

Purple Group - Exercise 1

'Fiscal frameworks & projections'

DATA

In 2061 one in four people will be over 65, compared with one in eight now

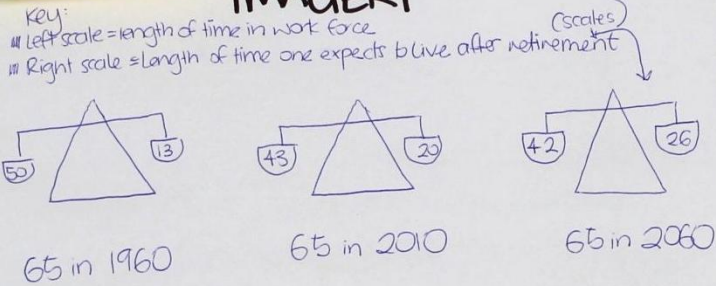
Since 1990 65+ age group has already doubled.

The labour force is expected to see 25,000 new entrants in the 30 years to 2051. The following 30 years to 2061 this is expected to decline to 15,000

Labour force growth expected to decline by more than 1/3 to 0.6% pa

Current debt to GDP ratio goal is 20%
Actual ratio is about 35%

IMAGERY



QUOTES

Fiscal sustainability
 "Can the govt afford in the future what the opt is offering today?"
 Bob Buckle

Intergenerational effects
 "Increasing debt levels now will be a burden on tomorrow"
 Bob Buckle

Krugman: Productivity isn't everything but in the long run it is everything

THE GOVERNMENT MUST DEMYSTIFY TEAMS
 ↳ GABRIEL MAKHLOUF

Uncertainty may see a benefit in waiting to act.
 However, inaction is costly.
 \$\$\$
 Bob MaBuckle

Delaying decisions will lead to bigger more abrupt policy decisions!
 - Mackenlof

KEY MSGS

Government needs to be united in a Collaborative Method when deciding a fiscal policy

We are certain to have an ageing population

Forecast labour force participation rate is in relative decline

Projections are based on the assumption of unchanged govt policy & unchanged revenue

Taxes have efficiency growth & distribution effects

How different past 50 years are to the next 50 years

Increasing income & expectations

Fiscal sustainability - is what the govt is doing now affordable in future without excessive tax or debt

productivity vs Age
 * workers are perfectly substitutable
 ↳ generates a productivity dividend

What is the impact on productivity in total if we have an ageing workforce?
 - not a lot

GREEN 3

Session 1 FISCAL FRAMEWORKS & PROJECTIONS

Data of Interest

NZ Population expected to reach 6 mill in 2061 !!

Over 65 popn. almost doubles (14% to 26%) from now to 2061

Maori and Pasifika both have 'bottom heavy' age structures.

average of 1.1% population growth over the last 20 years

Rational Analysis means setting criteria and evaluating options against them

1/2 the babies born today are expected to live beyond 90

Quotes

"Reform by stealth has limitations"

"Fairness is our most fundamental belief"
- Diana Crossman

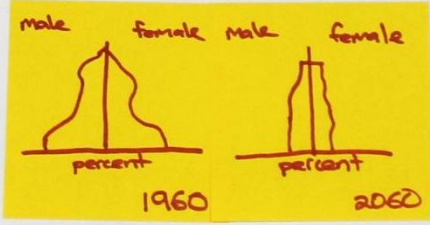
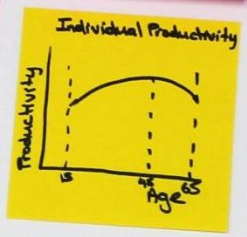
Fiscal → Sustainability

"Can governments afford in the future what governments are doing today?"

"Higher debt today = higher taxes tomorrow"

"Productivity isn't everything, but in the long-run it's almost everything"
- Paul Krugman

Imagery, doodles, other ways of communicating.



KEY Messages

Timing of reform is important for success

We need a framework to develop a consensus politically and make decisions.

