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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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**N Z ASSN. ECONOMISTS INC
46TH ANNUAL CONFERENCE
29TH, 30TH JUNE & 1ST JULY 2005
HOLIDAY INN HOTEL - CHRISTCHURCH**

Call for Papers and further details will be in the November issue of Asymmetric Information and will be posted on the website in due course.

The NZAE is pleased to announce that Professor Hoxby will be a keynote speaker at the 46th Annual Conference in 2005. She earned her master's degree in 1990 from the University of Oxford, which she attended on a Rhodes Scholarship, and her doctorate in 1994 from the Massachusetts Institute of Technology. She has written extensively on educational choice and related issues. She is the editor of *The Economic Analysis of School Choice* (University of Chicago Press, 2002). Some of her published articles include "Does Competition among Public Schools Benefit Students and Taxpayers?" (*American Economic Review*, 2000), "Not All School Finance Equalizations Are Created Equal" (*Quarterly Journal of Economics*, 2001), and "How Teachers' Unions Affect Education Production" (*Quarterly Journal of Economics*, 1996).



Democracy

EDITORIAL

Institutional factors have an important influence on society. Commonly, many of these are taken for granted. We are living in “interesting times”, when some of the commonly accepted structures and practices are subject to change, often with little thought or publicity. This issue of *AI* touches on some of these changes.

Events of recent decades seem to have resulted in a shift in thinking in New Zealand. Not so long ago many people had a narrow belief that there was only one way to do things, a way that was spelled out by the government. In contrast, there is now a view that all is relative, and subject to change. By this view, experience from the past is of limited value, and changes that remove apparent problems are desirable, even if no thought has been given to possible side-effects. In other words, we may now be taking a very casual approach to things that could be of fundamental importance.

It can be interesting to speculate on the role of economics in such an environment, and the importance and nature of relevant economics research and advice.

On a totally unrelated matter, Weshah Razzak resigned as President of the NZAE at the AGM. This was half way through his two year term. His time as President has been marked by some significant innovations including a memorial keynote lecture and Distinguished Fellows Awards, and the promise of longer-term funding for future conferences. The Council is most appreciative of Weshah’s efforts on behalf of the Association.

Following past precedent, the Council has appointed Vice-President Grant Scobie as President until the next AGM, and Paul Dalziel is the new Vice-President.

by Stuart Birks and Gary Buurman, Massey University

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.

***Achieving Balanced Lives and Employment:
What New Zealanders are saying about work-life balance***
Worklifebalance Project, Department of Labour
July 2004

<http://www.dol.govt.nz/PDFs/wlb-consultation-summary.pdf>

“Fact sheets were produced aimed at business, small businesses, women, rural communities, employees, young people, Maori, Pacific people, older people, and community and recreation organisations.” (p.11 – but not aimed at men)

Of the 600 individual responses, 73 percent were from women (p.12)

*“Part-time work (generally by women) was frequently cited as a means of combining work and family life. However there was acknowledgement that **for women** this could mean having to accept a reduced salary.” (p.32, my emphasis – presumably men can work part-time without a reduction in salary)*

Law and Economics Association of New Zealand Seminars

*****By Professor Richard Epstein *****

Wellington 3rd August, Auckland 5th August

For details see: <http://www.leanz.org.nz/>

As we all know, sporting and political events are timed with the media in mind. Don Brash's law and order speech was delivered just before this issue went to press¹. AI assumes that this was no coincidence. It would therefore be discourteous of us to ignore it.

There are three aspects that stood out for us: the gendered perspective; the use of data; and the general policy direction. If we take these three in turn, we can become more positive as we proceed.

The gendered perspective

The speech contains emotive assertions such as:

1. "...appalling family violence resulting in death and disfigurement for women and children"
2. "...a society where women and older New Zealanders are forced to significantly modify their behaviour because of the threat of violence"
3. "And all too many men have abandoned their responsibilities as fathers"
4. "...families where children have been abandoned by fathers unwilling to accept responsibility for their financial and emotional support, thus leaving the burden to fall on mothers..."
5. "Those most at risk [of violence] are women, Maori, young people, beneficiaries and single parents."

The first claim refers to very small numbers. While any such cases are to be deplored, we could question whether they merit a focus solely on women and children, grouping women and children and omitting men, and the implicit (false) impression that the violence is perpetrated solely by men, no men are victims, and, perhaps, all men should bear some collective guilt for this.

The second claim continues to project the above impression, save that "children" are replaced by "older New Zealanders".

The third and fourth statements once again blame men, although a good case could be made that family law in general, and the Domestic Violence Act in particular, have been used to prevent men from fulfilling their responsibilities as fathers. Steve Maharey has also very publicly claimed (with some less well reported reservations) that sole parent families are just as good as traditional two-parent families.² Such beliefs are presented to avoid offering support to fathers, while simultaneously pushing for increased financial obligations.

The final statement appears to include everyone except able-bodied white men.

The use of data

Don Brash says New Zealand has "arguably one of the highest crime rates in the developed world." This claim is sourced to the UK Home Office, which published an international comparison of criminal justice statistics in 1998. The results received media attention in New Zealand in 1999, at which time the Ministry of Justice advised Tony Ryall, the Minister of Justice in the National Government of the time, that the data could not be compared across countries. In particular, New Zealand violent crime data included minor offences that are not included in the statistics for many of the other countries. Adjustments for this result in halving the violent crime rate in New Zealand.³

Don Brash also said, "Those most at risk are women, Maori, young people, beneficiaries and single parents". His source is the New Zealand National Survey of Crime Victims 2001.⁴ Table 2.9 shows that, in their sample of over 5000 people, 1.2 percent were victims of 51 percent of all assaults, and similarly 1.2 percent were victims of 56 percent of all threats. Nearly 95 percent of the population experienced no violence or threats. Ninety nine percent were not assaulted by a current partner during the year 2000. This is hardly indicative of

¹ http://www.national.org.nz/files/Dr_Brash_-_Law_&_Order_Speech.pdf

² McLauchlin D (2003) "Solo mums 'as good as nuclear families'", *Dominion Post*, 20 November, p.2, and Maharey S (2003) "Building strong relationships to strengthen families and whanau", 4 December, <http://www.beehive.govt.nz/ViewDocument.cfm?DocumentID=18536>

