NEW ZEALAND’S LONG-TERM FISCAL POSITION
New Zealand’s Long-Term Fiscal Position
Presented to the House of Representatives pursuant to section 26N of the Public Finance Act 1989.

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Statement of Responsibility under Section 26N of the Public Finance Act

The Treasury has used its best professional judgements about the risks and the outlook in preparing this Statement on the New Zealand Government’s long-term fiscal position.

This Statement on the New Zealand Government’s long-term fiscal position relates to a period of at least 40 consecutive financial years, commencing with the 2005/06 financial year.

John Whitehead
Secretary to the Treasury

22 June 2006
Preface

This Statement is about New Zealand’s long-term fiscal outlook and what drives it.

In 2004, the Public Finance Act was amended to require the Treasury, at least once every four years, to prepare a statement on New Zealand’s long-term fiscal position. The Statement must look out over at least a 40-year horizon. This is the first such Statement.

It is impossible to predict with any accuracy what governments will be doing in the next 40 years. Modern governments do a myriad of things, in areas as diverse as foreign aid, taxes, health and road-building. Therefore, rather than attempt to make such predictions, we have used the available information to make projections of the fiscal consequences of particular scenarios. These scenarios set out the implications of possible policies and patterns of development of the economy. To pick up the uncertainty around these, we have used a series of “what if” questions; for example, what if economic growth is higher than we assume, what if fertility increases, and what if governments choose to spend more on education?

The starting point for our analysis is Statistics New Zealand’s work on the future size and structure of the New Zealand population and Treasury’s assumptions about the future size of the economy. Using this information, we have made projections of major spending categories and taxes, based on assumptions derived from history, current policy settings and judgements.

The purpose of this Statement

We see the purpose of this Statement as being to increase the quality and depth of public information and understanding about the long-term consequences of spending and revenue decisions. This will assist governments in making fiscally-sound decisions in the decades ahead.

The material presented here should be useful as the basis for discussions about the fiscal and other consequences of different policy settings.
The Statement builds on past work

This is not the first time the issue of New Zealand’s long-term fiscal position has been placed in the public arena, although it has been some time since such studies were done, and the fiscal position has strengthened considerably over recent years.

Over the past 15 years, many reports by the Treasury and other agencies have thrown light on the long-term fiscal position. Some have looked at the impact of an ageing population and others at a wider range of drivers of the fiscal position. The common approach of these studies (like those undertaken in other countries) is to project the path of expenditure and taxes based on some notion of “current policy.” The idea is to investigate the impact of external drivers on the overall fiscal position. Often, these drivers are demographic but sometimes they are economic, like the cost of health care.

Using this Statement to assess policies

The projections in this Statement do not draw conclusions about whether an individual policy is appropriate or affordable. Often such conclusions will depend on knowing what else the government is doing, or on having a view on the preferred role of government, an appropriate level of taxes or the overall state of the economy.

Material in this Statement will help people to make their own judgements about what they think are appropriate policies.

We present a range of scenarios of future policy settings to demonstrate the effect that drivers of different combinations of policies have on the fiscal position.

The trend towards taking a long-term view

Future governments have plenty of time to plan for the future. Demographic change is, by its nature, a slow process and New Zealand’s public finances are in sound shape. Debt is low and assets are being built up to meet the future needs of society. That said, there is often a case for adjusting policy slowly or early to meet future changes, rather than waiting and making a sudden and larger adjustment.

Successive New Zealand governments have increasingly looked to the long term in setting their policy objectives. Part 2 of the Public Finance Act requires governments to look to the future when making decisions today. It does this by requiring them to set objectives for at least a 10-year horizon and to report their actions against these. This Statement, mandated by a new section of Part 2 of the Act, is a natural extension of this reporting framework, although it differs in that it looks out over a very long period, and across many parliaments and governments.

As well as extending reporting, governments have acted to strengthen the Crown’s fiscal position. At a macro level, the Crown’s accounts have moved from a position of persistently large operating deficits, high debt and negative net worth to the current strong position, in which net debt is zero.
At a more detailed level, perhaps the two most prominent examples of governments taking a long-term perspective are in the area of superannuation. The first was the increase in the age of eligibility for New Zealand Superannuation in the early 1990s. The second and more recent was the establishment of the New Zealand Superannuation Fund, which invests a proportion of current taxes to contribute towards the costs of New Zealand Superannuation in the future.

Demographics are changing

World-wide, population structures started to change hundreds of years ago, and New Zealand has been part of this trend. The Statement shows how this demographic shift is expected to affect the government’s finances in the years ahead.

Demography directly affects the Crown’s financial position in areas such as superannuation, education and health. In superannuation, the impact of demography is potentially very large: the proportion of people over 65 years is expected to double in the next 50 years. In education, the proportion of school-age children is set to fall by five percentage points over the same period. In health, the impact is not as clear-cut. Falling levels of disease and mortality are positive fiscally, while others, such as the increase in the numbers of very old people, may be negative.

Demography is, however, only one driver of government spending. While it is important for some programmes, it has little or no impact on others. It is important not to lose sight of the broader issues that matter for the long-term fiscal position, such as overall economic performance and productivity.

New Zealand’s population is still relatively young compared with those of some other countries. Accordingly, those countries have to make policy adjustments more rapidly than we have to. We can learn lessons from them about how to harness the benefits of economic growth and meet the challenges posed by demography.

Preparing this Statement is not an end in itself

This Statement is a resource for policy makers, commentators and the general public. We hope that they will find it a useful addition to the information they use in making policy choices.

John Whitehead
Secretary to the Treasury
Executive Summary

This Statement is about the factors that the Treasury expects to influence New Zealand’s fiscal position over the next 40 years.

It is part of a suite of documents that the Public Finance Act requires the New Zealand government and its advisors to produce. These documents report on the government’s fiscal position and fiscal intentions and its performance against these intentions. They are part of a wider set of provisions of the Act that require governments to operate policy in accordance with principles of responsible fiscal management.

Criteria for responsible fiscal management

Future New Zealand governments will have many policy choices open to them, leading to a wide range of fiscal results. Judging between these options requires some sense of what makes a “good” fiscal outcome. The principles of responsible fiscal management contained in Part 2 of the Public Finance Act provide guidance on this matter.

