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

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New Zealand Association of Economists Inc.

Stuart Birks Editor

email: k.s.birks@massey.ac.nz

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

Economics has all the answers...
...and there are only 10 simple points!!!

http://www.city-journal.org/2008/18_3_economics.html

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EDITORIAL

We've knocked the b***d off!

Stuart Birks (k.s.birks@massey.ac.nz)

I feel obliged to begin this editorial with an apology. There is no way that this short newsletter could do justice to our twelve keynote speakers, our after dinner speaker, other prominent attendees and the participants in the ten-stream parallel sessions. I am grateful for the other members of the NZAE council who provided their input, either directly or behind the scenes. Of course, an issue of *AI* is a small task compared to the major effort of organising the conference itself, and credit much go to the organising committee for their commitment, dedication and strong nerves. The Association has benefitted greatly from their work.

So what to say beyond the more formal discussions below? First, it was great to see many representatives of Bill Phillips' family, including his sister, at the conference dinner. Alan Bollard's address at the dinner demonstrated what a remarkable man he was. The MONIAC (Monetary National Income Analogue Computer) was on display at the RBNZ museum, with daily working demonstrations by Geoff Bertram.

I pointed out David Hendry to one of the student 'conference assistants' on the first day, to the response, 'Who's he?' By the end of the conference, nobody could have given that answer. There were no discussants arranged, and none were needed. He was able and willing to challenge every speaker, giving us in New Zealand a chance to experience first hand the sorts of debate that occur regularly overseas. Thanks, David.

To fit in at least a brief mention, there were stimulating keynote addresses by Alan Timmermann and George Borjas, and Robert Gordon gave a

masterly history of the Phillips Curve (available at: http://faculty-web.at.northwestern.edu/economics/gordon/WLG_text&figs.pdf).

A cartoon in Avner Greif's presentation made a point about the factors that can influence change. The caption read, "The greatest enemy to human potential is your comfort zone". If you are in a comfortable position, you will be unwilling to change. For those who want a second look, it can be found at: http://www.ghana.gov.gh/files/comfort_zone.jpg.

The conference assistants were a big help, and, by all accounts, they enjoyed and benefitted from their experience. Perhaps I should suggest the use of seminar assistants to increase their attendance at departmental seminars.

The NZAE Education Trust also funded three Graduate Study Awards to help students to attend the conference. These went to Alvin Etang, Marie-Claire Robitaille-Blanchet and Shrabani Saha. Alvin's poster won first prize in the student competition. This was the most successful poster competition so far. Let's hope that it is a sign of things to come. The six winning posters can be seen at: <http://www.phillips08.org.nz/competition/poster.html>

The Jan Whitwell prize is a well established competition for presentation of student research. The winners for this conference were Damien Eldridge and Nina Walton. Congratulations to them both.

And one final word, welcome to the new Secretary/Manager, Bruce McKeivitt. He has successfully survived his first few months in the position and is fast getting on top of the job. I am also pleased to say that Val Browning has had her operation and things are now looking much better for her.

NZIER POSTER COMPETITION

Alvin Etang (student category) and **Chris Hector & colleagues** (open category) were this year's **first prize winners** in the NZIER poster competition at this year's NZAE conference.

The poster competition provides an opportunity for economists to present their research in a crisp and innovative way to a wide audience. Whether intended or not, the posters proved to be good conversation starters like all good art work. Talk about positive spill-overs!

There were twenty-nine posters entered in total, eighteen in the open category and eleven from students. The range of topics, content and presentation formats were as varied as the countries of origin of the presenters.

The judging panel was unanimous in all its decisions. The posters of all prize winners stood out in the way that they were obviously designed with their audience and environment clearly in mind – effective communication at twenty paces!

The judging criteria included design (including readable text, clear pathway, layout etc), content (outline of the issue, method, findings, and relevance), and additional factors such as the availability of handouts or the discussions with the presenter.

Participants obviously responded to the incentive provided by the total prize pool of \$10,000 made available by NZIER this year. Of special note was the extremely high standard of all of the student presentations.

The winners in each category were:

STUDENT:

- 1st Alvin Etang (Modelling the effects of Socio-economic Characteristics on Survey Trust)
- 2nd Susan Olivia, John Gibson, S Rozelle, J Huang and X Deng (Poverty Mapping in China: Do Environmental Factors Matter?)
- 3rd Meg Paichayontvijit, A Chaudhuri (Credible Assignments and Performance Bonuses in the Minimum Effort Coordination Game)

OPEN:

- 1st C. Hector, Trinh Le, and John Gibson (The Distributional Impacts of Kiwisaver Incentives)
- 2nd Arthur Grimes and Andrew Aitken (Water, Water Somewhere)
- 3rd Tantri Tantirigama and Mei Taniguchi (Trends in Tourism Expenditure Measured in Volume Terms)

The competition will be repeated in the same format next year.[]

Members are invited to submit brief articles on any issue of interest to NZAE members, and/or comments and suggestions. Enquiries and contributed articles should be sent to Stuart Birks [K.S.Birks@massey.ac.nz].

Views and opinions expressed in these articles are those of the authors, and do not represent the views of the New Zealand Association of Economists

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

Conference 2008 report

Stuart Birks (k.s.birks@massey.ac.nz)

[Many of the papers can be accessed via: <http://www.phillips08.org.nz/programme/> or <http://www.nzae.org.nz/cgi-bin/authors.pl>]

What an exceptional conference for New Zealand! I must start by acknowledging the wealth of expertise and scholarly endeavour that was on display. The conference was a major achievement, and the organising committee is to be thanked and complemented for its sustained effort and commitment over a very long time.

This year's conference was a unique opportunity for economists in New Zealand to take stock of the current state of the discipline. Elsewhere I have included several people's observations of the conference, focused on specific keynote speakers. More generally, and in keeping with the traditions of *Asymmetric Information*, here are my own, iconoclastic impressions of the conference in general.

FUTURE DIRECTIONS

Several keynotes gave clear signals of fruitful future directions, and these should be noted. Just as the primal has a dual, so these signals for the future can be interpreted as indicating shortcomings in the present. According to Socrates, we should note these shortcomings. To quote from Plato's account of Socrates' "Apology":

[A]lthough I do not suppose that either of us knows anything really beautiful and good, I am better off than he is - for he knows nothing, and thinks that he knows. I neither know nor think that I know. In this latter particular, then, I seem to have slightly the advantage of him.¹

So what were these clear signals?

Sir Clive Granger began his talk by referring to **fads**. He mentioned the "large models fad", which ended when it was found that they forecast badly. Then there was the "spectral analysis fad", which also ended when it was recognised that the same spectrum is obtained if data are run data forwards or backwards in time. Presumably other fads are still current. Might these include: the emphasis on statistical tests of significance; a possibly reductionist view that issues can be analysed through econometric analysis of available data series; or the value of VAR models; or perhaps even Granger causality?

1 Paragraph 7 of Socrates' defence in Plato's "Apology", <http://classics.mit.edu/Plato/apology.html>

2 John Godfrey Saxe, "The Blind Men and the Elephant" http://www.wordinfo.info/words/index/info/view_unit/1/?letter=B&spage=3

3 P.46 of Downs, A. (1957). *An economic theory of democracy*. New York: Harper.

Granger also mentioned the concept that the best forecast would most probably be a **mix** of available forecasts. Should we also consider that the best theory may be a mix of theories? Note John Godfrey Saxe's poem, 'The Blind Men and the Elephant'², in which six blind men each feel a different part of an elephant and draw different conclusions as to what the animal is like. The closing two verses merit repeating:

And so these men of Indostan	So oft in theologic wars,
Disputed loud and long,	The disputants, I ween,
Each in his own opinion	Rail on in utter ignorance
Exceeding stiff and strong,	Of what each other mean,
Though each was partly in the right,	And prate about an Elephant
And all were in the wrong!	Not one of them has seen!

