

NEW ZEALAND ASSOCIATION OF ECONOMISTS (INC.)
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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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Once more unto the breach...

EDITORIAL

Well, law and CBA get a bit of a hammering in this issue, despite supportive comments from Matt Hickman. Perhaps in the next issue we'll have another go at econometrics. There's been no sign of anyone springing to the defence of law yet, but lawyers tend to keep to themselves when it comes to debate.

Speaking of closed shops and debate, as regularly rejected authors and editors of a new journal (*Applied Economics and Health Policy*), we have noticed some interesting aspects of the refereeing process. Some referees reject papers critical of public sector research because "everyone knows that there is poor public sector research". At the same time, researchers are critical of governments for failing to take note of research findings. Perhaps there is room for improvement all round, and a useful first step would be public debate.

Another refereeing ploy appears to be to claim that "there is nothing new" in a paper. This seems to be used either if the referee disagrees with the stance taken (suppression of contrary views), or if there is actually nothing new. If the latter applies, then the referee should cite publications in support. However, even then publication might be important, given the emphasis placed by some analysts on the volume of research supporting a particular view. (This is distinct from some public sector discussion papers which, possibly for political reasons, contain highly selective references presented as definitive literature.)

It is our opinion that we have to have vigorous public critical assessment of policy-related research to improve its quality and increase its impact. We appreciate those contributors who have taken the trouble to put their oar in, do some stirring, fly a kite, test the waters, or otherwise stick their heads above the parapet to stand up and be counted.

One last point, for those interested in the Kyoto issues raised in issue 12 of AI, government has responded to the NZIER report at: <http://www.executive.govt.nz/speech.cfm?speechalph=37404&SR=0>

by Stuart Birks and Gary Buurman, Massey University

We invite members to submit a brief article on any issue of interest to NZAE members, and/or comments and suggestions. Enquiries and contributed articles should be sent to Stuart Birks and Gary Buurman [K.S.Birks@massey.ac.nz]. Views and opinions expressed in these articles are those of the authors, and do not represent the views of the New Zealand Association of Economists.

In the Media: Economists, love and economic growth....

Oklahoma Grapples With Legislating Love

By Bret Baier

February 9, 2001 - Oklahoma Gov. Frank Keating had a question for economists: What is one of the things holding the state back economically? The answer surprised him. "They told me: 'You've got too many divorces and you better do something about it,'" Keating recalled.

...

The economists tied the divorce rate directly to higher poverty, teen drug abuse and school dropout rates. ..."Marriages that fail prematurely and without cause impoverish the people involved and impoverish the whole state — and that's bad," Keating said.

From Fox News, full article available at:

http://www.cephasministry.com/nwo_legislating_love.html

What might be done about the regulatory juggernaut?

By Bryce Wilkinson, *Capital Economics Limited*, brycew@capecs.com

Regulatory Impact Statements

From 1998 ministers taking regulatory proposals to cabinet have been required to attach to them a statement that identifies the problem, states the public policy objective, identifies all viable feasible options for achieving those objectives and establishes that the preferred option produces net benefits.

Can any readers of this issue identify any Regulatory Impact Statements produced in New Zealand that they would regard as a professionally competent cost-benefit assessment of the case for regulating some activity? The search is for one that sets a standard for all to seek to emulate.

I ask because an assessment in 2001 by John Wallace of Tasman Economics for the Ministry of Economic Development and the Treasury found that "many regulatory impact statements were far too brief given the importance and complexity of the issues being addressed and were of poor quality". Moreover, in my view some of them have been disgraceful. (I hasten to say that this criticism is not aimed at the individuals that composed them. No doubt some of them felt the same way about their task.) For example, the one for the Employment Relations Bill in 2000 shamelessly identified the problem to be that "[c]urrent legislation is contrary to Government policy on employment relationships". The statement failed to identify, let alone analyse, any alternative courses of action. This did not stop it from asserting positive benefits against an undeclared alternative. So much for public policy analysis from the perspective of the representative individual or the overall national interest.

Moreover, does the Ministry for the Environment know whether the benefit in a cost-benefit assessment means a benefit to human welfare or a benefit in terms of some intrinsic value to "the environment"? If the latter, how would it assess how much human welfare to sacrifice in its pursuit? The easy way out of such a dilemma would be to fudge the issue, treat most benefits (intrinsic or otherwise) as intangibles and assert that they exceed the costs. This advocacy approach would reduce the analytical problem to one of finding the alternative that achieves the anointed goal at least cost. But how can policy advisers provide sound advice if there is no clarity

concerning the public policy objective? In fairness to the ministry, the Resource Management Act 1991 embodies the concept of intrinsic values. On the other hand, does it regard this aspect of the RMA as a problem?

Well, what are the solutions to the problem of poor analyses of proposed regulations? One is surely better staff training in public policy analysis within the public sector. But there are limits to what this can achieve. Competent analysts will not remain in a department if their bosses ignore inconvenient findings. Moreover, politicians may refrain from asking departments for their analyses of a politically-desired policy if it is only likely to embarrass them. Furthermore, cost-benefit analysis is too imprecise a tool to be a definitive guide to policy given valuation and discount rate problems. I remember at the time of the Think Big projects when one set of experts projected that oil prices would rise indefinitely from US\$30 a barrel at 3% pa faster than the rate of inflation, while others thought this was much too high. Disagreements between experts can increase the scope for making decisions on political grounds.

What else might be done? A recent discussion document, *Constraining Government Regulation*, for the New Zealand Business Roundtable, Federated Farmers of New Zealand and the Auckland and Wellington Chambers of Commerce canvassed an alternative but complementary approach to analysing and screening regulations. (Copies of this report can be obtained from the NZBR for a price or downloaded free of charge from its web site. I authored the report, but I had a great deal of assistance from Sue Begg, Tyler Cowen and Richard Epstein.¹) This approach was derived from constitutional principles and the notion of Pareto optimal exchanges of property rights.

Key constitutional principles include consent, compensation for rights to property taken in the national interest (as provided for in the Public Works Act 1981) and the separation of powers. Democracy and social cohesion are at risk when a political majority can wilfully take the legitimate property rights of a minority through taxation or regulation without compensation. One potential bulwark against these incursions is the common law, or judge-made law. The three great pillars of the

¹ http://www.nzbr.org.nz/documents/publications/publications-2001/constraining_govt.pdf.

common law – tort, contract and property – dominate the rules governing interactions between individuals. The common law transcends national boundaries, aiding the separation of powers. Having a final court of appeal that is outside the influence of local politicians makes local judges more independent of local politicians, while providing a check against the enthusiasms of any dominant local judge or judges. When parliaments pass regulations that override the common law they concentrate power by undermining the ability of the common law to evolve independently of parliament. These and other considerations suggest that regulations that override the common law should be subject to particular scrutiny as to whether they are necessary for an essential public interest.

Economists generally assume that voluntary exchanges between adults benefit the parties to those exchanges. (Such an exchange might harm someone who is not a party to it – eg a competitor – while still being part of the competitive process that leads, at least in the Arrow-Debreu world, to a competitive equilibrium that is also a Pareto optimum.)

The possibility that the regulation by government of interactions between individuals could enhance welfare arises when voluntary exchanges are blocked because of high transaction costs. Here, as in the Public Works Act cases, the government may use the coercive power of the state to force the exchanges through – while, at least in principle, making no party to those exchanges worse off.

