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Trade-offs: High Street taste on a jandals budget

- Economics is, among other things, the study of how to make people and society as well-off as possible given the limited resources available.
- Human behaviour demonstrates that generally we want the best of everything and would prefer not to pay for it.
- But because individuals' resources (finances, time, clean water and so on) are limited, we have to make trade-offs.
- Trade-offs are also real for government, like Auckland Council, where property rates and user charges cannot feasibly be at a level where everyone gets everything they'd like.
- We are left to trade off the resources we have for the best societal outcomes we can achieve. This requires us to use the best tools available to make economically-sound decisions.

Misunderstanding the dismal science

Ask someone what economics is, and they will often respond with words like “the stock market” or “money” or “something that multi-national companies study to avoid paying taxes.” While economics certainly plays a part in these things, these are at

best an incomplete understanding. Regrettably, textbooks often describe economics in a way that puts people to sleep and makes them think it is an esoteric concept that doesn't apply to real life or concerns of the modern world.

In reality, all of us (even you – you're doing it right now by reading this paper instead of doing something else) make economic decisions all day, every day. For individuals, economics is basically the idea that we try to improve our overall wellbeing by as much as we can each time we make a decision. Whether one is content with how the world works or thinks we need to fundamentally shift how world economies operate, the fact that people make decisions to try to maximize their happiness is inescapable. In fact, this is the precise motivation of those who advocate for a shift to an alternative economic paradigm, as they've decided they (and they believe others) would be happier under a new system than under the current system.

Everything is a trade-off

One of the fundamentals of economic decision-making is that people have unlimited wants and limited budgets. Our most obvious budget constraints are the amount of time and money that we have. We would like to have a nice house,



reliable transport, get our kids the best education, have easy access to shops and services like libraries and pools, a short and traffic-free commute to work (where we only have to work as much or little as we feel like), and enough money to do whatever leisure activities strike our fancy – all while living an environmentally-friendly lifestyle. We'd also like to save for retirement so we can enjoy our later years with a minimum of worry.

Unfortunately, financial constraints and time limits dictate that most of us can't do all the above – we must make trade-offs between all the things that we **could** do and the things that we actually **get** to do. Further, we must also make trade-offs between **when** we do things. Because there are finite resources to satisfy our infinite desires, we make the choices that we think will make us the happiest. Sometimes we get it wrong (I'm thinking of my purchase of an old convertible that was so much fun to drive... when it ran... which turned out to be about 15% of the time), but that was never the goal.

Government isn't exempt in a trade-off world

Governments don't do things primarily to earn a profit, the way private businesses do. Governments exist to provide goods and services that residents value but that would not be adequately produced by private businesses. These goods and services typically have social, environmental, cultural or other non-financial benefits (grouped together, this is wellbeing), and a financial cost.

Auckland Council and its subsidiaries are not exempt from having to make trade-offs. There are literally thousands of things that the council family **could** do to improve the wellbeing of Aucklanders both now and in the future if resources were unlimited.

These run the gamut from road upkeep, cycle paths, providing port services, monitoring water quality, animal management, building and maintaining playgrounds, kauri dieback prevention, collecting rubbish and recycling, providing public transport, promoting community cohesion, building infrastructure in greenfield areas, to ensuring that the building code is met. And naturally, every Aucklander would love to have the best of all of these and pay less in rates. This is not a criticism – this is something that we'd all love to be possible. We all want to maximise our benefits and minimise our costs, to zero where possible.

Even in normal times, we should spend every dollar of ratepayer money doing the as much good as possible for Auckland with that budget. This means making difficult choices between projects that, in an ideal world, might all get done. Exacerbating the challenge now is the fact that Council cashflow was down around \$450 million because of coronavirus in the 2019/20 year. Even tougher decisions have to be made as we look toward the Long-Term Plan about what gets funded and what doesn't.



Everything is important to someone

In the three years I've lived in Auckland, housing unaffordability, congestion, climate change, homelessness, the City Rail Link, drought, wealth inequality, and Covid-19 (among other things) have all been "the most important challenge facing Auckland/NZ" at various times, according to various people. The truth is that all these things are big challenges to our region and country, and none of them can be tackled with singular focus.

By way of example, if we were to pour all our resources into combatting climate change, other issues like storm water system maintenance or a lack of rubbish pickup would spiral out of control. So even though climate change is a **very** important issue, it cannot be dealt with at the expense of everything else. Similarly, if the absolute best healthcare was our goal, at all costs, we'd have to close schools, stop providing public transport, disband police, and get rid of libraries, museums, the military, and the SuperGold card. So again, even though healthcare (especially in the time of Covid-19) is very important, it cannot be the only place we direct our resources. The same logic applies to every need.

We can't have our cake and eat it too

The Auckland Council family provides so many things that Aucklanders value, even if most of us don't think about them all that often. Some recent examples where this has been shown empirically can [be found here](#).

We know that, even with the council's relatively small rates rises and some increased borrowing capability, we will have to limit service growth and delay some infrastructure spending. There will be no way to do everything we'd like to do in an ideal world.

The trade-offs we make between what we do now, what we do later, and what we don't do at all will affect Aucklanders now and in the future. It's important that we use the best available tools to make these trade-offs to get the most wellbeing we can with our available resources.

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