

ASymmetric information

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EDITORIAL

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This issue of AI begins with the seventh in our series of interviews with eminent New Zealand economists: Norman Gemmell interviews Bob Buckle. Regular contributions follow from Grant Scobie ('2B Red'), Stuart Birks ('Frames') and Paul Walker ('Blogwatch'). Anna Robinson, from Motu, summarises research on the growth of New Zealand towns. The economists at NZIER provide this issue's report of Research in Progress. Many congratulations go to Gary Hawke and Dorian Owen for their awards of Life Membership of NZAE. The citations read at the recent 2014 Conference held in Auckland University of Technology are reproduced here.

INTERVIEW WITH PROFESSOR BOB BUCKLE

by Norman Gemmell



Q. First, congratulations on your award of an ONZM in the 2014 New Year's Honour list. You must be very pleased?

A. Thank you Norman. The award made the 2014 New Year celebration rather special. At the time I was on holiday in Northland with my wife, Sharman, and my brother and sister. It was lovely to be able to share the occasion with them, in my favourite part of New Zealand, and where I grew up and spent my teenage years surfing that fabulous coastline.

Q. The award cited your "services to business and education", but do you regard this as, in part, recognition of your contribution to the economics discipline in New Zealand?

A. I understand there are specified fields in which awards are recognised. I'm not sure that economics is one of those fields, but I was delighted that the citation did mention contributions to economics and the economics profession, as well as to business and education. It was through economics that I had the opportunity to contribute in some way to tertiary education and to policy processes, and to try to chip away at improving the environment for business. Of course, there have been other economists whose contributions have previously been recognised in this way. Victoria University of Wellington's Faculty of Commerce has a strong tradition of public policy and business research and engagement. This is a tradition that I understand goes back to our first Professors, particularly Horace Belshaw. In more recent years the contributions of Professor Sir Frank Holmes, and Professors Gary Hawke and Lewis Evans have been recognised in this way. I feel very privileged to be associated with such an outstanding group of economists and alumni of the staff of this Faculty. It is pleasing also to know that the awarding bodies don't overlook economists and academics.

Q. It is interesting that you should mention these others because, in many ways, you are part of a select group of economists who have had economic careers in New Zealand over several decades, largely in academic life. And you are clearly someone who, over those decades, has thought about the key influences on New Zealand's economic performance in various respects and how it can be improved. Have you any particular thoughts in that area?

A. Thank you Norman, that's a kind way of suggesting I must be one of the older surviving economists in New Zealand. I guess there are perhaps three distinct phases of the New Zealand economy that I have lived through.

The first phase was the two immediate post-war decades, including the long boom of the early and mid-60s. During this period I was fortunate to have been brought up in rural Northland. After my father returned from five years serving in North Africa and Italy during the Second World War, my parents moved to the north and established a small construction and building supplies firm serving the local farming communities. Apart from the freedom to roam the countryside and the beautiful coastline which was a twenty minute drive from our home, two things stick my mind from that period. One is how my father's business and the mood of the community were affected by the prosperity of the local farmers, which in turn was of course influenced by commodity prices and the weather. The second feature that stands out is the challenge that businesses in the region, such as my father's, faced trying to find people with the requisite skills (it was probably much the same in other rural regions). Many of his staff seemed to be local teenagers undertaking an apprenticeship, and migrant tradesmen from the United Kingdom and Europe. It was a wonderful environment for me, milking cows for a local dairy farmer before school (my wage was low and sticky: I think my weekly pay was half a crown which remained unchanged from year to year), and working in my father's timber-yard or helping on building sites. Jobs were plentiful and varied during school and later university holidays. There seemed to be no expectation of trips to exotic places. But we did look forward to the regular family holiday

during the summer, typically a 'safari' by truck exploring and camping wherever we liked in different parts of the North Island.

Q. What was the second phase and why does it stand out for you?

- A. The second phase if you like extends from the late 1960s until the mid-1980s. This was a period of considerable disruption and challenges for the New Zealand economy (including for businesses like my father's serving the rural economy), and for public policy. It was a period when the impact of declining wool prices in the presence of competition from synthetic materials was evident, we experienced the 1972/73 primary commodity prices boom and bust, then the OPEC oil price hikes in the mid and late-1970s, the loss of access for New Zealand's pastoral commodities to the European markets, and a long-period of stagflation.

It was a period when successive governments struggled to understand how best to respond to these global forces, and how to deal with an industrial policy built on import protection and subsidies, centralised wage setting, and a high proportion of people employed by Government organisations. It was a time when real income growth stagnated for long periods. This difficult economic environment contributed to a volatile and divisive political environment, one that I confess I did not enjoy. New Zealand was not unique in facing these challenges, and influenced by reforms taking place in other OECD countries, this period of turmoil eventually ushered in a period of more enlightened politics and public policy.

During this second phase I attended university, worked with two large New Zealand corporations, and eventually moved with my family to Wellington to work briefly with the Monetary and Economic Council and NZIER, and then Victoria University. Some incidents and experiences during this period stand out. One occurred when I had returned to the University of Auckland in the early 1970s for further study. I think it was when I was a junior lecturer in 1974 when the Secretary to the Treasury, Henry Lang, visited the Economics Department at Auckland University. I think this was one of a series of meetings he was having with university economics departments around the country. The purpose of Henry Lang's visit was to listen to and test views about the implications of the first OPEC oil price hike - whether the increase in the real price of oil was likely to be sustained, whether a 'structural' change to policies was necessary, or whether it was appropriate to allow external and government debt to expand as a short-term measure to buffer the effects on domestic demand and employment. The implications for inflation were also serious and I recall there were discussions about the merits of alternative ways to deal with stagflation.

Not surprisingly I took a strong interest in these issues and the forces and policies that were contributing to New Zealand's high inflation and stagnant growth. After I had moved to Wellington, I did write papers on modelling New Zealand's inflation rate, testing the impact of price and wage controls (I found no clear evidence of a permanent impact on inflation), and evaluating the effects of a tax-wage trade-off using econometric models of wage and price functions and in one exercise using the RBNZ structural econometric model. I was particularly interested in how the regulatory framework

(including price and wage setting regulations) influenced nominal and real price rigidities.

I was fortunate that during a brief spell with the Monetary and Economic Council and the NZIER I was able to pursue these interests. After I joined Victoria in 1981, colleagues such as Mervyn Pope in particular, Gary Hawke and Graeme Wells were encouraging and helpful as I tried to understand these issues. It was a stimulating place to be. During the 1990s I also enjoyed fruitful research collaboration with Viv Hall and Kunhong Kim exploring the properties of business cycles. Several years earlier I had read Viv's PhD research in which he broke new ground modelling New Zealand wage and price inflation, so we had overlapping research interests.

Although in the first few years at Victoria I was required to teach many different courses, eventually I was able to concentrate on intermediate and advanced papers in macroeconomics. I always enjoyed teaching and the engagement with students. The intermediate macroeconomics papers were always fun, especially linking theoretical tools to try to interpret contemporary issues. I actually used as the basis for an impromptu conference presentation, one of my stage-two macroeconomics lectures to demonstrate the assumptions of two competing views being vigorously debated about the potential employment and growth effects of the "mother of all budgets".

Q. And how would you characterise the third phase?

- A. The third phase is the period of economic liberalisation and adjustment to the policy reforms, and of course the impact of China's large and rapidly growing economy.

Debate about current policy settings and policy reform options had preceded the major reforms of the late 1980s, though perhaps somewhat more piecemeal. I had earlier taken an interest in the work of the Treasury, the Reserve Bank of New Zealand, the Monetary and Economic Council, and the NZIER, particularly their work directed at understanding the implications for efficiency, growth and inflation of New Zealand's policy configuration and how to scramble from under fog of inter-twinned regulation, subsidies and protection.

I found the work of the NZIER during Conrad Blyth's tenure as Director in the 1960s particularly interesting. I think the first NZIER research paper produced by Conrad was a Solow-type decomposition of New Zealand's productivity performance. This exposed New Zealand's relatively low productivity growth. Around that time he suggested, not without controversy, a programme of economic liberalisation. The NZIER work measuring rates of effective protection was also particularly interesting, and revealing. The RBNZ and Monetary Economic Council had exposed the disintermediation consequences of the regulation of banks. I guess one of the lessons from this earlier work is that influencing policy improvements can be a long game, but if persisted with it helps prepare the ground for reform when the political opportunity presents itself. Eventually it did.

When liberalisation did take place, it initially resulted in major dislocation and social change, especially for the rural sector, parts of the manufacturing sector that had been sheltered by import protection and later, those employed in parts of the public sector. For other parts of the economy it opened up opportunities, such as those for the finance sector.

My own view at the time was that transformation of the New Zealand economy was necessary, although I didn't agree with all the processes. Alan Bollard and I decided that this was likely to be an important period in New Zealand's development and we decided to edit a book on this liberalisation process. It was published by Allen & Unwin in 1987. The book included contributions from economists in the public and private sectors and academics covering many aspects of New Zealand's reform process. One issue that interested me was the sequencing of economic reform and how that could influence the path and sustainability of reform. Of course, the choice of sequence is not always available and the politics of reform may dictate the path of reform.

As it turned out, I think the sequence probably did have implications in the short run. The sharp appreciation of the real exchange rate that immediately followed the float accentuated the impact of the withdrawal of subsidies and the removal of import protection, especially for the farming and manufacturing sectors. Dornbusch's work on over-shooting exchange rates seemed pertinent. But 25 years later, the economic landscape for New Zealand is vastly different. New Zealand is better placed to exploit the changing global economic environment and the opportunities emerging from Asia. If China is our new Britain, let's hope New Zealand retains the improved flexibility to respond to changing circumstances in China more promptly and efficiently than we did when Britain's economic star was waning during the many decades prior to New Zealand's reforms.

Q. That leads us nicely to where I would like to start with some of the issues of interest that we would like to hear from you. With your agreement I'd like to structure our conversation around what I see as three quite different phases in your career in economics: first your research and teaching in macroeconomic performance, beginning in the 1980s; then your contributions to economic policy, which you have clearly done a lot of over the years. And then move on to the period since you returned to Victoria University as Pro Vice-Chancellor and Dean of the Business School in 2008, where you have added a different style to your career, but also you've written about New Zealand's economic future as part of the Asia-Pacific region. It would be interesting to explore that later on in the interview. But before that, I'd like to start with how and why you became an economist because you initially trained, and then worked, as an accountant. Is that right? What was it that led you down that path?

A. That is correct, I did initially train as an accountant, but more by accident than design. My primary education was in the rural village of Kaiwaka. With a shortage of teachers at the local district high school and the prospect of a long bus trip each day, my parents thought it prudent to send me to Carruth House boarding hostel at Whangarei Boys High School. This was during the early 1960s. In those days we weren't given advice about universities and there was no one from my immediate family who had attended university. I passed the requisite exams while at Whangarei Boys High, so after my seventh form year (which was a relatively small class) I drove to Auckland with a group of school friends and simply joined the queue for commerce. There was no great plan. I simply

enrolled in something I thought I could do, and then as a process of discovery, I began to encounter economics papers later in my degree, but not in time to complete a major at that time.

Nevertheless, completing a major in accounting gave me the opportunity to work, for a short while, in the accounting profession and in New Zealand industry. It was really through that route that I became aware of the significance of economics.

