

# Asymmetric information

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

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# EDITORIAL

Viv Hall ([viv.hall@vuw.ac.nz](mailto:viv.hall@vuw.ac.nz))

The interview in this issue is with Suzi Kerr, Senior Fellow at Motu Economics and Public Policy Research. She is interviewed by Lew Evans, Emeritus Professor of Economics in the School of Economics & Finance, Victoria University of Wellington.

The 'Five Minute Interview' is with Dr. Ganesh Nana, Executive Director and Chief Economist, Business and Economic Research Limited (BERL).

Key findings are presented from the 2016 NZAE Conference Attendee Survey, and information is provided for NZAE's first PhD Student Workshop in Economics, to be held on 11 July 2017 at the RBNZ. This is immediately prior to NZAE's Conference 2017, to be held on 12-14 July in Wellington.

Paul Walker contributes his regular 'Blogwatch' column, and from Motu, Thomas Carver and Arthur Grimes provide summary findings and policy implications from their Working Paper on whether income or consumption better predict subjective wellbeing.

GEN summarise key features of the Transport Knowledge Hub's third annual conference held on 10 November 2016, and provide their list of training courses scheduled for 2017.

This issue's Research in Progress comes from the Department of Economics at the University of Otago, and new members who joined NZAE between mid-July and mid-September are also recorded.

Applications are now being sought for the 2017 A R Bergstrom Prize in Econometrics, and information and keynote speakers are provided for the Western Economics Association International (WEAI) June 2017 Annual Conference in San Diego, and their January 2018 International Conference to be held in Newcastle, Australia.

Our advertisement on the back page continues to be from Survey Design and Analysis Services. They are the authorised Australia and New Zealand distributors for Stata and other software. [www.surveymdesign.com.au](http://www.surveymdesign.com.au).

## INTERVIEW WITH SUZI KERR

by Lew Evans



**Q. Suzi, what was it that interested you about economics from the outset?**

A. I first got interested in economics at high school in fifth form. We did history and we studied the Great Depression and we were taught that Keynes' ideas had led to the end of the Great Depression and that seemed like an incredibly powerful thing to me, that an idea could actually have such huge impacts on people's lives. Of course I later learned that that story is not quite so simple, but that's the way we were taught it.

I actually took economics in sixth and seventh form, which in those days was very odd for one of the better students. And then I got really interested in microeconomics. Just the elegance of this whole way of explaining the world and all the invisible processes that are going on. I think that's what I really loved about it.

**Q. So you were really interested in the framework that economics per se provides, as opposed to coming at it from a desire to solve particular problems.**

A. Yes, so I was inspired, I guess, that it was potentially something that could solve important problems, but I also just enjoyed the logic of the way it worked.

**Q. Do you come from a professional family? Are there others in your family that were interested in economics?**

A. No. My dad is a doctor, he's a surgeon, so no. People always used to ask me why I wasn't doing medicine, which always seemed an odd question. My uncle is an economist, Roger Kerr, but I actually didn't know that. As a kid, you don't necessarily know these sorts of things and they lived in Wellington and we lived in Auckland. So that wasn't really part of why I chose to do it. It was independent. But then of course once I had, he got interested and gave me a bit of advice.

**Q. Yes, Roger was a prominent public policy economist for many years.**

A. Yes, he was. And later, of course, I realised that, but at the time I had no idea.

**Q. Tell us a little bit about your progress to being a professional economist today. You went through Canterbury University and then on to Harvard. Can you tell us a little about whether there were any motivating forces in there or not? Obviously, none of them dissuaded you from the topic.**

A. I had a very good teacher in seventh form Economics, Susan Laurenson, and, as a result of that, I skipped first year economics. Canterbury had this great thing where you could go straight into second year and get an honours degree in three years and that's what I did. I had some really good lecturers. I had a lecturer for second year Micro who was really inspiring. He was a young guy who disappeared off overseas soon afterwards. Then Richard

Manning was wonderful. Just the clarity of thought and his focus was microeconomics which fascinated me. The other one was David Giles, who I think I learnt most of my econometrics from. Again, just he was such an outstanding teacher and he could explain things so clearly and make it completely intuitive.

Then I spent two years at Treasury, which was fantastic, because it was the end of the '80s and it was the period where people were still asking really fundamental questions about public policy. If you could start from scratch, what are you trying to achieve, what are the options, how do you do it? So, fascinating conversations.

Then I went to Harvard and chose to specialise in public economics and micro in my second year. First year you just do everything. I did really well in macroeconomics, but I've always been a bit sceptical. It's sort of story-telling. I happened to be quite good at story-telling, but that didn't mean I want to spend my life doing it.

I loved the micro and I did theory work with Jerry Green and just loved all that stuff. I did do some theory papers as part of my thesis, but I was never really going to be a theorist because my maths wasn't actually up to it. I could read the maths very easily, but I couldn't write it, which was very frustrating and still continues to be a bit frustrating. I was really motivated by policy problems, so the public economics made a lot of sense.

I had the good luck to tutor for David Cutler, a health economist. Actually, three of my supervisors were junior faculty who had just got jobs at Harvard. They actually all got tenure, which is incredibly unusual at Harvard, so I don't know if I just picked very well. I had these young, enthusiastic guys who were just full of ideas and I was really lucky to work with them. Ed Glaeser, Rob Stavins and David Cutler and then Jerry Green who was more senior.

**Q. It sounds like a fun environment to be in.**

A. It was an incredible environment. You just walk around and everywhere you go nobody ever has polite conversation: they just say, 'What are you working on?' So you have these endless fascinating conversations with astronomers and biologists and poets. When you bump into people in the queue in the café and around the Economics Department, you're just endlessly talking to people about ideas. I think that's a very east coast of the US sort of phenomenon and I just loved it. It was just absolutely extraordinary.

**Q. Given that background, is it fair to summarise your main professional interests as being the environment and within that managing climate change in particular? Where did that interest come from? Are you an outdoorsy sort of person?**

A. It was a combination of being an outdoorsy sort of person – as an undergraduate I spent more time kayaking than I did studying and I've always loved that sort of thing. I was probably really homesick while I was in Boston, really missed the land and the environment in New Zealand. I used to come back for a month each summer, to the despair of some of my advisors, just because I missed it too much. I also got really interested in created markets like environment markets where you have to think at a really fundamental level about the microeconomics, because you're actually constructing a market from scratch. You're creating a property right and deciding how to do it. I found understanding and responding to the co-operation issues, which are always involved in environmental issues, fascinating. Either the market is created through government regulation, and you have to have co-operation to create that, or it's an international agreement where fundamentally it's all about repeated game theory. That combination of issues has been what's always been interesting to me.

And, yes, you're right, at the moment I am working entirely on climate change policy. I've worked on fisheries, water, air pollution and also, of course, at the beginning I worked on basically whatever research somebody would pay us to do while we were getting Motu started. Now I work on climate; it involves nearly all issues within it.

**Q. Given the portfolio of things that you've done and the focus on the environment, do you think that economics has a genuine all-encompassing something to say about different areas that allow us to improve welfare?**

A. Yes, obviously I do believe economics has a lot to offer for human welfare, because I've devoted my life to that. When non-economists say, why would an economist be involved in environment, I say well, it's economic activities that lead to the behaviours that cause damage to the environment, so you have to understand that economic activity if you're going to change it. You can change the economic environment in which people make decisions. That is part of the solution to getting a better balance and getting people to take appropriate protective actions and so on. But economics is always only a part, so I've always worked in a very interdisciplinary way. Even back at graduate school I did atmospheric chemistry, I did a lot of political science. I actually had an office in the Centre for International Affairs with political scientists like Robert Putnam and Bob Keohane and they were hugely influential on me, even though that wasn't formally part of my thesis.

**Q. I see from your work that you are studying trading models and, in essence, decentralised ways of solving problems and addressing issues as opposed to a central planning approach. What are your views of that difference?**

A. That naturally comes from being a microeconomist, but also just the problems are so complex, that the idea that we could possibly work out what the right thing to do seems implausible, particularly in a country like New Zealand where we have very limited capacity to analyse issues, but in bigger countries too. I think that we need to use all the information and brain power we've got and that is spread throughout the private sector and society. We need to create mechanisms that motivate people to use their information - and that's what economics can do. Simply providing the right price signals – well, 'simply' sounds too easy – but providing the right price signals; then you get people to use their knowledge and you're just subtly shifting them, nudging them to behave in different ways.

