

# ASymmetric information

ISSUE NO.36

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

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**New Zealand Association of Economists Inc.**

**Stuart Birks** Editor *email:* k.s.birks@massey.ac.nz

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

## FAMOUS ECONOMIST

Amy Johnson, the pioneering aviatrix, born in 1903, obtained a BA(Hons) in Economics from the University of Sheffield in 1926 (before the glass ceiling was invented)

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# EDITORIAL

## Continuity and change

Stuart Birks ([k.s.birks@massey.ac.nz](mailto:k.s.birks@massey.ac.nz))

There is a new feature in this issue of AI. For the first time, there is a letter to the editor. AI has consistently called for contributions and welcomes input from NZAE members. The letter writer did not take up the offer of a full article on her concerns, but AI is happy to publish the letter. More articles and letters are most welcome. I recognise the constraints limiting the range of comments possible from many of those in the public and commercial sectors. Many academics may also be concerned about their public image. That is no barrier to your newsletter editor, so feel free to make suggestions about topics worthy of attention.

It may be that the content of this newsletter is insufficiently controversial, or that people keep quiet in a wish to avoid creating controversy in their chosen areas. If so, perhaps I should try harder. However, I am not sure what more I could do to generate a response in some areas, econometrics for one.

Coincidentally, at the last council meeting of your Association there seemed to be general agreement that more is needed to generate a community of economists in New Zealand. There are perhaps parallels with the current

media campaign to generate a greater engagement with and awareness and appreciation of science. We need something similar among economists, especially at this time when some of the fundamentals of the discipline are being questioned. Central to such an initiative is healthy debate and open exchange of ideas, with a willingness to express and comment on alternative perspectives.

I am reminded of a book Eliasoph, N. (1998). *Avoiding politics: how Americans produce apathy in everyday life*, Cambridge, UK: Cambridge University Press. The author describes her experience of a community in which there was so little discussion of key areas (in that instance, political) that people could hold quite unusual and extreme views which were never tested or challenged. I also note the concept of "street-level epistemology" (Hardin, R., 2002, "Street-Level Epistemology and Democratic Participation". *Journal of Political Philosophy*, 10(2), 212-229), which suggests that people accept what they hear regularly around them (with parallels to "proof by repeated assertion").

It is important to have an arena where ideas can be aired and tested, and to have people willing to participate. This requires a community that will listen and debate, and whose members will take a risk by floating their ideas. There are several who have done so. This is much appreciated, and certainly makes my task as editor easier. More would be most welcome. []

## LETTER TO THE EDITOR

Dear Stuart

I was reading the latest Asymmetric information and wanted first to thank you for raising issues about the functioning of the profession.

But I was very struck at the conference by the very low participation of women, and a dearth of young women participating in actively in presentations/panels/questions/speeches/awards. I wondered how far we had come in 30 years when I first started attending these conferences.

The newsletter reinforces that invisibility - just count the number of men v number of women referred to - it is depressing.

It was even more depressing to read the comments on p.9 when women at last get a mention but in a derogatory way. The paper was one describing the study on the costs of a child for development of child support policy reform.

"The subsequent discussion had little to do with the study. Instead the focus went straight to the policy issues, with the issues being framed, by women in the audience, solely in terms of the rights of and costs to women."

I think I was the one who was responsible for taking the discussion in an apparently irrelevant direction? Geoff Leggett's paper was about the costs of the child. In my view it is entirely appropriate to point out that the caregiver of the very young child who is almost always the woman, bears a significant opportunity cost. This is part of the costs of that child, but an invisible one.

So I am at a loss to understand your comments unless it is to quell any future participation from the female of my profession.

Susan St John

*The issue of Asymmetric Information referred to can be accessed via: <http://www.nzae.org.nz/news/newsletters/> - Ed.*

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

# SAVINGS – MEASUREMENT AND POLICY

By Stuart Birks

The level of savings in New Zealand is repeatedly identified as a problem. As described on p.10 for disadvantage, three steps (grouping, indicator, interpretation) can be identified for showing a problem. The savings issue illustrates some aspects of the rhetoric of policy debate. The unit for grouping is commonly the country. The indicator may be standard or constructed.

