what extent we will remain open to recent migration levels. The quantum and 'quality' (skilled versus unskilled) of migrants will shape productivity outcomes, and affect demand for housing and infrastructure.

A bold approach to saving livelihoods is needed

Business people know that hope alone is not a viable strategy. Instead, what is needed is strong leadership and enlightened vision, both at a political and business level, in order to harness New Zealand's competitive advantages, achieve the strong and speedy recovery that we all desire and make that prosperity sustainable for the benefit of future generations.

Businesses are not looking to the Government for handouts and solutions; rather they are looking for leadership, an understandable economic framework, and a future where the Government and business operate in partnership. Businesses are not seeking a government-driven national recovery plan where the state participates directly in the economy. Instead, businesses are looking for a government-sponsored framework that provides the greatest degree of certainty against which business leaders can formulate their own recovery plans; alongside incentives for businesses to deploy capital, take risk and address the undeniable challenges arising from COVID-19 so that they recover quickly and strongly.

There will inevitably be business failures as a result of the COVID-19-induced economic crisis. There will be a natural shake out among businesses and some will fail, particularly in vulnerable sectors. The likelihood of business failure will be exacerbated in firms lacking strong internal governance, clear risk identification, strong management and financial resilience.

The last few months have resulted in most businesses learning a great deal about themselves and what they truly require to survive. Many firms have a new found understanding of what constitutes their core competitive advantage, and therefore what aspects of their business need to be protected at all costs, and how to build financial resilience. These learnings will stand businesses in good stead over the coming years.

It could be argued that most businesses have probably learned more in the last three months about their capabilities and vulnerabilities than in the last 30 years. We have rapidly evolved our thinking and found new ways of doing things, in some cases better than ever before. Many businesses have gone a great deal further. Rather than businesses just talking about much-needed transformation, driven by forces such as disruption and digitisation, the last three months have seen an unprecedented level of actual transformation driven out of sheer necessity.

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As we now commence the recovery phase and start to reimagine the future, it is vital that business thinking does not automatically revert to doing things in the same way as before; clinging to inefficient legacy practices and outdated structures. Instead, we will move to a 'new normal' where many businesses have new markets and customers, and these will be addressed through different business models and innovative new working practices.

We can observe what other countries have done, both in terms of what works and equally what has failed. Domestically we have learned how we can come together as a team of five million and achieve outcomes that make us the envy of many other nations. We have done this in combating the COVID-19 health crisis. Now we need to do the same in confronting our economic challenge. We shared a common vision to fight and indeed potentially eliminate COVID-19, now we need to share the same vision and commonality of purpose for rebuilding our economy. New Zealand needs to put these learnings to good use as we frame up our national economic recovery and go about reimagining a more prosperous and sustainable future for businesses and future generations of New Zealanders.

Fragilities in New Zealand's economy have been exposed

New Zealand was recording low levels of unemployment immediately before COVID-19, and had enjoyed a virtually uninterrupted decade of relative economic prosperity post the global financial crisis (GFC).

However, there were underlying adverse trends deeply embedded in New Zealand's economy that, left unchecked, would have impeded future economic progress and prosperity. These have not gone away as a result of COVID-19. Instead, these issues have come to the fore.

Our recovery from the COVID-19-induced economic crisis and the willingness for the public and private sector to embrace change on a scale that is unprecedented present a very real opportunity to address these inherent fragilities in our economy.

These fragilities relate to our inability, despite decades of talking around the subject, to find ways to improve our productivity, which has steadily declined relative to almost all other members of the OECD.

Our growth can look good when measured against some of the larger and mature economies within the OECD, yet it is fairly lacklustre compared to what has been experienced by smaller economies and most of our Asian neighbours. Also, much of our growth over recent years has come as a result of strong net migration flows, and does not reflect underlying real growth in per capita GDP.

New Zealand has, in common with most other members of the OECD, a rapidly ageing population. Alongside this we have some of the highest house prices in the world in real terms. These factors combine to create a sense of intergenerational inequity. The younger generation view home ownership as an unaffordable dream and at the same time face the inevitable but very real prospect of paying the ballooning costs associated with universal superannuation and health benefits for an increasing number of aging baby boomers, and now the added debt burden arising from COVID-19.

New Zealand's 'clean green' image has also been increasingly thrust under the spotlight, as we consider how to grow our economy in a sustainable way, and address the enormous significance of climate change. New Zealand has taken several proactive steps to address environmental management, particularly in respect of greenhouse gas emissions, clean waterways and water quality, but there remains a significant amount of work to be done.

New Zealand certainly looks ‘clean and green’ on the surface, and there is much that supports this image, but there are cracks showing as sustainable business practices transition from a ‘nice to have’ to a ‘need to have’.

The introduction of ETS regulatory reform later in 2020 will further strengthen our ability to address climate change obligations by giving more ‘teeth’ to a well-established mechanism. While the ETS is a progressive step, carbon neutrality at the border is important because reducing carbon emissions in New Zealand (by down-scaling carbon-emitting business), while importing them (from countries without such regimes), may create worse outcomes.

New Zealand has been suffering from decades of underinvestment in critical infrastructure. This has impeded economic progress and creates inefficiencies and additional cost for businesses and citizens alike.

