

Reference: 20190143

21 May 2019

s9(2)(a)

Dear s9(2)(a)

Thank you for your Official Information Act request, received on 25 March 2019. You requested the following:

*Under section 12 of the Official Information Act 1982 ("the Act") I request a copy of the following documents:*

1. *Treasury Report T2019/74: Letter to UAE Minister of State for Happiness and Wellbeing*
2. *Joint Report by the Treasury and IR T2019/120: Tax Working Group: Extending the Chair's Appointment*
3. *Aide Memoire T2019/3: 6th OECD World Forum on Statistics, Knowledge, and Policy - The Future of Wellbeing*
4. *Treasury Report T2018/3106: Scenario planning: maintaining living standards through an economic downturn*
5. *Inland Revenue Report : Options for taxing the digital economy – Cabinet paper*
6. *Aide Memoire T2018/3769: Wellbeing 2020*

On 12 April 2019, we extended the time limit of this request by 20 working days.

### Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	16 January 2019	Treasury Report: Letter to UAE Minister of State for Happiness and Wellbeing	Release in full
2.	24 January 2019	Joint Report by the Treasury and IR: Tax Working Group: Extending the Chair's Appointment	Release in part
3.	10 January 2019	Aide Memoire: 6th OECD World Forum on Statistics, Knowledge, and Policy - The Future of Wellbeing	Release in part

4.	31 January 2019	Treasury Report: Scenario planning: maintaining living standards through an economic downturn	Release in full
----	-----------------	---	-----------------

On the *Treasury Report: Scenario planning: maintaining living standards through an economic downturn*, I would like to emphasise, as is stated in the document itself, that the Treasury preparing advice on an economic downturn does not reflect any view that such a downturn is imminent, or that the risks of one have increased. Preparing analysis to support countercyclical policy advice is a core part of the Treasury's economic stewardship role, and forms part of the Treasury's advice and work programme regardless of our view of the economic outlook.

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- private conversation, under section 6(b)(ii) – to protect the entrusting of information to the Government of New Zealand on a basis of confidence by any international organisation
- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including that of deceased natural persons,
- names and contact details of junior officials and certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,
- contact details of officials, under section 9(2)(g)(ii) – to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment
- direct dial phone numbers of officials, under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's website.

### Information Publicly Available

The following information is also covered by your request and is publicly available on the Inland Revenue website:

Item	Date	Document Description	Website Address
5.	3 April 2019	Inland Revenue Report: Options for taxing the digital economy	<a href="http://taxpolicy.ird.govt.nz/publications/2019-ir-cab-19-sub-0041/overview">http://taxpolicy.ird.govt.nz/publications/2019-ir-cab-19-sub-0041/overview</a>

Accordingly, I have refused your request for the documents listed in the above table under section 18(d) of the Official Information Act:

- the information requested is or will soon be publicly available.

Some relevant information has been removed from documents listed in the above table and should continue to be withheld under the Official Information Act, on the grounds described in the documents.

### **Information to be Withheld**

You have also requested the document listed in the table below, which I have decided to withhold in full under the following section of the Official Information Act:

- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials.

<b>Item</b>	<b>Date</b>	<b>Document Description</b>	<b>Decision</b>
1.	11 January 2019	Aide Memoire: Wellbeing 2020	Withhold in full

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Gina Butson  
**Deputy Treasury Solicitor and Manager, Legal**

# 201920143

## Information for Release

---

1.	<a href="#"><u>Treasury Report: Letter to UAE Minister of State for Happiness and Wellbeing</u></a>	1
2.	<a href="#"><u>Tax Policy Report: Joint Report: Tax Working Group Extending the Chair's Appointment</u></a>	4
3.	<a href="#"><u>Aide Memoire: 6th OECD World Forum on Statistics, Knowledge, and Policy - The Future of Wellbeing</u></a>	13
4.	<a href="#"><u>Treasury Report: Senario planning: Maintaining Living Standards through an Economic Downturn</u></a>	16