Q. So this was while you were working as an accountant in the private sector?

A. Initially, coming from the far north, I still had a strong attraction toward a coastal lifestyle and surfing and I spent a year in Australia after I graduated with an accounting degree. But after a year of not really much purpose, other than enjoying a casual lifestyle in various parts of Australia, I decided to come back to New Zealand, and pursue something more intellectually challenging. I took up a position as an accountant with Watties, working with Graham Malaghan, the then Manager of Refrigerated Freightlines. I still see Graham on occasions. He is Chair of the Malaghan Institute Trust Board.

Two years later I joined New Zealand Forest Products, where I worked with a group of accountants and economists evaluating investment proposals, pricing projects, monitoring the main export markets NZFP products. It was through that experience that I started to take a stronger interest in economics and the implications of economic policy. A particular aspect of that experience stands out. NZFP was producing a wide range of different grades of paper. Some paper was produced for the local and some also for overseas markets. Although the finer grades of paper could not be produced competitively, they were produced for, and sold on, the domestic market. Import tariffs on these finer grades of paper were crucial to enable NZFP to compete effectively on the domestic market. One of my tasks was to assist the Director of Marketing and a former New Zealand diplomat recruited by the company, to prepare arguments to justify before the Tariff and Development Board in Wellington why the tariffs on the papers produced by NZFP should be retained.

The consequences of this regime and process of lobbying were quite apparent. NZFP needed the tariffs to be able to compete on the domestic market for fine grade papers. The tariffs were used to ensure a sufficiently high return on these products to cross-subsidise the cost of producing craft papers that could then be priced more competitively on overseas markets. Meanwhile, the wide range of papers produced by NZFP meant that production runs were short because the technical staff at the Kinleith Mill had to re-configure the production process each time a different grade was to be produced. Efficiency was adversely affected, as was evident when one compared the size of production runs in Australian, US and Scandinavian paper mills. New Zealand's border protection policy was resulting in supporting and proliferating inefficient production practices, encouraging investment in lobbying, and imposing significantly higher costs on the New Zealand consumer.

Q. Was that one of the experiences that caused you to think 'I need to know more economics' and to lead you to take more of an interest in economics?

A. It was, and there are other examples relating to price regulations and investment decisions, but perhaps we can discuss those on another day. I was also influenced by the lively group of other young graduates I was working with at NZFP. We would discuss how our work was influenced by the policy regime in which the company was working, what effect that was having on management decisions, firm efficiency, local consumers, etc. And we took a healthy interest in monitoring the NZ economy and the economies of NZFP's main export markets. It was through this group and our shared experiences that I became more interested in economics, and decided to read more widely myself. I went back to study economics at Auckland University and was fortunate enough to be awarded a senior scholarship for the 1973 graduating year, and a further small scholarship which motivated me to return to do postgraduate study in 1974. This was probably not a conventional route then, but it is a path toward post-graduate study that is quite common today.

I enrolled for a Master's degree, was offered opportunities to tutor and lecture, and discovered that I thoroughly enjoyed teaching. I also realised through teaching just how little I knew and how much more there was to learn.

Q. At that point you became an academic, did you?

A. It was an opportunity to taste that life but I didn't remain in Auckland. I decided to take an opportunity to join the secretariat of the Monetary and Economic Council based in Wellington which at the time was chaired by Professor Bert Brownlie. Don Brash was also a Council member at that time. I enjoyed the occasional opportunities for discussions with Bert and other members of the Council. After a similarly short period with the NZIER I was offered a lectureship at Victoria University of Wellington in 1981.

Q. Back when you first began to study economics, or over the subsequent years, are there particular economists or papers that have particularly influenced your views about economics?

A. I don't think there were any particular economists or papers that especially influenced me, but I have vivid memories of some books I read at that time. While I was studying third year economics papers, I read Roy Harrod's biography of Keynes and Robert Heilbroner's book *'The Worldly Philosophers'*. Both increased my interest in the origins and evolution of economic thought and the nexus between economics, social issues and politics.

I also enjoyed the atmosphere of the third year and honours classes at Auckland University. At that time, in the early seventies, the Head of Department was Conrad Blyth. He and other lecturers such as Ken Jackson, Claudia Scott and others generated an enthusiasm for economics and economic history that I found very motivating. There was a very collegial group of students, several of whom are still close friends.

If there is one course that propelled my interest, it would have to be the international economics course, taught by John McCrae. Although we were prescribed a core textbook written by Bo Soderston, which was enjoyable, we were encouraged to read and discuss in class many of the classic trade theory papers. I remember that I purchased the American Economic Association Readings in International Economics, edited by Richard Caves and Harry Johnson which had been published

in 1968, and discovered an earlier set of AEA Reading in the Theory of International trade edited by Howard Ellis and Lloyd Metzler that had been published in 1949. These volumes took me into the world of rigorous academic writing, including papers by Paul Samuelson, Robert Mundell, Harry Johnston, Jagdish Bhagwati, and Milton Friedman, the debate between Keynes and Ohlin on the 'German Transfer problem'. The 'Stolper-Samuelson theorem' was interesting to read after the experience with NZ Forest Products. I still have the Caves and Johnson volume.

I was also attracted to macroeconomics as a result of tutoring for Conrad Blyth's intermediate course. It was probably the combination of an interest in international trade and teaching macroeconomics that propelled me to respond to the encouragement of Conrad and Jas McKenzie to study the impact of the devaluation of the New Zealand currency in 1967. At that time Jas was on leave from Treasury and he brought to our discussions a depth of knowledge of the New Zealand economy and an understanding of the primary sector.

Q. That maybe helps explain why your own research was focussed on macroeconomics and to some degree on international economics. Turning to your research on macroeconomics, do you have a favourite paper from that body of work and what makes it 'special'?

A. I guess two papers come to mind. One is a paper with John Carlson on pricing behaviour which was published in the *Review of Economics and Statistics* in 2000. The other is a paper, published with Kunhong Kim and a group of young analysts from Treasury I'd brought together to work on business cycles, that was published in *Economic Modelling* in 2007. Both papers draw on ideas and previous streams of research I'd been working on for over a decade and in which I was trying to understand New Zealand macroeconomic dynamics, and the micro foundations of these dynamics. These two papers reflect two of my main areas of research interest since the early 1980s. I am delighted that both papers have attracted a lot of interest and are well cited internationally. I notice that the early version of the *Economic Modelling* paper which was released as a Treasury working paper is one of the top two downloaded working papers in the history of that series.

Q. Am I right in thinking that one of the reasons that that paper became so cited and read is because you are among some of the first people to introduce exogenous climate type variables into regressions?

A. I think it is cited for a number of reasons. It isn't an early example of the use of exogenous climate variables in regressions, even in New Zealand. Grant Spencer and Andrew Tweedie published a paper that suggested agricultural production was sensitive to climatic conditions. Lew Evans and Richard Wallace had estimated livestock investment and slaughter rates and farm profits and found that weather conditions mattered. But I understand our paper is perhaps the first to identify the effects of climatic conditions in empirical models of business cycles. Certainly the climate innovation was one that has attracted a lot of international interest. But initially there were some who doubted it would be important. When I discussed the idea with Australian colleagues early in the development of the model, I remember some being

doubtful that variations in climatic conditions would matter for business cycles. I think the differences in our views reflected the differences in the characteristics of the NZ and Australian economies – the pastoral sector no longer has the same significance for Australia. A number of researchers modelling business cycles in other countries where production or demand can be sensitive to climatic conditions have adopted the idea and in some cases borrowed the programme.

The paper also offers insights into how to identify monetary policy in open economy models. This had been a puzzle in the empirical open economy literature. A third feature that may have attracted interest is the way we developed the block structure to manage a large number of variables when applying structural VAR models. We wanted to capture international variables, policy variables and other characteristics of the New Zealand economy.

But there are other reasons I chose this paper in response to your question. Soon after I joined Treasury in late 2000 staff in the macroeconomics section of the Treasury were keen to improve their understanding of the principle influences on the New Zealand business cycle, and assess how good the 'Treasury model' was at mimicking dynamic responses to shocks, such as commodity prices changes. This also provided me an opportunity to test more formally the observations made a long time ago by Colin Simkin, in his book, *The Instability of a Dependent Economy: In Economic Fluctuations in New Zealand 1840-1914* published in 1951 and which I'd read as a student simply out of interest. It was also an opportunity to revisit the recent work of Chen and Rogoff on commodity currencies and evaluate whether our exchange rate might be driven more by commodity prices rather than by monetary policy.

I was particularly keen to see if there was value to be gained from drawing on the insights of New Zealand agroclimatological models developed by W.J. Maunder during the 1960s. I'd read some of his papers many years earlier, and was aware of the indicators of climate conditions motivated by his innovative research and now generated by NIWA. I think the effort proved worthwhile. Climate variations proved to be significant sources of variations in aggregate production and we were able to offer different interpretations of New Zealand booms and recessions, identify the key influences on the exchange rate, and it seemed we were able to identify monetary policy.

Q. Was the subject of that *Review of Economics and Statistics* paper the determination of price levels?

A. That paper provided a novel way to test for asymmetric responses of nominal prices to demand and cost shocks, and to test whether asymmetry is influenced by inflation. The paper exploits the firm micro-data available from NZIER's quarterly survey of business opinion, known as QSBO. Just as I was able to build on the foresight of Maunder who generated climate indicators, in this case I was able to benefit from the foresight of people like Conrad Blyth and Colin Gillian and others who established the QSBO. Their motivation was to develop more timely and quarterly indicators of business performance and the business cycle at a time when official statistics were not so readily available. This is what motivated the establishment of surveys of this type in Germany during the immediate post-war WWII years. I must also acknowledge the foresight of Fraser Jackson, who had encouraged NZIER

to retrieve their primary records and maintain a database of the individual firms' responses to the survey.

When I was at NZIER in the late 1980s, I had read several of Henri Theil's books on the history and application of this type of survey, and their research potential. Motivated by an interest in the micro-foundations of macroeconomics and ideas emerging from the New-Keynesian research agenda, I devoted a year in around 1987 to cleaning up the QSBO database and then started to build a research programme using it. It took a while to make any headway, but eventually I drew in collaborators and graduate students looking for thesis topics and the programme gathered momentum, with papers published in a range of academic journals focussing on testing sticky price models and price surprise models of business cycles, testing menu cost pricing models, the properties of expectations, etc.

I was fortunate when presenting a paper at a conference in Hungary during 1991, to come across John Carlson. He was well known for the creation of the Carlson- Parkin statistic and a procedure to derive a measure of inflation expectations from categorical survey data of this type. He was interested in collaborating and proved to be my most active collaborator. This is the last paper in a series of joint publications.

I feel there is a lot of unfinished work and potential research from both these programmes still to be produced, but I had to leave that sitting on the table when my responsibilities at Treasury changed and when I accepted my current role at Victoria.

Q. Moving to your time at Treasury, representing a change in career direction, and your work on policy advice. It is true to say you contributed to macro policy advice, but also the micro-foundations of macroeconomics, and you also worked on productivity along with economic models of growth. Are there any particular outcomes from that work, or lessons from that part of your career, that stand out?

A. After 20 years as an academic this was an attractive opportunity to experience a different environment and work in an institution at the heart of policy processes in New Zealand. Alan Bollard's earlier appointment as Secretary to the Treasury was a factor in my decision. Alan and I had known each other since Auckland University days, and the style of his earlier leadership at NZIER was one that encouraged open enquiry and a tolerance of different views. When I did move to Treasury I found, to my pleasant surprise, many of my former students, including my first manager! I was relieved when they extended a warm welcome.