³ <http://www.executive.govt.nz/speech.cfm?speechalph=29374&SR=0>

⁴ See chapter 2 at: <http://www.justice.govt.nz/pubs/reports/2003/victims-survey/chapter-2.html>

homes being a battleground of domestic violence, or the often assumed 1-in-7, 1-in-4 or even 1-in-3 families experiencing domestic violence. As for those being most at risk, table 2.11 gives the incidence and prevalence figures for “personal victimisation” from crime⁵. Females have a slightly higher incidence than males (81.5 and 69.7 percent). Prevalence is closer, with 30.1 and 28.9 respectively. The incidence rate is higher for males than females aged 15 and 16, and prevalence is higher for males in the 17-24 age group. Elderly males (60 and over) have slightly higher incidence and prevalence rates than their female equivalents, but these rates are roughly one seventh of that for people under 40. We have to wonder about the basis for the second assertion above about older New Zealanders. Maori have higher rates than other ethnic groups. This might be partly due to their age distribution. Beneficiaries have higher rates than the average, but they are lower than for students. The lowest rates are for the retired, followed by those on “home duties”. Single parents have high incidence and prevalence rates (147.8 and 46.1) compared to couples with children (73.3 and 31.9), but not so much higher than flatmates (119.6 and 40.9) and about the same as for students.

In other words, there is probably not so much difference between the groups mentioned and those omitted, except that rates appear to be generally lower for those in stable relationships and the elderly.

The general policy direction

Regrettable political beat-up aside, what of the actual policy direction in the speech? The media emphasised abolition of parole and building new prisons. Not surprisingly, the approach is somewhat more involved. According to the speech, we can expect the fundamental social issues to be addressed at another time. Specific policies mentioned here include:

- attempts at more effective early intervention for young people;
- expanded use of DNA testing;⁶
- switching the burden of proof to suspects with assets that may be from gang-related organised crime;⁷
- abolish parole “as we know it”, as its current application is contrary to its intent, and supervision is inadequate;
- introduce time off for good behaviour for first time, low level, non-violent inmates after 75 percent of the sentence (up from the current 1/3), with intensive supervision and surveillance;
- continue current sentencing terms for those currently in prison – “to change ... retrospectively would be quite inappropriate”⁸ – but with tightened supervision and possibly public Parole Board hearings;
- managing the return of inmates to the community with a “prison to work” policy; and
- more use of preventive detention.

Perhaps debate should focus more on these and the other suggested policies, and less on rhetoric such as “our elderly live in fear of...home invasion”, and “mothers live in fear of their children being...abducted”.

⁵ Burglary or theft from home or motor vehicle, individual property offences, assault or threats, or robbery.

⁶ Wouldn't it be laudable to see this spoken of in the context of paternity fraud being recognised as a crime. Numerous studies indicate that, for perhaps 10-20% of people, their supposed fathers are not their real fathers.

⁷ This is a worrying reversal of the principle that one is “innocent until proven guilty”, but the precedent has already been set with the Domestic Violence Act 1995, and there has been little or no concern raised about that. With the DVA, it affects people's relationships with their families, with particular impact on their children. For use here in relation to assets, Don Brash talks of a trade-off with “protecting civil liberties”, suggesting, “such a power would need to be tightly circumscribed”.

⁸ This is a fair point. The same could be said about the Property Relationships Act, as well as judicial decisions which set precedents that affect existing implicit or explicit contracts, or tax changes that alter the after-tax returns to education, say. It is a good principle, often overlooked.

From the 2BRED File

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

David Friedman, Professor of Law from the University of California at Santa Clara, was recently here and gave the joint LEANZ-NZAE lecture at our Annual Conference¹. In addition he gave a lecture in the Treasury Guest Lecture Series. I believe I can claim without fear of contradiction that these were two of the most stimulating, well delivered presentations that we have had from a visiting speaker in a very long time. His academic training is in theoretical physics and he has never taken a course in law or economics, yet he is undoubtedly one of the top scholars in the field of law and economics, in a league with such names as Posner and Epstein. His website www.davidfriedman.com is well worth a visit (especially if you are looking for authentic medieval recipes, one of the many pursuits he has).

His keynote address for the conference was a masterful statement of *What Economics Has to Do with Law and Why it Matters*, and in fact this is the subtitle of his book *Law's Order* (Princeton University Press, 2000). The book, like his address is presented with stunning clarity and his use of recognisable every-day examples illustrate the principles with "a cut-to-the-chase quality". The book is free of the usual academic clutter of hundreds of footnotes and references often intended to achieve little more than to display the author's monumental knowledge of the literature. For Friedman the reader comes first. He has created a web page for the book, containing references, case studies, mathematical statements and additional comments. "My hope is that by paring the book down to what it is really about and taking advantage of modern technology to put everything else somewhere out of the way but within easy reach, I can achieve the benefit of the apparatus without the costs". This book is not restricted to students of law and economics, per se. Readers will find an exciting set of insights into what really matters: incentives and institutions.

Professor Friedman's lecture in the Treasury Guest Lecture Series² was based on a new book *Future Imperfect*. This is forthcoming but is available in complete draft on his website. http://patrifriedman.com/prose-others/fi/commented/Future_Imperfect.html

His son has developed software to allow readers of the draft to comment, and there are at least a dozen hot links to the Comments on every page. His central thesis is that technological change continues at an accelerated pace, making the future very difficult to foresee. But change will inevitably happen and if it is to be harnessed for increased welfare it will need to be accompanied by changes in our institutions. Society will inevitably have to grapple with how to create institutions, laws and regulations that are congruent with the new technological realities. How do we set up set up systems for secure internet trading? (he proposes e-cash). Who should have property rights in asteroids? What legal status does a person have who has been cryo-genetically frozen?

Celia Lashlie gained some notoriety recently for her prediction of the 5 year old angelic, blonde child who was destined to prison. Lashlie had previously been Manager of the Christchurch Women's Prison, and is an astute observer of the human condition. She has documented those insights in a new book *The Journey to Prison: Who Goes and Why* (Auckland: Harper Collins, 2002). I would rate this as compulsory reading for anyone who wants to think seriously about the justice system. Her central thesis is that criminal activity is almost invariably a product of a messed up background. She presents no scientifically based evidence for this but builds on her long experience in the justice system richly illustrated with cases.