IN-CONFIDENCE



**Treasury Report:** Letter to UAE Minister of State for Happiness and Wellbeing

<b>Date:</b>	17 January 2019	<b>Report No:</b>	T2019/74
		<b>File Number:</b>	IM-3-8

### Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Sign and return the attached letter.	18 January 2019

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Robbie Taylor	Senior Analyst, International	s9(2)(k)	N/A (mob) ✓
Thomas Parry	Team Leader, International	s9(2)(a)	

### Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** Yes (attached)

**IN-CONFIDENCE****Treasury Report: Letter to UAE Minister of State for Happiness and Wellbeing**

---

**Report**

---

1. You have been invited to the World Government Summit (WGS) in Dubai, 10-12 February 2019. The WGS is an annual governance summit hosted by the United Arab Emirates (UAE) Government.
2. We have been advised that you wish to decline on the basis that you will have just returned from Europe and the House will be sitting. The Prime Minister, Minister of Health and Minister of Trade and Export Growth have also been invited but are unable to attend due to competing priorities. New Zealand will be represented by Tony Burton, Deputy Chief Economist for The Treasury.
3. We recommend you sign the attached letter to the UAE Minister of State for Happiness and Wellbeing, Her Excellency Ohoud Al Roumi, declining the invitation on behalf of you and your Ministerial colleagues. You met Minister Al Roumi during her visit to New Zealand to study New Zealand's wellbeing agenda in November 2018, during which she extended the invitation to you.

**Recommended Action**

---

We recommend that you:

- a **sign** the attached letter declining the invitation to attend the World Government Summit and thanking Minister Al Roumi for the invitation;

*Signed/Not signed.*

Thomas Parry  
**Team Leader International**

Hon Grant Robertson  
**Minister of Finance**

Her Excellency Ohood bint Khalfan Al Roumi  
Minister of State for Happiness and Wellbeing  
**UNITED ARAB EMIRATES**

Dear Minister

Thank you for your invitation to myself and my colleagues, including Prime Minister Ardern, to attend the World Government Summit.

New Zealand is impressed by the United Arab Emirates' commitment to promoting fresh and innovative dialogue on strategies to improve governance across the world. I welcome the United Arab Emirates' leadership on global wellbeing and hope that New Zealand and the United Arab Emirates can continue to learn from each other's experiences. Your visit to New Zealand was an important milestone in this partnership and I valued the opportunity to meet with you during your visit.

Unfortunately, due to previous commitments, it will not be possible for myself or a New Zealand Cabinet Minister to attend the Summit in 2019. However we are pleased to advise that Dr. Tony Burton, Deputy Chief Economist for the New Zealand Treasury will represent New Zealand. Dr. Burton is one of New Zealand's preeminent experts on our wellbeing agenda and we are confident his attendance will be highly valuable. I look forward to hearing about the key outcomes and recommendations of the Summit, given its relevance to my Government's priorities.

Please accept my best wishes for the World Government Summit. In the meantime, I look forward to seeing you at Davos.

Yours sincerely

Hon Grant Robertson  
**Minister of Finance**

IN-CONFIDENCE

### Tax Policy Report: Joint Report: Tax Working Group: Extending the Chair's Appointment

<b>Date:</b>	24 January 2019	<b>Report No:</b>	T2019/120 IR2019/032
		<b>File Number:</b>	SH-13-7-8-6

### Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	<b>Sign</b> the attached letter for Sir Michael <b>Refer</b> the attached letter to the Minister of Revenue for his signature	29 January 2019

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
s9(2)(g)(i)	Project Coordinator, Tax Working Group	s9(2)(k) (wk)	N/A (mob) ✓
Jordan Ward	Team Leader, Tax Working Group	s9(2)(k) (wk)	N/A (mob)

### Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.  
 Refer the report and attachment to Hon Stuart Nash, Minister of Revenue.  
 Return the letter, signed by both Hon Robertson and Hon Nash, to Treasury.