Slemrod, Greif and **Persson** all talked about the importance of **institutions**. **Joel Slemrod** stressed the distinction between optimal taxes and optimal tax systems. Institutions/systems are also variables, and so overall optimisation should not be constrained by the existing institutional structure. In particular, he stressed that incentives, compliance and enforcement can vary over systems that are otherwise fiscally equivalent, as with employers or employees being responsible for remitting labour income taxes. Economics has disregarded many of these important aspects, to the extent that, "Most modern economic analysis of taxation presumes that tax liability can be ascertained and collected costlessly". He also described a common assumption in economics that some things can be observed at no cost (e.g. income), while other things cannot be observed at any cost. To stretch economists' credibility further, to this could be added an assumption by Anthony Downs in his *Economic Theory of Democracy*, "Throughout this thesis, we assume that no false (i.e. factually incorrect) information exists...".³

Avner Greif's hypothesis was that outcomes can be very different for two countries where many factors are identical, but one or more aspects differ. This emphasises the potential importance of INUS conditions, crucial components within a set of sufficient conditions (see *A/No.8*, p.8). If one condition in the set is not met, the set of conditions is not sufficient. This makes a mess of many econometric relationships, and means that multi-country analyses are more complex than economists often assume.

Torsten Persson considered state investment in legal and fiscal capacity. A related paper can be found at: http://www.iies.su.se/~persson/papers/paper_080403.pdf. At the risk of oversimplifying, the chance of valuable institution and fiscal capacity building is high if the benefits are high and the costs are low. This can depend on the homogeneity of a society and the existence of outside threats. Economics should not assume that the necessary institutions exist and operate flawlessly and costlessly.

In summary, institutions are important, and they can be changed.

Stephen Morris began his address⁴ by pointing to a contradiction in economics. Economists hold the view that unique predictions from a model are good, whereas multiple predictions equal 'failure'. A similar claim could be made about statistical results and significance, with an associated inherent bias in reported findings. He contended instead that multiple predictions allow 'rich story-telling'. He was not the only keynote speaker to make this claim. He considered a range of games under differing assumptions, concluding that the results are highly sensitive to these assumptions. While we can solve simple games, problems arise if they get much larger or more complex. In this area at least, there does not appear to be a holy grail, and assumed structures are important. We should be aware of the sensitivity of models to their underlying assumptions. While no paper is available, his slide presentation can be found at: [http://www.princeton.edu/~smorris/pdfs/colin clark.pdf](http://www.princeton.edu/~smorris/pdfs/colin%20clark.pdf)

Martin Browning described the data available in Denmark, with everyone being continuously tracked since 1980. It enabled him to do a study over time on all members of selected groups of the population. He disaggregated into sub-groups to consider their labour market behaviour over time. A key point that I took from his paper is, as for Stephen Morris, that rich story telling is both possible and interesting. I noted his aside that econometricians are likely to focus on statistical, rather than economic, aspects. Consequently, they tend to go straight in to a search for overall patterns rather than thinking about potentially richer or more involved structures. In his econometric analysis, he found that the chosen sub-groups each behaved differently. This would be hidden (or rather, assumed away) in an aggregate study. Although he did not say as much, a necessary assumption for an aggregate econometric approach would be violated in this case. The observations are from distinct underlying structures. How often are we blind to this problem?

SIMPLIFYING – SEARCHING FOR THE HOLY GRAIL?

I found an unexpected significance in the association of the conference with Phillips and the Phillips curve. Here is a quote from a RBNZ News release⁵:

Reserve Bank Governor Alan Bollard said that Dr Phillips' influential 1958 paper on the relationship between inflation and unemployment, catapulted him to prominence as one of the most significant economists of the mid-20th century. Phillips himself regarded his article (a "wet weekend's bit of work") as of only passing interest. Nevertheless, it led to a re-shaping of macroeconomic policy for decades.

Something that started as an observation of a basic graphical relationship between two variables came to be awarded great importance. More generally, a simple, definitive relationship between a very limited number of variables could be considered by many to be an 'ideal' economics finding, either in economic theory, or in econometric estimation. However, such relationships are few and far between. Several keynote speakers indicated, or even clearly demonstrated, that we should be taking broader approaches.⁶

There is a danger that an over-reliance on econometric techniques could result in our overlooking important aspects of the issues under investigation. We are undertaking increasingly technically complex analyses with a limited amount of information to find simple patterns or structures. There is an assumption that these exist in stable forms, and they only need to be identified. In comparison, other disciplines spend more time considering details, while having less structure in their analyses. Such disciplines include political science, social policy, communication, and media studies. This is a point of tension. Critics of economics can and do suggest that we have not achieved the right balance of structure and detail. Conversely, economists could use the same point in reply. Economists' over-simplified approaches were mentioned in an aside by **Benno Torgler** (paper 29.3), when he said that economists aim to analyse happiness as measured by a single variable, whereas psychologists would use a large number of variables. Many of the critical comments and suggestions by the keynote speakers could also be interpreted as concerns about current oversimplification.

The idea that we should be looking outward at the details of the real world, rather than inward for simple structures, can be found in the early days of modern economics. To quote Adam Smith, "[W]hat is founded on practice and experience must be better adapted to particular cases than that which is derived from theory only".⁷

Others have criticised economics for taking too narrow a perspective. For a home-grown example, Murray Patterson, who favours ecological economics, states that 'conventional economics' is "methodologically 'reductionistic' and uses mechanical models of the economy often based on analogues drawn from mechanical physics and classical thermodynamics".⁸ Here also is a lengthy quote on that point by Nassim Taleb⁹:

4 This was the Colin Clark lecture. Colin Clark is described at: [http://www.econ.usyd.edu.au/esasc/lectures.html#Colin Clark](http://www.econ.usyd.edu.au/esasc/lectures.html#Colin%20Clark). Among other things, it states, "He is credited with the invention of the concept of Gross National Product".

5 See also pp.10-11 of *Asymmetric Information* No.28.

6 RBNZ News release, "Bill Phillips: Man, Money and Machine" 1 July 2008, <http://www.rbnz.govt.nz/news/2008/3334282.html>

7 P.169 of Smith, A. (1963). *Lectures on rhetoric and belles lettres: delivered in the University of Glasgow by Adam Smith*, reported by a student in 1762-63. London: Nelson

8 P.1 of NZCEE News, August 2007 [http://www.nzcee.co.nz/files/newsletters/NZCEE news lss2_web.pdf](http://www.nzcee.co.nz/files/newsletters/NZCEE%20news%20web.pdf)

9 P.177 of Taleb, N. N. (2005). *Foiled by randomness: the hidden role of chance in life and in the markets* (2nd ed.). New York: Random House Trade Paperbacks

What has gone wrong with the development of economics as a science? Answer: There was a bunch of intelligent people who felt compelled to use mathematics just to tell themselves that they were rigorous in their thinking, that theirs was a science. Someone in a great rush decided to introduce mathematical modelling techniques (culprits: Leon Walras, Gerard Debreu, Paul Samuelson) without considering the fact that either the class of mathematics they were using was too restrictive for the class of problems they were dealing with, or that perhaps they should be aware that the precision of the language of mathematics could lead people to believe that they had solutions when in fact they had none (recall Popper and the costs of taking science too seriously). Indeed the mathematics they dealt with did not work in the real world, possibly because we needed richer classes of processes – and they refused to accept the fact that no mathematics at all was probably better.

We could even consider Robert Frank's discussion in *The Economic Naturalist* of the institutional factors that have resulted in economics becoming too mathematical.¹⁰ Frank focuses on incentives for economists to demonstrate their technical capabilities. However, there is a more general institutional bias facing all academics.

There is already a large body of knowledge in economics. One text on undertaking research states of the literature search phase, "Where there is a copious literature the researcher may never have to go beyond this initial subject to amass sufficient references"¹¹. If all researchers took this advice, we would have a big problem. A telling point is raised in a report produced jointly by Child, Youth and Family and the Ministry of Social Policy under the auspices of the Children, Young Persons, and the Families Act Research and Evaluation Fund Management Committee.¹² The report noted far more research into some areas than into the others. Readers are cautioned, "Because certain factors and/or certain dimensions have been extensively researched does not mean that those factors or dimensions are more important...than those that have not been extensively researched" (pp.9-10).

Economists and econometricians may be persuaded by analyses that follow our current conventions, but we may not be so successful at persuading those in other disciplines. This could be a problem. Some questions come to mind. In what ideas markets do we wish to trade? Are we using our techniques and theoretical structures as barriers to entry into our own markets? Do they limit our competitiveness in other markets?

10 Pp.139-140 of Frank, R. H. (2007). *The economic naturalist: in search of explanations for everyday enigmas*. New York: Basic Books.

11 P.87 of Sharp, J. A. (2002). *The management of a student research project* (3rd ed.). Aldershot, Hants, England: Gower

12 Saville-Smith K (2000) *Familial caregivers' physical abuse and neglect of children: a literature review*, Ministry of Social Policy <http://www.msd.govt.nz/documents/publications/sector-policy/familialcaregiverslitreview.pdf>

KEYNOTE REPORTS

David B Audretsch: "Innovation and Technology: Entrepreneurship"

(by John Yeabsley)

The amazing David B. Audretsch (DBA) is a busy and productive man who is essentially self-employed and works in many different locations – a metaphor for his seminal ideas?