This hypothesis has at least three important corollaries. First, it is possible to predict with some precision who is going to prison – there are many early warning signs. This carries the implication that early intervention (not necessarily by the state) can have high returns.

¹ It is most pleasing to see the growing collaboration between LEANZ (www.leanz.org.nz) and NZAE.

² If you would like to be on the mailing list for announcements for this series, please email me at the address in the banner.

Second, these early conditions that are the precursors for a life of repeated internment themselves create a limited set of opportunities for an individual which lowers the relative cost of crime (although I should note that Lashlie's writing shows no such hint of Beckerian language but the implications are the same). People whose formative years are characterised by a lack of a caring, nurturing environment, who are the observers and victims of crime and violence, who have only other criminals as role models and whose human capital is limited to broken periods of incomplete schooling are prime cases for prison. Finally it follows according to Lashlie that harsher penalties (get tough on crime) is a very incomplete response; it simply has little bearing on incentives. We have a complex social problem and there is simply no one answer.

At times the reader will be bothered by the implication that the criminals can't be blamed for their actions and the author is at pains to repeatedly assure the reader that she is not apologising for their wrongdoing. It's just that more time in jail, in her view, won't fix it.

In conclusion, my column would never seem complete these days without a "back into the top half of the OECD" type of reference for you. Economic growth continues to dominate many agendas and there is scarcely a Wellington economist or policy analyst whose work has not been steered by our political masters in pursuit of this goal (handed down no less than by edict from the throne). My pick this month is a brand new contribution from **William J. Bernstein**. His new book *The Birth of Plenty: How the Prosperity of the Modern World was Created* (New York, NY: McGraw-Hill, 2004) is a timely reminder that four things really matter for sustained economic growth: secure property rights, modern capital markets, rapid communication (interconnectedness for those not up with the Wellington jargon) and scientific method (the systematic procedures to examine and interpret the world around us and create new knowledge). Nothing very surprising in this list, but Bernstein takes a sweep of history and richly illustrates the importance of each, highlighting the pain and poverty of peoples living in regimes with a missing prerequisite to economic growth. All this in a highly readable volume.

Elections and Political Correctness (SB)

An election may be a year away, but the electioneering has already started. Competition seems to be shaping up for women's votes. Not only is National saying the sort of things described in "Law and Order" in this issue, but also ACT is getting in on the game.

ACT's *The Letter* of 5 July 2004 refers to "single parent households where the father has absconded". Muriel Newman, the only MP to consistently advocate for fathers, devotes *The Column* of 21 June 2004 to the "political gender gap", suggesting that "there is still a long way to go".

Clearly it is thought that women will be attracted by PC and feminist rhetoric. Until voting day, we can expect emotive criticism of men in general and white men in particular, and implicit assumptions that women are good and they need more. This is insulting for men and patronising for women, but may well win crucial votes.

There are others who assert on very flimsy reasoning that the only people who have any say are white men. See, for example, the speech by Metiria Turei MP on the 150th Anniversary Sitting of Parliament¹, or an article by Maori academic and historian, Danny Keenan, "The unmentioned minority"².

Some would argue that Maori political activists are taking advantage of the relaxed standards of debate and the rise of identity politics promoted by feminism. Feminist arguments are problematic. It is suggested that patriarchy is a root cause of society's ills, and it results in institutions and principles designed by and for white males. If this viewpoint is accepted, it is hard to simultaneously then defend those institutions and principles as being fundamental to democracy. In any event, this is hardly a basis for reasoned debate and evidence-based policy.

¹ http://www.clerk.parliament.govt.nz/Content/Hansard/Final/FINAL_2004_05_24.htm

² http://masseynews.massey.ac.nz/magazine/2004_April/stories/thoughts-1.html

While catching up with the back issues of *New Zealand Fishing News*, I came across Steve Radich's interesting opinion article (2003, p. 104). He observes that fisheries conservation is important to all fishermen, whether they fish on a recreational or commercial basis. The problem is how to practice conservation efficiently and fairly.

Currently with fisheries, two of the common conservation measures are the Quota Management System (QMS) and legal sanctions, many instituted through the Department of Conservation (DOC). Besides catch limits, an example of the latter is the setting up of a reserves (the Poor Knights and Volkner Rocks often receive scathing criticism from recreational fishers) where no fishing of any kind is allowed. While reserves have undoubted scientific and recreational benefit (as in diving), costs also accrue to those who suddenly find that their right to fish has been removed.

Radich argues that recreational fishers are overlooking the potential to use the existing QMS for their benefit. This idea is familiar to economists who recognize that structures like the QMS have considerable economic merit in the environment/natural resource field (in fact, economists have played a large part in developing these quota or property right solutions). Examples of property right solutions are the QMS, tradable carbon credits now used in the United Kingdom and the European Community and various other pollution control schemes.

Property rights solutions have a rich history in economics, dating at least from the time of Henry George's *Progress and Poverty* (1879). George proposed to make land common property by taxing 100% of the rental income earned by land.¹ However, it is easier to illustrate these solutions using J. H. Dales' (1968) proposal to control water pollution, since it can be directly related to the QMS in the fishing industry.

Dales recognized that there are scientific and other difficulties in establishing this 'efficient' level, so he suggested that a reasonable policy goal (one that society might agree on) would be to attempt to reduce pollution slightly below its existing level (1968, p. 93). Abstracting from measurement difficulties, the government would issue a fixed amount of pollution rights at a moderate issue price. These rights are then traded in a market. Each pollution right would confer its holder with the right to dump a specific amount of pollution into the natural environment in a given time period, say one year. Any business (or individual) polluting without holding the appropriate number of rights would be prosecuted and fined heavily. Businesses have the choice of either obtaining a right and polluting, or cleaning up (reducing) their pollution. Cost minimization suggests that they will choose the cheaper option.²

There are many advantages to this pollution control policy (i.e., see Dales, 1968, pp. 80 and 97). However, the interesting point from the fisheries perspective (introduced above) is that anyone would be allowed to buy pollution rights, even if they do not use them. This presents an opportunity for environmental groups to purchase rights and remove them from the market, hence reducing pollution levels.