NZIER working paper 2007/01, "Does New Zealand have a saving crisis?" is available online via: [http://www.nzier.org.nz/Site/Publications/NZIER\\_Public\\_discussion\\_docs\\_WPs.aspx](http://www.nzier.org.nz/Site/Publications/NZIER_Public_discussion_docs_WPs.aspx). It was given a brief mention in *AI* No.30. The paper discusses measurement issues and questions some commonly held beliefs about low savings rates. It uses a constructed indicator. Comparability is then a problem, but, if nothing is said, people are likely to make a subjective assessment according to their perception as to whether the number is particularly "large" or "small". This is a standard flaw with cost-of-illness studies, for example, where large numbers can stimulate a public (and consequently political) concern. In this instance, much higher savings rates can be achieved if expenditure on health and education are considered as investments from current savings, but interpretation can be difficult without comparable measures from other times or other countries.

About the same time as, and partly in response to the NZIER paper, Statistics New Zealand issued a small paper, "Measuring Saving in the National Accounts": <http://www.stats.govt.nz/reports/papers/measuring-saving-in-the-national-accounts.aspx>

Written by Jeff Cope, it outlines how saving is derived in the current national accounts and shows the relationships between national saving, sector saving, net wealth, investment and the current account balance with the rest of the world. It is well worth a read. It makes clear, and economists should note, that the savings concept in the national accounts is not the same as savings when defined by changes in net worth because the latter can include revaluations and capital transfers. Cope cautions on net worth-based approaches that fail to fully account for these, as in recent experience "the declining saving series has been completely swamped by the dwelling revaluation effects" (p.5). Increases in house values may be considered by individuals as a form of saving, but not in the national accounts. In other words, there are different ways in which savings can be both measured and perceived.

Also, a Haig-Simons definition of income (change in wealth over a period plus consumption during the period) would include such capital gains as income and hence include them in a calculation of savings. Economists commonly assume that such valuation changes affect behaviour, so they are important in that respect. Care should be taken, however. One problem identified with the Haig-Simons definition arises when wealth is held in order to provide an income stream. If prevailing interest rates and rates of return change, then the capital value of an income-earning asset can change while there is no change in the income stream. Should this be seen as a gain to the individuals, and would they change their behaviour?

There are not only conceptual and measurement problems, but also policy perspectives (or interpretations) that should be noted. A common view arises from the  $S=I$  equilibrium condition, whereby if domestic savings are inadequate, then the shortfall has to come from rest-of-the-world saving. There are implicit assumptions about the direction of causality in this reasoning. For an alternative view, foreign capital inflows could be taken as the driver. Then, for a given level of investment, higher inflows result in less need for local savings. These savings are reduced through a higher exchange rate squeezing the traded goods sector, reducing local economic activity and incomes.

Here are two additional points to consider in the savings debate. First, as a young country New Zealand may be a desirable place for real investment, and so it may be (economically) desirable for funds to be coming in from overseas. This could result in associated persistent current account deficits and apparently low domestic savings.

Second, if people are saving for old age, then they will dis-save when they are old. In a steady state situation, *what does this say about the overall savings rate?* As discussed elsewhere in this issue of *AI*, social engineering and family law may be a factor in changing attitudes towards saving and intergenerational wealth transfer, as illustrated by the concept of SKI (spending my kids' inheritance) holidays. In other words, simple models and theories may fail to consider important factors. They "frame" the issues in a particular way, with consequences for our perceptions and decisions.

## DR PETER READ IN MEMORIAM

It is with regret that we advise that Dr Peter Read has passed away in Brussels where he was attending a conference.

An engineering doctorate of Cambridge University, Peter spent a number of years in the British (Scientific) Civil Service, before re-training as an economist at the London School of Economics, and becoming an academic in the discipline of economics. He moved to New Zealand and to Massey University around 1980, with his wife Lesley, who is a kiwi, and their three children.