This analogy motivates vetting regulatory proposals for the degree to which they preserve the key feature of voluntary exchanges – those who benefit from rights taken from others compensate those others for their losses. It is not a trivial matter to work through the complexities, difficulties and limitations to this approach. This

aspect of the discussion paper draws heavily on the work on the issue of regulatory takings by Richard Epstein of the University of Chicago Law School.

A scheme for testing this alternative approach is set out in Table 8.1 on page 212 of the discussion document. It could require those proposing a regulation to prepare a Regulatory Analysis Statement that demonstrates that the proposal complies with the principles embodied in this scheme.

The power to take from some against their will for the benefit of others is so open to abuse that its use must be restrained. Again limited government is desirable – but there can be a wide range of views as to how limited. The Public Works Act 1981 once limited takings of private land to situations where the taking was necessary for an essential public work. The discussion paper proposes a similar test for a regulatory taking – that it be necessary for an essential benefit to the public at large. It is not optimistic about the ability to constrain politicians from interpreting those concepts in the most inclusive manner.

When a government has the political will to seriously address the problem of far too much existing legislation of very low quality, these tests may be useful for helping it to identify where the problems arise. Such a government might also consider attempting to pass legislation that would aim to make it harder for future governments to regulate poorly. With this possibility in mind, the discussion paper draws inspiration from the Fiscal Responsibility Act 1994 to outline a framework for a Regulatory Responsibility Act. However, it stops short of recommending such an approach.

Please do not hesitate to contact me with any thoughts or suggestions on these issues. Good ideas for improving the quality of regulations must contribute positively to the public good!

The Post-Autistic Economics Review

is available electronically free of charge.

Issue 11, out January 2002, contains:

- Peter E. Earl, The Perils of Pluralistic Teaching and How to Reduce Them
- Marc Lavoie, The Tight Links Between Post-Keynesian and Feminist Economics
- Jean Gadrey, Is the Concept of Economic Growth Autistic?
- Peter Söderbaum, Democracy and the Need for Pluralism in Economics
- Geoff Harcourt, Review of Steve Keen's *Debunking Economics*

To subscribe and see back issues, go to: <http://www.paecon.net/>

From the 2BRED File

by Grant M. Scobie (grant.scobie@treasury.govt.nz)

In an earlier issue of the 2BRED File, I alerted you to the new biography of Peter Fraser which I found most illuminating. Well, political biography remains in vogue. Of course we recently had **His way: a biography of Robert Muldoon** by Barry Gustafson (Auckland University Press: 2000). I have only dabbled in that but it demands my attention. Perhaps my appetite for this genre has grown since I became a Wellingtonian –I suppose it’s hard to escape the political when working 30 metres from the Beehive. So I lit upon: **Three Labour Leaders : Nordmeyer, Kirk and Rowling** edited by Margaret Clark (Dunmore Press: 2001). Fraser’s absence can be doubtless excused by the above-mentioned and the fact that Professor Clark edited an earlier Dunmore Press volume, **Peter Fraser: Master Politician**.

As for so many edited volumes, **Three Labour Leaders** is like a pot-luck dinner: everyone brings a dish, these vary in style and substance but there is always something you like. Some intriguing electoral arithmetic runs through the book. In total the three led the Labour Party for 19 years. They fought seven successive elections and won only one, and in total they accumulated a mere three years as Prime Minister. Labour was out of office for all but 17 years in the 55 year period from 1945 to 2000. And half of the time in the political doldrums was spent under the leadership of these men. Yet they all had long and distinguished careers in Parliament, often in critical Cabinet positions, and were elected by their constituents 24 times. Was it the circumstances, the first-past-the-post electoral system, the world conditions or their lack of true leadership that lead to this arguably dismal record? Whatever the answer, this volume captures valuable insights from colleagues and observers of the three leaders, more (quite deliberately) in the style of oral history than scholarly research.

Two new monographs from the New Zealand Business Roundtable contribute to the debate on the size and role of government. **How Much Government? The Effects of High Government Spending on Economic Performance** by Winton Bates (2001) alerts us to the potential loss of economic growth that can accompany high levels of public spending and taxation. The study canvases the usual list of suspects – distorted investment, reduced incentives for work and wasted resources by rent seekers. These deadweight losses are estimated to be as high as 50 cents on every dollar raised by the government. The study updates and extends earlier econometric work by others and makes a case for smaller government in New Zealand. Based on the regression equations, cutting government spending from around 40 to 30 percent of GDP could add as much as 0.5 percent to annual growth rates. In an era where the search for higher growth is much in vogue (back into the top-half?), we should not ignore the chance to pick up an extra 0.5 percent.

Limiting and refining how governments meddle is the theme of the second Roundtable publication: **Constraining Government Regulation** (2001) authored by Bryce Wilkinson.¹ This very substantial and well-crafted piece will certainly become a reference work for those interested in public choice theory, constitutional aspects of regulation and options for reform. The economic theory of regulation and public choice theory are succinctly set out and extensively referenced (and don’t miss the catalogue of regulatory excesses in Chapter 1).

Following the release of his latest book, the Treasury was fortunate to have Jamie Belich speak in the Treasury Guest Lecture Series. His presentation was as lively and interesting as his book: **Paradise Reforged: A History of the New Zealanders from the 1880s to the Year 2000** (Allen Lane Penguin (NZ) Books, 2001). The central thesis is that starting at the end of the extractive period in 1880 and continuing until the 1960s New Zealand remade itself as a British colony. The social cultural and economic implications of this “recolonisation” are woven together into a rich and fascinating fabric. Despite the detailed analysis of the “from whence we have come”, we glean little about “what we should do now”. But as Professor Belich responded to one questioner: “As a historian I am not paid to spend much time thinking about the future”.

Brian Easton, surely one of the Association’s most prolific members, has added to his growing list of books with **The Nation Builders** (Auckland University Press: 2001). Interestingly the title, and the theme throughout the 16 short sketches of the lives and work of the prominent, stand in contrast to the Belich thesis. While Belich paints us as remaking ourselves in a British mould, Easton argues his selected few

¹ See “What might be done about the regulatory juggernaut?” in this issue of AI – ed.

(politicians, economists, a painter, poet, etc) were creating a New Zealand society, economy and culture that stood apart from the metropolis.

Holidays are always a good time to catch up on reading. I am a long-time very amateurish dinghy sailor, who decided that the Wellington harbour was an asset, and so recently completed four courses in keeler sailing. With this heightened interest in matters seriously nautical, I was delighted to find in my Christmas stocking a copy of Peter Nichol's **A Voyage for Madmen** (Harper Collins: 2001). Nine set out in the 1967 single-handed race around the world – one made it to the end. Were they mad to undertake the voyage or driven mad in the attempt? Now there's a serious challenge for a Granger-causality test! In the end, the horror stories of storms in the southern oceans has probably dampened my enthusiasm for offshore cruising as a retirement dream. So settle back –warm and dry on the sofa-for an amazing tale of bravery, skill and fraud – and madness?

