

Catching Up with What?

by John McMillan

As has been pointed out more than once in the last few years, New Zealand is lagging behind Australia. New Zealand's position in the OECD per capita income ranks and in particular relative to Australia has become, for some, almost a fixation.

The government's Growth and Innovation Framework states "returning New Zealand to the top half of the OECD" as its goal. Don Brash argues that New Zealand should lower its taxes in order to "get this country moving back towards parity in incomes with Australia."

Catching up with Australia's per capita income is, I contend, a flawed basis for policy. There are pros and cons to lower taxes, but Australian incomes are irrelevant to the debate. Economic growth is a good thing, for it provides resources for spending on education or health or whatever. But getting into the top half of the OECD is a bogus target.

Australia's per capita income, to be sure, exceeds New Zealand's. The average Australian earns about NZ\$10,000 a year more than the average New Zealander.

Australia ranks strikingly high on the Human Development Index (HDI): third in the world, behind only Norway and Sweden. Produced by the United Nations, the HDI measures living standards more broadly than by income alone, incorporating educational attainment and lifespan as well as per capita income. New Zealand ranks far behind Australia on the HDI, 18th in the world.

Cheerier news for New Zealanders is provided by a new working paper by economists David Blanchflower and Andrew Oswald, "Happiness and the Human Development

Index”. The doom and gloom has been overdone, for things look different if we use alternative measures of living standards.

Social scientists have developed surveys to quantify happiness. Some scepticism is warranted, obviously, given the subjectiveness of any measure of happiness, but the survey methods have been scrutinised over the years and not found seriously wanting.

A sample of adults, drawn in 2002 from the populations of 35 nations, was asked, among other questions, “If you were to consider your life in general, how happy or unhappy would you say you are, on the whole?” Answers were on a seven-point scale, one meaning very unhappy and seven very happy.

In happiness, Australians rank 11th in the world. Australians report themselves less happy than people in, for example, Britain, the United States, the Philippines, and Chile. Australians are gloomier than even the dour Swiss.

New Zealanders report themselves happier than do Australians. According to the survey, New Zealand is the world’s 8th happiest country.

Job satisfaction is also in the survey: “All things considered, how satisfied are you with your main job?” Australians’ self-ratings of their job satisfaction are dismal: 26th in the world. No other industrialized nation reports lower job satisfaction, apart from the Eastern Europeans, emerging from the rubble of communism, and the overworked Japanese and Taiwanese.

In job satisfaction as in happiness, New Zealanders rate themselves better off than do Australians, coming 17th in the world.

The survey results are documented in the Blanchflower-Oswald study, which you can look up on the internet at http://papers.ssrn.com/paper.taf?abstract_id=728964. The discrepancy between Australia’s high HDI score—3rd in the world—and its low

happiness and job satisfaction scores—11th and 26th—is “the paradox of Australia,” say Blanchflower and Oswald, who see it as a critique of the HDI, suggesting the HDI does not adequately represent living standards. This is a valid point, as I will discuss.

However, abstruse research in social science occasionally turns out to have amusing implications, unintended by its authors. There is an alternative way of reading the data, which to a Kiwi is more gratifying. Plainly put, Australians are whingers.

Australia is the lucky country, but Australians don't know how lucky they are. With a far higher material standard of living than just about everyone in the entire history of humanity, many of them still find it within themselves to grumble about being unhappy. What is their problem?

The broader lesson for New Zealand is that the focus on getting back into the top half of the OECD may be overdone, for what it means to be in the top half is open to question. There is no uniquely correct way to compare living standards across countries.

Per capita income is an easy way of making comparisons, and applied judiciously it is useful. For example, America's per capita income, NZ\$53,000, is an astonishing 66 times Tanzania's NZ\$800. (These numbers are computed in terms of purchasing power parity, meaning the poorer country's lower cost of living is factored in. Unadjusted, the numbers would indicate an even wider gap.) The average Tanzanian must somehow get by for a year on less than what an American spends in a week.

Per capita income starkly reveals the gap between rich and poor. When differences in per capita income are large, we can be sure that what is being picked up is a genuine disparity in living standards. When differences are relatively small, however, as is the case among the OECD nations, per capita income is an unreliable way to compare living standards.

The HDI, incorporating lifespan and education as well per capita income, is probably a better measure of standard of living than raw per capita income, but as the happiness and job-satisfaction data indicate it does not capture everything.

Any cross-country comparison of living standards should be taken with a grain of salt. There is no dependable way to do it. If we must do such comparisons, we should look at an eclectic range of measures and make an overall evaluation based on all of them.

Measured by per capita income or by the HDI, New Zealanders are worse off than Australians. Measured by self-reported happiness or by job satisfaction, New Zealanders are better off than Australians.

John McMillan, a New Zealander, is professor of economics in Stanford University's business school.