A newsletter to promote the exchange of information, news and ideas among members of the New Zealand Association of Economists (Inc).

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CONTENTS

Editorial 2
An Interview with Len Bayliss (by Michael Reddell) 2
NZIER Economics Award 2013: Jacques Poot 11
The Five Minute Interview (Jacques Poot) 12
From the 2B RED File (by Grant Scobie) 13
‘Frames’ (by Stuart Birks) 14
Blogwatch (by Paul Walker) 15
Fine Lines (by Paul Conway and Lisa Meehan) 16
Heterogeneity in management practices in NZ dairy farms (Motu: Suzi Kerr) 17
Regional Estimates of Tourism Expenditure (by Vij Kooyela and Peter Ellis) 18
International investment data in the NZ LBD (by Lynda Sanderson) 20
The Government Economics Network (GEN) 21
Research in Progress (Lincoln University) 22
MATLAB Advert 24

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EDITORIAL

John Creedy (john.creedy@vuw.ac.nz; John.creedy@treasury.govt.nz)

This issue of AI begins with the fifth in our series of interviews with eminent New Zealand economists: Michael Reddell interviews Len Bayliss. The NZIER Economics Award for 2013 was given to Jacques Poot: the citation and his response are reproduced here. Jacques is also the subject of the ‘Five Minute Interview’. Regular contributions follow from Grant Scobie (‘2B Red’), Stuart Birks (‘Frames’) and Paul Walker (‘Blogwatch’). In this issue, ‘Fine Lines’ is contributed by Paul Conway and Lisa Meehan, of the Productivity Commission. Suzi Kerr, from Motu, summarises research on management practices in dairy farms in NZ. This is followed by two contributions about NZ data sources. Vij Kooyela and Peter Ellis from MBIE describe data on regional estimates of tourism expenditure, and Lynda Sanderson from Treasury discusses the LBD data on international investment. News of the Government Economics Network (GEN) is again provided by Joey Au. The economists at Lincoln University provide this issue’s report of Research in Progress.

AN INTERVIEW WITH LEN BAYLISS, BY MICHAEL REDDELL

Q: Len, what got you first interested in economics?
A: I was very keen on history and politics from an early age, a staunch supporter of the Labour Party and then after secondary school or public school as they call it in Britain, I went into the Navy. I was going to be an officer candidate but the war ended so I applied to go to Cambridge. Just wrote a letter and it came back, accepted. But in the Navy, there was a huge amount of propaganda or publicity or teaching to try to make people understand the problems of Britain. And I found myself, at the age of 19, working from these pamphlets and talking to people about the coal mining crisis. I remember I had to lecture the entire ship’s company on things like coal, or the United Nations. It just makes me go blanch to think of it but at 19, you have to do what you’re told. I was just a leading seaman but that was the job. I think the links between history and economics are close. And of course in those days it was Political Economy. When I was accepted for Cambridge, the senior tutors said I could read whatever I liked so I did economics. You could get a degree after two years if you were an ex-serviceman but I asked a senior tutor if I could have a third year. And he said, oh yes, stick around and we’re pleased to have you.

Q: You graduated with an MA. Can you tell us about the nature of the economics programme that you did at Cambridge?
A: It was a very heavily applied course. We did economic principles, which was Marshall and Pigou etc, and that would be maybe a couple of lectures a week. But there were also lectures on economic history, British economic history, trade union and labour economics, we had money and banking, fiscal policy, and other applied subjects. The focus was very much on applied economics, taught by some very competent lecturers, many of whom had been in the Civil Service during the War. There was no mathematics at all in the first year. I think you could do some in the second year and it was quite an advanced mathematics paper in the third year, a voluntary one. I had a friend who was a Senior Wrangler, a very top mathematician and he told me that the mathematics of economists was incredibly elementary. You could do mathematics, Marshall was a good mathematician. But even at your third year, the maths paper was a voluntary paper. I did economic history rather than that. Overall, I had a marvellous education. As a sidelight, I briefly met Bill Phillips and saw the Moniac on a visit to LSE with the Marshall Society.

Q: Keynes had died only relatively recently when you went up to Cambridge. Can you tell us a bit about the intellectual environment there?
A: It was very strong, there were people like Kahn and Joan Robinson and one or two others. They were really hot shot Keynesians and then Dennis Robertson who was the top professor, he wasn’t quite so enthusiastic. Apparently within the Faculty, there was quite a lot of debate and arguing but I wasn’t involved in that. But in my final year, final exam, you had to write a paper, so I wrote a skit on the idiotic (as I considered it) debate between the Keynesian and non-Keynesian factions in the faculty. It was silly, I don’t know, I probably got failed but it was youthful exuberance. Some of these debates were passionate and bitter but the differences, if you really look in depth, don’t merit that sort of attitude. Academic debates can get very bad-tempered. Various people influenced me. I remember our director of studies at Pembroke, my college, telling me that speculators make markets. He said if there aren’t speculators, you can’t have a decent market - a very profound statement. And of course in those days it was Political Economy. When I was accepted for Cambridge, the senior tutors said I could read whatever I liked so I did economics. You could get a degree after two years if you were an ex-serviceman but I asked a senior tutor if I could have a third year. And he said, oh yes, stick around and we’re pleased to have you.
my life as an economist. I used to write essays for him on issues such as the European Payments Union, Hicks's trade cycle, and short-term capital inflows which had been a big problem before the war. I used to write a series of very applied essays for him and he really got me interested in central banking. Later he came out to Australia and in the early 1960s became the first head of Melbourne Institute of Applied Economic and Social Research.

Q: I think he visited New Zealand - there is an article by him in a Reserve Bank Bulletin

A: Yes, he stayed with me. He was my guru and we had a long correspondence over 20 years. It's all in the archives up in Massey. He had a profound impact on me - a very fine man as well as being a very good economist. A man you could respect and he led the Melbourne Institute, the guys there thought very highly of him. I was very lucky.

Q: After graduating you came out to NZ. Why New Zealand?

A: I told my parents when I was about 15, I was going to emigrate. Nobody believed me. I'd always had that feeling to get out in the world, to look around. In the Navy, you do it for nothing, it's not exactly comfortable. But, anyway, I wanted to emigrate, it was a choice between America, Canada, South Africa, Australia and NZ. And I didn't really want to be an American at that time. I hate the snow and I really hate being cold so it wasn't Canada. I had relatives in South Africa but I didn't want to go to an apartheid sort of place and I thought it would blow up. So it was between Australia and NZ. And my best friend at Cambridge was an Australian bomber pilot who'd been badly wounded; he wanted me to go to Australia and he knew Coombs, the boss of the Commonwealth Bank (then the central bank). Anyway, I went to the Appointments Board and they wrote to the Australian banks and the Reserve Bank in New Zealand. They each offered me a job but I had a terror of tarantulas and snakes. So I went to New Zealand. I was interviewed by Alec Ross, the Reserve Bank's Deputy Governor, at the Bank of England and he was a very imposing bloke. I swotted all my way up to London from Cambridge on the train with all my papers on central banking, I don't think Alec knew anything about any of them and he never mentioned them. Just took me off, we had a cup of coffee and he said well, we'd like you to come.

Q: And NZ was at its peak of its post-war prosperity in those days as well?

A: Yes, it was 1951 and the wool boom.

Q: Tell us about the place of economics in the Reserve Bank in the 1950s.

A: We had a very strong team of economists. Alec Ross I think in particular was keen to build up the Bank's economics capability. It was Warren Hogan and Alan Catt, both of whom became professors, Johnny Pryde and others. It was a really bright team of blokes. It was a hot bed of discussion, a real mix of people. And I didn't really know much about NZ. I didn't know the agricultural economics service and so on. It used to spend all my holidays on farms. I made a big effort to understand farming. You couldn't be an economist in NZ if you didn't understand agriculture - I still think it's partly true too. I had a really good education in the RB.

I spent 6 months with Condliffe in the middle of the 1958 crisis when he went to the RB and I acted as his assistant. He was a most impressive bloke. He would have been appointed the economist at the RB but just before that position came up in the late 1930s he had been appointed to a position writing economic reports for the League of Nations in Geneva. He was very good. He was a really strong, determined man. There was nobody like him in the RB. He was a very good economist and he had a profound effect on me because monetary policy then was waffly, and we had little or nothing to do with it, you wrote Bulletin articles, and collected newspaper cuttings but there was no actual monetary policy. Treasury just cut us off, we weren't in anything except the balance of payments.

Q: You were seconded to the Bank of England, around the time of the Radcliffe report. How did the experience influence your own thinking?

A: It had a profound impact on me because it was interesting to see how a good central bank meshed in with the financial sector. This was extremely educational for a young inexperienced New Zealand central banker as it involved extensive contacts with highly regarded and experienced economists, central bankers, commercial and merchant bankers and other financial market participants. I also became aware, conveyed subtly, that the Bank of England did not have much respect for the senior officials of the Reserve Bank or its policies. On the other hand, I noticed that the Bank of England didn't have a very good economic research department. I intimated this to the Governor Lord Cobbold, a terribly impressive man, and he looked at me, and said we're a bank, not an economics research institute.

I read every financial system report that was being written around that time; American report, Canadian report, British report. I was a passionate enthusiast. I didn't read any economic journals but I read all the applied stuff and I discussed Radcliffe there. There was a big learning curve for central banking, operationally.

Q: The New Zealand economy in the 1950s was much more heavily regulated than, say, Britain's. What was the attitude towards the prevailing economic model?

A: In the RB, Alan Catt and Warren Hogan and myself, I think, you could say, we felt they'd sort of overdone the regulations. But among more senior officials there was an enormous support for the system. The lesson they learnt pre-war was, if the war hadn't started, the Labour government's experiment would have proved to be a disaster.
A: The Treasury had furious battles with Industries and Commerce. The war time stabilisation was regarded as big tremendous success, particularly by the people who did it. So there was huge support for a framework of controls. When the National government removed import licensing in 1950 there was a huge flood of imports, and instead of blaming the Treasury or the RB or the government for inadequate demand management, everybody blamed immoral, unpatriotic importers. The importers were absolutely crucified. There was a huge support for that system of controls. A whole lot of capable, intelligent people really believed they were essential. Now, I wrote articles trying to get them to control demand rather than ration the stuff out. But there was huge support – political support – for import control because the National Party, basically run by the farmers, knew that the rapid growth was taking place in Auckland, in the big cities. And if they were going to prosper as a political party, they had to start winning the non-agricultural vote and they had to pick up seats. And these manufacturing people in Auckland – the National Party kept their support with import controls.

I used to go around talking to lots of people, used to go to the manufacturers, walked around their factories talking to them. You know they really believed they were doing a great job for NZ. These were honest decent people, they believed in establishing all these industries. The fact that they couldn’t compete with overseas didn’t matter to them – a spirit of “we’ve got to pay our chaps decent wages, and we shouldn’t have to compete with people paying 10c a day”. In economic terms, a lot of it was crazy. But when you look at these things and people criticise these people and the policy makers, you have to remember the background of the Great Depression and the war. People like myself were looked upon as really pretty nuts, as theoretical economists. I wasn’t bitter about it because I could understand the feelings of these people. Of course the working man had a good job in those days and you look at the position of many of them right now, you could put up a strong argument that in some respects they were the halcyon days.

Q: While at the RB you were involved in founding NZAE?

A: Yes, we used to have Economic Society meetings and all the businessmen would turn up and a lot of the debate was pretty poor. I, being an arrogant young man, thought that we could do better. So there was a meeting and I mentioned to Colin Simkin, what about organising conferences like the ANZAAS ones, but just among economists to raise the standard of economic debate. From that, I pushed this thing along and I must say the RB had a very honourable role in putting the new Association in place. One of things we were most looking for was a better standard of debate around current economic policy issues. Of course, what happened is that the association got into the hands of the academics. In the latest NZ Economic Papers, I can’t understand a single one of the articles.