A·G·E·N·D·A

A JOURNAL OF POLICY ANALYSIS AND REFORM

Agenda is the quarterly journal of the Centre for Applied Economics in the Faculty of Economics and Commerce at [The Australian National University](http://www.anu.edu.au). Launched in 1994, **Agenda** provides a forum for lively debate on public policy, mainly (but not exclusively) in Australia and New Zealand. It deals largely with economic issues but gives space to social and legal policy and also to the moral and philosophical foundations and implications of policy.

We invite you to take a look at <http://ecocomm.anu.edu.au/economics/agenda> for information on our editorial policy, subscription details, and Tables of Contents.

Recent contributions by New Zealand authors include:

Arthur Grimes *Review of New Zealand Monetary Policy*
Chris Wilkins *Cannabis Transactions and Law Reform*
Grant Hannis *Truth-In-Advertising Law: The New Zealand Experience*
Bronwyn Howell *An Ownership-Based Analysis of Public Hospital Corporatisation in New Zealand*
Rhema Vaithianathan *The Failure of Corporatisation: Public Hospitals in New Zealand*

Subscribe today! Contributed articles are refereed prior to a decision as to acceptance - contributions are warmly welcomed!

NEW ZEALAND ASSOCIATION OF ECONOMISTS
ANNUAL CONFERENCE 2002
Wednesday 26th, Thursday 27th & Friday 28th June 2002

Announcement & Call for Papers

Venue: James Cook Hotel Grand Chance" } with planning still
147 The Terrace } in the early stages!
Wellington }

Theme: **Back into the Top Half of the OECD:
New Zealand's Long-run Economic Performance**

Keynote Speakers: Athanasios Orphanides (Federal Reserve Board, Washington DC)
William Easterly (World Bank)
Julia Lane (Urban Institute, Washington DC)
Wolfgang Kasper (Centre for Independent Studies, Sydney)

Themed Sessions: Regional Development
Innovation Economics
Law and Economics

Other Activities: Joint LEANZ-NZAE Keynote Address (speaker to be confirmed)
LEANZ Annual Dinner – registration optional for NZAE members
NZAE Annual Dinner – registration optional for Conference attendees.

- * Theoretical and applied papers in all fields of economics are invited. We welcome any offers to put together a session on a topic of your interest. Do you have questions/suggestions about the Conference programme? Contact Grant Scobie, Convenor at grant.scobie@treasury.govt.nz
- * Tentative Programme on the website. A more detailed timetable for conference activities will be forwarded to members and those registered for Conference, mid May.
- * Procedures for the Submission of Abstracts, Registration Form and details of the Jan Whitwell Prize are available from the Administrator or on the Website.

Key Dates:	26 th April 2002	Submission of Abstracts including those for "Jan Whitwell" entries
	26 th April 2002	Early Bird Conference Registrations (Includes Presenters of papers)
	12 th June 2002	Submission of Full Papers including those for "Jan Whitwell" entries.
	21 st June 2002	Standard Conference Registrations (Includes Presenters of Papers)
	21 st June 2002	Entry to Jan Whitwell Prize including Conference Registration (unless registered as an "Early Bird")

Please Note: These dates will be strictly adhered to

Val Browning – Administrator
New Zealand Association of Economists (Inc)
PO Box 568, Wellington • 111 Cuba Mall, Wellington
Tel: [04] 801 7139 • Fax: [04] 801 7106 • Mobile: 025 283 8743
E-mail: economists@nzae.org.nz • Web site: <http://nzae.org.nz>



Victoria University of Wellington

THE HENRY LANG RESEARCH FELLOWSHIP

Applications are invited for the **2002 Henry Lang Research Fellowship**. One fellowship is available each year to be awarded to a scholar undertaking original research in an area related to the work of the Institute of Policy Studies, Victoria University of Wellington. The successful applicant is expected to set aside a period of 3 to 6 months to work on an agreed research project and to complete a body of work publishable as an Institute of Policy Studies monograph. The affiliation attributed to the author for this work will be the Institute of Policy Studies. Preference will be given to people who will conduct the work at the IPS.

Scholars, from any discipline, working on issues relating to the following fields, are especially encouraged to apply:

- **The Role of the State:** Particularly the ethical underpinnings of the role of central and local government in New Zealand; social capital; and interaction of the state with Maori.
- **Constitutional Developments in New Zealand:** Particularly the developments of themes raised in the IPS publication, *Building the Constitution*.
- **Income Distribution & Social Policy:** Particularly issues of labour market, education, social assistance and taxation programmes, with explicit recognition of Maori.
- **New Zealand, the Pacific & Asia:** Particularly comparative policy experiences of New Zealand, Australia, Pacific Island and East Asian countries.

The value of the fellowship is \$35,000. Of this, a sum of \$7,000 is set aside to cover publication costs. The remaining \$28,000 is available to the successful applicant to cover time and expenses associated with the research. The successful applicant will be expected to begin the research during 2002 and to have completed a monograph of publishable quality by June 2003. Payments will be made in two instalments: half (\$14,000) on taking up the fellowship, and half after completion of a publishable manuscript.

Applications should be made to the Director, Institute of Policy Studies, Victoria University of Wellington, PO Box 600, Wellington, with the following materials:

- Complete Curriculum Vitae
- Detailed Research Proposal
- Estimate of time to be spent conducting the research, and timing of completion.
- Names of at least two referees who may be approached by the IPS
- Example of previous work in a related field.

Applications must be received by 31 May 2002. These will be considered by an IPS panel. Applicants will be notified of the Institute's decision in July.

Bearing in mind the intimidatory power of obscure references, there is an interesting piece in Spiro M E (1956) *Kibbutz: Venture in Utopia*, Cambridge: Harvard UP.

Spiro addresses the issue of economic motivation in the absence of private property and of money, and where society is not stratified. He suggests at least four personal motives for not shirking. Paraphrasing pages 83-85:

- 1) individual standard of living is dependent upon that of the group, which, in turn, depends on the productive capacity of its members. Hence there is the motive of personal economic improvement.
- 2) Most individuals have chosen the lifestyle and the branch of work of greatest interest. Consequently, the average person enjoys the work, deriving pleasure from its actual performance, as well as from its end product - Veblen's "instinct of workmanship", or what is called "mode pleasure", in contrast to "end pleasure".
- 3) Competitive pride is a third source of economic motivation. Though wishing to see the entire kibbutz prosper, satisfaction is gained from knowing that a worker's particular branch is doing well. Workers are motivated to work hard in order for their branch to receive a favourable rating in this informal competition.
- 4) Prestige is also important, and on a kibbutz, hard, efficient labour is a necessary, if not a sufficient, determinant of prestige. In the absence of the profit motive, the respect of one's fellows has become an important motive in this society.

Nevertheless, Spiro suggests that these rewards may be obtained, perhaps to a greater extent, outside the kibbutz. He then suggests some kibbutz-specific incentives, described on pages 86 to 90.

First, there is a high degree of material and psychological security. So long as the kibbutz is viable, there is protection from the material effects of illness or additional children, and there is no need to fear unemployment. Psychologically, there is not only a sense of belonging, but also an absence of economic competitiveness and conspicuous consumption, for example.

Second, there is "a conscious awareness of one's moral responsibilities to the kibbutz in the latter's political, as well as in its economic, meaning". A job "becomes more than a job and more than a way of making a living. It becomes ... a calling".