He is Distinguished Professor and the Ameritech Chair of Economic Development at Indiana University. And he is also the Director of the Max Planck Institute of Economics in Jena, Germany.

In these roles he is involved with a small factory in Indiana (the Institute of Development Studies), which turns out academic papers; mostly centred round DBA's refreshing ideas about entrepreneurship, and usually involving empirical work. Many of these papers can be downloaded from the site (see www.spea.indiana.edu/ids/).

He was a featured speaker at the Phillips symposium, cunningly positioned late on the final day to hold participants tempted to sneak away before the close, at least until afternoon tea. His session was sponsored by the Ministry of Economic Development.

His contribution was a bit like a fire works display. Some bits were more impressive than others. There was a series of different elements (to my mind reflecting much of the content of the various pieces of work his shop has carried out over the years). These were held together by the central thread of relating his vision of the role of the entrepreneur to the challenge of economic growth. The joy of his work is the way he takes his ideas to the testing station. (One of the obvious attractions of Germany is the supply of data sets to examine economic theories.)

He started by talking about the dominating driver of economic structural change in the current situation – globalisation, which he sees as changing the way we work now, so we will all change jobs a lot and be more likely to be self-employed.

He looked at the history of economic thought and suggested that his approach replaced the Schumpeterian creative destruction with creative construction. In modern terms he lined up broadly with Romer. But a reshaped Romer with the autonomy of the way innovations spread removed.

DBA is more existential. Spillovers are personally driven by entrepreneurs. The upshot of this is to allow him to address some of the interesting features of innovation:

- Why universities have a role
- Why there is an economic geography effect and
- What happens in the deadly "knowledge filter"?

Like all sound enquiry this is work in progress; but it incorporates the acceptable bits of previous ideas while throwing out testable new ideas. Worth the wait; thanks MED.

Sir Clive Granger: “The Evolution of the Phillips Curve: A Modern Time-Series View”

(by Bill Kaye-Blake)

For this economist suckled on Samuelson in the years when Volcker and then Greenspan reigned at the US Fed, Sir Clive Granger’s talk on the Phillips curve was full of interest and irony. In the 1980s, we were presented with many different views on the possible tradeoffs between inflation and unemployment. Samuelson, for example, assured us that the US NAIRU was essentially 6.0 per cent, with about three per cent in structural unemployment and the rest in frictional unemployment. When US unemployment fell below this level in the 1990s with no apparent acceleration in inflation, Samuelson got to publish new editions of his textbook. Because of the Fed chairmen (and their political allies), our beleaguered professors also had to explain monetarism so that we could make sense of the morning paper. The problem was that a Phillips curve analysis fit the experience of the early 1980s as well as any monetarist explanation, so we had no idea how to prepare for the final exam. Once we got to the rational expectations critique, we could be forgiven for feeling that the Phillips curve was more of an historical curiosity than a useful macroeconomic relationship.

It was thus distinctly different to see a lecture in which someone took the Phillips curve seriously. The talk was structured around a new analysis of Phillips data that Granger undertook. He began with a look at the technique that Phillips used, and reminded the audience not to judge the work by modern standards. At the time, the LSE did not have a computer (in the modern sense) on which to estimate equations, so the work had to be done by hand. The Phillips curve also stood out as a non-linear model estimated at a time when most models were linear for convenience’s sake. For the re-estimation, Granger used modern technology and techniques. Rather than using hand calculations, he redid the models on a computer. He also relied on work by White, which found that non-linear models can be approximated by linear models with smoothly varying parameters. The Granger model thus replaced the Phillips curve equation with a linear model that contained time-varying parameters. He noted that he was not concerned about which model is correct, but was instead concerned with how well they forecast inflation. In addition, the technique was able to establish causality, whether unemployment caused inflation or vice versa.

Granger estimated the model not only on UK data, but also on data from the US, Australia, and Turkey. He found that the results depended on which dataset was being analysed.

For the UK, Australia, and Turkey, there were varying levels of support for the Phillips curve. The US data, at least the annual data, did not support Phillips’s findings, but did provide evidence of a reverse Phillips curve. However, the monthly US data provided some evidence of an ordinary Phillips curve.

Granger rounded out the talk with an observation about Phillips: he would be pleased that his curve is still being discussed, and certainly not bothered that his initial findings had been superseded by new technology and techniques.

It was interesting and informative to see a new and expanded analysis of Phillips’s data and similar data from other countries. Other economists have attempted to make the Phillips curve disappear by arguing about the role of money or expectations in a market economy. Granger asked whether we can learn more about the relationship between unemployment and inflation by using our modern tools. The ability of the topic to arouse debate was underscored in the question period, when Bob Gordon challenged Granger on his results for the US and the data he had used. Phillips may have had the first word by estimating his curve, but the last word on his work could be a long way off.

Avner Greif: “Risk, Institutions and Growth: Why England and Not China”

(by Stephen Knowles)

North’s (1990) seminal work on institutions and economic performance defined institutions as “the rules of the game in a society or, more formally, [they] are the humanly devised constraints that shape human interaction.” The key word here is constraints; institutions are meant to stop people doing things they should not, such as expropriating the property of others and renegeing on contracts. Motivated by North, many highly cited empirical papers have analysed the extent to which the quality of institutions can explain cross-country income differences. In this literature, the focus is on empirical proxies capturing the extent to which property rights are protected and contracts are honoured.

In Avner Greif’s thought provoking and often humorous presentation, he put the case that the definition of institutions be broadened beyond that of property rights and contracts to include institutions that promote risk-taking behaviour, and hence lead to technological advances. He weaved historical evidence from England and China in with a theoretical model to argue that the industrial revolution happened in England, not China, because England had an institutional environment that encouraged risk taking (the 1601 Poor Law being a good example). Another interesting observation was that England was not particularly good at encouraging invention, something the French were better at, but had an institutional environment that encouraged taking risks to commercialise the inventions of others. Throughout the presentation, I was impressed with

the way the theory and the economic history were constantly related back to each other.

Avner Grief's presentation was based on his paper, co-authored with Diego Sasson, "Risk, Institutions and Growth: Why England and not China?" The paper can be downloaded from the conference web site. I recommend this paper to anyone interested in why economic development has occurred in some regions and not in others.

North, D. C. (1990). *Institutions, institutional change, and economic performance*. Cambridge: Cambridge University Press.

Torsten Persson: "State Capacity, Conflict and Development"

(by Kirdan Lees)

Torsten Persson's presentation dealt with the development and size of the state and is based on a paper with Tim Besley (London School of Economics) that is forthcoming in the *American Economic Review*. The research stands in a line of recent literature on the impact of institutions on growth and development

The presentation in fact motivates a broad research agenda on the interaction between state capacity and conflict and notes that in effect, "war made the state" – if the state possessed the ability to raise revenue, it possesses the means to raise an army to defend or acquire resources

Torsten's presentation focused on two specific notions of state capacity: (i) *fiscal capacity*, that constrains policies that raise revenue for redistribution or the provision of public goods; and (ii) *legal capacity*, that constrains regulation, such as the ability to enforce property rights.

A formal theoretical model is developed, the core of which focuses on two groups of individuals, where only one group holds government. The model is used to support a number of propositions on fiscal capacity and legal capacity. Among other propositions, the model suggests the larger the set of common interests between the two groups, the higher is expected demand for public goods which raises investment in both forms of state capacity.

Furthermore, the model predicts that "lower political instability promotes investment in state capacity", because the group of individuals that form the government, expect that future policy will be used to further their own interests. In particular, risk of external and internal conflict generate the incentive (if any) to build state capacity. Besley and Persson use data on indices of fiscal and legal capacity, the incidence of civil wars and find support for the model.

The paper looks likely to generate further research on the development of the state from an economic perspective.