Q: In the early 60s, you joined the new Monetary and Economic Council (MEC). What was the attraction of the MEC and what role did it play in the 1960s.

A: I was in Treasury when that happened. I enjoyed working for Treasury as it was right in the middle of things. I got on very well with all the chaps in Treasury, they treated me very well. I wrote papers, and the Secretary of Treasury would summon me and discuss the paper with me. It was really good stuff and I got on well with all of them and I would never have gone back to RB.

The MEC was a product of the report of the Royal Commission on Money, the one on social credit. One of the things they recommended was an economic advisory body and that was part of the National Party’s 1960 programme. So when they were elected, this set it up. They advertised for an economist and the guy alongside me in Treasury was acting Secretariat to the new council and he said why don’t you apply to this? So I applied and they ended up appointing two economists - me and Alan Low’s brother, an academic from Massey.

Frank Holmes was the first Chairman and he did an excellent job. Our first report was on macro policy and then we wrote the second report on economic growth and Frank did a really good job there. Then he left and Ernie Wilkinson became the Chairman and he was a marvellous bloke. Ernie Wilkinson, and I were largely responsible for writing the reports.

The MEC reports were influential. They regularly made it to the front page of the Dominion. I think that when Muldoon became Minister of Finance, instead of the usual waffly stuff he used to read in the Treasury reports I know, he welcomed the MEC Reports. The MEC had done a great job in softening up public opinion. It’s not that the politicians are dumb or anti or don’t want to do things: they quite often do, but they’ve got to carry public opinion and the big gap in NZ is there’s no informed economic debate. Look at Australia, there’s plenty right through to the 1970s. It was ridiculous. By then the RB joined the fight for a more appropriate interest rate. They didn’t put up very good arguments in favour of it. It’s not that they didn’t want higher interest rates but Alan Low was not a good debater. And he wasn’t good at telling politicians why they should pay a lot more for government debt. By then inflation was getting to around 10%, so pulling up the interest rate by half a per cent was really a waste of time. Once you get out of kilter, as they did, it’s very difficult to get it back because you have to have such a big jump in the interest rate structure.

Q: There were some differences of emphasis among the economic agencies. Bill Sutch, for example, was head of Industries and Commerce?

A: The Treasury had furious battles with Industries and Commerce but the RB really wasn’t involved in most of this stuff. There were some great public service departmental battles. One of the key people in Industries and Commerce was Jack Lewin, a very capable bloke, a very good arguer but he was a very strong socialistic. I knew Bill Sutch quite well and could never believe he was a traitor. He was a broad-minded thinker. These guys were very much the product of the Depression. It was burnt into them. Not that you could say the Treasury was all that liberal. They were liberal on monetary deregulation.

As a result, interest rates were held too low for far too long. When I worked briefly in Treasury, I wrote a paper and said we should lead the market. But Ted Greensmith (then Secretary) said, “Mr Bayliss, we follow the market”. But if they had followed the market our interest rate would have been pushed up. But as it was, Henry kept it at 5 or 5.5%
of informed debate, but here it’s got worse. Economists get 30 seconds sound bite on TV, you know, there’s no continual stream of expert comment in the newspapers. The MEC did a really good job in that respect I think.

Q: The 1966 MEC Report on the financial system was not well-received by officials?
A: I spent 3 years on report number 10 on “The New Zealand Financial System”. I still believe to be one of the best NZ published economic reports and I had a lot of good feedback on it from people in the IMF (“much the best small country monetary report”) and other central banks. But that was certainly not the view of the Treasury and particularly the Reserve Bank who did their best to bury it and banish it from public debate - with very considerable success. This was because the MEC report contained a powerful criticism of official monetary and public debt policy as well as setting out a blueprint for reform, involving radical changes.

It was anathema to the RB. I think, partly, there was a sense of treading on their turf. Our terms of reference were, in some respects, just the same as the central bank’s. And their economics department was not very strong at the time. There was no fire or intellectual energy. So we were terribly unpopular in that quarter. Treasury was different. I knew Treasury very well. I’d been working there and our offices were close to Treasury so all the reports I did, I spent a lot of time discussing with Treasury, Henry Lang, and of course Bernie Galvin and Noel Lough.

Q: You followed up that report with a hard-hitting personal piece in the NZ Economic Paper in 1968 where I think you described monetary policy in NZ as having been “ineffective and harmful”.
A: Yes, it was ineffective. All it did was to cause huge disintermediation. It was harmful in the sense it totally stopped the financial system from developing in ways it had elsewhere. I was trying to get the message across that what we were doing was contrary to what other central banks were doing both philosophically and tactically. Henderson came over and he was my guru as I said. He was quite critical of the number 10 report, and wanted to know why we had included so many statistics. I told him we were trying to show statistically that the RB was doing the exact opposite to what other central banks were doing in this sort of stuff. I did a statistical summary and economic reviews - monthly or quarterly things - telling everybody what was happening. I was given real freedom. When you read my papers there was nothing ill-mannered about them. They were just criticisms of existing policies. Later on, I incurred the wrath of Muldoon and Alan Low both of whom phoned up the General Manager, Jack Earnshaw, and asked him to shut me up. But the boss just said, “consider yourself kicked off. Now go off and keep up the good work”. But it is difficult to believe that any bank now would just turn down the request from the PM or the Governor of the central bank like he did. He believed that I was right and so he gave me full support. It was a fine bank in those days.

Q: What else did the role involve?
A: Monetary policy took a lot of time. My bank was keen that I would improve the prestige of the banks in a high level way. There was a lot of public speaking. The managers wanted me to go along and address the local Rotary clubs and all that. Internally, I got on very well with the boss of the bank. I used to advise him on whether we should buy government securities for example. They set up a thing called the Deposits Committee where I would advise them on deposit interest rates and all this sort of stuff. I did a statistical summary and economic reviews - monthly or quarterly things - telling everybody what was happening. I was given real freedom. When you read my papers there was nothing ill-mannered about them. They were just criticisms of existing policies. Later on, I incurred the wrath of Muldoon and Alan Low both of whom phoned up the General Manager, Jack Earnshaw, and asked him to shut me up. But the boss just said, “consider yourself kicked off. Now go off and keep up the good work”. But it is difficult to believe that any bank now would just turn down the request from the PM or the Governor of the central bank like he did. He believed that I was right and so he gave me full support. It was a fine bank in those days.

Q: In 1975 you began two years on secondment to the new PM’s Advisory Group in the Prime Minister’s Department, which mainly drew secondees from private sector. Tell us about how it worked.
A: One of the books on Muldoon suggests I was the only one he asked for personally. The others were all recruited by Bernie Galvin, with whom I worked closely. I think it was a brilliant, quite brilliant, innovation. It seemed to me that whether you like it or not, the PM is increasingly having a presidential role. Theoretically he’s the first among equals, but it doesn’t work like that. And having a small team of people whose job it was to keep him informed, in the various areas, including keeping him informed what the bureaucracy was thinking, was very successful. We used to have Friday afternoon sessions where we’d all report to him. Treasury and RB thought that I was a grey power behind the scenes but in actual fact, Bernie Galvin was my boss. I never advocated or did anything which didn’t have the full support of Bernie Galvin. But it was very hard work. At the end, I was absolutely exhausted. I did some good work but I also did some bad work, made some misjudgements. George Chapman, the President of the National Party, phoned me up and really talked me into saying openly that there was light at the end of the tunnel, which taught me never to say anything like that
Q: What was Muldoon like to work for at that period of his career and what was his attitude to professional economic advice? He was both the PM and the Minister of Finance.

A: Excellent. He was the best boss I’ve ever had. Absolutely decisive. I wrote his speech for the Mansion House dinner, the most important speech he’d made after becoming PM. I gave it to him. He said send it to Treasury and see if it’s all right with them. They wrote back wanting something changed and wrote a little memo and he just put ‘No.’ And he always was very proper. He may have been tough to his political opponents but as Bernard Galvin used to say, certainly in the time I was there, it was a very happy group. He never tried to force you to do anything. In a sense, he treated you just like a public servant, as a politician should treat them. He was decisive. He would argue very intelligently. Watching him at the Cabinet Economic Committee, he really tore strips off ministers who hadn’t done their homework. And I saw him several times in debates with Noel Lough. Noel Lough was a lovely bloke but Muldoon really won the debates.

My own view is that in 50 years when they start looking at things less emotionally he’s going to get a lot better write-up, and the one that he deserved. He did a lot of major deregulatory things, the free trade area with Australia, Saturday shopping, and the monetary policy deregulation attracted world attention. We went from the most regulated to the one of more liberal financial markets in short order. Nobody’s perfect and he was a tough guy but he couldn’t stand sycophants. If you stood your ground and you had a good point, he’d listen. Later, he was stressed and all the rest of it. He had a very good mind. He was a product of the 1930s Depression and you can’t get away from that and he had an impossible situation. We had this import control and that gave the trade unions almost a monopoly on policy. I knew a lot of the trade unionists and they weren’t prepared to accept that there were the problems in the NZ economy.

Q: You mentioned the extensive financial liberalisation in 1976 and 1977. Can you tell us about the role of the Prime Minister’s Department in that process.

A: When I joined the Advisory group in December 1975, Bernie Galvin the head of the Department handed me the Treasury Group to administer policies which I had spent the last ten years criticising. Bernie, whose contribution to New Zealand economic analysis at that time is reflected in their many s ignifi  cant developments and by 1984, of course, they came out with a strong paper, very liberal. The briefings weren’t meant to be published so they actually tell you what they think.

I was very dissatisfied with the conduct of New Zealand economic policy, as it lacked any strategic or philosophic substance. As a consequence I spent a lot of time thinking about it. He wanted me to make a political statement but that was silly unless you’ve spent quite a lot of time thinking about it.

Q: What was Muldoon like to work for at that period of his career and what was his attitude to professional economic advice? He was both the PM and the Minister of Finance.

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My own view is that in 50 years when they start looking at things less emotionally he’s going to get a lot better write-up, and the one that he deserved. He did a lot of major deregulatory things, the free trade area with Australia, Saturday shopping, and the monetary policy deregulation attracted world attention. We went from the most regulated to the one of more liberal financial markets in short order. Nobody’s perfect and he was a tough guy but he couldn’t stand sycophants. If you stood your ground and you had a good point, he’d listen. Later, he was stressed and all the rest of it. He had a very good mind. He was a product of the 1930s Depression and you can’t get away from that and he had an impossible situation. We had this import control and that gave the trade unions almost a monopoly on policy. I knew a lot of the trade unionists and they weren’t prepared to accept that there were the problems in the NZ economy.

Q: You mentioned the extensive financial liberalisation in 1976 and 1977. Can you tell us about the role of the Prime Minister’s Department in that process.

A: When I joined the Advisory group in December 1975, Bernie Galvin the head of the Department handed me the Treasury Group to administer policies which I had spent the last ten years criticising. Bernie, whose contribution to New Zealand economic analysis at that time is reflected in their many s ignifi cant developments and by 1984, of course, they came out with a strong paper, very liberal. The briefings weren’t meant to be published so they actually tell you what they think.

I was very dissatisfied with the conduct of New Zealand economic policy, as it lacked any strategic or philosophic substance. As a consequence I spent a lot of time thinking about it. He wanted me to make a political statement but that was silly unless you’ve spent quite a lot of time thinking about it.
writing a piece called “A Prosperous Mini State”. Before publication, I showed it to Gerry Symmans who was Muldoon’s press secretary. Gerry thought it was excellent but said it would displease Muldoon and ensure that I would not receive any of the financially rewarding sinecures which were granted by NZ governments to their supporters or to those who were guaranteed not to rock the boat. How true!

My paper was arguing for a change in strategy. I honestly believe a country needs a strategy. Everybody needs a strategy. That doesn’t mean to say detailed planning or pick your winners but you have to have some idea of what your priority is. “A Prosperous Mini State” had an excellent response. Derek Quigley, the leader of the liberal group in the National Party, told me he always carried a copy with him.