Finally, we have to acknowledge the societal inequality that has long existed in New Zealand, demonstrated through the over representation of Māori particularly in the criminal justice system, health and in unemployment figures, while also being underrepresented in school achievement and undergraduate degrees.

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New Zealand has the world’s fifth highest rate of incarceration, and the highest rate of teenage suicides in the OECD.

The COVID-19 recovery creates a once-in-a-lifetime opportunity to address these inequalities. There is also the potential for the COVID-19 recovery to reinforce and deepen them. Instead, it is vital that the recovery is inclusive and narrows rather than widens the divides in our society. This means that not only everyone must benefit, but there has to be disproportionate benefit for those who are most affected or less well off.

As the trite, but true, saying goes “never waste a good crisis.” New Zealand needs to find a way to harness the COVID-19 recovery to address these issues in a way that we haven’t done previously.

A further cause for concern about the immediate recovery programme stems from the fact that we are now less than four months out from a general election. The next few months will be critical in terms of putting in place the building blocks for New Zealand’s economic recovery. Policy development and execution needs to continue at pace. We can not afford a situation where political leaders are distracted by the election campaign, or worse still, policies are distorted by political motives and electioneering. Also, prior to the election we will enter a period when the machinery of government will largely come to a standstill, as convention dictates that major reforms should not be enacted shortly before an election.

Seven planks to rebuild New Zealand

As we have observed, the New Zealand Government has already committed around $30 billion to support the economic recovery from COVID-19, with the potential for up to a further $20 billion to be spent.

These spending initiatives are being funded by a massive public borrowing programme. This underscores the need to ensure that spending is wisely directed into the areas that will deliver maximum benefit, particularly around building greater resilience within our public healthcare system, maintaining employment and driving a rapid economic recovery that benefits all segments of society.

Given public finances are limited, there are constraints on just how much the Government can and should do, so decisions need to be weighed and balanced against clear objectives, and prioritised to deliver maximum impact. This is no different than what any business does in terms of rationing capital expenditure off a limited funding base.

We have identified the following seven planks as being fundamental to rebuilding New Zealand's economy:

1 Maintaining employment may require further support

Maintaining employment is arguably the Government's number one priority as it responds to the COVID-19 crisis, and we agree with this approach. High levels of unemployment, potentially exceeding 10% of the workforce, are likely to be intolerable to most New Zealanders, and will give rise to enormous direct costs (such as increased unemployment benefit payments) and a range of indirect costs (social displacement, retraining, poorer health status, etc). Maintaining employment is also important because it will enable firms to maintain their productive capacity and therefore recover more quickly as soon as demand picks up.

Budget 2020 contained what many view as an optimistic forecast prepared by the Treasury suggesting that unemployment will peak at 9.8% before dropping back to below 5% within five years. We view this as an aspirational outcome, one which is achievable, but only with a laser-like focus on spending priorities, extremely good execution of initiatives across the board, along with favourable tailwinds such as continued strong demand for New Zealand's primary sector exports and at least a moderate recovery within the tourism sector.

We support the Government's decision to extend the Wage Subsidy Scheme for a second round, targeted at those businesses that expect to experience at least a 40% revenue decline.

There is a case for a further round of even more targeted wage support, aimed at those businesses that will be experiencing an even more prolonged recovery (evident from a turnover drop of say, 70%), but also with greater flexibility to allow wage support payments to be claimed even where employees are reduced to say, 60% (rather than 80%) of full time equivalent status. At the same time policies need to be carefully designed to ensure taxpayer funds are not being applied to support those businesses that were struggling before COVID-19 and those that do not have a reasonable prospect of recovering in the post COVID-19 era. We also believe there is a case for an additional form of wage support that allows higher levels of payment to be made for employees with specialist skills and knowledge, because retaining these people within businesses will be an important enabler of a speedy recovery.

The lockdown period taught us a great deal about new ways of working that many businesses quickly embraced out of necessity. The ability for more people to work from home more often has enhanced our workforce from a diversity and inclusion perspective. We need to maintain this flexibility and agility within our workforce to enable greater participation in the future.

2 Stimulating real growth requires an honest conversation about what growth means and identification of the critical enablers such as good infrastructure

We need to be clear about what real growth means. It is growth in GDP that runs ahead of CPI increases, and requires growth in per capita GDP. It is not simply absolute growth that is fueled by net migration flows, although we believe there is also a case for encouraging migration.

As any business knows, one of the ways to overcome a debt burden is to ‘grow your way out of trouble’. This means that as the economy grows, the significance of the debt burden associated with the COVID-19 recovery will gradually subside.

Recent decades have seen New Zealand struggle to achieve real growth. Our average growth rate over the last 20 years has been approximately 1.6%, which has lagged behind most of the other members of the OECD and is well behind that of our major trading partners, including Australia and China.

As a nation, if we are not growing at least at the same rate as other countries, the reality is that we are falling behind. Weak growth will ultimately translate into a reduced ability to fund core elements of our society that most New Zealanders have come to expect,

> “Weak growth will ultimately translate into a reduced ability to fund core elements of our society that most New Zealanders have come to expect.

like access to first world healthcare and world-class education. While absolute growth in real terms is important, so too is the importance of ensuring that all New Zealanders experience the benefits of that growth.