There several strands of work I was involved in: the macroeconomic dynamics programme I mentioned earlier; I was drawn into taking a stronger interest in fiscal policy and enjoyed supervising work trying to test the impact of tax and expenditure changes; establishing a research reading group; and as editor of the Working Paper series it was very satisfying encouraging staff to try to take their work to another level - for a few years we were publishing around 30 papers per year. I was asked to create a seminar series for the Treasury Ministers for a couple of years, but I wasn't very satisfied with how that worked out. I didn't think there was sufficient preparedness to test and challenge the Ministers who invariably had strong

opinions. This became an increasing concern for me toward the latter years of my time at Treasury.

A particularly satisfying project was the promotion of work on productivity. Treasury was keen to have another stab at understanding New Zealand's growth performance, particularly since there was uncertainty within Treasury as to whether New Zealand's real income growth had improved since the reforms. There were several outcomes from this process, including a review of New Zealand's growth performance (some were surprised by the significant improvement during the mid-1990s after the 1989-90 global recession), a regular seminar series inviting researchers from academia both here and overseas, revisiting New Zealand's productivity performance, and promoting areas of policy work in various parts of Treasury on issues we considered had significance for growth (the role of the tax structure, regulation, etc.).

In hindsight probably the most enduring impact of that project was to strengthen the focus on productivity. I was able to gather together and supervise a number of young analysts to work on productivity measurement, and engage with researchers elsewhere in NZ and overseas, including from the Australian Productivity Commission and the OECD. Probably the single piece of work that had the most impact was that by Nathan McLellan, Melleny Black and Melody Guy evaluating various measures of productivity and updating New Zealand's labour productivity and its components. Some of that work was published in *New Zealand Economic Papers* in 2003 as a contribution to a symposium on productivity that drew on papers from one of our conferences. We used this work to engage with Statistics New Zealand including pondering the feasibility of SNZ publishing a quarterly series on productivity. I'm not sure how influential this work and our engagements were, but I was delighted that soon thereafter SNZ started to regularly publish a quarterly productivity series. Our engagement with the Australian Productivity Commission staff lead some of us to suggest we should look seriously at establishing something similar in New Zealand or ask the APC to include NZ in its portfolio. We probably didn't have much influence, but it is pleasing that ten years later we do have a Productivity Commission.

Q. It certainly seemed to me, from my knowledge of your time at Treasury, that after you left there was a lot of discussion within Treasury of that work, which led to the establishment of the Productivity Commission, so it did help.

A. Another area of work enjoyed was the opportunity to revisit the literature on fiscal policy and how research had evolved in recent years. This is of course always a priority for Treasury. John Janssen and others have done a lot of work at Treasury developing fiscal indicators; Grant Scobie, John Creedy and others had initiated work on the effects of population ageing; as part of the macroeconomic dynamics project staff were working on trying to identify the short-run dynamic effects of tax and expenditure changes. The developments on the stabilisation and sustainability roles of fiscal policy were captured in a working paper, along with an assessment of the recent literature on the efficiency and growth effects of fiscal policy, including the effects of different types of tax and government expenditure can have. This is of course an area of research in which you, Norman, have made a significant

contribution, including identifying the effects on growth of different types of tax and expenditure when you control for the effects of the government budget constraint. The direction of this new fiscal policy and growth literature helped move the debate on from the limitations of the focus on simply whether the size of government mattered.

Q. After the global financial crisis, there has been discussion about whether or not fiscal policy was pro-cyclical leading up to the crisis and whether it makes sense for fiscal policy to be actively counter cyclical. Do you have a view on that in the light of what we have seen since the global financial crisis? Or should fiscal policy just seek to avoid being pro-cyclical?

A. I can't do justice to this topic in the time we have now, but there are certainly valuable lessons to be taken from the recent global experiences. In a recent paper I prepared with Amy Cruickshank on population ageing and fiscal policy we have argued that Governments should manage to a debt target, this debt target should be based on the properties of stochastic shocks that are expected to impact on the budget balance and government debt, and that within this range debt can act as a buffer. I would judge that the success of monetary policy in recent years suggests that it plays an important stabilisation role (at least in terms of the impact on GDP). Friedman's concerns about recognition and implementation lags may not be quite so significant for monetary policy today, but his concern about implementation and impact lags are probably particularly relevant to fiscal policy. Automatic stabilisers offer some scope to ameliorate shocks, but the modern literature on fiscal policy and growth suggests there are significant trade-offs in pushing too far down this route. Implementation and reaction lags will vary by type of fiscal instrument. I think there is some interesting work to be done in this area to try to understand the trade-offs between fiscal stabilisation, fiscal sustainability and growth across alternative fiscal instruments. The challenges of the mid-1970s come to mind again. And the experiences of countries such as Ireland provide a warning about the risks to government of certain types of contingent liability.

There are other important lessons to be taken from the most recent global financial crisis, including how to ensure the sustainability of the tax base, the significance of different types of contingent liability that governments incur, and the risks they pose for fiscal sustainability and behaviour in financial markets. But the lessons from the GFC go well beyond those for fiscal policy.

Q. A natural question to ask you about is the time you were chairing the Tax Working Group, working on tax policy rather than fiscal policy? The Tax Working Group provided advice which went into the 2010 budget process. The interesting question for me is, in the light of your experience in that exercise, whether you learned things you think are useful about the process of policy advice and perhaps also the content of policy advice? For example, do you think the process is repeatable?

A. By the time of the Tax Working Group, I had left Treasury and was back at Victoria University of Wellington. My time at Treasury was immensely valuable in helping me Chair the TWG. I had been aware of the concerns about the tax system,

the responses of tax payers and organisations avoiding the higher tax rates and the consequential tax revenue leakage that was occurring. I found that the work I'd previously done at Treasury reviewing the taxation and growth literature was also helpful in thinking about a framework for that report, including the merits of a broad-base-low-rate system and a 'tax switch'.

The Tax Working Group process was one of the most enjoyable and rewarding exercise's I've been involved in. The members of the Group were highly engaged, and it comprised a mixture of highly experienced practitioners, academics and policy experts. From the outset, we wanted to establish an open process whereby we made it possible for the public to be continuously informed of the research material we were generating or were accessing, and the issues we discussed at each meeting. We established a website and set up a communication process to support that. The 2009 Conference in which all members of the TWG contributed was an important part of the communication process. That process was designed explicitly to attract interest and socialise the key issues. Bill Moran, who was manager of the Tax Section at Treasury, was outstanding in his management of the secretariat and for encouraging a more open process. We also had excellent support from Robin Oliver and his colleagues at IRD.

I think another important step in our process was to make clear the criteria we thought were important for a good tax system. While it seems an obvious thing to do, it helped anchor some of the debate. This helped focus attention not only on the efficiency of tax options, but also on administrative and compliance costs, distributional effects and the sustainability of a tax system. I think it also helped encourage people to think about the entire tax system and how its components were a coherent mix, rather than treating tax options in isolation. A lot of effort then went into trying to derive measures of efficiency, distributional, administration and compliance costs, etc., of different tax system options, for which you and Treasury and IRD colleagues did a lot of valuable work.

The impact of this work on the 2010 Budget was very satisfying. We didn't expect to have such an impact so soon. If there are important policy lessons to come out of that process, one would be that you should be very clear about the criteria for public policy proposals. One could view the subsequent development of Treasury's living standards framework as recognition of this point. But it is also critical to back that up with empirical work that identifies how policy options impact on the different criteria. The second lesson would be that you can get valuable insights from opening up the policy process to involve experienced practitioners and academics. Tax policy development in New Zealand has been a good example of this. Subsequent Working Groups established by Government have tended to take this approach. Perhaps a third observation would be that socialising the issues as the review process evolves can also be helpful. I would also suggest that when a policy review group writes a report, it should try to avoid the temptation to use that process to demonstrate academic prowess, and write reports which are accessible to politicians and a broad audience. One can utilise the website or a Working Paper series to promote the more academic work that sits behind a policy review. Yes, I think the process is repeatable.

Q. In many ways, the points you have been making about the tax working group arguably apply to Treasury's Long Term Fiscal Panel, which you also chaired. That external panel was designed to give advice on a slightly different process of fiscal policy or fiscal reform. Are there any additional lessons from that process on how New Zealand's long term fiscal stance should be determined or judged?

A. The Tax Working Group was of course a group set up by Government to provide advice to Government. The External Panel for Treasury's Long Term Fiscal process was a panel set up by Treasury. For this reason and perhaps because of the nature of the topic, it didn't quite get the same amount of public attention. We did try to follow a similar process to TWG, but the audience was also Treasury. In that respect, we were trying to test, as well as influence, Treasury's thinking. The success of that process should be judged, I guess, on how much the External Panel was able to influence Treasury's approach and its advice on the topic of long-term fiscal sustainability. There were several issues that did emerge and which I hope did influence Treasury's approach. One was how to couch fiscal sustainability, and I think there was a shift in emphasis by Treasury toward focussing on managing to a debt target and the policy challenges that population ageing would pose in achieving this. I think this helps draw attention to the policy choices available to Governments faced with the potential future liability arising from the interaction of population ageing, health and pension systems. A second possible influence was to encourage greater attention to be paid to the trade-offs government faces (based on agreed criteria) in managing to a suitable debt target. A third challenge was to explicitly recognise uncertainty and that there are both benefits as well as costs to waiting. These and other issues that emerged from this process, and some of the background research, are taken up in more detail in a special issue of *New Zealand Economic Papers* I am co-editing with John Creedy and which is due to be published this year.

Q. Your other major policy leadership role was your time at APEC.

A. the opportunity to chair the Economic Committee of APEC emerged when I was at Treasury. I think it stemmed from a desire by a number of APEC economies, including Australia, New Zealand and Japan, who wanted to raise the prominence of the work of the Economic Committee. They wanted to push the Economic Committee more toward the centre of the APEC stage and to emphasise the importance influence that domestic policies, including for example regulation and competition policy ('behind the border' policies), can have on economic integration. The emphasis of APEC has been very much on 'at the border barriers'.

I confess that at the time I knew very little about APEC, but it seemed an opportunity to draw on the work I was doing at Treasury on economic growth, and to understand better the challenges in the Asia-Pacific region. I thoroughly enjoyed those two years. I was blessed by outstanding secretarial support from Treasury, MED and MFAT colleagues and I had the privilege of observing the talented people who represent New Zealand at international forums, and who generate considerable respect across the region.

I had no formal training in diplomacy and I thought those who approached me to do this were taking a gamble, asking me to engage with experienced diplomats and officials from 21 different countries. But I guess that was one of the aspects of the role that made it appealing to me.

Australia was the host country in 2007 and Peru in 2008. I had numerous trips to both those countries and to most of the 21 economies during those two years. I met some delightful people, attended meetings in places that I would normally not have had an opportunity to visit, and was introduced to many interesting and influential people. On one occasion I was invited to a meeting at the NDRC headquarters in Beijing. I subsequently learnt that it is unusual for foreigners to be invited to the NDRC. I don't know whether it was the first occasion for a New Zealand official to be invited, but the opportunity to attend the meeting was embraced by the MFAT officials based in Beijing. I was most grateful for their company. At one stage while waiting for the interpreter to repeat what I had said to the NDRC officials, one of the MFAT staff discreetly slipped a piece of paper to me with a reminder written on it of the correct title I should use when referring to China.

