

Economic policy in unsettling times

Dr Oliver Hartwich

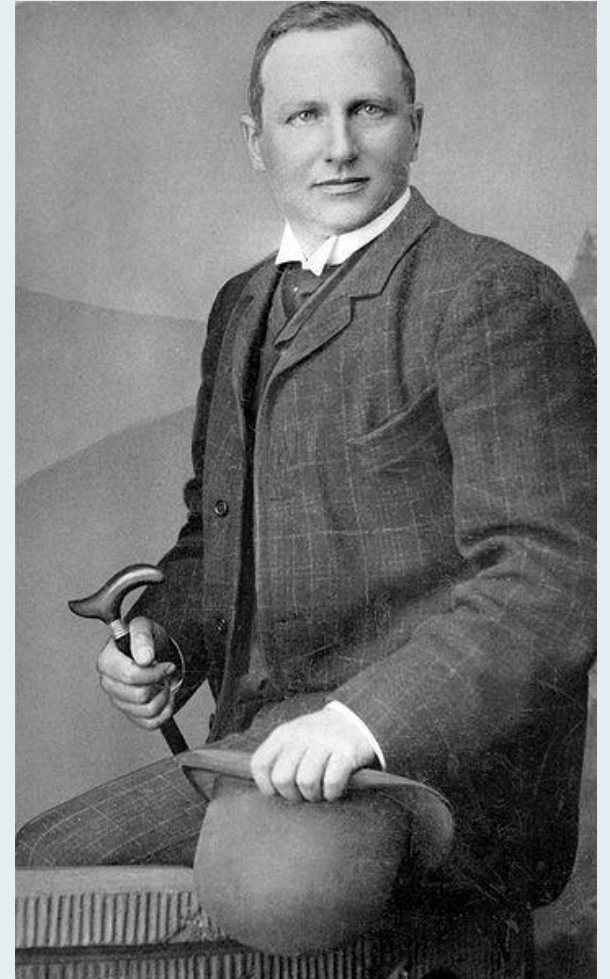
Executive Director

The New Zealand Initiative

Auckland, 16 October 2019

“Madness, once it becomes epidemic, is called reason.”

Oskar Panizza (1853–1921)





Oliver Hartwich

@oliverhartwich

Follow

Prawn-fishing at Huka Falls Prawn Park came with a grammatical surprise. The prawns are referred to as "he/she". In my English classes, it used to be "it" for animals, especially those meant to be eaten. So many things have changed since my school days.



Quietly Enraged @quietly_enraged · Oct 4



Retró @EcoGof · Oct 4



threebaddogs @threebaddogs · Oct 4

Replying to @oliverhartwich

Would you refer to your dog as "it"?



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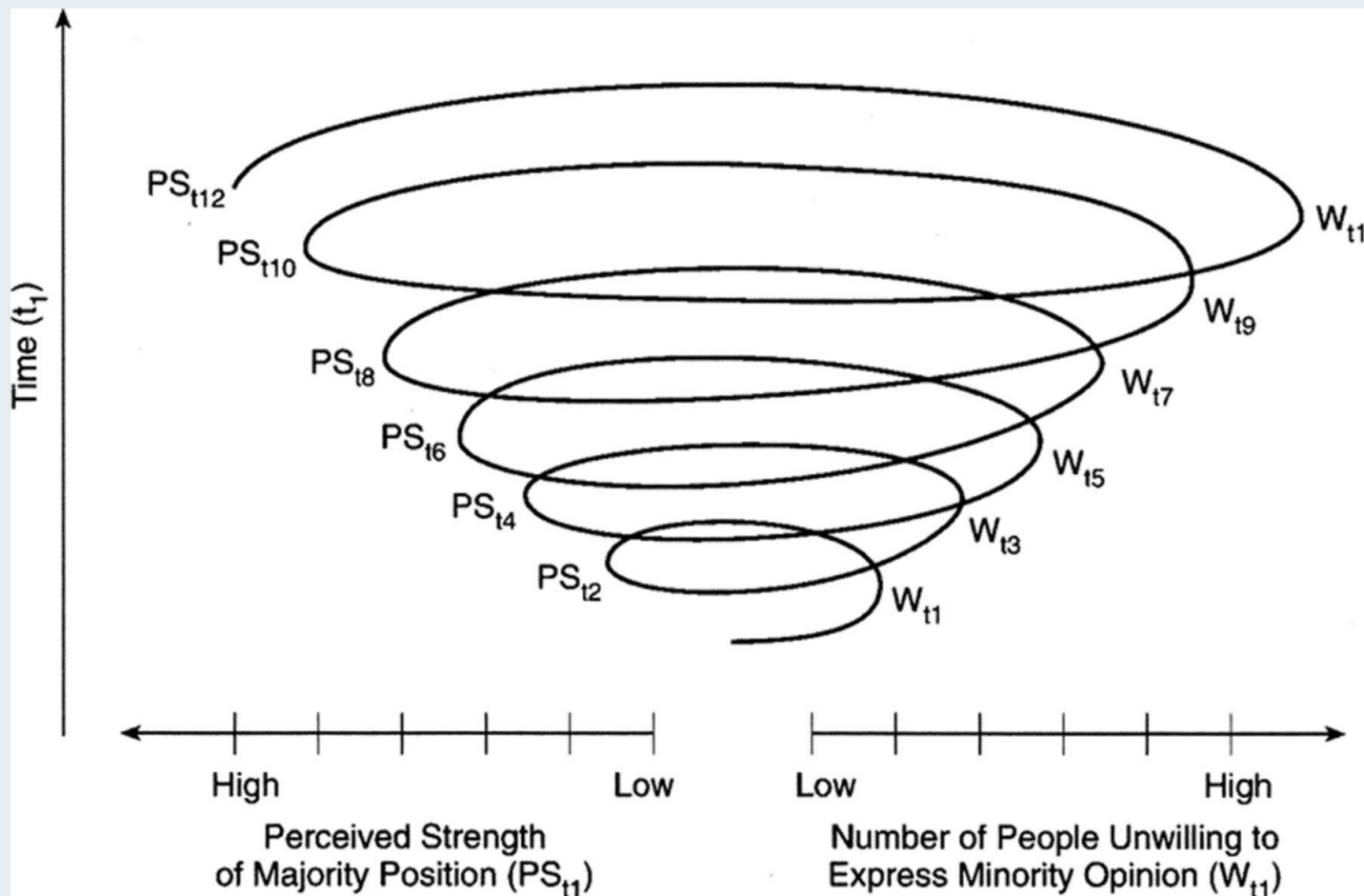
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The spiral of silence:

- People have a “quasi-statistical organ,” a sixth-sense if you will, which allows them to know the prevailing public opinion, even without access to polls.
- People have a fear of isolation and know what behaviours will increase their likelihood of being socially isolated.
- People are reticent to express their minority views, primarily out of fear of being isolated.



Elisabeth Noelle-Neumann (1916–2010)



A spiral of silence

The results of selective silence:

- We talk too much about fashionable issues.
- We neglect talking about important issues.
- We talk too much about policies that feel good.
- We neglect talking about policies that work.

