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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).

CONTENTS

EDITORIAL

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

It's been a tough year; we'll all be glad to see the back of it. But at *Asymmetric Information* your production and editorial team has been labouring to make up for it with a bumper final edition.

It has a bit of an Arthur Grimes flavour, as not only is he the subject of the long interview (he is interviewed by your editor John Yeabsley), but he has produced a fascinating review of a new book that draws on demographic insights to set out a different future. Not to be missed.

The AG theme is counterbalanced by the GS side; Grant Scobie's 2 B RED column featuring Australiana is as usual quirky and captivating. But, in addition, Grant has produced a one off: a piece that weaves a story of New Zealand's greatest economist into a 'what might have been' tale. See what you think.

The short interview consists is with University of Auckland Prof Robert MacCulloch another who took a roundabout course to becoming an economist.

Paul Walker's Blogwatch salutes another couple of eminent figures in the economics profession who have ended their careers but spreads widely for the rest of his survey: from light houses to medieval indulgences and beyond. Great stuff.

Weshah Razzak discusses a book many will find interesting and this issue's Research in Progress comes from Lincoln University.

We include an announcement about the WAEI Conference.

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.surveydesign.com.au.](http://www.surveydesign.com.au)

AN INTERVIEW WITH ARTHUR GRIMES

by John Yeabsley

Q: Arthur, how did you come to economics?

A. I grew up in a politically aware household. My father had been very involved in politics from a young age in South Africa. Joe Slovo, later head of the armed wing of the ANC, was introduced to the Communist Party through my uncle and so I came from that background where politics was always of interest. When I left school, I was either going to be a musician or a politician, and I played too much music in my last year at school, so I ended up studying economics instead.

The reason I did economics, even though I was interested in politics, was because even at that age I realised one couldn't understand sensible political solutions unless one understood how the economy worked. Unfortunately, too few politicians have come to that realisation. It was because of my interest in politics that I got into economics.

Q: How did it fit into your education?

A. I was very lucky. In my last year of school, 1974, I had one of the few economics teachers who had a degree in Economics, Bruce Jones. He was Australian and he was in New Zealand trying to get into our Commonwealth Games team because he couldn't make the Australian one. That was a slice of luck, and he really inspired me.

I then went to Waikato University to study a social science degree majoring in economics. I had teachers like Brian Silverstone and John Ward – plus a sociologist, David Bettison – who taught me to think critically about the subject of economics. Tony Endres (later University of Auckland professor) was a fellow student.

Despite now working in a Commerce faculty, I tell every young person coming from school who asks me about studying economics that they should study it within an Arts degree. They can then study economics plus other social sciences (which are critical to understanding economics), and you can do far more maths in an Arts degree than you can in a Commerce degree because of fewer course restrictions. You can come out with a good Econ and Maths degree with social sciences included. That's the best possible training for an economist.

Q: What was the most important part then of your economics education?

A. I joined the Reserve Bank in 1979. Grant Spencer was head of the Research Section. He had recently come back from LSE. Rod Deane was Chief Economist. Having two fantastic economists like that to learn from was wonderful, and it shows the importance of strong top-level mentoring and leadership in public sector economics.

After my first year I had to go along as a 21-year-old, to Rod Deane, who was an imposing figure, and say very sheepishly, 'Um, Rod sorry, I have to leave, I have to resign,' and he said, 'Why?! You've had a very good first year – why on earth would you do that?' And I said, 'Well I've decided to go and study Music full time.' And to my eternal thanks, Rod said to me, 'Well, that's a great thing to do.' I thought he was going to lambast me. But he said, 'You don't have to leave. I'll tell you what. You stay in the Research Section, work whatever hours you want. Just record them. We'll pay you by the hour. And at the end of your studies, you decide whether you want to be a musician or an economist.' I guess he understood maximising pretty well.

After a year of music school full time, I decided that playing music ceased to be enjoyable when it was a job and I've played as an amateur (or a lowly paid professional) ever since. But I went back to economics and back to the Bank.

For development, the Bank was fantastic. In 1984, they paid for me to go to the London School of Economics to do my PhD. I was Head of the Research Section, but I didn't have a doctorate so they sent me there to study.

Q. How did you get into the Bank in the first place?

A. In those days, it was fairly relaxed. Peter Nicholl, Deputy Chief Economist, visited Waikato. I thought, I might as well see him. I wandered along; we had a chat. He said, 'Keep in touch.' I thought, that's nice. I was intending to become a junior lecturer the following year, at Waikato. But he offered me a job out of the blue, and I thought, why not? So, I came to Wellington. No psychological tests or that rubbish. It was just, 'yeah, you look like you're a good fit – come join us.'

Q: Working in the Bank and doing research, what do you think's important about that work?

A. Well, by the time I went to LSE, I had a good intuitive understanding of the macroeconomy from working on the econometric model. I had to understand the monetary sector, fiscal policy, international trade, prices, and also had to understand the labour market. One of my first major papers was a model of the New Zealand labour market, which the Bank is now rediscovering they must look at.

One thing which stood out at the Bank was that the people who rose to the top often had come through the research side and had a deep understanding of economics. When I was Bank Chair, I had a PhD, the Deputy Chair was Hugh Fletcher, one of the brightest economists to come through Auckland University, the Governor was Alan Bollard, with a PhD, Grant Spencer had a math econ Master's from LSE, and John McDermott had a Yale PhD. It was so important to have that depth of experience and understanding. The public sector needs that same depth to be able to deal with the difficult, complex problems we're facing.

Q: Looking back at that era, would you do anything different now?

A. I left to go to LSE on election day 1984, 14 July. I cast my vote against Muldoon and left. That was an extraordinary period, just studying with these amazing people – Chris Pissarides, my supervisor, went on to win the Nobel Prize. (I realised only then that I should have included him as a co-author on one of my published thesis papers!) Others included Charles Goodhart and Mervyn King, both of whom I've kept in touch with.

The intellectual milieu at LSE was unbelievable. I had won prizes and could have stayed on as an academic in the UK, but for various reasons my wife and I came back to New Zealand, where the intellectual climate was not as vibrant.

But I don't regret returning - New Zealand's a fantastic place. It's a cliché, but we had kids straight after that and it's a great place to bring up kids.

Q. So you come back from LSE, go back to the Bank. Then the last 30 years unfolds….

A. That was the time of Rogernomics. I was on a team with Peter Nicholl and others to design the new Reserve Bank Act – what could be better. I was influenced by the new time consistency literature, part of my course at LSE. So, we designed the Reserve Bank Act around the concept of making monetary policy time consistent.

We were facing huge reintermediation, so we couldn't follow Friedman's idea of monetary rules. Interest rate targeting was out for various reasons, so we needed something new. It was a sudden insight one day: let's not target monetary aggregates or interest rates – let's just target the outcome: inflation. Have a clear inflation target with discretion around the instruments.

In 1992, when we were still new to inflation targeting, I had a four-month sabbatical at the Federal Reserve San Francisco. I was asked to present a seminar at Stanford on inflation targeting.

In the audience of about 30 were Friedman, Taylor (Taylor Rule), Sargent, McKinnon, etc. I'm thinking, these guys are going to slaughter me. I'm here, talking about something completely new that is very different to what they recommend. I'm not normally nervous when speaking, but I was unbelievably nervous. To my surprise, it got a very good reception.

