

NEW ZEALAND ASSOCIATION OF ECONOMISTS (INC.)
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ASymmetric information

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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A contribution to be made

EDITORIAL

Gary Buurman, my co-editor, is away in the US at present.

I'd like to give a big thank you to all those people who have so willingly contributed to Asymmetric Information. There is a lot going on and, from here, there appears to be a lot more that economists should be doing.

Having had some recent involvement in the process of lawmaking I have been struck by the lack of consideration of social impacts. It is the economist's bread and butter that a change in the policy environment can result in changes in behaviour. Economics students meet this issue right at the start of their training with traditional examples such as rent controls. Politicians may find such considerations inconvenient, but it is the duty of academic economists to point these things out, and other economists may well have more self-interested motives to stress the value of their potential contribution.

In this issue we have, in addition to the usual features, some details of two research projects, one on income and one on social capital. We are open to other contributions such as these. They can be descriptive or controversial. Some areas perhaps need more attention. Network economics and law and economics immediately spring to mind. Gary and I have been hoping to generate some debate in AI also. We would be pleased to hear from anyone wanting to respond to anything in this or previous issues.

If you attend any conferences, especially if they are overseas, then brief reports would be most welcome. We can also give advance notice of forthcoming events.

by Stuart Birks, Massey University

Dr Claudio Micheleni in Memoriam - by Srikanta Chatterjee

Claudio Micheleni of the Department of Applied and International Economics of Massey University died on 31 March 2000, following a surgery. A native of Bologna, Italy, Claudio studied economics and econometrics at the Universities of Bologna, and Bristol in England. After a short spell of teaching and research in Bristol, and in Modena, Italy, Claudio migrated to New Zealand in 1978 when he joined Massey University. His teaching and research interests were mainly in applied econometrics, but he had also dabbled in theoretical statistics. Since the early 1990s, Claudio had been working in the areas of applied demand analysis, and completed a doctoral thesis at Massey University comparing household consumption patterns in Italy and New Zealand. In the process, he developed some sophisticated methods of computing household equivalence scales for both countries. An enthusiastic teacher, Claudio inspired many a young student to take an active and informed interest in applied economic issues with particular reference to the New Zealand economy.

A keen farmer, Claudio spent a lot of his leisure time on his sheep and beef farm in Wairarapa. He also liked the outdoor life, and pursued hunting, fishing, hiking, swimming and flying. An excellent cook, Claudio, with his wife Bruna by his side, would go to great lengths to prepare an authentic Italian dish for his guests and friends, and serve it with some exquisite wine from his wide collection.

Claudio's untimely death is a sad loss to his students, colleagues, family and friends.

We invite members to submit a brief article on any issue of interest to NZAE members, and/or comments and suggestions. Enquiries and contributed articles should be sent to Stuart Birks and Gary Buurman [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.

Research on income distribution, income dynamics and regional disparities at the Treasury

By Benedikte Jensen, Benedikte.Jensen@treasury.govt.nz

Distributive research in the Policy Coordination and Development Directorate

The Policy Coordination and Development Directorate (PCD) is a small internal policy unit that focuses on the 'big picture' (the overall performance of the economy and the distribution of income) and 'new ideas and evidence'. The directorate's job is to maintain an overview across Treasury policy development, keep abreast of emerging ideas and research, and review and challenge existing Treasury thinking. The Directorate also coordinates Treasury wide advice, for instance the development of the 1999 Briefing to the Incoming Government.

PCD has an ongoing programme of work on income distribution, income dynamics and regional disparities. We are interested in making contact with people undertaking related research, and receiving feedback on the work we have completed already.

Understanding income dynamics

Dean Hyslop has been researching the income dynamics of individuals, using the Inland Revenue Department's income tax database. Dean is currently on leave from PCD, and is working as a visiting research fellow at the University of California, Berkeley. You can view two of Dean's papers on income dynamics by visiting the Treasury's electronic Working Paper series (www.treasury.govt.nz/workingpapers).

What accounts for the growing inequality of household incomes?

Dean Hyslop and Dave Maré (Department of Labour) have analysed factors contributing to the increase in household income inequality. Their work looks at changes in household composition (such as the growth in sole parent households and older households without children), changes in household attributes such as age and educational qualifications, and the returns to those attributes. A copy of this paper will be available on request from Dave Maré later in July (email: dave.mare@lmpg.dol.govt.nz).

An overview of income distribution and income dynamics

A convenient summary of key findings from the above work, and other related New Zealand research, is available in another recent Treasury Working Paper 'The Changes in New Zealand's Income Distribution' by Des O'Dea. This paper looked at trends in income inequality over the 1980s and 1990s, the extent of income dynamics, and factors contributing to these changes.

The economics of geography and regional analysis

Over the last year, PCD's attention has turned to the economics of geography, and understanding regional disparities in New Zealand. We have developed a regional database to explore regional differences in income, employment, population movements and other economic and social variables. The database uses a Geographic Information System to map the relative concentration of variables across space.

Preliminary work has described the current distribution of demographic, economic and social indicators across New Zealand and the patterns of change over time. We have also tested hypotheses concerning the forces driving regional patterns and trends (refer Treasury Working Paper 00/11 'Economic Geography and Spatial Statistics: Theory and Empirics of New Zealand regions', written on contract to the Treasury by Suzi Kerr and Jason Timmins of Motu Economic Research).

Further work will look more closely at labour mobility between regions. This will assist our understanding of labour market adjustment and the dynamics of disadvantaged communities and regions. We would also like to look in more detail at communities exhibiting multiple indicators of disadvantage and explore the relationship between individual welfare and community outcomes.

Distributive Research in the Treasury's Social Policy Branch

Researchers in the Treasury's Social Policy Branch are also looking at the distributive impact of government policy. This branch studies a range of social policy issues as part of its general policy advice role. The following empirical research projects may be of particular interest to other social policy researchers. People interested in these projects should contact Ron Crawford (email: Ron.Crawford@treasury.govt.nz).

The Distributive Impact of the Government's Budget on Household Incomes 1997/98 compared to 1987/88

This work updates the Statistics NZ 1991 publication *The Fiscal Impact on Income Distribution 1987/88*. Using administrative and Household Economic Survey data, and TAXMOD, the work develops a model for allocating all government expenditures and taxes to households. The distributional effects are analysed in terms of "life-cycle household types", and of household income deciles. 1987/88 outcomes are compared with 1997/98. The work will be completed later this year.

