

# 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).

## EDITORIAL

*John Yeabsley (john.yeabsley@nzier.org.nz)*

The long interview in this issue is with Tim Ng the Chief Economist at the Treasury. He is interviewed by John Yeabsley, your editor.

Ian Duncan looks at the way the subject matter (and practitioners) of economics get picked on and vilified. Is it deserved...?

Our piece from Stats NZ lays out the details of the new monthly employment data. The technical background is displayed.

The short interview is with Andrea Menclova who is an associate professor of economics at the University of Canterbury and Associate Head of Department Economics and Finance.

Paul Walker's Blogwatch does its usual trick of roaming around in the neglected world of the blogosphere. This episode deals with the historical questions like economics of slave markets, through the possible death of the Phillips curve and winds up discussing the fascinating topic of cognitive dissonance.

Motu's contribution looks at the question of modelling climate change and argues for a new sort of approach.

As promised last edition the Grant Scobie 2 B RED column shows the previous contribution was not a flash in the pan. Grant's discussion this time includes his adventures with a Russian novel among other delights.

This issue's Research in Progress comes from the University of Auckland and new members who joined NZAE are also recorded.

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## CONTENTS

Editorial	1
An interview with Tim Ng by John Yeabsley	2
Ian Duncan's Allergic reactions	6
Stats NZ on Monthly employment	7
WEAI Ad	8
The 'Five Minute Interview' with Andrea Menclova	9
Blogwatch by Paul Walker	10
Motu on modelling climate	11
University of Auckland Research in Progress	13
2B RED by Grant Scobie	14
New Members	14
Stata Advert	16

## ABOUT NZAE

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

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# AN INTERVIEW WITH TIM NG

with John Yeabsley ([john.yeabsley@nzier.org.nz](mailto:john.yeabsley@nzier.org.nz))

## **Q: I'm with Tim Ng. I'll start with formative influences. How did you come to Economics?**

A: I first came to Economics in 7th form. It was part of thinking about what my career would look like. My interests were mostly in the natural sciences. That was to be the core of what I was planning to do. The Economics and Accounting parts of it - I did Accounting too - was to have commercial skills with that, because not all natural science is in the public sector. Having more strings to the bow and some commercial capability I thought would be good. I didn't actually enjoy it much at school but at university it became more interesting.

When I finished university, there wasn't a lot of planning at all. I'd done a conjoint degree in Biochemistry and Economics. I did postgrad Biochemistry and had five years study at Auckland. By the end of that I thought, well, I've got my postgrad in Biochemistry but I'm not sure I want to do a PhD now. I'll see what's out there in the job market.

I applied for the Reserve Bank and the Treasury and ended up at the Reserve Bank because they said, 'We'll offer you a job, if you do postgrad Economics.' So that's what I did. That was the end of my formal study in the natural sciences, though I still retain an interest. It was one of those things where you choose a path and then off you go. Path-dependence.

## **Q: Have you any ideas about why Economics was more fun at university than it was at high school?**

A: I think as you develop through Economics, the big questions and assumptions on which it's based become more obvious. Then you come across evidence about these questions. You realise how much there is to discover and apply and how many interesting choices there are in economic policy. At school I was a bit disappointed. Economics was like accounting in that it was the application of algorithms; "show that you can manipulate this chart in the right way", and that wasn't inspiring.

## **Q: You've talked about where it fitted into your education, but what was the most memorable part?**

A: I remember forming a view that I had some aptitude in Economics because, much to my surprise, one of the essays I wrote for third year Macroeconomics really impressed the lecturer, K D S Jones, Professor Keith Jones. He said it was one of the better ones that he'd read. It was about the Fisher equation and inflation expectations. I enjoyed that a lot because I'd found out that the Reserve Bank did a survey of inflation expectations and I found this interesting. I had a look at the series. What were people's expectations? What could you say about the patterns in the data?

Then when I travelled to Wellington, which I wasn't familiar with at all, I saw the Reserve Bank building and I thought, wow, there it is in concrete form.

Another memorable part was doing the history of thought, from Malthus and other classical economists through to the



present day. Seeing the sense of Economics as a discipline of philosophy and developing from there. The other Economics papers that I was doing had this slightly odd, ahistorical feel to them as if these were eternal truths that had always been there; laws of physics type of thing. Seeing the evolution of thought and how it had changed in response to the challenges of the time, as apparent to the thinkers of the time, was fascinating.

## **Q: Very interesting. Who taught the History of Economic Thought?**

A: That was Anthony Endres.

## **Q: Tony. He's done a lot of work on the history of economic thought in New Zealand of course.**

A: Right. Then when I came to Victoria to do postgrad, there wasn't so much History of Thought, but it was methodology. It was more about epistemology and that sort of thing.

## **Q: We've started on people. Can you talk a bit more about the people who influenced you? You mentioned Keith.**

A: Yes. Keith, he was a lovely guy. Really enjoyed his lectures. I enjoyed it too at Victoria. Of course, there were Viv Hall, Lew Evans, Stephen Burnell, Bob Buckle, Jan Whitwell. I really remember them as being influential, with a passion for their subject and a nice way of communicating it. This was at postgrad of course, where their job is to get the independent thinking going. I very much appreciated that. Of course, with some of them - like Stephen and Lew, it was the impenetrability of the things they would tell you. That was the stimulating thing and you'd spend time nutting out exactly what you think you should take from what they said. They were inspirational.

The peer group we have at the moment in the economics community, there's lots of inspiring people. I'd say Arthur Grimes... Just great minds that push things along, always curious about the empirics. I remember this great article I read, by Greg Mankiw. I can't remember the title, but it was in the form of advice to graduate students. It said, 'Always do things that are empirical and always follow things that are interesting to you. That's all that matters.' You think, that's all very well for you to say, Greg. [laughs] But there's a grain of truth to it.

## **Q: The Reserve Bank had offered you a job: you went over there and got yourself started?**

A: Yeah. I have to give a lot of thanks and acknowledgement to the managers and leadership of the Bank when I joined. There was a strong culture of valuing economics, econometrics, modelling, staying up to speed with the frontier of economics, how people were thinking about things and bringing that into the policy environment. That was really special for a graduate to

be able very early on to use what you'd studied and see it in its practical form. I started in the Research section and then moved to Forecasting. So, both theoretical and empirical. It was good.

**Q: The Bank, has a special status; funded well enough to do research. Do you think it's worth it?**

A: Central banks in general have to be unimpeachably credible in what they do. That's part of earning their independence. You can't give an institution independence unless you are clear that it knows what it's doing. I think of research output as part of building that credibility. Central bank research is instrumental, rather than for its own sake. It must demonstrably be related to and influence the policy process, and come through in what decision makers say. How they communicate what they're doing, how they use evidence to support their decisions, but also to do that in a way that allows people into the debate. That's where central banking has shifted over almost three decades where I've either been involved, or have been observing central banking closely – it's coming out of the cloister.

