

ASYMMETRIC INFORMATION

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LAST
PAPER COPY

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

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EDITORIAL: END OF AN ERA

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

This is not only the last Asymmetric Information I will produce, it will be the last to appear in paper format. The NZAE Council has looked at the preferences expressed in the recent members' survey and more widely at the way people get their information and decided to shift to a digital output.

Moreover, the changes go further. There will be a new team with an overall editor plus an associate editor. They introduce themselves over the page.

To celebrate this transformation we have solicited brief contributions from all previous editors. These pieces take us back to the founding of AI and through the years since. The previous editors who are represented are Nancy Devlin, Stuart Birks, John Creedy, and Viv Hall. Their memories span the years since 1998.

We still have room for other contributions in this bumper edition. They include the second half of the long interview of Brian Easton by Brian Easton. And two of our regular contributions, Grant Scobie's 2 B RED which features recent books by New Zealand economist authors (including our own correspondent). Plus a treat for followers of Paul Walker's Blogwatch as by some error in the make up process department we republished the June column in the August edition. Thus, there are two helpings served up in this AI. The contributions of those eminent economists who have recently died are saluted in the second column.

And rounding out the contributions is an interesting short piece by Ian Duncan on a local economist, Dick Campbell, who followed a glittering academic career with true public service. He worked for the New Zealand government in the pre-and post-World War II era, most of it abroad.

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THE NEW AI TEAM

Editor: Dave Heatley

Lew Evans and Bronwyn Howell introduced me to economics at Victoria University, piquing my interest sufficiently for me to abandon my previous career in IT and business. I've researched and written on topics ranging from the economic history of NZ rail to social services to cost-benefit analysis of Covid policy, and much else besides. I worked for the NZ Productivity Commission from 2011 to 2021, and am now consulting via my company Sawtooth Economics. When not doing economics I tend to head for the mountains – skiing, tramping, climbing and volunteering on bird conservation projects.



I am pleased – and a bit daunted – to be taking over the reins from John, who has done a sterling job on many years. The NZAE Council is keen to experiment with different formats and models for AI. I will be kicking off those experiments, ably assisted by Olivia. We're keen to get feedback – what you like about AI, what you don't like, and what we can change to make it more valuable to you.

You can contact me via dave@sawtooththeconomics.com

Associate Editor: Olivia Wills

I am looking forward to supporting Dave and bringing a multi-media edge to our NZAE products. Since completing my economics PhD at VUW, I worked at Behavioural Science Aotearoa, the justice sector's behavioural science team, and am currently a Senior Economist at NZIER. I am passionate about good economics communication and making space for everyone to participate in economic debate. When not in the NZIER offices or the Stats NZ IDI lab, you'll find me bike-packing, weaving my next wall-hanging, or reading my favourite genre-of-the-moment.



Olivia.wills@nzier.org.nz

IN OPEN SEAS

Brian Easton (Journalist) Interviews Brian Easton (Economist)

PART II: LAUNCHED (1970-1986)

Q. From Sussex University to Canterbury University?

It was very different economics department in 1970, both from Sussex and from the one I had left seven years earlier, having shifted towards the mathematical economics paradigm. The jewel was Leslie Young, who had a terrific ability to identify the assumption – the equation – which gave the interesting outcome in a model. In most economics papers the writers have not got the foggiest idea of why they are getting their results. Tony Rayner headed econometrics where I did most of my teaching; the operations analysis group under Hans Dallenbach was also invaluable.

Q. No non-mathematical economics?

I particularly valued Wolf Rosenberg, who was thoroughly trained in the 1940s but who also had that Central European gymnasium (high school) training. (One of his classmates was Albert Hirschman.) We had long conversations in which I would explain recent developments in economics. Wolfie, ever the gentleman, would patiently probe. Sometimes it would be the other way around with him presenting a traditional economics perspective. (We might disagree on ideological issues, although it was from Wolfie I really became conscious of the importance of full employment.) The dialogue was extremely valuable; if you cannot explain your economics to an intelligent, educated, informed person then you have not understood it yourself. (Later I

would have similar discussions with Bryan Philpott and Jas McKenzie, although there was less divergence in our paradigms.)

Q. What research did you do at Canterbury?

Lots. It was centred on distributional economics. When I got back I realised that it was a huge area waiting to be opened up. It proved much bigger than I expected, ranging from welfare economics to statistics. I found myself having to use the standard tools from macroeconomics, growth economics and microeconomics. It was not easy. Where else in economics do you regularly meet bimodal and trimodal asymmetric distributions?

Distributional economics offers a distinctive perspective on the economy as a whole. The standard economics approach is to assume distributional change does not matter. If it seems relevant – say, in housing analysis – the conventional wisdom about distributive matters is ad hoc without integrating the analysis.

One eventual publication was *Income Distribution in New Zealand*, which brought together all the available data. I started off the research with the conventional assumption that the income distribution was getting more unequal (there was much less data on wealth). It comes from a nineteenth-century vision that things are always getting worse under capitalism – a conventional view today. But the data contradicted

the assumption. Up to the early 1980s, the post-war income distribution was getting more equal on almost all measures. So, I had to give a theoretical account of what had happened rather than just report the inequality change¹.

The income distribution affects the political economy – the point of David Ricardo's analysis. Very often the distributional impact of a policy change far exceeds the output change. The study of distributional issues opens one up to a holistic account of society and a more nuanced account of policy.

Q. While you were at Canterbury you became the Listener economic columnist. How did that come about?

The first columnist was Conrad Blyth but he went to the OECD. I think they might have chosen me because I had submitted the occasional article and I was writing regularly in the New Zealand Monthly Review. I was also doing a lot of public interviews; broadcasting was much more decentralised in those days, and contributions from Christchurch were valued.

Q. People say the columns (usually) read well. How come?

I don't really know. It must be partly because I read omnivorously. Practice is important. I once took an economics assignment I had written to my tutor, Alan Danks, who said that I had got the economics broadly right but it was badly written. He added – you would not dare say this today – 'Writing is a bit like making love; nobody can teach you, you learn with practice.'

I find it hard to write without a clear notion of my audience. That is a bit different from the lecturer who has a captive audience who bloody well have to take notes.

While I was at the Institute I tried having a guest contributor for every second column. It was not a success. Typically, he or she could not meet the length requirement, did not meet the deadline and could not write for the Listener audience.

Q. Why did you give up after writing columns for 37 years?

I was sacked. For reasons I was never told.

Q. You've kept writing columns?

I write a longer column weekly for the Pundit website. Partly to clarify issues for myself, but also because a number of economists who valued the Listener column encouraged me to keep on.

The columns I write mediate between the economics profession and the public, keeping them in touch with the informed debate. They are my views but usually they are checked by informed people including by those in government departments. Sometimes economists who have been in the heat of a policy battle have thanked me for a column, even when I have criticised the resulting policy.

There is a naive tendency for outsiders disagreeing with a policy to assume economists on the inside have failed in their analysis. They make mistakes but in my experience the cadres in the top departments are more competent than their university training – a consequence of the intense debates in which they participate. But announced policy does not always follow expert advice.

Because economics is a discipline, an outside economist can often make a reasonable stab at the internal policy debate. I always assume on contentious policy issues that judgement is split 60/40 but you can't predict which way. I try to get this across in what I write for the public.

Perhaps I have been the insiders' outsider, although readers might think I was the outsiders' insider.

Much of the business commentariat is vigorous and opinionated, but frequently uninformed in the best Mencksen tradition – neat, plausible, and wrong. Listener features are often like that. One of the advantages of not writing for it is that economists no longer complain to me about the poor-quality pseudo-economic features it occasionally publishes. (I was never consulted.)

