THE TREASURY
Kaitohutohu Kaupapa Rawa

The Crown Balance Sheet Implications of Intergenerationally-Neutral Funded Government Programmes

Many infrastructure investments and most government programmes such as health or education are funded on a pay-as-you-go basis out of contemporary taxation receipts. When the average age of the programme recipients or the infrastructure users differs from the average of the taxpayers, there is an implicit intergenerational transfer. Programmes where the average recipient age is relatively young entail a transfer from current generations to future generations, whereas programmes where the average recipient age is relatively old entail a transfer from future generations to current generations. These transfers generate incentives for taxpayers to under-invest in programmes that benefit future generations, and over-invest in programmes that favour older generations.

Government programmes can also be funded on an intergenerationally-neutral basis. A programme that benefits young or future generations would be funded by issuing debt that would be repaid through taxes levied on these generations as they grew older. A programme that benefits older people would be funded on a "save-as-you-go" basis in advance by accumulating assets in a fund such as the New Zealand Superannuation Fund. Consequently, the balance sheet would be characterised by higher levels of debt, and higher levels of assets, with the net position depending on whether government programmes on balance directed resources to older or younger generations.

In this seminar Andrew Coleman will discuss his research paper which analyses several implications of funding government programmes on an intergenerationally-neutral basis. It addresses questions such as:

- Are there likely to be efficiency gains?
- Would a net debt target make sense?
- Would some generations lose and some generations gain, and can we determine whether there are positive or negative welfare implications?
- Would we expect the size of government programmes to change in response to the different funding model?
- What are the risk implications?

This seminar will be of particular value to those with an interest in public finance issues, especially the impacts of the different models of funding public goods and services.

Date:	Tuesday 22 October 2013
Time:	2.00pm – 3.00pm
Location:	New Zealand Treasury 1 The Terrace Level 5

RSVP: "SAYGO Seminar"
to Serah Vai at
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by 17 October 2013,
as seating numbers are limited.

Andrew Coleman

Economist

Andrew Coleman has a joint position at the New Zealand Treasury and the Department of Economics at the University of Otago, where he studies intertemporal and intergenerational issues. He previously had positions at the University of Michigan, the Reserve Bank of New Zealand, and Motu Economics, and has a Ph.D. from Princeton University. In 2011 he was a member of the Savings Working Group.

Andrew's publications on intertemporal issues have covered a diverse range of topics including storage and logistics theory, interest rate and futures market arbitrage, life-cycle housing demand, and New Zealand's retirement income and capital income tax system.