This is true for many public agencies of course, including Treasury. Research has always gone on either inside or outside the cloister. It's always been an important part of what central banks do. But communicating and demonstrating to the public how it influences policy, why it's needed and how you discipline it so that it's relevant and worth what the taxpayer is spending on it, is really important.

**Q: Do you want to talk a bit about the debate?**

A: Sure. Do you mean the increased scrutiny of what central banks are doing?

**Q: Yes. They are under discussion from various quarters.**

A: That's right. They're very powerful. Always have been, always will be. The global financial crisis is part of this discussion and, if you like, the backlash against Greenspan-esque 'Just trust us and just trust the financial system. All the incentives are correct and people are smart and they make use of all information. Why would there be herd behaviour or myopia or short-termism? That just doesn't make sense, therefore it can't happen.' Clearly that was debunked. It is at the very least questionable. That is worth continuing public debate.

So central banks are coming under scrutiny. It may be part of the more general "death of deference" towards public institutions. Central banks are part of that group. The independence perhaps exacerbates the idea in the public mind that there's a danger about elites. If anything, they are the elite of the elite because we have made them independent. Now, I think all the arguments for having central bank independence are still there. We accept there are time inconsistency problems. We still accept there are all sorts of political economy issues that mean that decisions that arguably should be largely technocratic, end up contaminated by undue political influence.

The legitimacy of independence is being questioned even more since the crisis. Where we're at in the debate internationally is how to tailor the mechanisms so that they provide the right amount of independence and control. That's not just true for central banking, it's true for whatever you want to look at. In fiscal policy, for example, you see the use of fiscal councils and transparency about fiscal management, and such things can be viewed very much in the same light.

**Q: Around the world commentators say that experts used to have the field to themselves and there's a strong backlash. We seem to have avoided it, but I'd be interested in your view.**

A: I agree with you. I can't think of any sudden change to the nature of political discourse in New Zealand regarding the credibility of experts such as we've seen in probably almost every other country in the western world. Our discourse seems to have remained more or less as civil as it always has been.

**Q: Any further comment?**

A: New Zealand is small. All the central functions of government are in Wellington; in fact are in one very small part of Wellington. We have such a low power distance, between the public and MPs, which actually causes us issues. But it's a good thing because of our common humanity. You can cultivate our common humanity much more easily in a small country. I'm not a politics expert, but my understanding is that MMP is supposed to encourage debate and discourse and pluralism. Of course, if you look at Germany, maybe it's necessary but not sufficient.

**Q: Looking back at what you did at the Reserve Bank, with more miles on the clock, would you do anything differently now? Did you like the mix of things, moving from research to forecasting?**

A: I did like the mix of things. I had great opportunities which I'm grateful for, including the opportunity to work overseas. I went to the New York Fed for a couple of years and I worked at the Bank for International Settlements in Basel for a couple of years. Those were tremendous experiences. While in hindsight it's clear to me that monetary policy, financial stability and central banking more generally are quite narrow fields, I don't regret spending a lot of time there. There is a part of me that likes becoming an expert in something. Diving into the detail and knowing the subject really well. Besides, I've never really been inclined to look back and say, 'I wish I'd done this or that.'

Probably the only exception is that I had an opportunity back in the late 90s to do a masters at the LSE, which I didn't take up. The alternative on the table was a secondment to the Beehive to work in the office of then Deputy Prime Minister, Winston Peters, and so I did that. I have thought, well, in what respects would life be different had I taken the LSE path?

**Q: I'm sure you learnt more in many ways in the Beehive.**

A: It was just fascinating; it's a unique experience.

**Q: You've hinted at it already: do you want to talk about your overseas experience?**

A: Sure. You have to do it. It's such an opportunity for personal and professional growth. Going from the Reserve Bank to the New York Fed, obviously a much larger system, really increased my appreciation for what we've got in New Zealand institutions, which is that they're generally very efficient. They give lots of opportunity to young people. Whereas the New York Fed, for example, and the BIS, are very hierarchical. There's lots of extremely knowledgeable people but they've been there a long time. So, it's hard to feel you can make much of an impact. But just being in that environment where you're forced to look at New Zealand from a long distance is good. You have a better appreciation of the good things and weaknesses we have, and appreciation for our institutions. Going from a small open economy to a large largely closed one is also interesting for the economics.

**Q: And the BIS? Apart from anything else it's a change in culture.**

A: That's right. It was a career highlight partly because the work was interesting and unique, but also, it's a cultural difference. I took the chance to learn German and that was a real highlight. It's a more geeky one, because I like languages.

**Q: Yeah, but it's at the centre of Europe too, so the world's your oyster.**

A: Yeah, that's right. There's one point on the Rhine where if you take a step in one direction it's Germany, in another direction it's France and another direction it's Switzerland.

**Q: This was with the Bank and then you followed a path to the present. Take us through that.**

A: Sure. In about 2013 a job came up at the Treasury that I applied for; wasn't successful, but as part of that conversation I ended up applying for a different job at the Treasury. The motivation was to try life as an economist outside central banking. Being part of the core government service as opposed to a special purpose entity was interesting. More minister contact, but still being a macroeconomist essentially; that was the attraction. It's been a lot of fun since.

**Q: You did a couple of other things here and then moved into the current role?**

A: Yes. My first job was heading up the macroeconomic and fiscal policy section which was advice around fiscal strategy, the monetary policy framework. Not monetary policy decisions - just the framework and the macro issues around fiscal

policy. For a time I also managed the international team during New Zealand's G20 year, when Australia invited New Zealand to be a guest. I was New Zealand's finance deputy for that year. It was fascinating to see that process. From that I got interested in the efforts of New Zealand generally to connect to the rest of the world and how we do that in government - economic diplomacy if you like - how we advance New Zealand's interests. Not just through trade, although that's pretty important, but also through other connections that we build across the world.

**Q: Fascinating stuff, international.**

A: Well, it is, and we don't have enough people doing it. There's always an excess demand because we're so far away, so it is costly to go and do international work. But it's so valuable.

**Q: And it matters to us.**

A: Yeah. Probably the first thing economics should teach you is comparative advantage, gains from trade. There's still a slightly odd narrative about that in New Zealand. Exports seem to be good all the time but imports, well, we're not so sure about those.

**Q: We still see the results of the 2008 crash. How do you see that and what effects did it have on your thinking?**

A: As a macroeconomist and somebody that's studied banking and financial stability, it is a moment of serious reflection - a Minsky Moment. What we previously ignored as just part of the plumbing, we cannot ignore anymore. How do you make sure that the plumbing works when you need it to work. And serious questions about the role of the financial system and the potential for it to be a more positive influence. The textbook says you have banks and other financial intermediaries because they monitor borrowers and select the best value investments, and it's all part of allocative efficiency. Are we seeing that from our banking system? Are our institutions of financial stewardship, our regulators asking that question and getting the most out of this industry?

