THE TREASURY
Kaitohutohu Kaupapa Rawa

Key Messages and Questions

- This presentation builds on work that has been in progress at the NZ Treasury for over a decade. It relies particularly heavily on the work done over the past three years or so, culminating in a working paper on the living standards framework published in May 2011.

- The twist in our recent, and ongoing, work is a switch of emphasis from developing further indicators, and associated measures, of living standards (broadly defined), towards an increased effort to use the framework to guide policy decisions and choices.

- The Treasury's vision is to improve the living standards of New Zealanders.

- The Treasury is not in the business of defining living standards for NZers - of telling NZers what they should value or how they should live their lives.

- Our policy focus rather, guided by the work of Amartya Sen most recently summarised in his book *The Idea of Justice*, is on increasing the freedoms of NZers at large to live the kinds of lives they want and choose to live (this is also perfectly aligned with the Australian Treasury's framing of its own wellbeing framework).

- Pursuing policies that promote higher incomes for NZers (i.e. that increase income per capita) remains at the centre of our strategy for increasing NZers' freedoms to live the kinds of lives they wish to live. But because we care about NZers at large, both those living today and future generations, we wish to pursue policies that promote equitable and sustainable economic growth - what we refer to as "good-growth" policies.

- So what types of interjections in economic life by governments can promote and support "good growth" rather than "bad growth" (i.e. inequitable and unsustainable growth)?

- Again, based on Amartya Sen's work, as well as work by Acemoglu and Robinson (recently summarised in their book *Why Nations Fail?*), we focus on policies that increase the opportunities, capabilities and incentives for people to participate productively in economic life - and complementary policies that remove other obstacles to such participation. These policies, by being inclusive, and by focusing on improving capabilities, opportunities and incentives to participate productively in economic life, offer the potential to generate “good growth”.

- The central thesis of *Why Nations Fail?* is that economic prosperity is associated with “inclusive” economic and political institutions, while “extractive” institutions typically lead to stagnation and poverty.

- Inclusive (or good) economic institutions tend to be free (as distinct from unregulated)-market-supporting institutions that enable, allow, encourage and incentivise participation by the great mass of people in economic activities that make best use of their talents and skills, invest and innovate, make the choices they wish, and freely contract and exchange; that secure private property rights, and provide a level playing field, as well as an unbiased system of law; and that encourage a process of ongoing “creative destruction”.

- In fact, if we go through the list of policies that we have recommended most recently to the incoming government in our BIM, one can see that these policies fit extremely well with this particular approach to policy.

- So how will we know whether these policies are succeeding in generating “good growth” - what are the key high-level indicators of success?

- How then do we measure these indicators?

- How do we propose to use this framework for policy guidance?

- If this framework is accepted as a framework for monitoring broad economic progress, we will be collaborating with other public sector agencies to continue doing "deep analysis" on improving the measures and underlying distributions for each of these key indicators.

Questions to the audience:

- Does the policy framework outlined in this presentation (and detailed further in the workshop paper) resonate with you? Does it represent progress in policy thinking and design? If so, why; if not, why not?

- Are the main indicators of success we have chosen to monitor progress in improving living standards the right ones - should we be guided by these indicators of the success of economic policy?

- Are the measures we have chosen to use in the first instance for these indicators appropriate - how can they be improved upon?

- Is the way we are suggesting to use this framework to guide policy decisions and choices appropriate and reasonable?

- Is the suggested way of using this framework to collaborate with government agencies in monitoring economic progress and working on improving measures for key economic indicators a productive pursuit?

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