If the dimensions specified by Spiro apply to people in a kibbutz, might there not be similar factors operating for all people, if to different degrees?

Let's consider the four personal motives. Doesn't an individual working for a company depend on the economic success of the company? Do people not consider interest as a factor in choosing a job? Is there no identification with a department or unit? Does the respect of others matter? We do see behaviours which suggest wider relevance of these motives.

What of the kibbutz-specific factors? Conditions of sick leave and job security are important. Employment is a determinant of a person's perceived position in society. There are jobs that are recognised as having a dimension similar to a calling. Examples could include health care workers, teachers and firefighters, but many, if not all, jobs could be viewed in terms of the contribution they make to the functioning of a society.

The above discussion leads to an important question. Do prevailing approaches to efficient use of labour take these factors into account?

What if the emphasis on competition, accountability, supervision, monitoring and reporting actually undermines the conditions for these factors to operate, rather than complementing them? If so, can we substitute accountability for the effects of a teacher's view of a calling, for example?¹ What are the efficiency and welfare implications?

¹ This specific point is discussed in a New Zealand context in Codd J (1999) "Educational Reform, Accountability and the Culture of Distrust", *New Zealand Journal of Educational Studies*, 32(2), pp.45-53.

VICTORIA UNIVERSITY OF WELLINGTON
Te Whare Wananga o te Upoko o te Ika a Maui



Industrial Relations Centre and Institute of Geography

ANNOUNCING

TENTH CONFERENCE

ON LABOUR, EMPLOYMENT AND WORK

The tenth in this series of biennial two day conferences will be held at Victoria University of Wellington on Thursday November 21st and Friday November 22nd, 2002.

The first of these national conferences on Labour, Employment and Work was held in May 1984, and since then the conference has become established as the leading labour market research conference in New Zealand. The aim of these conferences is to bring together those with a professional interest in research on labour markets, employment and the nature of paid work in New Zealand.

Papers are invited from any university discipline, CRI or other public or private organisation or individual. The only criterion is that the paper reflect the author's current or recently completed research on labour, employment or work issues in New Zealand. Proceedings will be published. The contribution by graduate students has been a feature throughout the series and we would like to continue to encourage their participation.

These conferences are organised jointly by the Industrial Relations Centre and the Institute of Geography, Victoria University of Wellington. For further information please contact:

Stephen Blumenfeld, Senior Lecturer, Industrial Relations Centre,
School of Business and Public Management, Faculty of Commerce and
Administration, Victoria University of Wellington, PO Box 600, Wellington
Ph: 04 463-5706. E-mail: Stephen.Blumenfeld@vuw.ac.nz.

CBA – it’s easy, isn’t it?

By Matt Hickman, Environmental Economist, Environment Waikato (matt.hickman@ew.govt.nz)

Continuing the CBA theme that has spanned the previous two issues, I would like to bring the discussion back to public sector appraisal and the application of ‘best practice’.

Wider considerations

Many decision-makers consider the derivation of the cost-benefit ratio or net present value as the single tool in making a decision. What many fail to realise is that this is merely part of the decision and there may be other factors to be taken into account. Such factors may include:

- environmental impacts;
- social impacts;
- financial constraints; and
- political pressure.

Social CBA attempts to integrate the first two factors into the overall analysis via the use of a variety of techniques to elicit monetary values. It is not the case that CBA as a methodology cannot take these elements into account, but different CBA’s do so to differing degrees. This, of course, relates to the level of funding afforded to a study. A small-scale CBA is not expected to be able to include all impacts fully valued in monetary terms. There is a trade-off between cost and comprehensiveness.

The funding issue can also be related to the level of available funds to implement the preferred option. As an example, a CBA conducted in the UK recommended continued operation of pollution filtering lakes. However, soon after the study was completed the operating agency made the decision not to continue their operation on purely financial grounds (i.e. the agency simply did not have the available funds to run them).

Political pressure is a very important issue often overlooked by analysts. It can be argued that if the CBA correctly reflects the preferences of society then there is no need for political pressure. However, in reality, politics has a major role to play in the choice of policies and projects implemented. CBA should, therefore, be seen as part of the decision-making process rather than the decision itself.

CBA in practice

The realisation that CBA is not the Holy Grail that it is often portrayed to be allows economists and decision-makers alike to conduct appraisal in its widest sense. The key to a successful appraisal is to start with a ‘blank page’. Many appraisals are clouded from the beginning by the analyst or decision-maker already having chosen the preferred option. Of course, all economists will say that such a thing is taboo and should never be done, but the problem does not often lie with economists but with analysts (or decision-makers) who believe they do not necessarily need an economist to conduct an appraisal.

From my own experience in the UK, engineers are one of the groups who can be guilty of this. Whilst undertaking an expert reviewers role for flood and coastal defence appraisals, a number of appraisal pitfalls were encountered, these included:

- the omission of aims and objectives (i.e. what is the project for and what does it need to achieve?);
- an incorrect baseline (in this case, the incorrect application of a ‘do-nothing option’ where defences are assumed not to be maintained);
- poor option selection (in terms of the range, scope and variety of options);
- variable treatment of decision criteria (i.e. does the choice of preferred option follow Central Government decision rules?);
- a lack of sensitivity analysis (in terms of altering key parameters such as flood depths and the probability of flooding); and
- the poor treatment of discounting (including the choice of discount rate and the omission of discounting entirely).

So what causes these problems? In general terms, there is a lack of knowledge of good appraisal practice amongst non-economists. The drive to keep costs down in the age of competitive tendering often means that the required skills to complete a full appraisal (where this integrates science, engineering, economics and whatever is required) are not always present. The same applies to the other side of the coin whereby economists may neglect to work with specialists when conducting an appraisal. A multi-disciplinary appraisal team ensures that some pitfalls are avoided.

An alternative to CBA?

Given this variability in appraisals, one should ask the question as to whether CBA is the most appropriate instrument to aid decision-makers in making the 'correct' decision. The wider use of multi-criteria analysis (MCA) may offer a valid and useful alternative. Once designed and operational, MCA offers an approach to appraisal that is probably easier to understand and implement by non-economists (or non-decision analysts). Interested readers may wish to consult the excellent UK manual for conducting MCA (<http://www.dtlr.gov.uk/about/multicriteria/>, or DETR (2000): Multi-Criteria Analysis – A Manual, London, DETR [now DEFRA]).

MCA also has the advantage of getting round the tricky question of the monetary valuation of environmental and social impacts. Although such valuation has been undertaken for many years now (with the first contingent valuation reported as early as 1958), its use in appraisals is still controversial. The culmination of this controversy was probably the Exxon Valdez case which led to the publication of expert guidance in the form of the NOAA panel in the US after an acrimonious court case.

Although problematical, monetary valuation does have a role to play in appraisal. If values can be shown to be derived using best practice (and are robust), then their use is a great aid in helping both decision-makers and the general public understand the magnitude of costs and benefits. A 100 ha wetland being lost may not mean that much to a lot of people, but if it is shown that society is willing to pay \$100m to protect that wetland, then this forms a stronger message to those making the decisions. However, this type of valuation may raise questions as to what society is actually choosing to protect (e.g. is it one wetland or all wetlands?). This is a problem faced by exponents of contingent valuation that should be solved the via appropriate questionnaire design and choice of payment mechanism.