Trying to influence the domestic policies of other economies through the work of the Economic Committee of APEC was always going to be a challenge. Hence, we approached the role by assigning responsibility to different member economies to lead work on aspects of structural policies. The main focus of our work was information sharing, highlighting best practice, and running workshops to help develop understanding and capability. I found this process to be very informative and learnt a lot about how different economies in the region were attempting to improve regulatory and other domestic policies and help improve their economic performances. Australia hosted the first Ministerial Meeting on Structural Policy Reform in Melbourne in early 2008 and Peru embraced the Economic Committee's agenda during its host year. Perhaps we did make some headway.

Q. Through that process, was there anything that had particular relevance for New Zealand? Thinking about trade, for example, New Zealand's trade had traditionally been with Australia, America and Britain. Do you see the APEC region as being an example of a region where attempts to stimulate competition or trade flows would have little effect? Or do you see the broader Asia-Pacific region as being important for New Zealand's future?

A. The broader Asia-Pacific region is obviously significant for New Zealand, vastly different to when I was young. The significance of China for both Australia and New Zealand is obvious. The nexus between China, NZ and Australia is becoming increasingly important. And I expect the emergence of countries such as Vietnam and Indonesia will also become increasingly important.

The APEC experience illustrated to me a number of things. New Zealand is well regarded by government officials in the region. New Zealand officials are highly regarded in the region. I was extremely impressed at the skill of the New Zealand officials involved in the APEC process, and how highly respected they are. This is an opportunity for New Zealand.

I also thought there was a lot of interest by officials from countries in the region on how to improve their policy settings and economic performance, and to reduce poverty levels. New Zealand can learn from, but also contribute to improving understanding of how to design good policy institutions, good regulation, competition policies, and so on. I expect this is partly why New Zealand does support the APEC process. It is a way of engaging in the region. This type of engagement is also an opportunity for New Zealand firms to better understand how to do business in the region. The academic and policy communities can help the business community to understand that better. It was certainly an experience that influenced my decision to try to establish a Chair in Business in Asia at the Victoria Business School.

Q. That neatly leads to your move back to Victoria University in 2008 to run the University's Business School, which includes Economics. What was it that led you to accept the Vice Chancellor's invitation to come back to Victoria University in this role?

A. At the time I hadn't been thinking about leaving Treasury. But when this opportunity presented itself, it was a difficult decision because it meant I would probably have to leave behind the research streams and policy issues that I was involved. But I decided to do so for several reasons. I was impressed by the members of the University senior management team I would be joining. When one looks back over the last six and a half years it my initial impressions proved to be very sound. It has been a focussed and successful team. The 2012 Performance Based Research Funding results are only one illustration of the type of changes we were able to bring about. There have been many others. I also felt that coming back to Victoria from a public policy institution provided me with some advantages coming in the role of Pro Vice-Chancellor and Dean of Commerce. I could perhaps be viewed as not as closely aligned with any one Department. Also, I had developed a perspective about the potential role that a Faculty of Commerce located in a capital city could play that may not have been as apparent to me without this type of experience. The opportunity to strengthen engagement with the wider community, and especially the public sector, seemed an obvious opportunity. I feel this is an area where we have made good progress through several initiatives, including the establishment of professorial positions in partnership with public and private sector organisations.

Q. You've had extensive experience in universities and private organisations both early and late in your career, with a significant period in the middle in the public service as policy advisor and leader. Do you have any other thoughts, from that experience, on how policy impinges on the performance of organisations, perhaps especially educational institutions like universities?

A. That is an interesting question, because one of the things that attracted me to economics was, while I was at New Zealand Forest Products observing particularly how it was responding to the regulatory and import protection environment it was facing. There are some parallels with my current role. The tertiary education policy environment has changed a lot since I left in 2000. Some of the change is good, some is problematic. There is greater accountability required by Government as illustrated by the PBRF and the at-risk funding component of

the Student Achievement funding if universities do not achieve investment plan enrolment targets. But universities are also faced with a maximum fee policy. This means that they are operating within both quantity and price constraints, and do not have the discretion to raise fees as quality improves or if demand warrants. They are also expected to increase enrolments in certain fields commensurate with government priorities. Faced with these constraints, universities not surprisingly have adopted their own internal solutions which are not necessarily those solutions that would be chosen in the absence of these constraints.

Let me come back to another part of your question on the opportunities to build on the insights and experience of my time in a public policy institution. I do think it has been helpful to think about how we as a business school can differentiate ourselves from other business schools in the region. Our location in the heart of the capital city and being part of an extremely good university offers opportunities to do that. My thinking has been evolving and has benefited from reflections from my colleagues, but also from having the opportunity to look at the university from the perspective of an outside stakeholder. Victoria Business School can I think be distinctive in the following way. It has built an excellent reputation offering courses and producing research that builds capability for the business and business professions. In this respect it does what traditional business schools tend to do. But in addition, our location in the heart of the capital city means that we can be, and indeed are, a business school that is able to focus on the performance of government as well, and the policy environment for business. And these differentiating elements are supported by a School of Government that is part of our Faculty, programmes designed for the public sector, and research and engagement by staff and our research centres on these three elements.

We have introduced several initiatives to strengthen this differentiation. One I am especially pleased with is the successful implementation of professorial positions established in partnership with private and public sector organisations and which focus on issues of contemporary importance to New Zealand. We now have five partnered chairs which focus on public finance (your Chair), the BNZ Chair in Business in Asia, e-Government, the economics of disasters, and a chair in restorative justice. These Chairs are helping to transform the way we engage externally, helping to ensure we can give greater attention to issues of contemporary business and public policy significance, and building the number of students choosing to undertake PhDs at Victoria Business School. It is also one way we can try to overcome the difficulties of the declining level of contestable external funding for commerce research.

Q. In universities, both in New Zealand and overseas, economists are often uncomfortable in business schools, perhaps because they somehow feel different, but they are expected to deliver professional type accreditation regimes that they don't think fit with their needs? So they are not as cooperative as they might be. Is that an issue for you? Are they right that they are not natural bedfellows for other business school disciplines, or is it just that economists need to move on and appreciate the new environment?

A. I have thought about this, quite a bit, and my experience in the business and policy communities suggests to me that economics has a very important role to play in improving business performance and in contributing to public policy. While there are some business schools around the world which don't have economics departments within them, I would be very uncomfortable being part of a business school which did not have a rich contribution from economics and econometrics.

We have pursued international accreditations for several reasons. One is that we want to have a stronger international presence and we want to be able to generate credible signals about the quality of the institution. One way to do that is to test oneself against internationally accepted standards such as those determined by the leading international accrediting bodies. There is a lot of 'noise' around claims of world class universities and business schools. There is no shortage of universities making this type of claim. Students and prospective staff are confronted with an information asymmetry problem. How can they reliably assess the quality of an institution? Do they simply take the word of the institution? One way through this problem is to subject oneself to scrutiny by a credible agency, such as AACSB or EQUIS.

Accreditation processes can also be a catalyst for change and be used to facilitate change within the organisation, to increase the quality and performance of the organisation that might otherwise be difficult to achieve. We have looked carefully at the standards of the leading accrediting bodies to satisfy ourselves that they are consistent with our own goals of improving research capability and teaching quality. These agencies have also been very helpful in trying to address the situation typically found in Australasian universities where business schools are viewed as an easy way to fund the operations of other more costly parts of universities.

Obviously there are trade-offs when one has to comply with accrediting agencies. But after carefully assessing the options, we've taken the view at Victoria that while there may be some loss of discretion (and I haven't encountered much), this is outweighed by the benefits to be gained.

Q. A final quick question: do you have any advice to young economists?

A. I guess any advice I would offer would be influenced by my own experiences, or lack of them, but if you're prepared to accept my biases that come from that, here are some thoughts. As a young economist you would already be aware that economics can provide you with valuable analytical tools that can be applied in a wide variety of occupations. Continue to develop, apply and learn from them; continuous learning can be immensely rewarding. Take new opportunities, you may be surprised where they lead to. But if you want to be effective in applying your economics skills in business, finance, public policy, politics, research, teaching, etc., acquire other skills such as engagement, communication and leadership. Take an interest in other disciplines. This will provide you with a healthy respect for the limits of economics. It will help you understand the views of others, why they frame issues in a different way, and why they might form a different conclusion to yours. This may help you communicate your own ideas more effectively. Most importantly, enjoy how you apply your skills. And don't forget to join the New Zealand Association of Economists!

GARY HAWKE

NZAE Life Membership Citation



One of the most important roles that any member of the New Zealand Association of Economists can perform for the association is that of editor of New Zealand Economic Papers (NZEP), the association's flagship journal. The association is delighted to honour Gary Hawke, a former NZEP editor, with the award of Life Membership of the New Zealand Association of Economists.

Gary became the fourth editor of NZEP in 1974 after a number of years of involvement with the association. He edited four volumes of the journal through to 1977. He maintained the high standard of the journal that had been set by his predecessor, Bert Brownlie. Many of New Zealand's top academic economists, econometricians and policy-makers published articles in the Papers during this period. Many began their publications career with articles published in NZEP while Gary was editor. As well as editing the journal, Gary actively contributed a large number of book reviews. Gary also served during this period as a Council member of the New Zealand Association of Economists. His involvement with the Association has continued since then as an active participant in the Association's annual conferences.

Gary has also served the community of economists in New Zealand through many other avenues. Contributions have included his academic roles at Victoria University of Wellington where he has served as Professor of Economics and Economic History, Director of the Institute of Policy Studies, and Head of the School of Government. Other roles have included Chairman of the New Zealand Planning Council, member of the Planning Council's Economic Monitoring Group, Chair of the Experts Advisory Group on Tertiary Education Reforms and Chair of the New Zealand Committee of the Pacific Economic Co-operation Council.

Gary is only the second person to be honoured both as a Life Member and as a Distinguished Fellow of the Association (which he received in 2005). The Distinguished Fellow award recognised his impressive quality, quantity and range of publications in fields covering, inter alia, economic history and public policy.

It is, however, his service to the Association that is the subject of this award. In making the award of Life Membership to Gary Hawke, the NZAE Council recognises the sterling support he has given the Association over a number of years as an Editor of NZEP, Council member and long-term active supporter of the Association.

DORIAN OWEN

NZAE Life Membership Citation



It is with great pleasure that the Association honours Dorian Owen with the award of Life Membership of the NZ Association of Economists.