With fisheries conservation, Dales' pollution rights would be the quota for various fish species already existing under the QMS. Quota are currently set given knowledge of fish stocks in a region³ and are bought, sold, leased and rented by private, commercial fishers on a regional basis. Hence the market for 'fishing rights' is already in existence. As Radich (2003, p. 104) argues, there is nothing to stop recreational fishers from banding together to purchase quota in an area, or to lobby DOC (as the government agent) to purchase quota instead of setting up reserves when the stock of a certain local species is dwindling.

¹ Interestingly, George's proposal for a single tax on the rent of land influenced New Zealand's early rating system at the local government level. See O'Reagan (1955).

² This could be influenced by quality of enforcement causing variation in the expected penalty. Enforcement costs could also make it a more expensive option for society.

³ There seems to be general agreement that the standard of research here is poor. David Moore suggests that it is 10 to 20 years behind (*Dominion Post*, 2004). Radich (2003) states that the 'knowledge base on which changes in quota are made seems to be woefully inadequate'.

Indeed Radich (2003) believes that a government option to buy back quota when a fishery appears in trouble was an intention of the original legislation. Considering recreational fishers, given recent prices, he estimates that if 100,000 people contributed \$50 each, they could buy up all of the kingfish, and one-half of the snapper quota.⁴

As with the pollution example, there are many advantages for the fishery as a whole, and certainly for the recreational fisher. If quota is removed from the market, by government and/or recreational fishers, more fish are available and the quality of fishing will improve, both in the present and for future generations.⁵ It would be expected that, while reserves are still valuable for scientific purposes, fewer reserves would be needed. This means that less property rights would be removed from recreational fishers, some of whom have been fishing in an area for years.⁶

Disadvantages in getting recreational fishers to enter the market for quota mainly involve problems of organizing and administering a large number of small contributors. Included here is the free rider problem, where some may express a willingness to pay, but then fail to front up with the cash.

There is the danger that the expected increase in the quota price, given new entrants into the market, may cause disagreement and unrest between commercial and recreational fishing interests. Fishing has an earnings target of \$2 billion in annual sales by 2010 (*Dominion Post*, 2004) and some will (no doubt) also point out that the situation will lower export earnings from the industry.

Commenting briefly on these disadvantages, the large numbers difficulty may not be as serious as one would first expect. There are already structures in place (boat shows, fishing publications, etc.) which could act as publicity and gathering points to further the scheme. It is difficult to hazard comment on any existing tension, or any escalation that might be caused by recreational fishers acquiring quota.⁷ Regarding export earnings, if recreational fishers are able to outbid commercial interests, then the fish are of more value to the country when kept in the New Zealand fishery than when exported to offshore interests.

Other points of interest include:

- The value of a dollar of export income as compared to other income;
- If this type of investment in fish stocks is pursued, what happens to the local price of fish in the investment cycle? What about the cost of fishing?
- Would this investment impinge of customary rights and foreshore and seabed issues?

Property right solutions have much to offer in the area of the environment, and with more thought, there appears to be scope for DOC and recreational fishers to adapt them to advantage in the area of conservation.

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- Radich, S. (2003), "Let's Buy Some Recreational Quota", *New Zealand Fishing News*, September, p. 104.

⁴ Economically, this is oversimplified in that the increase in demand would raise the price of quota.

⁵ Of course we have to ask whether recreational fishers would be willing to pay say \$50 for quota year after year. Perhaps there are parallels here with a fresh water fishing license.

⁶ Setting up a reserve (some would argue at the whim of DOC) can impose significant costs on sections of the public. Some may have purchased a property almost solely for its access to a specific fishing ground.

⁷ Of course the situation would become more complex if recreational fishers were to use part of their quota to fish.

PBRF stumps top economists (SB)

A group of the country's leading economists, in Wellington recently, was unable to explain the purpose of the PBRF scheme. Even someone from a high scoring university was puzzled. However, they had more success in identifying possible effects of the scheme, assuming no major overhaul before the next round.

As a means of rewarding universities on the basis of assessed research performance, PBRF could result in more focus given to producing the key outputs, namely publications in selected international journals. Resulting funds accruing to the institutions could then be used either to support successful departments, or the opposite, being used to assist under-performing departments to improve their rankings.

Institutions may simply treat PBRF as one of several sources of funds, in which case it might rate relatively low in terms of return for effort.

Researchers may see research funds as just one input into the research process, another one being their time. They might decide, therefore, that the time costs to them of complying with the funding assessment do not justify the possible financial returns.

On the other hand, the PBRF system might be an outstanding success in modifying researchers' behaviour. For example, it could be recognised that writing for *Asymmetric Information* does not raise one's research ranking, in which case contributors will be drawn only from those who not only lack power (see editorial, Issue 18), but also lack focus.

Will this modified behaviour reveal that PBRF provides perverse incentives? We have come to the central theme of this issue of *AI*, democracy. Let us imagine that tertiary institutions serve a role as an independent critic of society, a haven for free-thinking, perspicacious minds to address the fundamental issues of the day, a bastion from which to challenge politicians to stand by their principles and provide evidence-based policies.

Is it desirable, or feasible, to challenge Treasury or the Ministry of Social Development in the pages of the *AER* or the *EJ*? *AI* thinks not. Critical comment on the local scene is unlikely to be expressed through these channels. Perhaps it will be left for true academics to nobly sacrifice their personal ambitions for the greater good, (and for failed academics to claim some noble dignity in their lowly status).

A Psychologist's Take on Utility

"Eudaemonia, the Good Life: A Talk with Martin Seligman" can be found on the web at: http://www.edge.org/3rd_culture/seligman04/seligman_index.html

Seligman begins by criticising psychologists for focusing on the disease model, whereby "*we didn't develop interventions to make people happier; we developed interventions to make people less miserable*".

He then proceeds to identify happiness as involving "three different kinds of lives":

- 1) the pleasant life – having as many positive emotions as you can. This might coincide with a crude interpretation of utility as a function of the quantity of goods and services consumed;
- 2) eudaemonia – "*the good life, which is what Thomas Jefferson and Aristotle meant by the pursuit of happiness...the pleasures of contemplation and the pleasures of good conversation*";
- 3) the pursuit of meaning – "*meaning consists in attachment to something bigger than you are*".

If the second and third are independent of the first, then they should not serve as reasons for us to feel uncomfortable about the use of utility in economics.