A few weeks later, I was invited to a small invitation-only session at the Federal Reserve with the Deputy Governor of the People's Bank of China, the President of the San Francisco Federal Reserve, Milton Friedman and myself. After a 20-minute introduction by the Chinese Deputy Governor about the problems of monetary policy in China, I could see Milton Friedman trying to get a word in. The chair said, 'No, Milton, just wait.' In the end, he finally turns to Friedman and says, 'Professor Friedman, what have you got to say?' Friedman looks at the distinguished Chinese visitor and says, 'Your problem is the same as America's – too much socialism!'

The room went silent. But then Friedman said, 'I can understand why you wouldn't want to target monetary aggregates given the problems you've got with your financial system. If I were you, I would follow New Zealand's example of inflation targeting.' I thought wow, that's pretty amazing.

I came across Friedman at other times on that trip. His was the sharpest mind I had ever come across. You don't have to agree with him or disagree with him, but you know when you're in the presence of somebody with an extraordinarily sharp mind.

Q: Do you prefer research to consulting, to teaching?

A. I've spent time in the private sector. I left the Bank in 1993 and went to the National Bank as Chief Economist and then had two years as Chief Executive of Southpac Investment Management. But I realised that being a chief executive is not my forté. The private sector was fine financially, but I didn't get any non-pecuniary benefits from it. I went to the Institute of Policy Studies at Victoria University, now IGPS, for four years, before joining Motu and at various times since I've been adjunct professor at Auckland, Waikato and Victoria. Now I'm full professor, half time, at Victoria.

I love research and I've always said people pay me to do my hobby. Economic research is fantastic. But I also like policy and I did that for years. After I left the Bank, I went back as Chair of the Board for 11 years and on the FMA board for seven years.

Public policy interests me, although I'm pleased to be out of the public sector now. I enjoy teaching. I teach mainly Master of Public Policy students and some undergrad and have some very good graduate students. I'm at the stage of my career where I think I've got experience, maybe some wisdom, so I can help these young, sharp people to develop their skills. And hopefully, use my experience to help them avoid pitfalls I've fallen into.

Q: What influence has your current role had on you?

A. My role at Victoria University is Professor of Wellbeing and Public Policy in the School of Government. I'm also senior fellow at Motu Research. Wellbeing economics is fascinating. I got a Marsden Grant via Motu to look at wellbeing economics, with Les Oxley and Robert MacCulloch. Remember I wanted to get into economics to make people's lives better. The wellbeing focus means I look at how people can improve their lives and how public policy can improve people's lives. In economists' language, we think about people maximising their utility, i.e. their subjective wellbeing; so, wellbeing economics is firmly rooted in what economists have been looking at for a couple of hundred years.

Q: Has New Zealand's economic history played a role in your ideas?

A. I do some work in economic history including looking at how New Zealand's infrastructure and cities have developed over time. (Dave Maré, at Motu, has been a big influence on my understanding of urban economics.) One of the signs of a city's success is its population growth. It's a revealed preference measure – people voting with their feet.

We've compiled datasets of New Zealand populations of cities and towns from 1890 onwards and looked at how infrastructure and housing interact with population growth. It's important to understand economic history to understand current economic issues and not to repeat the same mistakes.

Q: What aspects of economics work have you found the most satisfying?

A. The Reserve Bank Act in 1989 and the work that went into that was incredibly satisfying, because it meant I could apply the ideas I learnt in my PhD training, to a real life complete redesign of an institution. It was also great to see these innovations being copied by many other countries including the UK (after a long discussion I had with Mervyn King, then at the Bank of England, while attending a conference at the Reserve Bank of Australia in the early 90s).

I like thinking outside the square on economic issues in case there's something we have missed previously. Recently, I presented work to a trans-Tasman productivity commissions conference demonstrating that the oft-stated angst about our productivity performance is misplaced. New Zealand has actually been a high performer for over 25 years when we look at better measures.

While New Zealand's done pretty well, I think we could have done better. There is a lack of deep economic expertise amongst the official advisors to Government; politicians are not getting the necessary hard-nosed advice from economists telling them the way things are and could be, as opposed to telling them what they want to hear.

Q: What do you think about young Economics graduates today?

A. I've supervised dissertations at Waikato, Otago, Auckland and Victoria. Almost every one of the students has been fantastic. Quite a few of my publications in recent years have been joint publications with my students, because the work has been so good, and they've been wonderful to work with.

Q: That's inspiring. Tell us about your adventures with New Zealand Economic Papers.

A. I've recently had two papers accepted for 2020 or 2021. It struck me that this is my sixth (!) successive decade of having papers published in *New Zealand Economic Papers*, from the 1970s (1979) onwards. I was pretty chuffed about that when I realised.

I had a period when I was President of the NZ Association of Economists and co-editor of NZEP with Gail Pacheco - Gail was the dominant editor and I helped her. One of the things that we've done with the journal is to encourage our keynote conference speakers – especially the Distinguished Fellows – to write a paper for the journal, which could be a survey paper. Survey papers are valuable because people are going to read and cite them. It's a great way of lifting the journal's standing, and it's been very successful over the last few years.

Q: Any final thoughts?

A. Wellbeing economics has grown hugely throughout the world. My old teacher at LSE, Professor Lord Layard, who taught me Labour Economics, is now one of the leaders in this field. So too is John Helliwell, who was one of the founders of the Reserve Bank model with Rod Deane. Other leading lights include Nobel prize-winners Deaton, Kahneman, Sen and Stiglitz.

It's fantastic being involved with this international community of scholars. I'm now co-convenor of the World Wellbeing Panel, where wellbeing experts from around the world answer surveys every two months on aspects of wellbeing. The panel includes economists, sociologists, philosophers and psychologists. The involvement of top-notch economists in this field shows that our profession is working out that economics isn't just a dry, technical subject – it is actually there to make people's lives better. ■

THE FIVE-MINUTE INTERVIEW WITH … ROBERT MACCULLOCH

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

   I decided that a career in economics would be a good thing after a year spent in my first job at the Reserve Bank of NZ in Wellington.

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

   Two events influenced me. First, when I was working at the Reserve Bank in the late 80s, I read an article by a staffer that said something like *"it's good unemployment is going up since that will help put downward pressure on prices and enable the RBNZ to fulfil its' mandate more easily"*. I hadn't studied economics before and didn't know what he was on about. I thought *"What a weird thing to write? How can that be? What about those poor unemployed people?"* I wanted to study this crazy subject to make some sense of it.

   Second, in 1984 when I started at Auckland University, most people interested in business and government did a B.Com in accounting or a law degree. So, I did the former, together with a BSc in maths. I'd barely heard of economics. My parents didn't know what economists did. Many Kiwis still don't know. Our Ministers of Finance back then, Rob Muldoon and Roger Douglas, were accountants. Accounting and law were - and continue to be – the way into much of business and government in this country. Those professions dominate many of our corporate boards, probably another reason why productivity is low in NZ. However, one day I got chatting to a mysterious stranger at the University who was cool. He spoke other languages. He was doing economics courses. He told me that many economists had huge influence and status in America and Europe due to the importance these places attached to the subject. I did not know that – and it's true! To hear economics was a big deal overseas whereas its relative lack of status in NZ was just a cultural feature of our little island was a revelation to me.

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

   A History of Economics by John Kenneth Galbraith.

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

   I had a group of accounting teachers in Auckland who helped me gradually move from accounting to finance, from where I made the jump into studying economics overseas. David Emanuel, Jilnaught Wong and Jerry Bowman were excellent teachers, as well as being good and kind hearted to me.

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

   It may sound corny, and I don't want to give him even more fame, but I confess to being interested in Greg Mankiw's views. His textbook on Macroeconomics is a great read. When I started at University, there was no intermediate level textbook with the clarity of that one. Many starter textbooks were rather confusing and made it hard to break the ice and get into the subject. Because he knows how to teach well, Greg is also able to communicate his views on almost every topic with a great deal of clarity.