The industry is stacked with smart people and it pays well. Are our competition policy structures, regulatory structures and so on putting the right incentives on those people to run their institutions to maximise benefits for society? There's an argument that says, well, they're there to maximise benefits for shareholders and that will maximise the benefits for society. But the whole GFC must give us pause about that proposition.

**Q: The other side is macro. Did it tell you anything? We seem to have avoided what happened to Europe.**

A: It's certainly the case that what they've ended up with is a situation of institutional gridlock that they can't seem to get out of. They somehow need to get the banks back to a better capitalised position and lending again. The sovereign debt

market issues all follow from that. It's a Gordian Knot. From a macro point of view probably the lesson is: don't get yourself into that situation in the first place. When you do find yourself at risk of getting into that situation do as much as you can to make sure your institutions are sound, that you get the politics right. This goes back to: transparency, legitimacy, making sure all your organs of the state are lined up and communicating.

**Q: New Zealand: Somebody's got to take a bow.**

A: That's right. It's a whole combination of things of course; the strong fiscal position, well capitalised banking system, relatively vanilla banking system, and on the whole, clean and transparent information about the financial system.

**Q: In your current role, can you describe it: how you operate inside the Treasury and what you do?**

A: My job is to make sure the Treasury stays at the forefront of theory and evidence about what makes for a well performing economy; what makes for a well performing fiscal management system. Underneath those two headings are all the levers of the state: regulation, taxation, expenditure control and so on. Economics is in all of that and so my job as Chief Economist is to help our analysts be aware of the tools that are available in our toolkit as economists, to bring to bear on those questions. How to make sure that our advice is well formed; is informed by evidence that's adduced in a sensible way and communicated well to ministers. Our job is to provide good advice.

There's a lot of associated engagement activity. Doing things like this, interacting with outsiders trying to understand what we do; trying to draw in the academic community and staying close to what they're doing; working with other stakeholders, other agencies and so on, that's all part of it.

**Q: Do you do quality control of individual outputs from the Treasury or are you conceptual?**

A: A bit of both. I have a couple of teams of staff. One of them is a team that runs the Treasury's tax and transfer system microsimulation model. I have a modelling background, so I enjoy getting down and dirty with them. That team also has our IDI capability and again it's very easy to get sucked into their stuff cos it's so fascinating. Then I have a team that helps me on economic capability, lifting our game. The Living Standards Framework work, for example, comes under their banner.

The way I approach the job is partly conceptual and partly through working with our expert staff to give them support, help them do their jobs and be effective. Sometimes I get involved in the development of specific pieces of advice. I'm a macroeconomist by trade, so when we have big macro stuff coming across our desks I help out with that.

**Q: Are you still seeing an outflow of working papers?**

A: Yeah. It's slowed a bit, partly because so much is happening in the Government's programme and policy advice. But the working papers are a key channel for us to connect to the outside world, to bring the outside world in, to encourage our staff to connect with the literature and keep us current.

**Q: You've had obviously a glittering but also, I hope, a fun career. Where do you see the economics background and training specifically fitting into that?**

A: Imagined something else with the training, do you mean?

**Q: Yeah, you could have gone and done something else. Got more involved with finance.**

A: Yeah. I spent nine months at the National Bank, so I do have a tiny bit of private sector experience. The nice thing about the public sector is that it's the sense of mission, doing something for New Zealand, but also the intellectual interest. The fundamental value of intellectual enquiry has always been there in the public sector and I think always will be. That would be a constant, whatever I decided to do. To me, an economist's training really sharpens those skills of thinking in an equilibrium sense. Being able to think in a general equilibrium way, to think about causality and think about why things happen, and about the limitations of the evidence to be able to tell you why things happen.

Having training in that type of thinking about whatever kind of problem - public policy problems or business problems - is immensely valuable to employers and it is something that I don't think we've properly communicated to young people contemplating studying Economics. We haven't said to them, 'Why would you want to do this?' And that's part of the reason in my view.

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# ALLERGIC REACTIONS – COME WITH THE TERRITORY, RIGHT?

By Ian Duncan

Perhaps because the topic (economics) is fundamentally about scarcity and how to cope with it, a matter that people feel strongly about, economics (and economists) can cause allergic reactions. This can be within the profession and sometimes very strongly, outside it.

The Economist (June 8th, 2019, p.73) reviewed a book critical of economics: *Licensed to be Bad: How Economics Corrupted Us*, by Jonathan Aldred. According to the review, the author maintains that that economists assert a “baleful influence on political discourse ...by taking a narrow views of humans as essentially selfish creatures, forever trying to maximize their own well-being.” And then under a sub-heading ‘Economists have a lot to answer for...’ The Economist (August 31, p63) reviews *The Economists’ Hour* by Binyamin Appelbaum, covering the role of economist in the deregulation of the 1970s and 1980s, and the alleged collateral damage from that and defeating inflation. Of course, there is a degree of context provided by invoking the wider role of a more broadly-based conservative movement determined to reverse the encroachment of the state but the charge is made.

And now a recent article in the Guardian: <<https://www.theguardian.com/commentisfree/2019/aug/03/economics-global-economy-climate-crisis>> included other examples of problems seen with economics or poor advice offered by economists and asserts that economics is a “failed discipline.”

## So, where did it all go wrong?

These examples show some of the objections to economics and/or economists. But it’s impossible to assemble a complete taxonomy. This is partly because the critiques, such as the Guardian piece, are often conflation of various misgivings.

A Google search under ‘criticisms of economics’ reminds us of the long-standing feuds within the profession e.g. Keynesians versus monetarists. These can be vicious and long lasting. But they reflect the bigger point that the ‘economics profession’ is far from homogenous with numerous sub-groups holding different views according to workplace, specializations, gender, political perspectives, attitudes to climate change, facial hair etc.

A Canadian academic and blogger, Chris Auld, provides some slightly tongue-in-cheek insights in his ‘18 signs you’re reading bad criticism of economics.’ <<http://chrisauld.com/2013/10/23/18-signs-youre-reading-bad-criticism-of-economics/>>. For example (item 1) “Treats [macroeconomic forecasting](#) as the major or only goal of economic analysis.” Or (item 5) “Uses ‘neoclassical economics’ and ‘mainstream economics’ interchangeably.”

## What is driving this?

Auld’s introduction to this blog highlights some of what we are grappling with.