From then on until the 1984 election I had a very high profile and was seen as one of Muldoon’s chief public critics, in part because of my high TV, radio and press coverage. I was not the only advocate of a market economy. The Planning Council played a significant role. But I was among the very few in the firing line. Rod Deane, when Deputy Governor of the Reserve Bank, warmly congratulated me in a private letter for my courage in severely criticising Muldoon’s monetary policies.

It is usually forgotten that support for a market economy in New Zealand only became significant from around 1983. There was growing criticism of the mid 1982 freeze and increasing support for tough OECD policies (as in the US and UK) as they slowly began to show positive results in reducing inflation although at the cost of much increased unemployment. And the liberalizing moves by Keating and the new Australian government, including the float in December that year, also helped. Until then criticising the Think Big projects and other Muldoon policies received, contrary to current political folklore, remarkably little support - indeed quite the contrary.

Apart from Derek Quigley, Bob Jones asked me to be Chairman or Patron for his political party. I did lots of speeches; I addressed Labour party meetings, National party electorates, the Social Credit conference, accountants, Rotary and many others. I was rampaging around the country, like an Old Testament prophet saying repent.

Q: What changes were you observing in the Reserve Bank by this time?
A: It was becoming more like a central bank. They were publishing all these research papers and they had a very bright team of economists. I think it was a much more formidable place. I was nearly appointed deputy governor in 1977. I learned all this second hand but apparently it was between Dick Wilks, who was the Assistant Governor, and myself. At the meeting, the board members all wanted me but Noel Lough (secretary of the Treasury, and ex officio member of the Board) said – and he was a good friend of mine and I’m not criticizing him – he said, you know, if you appoint Len, it’s going to undermine the internal promotion prospects. In both the RB and Treasury, that was considered also immoral in those days. To bring me in would be so unfair to the rest of the guys. I wouldn’t have made a very good deputy governor, although I would have been better than Wilks.

Q: He later became Governor
A: Yes. He was one of the most brilliant guys I’ve met but he had no passion, really no commitment for the good of society, for the good of the Bank. He just cruised along. He was very able so he could cruise along. I think not putting Rod Deane in, although everybody criticises it, and giving Rod a bit more time to mature and get used to things, was the right move. I think putting in that guy Russell was actually quite good. Spencer Russell did much better than people thought.

Q: Everyone initially thought he was Muldoon’s man.
A: Yes, but he was a good bloke. People respected him. He looked the part and had a sort of gravitas. I think he was a good governor in very difficult times.

Q: You were closely associated with Roger Douglas in the period leading up to 1984. Tell us about that
A: Prior to his appointment as Minister of Finance, I had worked extensively for Roger Douglas as a consultant. This included writing many of his speeches, attempting to point out the futility of his proposed asset tax, discussing the current economic situation and suggesting what actions the Labour government should take on assuming office. I strongly advocated, in mid-1984, that following the coming election there should immediately be a major devaluation coordinated with very tough monetary and fiscal policies. Roger strongly disagreed, stating “that is the sort of action Muldoon would do”. Roger preferred a much tidier approach, that is, to implement a cumulative range of appropriate economic measures – that might be a very commendable policy stance in normal times but not in a major speculative crisis of the sort that unfolded over 1984-87.

Roger’s approach, presumably supported by Treasury and the Reserve Bank, proved a disaster as a major devaluation in a time of high inflationary expectations with only modest macro tightening was the primary cause of the massive share and property market boom which won the 1987 election for Labour but which, when combined with a much overvalued exchange rate, did enormous economic damage.

Roger asked me to be his office economist when he became Minister of Finance, which I turned down after a chat with Henry Lang. Roger also asked me to write Lange’s main speech at the 1984 Labour Party conference. Brian Edwards’s draft, full of caring phrases, won out.

Q: You were one of the most significant voices calling for a market-orientated approach to policy. But things haven’t turned out as well as hoped. “Prosperity Mislaid” is the title of your book. What went wrong?
A: When I arrived in NZ, nobody disagreed that the export sector was paramount. Organised labour agreed with it and all labour wanted was to get their fair share. And then when the terms of trade crashed in 1966, that dramatically changed the picture. And then they set up the NDC – National Development Council – I was on the Targets Committee, with people like Bryan Philpott. I think we produced a really good report, even if it was based on some, quite fictitious figures by Philpott. But what we said, in essence, was that we can’t rely on growth on pastoral products, we’ve got to develop a whole lot of other exports. And that was the basis of Muldoon’s economic policy. They looked at incentives which had a lot of support from some very august people.
Export manufacturing, tourism, fishing, forestry, all those got a huge boost under Muldoon. I think that was a really structured strategy which I helped to propose. I think it was absolutely right. It collapsed because they tried to solve the exchange rate problem by having a crawling peg, which just reinforced the entrenched inflationary bias.

Then we got the Labour party, they did the OECD or Volcker or whatever you like to call it thing. There was a liberalisation which I strongly supported. I’ve been arguing for it for years and I think I helped to bring it about. But none of us knew what was going to happen when we floated. We hadn’t really understood what the results were. I have to admit I didn’t. I observed the Australians floating and I think that determined the RB to float. I think they did it very successfully. But I didn’t realise, and a lot of other people didn’t realise, that the exchange rate is set by short term capital movements and interest rates and all that sort of stuff. So I think the micro was very good. There were a few things that were a disaster. Some privatizations smelt a bit, and they ruined the apprenticeship system. But by and large the micro was pretty good but the macro, they had a huge inflation. The money supply doubled in three years and that won them the 1987 election.

Q: That was the election when Labour almost won Fendalton and Remuera.
A: Yes, absolutely. It was the macro policy that won the election, but after that I got onto this whole business of the exchange rate. It seems to me that’s what you wrote about in your recent paper. I remember writing to John Stone who’d been very good to me in Australia when I’d gone across, saying that we hadn’t solved the problem. That marvellous woman from the World Bank, Anne Krueger, gave a lecture here in 1985 saying that if you deflate and liberalise, you’re releasing a whole lot of resources and you’ve got to have a competitive exchange rate to push those resources into the tradable sector. Otherwise you’re going to kill tradables. I’ve had long natters with Don Brash on all this.

We’re in a very difficult situation. If you ease up on monetary policy and get the exchange rate down, there’s all sorts of other things that happen. I think that, as you and a lot of other people say, if you push the economy to grow in non-tradables you absolutely stuff up the tradables. I think Don and I are still having arguments. I say that if we don’t solve this one, you condemn NZ, we’re just going to get nowhere. You’ve just got to get a high investing profitable tradable sector. Some argue that we do. You have to be pragmatic. So I’ve argued with Don we should introduce some sort of controls on short term capital flows. The politicians want to win elections so if there’s no growth coming from the tradable sector, you have to grow in the non-tradables sector, which is the housing thing, which everybody loves, funded by overseas borrowing, but totally non-sustainable. All along, I’ve been writing letters to Don Brash, to successive Ministers of Finance. I realise how difficult it is for the blokes in the firing line. I don’t think these are simple things but it’s a choice of which is the lesser evil.

In a nutshell I believe the RBNZ Act with its total focus on consumer prices is too rigid for a commodity-based economy. It has led to long periods of real forex overvaluation, has deterred action to restrain both asset inflation and the markedly excessive expansion of personal credit so damaging to personal savings. The Bank has been very dilatory in not strongly criticising large external deficits in a period of excellent terms of trade.

Q: You’ve put your emphasis on the supply of funds, but what makes people willing to pay such high interest rates?
A: It’s very interesting question. It’s intellectually challenging. The thing that pleased me was that you wrote that paper, it showed to me that the RB and Treasury were thinking intelligently about it and having a conference on such issues. The mindset is shifting. I remember Bill Birch saying to me when he was Minister of Finance, and I’m not exaggerating, that all government borrowing is bad, government deficits and all the rest of it, but private overseas borrowing is always good because the borrower or the lenders will make sure it’s used productively. I was told that was the mantra. That was also told to me by the senior people in the RB and the Treasury.

Q: I probably drafted a few of those sorts of lines.
A: They probably wouldn’t like to be reminded of them. But that was it. You couldn’t ask questions. The thing about Don Brash, we wrote quite a lot of letters and saw each other. We agreed to disagree. He was typical of an intelligent bloke but thinking it was going to come right. We’re doing the right thing, it’ll come right. But no.

Q: You’ve thought a lot about superannuation and savings policy over the years.
A: We’ve gone in circles. We almost got back to where we were in the 1970 when universal super was about 60% of the average age for a married couple and that’s around where we’ve got back to. We’ve been through all those permutations. I think we have the best super scheme in the world. I’m absolutely opposed to any forms of savings incentives. The main critics of the scheme are right wing politicians who want to get government expenditure down to 30% of GDP. They can’t do that unless they get rid of NZS. They might think that’s an exaggeration but I’ve been involved in this. But the worst group has been the financial organisations and they want to get their hot little hands on this money. [as in Australia?] Absolutely and make a fortune which they do.

A lot of the argument is built on a fallacy. We haven’t got a savings problem, we’ve got a savings allocation problem. The Cullen fund does nothing to safeguard superannuation. And as for this Kiwisaver, I mean, Michael Cullen, $650 million free and gratis to electors in election year. I’d abolish it tomorrow. I’m a great admirer of Michael Littlewood. I think he’s right on Accident Compensation and he’s right on super. I’d revert to pay as you go for ACC and I’d abolish the Cullen fund. It’s actually scandalous, according to the Treasury research, Kiwisaver hasn’t increased savings at all. But it’s straight politics. The financial sector has got far too much power.

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http://www.nzae.org.nz
Q: Tell us about your view of the appropriate regulatory structure and the way the financial system might work better.
A: It is hard. I’ve talked with a lot of people over the years - IMF people, banking regulators, insurance regulators and so on. I saw the two insurance commissioners in Australia, both experienced actuaries. They said no matter what statistics you’ve got from the insurance companies, they wouldn’t tell you if there was a disaster coming up. Much more important, back in the mid 80s I talked to the guy in the Federal Reserve who was responsible for monitoring the New York financial system. He had a big office, he shut the door and what he said was, this whole regulatory thing is really a bit of nonsense. He said the statistics are too late, for the investigators you need to have enormous skills, intestinal skills to spot when there’s something wrong. He said, “If I employ these guys and they’re really good, they’re snapped up by the banks. They’ll pay them twice as much as I can pay them”.

A lot of this regulatory stuff is a smokescreen. A certain amount of law is required but I don’t think lawyers really understand the way financial markets and institutions work. We need to put a lot more focus on ensuring that the data are available for institutions to monitor each other. Other banks are typically the ones who lose most when a bank gets into trouble. So what I think is that they should have monthly or quarterly statistics from everybody, not statistics to make lawyers happy or to make the economists happy but quick statistics that are designed for the risk people who are all watching the others like a hawk. Instead of having a 2000 page Act in the States and running around with all these lawyers doing things, if you could get very quick statistics designed not for policemen and lawyers but the risk analysis people. I don’t know if that’s in the least bit practical.

Q: What about systemic problems?
A: I’ll tell you about when I was the director of BNZ, before the big crash. I used to talk to all sorts of people and I had a friend in Citicorp and he said to me, you know, the Auckland branch of BNZ, they’re crazy. We get approached by people for money and we wouldn’t touch them but the next thing you know the BNZ is lending them money. People in the financial sector know what’s happening but central banks, regulators, they don’t know. There’s a huge amount of gossip, exchange of information, and there he was telling me that BNZ was in a real mess. I went back and said something to one of the senior managers in Wellington about this. He wasn’t going to have an economist telling him that.