Income Dynamics of Families in the Christchurch Health and Development Study

This work, being carried out by Dr Tim Maloney and Dr George Barker of the Law and

Economics Consulting Group, uses 14 years of income data from the Christchurch Health and Development Study, to analyse the nature of income dynamics of families in the study, and determinants of entry into and exit from periods of low income. It builds on an earlier report on low income dynamics using the same data, and in part uses the methodology employed by Dean Hyslop to analyse individual income dynamics in New Zealand tax data (see above). The work is due to be completed early in July.

We look forward to hearing from people who are interested in the research areas above, and who would like to discuss research approaches and related work. We are in the process of clarifying the future direction of our economic geography and regional analysis work programme. We would therefore particularly value input from people with ideas on research topics, and ideas on avenues for networking with people doing related research. Please contact me if you would like any further information.

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New Zealand Association of Economists Young Economists' Prize

The 1998 prize is awarded to LINDSAY TEDDS for his publication

"What Goes Up Must Come Down (But Not Necessarily at the Same Rate): Testing for Asymmetry in New Zealand Time Series"

published in New Zealand Economic Papers, volume 32(1) pp 41-55.

A referee wrote:

"This is a well written paper on an interesting topic. It has a clearly defined scope, and the technical work has been carried through in careful fashion, utilizing best practice methodology. The conclusions are clear and correct."

No award is made for the year 1999.

The “Social Capital Project” brings together two sets of activity. A research programme funded by FRST which is developing a framework for understanding social capital including ways of assessing levels of social capital in a particular system. Those involved in this work include the Maori Congress and Statistics New Zealand.

Alongside this project the Institute of Policy Studies has provided an opportunity for commentators from the public and community sectors to present their views on the nature and value of the concept of social capital in New Zealand. The papers from these workshops have been published by IPS in *Social Capital and Policy Development* (1997) which presented a set of views on the nature of social capital from a (largely government) policy perspective and *Social Capital in Action* (1999) which reflects practical experiences in the community.

The exchange of ideas at these workshops and the subsequent discussion and critique of the idea of social capital arising from these publications has helped develop the conceptual thinking in the FRST project.

The initial stages in this work has involved developing a conceptual framework of social capital including both Maori and European perspectives and an associated statistical model. A working definition of social capital is:

“Social capital refers to the collection of resources that an individual or a group has access to through their membership of an ongoing network of mutual acquaintance. Features of this social structure, such as relationships, norms and social trust, help develop co-ordination and co-operation for common benefit”.

These resources include voluntary associations and informal networks. A key effect of these networks is that they enable communication and the exchange of ideas.

Developing social capital requires high levels of generalised trust, a range of voluntary associations and spaces to meet and deliberate. A Maori perspective on social capital might emphasise a sense of identity (“it is us”), belonging, te reo and whanau.

Social capital is being considered as “capital” because it:

- has accumulated,
- can be drawn upon,
- has stocks or a portfolio of assets.

Social capital does not simply refer to a transitory process. It is a resource that is accumulated and which can be drawn upon for future use.

This programme includes case studies of specific events within three (rural and urban) localities. In each case relationships and interactions are being analysed from a social capital perspective in terms of the presence and form of opportunities for interaction, knowledge of interests, norms and sanctions.

A key issue for community groups, local government and central government agencies is how communities can become more self-regulating. That is, how can communities develop systems of governance, accountability, a mandate for the actions of constituent groups and adjust their norms, rules and behaviour according to community expectations. The 2000 Budget refers to this as “capacity building” with specific reference to Maori development.

An operational social capital framework could provide insight into the factors that contribute to making a community “self-regulating” and suggest appropriate areas to place resources. This social capital perspective might also improve our understanding of the reasons for sustained stresses in New Zealand society. To a large degree, this stress may be due to unstable and contested norms which reflect different sets of interest in society; that is, different agendas and power relations.

A key feature of social capital is that it reduces the friction in society - the effort and resources required to identify issues, develop policies, make decisions and deliver services. There is less need for formal rules and regulations where norms and values are clear and shared, where all citizens have the opportunity to interact and through this interaction gain knowledge of the interests that motivate others.

A reduction of transaction costs is enabled through more efficient processing of information. This includes processing both the increasing quantities of substantive information required to deal with complex issues and the

increase in “information processing” required when dealing with a wider group of actors.

That is, processing information about other people - gaining an understanding of what their interests are, the norms and values that underpin their actions, where their mandate comes from and their reputation - can they be trusted?

As well as providing the opportunity for dialogue with others so that people can turn the increasing flow of information into understanding, social capital networks can be used to help assess risks and opportunities and

to check out situations, individuals and agencies.

In October and November 2000 IPS is holding three half-day seminars on social capital. The seminars will focus on issues arising directly from our current work i.e. a conceptual framework, Maori concepts of social interaction, issues of measurement, features of relationships and networks identified in the case-studies. These “project themes” will be related to issues such as rights and social efficiency raised by participants at an end-users meeting held in February, 2000.

Lessons of History?

*The Earl of Dunraven...*What he wished to...do now was to call attention to a very great and crying evil which existed in connection with the trade for ready-made clothing in the East of London. The evils which there, as he had said, were caused by natural laws which themselves were not by any means of necessity unwholesome in any degree. They were brought about by the perfection of machinery, the increase of population, foreign immigration, and by the development of a great trade in ready-made clothing...The work was now parcelled out, not, as before, between the master tailor and the journeyman, but it was given out to several contractors. These middlemen intervened between the consumer and the ultimate producer who made it. And the labour itself was most minutely sub-divided. As many as six or seven completely different sets of workmen and women were employed in the making of a single garment; and the result was that the people employed, being able to make some particular fraction of the article, were absolutely unable to turn their attention to any other business or trade. It was impossible for them to make a living in any other way, and they were, therefore, bound hand and foot, and were entirely at the mercy of their masters. These evils have been aggravated by the intense competition in the trade, which was, to a great extent, the result of foreign immigration. The condition of the victims might be said, with perfect truth, to be a condition of slavery with all of its disadvantages and none of its advantages...