This was apparent in the public mood at the time of the last election. On the one hand, the incumbent government was highlighting New Zealand's strong record of economic growth (largely fueled by migration flows), and yet at the same time we had an unprecedented outcry over the housing crisis that was affecting many, as well as the plight of growing numbers of homeless people. There was a bigger conversation going on around inequality in its broadest sense and an emerging view that capitalism was failing to deliver across the spectrum, and for perhaps the first time business leaders were fronting societal issues.

Quite a bit has been made of our 'infrastructure-led recovery'. This has merit, in terms of the role that infrastructure can play in direct economic stimulation and maintaining employment; and there is ample evidence that well thought out infrastructure projects are a key enabler of economic growth. Here too, bold investment decisions are needed, rather than merely a continuation of Crown grants for 'business as usual' infrastructure. Projects need to be viewed in a holistic light to ensure they are coordinated to be a strong catalyst for both wider economic development and for social outcomes.

Bringing forward infrastructure projects that would have occurred in the future (like hospital builds) is still a good way to stimulate the economy and reduce the debt drag. We need to revisit our thinking around what constitutes 'critical infrastructure' in a post-COVID-19 world, as it may not be the same projects we were previously thinking of. There may also be a need to reform how infrastructure is delivered. Many of New Zealand's traditional delivery methods are localised and don't bring the benefits of strategic planning and procurement that a nation of five million should experience.

We need to be sensitive to the future needs of our communities so that any new infrastructure considers trends in urbanisation, the necessary and urgent transition to a low-carbon economy, increased use of technology opportunities (e.g. 5G infrastructure), and different ways of working.

As a nation whose population just passed the five million mark, it is also timely to debate what an 'ideal' population is for a country of our size, and our resources.

3 Increasing productivity may include leveraging global investment or people and capital alongside significant structural changes in our economy

Like economic growth, the challenge of improving New Zealand's productivity has proved elusive for decades. In fact, New Zealand has gone backwards in terms of productivity, and now ranks among the bottom quartile of OECD countries.

Much has been written on the subject, but little has been done to address the substantive underlying issues.

Key enablers to growing productivity and reversing the decades-long downward trend include changes to the education system to support research and innovation, better diffusion of technology and innovation into all New Zealand businesses, greater emphasis on equitable skill-based training, greater capital intensity within businesses, and additional investment in research and development (where New Zealand invests at a rate approximately half that of most OECD countries).

A feature of the New Zealand economy is that it comprises many small businesses and few of scale who are internationally competitive.

Real growth in productivity will come from enabling the growth of larger businesses that can fund the innovation required to succeed at scale in international markets.

Fortunately these changes will also align with other key aspects of rebuilding New Zealand. For example, capturing the benefits from decarbonising our economy will require both innovation and significant improvements in productivity.

> Real growth in productivity will come from enabling the growth of larger businesses that can fund the innovation required to succeed at scale in international markets.

People are key to driving this improvement and, while it will take time to build the research base required to deliver productivity improvements, we are fortunate that, New Zealand is well placed to attract migrants with the specialist skills needed to enable productivity gains.

There is also a need for additional capital to fund organic and acquisitive growth and greater capital intensity within businesses. This requires a more enlightened approach to foreign direct investment (FDI). New Zealand has always been a net importer of both specialist skills and capital, and there is a role for these imports to grow businesses and improve their productivity.

There needs to be well-informed public debate on these topics, in the hope that a more principled approach can be taken in the future with regard to both immigration and FDI.

4 Addressing intergenerational inequity may mean making some tough decisions

New Zealand's younger generation will be the ones who inherit the debt burden associated with combating the COVID-19 health crisis, whereas the principal beneficiaries have been the older generations of New Zealanders. We know that older people were most susceptible to suffering the worst effects of COVID-19, whereas young people were far more likely to recover.

The intergenerational legacy of combating COVID-19 adds to a growing extent of intergenerational inequity that has become progressively ingrained within New Zealand.

Other key contributing factors include New Zealand's universal national superannuation scheme, which successive National and Labour governments have been reluctant to change. This is notwithstanding the arguments that the current scheme is becoming unaffordable, but also unnecessary in terms of its universality, especially given the age of entitlement has not altered for almost two decades, despite the fact that average life expectancies over that same period have increased by more than nine years.

This issue has been exacerbated by the limited enthusiasm that the same governments have had for encouraging private savings. While there is much to be admired with Kiwisaver, it remains a lightweight compared to the compulsory savings regimes in other countries, notably Australia. For example, many young people when joining the workforce end up with default Kiwisaver providers and their savings are placed in balanced funds whereas they may be better served by growth funds at this early stage in their lives. The New Zealand Superannuation Fund is a worthwhile contributor to our national savings programme, however, it too has suffered from the vagaries of government policy shifts around its funding.

Rampant house price inflation has created a society of the 'haves' and 'have-nots' or the owners and the renters. Homeowners have generally enjoyed strong capital appreciation in their family home which provides a source of wealth accumulation, and for many constitutes their 'retirement nest-egg'. On the other hand, for the renters, the goal of purchasing a home is becoming an impossible dream for many.

There are other societies, notably in Europe, where freehold home ownership is far less prevalent and instead families occupy rented housing throughout their lives; yet it is an ingrained feature of the New Zealand way of life.