Q. Were your columns the reason that you were appointed director of the NZIER in 1981?

Because of my research and my public contributions, I was connecting with the Wellington economic community, including key appointment-board members. Bryan Philpott told me he wanted me to move the Institute to the university, but for reasons that remain unclear, powerful figures in the economics department were not interested. Jas McKenzie hoped I would help balance the neoliberals in Treasury. Later I was told they were very opposed to my appointment; I did not know this at the time.

Q. How did you find the Institute?

I went there on a misunderstanding. When I had been there in the 1960s, it had a good funding base from business members' contributions building up for a couple of years before it began operating. That had gone and I found myself under unexpected funding pressures.

My vision, reflecting similar institutions overseas, was of substantial public funding enabling independent research programs. In fact, funding was increasingly from contracts, so that while the Institute could do projects it was difficult to bring them together in a coherent way. Those pressures increased as public funding withdrew. The NZIER you see today is a consulting firm, very different from Blyth's vision.

Q. So, the NZIER failed to do much research while you were director?

To the contrary, I am proud of what we achieved, as said my outgoing address: *The Exchange Rate Since 1981, Performance and Policy* (NZIER Discussion Paper 30), which brought together the research program over my time. Some of the research we published remains significant. We had a terrific team, including Alan Bollard and two women, Carol Propper and Nancy Devlin, who became senior economics professors in Britain.

Q. Then why did you leave?

When my five-year term ended, I declined the offered renewal. The financial pressures were wearing me down. The main reason was that a director has stewardship responsibilities and since it was clear that I was not acceptable to key public sector stakeholders, the steward stepped down.

I had written a *Listener* column discussing economic interventions. It rejected Muldoon's approach but went on to discuss when intervention made sense. A Treasury official told a friend that because of the column, the NZIER would get no general funding from Treasury.

Sometime later, the Reserve Bank advised us that it would end base funding which gave us research discretion. The decision came while I was away and there was no consultation. After the person responsible departed, the RBNZ Governor apologised for the decision but said it could not be reversed.

1 Chapter 50 of *Not in Narrow Seas* describes what has happened since.

I hoped that when I left, the Treasury and the Bank would take a more benign approach to the NZIER and return to untagged funding, so avoiding transformation from research institute to consulting firm. They didn't. That was one reason my immediate successor, David Mayes, familiar with the British approach, left after a few months. His successor, Alan Bollard, made a good attempt to hold the ship together but after he left, the NZIER ended up as a consultancy.

Q. Were you not publicly criticising the policies at the time?

Not strongly, for the reason that there might be something I was missing. Otherwise, the model which underlay their policies was incomplete. (I called it the 'missing equation'.) I was reading the neoliberal economics literature widely, trying to identify what covered the lacunae. It would have been quite improper for me to have come out with a swingeing criticism of the Rogernomics model before I was certain the model was unsatisfactory.

PART III: PADDLING (1986-)

Q. Why did you not go back into a job in a university after you left the Institute?

I applied but was never accepted. In one case I was told that I was 'too controversial and published too much'. No New Zealand university ever made me a tenured job offer. A high-status Australian one did, but I declined because I wanted to stay in New Zealand. I have since thought that taking it would probably have been better for my wellbeing and pocket.

Q. So you became a consultant?

For over 30 years. Professionally, it has been an interesting life compared to being isolated in a university. But it has its limitations. You have little control on what you do; many consultants have a reputation for delivering what the client wants. Consulting can compromise your independence.

During the flat-tax debate in 1988 – a crucial part of the collapse of the Fourth Labour Government – I had been commissioned to write a *Listener* feature on it. (Them were the days.) The client for whom I was working asked me to hold off because they thought it might undermine the standing of the work I was doing for them.

Q. What happened?

I had already filed the story.

Q. What do you think of being a consultant instead of an academic?

It is a matter of taste, but probably not mine. I missed colleagues. One of the joys of being an economist has been a robust debate with them – lots of disagreement, much learning, some convergence and ongoing friendships. My impression is that open debate largely died with Rogernomics and has not revived. (I have recently joined a group which meets once a fortnight for a lively discussion.)

I missed the institutional support including the research infrastructure like libraries and computers. I missed the salary and the status. One should not underestimate how a position in an institution gives a person a public role. New Zealand operates on the basis of 'who you know, rather than what you know' – status over competence. Most of all, I missed working with lively young student minds, watching them develop into members of the profession.

Q. Did you ever find the 'missing equation'?

What I concluded was that the Rogernomic model was incomplete. It assumed the New Zealand economy was very like the American economy, failing to appreciate the differences. For instance, America is the issuer of the international currency; the New Zealand dollar has no such standing. It was a very colonial – imitative – mind-set.

Q. Weren't there ideological differences too?

Oh yes. I try to be explicit about my ideology when I am writing. (Some appear to suspect me of a secret agenda, but I am *wysiwyg*².) My view is probably near the centre of traditional New Zealand thinking. But I won't let ideology override my technical thinking.

After I left the Institute there were two major points to be made: Rogernomics was technically deficient and it reflected a different ideological current through New Zealand's history. I made the points.

Q. I thought consultants were well paid?

They may be, but I chose to make just enough to support my family and use the free time to maintain the research program which I had hoped to run when I was at the NZIER.

Q. Tell us about some of the highlights of your research.

I have already mentioned distributional economics. My first major discovery was that poverty mainly occurs among families with children. The basic paradigm I developed remains the standard way we measure poverty almost fifty years later (although there is an evolving one directly assessing households' experiences and consumption which I discussed in the late 1970s). That revolutionary finding is now the conventional wisdom to the point that the initial research work is forgotten.

A lot else came out of my distributional research. While trying to explain poverty I had to think about non-market economic activity. This was well before the popular, but uninformed, fashion to criticise GDP. It has led, among other things, to Chapters 29 and 38 on the role of nonmarket household activities in economic developments in *Not In Narrow Seas*. Another dimension will be seen in the central role the environment plays in the book.

One stunning discovery was that I found a structural break in many economic series around 1966 or 1967. I eventually identified this as the wool price collapse in December 1966. The mechanism involves distributional economics including the terms of trade and the real exchange rate and how regulation transfers rents. It lets you to begin to understand why the period after 1966 is so different from the first two decades after the Second World War.

The economics is described in *In Stormy Seas*, which sets out the model of the Small Open Multi-sectoral Economy we were developing at the Institute a decade earlier. (The political ramifications are detailed in *Not in Narrow Seas*.) Later I enjoyed working on Treasury panels on short-term and long-term forecasts.

As well as working on the macroeconomics framework under Rogernomics, I got drawn into evaluating its microeconomics. That led to *The Commercialisation of New Zealand*. We have never worked out a coherent regulatory framework. Hence the 'leaky buildings' saga. We are better at providing ambulances at the bottom of the cliff than fences at the top. Even then, the ambulances are often late.

2 What you see is what you get

Inevitably, much of my consultancy was about market regulation. Particularly satisfying was the work I did on tobacco and alcohol. On one occasion, working on alcohol taxation, I identified an anomaly which meant that light spirits – flavoured raw alcohol – could be sold so cheaply that an hour's wages provide enough liquor to kill oneself; as happened to two young men while I was investigating the issue. I took the finding to the Treasury who were aghast at the tax loophole. Within months they removed it and light spirits disappeared from the shelves. The Alcohol Advisory Council said they never had a such a quick turn around on a policy.

Devising a health system is a challenge of advanced regulatory design. I got involved because I was teaching medical students at the Wellington School of Medicine. I am proud of my contribution as economic adviser to the Campaign on Public Health, which successfully resisted the proposed privatisation of the public health system in the early 1990s.