Note any feedback on the quality of the report

**Enclosure:** Yes (attached)

**IN-CONFIDENCE****Tax Policy Report: Joint Report: Tax Working Group: Extending the Chair's Appointment**

---

**Executive Summary**

---

This report attaches a letter to extend the appointment of the Chair of the Tax Working Group to 30 June 2019.

The members of the Tax Working Group (the Group) were appointed until the delivery of the Final Report (the report) to the Government. This is currently expected to occur in late January 2019.

We understand the report will be published and presented to the public by the Group rather than the Government. In order to facilitate this, the Group will need to be able to respond to the media and issue corrections. Treasury and Inland Revenue (the Secretariat) recommend that the appointment of the Chair of the Group (Sir Michael Cullen) be extended to allow him to carry out these duties.

You can extend the Chair's appointment until the report is delivered to Government.

RELEASED UNDER THE OFFICIAL INFORMATION ACT

**IN-CONFIDENCE****Recommended Action**

---

We recommend that you:

- a **agree** to extend Sir Michael Cullen's appointment as Chair of the Tax Working Group  
*Agree/disagree*
- b **sign** the attached letter for Sir Michael  
*Signed/not signed*
- c **refer** the attached letter to the Minister of Revenue for his signature  
*Refer/Not referred*
- d **notify** Officials if you want to take an Oral Item to the Appointments and Honours Cabinet Committee to inform them of your decision to extend Sir Michael's appointment  
*Notified/not notified*
- e **note** the Secretariat will continue to support Sir Michael, and no additional funding is sought
- f **note** that if you agree to this extension, the Secretariat intends to extend the Independent Advisor's contract

Jordan Ward  
**Team Leader, Tax Working Group**  
The Treasury

Emma Grieg  
**Policy Director**  
Inland Revenue

Hon Grant Robertson  
**Minister of Finance**

**IN-CONFIDENCE****Tax Policy Report: Joint Report: Tax Working Group: Extending the Chair's Appointment**

---

**Purpose of Report**

---

1. The Tax Working Group (the Group) delivers its Final Report (the report) to the Government in late January 2019. The appointment letters to the Chair and members of the Group state:
 

*Your appointment takes effect from the date of your acceptance of this appointment letter, and continues to the date the Group provides its final report to Ministers, which is scheduled to be in February 2019.*

The report is being delivered early, so this appointment end date has shifted as well.
2. Once the report is delivered, there are activities that would benefit from the continued involvement of the Chair. These include:
  - a Facilitating the delivery of the report to the public,
  - b Speaking to media about the report, including radio and television interviews,
  - c Ensuring the reporting on the recommendations is correct, including issuing corrections, and
  - d Attending appropriate speaking opportunities to discuss the report's recommendations.
3. There are 11 members of the Group, including the Chair. The Secretariat recommends the Chair's appointment be extended, as the spokesperson for the Group. Having the Chair complete the activities outlined above promotes clarity on what the *Group* has recommended, in relation to the *Government's* decisions.

**Length of Extension and Supporting the Chair**

---

4. The Secretariat anticipates that there will be ongoing media requests and clarifications required until the Government has announced its decisions. The announcement is expected in the first half of 2019. We recommend Sir Michael's appointment be extended until 30 June 2019, the end of the Tax Working Group's appropriation.
5. The Secretariat will continue to support the Chair; this will be managed within current staffing levels, and is not anticipated to have an impact on capacity.

**Communication and Consultation**

---

6. As the Group's appointment letters are public, an announcement of the extension will be required. The Secretariat recommend you address this through a Press Release, either as part of acknowledging the report's handover to Government, or as part of the response on the day of release.
7. Treasury has confirmed an extension would not need to be considered by the Appointments and Honours Cabinet Committee. If you want to notify those colleagues

**IN-CONFIDENCE**

about the extension, we recommend taking an Oral Item to the next meeting on Wednesday 13 February 2019.