Another discussion on happiness and well-being can be found in Andrew Norton's review of Clive Hamilton's *Growth Fetish*. Rather, the book discusses the issue, and the review discusses the book. It is at: <http://www.cis.org.au/policy/spr03/polspr03-07.htm>

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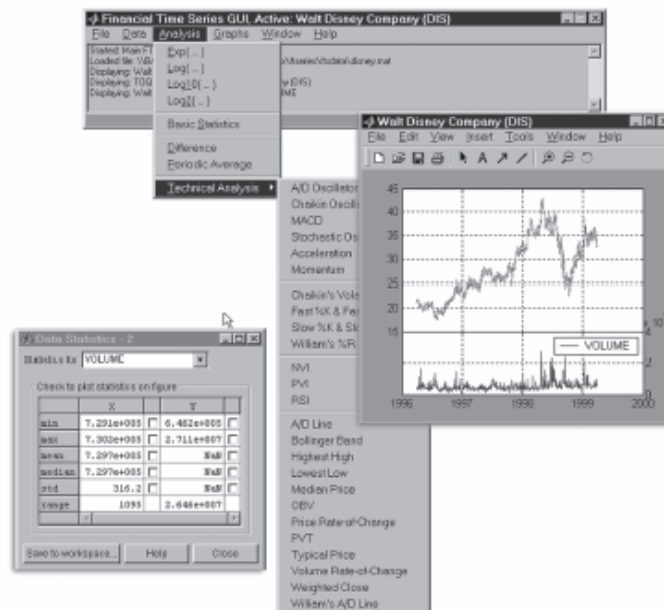
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Conference 2004

The 45th Annual NZAE Conference was held in Wellington, from 30 June to 2 July 2004

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

By your on-the-spot reporter

Well, it was a record conference, with five keynote speakers, nearly 100 papers, and attendance up around 225 people (a full house, according to the web page). If we only knew what caused this, we would repeat the formula. As it stands, the NZAE Council recognise that we have to plan well in advance to maximise our choice of overseas speakers, and is acting on this as I type (see notice on page 1).

For the writer, it was noticeable just how naturally international visitors blended in, suggesting that New Zealand is more connected to the wider economics community than might have been the case in the past.

The conference was also notable for its recognition of people's contributions to economics and to the Association. Patrick Minford delivered the first AWH Phillips Memorial Lecture, Conrad Blythe and Sir Frank Holmes were made Distinguished Fellows, and Life Membership was awarded to John (Jack) McFaull and John Pryde. In addition, the Jan Whitwell Prize went to Iris Claus, with Adam Creighton and William Kaye-Blake being highly commended.

This year there were no discussants. Feeling is divided on this. Good discussants can make a valuable contribution, otherwise they take up valuable time. The matter is still open.

With so many papers, time is at a premium. If a presenter is limited to 15 minutes plus discussion time, then the presentation has to be very carefully planned. It is essential to decide exactly the purpose of the presentation, and what points to make. It might even be desirable to almost have a script that could be carefully worded and timed beforehand. Arguably of equal importance, to make an impact on an audience that is seeing possibly twenty presentations during the conference, speakers have to convey an interest in their topics. The value of this was ably demonstrated by several of the keynote speakers, whose quality of presentation was widely acknowledged.

Law and economics got a good airing, largely due to close co-operation with the Law and Economics Association of New Zealand (LEANZ: <http://www.leanz.org.nz/>). In addition to David Friedman as a joint LEANZ/NZAE keynote speaker and a law and economics parallel session, Kaishuk Basu was a keynote speaker with law and economics credentials, including his book, *Prelude to Political Economy*.

Personally, I think law and economics is a crucial area – I don't see how society can entrust deliberation on economic matters to lawyers. They are not required to have any training whatsoever in the area. Beyond that, legal reasoning is so far from economic analysis that we simply cannot expect economically meaningful outcomes. "Proof" to lawyers involves merely persuading a judge or jury to believe your story over that of the other side. Conflicting principles are not to be traded off against each other, but just to be selected as it suits, and the meaning being given to specific words can be crucial. In my conference presentation, I described a case where a judge's interpretation of "compensation" increased a payout from \$50,000 to \$100,000. Meanwhile, economists talk of interventions correcting for market failure in apparent ignorance of the resulting legal forces that are then being let loose.

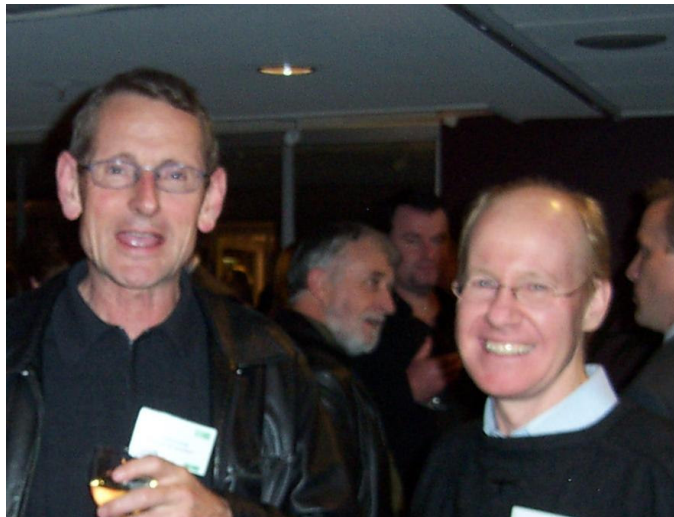
Conference papers are on the web at: <http://www.nzae.org.nz/conferences/>. They are worth a browse, if only to see the wide range of topics and approaches.

Conference photos



David Dickey,
Patrick Minford
and
Weshah Razzak

Tim Hazledine and
Steven Jenkins



Julia Crouch,
with John and
Naire Pryde

Conrad Blythe



Sir Frank Holmes



Tim Hazledine and Kaushik Basu

Lady Nola and Sir Frank Holmes



Grant Scobie and Iris Claus, Jan Whitwell Prizewinner

IRD on the ball (SB)

I don't know if confidentiality is required, but one conference delegate from the IRD made an interesting suggestion. The Property Relationships Act permits unequal division of relationship property if there is significant disparity in income or living standards because of the effects of the division of functions within the marriage or de facto relationship while the parties were living together. The relevant Section 15 is the relevant part of the Act. The word "compensating" is only used in subsection 15.3, which allows for consideration of someone's separate property to increase the allocation to a partner who was caring for children. A judge used another source to consider a payment under subsection 15.1 as compensation for lower post-separation earnings.