Besley, T. and T. Persson (2008), "The origins of state capacity: property rights, taxation and politics", forthcoming *American Economic Review*. Available in draft form at: <http://www.iies.su.se/~perssont/>

Joel Slemrod: "Toward a Theory of Optimal Tax Systems"

(by Iris Claus)

The central theme of Joel Slemrod's plenary address was the need to replace the current theory of optimal taxation with a theory of optimal tax systems. He argued a new theory is required, which links the rigorous analysis of taxation with the tax system issues that are relevant in practical tax policy formulation. The new theory needs to take into account that "governments have limited administrative capacity to measure, monitor, and enforce, and evasion and avoidance are ubiquitous, and administrative and compliance costs are not trivial." Moreover, the new theory must be able to explain the behavioral response to taxation of all taxpayers, including sophisticated taxpayers such as high income individuals and multinational corporations with access to highly developed tax planning strategies. "A theory of tax systems would have to address much more than the optimal tax base (income or consumption) and the optimal rates to apply to that base. It would have to address such things as what fraction of tax returns to audit, how to choose the audited returns, and what structure of penalties to apply to detected evasion." It would have to address whether consumers or retailers remit retail sales taxes and whether employers or employees remit labor income taxes. "It would have to address what compromises to (make), such as the taxation of capital gains upon realization rather than accrual, the taxation, or non-taxation of the imputed income from owner-occupied housing, the use of statutory depreciation schedules rather than the true decline in value of capital assets, and so on." Slemrod outlined some of the theoretical issues that a theory of tax systems needs to consider. In addition, he concluded, a new theory of tax systems requires refining empirical estimates of the effects of taxation to include the interactions of the broad range of tax policy parameters and their influence on behavior.

Stephen J. Turnovsky: "Stabilization Theory and Policy: 50 Years after the Phillips Curve"

(by Iris Claus)

Stephen Turnovsky's plenary address discussed Bill Phillips' influence in the development of dynamic stabilization policy, one of the key objectives of macroeconomic policy. Phillips made two fundamental contributions in this field. His first contribution was contained in two papers published in the *Economic Journal* (Phillips 1954, 1957), both of which draw on his background as an engineer. They were the first papers to apply feedback control methods to the stabilization of a macroeconomy. Building on models by Samuelson (1939),

Hicks (1950) and Allen (1956), Phillips showed how an active government policy intervention rule can influence the dynamic time path of an economy. To demonstrate the durability of Phillips' work, Turnovsky "review[ed] the [...] stabilization rules adopted by Phillips and show[ed] how the[y] relate to the optimal stabilization rules that emerge from conventional linear-quadratic optimization problems." (If only it was as easy as Turnovsky made it look!) Phillips' second contribution relates to the celebrated Phillips curve (1958). "Beginning with [the] original negative inflation-unemployment relationship, through the (backward-looking) expectations-augmented Phillips curve of the 1960s, to the New-classical Phillips curve of the 1970s and most recently the New Keynesian Phillips curves of the 1990s it has been a central component of short-run macrodynamic models." Turnovsky concluded that Bill Phillips' pioneering work "has had a profound impact on the theory of economic policy."

Allen, R.G.D., (1956), *Mathematical Economics*, McMillan, London.

Hicks, J.R., (1950), *A Contribution to the Theory of the Trade Cycle*, Oxford University Press, Oxford.

Phillips, A.W., (1954), "Stabilisation Policy in a Closed Economy," *Economic Journal* 64, 290-323.

Phillips, A.W., (1957), "Stabilisation Policy and the Time Form of Lagged Responses," *Economic Journal* 67, 265-277.

Phillips, A.W., (1958), "The Relation Between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957," *Economica* 25, 83-299.

Samuelson, P.A., (1939), "Interaction Between the Multiplier Analysis and the Principle of Acceleration," *Review of Economic Statistics* 21, 75-78.

Wing Thye Woo: "The Re-Emergence of China: The Valid Concerns and the Opportunities for All" (by Iris Claus)

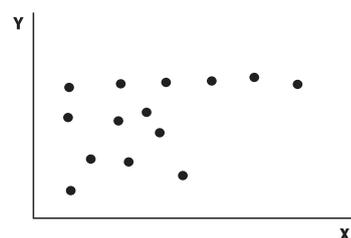
The theme of Wing Woo's plenary address was the re-emergence of China as an economic power. The likely return of China to the center stage of the global economy has given rise to a turn against free trade in the United States. According to the *Pew Global Attitudes Survey* the proportion of US residents, who have a positive view of trade, dropped sharply from 78% in 2003 to 59% in 2007. In particular China has been accused of exchange rate manipulation that has decreased US unemployment and wages. Woo argued against these assertions. "The claim that a large appreciation of the Renminbi (RMB) would reduce the US trade deficit represents the triumph of hope over experience." He pointed to the "almost 50% appreciation of the Yen in 1985-88, which had only marginal impact on the US trade deficit". Moreover, he noted that "[t]he alleged negative effects on US labor from the trade imbalances are greatly exaggerated. The average unemployment rate in 1999-06 is lower than in 1991-98; and the total compensation (including benefits) for US blue-collar

workers rose throughout the 2001-06 period when the US trade deficit soared. Beside [...] globalization, accelerated technological innovation was another important trend in this period, and it produced large productivity gains that enabled labor income to rise despite the greater competition from imports." Woo concluded that "[t]he optimum solution to the present trade tensions is a policy package that emphasizes multilateral adjustment and cooperation on a broad front. It is bad economics and bad politics to focus on only one party (China alone must change), on only one instrument (RMB appreciation alone), and on only one policy objective (current account balance). [...] Enhanced global prosperity requires [...] cooperation [...] between China and the rest of the world. An important first step in fostering cooperation is to save the world from lapsing into protectionism. Failure on this easier task is unlikely to bode well for future cooperation to slow climate change, stop nuclear proliferation, fight global terrorism, and contain pandemic diseases." []

What else would you do with a graph?

Stuart Birks (k.s.birks@massey.ac.nz)

At the risk of over-generalising, the common response by economists and econometricians when faced with a graph seems to be to plot a line, commonly a straight line, through the points. Here is an approximation to a graph presented in one of the conference parallel sessions:



The variables were indices, which raises questions anyway because they may not be cardinal measures. Also, they were of country data. This raises further concerns, as outlined below. However, the main point I want to address here is that linear regression may not be the most useful form of analysis with a graph such as this.

Consider first that there are three points out to the right. There are only a few observations in total, so these three could be crucial for the regression results. If they were omitted, any relationship between X and Y would seem to be very weak.

Second, these three points could be considered as outliers. We could drop them as displaying different characteristics, or we could look to see if there are any lessons to be learned from them. A classic outlier example is that of the Broad Street pump. John Snow MD identified the source of the 1854 cholera outbreak in London first by noting that victims generally lived close to the pump, and then finding in particular that two victims who lived further away sent a servant to Broad Street for their drinking water. It was these and other outliers that provided the persuasive evidence. (See: <http://www.ph.ucla.edu/epi/snow/broadstreetpump.html>).

Third, instead of looking for a straight line relationship, why not consider, depending on any assumed direction of causality, either:

- a) High Y is a necessary but not sufficient condition for high X, or
- b) Lower X is a necessary but not sufficient condition for low Y

This is an alternative functional relationship that may be common, but is rarely seen as an option in econometric analyses.

Now to consider country data. There is a fundamental question to consider. Is it legitimate to do regressions on countries?

A country is an aggregation of regions, but it may be grouping extremes, resulting in averaging. There could in fact be no areas with the average characteristics, but the analysis hides this. With analysis of industry and trade data by standard classifications, we know that results can be highly sensitive to the level of aggregation (2- versus 4-digit classifications, for example). In this context, country structures can change over time, as with former Yugoslavia or the Soviet Union. In other words, there are changes to the amount of aggregation and the number of observations. This may well affect the results.

Related to the above point, it could be asked whether the same weighting should be given to each country (such as Fiji and China), regardless of size. If so, perhaps this would give too much emphasis to smaller countries, and these may also have the more extreme values due to averaging in larger countries. If different weights are used, heavier weights would be given to larger countries, but under the assumption of homogeneity within the country. It is equivalent to breaking up large countries into a number of smaller, identical countries. If based on population, there could be one observation for Fiji and over 1300 observations representing China, all identical. Needless to say, the approach would have a marked effect on regression results. Moreover, using averages as estimates for much of the data conceals a lot of the variation that the regression is attempting to explain.

Regression is based on the assumption that all observations are from the same underlying structure for the specified relationships. However, several keynote speakers at the conference, including Greif, Persson and Slemrod, emphasised the importance of institutional factors, and the way these vary over countries and over time.

So what do regressions on country data actually mean?

ANNOUNCEMENT: The A R Bergstrom Prize in Econometrics: 2007

We are pleased to announce award of the **A R Bergstrom Prize in Econometrics** for 2007 to Melanie Morten, PhD student, Yale University, for her paper "Healthy and Wealthy? Examining the Causality between Income and Life Expectancy".