The politicians have a problem: people want to think their money is safe and protected from crooks and nothing under the sun is going to do that, or to prevent banks getting into trouble. On systemic problems, I think that in NZ, the Reserve Bank is rightfully thinking about this. But when I was, sort of, in action, it never occurred to anybody that would happen. Now we’re all wiser. Go back to Greenspan. I thought he was being much too loose, and an economist, Taylor, made the same point. There’s that feeling that all was well. It’s very difficult to go against the conventional wisdom. I think now there’s a lot of in-depth thinking going on. I believe in having a great hunk of capital. I think that’s the first thing you should do.

I don’t know if you read that latest book on the Royal Bank of Scotland. You can’t believe you get a lunatic like that Goodwin running around. The financial sector is full of fashion. The banks do something, like they go like mad into lending to agriculture and then prices fall and suddenly they find they’re in a mess. Around here, they were giving 100% mortgages. When I advocated liberalisation, the banks were full of pretty conservative people. Twenty years later, their bosses are watching the share prices, the market share. They are paying the staff to sell products. It’s absolutely scandalous really. And it’s the law of unintended consequences which I’m very conscious of because I’ve advocated things and fought for them. When I fought for monetary liberalisation, I never ever thought that the banks would be doing the sort of lending they later did. The banks I worked for would never have done that. I’m not answering your question very well but systemic risk was just never mentioned. I don’t believe this too big to fail thing. I just do not believe it and I think, if you let somebody big fail and the shareholders lose a lot of money, everybody will be a lot more careful.

Q: It can be difficult for politicians to accept that logic in the middle of a crisis.
A: It is. I was absolutely opposed to the guarantee of all the finance companies’ deposits. I just thought that was crazy.

Q: You’ve commented several times on the poor quality of public debate in the past. Have things improved?
A: No. I think this is one of the big problems in NZ. If you go to Australia, the standard of economic debate and everything is miles higher. Every day I get the Australian Financial Review and the Sydney Morning Herald and there’s a constant stream of expert comment, people who know what they’re talking about. You can’t have that here because our papers are too small and they’re all losing money and they’re all going to disappear. I feel we have a very poor standard of economic debate. There is not very much you can do about the papers. When I first went on TV in the 1960s they used to give me 4 or 5 minutes on Budget, now they give you 30 seconds. Des Monaghan was my producer and you could actually talk.

The things I enjoyed were the bank reviews, the Lloyd’s Bank Review for example, the central bank reviews, full of articles of three to five thousand words on current problems. There’s nothing like that here. I still try to stay involved. A few years ago I put a lot of work into a paper called “Has NZ got a savings problem and if so, what should we have done about it?” I went down to the national accounts people and talked to them about it. I sent it off to the RB and Treasury, to the newspapers and the Minister of Finance, I didn’t even get a letter in return.

What we need is a middlebrow publication. I’d tried to start it several times with various friends. If you just get a quarterly where you can get articles written in ways that politicians and newspaper editors, top lawyers, top accountants, top businessmen can understand. I’d forbid mathematics from it. You’ve got to convince people who matter. I’ve done a lot of this stuff, you’ve got to convince politicians. I’ve worked for Douglas, I’ve worked for Quigley, I’ve talked to the Chairman of the Herald and I’ve talked to whole lot of other people, you have to keep on at it. It takes ages. The thing is, you can write to these papers and what do you do with them. There’s no place to publish it. If you’re going to achieve anything, you’ve
Most economists do not have the intestinal fortitude to face up to them. I do not blame or criticize them for that. However if you want to achieve major changes in a democracy, personal criticism and innuendos are a fact of life. “If you can't stand the heat get out of the kitchen” is very true. Your professional and personal reputation is constantly on the line, and there are invariably adverse financial consequences.

Q: I guess encouraging good quality public debate is a role think tanks play in other countries but we don’t really have those in NZ
A: No we don’t. As for the newspapers, Infometrics used to write a marvellous article every Saturday morning in the Dominion. And the Dominion canned them. I used to look forward to it. Writing these popular articles is awfully difficult, these professors don’t realise how hard it is to write 1000 words which is understandable for the general public and which is good economics.

Q: You spent a lot of time later in your career on corporate boards.
A: I’d been a great one, going out milking cows and working on the farms and all this sort of stuff, and going around factories, I felt that was really what a professional economist should do, in a central bank or a trading bank or a council. And I did it on a huge scale. I think it’s very interesting being a director. It’s a skill too. You learn a new trade. What I’m trying to say is that a board should be composed of a number of different perspectives. There are far too many lawyers and accountants on boards. And I think it is good to have a different view, and I think economists do have different views. I’m not saying it’s necessarily better, and it can be quite humbling. On the Board I was quite comfortable with some of the BNZ’s issues, only realising later how serious they were. The key job of a director is to monitor the performance of the CEO, hiring and firing him if he’s no good. Many of them don’t realise that’s their job - and some strategic thinking. A lot of Boards spend all their time looking at data and statistics. So I think having an economist on the Board is good. I’ve got a lot of respect for some of the people in the business world who are extraordinarily able, but there are some who are extraordinarily unable.

Q: Finally, it’s over 60 years now since you started as an economist but what advice would you give young people starting out a career in economics today?
A: Follow your interests and passions. I can honestly say that I’ve been passionately interested in this whole thing. I think it’s terribly interesting and satisfies me philosophically. I would say to all of them, economics is really good and there are so many bits and pieces of it. I think, if I wanted to be an applied economist, I suggest you go and get a job in Treasury or RB for 5 years just to see how things are done. When I went into Treasury, suddenly the world opened up to me, writing reports, Treasury reports for the government, answering queries from ministers, meeting with people, meeting with all the public servants. In Treasury in those days, there were probably only 7 or 8 economists, I gather there’s 100s of them now. You probably can’t know them all. We were a small, happy team and two rooms. It was a lot of fun. Economics used to be very friendly and then in 1984 it changed. It got a bit bitter. There was a tendency to really be very derogatory to the opposition and be ill-mannered about it. Anyway, that’s the way it goes.

Just one other thing I’d mention, take the opportunities to travel when you can. I’ve had 4 or 5 big overseas trips. I was terribly lucky to have a foreign government invite me over and take me around. I’d talk to some marvellous economists and talk to some very high level politicians. It was a marvellous education, just to get away from NZ and talk to very intelligent people. Probably the best guy I’ve ever interviewed was the chief economist of the Bundesbank. He came in, I sat opposite him and I don’t think he looked at me once. But he spoke for an hour and a half, talking about the German economy and it was the most brilliant discourse I’ve ever known. He just talked, non-stop. I know a good economist when I see one. He was brilliant. I thought the Germans had the best balance between social, environmental, cultural, economic policy. I was very impressed by them. It just seemed to me, it was marvellous to get away from NZ for a time.

Q: You get a very different perspective of your own country when you look at it from outside.
A: You do. And it makes you think, being able to discuss your problems with people who weren’t in NZ. We’re all shaped to some extent by domestic politics and culture, our background. It’s very interesting, I find it very helpful. I’ve been very lucky. I’ve had a lot of marvellous jobs. I haven’t got much money. I got to 65 and no pension. But I wouldn’t swap it for anything.
The NZIER Economic Award’s Operating Guidelines enjoin the Awarding Panel to “look for outstanding contributions to the advancement of economics and its applications in New Zealand”. To qualify for the Award, a contribution “must advance economic matters of direct relevance to New Zealand”. Population dynamics and migration flows have critical influences on the evolution of labour markets, on the volatility of business cycles and housing markets, and on regional and economy-wide economic growth and development. New Zealand’s economic history has been characterised by volatile migration flows, and by large internal migration movements that have had an important influence on the acquisition and loss of labour market skills, on regional development, the development of our cities, and on asset prices, particularly house prices. The recipient of the 2013 Award has, for more than 30 years, pursued the study of population change, economic aspects of migration, trans-Tasman migration and regional development, and has made important contributions that have dealt with “economic matters of direct relevance to New Zealand”.

His contributions to understanding population change and regional development have improved our understanding of the spatial dimensions of employment change, and of how demographic change and regional competitiveness are connected. He has developed stochastic models for regional population projections and models to support long-term regional planning. His research has improved our understanding of the relationships between international trade and migration, the labour market impacts of migration, the effects of migration on income growth and income convergence, the creation of relationship capital, and international travel. His research has significantly advanced our understanding of the determinants of trans-Tasman migration and its influence on labour markets and economic development in Australasia.

An outstanding feature of the work of this year’s recipient is that while his research has focused particularly on New Zealand, his work has attracted world-wide interest. He has held visiting positions in Australia, the United States and the Netherlands, and has twice been appointed Foreign Professor at the University of Tsukuba in Japan. He is an adjunct Professor in the Department of Spatial Economics at VU University Amsterdam, an associate of the Centre for Research and Analysis of Migration at University College London, and a Research Fellow at the Institute for the Study of Labor in Bonn. His empirical research is characterised by the application of advanced econometric techniques to answer questions of contemporary importance to demography and spatial economics. He is a leading international contributor to the development and application of meta-analysis and is himself one of the most cited economists internationally in his field. He is an elected Honorary Fellow of the Royal Netherlands Academy of Arts and Sciences and of the Academia Europae.

Throughout his career, he has invested in the development of the economics profession and provided effective institutional leadership. He has been a successful university teacher and supervisor of New Zealand and European graduate students. He is a highly respected editor of prestigious academic journals, is a section editor for the Springer Handbook of Regional Science, is on the editorial boards of several international journals, has been a tireless organiser of conferences and research workshops, and has been a referee for many of the leading academic journals in economics, demography and regional science. As Professor, and Director of the Population Studies Centre, at the University of Waikato he has played a key role in reinforcing the international standing of this important New Zealand research institution.

The recipient of this year’s award has, throughout his career, been an important contributor to forging links between the research community and public policy. His published work, and his frequent participation in expert groups established by, for example, the Department of Labour, Statistics New Zealand and the Treasury, have been influential in helping improve public officials’ understanding of population dynamics, migration and regional development.

The Awarding Panel was in no doubt that the recipient’s work is an outstanding contribution to the advancement of economics and its applications in New Zealand, and will be of long-term lasting importance.

Response by Jacques Poot
First of all, thank you very much for this great honour. When I read the citation I was overwhelmed by your kind words regarding my professional career in New Zealand and elsewhere. I am very sorry that I have to address you in this virtual manner. However, I am currently in the wonderful city of Amsterdam where I am conducting research on the economics of diversity at the Free University, called the VU here. And when you are seeing this video clip I am at a conference in Palermo on the Italian island of Sicily. The life of an academic economist is tough, but somebody has to do it!

It is here at VU University that I did my undergraduate and Masters’ study in econometrics. Thanks to Peter Nijkamp and other colleagues here, my Dutch alma mater never let me fully go and has given me particularly since the late 1990s opportunities to conduct from here various research projects, including the 2009-2013 Migrant Diversity and Regional Disparity in Europe (MIDREDIE) programme. I really enjoy this opportunity to have the best of the two opposite sides of the world, but Aotearoa New Zealand has been my real home for more than three decades now! My arrival in New Zealand was indirectly a consequence of the 1950s bilateral agreement between The Netherlands and New Zealand, which led to a wave of Dutch migrants. Several of my uncles and aunts were part of this group and they became successful dairy farmers in the Waikato. My father, however, was in charge of long-range planning at the Dutch airline KLM. In January 1960 we made our first trip to New Zealand to visit the relatives, taking three days by air from Amsterdam to reach Auckland.

However, three people were directly responsible for my lifelong commitment to New Zealand. The first was Peter Brosnan, at the time at Victoria University’s Industrial Relations Centre. He sent a flyer about doing a PhD at Vic to many places around the world, including Amsterdam. This flyer caught my eye and, while visiting the family in New Zealand in 1978 once again, I ended up in the office of Gary Hawke who, despite having rather little verifiable information to go on, trusted his instincts and offered a junior lectureship. The third person who made me a New Zealander is my wife Heather whom I met a few months later.

