

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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Musings

EDITORIAL

In this issue we revisit the matter of quality of policy advice. Were Jim Alvey, our political economy colleague, still here rather than in Japan, no doubt he would tell us how difficult it is to separate economics and politics. Can economic analysis really be done and responsibility taken for the consequences of results without considering the political context?

Research funding also comes under scrutiny, indications being that systems may be well-meaning, but are cumbersome and possibly misguided.

There are more of the usual ramblings from S Birks – people will have to contribute more if you want to avoid those. In any event, thanks to our contributors. Pointers, notices and articles are always welcome. We would also like to give a posthumous thank you to T.M. of Mungapai (and the National Library) for a stimulating letter.

Congratulations are in order for Donal Curtin, NZAE council member, on his appointment as a member of the Commerce Commission. Also, for those of you who are not aware of the fact, Alan Bollard, formerly of the Commerce Commission, has now moved on to other pastures.

One additional request - Val Browning, the NZAE Secretary-Manager, is compiling a complete collection of **past issues of NZ Economic Papers**. She now has all except Volumes 1-4. If anyone can help, please contact her. Contact details are below, on p.20. Thanks.

by Stuart Birks and Gary Buurman, Massey University

A Career at the Treasury

Do you enjoy working on economic and financial policy issues that can make a difference to New Zealanders' living standards? Do you want to develop your financial and economic skills in a stimulating policy environment?

If you have a postgraduate finance or economics degree, and you want a challenging job that fully utilises your training, consider your career options at Treasury. We have opportunities for economic and financial professionals, in research and applied policy. Check our current vacancies at www.treasury.govt.nz.

The Treasury values and respects its employees, and welcomes applications from people regardless of gender, ethnicity, age or disability.



THE TREASURY
Kaitohutohu Kaupapa Rawa

Research News

Robin Johnson (johnsonr@clear.net.nz) is currently undertaking the **updating of Bryan Philpott's data series** on nominal and real investment by industry sectors, his gross and net capital stock series and his employment in FTEs series (RPEP Paper 293, March 1999). Later real and nominal GDP by industry sectors will be undertaken. Since Stats is charging for some of this information there may be a small charge to users in the form of hard copy rather than electronic versions.

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.

The quality of policy advice is a recurring theme, as is the role of economics in policy debate. Currently there is an example, which relates to both these issues. Submissions have been called for by the end of this month in relation to two documents issued by the Ministry of Women's Affairs (MWA). The documents cover pay equity, or "equal pay for work of equal value", a policy issue in the agendas of both the Labour Party and the Greens. The documents are, *Next Steps Towards Pay Equity* (MWA1) and a background paper (MWA2).

While economics is central to this issue, the issue is also highly political. What happens when political agendas clash with economic orthodoxy? There should at least be scope for lively economic debate, and for economists to revisit some of their basic thinking.

Discretion is the better part of valour, and I simply present here a collection of extracts from the document and elsewhere that might indicate controversial issues. I indicate where I am puzzled, but leave it to more adventurous souls to nail their colours to whatever mast they favour.

What is the gender pay gap?

The gender pay gap is the difference between average earnings for women and for men. A common way of measuring this is to compare average hourly earnings for women with average hourly earnings for men. The gender pay gap in hourly earnings from wages and salaries has been monitored since 1973, following the Equal Pay Act 1972 (MWA2, p. 6).

How large is it?

In June 2001, the average hourly earnings of New Zealand women, as measured by Statistics New Zealand's annual Income Survey, were 84.3 percent of men's average hourly earnings, a gap of 15.7percent...The gender pay gap has narrowed just five percentage points in the 17 years since 1984, when the gap was 20.7 percent (MWA2, p. 6).

The invisibility of women's work:

Some aspects of women's work may be invisible because they match accepted norms of female behaviour, such as caring or pleasantness. Others may be invisible because they do not fit feminine stereotypes, such as the strength required to lift patients (MWA1, p. 24). [I don't quite understand this – it is invisible because it is expected, and invisible because it isn't. How would 'men' be substituted into this passage?]

The underlying principle:

All women, whatever their occupation are entitled to a credible assurance that their pay is not discriminatory because of the kind of work they do, or the proportion of women doing it (MWA1, p. 27).

On price being a signal in labour markets:

On the one hand, prices are important-

Equal pay for equal value is about the transferability of skills between jobs and sectors, whether they are performed by men or women...Rewards are an important means of ensuring that skills are available, that jobs are filled from a choice of candidates, and that good staff are retained. Fair rewards send signals that help people decide which qualifications to invest in... (MWA1, p. 24).

Pay systems that seem fair and reasonable help motivate employees, and increase commitment to the job and the company. Equal pay for work of equal value, as part of a planned and equitable remuneration system, can give the correct messages about what – and who - is valued in an organization (MWA1, p. 24).

On the other hand, prices have little effect-

The Equal Pay Act 1972 had no adverse effects on women's employment or men's wages. The change contributed only 3 percent to the 64 percent inflation between 1972 and 1977. It narrowed the gender pay gap by more than 6 percent (MWA1, p. 24).

Do desired prices generate the desired outcome, or does a desired outcome generate desired prices? –

A review of wages across the global economy by a World Bank economist in 1999 considered pay inequalities and gender differences in jobs to be a misallocation of the labour force. Efficiency losses result if pay and recruitment is based on demographics rather than skills and abilities. This view is shared by the ILO. The Department of Labour report on the gender pay gap also said that efficient allocation of human resources requires equally productive workers to be paid equally (MWA1, p. 24).

On measuring productivity:

Equal pay for work of equal value is about valuing the contribution women employees make to the economy. Pay and employment opportunities based on gender or ethnicity, rather than on skills and abilities, may indicate a misallocation of human resource potential in the labour market. The next steps

towards pay equity go beyond measuring the gender pay gap, to start examining the value placed on work typically done by women, including Māori and Pacific women (MWA1, p. 3).

In Australia in March this year, the New South Wales Industrial Relations Commission found that gender pay played a part in the undervaluing of the work of librarians, library technicians and archivists and determined that a pay rise was due to take account of increased skill and responsibility for these employees. Such determinations rely on a system of assessing and ensuring that pay rates are fair and a willingness to genuinely reduce discrimination in the workplace (MWA1, p. ii).

And for the statistically minded among us:

It is important to note also that the remaining 20 to 60 per cent of the gender pay gap, which is often described as the 'unexplained portion', cannot be explained by statistical analysis. Many commentators attribute this unexplained element to the presence of discrimination in the setting of wages (Margaret Wilson, PSA Pay Equity Seminar). [Can anyone explain for me 'cannot be explained by statistical analysis'? If you use enough variables, there will be no unexplained residual.]

Some flak from Canada:

According to Went-

The idea of pay equity is rooted in the 1980s, when businesses were ordered to stop paying women less than men for doing the same job. The Canadian Human Rights Commission, however, went further. It instructed Ottawa to implement equal pay for work of equal value, which is a different proposition altogether (Wente).

Should a vet make more than a statistician? In the real world this question makes no sense. The market decides the value of their work. Under the new scheme, the government would decide (Wente).

After the first 40,000 jobs had been rated, nearly all the high-tech jobs scored lower than expected. Computer programmers wound up with the same number of points as clerks and dockhands, and would have been paid far below market rates.... Thousands of professionals with university degrees discovered they'd be red-circled and might end up not making much more than clerical workers. The clerical workers, on the other hand, would be the best-paid clerks in Canada (Wente).

Fortunately, it proved impossible to implement, and two weeks ago it quietly bit the dust. After 10 years of work and more than \$100-million in startup costs, the Treasury Board declared the scheme "unworkable" (Wente).