Now for the tax implications. If the payment is compensation for lower earnings, then the payment is arguably subject to income tax. Is the Family Court aware of this? Were the legislators aware of this when they passed the bill into law? Are we going to see such compensation being declared as income in tax returns? If the compensation is for lower income over a period of years, will it be taxed as income in the year of receipt, or could the tax burden be spread over several years, with related tax rate implications? If the recipient is taxed, but the payment comes from the accumulated after tax income of the other former partner, can that party claim a tax refund?

On a related matter, James Weir wrote in the *Dominion Post* of 2 July 2004 ("Landlords could lose millions in tax changes", p.A2) that property transferred at death could be liable for tax on previously claimed depreciation. This already happens on the sale of such assets to the extent that the sale price exceeds the depreciated value of the asset. Are such tax matters considered in Family Law when property is divided, or are assets simply valued at their sale price? If the latter is the case, then the apparent division of assets understates the relative share of the partner who retains the matrimonial home, relative to the partner obtaining investment property. Maybe depreciation should be taxed on settlement, as suggested with inheritance. The article reports that about 10 percent of New Zealanders hold investment properties.

AI notes that an issues paper was released on 12 July, just before this issue went to press. *Repairs and maintenance to the tax depreciation rules* is available at www.taxpolicy.ird.govt.nz and www.treasury.govt.nz. Submissions are called for, with deadlines of 31 August for small technical matters and 30 September for larger issues. It does not address the inheritance issue, but the paper includes the statement at 2.23, "*Specific rules exist for disposal of depreciable property as a result of certain transfers – for example, under matrimonial property agreements and between associated parties.*" If the rules are different from those applying at sale, are the resulting differences in the values of the assets taken into account when determining the transfer?

The Social State of the Nation by Stuart Birks

The social state of the nation is now being described in a Social Report.

Social Report 2003 can be found at: <http://socialreport.msd.govt.nz/2003/index.shtml>. It is a recently introduced way of measuring wellbeing and quality of life in New Zealand. A summary can be found at: <http://socialreport.msd.govt.nz/2003/summary/summary.shtml>. This includes diagrams where changes in the values of selected indicators are recorded in terms of movement along axes presented as the spokes of a wheel. Thirty eight indicators used in the report.

Steve Maharey discussed the report in a speech on 29 January 2004¹, including the following statement:

¹ <http://www.beehive.govt.nz/ViewDocument.cfm?DocumentID=18813>

“While we are all New Zealanders we are not all the same. This is why we regionalise services and tailor them to fit the needs of women, young people, Pacific Island peoples, older New Zealanders and so on.”

It is notable that he does not mention men as a group meriting special consideration. Surely it is no longer acceptable for us to assume that all services are designed primarily for men, and only need to be modified for others. There is at least the beginning of an understanding in the wider community that this may not be true for education, health care services, and perspectives on domestic violence. On the latter, as far back as 2000, a Ministry of Social Policy publication *Familial caregiver's physical abuse and neglect of children: a literature review*², stated in its Foreword:

"The review provides a detailed account of the characteristics and circumstances that can inform our understanding of physical abuse and neglect by familial caregivers. It identified a significant shift towards multidimensional explanations that include complex interactions among individuals, families, communities and cultural systems and concluded that treatment and prevention services need to reflect such complexities."

This is radically different from the “patriarchal power and control” interpretation of domestic violence typified by the Duluth model and central to New Zealand’s current approach as in the Domestic Violence Act.

The choice of indicators in the Social Report can also be questioned. To repeat a point I have made elsewhere, to show discrimination, simply pick appropriate indicators and assign suitable interpretations to the resulting values. Hence we could ask why, in the Social Report, increased labour force participation is “good”, and the indicators chosen for civil and political rights are voter turnout, representation of women in government, and perceptions of discrimination specified by ethnicity.

Current complaints by fathers groups include: arbitrary exclusion from their families; failure to enforce access orders; gendered interpretations of violence (including the gendered charge of “male assaults female”); child support that is designed to be punitive and serves as a disguised form of alimony; generally negative portrayals of fathers (as illustrated elsewhere in this issue of *AI* (“Law and Order”, and “Elections and Political Correctness”); and gender-biased paid parental leave legislation. These dimensions do not get a mention.

As for representation of women in government, we could ask whether politicians advocating a highly gendered mix of policies (the current popular term appears to be “social engineering”) are really representing New Zealanders, or just a sub-section of the population.

One problem with the “Wheel” is that it only shows changes in indicators as proportionate changes over two selected years. This gives a poor view of trends. The Ministry of Education publishes tertiary education full year key indicators³, from which the rounded numbers in the table have been derived.

Note the dramatic rise in both these measures. Where there is such rapid change, there will almost certainly be repercussions elsewhere. The levels of indicators tell us one thing, but it is the changes that highlight implications in terms of social adjustment. Is the government considering the dynamics, or simply taking a comparative-static approach in its analysis of social policy?

Tertiary student numbers		
	Excess of female over male	Total number of Maori
1999	36,000	46,100
2000	41,600	52,800
2001	49,800	72,800
2002	67,900	95,600

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² <http://www.msp.govt.nz/documents/publications/sector-policy/familialcaregiverslitreview.pdf>

³ http://www.minedu.govt.nz/web/downloadable/dl7548_v1/7548-key-indicators-ts-2002.xls

This piece has a misleading title to get your attention, but it does start with Sen.

Sen A (1999) "Democracy as a Universal Value", *Journal of Democracy*, 10.3, pp.3-17)¹, includes the following:

"The recognition of democracy as a universally relevant system, which moves in the direction of acceptance as a universal value, is a major revolution in thinking, and one of the major contributions of the twentieth century." (p.5)

"Democracy has complex demands, which certainly include voting and respect for election results, but it also requires the protection of liberties and freedoms, respect for legal entitlements, and the guaranteeing of free discussion and uncensored distribution of news and fair comment...Democracy is a demanding system, and not just a mechanical condition (like majority rule) taken in isolation." (pp.8-9)

*"The value of democracy includes its **intrinsic importance** in human life, its **instrumental role** in generating political incentives, and its **constructive function** in the formation of values."* (p.16)

Sebastian Haffner, as a young man in the Germany of the 1920s and 1930s had a different perspective on democracy. In his book, *Defying Hitler: a memoir* (London: Phoenix, 2002), he attempts to explain the undermining of democracy that occurred. Among other things, he identified the nature of change as largely "hidden", with most aspects of everyday life continuing as usual, problems seeing the wider picture, and major changes being introduced in an orderly way through the use of law. The central lesson matches Sen's point, namely that democracy is complex, and requires active support for its key requirements.