We talk too much about:

Improving wellbeing

Income inequality

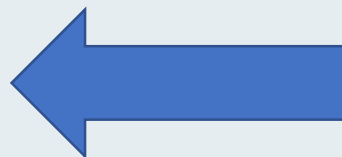
Skills for the future

Zero carbon targets

The past and present

Government spending

Creating growth



We should instead talk about:

Improving productivity

House prices

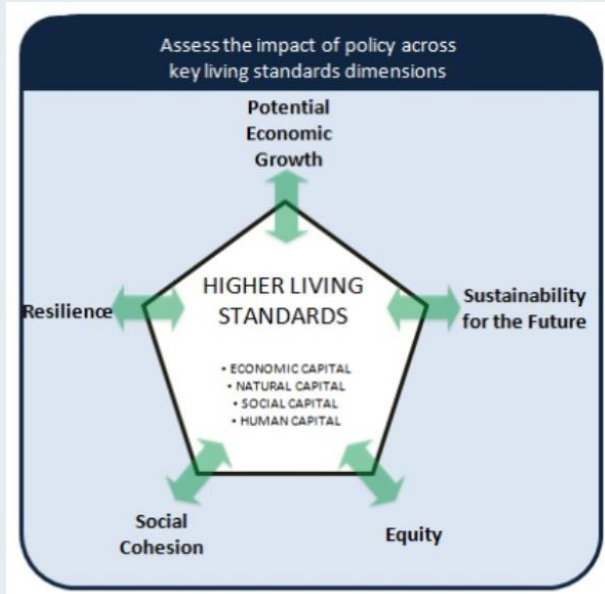
Knowledge, numeracy and literacy

Carbon prices

The future

Government outcomes

Allowing opportunity

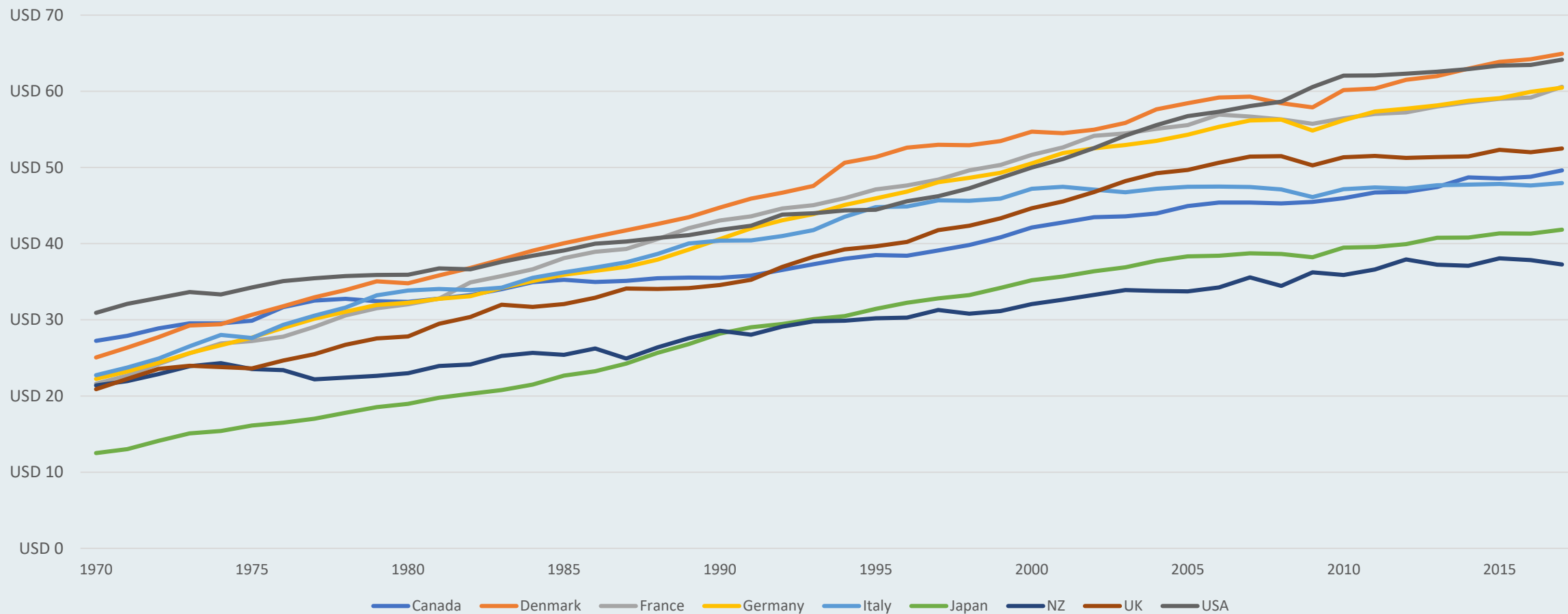


“We must focus specifically on living standards and human, social, and natural capital when we set targets and track progress. ... This isn’t woolly but a well-rounded economic approach — the same kind we will use to confront the challenges posed by climate change, digital transformation, social exclusion, poor health, housing and domestic violence.”

PM Jacinda Ardern, *Financial Times*, 22 January 2019



Productivity: New Zealand's #1 economic challenge



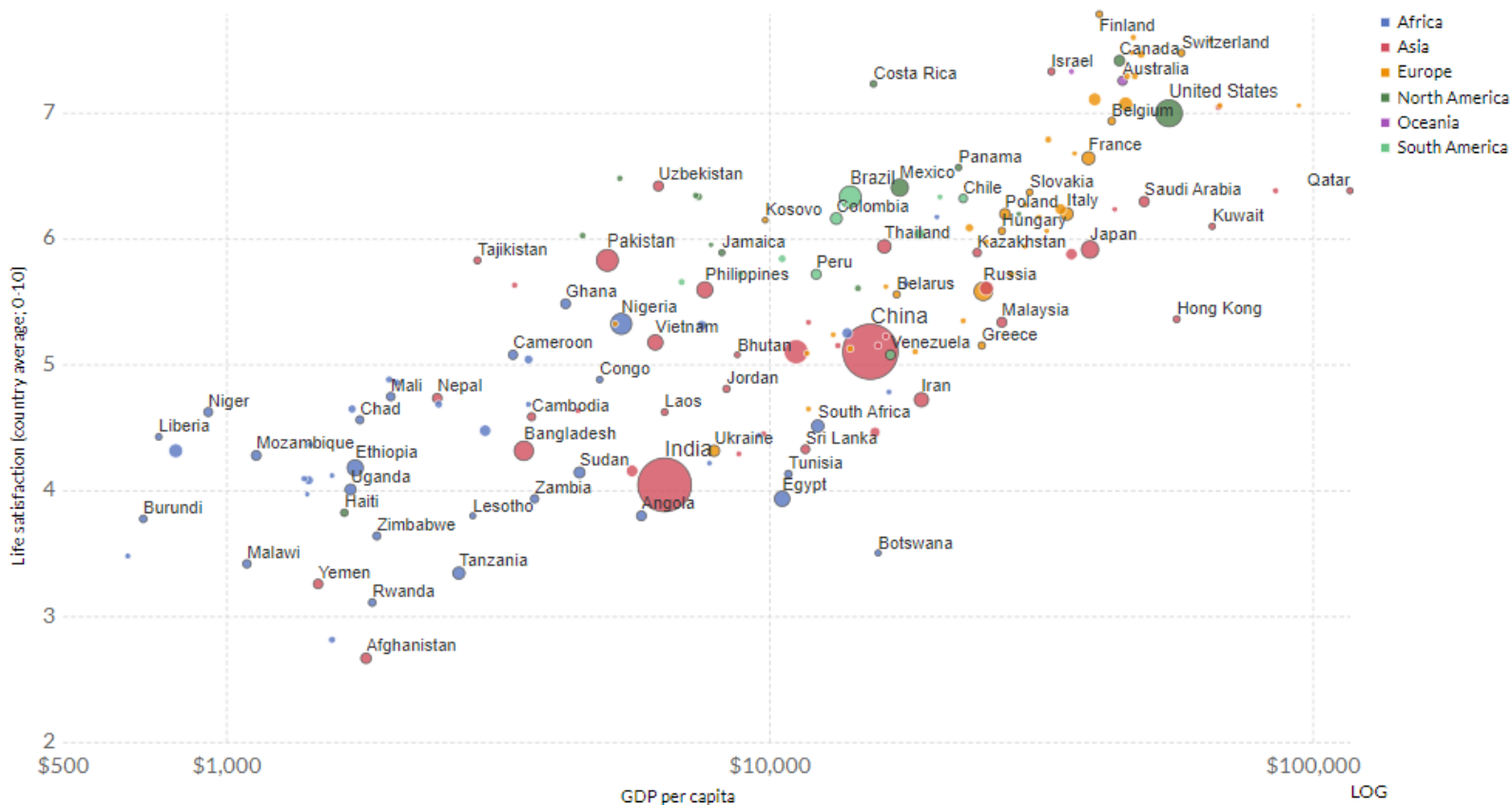
GDP per hour worked (US dollars, 1970 – 2018)

Money doesn't make us happy ...