According to the MWA-

Canada has the most extensive and varied experience of pay equity of any country. It is currently reviewing its federal legislation (MWA1, p. 23).

Canada ratified ILO Convention 100 in 1972. With Quebec taking the lead in 1976, nearly all Canadian provinces passed pay equity legislation of varying types for public sector employment. Until 1998, Ontario's pay equity legislation also covered the private sector, with different requirements for small and large employers (MWA1, p. 23).

What of the cost?
If equal pay for work of equal value were to completely resolve the 20-40 percent of the gender pay gap that the Department of Labour attributes to occupational difference (see Section 2), the cost of this could be estimated at 1.2 to 3.5 percent of the national wage bill. In practice, the cost is likely to be lower. Reviews

The Economics Academic Group of the Faculty of Business at Auckland University of Technology is hosting the **Tenth Annual Teaching Economics Conference** 30 June - 2 July, 2003

The conference will provide a mix of keynote speakers, presented papers and workshop sessions that collectively will provide a forum for an exchange of ideas on making economics exciting and relevant in the classroom and to the real world. Sub-themes of the conference will include:

- Curriculum development
- Teaching for multicultural clientele
- Accommodating learning preferences of teachers and students
- The teaching - research nexus
- e-learning and alternative mode learning
- Transition from school to university to post-graduate study
- Economics of Education.

For further details please contact: mary.hedges@aut.ac.nz

or job comparisons would be likely to happen gradually, perhaps in deliberate stages (MWA1, p. 25). [How does speed of change affect the cost?]

Is the problem self-correcting?

The occupational differences by sex and ethnicity that contribute to pay gaps are deeply embedded in the labour market and society. Without policy action, only very slow change can be expected. The gender pay gap problem is likely to persist. Equal pay for work of equal value is a policy principle that aims to address any discriminatory effects from these occupational patterns (MWA1, p. 25).

The role of government:

Government regulation, requiring all employers to take action or to implement a pay equity standard, could be a way to ensure changes are made smoothly, with less disruption to local labour markets. Careful implementation can lessen impacts on firms and local labour markets while still achieving policy goals. Regulating change may be the best approach for employers, as well as for women employees (MWA1, p. 26).

On implementing pay equity:

This Document seeks public discussion and innovative thinking towards a policy design that is simple, fair to small firms and effective. The technicalities of measuring the value of women's and men's jobs (see p.29) may be a lesser issue than how equity adjustments are to be delivered. Neither employment nor human rights laws currently offer appropriate and easily adopted frameworks for policy on equal pay for work of equal value (MWA1, p. 28).

MWA1 (2002), *Next Steps Towards Pay Equity: A Discussion Document*, Wellington: Ministry of Women's Affairs, July.

MWA2 (2002), *Next Steps Towards Pay Equity: A Background Paper on Equal Pay for Work of Equal Value*, Wellington: Ministry of Women's Affairs, September.

Wente, M. (2002) "The pay equity debacle", *Globe and Mail*, 21 May, p.A19

Wilson, M. (2002) Speech to PSA pay equity seminar, 31 October

<http://www.beehive.govt.nz/ViewDocument.cfm?DocumentID=15329>

**Australian New Zealand Society for Ecological Economics (ANZSEE)
2002 Conference - 2-4 December 2002**

At: University of Technology Sydney (Broadway campus)

**Theme: Strategies into action: regional and industry policy applications
of ecologically sustainable development**

The deadline for abstracts was 28 June. Earlybird registrations have to be in by 26 July.

To find out more about the ANZSEE 2002 conference or to register, visit the conference website:

<http://incres.anu.edu.au/anzsee/ANZSEE2002.html>

Email contact is Mark Diesendorf mark@sustainabilitycentre.com.au

New Zealand Trade Liberalisation Network

"The New Zealand Trade Liberalisation Network is a business organisation aimed at encouraging broad public understanding and support for trade."

Web page at: <http://www.tln.org.nz/>

NZAE CONFERENCE 2003

PRELIMINARY NOTIFICATION

DATES: Wednesday 25th – Friday 27th JUNE inclusive
VENUE: Sheraton Hotel, 83 Symonds Street, Auckland

(If booking accommodation with the Sheraton Hotel please state it is for the 'Economist Conference' – to receive the negotiated room rate of \$150.00 plus gst per night).

Alternative Accommodation (within 5 – 15 minutes walking distance):

Auckland Kiwi International (Queen Street, Tel: 09 379 6487)

Business Room: \$89 Twin/Double – Ensuite; Standard Room \$79 Twin/Double – Ensuite
Single Room: \$59 Ensuite; Shared Facilities Room \$39 - \$49 (Single/Twin) handbasin in room
Family Rooms \$100 - \$130 per room (holds 4-5 people)

Kiwiconomy Hostel – Part of Auckland Kiwi International

Bunk Rooms \$15 and \$18 per person; Twin/Double Rooms \$22 - \$25 per person

Grafton Oaks (Tel: 09 309 0167)

Single Room \$75 with facilities (Queen-size bed); Double Room \$80 with facilities (Queen-size bed)
Twin Room \$85 (2 people) Queen & single bed; Triple Room \$90 (3 singles) with facilities
Suite (1 queen-size bed) \$110-\$120 (2 people) with facilities

Quest on Mount (Tel: 0800 50 80 30)

1 Brm (with fac.) Studio: \$114 plus gst (2 pax); 2 Brm (with fac.) Studio \$117 plus gst (2 pax)
2 Bedrooms \$178 plus GST (4-5 people) with facilities

Kiwi Backpackers (Tel: 09 358 3999)

Doubles: \$48 pp; Small Dormitory \$20 pp (4-6 people); Large Dormitory \$19 pp (10 people)

REGISTRATION FEE and other charges will be detailed in our registration form which will be sent to all members late January.

The programme is in planning stages but the general theme is “Business Economics” The focus is on economics as it applies to business, both directly through informing business practice and indirectly through the impact of government policies. Speakers will include: **Ed Lazear**, Stanford University; **David Collander**, Middlesbury College; **Andrew Hallett**, Research Fellow, Centre for Economic Policy Research, London. **A couple of other exciting people are in communication with us but yet to be confirmed.**

You can help by: organising a themed session ▪ reporting on completed research ▪ reporting on work in progress ▪ offering to chair sessions or discuss papers ▪ encouraging postgraduates to attend and present papers ▪ encouraging recent graduates to enter Jan Whitwell Prize ▪ contacting the conference convenor Mary Hedges (mary.hedges@aut.ac.nz) (with any suggestions/bright ideas for speakers/themes/workshops).

The formal Announcement and Call for Papers together with Procedures for the Submission of Abstracts will be mailed to members and posted on the website in January.