These principles require governments to pursue their policy objectives so as to achieve and maintain prudent levels of debt; ensure, on average, that spending does not exceed revenue; achieve levels of net worth sufficient to provide a buffer against future shocks; manage risks prudently; and have predictable and stable tax rates.

Governments to date have focused on reducing debt to levels judged to be prudent, because these were high in the early 1990s. As set out in the 2006 Fiscal Strategy Report, the current Government has concluded that maintaining gross debt at around 20% of Gross Domestic Product (GDP) is prudent for the coming decade. The Government also intends to continue building up net worth by accumulating financial assets in the New Zealand Superannuation Fund to help contribute to the costs of an ageing population.

Allowing some variation in debt could be consistent with responsible fiscal policy, as could alternative levels of spending and revenue. What is a prudent level of debt may vary through time as circumstances change.

In this Statement, the level of debt is used as a guide to responsible fiscal management. Policies resulting in an ever-increasing level of debt (or indeed assets) would not be consistent with the principles in the Act.
The approach to preparing this Statement

Over the past 15 years, the Treasury and others have produced reports on New Zealand’s long-term fiscal position. Governments in other countries - for example, Australia, the United Kingdom, the United States and all 25 members of the European Union - also prepare projections of their long-term fiscal position. Some, like New Zealand, are required to do so by legislation.

The common approach in these studies is to express the long-term implications of continuing with existing policies. This approach is not an entirely straightforward task. First, there is the challenge of projecting forward the costs for different policy areas. Second, in addition to these policy intentions, governments also have fiscal objectives (such as those to do with overall levels of debt, and levels of taxes), which may not all be consistent.

Accordingly, this Statement adopts two broad approaches to looking at the future fiscal position. Put simply, the first is to carry on as we are, assuming no constraints, and see where it takes us. This involves looking at how existing policy in current spending programmes and revenue affect the aggregate fiscal measures. This is called the “bottom-up” approach. The second is to decide where we want to be and see how we can get there. This involves rolling forward current fiscal objectives indefinitely and looking at how spending and taxes would need to be changed in order to remain within the fiscal limits of the objectives. This is called the “top-down” approach.

Both these approaches use the same modelling framework for calculating the future fiscal position, but give different insights into the fiscal challenges that may lie ahead.

The addition of a top-down approach is an advance on previous reports on New Zealand’s long-term fiscal position. Its particular attraction is that it is closer to what happens in the actual budget-setting processes that governments have been using over the past decade.

The modelling starts with projections of the population and combines these with assumptions of future productivity growth and labour force participation to produce projections of GDP. These projections are used in both the bottom-up and top-down approaches.

It is assumed that recent trends in participation and productivity will continue.

Structural demographic changes over the next few decades

The structure of New Zealand’s population is changing. This is driven mainly by increases in longevity (life expectancy) and lower fertility rates (number of children per woman). New Zealand used to have high rates of mortality and fertility, but both have fallen markedly over the past century (Figure 1).

The result of these changes is a permanent shift in the make-up of the population. This change is not a demographic bulge that will reverse at some time in the future.

One way to show the permanent nature of these changes is to compare the number of young and old people with the rest of the population.
Figure 2 shows changes in the ratios of these groups from 1880 to 2100. The effect of the baby boom is evident. Equally clear is that there is no downturn in the proportion of old people when the baby boomers have died. There is going to be a permanent change in the structure of the population.

While by 2100 the combined ratio of young and old is back to the levels seen at the beginning of the 20th century, the composition is different: people over 65 make up the largest share. What is also evident is that most of the change in population will occur over the next 30 years. This is significant for the government’s fiscal position because the cost of supporting young people tends to come from their families, while the cost of supporting the elderly tends to come from the State.

Population ageing is a story of survival: more and more people are living past 65 and past 85. However, not only is the average age of the population increasing, but what it means to grow old is also changing.

Projecting these changes out 50 years is fraught with uncertainty.
The optimistic view is that life expectancy will continue to increase steadily and that morbidity (the incidence of disease) will also reduce steadily. As a result, more people will live healthy, active lives into what was once considered “old age.”

The pessimistic view is that past increases in life expectancy were generally the result of reductions in infant mortality that will not continue. The incidence of chronic health conditions, such as obesity and heart disease, is increasing in the adult population. The result is more old people requiring increasing amounts of health care just to maintain a basic standard of health. Life expectancy may even fall.

The Statement uses Statistics New Zealand’s median projections of the future population (Figure 3). These tend towards the optimistic view of ageing. Life expectancy will continue to grow, but will eventually stabilise. In addition, the health projections assume that older people are likely to be somewhat healthier than they are today.
Individual drivers of spending

In the tradition of previous studies of the long-term fiscal position, the projections made here of major spending categories and taxes and other revenue are based on assumptions derived from history, current policy settings and judgements.

This approach is a powerful tool for examining how changes in the population affect individual spending areas. An example is New Zealand Superannuation, where it is possible to project the number of people who will be 65 and over and multiply that by the projected rate of superannuation. The results of this approach are shown in Figure 4. One point to note is the similarity between the shape of the superannuation curve in Figure 4 and that for older people in Figure 2. These are similar because the main driver of superannuation spending is the number of people aged 65 and over.

For health, the main driver is the cost of individual treatments and advances in medical care: more diseases will become treatable in the future.

It is possible to undertake similar “no policy change” projections for other areas of government spending, although in some instances, more judgement is required. Figure 5 shows projections for welfare benefits and education.

In the case of welfare, the main driver is the level of benefits, where a continuation of the current policy of indexing benefits to price inflation is assumed. Benefit levels fall, as a proportion of GDP, because GDP grows much faster than prices over the projection period.

For education, demography again has a key role to play: the shape of the education curve mirrors the curve showing the relative number of young people in Figure 2. That is, because there will be fewer young people relative to the total population, total spending will fall as a share of GDP, even if the cost per pupil increases (as projected here).
The two approaches to making projections

Long-term projections can be done from either a bottom-up or a top-down approach. The bottom-up approach traditionally looks at how existing policy in current spending programmes and revenue affect the aggregate fiscal measures. It often calculates revenue assuming taxation remains a fixed share of GDP, and puts no restrictions on the total level of spending, operating balance or debt. The top-down approach, on the other hand, starts by setting restrictions for fiscal aggregates. It calculates the difference between projections for revenue and some particular expenditures. This difference is the amount that would be available for expenditure under the remaining policy programmes.