His research focused mainly energy economics and, more recently, the economics of climate change. It was there that he found his niche, combining his science, mathematics and engineering backgrounds with economics.

Peter retired in 2005. However, he continued his association with the University as a researcher in issues relating to climate change and other environmental matters, combining his academic and professional backgrounds of an engineer and an applied economist.

Our thoughts are with his family.

# THE A R BERGSTROM PRIZE IN ECONOMETRICS, 2010

*Applications are now being sought for the ninth A R Bergstrom Prize in Econometrics.*

The objective of the Prize is to reward the achievement of excellence in econometrics, as evidenced by a research paper in any area of econometrics. The Prize is open to New Zealand citizens or permanent residents of New Zealand who, on the closing date of applications, have current or recent (i.e. within two years) student status for a higher degree. It is intended that the awardee will utilise the proceeds to assist in financing further study or research in econometrics in New Zealand or overseas.

The Prize can be awarded once every two years, with its value currently being \$2000. The selection committee will consist of Professors P C B Phillips, V B Hall and their nominees.

Applications/nominations must include:

- a formal letter of application and, in the case of students, a letter of nomination by their research adviser or chairperson
- a research paper written by a single author, reporting original research in any area of econometrics
- a CV and relevant academic transcripts

Applications should be emailed or posted **by 31 March 2010**, to:

Professor V B Hall  
School of Economics and Finance  
Victoria University of Wellington  
P O Box 600 Wellington  
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Email: [viv.hall@vuw.ac.nz](mailto:viv.hall@vuw.ac.nz)

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

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

# FROM THE 2B RED FILE

*by Grant M. Scobie ([grant.scobie@treasury.govt.nz](mailto:grant.scobie@treasury.govt.nz))*

**Paul Callaghan** is undoubtedly one of New Zealand's pre-eminent scientists. As such he has an important and legitimate role in advocating for science. **Wool to Weta: Transforming New Zealand's culture and economy** (Auckland, N.Z.: Auckland University Press). This little volume (2009) does essentially that. It comprises some 17 interviews with leaders in science, business and industry, supplemented by an introduction and epilogue by the author. The overarching theme is "building export business based on science."

That a scientist is concerned with commercialisation of scientific findings is admirable. But it is more of a stretch for an expert in nanotechnology to pronounce on the economic and policy case for export led growth. Your columnist was disappointed that David Skilling was the only economist in New Zealand who the author felt was worth interviewing. As a result we are left with such unsubstantiated claims that Australian incomes are higher as their "compulsory savings ... have been a really significant driver of their recent economic performance," which does rather leave aside the point that their performance was better well before they introduced compulsory saving. And by the way, I assume dear reader, that it had not escaped your notice that channelling dollops of your taxes into the NZ Superannuation Fund is (was?) the nearest thing to compulsory saving I have seen in a good while.

The book relies heavily on the example of Weta Workshops and (playing on the alliteration in the title) juxtaposes the wool industry as one of the dinosaurs of New Zealand's economic structure. However the policy content again comes up short when we find no analysis of the amount of our taxes that supported the film industry that has nurtured Weta. Rather, Weta exemplifies what is new, different, high tech – and with a great leap we are asked to accept that this is the path to income equality with Australia. Subsiding ourselves has never struck me as a sure fire way to wealth and happiness. However, one has to accept that economics is like medicine everyone has a home remedy. Just remind me not to pontificate on nanotechnology.

There is nothing new under the sun. I recently went to a Law and Economics seminar by **Kesten Green** (*more below*). He made reference to this book: **Charles MacKay, Extraordinary Popular Delusions and the Madness of Crowds**, with a foreword by Andrew Tobias (1841; New York: Harmony Books, 1980). As it sounded interesting I followed it up – and was duly rewarded. Should your local newsstand not have this gem in current stock, the wonders of the electronic age will save the day, and the entire book can be viewed (and downloaded if you wish) on the internet at the following site: <http://www.econlib.org/library/Mackay/macEx.html>.