*Every mainstream science which touches on political or religious ideology attracts more than its fair share of deniers: the anti-vaccine crowd v mainstream medicine, GMO fearmongers v geneticists, creationists v biologists, global warming deniers v climatologists. **Economics is no different, but economics cranks differ in that they typically make false claims about the content of economics itself, as opposed, or as a prelude, to false claims about the way the world works. That target sometimes making it hard for non-economists to differentiate crankery from solid criticism.** (Bolding added)*

Something similar can be found in “The Undoing Project” (Michael Lewis) describing one of the more sustained attacks on the work of Daniel Kahneman and Amos Tversky.

*Gigerenzer had taken the same angle of attack as most of the other critics. But in Danny and Amos’s view he’d ignored the usual rule of intellectual warfare, distorting their work to make them sound even more fatalistic about their fellow man than they were. He also downplayed or ignored most of their evidence, and all of the strongest evidence. He did what critics sometimes do: He described the object of his scorn as he wished it to be rather than as it was. Then he debunked his description.*

The literature on the ‘economics of advice’<sup>1</sup> reminds us that economists are not alone in bearing the brunt of such criticism which may not be well-founded. It also reminds us that,

*Professional advisers are often concerned with their reputation for being well informed, rather than with the decisions made on the basis of their recommendations.*

But this is more about the potential for undue influence via ‘fingers on the scales of advice’ than an attack on the theoretical basis of that advice.

## What might be done?

A measured response to the Guardian piece might be based on an informal framework for analysing the arguments assembled by the critics.

<sup>1</sup> Ottaviani, Marco & Sorensen, Peter Norman, 2006. “Professional advice,” [Journal of Economic Theory](#), Elsevier, vol. 126(1), pages 120-142, January

For example

- Is there a clear problem definition? (In many cases the critics accuse economists of not meeting standards the critics choose to impose.)
- Do the main propositions accord with the facts?
- Are the critic's assumptions transparent?
- Do the conclusions follow logically from the above?
- Does the critique propose workable alternatives that avoid the alleged shortcomings (of economics)?

In theory the answers to these questions could provide the basis of a discourse with the critics, resulting in some common ground or compromise. This might then serve as a base for further well-founded discussion.

In practice, very few economists will go into bat on these matters. The (time and aggravation) costs are unknowable, and the benefits (e.g. in influencing public opinion) are likely to be low. Experience teaches that critics of economics are like buses – there's always another along soon.

Perhaps a higher priority for 'the profession' is to do a better job of communicating some core economic concepts to the policy community and decision-makers. This would at least have the potential to contribute something of value. In particular, at the cost of being even more boring, economists might try to be clearer about the "science side" of the discipline: that our insights are attempts to explain a complex world through simplification. And that in most of the contentious issues economics addresses values that are at the heart of the dispute. But that economics cannot prescribe these – only provide an analytical backdrop to clarify the situation.

So, until preferences are invoked, there is no necessarily optimal course of action in any specific circumstance. At best (when the modelling works) there are different options with different possible results and different costs.

Pick what you happen to prefer. That is, after all, how expert advice works.

## NEW EMPLOYMENT INDICATOR SERIES RELEASED

*Statistics NZ*

In November 2019, Statistics NZ published new monthly employment indicator series intended to provide an early indication of changes in the labour market. The series cover filled jobs and gross earnings, and, in this first release, data up to October 2019 has been published, backdated to April 1999. In future, series will be released four to five weeks after the end of the reference month.

The indicators have been compiled using a combination of data from two different Inland Revenue sources: (a) the Employer Monthly Schedule (EMS); and (b) the timelier payday filing data that Inland Revenue introduced in April 2019. At present, the series have provisional status because data from payday filing is relatively new and more data needs to be analysed by Stats NZ.

### Coverage of jobs and earnings

The indicator series cover filled jobs and gross earnings belonging to:

- Full-time and part-time employees (these are not distinguished in the EMS or payday filing).
- Foreign residents and members of the permanent armed forces with wages and salaries.
- Self-employed people who pay themselves a wage or salary taxed at source.

Excluded are jobs and gross earnings associated with:

- Employees on unpaid leave, and unpaid employees.
- Workers with scheduled payments - these are made to people who are not employees but who are employed under a contract for service (for example, labour-only contractors to the building industry).
- Self-employment income not taxed at source.

**Filled jobs** are paid jobs that existed in the week ending on the 20th of the reference month. A weekly reference period captures a 'snapshot' of filled jobs at a point in time. A short reference period is consistent with the standard for producing official labour force statistics.

**Gross earnings** correspond to the (pre-tax) amount paid to all employees in the reference month. It excludes retirement payments, redundancy payments, and employee benefits. The length of an employee's pay period can cause variability in the number of pay days in the month – for example, a fortnightly pay normally occurs twice a month but, on some occasions, can occur three times in a month. This can cause volatility in the monthly series. It will be possible to remove the effect of payday variability on monthly earnings by allocating the reported amount proportionately to the month in which it was earned. Since at this stage we only

have a few months of data using payday filing, we are still developing and testing our methodology in this area as well as monitoring the seasonality of the data.

**Industry detail.** Filled jobs are output at the total New Zealand level and using the following broad industry categories based on the industry code assigned at the enterprise level:

- Primary industries – ANZSIC06 divisions A (Agriculture, Forestry and Fishing) and B (Mining)
- Goods-producing industries – ANZSIC06 divisions C (Manufacturing) to E (Construction)
- Services industries – ANZSIC06 divisions F (Wholesale Trade) to S (Other Services)

Gross earnings are output at the total New Zealand level.

#### Data sources

Two data sources are used to produce the series:

- (i) From April 1999 to April 2019, EMS data is used. All New Zealand employers are required to report PAYE (pay as you earn) data for their employees to Inland Revenue. Prior to April 2019, the PAYE data was reported on a monthly basis as the EMS.
- (ii) From May 2019 onwards, payday filing data is used. Since 1 April 2019, all New Zealand employers paying more than \$50,000 PAYE and Employer Superannuation Contribution tax (ESCT) per year are required to electronically file payroll information, known as payday filing. Larger employers need to file within two working days of each payday. However, smaller employers can choose to file by paper and have slightly longer timeframes. This data is provided daily to Stats NZ by Inland Revenue.

**Non-response imputation.** A small number of firms have missing data because they may not have filed payday data in a reference month, or more commonly for the last pay period within a month, or Inland Revenue haven't finished processing their data. We estimate values for this missing data using historic imputation. This involves multiplying a unit's value in a previous pay period by a forward movement factor. The factor is the average movement between pay periods in the month for similar businesses

#### New filled job series compared with other Stats NZ labour market outputs

The employment indicators complement other Stats NZ labour market outputs. The coverage of filled jobs and gross earnings differs from the measures produced from the Quarterly Employment Survey (QES), Linked Employer Employee Data (LEED), and the Household Labour Force Survey (HLFS). Conceptually they are closer to LEED and the QES than to HLFS.