The object of the Prize is to reward the achievement of excellence in econometrics, as evidenced by a research paper in any area of econometrics. The Prize is open to New Zealand citizens or permanent residents of New Zealand who, on the closing date for applications, have current or recent (i.e. within two years) student status for a higher degree. The Prize is awarded once every two years, with a value of NZ\$2,000.

The citation that accompanies the award reads as follows:

Melanie Morten's paper applies recently developed dynamic panel data methods to investigate the causal relationship between income and life expectancy. For a panel of 15 OECD countries, results from using first difference GMM (DIF) and system GMM (SYS) estimators are compared with those from the Han-Phillips (2007) GMM method. The Han-Phillips method avoids both the weak instrument problem of the DIF estimator and the distribution of fixed effects problem of the DIF estimator. It is found that the choice of estimation method affects the outcome of the granger causality tests. From the preferred Han-Phillips estimator, which has the advantage of being consistent in the presence of highly persistent data, Melanie finds evidence of bi-directional causality from income to life expectancy, and that granger causality depends on the treatment of time trends shared by the two series.

The Adjudication Committee for the 2007 Award comprised Professor Viv B Hall of Victoria University of Wellington, and Dr Chirok Han of the University of Auckland.

V.B. Hall & P.C.B. Phillips
June 2008

The Prize is supported by funds provided by the following sponsors:

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In addition, royalties from the Festschrift Volume *Models, Methods and Applications of Econometrics: Essays in Honour of A.R. Bergstrom*, P.C.B. Phillips (ed.) Blackwell, Cambridge MA and Oxford UK, 1993, and from *A Continuous Time Econometric Model of the United Kingdom with Stochastic Trends*, by Albert Rex Bergstrom and Khalid Ben Nowman, Cambridge University Press, 2007, are applied to support the prize. □

CONFERENCE 2008

Some photos are available at: <http://www.phillips08.org.nz/programme/Photos.html>



Torsten Persson presents Frisch Medal to Dean Hyslop



Winners of the Poster Competition
From L, Arthur Grimes, Alvin Etang, Meg Paichayontvijit, Susan Olivia, John Gibson



Bob Reed accepts UTS Introductory
Econometrics Teaching Prize from
Susan Thorpe



Robert Gordon



Sir Clive Granger



Allan Timmerman



Stephen Turnovsky



The MONIAC (RBNZ. Photography: Stephen A'Court.)



Joel Slemrod



Trevor Breusch (Chair, Australasian Standing Ctee, The Econometric Soc), Viv Hall



Ganesh Nana, Bob Buckle, Caroline Saunders



Student assistants, L to R: Lucas Kengmana, Jemin Lee, Shuzang Sun, Mark van der Ziji de Jong, Umesh Perinpanayagan, Huatahi Kingi, Charlie Chan, Richard Manning, Mike Rutledge, Ben Goodchild, Prashant Parwar, July Li, Faisal Rana, Tianxiang Mao, Wei Yen Chee
Not in photo: Geoff Brooke, Kate Hill, Sophie Joyce, Isaac Lee, Andrea Lu, Mike and Tony Wolken



Grant Scobie, Brian Silverstone, Veronica Jaconsen

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CONFERENCE 2008



Wing Thye Woo

Torsten Persson

Stephen Morris

Ralph Townsend, Frank Scrimgeour

Alan Bollard

David Hendry and Robert Gordon

Avner Greif

David Audretsch

George Borjas

Paul Dalziel, Caroline Saunders, Bill Kaye-Blake

Part of the poster display

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

FROM THE 2BRED FILE

Grant M. Scobie (grant.scobie@treasury.govt.nz)

In the ongoing debate about globalisation there seem to persist two camps. There are the pro-globalisers, who are convinced that it is the key to economic prosperity and more sooner is better. Against them in the anti corner are those who, while even conceding that some might be acceptable, consider that fully blown globalisation will lead to divergence in the incomes within and between countries, threaten the environment, and lead to a loss of national sovereignty to the benefit of “multi-national corporations” (the latter painted with Dickensian fervour as exploiting the third world for the selfish benefit of their shareholders). As in most things in life, not much is gained by intransigent positions that lead to the opposing parties talking past each. But, thankfully there are some sane voices, such as **Dani Rodrik** (2007) *One Economics, Many Recipes: Globalization, Institutions and Economic Growth*, Princeton: Princeton University Press.

Rodrik offers a more fruitful balance, highlighting the benefits of globalisation (the One Economics bit) but recognising the need for institutions to be tailored to specific contexts so as to capture those benefits (the Many Recipes bit). Nine previously published papers, all published after 2000, are brought together, edited and integrated into a balanced whole, undisputedly greater than the sum of the parts. Rodrik takes us on a grand tour of the story of economic growth, emphasises the need for institutions (more than just the World Bank’s 1980s mantra of “get the prices right”) and integrates these two strands in a coherent story about globalisation. “Integration with the world economy is an outcome, not a prerequisite of a successful growth strategy” (p.217). It is hard to think of where else one could find so much of the debate so well synthesised as in this volume. Do not be put off by the fact the material is reprinted - it is a stand alone piece that should be compulsory reading for those pondering what drives growth and the role globalisation can play when applied appropriately.

For a home-grown view on the subject, **Brian Easton** (2007) has written *Globalisation and the Wealth of Nations* (Auckland University Press). While it has a Kiwi flavour it is more a wide ranging sweep of economic history in which globalisation is seen as an on-going force.

While we are on the topic of globalisation the following has caught my eye. **John V. C. Nye** (2007) *War, wine and taxes: the political economy of Anglo-French trade, 1689-1900* (Princeton University Press: Princeton, N.J.). I have not read this yet, but expectations are high, based on my reading of the author’s other works on history and growth. *Reason* magazine (<http://www.reason.com/news/show/122880.html>) had the following to say:

“If economics is often a dry and dusty affair, the new book *War, Wine, and Taxes: The Political Economy of Anglo-French Trade, 1689-1900*, is a wet and wild ride—and not simply because it’s about alcohol. John V.C. Nye debunks the conventional wisdom that Britain was a free-trade nation during the 19th century. If you look at actual trade policy rather than the self-aggrandizing pronouncements of politicians and ideologues, argues Nye, Britain remained a bastion of protectionism and mercantilism throughout the century. In comparison, France, often derided by contemporary free-marketers, was wide open to trade. In concise and eminently readable prose, he tells a story in which well-connected special interests and government officials joined forces to line their own pockets while reducing the choices available to consumers.

In answering the question, “Why do the British drink beer and not wine?,” Nye not only advances our understanding of the past, he shows how economic policy can often have a major effect not just on trade but on national identity.

By the way, *Reason* follows their review with an interesting interview with the author.

I was recently involved in preparing a short course on open economy macro-economics for non-economists. The challenge was to find some readings that busy people would find interesting, brief and relevant. To my delight I lit upon **David R. Henderson ed.** (2007) *Concise Encyclopaedia of Economics* (Liberty Fund). It has 160 articles of 2-3 pages by eminent economists on every topic you could wish for. So go straight here if you need a concise, contemporary and accessible summary of a whole host of economic topics. It is supplemented by short biographies of 100 or so big names. All in all a better bet than the sometimes variable quality and veracity of Wikipedia.

Readers will recall my enthusiasm for Tim Harford, economic journalism at its best (*The Undercover Economist*). He has yet another one (2008) *The Logic of Life: Rational Decision making in an Irrational World* (New York: Random House) OK, so its more economic imperialism – economics, especially the neoclassical sort grounded in rationality, can explain tons of things about what people do, how they act, why, etc.. Whether it’s Las Vegas, racism, poor neighbourhoods or divorce, Harford steadfastly applies his rational economics lens with great effect – no data or equations, just stories about people.

My economic junk reading has lately included the following three works by **Marshall Jevons**: *Murder at the Margin* (Princeton University Press, 1993), *Deadly Indifference* (Princeton University Press, 1998) and *The Fatal Equilibrium* (MIT Press, 1985). These are three who-dun-its in which the sleuth, Professor Henry Spearman (modelled on Milton Friedman but transplanted to Harvard) solves the crimes by the application of economic principles. The Wall Street

Journal remarked that “if there is a more painless way to learn economic principles, scientists must have recently discovered how to implant them in ice cream”.