(Parliamentary Debates, 3/cccxxii/1599-1602, February 28, 1888, House of Lords)

Forum announcement:

Social Policy Forum: Children’s Rights and Families

9.15am to 4.30pm, 26 October, 2000

At the Law School, Old Government Buildings, Lambton Quay/Whitmore Street, Wellington

The purpose of this one day forum is to bring together research, practice and policy on how New Zealand can best meet its commitments under the U.N. Convention on the Rights of the Child: Article 18. This is that parents have joint primary responsibility for raising the child, and the State shall support them in this. However, the best interests of the child will be their basic concern.

The target audience are family researchers, those in various agencies developing family policy and those practitioners who are dealing with the new diversity of family arrangements.

The forum is being organised by a group representing all three main target audiences. It will be opened by Steve Maharey. Confirmed speakers include Sarah Farquhar (an independent early childhood researcher), Mark Henaghan (Otago Law School), John Waldon (Massey HRC Maori Health Research Training Fellow Research Officer), Robin Fleming (an independent social science researcher, Roger McClay (Commissioner for Children) and Stuart Birks (Director Centre for Public Policy Evaluation, Massey University).

The chairperson of the organising committee is Michael Cooper, Special Advisor, Ministry of Social Policy. For further details his contact details are: e-mail michael.cooper@mosp.govt.nz or tel 04-916-3860.

From the 2BRED File

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

For this issue I have chosen a global theme with a Kiwi flavour. The last couple of decades have seen some remarkable changes in economic systems and policies. They are conveniently captured by the term “economic liberalisation”. Reform programmes in many countries have involved privatisation, deregulation, freeing trade and capital flows, new regimes for labour markets, less protection for agriculture, reforms to the taxation system, to name but a few areas.

Do recent changes in the political stripes in New Zealand and Britain amongst other countries, suggest that we may be at a turning point? Are we rejecting the path of liberalisation? Are we turning back the clock and trying to reconstruct the past? Or is this nought but a minor mid-course correction? Or is a so-called “third way” emerging? If so, pray tell, what is it?

There is no shortage of New Zealand books critiquing the reforms and proposing new ways, although they generally offer more of the former, and are a wee bit thin on the latter.

Brian Easton blends economic and political events into a wide-ranging story of the first MMP years in *The Whimpering of the State* (Auckland University Press: 1999). Paul Perry and Alan Webster in *New Zealand Politics at the Turn of the Millennium* (Alpha Publications: 1999) report on a 40-page questionnaire of 1201 people drawn from the electoral roll. Their results cover attitudes and perceptions of political, government and civic aspects of our society. Jane Kelsey raises concerns about the power of international agencies that usurp national sovereignty in *Reclaiming the Future* (Bridget Williams Books Ltd: 1999). It does strike me that the case maybe a little overstated. The World Trade Organisation seems to have become a convenient whipping post for a richly varied assortment of protest groups. I found an essay by William H. Lash and Daniel T. Griswold gave a less alarmist and more positive perspective

(<http://www.freetrade.org/pubs/briefs/tbp-009.pdf>).

So what is the Third Way? It seems that it is largely a pragmatic approach, which has been adopted by the centre left in a number of countries, in part as a way to disassociate themselves from what they see as both the socialist and market extremes of the past (ironically often implemented by the same centre left parties!). *The Third Way* by Anthony Giddens (Polity

Press: 1998) is the most lucid discussion I have found, while the edited volume by S. Chatterjee et al., *The New Politics: A Third Way for New Zealand* (Dunmore Press: 1999) gives a local perspective. However, your columnist found it a challenge to identify the unique features of the third way (other than a rejection of the Washington consensus).

Finding good pieces to balance the diet was not easy. But I think you will find *The Changing Fortunes of Economic Liberalism: Yesterday, Today and Tomorrow* by David Henderson (Institute of Public Affairs and the NZ Business Roundtable: 1999) to be a sensible (and highly readable) contribution to the debate. Henderson puts the doctrine of economic liberalisation in a broad historical context. Three points emerged for me: a) liberalisation has not been the hallmark of conservative governments – reforms have come from both democratic and authoritarian regimes, and equally from the left or right; b) global organisations have not been the source of a loss of sovereignty – reforms were the decisions of national governments; and c) self-interested lobbying groups have not been the political driving force of the reforms. Henderson argues that the future for liberal economic policies is mixed, as support for continued reform comes from only a small constituency.

Much of the Third Way debate seems to arise from concerns about “fairness” and participation – concerns that the benefits of liberalisation (where they materialised) were not shared “fairly”. We will leave the question of the evidence for this to a future column, but anyone needing a good textbook treatment of the principles should try *The Political Economy of Fairness* by Edward E. Zajac (Cambridge: MIT Press: 1995). (I was struck by the fact that no agency other than the Ministry of Women’s Affairs could provide a copy of this book).

I close with a postscript to last month’s column on broad patterns of economic development. In that, I referred to an old favourite by Mancur Olson. I would be remiss not to point you to his latest (and sadly last) book, left in draft form at the time of his death. For clarity and insight, one would go a long way to surpass *Power and Prosperity* (Basic Books: 2000). Few can match Olson for the light he sheds on the origins and role of the state.

"... in confronting theories with facts, the method of testing does not play a neutral role...the answer depends as much on the method used as on the hypothesis and the data being confronted" (Meghnad Desai¹)

Econometrics plays a prominent role among the quantitative tools available to economists. We should not overlook its limitations.

If we are estimating relationships for policy purposes, then it is important that the relationships we are identifying are causal. Failing this, we cannot claim with any confidence that changes in policy variables will have the desired effect on our target or objective variables. This is not a trivial matter.

Some twenty years ago Addison, Burton and Torrance wrote on causality.² They identified an INUS condition, standing for an Insufficient but Necessary component of an Unnecessary but Sufficient set of conditions. This suggests that something occurs when all of a set of conditions are simultaneously met, and that there may be more than one set of such conditions. To illustrate, an electrical fault may be an INUS cause of a housefire, but only if there are inflammable materials close enough to the fault. A fire could also be caused by an overheated chip pan as part of a quite distinct set of circumstances. Such relationships do not fit readily into econometric models. A variable may be relevant under some conditions, but not others. Its impact may depend on a complex set of circumstances.

To overcome this, we might try subdividing our data sets into different categories within each of which only one set of conditions applies, but that could become very complicated if there are critical levels required in "trigger variables". It also lays the research open to criticism for selecting observations to support an initial belief. At the very least, the econometric analysis would become a component of a larger assessment.