The bottom-up approach

With all spending allowed to grow according to the drivers of individual policy (discussed in more detail below), core government spending (excluding finance costs) is projected to increase by around 7.5 percentage points between now and 2050 (Figure 6).

![Figure 6: Revenue is relatively flat while core spending rises](Figure6)

Source: The Treasury

The current tax bases are assumed to grow with the rest of the economy and most tax rates stay the same. In the case of personal taxes, the modelling assumes that the tax rates will stay the same, but that the thresholds are indexed to wages (the only growth coming from the tax on rising spending on superannuation).

Not surprisingly, such an increase in spending, combined with an assumption that taxes are kept broadly constant, results in a decline in the operating balance and an eventual move from surplus to deficit (Figure 7).
Under this set of assumptions, debt will begin to rise and higher debt-servicing costs will reinforce the move from surplus to deficit, accentuating the impact on the overall operating balance (Figure 8). The impact on total spending is illustrated by the difference between the two core spending lines in Figure 6 and Figure 7.

The New Zealand Superannuation Fund assets would offset the rise in gross debt, such that the net debt position of the government at the end of the projection period would still be below the level it was at in the early 1990s. However, the debt position, and more particularly its upward trajectory, is not consistent with the principles of responsible fiscal management. Moreover, without some policy change, the debt position would continue to deteriorate beyond 2050.
The top-down approach

The top-down approach asks what might need to happen to spending and taxes, or some mix of them, in order to meet a set of fiscal objectives, such as a stable path for debt. This approach gives some sense of the magnitude of change that could be required to meet such an objective.

In order for gross debt to remain stable at around 20% of GDP over the projection period (Figure 9), the operating balance needs to remain in small surplus.
If all the adjustment was to occur on the spending side, one possible path might have spending in the four major areas of health, education, New Zealand Superannuation and social welfare benefits projected as in Figure 10, with other spending acting as the residual. This selection of policies has been made for illustrative purposes only, and does not imply that spending in these four areas should be regarded as unchangeable. In such a case, other spending would have to decline as a proportion of GDP in the medium-to-long term from the current 10% of GDP to 5.5%.

If all the adjustment was to occur on the tax side, the tax-to-GDP ratio would have to increase to about 35% at the end of the projection period, up from the current level of around 32%. Total revenue would have to rise from about 36% now to around 39% of GDP in 2050.

The impact of debt is one of the main differences between the bottom-up and top-down approaches. Debt dynamics are such that small, persistent changes to spending or revenue can have very large effects if they accumulate over a long period of time. For example, if health spending were to grow each year at 0.6 percentage points slower than the average 5.6% used in the bottom-up approach, and nothing else changed, then debt would remain at around 20% of GDP. Health spending as a share of GDP would be around 9% compared with 12% (Figure 11).

Outline of the assumptions made in the Statement

Making projections of the future is inherently difficult, and there is a high degree of uncertainty around the projections set out above. This is because the projections are based on some key assumptions.

One key assumption is that fertility rates will stabilise at just below the level required to replace the population. If fertility rates were to continue to fall to much lower levels (as they already have in Italy, Japan and Korea), then the population would age more markedly. In the short term, the number of school-age children would decline more than we are projecting. In the medium term, the working-age population would be smaller than the rest of the population, thus reducing the size of the economy and the tax base. Eventually, the number of old people would also decline.
Another key assumption is about how economic growth affects fiscal outcomes. Demand for many publicly provided goods and services increases with income, meaning that growth leads to pressure for greater spending, not less. Some spending programmes are directly linked to economic growth, through things like indexation regimes.

Policies that explicitly or implicitly link spending to economic growth mean that spending as a proportion of GDP remains about the same regardless of the rate of economic growth. For example, New Zealand Superannuation is linked to wages and therefore is not affected by growth. In contrast, welfare benefits are linked to prices and therefore will fall as a proportion of GDP if growth increases. Health spending, both in New Zealand and in most Organisation for Economic Co-operation and Development (OECD) countries, seems to be very strongly linked to economic growth.

The following paragraphs discuss taxes and the “big four” areas of spending, drawing out some of the key assumptions and identifying alternative results.

Taxes

In both the bottom-up and top-down cases, the starting assumption is that the tax-to-GDP ratio will remain largely constant during the projection period. This is not quite “current policy,” because of the issue of fiscal drag, which is the effect of increasing incomes pushing people into higher tax brackets. Incorporating the full effects of fiscal drag into the projections would mean that the thresholds in the personal rate scale would remain fixed in nominal terms over the projection period. The result would be that the vast bulk of income earners would be paying the top marginal tax rate of 39% by 2050. The tax-to-GDP ratio would be around 34% of GDP under this scenario.

Removing the fiscal drag assumption implicitly suggests that possible changes in tax bases in the projected years would be addressed by changing policy in a revenue-neutral manner. The projections do not specify how this strategy would be achieved.
As a result, tax revenue projections may be conservative. The recent decision to index personal tax thresholds to inflation serves to reduce the wedge between the current projection and a projection including fiscal drag.

An alternative scenario allows taxes to increase in response to increasing spending pressures, so that taxes take some of the load of increased spending levels. These alternative projections adjust the tax take at the highest level of aggregation (the tax-to-GDP ratio) and also provide some policy realism by modelling the sorts of tax rates that would result.

Health

Projections of health spending are driven by three factors: demographics, growth due to increases in income, and a residual growth factor.

While there will be more older people, the Statement assumes that they will be healthier as well and that this, in turn, will reduce demand for some health services and push out the timing of others.

Local and international experience suggests that there is a one-to-one ratio between increases in income and health spending: a 1% increase in income leads to a 1% increase in health spending. When this factor is combined with projected increases in real incomes, it means higher spending can be expected in the future.

The largest driver is the residual growth factor. This can be thought of as a proxy for decisions around the “cost and coverage” of the public health system. The projection assumes that cost containment reduces the size of the residual growth factor over time.

The combined effect of these three factors is a projected doubling of government spending on health as a proportion of GDP.

The assumed total growth in health spending is based on a long-term average. If the rate of change in spending over the next 50 years were closer to the average over the past decade, then the projected rate of growth would be higher, with growth in health spending being 2 percentage points higher than in the base case by the end of the projection period.

Education

Projections of education spending are based on the changes in the population base, inflation and a real per-student growth factor of 1.5% (based on teachers’ wages) each year.