Further detail on the differences can be found at <https://www.stats.govt.nz/methods/about-new-employment-indicator-series>

#### Further developments coming – integration of financial and labour market measures

The release of the employment indicators is the first stage in a major redevelopment in the production of labour demand measures at Stats NZ. This redevelopment will result in a complete redesign of the QES during the next year. We are looking to extend Stats NZ's administrative data-first approach, established across Stats NZ's economic collections, to the QES, and improve coherence across our suite of economic statistics.

For more information, contact Craig Liken at [craig.liken@stats.govt.nz](mailto:craig.liken@stats.govt.nz)

## WESTERN ECONOMICS ASSOCIATION INTERNATIONAL (WEAI) 95<sup>TH</sup> ANNUAL CONFERENCE | DENVER, COLORADO

June 26<sup>th</sup>-30<sup>th</sup> 2020 | Friday through Tuesday | Grand Hyatt Denver

Volunteer paper submission deadline extended

### Featured Speakers



**Maurice Obstfeld**

Class of 1958 Professor of Economics,  
University of California, Berkeley



**John Shoven**

Charles R. Schwab Professor of Economics,  
Stanford University



# THE FIVE-MINUTE INTERVIEW WITH ... ANDREA MENCLOVA

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

At the end of high school when I realised that I did not want to part either with social sciences or with maths. Then again in grad school when I started appreciating the breadth of the field.

When I did my BA in Prague, economics as we know it was a relatively young discipline there (as it had not been allowed to be taught the same way under the communist regime). Most people in the general public had a lot of misconceptions about the field and my friends were surprised – or even disappointed - that I picked it. Many of them thought I would study medicine. It is an irony that I avoided medicine for a few years but then worked with clinicians as part of my health economics major in grad school.

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

They played the most significant role. Ondrej Schneider when he started his undergraduate public finance class with a simple matrix introducing complex issues: whose money is being spent and for whose good. Torsten Schmidt who filled several whiteboards with a mathematical proof only to arrive back to the initial setup and eagerly start again noting that: "A nicer word for redundant is confirmatory." But most of all, Karen Conway, Bob Woodward, and Robert Mohr from the University of New Hampshire.

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

Daniel Kahneman. Apart from his well-known work on prospect theory with Amos Tversky, I also like his work on experienced utility and, specifically, how it relates to the use of quality of life indices in cost-effectiveness analysis.

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

Most of my work is in health economics but I currently really enjoy a detour into the economics of education. My favourite paper there looks at the effects of early schooling on achievement in high school and finds that children on average do substantially better when not rushed through Years 0 and 1.



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

The fall of the Berlin Wall and, for me personally, the Velvet Revolution in Czechoslovakia in 1989. I was a child at that time but even a short trip across the border to Austria or (formerly West) Germany provided the strongest empirical evidence I have ever seen. I had already understood the political failings of a communist regime but then I was seeing its remarkable economic fiasco.

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

You mean when I am not doing economics for pay? I can no longer "not do" economics.

I like spending time with my young family, traveling around the world, touring New Zealand in our campervan, tramping and catching up on sleep.

# BLOGWATCH

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

Martin Weitzman died on August 27. The New York Times covered him <https://www.nytimes.com/2019/09/04/business/energy-environment/martin-weitzman-dead.html>. The Economist <https://www.economist.com/finance-and-economics/2019/09/05/martin-weitzman-died-on-august-27th>. The Washington Post [https://www.washingtonpost.com/local/obituaries/martin-weitzman-environmental-economist-who-emphasized-uncertainty-dies-at-77/2019/09/04/3562dd64-cf20-11e9-8c1c-7c8ee785b855\\_story.html](https://www.washingtonpost.com/local/obituaries/martin-weitzman-environmental-economist-who-emphasized-uncertainty-dies-at-77/2019/09/04/3562dd64-cf20-11e9-8c1c-7c8ee785b855_story.html). Harvard University Center for the Environment <http://environment.harvard.edu/news/huce-headlines/remembering-marty-weitzman-1942-2019>. Bloomberg <https://www.bloomberg.com/news/articles/2019-08-29/the-man-who-got-economists-to-take-climate-nightmares-seriously>. VoxEU <https://voxeu.org/article/martin-weitzman-s-contributions-environmental-economics>.

At the Long Run blog <https://ehsthealongrun.net/> Jose Corpuz, of the University of Warwick, looks at Competition and rent-seeking during the slave trade <https://ehsthealongrun.net/2019/07/09/competition-and-rent-seeking-during-the-slave-trade/>. The study contributes to the debate about rent-seeking during the slave trade. The 'hunters-of-rent' view argues that when the competition among enslavers was restricted by barriers to entry, rents could be earned. The Royal African Company of England (RAC) made payments to African chiefs in return for exclusive trade with caravan merchants from inland. These payments were separate from any price paid for slaves themselves. An event study is used to show that the power of chiefs to extract rents increased when the RAC lost royal privileges after the Glorious Revolution in 1688, and this change increased competition from other English merchants.

From the Economic History Society <http://www.ehs.org.uk/> comes a video of the 2019 Tawney Lecture on Slavery and Anglo-American Capitalism Revisited by Gavin Wright <http://www.ehs.org.uk/multimedia/tawney-lecture-2019-slavery-and-anglo-american-capitalism-revisited>.

Timothy Taylor at the Conversable Economist blog <http://conversableeconomist.blogspot.com/> writes on Satellite Data Economics, Night Lights, and More <http://conversableeconomist.blogspot.com/2019/09/satellite-data-economics.html>. He discusses the relationship between economic growth and night lights. This relationship is not always straightforward. While night lights are broadly associated with economic development, the relationship isn't linear and isn't the same everywhere.

At the City Journal <https://www.city-journal.org/> Jonathan Meer argues that hiking the minimum wage is The Wrong Tool for the Job. He contends that hiking the minimum wage will neither enhance economic mobility nor alleviate poverty. Meer says that the real question is whether the minimum wage is good antipoverty policy. Does it transfer resources

from high-income households to low-income households? Does it preserve incentives to work and to hire? He goes on to say that the minimum wage is a blunt instrument. It does not distinguish between the teenage child of a wealthy family and a single-mother high school dropout; indeed, it encourages employers to prefer the former even more than they likely already do. So it fails on the first count. And while workers certainly prefer to be paid more rather than less, the minimum wage violates the "all else equal" assumption on which economists rely, as employers find other ways to reduce labour costs. Ultimately, an increase in that cost of labour will reduce employment. For myriad reasons, it takes time for the minimum wage's effects to be seen in the number of jobs, even as it affects the nature of the jobs themselves and the types of people who fill them <https://www.city-journal.org/increasing-minimum-wage>.