There is one finding that, to my mind, is to econometrics what the theory of second best is to economic theory. The basis of a theoretical approach is to simplify. This includes the omission of relevant but less important variables. Ramanathan describes the effects of omitting a relevant variable as: likely bias of estimated coefficients; biased constant and forecasts; and invalid hypothesis tests (Ramanathan, 1995, p.187).³ Given its almost universal relevance, it is perhaps surprising that the point is rarely mentioned.

Omission of a relevant variable can occur in many ways, not least of these being the narrow selection of functional forms commonly considered. Additive separability in linear models constrains us to the assumption that the marginal impact of a variable is constant, irrespective of the value of that variable and the values of all other variables. A common error is to consider variables in such a model without regard for possible underlying relationships. In such approaches, hypothesis tests on coefficients are then claimed to indicate if a variable is important or not. Results can depend on the variables included, the functional form chosen, and the database used.

While we can apply log and other transformations, or incorporate polynomials, interactive terms and leads and lags, for example, these rapidly use up degrees of freedom. They still require structural stability over the sample period, and, despite the increasing complexity, they still only cover a subset of possible relationships.

Relationships are simplified through discrete representation of continuous variables. This involves aggregation of occurrences over space and over time, for example. Aggregation over time can conceal lagged relationships unless the lag fits the time period exactly. A six week lag using monthly data could appear as a one or a two period effect depending on whether the causal event occurred in the first or second fortnight.

Econometric models assume that changes in the value of the variable match the impact of the variable. Distributed lag models are one way in which other options can be considered. Nevertheless, this is a long way from a more general concept of quite distinct "input wave" forms and "output wave" forms. Consider the observed time profile effect on the price level of a price and incomes policy and compare that to the assumed impact when a dummy variable is used.

Consider further that behaviour is based on perceptions, which may not be accurately represented by observed values of variables (actual and expected inflation have differed for extended periods). For much of the time economic variables may be in a process of adjustment, as in moving from one equilibrium to another. Problems could arise with attempts to estimate demand and supply curves, say, if they are based on the assumption that observations are of points on those curves.

Debates about the finer points of econometric estimation may be overlooking crucial and more fundamental issues. These include restrictive functional forms, structural instability, omitted variables and data limitations. Econometrics can be of value, but it is a tool that the researcher should use with care.

¹ Desai M (1981) *Testing Monetarism*, London: Pinter, p.96

² See Addison J T, Burton J and Torrance T S (1980) "On the Causation of Inflation", *The Manchester School of Economics and Social Studies*, Vol.48(2), June, pp.140-156, and Addison J T, Burton J and Torrance T S (1984) "Causation, Social Science and Sir John Hicks", *Oxford Economic Papers*, Vol.36(1), March, pp. 1-11

³ Ramanathan R (1995) *Introductory Econometrics with Applications*, 3rd edition, Orlando: Harcourt Brace, p.187

The NZAE Conference, Wellington, 12-14 July 2000
Report by Tim Hazeldine, with a section by Donal Curtin
(t.hazledine@auckland.ac.nz, economicsnz@xtra.co.nz)



At the AGM: Caroline Saunders (Vice President), John Yeabsley (President), Val Browning (Administrator) and Dawn Gorman (Treasurer)

President Yeabsley opened the conference with an encomium on the Wellington weather, but things picked up after that, and by the time we had made our farewells on Friday, after the third of our all-protein lunches, more than 150 people had experienced two and a half days of good papers, good discussants, good talk and good company. And continued good weather, it must be admitted.

Two plenary panel discussions kicked off proceedings on Wednesday. The first, on the short-term outlook for the NZ economy, was introduced by Donal Curtin, who told us that 15 forecasters more or less agree on GDP growth and falling unemployment. Since John Kenneth Galbraith's name was invoked that morning, I will remind you of another of his maxims: 'economists make forecasts not because they know, but because they are asked.' A propos of this, Tony Alexander of the BNZ reminded us that the forecasters eighteen months ago were picking a 0.58USD Kiwi dollar for today.

Alexander, whose presentational style perhaps underestimated the sophistication of his audience (or maybe I am overestimating his), referred to a state of 'hysteria' now current amongst business people. Jason Wong, of CSFB, lamented the relatively tiny market capitalisation of technology stocks in New Zealand – less than 1%, compared with, say, 11% in Europe. He linked this to our underperforming sharemarket, though noting that the trend to 'growth' rather than 'value' investing cannot continue indefinitely – a prediction he might also have made last year, and the year before, and so on. Ganesh Nana gave a little promo for his company, BERL, and Adrian Orr, whose affiliation I will not give in case he changes jobs again by the time this comes out, told us that even a broken clock is right twice a day.

The second session, on Strategic Issues for NZ, would have been rather more interesting had there been some sort of ideological balance on the panel. Instead, four of the economists involved – Fran O'Sullivan, Alex Sundakov, Gary Hawke

and Bryce Wilkinson – have political views ranging from far right to extreme right. The fifth, Caroline Saunders, spoke interestingly about GM issues. Colin James, who is not an economist but is arguably none the worse for that, claimed that New Zealand is now no more than first-and-a-half world country, and that in education, ‘if you pay peanuts you will get monkeys’. That doesn’t sound very nice, does it?

Sundakov advanced the provocative thesis that, because New Zealand is ‘on the periphery’, we need an extreme pro-business policy to compensate. ‘The mainstream is not where we belong if we want to do well,’ he claimed. In response to a brilliant question from the floor as to why, then, had extreme pro-business policies in New Zealand performed so poorly from 1984 to 1999, Sundakov responded that NZ had ‘outperformed’ the OECD average in the 1990s. Wrong, Alex -- for the decade up to 1998 NZ was seventh from the bottom of the list of 29 OECD economies in growth in GDP per capita, and it is unlikely to have picked up any places in 1999.

Gary Hawke identified three key policy issues: ‘conceiving’ a national economy within the international setting; getting redistribution right; and, rather sinisterly, ‘allocating accurately political judgement and professional knowledge’, which turned out to mean that we need a ‘large body of agreement and acquiescence.’ Bryce Wilkinson listed two possible scenarios for New Zealand – the open, attractive, ‘Hong Kong’ model, and the ‘Tasmania’ model, representing lame-fisted integration with Australia – to which he now would add a third possibility: the ‘Sri Lanka/Fiji/Zimbabwe’ model of messed up race relations and education.