**Q. You have developed a handbook on the design and implementation of emissions trading systems – is there some standard model that's widely applicable across countries?**

A. No. There's not.

**Q. So what is the theme?**

A. In a way that was the purpose of the handbook – and why it was so difficult – to step back from the specific models of emissions trading and say, what are the fundamental drivers, what are things that these systems really need to do to be effective? Because the way that you would do that in different countries is really quite different. It depends on existing regulation, it depends on culture, etc. So the European Union Emissions Trading System is not applicable in every country. The California system and the New Zealand system are quite different from the European system and they probably wouldn't work in Europe. And when you go to another country, – for example we're involved right now in a World Bank project trying to design an emissions trading system for Colombia – you have to start afresh because they have different institutions, they have different emission sources and mitigation opportunities. You need to talk through all those issues and work out with them what the best system's going to be.

**Q. You consider, there is enough coherence in human activity and enough commonality in human desires and actions that enable you to have at least a broad framework that can be applicable across countries.**

A. Yes, a lot of the same issues apply to all of these systems; there are just options within them. So you always have to have the right monitoring, reporting and verification; compliance sort of issues. But then you do end up with differences. You're talking about China versus, say, California. China's a centrally planned economy. A lot of the pressures are similar and people have to respond to economic signals - it's sort of essential - but the way they do it is different. And the ways that they can regulate are quite different, so it makes more sense in China to deal with the large emitters directly rather than deal with their fuel suppliers. Whereas in California you're pretty confident that a market system's operating and so they have a more flexible system. In Europe there's a lot of scepticism about price pass-through, just because they think of these systems in quite a different way. That's actually led them into some traps; they've given away billions of dollars by mistake. But it's also inherent in the way they think, so they were always going to build a different system.

**Q. There was a debate some 15 years ago now about the emissions trading versus taxation in order to control emissions externalities. I see nothing in your CV about taxation.**

A. I did a paper for the Treasury, deeply buried in my CV.

**Q. Yes. Is the tax approach now history?**

A. No. I think that the discussion academically still goes on and will continue to go on, but what's happened to emissions trading systems is that now there's a lot more price control within them. So in a sense we've come to a hybrid. It used to be very purist; you either controlled quantity or price. Now I don't think any emission trading system has no price controls in it, so there's a recognition that we're aiming for a band of prices. Emissions trading just has huge advantages politically when you have a sector that lobbies to be protected. In a tax system you would exempt them and then they face no price. In an emissions trading system, you give them a bunch of units and they still face the price. You might temporarily sacrifice some distributional goals, but you don't lose the efficiency. I think that's probably the compelling reason why more people are going for emissions trading, but plenty of countries are doing taxes too or just correcting fuel prices.

Chile uses a tax; it's quite low still, but that's their first step. The key driver was local politics; they wanted to raise revenue. They may later transition to emissions trading. If you can create an emission trading system and politically can auction the units, sell them to people instead of giving them away, you raise revenue - not with as much certainty as a tax, but you still get revenue. In some places, the moment you start talking about emissions trading, you walk into free allocation. But that's also locally specific. California doesn't freely allocate to the fuel sectors, nor does New Zealand, but Europe freely allocated everything at the beginning. So I think tax versus emissions trading is a red herring for the policy discussion. It's a super technical issue; the political discussion should focus on clarifying the objectives.

**Q. It strikes me in general with public policy, that polar positions are seldom optimal. In the case of tax, you have a ready-made system of collection and monitoring. In countries where contract and regulation are difficult to enforce does that put the trading mechanisms at a disadvantage to taxation where there exists an established monitoring system?**

A. Yes. The ability to enforce depends on the local legal structure. The things you monitor for tax are exactly the same things that you monitor for emissions trading. It takes a long time to convince people of this, because they somehow think a carbon tax is upstream on fuels while an emissions trading system must be applied to firms that are using fuels downstream. This is not necessarily true - New Zealand and California's emissions trading systems are both upstream. In New Zealand however Inland Revenue didn't want to be the compliance agent for the emissions trading system. Potentially if it had been a tax, they would have been happy to. So you get these institutional issues. But it's actually not hard to monitor - for the energy sector at least. It's just fuel, so it's really very, very simple. It's not nearly as complex as GST or anything like that. The liability is just amount of fuel times an emissions factor. And then you've got really big compliance penalties.

**Q. I see that you've applied trading systems to the environmental issues such as nitrogen, phosphorus, and water allocation. Would you tell us a little about that?**

A. I haven't written about quantity issues, I've only written about quality issues and, yes, you can have multiple pollutants. The main project we've done was in Rotorua where they have a sort of a trading system now. What we realised after a while is that if you controlled the nitrogen sufficiently, you would - just as a co-benefit - control the phosphorus, because phosphorus is also an issue. To control the nitrogen, the things you had to do on farm were going to automatically reduce phosphorus flows. Usually one of them is the binding pollutant in terms of what happens with algal blooms. In both Taupo and Rotorua there has been a lot of contention about whether nitrogen or phosphorus matters most. In general with regulation of nitrogen both of them will fall, because you just can't control one without accidentally controlling the other. This is nice because it means you don't have to regulate both.

**Q. That's because they're complementary?**

A. Yes, if you put a forest on instead of cows, you lower both pollutants significantly. They're caused by different things, but the impacts tend to go together.

**Q. What other applications have you thought would have been considered for trading mechanisms in New Zealand?**

A. The other thing I've done a lot of work on was fisheries, the individual transferable quota (ITQ) market. I wasn't at all involved in the design, because that was while I was still an undergrad, but we did quite a lot of work to evaluate how well that market operated. You can never prove a market is efficient because you don't know what fishers would ideally do - but the New Zealand ITQ market has the indicators of a market that functions pretty well. And that's been really important internationally, because New Zealand was one of the very first markets and it's the cleanest, simplest market. Our work has been used to say to other people, look, this does work, this is the sort of thing that actually happens in these markets. It's very reassuring to people to have a concrete example.

**Q. Yes, absolutely. Were you disappointed in seeing the results of the monitoring of, the enforcement of the market just recently?**

A. That's been an ongoing issue about bycatch, and to what extent people really dump bycatch. I don't know how strong that study was. Just because it's a study doesn't mean that it's necessarily as bad as they say. Bycatch has and probably always will be an issue until you can have perfect monitoring. There also have been issues with the total allowable catches; the limit on catch being set too generously. In theory the industry's incentives should be aligned

with protecting fish stocks; in reality they aren't necessarily. So you do have some tension there. It's not perfect. There's a lot of failings. But compared to what's been done in most other places, we've come a long way. We just need to keep working on it and trying to do better still.

**Q. It's the counterfactual that matters?**

A. Right. And if we could better monitor bycatch on boats that would potentially help.

**Q. Local bodies have responsibility for managing environmental issues under the RMA. Do you get engaged directly advising them on setting the parameters and how they might go about that?**

A. A little. The one we've been most involved with was the Lake Rotorua case, which really was a very challenging situation because they had to reduce nutrient loss so much. We had an MBIE-funded programme for four years where we did research and also ran what we call a dialogue group. We brought together people from the regional and district councils, scientists from NIWA and Landcare, local Iwi and a number of local farmers, and we spent a lot of time talking through what the problems were, the science and the options for regulating. That was part of a wider process in the catchment that involved years of discussion. Recently they have actually brought in regulations where they put limits on each farm that require improved performance on farm. They're also using a sort of buy-back mechanism to reduce below that to reach their target. It's not exactly what we designed, but it's similar.

**Q. Are nutrients tradable among farmers?**

A. Yes, in Taupo they are tradable. In the Rotorua case at the moment, they're only tradeable with Government. So Government buys, but the farmers don't trade with each other at this stage. In Taupo, the important trades have mostly been with a Trust acting on behalf of government. The Trust had a pool of money and successfully bought back 20% of the nitrogen in the catchment.

**Q. Part of your research theme, was partially summarised I thought in a piece called Methane and Metrics, Global Climate Policy. Can you tell us about that?**

A. That's a terrifically fraught issue – how do you treat methane relatively to nitrous oxide and CO2 when methane is short-lived and the other two stay up there.