At the Chicago Booth Review <https://review.chicagobooth.edu/> Jeff Cockrell writes on What Economists Think about Public Financing for Sports Stadiums. When the question "Providing state and local subsidies to build stadiums for professional sports teams is likely to cost the relevant taxpayers more than any local economic benefits that are generated" was put to the Chicago Booth's Initiative on Global Markets US Economic Experts Panel only two per cent disagreed while fifty-seven per cent of the panel agreed that the costs to taxpayers are likely to outweigh benefits <https://review.chicagobooth.edu/economics/2017/article/what-economists-think-about-public-financing-sports-stadiums>.

At the Reason magazine website <https://reason.com> Mike Munger writes about The Joyful Contrarianism of Gordon Tullock. "What kind of crank wants to put bayonets in steering wheels, praises political corruption as "working out rather well," and thinks that competition can be harmful and should be discouraged?" The answer is Gordon Tullock. Tullock is most well known as co-founder of "public choice" but Munger considers three of Tullock's less well-known insights—regarding safety regulation, corruption, and the rationality of evolved behaviours <https://reason.com/2019/09/09/the-joyful-contrarianism-of-gordon-tullock>.

Writing at the IEA blog <https://iea.org.uk/blog/> Len Shackleton asks Do economists need a Code of Conduct? His answer is no. "So I'm cautious about welcoming codes of conduct for economists. We already have to obey many legal imperatives, for example in relation to intellectual property and data protection. Academic journals, including our own Economic Affairs, require us to declare conflicts of interest. Norms about avoiding plagiarism do not need formal rules; those revealed to be guilty of plagiarism are publicly humiliated. To go further would seem to require a stronger justification. Codes of conduct for economists, attractive though they may seem to some, are solutions in search of a problem" <https://iea.org.uk/do-economists-need-a-code-of-conduct/>.

Tyler Cowen directs our attention to a new paper on The Industrial Revolution in Services by Chang Tsai-Hsieh and Esteban Rossi-Hansberg at the Marginal Revolution blog <<https://marginalrevolution.com/marginalrevolution/>>. An interesting point made by the paper is “... we find that total employment rises substantially in industries with rising concentration. This is true even when we look at total employment of the smaller firms in these industries. This evidence is consistent with our view that increasing concentration is driven by new ICT-enabled technologies that ultimately raise aggregate industry TFP. It is not consistent with the view that concentration is due to declining competition or entry barriers, as suggested by Gutierrez and Philippon (2017) and Furman and Orszag (2018), as these forces will result in a decline in industry employment.” <<https://marginalrevolution.com/marginalrevolution/2019/09/very-real-progress-on-the-market-concentration-debate.html>>.

Peter Hooper, Frederic S. Mishkin and Amir Sufi are asking about the current health of the Phillips curve. In their column, The Phillips curve: Dead or alive <<https://voxeu.org/article/philipps-curve-dead-or-alive>>, at the VoxEU.org website <<https://voxeu.org/>> they write, “The apparent flattening of

the Phillips curve has led some to claim that it is dead. The column uses data from US states and metropolitan areas to suggest a steeper slope, with non-linearities in tight labour markets. We have been here before – in the 1960s, similar low and stable inflation expectations led to the great inflation of the 1970s”. For them, the curve is still alive.

John Cochrane writes on Economics and cognitive dissonance <<https://johnhcochrane.blogspot.com/2019/10/economics-and-cognitive-dissonance.html>> at his The Grumpy Economist blog <<https://johnhcochrane.blogspot.com/>>. Cochrane writes that “Often, multiple policy questions come down to a single issue. We may not know the answers to any of the questions, but we can at least say that the single issue drives the answer to all of them. So once you decide one issue goes one way, you can't (rationally) believe another issue goes another way, no matter how politically convenient that might be. The issue here is the “elasticity of labor demand.” If wages go down 10%, how many more workers will employers hire? If wages go up 10%, how many fewer will they hire? Already, note, that's one number, and it makes little sense to believe a higher number in one direction than another except for some likely quite transitory adjustment costs.”

## A COMMUNITY OF PRACTICE FOR ECONOMIC MODELLING OF CLIMATE CHANGE MITIGATION IN NEW ZEALAND

by Motu

The Climate Change Response (Zero Carbon) Amendment Bill 2019 will establish an independent Climate Change Commission to advise the government on setting emissions budgets, including realistic means of meeting those budgets.

Motu Senior Fellow, Niven Winchester, alongside modellers from Vivid Economics has started building a computable general equilibrium (CGE) model for the Climate Change Commission. This CGE model will be linked to a distributional impacts module. The CGE component will be a state-of-the-art New Zealand-focused global model that builds on and extends leading economy-wide models developed at the Massachusetts Institute of Technology and the European Commission Joint Research Centre. Novel features in the economy-wide model will include

- the ability to represent multiple technology options for the abatement of greenhouse gas (GHG) emissions from agriculture,

- design features that allow the model to be readily linked to sectoral models, and
- the ability to represent transformative change in production practices (for all sectors).

These features will allow the model to be developed over time (e.g., as new technologies emerge) in a modular fashion. The CGE model will be recursive, dynamic, and solved in one-year time steps out to 2050.

In the meantime, however, New Zealand lags behind other leading jurisdictions in its capacity to model climate change mitigation policies. In the European Union, the United Kingdom, and California, climate policy decisions are informed by multiple models that focus on diverse aspects of the economy (e.g. energy, transport, agriculture, and land use) from a ‘community of practice’ (e.g. providers from government departments, universities, and consulting

firms). These jurisdictions have devoted significant resources over several decades to developing models for climate policy analysis.

It is not possible for one organisation to operate all the models required for climate policy analysis, even in a jurisdiction as large as the European Union. Instead, a community of practice brings together models from different organisations – inside and outside of government – on an ongoing basis.

Climate policy analysis requires assessing a wide range of factors. A multi-model approach supported by multiple providers improves consistency, coordination, and collaboration across members of the modelling community, users of modelling results, and funders of modelling.

There is a compelling case for developing a New Zealand 'Climate Policy Modelling Initiative' of which Niven Winchester's CGE model for the Climate Change Commission would form the heart.

This initiative would coordinate and enhance delivery of modelling across multiple providers. This work was informed by several workshops that brought together economic modellers from a range of organisations. If supported by government leadership and commitment, the Climate Policy Modelling Initiative (CPMI) would have a transformational effect on New Zealand's capacity to plan for a successful low-emissions future.

New Zealand needs an enduring approach that produces consistent outputs over time for decision-making on emissions-reduction targets, budgets, emissions trading scheme caps, and policies. New Zealand needs to strengthen its ability to model:

- low-emission innovations extending beyond historical norms;
- transitional pathways over time, not just equilibrium states;
- distributional impacts and co-benefits of policy options;
- integrated effects of policy options across economic, environmental, and social domains;
- realistic (irrational) behaviour by producers and consumers;
- complex interactions between sectors (especially the energy and land sectors), and between emission pricing and other mitigation policies; and
- the implications for New Zealand of changes to overseas markets and policies.