Who could have provided a counterbalance to this group? For years – decades, even – the first name that would come to mind would be that of Bryan Philpott. But Bryan had been very ill, and he died the week after the conference. *Vale* Bryan, you will be missed.

The two invited keynote addresses were given on the second morning of the conference. First, ex-pat New Zealander Stephen Jenkins of

Essex University reported on substantial joint work investigating child poverty in seven countries, ranging from the USA to Russia, using a household poverty line set at one half national median income, which invited the question (from Bryce Wilkinson) as to whether a child living in a household with one half median US income is really as miserable or poverty-stricken as a similarly placed child in, say, Russia.



Val talking to Stephen Jenkins at the dinner, with Lesley Haines (and Peter Hartley in the shadows)

The second keynote speaker was Peter Hartley, of Rice University, who spoke on ‘Equity’. In case you missed this, as did I, the NZ Business Roundtable had thoughtfully supplied complimentary copies of Hartley’s book, in quantities large enough so as to possibly violate the free disposal assumption.

Then there was the nitty-gritty of the conference – fifty six contributed papers – too many to precis here, or, indeed, to listen to, since they were given in parallel sessions. The choice of papers mentioned below in no way reflects a ranking over the others. Overall, the contributed papers revealed a quite impressive focus by New Zealand researchers on important applied policy-relevant issues. But they also, mostly, showed a marked reluctance to take the next, dangerous but necessary step, from policy relevance to policy recommendations. Perhaps we will get these next year.

Two topics or themes in particular attracted papers. There were seven papers on international trade or finance matters. Roger Bowden and Arthur Grimes reported on their substantial research project on the welfare implications of currency union, with some counterfactual analysis

of recent NZ financial history. They found that whereas Australia's real exchange rate seems to have followed a counter-clockwise 'orbital' with respect to their terms of trade, and thus performed a buffering function, in NZ since 1988 such buffering has been non-existent, which they suggest may be due to the strict inflation targeting regime followed. Tying the \$NZ to the \$AUD or the \$US would have (in their model) have generated quite large welfare gains relative to the actual path. It would be interesting to try other counterfactuals, such as more ecumenical monetary policy in this country.

In the same session we heard an excellent presentation by Wai Kin Choy, from Treasury, of his cointegration analysis of the question of the possible overvaluation of East Asian currencies, based on his thesis research at Lincoln University. Wai Kin was awarded the Jan Whitwell Young Economist prize, in a strong field, on the basis of this.

Rachel Ferguson, of Statistics New Zealand, presented an interesting analysis of direct investment related income flows in the Current Account, which of course is now our most worrying macroeconomic number, being in deficit to the tune of about 8% of GDP. One striking statistic she reported was the investment income *deficit* for NZ-owned overseas subsidiaries of finance and communications firms. Apparently, this is not because these subsidiaries make losses, but because they are used by their domestic parents to borrow money on overseas bourses and then feed this back to the NZ Head Offices. The deficit represents the interest payments on the borrowing.

The other theme around which no fewer than seventeen papers clustered (eighteen, counting Jenkins) was the (admittedly broadly defined) topic of poverty/income distribution/gender/ethnicity. I won't attempt to summarise the results, except to note that things seem to have got worse, at least in terms of income distribution since the mid-1980s, that the distribution changes and slower economic growth may have accounted about equally for the increase in poverty (Joanna Smith), and that most of the income inequality

change had occurred by the early 1990s, and so is to be associated more with 'Rogernomics' goods and financial market liberalisation (along with the increase in unemployment 1984-91), than with the 'Ruthanasia' of benefit cuts and the Employment Contracts Act in the 1990s (Dean Hyslop and Dave Maré). A snippet of information that caught my attention: In a survey of the unemployed in Auckland's Eastern Suburbs, James Stewart found that the percentage of married men to whom 'unsocial hours' would be important in a job was just 10% – for married women the percentage was 62%. Perhaps that gender difference hints at some of the cultural and social factors underlying the economic problems of our age.

The conference was generally well planned and well run. No doubt President Yeabsley will be giving credit where due in his report. The conference dinner was a highlight for some. It featured as after-dinner entertainment a local comedy group called The Improvisors. Some members of the audience may also have been involved.



Donal Curtin in action

Donal Curtin organised a successful 'Consultants' Corner'. This is his report:

Consultancy has become an increasingly popular career option for economists, particularly in the trend-setting US, where statistics from the

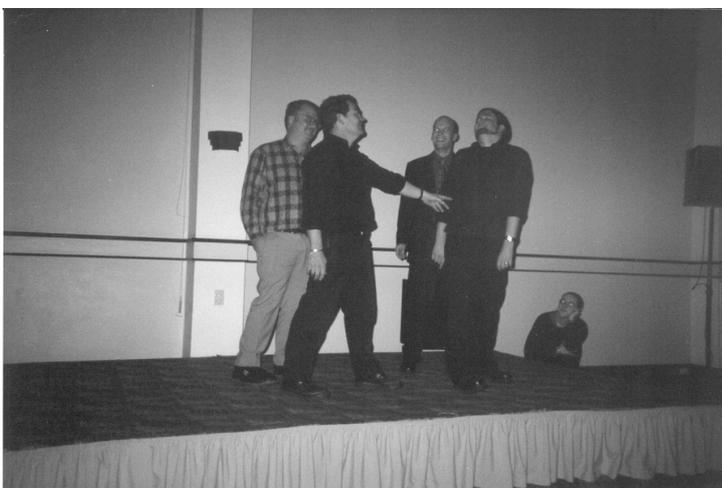
National Association for Business Economics show that consultancy (either on a self-employed basis or with a consultancy firm) has overtaken the more traditional absorbers of economists (such as finance and manufacturing). This year's conference featured the inaugural "Consultants' Corner", designed to give some practical guidance to people thinking of consultancy as a career or wanting to improve their consultancy skills. Speakers at a well-attended session included Bronwyn Anderson, principal of organisational development firm Change Dynamics (her excellent presentation is available by e-mail from the NZAE office); Treasury's Ron Crawford, who provided the perspective of a purchaser of consultancy services; and three self-employed economic consultants, John Savage, Brian Easton, and Donal Curtin.