**Q. We might just indicate the importance of those two, because not all readers will know. Could you just start by explaining the difference?**

A. In New Zealand, half of our emissions are methane and nitrous oxide from agriculture if you measure them in the way that the United Nations does. Two thirds of our emissions from agriculture are methane. Methane has a half-life in the atmosphere of only 12 years. Some of it is still there in 60 years, but most of it is gone relatively quickly. In contrast, CO2 can stay for thousands of years and nitrous oxide has a half-life of 120 years. So you're talking about really different pollutants. Methane and nitrous oxide cause a lot more damage than CO2 while they are in the air. So in the short run, methane is very damaging. But it doesn't have a strong long term impact. In a trading system you don't really want to trade things that have different environmental impacts. But the complexity of creating two systems and then having them aligned is so difficult that they just created this sort of artificial metric where essentially they compare the impact over 100 years. It's arbitrary but it provides something that people can use. This has to be negotiated internationally so it has to be simple enough for people to talk about it and this is not a simple issue. What we were looking at is what the implications are ... whether those metrics really make

a big difference. We know they're "wrong", but how much does that matter? Is that a real problem for New Zealand? Is it a real problem for farmers? Is this sort of an adequate approximation that it is all right?

**Q. How is that approximation used?**

A. It's used for trading. If you reduce methane, how much does that allow you to increase CO2 in exchange? So it's really important. Some people are concerned that we will reduce methane instead of CO2 and CO2's a long-term problem. Other people are really worried about the short-term climate because adaptation to climate change is slow so short term methane reductions are valuable. Also, if you reduce methane now, you might also be reducing methane in five years and 10 years because you've actually changed your systems, you've now got a better cow. You'll also have a better cow next year and a better cow in five years and 10 years. New Zealand is the first country to be dealing with this because we are unusual in the OECD that we have so much agriculture. We're not globally unusual. Some of the Latin American countries look exactly like us – half of their emissions are agriculture, or more in some cases.

**Q. Are there existing trading mechanisms that are trading the bundle?**

A. Other systems trade bundles of gases, but they don't include agriculture. Our system includes a number of gases including methane from what are called fugitive gases, for example from oil extraction. Various industrial gases also have different metrics associated with them. They have the same sort of issues and they're already traded in our system and in California's system. A number of systems do that, but they don't include agricultural methane. In the United States, they regulate agriculture mostly by giving subsidies, so they're unlikely to put a liability on it, New Zealand's different.

**Q. What is your view of New Zealand's position on climate change and what sort of policies that it should be adopting now?**

A. The key message that we're pushing at the moment is fix the emissions trading system, which requires putting a limit on the number of units and signalling that limit well into the future so you have some supply certainty in the market. We have to think about controlling prices because now they're going to be determined in New Zealand. We have to work out how we can fund mitigation in other countries. We have been just buying United Nation units, but they're no longer available. Also they might have looked credible initially, but they're really not now. But the more fundamental thing is getting political and popular support for the idea that we are going to a net zero emission economy. That actually we're not just improving efficiency, but we are phasing out fossil fuels. Not quickly, not in the next 10 years, 20 years, but that is where we're heading and that's a fundamental shift in thinking. Everything that is using fossil fuels and that is creating emissions has to be addressed in a fundamental way. We don't need to necessarily get rid of all the methane or all the nitrous oxide. You can't grow food without nitrous oxide because you need fertiliser or clover or some other nitrogen source. But you could do it much more efficiently than we are. You can – at least in theory – do without fossil fuels. Over a period of time as new technology keeps coming through we need to be making infrastructure and long-term investment decisions on the basis that that's where we're heading. That's a huge mental shift.

**Q. It must be satisfying, then, to see the rapid technological change that's taking place.**

A. It's hugely satisfying.

**Q. Do you have any comment about its contribution to solving our problem?**

A. It's totally critical. I've been doing this stuff for 25 years now and people have always talked about these technologies – batteries and all sorts of stuff – and they've always been on the verge of happening and they never have. And now suddenly all of this stuff is coming through and I'm sure a lot of that is to do with the Kyoto Protocol. Climate change became a part of the conversation in the world and people were working away on these things but technology takes real time. Now we're at a tipping point. Carbon prices are higher, the costs of those technologies has dropped dramatically, and now they are being rolled out and there's huge competition. Lots of different people have ideas for batteries and who knows who will win. Maybe several will, for different uses. So that's hugely important and it gives me optimism that we'll actually conceivably halt climate change. Once you get a technology that actually is just cheaper, it's like the ozone depletion case. We had a substitute and so the resistance to change largely disappears.

So that's a critical part of the solution, but it's not 100% because you're still using a lot of resources regardless, even with new technologies, because of population and economic growth. We do need efficiency and changes in consumption as well, even if we can get massive technology uptake. And we need to have that stuff happening while the technology comes in because it might take 30 years to diffuse through the economy. In the meantime we keep pumping out the CO<sub>2</sub> and it keeps accumulating. In the short term efficiency and other reductions slow the rate of increase.

**Q. But, by way of a comment, it would seem that with these new technologies that consumers are looking to adopt them as soon as they become almost economic or economic; it's going to affect political pressures as well as speed up the adoption of these new technologies that are going to make a contribution to reducing climate and environmental problems that we see.**

A. It changes the political dynamic because you get a whole lot of people who want to do things. For example, for electric cars, the fleet turnover is more than 20 years and we're still buying non-electric cars. So you're still going to have quite a long phase of adjustment. In the long run we need to get to a point where some combination of technology that is sufficiently attractive that people just want to use it and a moral shift which is helped by the technology means that we just don't use fossil fuels. It's like weird – why would you use fossil fuels? Because that's just not what we do anymore. And at that point you don't need the emission trading system, you don't need the carbon prices or the regulation, it becomes self-sustaining. But that's a ways off.

**Q. Now, let's turn to administration. As a founding trustee of Motu, could you tell us a little about how Motu came to be?**

A. Right, so Motu started as an idea at Harvard. Dave Maré and I were both graduate students there together and we both wanted to come back to New Zealand and we both wanted to do research, public-policy related research. In the United States there are some really great institutions who do this – there's Brookings, Resources for the Future, Urban Institute, and none of those sorts of things really existed in New Zealand. But we thought if Americans can do it – we were young and idealistic – New Zealanders can do it too. So we basically copied that model and when I came back to New Zealand a few years later that's what we started – Motu. Initially just as a private thing and then a couple of years later we managed to get through all the legal hurdles and create a non-profit entity. So we're now a registered charity. And then gradually it's grown from there.

**Q. What do you see as its role in the future? The website touches on very many areas of concern to New Zealand and other countries: as you say most of it's microeconomic.**

A. The things about Motu that are really unusual are first that we are doing public policy research on New Zealand, which actually is not super common in academia and the CRIs don't do a lot of that either. So we're a group that really is focused on that, which is useful. Second, we're independent. Although a lot of our funding comes from various Government sources, we publish everything we do, and we are not beholden to private sector clients, so we have ability to talk about things that some of the researchers who are within Government can't do. That creates some tension and sometimes creates funding problems for us because some people don't want to fund you if they can't control you. But also I think that's a useful part of a democratic process to have people doing that. The other thing we do is that we train young people and we had, it must be 30 or 40 young people come through Motu now. They've gone off to do PhDs at Stanford, Yale, MIT, Harvard, LSE, Cambridge – a lot of really great places. And some of them have gone into senior positions in Government too. So I think that's a huge contribution and that explicit focus on economic training is something that used to happen in places like Treasury and I don't think it does in quite the same way. Because of the way we structure the public service now there isn't that same career path approach for economists to be trained in those ways. In terms of topics that we study, issues that we study, that's entirely determined by the senior fellows because academics study the things they want to study. We are very responsive to public issues in part because we are all motivated by wanting to inform public debate and in part because we have to get our funding, which is a really good sort of control mechanism. So we do things that we have audience for and that matters, at least to somebody. We have just hired an agricultural economist who will be starting in November and that was our first sort of strategic hire saying there's a hole in New Zealand, New Zealand has a shortage of capacity in this area and we'll deliberately go and hire somebody for that. We may do that more in future, I'm not sure. So far it's more been serendipity that a really good person has been available and we've been able to imagine a way we could fund them.