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

   I'm proud of writing "Preferences over Inflation and Unemployment: Evidence from Surveys of Happiness" which estimated a social welfare function defined over inflation and unemployment using well-being data. It meant that I could finally make sense of what that RBNZ staffer was on about a decade earlier who had been so keen to achieve price stability.

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

   The rise of China. Ironically, China never got mentioned, not once, during all of the classes that I took in economics in the early 1990s. At that time, Communism in Eastern Europe was collapsing. The biggest names in world economics convinced themselves and others that regimes not built around democratic freedoms would never be able to make laissez-faire capitalism work. The fall of the Soviet Union appeared to offer proof. They all assumed that as China moved to free markets and international trade, democratic reforms would occur. How wrong they were.

   I regard this mis-judgment made by the glittering hierarchy of "big names" in economics, many of them who are still regularly in the news giving opinions on practically everything, shows the severe limitations of their knowledge. It partly occurred since "modern" economists know little about how politics works. Our subject used to be called "political economy" - splitting it into "political science" and "economics" unleashed a large number of "political experts" who know little about economics and a large number of economists who know little about the political process. Maybe these two subjects should be merged again?

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

   Spending time with non-economists. I have always loved economics. It is a wonderful subject. But economists are not typically the easiest people to be around, including myself. They can be incredibly harsh on each other's works. Many focus too much on the technical aspects of a paper and very little on the originality and importance of the idea. The harsh culture of the academic subject may even be a reason why women are under-represented in most economics faculties around the world. After writing an economics paper, one must brace oneself for a whirlwind of criticism. So hanging out with non-economists is usually more relaxing.

IF BILL PHILLIPS WERE GOVERNOR....?:

Grant M Scobie[1]

There would hardly be a student of economics most anywhere who had not heard the name Phillips. That name is immortalised in the so-called "Phillips Curve." Equally remarkable, is that probably less than one percent of those familiar with this diagram would have the slightest idea that A.W.H. Phillips was a New Zealander.

But we can but be grateful to another New Zealander, former RBNZ Governor ***Alan Bollard***. Alan has been a long-standing student of Phillips, and his latest work is ***A Few Hares to Chase: The Economic Life and Times of Bill Phillips***[2]. As the subtitle suggests, the book is in two parts. The first covers the extraordinary life of Phillips from his growing up in the rural village of Te Rehunga near Dannevirke[3], through his travels to Russia and China, and to the horror of his time in a Japanese PoW camp when captured in Singapore while serving with the RAF in WWII. The second part is a synthesis of the substantial contributions Phillips made as an economist at the London School of Economics and Political Science.

This note is a complement to the second part of Bollard's book. It addresses the question: to what extent are those contributions of Alban William Housego Phillips relevant to macroeconomic modelling and policy formation today?

Phillips' work can grouped into four broad areas:

- Inflation and Unemployment
- Dynamic Stabilisation and Optimal Control
- Economic growth
- Econometrics

In addition, he conducted research on the Chinese economy.

Inflation and Unemployment

Much of Phillips' work was focussed on building models that would illuminate policies aimed a real problems face by decision makers. Not the least of his accomplishments was the design and construction of a hydraulic machine, the *Monetary National Income Analogue Computer* (MONIAC). This essentially solved a set of differential equations to describe the dynamic path of an economy in response to policy changes. For those readers, not familiar with the machine, an example is now (thanks in large part to Alan Bollard) on permanent display in the Reserve Bank of New Zealand Museum, at The Terrace in Wellington. It is one of the few operational versions still in existence.

A paper published in 1958[4] contains an empirical analysis of inflation and unemployment, and it is this that has become widely known as the "Phillips Curve." Virtually every contemporary macroeconomic model contains some variant of a Phillips Curve. Following the work of Friedman and others, a series of expectation augmented Phillips Curves evolved, a development presaged by Phillips himself.

Dynamic Stabilisation and Optimal Control

Phillips recognised that policies derived from comparative static policies failed to reveal the time path of the target variables, may cause the system to become unstable, and at worse might give rise to undesirable fluctuations. He devoted much attention to the implications of alternative control mechanisms. This work was further developed by subsequent scholars.

Of particular note is the work of John Taylor. In a series of papers, he developed and elaborated on an approach to monetary policy that became known as the Taylor Rule. It differed from earlier rules, in particular a monetarist rule, which was based on a steady and fixed growth rate of the money supply. Rather, it viewed the key policy instrument for counter-cyclical monetary policy as the short-term nominal interest rate. This was seen as depending on the extent to which inflation and output deviated from their desired or structural levels. It is immediately apparent that this rule has strong antecedents in the Phillips Curve in which inflation was a function of either the level of some measure of economic activity (output or employment) or the deviation of that level from a benchmark (eg the natural rate of unemployment or the NAIRU.) In fact, once monetary policy had moved on from its focus on the growth rate of the money supply, the Taylor rule became the primary operational framework for central banks, highlighting again the underlying contributions of Phillips to contemporary policy making.

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This note is a summary of a much longer piece with the same title published on the website of the Chair of Public Finance at VUW (WP04/2020—If Bill Phillips were Governor... some implications of his work for contemporary macroeconomic policy). I am indebted to Brian Silverstone, Bob Buckle, Alan Bollard, Arthur Grimes, Adrian Pagan and John McDermott for their considerable guidance and suggestions which led to a much improved paper.

[2] For those who might be wondering about the source and meaning of the title, it is from a comment made by Phillips when, on his 60th birthday, colleagues presented him with the draft of a book in his honour. With characteristic humility, he observed: "I did not do very much. I just put out a few hares for other people to chase."

[3] The author has an extremely modest (tenuous?) connection to Phillips - we are both alumni of Dannevirke High School and we lived about 0.5 km from each other in adjacent suburbs (Curtin and Lyons) in the Woden Valley of Canberra in the 1960s.

[4] AWH Phillips (1958)"The relation between unemployment and the rate of change of money wages in the United Kingdom, 1861-1957." Economica 25 (100):283-299. In recognition of the 50th anniversary of the this publication the NZ Association of Economists held a major international symposium (https://www.nzae.org.nz/events/nzae-conference-2008/).

Economic Growth

A central theme of Phillips' work had been to identify appropriate policy intervention in order to achieve a level of unemployment without risking accelerating inflation. He then went on to incorporate economic growth, developing a model that would address both the problem of reducing short-period fluctuations of an economy and the problem of attaining longer-term objectives relating to employment, the price level and growth.

A central element was the concept of 'normal capacity output'. This was the critical piece that allowed Phillips to address both stabilisation and growth. The difference between the actual output and the normal capacity output constituted what became to be called an output gap which is integral in the Taylor rule. The rate of inflation was then driven by the magnitude of the gap. Normal capacity output would grow over time as a consequence of investments made to improve the productivity of resources.

The resulting model generated steady or equilibrium growth paths. In addition, short-term deviations from those paths provided a means to explore both the stability of the system, and at the same time analyse the effectiveness of stabilisation policies. While the stability of the model could be explored using different assumed values for the key parameters, Phillips concluded that for practical application of models of this type to actual policy making, there would be a need for extensive work on empirical estimation. In fact, Phillips himself did pioneering work on methods of estimation, and his modelling of stabilisation and growth laid the foundations for further developments.

Phillips addressed the question of whether any increase in unemployment associated with policies to control inflation might be prejudicial to overall economic growth. He argued this was unlikely and stressed that economic growth depended on the willingness to save, and enhanced productivity through such factors as education and research. Incidentally, his reference here and elsewhere to the role of human capital predated the Beckerian revolution.