Please address preliminary enquiries to:

Val Browning

Secretary-Manager

NZ Association of Economists (Inc)

111 Cuba Mall

P O Box 568

WELLINGTON

Phone: 04 801 7139

Fax: 04 801 7106

E-mail: economists@nzae.org.nz

Website: www.nzae@nzae.org.nz

Application forms for NZAE membership can be obtained from the Secretary-Manager

Bashing the economics profession is a long standing way to sell books – J.K. Galbraith made a career from it, and the tirade continues. In *How to Argue with an Economist: Reopening Political Debate in Australia* (Canberra: ANU Press, 2002) Lindy Edwards provides an Australian perspective. The story is dominated by the usual line that standard economics (labelled here in Kelseyian tones as “economic rationalism”, a term she never actually manages to define) lacks a human face – by concerning oneself with the efficient use of scarce resources, eschewing state intervention of the sort that characterised pre-reform Australia, one is automatically charged and found guilty of not caring for people and their communities. Is this prima facie evidence of poor communication by the economics profession? Anyway, readers of this short, pithy book will find a secondary theme – more one of political economy. The author argues that a wide range of economic and social policy enacted by parties of all stripes in Australia is the product of capture of their political masters by a cadre of young, sharp suited (generally male) bright, ideologically obsessed economists who occupy the policy advisory roles of the key ministries in the Federal Triangle of Canberra. The refrain that “Treasury is the source of all evil” will doubtless strike a familiar note to readers on this side of the Tasman, and be music to the ears of those who tend to overlook the minor detail that elected parliaments enact policies, not faceless bureaucrats.¹

Julian Simon, ever since the days of his famous gamble on the world’s (non)-diminishing resources, could always be relied on to provide a different, well-argued and invariably entertaining slant. These features dominate a recent book *The Great Breakthrough and Its Cause* (University of Michigan Press, 2001). I quote from a review by Jim Powell:

In previous books, the late Julian Simon defied population doomsters to demonstrate that the more people there are, the larger a market, and the greater the potential for prosperity. Here he takes this idea one intriguing step further: population increases were essential for the flourishing of civilization itself.

I am in no doubt that Julian Simon would have enjoyed enormously Bjorn Lomborg’s *The Skeptical Environmentalist: Measuring the Real State of the World* (Cambridge University press, 2001). In fact, Lomborg attributes his interest in the topic to the challenge to prove Simon wrong... i.e., to remain true to his (Lomborg’s) roots as an eco-activist and show that indeed we were destroying the planet. To his own surprise the evidence went the other way. Lomborg, in true Simonesque fashion, takes on the modern Club of Rome and asks merely that they look at the facts. A third of the book is notes and references (all highly selective say the critics!!). My, what a storm he has raised – heated debates in the hallowed halls of the Royal Society, letters to Nature and Science...angry claims and counter claims. But this book should be a compulsory starting point for those needing a reality check before implementing policies and agreements that address problems that don’t exist with instruments that won’t work. There are mistakes, and natural resources are mismanaged, but Lomborg makes a cogent case that taken overall, things are actually improving. Room for improvement... undoubtedly. Cause for panic...not evident in the facts!!!

Most all will have read the widely circulated and hard –hitting piece by Ken Rogoff who, in a public address earlier this year, “reviewed” the book by Joseph Stiglitz *Globalization and its Discontents* (New York: W.W.Norton, 2002). Should you have happened to have missed it go to: <http://www.imf.org/external/np/vc/2002/070202.htm>. The fact that it is on the IMF website must surely speak volumes to the openness of the organisation (so the blood on the streets of Seattle and Genoa was not in vain, perhaps?). Nobel Laureate Stiglitz left Washington clearly disillusioned with the capture of international development agencies by the political gurus of Washington and the financial gnomes of New York. He gives a view from a well-placed ring-side seat, first as the chief economic advisor to the Clinton administration, and then as chief economist at the World Bank. Further career moves would seem more likely to be within academia rather than in the power houses of Washington. But to ignore his messages based solely on Rogoff’s dismissal could be a mistake. Room for improvement...?... I would suspect so!!

¹ The reader is warned that your columnist might just be a tad sensitive on this matter having worked in policy advice roles in both Canberra and Wellington.

Did you fill in your census papers? by Stuart Birks

I recently stumbled across the following from *The Hawkes Bay Herald*, July 19 1862, p.2 (via the National Library of New Zealand):

A RECENT Government Gazette contains the results of the Census taken some few months since, duly classified and arranged in tables by the Registrar-General. Some persons, even in this age of enlightenment, regard a census as a suspicious and inquisitorial proceeding on the part of the Government - an unnecessary act of espionage, a breach of the liberty of the subject, etc.; accordingly it is found that, in some cases the information is given unwillingly, and in others, the census papers are made the medium of a variety of witticisms or what is intended as such...

Considering the publicity given to the Wizard of Christchurch in his efforts to avoid the census, it might be thought that such cases are rare. He is not alone, however.

The Statistics New Zealand web site includes a document, *2001 Census of Population and Dwellings - 2001 Post-enumeration Survey Results* with an impossibly long URL. It states:

Overall, the 2001 Census coverage was high, and this reflects the cooperation and support of the New Zealand public, and the quality work of field staff. The PES showed that about 97.8 percent of New Zealand residents in the country on census night were enumerated in the 2001 Census. This represents a net undercount of 2.2 percent or 85,000 people. This resulted from an estimated undercount of 107,000 people, offset by 22,000 people being counted more than once. In comparison, the 1996 PES showed that about 98.4 percent (revised) of New Zealand residents in the country were enumerated in the 1996 Census.

How does this compare with overseas? Statistics New Zealand says:

The New Zealand net undercount rate compares well with other countries. The net undercount for the 1996 Canadian Census was 2.4 percent and for the 1996 Australian Census 1.6 percent.

We can find additional information on the UK National Statistics web page at <http://www.statistics.gov.uk/census2001/annexb.asp>:

In 1991, the estimated coverage and total overall response of the census in England and Wales was 98 per cent. This was the proportion of the population accounted for in the census results. It included some 2 per cent estimated by enumerators to be resident in identified households but from whom no completed census form was collected. Thus census response in 1991, defined as the proportion of the population counted on returned census forms, was 96 per cent in England and Wales.

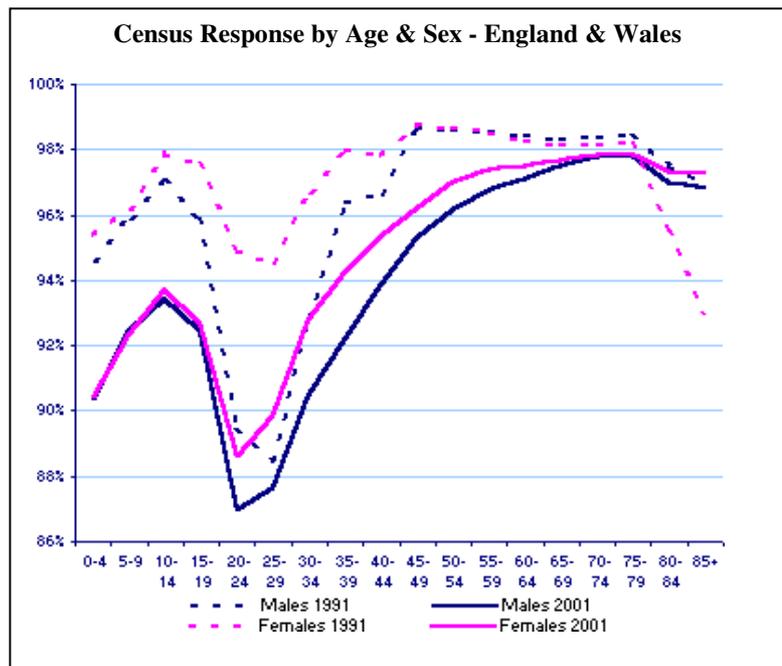
In 2001, coverage of the census in England and Wales was 100 per cent. Total overall response was 98 per cent. Using the same definition as for 1991 it is estimated that 98 per cent of the population in England and Wales was covered in 2001, the same as for 1991. This includes some 4 per cent of the population estimated to be resident in

households identified by enumerators but from whom no completed census form was returned. Census response in 2001 for England and Wales is therefore estimated to be 94 per cent.

There is a distinction between enumeration and census form completion. The UK report does not mention double counting. The number of completed forms is less than the number of people enumerated. Form completion rates also vary by age and sex, as shown in the UK graph overleaf.

In 2001, Kensington and Chelsea had a response rate of 64%!!