Interestingly, despite the different backgrounds of the presenters, some common themes emerged: the need to understand exactly what you are expecting to achieve from consultancy; the importance of working with clients whose values you share; the effectiveness of networking, socialising, reputation and referrals in generating business ('cold calling' had produced no business for anyone, and competitive tendering was definitely inferior to more informal sources); how often a project involves helping a client find the right question rather than the right answer; the need to continually invest in one's professional development; the need to say No when appropriate (when you cannot add value, or where "your heart is not in it"); and the importance of managing the financial risks involved (including advisory liability).

With the Improvisors - Bryce Wilkinson relishing his role as Cinderella's ball gown,



and Derek Payne and David Haugh guiding the movements (???) in a tour of Wellington



Bryan Philpott 1921-2000

Bryan Philpott was the premier research economist of his generation. All his other substantial achievements were built on that foundation: his students who were thoroughly trained in an empirically-based theory-driven economics; his appointment as the first chief economist at the Meat and Wool Economic Service; his joint founding and subsequent chairing of Business and Economic Research Ltd (BERL - still one of the country's top economic consultancies); his establishing of the Department of Economics and Marketing at Lincoln College (now University) as its foundation professor; his 15 year tenure as the greatest McCarthy Professor of Economics at Victoria University of Wellington, where he again vigorously pursued economic analysis in his Research Project on Economic Planning (RPEP); his active involvement in the public debate where he insisted his commentary was based on sound empirical research.

The research would get him into trouble. In the 1960s, when at Lincoln, he advocated substantial reductions in border protection. About the time he moved back to Wellington, he changed his views. But this was no betrayal of principle. Rather the economic models he was using showed that there would be substantial unemployment if the protection was removed. What was he to do, when his research told him a policy was wrong? He approved of Keynes who said 'if the evidence contradicts the theory, I change the theory. What do you do?'

He faced a similar dilemma in the 1980s. His models told him that the policies being adopted by the Labour Government would slow the economic growth rate. His published forecasts in 1985 based on those policies are close to the actual stagnant outcomes. In contrast the policies he argued for would have almost doubled the Rogernomic growth rate. What was he to do? Many economists, with similar conclusions, albeit not built on as solid a research foundation, shut up. Bryan spoke up. He was rewarded for his honesty and courage by the government cutting its research funding to his modelling. Such was his enthusiasm for research he soldiered on, publishing his last research paper just before the final illness when led to his death three months later.

Because it was empirically based, the RPEP developed a huge database, pushing official series back into the deep past, and constructing series where official ones did not exist. Its economic modelling had international standing - foreign specialists referred to Bryan with the greatest respect. Some of his work was exceptionally innovative. On occasions - in Australia, Britain and the US - I attended seminars that struggled with modelling problems, which Bryan had already solved. The government (and the Business Roundtable) turned to overseas experts for its modelling advice, because knowing nothing about New Zealand could be guaranteed to give the answers required. Bryan would shrewdly point out their fallacious assumptions.

Bryan was driven by the hardships he faced in his early life as a result of the depression. He had been a woolbroker before the war, and served in the navy between 1941 and 1945. He loved sailing, even more than rugby. (He was proudly president or patron of the local university rugby club) It was noticeable that, despite working long hours which would have exhausted an academic half his age, he would take February off - the sailing season in the Hauraki Gulf. (His wife Margaret, whom he married in 1950, looked after the Auckland grandchildren.) A picture of his boat was over his workdesk, next to those of the families of his son, Andy, and daughter, Julia.

Bryan was honoured by being the first (and still only) research economist elected a fellow of the Royal Society of New Zealand, and became a Companion of the New Zealand Order of Merit. There is an enormous affection in the economics profession for Bryan, reflecting his enthusiasm and his bluff decency. It is sometimes said they broke the mould after they made Bryan. He would have hoped not, for he was committed to an economics based on rigorous empirical economic research which served humankind. His inspiration remains with us.

Written by Brian Easton - the above was published in the *Sunday Star-Times*, 23 July 2000, and reproduced here with permission of the author.

Web-sites for economists

Recommending web-sites to people can be as helpful as suggesting a vegetarian visit a steak-house restaurant. All too often the reply might be "oh, I thought everyone knew about that site..." or equally no response at all, presumably because they have absolutely no interest in the site. At the risk of producing either/both these responses, I'll share with you a few sites I've found interesting and useful.

My research interests focus upon econometrics, growth and economic history and useful sites here include <http://www.eur.nl/few/ei/links/> This site, produced and maintained by Marius Ooms of the Econometric Institute, Erasmus University, provides a wealth of information on issues econometric. The list seems endless from software (both free and commercial package links), through to a list of current and forthcoming conferences, online journal addresses, econometricians with web pages, data sets etc. I printed 26 pages of mainly hypertext-link sources. For anyone looking for an excuse to attend a conference the listings here provide an excellent shop-window. Likewise conference organisers should contact Marius to have their conference listed. Visit it and bookmark it⁴.

For those interested in anything related to economic growth, the place to visit is Jon Temple's *Economic Growth Resources* page: <http://www.nuff.ox.ac.uk/Economics/Growth>

As a source of readings for students, or access to the most recent working papers on growth, Temple provides an outstanding resource. Data sets online, researcher's web page addresses, the page has become the focal point and repository for economic growth research. The site is fast to access devoid of unnecessary graphics etc., and is updated regularly. The "What's New" page helps busy academics to

⁴⁴ Several people have asked me if the bookmarked site names can be edited to give them 'useful' names. The answer is yes. Go to bookmarks; highlight the relevant site; click on **edit**; click on **bookmark properties**; then under **name** change to something you find helpful. Click on **OK** and it should be saved with a name you want leaving the http site address unchanged.

keep in touch with the frontier of the subject and Temple encourages people to cite their own work on the page. As he says " Don't be shy about nominating your own work: lots of other people have, and it saves me time tracking down articles." Visit it and bookmark it.

When I say I'm a "Clio" man, it doesn't refer to the sort of magazines I might read! Cliometrics⁵ probably has a small membership in Australasia (as does economic history generally) - all the more reason to promote the Economic History Services web site: <http://www.eh.net/> where access can be found to the Cliometrics site. As with the econometrics site above, there are numerous helpful links to conferences, home pages of related sites and a useful Calendar of Events. The page is regularly maintained and stable. I've not used the "Ask the Professor" link yet, but I might be tempted if the questions I get at the Fourth World Congress of Cliometrics Conference in Montreal, this July, prove too demanding!