In conclusion

Is there a future for CBA in public sector appraisal? In short, yes there is. CBA is an extremely useful tool in presenting decision-makers with the advantages and disadvantages of various policy and project options. It does have short-comings, but it is our responsibility as economists (assisted by a multi-disciplinary team) to ensure these shortcomings are understood by those using the results. To sum up, all appraisals should be robust, defensible and transparent. A good test is for the analyst conducting the appraisal to ask themselves 'am I willing to stand up in court and defend this?'; if the answer is not a positive 'yes' then it's back to that 'blank page' again ...

Disclaimer: any views expressed are those of the author and do not necessarily reflect EW policy.

Tourism Leading Indicators Monitor

Tourism Research Council New Zealand's new publication
is available on the website of the Office of Tourism and Sport at:

<http://www.otsp.govt.nz/ACCupframe.htm>

Economic Transformation – a New Treasury Growth Debate

By the Treasury Economic Transformation Team. Queries to Geoff.Lewis@treasury.govt.nz

Over the past year, New Zealand has begun revisiting the issue of economic growth in earnest. Implicit in many of the discussions is the implication that New Zealand's growth has been disappointing. New Zealand's per capita income ranking dropped from 9th in the OECD in 1970 to 20th in 1999, and there is a widespread desire to do better.

A series of conferences – “Catching the Knowledge Wave”, “Changing Gear” and “Innovate” have all focussed on this issue. The Government has released its innovation framework “Growing an Innovative New Zealand” with the ultimate goal of returning New Zealand to the top half of the OECD rankings. This year, economic growth will also be a major focus of the NZAE conference.

Treasury has had an ongoing focus on economic growth, but it was timely that, in July 2001, an Economic Transformation team was established in treasury to refocus our work in this area and stimulate debate. As with many processes of this kind, it has raised more questions than it has provided answers, but that is part of the value of such an undertaking.

The research programme is ongoing, unlikely to ever completely cover this huge topic. Already however the team has published (on the Treasury internet site, see www.treasury.govt.nz/et) some preliminary papers by individual authors representing an interesting mix of views and research. These papers are intended to stimulate debate on New Zealand's economic prospects and directions. So far this appears to have been very successful, with many commentators entering into the debate. We appreciate and welcome the views of those taking the time to participate.

The papers by David Skilling argue that New Zealand's market size and distant location have been a major source of New Zealand's relative economic decline. He gives reasons why the impact of market size and location has had an increased effect through time. As a result, he argues that New Zealand's relative economic decline, in the absence of offsetting measures, is likely to continue.

Jas McKenzie gives a fascinating insight into the historical context of the attempts of different New Zealand governments to improve the growth rate through a range of policy approaches. Struan Little makes some useful international comparisons with other small economies – not just with “winner” countries, but with some “losers” as well. The comparisons lead Struan to several interesting conclusions, including the importance of internationalisation and social consensus.

Most of the early research has been at the firm level, looking at New Zealand's firm structure. Two papers on this issue are on the website. As the research programme continues, other areas are being investigated. Any discussion of economic growth covers a broad range of topics, and the current research touches upon many of these, including:

- Patterns of firm growth;
- Qualitative studies of firm exporting behaviour;
- Composition and economic deployment of New Zealand's human capital stock;
- Input-output analysis of New Zealand industry structure;
- Increasing returns, agglomeration and economic growth; and
- International best practise in innovation systems.

Be on the look out for further papers that will be published in late March, providing an even richer spectrum of views on the issues facing New Zealand. We hope that this stream of thinking and research continues to enrich and enlarge the public debate within New Zealand.

Australasian Macroeconomics Workshop

Wellington, 4-5 April 2002

The submission date has passed, but still time to attend.

Details at:

<http://www.rbnz.govt.nz/research/workshops/112040/0112040.html>

Free Seminar - Solving Data Analysis Problems

SPSS New Zealand runs a series of **free** seminars throughout the year. They are an opportunity to see how others in your field are using SPSS to **solve real-life business issues**. The seminars are designed to tackle the most relevant issues for people who are looking for a solution to their data analysis problems.

Please note that these are not training courses, nor are they sales pitches. These seminars provide non-SPSS users with an understanding of what SPSS software can do and an explanation on how it can be incorporated into any organisation's analytical resources. We endeavour to answer all your questions.

Our experience is that these seminars are greatly appreciated by people who attend them. We have been told that they are a very useful information sharing session prior to buying any statistical software program and assessing currently used statistical software. These seminars are also an excellent opportunity to network with fellow industry professionals and discuss the challenges that you currently face.

SPSS Seminar Schedule for 2002

May 17 th	May 24 th	August 16 th	August 23 rd
Wellington Massey University To be confirmed	Auckland SPSS New Zealand Level 7, 44 Anzac Ave Auckland	Wellington Massey University To be confirmed	Auckland SPSS New Zealand Level 7, 44 Anzac Ave Auckland City

If you would like further information on the above seminars, or wish to make a booking for any SPSS seminar, please contact us by phone: 0800 943 276, or email: Seminars@spss.co.nz, or at: www.spss.co.nz

The Law and Economics Column!!

The Economist as Expert Witness *By Stuart Birks k.s.birks@massey.ac.nz*

Posner has authored an article on the topic of economists as expert witnesses.¹ His title, suggesting a definitive exposition, invites challenge.

He identifies Article VII of the Federal Rules of Evidence as governing the use of expert witnesses in the United States. Article VII:

"permits anyone who has relevant expertise to be classified as an expert witness...unlike an ordinary witness, an expert witness is allowed to offer an opinion rather than being limited to testifying from personal knowledge. In other words, the expert is allowed to apply expert knowledge to the facts. Those facts need not be limited to those that can be proved by evidence admissible under the rules of evidence...[they] need only be, in the words of Rule 703, the 'type [of facts or data] reasonably relied upon by experts in the particular field in forming opinions or inferences upon the subject'..." (p.92)

So the court can define someone as an expert witness, deeming the person's expertise to be relevant. This is no trivial decision. In many areas of economics, there is heated debate as to what the facts are and what the data mean (note discussion on the meaning of "family" and "ethnicity" in recent issues of this publication, for example).

As criticism may be more palatable when aimed at others, I refer you to the *New Scientist* of 23 August 1997, which described the behavior of psychologists as expert witnesses.² There are some interesting observations:

"...many psychologists lack the experience and forensic expertise to give valid evidence ...They also have incomplete knowledge of the legal system." (p.16)

"You have instances of very slipshod and ill-informed work being done by people who may be technically qualified as psychologists but lack knowledge and experience in particular areas." (p.16)

A survey by Gudjonsson of 522 psychologists involved in court work is described:

"More than a quarter of the psychologists questioned in Gudjonsson's survey said they had been asked to modify their reports to make the findings more favourable to the 'client'. In the vast majority of cases, the request was made by the defendant's solicitor, and over half the psychologists who were asked complied." (p.16)

"...David Canter, who runs a research unit in investigative psychology..., blames the courts. They make no attempt to find out whether their 'expert witnesses' are exactly that, he says. 'An expert is just a witness like any other in British courts. That means that anybody can potentially be an expert witness, even though they have no formal qualifications.'" (p.17)

However, there are those who see a market opportunity:

"This summer the [British Psychological Society] approved two masters courses in forensic psychology..." (p.17)

Psychologists have a recognized professional qualification, code of practice, complaints procedure and disciplinary body. In contrast, economists do not. A gambler might be prepared to bet that some of the above behaviours and problems could also be observed among economist expert witnesses.