**Q. Do you think the evolution of Motu has been materially helped by the people you met and worked with in your graduate studies?**

A. Hugely. Just a couple of examples – at the beginning, when I was starting Motu, and I was fresh, I was just out of graduate school, and knew almost nothing about anything. I had an international panel of advisors including some of my supervisors, and the President of Resources for the Future, who gave me fantastic advice on how to set the thing up, the whole institutional structure. It was quite different than anything we'd done before in New Zealand. Those relationships have continued and have been useful. They bring us international visitors, they help me. For example, I spent a year at Stanford; Dave spent a year at the London School of Economics. Those connections keep us in touch internationally, keep our academic standards up. Also, at the moment our director is Adam Jaffe. He was a Harvard professor while I was there. There's no way we would have had him as our director if we hadn't had those connections and maintained those connections through time. It was pure serendipity that he learned that we were looking for a director and that he happened to be interested in coming and that's made a monster difference to us, having that calibre of leadership. And we're looking again, we're having to look forward to who will be the next director, so we'll be looking for serendipity to strike again.

# THE FIVE-MINUTE INTERVIEW WITH ... GANESH NANA



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

In all honesty, I can't remember ever decisively deciding on economics as a career choice. It is fairer to describe myself as having stumbled upon economics and then being caught (willingly). My under-graduate degree at Victoria University started off as an accountancy major, but first-year accountancy papers did not excite me. I was always interested in politics, but while politics papers were fun, I knew they would never be more than an intense interest. So, I shifted to an economics degree to see if that would be more rewarding, but still fairly unsure what career options (if any) were ahead. Luckily, towards the end of my honours year I was offered a research assistant role in the Economics Department at Vic and, as they say, I didn't look back.

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

While not tumultuous when compared to GFC days, the New Zealand of the late-1970s/early-1980s was a time of considerable friction from an economic/political perspective. In the midst of double-digit annual inflation, blamed invariably (at the time) on oil 'sheiks' and 'militant' labour union demands for wage increases, I was always intrigued as to the cause (let alone the solution). I was pretty cynical at the time of those forwarding the simplistic explanations, but not sure whether there were other reasons. To me, the logic of workers facing large price increases asking for pay increases to compensate seemed to me to be straight forward. But then the logic of this setting up an ongoing self-fulfilling and self-defeating cycle was also clear. The lack of an answer nagged at me.

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

I have always remembered reading George Orwell's *Animal Farm* for the first time. It was during my first year at Uni and it (again) left me with more questions than answers. The political manoeuvrings were intriguing. But it was how the organising of the farm played out that left me thinking. How to organise producing stuff and then how to share that out was depicted scarily. The implied conflict between managers and workers was a pretty cynical view of the capitalist economy structures. It left me wondering just how the capitalist economy sorted these questions.

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

The most influential was undoubtedly Professor Bryan Philpott – his lectures about the New Zealand economy (mainly agriculture) seemed more practical than some of the textbook approaches. And he always had numbers. His merging of equations with explanations was great. I remember him saying that you should be able to do the maths and get the answers, but then you should be able to throw away the maths and explain the answers. This advice has served me well, as in today's world my work is all about 'the story', or 'the narrative', or the '90-second lift test'.

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

I'm not sure I'd call them 'favourites', but Jeffrey Sachs and Joseph Stiglitz come to mind. I always try to keep up with their columns, articles and books. Sachs' work around The

Sustainable Development Goals (previously the UN Millennium Development Goals) attracts me as trying to provide some concrete options rather than perpetuating degenerative scenarios. I find Stiglitz's analysis of the financial crisis and subsequent situation most informative, and his arguments with Paul Krugman are also worth observing.

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

The projects and subsequent reports that give me most satisfaction are where I get the opportunity to challenge my own thinking. My work (alongside my BERL colleagues) with Federation of Māori Authorities (FoMA) and other Māori organisations and entities has been most rewarding. A couple of reports we did valuing the asset base and GDP contribution of the, badly labelled, 'Māori economy' are central. We struggled on measurement concepts, but eventually identified this aspect as a separate 'sector' in our models of the New Zealand economy. Working with Māori organisations acutely challenges whether short-term GDP is a suitable proxy for economic health, while also raising the more fundamental challenge as to what is the appropriate objective (and time horizon) for our (collective) economic endeavour.

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

From a New Zealand perspective I suspect many would say the 1984 election result and the consequential economic upheaval. But, looking back I think the stone was cast earlier. I'd suggest going back to 1973 and Britain's entry to the EEC, followed shortly thereafter by the first oil price shock. These events left a lasting imprint on the influences facing (and were to face) New Zealand. Britain's decision forced New Zealand to confront the reality that Britain wasn't going to continue to be our guardian, pushing us to look to engage with other parts of the global economy. At the same time, the first oil price shock reinforced these concerns about our future economic security and brought into stark clarity the nation's foreign exchange constraint. I would argue that grappling with this foreign exchange constraint continues to be our primary economic challenge.

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

I was a diehard cricket nut. I'd spend days watching the evolving battle between bat and ball ebb and flow. Unfortunately, the prevalence of (and indeed, the hijacking of cricket by) the shorter versions of the game have reduced my interest somewhat. I find the battles between bat and ball have become more contrived (what with artificial rules and time constraints), and don't reflect the fundamental skills that are most rewarding to watch.

Now, I prefer to relax (emphasis on word relax) in front of a good, but mind-numbing, (probably B-grade) movie, which is, admittedly, marginally above reality TV.

I also do a lot of running, which I use as very much a way to escape from the world. I've run quite a few half marathons and recently graduated to running full marathons. I've set myself a target of how many marathons I want to run before I turn 60, which I'm sure can be used as an excuse to revisit favourite places around the world.

# NZIER ECONOMICS AWARD FOR 2016 - CITATION

Professor John Creedy is half time with Victoria University of Wellington (School of Accounting and Commercial Law) and half time with the New Zealand Treasury as Principal Advisor in the Tax Strategy team. He has had a distinguished academic career with interests in public economics, labour economics, income distribution and the history of economic analysis.

John is undoubtedly one of the most prolific academic economists in New Zealand. The respected bibliographical website for Economics, RePEc, enumerates John's publications as 220 articles and 38 books. In terms of the worldwide RePEc author rankings, John ranks 144 out of 47,731 registered authors based on his career work (i.e. comfortably inside the top 1%).

Despite spending the vast bulk of his career overseas, John will have written more papers specifically addressing New Zealand economic policy problems than many New Zealand economists who have spent their whole careers in the country. In this context, it is worth mentioning specifically John's contributions to New Zealand Economic Papers (NZEP) as another example of his commitment to New Zealand Economics and Policy. He is one of the top three contributors to NZEP.

It is particularly significant, for the purposes of this Award, that throughout a long and distinguished academic career, John has consistently addressed substantive and topical issues relevant to current policy. The coverage of these topics is extremely broad, including ageing, retirement incomes, savings, welfare, social rates of discount, tax policy (e.g. GST, excise taxes). His recent work on long term fiscal policy has addressed major conceptual issues in the Treasury's approach and made significant contributions towards enhancing policy advice in this area.

In all his work John builds on a solid theoretical base enriched by his knowledge of the history of economic thought. A defining characteristic of his work is to identify and emphasise the implicit value judgements that many economists make but fail to acknowledge.

John has been influential in the development and implementation of tax policy in New Zealand through his work on the Treasury's tax models and his contributions to the Tax Working Group. He also did some important work on the distributional effects of indirect taxes in New Zealand in the early 2000s (with Cath Sleeman). More recently John's work on measuring inequality in New Zealand has been hugely significant.

As John's long term colleague and collaborator over a period of fifteen years, Dr Grant Scobie, observes, "John has an outstanding record of collaboration and in particular mentoring younger scholars and publishing with them."

Professor Norman Gemmill at VUW adds, "I have witnessed him bring out the talents of many younger economists, especially in the Treasury."

The direct impact of John's work on Treasury's policy advice has also been acknowledged and appreciated by the Minister of Finance (MoF) and his Office staff. As one of the Office staff (Matt Burgess) commented with regard to John's policy analysis and advice around the issue of the appropriate threshold for GST on internet sales (co-authored with Eina Wong), "This is perhaps the best piece of analysis supporting policy advice from Treasury that we (MoF et al) have seen."