Finally, another 'general purpose' site to add to the Bill Goffe's of this virtual world, is part of the About.com stable. I came across About.com via the About Economics page: <http://economics.about.com/> where students and staff have access to anything from a glossary of economics vocabulary to on-line journals, government institutions, central banks www pages, job market information etc. The About.com network: <http://a-zlist.about.com/index.htm> has pages on everything from Abilene TX - The X-files. A good starting place when looking for encyclopedic-type sources.

⁵ The use of statistical analysis and data processing in the study of history, from Clio, the Muse of History + metrics (science of measurement).

From our foreign correspondents

Economics 2000, Queensland, July 3-6.

By Wai Kin Choy and Grant Scobie
(WaiKin.Choy@treasury.govt.nz,
grant.scobie@treasury.govt.nz)

Along with three other Kiwis we recently attended the 29th Annual Conference of Economists held on the Gold Coast, Queensland (see <http://www.ecosoc.org.au/conf.htm>). The conference was organised by the Queensland branch of the Economic Society of Australia. It covered a wide range of both macro- and microeconomics issues, and economic issues relating to the family. The conference attracted over 250 delegates from diverse fields of economics from Australia, the Pacific Region and from other countries, with 124 papers. Since there was such a wide range of issues covered, our review can at best be only a partial (biased?) perspective.

One of the central themes of the conference was monetary integration. A few speakers were highlighting the recent surge of interest among some sub-group of East Asian countries to adopt some form of common currency arrangement. Professor Eiji Ogawa of Japan gave the lead address in this area. However, this “new regionalism” has both advantages and disadvantages. Furthermore, there would need to be a lot of political support and international coordination. Another related theme was the growing interest in regional trading arrangements. It was noted that preferential (bilateral) arrangements might not be as consistent with trade openness as multilateral agreements such as the WTO.

Two papers that warrant a mention were by Harper and Sinclair. Ian Harper of the University of Melbourne gave an entertaining and well-reasoned presentation on why the Jubilee 2000 Campaign to forgive developing countries their debt obligations, would not be a good idea. Peter Sinclair of Birmingham gave an insightful paper on the different approaches to state pensions.

Alan Krueger’s keynote speech highlighted the economic returns to education. Contrary to the rather widespread belief that “more resources are not the answer” to raise educational attainment

levels, he presented a carefully argued case for the contrary based on the results of an experiment in Tennessee.

Robert Gordon gave a masterful plenary paper in which he asked just how significant is the so-called new economy. He suggested that the “golden age” of productivity growth from 1913-72 was arguably more significant and that the recent spurt in output had as much to do with a cyclical fall in unemployment and an increasing reliance on foreign saving in the USA, as it did with IT induced productivity. Further, there are diminishing returns to additional computer power and IT.

The Annual Conference of Economists rotates around the states and (note for the diary) the 2001 conference will be held in September in Perth (which would arguably be a more attractive location than the culturally bereft Gold Coast, especially in chilly southerly weather!!).

Should the NZ Association consider joining forces and having a combined conference periodically, perhaps by including NZ in the roster of the states (while avoiding any connotation that we are destined for statehood in Australia)? It would certainly be worth some more thought. At the very least there would be some significant economies in having access to internationally invited speakers. The Gold Coast conference managed to have 4 very high calibre invited speakers from overseas, which would normally be beyond our more modest means. We noted that the Economic Society is rather successful at attracting support, as 11 state and federal agencies and firms were listed as sponsors. However on the downside, the formation of separate working groups (in macroeconomics, labour and econometrics at least), each holding a separate meeting, has apparently weakened the demand for the blockbuster conference. Do the gains from specialisation offset the value of a broad menu, more invited gurus and mix of participants – a close call perhaps?

A major flaw in the programme structure arose, in our judgement, from having parallel sessions of contributed papers running concurrently with the plenary sessions of invited speakers. Our conference in Wellington avoided that, and in terms of the organisation and quality of contributed papers, compared very favourably with the Gold Coast (and the weather in Wellington was better!!)

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 at **Auckland 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**.

... in the Economics Department of the University of Waikato as at May 2000.

Compiled by Les Oxley. Email addresses and personal webpages for members of the department can be found on the department's website: <http://www.mngt.waikato.ac.nz/depts/econ/>

Sayedda Bano is a senior lecturer in economics at the University of Waikato. Her research interests are inter industry and intra-industry international trade, trade in services, development of regionalism/ economic integration. The Role of WTO and APEC in fostering world trade and development. The Link between SDRs and Development Finance. Her current research includes the area of Islamic economics, the role of women in Islam and the development of trade and investment between New Zealand and India

Bridget Daldy's research interest is in the area of health economics and she is currently working on her PhD (supervised by Toni Ashton and Paul Brown from Community Health at Auckland University). Her research topic is on the funding implications of the 1996 maternity scheme. Payments to maternity providers changed in July 1996 from a fee -for - service payment for primary maternity providers to payment based on certain modules of care. These payments were made to the woman's lead maternity carer, which could be a midwife (independent of hospital based), a GP, an Obstetrician. GP's in particular were unhappy with the level of payments and the need to share the modular payments with other providers. Many GP's have since withdrawn from providing maternity services, partly in response to these funding changes and partly due to unhappiness with the new system and lines of responsibility. This study aims

to look at the impact on pregnant women, and has it lead to some women having less choice of maternity providers than others. How providers have responded to these new funding incentives will also be investigated. Issues such as adverse selection, moral hazard and cream skinning are important to both the pregnant women, providers and funding agency.

Bridget has also worked with Sarah Mackay on the use of hospital maternity services in the Midland region from 1992-98. Several changes in procedures used during deliveries were observed, some consistent with national trends. Some regional hospitals had more significant changes perhaps reflecting changes in senior personnel or data recording problems. The change in funding for hospital maternity services in 1996 did not seem to have a significant impact on procedures, and length of postnatal stay continued to decline.

Other projects that Bridget is currently working on with senior students include a review of the booking system for cardiac services and investigating an alternative funding option for the Emergency Department at Waikato Hospital.