Dorian gained a PhD at the University of Swansea in 1983. His first academic appointment was as a Lecturer at the University of Reading. Dorian moved to New Zealand in 1986, initially as a Senior Lecturer at Canterbury and from 1990 until the present as a Professor at Otago. Dorian's initial research

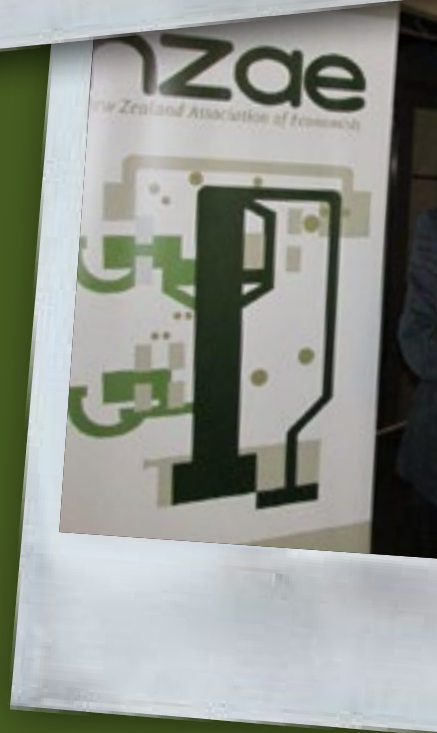
area was monetary economics. His research interests have become more wide-ranging over time, developing an interest in the empirical modelling of economic growth and development in the mid 1990s and, more recently, an interest in the economics of sport. Dorian is one of New Zealand's most respected academic economists, having been published in several top journals. He has also served the profession in a number of ways (including, but not limited to, being a PBRF panelist, an external examiner of postgraduate theses for many New Zealand and overseas universities, and an organiser of the New Zealand Econometric Studies Group on three occasions). The award of Life Membership, however, is made not primarily for these achievements, but for the contribution he has made to the New Zealand Association of Economists over a long period of time.

Dorian was editor of NZEP from 1995-1997 (volumes 29 to 31). Dorian was a highly respected editor, having a reputation for being both fair and efficient. This was in the days before NZEP had a contract with a professional publisher. Hence, as well as overseeing the refereeing process and ensuring a steady flow of quality articles, the editor also had to make sure all articles were free of grammatical errors and were camera ready. Dorian performed all of these duties to a very high standard. More recently, Dorian was a member of the Search Committee for a new NZEP editor in 2006 and has been an Associate Editor and member of the Editorial Board of NZEP since 2007.

Dorian was a member of the NZAE Council from 1995 to 1999, serving as Vice President for a two-year period from 1997 to 1999. During his term on Council, he was also a member of the NZAE Education Trust.

Dorian's support of NZAE goes beyond his work as a Council Member and NZEP Editor. For many years Dorian's active participation in NZAE conferences has been a given. He has also encouraged his graduate students to attend NZAE conferences and to enter the various competitions available to graduate students. Dorian led by example in this regard, entering (and winning) the NZIER poster competition in 2010. Dorian has also been a judge for the Jan Whitwell Prize and the Statistics New Zealand Prize. One of Dorian's graduate students, whose involvement with NZAE began when Dorian encouraged him to attend an NZAE conference in the 1990s, many years later went on to become NZAE President.

In making this award of Life Membership to Dorian Owen, the NZAE Council recognises the sterling support he has given the Association over a number of years, as a Council member, Vice President, Editor of NZEP and general supporter of the Association.



NZAE CONFERENCE

<http://www.nzae.org.nz>



2014

FROM THE 2B RED FILE

By Grant M. Scobie

(grant.scobie@treasury.govt.nz)

My Christmas holiday reading at the bach extended to early April. Why, you ask? Is it taking longer as the font size on every book that I pick up has suddenly got two clicks smaller? No - (ageing apart), this book was 832 pages; yes you guessed, like every other patriotic Kiwi I felt obliged to read **Eleanor Catton (2013) *The Luminaries* (Wellington: Victoria University Press)**. After all, a New Zealand writer doesn't collect the Man Booker Prize very often. In fact, since 1969, this is only the second time; the literati amongst you will recall the first time: Keri Hulme *The Bone People* (1985). So by definition, I figured this had to be a good (sorry, great!) book, and compulsory reading.

As literary criticism is not something I could in good faith list on my CV amongst sundry skills, I shall confine my comments merely to my impressions – clearly the judges have formed their learned opinion in awarding the prize. In short, this is a complex whodunit, with many interacting subplots. I found the storyline required quite a bit of effort to follow, and the point of the astrological connections completely escaped me. But my recommendation to those of you who have started, or are contemplating starting, is to persist! Hardly a paragraph goes by without some wonderful description of a character, a street scene, the harbour, a gold miner's tent or a brothel. Of a trip by sea from Dunedin to the West Coast: "he had known the voyage to West Canterbury would be fatal at worst, an endless rolling trough of white water and spume that ended on the shattered graveyard of the Hokitika bar" (p. 4). "He hardly registered the figures he passed along the roadside, nor in the laden dray-carts that clattered by, nor the infrequent riders making for the gorge – every man hatless and in shirtsleeves, enjoying the pale summer sun that seemed, for its rarity, to shine with a providential, good-hearted light" (p.445). And the author clearly undertook much historical research to give the novel its West Coast setting with the ships, the trauma of the bar, the shanty towns, the gold mining camps, the local lock-up, the innumerable pubs - each with a ring of total authenticity.

Often we face the need to estimate the value of an intangible: some IP, a brand, a reputation, a new product, security, a human life, copyright, an ecosystem, a school reading programme: in the absence of a market price we are left to form an estimate. **Douglas W. Hubbard (2010) *How to Measure Anything: Finding the Value of Intangibles in Business* (New York: John Wiley and Sons, Inc.)** has tackled this and his book is well worth having on your shelf if you find yourself faced with the measurement challenge. And in these times, when the demand is for more evidence-based policy, then measurement is often the critical step. At some point every business, court or government agency is faced with making a judgement about the value of an intangible. Hubbard builds the book around three central elements: first he convinces us that nothing is immeasurable "no matter how 'fuzzy' the measurement is, it is still a measurement

if it tells you more than you knew before" (p.3) although he might want to add a caveat about whether the marginal cost of the information was less than the marginal benefit); second he explains how to set up and define a measurement problem, and third he presents practical methods and illustrates them. He deals with uncertainty, the value of information, cost:benefit analysis, Bayesian decision making, Monte Carlo models, sampling and controlled experiments – in summary a rather handy, accessible and well illustrated compendium of what the author calls applied information economics. The following quote from the heading of Chapter 9 is a useful reminder to all of us who engage in empirical analyses:

It is the mark of an educated mind to rest satisfied with the degree of precision which the nature of the subject admits and not to seek exactness where only an approximation is possible.

Aristotle (384-322 BC)

Most academics spend a considerable portion of their waking hours these days writing grant proposals. Every CV lists the grants won, or even those for which the applicant was invited to the second round. Such is the world of competitive grant funding. And on the receiving end of the proposals are panels of your colleagues who will decide if your brilliant idea is original, relevant, doable, has a high probability of success and will add to the stock of knowledge. (As an aside: I have found that most of my great ideas are not original, and most of my original ideas are not great). At times you will be co-opted on to the Faculty's research committee or some high court of scientific funding; or because you fame has spread globally, be asked to review a proposal submitted to a foreign funding agency.

Regardless of whether you are writing grant proposals or sitting in judgement on those prepared by your ever hopeful colleagues, **Michele Lamont (2009) *How Professors Think: Inside the Curious World of Academic Judgement* (Cambridge, Mass: Harvard University Press)** has written a book that you should read.¹ "Deans and provosts who fret about their rankings and grant money should read this firsthand account of how scholars and social scientists are evaluated in practice" is one testimonial from the dust jacket.

From the Harvard website: "A cultural sociologist, Lamont specializes in the sociology of inequality, race and ethnicity, the sociology of knowledge, the sociology of higher education, sociological theory and comparative and qualitative sociology". For this book Lamont interviewed 49 different panel members and 15 programme officers and chairs of the panels. 13 different disciplines were involved. From these data she draws an amazing amount of insight. A serious challenge for any multi-disciplinary panel is to reconcile the often widely disparate evaluations a given proposal say in psychology, by panellist from anthropology, economics and archaeology. Should greater weight be given to the views of psychologists? Or should the proposal be one whose research question is stated in plain language accessible to experts in other fields? The problem is compounded by the different disciplinary cultures; economists of a positivistic bent

¹ I am grateful to Adam Jaffe for drawing my attention to this book as I burdened him with the trials and tribulations of being a member of the Marsden Fund Council.

may well rate a proposal as coming up short in the absence of a clearly stated testable hypothesis; while panellists from other disciplines make accept a “story telling” approach as acceptable.

Typically those ranked highly by the cumulative scores prior to a panel meeting have a high probability of funding, while those in the lower quartile are unlikely to be discussed. Much of the time of the panel meeting is devoted to the marginal cases, each of which has some flaw. It is here that different panellists will assign different importance to a shortcoming. Some may weight heavily the lack of prior publications in the area of the proposal, while others will be concerned with an aspect of the methodology. Lamont discusses the strategic voting and horse trading that can arise in these cases.

An issue Lamont does not address is whether the last proposal funded by one panel is inferior to the marginal proposal that missed out from another panel. There does not seem to be any well developed mechanism for ensuring equality across panels when each panel has a pre-assigned funding limit and ranks on the relative merits of the proposals assigned to it.

In the end, a proposal written in highly technical language, while it might be almost Nobel winning research, will struggle if a majority of panellists from outside the discipline of the proposal find it impenetrable. My advice to hopeful applicants has always been: “once you have a draft, ask a colleague who teaches medieval poetry to read your neuro-science proposal. If she is unable to tell you what your research question is, then throw the draft out and start again.”

I remain a dedicated reader of anything Matt Ridley writes. If you are depressed about the state of the planet and the well being of humanity in general, then reach for **Matt Ridley (2010) *The Rational Optimist: How Prosperity Evolves* (London: Fourth Estate)**. Doom and gloom merchants beware – this book will leave you grasping for a few more straws of disease, starvation, mass poverty as we rape and pillage the planet. Backed up by evidence at every turn, Ridley shows that throughout the entire history of homo sapiens (and a few of the other preceding homos) living standards, however broadly or narrowly defined, have risen. Of course there have been times of recession but other times of surges.

No populist line (whether it be from the Club of Rome or Paul Erlich) escapes. Ridley concludes that the “mad world of biofuels” has resulted in clearing rainforest to grow palm oil and withdrawn 5% of the world’s crop land (20% in the USA) growing fuel which has achieved nothing but driving up the price of food while a billion people can scarcely get enough to eat. “American car drivers were taking carbohydrates out of the mouths of the poor to fill their tanks” (p.241).

His thesis is perhaps best summed up in the following quote:

The amount of oil left, the food-growing capacity of the world’s farmland, even the regenerative capacity of the bio-sphere – these are not fixed numbers; they are dynamic variables produced by constant negotiation between human ingenuity and natural constraints” (p.303).

“FRAMES” ECONOMICS IN A WIDER CONTEXT

By Stuart Birks, k.s.birks@massey.ac.nz

Many years ago, in an introductory course, a Professor of Statistics told his students that applied statistics required more than knowledge of statistics. It also required knowledge of the area of application. The same could be said of economics. However, far from taking a cross-disciplinary approach, much economics research is restricted to applying economic theory and/or econometrics in isolation and according to accepted conventions (despite the many flaws). Far from being open and inclusive, there are many economists who would only go to economics seminars that are in “their area”. If you want an indication as to why research can be very narrowly focused, consider this advice on literature search from a textbook on conducting research:

The search should always start with the most specific subject definition the researcher is able to supply. Where there is a copious literature the researcher may never need to go beyond this initial subject to amass sufficient references. (Sharp, Peters, & Howard, 2002, p. 87)

It can be very restricting when economists limit deliberation and discussion to those within their immediate sphere. To illustrate, here are a few observations from the 16th Annual Conference of the Association for Heterodox Economics, held in London in July 2014. A message on the importance of politics came through in many sessions.