I also evaluated healthcare delivery. The greatest achievement may have been my contribution to the WHO report *International Guidelines for Estimating the Costs of Substance Abuse*, which anchors social-costs studies into cost-benefit analysis and microeconomic theory. It has not had a lot of impact in New Zealand where some of the cost-benefit, social-cost and social-investment studies stray a long way from orthodox economic theory.

On the basis of my *Commercialisation* book I was asked to teach public policy to political studies students at Auckland University. This led to the updating *The Whimpering of the State; Policy After MMP*. (I am just publishing a related paper twenty years later.) I have a distinctive approach to policy studies which focuses on how policy is made – the policy process as political economy. I don't think studying it is popular, here in Wellington anyway, because it involves assessing what actually happened and usually the process is – as Bismarck described it – like making a sausage. So, the kudos goes to those who focus only on the end product. Outside Wellington, it is hard to get a grasp of the details. (You can see this by comparing my later work with *Social Policy and the Welfare State*, which I wrote from Christchurch, although *Pragmatism and Progress: Social Security in the Seventies*, published about the same time, is a precursor of the political economy approach.)

Another consultancy area was working with Māori, especially over Treaty claims. I really enjoyed that. It also opened me up to different parts of New Zealand's regions and history which economists don't usually come across. I even published a scholarly paper on Te Tiriti o Waitangi which came out of wrestling with the property rights involved in one claim. My latest contribution to Māori development is *Heke Tangata: Māori in Markets and Cities*.

On reflection, I am surprised how involved I was in historical research; there are over 300 items on my website with a 'history and political economy' tag. It comes from my general interests, from an applied economist using history to test theories but also from the recognition that if you want to understand anything you need to understand its origins. So, most of my studies include a historical dimension. For instance, *Policy and Pragmatism* goes back to the 1890s (because of recent scholarly work I'd now go back even earlier).

I also wrote *The Nationbuilders*, trying to understand how New Zealand thinking evolved up to 1984. It later led to curating a New Zealand Portrait Gallery exhibition, 60 Makers Of New Zealand: 1930-1990, covering much the same period but with a wider remit.

The Marsden Fund awarded me a grant which enabled the writing of *Globalisation and the Wealth of Nations*. (I learned some new bits of economics in the process: the power of the economies of agglomeration and the bizarre way they work. They are not yet central in New Zealand's economic thinking, although the Treasury picked them up in

the late 1990s when they were focusing on the future of Auckland.) The Marsden Fund did not extend the grant – apparently they had higher priorities than the New Zealand economy in an international context – so I was unable to continue.

I looked around for an alternative project which would not be so expensive – not involving overseas travel. Perhaps it was inevitable I would write a history of New Zealand; I had been reading about it since I was in primary school. By picking up bits of funding here and there – I am very grateful to all of them – I wrote *Not in Narrow Seas: The Economic History of Aotearoa New Zealand*. It is a huge book starting 650 million years ago and it draws on most social sciences. It also contains a lot of economic theory.

As my *Pundit* columns indicate, I am still researching, learning and reflecting. Currently I am working on my next book *In Open Seas*, which is forward looking.

There are over a thousand of my columns. I was greatly touched by a scholarly historian who went through them over his period to get a feel about what was going on. They show developments in my thinking, say, about wellbeing which goes back to the 1960s, and on the changes in public administration, which begins with my identification of generic management in the early 1990s.

Q. Is That All?

The highlights. I left out many other things I have done including some theoretical innovations. I am very proud of many items on that list, even if I have had to omit them here.

Most are listed on my website www.eastonbh.ac.nz and on www.pundit.co.nz, but both are bits of rabbit warrens, I'm afraid.

Q. In Summary?

While I'd like to think that my writings have made a difference, and will make a difference, to New Zealand long after I am gone, I am not optimistic. We have painted ourselves into a problematic development corner; that is a message of my latest book, *Not in Narrow Seas*.

Q. That is a downbeat to finish on. Can you end a little more cheerfully?

Bruce Jesson, reflecting on his life said '[i]f you had said to me, when I was 17 or 18, "you'll spend your life writing, you won't make any money, you'll publish magazines, you'll publish books," I'd have thought: "Wonderful. What better a way to spend your life?"' My sentiment too.

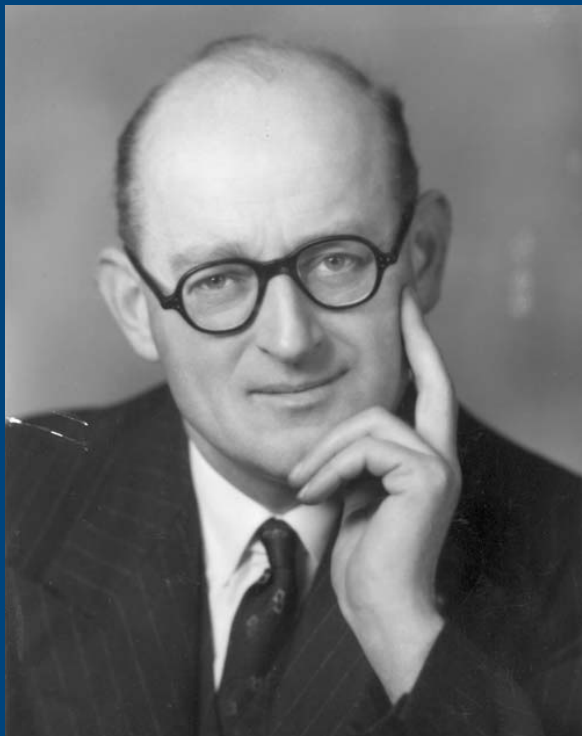


Brian Easton (Journalist)

OUR MAN ABROAD?

RICHARD MITCHELSON CAMPBELL (1897-1974)

Ian Duncan draws on the Dictionary of National Biography to paint a brief picture of a now largely forgotten New Zealand economist who in his day made an enormous contribution to a small country.



Dick Campbell was an all-rounder. He was a self made man. A successful public servant, economist and diplomat who served under both the Reform and Labour administrations in the 1930s as an economic adviser and negotiator for New Zealand in the UK – especially on trade matters. After working in London, he was the first chairman of the (revised) Public Service Commission 1946-1953, after which he returned to the New Zealand High Commission in London, retiring as Acting High Commissioner in 1958.

Campbell attended Whāngārei High School and subsequently joined the Department of Education in Wellington as a cadet – as was the way of the times. By 1919, through diligent part-time study, he had passed the matriculation examination (allowing him entry to university) and was accumulating subjects in the Public Service senior examination and the solicitors' and accountants' professional examinations¹. Despite continuing his full-time work, he was highly successful in his relentless study programme – to the extent that he graduated LLB at Victoria University College in 1923, BA in 1925, and MA in economics with first-class honours in 1926.

At Victoria he came into contact with Professor Ernest Marsden who drew him to the attention of Public Service Commissioner Paul Verschaffelt² who nominated him for a position in the office of the Reform Party prime minister, J. G. Coates. He took up the appointment in June 1926. This chance to be close to the 'action' changed Campbell's life. He turned out to be made for it. Nevertheless the desire to run his pursuit of knowledge to its conclusion continued to haunt him.

In July 1927 Victoria University College awarded him the Jacob Joseph Scholarship in economics and he enrolled at the London School of Economics and Political Science. In June 1929 (less than two years later) his thesis on imperial preference earned him his PhD. This was another staggering achievement and made him a trade expert.

In September 1931 Campbell resumed his position as private secretary when Coates became deputy to the prime minister of the coalition government, the United Party's George Forbes.