Self-reported Life Satisfaction vs GDP per capita, 2017

The vertical axis shows the national average of the self-reported life satisfaction on a scale ranging from 0-10, where 10 is the highest possible life satisfaction. The horizontal axis shows GDP per capita adjusted for inflation and cross-country price differences (expressed in international-\$ at 2011 prices).

Our World
in Data



Source: World Bank, World Happiness Report (2019), Population (Gapminder, HYDE(2016) & UN (2019))

OurWorldInData.org/happiness-and-life-satisfaction/ • CC BY

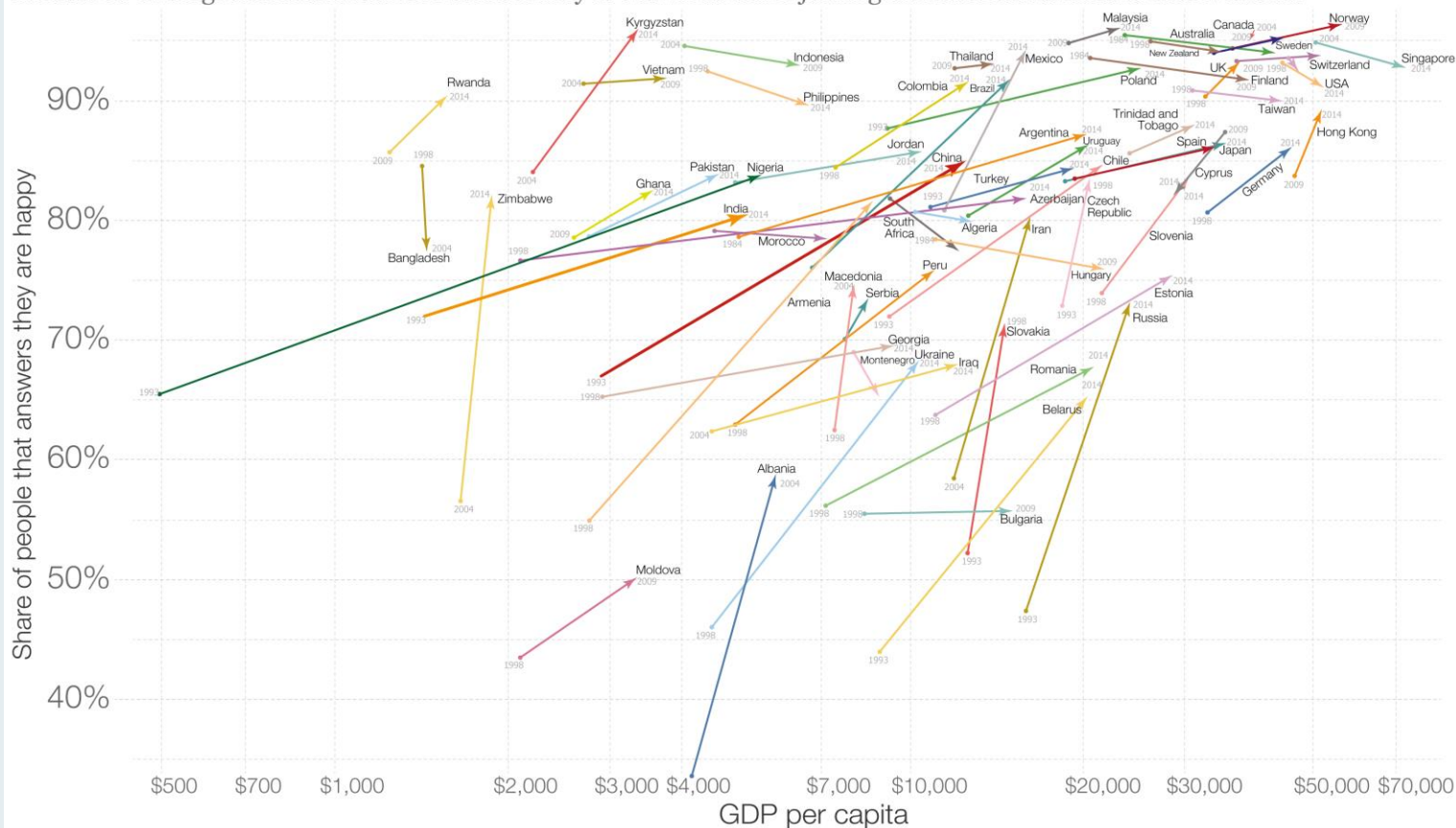
... but it sure helps.

Money doesn't make us happy ...

Self-reported happiness vs income over time

Our World
in Data

The vertical axis shows the share of people who say they are 'very happy' or 'rather happy'. The horizontal axis measures average national income. Each country is drawn as a line joining first and last available observations.



Data source: self-reported happiness from the World Value Survey; GDP per capita from the Penn World Table.
The interactive data visualization is available at [OurWorldinData.org](https://ourworldindata.org). There you find the raw data and more visualizations on this topic.

Licensed under CC-BY-SA by the author Max Roser.

... but it sure helps.

Measuring economic freedom:

- Fraser Institute and *The Wall Street Journal* producing annual reports since 1995
- Categories:

Rule of Law:

Property Rights
Judicial Strength
Government Integrity

Government size:

Tax Burden
Government Spending
Fiscal Health

Regulatory efficiency:

Business Freedom
Labour Freedom
Monetary Freedom

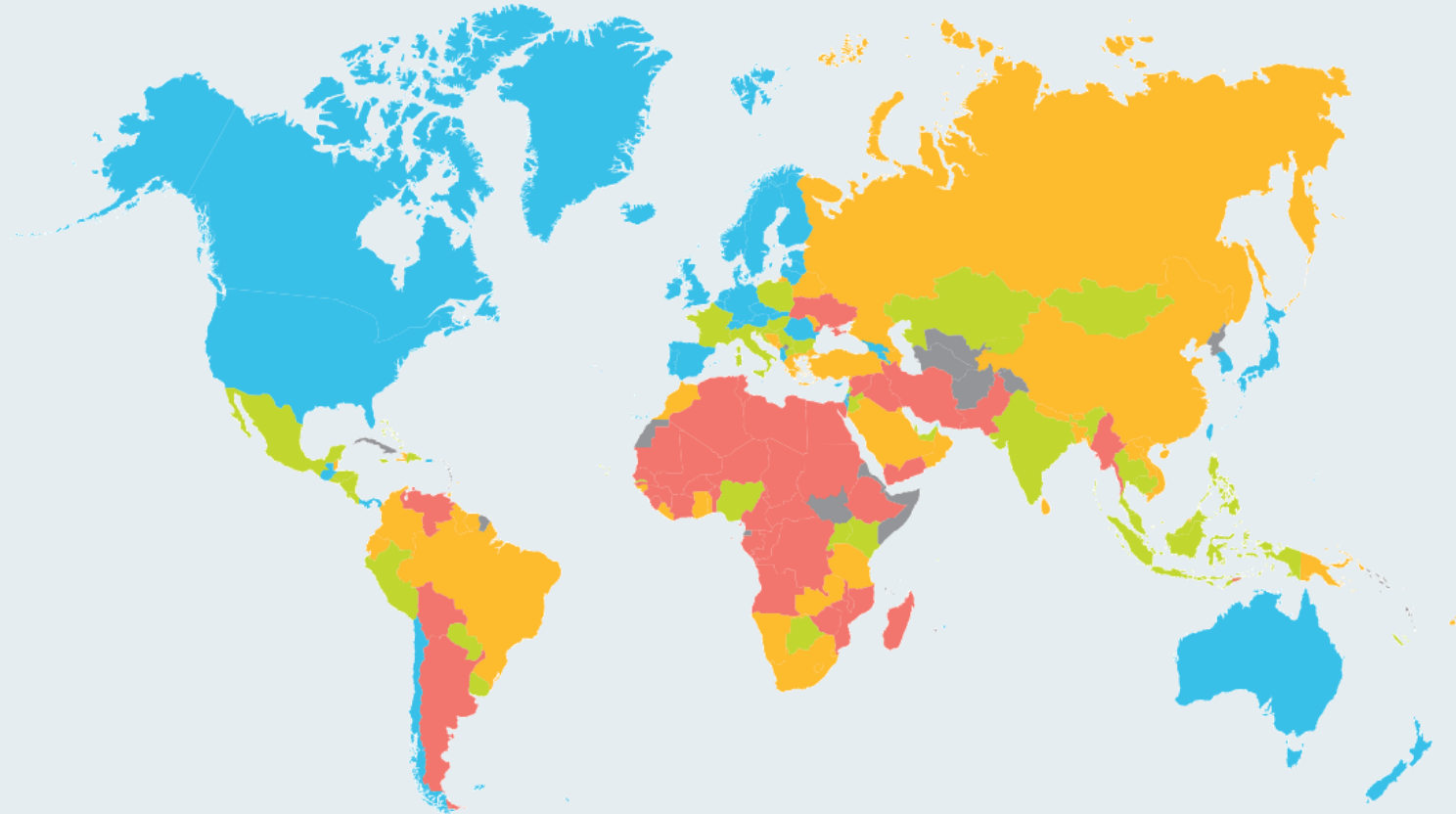
Market openness:

Trade Freedom
Investment Freedom
Financial Freedom

- Strong correlations between economic freedom and GDP outcomes.
- Perhaps even more surprisingly, strong correlation between economic freedom and wellbeing outcomes.



Economic freedom is key



MOST FREE



2ND QUARTILE



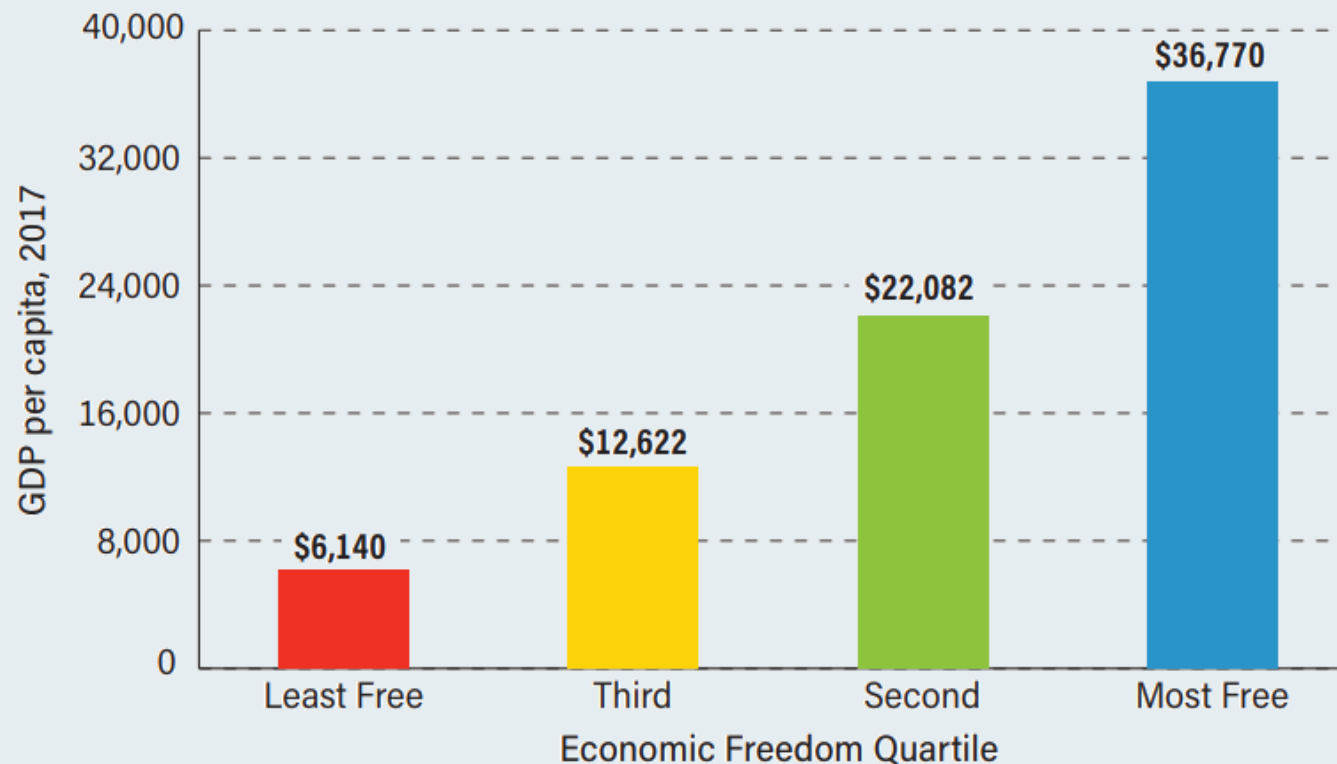
3RD QUARTILE



LEAST FREE

Economic freedom is key

Countries with greater economic freedom have substantially higher per-capita incomes.

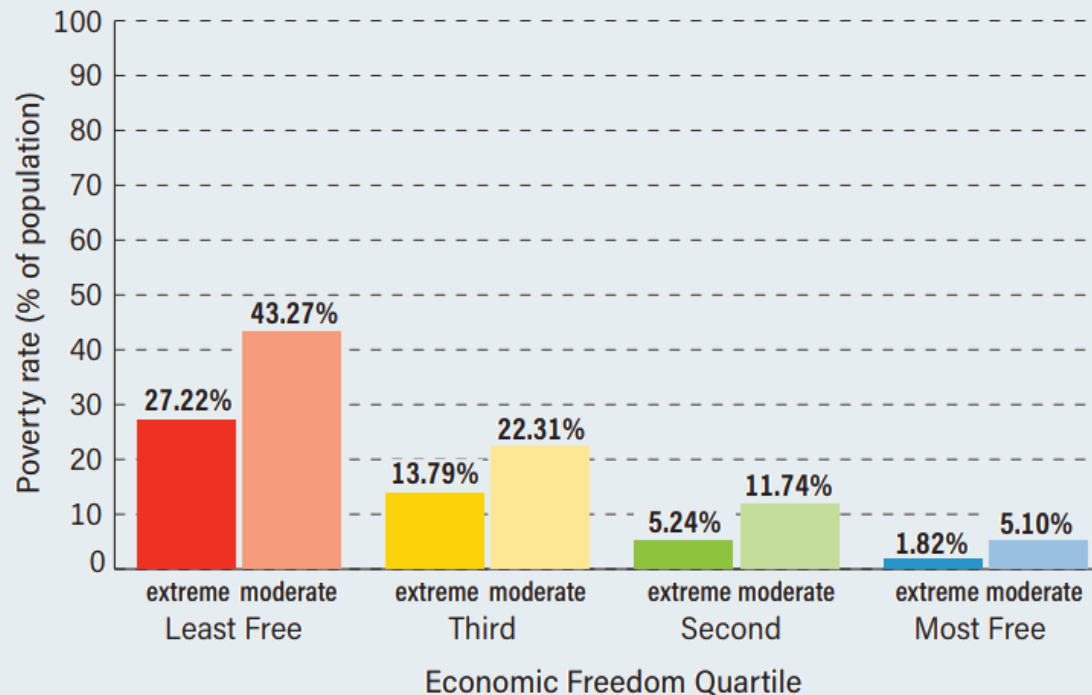


Note: Income = GDP per capita, (constant PPP US\$), 2017.