This work initiated a class of working applied models referred to as the Bergstrom-Wymer[5] models. These were dynamic disequilibrium models which synthesised both real and monetary phenomena, and cycles and growth; their intellectual origin lay in Phillips' models of growth.

Econometrics

Not the least of his wide-ranging contributions that endure today was Phillips' development of a new field of research on continuous time econometric modelling and statistical inference. However, the development of continuous time dynamic models ran up against a major limitation.

Solving systems of simultaneous equations in discrete time was challenging enough given the limited computational capacity of that time. But estimating a model of non-linear simultaneous equations in continuous time was simply not feasible. To that point most econometric work had been built on discrete time data (quarterly or annual observations). Phillips was able to demonstrate the use of discrete time data in order to restrict a continuous time model.

The development of dynamic models as systems of differential equations provided the foundation for explaining cyclical deviations in economic performance. Critically they provided way to explore alternative control mechanisms designed to stabilise the system.

In the job

If Bill Phillips were Governor…. He would have met with the Minister last week and signed the Policy Targets Agreement which he wholeheartedly endorsed. On the first day in office he would listen to his advisors from the senior management team who would lay out the challenges facing the Central Bank in formulating monetary policy at that moment. He would be appraised of the current performance of the economy as captured in the main indicators and their trends. He would learn of the current institutional arrangements for monetary policy. And he would ask about current fiscal policy.

On the second day he would refresh his memory and reread a selection of the key papers he wrote 60 or more years ago. In addition, he would review the subsequent contributions by his intellectual grandchildren who had built their work on a Phillipsian foundation. On the third day he would use the frameworks and models set out in those papers and their descendants to determine a way forward. In particular he would have been concerned with threats to financial stability arising from the many shocks to the global economy (GFC, Covid-19) and the implications of climate change. Before lunch, his Executive Assistant reminded him he had a meeting of the Monetary Policy Committee, later that day. He would (with his customary humility) make a suggestion to the Committee.

In short, the MPC, with its usual rigour, vigorously debated his proposal; but finally had no hesitation in accepting and endorsing his policy recommendations, recognising the solid foundations on which the Governor was drawing. ■

[5] Of course, both Rex Bergstrom and Cliff Wymer were also eminent New Zealand economist/econometricians.

BOOK REVIEW

By Arthur Grimes
Motu Research; and Victoria University of Wellington

The Great Demographic Reversal: Ageing Societies, Waning Inequality, and an Inflation Revival

Charles Goodhart and Manoj Pradhan

Publisher: Palgrave Macmillan (2020)

Charles Goodhart and Manoj Pradhan (G&P) examine the effects of demographic change and developments in globalisation on economic outcomes. Goodhart (Emeritus Professor at London School of Economics) will be known to many economists as one of the foremost thinkers on monetary policy since the 1960s; he is also well-schooled in economic history. Pradhan, a former Managing Director of Morgan Stanley, is the founder of independent macroeconomic research firm Talking Heads Macroeconomics, based in London.

The Great Demographic Reversal is a 'big picture' work that takes a global, rather than country-specific, standpoint. It is targeted towards those who wish to understand the underlying drivers of major macroeconomic developments. There have been prior examinations of the importance of demographic changes on global economic and financial outcomes. For instance, Mark Perlman, in reviewing Louise Russell's 1982 book, *The Baby Boom Generation and the Economy* (Brookings), noted:

"Changes in national population characteristics including aggregate numbers, age and sex divisions, educational and labor force participation characteristics, as well as age-specific life expectancy have long been the stuff upon which much macroeconomic analysis has been based. Cantillon and Steuart, to say nothing of Smith's comments about the extent of the market, all lead back to the same concern – the relationship between population change and macroeconomic performance." (*Journal of Economic History*, 44(1), 224-226, March 1984.)

However, too few economists today consider the importance of these demographic drivers. This reviewer, for instance, observes that many analyses of current account balances erroneously ignore demographic differences across countries.

G&P argue that a large demographically driven expansion of the labour force has contributed strongly to deflationary pressures over the past 30 years. The demographic expansion has been exacerbated by the effects of increased globalisation, especially through the rise and increased openness of the Chinese economy. In 2004, China accounted for 8.7% of world manufacturing output; by 2017 this share had reached 26.6%. The authors estimate that the effective labour force for the world's advanced economy trading system more than doubled between 1991 and 2018.

The authors predict that the demographic forces (including baby boomers and increased female participation) that gave rise to this increased labour force will now stabilise or reverse across the world. They also predict that the age of increasing globalisation has come to an end. These massive changes will have profound effects on many economic outcomes including real wages, inequality, fiscal positions, inflation and interest rates.

The economic effects of the increase in the labour force and integration of the Chinese economy into the world trading system have been accentuated by the rise of labour saving technologies. The result has been a decline in the real return to workers, other than for highly skilled workers whose skills are complementary to the new technologies. For many workers in developed countries, wages have hardly risen while wages for highly skilled workers (and those who have been able to exploit the globalised economy) have risen sharply. The rise in inequality has been one consequence of these trends. A reduction in the bargaining power of labour, that has resulted from the demographic expansion, has led to a reduction in the natural rate of unemployment and to low rates of inflation across the developed world over the past three decades. Low inflation and the need to save for retirement by an ageing workforce has resulted in low nominal and real interest rates.

The authors argue that these demographic trends are now reversing sharply so that in many parts of the world we are currently, or will shortly be, witnessing a decline in the labour force. This reversal is particularly pronounced in East Asia and Europe; we are witnessing a similar reduction in fertility in New Zealand. Meanwhile, a global trend towards greater nationalism – spurred, in part, by wage stagnation and increased inequality consequent on the demographic expansion – is causing a reduction in globalisation. The result is that labour will once again increase its bargaining power as labour shortages arise and competition from abroad reduces. Real wages will rise and inequality will reduce as a consequence.

How does all this tally with predictions of an increase in unemployment due to the rise of artificial intelligence (AI) and other new forms of technology? The authors argue that the labour market impacts of demographic reversal will outweigh those emanating from technological trends. They point to an inexorable rise in the demand for workers to service the elderly. G&P's excellent chapter on dementia makes for sobering reading. Dementia does not limit lifespans but it does increase costs of caring for the afflicted. Rates of dementia are forecast to increase sharply. By 2037, approximately 4% of Japan's total population is forecast to have dementia (compared with 2.3% now); New Zealand's rate is forecast at 2.2% in 2037 compared with 1.3% now. Globally, 50 million people lived with dementia in 2015; this figure is forecast to rise to 152 million in 2050.

The rise in the number of the elderly reliant on care provides a strong counterweight to the contention that there will be a reduction in the future demand for workers. The pressures caused by growing numbers of people with dementia and other age-related conditions means that there will be added pressures for health-related fiscal expansion. These pressures will be exacerbated by the greater prevalence of older people in the electorate within democratic countries who will vote to direct resources to themselves. Globally, in 2015, one in eight people were aged at least 60 years; by 2030 this proportion will have risen to one in five, and the fastest growing age group is those aged over 80 years.

Concurrent with these demands for increased fiscal expenditures to service the elderly, the workforce will be declining. In advanced economies, the dependency ratio (i.e. the ratio of those in the 0-14 and 65+ year age groups relative to those who are 15-64) is forecast to rise from around 50% in 2010 to almost 70% in 2040. The global dependency ratio is also on the rise.