It fell primarily to Coates (despite being Minister of Public Works and Transport with a special responsibility for employment)³ to wrestle with the economic and social problems created by the depression. Campbell was his key, trusted advisor. His expert understanding of imperial trade was called upon when he accompanied Coates to the June 1932 Imperial Conference in Ottawa, where the dominions achieved an exemption from Britain's recently introduced tariffs. This was a masterly negotiating coup by the dominions, achieved despite the views of the UK.⁴

Campbell also assisted Coates to address the problem of falling prices for New Zealand's primary produce. The solution – devaluation, strongly opposed by the Treasury, banks and importers – was implemented in January 1933, along with statutory reductions in internal interest rates and rents.

Coates was (at last) appointed Minister of Finance and he relied on Campbell for innovative advice he could not get from the economically orthodox secretary to the Treasury, A. D. Park.

¹ These were the typical qualifications sought by ambitious public servants building up general skills to be useful in any department.

² Paul Verschaffelt was a highly effective and controversial public servant who was Public Service Commissioner for 12 years before resigning suddenly at 48.

³ The Minister of Finance was William Downie Stewart until he resigned in 1933 and Coates picked up the role.

⁴ See discussion in Nixon and Yeabsley (2002) *New Zealand's Trade Policy Odyssey*, Case 1.

In July 1933 Coates sent Campbell to London with Forbes to balance the influence of Treasury officials and resist British attempts to reduce dominion access to the home market. A second economist, W. B. Sutch⁵, was added to Coates's staff in 1933. The group of Campbell, Sutch and (from December 1934) Horace Belshaw⁶ was known as the 'brains trust' and was regarded with suspicion by those alarmed at Coates's interventionist response to the depression. This early example of politicians turning regularly to experts for advice in perilous times chimes today.

He spent the war in London impressing visiting ministers with his ability and expertise. But he grated having to work with the High Commissioner Jordan. Something needed to be found.

Campbell was appointed the first chairman of the Public Service Commission inaugurated in 1946. Under Campbell the commission reduced the centralisation of personnel decision-making by authorising departments to exercise a wide range of powers.

The public service manual was inaugurated and office inspections, to ensure procedural compliance, were emphasised. The commission also pursued what it called a 'continuing drive to prune overgrown organisations ... to cut out "red tape"'. But Campbell was unable to convince ministers of the need for any substantial reform of the machinery of government.

He served his term and then returned to the UK and eventually retired there.

Dick Campbell had inherent ability: persistence and application, a quick intelligence, a prodigious memory, energy and decisiveness, and social ease that allowed him to quickly make lasting friendships with people of varied backgrounds.

He was also renowned for his creative and unorthodox sense of humour. Famously, once, when visiting 10 Downing Street in the 1930s, Campbell wrote to a friend on some purloined letterhead writing-paper: 'As you will see I have arrived at last. True, I am here only temporarily. But then who isn't?'

⁵ Dr Bill Sutch was a brilliant and controversial economic writer, thinker and public servant with a PhD from Colombia University. He was later Secretary of Industries and Commerce.

⁶ Dr Horace Belshaw was a gifted New Zealand applied economist who had a notable academic career holding chairs at Auckland and Victoria at different times. In the 1920s he completed a PhD at Cambridge at a time when Keynes was active around that university.

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PREVIOUS EDITORS OF ASYMMETRIC INFORMATION LOOK BACK

NANCY DEVLIN (1998-99)



I've recently returned to live in New Zealand after more than 20 years working as an economist in the UK and, for the last few years, Australia, and there's a surprising amount of re-assimilation to do. It's fascinating to see the ways in which New Zealand has changed (e.g., the increased use of te reo in daily life is wonderful) - and how it

hasn't (e.g., how is it even possible that Tim Shadbolt is *still* mayor of Invercargill?).

One of the very pleasant surprises was discovering that *Asymmetric Information*, NZAE's member newsletter, is still going strong. I was the inaugural editor in the 1990s, having volunteered to take on the job as a member of NZAE's committee. I think I came up with the name, which I still rather like; but also have to confess to being responsible for the excessive use of elaborate fonts in early issues. Put it down to youthful enthusiasm and the relative novelty of word processors at the time.

It's fabulous looking over the old issues for the first time after all these years. I recall no great difficulty getting articles for those early efforts; NZAE members were wonderfully supportive and willing to contribute. Tim Hazledine's 'op ed' piece in the first issue was brilliant, and helped to set the tone: *Asymmetric Information* welcomed informality and opinions.

Looking back at the early issues, I had all but forgotten the articles I'd contributed myself. In 'Dismal Interest in the Dismal Science' (Issue 3) I noted that studying economics in NZ in the early 1980s, when it was one of the most heavily regulated economies in the world, was a little surreal: "...learning about the workings of free markets was like listening to wonderful theory tales...": it sounded compelling and almost magical, but there

was little evidence in the world I saw around me as an 18-year-old that such things really existed. In "(un)health(y) economics" (Issue 4) I bemoaned the (then) lack of economics training in many people practising health economics in NZ. Two decades on, the methods of economic evaluation, particularly regarding the treatment of uncertainty, have become considerably more sophisticated, precluding the kind of enthusiastic amateurs I was concerned about. These methods are now routinely used in health technology appraisal in countries around the world – a massive achievement for health economics as a sub-discipline. But I do occasionally worry whether the focus on developing economic evaluation methods, both in my own work and the field generally, has taken health economics down too narrow a path, diverting effort from wider aspects of economics thinking and research that are much needed in the health sector.

My all-time favourite *Asymmetric Information* article is by my then colleague at the University of Otago, Martin Richardson - issue no.2 back in 1998: "a Significant Heuristic Example of Erroneous Policy: the Determinants of Growth". From the acronym in the title, through to the 'inverted ewe shape function', it's a classic bit of kiwi humour.

I'm now based in Arrowtown which, after decades in London, feels like paradise. A silver lining to the COVID cloud was the realisation that it was possible to run my research programme from anywhere in the world. My partner is a retired Scottish professor of astrophysics, and happily spends his nights with a gigantic telescope in our garden, revelling in the dark skies, while I take zoom meetings with Europe and the US into the early hours of the morning. It's a rather nocturnal existence – but that seems appropriate for a returning kiwi!

Nancy Devlin, Professor of Health Economics, University of Melbourne; Senior Fellow, Office of Health Economics, London.

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STUART BIRKS (1999-2011)



I took on the editorship of *Asymmetric Information* together with my late colleague Gary Buurman early in the piece. Our aim was to create a forum for the exchange of diverse ideas, questioning the fundamentals, recognizing the interdisciplinary nature of many issues, and fostering debate among the community of economists in

New Zealand.

I like to believe that we were at least partially successful in this, and several regular features were established, including reports on research in progress, Grant Scobie's 2BRED, and BLOGWATCH. Regular contributors were always welcome and provided high quality contributions.

A distinguishing feature of the New Zealand Association of Economists is the mix of membership. As observed at the conferences, the Association draws economists from many areas including academia, government, banking and finance, and consulting. *AI* attempted to appeal to all these groups. One implicit goal was to encourage networking and support a sense of community. This was not overly successful, but I can perhaps understand why. There were many times when I would return from a conference motivated and full of ideas, only to get drawn back into the routine of everyday work. Nevertheless, it was good to see what was happening around the country.

In recent decades across many disciplines there has been a change in the content of journals. In particular, there has

been a marked decline in the publication of short comments. Consequently, anyone with a point they wished to make would have to write a complete research paper including data analysis that was in some way tangential to the point, which could then be included in a paragraph buried somewhere in the discussion or conclusion. They might then have to wait two years for it to be published. The limited inclusion of comments also reduced opportunities for critiquing published papers. Research moved more and more towards being standalone pieces of work. In a small way and for a local audience, *AI* provided an outlet for the speedy publication of such short items focusing solely on the key message. With the growth of the Internet, there are many more ways in which points can be aired and discussed, but it can still be important to be accessible to the target audience. BLOGWATCH and 2BRED have often provided useful pointers.