8. If you agree to extend the appointment of the Chair, the Secretariat intends to extend the contract of the Independent Advisor, Andrea Black. The Treasury is able to extend the Independent Advisor's contract without further input.

**Terms of the Extension**

---

9. We do not propose any change to the terms of the appointment (remuneration, costs, conflicts of interest and confidentiality). For further detail on these, please see the attached original appointment letter.

**Costs Involved**

---

10. Sir Michael's rate for this appointment is \$1,062.00 per day over 6 hours. Travel and accommodation costs are also included. No additional funding is being sought to cover these costs; we anticipate they will be met through the current appropriation.

RELEASED UNDER THE  
OFFICIAL INFORMATION ACT

# Hon Grant Robertson

MP for Wellington Central

Minister of Finance

Minister for Sport and Recreation

Associate Minister for Arts, Culture and Heritage



Sir Michael Cullen  
s9(2)(a)

Dear Sir Michael

## Appointment as Chair of the Tax Working Group

We have pleasure in formally appointing you as Chair of the Tax Working Group.

### Background

As set out in the attached terms of reference, the purpose of the Group is to examine further improvements in the structure, fairness and balance of the tax system.

### Your role

You are being appointed as Chair of the Group to consider changes in the tax system and to make recommendations in a final report to Ministers.

As Chair of the Group, you will be responsible to the Ministers of Finance and Revenue for all actions taken, reports issued or advice given by the Group. You will also be responsible for all administrative matters including determining the time and location of meetings, setting the agenda, gathering the necessary papers and inviting attendees, with assistance from the Group's secretariat.

Our expectations for yourself and the Group, which have been included in the members' letters of appointment, are that:

- members will need to attend meetings (via teleconference if physical attendance is not possible) of the Group every two to three weeks, to be held in Wellington
- members may also need to attend some of the Group's external engagement events
- members will have thoroughly prepared for these meetings and events, and will participate fully, frankly and constructively.

### **Term of appointment**

Your appointment takes effect from the date of your acceptance of this appointment letter and continues to the date the Group provides its final report to Ministers, which is scheduled to be in February 2019.

This appointment may be extended by written agreement while the appointment remains in force.

The Ministers of Finance and Revenue may remove you from the position as Chair of the Group for any reason, or may terminate the Group's operation, by giving notice in writing, which may take effect immediately. Similarly, you may resign from your position as Chair of the Group at any time by giving the Ministers of Finance and Revenue notice in writing.

### **Acting Chair**

As Chair, you may designate in writing any other member of the Tax Working Group to act in your place. Any person so designated will assume all responsibilities of the Chair for the period of time they are so designated.

### **Remuneration**

As Chair of the Group, you will be paid the daily remuneration fee for a Group 4, Level 1 body under the Cabinet Fees Framework (CO (12) 6). This equates to a rate of \$1,062 per day and includes payment not only for attendance at meetings, but also work properly undertaken outside of meetings (for example preparation for meetings, report writing, and review of the same). However, if work on a day as Chair of the Group involves less than 6 hours of time, the aforementioned daily rate is to be divided by 8 and then multiplied by the number of hours actually worked. Fee invoices presented must include details of the actual number of hours worked.

### **Costs**

The Treasury will be meeting expenses related to the direct costs of setting up, running and supporting the Group. Costs incurred as a result of activity associated with the Group will be managed by the Treasury in conjunction with yourself. Any expenses you incur on behalf of the Group will need to be agreed in advance with the Treasury and will be reimbursed on receipt of appropriate documentation.

In particular you and the Group will also be reimbursed actual and reasonable expenses incurred, including:

- transport expenses (taxis, busses, trains, and return flights for those members of the Group who ordinarily reside outside Wellington) that comply with the Treasury's travel policy;
- accommodation of the type approved by the Treasury for those members who ordinarily reside outside Wellington;
- breakfast and evening meals for members of the Group who ordinarily reside outside Wellington;

that in each case have been approved in advance by the Treasury in writing.