This volume includes 16 chapters each dedicated to the story of some historical event in which mob psychology reigned and what seemed like a good idea ended in tears. MacKay covers the usual suspects including the Mississippi Scheme, the South Sea Bubble and Tulipomania. In addition he covers, witch mania, the Crusades and political and religious decrees about how males should wear their hair and beards.

Kesten Green, a Kiwi based at Monash, has combined with J.Scott Armstrong in a series of papers challenging the



forecasts of global warming made by the Inter-governmental Panel on Climate Change (IPCC). As an example see **K.C.Green, J.S.Armstrong and W.Soon** (2009). "Validity of climate change forecasting for public policy decision making", *Internal Journal of Forecasting*, 25(4), 826-832. (also at: <http://kestencgreen.com/naiveclimate.pdf>) The authors use the U.K. Met Office Hadley Centre's annual average thermometer data from 1850 through 2007. They show that rather than the results of the IPCC model, a naive forecasting model in which next year's average global temperature is forecast to be the same as this year has much lower forecast error. This will gladden the hearts of those who remain unconvinced about global warming – but it might not convince some that forecasting the past is necessarily a reliable guide to what will happen in future.

While we might want to still debate whether global warming is really happening, there would seem to be rather less room for doubt about the global financial crisis. And what's more, you guessed correctly – there is nothing new under the sun. So don't be fooled by the tongue-in-cheek title that **Carmen M. Reinhart and Kenneth S. Rogoff** (2009) chose for an amazing new volume entitled *This Time is Different: Eight Centuries of Financial Folly* (Princeton, NJ: Princeton University Press). This is "a quantitative history of financial crises" with the simple message: "we have been here before." It is a detailed and thorough documentation of past crises in 66 countries that blends theory and evidence (there are 140 pages of appendices, sources, notes and references). It is amazing in that it covers the causes and consequences of the 2007-08 crisis in detail – all this in a book published in 2009.

And while we are on the crisis, **Gareth Morgan (2009) After the Panic: Surviving bad investments and bad advice** (Public Interest Publishing) should be compulsory reading for anyone with money in managed funds. The short version: the investment industry in this country is characterised by over-charging and under-performing (with, surprise surprise - the possible exception of GMI = Gareth Morgan Investments). There is even a "name and shame" appendix listing the directors of finance companies, and a series of quotes from the prospecti and annual reports of "malfunctioning firms." All this packaged in the irreverent, racy style that makes Morgan's addition to the literature of the airport book stands a good plane read.

Oarite me'arties! You wanted a great adventure story combined with sound economics for your holiday reading - then make sure Mrs Claus pops this one in the stocking. **Peter T. Leeson (2009) The Invisible Hook: The Hidden Economics of Pirates** (Princeton, NJ: Princeton University Press). Forget about images of reckless, drunken, swashbuckling thugs - pirating was a well organised and highly successful business. It just happened to be illegal (cf alternative horticulture in Northland).

But it is its illegality that underlies much of its organisation and governance. Because neither owners, financiers nor the workers in the pirate industry could appeal to the courts for defining property rights, enforcing contracts and settling disputes, they evolved their own systems. And these institutional arrangements were, as any good student of law and economics will tell you, aimed at efficiency. In the absence of the state, contracting parties will evolve their own rules of the game (cf the gold miners of Nevada or Central Otago).

So the pirates adhered rigidly to a system of constitutional democracy, introduced workers' compensation schemes, practiced racial tolerance and regulated drinking and smoking.

Their greedy self-interest led them to construct rules and codes that maximised the expected gain from plundering.