New Zealand enumeration (as distinct from completion) figures are estimated to be short in 2001 by about 48,000 males compared with 37,000 females, or 2.6% and 1.9% respectively. The 15-29 age group overall had an undercount rate of 3.1%. Also, *“Ethnic differentials are marked. The net undercount was 5.2 percent for Pacific peoples, 4.4 percent for the Māori population, 2.4 percent for the Asian population, and 1.7 percent for the European population.”*



Book/Report Review by Robin Johnson (johnsonr@clear.net.nz) of: *Making R&D a National Priority*, a report prepared for the Knowledge Wave Trust by McKinsey&Company, September 2002 (http://www.knowledgewave.org.nz/kw_trust/docs/md_main.pdf)

In my youth The NZ Alpine Club published a review of a book, *A Centennial History of NZ Mountaineering* by John Pascoe. The review was called “A False Page of New Zealand History”. It noted profound regional differences in the approach to the mountaineering sport. I feel the same about this report on making private investment in R&D a national priority.

Background

The study was commissioned by the Knowledge Wave Trust following the government-sponsored Knowledge Wave Conference in August 2001. It draws on the experience of NZ scientists and industry leaders and also on international experience, and recommends treating R&D as a national priority. Five areas were identified where New Zealand’s R&D system falls short of best practice:

- New Zealand’s R&D expenditure is too low, with NZ businesses contributing comparatively little to R&D;
- As a result, public research dominates the sector - and current public sector strategies lack the clarity and focus to optimise returns on investment;
- This problem is compounded by current performance management and funding allocation practices;
- These practices have contributed to institutional fragmentation, duplication, and low commercialisation rates;
- New Zealand also needs to take advantage of overseas opportunities to source and commercialise its technologies.

I will address these in turn.

That New Zealand’s R&D expenditure is too low and business contributing too little rests on international comparisons of R&D expenditure and wealth growth. Cross-country GDP growth is compared with rates of R&D expenditure. New Zealand looks backward by all these counts. These tell us nothing but the fact that all countries are different. The basic reasons for low business expenditure are not addressed.

The second observation concerns the dominance of the public sector in New Zealand. Government has stepped in to fill the wealth creation role “typically” filled by industry in other countries. The authors state that current strategic sector targets are too broadly defined to be actionable, these targets are not supported by appropriately aligned policies, infrastructure or leadership; and that basic research expenditure is likely to be too low to create future strategic opportunities. Their argument appears to be based on a centrally driven model of investment in R&D in which government investment drives the whole system.

The third relates to the current public funding system through FoRST. The report states that allocation should be based on areas of market failure and that peer reviews should concentrate on this aspect. Market failure is defined as (p.8) ‘areas where the required benefits could not be obtained through private efforts’. What is socially desirable appears to be the product of international comparisons. The FoRST system is not managed to compensate for these particular attributes. The system provides totally inadequate performance monitoring; there is no follow up to grants awarded.

On fragmentation, duplication and commercialisation the report says that NZ spends \$0.7b in R&D across 17 institutions which has prevented the emergence of critical mass in some fields, and duplication in the bioactive and agricultural sectors in particular. There is no discussion of commercialisation prospects.

On overseas technologies, the report says it is critical to boost the proportion of exporting firms. McKinsey “finds that productivity is the key to economic growth”, a tautology if there ever was one! In addition, few companies access the global markets to commercialise their R&D. Obtaining overseas research results obviously lowers the cost of doing local research and hence negates the review’s comparisons of R&D spending and GDP.

The Report’s Recommendations

The Report reaches the conclusion that, to meet New Zealand’s growth objectives, R&D needs to become a national strategic priority! R&D must receive the kind of attention governments allocate to health, education and taxation policy. There are four recommendations for action:

1. Set up an Innovation Leadership Committee to create and coordinate a focussed, national R&D policy with alignment to overall national strategic priorities and to education, immigration and business development policies;
2. Consolidate the research sector, based on performance;
3. Improve the global connectedness of New Zealand's R&D community;
4. Increase R&D funding to match "international benchmarks"- fill the \$US1b funding gap (\$NZ1.9b).

The funding gap relates to an estimated requirement that New Zealand needs to spend \$NZ1.9b over and above the current funding targets to meet OECD levels of expenditure per capita. Innovative ways will be needed to derive funds from both the public and the private sector. Government should aim to draw \$600m from the private sector, \$600m from private-public partnerships, and \$600m from public sector funding. The private sector needs leadership and courage; the top 10 companies should create a corporate technology strategy with aspirations to raise the technology and export focus of their businesses and increase their technology investment accordingly. The Government must implement more aggressive fiscal incentives, including tax credits, which the authors prefer to financial grants.

Comments

Kealey and Al-Ubaydli (2000)¹ point out that proposals such as these are a typical example of the linear growth model. In the model, government funds pure science, which leads to applied science and then enhanced economic growth. They suggest that a better explanation might be the Smithian growth model, where academic science flows out of applied science, and improvements in applied technology drive both the pure science and wealth creating activities.

It seems to me that there are good reasons why private expenditure is low. These are related to a belief that there is insufficient payoff, plus long waiting times, and the lack of relevance of public research. In turn these are related to the dominance of public funding. The report does not address such issues, except by a passing mention of market failure and crowding out. Only their fiscal proposal attempts to address these issues, and at last report Treasury was firmly against such proposals

because tax credits for R&D are difficult to administer and create opportunities for tax leakage.

I have difficulty with arguments for more R&D that have to draw on international comparisons. These introduce an element of political correctness that runs counter to basic economic reasoning. The proposed optimal levels depend on each country's circumstances and specialisations, and assume that such countries are actually operating at desirable levels. As I see it, the private decision to invest in R&D must be related to the prospect of better returns. It is the prospect of better results that drives the investment and not national goals of strategic investment, even if these can be identified. Private sector underinvestment needs to be extensively researched before conclusions can be reached. To economists, the incentive system is a fairly simple cost-benefit problem related to market structures and science organisation. This is the reason why I am sympathetic to tax credits. They will (other things being equal) alter spending decisions at the margin. To me, the great work on the future of private R&D in New Zealand has yet to be written!

Two world conferences on the future of economics:

ICAPE World Conference
THE FUTURE OF HETERODOX ECONOMICS

5 - 7 June 2003

University of Missouri at Kansas City, USA

For details:

http://www.btinternet.com/%7Eepae_news/ICAPE.htm

Cambridge Journal of Economics
ECONOMICS FOR THE FUTURE

17 - 19 September 2003

Cambridge, UK

For details:

http://www.btinternet.com/%7Eepae_news/CambridgeConference.htm

¹ Kealey T. and Al-Ubaydli O. (2000), Should Governments Fund Science?, *Economic Affairs*, September, IEA. London.

Research funding for economics and the Foundation for Research, Science and Technology
By Anonymouse (anon@unowhere.ac.nz)

Well I have just about recovered after getting one application into the foundation (that is the Foundation for Research Science and Technology (FoRST)) and am ready for another 3 or 4 joint bids to be submitted in February! This is first time for ages that the foundation has opened up its funds for bidding and one third is being allocated over three years, currently we are bang in the middle of this period. Just for the statisticians among you the foundation has a budget of nearly \$400 million per year. Anyone bidding into this research pool of funds knows that learning the language is of first priority. So I now consider myself fluent in foundation speak (always dangerous to be complacent).

Anyhow for the uninitiated, you start the bid off by considering your **strategic intent** – otherwise thought of as what you are proposing to do. This should include such factors as *end-user sector context* (for the uninitiated an end-user is someone who potentially thinks the work is useful but not too useful, yet, that they would fund it themselves (although it certainly helps if they promise some money – called co-funding). You must relate your work to the *investment signals* (used to be called change messages), that is, the direction the foundation would like research to develop. Finally you must describe your alignment with external or national strategies; other research teams; other funding sources; commercial, social or international context and how your work relates to the relevant *Strategic Portfolio Outcome* or *Portfolio*!