The Government may also need to revisit other policies, such as the fees-free first year of tertiary education, which does not appear linked to achieving quality outcomes; and the student loans scheme that burdens many new entrants to the workforce with high levels of debt.

All of these issues need to be comprehensively addressed as part of reversing the trend towards growing intergenerational inequity, ensuring our society is fairer and the benefits of economic recovery and prosperity are shared by all.

5 Tax reform must be reconsidered to broaden the Government's revenue base and remove investment bias

For too long New Zealand has relied on an overly narrow tax base, with most of the Crown's revenue coming from taxes on income (either at the personal or corporate level); and by taxing consumption in the form of GST.

Most would agree that there is little scope to increase GST from its current level. To do so would severely impact those on lower incomes.

Increasing income tax is likely to be counterproductive as it will hamper investment and economic growth. New Zealand's rate of corporate income tax is already relatively high compared to many other countries, which impacts investment decision making by global businesses.

New Zealand's taxation system has been subject to several major reviews over the last 20 years, notably the McLeod Review in 2001, the Victoria University of Wellington Tax Working Group in 2010, and most recently the Government's Tax Working Group, which reported back last year. Despite all the work that has been carried out, there has been little in the way of fundamental tax reform implemented as a result of these reviews.

> "In our view there is now a greater need than ever to broaden New Zealand's tax base so it relies less on taxing income."

The 'elephant in the room' remains a capital gains tax (CGT), with successive National and Labour governments being unwilling to introduce a CGT.

In our view there is now a greater need than ever to broaden New Zealand's tax base so it relies less on taxing income. So is it time to look again at a simple broad-based CGT? In doing so, it is vital that the public debate on such a contentious topic is not skewed by interest groups or political motivations. New Zealand introduced a simple broad-based GST regime more than 30 years ago and it has been an enormous success. The same could occur with regard to a CGT.

The debate on CGT would be very different if New Zealanders had a better understanding of the extent to which it would actually impact them during their lives; and also the trade-off that there might be an eventual trade-off between CGT and income tax.

The distinction between income gains and capital gains is blurred and there is a lack of economic logic in terms of why the two forms of economic gain should be treated differently for tax purposes. Instead, what results is a biased investment regime in favour of non-productive assets such as residential housing where gains are not typically subject to tax.

It's also well understood that New Zealand's tax system hasn't kept pace with the digital economy, with a key issue being how to tax cross-jurisdictional businesses, which have scale without mass. Some steps have been taken to try to address this (e.g. GST on remote digital services) but there is a way to go. The question now is whether more direct action is needed?

Although the concept is not universally popular, any progressive tax system has the deliberate effect of redirecting resources (cash) from one segment of society (typically those who earn more or have more assets, and who are presumed able to afford to pay more) to another segment who are presumed to have less ability to pay and who may have greater need. The Government is tasked with implementing this redistribution in the most equitable and cost-effective manner. There could be long term equity and economic efficiency benefits to be realised from rebalancing the tax system and, similar to the fiscal crisis in the 1980s that enabled the introduction of GST, the magnitude of the economic impact of COVID-19 and the Government's fiscal response may provide a platform to overcome the political barriers to doing this.

6 We need to maintain focus on combating the climate crisis

Before COVID-19 dominated international headlines, climate change had been identified as the number one issue on the minds of business leaders and a significant global priority. In New Zealand, climate change was at the forefront of governmental rhetoric and planned regulatory changes. While COVID-19 has put certain regulatory actions on hold, New Zealand's need to mitigate and adapt to climate change has remained.

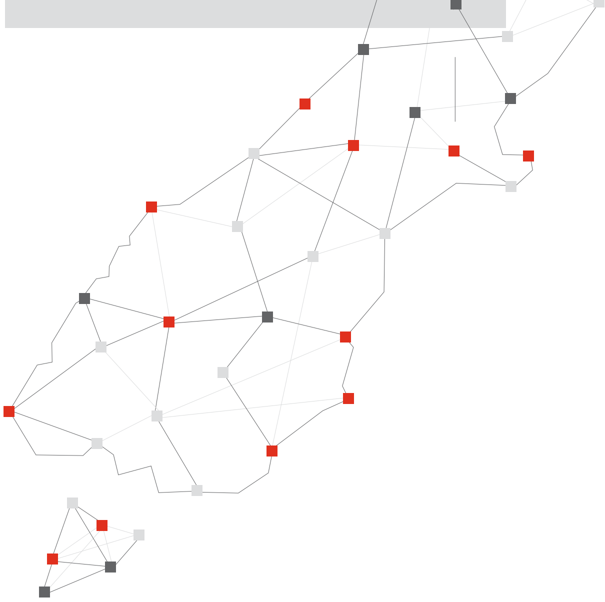
New Zealand's commitment to transition to a low-emissions economy, and integrate considerations of environmental and climate impact into all decisions across the economy is an important one. Its success or failure will be felt not only by the present generation, but by all of those to come.

Addressing climate change requires commitment, effort and investment, but it also reaps significant benefits – environmental, social and economic. It is important, then, for climate change and considerations of sustainable growth and investment to be deeply integrated into any COVID-19 recovery plans and efforts.