Any expenses claims presented or charged to the Treasury in respect of expenses incurred by or for a Group member that have not been approved in advance by the Treasury in writing, may be paid by the Treasury by off-set against fees payable to the member.

Note that in the event of a dispute in relation to a fees invoice or an expense claim, the Treasury reserves the right to withhold payment for the whole or any part of that fees invoice or expense claim that is notified by the Treasury as being in dispute until such dispute is resolved to the reasonable satisfaction of the Treasury.

### **Conflicts of Interest**

As Chair, you will keep a register of any conflicts of interest that have been identified by you or members of the Tax Working Group. It is expected that the Chair and members will declare conflicts of interest where they arise, preferably before meetings, and may need to excuse themselves from discussions if the conflict is of a significant concern.

It is also possible that you may be placed in a situation where, as a result of circumstances which are not related to your position as Chair of the Group, your continuing to act as Chair might nevertheless place the Group or Ministers in a position of embarrassment. If you find yourself in such a situation you must take the initiative and raise the matter with the Ministers of Finance and Revenue. While there are no set criteria for such situations, examples include:

- where legal proceedings have been, or are likely to be, brought against you;
- where you have been, or are likely to be, subject to negative media or public scrutiny;
- where you are placed in a situation of actual or perceived conflict of interest;
- any issue affecting your ability to contribute to the Group (for example, as a result of other time pressures, extended overseas travel (i.e. more than two months), illness, etc); and
- any other similar circumstance which may place the Group or Ministers in a position of embarrassment.

### **Confidentiality**

You confirm that you will not use or disclose any confidential information obtained through your role (other than to the extent necessary for your role) unless the Ministers of Finance and Revenue give prior written approval for the use or disclosure, or the use or disclosure is required by law or parliamentary convention.

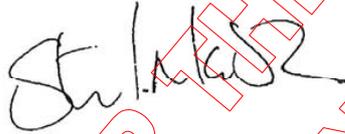
If you require any assistance, please contact the Manager of the Tax Strategy Team in the Treasury, Mark Vink: s9(2)(g)(ii) DDI: s9(2)(k)

Please indicate your acceptance of your appointment by signing and dating the below, and return it to Mark Vink, Tax Strategy Team, The Treasury, 1 The Terrace Wellington 6011.

Yours sincerely



Hon Grant Robertson  
Minister of Finance



Hon Stuart Nash  
Minister of Revenue

**Acceptance of appointment**

I, Sir Michael Cullen, hereby accept the appointment as Chair of the Tax Working Group in accordance with the enclosed Terms of Reference and the terms contained in this letter.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

RELEASED UNDER THE OFFICIAL INFORMATION ACT

## IN-CONFIDENCE



Reference: T2019/3

File No. TY-7-4-1

Date: 10 January 2019

To: Minister of Finance (Hon Grant Robertson)

Deadline: None

## **Aide Memoire: International engagements on wellbeing theory and practice: A summary of the 6th OECD World Forum on Statistics, Knowledge, and Policy - The Future of Wellbeing**

This note updates you on a range of recent international engagement activities relating to wellbeing, and in particular the high-profile 6<sup>th</sup> OECD World Forum. As you know, New Zealand's wellbeing agenda is generating much international interest, and your attendance at Davos with the Prime Minister will increase the already high likelihood that New Zealand Ministers and officials will receive further requests to participate in international activities. We will have to be selective about these requests. The initiatives summarised in this note provide a sense of the landscape, to help calibrate how intensely we should engage in each case.

We will continue to work with MFAT to ensure an NZ Inc. perspective on our choices. Those choices should balance what we can learn from other countries' experiences for the purposes of embedding wellbeing in New Zealand policy processes (which will depend on how similar their institutional contexts are to ours), how any international engagements can contribute to the Government's Priorities more broadly (including deepening international relationships), and of course our servicing capacity.