Sources: Average Economic Freedom Panel Score, 1995–2017; World Bank, 2017, *World Development Indicators*.

Economic freedom and income per capita

Extreme and moderate poverty are lower in countries with more economic freedom.

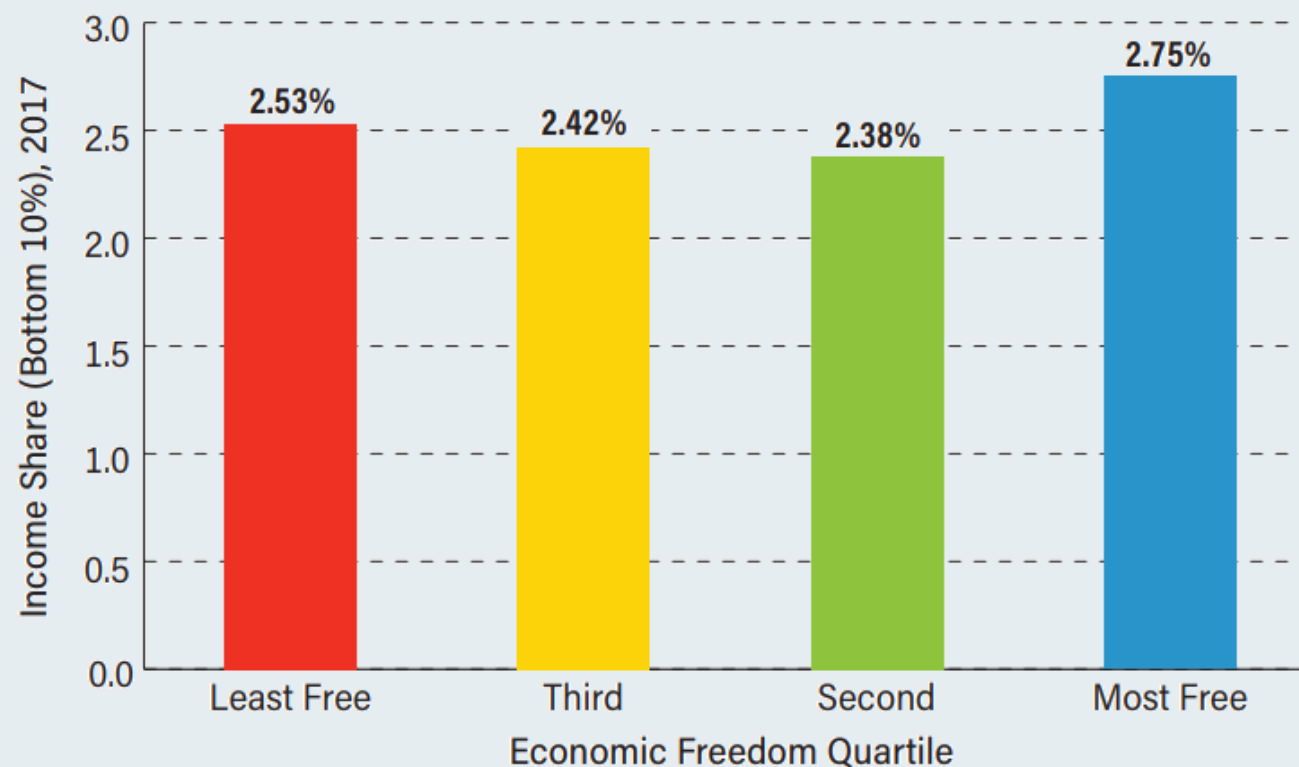


Note: The **extreme** poverty rate is the percentage of a country's population that lives on **\$1.90** per day; the **moderate** poverty rate is the percentage that lives **\$3.20** per day, in 2011 constant PPP-adjusted dollars.

Sources: Average Economic Freedom Panel Score, 1995–2017; World Bank, 2017, *World Development Indicators*; for details, see Connors, 2011.

Economic freedom is key

The share of income earned by the poorest 10% of the population is unrelated to economic freedom.

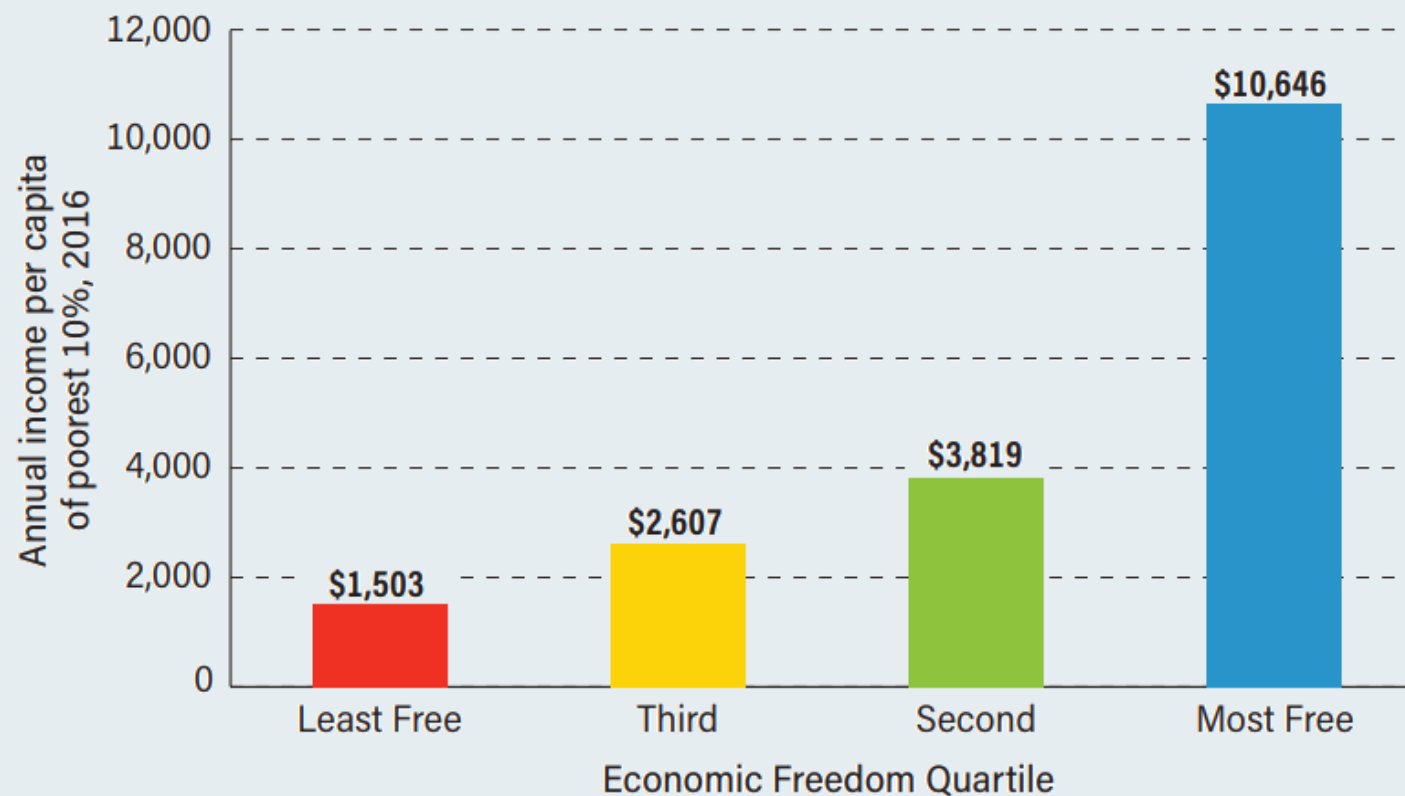


Sources: Average Economic Freedom Panel Score, 1995–2017; World Bank, 2017, *World Development Indicators*.

Economic freedom and the income share of the poorest 10 %

Economic freedom is key

The amount of income, as opposed to the share, earned by the poorest 10% of the population is much higher in countries with higher economic freedom.