Population ageing produces a fall in the student population through time. The projection assumes that savings from the fall in student numbers are captured, which will see spending decline as a proportion of GDP. There are, however, several reasons why this may not happen. Governments may choose to have higher teacher-to-student ratios, or there may be more publicly-funded lifelong learning.
Superannuation

The drivers of future superannuation spending are a doubling of the number of people over 65 (who are also living longer) and the link between New Zealand Superannuation payments and wages – New Zealand Superannuation being based on 65% of average weekly earnings. Also relevant here is the assumption that, on average, wages will grow faster than prices by 1.5% a year.

Two scenarios demonstrate the effects of these drivers.

First, the Statement looks at the impact of following the approach, being implemented or considered in some European countries, of linking the age of eligibility of pensions to longevity. If one-third of the projected increase in longevity were spent working and the other two-thirds in retirement, spending on New Zealand Superannuation would be 0.7 percentage points of GDP lower in 2050 than it would be in the base case reported above.

The Statement also investigates the fiscal impact of alternatives to a wage link, including linking benefits to inflation, or a mixed index of, say, “inflation plus 1%.” Price indexation would reduce spending by 2.3 percentage points of GDP by 2050.

Welfare benefits

Spending on non-superannuation benefits is driven by beneficiary numbers, which are calculated from assumptions about unemployment and other benefit take-up rates, population growth and an indexation regime.

Benefits are assumed to be indexed to the Consumers Price Index (CPI), following current policy. This is a strong assumption, as it would mean that benefits would fall markedly as a percentage of wages over the long term. This is the experience of the past 30 years. Therefore, the Statement explores the effects of alternative regimes, such as full wage indexation or variants such as “inflation plus 1%.” Indexing benefits to wages in this way would increase expenditure in this area by 2.3% of GDP in 2050.
Conclusion

The New Zealand Government’s current fiscal position is strong, by both historical and international standards. Debt is low, assets are being built up to provide a buffer against future shocks and tax and spending rates have been stable and predictable.

The projections presented here, which are based on history, current policy settings and judgements, show that this strong position is likely to continue for a long time.

In common with many other countries, New Zealand is experiencing a shift in the structure of the population. The population has completed a transition from a high fertility/high mortality state to a low fertility/low mortality state. This transition is not a demographic bulge that will correct itself at some time in the future and is not just the result of the post-Second World War baby boom. In time, the number of old people will increase as a proportion of the total population and, correspondingly, the number of young and working-age people will fall.

The Statement assumes a continuation of solid economic growth, which means that the tax base also grows through time, giving governments the wherewithal to finance their expenditure.

The combination of the projected structural change in the population and present policy settings is likely to lead to growing challenges to the fiscal position, and these pressures will accelerate in the 2030s. By the middle of this decade, public spending on health and New Zealand Superannuation is projected to rise by more than falls in welfare and education spending.

The base-case projections using the bottom-up approach show the operating balance moving into deficit and the debt-to-GDP ratio rising after about 2030.

However, the Statement assumes that governments will continue to follow the principles of responsible fiscal management contained in the Public Finance Act, meaning that they will act before then to ensure that the fiscal position remains sound.

The top-down projections show that if major spending areas were left to grow as in the base case, other spending would have to fall by half in order to keep gross debt stable at 20% of GDP.

The largest single driver of the fiscal position is the policy choices governments make, which means governments have the capacity to make the necessary changes. Policy adjustments need not be large. A number of small adjustments, starting early and sustained, will be sufficient to maintain a sound fiscal position. Governments have already taken a very long-term view in setting policy and this trend is likely to continue.

Publishing a Statement on the long-term fiscal position is not an end in itself. What this Statement does is present information that will allow readers to develop scenarios consistent with what they define as desirable fiscal results.
1 Introduction

This is the first Statement on the long-term fiscal position that the Treasury has produced under the Public Finance Act.

The Act was amended in 2004 to require the Treasury, at least once every four years, to prepare a statement on the long-term fiscal position, looking out over at least a 40-year horizon.

The Statement projects the fiscal consequences of particular scenarios of what governments might be doing over the next 40 or so years. We have captured the uncertainty around these projections by using a series of “what if” questions; for example, what if economic growth is higher than assumed, what if fertility increases, and what if governments choose to spend more on education?

The starting point for this analysis is Statistics New Zealand’s projections of the future size and structure of the New Zealand population and Treasury’s assumptions about the future size of the economy. This information is used to project forward major spending categories and taxes, based on assumptions derived from history, current policy settings and judgements.

The Statement is structured as follows.

Chapter 2 discusses the principles of responsible fiscal management contained in the Public Finance Act. The chapter explains what the principles are and how this Statement adds to the transparency of fiscal policy in New Zealand. Overseas practice is also reviewed.

Chapter 3 discusses the techniques used to prepare the projections in the Statement.

This Statement goes beyond the traditional “bottom-up” approach of using current policy as the sole basis of constructing projections of the long-term fiscal position.

The “bottom-up” approach, which involves projecting future expenditure and taxes on the basis that current policy in each area will continue, is a powerful tool for examining the impact of changes in the population on individual components of the fiscal position. It is the approach that has been used in many studies of the fiscal position in New Zealand. It is also an approach commonly used by other countries; for example, the European Commission has recently published a set of bottom-up long-term fiscal projections for all 25 members of the European Union in the areas of pensions, health and long-term care, education and unemployment benefits.

The Statement also contains projections on what could be termed a “top-down” basis. As the name implies, this projection method seeks to impose an overall set of fiscal constraints on the government and then looks at what various combinations of spending and taxes might meet these constraints.
The main demographic and economic assumptions are contained in Chapter 4.

The Statement uses Statistics New Zealand’s projections of the population. Also included is some detailed discussion of the various drivers of these projections, as these drivers have implications for government spending and hence for projections of spending and revenue.

The projections of future GDP are based on the three Ps of Population, Participation and Productivity. This Statement deliberately adopts a simple model of future GDP growth, because it is about the long-term fiscal position, not the long-term economic situation. It does, however, present examples of the implications of different growth outcomes on various categories of expenditure.

The next five chapters contain projections for revenue and the main spending categories of health, education, New Zealand Superannuation, and other welfare. A further chapter contains projections for all other spending.

Each of these chapters presents base-case projections, as well as a discussion of the drivers of expenditure, together with alternative scenarios to demonstrate the sensitivity of the results to the various assumptions made.