### **OECD Forum**

You were invited to provide an address at the OECD Forum but were unable to attend. Details of the event, including a full programme and speaker information, are available from the official website (see list of websites at end of this note). The Forum attracted over 2,700 participants from close to 100 countries. Attendees included government leaders and officials, leading researchers and statisticians, representatives from civil society and business and journalists.

### **Multi-country initiatives**

One group present at the Forum that is particularly interested in New Zealand's ongoing participation is the Wellbeing Economy Governments (WEGo). WEGo is an officials' network with participants from small countries and sub-national governments, led by Scotland, who are all working on wellbeing. Further details of its first public meeting (held at the Forum) are given later in this note. WEGo's emphasis on sharing of practical experiences and expertise between working-level officials in similar

**IN-CONFIDENCE**

countries suits New Zealand well, and its deliberately low-key approach (similar to the Small Advanced Economies Initiative) is not resource intensive to service given the value it provides.

The Global Happiness Council (GHC) is another newish international group that was represented at the Forum. In contrast to WEGo, the GHC comprises academic experts and mostly non-government sector practitioners. The GHC is supported by the United Arab Emirates (UAE), whose Minister of Happiness you met when she visited New Zealand in late 2018. It has been actively seeking support from countries interested in wellbeing. The GHC takes a considerably higher profile approach than WEGo, for example producing an annual Global Happiness Report which is released at the UAE-sponsored World Government Summit each year in Dubai. Among other things, the GHC has created a wellbeing index, against which they rank countries. s6(b)(ii)

s6(b)(ii)

### **Release of “Beyond GDP: Measuring What Counts for Economic and Social Performance”**

One of the key events at the Forum was the release of the report by the High-Level Group on the Measurement of Economic Performance and Social Progress. The three co-Chairs of the Group are Professor Joseph E. Stiglitz, Professor Jean-Paul Fitoussi and OECD Chief Statistician Martine Durand. It recommends that governments use a dashboard of indicators to assess a country's health and people's conditions, encompassing the most important dimensions of people's lives, such as skills, health, jobs, income, economic security, environmental degradation and trust. It also recommends attention to not just average outcomes but also to impacts on various segments of society, and to balance consideration of wellbeing today with that in the future. These principles are entirely consistent with those underlying the LSF and its Dashboard. The report 'Beyond GDP: Measuring What Counts for Economic and Social Performance' is available to read online. Your office has been provided with a copy of this report.

### **The NZ Treasury's participation in the Forum**

The Treasury participated in the WEGo public meeting, presenting on the wellbeing work underway here. Scotland and Iceland presented similarly. WEGo's main working level initiative, a "Policy Lab", has been created for the purpose of sharing experiences between officials in areas of common interest.

The Treasury presented in two other sessions at the Forum, supported by a paper on 'Using wellbeing statistics to improve how government and business interact' in one and together with StatsNZ on 'Wellbeing indicators and policy frameworks in New Zealand' in the other.

**IN-CONFIDENCE**

**Suzy Morrissey**, Principal Advisor, Office of the Chief Economic Advisor, s9(2)(k)  
**Peter Gardiner**, Manager, Forecasting, Modelling and Research, and Acting Manager,  
Office of the Chief Economic Advisor, s9(2)(k)

**Website links for your reference:**

Forum website - <https://www.oecd-6wf.go.kr/eng/main.do>

OECD Report - <http://www.oecd.org/social/beyond-gdp-9789264307292-en.htm>

WEGo website - <http://wellbeingeconomygovs.org/>

Global Happiness Council - <http://www.happinesscouncil.org/>

RELEASED UNDER THE  
OFFICIAL INFORMATION ACT

## IN-CONFIDENCE


**Treasury Report:** Scenario Planning: Maintaining Living Standards through an Economic Downturn

<b>Date:</b>	31 January 2019	<b>Report No:</b>	T2018/3106
		<b>File Number:</b>	MC-1-0-4

**Action Sought**

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	None	None

**Contact for Telephone Discussion (if required)**

Name	Position	Telephone	1st Contact	
Angus Hawkins	Senior Analyst	s9(2)(k)	n/a (mob)	✓
Renee Philip	Manager	s9(2)(a)		

**Actions for the Minister's Office Staff (if required)**

Return the signed report to Treasury.  
Refer to Associate Ministers of Finance, if agreed to.