The result of these trends is that taxes will have to increase. The authors analyse four possibilities for increasing taxes: a land tax (that finds favour with this reviewer); a carbon tax (ditto, though, if successful in reducing carbon, it cannot be a long term contributor to meeting taxation needs); changes to corporation tax (especially to ensure that large corporates pay tax where their sales actually occur); and a destination-based cash flow tax for corporates (essentially a value added tax that makes firms indifferent between equity and debt financing). The last of these taxes is designed to assist a deleveraging of the economy which the authors regard as important given the projected increase in interest rates that will otherwise place financial (and corporate) stability at risk.

The fiscal pressures that will arise from the demographic reversal lead the authors to argue that monetisation of the increased fiscal debt is likely to occur. They expect many central banks to experience reductions in independence through either explicit or implicit pressure from governments that are racking up greater debts now and into the future.

The reversals in the trends that the authors outline are definitely believable. In particular, the demographic trends are almost certain to occur. The globalisation trends are more speculative as they could be driven by short-term nationalistic outbreaks that could reverse, but they too may pan out as the authors predict. The posited effects of these trends on wages, inequality, inflation, interest rates, fiscal expenditures and taxation are also believable. However, these impacts not only rest on these trends occurring but also on a lack of countervailing forces to offset their effects.

G&P address several potential countervailing trends. One possibility is that integration of India and of the African economies into the global economy will replicate the effects of China's integration over the last 30 years. In contrasting India with China, however, G&P point to India's poor systems of administration and governance. They argue that this means a globalising India will not have the same powerful effect on economic outcomes as the world has experienced following the expansion of the Chinese economy. With respect to Africa, they note that the continent is not a single economy; it is a fragmented group of economies many of which also lack administrative capacity. Consequently, they do not expect India or Africa to play the same role that China has played in effectively enlarging the global workforce.

Many advocates of the fourth industrial revolution argue that, contrary to the authors' thesis, the future will be dominated by the rise of AI and robots at the expense of human workers. This premise formed the backdrop to the *Future of Work* discussions prior to the last election in New Zealand. G&P argue that these technological forces will not reduce the demand for labour in any substantive form; indeed, they argue that automation is a global complement for labour, so labour demand could even increase. Furthermore, machines are unlikely to take the place of humans in caring for those with dementia and other age-related problems.

The balance between the forces that may replace labour and the forces that will require extra labour provides the crux of whether the authors' thesis proves to be correct or faulty. This reviewer is sympathetic to the view that the fourth industrial revolution will not lead to a demise in labour demand. However, I anticipate that those who expect AI to lead to substantial replacement of labour, with widespread unemployment, will not see enough in this book to dissuade them of their view. There is nevertheless a richness of information that will make any reader – no matter what their initial persuasions – think deeply about the importance of demography for future economic outcomes.

The book is important in that it focuses on great issues that are evolving before our eyes: demographic change, technological change, and changes in globalisation. (Climate change is discussed briefly but is not the focus of the analysis.) These great trends are critical for economists and others to focus on if we are to understand the likely economic forces that policymakers and ordinary people will have to cope with over coming generations.

Postscript

The book was written prior to the onset of the Covid pandemic. However, the authors managed to include a brief postscript examining the force of their arguments in the context of the pandemic. They argue that the impact of the pandemic will be to accelerate the trends they outline. In particular, they see an intensification of the move towards greater inward-looking policies of China (and the US). They also see even larger scale issuance of government debt than they initially anticipated which will further increase the chance of a resurgence of inflation and a rise in interest rates. The governmental responses to the pandemic, which they consider appropriate given the health concerns, amount to a large-scale self-imposed supply shock which reduces output. Prices will rise if, as they expect, central banks move to accommodate the fiscal easing and large-scale debt issuance. Indeed, subsequent to the book's publication, we have seen the US Federal Reserve's pronouncements that they will allow inflation to rise; other central banks have made similar statements. The result will be that savers will lose even more of the real value of the savings than the authors predicted when writing the core of their book. ■

FROM THE 2B RED FILE

by Grant M. Scobie (grantmscobie@gmail.com)

In writing this column I have generally tried each time to offer "something for everyone;" in short, a selection of books I have found interesting, informative (even quirky or entertaining) from which a reader might find something that catches their eye. At which point the dedicated reader of this column (assuming there are some!) makes a note of the reference and then tries to find the piece of paper with it written on when next they are connected to Amazon or Book Depository or Fish Pond. I tend to favour Amazon as increasingly I buy almost everything in Kindle form – a great way to travel with a couple of hundred books.

But enough of this diversion. The present column departs from the usual model. It has a largely Australian history theme and includes a number of books by one author! So if historical dramas from the West Island are not your bag, stop now!

None of the books I have chosen are about economics per se. However as is so often the case, much of human behaviour is a response to incentives, so pretty soon we are in familiar territory. And to a greater or lesser extent each of the following books has aspects that an economist would find interesting. The author, ***Peter Fitzsimons*** [1]is an Australian journalist (Sydney Morning Herald), historian, broadcaster and writer. Since he published his first book in 1991, 35 more have followed (which with a modicum of arithmetic, suggests a prodigious 1.8947 books per year!).

Incidentally he played rugby. "Between 1985 and 1989 he played with CA Brive in France for four seasons as the club's first foreign player. He played seven test matches at lock for the Australian national rugby union team between 1989 and 1990, debuting against France in Strasbourg in November 1989, on the Wallabies 1989 tour of Europe. His final test match was against the All Blacks in Christchurch."[2]

The description in the subtitle of the following book as a "gripping story" is arguably an understatement! If ever an historical account of an event was a page turner, this has to be it. Once started, I am confident you will not put it down. ***Peter Fitzsimons (2012) The Catalpa Rescue: The gripping story of the most dramatic and successful prison break in Australian history*** (Sydney: Random House Australia). As with all of the books by this author included in this column, significant attention is given to the actual historical context. In this case the story starts with rebel groups in Ireland opposing English domination, and seeking to free Ireland from the shackles of their occupiers. Symptomatic of the treatment of the Irish by the English was the view that the potato famine, which killed more than one million people, was a judgement by God to teach the Irish a lesson. The real evil was not the famine, but rather the "selfish, perverse and turbulent character of the people." In short, the English did next to nothing to relieve the suffering from the famine. In the words of Charles Trevelyan, Head of the UK Treasury, the famine was "simply a mechanism for reducing the surplus population." (Clearly the Treasury was not operating within a Living Standards framework!).

Following increased attacks by the rebels of the Irish Brotherhood Movement against English troops and buildings, sixty-two of the leaders were rounded up, convicted of treason and rebellion and shipped to the prison in Freemantle[3] in the penal colony of Western Australia. The remaining rebels decided to attempt to rescue their colleagues from this prison. They spent nearly six years planning the rescue and raising funds from Irish immigrants in the USA, Australian and even New Zealand. This funded the purchase of a ship (the *Catalpa*) and crew which sailed for Western Australia…and the eventual rescue of six of the key Fenian prisoners being held in Freemantle.

It was not long after the establishment of the separately governed colonies in Australia that interest grew in exploring the vast interior of the continent. In 1857 a scientific society known as the Philosophical Institute of Victoria (later the Royal Society of Victoria) established an *Exploration Committee.* It was charged with developing a plan for an expedition and raising the necessary funds. There were various motives for such an expedition ranging from reaching the so called "inland sea," making scientific discoveries, identifying a possible route for a telegraphic cable, discovering grazing lands and not the least, to beat Charles Sturt (who was to be sponsored by South Australia) to be the first to reach the Gulf of Carpentaria.