However Posner challenges criticisms such as the one that expert witnesses might act as "hired guns". His case is not invulnerable. To take its points in turn:

1) *As repeat players, expert witnesses need to maintain a reputation as honest and competent.* This is true only if the court can expose dishonesty and incompetence; otherwise they simply need reputation for strengthening a case. Also, how many cases are a "repeat" of the same issues, and wouldn't they merely require a repeat of arguments that the court has accepted in the past (irrespective of their validity)?

2) *Statements must be consistent with a witness's publications.* How similar would publications be to a specific case? What if publications focus on theory, or applications where there are numerous differences in circumstances - how many microeconomic issues are identical?

3) *Due to disclosure, evidence is likely to be subject to intense scrutiny.* But the final arbiter is the

¹ Posner R A (1999) "The Law and Economics of the Economic Expert Witness", *Journal of Economic Perspectives*, 13(2), Spring, 91-99

² "Dearth of an expert witness" *New Scientist*, 23 August 1997, pp. 16-17

court, which may not have the expertise to weigh up the information presented.

4) *An expert witness's evidence is inadmissible if it does not satisfy methodological standards in the expert's field.* Posner's example of a standard is the 5 percent requirement for statistical significance. Self-respecting economists should be able to find far more areas of disagreement than this, while still meeting accepted standards.

Giving another perspective, Mandel refers to distortions to economics that might arise due to increasing emphasis on the expert witness role, namely chasing money, which may affect objectivity and influence the choice of research undertaken.³

We should also note that there could be international differences. With the small New Zealand market, is an "expert" reputation built on solid foundation of experience and critical assessment?

The judiciary has, on occasion, referred to the Family Court as possessing special skills, insights and experience, and yet it does not have a research base and the legal players are not required to have more than legal training in the specialist issues.⁴

This point is reinforced by Ian Shirley in a wider context:

*"Many of those who work with families and children do not have the knowledge base or skills to make the decisions with which they are faced day after day - decisions that can literally mean the difference between life and death - it is important to state in this respect that I am not confining my comments to social workers - the time has clearly arrived where we need to question the knowledge base and skills of Family Court Judges, Paediatricians, Lawyers, Psychologists and the range of "professionals" who intervene in the lives of families and children - as in the case of the scientific traditions, a single disciplinary-based form of education and training is inadequate to deal with children as individuals, as members of a family, and as active participants in the neighbourhoods and communities to which they belong."*⁵

Given problems observed in other areas, can we expect economists to be appropriately informed? If they are, would they be understood?

Elsewhere I have been critical of the reasoning accepted in law.⁶ It is worth noting in particular that the term "proof" in law really means "persuasion". Can either side persuade the judge or jury to accept their argument rather than the other, irrespective of the justness of their cause? It was in this skill that the Sophists took pride.

To further muddy the issue, the basic nature of reasoning appears currently to be undergoing a metamorphosis. To quote Devine on the teaching of English in Australia:

"...even if students do study Shakespeare and Keats, they are being asked to do so with the postmodern tongue in the cheek and through the prism of extreme scepticism the theory requires. They are expected to absorb postmodernism's core belief, that there is no absolute truth, that all facts are relative. They are required, not just to read literature, but to "deconstruct" the texts and discover their authors' hidden motives.

*As Naomi Smith, a trained, but not practising, teacher, wrote in this month's Sydney's Child magazine, such an approach has led to "a significant narrowing of the intellectual freedom allowed to students, who must now tailor their exploration of texts to fit particular theoretical objectives".*⁷

In summary, perhaps we are expecting too much from expert witnesses in general, from economists in that role in particular, and from the courts as venues for deliberation.

³ Mandel M J (1999) "Going for the Gold: Economists as Expert Witnesses", *Journal of Economic Perspectives*, 13(2), Spring

⁴ See p. 63 of Birks S (ed.) (2001) *Children's Rights and Families: Proceedings of Social Policy Forum 2000*, Centre for Public Policy Evaluation, Massey University <http://econ.massey.ac.nz/cppe/papers/cppeip10/cppeip10.pdf>

⁵ Pp.43-44 of Shirley I (2001) "Keynote Address: Evidence based Policy and Practice – What Works for Children?" in Birks S (ed.) *Proceedings of Social Policy Forum 2001 – Child and Family: Children in Families as Reflected in Statistics, Research and Policy*, Centre for Public Policy Evaluation, Massey University <http://econ.massey.ac.nz/cppe/papers/cppeip11/cppeip11.pdf>

⁶ Chapter 5 of Birks S (ed.) (2000) *Analytical Skills for Social Issues: Reason or Delusion*, Issues Paper No.8, Centre for Public Policy Evaluation, Massey University. <http://econ.massey.ac.nz/cppe/papers/cppeip08/cppeip08.pdf>

⁷ Devine M (2002) "Plain truth is we are failing our kids", *Sydney Morning Herald*, 28 February, <http://www.smh.com.au/news/0202/28/opinion/opinion1.html>

research in progress...

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 Massey 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**.

... economic research at Massey University as at March 2002.

Prepared by Stuart Birks [K.S.Birks@massey.ac.nz]

Rob Alexander (R.R.Alexander@massey.ac.nz)

The physical causes of biodiversity loss are well understood by ecologists, but the study of the economic motivations creating the conditions leading to biodiversity loss is a relatively new area. Our research focuses on mathematical modelling of the conditions under which species decline or extinction may be expected to occur given existing incentives in place at the landowner and regional levels. Such modelling may lead to a better understanding of the incentives facing individual landowners and the types of policies and incentives needed to encourage behaviour consistent with our international obligations under the Convention on Biological Diversity.

Jim Alvey (J.E.Alvey@massey.ac.nz) is currently working on 2 projects in the history of economic thought. The first is a short history of economics as a moral science. The second overlaps a little with the first. It concerns various aspects of Adam Smith's work.

Terry Auld (T.S.Auld@massey.ac.nz) is currently working on issues related to policy-making that impact on the introduction of new technology, the economics of Internet-based business and tourism.

Tony Banks (T.J.Banks@massey.ac.nz) has general research interests in the field of international rural development and development management. He is currently undertaking a research programme on rural property rights reform in western China, with a focus on mobile pastoral communities and drawing in particular on new institutional economics. He is working towards a

DPhil (Development Studies) from the University of Sussex, and partly funded by the British Overseas Research Scholar Award and the World Bank.

Stuart Birks (K.S.Birks@massey.ac.nz) has an ongoing interest in: teaching methods; the policy making process, especially the information used; law and economics; and gender and family issues. Much of this work is in collaboration with Gary Buurman, and we are co-editing a new international journal, *Applied health Economics and Health Policy*.

Gary Buurman (G.B.Buurman@massey.ac.nz) has been working with Stuart Birks on research regarding interactive teaching techniques in different types of economics papers. He has research in progress (with a colleague in Australia) regarding equity concepts in relation to child support assessments. There is also a future interest on comparing health insurance policies in New Zealand.