Note any feedback on the quality of the report

**Enclosure:** No

## IN-CONFIDENCE

## Treasury Report: Maintaining Living Standards through an Economic Downturn

---

1. This report updates you on the Treasury's thinking on how macroeconomic policy should respond to a major economic downturn, drawing on lessons and thinking developed since the global financial crisis (GFC). This advice is based on hypothetical scenarios. It has not been predicated by any increase in the perceived risk of an economic downturn, and should be seen as preparatory work consistent with the Treasury's role in economic stewardship.
2. No action is required from you. The intention of this report is to make you aware of the work we are developing, and highlight the trade-offs you will face in the event of a major economic event.
3. The current economic environment would make responding to a major economic downturn challenging. Economic shocks are conventionally managed by the Reserve Bank loosening monetary policy by reducing the official cash rate (OCR). However, with the OCR at a historically low level of 1.75%, implementing a five to six percentage point reduction in the OCR, as undertaken in the GFC and other major recessions, is likely to be impossible.
4. Therefore, preventing a fall in the living standards of New Zealanders in the face of a major economic downturn will require more than a conventional monetary policy response. The options available to you will consist of one or both of:
  - a. A fiscal stimulus programme with some combination of increased capital spending, tax cuts and/or cash transfers to households.
  - b. Unconventional monetary policies, currently untested in New Zealand.
5. While the Monetary Policy Committee (MPC) would make any decision regarding whether or not to implement unconventional monetary policies, that decision would be informed by the fiscal position. If you respond to economic events with an effective fiscal stimulus, the MPC would be less likely to be required to adopt unconventional policy to meet its remit.  
 Conversely, no stimulus (or an ineffective one) increases the likelihood that unconventional monetary policy is used. Hence, while the MPC retains ultimate independence to formulate monetary policy, your choice of fiscal strategy in response to an economic downturn will largely determine the policy mix.
6. This will require you to trade-off the costs and benefits of monetary and fiscal policy options. We recommend using broader measures than the conventional macroeconomic variables of GDP and inflation to make this assessment. Based on our assessment of previous recessions, we consider the following objectives most appropriate:
  - a. **Minimising lost output** – minimising the reduction in per capita GDP due to a downturn. GDP, though imperfect, serves as an immediate indicator of material wellbeing, and a guide to the total resources of the economy.
  - b. **Maintaining economic resilience** – preventing the creation of systematic risks in the financial system, and maintaining the ability of the economy to withstand future downturns. This includes maintaining levels of debt that do not threaten future growth, enabling fiscal responses to subsequent downturns, and continuing to grow and maintain our physical capital to support long-run growth.

**IN-CONFIDENCE**

- c. **Retaining human capital** – avoiding unemployment or underemployment and the associated loss of skills, and maintaining the ability of the labour market to adapt to potentially different economic situation following a period of reduced growth.
  - d. **Achieving equity** – both economic events and changes in economic policy can have major distributional effects, both geographically and across the income distribution. The distribution of the costs and benefits of major policy changes across society should be considered, and weighed against the impact of the economic events they are responding to.
7. Against these criteria, neither unconventional monetary nor fiscal policy are clearly superior. The optimal policy would depend on the nature of the crisis, the balance of risks you wish to face, and how you prioritise the four objectives above.