The next section in your proposal should say why you are doing it, that is, the **Potential Benefits to NZ**. These include *Expected Benefits to NZ* and the *Overview of the Key Research Steps and Methods*. The benefits included are economic, social and /or environmental, with the foundation giving these different weights depending upon the class of research. The benefits should also include initiative for human capital development. The overview of key research steps and methodology speak for themselves I hope, but should include things like hypothesis, research design, and how the research builds on existing knowledge.

The third section is called **Pathway to the Delivery of Benefits to NZ** which I guess could be interpreted as ‘how are you going to get the research used’! This include such factors as *user connections and partnerships and pathways to implementation* ... the latter in my experience being steep, if past research is anything to go on. Also included here are your *end-users* and how you are going to communicate with them; end users involvement in the research problem and how the research may encourage end-users to undertake their own research.

The next criteria is that you have to **Demonstrate the Ability of the Team to Deliver** – this is the bit where you can shout your trumpet – always difficult for modest people like me!

The final section is on **Strategic Balancing Factors and Profiling** where you have to show how your research fits in with investment signals and other research in this area funded by the foundation.

All the above in 10 pages (although for the current round 15 pages are allowed).

However, I guess I, and my team were lucky we were able to bid for these funds. Out of the total budget little is earmarked for economics research. Now, of course, this is understandable given that we, as economists, are efficient and therefore do not need so many resources to do our research (some unkind people would say cheap!).

In any case the foundation is evaluating these proposals on their social, economic and environmental benefits, so it stands to reason that surely a robust economic analysis should underpin the research benefits and therefore be part of every bid. Moreover the foundation is also encouraging a multi-disciplinary approach to research so that social scientists and economists are included in the traditionally science dominated bids.

All this is highly laudable but the theory is often far removed from the practice. Hands up those who have been phoned the day before a bid is due in and asked to calculate the economic benefits of some piece of science research??? Or expected to evaluate these benefits for love, as of course anyone with an envelope can do it! So certainly we have a problem getting across to our science colleagues that, to value the benefits to NZ of their research, more time and resources are needed. The message may actually get across if the foundation has appropriate people sitting on its reference groups assessing the bids who can ask where some of the economic information has come from.

The other danger is that it demotes economics and social science to a ‘service’ science that provides cheap and nasty responses, rather than providing funds to genuinely foster scientific excellence. To be added onto a multi million dollar bid for a few thousand isn’t morale boosting or helps to foster research capability in NZ.

It does make one wonder how valued we are by our scientist colleagues – some of whom continue to make the mistake of presuming that ‘good’ science will automatically be adopted; have positive social consequences; and of course earn lots and lots of lovely cash for those who hold the intellectual property rights over it.

Anyhow I think we should be valued much, much more, and if there are any research funds looking for a good home, just look for us economists..... we are good value for money!

Anonymouse, otherwise Caroline

Letter to the Editor (via the National Library)

The Clutha Leader, July 15, 1892, p.3

DESTRUCTION OF TIMBER

TO THE EDITOR

SIR, - I see you still continue your laudable and earnest efforts to induce tree planting in and around Balclutha. I have had some experience in tree planting, and I think that, were the general system you suggest carried out under the supervision of a capable person, Balclutha and its surroundings would very soon be regarded as the cosiest and most inviting township in the South Island. It would then attract visitors, picnic parties, summer lodgers and others, who would all help the place along. But alas! some can see no beauty in a tree, and others see no value in mere natural beauty, and thus the work of adornment is but of slow progress.

I think you also well might sound a note of warning regarding the destruction of our valuable forests all over the country, while you cite high authorities showing the necessity of planting and its social, climatic, economic and even poetical aspects. A pounds worth of timber is sent away in the breeze, for a return of a shilling in butter and cheese. For this the Government is causing men to throw up good and profitable employment, and forcing hundreds and thousands of acres into the market at 6d an acre in rent, the sole condition being the destruction of the forests, as if timber was useless rubbish, and not the most valuable crop which can be grown. It also takes ages to come to maturity, while the demand for it is as great as for any other product of the soil, and is ever increasing faster than the supply. Why is it not turned to some account, but because of bungling and impractical Governments whose mental vision is obscured by fads and Utopian and empirical schemes. By all means settle the land, but why should such a valuable asset as our timber be wasted in the presence of great present and prospective demand? It would profitably employ thousands of our population and put them in a safe position, and enable them to occupy the land profitably for themselves and for the country. But in place of this we are leasing the bush at 6d an acre, and compelling men to burn it off in order to form a cattle or sheep run for somebody requiring no labour - except perhaps a shepherd or a stockman - the natural increase of the settlers going to swell up the ranks of the unemployed, or, as some call it, to increase 'the increment'. For this is where all our fancy legislation tends, and what will be its result? Why cannot the Agent-general be made of some practical use, and let him have rooms in the colonial institute and some such place, where he could show our native timbers and all our agricultural and mineral products, with the prices they could be delivered at in London, and not leave it to the chance of men coming out to discover our wealth. There is a great future before New Zealand if the country is not 'burst up' by insane legislation, which would encourage our local industries at the expense of our export trade, and slide the whole trade and commerce of the country for a little temporary popularity. Another instance of penny wise and pound foolish is evident to anyone but a Cabinet Minister; that it is on our export trade that our native industries must be built and enabled to support a population and sustain our credit. Where would our native industries be at this moment, and where would our credit be but for our export trade? And yet this must be sacrificed at the shrine of greed and incompetence, in order that a few men may get an extra price for boots and shoes and such like, which all falls on the industrious hardworking settlers, and helps to cripple our export trade. The farmers need no protection to send their produce thousands of miles, and why should they be made to pay prohibition prices for all they buy? It would be better for them to dispense with the towns, and get their goods direct from their Home customers, who determine the price of their produce. I might extend the subject to many pages, but this letter may be as much as you care to publish. I am, &c., T.M.

Mungapai, Auckland, June 12.

There is a distinction in economics between technical and distributional incidence. When used in relation to a tax, technical incidence describes who actually pays the tax bill, whereas distributional incidence recognizes that some of the tax may be passed on to consumers, while the rest is absorbed by suppliers. It is the distributional incidence that describes the distributional effects of the tax, with the technical incidence being largely irrelevant.

Law, on the other hand, places great emphasis on technical matters, while frequently overlooking the distributional. Here are two examples. While they come from family law, they indicate the sort of logic that is acceptable to lawyers in general.

The first example relates to the recently introduced Property Relationships Act, and consists of two similar questions and answers, the first from the Law Society web page, and the second from Seniorlaw, a web page for older people prepared by the law firm Glaister-Ennor:

Q: Can my partner get a share of my future earnings?

A: No, not under the Relationships (Property) Act. In cases where there will be an economic disparity between the partners after separation, which is caused by the division of functions during the relationship, the Court can divide the existing property other than 50/50. But that bigger share comes out of the property accumulated during the relationship, not out of future earnings.¹

Q: Can future earnings be claimed?

A: No, not under the Property (Relationships) Act. There is an ability for a Court to recognize situations where a party has given up their career to raise a family and support the other spouse or partner in their career. In that case, the Court could divide property other than equally, but the bigger share comes out of the property accumulated during the relationship, not in respect of future earnings.²

The point emphasized in both answers is the technical one that the payment comes out of existing assets rather than future income. It is hard to see how it could be otherwise if the payment is made before the future income is earned. However, in both these cases, the anticipated future earnings of the parties are crucial determining factors for unequal splitting of relationship property.