Neil Campbell (N.A.Campbell@massey.ac.nz) and Jeff Kline of Bond University are interested in the issue of whether the conventional neoclassical firm would ever take a "cold shower". A firm takes a "cold shower" if removal of a protective subsidy induces investment in a cost-reducing technology. They show that if the investment lowers marginal cost everywhere, then profit maximizers never take cold showers. However, if the investment does not lower marginal cost everywhere, a profit maximizer may take a cold shower. Another project, initially done in conjunction with the late Dr Neil Vousden of the ANU, examines training as a mechanism for technology transfer from

developed to developing countries. They consider how a multinational corporation's training policies may be affected by technology transfer considerations. Neil is also doing some work on the Porter Hypothesis. The Porter Hypothesis refers to the idea that environmental regulations push firms into developing and adopting new technologies. Further it asserts that making these new technology investments would be consistent with profit-maximising behaviour whether the regulations had have been put in place or not. He has devised a simple model to illustrate a Porter Hypothesis situation. Devising this framework allows us to explore the question as to whether the level of tariff protection given to a firm affects the likelihood of a Porter Hypothesis situation occurring.

Srikanta Chatterjee

(S.Chatterjee@massey.ac.nz) has two main ongoing areas of research: 1. Continuing research on income distribution and inequality in NZ. The most recent project examines the changes to absolute per capita real income levels over the period 1984-98, and applies the concept of generalised Lorenz dominance to compare temporal changes to social welfare. These estimated changes are then allocated to average income changes and changes in inequality as measured by the Gini coefficient. 2. Also continuing research as part of a team on the welfare effects on NZ and selected other economies of different simulated scenarios of trade liberalisation under the current WTO round of trade negotiations. Of particular emphasis in this research are agricultural trade liberalisation, China's recent entry into the WTO, and ensuring food security for the developing countries.

Anne de Bruin (A.M.DeBruin@massey.ac.nz) is currently researching mainly on aspects of the labour market and entrepreneurship. She is on a Massey University team of the labour market dynamics project, which is funded by the Foundation for Research Science and Technology. The current phase of this project is research on non-standard work in New Zealand. In the entrepreneurship area, Anne

is currently busy writing several chapters for a book 'Entrepreneurship: New Perspectives in a Global Age' which she is co-editing and is to be published by Ashgate. This book will provide original interdisciplinary conceptualisations on entrepreneurship, including constrained entrepreneurship, community, municipal and state entrepreneurship and cultural entrepreneurship.

Hans-Jurgen Engelbrecht

(H.Engelbrecht@massey.ac.nz) specifies his main research interests as: Growth theory and empirics, the information- and knowledge-based economy. Research currently in progress: 1. Human capital, the Nelson-Phelps approach, and economic growth in OECD countries; 2. An exploration of data issues in the New Economy; 3. Further research on unemployment spells in NZ (with colleagues); 4. The effect of the MCI on monetary policy in NZ (with Robin Loomes).

Rukmani Gounder (R.Gounder@massey.ac.nz) has research interests in Development Economics, Economic Growth and International Economics. The work includes macroeconomic modelling and the focus is on Asia-Pacific region. Current projects are: 1) Fiji's Economic Performance: Macroeconomic Policies, Economic Growth and Development. This work includes the political economy aspects, impact of public and private investment and social economic development issues; 2) The Determinants of Economic Growth and Total Factor Productivity in New Zealand; 3) Macroeconomic Impact of Foreign Aid and Economic Growth: A Case Study of the Island Economy of Solomon Islands; 4) Black Market Exchange Rates and Contagion Effects: Asian Economies. This work on contagion effects on Asian Economies will continue to further empirical investigation; 5) New Zealand-Asian-Latin American Closer Economic Relations: The Potential for New Strategic Alliances. Evaluation of this project has been started. Analysis has been undertaken for the CER Relations trade diversion and preferential trade agreements. Will be using econometric models (single equation and GTAP) for future work; 6)

New Zealand's Overseas Aid Program; 7) Sri Lankan Ethnicity versus Fijian Ethnicity: A Comparison and Some Lessons; 8) An Empirical Study on the Real Interest Rate: OECD Countries; 9) Globalization and Economics: Who Benefits. This research has been undertaken on the island economies of Fiji and the Solomon Island. The New Zealand economy will be analysed next.

Xiaoming Li (X.N.Li@massey.ac.nz) is currently working on two projects funded by BRF and MURF. The first examines the ability of alternative models in capturing the time-variation of beta risk of New Zealand industry sectors' stock returns, and the second employs recently developed rank tests for non-linear cointegration to reinvestigate the issue of integration among Asia-Pacific stock markets.

Anton Meister (A.Meister@massey.ac.nz) is currently working on three main areas: 1. The effectiveness of microlending as a tool to raise the income of poor people in developing countries. This work flows mainly from working with NGOs, monitoring and evaluating their microlending projects, and conducting impact assessments of those projects. The projects visited and evaluated are mainly in the Philippines.

2. Multifunctionality and the implications of the concept for NZ's production and trade. The concept is still being discussed and used to formulate new policies to protect the environment and rural employment, as well as to achieve food security. The implications for NZ are serious if this spreads to our major trading partners. The magnitude of some of these changes will be measured using a trade model.

3. Placing value on non-market benefits is of importance in many decision situations. This ongoing research continues to apply non-market valuation techniques in real world situations and determines the advantages and limitations of these techniques.

Brendan Moyle (B.J.Moyle@massey.ac.nz) is researching the optimal allocation of conservation effort, private conservation as well as the economics of wildlife crime. He is also currently chair of the IUCN Australia-

New Zealand Sustainable Use Specialist Group, and hence has another interest in conservation through sustainable use. He has also been identifying false-scorpions as possible biological control agents for the Varroa mite.

James Obben (J.Obben@massey.ac.nz) is currently fitting the logit model to 2.5 million observations on unemployment duration in NZ. On his project list are: (i) modelling the underground economy of NZ; and (ii) estimating the scale and scope economies of NZ banks.

Derek Pyne (D.A.Pyne@massey.ac.nz) is currently concentrating on research projects in the areas of endogenous trade policy and law and economics. He is also starting one in the area of local public economics.

Allan Rae (A.N.Rae@massey.ac.nz) is currently focusing primarily on *the WTO agricultural trade negotiations*. This externally-funded work examines proposals put forward to the current WTO round, and quantifies potential outcome scenarios. These include various modalities for the reduction of import tariffs and export subsidies, approaches to phasing out tariff-rate quotas, and ways in which domestic policies that impact on trade might be reformed. Livestock products and other processed foods are the major commodities of interest. In addition, the project also addresses China's recent accession to the WTO, what role China might take in the current negotiations, and the impacts of potential outcomes on China's agricultural trade. The research is conducted in collaboration with NZIER and Waikato University.