Chapter 11 contains overall results, from both the bottom-up and the constrained, top-down, perspectives.
Note on historical data

The historical data used in the Statement come from a variety of sources and so are not necessarily consistent. They are used to give readers an idea of how we have arrived at the present point.

Demographic data

Statistics New Zealand has changed the way it counts population at least twice in the past century, from the de facto-population concept to the resident-population concept. This produces breaks in the data.

Economic and fiscal data

The Treasury has spliced together various GDP series to produce a long historical series. Through the long time period considered here, the System of National Accounts has undergone several revisions. The fiscal data on revenue and spending, operating balance, debt and net worth are also spliced together from a variety of sources. Before 1994, they were based on cash figures and combined operating and capital spending. After 1994, they were GAAP-based and kept operating and capital spending separate.

These long-term historical series are available on the Statistics New Zealand website (http://www.stats.govt.nz/tables/ltds/default.htm) and come with detailed health warnings.
2 Fiscal Responsibility

This Statement is part of a suite of documents that the Public Finance Act requires the New Zealand government and its advisors to produce.¹

The Act requires regular fiscal reporting, including fiscal strategy reports, budget policy statements and economic and fiscal updates. The reporting requirements promote fiscal transparency. The requirements of the Act are based on international best practice.

Part 2 of the Public Finance Act, which covers fiscal responsibility, is founded on two key planks: increased transparency and greater accountability. It achieves this by requiring governments to be explicit about their long-term fiscal objectives and short-term fiscal intentions, in line with the principles of responsible fiscal management. It also requires governments to report on a wide range of economic and fiscal information.

What is fiscal transparency?

Fiscal transparency is the full disclosure of all relevant fiscal information in a timely and systematic manner.

It has been described as “. . . openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections. It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities … so that the electorate and financial markets can accurately assess the government’s financial position and the true costs and benefits of government activities, including their present and future economic and social implications.” (Kopits and Symansky, 1998)

Principles of responsible fiscal management and reporting

The Act requires the government to pursue its policy objectives in accordance with the following principles:

» reducing total debt to prudent levels so as to provide a buffer against factors that may impact adversely on the level of total debt in the future, by ensuring that, until those levels have been achieved, total operating expenses in each financial year are less than total operating revenues in the same financial year

¹ The Treasury publication A Guide to the Public Finance Act provides more details. It is available on the Internet at: http://www.treasury.govt.nz/pfa/default.asp.
once prudent levels of total debt have been achieved, maintaining these levels by ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues

achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future

managing prudently the fiscal risks facing the government

pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

The Act also imposes regular fiscal reporting obligations on Ministers and the Treasury. The reports and statements required include:

- an annual fiscal strategy report
- an annual budget policy statement
- a periodic statement on the long-term fiscal position
- regular economic and fiscal updates
- an annual statement of tax-policy changes.

A key counterpart of these reporting requirements is parliamentary scrutiny of these reports and statements.

The current Government’s long-term fiscal objectives are set out in the Fiscal Strategy Report accompanying the 2006 Budget. Accompanying projections indicate progress towards these objectives. The Fiscal Strategy Report also states what level of debt the Government considers prudent and the timeframe for achieving the objectives.

In brief, the current objectives are:

- manage total debt at prudent levels. This is defined as gross sovereign-issued debt being broadly stable at around 20% of GDP over the next 10 years
- the operating surplus, on average, over the economic cycle is sufficient to meet the requirements for contributions to the New Zealand Superannuation Fund and ensure consistency with the debt objective.
- increase net worth consistent with the operating balance objective
- ensure sufficient revenue to meet the operating balance objective
- ensure expenses are consistent with the operating balance objective.

The long-term debt objective is used as a constraint in the top-down projections later in the Statement.
International developments

New Zealand was one of the first countries to legislate principles of responsible fiscal management and to require a comprehensive suite of fiscal reports on a government’s short- and long-term fiscal outlook.

Since the passage of the original Fiscal Responsibility Act in 1994, two international institutions, the International Monetary Fund (IMF) and the OECD, have developed guidelines for jurisdictions attempting to improve fiscal transparency.


The OECD publication Best Practices for Budget Transparency\(^3\) is designed as a reference tool for member and non-member countries to use in order to increase the degree of budget transparency in their respective countries.

These guidelines recommend that a report assessing the long-term sustainability of current government policies be released at least every five years, or when major changes are made to substantive revenue or expenditure programmes. The report should assess the budgetary implications of demographic and other potential developments over the long term. The IMF also suggests that countries should provide some indication of the sustainability of fiscal policy. The IMF notes that such an exercise can be demanding for some countries, especially as there is no internationally agreed set of rules for establishing fiscal sustainability.

Two jurisdictions, Australia and the United Kingdom, have used approaches similar to New Zealand’s in developing legislation that establishes guiding principles for fiscal policy and requiring a comprehensive suite of fiscal reports. Both these jurisdictions have long-term fiscal reporting provisions.

In Australia, the Charter of Budget Honesty Act 1998 aims to improve the Commonwealth Government’s accountability for fiscal policy formulation. The Charter requires that governments release annual fiscal strategy statements (usually with each budget) based on principles of sound fiscal management.

The Charter also requires the Commonwealth Government to produce every five years an “intergenerational report” assessing the long-term sustainability of current Government policies over 40 years.

\(^3\) http://www.oecd.org/LongAbstract/0,2546,en_2649_33735_1905251_1-1-1-1,00.html.
The framework within which the United Kingdom Government formulates and implements fiscal policy (including debt management) is set out in *The Code for Fiscal Stability* (1998). The Code requires fiscal and debt-management policy to be formulated and implemented in accordance with a set of principles of fiscal management. A government must state explicitly its short- and long-term fiscal policy objectives and ensure these objectives are consistent with the fiscal principles embodied in the code. A government must also report regularly on progress in meeting its fiscal objectives.

The Code also requires the government to publish illustrative long-term fiscal projections, covering a horizon of at least 10 years. In practice, a 30-year horizon has been chosen. These projections are based on a top-down assessment of long-term fiscal sustainability and are published in the Fiscal Strategy Report, usually at the time of the budget.

The next chapter discusses long-term fiscal reporting and past New Zealand and overseas practice in more detail.
3 Approach Taken Here

The section of the Public Finance Act that requires the Treasury to prepare this Statement simply states that “the Treasury must prepare a statement on the long-term fiscal position,” which must relate to a period of at least 40 consecutive years.

