

# Home Again: Rehabilitating state policy experiments

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The case for an active state to address  
social problems in New Zealand

Prepared for Ann Pettifor of Prime Economics  
and The Policy Observatory,  
Auckland University of Technology

### About this report

This report is one in a series prepared for Ann Pettifor's visit to New Zealand in September 2016. The reports provide background information on challenges facing the New Zealand economy and society, and are available on The Policy Observatory website.

The Policy Observatory would like to thank Auckland University of Technology Vice-Chancellor Derek McCormack for sponsoring Ann's visit to New Zealand as an AUT Distinguished Scholar. Ann, a specialist in Keynesian monetary theory, is Director of Policy Research in Macro-Economics (PRIME), based in London. We would also like to thank Philippa Howden-Chapman, the author of this report, as well as the other contributors to this series.

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## Home Again: Rehabilitating state policy experiments

Philippa Howden-Chapman

We live in a small democratic country with the same population as Sydney. Yet we face a range and scale of seemingly intractable social problems - rising wealth inequalities,<sup>1</sup> rising housing costs particularly affecting those with lower incomes,<sup>2</sup> highly skewed ethnic educational outcomes, persistent unemployment,<sup>2</sup> lack of affordable housing,<sup>3</sup> ongoing poor quality of private rental housing,<sup>2,3</sup> growing child poverty,<sup>4</sup> severe housing deprivation<sup>5</sup> and despite lower crime rates, rising rates of imprisonment.<sup>6</sup> The passivity of our current government is surprising considering our history. Just before New Zealand became a Dominion in 1907, Liberal Minister William Pember Reeves wrote the internationally acclaimed *State Experiments in Australia and New Zealand*,<sup>7</sup> and went on to become a director of the London School of Economics. We have the capacity and the evident need in New Zealand to again undertake bold, strategic policy innovations, which are led by state organisations, in partnership with community and private organisations and evaluated carefully, before being rolled out.

Our neo-liberal government seems both unwilling and unable to deal with redistributive issues and strategic, social infrastructure investments. Like a poker player dealt a poor hand, the government is calling for new cards, and relying on barely constrained immigration to overcome what they perceive are the attitudinal and educational shortcomings of the current crop of New Zealanders. This strategic policy inactivity is inexplicable considering we are in the top half of the OECD, have on average high levels of education and trust, an essentially uncorrupt public service and clear lines of responsibility in our unicameral government.

The political climate has not always been like this. In 1942 the New Zealand Prime Minister, the Right Honourable Peter Fraser, when establishing the Rehabilitation Council, stated:

The whole outlook of the country and the Government and Parliament is that there is nothing within our means and the bonds of commonsense that we can do for these men [sic] that we ought not to do. That is as big a charter as one could possibly have.<sup>8</sup>

Seventy-four years later, we need a new government charter for real social investment, one where again everyone is deserving and no-one is left behind. We can learn from the Rehabilitation Council's charter, which was set up to serve ex-servicemen, including their widows, children and dependent mothers, and explicitly included

## Home Again: Rehabilitating state policy experiments

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Māori, Pakeha, and women as well as men. The Council's job was to help them make decisions about their future and to find out what assistance, work, training or education they wanted. The Council, through local boards, provided wages for any special training or education they needed. They arranged for them to have homes, furniture, farms, tools of their trade and businesses or jobs ready for them, when they were ready to settle down. There were competitions to provide innovations in state housing and loans for new houses, up to the full valuation of the property, at favourable interest rates.<sup>8</sup> This post-war social investment was very forward looking, socially inclusive and led to an economic boom and dramatic increase in life expectancy for the whole population, particularly Māori.<sup>9</sup>

Social reforms require a vision of a future society, as well as of current needs.<sup>10</sup> They require analytical, problem-solving approaches, which take account of equity - the efficiency and effectiveness of universal policies as against targeting on the basis of poorly defined concepts such as 'vulnerability' - and the linkages and co-benefits from thinking systemically.<sup>11-13</sup> Social policy experiments can be trialled locally or nationally and the broad social benefits and costs measured and monitored before they are rolled out more widely.<sup>14</sup> For example, in considering housing policy experiments, we should remember that children in insecure low-income households, which are renting and often shifting annually,<sup>15</sup> have the cards stacked against them in terms of settling into school and forming good relationships with teachers and peers. Māori and Pacific households are more at the mercy of landlords here, because they have less family wealth to draw on for mortgages and their rates of home-ownership are under half the European rates. In surveys, many Māori tenants also report racism in the rental market.<sup>16</sup>

In social democracies we elect governments that can invest in social infrastructure and provide public goods, such as parks and public hospitals, which are as of right available to everyone and therefore are under-provided by the private market. Governments can and need to take calculated sense risks and make social investments on behalf of all citizens, not just to maximise the wealth of the private sector.<sup>17</sup> Moreover, as Mariana Mazzucato outlines in her book *The Entrepreneurial State*, there are many ways in which the state is better placed than the private sector to undertake productive entrepreneurial innovations, which require time and patience.<sup>18</sup> Major socioeconomic challenges, such as the problems already identified, as well as environmental challenges like climate change, require an "active state" - the lead risk taker. There are many potential advantages of an active state. We need to have a better understanding of the state's role in relation to the benefits and risks of public-private partnerships, which are a key policy for shaping and creating of markets by "the vision, the mission and the plan", all the more important.<sup>18</sup>

Using our established public organisations such as Housing New Zealand, the Accident Compensation Corporation and our sovereign wealth Superannuation Fund, the New Zealand Government could, like the 1942 Government, run competitions for innovations in affordable housing designs with in-built heating and ventilation systems, support public-private partnerships to build high quality, energy efficient affordable rental houses or apartments, and underwrite 100 percent loans for some of this housing to be sold by ballot to first home buyers.

The returns from active state investments in energy efficient housing and radical renewable energy technologies, as well as in social spending, can be high. Working in partnership with private and iwi-based businesses, can increase innovation and general welfare, if the distribution between the parties is transparently fair. When the gains are equitably shared, these partnerships can and should return increased tax revenue, which can then be reinvested in social innovations, as well as improving the health and well-being of all citizens in New Zealand.

## Home Again: Rehabilitating state policy experiments

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### About The Author

Philippa Howden-Chapman is a professor of public health at the University of Otago, Wellington, New Zealand, where she teaches public policy. She is director of He Kainga Oranga/ Housing and Health Research Programme and the New Zealand Centre for Sustainable Cities. She has conducted a number of randomised community housing trials in partnership with local communities and sector agencies to provide an evidence base to inform housing, health and energy policy. She has a strong interest in reducing inequalities in the determinants of health and has published widely in this area, receiving a number of awards for her work including a QSO, the Liley Medal and the Dame Joan Metge Medal. In 2014, she and the He Kainga Oranga team were awarded the Prime Minister's Science Prize. She is currently the chair of the WHO Housing and Health International Guideline Development Group and was a member of the Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty.

### About The Policy Observatory

Based at Auckland University of Technology, The Policy Observatory is a lens on public policy in Aotearoa New Zealand. We both conduct and commission research on economic, social and environmental policy issues, with the intention of publishing results in a form that is accessible to the general public. We work in a collaborative, networked way with researchers across institutions and in the private sector. Ultimately, we are concerned with how policy advances the common good.