Marshall Jevons is the pseudonym for the team of **William Breit**, Professor of Economics at Trinity University and **Kenneth G. Elzinga**, Professor of Economics at the University of Virginia. In 2002, the *Journal of Economic Education* published an article by the authors entitled Economics as Detective Fiction. Well worth reading as background to this trilogy: see <http://www.indiana.edu/~econed/pdffiles/fall02/breit.pdf>. While to the trained economist some of the material will seem a bit forced, these books at least establish economists as not quite as boring as some would have us believe! []

McCloskey and Ziliak on significance

Stuart Birks (k.s.birks@massey.ac.nz)

McCloskey and Ziliak have identified problems in academic papers in the way that policy inferences are drawn from statistical findings. Most recently, they give a detailed exposition in a recent book (Ziliak & McCloskey, 2008). Thomas Schelling is quoted on the back cover:

“McCloskey and Ziliak have been pushing this very elementary, very correct, very important argument through several articles over several years and for reasons I cannot fathom it is still resisted.”

The reason for this may be found by noting the focus of logic on proof, and rhetoric on persuasion (See *AI* No.31, p.11). McCloskey's *The rhetoric of economics* is now in its second edition (McCloskey, 1998). It may have proved its point (their arguments are logical), but it has not persuaded many economists (their rhetoric is weak).

In our theory, we commonly pay little attention to processes and persuasion. This is perhaps inevitable, given our focus on static analysis and our assumptions of exogenous preferences and rationality. However, persuasion may be important in terms of both our understanding of economic phenomena and our development as a discipline.

There is other literature that incorporates concepts such as traction, agenda setting, and framing. This shows clearly that it is not enough simply to present a correct argument. One reference that addresses these issues in a political context is Cobb and Ross (1997). The title, *Cultural strategies of agenda denial: Avoidance, attack, and redefinition*, suggests that there are reasons why people with a heavy investment in established positions may be unwilling to change.

In relation to challenges to statistical significance, we may still be involved in avoidance. Cobb and Ross talk of “identification groups”, people who raise an issue in the first place, and “attention groups” who then promote the issues more widely (Cobb & Ross, 1997, p. 7). Without the latter, the issue will not get off the ground. Who, within the economics/econometrics community, will do this promotion?

As Schelling states, McCloskey and Ziliak's points are elementary. One of the central points can be simply illustrated.

Consider the gender pay gap:

- 1] With earnings data for one man and one woman, nothing can be said about the significance of any difference between them as nothing is known about the distribution of male and female earnings. More than one observation for each is required.
- 2] With a larger sample, assumptions can be made and tests undertaken for a difference in average incomes.
- 3] At the other extreme, if observations are available for every man and every woman in the population, the average male and female earnings can be calculated precisely. The estimate equals the true population value, the variance of the estimate is therefore zero. A difference as low as 1c is therefore statistically significant.

In other words, a finding that a gender pay gap does or does not exist depends on the sample size. **However, this has nothing to do with significance for policy. Policy decisions should not be determined on the basis of statistical significance alone.**

...and here is another criticism of the interpretation of statistical significance

There is a problem with the conventional interpretation of null hypothesis significance tests. It has been illustrated through a class of examples that have been presented in several places (such as Cohen, 1994, pp. 998-999; Taleb, 2005, pp. 206-207). The examples have tended to take the following form. There is a test for some illness that picks up say 95 per cent of true cases. Someone gets a positive result. What is the likelihood that the person has the illness. Through giving additional data on false negatives, it is shown that the answer is quite different from the 95 percent that many assume.

The explanation involves computing tables, and/or equations of conditional probabilities. These present the underlying logic, but have done little to change behaviour. Apparently, logical arguments are not necessarily very persuasive. It may be helpful to illustrate the point in the example by taking an extreme case. This reduces the detail required.

Consider a society that has such advanced technology that all coins are so well made that none of them are ever biased. Someone tosses a coin 6 times. Whatever side came up on the first toss is repeated for the next 5 tosses. The chance

of such a result with an unbiased coin is $(\frac{1}{2})^5$ or about 3%. We are likely to reason that the chance of this occurring with an unbiased coin is so low that it we would reject the null hypothesis of unbiasedness, concluding that there is a high likelihood that the coin is biased. For this example, **we would be wrong every single time** that we reasoned this way. We know that we may get false positives, but, we cannot determine if a positive result is a false or a true positive (e.g. biased coins in this example) without using additional information.

There is a difference between a statement that the outcome is unlikely if the coin is unbiased and a statement that, given the outcome has been observed, the coin is likely to be biased. We would be using the former to claim the latter. Ziliak and McCloskey refer to this as the 'fallacy of the transposed conditional' (Ziliak & McCloskey, 2008, p. 17). Now the point has a name, perhaps it will gain traction.

- Cobb, R. W., & Ross, M. H. (Eds.). (1997). *Cultural strategies of agenda denial: Avoidance, attack, and redefinition*. Lawrence: University Press of Kansas.
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- Ziliak, S. T., & McCloskey, D. N. (2008). *The Cult of Statistical Significance: How the Standard Error Costs Us Jobs, Justice, and Lives*. Ann Arbor, MI: University of Michigan Press. []



Credit constraints, taxes, and the big costs of small inflation

As inflation approaches 5% and long-term inflation expectations reach the top of the 1-3% inflation target band, it's high time to reinvestigate the cost of 'low inflation'. Motu Senior Fellow Dr Andrew Coleman is developing a new model to better understand the long-run costs of underlying inflation.

The biggest costs are likely to be in capital markets. Earlier work by Modigliani and Feldstein suggests that costs of low inflation depend on the way inflation exacerbates credit constraints and the way it interacts with tax on capital income. In both cases the primary problem is the increase in nominal interest rates that occurs when long-term inflation expectations increase. This has a large effect on the cashflow needed to service debt, even where real interest rates are constant, and makes it more difficult for low income, credit-constrained households to purchase houses. In addition, the inflation component of interest earnings is taxed, meaning real after-tax returns decline as inflation rises.

Coleman is developing an overlapping generations model of the housing and debt markets to examine the overall effect of inflation. The model examines the interaction of households who differ by income and age and who optimally buy or rent different sized houses and save to smooth lifecycle consumption. It realistically depicts the credit constraints facing New Zealand households, and the current tax treatment of interest income and housing markets.

The model suggests that small changes in the inflation rate can have very large effects on home ownership rates. A 1% increase in inflation leads to an 8-10% decline in home ownership rates among young households. This occurs even if there is a large supply response in the quantity of housing. Young households taking out mortgages at current rates find repayments more onerous, and landlords – attracted by tax-free capital gains – bid up property prices (or bid down rents if the housing supply is elastic). The result is a squeeze that causes households to reduce capital accumulation and delay house purchase.

The effect depends on the interaction of taxes and credit constraints, and largely disappears if there is only one distortion. When capital income is not taxed, a 1% rise in inflation leads to just 2-3% reduction in homeownership rates. But the tax on capital income is not the primary problem. If the inflation component of interest is exempted from income tax (for as everyone knows, it is not income), a 1% rise in inflation again only leads to a 2-3% reduction in home ownership rates. This reinforces Feldstein's view that taxing the inflation component of interest is highly distortionary, even at what has been considered low inflation rates.

The model highlights two issues. Firstly, so-called modest rises in inflation under current taxes could be behind the deterioration in housing affordability in New Zealand. The widely-held view that 1% changes in the inflation rate are inconsequential is not supported by the model's findings.

Secondly, if we can't fix inflation, we could genuinely mollify its effect on homeownership through tax reform. The latter may indeed be a better option. []

In Memory of Robin William Morris Johnson 1927-2008

Sadly, Robin Johnson passed away recently. Here are a few words from three people who knew him.

I have known Robin for many years, and the first occasion that comes to mind is when we both attended the International Association of Agricultural Economists conference in Banff in 1979. Since then I have learned to appreciate his views on agricultural economics in general, and public policy analysis in particular. During the early 1980s I was coordinating an agricultural policy group within the Pacific Economic Cooperation Council and Robin was closely involved, both as an advisor to me and (as always) as a vigorous participant. Around that time, he spent a few years at the Centre for Agricultural Policy Analysis at Massey as a Research Fellow and also became involved in extending his experience and wisdom through teaching. He has also given long and distinguished service to the Australian Agricultural and Resource Economics Society (to which NZ agricultural and resource economists belong). He served as the NZ representative on the Society's Council between 1978-86, was elected President in 1993 and was made a Distinguished Fellow of that Society in 1998. For as long as I can remember, Robin's voice was always that of experience - on several occasions I would be sitting next to him at a conference address from a young and upcoming whizz, to hear Robin say "but we did that 20 year's ago"! Such experience and wisdom will be missed.