This chapter outlines how the Treasury has gone about preparing the projections of the future fiscal position that go to make up this Statement.

The purpose of this Statement

The purpose of this Statement is to increase the quality and depth of public information and understanding about the drivers of the long-term fiscal position, the role of growth, and the consequences of spending and revenue decisions. This purpose has guided the methodology used in the Statement.

Building on the past and overseas practice

While the legislative requirement for the Treasury to produce a long-term fiscal statement is new, publishing this Statement will not by any means be the first time that the issue has been placed in the public arena.

Many reports by the Treasury and by other agencies over the past 15 years have thrown light on aspects of New Zealand’s long-term fiscal position. Some have focused on the impact of population ageing, while others have looked at a wider range of drivers of the fiscal position. Annex 2 contains a list of these previous studies.

Increasingly, other countries are also preparing regular statements of their long-term fiscal positions. Three recent examples are Australia, the United Kingdom and the United States.

The Australian Commonwealth Government produced its Intergenerational Report in 2002. This study contains projections of individual spending programmes and taxes, looking out 40 years. In 2005, the Australian Productivity Commission published a research study examining the productivity, labour-supply and fiscal implications of likely demographic trends over the next 40 years for all levels of

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4 Section 26N(1)(a) of the Public Finance Act 1989.
This study extended some of the economic analysis underlying the Intergenerational Report and looked at the implications of ageing for Australian state and territorial governments (the Intergenerational Report focused exclusively on the federal level). The next intergenerational report is required to be produced over the coming year.

HM Treasury in the United Kingdom produces an annual Long-term Public Finance Report, which contains a mix of projections of individual programmes and investigates the impact of the United Kingdom Government’s overall fiscal strategy on spending. The United Kingdom Government’s Pensions Commission, which issued its final report in April 2006, also undertook extensive modelling of the long-term impacts of demography on age-pension policy. Details can be found on its website.

The United States’ Congressional Budget Office prepares a Long-Term Budget Outlook. This outlook models the effect of different scenarios of spending and revenue on the federal government’s fiscal balance and, thus, levels of debt.

The European Commission and the OECD periodically make projections of their members’ fiscal positions. The EC published a set of projections of age-related expenditure for all of its 25 member states in February 2006. The OECD examined the fiscal implications of age-related spending in member countries in 2001 and published a set of projections of long-term health spending in 2006.

Modelling the future fiscal position

The fiscal position at any point in time is the result of a series of policy choices made by governments over a long period. These choices relate both to individual policies or sets of policies and to the combined fiscal effects.

Those choices are driven by a complex set of interconnected influences. The state of the world (including the economic and social situation, in the past, the present and the future), the government’s desired outcomes and the effectiveness or otherwise of outputs selected to achieve the desired outcomes all combine to produce the fiscal outcome.

Given the vast number of variables that can and will affect future fiscal outcomes, the task of modelling 40 years ahead is not easy.

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7 The December 2005 edition can be found at: http://www.hm-treasury.gov.uk/media/F59/32/pbr05_longterm_513.pdf.
8 http://www.pensionscommission.org.uk/.
10 This is available on the European Commission website: http://europa.eu.int/comm/economy_finance/epc/epc_sustainability_ageing_en.htm.
Projecting spending simply as a share of GDP is one approach, but it can involve an over-simplification of history. In particular, it can be difficult to reflect the variability of past patterns of spending and revenue into the future. Figure 3.1 provides an example of one of the components of government spending that needs to be modelled: core government services. This includes, for example, the cost of running government departments, and the provision of Overseas Development Assistance. Over the past 50 years, spending under this heading has fluctuated widely. Best practice fiscal modelling is unable to capture this degree of variability and produce projections that might mirror past performance (although probabilistic projections of expenditure might address some of this variability – see the next chapter on demography for more on this).

In this case, future expenditure is assumed to grow by nominal wage growth (the largest cost driver of these services) and the number of public servants is assumed to remain a constant proportion of total employment. This produces a track where long-term spending is a fixed proportion of GDP.
If all components of spending and revenue were modelled on the same basis, the end result would become simply a “battle of the exponentials”; that is, all the components of spending and revenue would be growing at one exponential rate or another and the outcome would be determined solely by the differences in the rates of growth. Because of the long-term nature of the modelling, small changes in parameters could have large effects in the end.

Fortunately, there are some aspects of government spending that can be modelled with more information. An example is New Zealand Superannuation, where demographic developments are combined with other assumptions and projections to develop a spending track such as that shown in Figure 3.2.

The task is to bring together the appropriate modelling approaches and drivers for each spending and revenue area to build up an aggregate picture, taking into account any overall fiscal objectives the government might have.

Two approaches are used in the Statement

Previous studies of the long-term fiscal position in New Zealand and overseas use a variety of approaches to presenting potential outcomes. These studies all tend to present the long-term implications of continuing with existing policies. Where they differ is the degree to which individual policies are modelled in isolation from wider fiscal and economic objectives. While there are differences in the details, the two major approaches used can be termed “top-down” and “bottom-up.”

The top-down approach starts with a set of constraints for major fiscal aggregates (such as spending-to-GDP, tax-to-GDP or debt-to-GDP ratios) and determines what spending or revenue track would be required to continue to meet these constraints, given likely changes to the population and the economy.

The bottom-up approach involves modelling the effect on major fiscal aggregates of individual spending programmes and the current tax system projected forward on the basis of demographic and other assumptions, without any overall constraints.

The difference between the two approaches should not be exaggerated. Both involve projecting forward individual elements of spending or revenue. In practice, a top-down approach usually involves allowing some programmes to develop alone and then uses the overall objectives to derive a constraint that has to apply to all other programmes. So, for example, demographic projections could be applied to New Zealand Superannuation, thus deriving a long-term track for spending on that item, then the government’s current debt and revenue objectives could be applied to see what would have to happen to all other areas of expenditure.

Both bottom-up and top-down approaches have much to commend them. The particular attraction of a top-down approach is that it is closer to what happens in the actual budget-setting processes that governments have been using over the past decade. Another strength of the top-down approach is
that it starts from the proposition that governments will operate with some fiscal objectives in mind. There are certainly instances in New Zealand’s past where this has not been particularly evident, but legislation such as the Public Finance Act and the Reserve Bank Act make it much less likely that such instances will occur in the future. While there will always be demographic and other pressures on the government to increase spending faster than taxes, there are limits. This is known in economics as Stein’s Law: if something cannot go on forever, it will stop.13 A top-down approach assumes that Stein’s Law applies.