Budget 2020 failed to explicitly address climate change from the perspective of funding allocation. However, the opportunity to ensure that the funding that has been allocated is done so in a manner that supports sustainable growth and New Zealand's transition towards a low-emissions economy remains. Post COVID-19, government expenditure will be funded by future generations and, if it does not start New Zealand on a path to building a decarbonised economy, those generations will be left with the challenges of climate change without the financial resources to address them. This will only serve to exacerbate the intergenerational inequities.

The strong concentration of renewable energy presents a significant opportunity for New Zealand to identify ways to electrify aspects of its economy that have traditionally relied on fossil fuels. New Zealand's commitment to conservation, and the importance of protecting our biosecurity and unique biodiversity also mean that our natural environment must be a key consideration in our economic recovery.

Recent Government announcements of the progression of ETS regulatory reform provide an opportunity for New Zealand to give teeth to a mechanism that has historically lacked bite. New national emissions budgets and caps on tradable emission units will also help the Government ensure that businesses internalise the cost of emissions within their finances and therefore support New Zealand's climate change goals through day-to-day business. Through these measures climate change and sustainability can become integrated into everyday New Zealand business decision-making so the country is well positioned to support economic, social and environmental wellbeing for future generations.



As many of our international competitors don't have an ETS or similar, there is a risk that it makes New Zealand less internationally competitive. On the other hand it will force New Zealand producers into seeking a premium for our products reflecting their 'clean' status or they will find ways to be more efficient.

The necessity to rebuild the New Zealand economy in the wake of COVID-19 presents a real opportunity to make progress in this area so that we not only build back, but build back better. As part of this we need to put in place appropriate pricing and accountability mechanisms to track progress and provide transparency to all stakeholders.

> Post COVID-19, government expenditure will be funded by future generations and, if it does not start New Zealand on a path to building a decarbonised economy, those generations will be left with the challenges of climate change without the financial resources to address them.

7 Recovery will need effective partnership between all elements of the public and private sectors

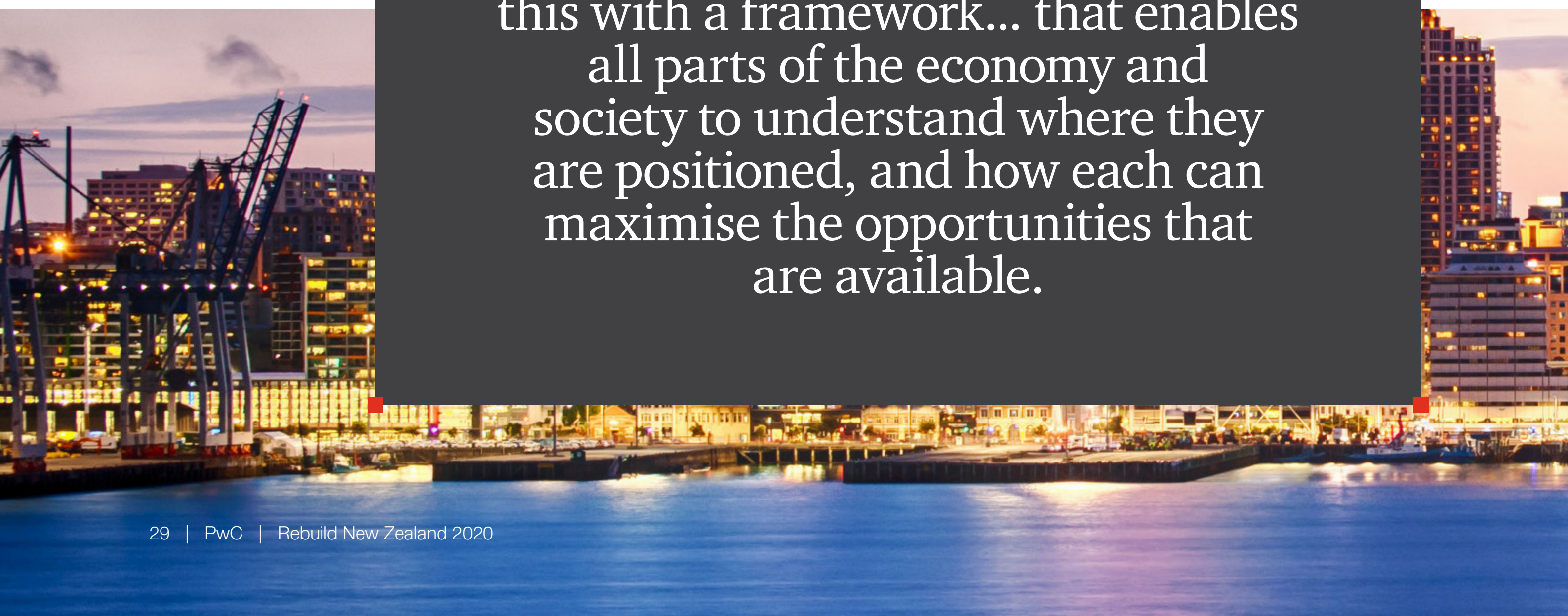
As noted elsewhere, New Zealand is a small country with a relatively small but well developed economy. We see ourselves as having a 'free market economy', and that is largely true, with limited direct involvement by the state within the economy. We have come a long way since the ill-fated 'think big' projects of the 1970s; to the point that there are now only a handful of state-owned businesses, some wholly owned and some partially owned, with the Mixed Ownership Model having worked well for the Government and private investors alike.