New Zealand has a suite of models for climate policy analysis, but they have been used in a sporadic and ad hoc way to inform decision-making. The timelines typically allocated for model development and policy analysis tend to be unrealistically short, and it can be difficult to secure funding for systematic model development. Resources are limited for primary research and data collection to address information deficiencies. Few processes or forums exist for encouraging formal or informal interactions between modellers, modelling users, and funders.

A successful community of practice for climate policy analysis should:

- improve the quality, transparency, credibility, and comparability of modelling to inform decision-making;
- create institutions and networks to boost model development, coordination, collaboration, integration, and communication; and
- secure increased, predictable, and sustained funding for modelling activities.

To meet the government's strategic objectives for sound evidence-based decision-making, funding mechanisms for climate mitigation modelling in New Zealand need readjusting. Dedicated funding for climate policy modelling is needed before other elements of the CPMI can be implemented.

A key consideration will be the role of the Climate Change Commission in administering, funding, or otherwise supporting this community of practice in relation to other stakeholders. Authors at Motu Economic and Public Policy Research recently released a paper discussing these issues. It includes discussion of detailed modelling, governance, and funding elements. The paper also includes a detailed road map that looks at actions required to launch an effective community of practice, and activities to refine and maintain the initiative. Once implemented, the community of practice will operate as a hub and central repository, allowing ease of coordination for national and international collaboration. It will also communicate results to non-modellers and enable greater collaboration for all involved.

It will take time for governance and funding mechanisms to be established. The modelling community may want to take early action to establish the community of practice. This could perhaps be assisted by seed funding from the government.

A working paper detailing the case and suggested composition of a New Zealand Climate Policy Modelling Initiative by Niven Winchester, Dominic White, and Catherine Leining is available at the Motu website: [motu.nz](http://www.motu.nz).

# RESEARCH IN THE DEPARTMENT OF ECONOMICS AT THE UNIVERSITY OF AUCKLAND

## **Dr Debasis Bandyopadhyay**

Debasis is currently working on issues of gender bias and how these could act as barriers to economic growth. He also has long-term research interests in the contribution of human capital to economic growth.

## **Professor Ananish Chaudhuri**

Ananish is a behavioural and experimental economist. He is currently working on a project with two Psychology colleagues using economic decision making games to understand political ideology. This project is funded by a Marsden Fund grant. Another project involving multiple co-authors uses large-scale field experiments in India to understand what motivates people to seek political office. He also has on-going work looking at issues of leadership and the gender wage gap. He is working on a book "Behavioural Economics and Experiments" to be published by Routledge and an edited volume "Research Agenda in Experimental Economics" to be published by Edward Elgar.

## **Dr Alexandre Dmitriev**

Alex's research has three streams: (i) Cross-country transmission of macroeconomic disturbances; (ii) international capital flows and risk of sovereign default; and finally, (iii) application of computationally intensive estimation methods to macroeconomics. The last research theme includes development of numerical solution methods and their adaptation to simulation-based estimation.

## **Professor Anthony Endres (Emeritus)**

Tony is working on a book devoted to New Zealand's Economic Development in the 20th Century as viewed through debates among economists. His other projects include capital and innovation in economic development, capital in the history of economic thought and finally topics in the history of economics and economic policy in New Zealand.

## **Professor Prasanna Gai**

Prasanna's work focuses on legal and/or political-economy dimensions of sovereign debt default as well as governance frameworks for monetary and financial stability policy.

## **Dr Ryan Greenaway-McGrevy**

Ryan works in both econometric theory and applied econometrics. His recent work in econometric theory is focussed on developing model selection and estimation methodologies for forecasting panel data structures. His work in applied econometrics spans a variety of fields, including asset pricing, urban and housing economics, and labour economics. Recently he has been analysing the impacts of up-zoning on the Auckland housing market. Much of Ryan's work is funded by a grant from the Marsden Fund.

## **Associate Professor John Hillas**

John is a game theorist. He is working with Dmitriy Kvasov of Waseda University on extending the definitions of a number of game theoretic solution concepts encompassing the idea of backward induction to apply to games without perfect recall. He is also working with Dov Samet of Tel Aviv University on non-Bayesian approaches in epistemic game theory; and he is finishing up a long running project with Elon Kohlberg and John Pratt of Harvard University justifying the Nash equilibrium and correlated equilibrium concepts in terms of how an outside observer might view a game.

## **Professor Steven Poelhekke**

Steven's research interests cover international trade and investment, and their intersections with development and environmental Economics. He has studied, among other topics: the local impact of mining on infrastructure and the tradeable sector; the persistence of foreign direct investment benefits for domestic firms in developing countries; and the effects of resource wealth and multinational banks on foreign direct investment. Steven is also affiliated with the Tinbergen Institute Amsterdam, CESifo in Munich, and OxCarre in Oxford. He previously worked at the Dutch central bank.

## **Stephen Poletti**

Stephen's research area is environmental economics. Among other things he is looking at issues involving: (i) the impact of solar with batteries on the NZ electricity market; (ii) the optimal allocation of wind generation; and (iii) a capacity market for the New Zealand electricity system?

## **Alan Rogers**

Alan has been working on two research streams. The first involves the historical development of generalised method of moment estimators and their antecedents as well as identification and lack of identification in the general linear model, hypothesis testing in such models, and some extensions to non-linear models. A second area of research focuses on historical development of aspects of the modern theory of consumer demand.

## **Basil Sharp**

Basil is interested in applications of microeconomics and econometric models to contemporary energy, resource and environmental problems. In particular, he is considering: the optimal development of solar generated electricity within an existing distribution network; design of a market to support Government's net-zero carbon emission target. He is also investigating applications of spatial econometric models: uptake of EVs, environmental benefits of EVs, flood hazards.

# FROM THE 2B RED FILE

by Grant M. Scobie ([grantmscobie@gmail.com](mailto:grantmscobie@gmail.com))

## Asha Sundaram

Asha specializes in international trade. Her current research projects include: (i) Impact of the China-NZ FTA on NZ exports; (ii) the impact of trade on energy efficiency: evidence from firm-level data; and finally (iii) estimating the relationship between growth, development and demand for meat.

## James Tremewan

James works in the fields of experimental and behavioral economics with particular interests in bargaining, social norms, formation of beliefs, political economy, and law and economics.

## Haiping Zhang

Haiping's research interests span three related yet distinct areas: international macroeconomics and trade; financial integration and productivity dynamics; and innovation and endogenous technology adoption. His current research explores the mechanisms through which trade-driven production upgrading may reinforce upstream financial flows towards the more financially developed countries. He also studies the role of rising intangible capital in shaping the productivity dynamics in the knowledge-based economies.