This narrow, technical approach may have enabled law-makers and lawyers to avoid the potentially embarrassing acknowledgement of double-dipping with both property settlements and child support being based on the same future income.

Coincidentally, Statistics New Zealand has used similar reasoning in relation to child support and the measurement of liable and recipient parents' incomes:

The income questions in the 2001 Census of Population and Dwellings refer to gross income received by individuals. Recipients of child support payments should record this figure as part of their income. For liable parents, the payment will be part of their expenditure, which is not part of what gross income is measuring. In this way the census is not double counting child support income.³

Technically, there is no double-counting, but distributionally there is.

My second example comes from the web page of another law firm, Fortune Manning.⁴ It describes a "novel decision" by Justice Smellie in the High Court in *Buyers v Dean*. It refers to a de facto relationship break-up before the Property Relationships Act came into force. Under the law at that time, a claim to a partner's property could only be made on the basis of actions that "enhanced the value" of that property. There were no such actions in this case. The novelty in the decision is that the Judge awarded compensation on the basis of "services rendered" in the course of the relationship, the

¹ <http://www.familylaw.org.nz/media/release050401.asp>

² <http://www.seniorlaw.co.nz/sl/relationships/defaultfaq.asp>

³ Answer to parliamentary question for written answer no. 2132, 14 March 2001

⁴ http://www.fmlaw.co.nz/publications/family_articles/relationship_property_split_buyers.htm

woman having cared for the couple's two children:

By seeking compensation for services...she was seeking the price or value of goods and services supplied, based on a legal principle known as "quantum meruit". To establish the value of her claim, she produced evidence of the costs of professional housekeeping and child minding services, and what those would have cost for the duration of the relationship.

This is of interest to economists on two grounds. First, there is no mention of goods and services supplied to her by her partner. These would include living expenses for a number of years. If the actual value of contributions is to be considered, then all contributions should be included, not just those of one party. Second, and more fundamentally, can lawyers and judges selectively and incompletely pick and choose their criteria? If so, are their decisions based on the chosen criteria, or are the criteria selected to support a ruling that is preferred for other reasons? If the latter applies, as seems plausible, then the law is not necessarily consistent and is certainly not transparent.

Economists should note that many policy interventions suggested through economic analysis are implemented and enforced through the law.

The Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel

Daniel Kahneman (USA and Israel)

"for having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty"

Vernon L Smith (USA)

"for having established laboratory experiments as a tool in empirical economic analysis, especially in the study of alternative market mechanisms"

<http://www.nobel.se/>

From our foreign correspondent

**National Association of Business Economists
(NABE)
Washington DC,
September 29-October 1**

By Donal Curtin
(economicsnz@xtra.co.nz)

This year's meeting of the National Association for Business Economics (or 'NABE', pronounced like "babe") was held in Washington DC on September 29 through October 1. The previous year's meeting had been held in the World Trade Centre complex in September 2001, and the

attendees had been at a breakfast meeting session when the first of the planes arrived on September 11. Fortunately that session was in a ground floor room, and everyone survived, but as can be imagined the 2002 meeting had its somber moments of remembrance. In the event the 2002 meeting passed without great incident – if you don't count the anti-globalisation wallies who were protesting the IMF meetings on in Washington at the same time, and whose (rather feeble) attempts at rioting were easily contained, albeit at the cost of erecting a large police cordon around the IMF (and the White House).

This year's conference had the theme, "Understanding Cycles and Shocks", based on the members' need to understand three issues – the economic impact of September 11, the nature of the 2001 US recession, and the ongoing effect of the bursting of the equity market "bubble" from early 2000. The best session was "Tools for measuring, monitoring and forecasting the cycle" which included papers from Victor Zarnowitz, the business-cycle-dating guru, Ralph Kauffman from the Institute of Supply Management (formerly called, and probably still better known as, the National Association of Purchasing Managers or NAPM) who talked about the ISM's new diffusion indices of the services sector, and Jonas Fisher from the Fed of Chicago who had devised an alternative approach to creating a timely aggregate activity index (which used principal component analysis, which for aficionados of multivariate analysis must be the first known use in economics in several decades). The presentation of the results from NABE's forecasting panel (a consensus forecast similar in scope to the commercial *Blue Chip* one) was also interesting – though it was noticeable that the forecasts for 2003 were huddled in an unusually tight "resumption of modest growth" area, and didn't seem to reflect the full range of the uncertainties ahead.

Other presentations of note were "Monetary policy in the business cycle", from Bob McTeer, President of the Fed of Dallas (he was clearly concerned about the threat of US deflation, and evidently the Fed Open Market Committee, of which is currently a member, subsequently came to agree, judging by its November ½% cut in the Fed funds rate); and a prizewinning contributed paper from economic consultant Jim Deegan, "Age cohort analysis and the S&P500 dividend yield – the pig in the python and a bear market", which

had a respectable go at estimating whether the influx of investment money from the "baby boomer" generation was in fact a demographic explanation for falling equity yields and rising p-e ratios during the "bubble" (he concluded it was, and extrapolating his results forwards he also predicted sluggish times ahead for the equity markets, though some in the audience disagreed strongly with his analysis).

There were the usual presentations from senior US economic officials (traditionally, for example, the chair of the Council of Economic Advisers gives a talk on how they see the situation and outlook), though this year this was the weak point of the conference. Officials (particularly the political appointees) were clearly uncomfortable saying anything too interesting in the middle of the US midterm elections; none of them wanted to venture any opinions about Iraq and its possible ramifications; and they were also clearly embarrassed when confronted (as some European attendees did with vigour) with – how to put this politely – the inconsistency between the high official US expectations for the Doha trade round and the actual terms of the latest US farm protection legislation.

For those not aware of it, NABE is a US based organization serving people who use economics in their job; most attendees are from the private sector, though there also tends to be a good representation from the public sector (both state and federal). Membership is some 3000; attendance at the conference (which is held around the States each September, next one is Sept 14-16 2003 in Atlanta) tends to be some 300 or 400, so there are some networking benefits; and more details can be found on their (rather attractively designed) website at www.nabe.com.

***International Conference on
Economics and Management of Networks – 2003
Special Topic: FRANCHISING NETWORKS***

The first International Conference on Economics and Management of Networks will be held at the University of Vienna from June 26 to June 28, 2003, in Vienna, Austria.

For details, see: www.univie.ac.at/EMNET

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 Otago 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 Otago University as at October 2002.

Prepared by Dorian Owen [downen@business.otago.ac.nz]

In order to provide formal recognition and support for high-quality research activity, the University of Otago's Research Committee implements a process for soliciting and reviewing submissions on areas of research strengths from staff. The Committee has two different levels of recognition depending on the breadth of the research areas: 'Research Themes' (normally large cross-disciplinary areas of activity) and 'Areas of Research Strength' (which are more specific in their coverage). Currently, the Department of Economics has three designated Areas of Research Strength each involving several different projects: Economic Growth and Development (contact: Dorian Owen), International Economics (contact: Martin Richardson) and the Economics of Sport (contact: Stephen Dobson). Individual and joint projects currently in progress in these areas are included in the listings below. In addition, there is ongoing research in a wide range of other areas including health economics, labour economics, monetary economics, public economics, productivity analysis, business economics, industrial organization and commercial policy. More up-to-date information on research in progress can be obtained from the research section of the Department's website (<http://divcom.otago.ac.nz/ECON/Research/Research.htm>), which is currently being re-developed.