**Fiscal Policy**

8. An effective fiscal stimulus should be timely, targeted, and temporary. That is, it can be commenced quickly; primarily benefits domestic consumers and businesses; and does not commit the government to higher spending in the long term. However, there are limitations to how far a stimulus like this could be implemented, discussed in more detail below.
9. There is considerable uncertainty around the impact of fiscal stimulus on general economic activity. In any stimulus, there is a high risk the additional spending is saved, or spent outside New Zealand, reducing its stimulatory impact.
10. Most spending projects will face constraints beyond lack of funding. These include capacity constraints in the construction sector, limited ability of agencies to manage additional large projects, and long planning times required for implementation. While we can identify some areas of capital spending that can be quickly increased, focused on repairs and maintenance of the public estate, these alone are unlikely to provide a fiscal stimulus comparable in size to those implemented by most developed economies in the GFC.
11. Tax changes or cash transfers to households are the policy options more likely to meet the criteria outlined above. These also have the advantage of being potentially highly targeted to specific groups, aiding equity objectives. The tax options could include temporary variations to some rates. Cash transfer programmes can be an effective stimulus, but, if poorly designed may lead to perverse outcomes if the stimulus is saved or spent abroad.
12. The 'best case' fiscal stimulus is therefore likely to focus on taxes and transfers, complemented by limited additional capital spending, allocated using tightly defined criteria. Existing work to improve our picture of the infrastructure pipeline will also improve our ability to expand capital spending quickly in the future, if and when this is required.

**IN-CONFIDENCE****Monetary Policy**

13. The unconventional monetary policy options, outlined below, have been implemented internationally, but would have uncertain impacts in New Zealand. Relying on unconventional monetary policy alone is therefore likely to be a risky approach, which, in most circumstances, we would recommend supplementing with fiscal policy.

- a. **Negative OCR** – taking the OCR below zero (charging financial institutions for holding funds with Reserve Bank) would increase the scope for stimulus through the ‘conventional’ channel of the OCR. However, the Reserve Bank expect rates could only fall at most 35 basis points below zero, before risking the hoarding of physical cash. This will therefore only be able to partially mitigate any large economic shock.
- b. **Large scale asset purchases** – otherwise known as ‘quantitative easing’ (QE), this involves purchasing either government debt or corporate bonds to lower long term interest rates. It would involve a substantial expansion in the Reserve Bank’s balance sheet, and may be difficult to implement at scale in New Zealand given our relatively small debt market. It may also primarily stimulate the economy through the depreciation of the dollar, which will benefit exporters.
- c. **Targeted term lending** – if financial markets are constrained and banks are failing to lend to consumers or businesses, the Reserve Bank could offer loans at below market rates, conditional on banks’ performance at increasing lending. This may moderately increase the availability of credit if financial markets are constrained.

14. While these policy options will help minimise the loss of economic output, they are blunt instruments. Though we lack detailed analysis, they are likely to perform poorly on the full set of objectives highlighted above. A response to an economic downturn that seeks to maintain living standards, particularly for those most affected, will likely require the targeted use of fiscal policy to support any unconventional monetary policy.

**Next steps**

15. In order to be well prepared for any future economic downturn, the Treasury has a work programme aimed at improving preparedness. This includes:

- a. developing a more detailed analysis of the policy choices above,
- b. improving our evidence base around tax changes, cash transfers and capital spending to options to enable an effective stimulus to be designed quickly if required,
- c. working with the Reserve Bank to ensure coordination and a common understanding across our advice, and
- d. further analytical work to determine the required scale and “trigger point” for any fiscal stimulus.

16. Officials are, naturally, available to discuss this in more detail if you wish.

**IN-CONFIDENCE****Recommended Action**

---

We recommend that you:

- a **note** officials continue to develop potential responses to an economic downturn to improve preparedness for dealing with future shocks.
- b **refer** to the Associate Ministers of Finance.

*Refer/not referred.*

Renee Philip  
**Manager, Macroeconomic and Fiscal Policy**

Hon Grant Robertson  
**Minister of Finance**

RELEASED UNDER THE  
OFFICIAL INFORMATION ACT