History has always been an interest of mine. In fact, I have been concerned that econometrics with time series data is used to estimate a fixed underlying structure, whereas historians commonly look at evolving developments in ever changing structures. The NZAE also evolves. *AI* contributes to the more traditional historical record of NZAE, not least in its conference reports which also add to the photographic record. The growing use of an interview format for contributions gives people the opportunity to express opinions on a wide range of points.

No doubt *AI* will continue to adapt as circumstances change. I enjoyed my years of involvement with the publication and I look forward to seeing how it is guided into the future. I wish incoming editors well.

JOHN CREEDY (2011-2016)

When I returned to Wellington in 2011, I was kindly met at the airport by Grant Scobie. We had barely got out of the car park when he mentioned that the Economics Association was looking for a new editor to replace Stuart Birks. The next day was the start of the annual meetings, and I was immediately approached by Stuart. Perhaps it wasn't quite an ambush, but it would have been hard to refuse. However, in truth I was happy to take on the task. I had plenty of experience as an editor, and I thought that it would give me good opportunities to make contact with other NZ economists.

Fortunately, Stuart had established a very smooth production process which made life much easier for me than it might have been. I was given the name and email address of someone to whom I sent the various articles for each issue, with minimum instructions about running order and layout, and within a couple of days I received a PDF file to review. That was the end of my task: distribution was taken care of by Motu and I did not even need to deal with invoices.

After looking at earlier issues, I realised that I could not hope to emulate Stuart, who consistently produced a large proportion of the material himself. But he had also established a set of regulars who fortunately were happy to continue, or arrange for pieces to be written by their colleagues. These included Statistics New Zealand and Motu. Grant Scobie and Paul Walker continued to produce their articles that I always thought were interesting: there was never any doubt that their contributions would arrive in good time and would need negligible editing. I quickly found

that the main challenge was to find someone to produce the relevant departmental 'research profile' for each issue. My first rule of editing – never reveal the true deadline to authors – came in useful.

When several prominent members of the profession died, I started to include obituaries. A comment by Veronica Jacobsen – that it is a pity there isn't anything in 'their own voice' and we have to wait until they die before celebrating their contribution to the profession – stimulated me to start the regular full-length and five-minute interviews. Fortunately, interviewers for the full-length interviews usually welcomed the opportunity to ask a series of questions. As editor, I found the main challenge when editing the transcriptions arose from the fact that few of us actually talk in conventional sentences. But only one interview required the deletion of a large number of expletives.

In contrast, it turned out that my attempt to establish a series on 'my favourite diagram' found few eager volunteers, so that I had to produce several of those myself. Given the extensive use of diagrams in our subject, I must admit that I'm still somewhat disappointed that people didn't rush to contribute.

I'm pleased to have had the opportunity to contribute to the Association as editor, and privileged to have been able to make contact with the many contributors. I still enjoy seeing each new copy of *Asymmetric Information*, and wish it well for the future in its new format.

ABOUT NZAE

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

WEB-SITE

The NZAE web-site address is:

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

(list your job vacancies for economists here)

New Zealand Association of Economists Inc.

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VIV HALL (2015-2017)

In May of 2015, I was surprised to be contacted by Seamus Hogan, inviting me to consider succeeding John Creedy as editor. Not the least because the invitation came from Seamus, I was pleased to accept. I was also then very pleased that John agreed to be interviewed for my initial issue.

I very much enjoyed my time as editor. John's procedures for the Interview and the 'Five Minute Interview' had been running smoothly, and fortunately for me core contributors such as Paul Walker with his always meticulously researched Blogwatch, Motu, and Statistics New Zealand were all very happy to continue providing their stimulating content. The soundings I took on the value of Research in Progress material from our various University and other contributors convinced me to continue with this component, though as John had forewarned me, some were superb in meeting my deadlines and others not so.

I had not always been able to attend NZAE Annual Conferences, but had then enjoyed seeing in AI the photos from the Conference, who the award winners were, and on occasions key information from Keynote Speaker presentations. It was therefore a no-brainer for me to continue with that component.

As from the end of John Creedy's editorship, Grant Scobie had decided to take a well-earned break from providing his always highly anticipated 2B RED File. As Grant had recorded in a Coda to his August 2015 contribution, he had crafted 47 columns over 15 years. Not surprisingly therefore, I was most pleased to see the return of Grant's 2B RED File from the August 2019 issue edited by John Yeabsley.

On the production side, I had the benefit of the always cordial and professional services provided by Fiona Brown

and her team at Massey Palmerston North. The only potential disaster arose when a lightning strike took out their computers and associated systems around production time, but even then the recovery process was handled particularly well.

I raised two issues with John Creedy ahead of my taking over as editor. The first was whether he thought the various processes used for transcription of interviews were optimal, and how they might be improved. Brian Silverstone had earlier advised me that he had found voice-to-text processes very time consuming. I initially experimented with some of the do-it-yourself online software offerings, but quickly found them unable to cope satisfactorily with the different voices of interviewer and interviewee. I had also noted that, at that time, the small number of commercial services available had been outrageously expensive. However, the combination of borrowing John Creedy's Voice Recorder and having mp3 files transcribed by Capital Transcription in Karori turned out to be both very efficient and cost effective.

The second issue was whether AI should proceed immediately to electronic format. The feedback I got then was to remain with a print version and continue to monitor members' views. It's now pleasing to learn that the next editor will be moving AI to electronic format. On the assumption that all back copies will remain available on NZAE's website, this means I will soon be able to send for recycling my numerous paper copies of AI.

Finally, let me record my thanks to those interviewees, interviewers and other contributors who so readily accepted my invitations and then gave generously of their time and expertise to contribute through AI to the objectives of NZAE.

JOHN YEABSLEY (2017-2021)

Like many of those who went before I was approached to become Editor – in my case by Viv Hall and Arthur Grimes. Once I'd accepted Viv was most helpful and supporting. I was able to watch him pull his last edition together and he passed on the Editor's "little book," a set of notes John Creedy had compiled which was great help to a rookie editor.

It was a privilege to have the job and while it could be demanding the solid support of the regulars and most of those asked to contribute made it exciting.

I hope the new team find they can rely on the wider circle of economists to keep an interesting tradition going – albeit in non-traditional form.

FROM THE 2B RED FILE

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

Recently, 2BRED focussed on books about New Zealanders. This issue looks at four recent books by New Zealanders; all well-known economists, all outstanding members of the profession - and all based in Wellington (recognising that some of our brethren in the far-flung corners of Aotearoa might not view that geographic coincidence quite so positively). I will take the authors in alphabetical order (just so as to avoid any hint of revealed preference!).

A first blush one might not be attracted to what could be a rather dry account of some odd corners of economic history. But you'd be very mistaken. Anyone familiar with the growing number of books written by this former governor of the Reserve Bank, including scholarly works, memoirs, and novels, will not be surprised to encounter a thoroughly readable volume with fascinating insights and anecdotes into the lives of selected economists, each involved in various ways in the wartime years 1935-55, covering the Chinese War, World War II, and the early Cold War.

Alan Bollard (2020) Economists at War: How a Handful of Economists Helped Win and Lose the World Wars (Oxford: Oxford University Press).

The book comprises a series of biographical sketches of an interesting selection of economists (although we are not told much of the basis for the choice of these seven): Takahashi Korekiyo (Japan), Kung Hsiang-hsi (China; known as H. H. Kung), Hjalmar Schacht (Germany), John Maynard Keynes (United Kingdom), Leonid Kantorovich (USSR), Wassily Leontief (USA) and John von Neumann (USA), and closes with chapters on the activities of some of the economists in the immediate years after the Second World War, and/or during the Cold War.