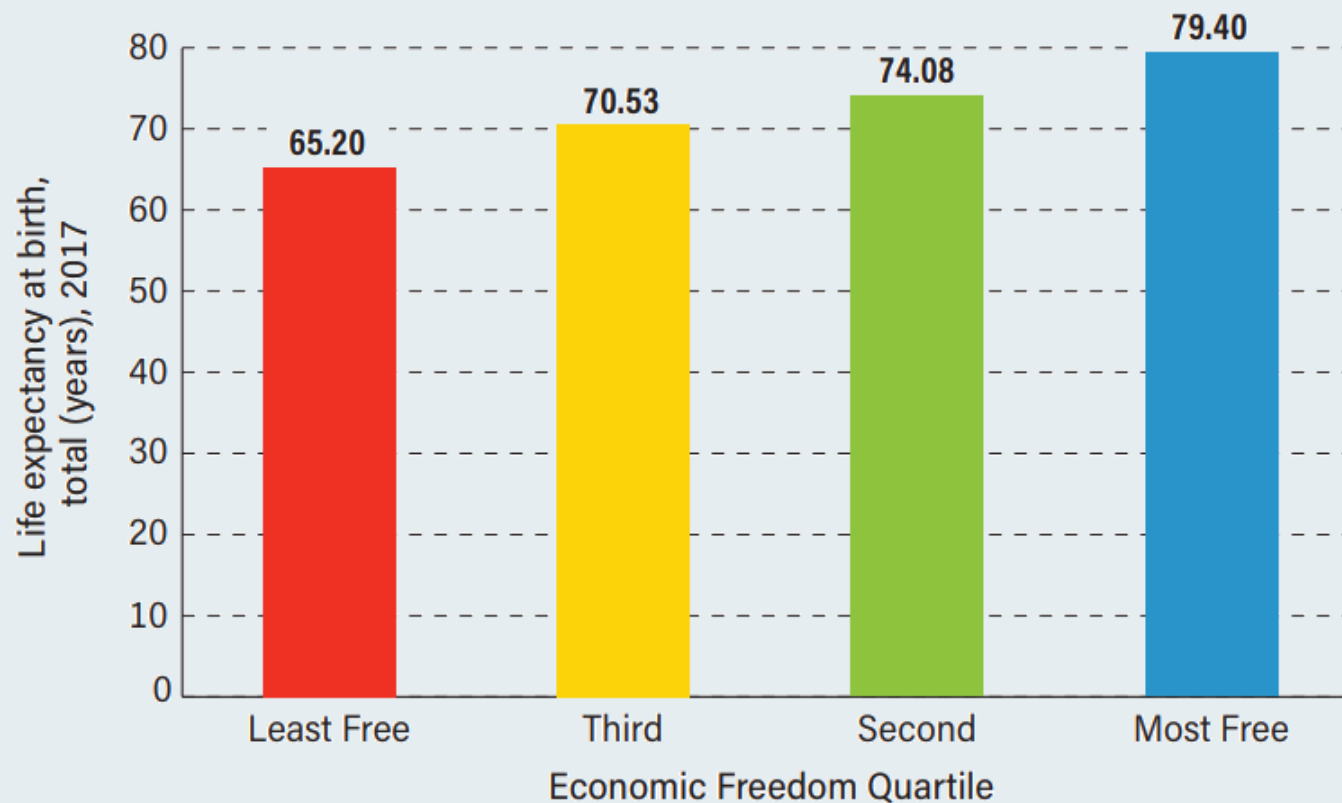
Note: Annual income per capita of poorest 10% (constant PPP US\$), 2016.

Sources: Average Economic Freedom Panel Score, 1995–2017; World Bank, 2017, *World Development Indicators*.

Economic freedom and income earned by the poorest 10 %

Economic freedom is key

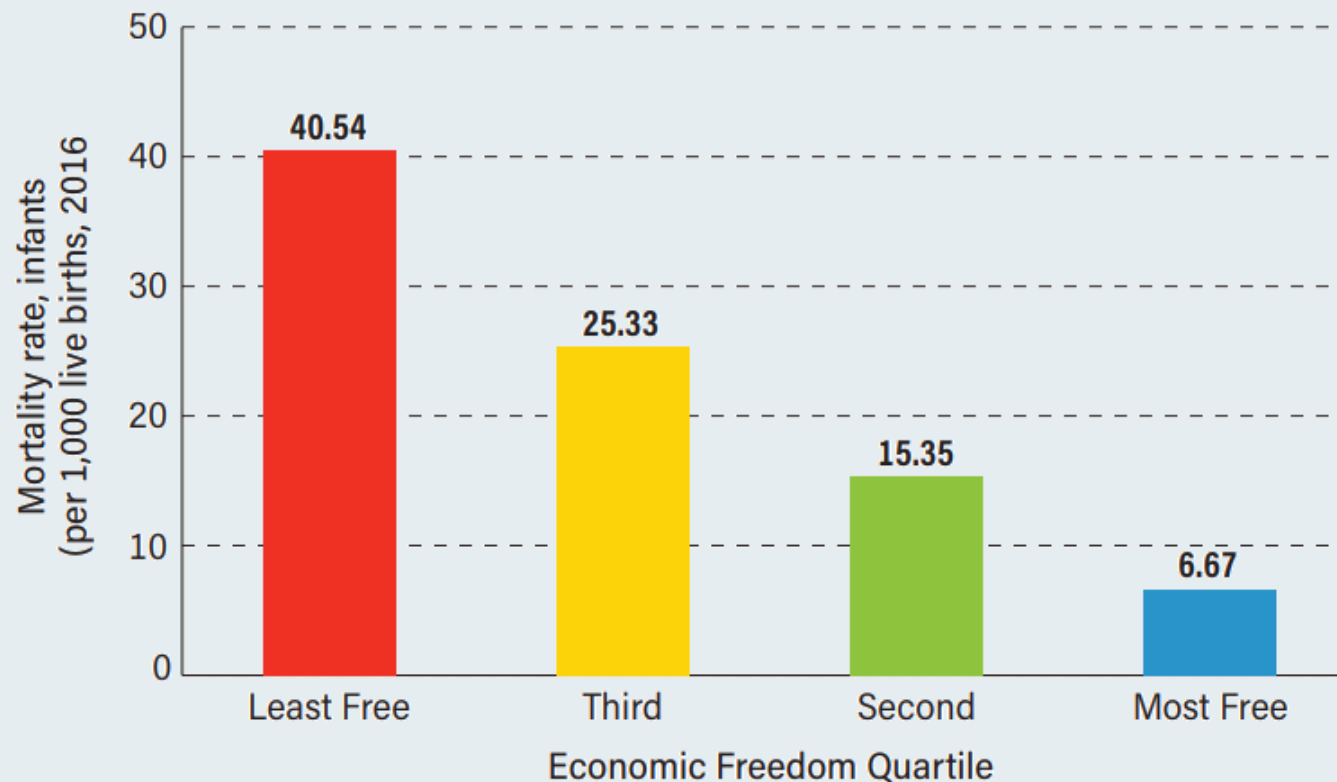
Life expectancy is over 14 years longer in countries with the most economic freedom than in countries with the least.



Sources: Average Economic Freedom Panel Score, 1995–2017; World Bank, 2017, *World Development Indicators*.