Peter Read (P.Read@massey.ac.nz) is researching mainly under PGSF contract PRC000X "Promoting Biofuel and other Sustainable Technologies". This has involved developing a new theory that incorporates the beneficial externality that comes from learning by doing (and learning from others' mistakes!) into standard environmental economic theory that has hitherto reflected only the detrimental pollution externality - i.e. from greenhouse gas emissions in the case of climate change response, which provides the motivation for

this work. The theory finds its application in a proposal for a novel way for the initial issue of emissions permits ("allocating permits usefully" or APU - see website <http://econ.massey.ac.nz/apu>) which is the basis for a submission in the current rounds of consultation as the Government addresses the problem of meeting its Kyoto Protocol commitments. Further research will focus on developing the DIES model (dynamic instrument evaluation model) to a level of policy applicability. Action research on 'biofuel negotiation studies' has led to the initiation of the Energy Federation of New Zealand's Methodologies Workshop which aims to develop agreed Government-industry 'protocols' for quantifying project based credits arising from utilising biofuel and other sustainable energy technologies. Development of the FLAMES model (Fuel/Forest/Farming Land Allocation Model for Energy/Environment Sustainability) into a multi-region version that can simulate trade in forest products, biofuel and fossil fuel under different reference scenarios and different (user-selected) policy land allocations continues, with the prospect of integrating its output into a bottom up supply side model of New Zealand's energy sector, of the international standard MARKAL type.

Guy Scott (g.scott@massey.ac.nz) has research interests focusing on economics and policy evaluation of health education and technology. Current projects relate to economic evaluation of the prevention of food-borne illness, and the development of a generic model able to be used in the economic evaluation of treatment and prevention of an illness in the New Zealand.

Shamim Shakur (s.shakur@massey.ac.nz) focuses on agricultural trade and policy. He is currently working on three projects: **1)** "Financial Sector Reforms and Currency Crisis" (co-researcher: Obben, James). **Aim:** explain dramatic movements in exchange rates. **Hypothesis:** economic fundamentals alone are inadequate to explain currency movements in crisis proportions. **Method:** Regression analysis; **2)** "Macroeconometric Modelling with an Environmentally Adjusted

Agriculture Sector **Aim:** Measure economic performance of a nation by calculating Environmentally adjusted net Domestic Product (EDP). **Hypothesis:** environmental degradation from agriculture and forestry operation warrants substantial downward revision to Bangladesh's GDP figures. **Method:** (i) construct environmental social accounting matrix for agricultural sector of Bangladesh, (ii) estimate emission matrix by using survey data and secondary information, and then (ii) calculate environmentally adjusted income by incorporating the emission activity matrix relationship in a macroeconometric model; and **3)** "Trade and Welfare Gains from Comprehensive Multisector Reforms." (co-author: Rae, A N & Chatterjee, S). **Aim:** calculate and compare general equilibrium effects of alternative trade liberalisation schemes. **Hypothesis:** Comprehensive trade liberalisation is superior to selective, sector-specific liberalisation. The latter can actually increase protection. **Method:** Computable General Equilibrium (CGE) analysis.

Leanne Smith (L.M.Smith@massey.ac.nz) has research interests in: teaching economics; integration of technology in economics teaching; and labour issues. She is currently working on a project developing software to be used in economics teaching. Other current research includes examining the role of internet technology in economics teaching and student performance. Wider issues in labour economics and economics education are also areas of interest and research.

Jen-Je Su (J.J.Su@massey.ac.nz) researches in the area of time series analysis. He currently is working on three topics:

Topic 1: Spurious Regressions and the Kiefer-Vogelsang-Bunzel's

Heteroskedasticity-Autocorrelation Robust Test In this study, we are of particular interested in whether spurious regression occurs when the Kiefer-Vogelsang-Bunzel's (2000, *Econometrica* 68, pp.695-714) heteroskedasticity-autocorrelation (HAC) robust test is applied. To this end, we conduct two case studies. In both cases, we study the behaviours of the KVB's test by means of asymptotic theory and by means of

simulation. First, we consider the classical case of spurious regression: regressions of independent $I(1)$ processes on each other. We consider the case of regressing an $I(1)$ series on a linear trend.

Topic 2: Panel Unit Root Test It is shown that panel unit root tests may power when a large fraction of the time series is stationary. In this study, we draw concerns on the use of panel unit roots by considering cases that sub-panel co-integrations exist.

Topic 3: A New Test of $I(1)$ against Randomized $I(1)$ In this study, we propose a new test for the null of $I(1)$ against the randomised $I(1)$ alternatives. Firstly, we establish the asymptotic distribution of the new test. Then, through simulations, we compare power and size of our test with the test of Leybourne, McCabe and Treymane (1996, Journal of Business and Economics Statistics 14, pp 435-446). We also apply the new test to major stock indexes.

**Australian Conference of Economists
Adelaide, South Australia
30 September – 3 October 2002**

**Business Symposium
“The Economic and Business Implications of the Aging Baby Boomers”
4 October 2002**

The 2002 conference will include numerous sessions on specific topics, including ‘microeconomic reform revisited’, the economics of water supply, education policy, wine economics and the Japanese economy. International visitors will include David Card (University of California at Berkeley), Ed Barbier (University of Wyoming), Paul Mizen (University of Nottingham), and Professor Bob Nobay (London School of Economics).

The conference will be held in Adelaide at the Stamford Grand in the beach-side suburb of Glenelg close to the city. Abstracts must be submitted by 31 May 2002 (≤ 300 words). (If you send your abstract by mail please include a Windows compatible disk or CD with a copy of the abstract.)

Email	ecoconf@adelaide.edu.au
Mail	CoE Abstracts, PO Box 40, BROOKLYN PARK SA 5032 Australia
Fax	+ 61 8 8352 7671
Web	http://www.ecosoc.org.au/

...about NZAE

The New Zealand Association of Economists aims to promote research, collaboration and discussion among professional economists in New Zealand. Membership is open to those with a background or interest in economics or commerce or business or management, and who share the objectives of the Association. Members automatically receive copies of New Zealand Economic Papers, Association newsletters, as well as benefiting from discounted fees for Association events such as conferences.

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full member: \$90

graduate student: \$45

If you would like more information about the NZAE, or would like to apply for membership, please contact:

Val Browning

Administrator, NZAE

PO Box 568

Wellington

phone: (04) 801 7139

fax: (04) 801 7106

email: economists@nzae.org.nz

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If you would like your profile included on the NZAE website - please email your details to: economists@nzae.org.nz

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Volumes 1 through to 15 inclusive; Volume 25 (1) 1991;

Volume 26 (2) 1992; Volume 28 (1) and (2) 1994

Mail to: Val Browning, Administrator, NZ Association of Economists Inc
P O Box 568, 111 Cuba Mall, WELLINGTON

*W*elcome! *to the following people who have recently joined NZAE...*

Cecile Hoods (Waiariki Institute of Technology); **Davie Peters** (Commerce Commission); **Peter Richardson** (Bay of Plenty Polytechnic); **Jason Raven** (Ministry of Social Development); **Stephen Harrowfield** (Graduate Student); **Grant Cleland** (Parliamentary Library); **Aaron Quintal** (Arthur Andersen); **Nathan Strong** (Commerce Commission); **Alan Williams** (Massey Graduate School of Business); **John Hagen** (Deloitte Touche Tohmatsu); **Michael Whaley** (Meitec Limited); **Maryanne Aynsley** (The Treasury); **Stephen Hudson** (Commerce Commission); **Steve Rylands** (The Treasury); **Anthony Casey** (Commerce Commission); **Wilhelmina Eveleens** (Auckland University of Technology); **Paxton McKenzie** (Overseas Investment Commission, Reserve Bank).

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