As the subtitle of our next book suggests the outcome of the expedition was mixed at best. ***Peter Fitzsimons (2017) Burke and Wills: The triumph and tragedy of Australia's most famous explorers*** (Sydney: Hachette Australia). In fact it could reasonably be described as a monumental failure of public policy and was arguably doomed from the very start.

A large fund was raised and this meant the expedition would be well equipped. In reality it was over equipped! On 20 August 1860, the expedition set off from Royal Park in Melbourne watched by around 15,000 spectators. It comprised 19 men, 23 horses, 26 camels and 6 large wagons (three of which had broken down within the first day after leaving Melbourne). All up more than 20 tonnes of food and equipment for 2 years was to be transported. Such "essentials" as a cedar topped dining table and a large Chinese dinner gong were but some of the items deemed necessary by English gentleman explorers.

The man appointed as leader, Robert Burke, had no experience of "the bush" and his lack of leadership and inability to build a team compounded the difficulties of the mission. While Burke and William Wills did complete the 3,250km trek and made it to the Gulf, endless misadventures struck (compounded by mismanagement), and tragically they both died while attempting the return journey. As well as vivid descriptions of

1 I am indebted to my colleague Bob Buckle for drawing my attention to the writings of Peter Fitzsimons.
2 https://en.wikipedia.org/wiki/Peter_FitzSimons#Rugby
3 The prison is well worth a visit next time you are in Freemantle.

the hardships that were faced, the author traces the sequel involving a rescue mission that was sent in the hope of finding them alive, and a major inquiry (which failed to establish any accountability). Despite the unhappy ending Burke and Wills have to this day retained the status of Aussie heroes.

No one could walk along Collins Street in Melbourne today and not be struck by the number of fine buildings and churches dating from the nineteenth century. By 1860 Melbourne was the second largest city in the British Empire and arguably the wealthiest. That wealth was built on wool, then subsequently and more significantly, on gold. The discovery of gold in Victoria in 1851 led to a monumental gold rush and an output of gold as great or greater than from any other country. Initial finds were measured in pounds weight, rather than ounces or grams!

But many tensions arose and there were wide reaching economic consequences. The colonial administration took the position that as this was a British colony, all the land and its resources were the property of the Crown. A compromise was reached whereby miners were required to buy a licence. For a payment of one pound 10 shillings per month paid in advance, the miner had the right to a claim of merely eight feet by eight feet or 64 square feet. The fees for a year would have been eighteen pounds - at a time when the annual earnings of a labourer was some twenty pounds.

In order to enforce compliance the administration needed to send a much expanded police force to the gold fields where, at the peak some 25,000 miners sought their fortune. The governor's response was to seek ways to increase the colony's coffers by raising more levies and royalties in order to meet the added costs. The problem was compounded by the resignation of the already small Melbourne police force as the majority of the them, along with almost every other able bodied male, left for the gold fields. In a futile attempt to stem the outflow the governor offered a 50% increase in police salaries - but it fell far short of the lure of a fortune that could await them!

Melbourne became a ghost town, and inflation was rampant. Prior to the gold rush a four pound loaf of bread cost five pence; in Melbourne this rose to one shilling and sixpence (or eighteen pence) while in Ballarat it cost four shillings, more than an 800% increase!

All these matters are addressed in a fascinating history: ***Peter Fitzsimons (2012) Eureka: The Unfinished Revolution*** (Sydney: Random House Australia). The climax of the book is a vivid account of the Eureka Rebellion. In 1854 the murder of a Scottish miner, one James Scobie (no relation to your columnist that I can ascertain) triggered a series of events that culminated in a major battle between some 12,000 miners and the colonial militia. "It has been variously interpreted as a revolt of free men against imperial tyranny, of independent free enterprise against burdensome taxation, of labour against a privileged ruling class, or as an expression of republicanism." [4]

To round out this sample of the many works of Peter Fitzsimons we can add a Kiwi dimension! While we tend to associate Cook with the mapping of New Zealand, he also spent time on the eastern seaboard of Australia. The following book, ***Peter Fitzsimons (2019) James Cook: The Story Behind the Man who Mapped the World*** (Sydney: Hachette Australia) details Cook's exploration of both countries.

Cook displayed an ambivalent attitude to the indigenous people of both countries. On one hand he was under strict guidelines from the British Admiralty to establish good relations with the natives and treat then with respect. But he at times displayed a certain arrogance, regarding them as inferior, an attitude not atypical of many colonial masters. However, as Fitzsimons notes, Cook was impressed by the skills displayed by the Aboriginal people.

And on that note let me conclude with a book that addresses that very issue and destroys the myth that the Aboriginal people were nomad hunters and gathers. In ***Bruce Pascoe (2018) The Dark Emu: Aboriginal Australia and the birth of agriculture*** (Scribe Publishing) provides extensive documentary evidence of very elaborate systems of land management, dam building, irrigation, crop production, seed harvesting, food storage and preservation, together with fish farming. Sometimes it is very important to revisit history - and this is an outstanding example. ■

4 https://en.wikipedia.org/wiki/Eureka_Rebellion

NEW MEMBERS 2020

Gail Duncan, Ministry for Primary Industries; Graham Squires, Massey University; Laurence Kubiak, NZIER (re-joined).

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BLOGWATCH

By Paul Walker (psw1937@gmail.com)

The development economist Deepak Lal has died <https://www.business-standard.com/article/beyond-business/obituary-economist-and-bs-columnist-deepak-lal-passes-away-at-80-120050100515_1.html>. Ian Vásquez on "Remembering Deepak Lal" <https://www.cato.org/blog/remembering-deepak-lal>. John B. Taylor writes on "Deepak Lal and Market-Oriented Policies" <https://economicsone.com/2020/ 05/01/deepak-lal-and-market-oriented-policies/>. Kurt Leube "In Memoriam Deepak Lal (1940-2020)" <https://ecaef.org/in-memoriam-deepak-lal-1940-%E2%80%A02020/>. Kapil Komireddi on "Remembering Deepak Lal" <https://thecritic.co.uk/remembering-deepak-lal/>.

Assar Lindbeck has also died. Lindbeck is most famous for pointing out a simple fact about rent controls, "In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing." The Institute for International Economic Studies writes "In memory of Assar Lindbeck - 1930-2020" <https://www.iies.su.se/about-us/in-memory-of-assar-lindbeck>. John Hassler and Per Krusell write in memory of him at the European Economic Association website <https://eeassoc.org/>. Lars Calmfors remembers "Assar Lindbeck, 1930-2020" at VoxEU.org <https://voxeu.org/article/assar-lindbeck-1930-2020>.

George Selgin continues this series of articles on "The New Deal and Recovery" at the 'Alt-M' blog <https://www.alt-m.org/>. Part 4 examines "FDR's Fed" <https://www.alt-m.org/2020/07/06/the-new-deal-and-recovery-part-4-fdrs-fed/>. Part 5 covers "The Banking Crisis" <https://www.alt-m.org/2020/ 07/18/the-new-deal-and-recovery-part-5-the-banking-crisis/>. Part 6 examines "The New Deal and Recovery, Part 6: The National Bank Holiday" <https://www.alt-m.org/2020/07/28/the-new-deal-and-recovery-part-6-the-national-bank-holiday/>. Part 7 looks at "FDR and Gold" <https://www.alt-m.org/2020/08/07/the-new-deal-and-recovery-part-7-fdr-and-gold/>. Part 8 reviews "The NRA" <https://www.alt-m.org/2020/08/24/the-nra/>. Part 8 also has a supplement on "The Brookings Report" <https://www.alt-m.org/2020/10/14/the-new-deal-and-recovery-part-8-supplement-the-brookings-report/>.