One of the amazing things about New Zealand is the approachability of outstanding people. Stars like Sir Frank Holmes, Henry Lang and Bryan Philpott were actually willing to talk to me while I was the most junior person in the Department. They instilled an interest in the kind of economics that New Zealand needed: policy-relevant and evidence-based. Having learnt econometrics in the rigorous Tinbergen tradition in the Netherlands, they and my other Vic colleagues – too many to mention each individually – taught me to apply these techniques to issues that mattered, already mentioned in the citation.

My interest in population issues led to an appointment on the Population Monitoring Group of the New Zealand Planning Council and the privilege of working with a number of outstanding population experts, including Ian Pool, Richard Bedford and Peggy Koopman-Boyden. The opportunity to renew this PMG kind of work was in no small way responsible for accepting an offer by Waikato University to become Director and Professor at the Population Studies Centre there in 2004. However, I must thank Natalie Jackson, the current director of Waikato’s National Institute of Demographic and Economic Analysis (NIDEA), for giving...
me the opportunity to conduct large research projects with relatively few administrative distractions. One of these large projects deserves mention: the fruitful collaborative work on immigrant integration and on regional development jointly by NIDEA and by Paul Spoonley and his colleagues at Massey University, sponsored by MBIE. I also thank the Waikato Economics Department for giving me the opportunity to teach the things I am most passionate about.

There are two aspects of my current research that I would like to briefly share with you. The first has to do with the tools of the discipline. I started my economics in the difficult 1970s when the label “dismal science” for economics was repeated over and over again. This term was first coined by Thomas Carlyle in the 19th century and is often linked to Malthus’ gloomy prediction of the unsustainability of population growth. Economics has gradually again become increasingly optimistic and exciting, with many new developments due to an explosion of data, convergence with other disciplines such as psychology, huge advances in our understanding of monetary matters, the framing of tricky policy evaluations in designed or natural experiments, and meta-analysis.

There used to be a saying that if you ask 10 economists in a room a simple question you get 10 different answers. Meta-analysis tries to explain why these answers, at least if they are research based, are different and typically formulates a multivariate regression model that shows how different findings are at least in part the result of differences in data and methods. There will always remain unexplained differences but often broad and robust conclusions can be drawn. Compared with a narrative literature review, meta-analysis also has the advantages of complete transparency and replicability. One example is a meta-analysis I carried out jointly with Peter Nijkamp of the impact of different types of fiscal policy on long-run economic growth, published in the 2004 European Journal of Political Economy. We analysed 123 different estimates obtained from 93 studies from all around the world. Our conclusion was that there are few robust results in this area but that in broad terms there was convincing evidence that education and infrastructure expenditures raised long-run growth rates. I accept that this may be neither surprising to you nor very helpful to a Treasury concerned with exactly what kinds of education and infrastructure to spend money on, issues that require further primary and meta-analysis. However, our results are completely replicable and very recently Bob Reed and Nurul Sidek of Canterbury University did precisely that. After being able to replicate every number in our paper, with the exception of a possible typo, they revisited each of the original studies and did a number of additional statistical analyses. In the end, their finding is that qualitatively the original conclusion still stands. I have also conducted meta-analyses on a range of other topics, particularly in terms of the impact of immigration on labour markets and international trade, the impact of unemployement on local wages and the effect of declining fertility and an increasing share of older people on national savings. This brings me to the second topic of current research, which is the impact of population growth on innovation and productivity.

Here meta-analysis comes together with a range of new primary datasets ranging from as big as a panel of 149 countries down to specific workplaces in the Netherlands, Germany and New Zealand. The three main messages from all of this research are very simple: firstly, the way in which population affects the economy in intricately related to the ways in which population affects capital in a broad sense, including technology and networks. If capital responds favourably, population growth will either have a neutral or slightly positive effect on productivity. Secondly, population composition matters much more, and differently, than size. Thirdly, in our open and interconnected world, population change is highly endogenous and very hard to target through policies.

I would now like to acknowledge the presence of my son Martin among you, a Masters student in oceanography at Waikato University, who has agreed to accept the award in my absence. None of my three children majored in economics but I don’t think I failed as a father. I thank them and my wife Heather for their love and support when my work required them to make various places around the world their temporary residences. I close with thanking the NZIER Board and the selection panel once again for this great honour and wishing you a very pleasant evening.

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THE FIVE-MINUTE INTERVIEW WITH…

JACQUES POOT

1. When did you decide that you wanted a career in economics?

While I was doing my Masters in The Netherlands, I was employed as a research assistant and that kindled my interest in doing a PhD. Family connections brought me to New Zealand and a junior lectureship at Victoria University started my fulltime career in economics.

2. Did any particular event or experience influence your decision to study economics?

In my last year at school I was not sure what to study. My mathematics teacher recommended econometrics as something challenging, but with good job prospects (econometrics is taught in The Netherlands as a separate degree, together with operations research and actuarial science).

3. Are there particular books which stimulated your early interest in economics?

There were several books written by the Dutch economist Arnold Heerdtje (but many of these books were never translated into English). In econometrics, Henri Theil’s 1971 Principles of Econometrics was for us the “bible”, even as undergraduate students.

4. Did any teachers, lecturers or supervisors play a significant role in your early education?

In the Netherlands, the work of 1969 Nobel Prize (co-)winner Jan Tinbergen on model-driven policy analysis was emphasized a lot and shaped my thinking. I had the privilege of meeting Tinbergen. In New Zealand, I learnt a lot from many of my Victoria University colleagues while doing my PhD.

5. Do you have any favourite economists whose works you always read?

Given my broad interest in population, labour, regional and growth economics, I like to read new research by leading scholars like Glaeser, Borjas, Card, Ottaviano, Peri, etc. Recently, I have really enjoyed reading Acemoglu and Robinson’s book “Why Nations Fail”.

6. Do you have a favourite among your own papers or books?

The 1988 book “International Migration and the New Zealand Economy”, jointly with Ganesh Nana and Bryan Philpott, is something I remain particularly proud of. At the time, Australia and New Zealand were way ahead in thinking about the economic impacts of immigration, compared with North America and Europe.

7. What do you regard as the most significant economic event in your lifetime?

For better or worse, the creation of the European Union and the introduction of the euro. Of course, the politics pushed the latter project a lot further geographically than sound economics would have recommended, but despite the North-South differences and current problems the benefits have been huge as well.

8. What do you like to do when you are not doing economics?

Dining out with my wife, watching action movies with my son, visiting new places and my daughters in the UK, cycling (but only when the landscape is fairly flat), and relaxing on our small lifestyle block.
Migration seems to be a perennial topic – a political football even. Should we have 15m Kiwis? Should we cut immigration to improve housing affordability? Should we prevent returning expats from buying a house? For a very readable race through why international migration improves the lot of those who move, those who stay and those who receive I recommend Robert Guest (2011) Borderless Economics: Chinese Sea Turtles, Indian Fridges and the New Fruits of Global Capitalism (New York: Palgrave Macmillan).

The take home message: “migration is an opportunity – not a threat.” Politics, economics and culture all merge here. Sea turtle in Chinese (海龟) is a homophone of the term for a student returned from overseas study. Guest argues they will eventually undermine the Communist Party and liberate their homeland for democracy. And should you be wondering about Indian fridges, Guest recounts the story of Indian ex-pats trained in engineering and business in the USA linking up with local entrepreneurs to make “Chotu Kool” – a low cost, cold box for Indian villagers – a product of migration and the networks that follow.

Furthermore Guest argues that developing countries benefit from the export of their talented well educated citizens, and not solely through the obvious channel of remittances. Incentives matter and the prospect of migrating leads to greater investment in human capital, increasing the demand for better quality tertiary education leading to wider benefits. And not all those graduating will in fact leave – so despite the massive exodus of well trained Filipina nurses, the Philippines has more nurses per capita at home than Austria!


The author does not disappoint – after all he has to get the economic history of the world crammed into 377 pages. He starts with the “fact” that the average person in 1800 was no better off than the average person in 100,000 BC. The living standards of most of humanity in 1800 was little different from those of cavemen. What will strike most modern students of economic growth and development is Clark’s rejection of the concept that “institutions matter.” Did Adam Smith get it wrong? Clark argues that successful economic growth reflected the spread of values of hard work, patience, honesty, rationality, curiosity and learning from the rich and economically successful (who happened to be more fecund) to the broader middle classes.

“As long as we can find examples of Malthusian societies, like medieval England, which were fully incentivised yet witnessed only the glacially slow preindustrial pace of technological change, then formal institutions cannot be the cause of the long Malthusian era in the simple way that most economists routinely imagine” (p. 164).

But one is left wondering if the creation of an environment in which such values flourish is really totally divorced from the institutional structure. Whatever credence one gives to the basic premises, the book is still most readable and stuffed full of anecdotes and economic trivia; we are told how long it took for news from far flung corners of the globe to arrive in England, and that the homicide rate in Neolithic France was 1.4 per thousand. But do a thousand anecdotes make a credible theory of economic growth? The reader will have to decide, while enjoying a “good read.”

More money for R&D so we can all become wealthier and happier; that is the essence of Shaun Hendy and Paul Callaghan (2013) Get off the grass: Kickstarting New Zealand’s Innovation Economy (Auckland: Auckland University Press).

The fundamental proposition of this book is that the New Zealand economy has not performed to expectations. The book has a catchy title (although it has nothing to do with marijuana!). It argues that our economic future will only be rosy if we move away from our primary based, export led economy. The authors make the case that we can improve our economic growth through science and innovation. They rightly identify that in the long run, new knowledge and innovation are the key elements that underpin improved productivity, increased real incomes and higher living standards – and that this applies across all countries.

They start with the usual and somewhat dismal litany of our economic woes. The net result is well known - we have slipped behind (except for the 400,000 or so of us who shot through to the West Island).

The heart of their story is a most interesting chapter on innovation ecosystems. Drawing on the theory of complex systems the authors describe the role of networks and clusters in the generation of ideas and the process of innovation. Collaboration and interconnectedness are seen as key factors governing successful, innovative economies. We are small and distant – but if we could start acting as a “The City of Four Million People” (the title of Chapter 7) then we might in some way emulate the large and productive innovation systems of countries whose performance to which we aspire. This would help us get more bang for the research buck, through joining forces rather than all competing from the same pool of funding.

There is certainly a case to be made that early reforms of the conduct and funding of research placed excessive weight on using competitive forces to ensure efficiency and create dividends for the Crown as a shareholder. I have long argued that diverting world class ruminant physiologists, who lacked the entrepreneurial nous to run a garage sale, into competitive funding and research management roles did little to enhance the productivity of our innovation system.

My take is that this is a good read, but woefully short on the economic payoff to investment in R&D. In the end one is left with the feeling that even the mildest of cynics will regard this book as advocacy for more funding by the self-interested. Furthermore, given the repeated history of calls to increase science funding, there would seem to be very possibility that, ten or twenty years from now, the same book with the same pleading might well be written. The real tragedy is that Sir Paul is no longer the eloquent, articulate and forceful advocate for the cause.

How do we make decisions? There can be few if any others on the planet that have spent more of their research lives on this question than Daniel Kahneman and Amos Tversky. After the award of the Nobel Prize in Economics (2002), Kahneman’s work is on every planet that have spent more of their research lives on this question than Daniel Kahneman and Amos Tversky. After the award of the Nobel Prize in Economics (2002), Kahneman’s work is on every serious course reading list for decision theory and behavioural economics. In a recent book dedicated to Tversky who died in 1996, Kahneman takes the reader through his own journey of discovery. Daniel Kahneman (2011) Thinking Fast and Slow (London: Penguin Books).