A common concern at the conference was the dependence of mainstream economics on an unrealistic concept of an ‘ideal’ of perfect competition rather than a reality of highly distorted markets. In reality, many allocation decisions are made within large public and private organisations rather than through markets. There are power imbalances at various points on the production chain (in contrast to producers dealing directly with their consumers). Many resource allocation decisions are determined politically, rather than solely through economic mechanisms (as with initial allocations of water or fishing rights, especially between countries; or international supplies of gas and oil).

Many papers focused on specific aspects of the link between economics and politics. Clive Spash, discussing policies for radical greenhouse gas reductions, make a point about potential implications for democracy. If there is no longer cheap power, there could be serious implications for the wellbeing of those on low income. What if democracy requires a fairly even distribution of income? The political implications could be severe.

EMP Molly Scott Cato suggested that the economy was structured to serve the interests of a tiny minority, with several problems being identified. Neoliberal policies, she claimed, have been associated with increasing corruption. Privatisation has been linked to increasing crime, including mafia involvement in waste disposal (see [here](#) and [here](#)). Multinationals have become harder to control (see [here](#)). Examples such as these suggest the existence of important influences beyond the coverage of standard economic theory.

Rosa Pavanelli, General Secretary of Public Services International (a global federation for public sector trade unions) spoke of the growth in flexible contracts and its implications. Such changes transform labour markets and can have widespread social implications.

Arturo Hermann contended that an increase in interest rates disproportionately affected small firms. He reasoned that rising interest rates depressed demand for goods and services, not just through cost, but also through availability of credit. He reasoned that large firms are more able to access funds at favourable rates, and so can continue to make credit available to customers. Consequently they can reduce the dampening effects of rising interest rates on demand for their products.

From conversations elsewhere I have anecdotal evidence of additional problems for small businesses. One example is that of ACC payments. ACC is intended to cover accidents in the workplace and elsewhere. Many of those who are self-employed are unable to benefit from ACC assistance due to the impact on their business of absence from work. In several cases there could be a husband and wife team with specialist skills, in which case when one is unable to work the other may also not be earning. Similarly, small businesses may find it hard to cope in the short term with increases in rates of employer KiwiSaver contributions. These have an impact on costs without an immediate compensating adjustment to wages.

John Hart described Marshall’s preference for the term ‘economics’ over ‘political economy’. Marshall’s somewhat paradoxical explanation is that economics:

...shuns many political issues, which the practical man cannot ignore: and it is therefore a science, pure and applied, rather than a science and an art. And it is better described by the broad term “Economics” than by the narrow term “Political Economy”. (Marshall, 1961, Bk1 Ch8 Sect4)

Does this indicate that economics on its own is not a practical discipline?

While on the subject of economics and politics, a comment by Robin Latimer is worth considering, “If a country did a cost-benefit analysis before sending people to war, most people would say they are not serious about the war”.

The plenary address was by Fred Lee, noted for his contribution to, and promotion of, heterodox economics. He argued that even heterodox economists rely on neoclassical microeconomics. He argued that class and status are important, and contended provocatively that resource allocations are made by those with influence, rather than in response to price.

A wide range of perspectives on economics can be found closer to home. In the second week of July this year, the History of Economic Thought Society of Australia (HETSA) held its conference in Auckland. Not only does HETSA demonstrate the use of a range of theoretical and analytical approaches to economics, but also it illustrates the way that current mainstream economics has neglected many valid approaches and sources of information. Also, many points raised in past debates can give insights into current issues. Investigation of the origins of currently accepted beliefs can also lead us to be more cautious about the extent of our understanding and the accuracy of those beliefs.

Another local forum offering exposure to international debate on alternative perspectives is the annual conference of the Society of Heterodox Economists, held in Sydney each December. It is even attended by a few economists from New Zealand.

Marshall, A. (1961). *Principles of economics* (9th (variorum) ed.). London, New York: Macmillan for the Royal Economic Society.

Sharp, J. A., Peters, J., & Howard, K. (2002). *The management of a student research project* (3rd ed.). Aldershot, Hants, England: Gower.

BLOGWATCH

By Paul Walker (paul.walker@canterbury.ac.nz)

The bad news about the greats of economics continues. In the last couple of years we have lost Alchian, Buchanan, Coase, and now Gary Becker. Peter Klein notes that Becker was a living legend of the Chicago school and that he was both smart and hard working. Klein writes, "Like most economists in the department, my friend went to the office and worked Saturdays and Sundays. Becker was usually the first to arrive and the last to leave. "He's not only the smartest person here," I was told, "but the hardest worker!" "<http://organizationsandmarkets.com/2014/05/04/gary-s-becker-1930-2014/>". Peter Lewin wrote his PhD under Gary Becker at Chicago. He comments on a man whose contributions transformed economics. His work spurred massive changes in approach and widened the scope of its endeavours <http://organizationsandmarkets.com/2014/05/04/peter-lewin-on-gary-becker/>. At the 'Freakonomics' blog <http://freakonomics.com/blog/> Steven Levitt writes "About ten years ago, Pierre-Andre Chiappori and I analyzed which economic theorists have had the greatest impact on empirical research by looking at the key motivating citations in papers published in top journals in recent years. Becker was by far the most influential theorist by our metric. What was most remarkable was that thirteen different works of his were cited; no one else had more than three or four. He published influential research in every decade from the 1950s to the present – incredible longevity. No one else had longevity like that" <http://freakonomics.com/2014/05/05/gary-becker-1930-2014/>. At the 'ThinkMarkets' blog <http://thinkmarkets.wordpress.com/> Mario Rizzo views Becker's contribution to economics through an Austrian window <http://thinkmarkets.wordpress.com/2014/05/05/gary-stanley-becker-1930-2014-through-my-austrian-window/>. And to make matters worse, Richard Posner has said that the 'Becker-Posner' blog is now closed.

At his 'The Undercover Economist' blog <http://timharford.com/> Tim Harford asks, Does economics attract sociopaths, or produce them, or neither? Harford discusses work on the question, Are economics students more selfish than others? He notes that Anthony Yezer and Robert Goldfarb (economists) and Paul Poppen (a psychologist) conducted an experiment to find out, surreptitiously dropping addressed envelopes with cash in classrooms to see if economics students really were less likely to return the money. Yezer and colleagues found quite the opposite: the economics students were substantially more likely to return the cash. Not quite so selfish after all <http://timharford.com/2014/04/economists-arent-all-bad/>.

At the 'Fobes Opinion' blog <http://www.forbes.com/opinion/> Art Carden asks Should Your City Run More Buses or Build Light Rail? and notes that according to Randal O'Toole of the Cato Institute the short answer is run more buses. O'Toole lists a couple of advantages buses have over rail. First, buses can share infrastructure with cars and trucks, so bus service expansion would have a substantial cost advantage over building new rail lines. Second, buses are more flexible than rail and can be redeployed along different routes depending on shifting patterns of development and demand. It is expensive to alter a rail line to accommodate new patterns of development. It is much cheaper to alter a bus line. Carden argues for an even more radical proposal: let's price road access or even turn roads into private property so that people have to better account for the costs of using roads at different times of day <http://www.forbes.com/sites/artcarden/2014/06/27/should-your-city-run-more-buses-or-build-light-rail-catos-otoole-says-more-buses/>.

In the previous Blogwatch reference was made to blog posts on the recent increase in the illegal ivory trade. Again in this Blogwatch we look at the issue with a posting at the 'Chthoniid's Photography' <http://chthoniid.zenfolio.com/blog> blog asking "Ivory Crimes: Supply or Demand Shock?" The short answer appears to be supply. One casualty of more civil conflicts in Central Africa is elephants. Spending on national parks and wildlife protection collapses, whilst money-hungry armed-groups try to cash in with poaching. Also shipping costs have collapsed post the GFC and so sending raw ivory from Africa to consumer markets for stockpiling is now a lot cheaper. Criminal organisations are taking advantage of this to store more raw ivory in final markets. The ivory is not for sale on the streets because it's being stored and it's probably not in their interests to be dumping lots of ivory into consumer markets <http://chthoniid.zenfolio.com/blog/2014/4/Ivory-Crimes-Supply-or-Demand-Shock>.

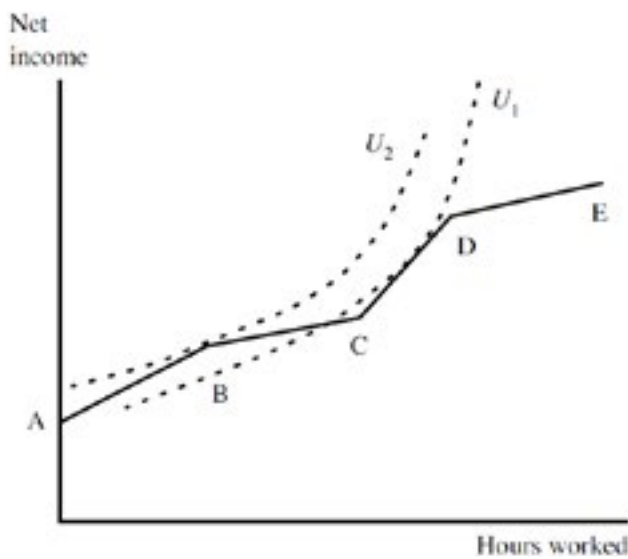
In a timely post at the 'The Visible Hand in Economics' blog <http://www.tvhe.co.nz/> James Zuccollo argues that "Football referees aren't just wrong, they're biased". Zuccollo points out that according to analysis of penalty decisions by Randal Olson there may be more than luck involved: 70.6% of all penalty kicks were awarded to the Home team! <http://www.tvhe.co.nz/2014/06/16/football-referees-arent-just-wrong-theyre-biased/>. Continuing the sporting theme, this time at the 'Offsetting Behaviour' blog <http://offsettingbehaviour.blogspot.co.nz/>, Seamus Hogan blogs on "Irrational Expectations in Cricket Redux". Hogan looks at a very simple decision that the captains of cricket teams have to make: whether to bat first or second on winning the toss. The model Hogan discusses utilises information which is strictly less than that available to captains, yet the model can outperform international ODI captains quite significantly <http://offsettingbehaviour.blogspot.co.nz/2014/06/irrational-expectations-in-cricket-redux.html>. Meanwhile at the 'Stumbling and Mumbling' blog Chris Dillow argues that "England's narrow defeat in the second [cricket] test raises two important issues in the social sciences". First, Do nightwatchmen work? And second, What mechanism might cause them to work? And a third question would be, What does this have to do with social science? Dillow explains. http://stumblingandmumbling.typepad.com/stumbling_and_mumbling/2014/06/liam-plunkett-the-tragedy-of-social-science.html. At 'Offsetting Behaviour' Eric Crampton looks at another sporting related issue, the possible mothballing of Dunedin's Forsyth Barr Stadium. He reasons that the decision of the future of the stadium depends on what portion of the ongoing losses are sunk for the Council and what part are operational losses that could be stemmed by shutting down <http://offsettingbehaviour.blogspot.co.nz/2014/06/stadium-exam-questions.html>.