For these reasons, the NZIER Economics Award for 2016 is given to John Creedy.

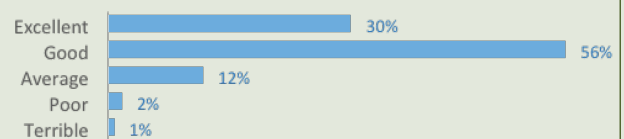
## NZAE CONFERENCE 2016 Attendee Survey

SUMMARY PREPARED BY PETER TAIT, NZAE CONFERENCE COMMITTEE CONVENOR

### Key Findings:

- In August 2016, email invitations were sent to conference registrants, enquiring into their experiences of AUT 2016, and conference preferences.
- 114 respondents (63%), with reasonable representativeness.
- 79% travelled from outside of Auckland to attend.
- These people came mostly from Wellington (58%) and Canterbury (21%).
- Around a third of those travelling from outside Auckland did not require accommodation for the night prior to the first day, suggesting these people travelled on the first day of conference.
- Average attendance was highest on the first day (84%), declining over the second day (82%) and third (79%).
- Overall, presenters thought their experience was good (77%), although some considered scheduling (10%) and session chairs (8%) to be poor.
- Respondents considered the most important conference element to be collegial engagement (79%) and the least important the city where the conference is held (29%).
- Attendee experience of the AUT venue was good overall (92%).
- Registration cost was at least acceptable for most attendees (89%).
- Most respondents overall experience of AUT 2016 was good (56%) or excellent (30%).
- Auckland is the most preferred conference location outside Wellington; Palmerston North is the least.

Overall experience of NZAE Conference 2016 (n=114)





# NZIER ECONOMICS AWARD 2016

## ACCEPTANCE SPEECH BY PROFESSOR JOHN CREEDY



"I'd like to thank NZIER and the Award Panel very much for this honour. I'm very pleased indeed to be recognised in this way, and when I look at the list of previous awardees – some of whom are here tonight - it certainly is an honour to be included among them. Most of us are well aware that, as a profession, economists are a very negative lot (those of us here are of course the exceptions). Anyone who wants to publish in journals has quickly to develop a 'thick skin' and, if

anything, it gets harder with age – you just learn to deal with it a bit better. So it's especially pleasing to get this kind of positive recognition.

It is also particularly pleasing by coming completely 'out of the blue', and at an age when most – thankfully not all - of my age cohort have long-since retired. This is a strange year for me. Earlier in the year, after being a professor on three continents and four countries for 38 years, I had the unusual experience of giving an Inaugural Lecture for the first time. For most of the intervening years my Mother has repeatedly asked, 'are you still a professor?' with an implied 'only' in there and the suggestion that I probably haven't done anything worthwhile since 1978. So at last I have something else that might impress her.

Another very pleasing aspect of the award is the fact that it is explicitly not for a general contribution to economics, but relates specifically to contributions to New Zealand and indeed comes from a non-academic institution. I've always taken the view that, since I'm paid by taxpayers, it is appropriate to devote a large proportion of my research to local practical issues – although this is increasingly a minority view in universities.

I first started working on New Zealand – on income mobility – in the mid-1990s, using a special dataset compiled for me by the IRD. Then I spent

two years here in the Treasury in 2002/03. But of course since returning in 2011 my work has concentrated almost exclusively on NZ issues. Importantly, I have benefited from my unusual situation of working both in the Treasury and in the Business School at Victoria University. I'm not going to read a list of names, but I would like to mention two people who, I'm pleased to say, are here tonight. My present position arose through the initiative and energy of Bob Buckle. Added to this is his contribution in setting up the Chair in Public Finance, filled by Norman Gemmell. This has helped me enormously by making collaboration with Norman so much easier. We have worked on many joint projects over many years, while separated by thousands of miles, and this is the first time we have been located in the same building.

I'd also like to pay a big tribute to my Treasury colleagues. I've had the privilege of working closely with people from a variety of sections and on many research projects. These collaborations continue to be very stimulating and rewarding. But also I believe there are great synergies from being a researcher in a predominantly policy environment. I've gained much from my colleagues at the 'sharp end' of policy, who have very tight deadlines and must compress a lot of thinking into short reports. I appreciate both the stimulus from discussions with them and also the patience they show towards me – since research takes time, and I often spend a lot of time pointing out qualifications which I think need to be made to policy statements.

It is quite possible that they also find rather tiresome my endless reminders that policy recommendations cannot be value-free. But I won't promise not to repeat the argument that we need to separate analytical and empirical questions from value judgements. The ultimate aim is to conduct what I have long referred to as 'rational policy analyses'. This means investigating the implications of adopting particular value judgements, and then allowing people to make their own policy choices.

Policy issues generate a wide range of challenges, involving empirical measurement (always more complex than theorists assume), estimating the likely responses of individuals and firms to tax incentives, and the construction of economic models. These have to simplify the real world to something tractable while keeping focus on what is important or, as I like to say, 'avoiding throwing the baby out with bathwater'.

This award gives me a strong impetus to continue the endeavour to produce 'rational policy analyses' in New Zealand, while avoiding assuming away what we need to know. So, again, thank you very much!"

## NZAE PhD Student Workshop, 2017



The New Zealand Association of Economists is pleased to introduce its first PhD Student Workshop in Economics. At this workshop, PhD students have the opportunity to present their work in progress in a friendly environment and receive feedback from academics and peers. In doing so, students will meet members of the broader New Zealand Economics community. As well as networking with other PhD students, there may also be the opportunity to meet senior Economists and discuss career options with a postgraduate degree.

Students will not be able to present the same workshop paper at an oral session at the NZAE conference which takes place later that week. However, they will be strongly encouraged to present their workshop paper concurrently as a poster in the main conference – and present a revised version in an oral session in subsequent years.

**FOR WHOM:** PhD students in Economics who are either New Zealand-based or are New Zealand students studying abroad. Preference will be given to PhD students in the first two years of their studies who register for the NZAE conference.

**WHEN:** July 11th, 2017

**WHERE:** RBNZ, Wellington

A call for papers will be sent out in February 2017.

# INCOME OR CONSUMPTION: WHICH BETTER PREDICTS SUBJECTIVE WELLBEING?

By Thomas Carver and Arthur Grimes

## INTRODUCTION

The positive relationship between income and subjective wellbeing has been well documented. However, there has been limited empirical research into the relationship between alternative material wellbeing metrics and subjective wellbeing. The central research question of this paper is to ascertain which of two measures of material wellbeing – household income or household consumption – better predicts subjective wellbeing.

The ‘permanent income hypothesis’ theorises that current consumption is determined by lifetime resources, which makes current consumption a better indicator of lifetime living standards than current income. Our results demonstrate that a measure of consumption dominates income as a predictor of subjective wellbeing.

## METHODOLOGY

Our approach has been shaped by the recommendations of Stiglitz, Sen and Fitoussi (2009) for the measurement of wellbeing. Three of their key recommendations are to:

- concentrate on consumption and wealth over production;
- emphasise the household perspective rather than the individual; and
- utilise subjective measures of wellbeing.

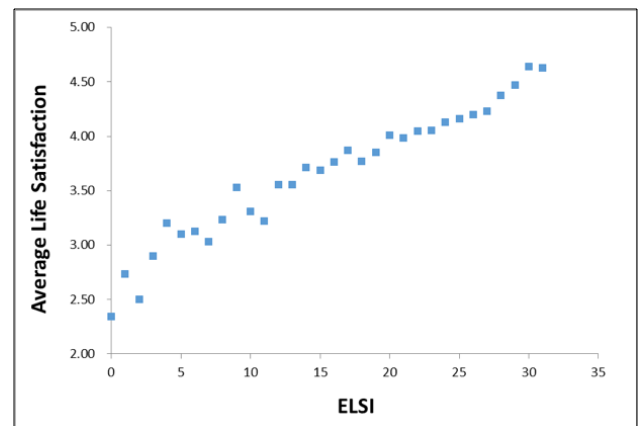
We follow much of the literature in focusing on evaluative wellbeing (life satisfaction) as our measure of subjective wellbeing.