The two central characters of the book are System 1 (fast, associative, intuitive, impressionistic) and System 2 (slow, deliberate and effortful). We switch between these depending on the problem to be addressed. Kahneman also develops the notion of our “experiencing selves” and our “remembering selves.” At every point he reports on a myriad of fascinating experiments to provide the evidence for his arguments and to test hypotheses. But all hard core neoclassicists among you, dear readers, be warned:

“The evidence presents a profound challenge to the idea that humans have consistent preferences and know how to maximise them, a cornerstone of the rational-agent model” (p.385).

And a further warning – this volume is 418 pages in which must be font size 4, reducing to 2 for the appendices. I confess I am still working on it. In particular, one asks: and what is the contribution of this to public policy making (beyond a few well worn examples trotted out from behavioural economics)?
Economics and politics

Geoff Harcourt sees a crisis in mainstream economics. In a lecture he is critical of the approaches which focus on market failure whereby it is assumed that, “the removal of such imperfections in real world happenings would usher in the world of Dr Pangloss” (Harcourt, 2010, p. 49). He concludes:

“A person from Mars would be hard put to find much if any resemblance between the theory with which he/she was presented and the world with which he/she was confronted...[B]y and large, it neither makes sense of what has happened or of what should and could be done about it.” (Harcourt, 2010, p. 50)

Similar concerns have been voiced by many economics students, most recently at the universities of Manchester and Essex. The lecture focuses on competing theories, with proponents of each theory claiming to be right, while the others are wrong. This highlights a major limitation of mainstream economics (along with much heterodox and pluralist economics and other social sciences also). Explanations are given within a theoretical framing, with it then being presumed that findings can be directly applied to the real world. It is this last step that is most problematic. Any theoretical frame can be no more than an analogy (of whatever quality) for the real world. A more nuanced understanding requires consideration of additional aspects, and perhaps a combination of insights drawing on several theories.

Harcourt notes that Keynes was more circumspect, and Dow (2012) has emphasised his call for additional reservations, qualifications and adjustments. However, many of Keynes’ refinements proved inconvenient and so were largely ignored (a not uncommon occurrence in the development of ideas).

Following the currently dominant convention, a recent conference in Wellington on Competition Matters also had a sub-text of market failure distorting a potentially ideal allocation of resources. This is not surprising, given that prevailing theory claims a universality of relevance and a view of an “ideal” economy/society that allows for recommendations on a wide range of policy questions. Mainstream economics is notable for assuming that a purely economics perspective is sufficient to describe the real world, or at least that economic factors can be considered to be independent of other considerations. This, along with the high status given to markets, is the basis for much of the criticism that economics receives.

Perhaps economists should be asking whether it is at all possible to understand the economy without regard for the political dimension. A recent series of presentations at Massey University by military and diplomatic personnel addressed the issue of irregular warfare. They indicated, not surprisingly, that decisions to participate in various activities so as to improve its chances of obtaining a seat on the UN Security Council (http://www.nzunsc.govt.nz). The candidature is justified in part through benefits and costs described as follows:

“Small countries like ours depend more than on strong multilateral institutions. The UN is our best mechanism for addressing serious global issues that impact on us and other small states. We are a voice for peace and also a committed multilateral player, willing to bear real costs to participate in peace operations in Africa, Asia, the Middle East and the Pacific.” [From: http://www.nzunsc.govt.nz/who-we-are.php]

A speaker described one of the benefits from the Rugby World Cup as it being a dry run for NZ’s counter-terrorism capability. This then has resulted in an international contribution in terms of sharing expertise gained. This occurs through vehicles such as APEC’s Major Events Security Framework (http://aimp2.apec.org/sites/PDB/Lists/Proposals/DispForm.aspx?id=1336).

It is seen that certain forms of expenditure may buy political currency, which can then be spent for political and/or economic benefits. Given this dimension, we should not think of economic activity and economic benefits in isolation. Economics and politics are closely interlinked. In fact, one justification for the deregulation phase from 1984 onwards was that businesses had to learn to focus their activities on understanding the market rather than attempting to make gains through lobbying.

Some additional points about politics and law arose at the Competition Matters conference. There are now global economic issues, but laws are made by and relate to particular jurisdictions. Would laws made by a country be beneficial on a global scale? Alternatively, should global laws be used? If so, how can we know that these are representing global interests rather than interests of certain subgroups within our global community? In other words, how well do political institutions represent the interests of the population, and can representative global institutions be constructed? Jurisdiction in international matters is a longstanding issue, but with globalisation we are getting increasing interaction across countries and it’s not so easy to isolate the effects within particular countries. At the same time, if we accept that there are common global laws that will apply, this is reducing individual sovereignty. It may be thought that there is a certain loss of power as a result, or devolution of power to international organisations that may be controlled by the politically strongest or perhaps the economically strongest. So there are problems with the idea that we can view the world solely in terms of economic transactions, and in terms of competition and competitive markets as if this fully defines the important aspects to consider. This is one of the reasons why economics students around the world are increasingly unwilling to accept the framing of issues presented in our dominant textbooks.


It has been suggested, for example, that New Zealand has taken part in various activities so as to improve its chances of obtaining a seat on the UN Security Council (http://www.nzunsc.govt.nz). The candidature is justified in part through benefits and costs described as follows:

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1 Dr Pangloss is a character in Voltaire’s Candide who, despite all evidence to the contrary, believes his is in “the best of all possible worlds.”

The death of Ronald Coase has been noted in many economics and legal blogs. Legal scholar Richard Epstein writes that Coase was not “smart” but he was brilliant <http://ricochet.com/main-feed/Ronald-Coase-One-of-a-Kind>. For Peter Boettke Coase was a masterful economist. He was a champion of basic economic reasoning pursued persistently and consistently, and for an appreciation of real-world institutional diversity and its implications <http://www.coordinationproblem.org/2013/09/ronald-coase-and-comparative-institutional-analysis.html>. David Henderson portrays Coase as “The Man Who Resisted ‘Blackboard Economics’ “ <http://www.hoover.org/news/daily-report/155671>. Rupert Darwall argues that Coase was Britain’s greatest economist since John Maynard Keynes, but notes that in many ways their economics were complete opposites <http://www.cps.org.uk/blog/q/date/2013/09/05/the-genius-of-ronald-coase/>. As to the Coase Theorem, Coase said in an interview with Russ Roberts, “I don’t like it because it’s a proposition about a system in which there were no transaction costs. It’s a system which couldn’t exist. And therefore it’s quite unimaginable.” <http://www.econtalk.org/archives/2012/05/coase_onextern.html>.

A Canadian goes controversial when Chris Auld <http://chrisauld.com/> outlines “18 signs you’re reading bad criticism of economics”. Auld argues that “economics cranks” make false claims about the content of economics itself, as opposed, or as a prelude, to making false claims about the way the world works. <http://chrisauld.com/2013/10/23/18-signs-youre-reading-bad-criticism-of-economics/>. On the local front the views of Geoff Bertram and Gareth Morgan have generated controversy on economics blogs. At “The Dismal Science” <http://sciblogs.co.nz/thedismalscience/> blog Eric Crampton gives a summary of the responses on New Zealand’s economics blogs to Geoff Bertram’s idea that the government cease awarding contracts to companies where the highest-paid worker earns more than three times the lowest paid worker. No one seems in favour <http://sciblogs.co.nz/thedismalscience/2013/07/25/wage-differences-and-inequality/>. Meanwhile Garth Morgan’s views on North Korea have also generated comment. Matt Nolan at the TVHE blog <http://www.tvhe.co.nz/> finds it odd that Morgan would praise the economic policies of North Korea given that the same North Korea that through central planning and mismanagement had starved a large number of its people throughout the 1990s, the same North Korea with an epidemic of meth addiction, the same North Korea that is 163rd on GDP per capita and the same North Korea that openly and massively restricts individual freedoms <http://www.tvhe.co.nz/2013/09/02/how-exactly-should-the-west- rethink/>. At the Offsetting Behaviour blog <http://offsettingbehaviour.blogspot.co.nz/> Eric Crampton also comments on Morgan’s statements noting that Morgan’s comment that the North Koreans with whom he spoke were wonderfully well-informed is problematic given that it’s unclear what that means in a place where preference-falsification is a necessary survival characteristic <http://offsettingbehaviour.blogspot.co.nz/2013/09/tiki-tours-and-useful-idiots.html>. Crampton also comments on Morgan’s view of the North Korean’s diet <http://offsettingbehaviour.blogspot.co.nz/2013/09/in-praise-of-north-korean-diet.html>. The recent living wage idea also receives attention on the local blogs with Eric Crampton saying that that there wouldn’t be much change in aggregate employment with a living wage applied only to government workers and contractors but also noting that there would be job rationing with more people wanting to work in the public sector than there are available jobs <http://offsettingbehaviour.blogspot.co.nz/search?label=living%20wages>.

Donal Curtin gives an overview of the idea that there should be a single buyer for electricity in New Zealand at the Economics News blog <http://economicsnz.blogspot.co.nz/2013/08/a-single-buyer-for-electricity.html>. First he looks at why electricity policy changes have reared their head in the first place. The substantial rise in real electricity prices paid by households over the past 16 years being a possible reason. Next the question of whether the single buyer idea is used by a decent range of other countries, is asked. Short answer: no. Then it is noted that none of the various ways in which a single buyer might theoretically work out better than the wholesale market look like a goer. Next, Does an oligopolistic generator have the ability to sustain excess returns? Again, no. Overall, the single buyer idea didn’t have much going for it <http://economicsnz.blogspot.co.nz/2013/08/a-single-buyer-for-electricity.html>.

Matt Nolan over at “TVHE” <http://www.tvhe.co.nz/> points out some problems with the RBNZ’s justification for its restriction on highly leveraged home loans - the Loan-to-Value Ratio regulation. It isn’t the RBNZ’s job to protect potential homebuyers from price fluctuations; it’s awfully strange for RBNZ to suggest that they could be providing such a benefit to first-home buyers by making it too hard for them to buy houses <http://www.tvhe.co.nz/2013/08/21/rbzn-misstep-on-acprudential-policy.html>. At “Groping towards Bethlehem” <http://gropingtobethlehem.wordpress.com/> Bill Kaye-Blake points out that taxes don’t mechanically change behaviour. You don’t pull a tax lever here and have exactly the effect you think you will over there. Life is messy, people are complicated, and prices are just another variable. He is commenting on a paper in which the authors look at the impact of beer taxes on child abuse. The dependent variable is the probability of severe violence against children, and the main independent variable is the state tax on beer in the United States. What they find that the tax on beer significantly and sizeably reduces the probability of abuse by women but for men the parameter is nearly zero for 1976 data (in the full model) and is positive and large in 1985. That is, higher beer taxes lead to child abuse; sort of. <http://gropingtobethlehem.wordpress.com/2013/08/26/sin-taxes-arent-mechanical.html>.

Taxing goods purchased via the internet is in the news again and in response Eric Crampton has put forward “A modest proposal for internet tax parity” in an effort to remove all possible distortions caused by the taxation of goods <http://offsettingbehaviour.blogspot.co.nz/2013/10/a-modest-proposal-for-internet-tax.html>. It is a reminder that “taxes” come in more than one form.

And to end, some good news. At last you have the opportunity to enjoy an “Economics themed beer: Hopportunity cost IPA” <http://www.tvhe.co.nz/2013/09/24/economics-themed-beer-hopportunity-cost-ipa/>. Beer and economics, what’s not to love?!
FINE LINES: NEW ZEALAND’S PRODUCTIVITY STORY

By Paul Conway and Lisa Meehan¹

The source of GDP per capita differences: Gap expressed as % of the average of selected OECD countries

Source: Conway & Meehan (2013)
Notes:
1. Based on OECD countries with the necessary data from 1970 to 2010, namely: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Netherlands, NZ, Norway, Spain, Sweden, Switzerland, Turkey, UK and USA.
2. To facilitate international comparison, labour productivity is measured on an economy-wide basis.