Timothy Taylor gives us an "An Update Concerning the Economics of Lighthouses" at the Conversable Economist blog <https://conversableeconomist.blogspot.com/>. Taylor notes that "lighthouses have been a canonical example for economists - but what that example is intended to illustrate has shifted dramatically over time". John Stuart Mill, and many economists following him, argued that lighthouses were an area where government action was needed as there was market failure in the provision of lighthouses. Ronald Coase countered this argument in his famous article "The Lighthouse in Economics". Coase "pointed out that however much these earlier arguments appealed to intuition, as a matter of actual historical fact, many British lighthouses in the 17th and 18th centuries were in fact built and run by private companies".

Now Theresa Levitt changes things again by arguing that while Coase was correct in pointing out the role that the private sector played in the provision of lighthouses of the 17th and 18th centuries, changes in lens technology that altered the cost and power of lighthouses acted as an economic change which leads us back to the old wisdom that government provision of lighthouses was necessary <https://conversableeconomist.blogspot.com/2020/07/updates-for-economics-of-lighthouses.html>.

Taylor also writes on "Marketable Pollution Permits and Medieval Indulgences". The title comes from an article written back in 1990 by Eugene McCarthy in which he compared marketable pollution permits as a tool for reducing sulfur dioxide emissions to the sale of indulgences by the Catholic Church in the Middle Ages. Taylor points out, however, that there is an important difference between the two, experience has shown that marketable pollution permits have worked while indulgences have been shown not to have worked <https://conversableeconomist.blogspot.com/2020/07/marketable-pollution-permits-and.html>.

At VoxEU.org <https://voxeu.org/> Asli Demirgüç-Kunt, Michael Lokshin and Iván Torre argue "The sooner, the better: Early lockdowns save more lives and livelihoods". "Many countries have implemented non-pharmaceutical interventions such as lockdowns as a response to the COVID-19 pandemic. While the economic costs of such measures have been recognized, their size and importance have not yet been fully assessed. This column analyses high-frequency proxies of economic activity and suggests that lockdowns led to a decline of about 10% in economic activity across Europe and Central Asia. On average, countries that implemented lockdowns in the early stages of the pandemic are found to have better short-term economic outcomes and lower cumulative mortality" <https://voxeu.org/ article/early-lockdowns-save-more-lives-and-livelihoods>.

At the Stumbling and Mumbling blog <https://stumblingandmumbling.typepad.com/ stumbling_and_mumbling/> Chris Dillow asks, as would any good Marxist, are racism and sexism inherent features of capitalism? And he, of course, says they are. He gives two reasons for this conclusion. First, he contends that "racism fulfils a useful function by dividing the working class and promoting national identity at the expense of class consciousness". Secondly, he argues that "in capitalism those with little bargaining power lose out relative to others - which means that women and migrant workers often get a raw deal" <https://stumblingandmumbling.typepad.com/ stumbling_and_mumbling/2020/08/on-woke-capitalism.html>.

To mark the 50th anniversary of Milton Friedman's influential NYT piece on the social responsibility of business, the Promarket blog <https://promarket.org/> launched a series of articles on the shareholder-stakeholder debate. The basic question is, Is Stakeholderism - the idea that firms should give weight to the interest of all stakeholders, not just shareholders, in their decision making - a good idea? No says Lucian Bebchuk and Roberto Tallarita in apiece at the Promarket blog "Stakeholderism […] should not be expected to deliver its purported benefits to stakeholders. Furthermore, it could well impose substantial costs on shareholders, stakeholders themselves, and society at large, and therefore should be rejected, even by those who are deeply concerned about stakeholders" <https://promarket.org/2020/09/08/the-illusory-promise-of-stakeholderism-why-embracing-stakeholder-governance-would-fail-stakeholders/>.

Marc Painter follows up with a case study on Walmart's 2019 decision to enact some gun control measures in its stores. He argues that "My results highlight how a corporate stance on social issues can decrease the value of a firm to some stakeholders while increasing value for others. Though gun control is a particularly divisive topic, it will be rare to find a social issue where all stakeholders agree. Consequently, businesses attempting to pursue stakeholder capitalism will struggle to deliver equal value when stakeholders have different beliefs" Painter finds that if Walmart's goal was to benefit all stakeholders then "[…] it is difficult to see the new policy as a success as the gun statement caused a significant portion of customers to permanently reduce their shopping at Walmart" <https://promarket. org/2020/09/10/pursuing-stakeholder-capitalism-is-an-impossible-task-when-stakeholders-have-different-beliefs/>. Steven Kaplan argues that "[…] Friedman was and is right. A world in which businesses maximize shareholder value has been immensely productive and successful over the last 50 years. Accordingly, business should continue to maximize shareholder value as long as it stays within the rules of the game. Any other goal incentivizes disorder, disinvestment, government interference, and, ultimately, decline" <https://promarket.org/2020/09/ 14/the-enduring-wisdom-of-milton-friedman/>.

■

RESEARCH IN THE DEPARTMENT OF ECONOMICS AT LINCOLN UNIVERSITY

Professor Hugh Bigsby

Hugh is an applied economist with a strong interest in forest and resource topics. His research interests include carbon markets, biosecurity, quarantine risk assessment, sustainability and certification systems, tropical logging productivity, forest products marketing, food and fibre sector trade, and community-based management of resources.

Professor Paul Dalziel

Paul focuses on wellbeing economics and public policy. His research studies how New Zealand food and fibre exporters, including Māori owned enterprises, can capture greater value through profiling credence attributes that appeal to identifiable market segments. He also applies wellbeing economy theory to public policy issues such as investment in cultural capital and knowledge capital.

Professor Christopher Gan

Christopher is currently working on how the Covid-19 outbreak is affecting financial markets. Employing the event study method, the study investigates the Asia Pacific stocks' returns during epidemic periods to assess their impacts on the performance of firms.

Meike Guenther

Meike is a research officer in the AERU. She is working on large programmes that assess consumers' attitudes for attributes in food and beverages in important export markets. The study also examines consumer willingness to pay for attributes using choice experiments. Results from the programme are available through a public web-based data portal at https://www.sustainablewellbeing.nz/aeru-data-portal. Meike is also involved in research on the importance of Antarctica to the Canterbury and New Zealand economies.

Dr Baiding Hu

Baiding does research in applied econometrics. He is currently working on a methodological issue concerning measuring economy-wide energy rebound effect based on industry-level data. The significance of the research is to address the deficiencies of the current prevailing approach that uses aggregate data.

Professor Geoff Kerr

Geoff is a pioneer of non-market valuation in New Zealand environmental management. He is currently addressing non-market values of land transport, including the values of a statistical life, road transport injuries, travel time and reliability. Geoff has a keen interest in application of bio-economics and cost-benefit analysis to wild game animal management. He works with Ken Hughey and Ross Cullen to publish a regular national survey on public perceptions about the New Zealand environment and its management.

Dr Nazmun Ratna

Nazmun's research focuses on institutions, gender and food security, including three funded projects. The first investigates how integration to horticultural value chains through a mobile app can improve the availability and affordability of fresh fruits and vegetables in Bangladesh and India. Under the second Nazmun leads the development of a Women Empowerment in Migration Index (WEMI) to allow the ILO to evaluate their Work in Freedom program focusing on the abolition of forced labour and trafficking of female migrants. The third project is "Impact of COVID-19 on 'Missing Women' of Domestic Violence in Australia and New Zealand: Can technology help?", which is assessing how social networks and technology use can reduce vulnerability for 'women of colour'.