We obtain our result using household-level data from Statistics New Zealand’s ‘New Zealand General Social Survey’ of 2012, which surveyed around 8,500 individuals. This survey contains a measure of material wellbeing called the ‘Economic Living Standard Index’ (ELSI). ELSI assesses a household’s level of consumption and, to a lesser extent, wealth via a combination of objective and self-rated questions. To measure income we use the natural log of equivalised household income. We control for variations in ethnicity, age, upbringing, employment status, region, health, housing and community support.

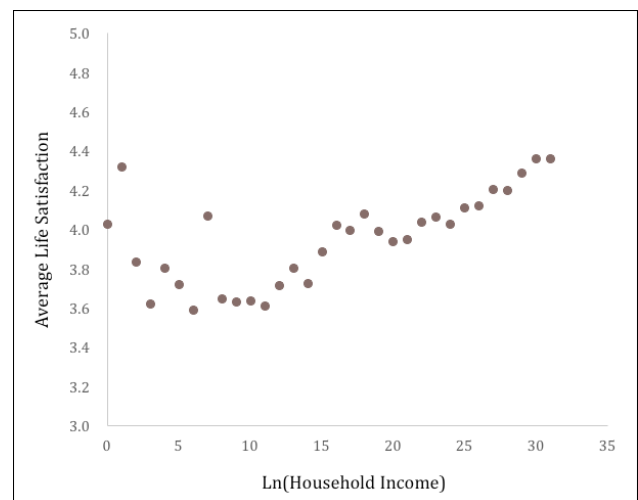
## RESULTS

When life satisfaction is regressed on either ELSI or income, their coefficients are always positive and significant. That is, higher levels of consumption and income are each associated with higher levels of wellbeing. In every case, the regressions with only ELSI included were a better predictor of subjective wellbeing than those with only income included.

Average life satisfaction vs. ELSI



Average life satisfaction vs. income



We tested our central hypothesis by including both ELSI and income in the same regression. The coefficient on ELSI is always positive and significant at the 1% level, whilst income is never positive and significant when included with ELSI. Thus once ELSI is included as a measure of material wellbeing, household income tells us nothing more about life satisfaction. This is the central result of the paper, and is obtained regardless of which modelling methodology (OLS, ordered logit, ordered probit) or split sample (according to a range of personal characteristics) is employed.

When life satisfaction is regressed on income and the ‘objective’ elements of ELSI (those with self-assessments removed), both

consumption and income are positive and significant for the aggregate sample. In this regression, the impact of income on happiness roughly halves (relative to when ELSI is excluded) for the aggregate sample. However, for some critical sub-samples - Māori, people aged under 30, and those on the lowest incomes - our central result still holds, i.e. that income is insignificant in explaining subjective wellbeing when included together with ELSI. Thus if the objective level of consumption for Māori, people aged under 30, and those on the lowest incomes is known, income tells us nothing further about their wellbeing.

One other result is also worth highlighting. Using a measure of regional deprivation, we find that once other factors are controlled for, living in a poorer community is correlated with higher levels of life satisfaction. This result is consistent with the common finding that an individual's income relative to their neighbours is positively correlated with life satisfaction. This means that both absolute and relative material wellbeing are seen to contribute to subjective wellbeing.

The other results we find are consistent with the bulk of the subjective wellbeing literature, giving some assurance that our more novel results are robust. The results that are consistent with prior literature include:

- Being unemployed, not having children, and being single are all negatively correlated with life satisfaction, as are being the victim of crime, having no support in a crisis, and smoking.
- Higher levels of self-assessed health and being female correlate with higher levels of life satisfaction.
- There is a U-shaped relationship between age and life satisfaction.
- People in urban areas on average have lower levels of life satisfaction than those in rural regions.
- People who identify as Māori or of Pacific Island heritage are on average less happy than Pākehā (European) New Zealanders. However, once other factors are controlled for, this difference is no longer significant.

## POLICY IMPLICATIONS

If policymakers are interested in raising material wellbeing, they have to consider the means to enable this end. In many cases, the means will be through raising income in some way. However, our results show that income measures may sometimes be poor proxies for assessing poverty or subjective wellbeing. Better material wellbeing proxies based on household consumption - that are more closely related to subjective wellbeing outcomes - can be constructed and used. ELSI is one such tool, the EU-13 (a similar non-income index used in Europe) is another.

## CONCLUSION

In all our samples and testing methods, we found that ELSI was a more reliable and informative predictor of life satisfaction than income. When both were included in the same regression, income was almost always insignificant, whilst ELSI was always significant.

Use of material wellbeing measures such as ELSI can be seen as unifying two parts of the material wellbeing literature. The first is Friedman's permanent income hypothesis which postulates that current consumption is determined by lifetime resources. The second is the philosophical approach (championed by Angus Deaton amongst others) which postulates that people are the best judges of their own circumstances. This paper unifies these two bodies of theory through empirical work showing that a consumption-based indicator such as ELSI should be preferred to an income indicator when assessing need and designing policy.

For more information, please check out Motu Working Paper 16-12 *Income or Consumption: Which Better Predicts Subjective Wellbeing?* by Tom Carver and Arthur Grimes at [www.motu.nz](http://www.motu.nz).

## WEAI CONFERENCES, 2017 AND 2018

NZAE is an Allied Society of the Western Economics Association International (WEAI).

NZAE members are invited to offer a paper or organize a session for the following upcoming conferences:

**92nd Annual Conference – San Diego, California, 25-29 June 2017**, with Presidential Address by Peter Diamond, Massachusetts Institute of Technology, and Keynote Address by Janet Currie, Princeton University.

**14th International Conference – Newcastle, Australia, 11-14 January 2018**, with Keynote Addresses by Nobel Laureate Daniel McFadden, University of California, Berkeley, WEAI Past President David Card, University of California, Berkeley, and WEAI President-Elect, Orley Ashenfelter, Princeton University.

For further conference information, visit <http://www.weai.org>.

# BLOGWATCH

By Paul Walker ([psw1937@gmail.com](mailto:psw1937@gmail.com))

Over the last few months economics has lost a number of its greats. Game theorist Reinhard Selten's passing has been noted at "VoxEU.org" <<http://voxeu.org/article/ideas-reinhard-selten>>, the "New York Times" <<http://www.nytimes.com/2016/09/04/business/economy/reinhard-selten-whose-strides-in-game-theory-led-to-a-nobel-dies-at-85.html>> and the "A Fine Theorem" blog <<https://afinetheorem.wordpress.com/2016/09/01/reinhard-selten-and-the-making-of-modern-game-theory/>>. Howard Raiffa's passing was also noted by the "New York Times" <<http://www.nytimes.com/2016/07/14/business/howard-raiffa-mathematician-who-studied-decision-making-dies-at-92.html>>. Economic historian Karl Gunnar Persson has also passed away, a fact noted by the "European Historical Economics Society" <<http://positivecheck.blogspot.co.nz/2016/09/karl-gunnar-persson-has-passed-away.html>>. In addition the public choice economist Bob Tollison has died. Edward Lopez remembers him <<http://politicalentrepreneurs.com/excerpt-about-bob-tollison-1942-2016/>> as does Don Boudreaux <<http://cafehaye.com/2016/10/robert-tollison.html>>, and Peter Boettke <<http://www.coordinationproblem.org/2016/10/robert-tollison-economist-political-economist-and-mentor-to-so-many-1942-2016.html>>.