Economic freedom and life expectancy

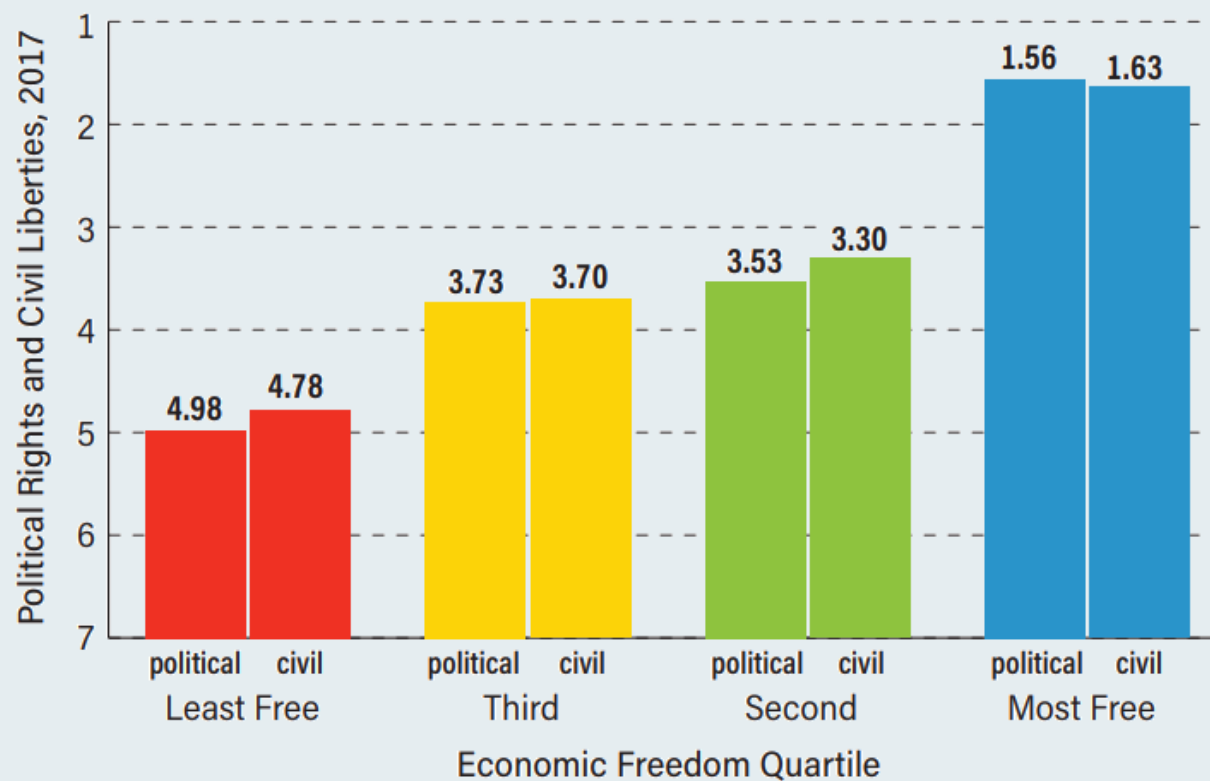
The infant mortality rate is almost seven times higher in nations in the lowest quartile of economic freedom compared to nations in the highest quartile.



Sources: Average Economic Freedom Panel Score, 1995–2017; World Bank, 2017, *World Development Indicators*.

Economic freedom is key

Greater economic freedom is associated with more political rights and civil liberties.

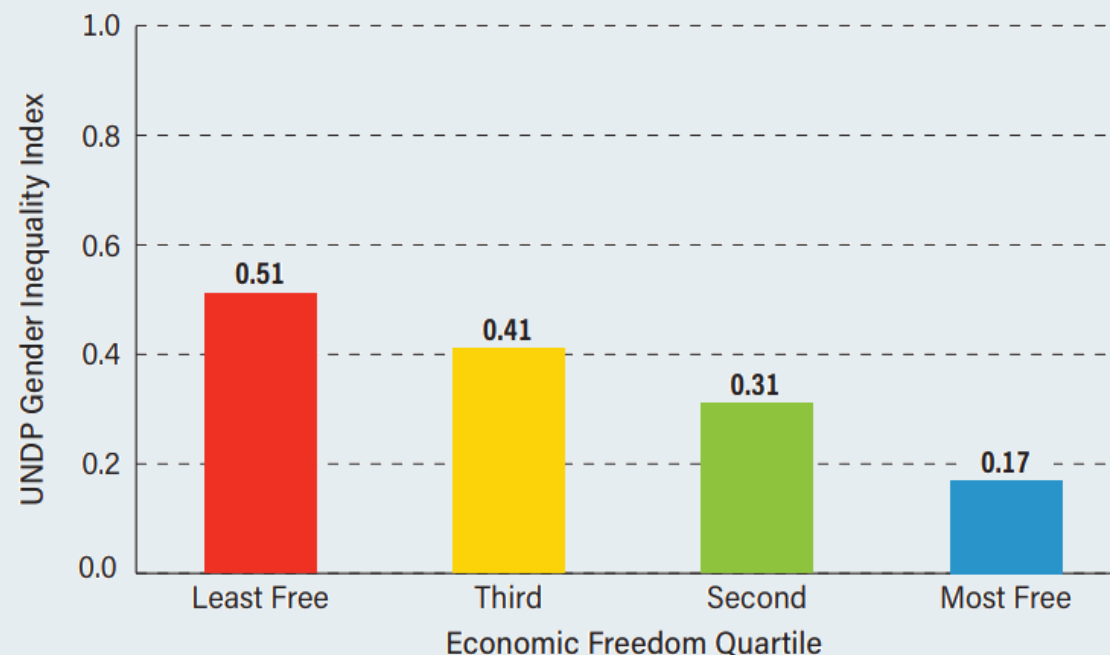


Note: **Political rights** and **civil liberties** are measured on a scale from 1 to 7: 1 = the highest degree of political rights and civil liberties; 7 = the lowest.

Sources: Average Economic Freedom Panel Score, 1995–2017; Freedom House, 2017, *Freedom in the World 2017*.

Economic freedom and extreme and political rights and civil liberties

Men and women tend to fare equally in countries with greater economic freedom



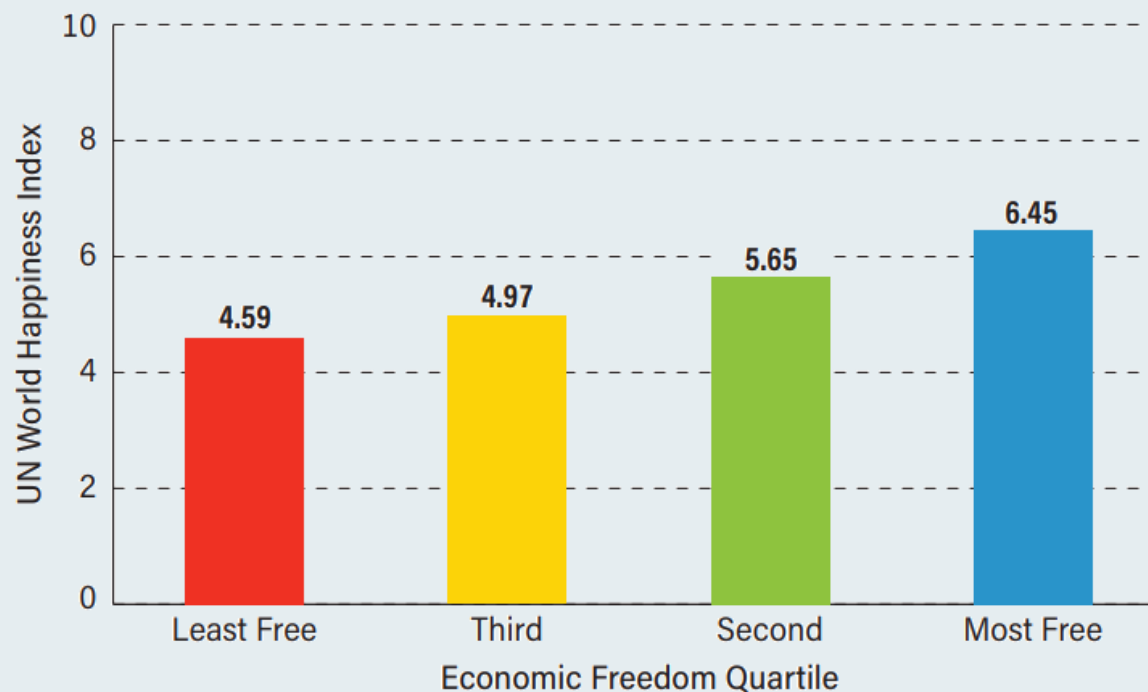
Note: "The Gender Inequality Index (GII) reflects gender-based disadvantage in three dimensions—reproductive health, empowerment and the labour market—for as many countries as data of reasonable quality allow ... It ranges from 0, where women and men fare equally, to 1, where one gender fares as poorly as possible in all measured dimensions." Data are for 2015.