Professor Alan Renwick

Alan is an agriculture and food economist with broad research interests across the food chain. Related to an interest in the economics of technology adoption in the agri-food sector, he is working on the adoption of novel (niche) agricultural systems and the extent they can grow to support transformation of land-use in New Zealand. He is also revisiting his roots in production theory to investigate the possible existence of asymmetric supply response in the New Zealand Dairy Sector as part of wider work on the economics of the sector.

Distinguished Professor Caroline Saunders

Caroline is currently working with a great team in the Agribusiness and Economics Research Unit (AERU) on how to increase the value of New Zealand's food and fibre exports. The aim is to ensure our exports are high economic, social, environmental and cultural value. Caroline also reports she is learning heaps about monetary economics on the Reserve Bank Monetary Policy Committee.

John Saunders

John is an agricultural economist at the AERU. He is currently working on trade modelling, designing models to assess global agricultural markets, productivity, and the impacts of climate change on the agricultural sector. John also works on the economic impacts of bio-security incursions in New Zealand. He is in the final stages of completing his PhD thesis on long-term modelling for agriculture.

Associate Professor Peter Tait

Peter conducts non-market valuation research across private choice and public policy contexts. His research nexus is the improved integration of environmental outcomes in private and public decision making. He is working on measuring consumer preferences for sustainability attributes of food production in export markets, public preferences for environmental outcomes of biosecurity response management, and management of braided river environments.

Dr Puneet Vatsa

Puneet's research focuses on applying time-series econometrics to study issues pertaining to international macroeconomics, monetary policy, financial economics, energy prices, tourism demand and development economics. He is currently analysing the nexus between migration, remittances, and corruption using time-series econometrics and microeconomic theory. Puneet also enjoys working across disciplines and plans to study pricing strategies in the context of digital products.

Associate Professor Anita Wreford

Anita specialises in research to support climate change adaptation, leading a multi-disciplinary project (funded by the Deep South National Science Challenge) examining the vulnerability of the dairy sector to climate change and identifying how the se ctor can adapt. Anita is interested in economic approaches to support decision-making under uncertainty. She applies these approaches to climate change, but is also involved in examining uncertainty around volcanic eruptions in Taranaki. Anita is a lead author on the Australasia chapter of the Intergovernmental Panel on Climate Change Sixth Assessment report, due in 2021.

Dr Wei Yang

Wei focuses on applied agricultural and environmental economics, applying spatial econometric models to understand adoption of technology and good management practices by farmers in New Zealand and China. She also works with domestic and international collaborators on research connecting consumer behaviour and preferences with firm innovation within a framework of value co-creation in the agri-food industry. ■

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REINVENTING THE BAZAAR BY JOHN MCMILLAN

By Weshah Razzak

Honorary Research Fellow, School of Economics and Finance Massey University

John was a Kiwi economist (22 January 1951 - 13 March 2007)[1] https://en.wikipedia.org/wiki/John_McMillan_(economist)

I recommend McMillan's book. I read this book a very long time ago. Today, the book is even more relevant than it was in 2002. It is lucid, full of meaningful stories, and an overall enjoyable read. It could help many young people, especially economists, think about the role of the government. Should the government intervene in the economy? How much? How? When?

McMillan had an interesting view about the market and the role of the government. He did not advocate more government intervention, socialism, or liberalism. He was neither for a free market nor for social policies. He wrote,

> "the market system is not an end in itself but an imperfect means to raise living standards. Markets are not magic, nor are they immoral. They have impressive achievements; they can also work badly."

He thought that the "design of the market" matters the most. He believed that the evidence is that economic growth is good for everyone, including the poor, but he also believed that equity matters too. He cited evidence that countries with more equal income distributions grow faster.

I am not totally sure about that kind of thinking because McMillan must have had an implicit assumption that there is "a government" out there; a "designer" that can actually make a better market via rules and regulations. Where do we find such a government, I wonder?

In my view, the government may, and can, intervene in the market, but that intervention depends on the size and the scope of market failure. There must be robust, careful, and verifiable evidence of free market failure before the government is allowed to step in.

Here are some excerpts that I found interesting.

Chapter one,

> *"On November 9, 1989, the people of Berlin joyously tore down the wall that for thirty years had divided their city. As the wall fell, so did communism and planned economy. On April 30, 1995, the U.S. government ceased controlling the internet. As entrepreneurs devised procedures for online buying and selling, electronic commerce burgeoned. These two dates denote the beginning of what has become, for good or for ill, the age of the market."*

I think that the internet market could have been an amazing free market experiment. Unfortunately, we are getting more and more government interventions by the day. Be careful please when you blame the free market. We do not have a free market anywhere in this world. In fact we had more free markets in the past centuries than today. Is it funny (or not) that a Republican like Trump is against free market and a Chinese communist like Xi Jinping is for free trade?

Chapter Twelve, How did so many countries come to be centrally planned? [after WWII] . You might find this paragraph interesting. He writes,

> *"Albert Einstein wrote an article in 1949 called "Why Socialism?" His answer: 'the market economy brings crisis, instability, and impoverishment. The economic anarchy of capitalist society as it exists today is, in my opinion, the real source of evil.' The only way to eliminate this evil, he concluded, was by establishing socialism, with the means of production 'owned by society itself.' He advocated a planned economy, which adjusts production to the needs of the community, would distribute the work to be done among all those able to work and would guarantee a livelihood to every man, woman, and child."*

There are more stories like those in the book.

Einstein's view was shaped by the horrors of the Great Depression, no doubt. I cannot blame him. I hope that he lived to see the whole socialist tragedy. Socialism collapsed spectacularly in 1990 for good reasons. Does the free market make people poor? How do we answer this question? McMillan says, no it does not. We do not even have a free market experiment anywhere to examine. Instead, we have crony capitalism, nepotism, racial and social discrimination, subsidies, bailouts, tariffs and trade restrictive laws and regulations, etc.

Page 25, John writes,

> "Rembrandt was an innovator not only in painting but also in commerce. He helped establish a full-fledged art market in seventeenth-century Amsterdam. Composers in Germany a century or so later switched from being long-term employees of aristocrats to producing for the open market. Handel and Telemann were vocal in their dislike of being subject to their employer's whims, and they paved the way for Mozart and subsequent composers to work freelance. In a 1781 letter to his father, Mozart said, doubtless exaggerating somewhat, believe me, my sole purpose is to make as much money as possible; for after good health it is the best thing to have....Mozart saw the market as offering him creative freedom."

There will always be business cycles and depressions - in the future just like in the past. And this is true although many economists believe that government intervention gets us out of prolonged recessions. I highly doubt that we have evidence to support such an assertion. On the contrary, we have examples of policy error. These errors are persistent. They are costly to undo. There are many examples, but most well-known is that the Great Depression was a monetary policy error, Friedman and Schwartz wrote extensively on this.

McMillan tells some interesting stories about New Zealand's reforms in chapter 15. Can you imagine that the NZ government made rules and regulations for every bit in the economy - including the color of Margarine, which had to be white not yellow so it couldn't compete with butter!

Here is another story, he says,

"The bizarre nature of the old New Zealand economy is illustrated by an anecdote from the industrialist Alan Gibbs. For the sake of employment, the government required television sets be assembled locally. When Gibbs went to Japan to negotiate a price for the components, he was greeted with disbelief. Because of the way the production lines were set up, the Japanese television makers could supply the separate components by placing workers at the end of the assembly line to take apart the completed televisions. Gibbs' firm had to pay 5 percent more for the pieces..."

Many young Kiwis do not even know what New Zealand looked like before 1984.

https://www.amazon.com/Reinventing-Bazaar-Natural-History-Markets/dp/0393323714

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[1] He was a Distinguished Fellow of NZAE.