Local politicians are realistic about the amount of influence people have with their votes. I attended one of the ACT "primaries", when they were selecting a new leader. It was an interesting experience, and I would echo the comment that all parties should have similar public events when selecting not only leaders, but also candidates. One question from the audience was more of a statement. The person did not consider that list MPs were really elected, as they had not been required to prove themselves at the hustings. The response from the candidates was that, with first past the post, most MPs did not have to prove themselves either as only a few seats were marginal.

As economists, we question whether democracy is the equivalent of a stable equilibrium. Will deviations be self-correcting? If so, how fast is the adjustment process? While it has taken centuries for democratic institutions to develop, our experience of established democracies is relatively short. We have limited experience of the dynamic forces that may be operating. We can make more progress identifying some potential challenges to democracy in New Zealand. Here are a few:

Judicial activism – mentioned by Michael Cullen, Richard Prebble and Bill English in Parliament on 24 May 2004.

The politicisation of the public sector. At the end of June 2004 the National Advisory Council on the Employment of Women held a conference on pay and employment equity for women. Papers predominantly supported the government's preferred position.² The NACEW is consists solely of women. Eight are appointed by the Minister of Labour, two represent the unions, and one represents Business New Zealand. The conference speakers were all women. Is the feminist goal to have equal representation, or to make women's voices the only ones heard?

Activist research by academics. The Human Rights Commission released a report in June 2004, *Framework for the Future: Equal Employment Opportunities in New Zealand*³. It was written by two academics, but appears to be advocacy research. Having acknowledged that there is limited information, they claimed, *"It is troubling that there is so much evidence of direct discrimination against women and of sexual harassment of women at work"* (pp.60-61).

¹ <http://muse.jhu.edu/demo/jod/10.3sen.html>

² Will the pattern is repeated at the Social Policy, Research and Evaluation Conference in November?

³ <http://www.hrc.co.nz/index.php?p=44860>

They also talk of “indirect discrimination” arising from “competitive, male-dominated cultures” favouring and being preserved by men out of self-interest. This is evidenced by requirements such as people needing high levels of training and experience to obtain senior positions.

Disregard for rights under the law. It is said that, under our law, a person is innocent until proven guilty. A Ministry of Justice document⁴ states that, under the Domestic Violence Act 1995, it is possible to have someone (commonly the man) evicted from his home and denied contact with his children on the basis of only a written submission, without a judge seeing the applicant, or the man knowing that the application had been made.

Academic incentives and independent criticism. Performance based research funding (PBRF) may divert academics’ attention away from New Zealand issues.

It would not be surprising if we hear more on such matters in coming months.

⁴ http://www.courts.govt.nz/family/brochures/Domestic_Violence.pdf

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 the University of Canterbury. 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**.

... economic research at the University of Canterbury as at June 2004.

Compiled by Eric Crampton eric.crampton@canterbury.ac.nz
Email addresses and personal webpages for members of the department can be found on the department's website: <http://www.econ.canterbury.ac.nz/>

Jeremy Clark is currently working on: 1) public economics: using differential time and money pricing to increase the equality of consumption of specific goods as efficiently as possible; 2) consumer choice theory: evaluating the accuracy of people's expectations of own performance and the effects this has on hazardous consumption and human capital investment decisions; 3) public economics: examining whether decreases in the tax-back rate on welfare benefits as beneficiaries resume work encourages greater welfare participation rates; 4) testing whether the insensitivity to scale of hypothetical willingness to pay for environmental goods in contingent valuation studies is a real preference phenomenon for good causes more generally.

Eric Crampton is working on a few projects including the role of partisan influence in the distribution of job creation grants in Canada; the effects of expressive voting in the Tideman-Tullock Demand-Revealing Process; the normative implications of the Austrian economic calculation argument in the presence of non-benevolent agents; and, the desirability of political slack when voting is expressive. Crampton’s working papers and further information are available at <http://www.econ.canterbury.ac.nz/eric>.

John Fountain is currently working on projects in micro theory and in health economics. The micro theory ideas relate to the use of Kullback Leibler discrepancy and Bayes factors in the economics of individual EU optimisation and competitive general equilibrium in contingent claims markets. John is also working with Glenn Harrison and Lisa Rustrom on experimental designs for belief elicitation that adapt the quadratic and logarithmic scoring rules for risk

aversion, all based on these ideas. He has two other projects with former Canterbury honours students: (1) Wade Campbell and a case study analysis of contracts for Bone Health services in Canterbury during the last 3 years of the HFA, and (2) Katrina Lynn on the use and abuse of QALYs in the analysis behind the MOH's recent \$200 million meningococcal vaccination project. For updates and working papers check out <http://www.econ.canterbury.ac.nz/johnf>.

Alfred Guender's recent research has focused mainly on the conduct of monetary policy in open and closed economies. He has analyzed the pros and cons of policymaking under rules and discretion, examined the merits of CPI as opposed to domestic inflation-targeting, and compared the reaction functions of central banks under CPI- compared to domestic inflation-targeting. His current research focuses on the performance of monetary policy rules in purely forward-looking models and the relationship between optimal monetary policy from a timeless perspective, a speed-limit policy, and price-level-targeting. He shows that an appropriately chosen central banker, who acts with discretion, and is delegated a price level target can replicate the behavior of inflation and output under optimal policy from the timeless perspective.

He is also working on a graduate-level text on monetary policy (joint with Richard Froyen) which is nearing completion.

Philip Gunby's research interests include: industrial organisation (especially the economics of standards and technological change); information economics; and the economics of education. Philip is finishing up two projects that he has been doing with Robin Cowan, Emanuelle Fauchart, and Dominique Foray. Both projects involve studying the economics of learning from disasters as part of the Centre National de la Recherche Scientifique research programme on Crises Technologiques. He and Alan Woodfield have also begun a theoretical and empirical investigation of how competing schools use information to attract students, including an investigation of how different policy regimes, such as zoning restrictions, affect educational outcomes. This follows on from work they have done investigating the economic effects of the Tomorrow's School reforms in New Zealand (published in the *Journal of Economic Literature*, September 2003). Two further projects on which Philip is working involve analysing the adoption of standards, and studying the economics of quality assurance standards. Philip can be contacted at P.Gunby@econ.canterbury.ac.nz.