"It is a story of good and bad economic thinking, good and bad policy, good and bad moral positions." (p.ii).

A central message is that war is not just about tanks, soldiers, campaigns and battles. Bollard illustrates the key roles played by economists in managing the wartime macroeconomy, assembling the labour and financial resources, formulating military strategies, and identifying key economic vulnerabilities. He cites Robert Dorfman who records that some of the most significant economic advances of the twentieth century were a product of this era: input-output analysis, linear programming, national income accounting, Keynesian fiscal policy and game theory. The book documents the contributions of the seven individuals to these fields.

The author has chosen to denote them as "economists." While all dealt with economic and financial issues in one form or another, they were in fact political leaders, policy advisers, mathematicians and statisticians; and of course JM Keynes who despite an enormously diverse portfolio is most often regarded foremost as an economist. But this diversity is a strength of the narrative; his characters operated against a backdrop of very different political and economic systems; capitalistic, fascist and communist. In an attempt to draw on commonalities, the author constructs an elaborate network of connections between them, whether it be through face-to-face meetings, family links, or institutional affiliations. But that is more an interesting sidelight, than an integral part of the story.

The opening paragraphs are a dramatic recounting of the assassination of Takahashi Korekiyo, a former Prime Minister, Central Bank governor and finance minister of Japan. In what follows, both in this and subsequent chapters, the stories and intrigues of the lives of these seven characters, and their contributions to war time economies, never flags.

Brian Easton is one of New Zealand's best known economists, a researcher and a commentator, whose career spans many decades. He draws on that experience of long observation of the economy and has produced a major tome ("the fruit of a lifetime of reflection and research," according to the publisher's blurb):

Brian Easton (2020) Not In Narrow Seas: The Economic History of Aotearoa New Zealand (Wellington: Victoria University Press).

The title is borrowed from a collection of poems, published in 1939, by the New Zealand poet, Allen Curnow.

The book comprises 60 relatively short chapters, averaging no more than 10 pages each. The coverage is sweeping: in chronological order from the "economy" before human occupation, to our place in the global world. While an undoubted strength of the volume, it does mean that each of the topics receives a once over lightly treatment. Each chapter concludes with a list of references, although 2BRED's preference would have been for a consolidated list of references at the end of the book. References in later chapters are heavily peppered with self-citations, and the reader wishing to pursue further reading is not helped by the paucity of detail in the citations of many of the references.

In a presentation to the Stout Research Centre, the author explains the underlying motivation for the book. He argues that "almost all" histories of New Zealand fail to give adequate attention to the "economic underpinnings" of society.

See <http://www.eastonbh.ac.nz/2021/04/introduction-to-stout-research-centre-seminar/>

There are of course notable exceptions; one has to go no further than the extensive writings of Emeritus Professor Gary Hawke to find history infused with economic underpinnings. But the author "wanted to write a history in which the economy was an integral part of the whole story." And within the limitations imposed by covering most everything from 55 million years onward, the author has certainly achieved this aim.

One cost of the short chapters on so many aspects, is that the depth of the coverage is sometimes limited. In the chapter on inequality for example, there are eleven references listed, seven of which are self-citations. What is notably missing are the extensive writings on the theory and measurement of inequality in New Zealand by John Creedy and co-researchers.

The book concludes with an Epilogue. It lists 16 propositions which encapsulate the manner in which a political economy approach can provide new insights into the standard histories of a nation. As these so called "propositions" are really the lens through which the author has chosen to examine our history, the epilogue might well have better placed as an introductory chapter, giving the reader insights into where the volume was headed.

While the title uses the article "The" economic history, a touch more humility might have called for "An" economic history. However, let not such a quibble deter you from delving into this large (683 page) volume. In the words of Abraham Lincoln, from the opening line of his address to the Republican State Convention in Springfield Illinois in 1858:

"If we could first know where we are, and whither we are tending, we could then better judge what to do, and how to do it".

The author helps us understand where we are and whither tending; that is a contribution, and one made in a clearly written, accessible style.

Wellbeing has rapidly become an important theme in much of teaching, research and public policy. In New Zealand we have an academic Chair of Wellbeing (not to be confused with a large recliner with motorised back massagers); UCOL offers a NZ Certificate in Health and Wellbeing, while one can obtain a Bachelor degree in Social Health and Wellbeing from the Open Polytech. Research centres are emerging world-wide; eg the What Works Centre for Wellbeing in the UK.

Is this all just a groundswell of enthusiasm and advocacy for a current fad; or does it represent truly new and different ways to approach economic and social issues? A recent contribution to the growing literature makes the case for a focus on wellbeing, in particular that of future generations.

Girol Karacaoglu (2021) Love You: Public Policy for Intergenerational Wellbeing (Wellington: The Tuwhiri Project).

The book opens with a very lengthy foreword by Professor Robert Wade, in which he sets out the well-worn litany of indictments of the "conservative moral frame" of capitalism. This underpins the motivation for the book. As the author states: "There is now an emerging consensus on the need to augment income with complementary measures of wellbeing in evaluating the success of public policy, since income is not a good proxy for all indicators of wellbeing" (p.18), a position with which almost all economists of whatever stripe could agree.

What is striking is that so much attention is given to the shortcomings of income as a measure, as if this was something new. Nobel Laureate Simon Kuznets, a founding father of national income statistics, in 1934 warned in a presentation to the US Congress, that:

"The welfare of a nation can scarcely be inferred from a measurement of national income."

To say income is not a complete measure of all aspects of wellbeing, is equivalent to saying a ruler is not an adequate instrument to measure the distance from the earth to the moon. We can surely agree that different measures need different rulers.

In short, don't be put off by the odd title nor the moralistic (Jacinda-esque?) tone of the concluding chapter which urges us to work hard and be kind. The book recognises that our theoretical understanding of the mechanisms that govern wellbeing and how they interact with existing institutions is not perfect. Its strength lies in providing both an overview, and a well referenced framework for addressing important matters.

Finally in a generous gesture, half of the net revenue from sales of this book will be donated to The Nest Collective (<https://thenestcollective.org.nz/>), which gives baby and children's essentials to families in need.

There are many variations on the "not repeating-history" theme. In the present context that of Winston Churchill, "Those that fail to learn from history are doomed to repeat it" is particularly relevant. In fact, it could well be taken as the underlying theme of our next entry.

Bryce Wilkinson (2021) Illusions of History: How misunderstanding the past jeopardises our future (Wellington: The New Zealand Initiative).

This monograph makes an important contribution to the current debates on the macroeconomic management of the New Zealand economy. It does so by highlighting the pitfalls of basing current policies on a "misunderstanding" of past events. It leads off with a

foreword by Emeritus Professor Gary Hawke, who emphasises the difference between myths and history. In addition to the print version (available at <https://www.nzinitiative.org.nz/reports-and-media/reports/illusions-of-history-how-misunderstanding-the-past-jeopardises-our-future/>), the author is joined by Professor Hawke and Ben Craven of the NZ Initiative in a podcast to discuss the book (available at <https://www.nzinitiative.org.nz/reports-and-media/podcasts/podcast-the-illusions-of-history/>). The trio look at some of the prevailing myths of New Zealand's economic history, and explain the risks of basing contemporary public policy on inaccurate stories of our past.

The underlying motivation for this work draws on the budget speech by the Minister of Finance in May, 2020. Grant Robertson reflected on two episodes of New Zealand's economic history from which he drew lessons for addressing current challenges. The first was the extensive government spending following the Great Depression (1935-39); the Minister noted that his government was "taking those principles into the modern era."