Last summer, I managed to fall backwards off a deck while waterblasting. The resulting injury had me briefly in Rotorua Hospital and then 6 weeks on the sofa with my leg elevated. The only upside was the chance to read. Foremost was Fyodor Dostoyevsky's *Crime and Punishment* (an ironically fit title for my stupidity). There are countless editions and translations, but the one I had on our bookshelf was from 1933 and had belonged to my father. Anyway, the point of the story is that I have now read one of the two Russian novels that are normally cited as required reading in one's lifetime (*War and Peace* still awaits me). It was a bit of an effort but worth it in the end (thank goodness for a glossary with the list of characters to which I referred countless times).

While confined to the sofa a friend lent me a copy of **P. J. O'Rourke (2002) *CEO of the Sofa*** (Grove Press). O'Rourke has to be one of the very best humorous political writers with a keen wit. If you have not read any of his 19 books, start now - you may not always agree with his politics, but you will fall off the chair laughing at times. Anyway, to get to the point of all this, the opening lines of O'Rourke's book are as follows:

*I was just going to say, when I was interrupted...*

*"Nobody interrupted you," said my wife. "People have tried, but--"*

*That was a literary reference, dear, the first line from **The Autocrat of the Breakfast Table** by Oliver Wendell Holmes.*

I suspect that like me, many readers would have immediately assumed that the reference was to Oliver Wendell Holmes the jurist and member of the US Supreme Court. I have long been fond of many quotes from his writings. Well, it turns out that the jurist was Oliver Wendell Holmes **Jr.**, and the book in question was actually written by his father, a writer and physician, **Oliver Wendell Holmes Sr.**

Originally published in 1858, *The Autocrat of the Breakfast Table* comprises a series of essays formerly published in the *Atlantic Monthly*. They take the form of a speaker holding forth in a one-sided dialogue with his fellow residents in a Boston boarding house. and cover a wide selection of topics; witty, clever, thoughtful, philosophical... well worth dipping into.

The world seems to have a capacity to enshrine economists from New Zealand without ever recognising they were actually Kiwis. AWH (Bill) Phillips is a classic case, but he is not alone. And I have to confess that while studying advanced econometrics in graduate school I was not aware at the time that Generalised Least Squares and the Cramer-Rao lower bound were both due to a Kiwi, one Alexander

## WEB-SITE

The NZAE web-site address is: [www.nzae.org.nz](http://www.nzae.org.nz)  
(list your job vacancies for economists here)

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## New Zealand Association of Economists Inc.

Editor: John Yeabsley  
Email: [john.yeabsley@nzier.org.nz](mailto:john.yeabsley@nzier.org.nz)  
<http://www.nzae.org.nz>

## NEW MEMBERS

Up to 1 December 2019

Edgar Brooker

Julian Manning

Craig Aitken (although the econometrically literati will also recognise GLS as the Aitken estimator, which is the way it was referred to in my courses).

A recent issue of the University of Otago's *Magazine* features snapshots of their distinguished alumni, as part of the 150th anniversary celebration of the university. They wrote the following about Aitken (MA, 1920):

*"A veteran of the Gallipoli landing and the Battle of the Somme, Professor Alexander Aitken became a famous mathematician of his era, possessing an astonishing computational brain. In a psychological test in England in the 1920s, he is reputed to have taken 30 seconds to multiply 987,654,321 by 123,456,789 and produce the correct answer. During World War Two he worked in Hut 6 Bletchley Park helping to decrypt the German's ENIGMA code. He wrote several books - including a memoir of his World War One experiences which haunted him throughout his life - and became a mentor to many."*<sup>1</sup>

Professor Aitken wrote a number of technical works, including the widely cited *Determinants and Matrices*, Oliver and Boyd, Edinburgh (1939). But a truly outstanding book is **A. C. Aitken (1963) *Gallipoli to the Somme: Recollections of a New Zealand infantryman*** (Oxford). The volume has an extended and fascinating Introduction in the form of a biographical essay by Professor Alex Calder. The book gives a grueling insight into the horrors of WW1. It is splendidly written, based on Aitken's phenomenal memory, many years after the War. It was so highly regarded that it earned him a Fellowship in the Royal Society of Literature in 1964. Even more remarkable is the fact that he became a Fellow of the Royal Society of Edinburgh on the basis of his early statistical work and was admitted to the fellowship in 1924 prior to submitting his PhD thesis at Edinburgh. His thesis on the "Smoothing of Data" was seen as so impressive that he was awarded a DSc.

His extraordinary memory (e.g. reciting the first 1000 places of Pi, the 96 recurring digits of 1/97, and had memorised Virgil's epic Latin poem *Aeneid* while a student at Otago Boys' High School) proved both useful and devastating. In a dazed and injured state in the trenches when half the platoon had been blown away, he was able to recite the names of all 56 soldiers, their regimental number, the number of their rifle and their next of kin. But his "inability"

to forget left him haunted by the memories of war, which subsequently had a detrimental effect on his mental health. He drew some consolation from his outstanding ability as an amateur violin player.

As economists we are not always inclined to leave our keyboards and data sets and venture into the real world, talk to real people and address real issues. A notable exception is an economist for New York University whose main research interest has been centered on risk.

**Allison Schrage** is a financial economist whose early work focused on the economics of retirement. In particular how individuals manage the risks associated with uncertain longevity, health status and returns on savings. She has developed retirement planning software under the supervision of Nobel Laureate Robert C. Merton, and is a partner and co-founder of the financial advisory firm Lifecycle Finance Partners.<sup>2</sup>

In an effort to understand how risk is managed in a variety of settings the author spent time in various institutions. The result is ***An Economist Walks into a Brothel and Other Unexpected Places to Understand Risk*** (Portfolio/Penguin, NY, 2019). The reader is given five principles for dealing with risk and then offered interesting cases of risk taking including by yes, sex workers, Kentucky horse breeders, a war general who led troops in Iraq and professional poker players.

By hanging out in brothels, among big wave surfers, and with celebrity paparazzo photographers Schrage identifies that:

*"What all of these people have in common is that they need to manage high levels of risk. To manage risk, it must be visible, understood, and priced. Legal brothels manage risk for both sex workers and customers. The high prices charged by establishments such as the Moonlite Bunny Ranch in Nevada provide protections against arrests (and loss of privacy), disease, and violence."*<sup>3</sup>

Readable, accessible and entertaining books on economic issues don't come much better than this one.

<sup>1</sup> University of Otago Magazine, Issue 48, Autumn 2019, p. 37.

<sup>2</sup> <https://www.lcfpartners.com>

<sup>3</sup> <https://www.insidehighered.com/blogs/technology-and-learning/higher-ed-risk-and-economist-walks-brothel>

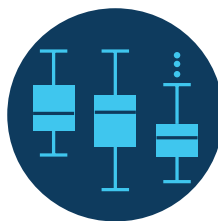
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