The 2016 Nobel Prize in economics went to Oliver Hart and Bengt Holmström for their contributions to contract theory. Many blogs have covered the award. A few of them are: The "Conversable Economist" blog <<http://conversableeconomist.blogspot.co.nz/>> writes about 'Oliver Hart and Bengt Holmström: The 2016 Nobel Prize in Economics' <<http://conversableeconomist.blogspot.co.nz/2016/10/oliver-hart-and-bengt-holmstrom-2016.html>>. The "A Fine Theorem" blog <<https://afinetheorem.wordpress.com/>> offers 'Nobel Prize 2016 Part I: Bengt Holmstrom' <<https://afinetheorem.wordpress.com/2016/10/10/nobel-prize-2016-part-i-bengt-holmstrom/>> and 'Nobel Prize 2016 Part II: Oliver Hart' <<https://afinetheorem.wordpress.com/2016/10/11/nobel-prize-2016-part-ii-oliver-hart/>>. "VoxEU.org" <<http://voxeu.org/>> posts on 'Bengt Holmström and the black box of the firm' <<http://voxeu.org/article/bengt-holmstr-m-and-black-box-firm>>, 'Oliver Hart, Nobel laureate' <<http://voxeu.org/article/oliver-hart-nobel-laureate>> and 'Oliver Hart and the nature of the firm' <<http://voxeu.org/article/oliver-hart-and-nature-firm>>. The "Coordination Problem" blog <<http://www.coordinationproblem.org/>> announces 'And the Nobel Goes To ... Oliver Hart and Bengt Holmstrom' <<http://www.coordinationproblem.org/2016/10/and-the-nobel-goes-to-oliver-hart-and-bengt-holmstrom.html>>. The "Mises Wire" blog <<https://mises.org/>> comments on 'The 2016 Nobel Prize: Incentives, Property Rights, and Ownership' <<https://mises.org/blog/2016-nobel-prize-incentives-property-rights-and-ownership>>.

At the "Marginal Revolution" blog <<http://marginalrevolution.com/marginalrevolution/>> Alex Tabarrok notes that 'Firms that Discriminate Are More Likely to Go Bust'. Over the six-year period studied 36% of the firms that discriminated failed but only 17% of the non-discriminatory firms failed <<http://marginalrevolution.com/marginalrevolution/2016/09/firms-discriminate-likely-go-bankrupt.html>>.

Also on the discrimination front in an "NBER" <<http://www.nber.org/>> working paper <<http://www.nber.org/papers/w22399>> Roland Fryer finds that when it comes to the non-lethal use of force, blacks and Hispanics are more likely to experience some form of force in interactions with police than whites but in the case of officer-involved shootings he finds no racial differences.

At the "Grumpy Economist" blog <<http://johnhcochrane.blogspot.co.nz/>> John Cochrane argues that the cause of sclerotic growth is the major economic policy question of our time. He notes that while the basic problem is ham-handed interventionism, the deeper economic issue is whether "macro" and "growth" outcomes really can be separated from "micro" distortions in each market <<http://johnhcochrane.blogspot.co.nz/2016/08/micro-vs-macro.html>>.

At the "Real Times Economics" blog <<http://blogs.wsj.com/economics/>> Ian Talley argues that Thomas Piketty's case for rising inequality has taken

another hit. Work by IMF economist Carlos Góes shows that Piketty's thesis that income inequality has risen because returns on capital outpaced economic growth isn't supported by historical data. "Mr. Góes tested the thesis against three decades of data from 19 advanced economies. "I find no empirical evidence that dynamics move in the way Piketty suggests." In fact, for three-quarters of the countries he studied, inequality actually fell when capital returns accelerated faster than output". <<http://blogs.wsj.com/economics/2016/08/05/no-empirical-evidence-for-thomas-piketys-inequality-theory-imf-economist-argues/>>.

Timothy Taylor at the "Conversable Economist" blog looks at 'Higher Local Minimum Wages: Early Results from Seattle'. Taylor concludes that the early evidence from Seattle is that a higher minimum wage at the city level doesn't raise total earnings by much, because low-skilled workers end up with fewer hours on the job <<http://conversableeconomist.blogspot.co.nz/2016/08/higher-local-minimum-wages-early.html>>.

At "VoxEU.org" Alex Edmans considers 'How to regulate CEO pay (and how not to do it)'. Edmans argues that some of the arguments often used to justify regulation of CEO pay are erroneous, and some previous interventions are shown to have failed. He says that while regulation can address the symptoms, only independent boards and large shareholders can solve the underlying problems <<http://voxeu.org/article/how-regulate-ceo-pay-and-how-not-to-do-it>>.

At the "Alt-M" blog <<http://www.alt-m.org/>> James Dorn discusses 'The Fiscal Theory of the Price Level: True and False'. There are two versions of the fiscal theory of the price level: one true, one false. The true version holds that if the fiscal authority dominates the policy space, then fiscal deficits could be monetized by the central bank. This version is consistent with the quantity theory of money, because inflation is ultimately determined by excess growth in the money supply. The other, false, version holds that even if the money supply is held constant, inflation can occur if the fiscal authority is passive. All that is needed is for the public to expect prices to rise. People will then spend their given money balances at a faster rate — increasing the velocity of money — and prices will rise until expectations change <<http://www.alt-m.org/2016/08/23/the-fiscal-theory-of-the-price-level-true-and-false/>>.

At the "Pro-Market" blog <<https://promarket.org/>> Guy Rolnik interviews James Bessen, from Boston University, about 'Political Rents and Profits in Regulated Industries'. Bessen has released a new working paper which finds that much of the rise in corporate profits in the US since 2000 was caused by political rent seeking. Looking at both intangible investments and political activities to explain the 20 percent rise in Tobin's q in the U.S. since 1970, Bessen finds that activity associated with increased federal regulation is the most important explanatory factor <<https://promarket.org/political-rents-regulated-industries/>>.

Craig Pirrong at the "Streetwise Professor" blog <<http://streetwiseprofessor.com/>> asks the question can we use 'Antitrust to Attack Inequality'. Pirrong argues that there is a boomlet in economics and legal scholarship suggesting that increased market power has contributed to income inequality, and that this can be addressed through more aggressive antitrust enforcement. He goes on to argue that he finds the diagnosis less than compelling, and the proposed treatment even worse <<http://streetwiseprofessor.com/?p=10020>>.

And Timothy Taylor points to a cartoon that shows the problems that occur 'When Antitrust Runs Amok' <<http://conversableeconomist.blogspot.co.nz/2016/09/when-antitrust-runs-amok-bulletin-board.html>>. I am reminded of the famous William Landes quote: "Ronald [Coase] said he had gotten tired of antitrust because when the prices went up the judges said it was monopoly, when the prices went down they said it was predatory pricing, and when they stayed the same they said it was tacit collusion" (Quoted in Edmund W. Kitch, 'The Fire of Truth: A Remembrance of Law and Economics at Chicago', Journal of Law and Economics, 26(1) April 1983, p. 193).

## TRANSPORT KNOWLEDGE CONFERENCE 2016

(SOURCE: MINISTRY OF TRANSPORT)



### TRANSPORT KNOWLEDGE HUB

Since the establishment of the Transport Knowledge Hub (formerly known as Transport Research Hub) in 2014, the partnership of public and private sector agencies with interests in transport data, analysis and research has continued to grow. On 10 November 2016, the Hub held its third annual conference titled “Customer-focused transport”, with around 180 attendees. Aside from the four keynote addresses, including Minister of Statistics and Associate Transport Minister Craig Foss and Chief Executive of NZ Transport Agency Fergus Gammie, the conference had 30 presentations (in parallel sessions) and 2 panel discussion forums. Parallel sessions were divided into four knowledge themes: user behaviour and needs, transport impacts, system planning and management, and future funding and charging. The conference provided good examples around how the transport agencies, local governments and the wider transport sector work together to assist evidence-based decisions. It also created great sector engagement opportunities to develop the capability and capacity needed to fill data, information and research gaps into the future. Presentations are available from the Ministry of Transport’s website.

### TRAINING COURSES

GEN organises a range of short courses for anyone who would like to get to grips with economic ideas and to understand how to apply economics and related principles in policy development. It has been a busy year for GEN’s training programme in 2016, with nearly 200 hundred people attended seven courses.

The following courses are being scheduled for 2017:

- Introduction to Microeconomics (Summer, 2017)
- Understanding public and private productivity (Summer, 2017)
- Introduction to Behavioural Economics (Autumn, 2017)
- Cost-benefit analysis (Forthcoming, 2017)
- Economics of regulation (Forthcoming, 2017)
- Economic evaluation of policy options (Forthcoming, 2017)
- Environmental Economics (Forthcoming, 2017)
- Introduction to macro-economics (Forthcoming, 2017)

If you are interested in attending, please visit [www.gen.org.nz](http://www.gen.org.nz) or email [info@gen.org.nz](mailto:info@gen.org.nz) for more details.