At the 'Groping towards Bethlehem' blog <http://gropingtobethlehem.wordpress.com/> Bill Kaye-Blake writes on the 90-day trial period for new employees. He argues that the "key question is whether the trial periods led to (a) increased employment or at the very least (b) more employment for traditionally disadvantaged job-seekers. If the rule change doesn't improve employment outcomes, then it just looks like a shift of power from one group to another with no compensating benefit" <http://gropingtobethlehem.wordpress.com/2014/06/13/again-with-the-90-day-trial/>.

FINE LINES: LABOUR SUPPLY

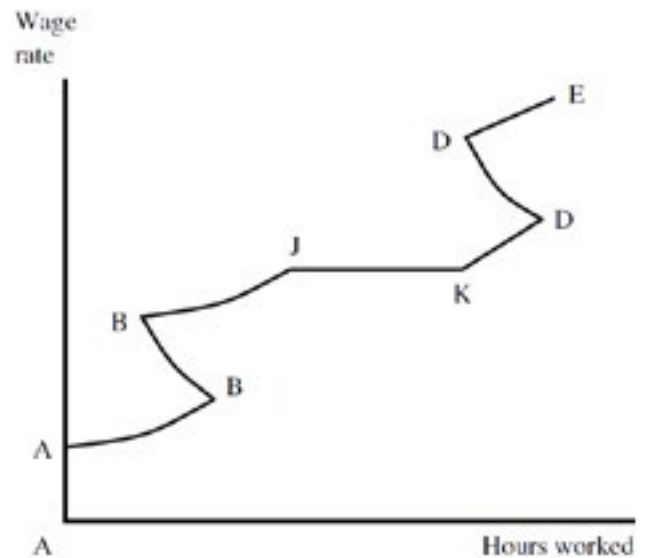
John Creedy (john.creedy@vuw.ac.nz; John.creedy@treasury.govt.nz)

Standard textbook treatments of labour supply typically show a smooth 'backward bending' supply curve, with the net wage on the vertical axis and the hours worked on the horizontal axis. This is a simple illustration of the general case of exchange, where leisure is supplied in return for net income (or consumption in a single period framework), and both leisure and income provide positive utility.¹ The smooth curve arises from an assumption that the budget constraint is linear, so that the 'price of leisure', equal to the net wage, is independent of total hours worked. However, the situation is more interesting with a piecewise-linear budget constraint, which arises from a tax and transfer system having means testing and increasing marginal rates in the higher-income brackets.



The above figure shows a budget constraint having four marginal tax rates. At the 'intensive margin', with no labour force participation, there is an untaxed benefit. Hence, the benefit and any other non-wage income produces net income of A. Means testing involves an increase in the effective tax rate beyond point B, which is associated with an earnings threshold when benefits begin to be abated. There is a subsequent reduction in the rate once benefits have been exhausted at point C. The range DE reflects an increase in the marginal rate for higher incomes beyond D.

The non-convexity of the budget set gives rise to the possibility of multiple local optima, as illustrated in the diagram, along with corner solutions and discrete 'jumps' in labour supply. The latter occur because there can be an indifference curve that is tangential to both sections BC and BD, so that a small change in the wage rate causes a jump across point C. Alternatively, jumps could occur from point B to a position on CD, or from B to D, or from a point along BC to point D.



As the wage rate increases, points like B and D, associated with a particular gross earnings threshold, and hence its associated net income, move horizontally to the left. Hence, at wage rates for which such corner solutions are relevant, an increase in the wage rate (over the relevant range) gives rise to a reduction in labour supply. This reduction moves along a rectangular hyperbola, since the product of the wage rate and hours worked – equal to the earnings threshold in the tax system – is constant.

An example of the labour supply curve generated by this budget constraint is shown in the above diagram. Point A of the budget constraint corresponds to the range AA of net wage rates for which the individual supplies zero hours of work. The two corners B and D of the budget constraint generate the segments BB and DD of the supply curve. The segment BJ of the supply curve is associated with tangency solutions along the range BC of the budget constraint, until the wage is such that a jump occurs from J to K, where J is a point along the segment BC and K is a point along the segment CD of the budget constraint. Further tangency positions occur along the range KD as the wage rate increases. Then the rectangular hyperbola, DD, is associated with the kink at D on the budget constraint where the higher marginal income tax rate begins. As the wage increases then, so long as a corner solution at a point like D is optimal, earnings are constant and equal to the relevant threshold. Hence labour supply falls as the wage increases.

Alternative labour supply curves could arise. For example, the segment BJ may not exist if the jump takes place from a corner like B on the budget constraint. Similarly, the segment KD may collapse to a single point, or indeed both segments BJ and KD of the labour supply curve in the diagram could disappear.

¹ The seminal treatment of the backward bending supply curve is Robbins, L. (1930) On the elasticity of demand for income in terms of effort. *Economica*, 10, pp. 123-129. It seems likely that he was influenced by Walras's analysis of supply curves in the exchange context: see Creedy, J. (1999) The rise and fall of Walras's demand and supply curves. *Manchester School*, 67, pp. 192-202.

² See, for example, Creedy, J. and Scutella, R. (2001) Earnings distributions and means-tested benefits. *Australian Economic Papers*, 40, pp. 373-386.

³ See Creedy, J. (2005) An in-work payment with an hours threshold: labour supply and social welfare. *Economic Record*, 81, pp. 367-377.

The nature of the supply curve shown in the right hand diagram illustrates a number of the complexities introduced by piecewise-linear budget constraints. First, it is clearly not possible to describe the supply curve in terms of a single labour supply elasticity, since it changes substantially in magnitude and sign along the curve. Second, multiple backward bending sections arise simply from the kinks in the budget constraint where marginal effective tax rates increase. Third, discrete jumps arise from segments associated with means testing. Fourth, an important consequence of nonlinear budget constraints is that labour supply and the effective marginal tax rate are jointly determined.

The 'stickiness' at the kinks combined with the jumps across non-convexities in the budget set also raise interesting questions about the form of the resulting distribution of wage income, in the situation where individuals face a common tax structure but there is both preference and wage rate heterogeneity. It might be expected that the kinks like B and D in the budget constraint would give rise to 'spikes' in the distribution of income. Such spikes are often evident in empirical distributions, but their absence does not necessarily imply an absence of labour supply responses to increasing marginal tax rates.² It is not difficult to extend the treatment to introduce additional complexities, for example those caused by fixed costs of working or an in-work payment with an hours threshold.³

THE A. R. BERGSTROM PRIZE IN ECONOMETRICS, 2015

APPLICATIONS ARE NOW BEING SOUGHT FOR THE ELEVENTH A R BERGSTROM PRIZE IN ECONOMETRICS.

The objective of the Prize is to reward the achievement of excellence in econometrics, as evidenced by a research paper in any area of econometrics. The Prize is open to New Zealand citizens or permanent residents of New Zealand who, on the closing date of applications, have current or recent (that is, within two years) student status for a higher degree. It is intended that the awardee will utilise the proceeds to assist in financing further study or research in econometrics in New Zealand or overseas.

The Prize can be awarded once every two years, with its value currently being \$1,000. The selection panel will be appointed by the A. R. Bergstrom Prize Committee. The Prize is administered by the A. R. Bergstrom Prize Committee on behalf of the New Zealand Association of Economists Education Trust,

APPLICATIONS/NOMINATIONS MUST INCLUDE:

- a formal letter of application and, in the case of students, a letter of nomination by their research adviser or chairperson
- a research paper written by a single author, reporting original research in any area of econometrics
- a CV and relevant academic transcripts

Applications should be emailed or posted **by Friday 30 January 2015,**

to: Dr. Leo Krippner
Economics Department
Reserve Bank of New Zealand
P O Box 600 Wellington
NEW ZEALAND
Email: leo.krippner@rbnz.govt.nz

THE LONG-RUN GROWTH OF NEW ZEALAND TOWNS

By Anna Robinson

In 1926, the populations of Tauranga and Hokitika were roughly equal at around 2,500 people. By 2006, Tauranga was home to 109,000 people, while the population of Hokitika had grown to only 3,000. What explains this large difference in fortunes? Why have some New Zealand towns taken off while others have stalled?

An upcoming Motu Working Paper looks into the determinants of long-run urban growth. It has been prepared as part of the Resilient Urban Futures programme, led by The University of Otago and funded by the Ministry of Business, Innovation and Employment. In *Infrastructure's Long-Lived Impact on Urban Development: Theory and Empirics* Arthur Grimes, Eyal Apatov, Larissa Lutchman and I develop a theoretical model of population location and test it on a sample of 56 New Zealand towns. We examine what effect physical infrastructure, geography, climate and earnings opportunities have had on the growth trajectories of these towns over eight decades from 1926 to 2006.

Our model assumes that people choose where to live by weighing the attractiveness of each town in terms of access to amenities and the level of material consumption they can afford. We consider New Zealand's four traditional main centres – Auckland, Wellington, Christchurch and Dunedin – to be regional “cores” to which people travel in order to access amenities like shopping centres, stadiums and hospitals. We also assume that the average person's earning opportunities are highest in the core city and decline as distance to the city increases, while transport costs are lowest in the core city and increase with distance. However, the magnitude of the wage and transport cost trade-offs are assumed to differ across individuals and regions. Land prices act as an equilibrating force, ensuring that more distant towns offer a discount on land costs that outweighs the disadvantage of lower wages and higher transport costs. Where people ultimately choose to live depends on the different budget constraints they face, and whether they prefer high consumption or close proximity to big city amenities.

Two simple additions make for a richer model. We allow for different amenities available locally in each town (schools, parks, recreation) as well as through travel to the main centres. We let wages depend on local attributes (for example, the quality of nearby agricultural land or distance to the nearest port) as well as distance to the core city. Therefore, all else being equal, a town's population increases if it adds to its amenities, if earnings opportunities are enhanced, or if local land costs fall. Moreover, a decrease in transport costs results in a population increase for peripheral towns at the expense of locations at or near the core city.

We also consider the possibility that declining transport costs could lead to people travelling to larger, more distant centres for amenities (broadly defined) instead of frequenting local service towns. In this case, falling transport costs would favour the growth of larger population centres over peripheral ones. What's more, if there are increasing returns to scale – that is, if wages and amenities are an increasing function of population – then anything that causes an initial population influx also permanently increases the



town's growth rate. In this case, we would expect to see population growth increasingly favour a small number of large agglomerations.

With these theoretical predictions in mind, we examine the historical population growth rates of 56 New Zealand towns. Our population data consist of eight waves of decennial census figures taken from the New Zealand Urban Population Database, described in detail in Grimes and Tarrant (2013).¹ We estimate pooled ordinary least squares and random effects regressions of population growth for 1926-2006 as well as two subsamples (1926-1966 and 1966-2006).

Our explanatory variables are gathered primarily from the Statistics New Zealand Yearbook collection.² Variables intended to capture wage prospects include: average land-use capability, a measure of the suitability of nearby land for agriculture; road distance to port near the start of the time period; indicators for the presence of universities and polytechnics; and a human capital proxy. Average annual sunshine hours and rainfall are included as natural amenities, while the presence of an airport could have both amenity and productive value. We include region dummies to capture both productive and amenity differences across regions, and we also test for the effect of distance from the four main centres. Finally, start of decade log-population is included to test for the presence of increasing returns to scale.