There is an opportunity to extend this model to some remaining areas where the state remains an investor, in order to free up capital that can be usefully deployed elsewhere.

New ways of funding public assets and infrastructure also need to be found, in order to harness private capital, better manage risk and reduce reliance on the Crown's limited balance sheet. One way for the Crown to do this with potentially lower risk is to recycle built assets rather than focussing on assets being developed.

Like most businesses, many New Zealanders want their government to target a 'balanced budget', whereby normal conventions apply and revenues match expenditures each year. We believe that to aid New Zealand's economic recovery, a bolder approach is needed. The Government should be prepared to consider substantial deficits over the near term, so as to embark on the necessary investment

> "Above all, what business needs is a stable environment whereby the Government provides a clear articulation of its vision for New Zealand, and then supports this with a framework... that enables all parts of the economy and society to understand where they are positioned, and how each can maximise the opportunities that are available.



programmes that will support objectives like maintaining employment and encouraging a speedy recovery. The return of a strong economy will quickly translate into higher tax revenues and in turn lead to budget surpluses that should more than compensate for the initial deficit funding.

Above all, what business needs is a stable environment whereby the Government provides a clear articulation of its vision for New Zealand, and then supports this with a framework (measured in economic, regulatory, fiscal and social terms) that enables all parts of the economy and society to understand where they are positioned, and how each can maximise the opportunities that are available.

The primary role of the state is not to act as a player within this ecosystem, but rather to provide the framework and institutions that serve to guide decision making and, where necessary, control aberrant behaviours. New Zealand is fortunate in having strong and stable institutions although there is room for improvement. There are calls for greater clarity around the mandate of the Reserve Bank of New Zealand (RBNZ) and the approach taken by key regulatory agencies such as the Commerce Commission and New Zealand's Overseas Investment Office.

No one would suggest that the elected government should be beholden to business leaders, but we can reasonably expect our political leaders to listen to views expressed by all segments of society and all constituencies. In this regard, businesses and business leaders have a great deal to offer any government.

On the one hand it is not helpful if the public perceive there to be an overly cosy relationship between 'big business' and the Government; but on the other hand it is important that there is a high level of trust and openness between these two groups so that good ideas flow to the Government, and that equally the Government are open to receiving such ideas and giving them due consideration.

Where to next?

As with any rebuild, the starting point is the 'architect's brief' and this report can be thought of in this light. Therefore, the next stage in the rebuilding project is the detailed design.

While by no means exhaustive, we have identified the following elements as key ones for consideration:

Digitisation of the New Zealand economy

What have we learned through the lockdown period? How can we build on this and create improved customer experience? How do we quickly upskill all New Zealanders?

Infrastructure

What does an infrastructure-led recovery really mean and do we have the capacity to deliver? How should this infrastructure be funded and how should risks be managed?

New Zealand's emerging tech sector

How do we support and nurture emerging businesses and then retain them? Many of New Zealand's leading technology businesses survived the GFC, and then thrived. How do we support innovative technology businesses given the immediate cash flow stresses of COVID-19, so that they can take advantage of increased demand for technology solutions?

Growing a sustainable world-leading agri sector to 'feed the world'

How do we focus on greater added-value and diversify our offshore markets? Do key industry players need structural reform to provide the capital and incentives necessary to grow value for the benefit of key stakeholders? How do we balance this growth alongside sustainability and protecting the environment?

Regulation

How do you really 'roll back the red tape' and reduce compliance costs? What is the role of local body regulation? When will we see reform of the RMA? Where is industry consolidation desirable?

Media

What is the outlook for the beleaguered media sector and should the Government play a role? What do we think about foreign ownership of media interests?

Local government

Do we need more localised decision making? At the same time, how can we create efficiencies through scale? Is the current governance model fit for purpose? Is a different funding model required for essential activities currently conducted within the local government domain? How can we harness the economic development units within local government to stimulate recovery at a 'neighbourhood' level? How can central and local government work better together?

Savings and superannuation

How do we create a culture where there is greater private savings? How can financial literacy be improved? Should there be greater incentives to encourage savings? Are we prepared to debate the age at which universal superannuation commences and indeed whether the entitlement should be universal?

Health sector

COVID-19 put a spotlight on, and increased, the impact of many issues that the health and disability sector were already grappling with. These include financial sustainability, the need for modern models of care, equity of access and outcomes. How do we now reimagine healthcare for all New Zealanders by learning from COVID-19? Do we need consolidation among our district health boards? How do we secure efficient health infrastructure? We know prevention is better than cure, so what is the key enabler here?

Foreign direct investment

How do we ensure New Zealand businesses have access to the capital they need, and how do we link this into our goals of improving productivity and driving real growth?

Public sector

How do we create greater efficiency and enhance trust in public institutions? Does the existing Crown model for funding, delivery and procurement need to be reconsidered to accommodate our post-COVID-19 position?

Sport and recreation

Do we understand its linkage to our national wellbeing? Are new funding models needed?

SMEs

New Zealand is a nation of small businesses. How do SMEs build resilience through increased strategic and digital capabilities? How do they manage succession planning?