“Productivity” is our middle name here at the Commission so it’s no surprise that we picked this graph. It shows New Zealand’s GDP per capita and its proximate sources – labour utilisation (hours worked per capita) and labour productivity (GDP per hour worked) – all relative to OECD averages.

What does it tell us? New Zealand used to be a high-income country with GDP per capita well above the OECD average up until the mid-1970s. From there, GDP per capita fell compared with the OECD in two distinct episodes – a 20 percentage point fall in the late 1970s and a further ten percentage point fall over the late 1980s and early 1990s. The first was influenced by poor labour productivity while the second reflected a precipitous drop in hours worked per capita, relative to the OECD average.

New Zealand’s economic performance has improved since then and GDP per capita has broadly stabilised at around 20% below the OECD average. Strong growth in hours worked per person has been the main reason for this performance improvement. It is unfortunate that, in contrast, labour productivity has maintained a long slow decline vis-à-vis other OECD countries.

This employment increase has involved lower-skilled and less-experienced workers entering the labour force (Szeto & McLoughlin, 2008) and a disproportionate amount of the growth has gone into low-productivity service industries. So this could have pulled down New Zealand’s overall productivity performance.

The IMF recently published some interesting work on a negative cross-country relationship between employment growth and productivity growth (Michelis, Estevão, & Wilson, 2013) and New Zealand certainly fits this pattern.

Strong employment growth has been important for lifting average incomes and wellbeing in New Zealand. But looking to the future, there are natural limits to hours worked per person and working smarter is generally preferred to working harder. So productivity improvements are ultimately necessary if our incomes are to grow.

On the face of it, New Zealand’s productivity performance post the Global Financial Crisis compares well with other countries. But over the longer term, the story is one of persistent divergence in labour productivity compared with the OECD average. New Zealand has the dubious distinction of being one of the few OECD countries with a low level of productivity in the 1980s and low subsequent productivity growth.

It is clear from the graph that low GDP per capita in New Zealand overwhelmingly reflects a labour productivity problem. Understanding the causes of this problem and the role of policy in turning it around should be a key concern of the New Zealand economics profession. Instead of just keeping up, how do we catch up and return to the upper echelons of the OECD GDP per capita rankings?

References
MITIGATION AND HETEROGENEITY IN MANAGEMENT PRACTICES ON NEW ZEALAND DAIRY FARMS

Suzi Kerr

A new Motu Working Paper uses data on 264 New Zealand dairy farms to estimate the extent to which improved farm management using existing technologies and practices could potentially reduce farms’ greenhouse gas emissions and nitrogen leaching efficiency. It suggests that, as less efficient farmers move towards existing best practice, nitrogen leaching could be improved by more than 30% and greenhouse gas emissions by more than 15% per unit of production.

There is a growing awareness among New Zealand farmers, consumers, and local and national governments that nitrogen leaching and greenhouse gas emissions from agriculture produce adverse environmental effects. Nutrient (N) leaching from agricultural land is recognised as contributing to poor water quality in developed catchments like Lakes Rotorua and Taupo, and greenhouse gas (GHG) emissions are responsible for nearly half of New Zealand’s total emissions. However, the cost of mitigating N leaching and GHG emissions is still unclear, and existing research on mitigation tends to focus either on the costs of new technologies or on simulation modelling at the farm scale. These approaches are both highly speculative, since neither uses data from actual implementation of technologies and practices on real farms, and limited, since they largely treat farms as homogenous when, in fact, they vary greatly.

A recent Motu paper takes a different approach in response to these limitations by focussing on mitigation from improved farm management. There is evidence of a wide range of efficiency in terms of GHG emissions and nutrient leaching per unit of production. Where differences in production efficiency between farms are driven by management, rather than by intrinsic characteristics of the farm such as location, topography and soil, encouraging less efficient farmers to adopt the farm management practices of the more efficient farmers is a potential mitigation strategy.

The paper uses data on 264 dairy farms to estimate a distribution of farm management residuals in how efficiently N leaching and greenhouse gases are used to generate production. We interpret this distribution as a measure of the potential for feasible, relatively low-cost mitigation to take place as less efficient farmers move towards existing best practice. The paper draws on annual farm-level data from MAF monitor farm reporting and estimates of N leaching and GHG emissions for those farms calculated from reported farm characteristics and management practices using the OVERSEER model.

We can explain only 48% percent of the OVERSEER-modelled variation in New Zealand dairy farms’ N use efficiency based on geophysical factors (such as soil type and rainfall), specific mitigation technologies (such as the use of N inhibitors), and practices that simply move emissions across farms (such as wintering off animals). This suggests a potentially large role for management factors and farmer skill. In contrast, we can explain 73% of the OVERSEER-modelled variation in GHG use efficiency based on geophysical factors and specific practices.

Caution is required when interpreting these residuals. By controlling for observed factors, our intention is for the residuals to capture use efficiency due to farmer skill and management. There are two key reasons why this may not be true. First, the residuals may include measurement errors and the effects of unobserved factors that cannot be managed by farmers. Second, in some cases there may be an existing correlation between the observed variables and farmer skill and management. For example, if newer, more sophisticated farms with skilled farmers tend to be concentrated in the South Island where temperatures are lower, the temperature will appear to have a larger effect on use efficiency than is justified biophysically and the effect of the highly skilled and resourced farmers on that land will be underestimated.

However, the potential for mitigation through management changes is still not insignificant. Using management practices that are already in commercial use, improvements in N use efficiency may be able to reduce leaching by more than 30 percent, while improvements in greenhouse gas use efficiency may be able to reduce emissions by more than 15 percent; the potential varies significantly across farms. These gains may be realised at relatively low cost given that improvements in use efficiency are associated with greater cash operating surplus per hectare for farms, but adoption of N and GHG efficient practices will take time and may require training and other assistance.

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The Sector Performance team of the Ministry of Business, Innovation and Employment (MBIE) recently released a new tourism data collection called the Regional Tourism Estimates (RTEs). The RTEs provide stakeholders with absolute dollar estimates of both domestic and international tourism expenditure at a detailed regional level. The RTEs use a world-first combination of data sources and modern statistical techniques and can be disaggregated by regional council, territorial authority, Regional Tourism Organisation (RTO), product, and by visitors’ country/region of origin. Such information was not previously available to regional stakeholders in the tourism industry in New Zealand.

**Rationale and background**

MBIE developed the RTEs as part of the Tourism Data Improvement Programme implementing the Tourism Domain Plan 2011 - the overarching strategy that sets out the development of regional tourism statistics as one of its top priorities.

In the absence of the RTEs, tourism stakeholders had access to tourism statistics only from surveys such as the International Visitor Survey (IVS) and the Domestic Travel Survey (DTS). However, these surveys are designed to provide tourism statistics at the national level, not at a regional level.

Since December 2012, regional tourism stakeholders have also had access to the Regional Tourism Indicators (RTIs). These are updated monthly and are based on face-to-face electronic card transactions data. However, the RTIs cover only 70 percent of international tourism card transactions and only about 20 percent of domestic tourism card transactions. Cash and online purchases are not included. Due to this limited coverage, MBIE is only able to release the RTIs in index form.

While the RTIs provide reliable information on trends and change in tourism expenditure, by each origin country (from the IVS). This allows MBIE to control for different propensity to use card transactions by tourists from different countries, and on different products.

The total RTE international tourism expenditure by product matches Table 7 of the 2012 TSA. However, the total international tourism expenditure by visitors’ country of origin is more than the IVS total. The TSA draws on more sources of data than the IVS, so the IVS country totals are scaled up to match the TSA before the IPF procedure is begun. The end result can be seen in the final RTEs on the MBIE website by producing a cross tabulation of product by origin country for any specified year, and comparing the product totals to the TSA.

**Assumptions**

In the derivation of the RTEs, MBIE’s Sector Performance team made the following assumptions:

- The weights by the visitors’ country of origin can be meaningfully applied across different destination regions. In other words, the propensity to use electronic card transactions by product and by visitors’ country of origin is assumed to be similar across the different destination regions in New Zealand.
- There is no interaction between visitors’ country of origin and product propensity to use electronic transactions. For example, the weighting method takes into account that Japanese are, in general, less likely to use electronic means of making transactions than the Australians. It is assumed that this difference is the same for each different type of tourism product.

**Analysis and results: Some examples**

MBIE has made the RTE data available to users on its website in the form of an Excel pivot table and pivot chart. Users can download the data and perform their own analyses as they desire. Figures 1, 2 and 3 show examples of the type of analysis that can be done with the RTE data.

Figure 1 shows the level of tourism expenditure across various regions in New Zealand by product. Tourism spend, both domestic and international, were the largest in the bigger cities such as Auckland, Otago, Canterbury, Wellington and Waikato.

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1 This paper uses the term “product” instead of “industry” for consistency with Statistics New Zealand’s Tourism Satellite Account (TSA) and MBIE’s International Visitor Survey (IVS).
Figure 2 is a map showing the annual average change in international tourism spend between 2009 and 2012 across all RTOs in New Zealand. Figure 2 suggests that the international tourism industry in the South Island has been more adversely affected than the North Island in this period.

Figure 2: Average Annual Change in International Tourism Spend by RTO, 2009-2012

Figure 3 is a biplot showing the first two principal components of a cross tabulation of tourist spend by product and origin country, scaled for the analysis so each origin’s product preference is comparable. It has been calculated at a national level, but could easily be done for individual destination regions. It reveals, for example, the tendency of China, Rest of Oceania and Korean spend to focus on “other retail” products compared to other markets; Germany’s relatively high spend on accommodation and transport; and several other origin-specific focus on products.

Figure 3: Different product preferences for different international origin markets in New Zealand

The RTE production, and analysis in this paper, is done using the statistical package R.8


Further information

For further assistance, please contact either:
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Ongoing developments at Statistics New Zealand over the last decade have made increasing use of linked data. An early development in this area was the creation of the Linked Employer-Employee Data (LEED), based on wages and salaries information. Since 2007, access to linked firm-level data has been available to government-sector researchers through the Longitudinal Business Database (LBD), which brings together information held by Statistics New Zealand from a range of survey and administrative sources. More recently Statistics New Zealand has created the Integrated Data Infrastructure (IDI), a linked longitudinal dataset that builds on LEED and the LBD and covers an extended range of information, including economic, education, justice, health and safety, migration, and business data.

As well as generating efficiencies in data collection and processing for Statistics New Zealand, the development of linked longitudinal data at the firm-level provides opportunities for research into the dynamics of firm performance and behaviour, without increasing the burden on survey respondents. Access to unit-record data on firms over time allows researchers to gain a better understanding of the causal links between the economic environment, firms’ responses and firm performance. An important part of such studies is the ability to consider heterogeneity in firm performance across a range of dimensions which can be identified in the data.

However, by increasing the opportunities available to researchers, the expansion of linked firm-level data available also raises new challenges. In many cases, there are now multiple sources of information on a single area of firms’ activities, often capturing different aspects or a different population. This requires choices to be made about the most appropriate source (or sources) of data for any given research question, and the development of research methods which accommodate collections which have been designed for other purposes.

One such example is the area of international investment. The LBD holds data on both inward foreign direct investment (FDI), in which a non-resident individual or firm holds complete or partial ownership in a firm located in New Zealand, and outward direct investment (ODI), in which a New Zealand firm has an ownership interest in a business located offshore. This information comes from four different sources. FDI data are available from the Longitudinal Business Frame (LBF), the Business Operations Survey (BOS), Company tax returns (IR4s) and the Quarterly and Annual International Investment Surveys (QIIS & AIIS). Three of these sources (LBF, BOS and QIIS/AIIS) also hold information on ODI.