Robert Alexander
(ralexander@business.otago.ac.nz), **John Bell** (Department of Marketing, University

of Otago), Stephen Knowles
(sknowles@business.otago.ac.nz)
Quantifying compliance costs for small businesses

There is a perception in New Zealand that business compliance costs, particularly for small to medium size enterprises, are high. The Minister of Finance recently stated that reducing the compliance costs to small business will receive new focus this electoral term. If such costs are indeed onerous, they can inhibit innovation and entrepreneurship and have serious negative consequences for economic growth. DeSoto (1989, *The Other Path*) reports on a comparative study of compliance costs in Chile and the United States. Building on DeSoto's approach of examining compliance costs at individual firm level, the aims of this project are to determine the compliance costs (both financial and opportunity) of small businesses in New Zealand and to examine the extent to which such costs inhibit entrepreneurial activity and economic growth.

Robert Alexander, Murat Genç
(mgenç@business.otago.ac.nz) and
Mohammad Jaforullah
(mjaforullah@business.otago.ac.nz)

Maori disadvantage in the labour market

We have access to individual unit record data from the HLFS and the complementary Income Survey for four years (1997 to 2000). Preliminary work, using Heckman's method for correcting for sample selection bias, indicates that Maori, as well as all other non-European ethnic groups, suffer a significant degree of wage discrimination. We will soon

be ready to release final results incorporating a wider range of interaction variables and using other estimation techniques to check for robustness of our results.

Robert Alexander and Mohammad Jaforullah
Efficiency of secondary schools in New Zealand

The objectives are: (a) to evaluate the efficiency of individual secondary schools in New Zealand; and (b) to explain differences between schools in terms of efficiency. There are two basic approaches that can be used to measure efficiency of individual schools. These are the econometric approach and data envelopment analysis. Since schools attempt to maximise multiple goals and use multiple inputs, data envelopment analysis (DEA) is preferred to the econometric approach. DEA identifies 'peer' or 'best-practice' school(s) for an individual school and then estimates the efficiency of the school by comparing its performance with that of the best-practice schools.

Stephen Dobson
(sdobson@business.otago.ac.nz)
and Carlyn Ramlogan
(cramlogan@business.otago.ac.nz)
(with Eric Strobl, Université Catholique de Louvain, Brussels)

A meta regression analysis of beta-convergence

This research presents a quantitative literature review of the research into beta-convergence. In a meta-regression analysis (MRA) the dependent variable is a regression parameter (in this case beta) and the independent variables are characteristics of the method, design and data used in the studies. MRA helps identify the extent to which the choice of methods, design and data affect the results. MRA is used to explain the variation in findings across studies and provides a more formal and objective way of reviewing an empirical literature.

Stephen Dobson and Carlyn Ramlogan
(with John Goddard, University of Wales, Swansea)

Convergence in developing countries: panel unit root tests

Building on previous cross sectional estimates this research uses a number of panel unit root tests to test the convergence hypothesis across countries in Latin America, Africa and Asia over the period 1965-96. The sensitivity of the results to the different tests will also be analysed.

Stephen Dobson (with John Goddard, University of Wales, Swansea)

Revenue divergence and competitive balance in a divisional sports league

The US model of resource allocation in professional sports leagues is adapted for English (association) football. The theoretical relationship between revenue and competitive balance is shown to be robust with respect to changes in teams' objectives and labour market conditions. Empirical revenue functions are reported for 1926-1999. These indicate a shift in the composition of demand favouring big-city teams and an increase in the sensitivity of revenue to performance. An analysis of match results in the FA Cup competition suggests an increase in competitive imbalance between teams at different levels of the league's divisional hierarchy, as the theory suggests.

Stephen Dobson (with Peter Dawson, University of Bath)

Managerial efficiency and human capital: an application to English football

The problem of hidden action in organisations makes direct measurement of managerial performance problematic. But in English football hidden action is unlikely to be as serious a problem because the owner observes the manager's performance each time the team plays. Previously, stochastic frontier analysis has been used to measure managerial performance and analyse the variation in performance across managers in terms of manager human capital. This research extends previous work by examining the robustness of the results to alternative (non-parametric) ways of measuring managerial efficiency (eg. stochastic DEA).

Stephen Dobson (with John Goddard, University of Wales, Swansea and Peter Dawson, University of Bath)

The effect of sin bins and player dismissals on match outcomes in English rugby league

Most models of match outcomes relate the outcome to a measure of relative team quality and a home advantage effect. These models tend to assume that both teams are at full strength for the entire duration of the match. But what if one team is below full strength for periods of the match? Or what if both teams are below strength at the same time? Or below full strength at different times? Given information about the stages of each match at which each team was under-strength and records of the timings of points scored in each match, this research uses ordered probit analysis to quantify the impact of sin bins and player dismissals on match outcomes.

Murat Genç

Box-Cox transformation in estimating production functions

This project is investigating the performance of Box-Cox transformations in estimating production functions using Monte-Carlo simulations to compare the performance of Box-Cox transformation with other flexible forms.

Paul Hansen

(phansen@business.otago.ac.nz)

(with Ajit Arulambalam, Housing New Zealand; Chris Bullen, Auckland District Health Board, and Barry Gribbens, Auckland UniServices)

Health-related quality of life effects of housing improvements

Housing New Zealand (NZ's state housing agency) is in the process of extensively remodelling and renovating many of its houses in Auckland, with the objective of improving the health and general well-being of tenants and, in particular, reducing the incidence of meningococcal disease. Following a preliminary 'desk-top' study, a non-randomised, non-blind study has been initiated to measure the actual health-related quality of life effects for families whose homes have been renovated. The EuroQol Group's EQ-5D

and a 'social tariff' of New Zealand health state values will be used to identify and quantify these effects. This study represents the first attempt to use a health-related quality of life instrument in a housing setting. Estimates of quality-adjusted life years (QALYs) gained will be derived and compared to the cost of the housing renovations and cost-per-QALY estimates from other public policy interventions.

Alan King (aking@business.otago.ac.nz)

1. Testing the Balassa-Samuelson hypothesis for Asian economies (with Alistair Thomas, IRD)

2. Thirlwall's law of balance of payments constrained growth

3. The determinants of the real exchange rate of commodity-exporting countries (with Sacha Hazlett, National Bank of New Zealand)

4. Exchange rate pass-through (with Doug Steel, NZIER)

Stephen Knowles

Measurement issues regarding income inequality

There is a large empirical literature examining the effect of income inequality and economic growth across countries. However, the inequality data used in this work are not consistently measured, in the sense that some countries report data on gross income, others on net income and others on expenditure. This project analyses the relationship between inequality and economic growth across countries when consistently measured data, from the World Income Inequality Database, are used.

Stephen Knowles and Dorian Owen (dowen@business.otago.ac.nz)

(with Quentin Grafton, Australian National University)

Social divergence and economic performance

This project aims to assess whether social divergence (interpreted as the social barriers to communication and exchange between individuals and groups of individuals within a society) affects economic performance. The

hypothesis is that social divergence reduces the degree of interaction between individuals that stimulates innovation and leads to the diffusion of productivity-enhancing ideas. Cross-section regressions are used to model and test the effects of proxies for social divergence on total factor productivity.

Dorian Owen and Paul Killerby
Social capital and economic performance: a latent variables approach

This research treats social capital as a latent variable and adopts a multiple-indicators multiple-causes framework to model the effects of social capital on economic performance. The approach is applied to cross-country and cross-state data to model the indicators of social capital and their effects on output per head and measures of economic welfare.

Dorian Owen (with Clayton Weatherston, New Zealand Treasury)

1. Modelling the effects of uncertainty of outcome and competitive balance on New Zealand rugby

The aim of this research is to analyse the effects of changes in competitive balance, particularly in the NPC and Super 12 competitions, on different aspects of New Zealand rugby, including match attendance, TV ratings of televised matches and the performance of the All Blacks. The research focuses on three specific areas: measurement of competitive balance, econometric evaluation of the implications of different measures of competitive balance/uncertainty of outcome, and theoretical investigation of different policy interventions to change the degree of competitive balance.