There are some important challenges to estimating causal effects on population growth. In order to limit the potential for reverse causation in our results, we test the effects of long-lived infrastructure built at or before the beginning of the sample, when decision makers were unlikely to have had accurate expectations about population growth many decades into the future. More importantly, since ports, airports, universities and polytechnics are all found together in large towns, we cannot easily tease out their individual effects on population growth. Our preferred model therefore excludes these highly correlated infrastructure measures and instead treats initial log-population as a summary infrastructure variable. We also carry out a number of post-estimation robustness checks to ensure the reliability of our results.

We find that five key factors have had a positive impact on population growth in New Zealand: these are local land-use capability, human capital, sunshine hours, initial population size and proximity to Auckland. These results highlight the importance of transport links to improve connectivity with Auckland as well as local policies that raise and attract human capital. Finally, given that Auckland is only the fifth-largest city in Australasia, our population size result suggests that policy makers should not overly constrain the growth of our largest urban centre.

¹ Grimes, Arthur & Nicholas Tarrant. 2013. "An Urban Population Database", Motu Working Paper 13-07, Wellington: Motu. The data are available at: http://www.motu.org.nz/building-capacity/dataset/new_zealand_urban_population_data

² The digitised Yearbooks are available at: http://www.stats.govt.nz/browse_for_stats/snapshots-of-nz/digital-yearbook-collection.aspx.

NEWS FROM GEN

THE NEW GEN COMMITTEE

Following the election at the Annual General Meeting in December 2013, we are delighted to introduce our new committee:

- Veronica Jacobsen, Chair, Ministry of Business, Innovation and Employment
- Bronwyn Croxson, Deputy Chair, Ministry of Health
- Girol Karacaoglu, John Creedy, Joey Au and Linda Simpson, NZ Treasury
- Joanne Leung, Ministry of Transport

New members:

- Lisa Meehan, Productivity Commission
- Donna Provoost, Office of Children's Commissioner
- Michele Lloyd, Statistics New Zealand
- Jason Timmins, Ministry of Business, Innovation and Employment
- Audrey Sonerson, Ministry of Justice

SEMINARS AND TRAINING COURSES

Over the last six months, GEN organised a number of seminars and other events. We also held three popular training courses: Introduction to Economic Evaluation of Policy Options by George Rivers; Introductory Microeconomics for Policy by Veronica Jacobsen and; Introduction to Macroeconomics by Grant Scobie. If you would like to attend any of these training courses in future, please contact us (see details below).

We recently carried out a GEN survey about training courses and seminars. Preliminary results show that while many of the respondents do not have an economics background, they are nonetheless interested in learning more about how to use economics in their work. Some respondents also indicated an interest in attending the three training courses we recently offered. Respondents indicated a desire for more seminars on evidence and data to support policy and decision-making, applying economic tools to policy advice and updates on current New Zealand research. We will try our best to accommodate these requests when preparing our seminar and training programmes. Watch this space!

KNOWLEDGE HUBS

A couple of years ago, GEN created the Knowledge Hubs page on the GEN website to provide policy analysts and researchers, the public sector and universities with a channel to share policy-relevant research and analysis, to connect with other researchers and policy analysts, and to discuss research ideas on a specific subject area.

At present, there are three knowledge hubs:

- Productivity Hub
- Living Standards Hub
- Small and Medium Enterprises research Hub

The research hubs are open to anyone who has an interest in contributing to the research communities. To find out more, please visit our website www.gen.org.nz.

THE 2014 GEN CONFERENCE

Following the success of last year's conference on modern economic methods for policy analysis, the 2014 GEN conference will focus on how economics is adapting to a changing environment. This year's conference will take place on the 5th of November at The Museum of New Zealand Te Papa Tongarewa in Wellington.

The preliminary list of speakers includes:

- **Graham Scott**, Commissioner, Productivity Commission
- **Caroline Saunders**, Professor of Economics, Lincoln University
- **David Skilling**, Director Landfall Strategy Group, World Economic Forum
- **Morris Altman**, Head of the School of Economics and Finance at Victoria University of Wellington
- **Michael Mintrom**, Professor of Public Sector Management, Monash University

This full day-conference will have three discussion topics: analysis, education and policy.

Keep an eye on our website (www.gen.org.nz) for more information about GEN or subscribe to our mailing list for regular updates on events (info@gen.org.nz).

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 NZIER. 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.

Natural resources and agriculture. We provide clients with expertise in non-market valuation, analysis of environmental policies or resource uses, and solutions to market or regulatory failures. In 2014, NZIER estimated the economic impacts of the Primary Growth Partnership for the Ministry for Primary Industries. The work involved an assessment of the current PGP investments and extrapolation to the final level of funding. One element of the work was an estimate of the expected, risk-adjusted net benefit attributable to government funding, which was estimated at \$2.2 billion annually by about 2025. NZIER also provided guidelines for appraisals of future investment applications and suggestions for evaluation metrics for existing and future programmes.

Policy and evaluation. Our public policy experts advise on policy design and the evaluation of cost-effectiveness. We have recently worked with the Electricity Authority to provide an external peer review of the quality of its regulation. This involved reviewing a number of Authority papers to check how well they conformed to the Authority's proscribed quality standards. Drawing on our expertise in the electricity sector and our understanding of the Authority's statutory requirements, we scored each paper against these standards and engaged with the authors to provide feedback on the paper's strengths and work-on areas. The scores fed into the Authority's annual reporting process. Our advice also contributed to the Authority's ongoing efforts to lift the quality of its regulatory decision-making.

Health, education and social policy. We help clients independently investigate the impacts and cost-effectiveness of changes to health, education and other social policies and trends. A client sought evidence of the impact of changing subsidy levels on access to healthcare services. It was possible to temporarily increase subsidies in selected parts of the country. Changes in access in those parts were compared to access in other parts of the country, using statistical techniques. We were able to go further and identify how other healthcare services were affected. This gave the client a robust assessment of the costs and benefits of the piloted initiative. For another client we used a microsimulation model of the New Zealand population to explore the potential impact of policy interventions on smoking prevalence. In 2014 as part of our Public Good programme, we will be looking at what drives the housing market. Is it local, regional or national cycles? We want to better understand the drivers of housing markets at a local and regional level. This will help us to evaluate the relative merits of market interventions, such as local land availability, credit constraints or monetary policy.

Trade. We combine our understanding of the New Zealand economy with global trade patterns and policy to help clients develop effective export strategies and international trade agreements. We were asked by one of our clients to study global trade data in their industry to better understand the price and volume drivers, and long term prospects. Our findings challenged the assumptions on which the client's business growth strategy was based. The scenarios helped the client adapt their investment strategy.

Competition and market regulation. We help businesses and regulators understand and assess the economic impact and aspects of regulations, market reform, and mergers and acquisitions. The Commerce Act prohibits business acquisitions that may substantially

lessen competition. But the Commerce Commission may authorise an acquisition if the public benefits outweigh the costs. We worked with a client to gauge the competition effects of a proposed acquisition, and helped prepare an application to the Commerce Commission. Our sound understanding of our client's industry and the Commission's requirements gave the client certainty in choosing their strategy.

Economic performance. We help clients explore the real or potential impact of changes resulting from economic trends or proposed policy and business initiatives. One industry organisation wanted to understand how predicted growth in its various sub-sectors would affect the New Zealand economy out to 2025. We custom built an economic model to show the contributions of these sub-sectors to employment and living standards across the economy. This provided the client an evidence-base to discuss Government support to facilitate expansion, and for strategy development and marketing.

Infrastructure and transport. Our advanced economic analysis enables our clients to assess cost-benefit ratios and the wider economic impacts of major investments. A client was interested in how proposed changes to the transport services they provided would affect the national and regional economies. We showed that planned changes would have a small negative flow-on impact, but that this should not be a deciding factor in determining their approach.

Economic impact analysis. We model the direct and indirect economic effects on industry and regions affected by significant policy changes and investments. This modelling helps our clients to understand the wider costs and benefits of their decision-making. The Ministry for the Environment wanted to know the economic and environmental impacts of potential water quality policies in Southland. Using RF-MAS, NZIER led a team analysing farm-level and regional financial impacts of policies, as well as the impacts on nitrogen, phosphorus and *E. coli* losses from farms. The analysis and results are being used to develop water policy in Southland, and have been fed into the National Objectives Framework for freshwater at the Ministry.

Evaluation. We apply rigorous statistical and economic modelling techniques to evaluate whether policies and strategies are having their intended effects. We often combine our analysis with qualitative research such as in-depth interviews and focus groups. This enables us to turn our technical findings into insights that enable our clients to select effective policies, improve value for money, and address unintended consequences. As part of its review of regulations around aquaculture development, the Ministry of Fisheries asked NZIER to provide some guidance. The research focused on calculating the compensation if aquaculture produced an undue adverse effect (UAE) on fishing quota. NZIER assessed the impacts of three methods - quota trade price, business loss calculation, and arbitrator judgement - in setting the amount of compensation. No single method was best; they had various degrees of efficacy, transactions costs, certainty, efficiency, and equity.

Forecasting and modelling. We develop customised economic forecasts and models to help clients understand economic events, trends, cycles and their causes. We enable our clients to look ahead to take advantage of economic opportunities and reduce the impact

of adverse events. Our dynamic computable general equilibrium (CGE) model of the New Zealand economy offers our clients a robust evidence base of direct and indirect economic effects of proposed changes. Recently NZIER provided CGE modelling of the potential impacts of iron sands mining in the South Taranaki Bight, as part of the application to the EPA lodged by Trans-Tasman Resources. An important component of mining applications is an estimate of economic impacts, and the NZIER CGE model is an excellent tool for understanding those impacts. Mining can change the export mix of the country, leading to terms-of-trade impacts, and also produces revenue for the Crown that needs to be taken into account.

Cost-benefit analysis. We work with our clients to assess whether the benefits of policies and investments outweigh their costs. Our rigorous and best-practice analysis often includes putting dollar values on 'harder-to-value' biosecurity, safety, and health outcomes. NZIER has researched ways to broaden the scope of appraisals as existing transport cost-benefit analysis misses critical impacts. As part of this research, NZIER has developed a new approach to estimating the benefits of major transport projects.

Market analysis. We combine our sector knowledge with the application of robust economic logic, models and data to analyse our clients' markets. Our work enables our clients to find real-world solutions and make informed pricing, funding, regulatory and investment decisions.

Market and regulatory design. We use economics to design solutions for clients that have information, incentive, or structural problems within their markets. This can involve setting up new structures and rules to create new markets, improve the functioning of existing markets, or reduce the risk of market participants misusing their market position. As part of our Public Good programme in 2014, we will be looking at the impacts of regulation in New Zealand. The government is promoting 'better regulation' as essential for improving economic performance. Traditional approaches to regulatory review in New Zealand focus on reviewing the flow of new regulations. Now attention is turning to assessing the stock of existing regulatory. We will outline how a combination of quantitative analysis and qualitative micro screening can be used to evaluate the likely efficiency impacts of the current stock of regulations. This approach can highlight where the potential gains are greatest from reviewing existing regulations.

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.

WEB-SITE

The NZAE web-site address is:

<http://nzae.org.nz/>

(list your job vacancies for economists here).

MEMBERSHIP FEES

Full Member: \$130 (\$120 if paid by 31 March)

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

Bruce McKeivitt - Secretary-Manager,
New Zealand Association of Economists
PO Box 568, 97 Cuba Mall.

WELLINGTON 6011

Phone: 04 801 7139 | fax: 04 801 7106

Email: economists@nzae.org.nz

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