The LBF forms the backbone of the LBD, to which all other data sources are linked. It captures basic information on all economically significant firms in the New Zealand economy from 1999 onwards, including information on employment, industry classifications and parent-subsidiary relationships. As the investment indicators in the LBD are primarily collected to enable the production of national accounts, maintenance procedures for these variables emphasize firms which will have a significant influence on aggregate international transfers and investment stocks and flows. As such, foreign ownership status is collected annually only for the largest firms, with smaller and medium sized firm information updated infrequently or, for very small firms, not at all.1

IR4 forms are completed annually by “all active New Zealand resident companies”, and provide a single indicator of whether the firm is “controlled or owned by non-residents”. This question is used to identify situations where companies may be able to transfer profits internationally through related-party transactions such as transfer pricing, and covers a broad definition of foreign control. Coverage rates are high among the target population, but non-corporate entities (for example, sole-proprietorships and partnerships, which account for almost half the population of firms) are not subject to IR4s.

BOS is a stratified random sample survey of firms with 6 or more employees (RME), which is sent to around 7000 firms a year beginning in 2005. The survey includes questions on both the percentage foreign ownership of the local firm, and the existence and method of ODI (eg, joint ventures, acquisitions of existing firms, greenfields investment), as well as a wide range of other aspects of firm behaviour and performance.

Finally, QIIS and AIIS provide highly detailed information about the international investment stocks and flows of firms, underpinning the Balance of Payments and International Investment Position measures. As the surveys are designed to capture the value of New Zealand’s international balance sheet in a cost effective manner, the sample strategy focuses on those firms known to account for the majority of overseas assets and liabilities, and is collected at the level of the New Zealand “group top enterprise” – the highest New Zealand-located enterprise within a group of parent and subsidiary companies.

These differences in detail and coverage lead to researchers making different choices about which data source to use, and how to treat the data, depending on the research question at hand. For example, when examining the performance impacts of foreign acquisitions, Fabling and Sanderson (2013) restrict attention to limited liability companies (IR4 filers) as the IR4 data provides a large sample and is collected annually. In contrast, Stevens (2010) focuses on BOS respondents, in order to examine a range of firm characteristics associated with inward and outward international investment activity. A number of authors combine LBF and IR4 data to provide a simple indicator of foreign ownership with wider coverage, as used in examinations of differences across foreign and domestically-owned firms in effective marginal tax rates (Fabling et al., 2013) and research on productivity spillovers from foreign-owned to domestic firms (Doan et al., forthcoming). Finally, in their examination of the earnings impacts of employment in foreign-controlled firms, Maré et al. (forthcoming) categorise firms by ownership status over all time to accommodate differing vintages of LBF information.

For researchers interested in working with FDI and ODI data from the LBD, Sanderson (forthcoming) provides a detailed account of the four datasets, including changes in sampling strategies and question definitions over time.

To protect the confidentiality of respondents, access to unit record data held by Statistics New Zealand is carefully controlled. Further information about the history, content, and access criteria for the LBD and IDI are available on Statistics New Zealand’s website (www.stats.govt.nz).

Doan, T., K. Iyer, and D. Maré (forthcoming), “Linkage spillovers of foreign direct investment on domestic firm productivity in

1 In 2014 the current Business Frame will be replaced by a new Business Register. One of the key aspects of this change is making greater use of administrative data as a core means of maintaining a full-coverage data frame. In the case of investment data, this will involve greater use of shareholder data collected by the Companies Office, which is likely to improve the coverage and detail of information relative to the current LBF.


GOVERNMENT ECONOMICS NETWORK
GEN WEBSITE - WWW.GEN.ORG.NZ

by Joey Au (GEN Committee), (info@gen.org.nz)

WELCOME

We welcome Rebecca Shingfield to the part-time GEN Administrator role located at the Ministry of Business, Innovation and Employment. Rebecca is originally from the UK, has a degree in Business Management. She is also helping to organise the GEN seminars and training courses.

INCORPORATED SOCIETY

The Government Economics Network was incorporated under the Incorporated Societies Act 1908 on the 16th May 2013. The purposes of the Society are to:

a. Advance education by supporting economics training and professional development in the public sector: both for economists and non-economists.

b. Develop linkages between economists across the private, public and academic sectors.

c. Support and strengthen economic advice to government.

Pecuniary gain is not a purpose of the Society. The full constitution can be found on the website – www.gen.org.nz

GROWING MEMBERSHIP

We currently have over 400 members and growing. People are currently free to join and included on our emailing list to receive news and information about upcoming and related GEN events.

If you wish to join GEN please email info@gen.org.nz subject line: JOIN GEN.

JOINT GEN AND CHAIR OF PUBLIC FINANCE DEBATES

Following a successful and enjoyable series of Public Finance Debates last year we are pleased to launch the 2013 Public Finance Debates series, hosted by the Chair in Public Finance at Victoria University and the Government Economics Network.

The series of three debates is based on the theme “It’s time…” with the following propositions:

1. “It’s time … to tax the internet”

2. “It’s time … New Zealand extended charging for public infrastructure” (Nov)

3. “It’s time … New Zealand adopted a social insurance approach to welfare” (Dec)

For more information about these debates please visit: http://nzpublicfinance.com/upcomingevents/

UPCOMING GEN SEMINARS

We have a number of upcoming GEN Seminars including:

- Jacek Krawczyk – A tool for achieving sustainability.

- Deirdre McCloskey - Why Investment or Exploitation or Trade Can’t Explain the Great Enrichment, 1800 to the Present Vol 2.

- Suzi Kerr - Value and culture: an economic framework.

And many more can be found on website as soon as dates have been confirmed www.gen.org.nz

UPCOMING CONFERENCE

This year’s conference on the 3rd December will focus on using modern economic methods for analysis in a variety of policy areas. The line-up of speakers includes:

- John Fitzgerald, Research Professor at the Economic and Social Research Institute in Dublin, Ireland;

- David McKenzie, a Lead Economist at the World Bank;

- Adam Jaffe, Director of Motu Economic and Public Policy Research; and

- Tony Scott of the Melbourne Institute of Applied Economic and Social Research.

Several of the speakers will be joined by Morris Altman, Head of the School of Economics and Finance at Victoria University of Wellington, in a challenging panel discussion chaired by Kim Hill from Radio NZ.

The aim of the full day conference is to showcase examples of innovative quality economic analysis to solve real world policy problems in New Zealand and beyond. With pioneering and future-focused speakers we intend to inform and support learning and networking across government departments.

We invite everyone to register online at: https://www.gen.org.nz/Conference
Continuing our series on the research projects currently underway in Economics Departments and Economics Research Units throughout New Zealand, in this issue we profile the research currently being undertaken by economists at Lincoln University. The objective of this section is to share information about research interests and ideas before publication or dissemination - each person was invited to provide details only of research that is new or in progress.

**Current Research of Lincoln University Economists**

**Associate Professor Hugh Bigsby**
Hugh is Dean of the Faculty of Commerce at Lincoln University and is Programme Director for a postgraduate programme in tropical forestry that is run for the timber industry in Sarawak. Current research projects, including with postgraduate students, cover carbon markets (carbon banking concept, risk and carbon pools), biosecurity (quarantine risk assessment and PRA systems), environmental certification systems (efficacy of systems), tropical forest management systems (planning and information modelling), logging productivity (helicopter logging, reduced impact logging), community-based forest management (governance, social impact assessment), ecosystem services (farm-level land use alternatives, alternatives to ecosystem services markets) and forest products trade and marketing (tropical timber trade).

**Professor Paul Dalziel**
Paul is Deputy Director of the AERU. His major project is a three-year programme on Maximising Export Returns for New Zealand’s Biological Industries funded by MBIE. This research will identify, validate, test and tailor creduced attributes of major export products in China, India, Indonesia, Singapore and United Kingdom. He is working with Sport New Zealand and Outdoors New Zealand to build on his research estimating the economic and social value of sport and recreation in New Zealand. Paul is also writing with Caroline Saunders a book on wellbeing economics in a New Zealand policy context for publication by Bridget Williams Books in 2014.

**Professor Christopher Gan**
Christopher is the Director of Lincoln University Centre for International Development (LUCID). He has published in several areas of financial economics including banking, microfinance, financial economics, Chinese stock markets, and Asian financial crisis. His current research interests include banking, Asian financial markets, microfinance and development in the developing countries. He is the Chief Editor of the Review of Applied Economics, which was founded by Professor Gan in 2005.

**Dr Baiding Hu**
Baiding’s research interests include productivity and efficiency estimation, the Chinese economy and applied time series econometrics. One of his current projects looks at evaluation of energy efficiency in China’s energy sector. The research uses a stochastic frontier analysis approach to controlling for price-induced substitution effects that otherwise may show up as either an improvement or a worsening in the efficiency of energy utilisation.

**Associate Professor Geoff Kerr**
Geoff is currently combining his expertise in nonmarket valuation and recreation management in a study of recreational New Zealand big game hunting management based on information about hunters’ motivations, demographics, behaviour and preferences revealed through choice experiments. Over the summer Geoff will be working with run holders to understand the economic implications of feral tahr on high country stations. Geoff is a member of a team with Professors Ken Hughey and Ross Cullen that regularly monitors public perceptions of the state of the environment. The survey gauges public acceptability of potential responses to environmental management issues – this year there is a focus on freshwater fisheries management.

**Dr Nazmun Ratna**
Nazmun is currently working on two projects. She is collaborating with Prof. Frank van Tubergen, Utrecht University, The Netherlands, for a pilot project on multiculturalism and economic assimilation funded by European Union Centres Network (EUCN). The aim of this project is to develop a questionnaire to analyse the process of economic assimilation of second and third-generation immigrants in Australia and New Zealand for a longitudinal survey. Her second project is on Household Food Security; it aims to identify the socioeconomic predictors of food insecurity, and to analyse how the existing social safety net programmes contribute to food affordability in New Zealand.

http://www.nzae.org.nz
Associate Professor Amal Sanyal
Amal is currently working on two topics. The first is competition strategy of firms in markets for congestion prone services. Because pricing endogenously determines congestion in these markets, analysis of strategy needs special consideration and tools. The second is an analysis of the process of criminalisation of politics in (some) developing countries. Empirical data analysed so far is from the Election Commission of India, but Amal expects to analyse similar data from other countries. The purpose of the research is to build models of pre- and post-election multiplayer games played among: political parties; local gangs of criminals and musclemen; and potential electoral candidates and voters.

Professor Caroline Saunders
Caroline is Director of the AERU. Her research on international trade and the environment has led to an invitation to participate in a London meeting on True Cost Accounting for Food Systems hosted by the Sustainable Food Trust and an international collaboration on sustainable food and agriculture led by the McKnight Foundation and the Gordon and Betty More Foundation. Caroline is also the Science Leader for the three-year MBIE funded research programme on Maximising Export Returns for New Zealand’s Biological Industries. She is writing with Paul Dalziel a book on wellbeing economics in a New Zealand policy context.

Dr Peter Tait
Pete is a Senior Research Officer in the AERU where his focus is on choice modelling research. On-going applications include valuing: options for redevelopment of the Christchurch residential red zone into a reserve; outputs of the Greening the Rubble and Gap Filler Trust’s temporary development projects in Christchurch; benefits of possum control to farmers; public preferences for biodiversity improvements in the native estate and on farmland; foreign consumer demand for environmental sustainability attributes of NZ food exports; and supervising AERU PhD candidate Sini Miller who is valuing attributes of Canterbury fresh water resources.
Financial Analysts and Economists worldwide use MathWorks computational finance products to accelerate their research, reduce development time, improve model simulation speed, and automatically create components to integrate models into desktop and production systems. With MATLAB and its companion products, they analyse data and create forecasts, measure risk, develop optimisation strategies, calculate prices, determine cash flows, and more.

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The screenshot to the left shows a contour plot of a log-likelihood function for a GARCH(1,1) model fitted to a typical equity return series.

The Econometrics Toolbox lets you perform Monte Carlo simulation and forecasting with linear and nonlinear stochastic differential equations (SDEs) and build univariate ARMAX/GARCH composite models with several GARCH variants and multivariate VARMAX models.