2. Model selection methods in empirical growth modelling

This research examines different aspects of the problems involved in selecting useful empirical growth models in the light of recent criticisms, for example by Brock and Durlauf, of existing practices in the empirical growth literature.

John Parker
(jparker@business.otago.ac.nz)

Pharmaceutical effective patent life in New Zealand

This work examines the trend in effective patent life of New Zealand marketed drugs and appropriate law changes to compensate for patent time lost. Effective patent life is the interval between drug registration and patent expiry. It is hypothesized that drug development and registration intervals have been rising over time. Analysis is based on patent and registration information for a large sample of New Zealand marketed drugs. Examination of other countries' patent law changes to compensate for patent time lost provides a comparative basis for appropriate reforms in New Zealand.

Carlyn Ramlogan (with Myles Patton, Queen's University, Belfast)

Convergence in Agricultural Labour Productivity in Europe

This research examines convergence in agricultural labour productivity across regions of the European Union during the period 1985-96. Spatial econometric methods are used to test the convergence hypothesis and to check the robustness of cross sectional OLS estimates. The problem with the cross sectional approach when applied to adjacent regions is that it cannot capture the influence of space, hence convergence estimates are likely to be biased.

Carlyn Ramlogan

1. The Transmission Mechanism of Monetary Policy in Developing Countries: A Structural VAR Analysis

This research explores the mechanism by which monetary policy is transmitted into changes in nominal output and inflation in a small developing country, Trinidad and Tobago. A structural VAR is used to determine the relative impact of the money and credit channels on the real sector. In a structural VAR analysis, economic theory is used to recover the structural innovations from the forecast errors of the reduced form VAR.

2. The Transmission Mechanism of Monetary Policy: Evidence from the Caribbean

This research compares the monetary transmission mechanism in four Caribbean countries: Jamaica, Trinidad and Tobago, Barbados and Guyana. A standard VAR is used to identify the relative impact of the credit and money channels. One advantage of using a standard VAR is that minimal restrictions need to be imposed on the way monetary shocks affect the economy.

Martin Richardson

[\(mrichardson@business.otago.ac.nz\)](mailto:mrichardson@business.otago.ac.nz)

1. Local content quotas in radio broadcasting

Proponents of local content quotas in radio broadcasting (cultural quotas) argue that asymmetric information in the music business is a barrier to entry for local producers (bands): radio stations prefer a known international product to uncertain local product and so we end up with under-entry from a social welfare perspective. This paper aims to develop a differentiated products model of entry into the music business to look at the issue of under- or over-entry and the effects of cultural policy under asymmetric information.

2. Some economics of eco-tourism: the case for heavy taxation of tourist operators

This paper considers public policy towards the management of tourism driven by natural attractions. Such attractions are public assets, but are priced at zero for private entrepreneurs for whom they are an essential input. The first question is whether this is economically inefficient and/or distributionally inequitable. If so, what is appropriate public policy and at what level (central or local) should it be applied? Second, what is the economic case for price discrimination between domestic and foreign users of natural assets and why is it ignored in practice?

Niven Winchester

[\(nwinchester@business.otago.ac.nz\)](mailto:nwinchester@business.otago.ac.nz)

(with David Greenaway and Geoff Reed, University of Nottingham)

Trade, Technology and Relative Wages

The cause(s) of rising wage inequality in developed nations in recent decades is a contentious issue in international economics. We contribute to the debate by evaluating the effects of trade and technology on UK wages using a computable general equilibrium framework. Modelling is aided by identifying a larger number of labour types than is the norm and estimating the stocks of four different capital assets. The results single out technical change as the cause of increased wage dispersion in the United Kingdom. New data have implications for future research.

Joe Wallis (jwallis@business.otago.ac.nz)

1. Local government policies in the 1990s

The local government reforms implemented in New Zealand in 1989 sought to ameliorate institutional weaknesses in this sector by reducing the number and variety of local bodies and subjecting them to the same managerial and financial disciplines that were being applied in the core government sector. The 1990s, however, appear to have been marked by a fundamental disagreement between "minimalist" and "activist" advocacy coalitions about the direction in which these reshaped local authorities should develop. A range of public submissions is being studied to assess the extent to which both groups draw on identifiable economic and political theories to substantiate their arguments. A data base is also being constructed from the annual reports of city councils which could be drawn on to determine at the national, regional and local level whether local authorities have moved in a minimalist or activist direction.

2. The role of voluntary organizations in the provision of supported employment services

Recent developments in social capital theory have been used to strengthen the case for a bottom-up perspective on policy implementation that relates the effectiveness of government agencies to their capacity to build "networks of civic engagement" based on norms of trust and reciprocity. This perspective is particularly relevant to those policy areas such as the supported employment for the disabled in which there is

no dominant policy or agency but rather a multiplicity of governmental directives and organizations involved from both the public and private sector. A number of case studies are being conducted of voluntary associations in this area. They will try to apply a social capital-based, bottom-up approach, to develop a clearer picture of the constraints and coping strategies their managers face while, at the same time, generating some data on the social costs and benefits of supported employment.

Paul Wooding
(pwooding@business.otago.ac.nz)

1. The usefulness of gravity models of international trade

Gravity models of international trade have become very popular because they appear to be statistically robust. Some results from using these models, however, suggest that estimated

coefficients may be sensitive to model specification and sample size. This project tests the sensitivity of the models and seeks to draw some conclusions as to whether there are limitations to the range of uses to which gravity models may be put.

2. Globalisation and small countries

An obvious conclusion in simple comparative advantage models is that there is a clear advantage for small countries trading with large countries – small countries are able to act as price takers. But there are widespread suspicions that multilateral trade liberalisation under GATT/WTO has been biased against small and developing countries in practice. Given the emphasis at Doha on development issues, it is an open question whether the WTO is reducing the degree (if any) of bias. This study looks for evidence for this bias in the outcome of disputes settlement procedures.

Treasury Working Papers

This year's working papers can be accessed on the web at:

<http://www.treasury.govt.nz/workingpapers/2002/>

New Zealand Economic Papers

Tim Hazledine, editor of New Zealand Economic Papers, urges members to submit their papers to the journal. All the systems are now in place and prompt refereeing and editorial responses are sincerely promised.

Tim is also interested in offers and ideas for symposia of papers on a particular topic. Obviously useful and interesting topics could include: Pensions & Superannuation; Tertiary Policy & Student Loans; the "new" Knowledge Economy; The Future for monetary and fiscal policy, etc etc.

And book reviews and books to review (or suggested titles) are also needed.

Write to: t.hazledine@auckland.ac.nz

...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.

Membership fees:

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

Secretary-Manager, NZAE

PO Box 568

Wellington

phone: (04) 801 7139

fax: (04) 801 7106

email: economists@nzae.org.nz

EMAIL DATA BASE

We are currently setting up an email database of members to keep up to date with technology, and we are working towards eventually e-mailing as many of our notices/publications as possible. *If you have not yet supplied the Secretary-Manager with your email address please email: economists@nzae.org.nz*

MEMBER PROFILES

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

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

Norman LaRocque (NZ Business Roundtable); **George Troup** (Ministry of Foreign Affairs & Trade); **Melanie Meyer** (Inland Revenue Department); **Sayeeda Bano** (Waikato Management School); **William Kaye-Blake** (Student).

WEB-SITE - The NZAE web-site address is: <http://nzae.org.nz/>