An advantage of a bottom-up approach is that it may allow richer details of the individual drivers of all spending and revenue to be examined. The disadvantage is that by construction, a bottom-up approach looks at individual spending and taxation items in isolation from everything else the government is doing. There can thus be an element of unreality in the combined picture of all spending and revenue.

Both bottom-up and top-down fiscal projections are therefore included in this Statement.

The addition of a top-down approach represents an advance on previous reports on New Zealand’s long-term fiscal position.

Types of spending programmes

To derive both bottom-up and top-down projections requires projections of future spending and revenue. One place to start is to model the effects of a known set of policies in a projected world; namely, “current policy.” Determining what is current policy, however, is not always straightforward. When this cannot be determined readily, it is necessary to make assumptions about what is driving the expenditure or revenue category.

In respect of major spending areas, current policy can be sub-divided into two broad types of programmes, parametric and non-parametric.

Parametric programmes

Parametric programmes are those where all (or at least most of the material) features of spending are driven by factors that are independent of the programme. The largest example is New Zealand Superannuation, where all scheme features are set in legislation and can be applied to a projected population to derive a projection of spending.

In terms of the Statement of the long-term fiscal position, parametric programmes can be modelled by applying the current parameters to a projected future world. Parameters can, of course, change, but it is possible to model the future fiscal impact of a set of parameters and construct scenarios around changes in parameters.

13 Herbert Stein was Chairman of the US Council of Economic Advisers during the Nixon Administration. This particular quote comes from The Public Interest 97, Fall 1989.
Non-parametric programmes

Non-parametric programmes are those where spending is the result of discrete decisions made by governments. Examples are health, education and transportation. Some non-parametric programmes will remain in place for a number of years and can become at least “semi-parametric.” An example is a formula-driven funding system for tertiary education: providers will receive a fixed amount per student of a certain type. Projections of future numbers of students by age group can thus be used to derive projections of spending on education by level.

Non-parametric programmes are more difficult to project forward, as the parameters are not clearly specified in the design of the programme and more assumptions need to be made about future policy choices. The approach followed here involves using a level of past expenditure (or expenditure per capita) as a starting point, and then growing that in line with some indexes (CPI, wages, GDP, or a population group). For example, it might be thought that governments are likely to see defence spending as a proportion of GDP as an important consideration, and thus defence expenditure should be projected forward using a fixed ratio to GDP as the parameter.\footnote{The modelling of many of the “non-parametric” spending programmes uses the equivalent of nominal wage growth (3.5% a year) as one of the growth factors. A reviewer has suggested that in the overall economy labour costs make up about 60% of the cost of production and that the rest, capital and other inputs, would have a smaller deflator. Hence, these spending categories would be growing at less than the growth of nominal wages. However, labour costs make up 80%, or more, of the costs of government services and so the difference in the deflation between a weighted sum of labour and capital deflators and that of labour alone would be relatively small. Wage growth is thus used as the per capita growth index for these spending programmes.}

Taxes

Current tax policy can be defined as the current set of tax laws, applied to a projected tax base (income such as corporate profits or salary and wages, or consumer spending). It can also be defined in terms of the aggregate path of the tax-to-GDP ratio.

In constructing a set of bottom-up projections, particularly over a period as long as that used in this Statement, one key issue is so-called “fiscal drag.” This is the term used to describe the situation where the tax on an individual’s income grows at a faster rate than the income. This occurs with a progressive tax scale where the tax rate rises with income.

The base projection for taxes used in this Statement assumes that the taxes-to-GDP ratio remains broadly constant at their 2010 level over the projection period. This implies that the projection of individual (personal) income tax does not include any fiscal drag.

Lack of fiscal drag simplifies the modelling in other ways as well. New Zealand Superannuation is indexed by net average wages and excluding fiscal drag means that gross wage growth equals net wage growth.
Use of the existing long-term model

The projections have been generated using the Treasury’s existing model, the Long-Term Fiscal Model. This model has been used over the past decade to assess the effects of proposed budget spending against the fiscal objectives over a period of 10 years or more.¹⁵

The Long-Term Fiscal Model adopts a three-stage approach to projecting the long-term fiscal position.

First, the model adopts Statistics New Zealand’s Series 5 projections of the New Zealand population over the next 50 or so years, which take into account possible changes in demographic features (such as life expectancy).

These projections of the population are then used to generate projections of GDP.

Finally, projections of government spending and revenue are added.

The projections in this Statement use the Budget Economic and Fiscal Update 2006 forecasts to June 2010 as a base (Treasury, 2006). By construction, in 2010 the economy is on its long-term growth path. The projections after that point follow demographic and economic trends.

The modelling methodology of the Long-Term Fiscal Model is a partial-equilibrium approach. There are no explicit feedback loops from the government balance and debt back to the macroeconomy.¹⁶ This is a common approach in long-term fiscal sustainability work. It has, however, the virtue of simplicity, and for New Zealand, familiarity.

The modelling is kept simple for three main reasons.

First, and most pragmatically, it is better to base this work on an existing model (the Long-Term Fiscal Model), rather than try to build an entirely new model. While this is a relatively simple model, it does

¹⁵ Further details on the Long-Term Fiscal Model can be found on the Treasury’s website at: http://www.treasury.govt.nz/Long-Term Fiscal Model/default.asp.

¹⁶ Some of the macro-economic feedback loops that could be modelled are:
- a rise in government debt might produce a higher country risk premium and higher interest rates
- slowing labour supply growth might force production to relocate offshore and New Zealand would have more investment income earned abroad
- growth could also be sustained on the demand side by the growing proportion of the elderly spending their savings
- those between spending policies and other outcomes. For example, in the Long-Term Fiscal Model, demographic change (in particular, projections of mortality) influences population growth, which feeds into GDP growth, which in turn drives ealh spending. An extension would be to have changes in economic growth feeding into individual incomes which then cause changes in mortality and morbidity rates (on the assumption, which is supported by the evidence, that people with higher incomes have better health outcomes). More education spending may feed through to higher productivity growth.