Allan Rae

Around 1986-87, when I was looking around for a competent agricultural economist to contribute a couple of chapters to a proposed new book on the NZ economy, Bob Townsley, then head of Massey University's Ag Econ Dept, introduced me to Robin who had a research assignment in the dept. Robin accepted the task, and as we talked about the possible format and contents of his two chapters, he probably realised that my familiarity with the topic was pretty limited. So he ended the conversation, I seem to recall, by saying words to effect "leave it with me, and I'll do what's required". The result was beyond my expectation: a splendidly professional couple of chapters that combined economic theory with factual information and analysis couched in a style that would be accessible to the interested non-specialist as well as to the standard first year economics student. I was delighted.

Over the years, as more editions would become due, I would approach him with the request to update and alter his chapters as appropriate, and he would always accept the task without fuss, and be among the first to submit his revisions, a testimony to Robin's disciplined lifestyle and professionalism. At NZAE conferences, we would sit down with a cup of coffee or a glass of beer, and I would encourage Robin to tell me about his life and times as an economist. He told me about being a 'student from the colonies' in London where he was sent from

Rhodesia to study towards a doctoral degree! His return to NZ in the early 1960s (I think) saw him join various ministries as an economist, but not having to do what he would consider working as an economics professional. Over the years, Robin managed to maintain and enhance his professional expertise in a manner that served him well when he did get the chance to use his expertise.

A gentle, sensitive and keen person, with a delightful sense of humour, Robin was always a pleasure to be with.

Srikanta Chatterjee

The first time I met Robin was in 2001 at the NZAE meeting. He gave a paper about R&D in New Zealand and complained, almost apologizing, that he could not do much with the data. I thought, "Oh no, not again". I understood that he compiled and computed many of the variables in the data set himself following on from the late Professor Philpot. He got me interested, so I introduced myself after the lecture, and asked if he would share his data with me. He did so willingly. We worked on them together and wrote a paper together along with Steven Stillman of Motu. In 2002 Steve and I were hired by the DoL.

The paper turned to be very controversial. I was not used to this, since there had not been much interest in my RBNZ papers. Neither the DoL nor the Ministry of Research Science and Technology liked it. The latter sent an official letter saying that it should not be published. I submitted it to *Applied Economics* almost immediately, and it was accepted in 2005 without revision. It appeared in 2007 under the title "Has New Zealand Benefited from its Investments in Research and Development?" From the title you could probably figure out the answer.

Robin was a lovely man with silver hair and an ability to work hard that exceeded anyone's expectations. One admirable trait was his continuing enthusiasm about economics, even at 80. He sounded like a young graduate when talking about data. I do not know a lot about his career. I know that he was a chief economist at MAF, but that is about it. I know he was helpful. He never got tired from explaining to me how the variables in his data set were computed and we exchanged many emails and talked for hours about data. His data were published on the Motu webpage.

Robin was straightforward; anyone could have claimed to be his friend. He was a man who made others feel at ease. He made people feel that they have known him for years. Now Robin is gone and I will miss him a lot. Robin served New Zealand well and deserves our respect. Rest in peace my friend.

Weshah Razzak []

RESEARCH IN PROGRESS...

Continuing our series on the research projects currently underway in Economics Departments and Economics Research Units throughout New Zealand, in this issue we profile the research currently being undertaken by economists on the various campuses of Massey University. The objective of this section is to share information about research interests and ideas **before** publication or dissemination - each person was invited to provide details only of research that is **new** or **in progress**.

... economics research at the Massey University as at July 2008.

Compiled by Stuart Birks (k.s.birks@massey.ac.nz)

James Alvey (J.E.Alvey@massey.ac.nz) is currently undertaking research for a book on the historical relationship between economics and ethics.

Peren Arin (k.p.arin@massey.ac.nz) researches in the areas of macroeconomics, public economics, public finance and financial economics. More specifically, he is currently working on aspects of monetary and fiscal policy, privatisation, economics of terrorism, and political economy of growth.

Martin Berka (m.berka@massey.ac.nz) is working in the areas of open macroeconomics and trade. Specifically, the topics include 1) How heterogeneity of goods affects patterns of trade, real exchange rate dynamics, and economic development, 2) The effect of globalization, through the increase in the degree of substitution has on the optimal conduct of the monetary policy. 3) Use of scanner price data to better understand sources of adjustment in prices at a micro level. In the future, Martin is interested in working on modeling the consequences of non-marketed goods (air, water, biomass, etc.) for the macroeconomy through price distortion.

Stuart Birks (K.S.Birks@massey.ac.nz) is looking at economic perspectives on the law. This involves considering aspects of the formulation of and implementation of laws, the operation of legal processes, and the effects of laws on behaviour. Political and legal processes focus on persuasion, hence there is need to consider rhetoric, rather than just rationality and logic.

Sue Cassells (s.m.cassells@massey.ac.nz) is engaged in research in three areas: 1. Waste management, particularly extended producer responsibility. 2. Environmental practices of SMEs. 3. Modeling the potential for mitigating greenhouse gas emissions through land use change (a new area of research interest).

Srikanta Chatterjee (s.chatterjee@massey.ac.nz) includes three major projects in his current research: (a) an empirical investigation of poverty in New Zealand. This research starts by using the Engel Curve method to identify what proportion of NZ households is 'poor', and then investigating the characteristics of these households so that policies to best alleviate poverty may be devised; (b) food and nutrition security in India. This project investigates how India's faster growth rates have been changing its food consumption patterns and how those changes in turn have been impacting on its production and distribution of the different food items amongst households in different income ranges and in different regions of the country; (c) migration and changing trade patterns of NZ in recent years. This research uses an extended version of the gravity model to examine how NZ's migrant sources have changed in recent years, and whether these changes have had any effect on NZ's export and import patterns with the rest of the world.

Jing Chi (J.Chi@massey.ac.nz) is currently undertaking research on: (1) the outperformance of Chinese Initial Public Offerings (IPOs); (2) the performance and survivorship of New Zealand IPOs; (3) whether exchange rates affect the stock performance of Australian Banks; and (4). merger and acquisition in China.

Anne de Bruin (a.m.debruin@massey.ac.nz) is mainly researching in the area of entrepreneurship. She is currently collaborating with Candida Brush and Friederike Welter to develop a gender aware framework for women's entrepreneurship. Later in 2008 she will be on sabbatical leave at Babson College, Boston, where she will work toward extending entrepreneurship theory particularly in relation to the creative industries and also on the nature of opportunity.

Lindsey Ellingson (L.Ellingson@massey.ac.nz) recently co-authored a book chapter focusing on regional economic impact analysis of working lands policy alternatives, illustrating the total and distributional implications of several classes of policy options available to local leaders to guide local land use in a tourist driven community in Colorado. Currently, her work in progress is estimating tourists' nonconsumptive use values of ranchland open space since the implementation of a voluntary purchase of development rights program in 1995. The objectives are to evaluate tourists' demographics, behavior, preferences and values associated with preserving open space from two surveys separated by over a decade of change.

Hans-Jürgen Engelbrecht (H.Engelbrecht@massey.ac.nz) is currently researching the cross-country relationship between subjective well-being and the wealth of nations (in contrast to income of nations), with special reference to major wealth sub-categories. A related project explores whether a macro-economic status effect can be detected in aggregate data. He also has on-going research interests in the role of knowledge spillovers, human capital, and 'information' in economic development, and in interdisciplinary aspects of knowledge-based societies."

Simona Fabrizi (s.fabrizi@massey.ac.nz) is currently researching in four different areas: (1) the impact of intellectual property rights and venture capital funding on innovation and competition; (2) incentives to form research partnerships in particular between industry and academia; (3) the role of informational asymmetries in shaping incentives to innovate under different R&D structures, e.g. venture-backed firms, research joint ventures, cross-licensing agreements, public-private partnerships; and (4) competition and regulation in network industries. She also has research interests in competition law and policy.

Rukmani Gounder (r.gounder@massey.ac.nz) has research interests that include economic growth and development issues, particularly international capital flows, financial development and macro economic analysis, and Asia-Pacific economies. The current projects include Investment-Foreign Aid Growth Nexus, Remittances and Growth, and Financial Sector Development in the Fiji.