In contrast, the Minister cited the Fourth Labour government (1984-90) and the following Bolger administration (1990-97) as an example of applying "a tired set of ideas" which "wreaked havoc;" in short this constituted a lesson in how not to conduct economic policy

The author then presents a careful and well documented set of evidence in relation to the claims for each of these periods. In the first case, economic activity had already recovered its pre-depression level when labour took office in 1935. But to finance a three-fold increase in public works spending per capita, foreign borrowing drove the external debt to the point that the government was close to defaulting. As neither reduced government spending nor devaluation were politically acceptable, the government imposed foreign exchange controls and import licencing as temporary measure (which took the next 50 years to undo). Profligacy and high debts have long term consequences.

Again, in the lead up to the reforms of the 1980s, both governments presided over major spending increases (recall "think big"), overseas borrowing and public debt levels rose. And again, the policy response was further exchange controls and import restrictions. The Minister is openly critical of the Fourth Labour government under Lange and Douglas for the steps they took to clean up the mess; steps which the author acknowledges were not free of pain but which laid the foundation for an economy characterised by low inflation, responsible fiscal management, freedom from much of the excessive direct control and regulatory structures that constrained growth, and long periods of low unemployment. One can only speculate what Grant Robertson would have done in the 1980s to deal with the economic challenges caused by excessive spending and borrowing. The author concludes on a salutary note: failure to learn from history is risky at best, and potentially calamitous at worst.

Coda

Any reader wishing to buy a copy of the following recently published economic thriller will have an instant cure for insomnia, and at the same time add to my income from royalties, which will help fund future editions of 2BRED:

Christopher Ball, John Creedy and Grant Scobie (2020) Tax Policy and Uncertainty: Modelling Debt Projections and Fiscal Sustainability (Cheltenham, UK: Edward Elgar Publishing Limited)

BLOGWATCH: EPISODE 1

By Paul Walker (psw1937@gmail.com)

George Selgin continues his series of articles on “The New Deal and Recovery” at the ‘Alt-M’ blog <https://www.alt-m.org/>. Part 9 looks at the Agricultural Adjustment Act <https://www.alt-m.org/2021/01/11/the-new-deal-and-recovery-part-9-the-aaa/> while Part 10 examines The Roosevelt Recession <https://www.alt-m.org/2021/02/04/the-new-deal-and-recovery-part-10-the-roosevelt-recession/>. Part 11 continues the examination of The Roosevelt Recession <https://www.alt-m.org/2021/03/02/the-new-deal-and-recovery-part-11-the-roosevelt-recession-continued/> and Part 12 looks at Fear Itself <https://www.alt-m.org/2021/04/14/the-new-deal-and-recovery-part-12-fear-itself/>.

Also at the ‘Alt-M’ blog, James Dorn offers “A Primer on Inflation” <https://www.alt-m.org/2021/07/22/a-primer-on-inflation/>. He gives answers to a few basic, but important, questions: What Is Inflation? Why Does Inflation Matter? What Causes Inflation? And What Can the Federal Reserve Do About Inflation?

At the same blog, Larry White looks at the topic “How U.S. Government Paper Currency Began, and How Private Banknotes Ended”. Interesting for those of you involved with monetary history <https://www.alt-m.org/2021/05/20/how-u-s-government-paper-currency-began-and-how-private-banknotes-ended/>.

At the ‘A Fine Theorem’ blog <https://afinetheorem.wordpress.com/>, Kevin Bryan writes about the John Bates Clark Medal-winning work of Harvard econometrician Isaiah Andrews. He says, “This brings us back to Isaiah Andrews. How do scientists communicate their results to the public, particularly when different impossible-to-avoid assumptions give different results? How can we ensure the powerful statistical tools we use for internal validity, meaning causally-relevant insight in the particular setting from which the empirical is drawn, do not mislead about external validity, the potential for applying those estimates when participants have scope for self-selection or researchers select convenient non-representative times or locations for their study? When our estimation is driven by the assumptions of a model, what does it mean when we say our model “fits the data” or “explains key variation in the data”? These questions are interesting essentially because of the degrees of freedom the researcher holds in moving from a collection of observations to a “result”. Differences of opinion in economics are not largely about the precision of estimated data, a la high energy physics, but about the particular assumptions used by the analyst to move from data to estimated parameters of interest. Taking this seriously is what I mean above by “strategic statistics”: the fact that identification in economics requires choices by the analyst means we need to take the implications of those choices seriously. Andrews’ work has touched on each of the questions above in highly creative ways. I should also note that, by the standards of high-rigor econometrics, his papers tend to be quite readable and also quite concise” <https://afinetheorem.wordpress.com/2021/04/20/statistics-that-takes-strategic-behavior-seriously-a-clark-for-isaiah-andrews/>.

At the ‘Washington Examiner’ <https://www.washingtonexaminer.com/> Bruce Yandle asks: “Are Google, Facebook, and Amazon so good at what they do that we must get rid of them?” “If a firm offers goods and services that consumers voluntarily consider to be superior, as based on their patronage, and if in so doing they provide the same consumers with lower or no higher costs, and if that means that the former suppliers now shunned by consumers are struggling and therefore the count of competitors is falling, how can one argue that consumers are being harmed?”

At the ‘Cato at Liberty’ blog <https://www.cato.org/blog/> Scott Lincicome looks at some recent US trade policy: “Reuters reports that President Biden today will travel to a Mack Trucks plant in Pennsylvania to announce more restrictive “Buy American” rules for federal contracts — a centerpiece of his administration’s “worker-centric” trade policy and broader embrace of U.S. industrial policy.” But “Buy American” [or Buy New Zealand] rules are just another form of protectionism: they’ve been found, for example, to act as a barrier to entering the U.S. market and to raise domestic prices in the same way that a tariff does. Special provisions in the rules, moreover, make them a particularly-generous handout for the U.S. steel industry (to steel consumers’ clear detriment). The restrictions also encourage foreign retaliation against U.S. exporters, and, far from improving federal projects, routinely confound them (via higher prices, more paperwork, project delays, etc.). Indeed, according to one recent (and quite relevant for today’s purposes) study, “Buy American” restrictions tied to federal transportation subsidies raised the price of domestically-produced transit buses and discouraged the purchase of more efficient foreign-made buses, thus lowering the quality and use of public transit (frequency and coverage), increasing traffic congestion, and harming the environment” <https://www.cato.org/blog/biden-rejects-open-trade-us-factory-dependent-it/>.

At ‘Ed Dolan’s Econ Blog’ <https://dolanecon.blogspot.com/> Ed Dolan discusses “America’s Social Protection Gap and What to Do About It” <https://dolanecon.blogspot.com/2021/05/americas-social-protection-gap-and-what.html>. Most liberal democracies around the world take pride in the freedom and prosperity of their citizens. And this is not just prosperity for the most well off of its citizens. They also pursue social protection policies that guarantee a minimum standard of prosperity for even the most disadvantaged. Dolan discusses social protection policies, entering an area in which the US struggles to keep up with the standards set by its liberal-democratic peers.

John H. Cochrane writes about “Climate risk to the financial system” at his blog ‘The Gumpy Economist’ <https://johnhcochrane.blogspot.com/>. “In the United States, the Federal Reserve, the Securities and Exchange Commission, and the Department of the Treasury are gearing up to incorporate climate policy into US financial regulation, following even more audacious steps in Europe. The justification is that “climate risk” poses a danger to the financial system. But that statement is absurd. Financial regulation is being used to smuggle in climate policies that otherwise would be rejected as unpopular or ineffective.”