¹⁷ Robert Barro (1990) pointed out that the government’s fiscal position had a strong influence on the economy and should be included in a general modelling framework.
produce detailed projections of the government’s GAAP\textsuperscript{18} tables (expenditure and revenue items and the balance sheet) and has a decade-long track record of producing long-term projections for the New Zealand government.

Second, but related to this, there are few examples of complex, general equilibrium models on which we could base projections of the New Zealand fiscal position.

Third, and perhaps most importantly, trying to develop a more sophisticated model could be counterproductive. There is a risk that a more complex model would shift the debate from the drivers of fiscal policy onto issues of economic modelling, thus severely reducing the benefits of the Statement. The Long-Term Fiscal Model is “fit for purpose”: users can project likely outcomes to better inform the policy debate about the best set of policies to achieve government objectives.

Of course, the issues raised by ageing go beyond their effects on the fiscal position. There will also be important issues to do with the economy, social change, gender differences, ethnic and occupational effects, and the growth or reduction of regional communities. These issues were canvassed in the 1996/97 Task Force on Positive Ageing and are being carried forward by a team led by the Ministry of Social Development, working with many other agencies.

The approach outlined here will undoubtedly evolve as the Treasury works on subsequent long-term reports. More broadly, as research into the economics of ageing progresses, more of this will be incorporated into future projections.

**Modelling uncertainty**

Projections for half a century are subject to uncertainty, which tends to grow with time. The accuracy of long-term demographic projections has not been great in the past. A study of world population undertaken in 1963 projected that by 2000, 9.2% of the total population in North America would be aged 65 or older. The actual result was 12.5%.\textsuperscript{19}

Another example comes from the United Kingdom’s 2005 Long-term Public Finance Report. This cites a study of population estimates made in 1891, where the projected combined population of Australia and New Zealand in 1981 was 94 million, five times greater than the actual outcome.\textsuperscript{20}

There are two main ways of handling this uncertainty. One is to display scenarios showing the results of a range of plausible values for key assumptions. The other is to run thousands of probabilistic (or stochastic) projections drawing on distributions of the input assumptions to produce a distribution of projections. This has the advantage of assigning a probability that some outcome could happen. A summary of early experiments with this probabilistic approach is contained in Chapter 4.

\textsuperscript{18} GAAP or Generally Accepted Accounting Practice is an independent set of rules that govern the recognition and measurement of financial concepts such as assets, liabilities, revenues and expenses adopted by the New Zealand Government for its own accounts. It is based on private sector commercial accounting standards.

\textsuperscript{19} See Figure 3.3, Chapter III, IMF (2004).

Assessing long-term fiscal sustainability

Several different methods have been developed to assess the long-term sustainability of the fiscal position. Some methods are based on trends in fiscal aggregates such as debt-to-GDP. Other methods condense a time series of fiscal aggregates into a single numerical fiscal indicator. This section reviews several approaches.

Developments in fiscal policy and theory over recent years have increasingly taken a longer-term focus. The longer-term metric for evaluating fiscal policy is typically the government’s intertemporal budget constraint. The intertemporal budget constraint is based around the notion that all government spending must eventually be financed. Formal definitions of fiscal sustainability are satisfied if, on the basis of current policies, the present value of future primary balances (the fiscal balance before interest costs are deducted) is equal to the outstanding stock of debt.

There are a number of numerical fiscal indicators based around the concept of the intertemporal budget constraint and a large number of studies (see Bank of Italy, 2000; HM Treasury, 2005). For example:

- generational accounting examines the effect on different generations of alternative ways of satisfying the government’s intertemporal budget constraint.\(^{21}\) Generational accounting compares the projected net lifetime taxes (the difference between taxes paid and transfers received) faced by newborns born in different years. Past newborns (i.e., existing generations) are excluded from the comparison because they have faced past tax and transfer regimes and the government can only partially affect their overall lifetime net taxes.

- fiscal imbalance adds to the government’s current debt the present value of projected primary balances. Generational imbalance indicates how much of the fiscal imbalance arises from older generations shifting tax burdens to younger (including yet-unborn) generations (see Gokhale and Smetters, 2003).

- the concept of comprehensive net worth set out by Bradbury, Brumby and Skilling (1999) also centres on the present value of future fiscal plans. This concept is broader than the reported net worth disclosed in the GAAP statements because it incorporates the present value of all future revenue and expenditure flows.

- the fiscal gap calculates the change in fiscal policy settings needed to achieve a particular debt target at some point in the future.\(^{22}\) This change can be calculated in terms of the adjustment needed now, or what is required in the future if adjustment is delayed. The change in policy can be in the form of adjustments to taxes and/or spending.

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\(^{21}\) See Auerbach and Kotlikoff (1999).

\(^{22}\) See Auerbach (1994) and Auerbach (1997).
The simplest versions of these indicators require only a few key variables (e.g., outstanding debt, projections of future primary surpluses, and discount and economic growth rates). The Treasury’s Long-Term Fiscal Model captures all the key variables needed for such calculations and is more detailed in the sense that it incorporates a fuller set of assumptions around different financial assets and liabilities, interest rates and financial rates of returns.

These indicators have some advantages over methods that look solely at the time paths of key fiscal aggregates:

» they provide a single number that represents the size of any fiscal adjustment

» because they consider the government’s overall budget constraint, they encourage consideration of the totality of revenues and spending rather than an overly narrow focus on individual spending programmes.

Some of the disadvantages of these indicators include:

» the size of any fiscal adjustment will depend on the (arbitrarily) chosen time period and debt target

» on their own, the indicators do not convey the timing of fiscal challenges. Even if a particular sustainability condition is satisfied over the chosen period, there may still be fiscal challenges further out

» the indicators can be sensitive to key parameters such as the discount rate and economic growth rate

» although some indicators such as the fiscal gap are relatively straightforward, others such as generational accounting are more challenging to calculate, interpret and communicate

» satisfying the sustainability condition can involve a sequence of sustained fiscal surpluses and debt reduction (or asset accumulation). On their own, the indicators tell us little about the cost and benefits of alternative financing approaches.

Extending the period over which the calculations are made can reduce the first two disadvantages. Extending the time period, however, can introduce more uncertainty and the need for simplifying assumptions (e.g., Statistics New Zealand’s demographic projections do not alter life expectancy beyond 2050). This Statement emphasises the projected trends in components of spending, the totality of spending, and fiscal aggregates generated by the Long-Term Fiscal Model rather than single numerical fiscal indicator methods.