Tourism

Has New Zealand's economy become over reliant on tourism? How do we pursue added value rather than additional volume?

Data

How do we improve the timeliness and accuracy of macro data and provide better data-driven decision-making capability? How do we harness the power of data and analytics to enable quicker and more informed decisions based on insight rather than just intuition?

Transition to a low-emissions economy

How do we ensure that all investment decisions and actions support New Zealand's commitment to reducing its carbon emissions and ensuring the prosperity and sustainability of future generations?

Supply chain reforms

How do we build greater self-sufficiency and resilience in a cost-effective manner? How do we build an efficient multi-modal supply chain?

Māori economy

Iwi are substantial asset and business owners, and typically have a longer term horizon when it comes to investing. What opportunities are there for iwi (as Treaty Partners) to play a more significant role in shaping and influencing government policy as it relates to the rebuild? How can iwi enjoy greater participation in employment, business ownership, and social and economic outcomes?

Education

Education holds the key to our future so what changes are required at all levels? Are we focussed on and measuring the right outcomes? What is the role of international fee-paying students? How can we entrench more skill-based training? Should we create a world-leading agricultural university?

Role of private capital

What role does private equity play in supporting businesses and enabling growth and succession?

Risk management

We now have a much broader understanding of risk in the post-COVID-19 environment. How do we apply these lessons in the future?

PwC is keen for your views on these areas as we develop our own thinking. Your views will help us disseminate good ideas which will contribute to the rebuilding of our economy, something that we all have a vested interest in.

Let's rebuild New Zealand

COVID-19 is first and foremost a health crisis and one that has impacted the world on a scale not seen since the Spanish Flu epidemic in 1918/19.

The Spanish Flu epidemic, which was probably little known to the current generation before COVID-19, was far more devastating, infecting around 500 million people or one-third of the world's then population; and at least 50 million people died over a two year period. Many of the symptoms and the control measures such as social distancing that were found to work in response to combating Spanish Flu are no different a hundred years later as the world has battled the COVID-19 pandemic. This simply serves to corroborate the fact that sadly, history has a habit of repeating itself.

This report has not focussed on the battle to save lives other than to laud the efforts of the Government and all New Zealanders in rising to the challenge of combating this health crisis.

The Government and the Ministry of Health still have work to do in terms of building resilience within the health sector to cope with such a pandemic should it arise again (or if there is a second wave of COVID-19); ensuring mental health needs are properly addressed, especially among youth and those most severely impacted by the crisis; while also continuing to ramp up the ability to undertake rapid contact tracing, and continue the community testing regime.

There are some basic lessons to be learned from the health crisis. These are as simple as staying home when you are not feeling well and frequently washing your hands. These are age-old messages and we have suffered a painful reminder of their relevance.

The COVID-19 crisis has highlighted New Zealand's ability to quickly address long-standing inequality, once there is sufficient focus. During Alert Level 4, homelessness in New Zealand was effectively eliminated. Secure accommodation was found for as many people as possible, and this accommodation was guaranteed through until April 2021. At the same time, wraparound services have been funded to support formerly homeless populations, and investments made in social housing. However, as the impact of the economic downturn hits, there is the risk of homeslessness returning as new populations find themselves unable to meet housing costs.

Through the education sector's response to COVID-19 and the need to teach students remotely, internet access and devices have been provided to homes that have never had access to the internet or technology. This has been of benefit not only for the students, but for their entire families. Although in this regard it is notable that those students whose families were in lower socio-economic groups tended to miss out.

A key challenge for the education sector is to move away from its traditional investment focus centered on bricks and mortar, to an emphasis on investing in the best teachers. There is overwhelming evidence that the critical determinant of good education outcomes is the quality of the teacher. This needs to be matched by a rethink of the curriculum to ensure students are being taught how to learn and are gaining the skills they will need to prosper in a 21st century world. These include better language skills, digital literacy, financial literacy, creativity, agility, resilience and teamwork.

The recovery needs to consider how the gains achieved over the last three months can be consolidated and extended, especially during the next 12-24 months as the economic downturn impacts household incomes. The significant investments that are being made as part of the response to COVID-19 should also consider what fundamental changes we want to make to address our societal inequalities, and how we can both invest in the economy and in our society.

This report is focussed on the follow-on challenge, namely combating the dramatic recessionary impact of the COVID-19 pandemic that has seen unemployment skyrocket and GDP shrink, not only in New Zealand but around the world.

Our thesis is that New Zealand possesses some natural and unique competitive advantages that, if properly leveraged, will enable us to recover our economy more quickly and more strongly than many other countries. This serves as a real cause for optimism.

In our view, this is not a time for timid policies as these will only lead to stagnation within the economy, greater loss of jobs and a much slower eventual recovery. Instead, the enormity of the post-COVID-19 economic crisis creates the so-called ‘burning platform’ for transformational change focussed around some ‘no-regrets’ objectives that New Zealanders as a nation need to pursue.

“The significant investments that are being made as part of the response to COVID-19 should also consider what fundamental changes we want to make to address our societal inequalities, and how we can both invest in the economy and in our society.