Sources: Average Economic Freedom Panel Score, 1995–2017; United Nations Development Programme, 2016, *Table 5: Gender Inequality Index*.

Economic freedom and the UN Gender Inequality Index

Economic freedom is key

People in countries with greater economic freedom tend to be happier about their lives.

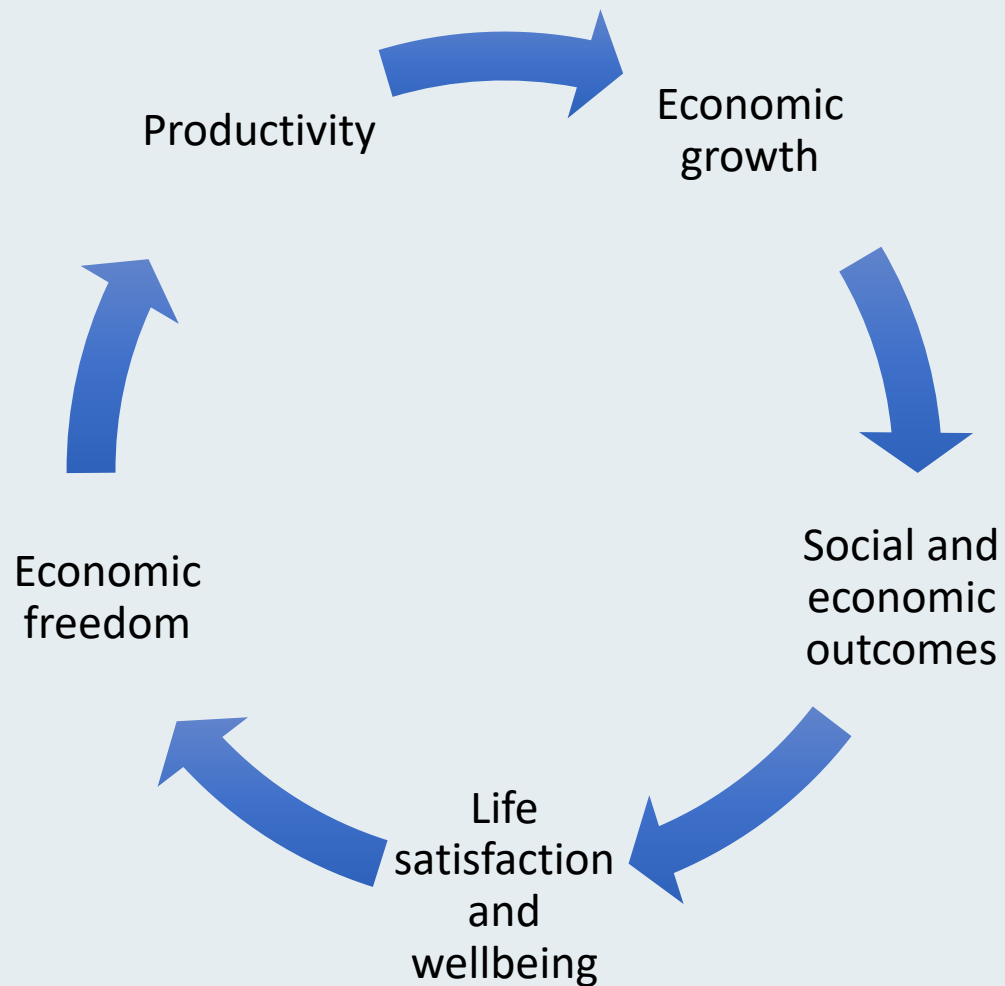


Note: "The rankings are based on answers to the main life evaluation question ... This is called the Cantril ladder: it asks respondents to think of a ladder, with the best possible life for them being a 10, and the worst possible life being a 0. They are then asked to rate their own current lives on that 0 to 10 scale." Data are for 2015.

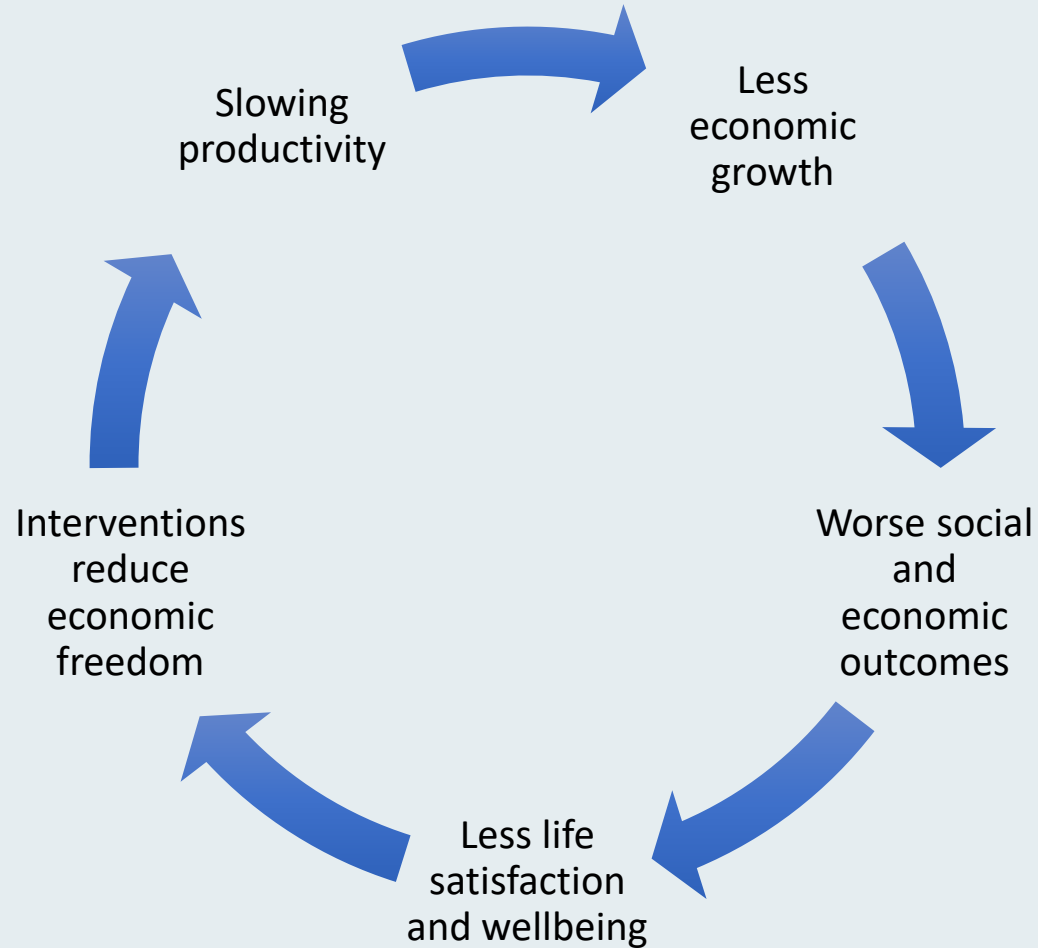
Sources: *Average Economic Freedom Panel Score, 1995–2017*; United Nations, 2016, *World Happiness Report 2016 Update*.

Economic freedom and the UN World Happiness Index

Wellbeing is an outcome, not a policy



The interventionist alternative



The many faces of interventionism





Thomas Cole, Destruction (1836)



Raphael, The School of Athens (1509–1511)

To preserve our freedom and our prosperity:

Let's break those spirals of silence.

Let's base policy-making on sound evidence.


Let's stand up for reason.



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<http://nzinitiative.org.nz/support/>

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