Krishna G Iyer (K.Iyer@massey.ac.nz) has a research interests in the broad areas of macroeconomics, international economics, development economics, agricultural economics, productivity analyses and applied econometrics. He is currently working on measuring and modelling globalization, technology gaps and different aspects of economic growth. In collaboration with the Ministry of Agriculture and Forestry, he is involved in defining and modelling export performance and productivity in agriculture and allied sectors.

Xiao-Ming Li (x.n.li@massey.ac.nz) is currently researching: 1. Inflation targeters' currency markets. 2. Financial application of Archimedean copula models. 3. Long-run information content of spot and forward exchange rates. 4. The ECB's ability to ensure price stability or internal stability of the euro.

Steffen Lippert (s.lippert@massey.ac.nz) is researching (1) the impact of venture capital syndication on innovation and competition, (2) the impact of intellectual property rights protection on venture capital finance and innovation, (3) asymmetric information and joint R&D, (4) the role of networks in collusion, (5) the impact of free drug programs on the drug market structure, (6) the role of asymmetric information in corruption.

Hatice Ozer-Balli (H.Ozer-Balli@massey.ac.nz) is currently researching: 1. Median unbiased estimation of structural change models: An application to purchasing power parity (PPP). 2. The use of interaction effects in econometrics (with Bent Sorensen) 3. PPP persistence within sectoral real exchange rate panels. 4. Volatility of capital flows: Determinants and Dynamics (with Bent Sorensen and Sebnem Kalemli-ozcan)

Allan Rae (a.n.rae@massey.ac.nz) is currently undertaking research in four areas: 1. Development's in China's agriculture, especially the livestock sector. Within livestock, research is measuring productivity growth, consumption developments, and the role of livestock in enhancing rural household incomes; 2. Agricultural productivity growth in New Zealand, and the principal drivers of that growth; 3. Delivering sustainable production outcomes for New Zealand's pastoral industries, through development of CGE methodologies for assessing economic and environmental trade-offs; 4. National post-Kyoto strategies and policies, and their implications on global trade patterns.

Otto F.M. Reich (O.F.Reich@massey.ac.nz) is currently researching: 1. Informational asymmetries in federal systems. 2. Issues in the political economy of terrorism 3. The effect of politics on financial markets.

Sam Richardson (s.a.richardson@massey.ac.nz) is continuing PhD research on assessing the desirability of government involvement in sports events and facilities in New Zealand, including analyzing the ex-post economic impact of facilities and events. He is also part of a national research project looking at teaching and learning enhancement initiatives in first year university courses.

Christoph Schumacher (c.schumacher@massey.ac.nz) is currently researching: 1. Incentive compatible contracts in situations of hidden action, hidden information and limited liability. 2. Long-shot bias and reverse long-shot bias in sports betting. 3. A game-theoretical analysis of self-regulation schemes. 4. Impact of P2P downloads on the entertainment industry.

Guy Scott's (G.Scott@massey.ac.nz) current research interests are in the broad areas of health economics. Current work includes investigating the costs and benefits of treating various sleep disorders and the economic evaluation of new health technology.

Shamim Shakur (s.shakur@massey.ac.nz) continues to have his research focus in the area of agricultural trade and policy. Recent completed research includes potential fallouts from multilateral trade liberalisation on lesser developed countries and regional economies in South Asia. Other areas of recently published research include exchange rate dynamics and New Zealand sharemarket performance.

David Tripe (D.W.Tripe@massey.ac.nz) is mainly focused on the efficiency of financial institutions, including banks' branch networks, although he is also involved in a range of other banking and financial system issues. []

NEW ZEALAND ECONOMIC PAPERS

In January, 2009 the *New Zealand Economic Papers* will enter a new era. The *New Zealand Association of Economists* has entered into a contract with the international publishers *Taylor and Francis*, who will take over the publication of the journal from this date. Under the terms of the agreement, the number of issues for the journal will increase from two to three for the two years 2009 and 2010 before reaching a steady-state of four issues per year in 2011. While the journal will seek to publish high quality research from international scholars in all areas of economics, nevertheless the journal remains committed to serving as the primary outlet for world class research pertaining to New Zealand in particular and Australasia in general. Given this tie-up with *Taylor and Francis*, we expect the journal to enjoy a much higher profile. The board of editors for the journal has been expanded to add a large number of leading international scholars. The journal's editor and the association are very grateful to these economists for agreeing to devote time and effort to the journal.

Ananish Chaudhuri
Editor, *New Zealand Economic Papers*
E-mail: a.chaudhuri@auckland.ac.nz

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ABOUT NZAE

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

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NEW MEMBERS

Welcome! to the following people who have recently joined NZAE...

Kwaku Appiah-Adu, Nicola Argyle, Matthew Bartleet, Dennis Bautista, Michael Bealing, Sue Begg, Glenn Boyle, Mike Brewer, John Bryant, Philippe Burger, Tony Burton, Tim Calder, Steve Cantwell, Kate Chambers, Bill Chandler, Wencheong Chin, Phillip Coghini, Carolyn Collins, Len Cook, Nicolas Cox, Julia Cronin, Bronwyn Croxson, Wayne Dahlberg, Jonathan Dallaston, Graeme Davis, Shaun De Jager, Ranjit Dighe, Gerald Dreaver, Uwe Dulleck, Gary Dunnet, Fiona Edmonds, Ben Forbes, Magnus Forsells, Gigi Foster, Prasanna Gai, Peter Gardiner, Norman Gemmell, Hugo Gerard, Janine Grainger, Robert Gregory, Julia Gretton, Melody Guy, Maraina Hak, Andrew Hancock, David Harris, Joanna Heard, Chris Hector, Joe Hirschberg, Bernard Hodgetts, Minki Hong, Graham Howard, Baiding Hu, Krishna Iyer, Kate Jackett, Rodney Jer, Guyonne Kalb, Neil Kelly, Stefan Kesting, Anita King, Jeroen Kole, Leo Krippner, Gillian Lawrence, Jason Le Vaillant-Coates, Phillip Lee, Joanne Leung, Danny Liu, Ricardo Llaudes, Jenny Lye, Katrina Lynn, Dennis MacManus, Brendan Mai, Vance Martin, Kostas Mavromaras, Clare McAloon-Balfour, Philip McCann, Rachel McCurdy, Malcolm McKee, Colin McKenzie, Minoo Meimand, Guannan Miao, John Morris, Don Nakornthab, Suchindra Nanayakkara, Femi Olubode-Awosola, John Ong, Jonathan Ostry, Glenn Otto, Maritta Paloviita, Tas Papadopoulos, Xiujian Peng, Donna Provoost, Donna Purdue, Suseno Reksokartono, Cleo Ren, Siân Roguski, Vasilis Sarafidis, Bettina Schaer, Rolf Scheufele, Aaron Schiff, Ainsley Smith, Nancy So, Ram Sriramaratnam, Douglas Steel, Fiona Stirling, Wataru Takahashi, Siang Meng Tan, Mei Taniguchi, Tantri Tantirigama, Litia Tapu, Wesley Thompson, Josip Tica, Carmine Trecroci, Penelope Tuatagaloa, Janet Turvey, Rebecca Valenzuela, Oliver Valins, Osvald Vasicek, Duangmanee Vongpradhip, Jason (Qingsheng) Wang, Graeme Wells, Jane White, Niven Winchester, Wei Zhang, GuanYu Zheng. []

On Tinbergen

Stuart Birks (k.s.birks@massey.ac.nz)

Stephen Turnovsky's Keynote address mentioned, with qualifications, the Tinbergen proposition, "under certainty the policymaker need use only as many policy instruments as there are independent target variables in order to achieve any desired values for these target variables". The qualifications are important. The findings break down once we have more complex relationships or consider costs of policies. This highlights the danger of transplanting simple theoretical results as if they apply to real world situations.

To express two basic points, first, while it may be possible to achieve any configuration of target variables with an equal number of policy instruments, additional assumptions are needed, such as that no two instruments have identical

effects, there are no bounds on the feasible application of the instruments (e.g. no negative interest rates), and there are no limits to their impacts on the target variables (e.g. Laffer curve effects on tax revenue).

Second, nothing is said about the costs of attainment of a configuration. That is not part of the specified objective. Fixed targets are to be achieved irrespective of cost. All Tinbergen's point gives us is a necessary, but not sufficient, condition for attainment of fixed targets, with no consideration of optimality. This may be of limited relevance. We are unlikely to rely heavily on fixed targets and the minimum required number of instruments as they are associated with a highly simplified representation of the environment. When would we choose such an objective, other than 1-3% inflation, or such an instrument, other than the OCR, for example?

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