The importance of an open press that informs the public to receive an electoral mandate for change

"change in age structure more than affects change in participation rate" - Geoff Basford
Extra NZS paid is larger than extra revenue from extra participation.

Policy design needs to be underpinned by sound research and analysis

How can NZ be educated to be more financially independent in retirement?

A projection is not a forecast. It indicates the magnitude of the challenges the gov faces

Govts need to decide - A suitable fiscal anchor - What's better to act - How to reform public services - A decision framework to assess options

Productivity growth is crucial to improving living standards

TRADE OPS

Equity concerns are important to a credible fiscal strategy

Conference Session #1

Data of interest

Prudent debt 20% GDP
 Community at 20%

NZ Super + Health (7%)
 = 1/3 Govt Spend
 Education 17%
 Benefits 15%
 Other 30%

6.4% GDP 2008
8% GDP 2060
 ⇒ NZ Super on costs

Govt. spending is incr. faster than national income

Population rises to 6 million in 2060

65+ will be 8 in 2061, as opposed to 1 in 8 now

Projected operating balance (including debt finance costs): -14.7% GDP (-3.4% net incl. OFCs)

Over 1/2 of babies born today are expected to live to more than 90.

Labour force: Growth now is 40,000 net entrant per year, 2060 20,000 net entrant = Labour Scarcity

Migration will make up 50% of NZ's pop. growth

Group Orange

Quotes

"Projections are NOT forecasts"
 - Gabriel Miskimf

"The future is uncertain but an ageing population is certain."
 - Bob

"Successful structure reforms take time"
 - Bob

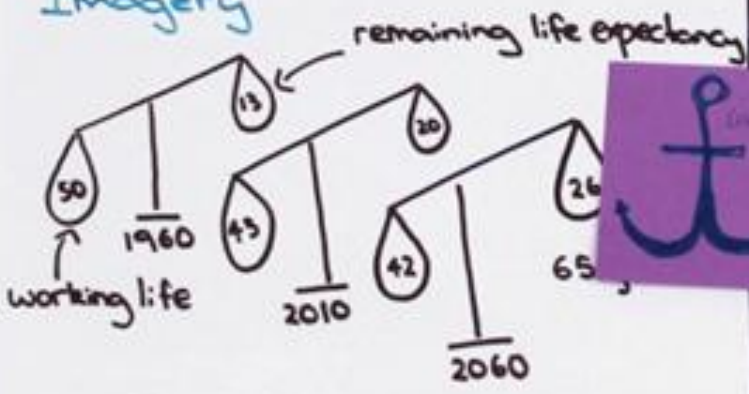
"The future is a picture of labour scarcity rather than labour surplus!"

Matthias: Predicts that the population will double every 25 years

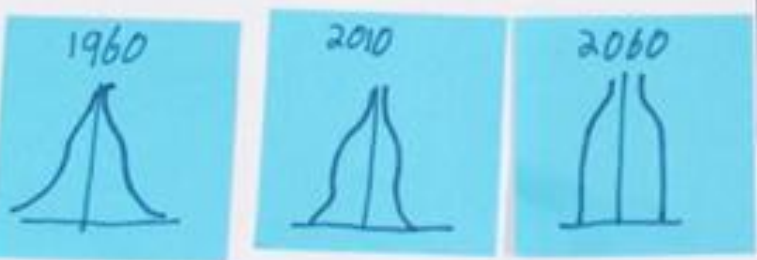
Wigram: "Productivity isn't everything but in the long term it is almost everything"

Return by health is not effective - Bob

Imagery



Fiscal Anchor: Inherited debt + interest - sum of future + -g +/- interest



Key Messages

Fiscal Sustainability
 Continue to provide same level of public services currently without raising existing income taxes

Policy design must be underpinned by sound research & analysis
 - Bob

Government's have to decide on a suitable fiscal anchor

Population ageing. Not an if

The need for increased productivity

Bipartisan → Electoral mandate

Fiscal prudence is advised with a focus on long term effects.

N.Z. has 3rd lowest public debt in OECD (?)

Don't recommend a package... illustrate trade-offs.