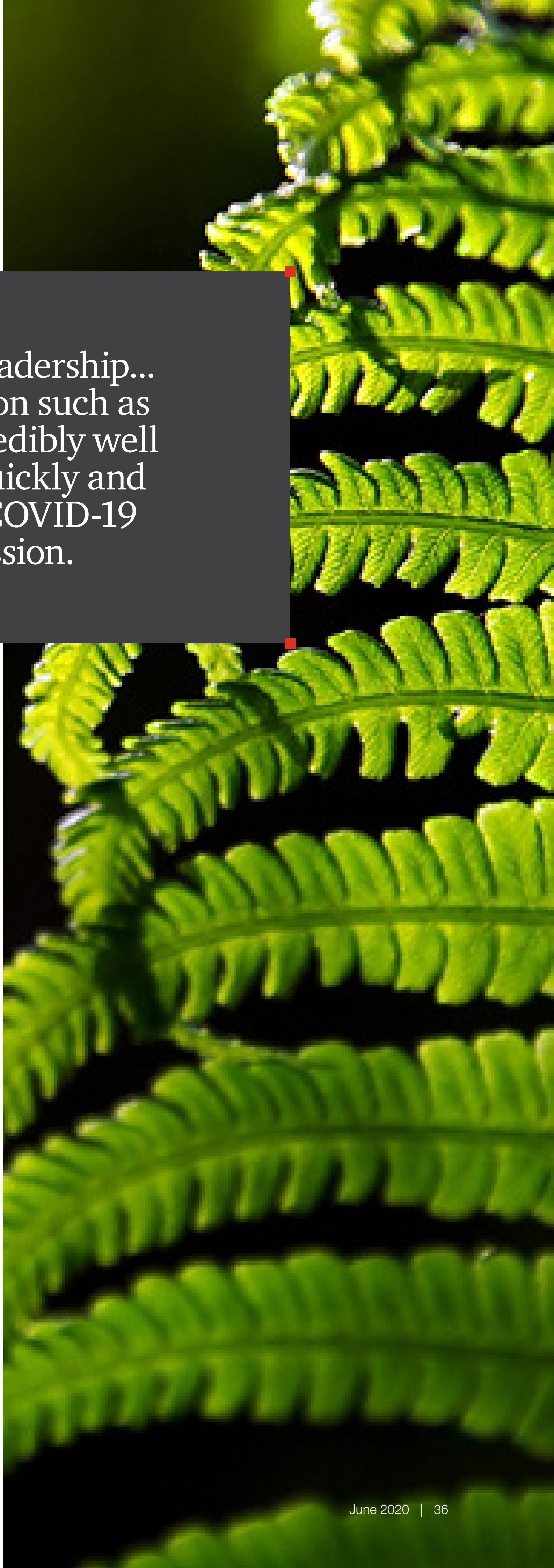
We must all recognise that there is no simple return to the old ways, instead we have no choice but to adapt quickly to the ‘new normal’.

Above all, we want to see an informed non-partisan debate around the key planks by which New Zealand’s economy can be rebuilt, better and stronger than before.

We want to see a visionary government demonstrating strong leadership and providing the framework for our economic recovery, one that will give businesses the certainty and confidence that they require to make informed decisions. To help shape that vision, the Government should be prepared to listen to those in the private sector. We also want to see the Government maintain its speed, agility and coordinated effort that it has so successfully deployed to confront the COVID-19 health crisis as it begins the challenge of supporting the economic recovery.

We have highlighted the key planks which, if successfully addressed, will ensure New Zealand's economy rebounds quickly and strongly:

1. **Maintaining the highest level of employment feasible in the challenging post-COVID-19 environment until the economic recovery takes hold;**
2. **Understanding what real growth means and stimulating this;**
3. **Removing the barriers and impediments to real and sustained, across-the-board productivity improvements;**
4. **Addressing the growing degree of intergenerational inequity, which has been exacerbated by the cost of combating the COVID-19 pandemic;**
5. **Addressing tax reforms to broaden the Government's revenue base, remove distortions on investment decisions and create greater fairness;**
6. **Addressing the urgent challenge of climate change so that there is a planet for future generations to enjoy; and**
7. **Partnering effectively by all elements of the public and private sectors to aid recovery.**



> With courage and leadership... a small vibrant nation such as New Zealand is incredibly well placed to recover quickly and strongly from the COVID-19 economic recession.

These are not easy goals, in fact many will be extremely challenging. There will inevitably be a need for trade-offs to balance social need, health outcomes and economic growth alongside other national interests, such as a greater degree of self sufficiency and enhanced population health. In the long run, we firmly believe that New Zealand needs to grow its way out of the COVID-19 economic recession, hence the need for bold policy and strong leadership across all elements of society.

With courage and leadership, especially from those in positions of influence, be they political, business or community leaders, a small vibrant nation such as New Zealand is incredibly well placed to recover quickly and strongly from the COVID-19 economic recession. We can look forward to a prosperous future and an opportunity to ensure that the benefits of the recovery are shared across all elements of our society.

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About PwC

At PwC New Zealand our purpose is to build trust in society and solve important problems. With over 1,600 people. PwC New Zealand has offices in the Auckland, Waikato, Hawkes Bay, Wellington, Canterbury and Otago regions. We're part of a network of firms in 157 countries with more than 276,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more by visiting us at www.pwc.co.nz pwc.co.nz

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