Seamus Hogan is pursuing research in Health Economics (effects of ageing on public health expenditure; usefulness of measures of self-reported health) and Welfare Economics (Rights-based justifications for cost-benefit analysis; economics of society). He's working on papers investigating 1) How will an ageing population affect health care in Canada? 2) Improved health benefits and the Kyoto protocol: the role of air quality regulation; 3) How accurately do measures of self-reported health mimic objective data on medical conditions? 4) A Lockean defense of cost-benefit analysis through a modified aggregate EV test.

Bonggeun Kim's current research agenda focuses on applying applied econometrics to the analysis of wage patterns across areas, non-classical measurement errors, and intergenerational earnings mobility. His recent publications are "Implications of Mean-Reverting Measurement Error for Longitudinal Studies of Employment and Wages," forthcoming at the Review of Economics and Statistics with G. Solon and "The Role of the Urban/Non-urban Cost-of-living Difference in Measured Intergenerational Earnings Mobility," *Economics Letters*, 2002. "Your Money or Your Time: Pricing, Queuing and Merit Good Egalitarianism," with J. Clark and "Measurement Error Models in Retrospective Panel Data" with J. Gibson are in progress as working papers.

Philip Meguire is coediting a book on a new approach to logic and abstract algebra. He is also writing a paper proposing changes to the Hall-Rabushka flat tax.

Laura Meriluoto is currently working on two papers in telephone networks. Paper 1 looks at how outgoing access, incoming access and use externalities can be internalized by caller pays and receiver pays usage pricing alone, so that access does not have to be subsidized. Paper 2 looks at the network structures that can be found in markets where the consumers are allowed to subscribe to the incoming and outgoing services separately.

Her other research interests are as follows. She is interested in the incentives for a monopolist upstream firm to integrate with a downstream firm that competes as a duopoly. This research is inspired by the New Zealand electricity market where we have observed the generators vertically integrating with some but not all retailers in some markets. She is also interested in examining whether package pricing makes exclusive dealing an anticompetitive practice. Package pricing is used in New Zealand whiteware market in particular, and may explain why exclusive dealing is used in the industry in New Zealand but not elsewhere. Finally, she is in the early stages of a project that looks at the welfare cost of technical barriers to trade.

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 creation and analysis of data on New Zealand land prices and real wages, 1873-1939; productivity, innovation and economic growth; some socioeconomic consequences of the growth of ICT in New Zealand (a FoRST funded project) and acyclic graphical methods and their relationship to VAR and causality modeling issues. Further details and some downloadable papers can be found at: <http://www.econ.canterbury.ac.nz/les>

He continues to co-edit the *Journal of Economic Surveys*:

<http://www.blackwellpublishing.com/journal.asp?ref=0950-0804&site=1>

Paul Williamson is conducting research with Les Oxley and Donald George on non-linearity, hyper-inflations and perfect foresight. He is also working on projects regarding horizon effects on asset prices, endogenous asset price bubbles and risk premia in experimental markets, and the relation between real and financial market expectations. He is also conducting research in conjunction with the Natural Hazards Research Centre, of which he is an associate.

Alan Woodfield's current research interests are in the field of law and economics, and the economics of asymmetric information. Following on from their article on the marketization of New Zealand schools (published in the *Journal of Economic Literature*, September 2003), Alan and Philip Gunby have begun a theoretical and empirical investigation of how competing schools use both verifiable (but mixed signal) information and cheap talk to attract students in the context of both privately and socially optimal decisions on school size. Policy issues to be investigated include whether schools should be permitted to reveal information such as school league table rankings, whether schools should be required to produce and report estimates of their value-added, and whether regulatory constraints on school advertising and school size should occur.

Having recently published an article on the economics of New Zealand's debate on indirect liability for internet copyright infringement in the inaugural issue of the *Review of Economic Research on Copyright Issues* in 2004, Alan is investigating the closely-related issue of the optimal timing and structure of royalty contracts in the context of potential accommodation of copyright piracy in a Cournot framework first developed by Richard Watt. He is also investigating the efficiency of alternative legal remedies for personal grievances relating to employment contracts, developing a simulation model to determine the welfare losses from pooling risks in life insurance contracts, examining the efficiency of tendering contracts where post-contractual opportunism is present, and is revising a discussion paper (with former graduate student Paul Gordon) on the role of *ex ante* regulation versus *ex post* liability rules in inducing optimal workplace safety standards under the Health and Safety in Employment Act 1992 in New Zealand when courts make errors in their assessment of socially optimal safety standards and elect to cap liability for employers.

It is with sadness that we report the passing of
Professor Leslie V Castle
Les was one of the stalwarts of New Zealand economics in the 1960s and 70s at Victoria University, before moving on to the University of the South Pacific.

New Zealand Economic Papers

Ian King, incoming editor of New Zealand Economic Papers, invites members to submit their papers to the journal. In keeping with tradition, papers in all economic subject areas will be considered, and papers covering New Zealand topics are particularly encouraged.

Offers and ideas for symposia of papers on particular topics are also welcome.

Book reviews and books to review (or suggested titles) are also needed.

Write to: ip.king@auckland.ac.nz

...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 (first year only)

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

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EMAIL DATA BASE

We are currently setting up an email database of members to keep up to date with technology, and we are working towards eventually e-mailing as many of our notices/publications as possible. *If you have not yet supplied the Secretary-Manager with your email address please email: economists@nzae.org.nz*

MEMBER PROFILES

If you would like your profile included on the NZAE website - please email your details to: economists@nzae.org.nz

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

Simon McLoughlin (Department of Labour); **Matthew Molloy** (Department of Labour); **Matt Benge** (Inland Revenue Department); **Max Dupuy** (The Treasury); **Julia Hall** (The Treasury); **Aaron Gill** (The Treasury); **Dasha Leonova** (The Treasury); **Gambhir Bhatta** (State Services Commission).

WEB-SITE - The NZAE web-site address is: <http://nzae.org.nz/>

(list your job vacancies for economists here)