John Gibson's current research projects are in two areas: the first uses micro data to look at the link between employer provided training and job security, across different ethnic groups in New Zealand. These same micro data allow some reappraisal of estimates of the returns to education.

The second area of research is in the area of empirical measurement of poverty and living standards, based on household survey data collected in Papua New Guinea. Most of these papers can be downloaded at: www.mngt.waikato.ac.nz/depts/econ/staff/johng/johng.html

Warren Hughes' current research interests include economic forecasting and impact analysis with general equilibrium and input/output models, the real options approach to valuation of uncertain future income streams and game theory approaches to firm strategy.

Steven Lim's interests are:

Transitional economies, including economic problems facing China and North Korea. Asian economic crisis and recovery, Economic growth and the environment, Dynamic modelling of sectoral interactions, Incentive problems in teams. He is a Visiting Research Fellow at Adelaide University. He also trains middle and senior level government officials from China, Vietnam, Laos, Cambodia, Myanmar and Thailand in managing economic reforms in their country.

Dimitri Margaritis' interests include:

- (1) total factor productivity productivity growth, efficiency change and economic reforms.
- (2) measures of efficiency and the effect of competition in the US health services industry.
- (3) real time monetary policy rules.

Dan Marsh's major research interests are in: economic aspects of R&D and innovation - he is currently working on a PhD in this area; and the implementation of aid, especially in the fields of water resources, impact evaluation, project appraisal and data collection and analysis. Dan is currently working on a study of innovation in the New Zealand Biotechnology sector. The study will describe and analyse the innovation system for biotechnology in New Zealand focussing on the major actors and the linkages among them. It will investigate the drivers of innovation in the biotechnology sector; the characteristics of successful innovators; the role of networks and other linkages; the role of government and industry, applied and basic research; the role of human and venture capital, intellectual property and patenting.

Les Oxley is currently working on a number of areas including the role of human capital in the economic growth process (A Marsden Fund Grant supported project); the macroeconomic drivers of the British Industrial Revolution; a new measure of

GDP for New Zealand, 1865-1933 and finally labour market flows.

He is also recovering from joint-convening the Modelling and Simulation Society of Australia and New Zealand Conference (MODSIM99) held in Hamilton, 6-9th December 1999. Close to 200 delegates from 27 countries presented in excess of 200 papers over 4 days. However, his post-conference work continues with the co-editing of four journal special issues of papers from the meetings for *Mathematics and Computers in Simulation, Mathematical and Computer Modelling* and two issues for *Environment International*.

On the publishing front Les has co-edited his second book in two consecutive years. In 1998 it was *Practical Issues in Cointegration Analysis* (with Michael McAleer), <http://www.blackwellpublishers.co.uk/asp/book.asp?ref=0631211985>. In 1999 it was *Surveys in Economic Dynamics* (with Donald George and Simon Potter), <http://www.blackwellpublishers.co.uk/asp/book.asp?ref=0631220364>. Both books are published by Blackwells as is the *Journal of Economic Surveys* he founded and continues to co-edit with ex-colleagues from Edinburgh, see <http://www.blackwellpublishers.co.uk/asp/journal.asp?ref=0950-0804>. Les is currently updating his own www page: <http://www.mngt.waikato.ac.nz/depts/econ/staff/les/les.htm> where some papers can be downloaded. The photogallery section will also receive special attention.

Frank Scrimgeour currently has overlapping research in the areas of natural resource management, iwi development, governance, and agricultural marketing institutions. The natural resource management research is currently focused on three issues: the re-establishment of iwi water rights, management to improve water quality and optimal management of trout (with Les Oxley). He is also developing a new project on energy markets with Les Oxley. The iwi development research (with John Gibson and others) focuses on how iwi attempt to improve outcomes where there are no market prices to guide decisions. To date work has focused on both natural resources and social expenditures. The governance research (with Stuart Locke) has focused on identifying the behaviour of elected councilors in local authorities and those appointed to the councils of tertiary institutions. The marketing research (with Walter Thurman – North Carolina State University) is focused on the interaction between market characteristics as measured in standard economic ways and the institutions of marketing as defined by legislation and developed by commercial and political

strategies. When he is not working on these projects he is busy as Editor of New Zealand Economic Papers.

Brian Silverstone is currently working on three research projects: business confidence, labour market transitions and the relationship between output and unemployment (Okun's law). Given the attention that confidence surveys receive in the media, this is a surprisingly under-researched topic in New Zealand. This project uses panel data to get firmer insights into the role and influences on business confidence in New Zealand. It is now commonplace to study labour market dynamics using flows data from labour force panel surveys. These surveys provide information on the often substantial flows between labour market states. In this project (with Julian Wood from the Department of Labour and Les Oxley from Waikato University) we study labour market transitions in New Zealand from a predominantly macroeconomic perspective. Hopefully, we will have insights that may be useful for policy and forecasting. The Okun project (with Richard Harris from Portsmouth University) is concerned primarily with testing for asymmetry in the relationship between output and unemployment in New Zealand and several major OECD economies.

Anna Strutt's current research includes:

- Analysis of the interactions between trade, growth and the environment.
- The environmental effects of trade reform and growth for Indonesia, including implications of the Asian crisis (with Kym Anderson, University of Adelaide).
- The impact of trade reform on livestock production and the environment (with Allan Rae, Massey University).
- General equilibrium modelling of trade reform, including developing a set of post-Uruguay Round tariff rates for the GTAP database (with Joseph Francois, Erasmus University Rotterdam).
- Agriculture and the WTO (with Kym Anderson, CIES and Bernard Hoekman, World Bank).

John Tressler has research interests in microeconomic theory and some aspects of industrial economics. A particular research interest has been the economics of uncertainty, and in particular attitudes to risk. He is currently working on Cournot models of interconnection pricing in networks.

...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.

Membership fees: full member: \$90

graduate student: \$45

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

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[NOTE THE NEW EMAIL ADDRESS]

W*elcome!* to the following people who have recently joined NZAE...

Peter McCall (Otago Polytechnic); **Vincent Galvin** (Statistics New Zealand); **Angus White** (McCullochs KPMG); **Lana Friesen** (Lincoln University); **Tony Booth** (Infometrics Ltd); **Rebecca Bayliss** (ABN AMRO New Zealand Ltd); **Begum Zaman** (student at Waikato University)