At the AEA website <https://www.aeaweb.org/> Tyler Smith writes about research on “Black markets for appointments” <https://www.aeaweb.org/research/black-markets-online-booking-systems>. “Scalpers book free appointments online and then profit by selling them on secondary black markets. But there may be a simple solution”. Researchers suggest a system based on lotteries to short-circuit this scalping strategy. “What they call a “batch system” works by providing a fixed number of slots over a fixed period—in practice this could be a day. At the end of the period, if there are enough slots, then every appointment seeker gets one. But if there aren’t, then they are handed out randomly in a lottery. If an appointment is canceled, it goes into the next period’s batch. This approach stops scalpers from flooding the market with fake applications because they can’t transfer appointments to their customers. And the appointment seekers have the same chance of getting a slot when buying from the scalper as when applying directly, so there’s no reason to go to the scalpers”.

BLOGWATCH: EPISODE 2

By Paul Walker (psw1937@gmail.com)

Timothy Taylor <<https://conversableeconomist.com/>> discusses "Harold Demsetz: Dissecting the Nirvana Viewpoint". There are two ways economists can look at the world. One approach looks at problems in the context of alternative real-world institutional arrangements, recognizing that all the real-world choices will be flawed in one way or another. The other approach looks at current problems as juxtaposed with an ideal outcome. The latter we do (too?) often. "In a 1969 essay, Harold Demsetz critiqued that second approach, calling it the 'nirvana viewpoint.' He also argued that economics might be prone to that approach". Taylor says that Demsetz "argues that a nirvana bias may be built into the arguments commonly used by economists. For example, economists often point to what they call 'market failures,' like the negative externalities that lead unfettered free markets to excessive pollution, the positive externalities that [drive] unfettered free markets to underinvestment in R&D or education, the common pattern of unequal distributions of income in a market economy, and so on. In economic theory, each of these 'market failures' has a potential solution in terms of taxes, subsidies, or redistributions that could address the problem at hand". The way Demsetz looked at the problem was that he thought the real choice was not between one model and another, but rather between the set of existing (imperfect) institutional arrangements that address a particular issue and what the shape would be of a new and untested set of (imperfect) institutional arrangements designed to address the problem <<https://conversableeconomist.com/2021/08/27/harold-demsetz-dissecting-the-nirvana-viewpoint/>>.

Taylor also comments on the fact that "The World Bank Kills Its 'Doing Business' Report" <<https://conversableeconomist.com/2021/09/20/the-world-bank-kills-its-doing-business-report/>>. The most disturbing thing is why: "The World Bank announced that it is discontinuing its its biennial Doing Business Report. The reason is that World Bank insiders, under pressure from national government, leaned on the researchers charged with compiling the report to change their findings—which they did". Not a good look for the World Bank.

Scott Cunningham begins this blog <<https://causalinf.substack.com/>> entry by saying "Three minimum wage papers walk into a bar ...", and it's not a joke. The effects of the minimum wage is one of those topics over which much ink has been spilt, and wasted. Cunningham gives an overview of three recent papers: "The Effect of Minimum Wages on Low-Wage Jobs" by Doruk Cengiz, Arindrajit Dube, Attila Lindner, Ben Zipperer, *The Quarterly Journal of Economics*, 134(3) August 2019: 1405–54; "The Heterogeneous Effects of Large and Small Minimum Wage Changes: Evidence over the Short and Medium Run Using a Pre-Analysis Plan" by Jeffrey Clemens and Michael R. Strain, NBER Working Paper Number 29264 and "Difference-in-Differences with Multiple Time Periods" by Brantly Callaway Pedro H. C. Sant'Anna, https://psantanna.com/files/Callaway_SantAnna_2020.pdf "What is the effect of the minimum wage on labor markets? It mechanically raises the wages of employed workers at the bottom end of the wage distribution. But its effect on the overall employment of that group of workers has been debated by economists for decades. Given US states and the federal government regularly experiment with higher minimum wages, one would think economists would come to a consensus — especially given how many studies have been done on it. But the debate continues" <<https://causalinf.substack.com/p/three-minimum-wage-papers-walk-into?s=r>>.

At the American Economics Association <<https://www.aeaweb.org/>>, Chris Fleisher discusses a paper on the effects of a Brazilian policy to help disadvantaged students gain acceptance into public universities. In the early 2000s, Brazil's public universities realised they had a diversity problem inasmuch as a disproportionately small share of admitted

students were from low-income families or were of African or native Brazilian descent. Given this, in 2012 the Brazilian congress established affirmative action quotas aimed at boosting minority representation in the federal higher education system. Unfortunately, the reforms created an unfair system in which high-achieving minority students sometimes faced a harder path to acceptance than lower-performing white students. The paper offers insights for affirmative action, challenging policy designers to question assumptions that are baked into their design. "When we design these kinds of policies, you need to be careful about the assumptions that you're making [...] When you design these mechanisms, you need to design them carefully so that they're going to be robust to different assumptions." The paper discussed is "College Admission with Multidimensional Privileges: The Brazilian Affirmative Action Case" which appears in the August 2021 issue of the *American Economic Journal: Microeconomics* <<https://www.aeaweb.org/research/brazil-affirmative-action-unintended-consequences>>.

At VoxEU.org <<https://voxeu.org/>> Yoto Yotov marks the 60th anniversary of the workhorse model of trade – the gravity equation. Yotov's column celebrates the anniversary by addressing some misconceptions about gravity and by tracing its evolution from an intuitive a-theoretical application to an estimating computable general equilibrium model that can be nested in more complex frameworks <<https://voxeu.org/article/gravity-60-celebration-workhorse-model-trade>>.

Also at VoxEU.org, Nicholas Bloom, Leonardo Iacovone, Mariana Pereira-López and John Van Reenen explain that "Misallocation explains worse management among Mexican firms" <<https://voxeu.org/article/misallocation-explains-worse-management-among-mexican-firms>>. "The implications of poor management in developing countries are becoming well known, but what drives these differences is less clear. Based on large new surveys in Mexico and the US, this column argues that misallocation is a key driver of these differences. Frictions from low competition and weak rule of law appear to lie behind the difficulties even well-managed firms in Mexico have in growing, especially in the services sector. These results point to the importance of open and contestable markets, improving contract enforcement, and lowering crime and corruption as key mechanisms to improve firms' management and productivity".

The last few months have not been kind to the economics profession. Ilya Somin notes the death of Anthony Downs <Anthony Downs, RIP: <https://www.cato.org/blog/anthony-downs-rip>>. Gérard Roland writes about the death of the great Hungarian economist János Kornai <Economics of socialism and transition: The life and work of János Kornai, 1928–2021: <https://voxeu.org/article/j-nos-kornai-1928-2021>>. Julius Horvath and Gabor Klaniczay also note Kornai's passing <János Kornai 1928 – 2021, Economist: <https://www.ceu.edu/article/2021-10-20/janos-kornai-1928-2021-economist>>. Frank Stilwell writes an obituary of Australian economist Geoff Harcourt <Geoff Harcourt: Rapporteur, Raconteur, Political Economist Extraordinaire: <https://www.ppesydney.net/geoff-harcourt-rapporteur-raconteur-political-economist-extraordinaire/>>. From the University of Chicago comes news of the death of Hugo Sonnenschein <Hugo Sonnenschein, 11th president of the University of Chicago, 1940–2021: <https://news.uchicago.edu/story/hugo-sonnenschein-11th-president-university-chicago-1940-2021>>. Andreu Mas-Colell also writes an obituary of Sonnenschein <In Memoriam: Hugo F. Sonnenschein: <https://www.econometricsociety.org/content/tribute-former-president-hugo-f-sonnenschein-andreu-mas-colell>>. Patrick Honohan and Cormac Ó Gráda remember the late Peter Neary <Remembering Peter Neary (1950–2021): <https://voxeu.org/article/remembering-peter-neary-1950-2021>>.

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