## THE A R BERGSTROM PRIZE IN ECONOMETRICS, 2017

### Applications are now being sought for the A R Bergstrom Prize in Econometrics, 2017.

The objective of the Prize is to reward the achievement of excellence in econometrics, as demonstrated 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 (i.e. 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.<sup>1</sup> The selection panel will be appointed by the A R Bergstrom Prize Committee.

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 3 February 2017 to:

Dr. Leo Krippner  
Economics Department  
Reserve Bank of New Zealand  
P O Box 2498  
Wellington 6140  
NEW ZEALAND  
Email: [leo.krippner@rbnz.govt.nz](mailto:leo.krippner@rbnz.govt.nz)

The Prize is administered by the A R Bergstrom Prize Committee on behalf of the New Zealand Association of Economists Education Trust.

<sup>1</sup> Payment will be to a domestic New Zealand bank account in the name of the prize winner.

# 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 in the Department of Economics at the University of Otago. 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.

## Department of Economics, University of Otago

### **Nathan Berg – Associate Professor**

Nathan specializes in behavioural economics. In 2014, he received a 156,000 AUD grant with Toby Handfield (Monash University) to collect experimental data and produce new theoretical findings as part of the project: "Pathologies of Moral Cognition." Nathan was invited to become a member of the International Social Science Council (United Nations) Food Futures Network in 2013. Nathan's articles in the field of behavioural economics appear in journals such as *Journal of Economic Behavior and Organization*, *Psychological Review*, and *Social Choice and Welfare* and his joint work with the Center for Adaptive Behavior and Cognition at the Max Planck Institute-Berlin is published by Oxford University Press. His research has been cited in the *Financial Times*, *Business Week*, *Canada's National Post*, *The Village Voice*, *The Advocate* and *Atlantic Monthly*.

### **Andrew Coleman – Senior Lecturer**

Andrew currently researches intergenerational economic issues, with a particular focus on New Zealand Superannuation, housing, and taxation. In recent work, he develops dynamic heterogeneous agent models to analyse the relationships between taxes, and urban land markets. His current work is focussed on how the tax system affects the way transport infrastructure is capitalised into land values. He also is using the department's 1000Minds software to investigate what New Zealanders' want from government pension programmes.

### **David Fielding – Professor**

David's research interests are mainly in the areas of development macroeconomics and quantitative political economy. Current interests include the economics of violent conflict in the Middle East, monetary unions in Sub-Saharan Africa, and the volatility of aid to developing countries. He has previously worked at the Universities of Oxford, Nottingham and Leicester (UK), Princeton University (US) and the United Nations University in Helsinki.

### **Murat Genç – Senior Lecturer**

Murat's current research interests include estimating censored demand systems, using copulas in estimating sample selection models, and the analysis of international trade costs.

### **Paul Hansen – Associate Professor**

Paul works mainly in areas related to priority-setting and resource allocation, especially in the health sector. Paul is co-inventor of 1000Minds ([www.1000minds.com](http://www.1000minds.com)), an online suite of tools and processes for – depending on the application – ranking, prioritising or choosing between alternatives when multiple objectives or criteria need to be considered together. In other words, 1000Minds is for 'Multi-Criteria Decision Analysis' (MCDA) and 'Conjoint Analysis' (a.k.a 'Choice Modelling'). Paul is very interested in collaborations with other researchers and students applying 1000Minds to a wide variety of decision-making / choice-modelling problems.

### **Alfred Haug – Professor**

Alfred's interests are in time series econometrics and empirical macroeconomics. His particular interests are in combining fiscal and monetary policy transmission mechanisms within empirical structural vector-autoregression in order to assess the effects on the macroeconomy. He also has a keen interest in the empirical effects of oil shocks on macroeconomies and financial markets. Alfred has held visiting positions at the Norwegian Central Bank, the Free University of Berlin, Kadir Has University, the Warsaw School of Economics, the European Central Bank, the National University of Singapore, Simon Fraser University, IGIER at Bocconi University, the University of Konstanz, and the IES at the University of Oxford (UK).

### **Mohammad Jaforullah – Senior Lecturer**

Mohammad's research interests are modelling the determinants of carbon emissions, application of vector error correction models, analysis of frontier production functions, analysis of energy policies using CGE and I-O models, analysis of the supply responses of agricultural crops and calculation of regional I-O multipliers.

### **Viktoria Kahui – Senior Lecturer**

Viktoria's research interests are bioeconomic modelling, fisheries economics, governance structures, ecosystem based management and environmental economics.

### **Alan King – Associate Professor**

Alan's current research interests primarily relate to the application of time-series modelling techniques (in particular, cointegration and unit-root tests) to a variety of applications. These include: modelling the determinants of international trade flows, testing the income convergence hypothesis, investigating the behaviour of expectations in the presence of an inflation target, and modelling the determinants of carbon emissions.

### **Stephen Knowles – Associate Professor**

Stephen's current research focus is the use of field and laboratory experiments to analyse altruism and charitable giving and the allocation of foreign aid. Specific projects include the effect of deadlines on charitable giving, measuring whether New Zealanders have a preference for supporting international development charities or those with an international focus, what types of countries people prefer to receive foreign aid and the effect of different message strategies on charitable giving.

### **Dorian Owen – Professor**

Dorian's research interests are mainly in the areas of empirical modelling of economic growth and development, sports economics, and applied econometrics. Recent research includes statistical adequacy in studies of the fundamental determinants of economic growth and development, information technology and labour productivity in New Zealand, institutional quality and the Lucas paradox, and competitive balance and competition design in sports leagues.

#### **Arlene Ozanne – Lecturer**

Arlene's research interests are mainly in the areas of economic education, labour economics, East Asian economic development and empirical modelling of total factor productivity using cross-sectional, time-series and multi-country panel data.

#### **Trent Smith – Senior Lecturer**

Trent's research interests are broadly interdisciplinary, applying economic methods in biological perspective to better understand behavioural phenomena that would seem to violate the economist's conventional presumptions of rationality and full information. His published research has focussed in particular on dietary choice, obesity, addiction, economic insecurity, and mass marketing. Recent publication outlets include *The Lancet*, *American Journal of Agricultural Economics*, and *Behavioral and Brain Sciences*.

#### **Paul Thorsnes – Senior Lecturer**

Paul's research is primarily in the areas of urban and environmental economics and policy. Topics of current research include study of interactions among urban amenities (local public goods) and residential development patterns, estimates of the values of urban amenities using data from house sales and stated choice surveys, and estimates of variation across householders in stated and revealed preferences for household energy-efficiency retrofits.

#### **Murat Üngör – Lecturer**

Murat's research is mainly focused on the area of international macroeconomics and trade, with an interest in growth and development. His current research investigates the quantitative consequences for the structural transformation of employment and output, and for the optimal pattern of trade in goods and services, in a country experiencing productivity driven economic growth which favours some sectors more than others. Murat is also interested in studying the impact of the sectoral productivity changes on the sectoral reallocation of employment with an emphasis on the differences and similarities between East Asia and Latin America. Another avenue of current research is to bring together elements from disparate strands of literature and ask why the process of structural transformation, regarded as an important feature of the development process, has been slow in Africa.

#### **Tarja Viitanen – Senior Lecturer**

Tarja's research relates to labour economics, public sector economics, economics of the family and microeconometrics.

#### **Dennis Wesselbaum – Lecturer**

Dennis is a macroeconomist with both theoretical and empirical interests. His main research interests are Monetary and Fiscal Policy, Labour Economics, Time Series Econometrics, and Game Theory. Specifically, he focuses on issues related to the interaction between fiscal and monetary policy, the effects and transmission mechanisms of fiscal and monetary policy in the short- and long-run, and labour market dynamics.

## 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: [www.nzae.org.nz](http://www.nzae.org.nz) (list your job vacancies for economists here)

## MEMBERSHIP FEES

Full Member: \$160.00 (\$130.00 if paid by 31 March)

Graduate Student: \$80.00 - applies to First year only (\$65.00 if paid by 31 March)

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

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## MEMBER PROFILES WANTED

Is your profile on the NZAE website? If so, does it need updating? You may want to check ...

## NEW MEMBERS

(mid-July to mid-September 2016)

**Peter Bates** (Bates Forensic Valuation Ltd.); **Prof. Robert MacCulloch** (University of Auckland); **Mehrnaz Rohani** (Auckland Council); **Prof. Ilan Noy** (Victoria University of Wellington).

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