The skull and cross bones was a branding exercise that signalled to merchant shipping that "we are a potentially cruel bunch who will stop at nothing, so you'd better yield without resistance." This was nothing more than creating a credible threat so as to minimise the amount of hand to hand fighting in which they might otherwise have to engage. This minimised the injuries they suffered and the damage to their ships - and hence maximised the expected payoff from future encounters. In short one the best blends of law, economics, history and adventure that you will find in 2009 - strongly recommended.[]

## THE OFFICIAL STATISTICS FORUM 2010:

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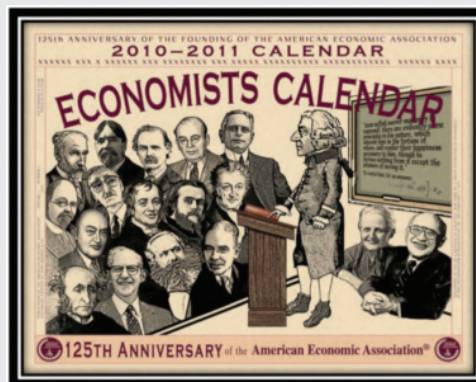
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# SOME ECONOMIC CHARACTERISTICS OF HEALTH AND LAW

By Stuart Birks

Way back in Issue No.23 (on p.9) I suggested that textbooks give us a "Clayton's theory of the firm", presenting the sort of firm we look at when we are not looking at a firm. This sort of simplification may give a neat and tidy structure, but any theoretical approach involves the selection of a limited number of characteristics and the disregard of many others. Specific subsets of economics identify characteristics which may be of particular relevance for their areas of investigation. For example, land economics gives special attention to the implications of location, and other characteristics have been suggested as being of particular importance in health economics.

The field of law and economics has focused primarily on the use of economics as an input to legal deliberation, but the characteristics of the law as a service industry also merit some thought. Several of these characteristics overlap with those of health economics. The following characteristics are well accepted in health economics<sup>1</sup>, and can also be expected to apply to legal services:

1. Consumers are infrequent purchasers of the services of the health or legal sectors and often have limited information about what is being purchased.
2. There are principal-agent issues in that people (principals) are buying the expertise of health or legal professionals (agents) and are not fully informed themselves.
3. When someone initially decides to purchase, it is unclear what the end product will be or what the total cost will be.
4. The benefits of an outlay may not even be clear after purchase, as with "credence goods"<sup>2</sup>.

Other characteristics can be identified which apply to both health and law, such as:

5. The government does not have full control over its costs, in that services have to be provided in response to demand decisions by others. With health sector spending, some costs could be "capped". This can result in waiting lists and queuing, and limiting the treatments being funded. Similarly, to some extent public sector legal costs could also be capped, as with provision of judges and courts, and with ceilings on legal aid.

6. Production of the service involves the participation of several service suppliers who are independently appointed, some funded privately and some publicly.

There are additional characteristics which are of particular importance to legal services and which do not all apply to health. Several of these arise from the nature of legal services as a mechanism for addressing disputes between parties (one of which may be the crown). These include:

7. Participation and production may be on the instructions of two or more parties who may not be very cooperative (indeed, they are frequently on opposite sides in an adversarial contest).
8. The decision to purchase can be determined by one party, then requiring outlays by another.
9. While a party has some choice about his or her own counsel, there is relatively little say afforded in the choice of other professionals involved, including the judge.
10. There is limited scope to insure against the costs of legal services<sup>3</sup>, and limited redress in most cases of "legal misadventure".
11. The outcome can depend on the process. In particular, time taken can have an important impact on costs and benefits to the parties, as with decisions on care of children, or disputes about forthcoming land or property developments where funds are already locked in.
12. Some issues are ongoing, in which case a decision at one time may not permanently resolve the issue. There are several areas where this may apply, but it is readily apparent with care of children disputes, where circumstances can change as children grow. Moreover, decisions at one time may affect options at a later time (i.e. there may be "path dependence"), as when sole care is given to one parent, thus eroding the relationship with the other parent.
13. If we consider the specification of laws as the governmental implementation of policy via the legal sector, then the government does not have full control over outcomes. A similar possibility is well recognised with monetary policy.
14. The "shadow of the law" means that the law can affect people without them having directly consumed the service. This is because their decisions are made in the knowledge that the law is available to them or to others, and so legal action is a possibility.
15. People make long-term decisions with implications for the future, and they can then be subject to law changes that were not anticipated at the time of the decision.
16. Considering the legal sector as a whole, there is limited monitoring and there is little in the way of formal economic evaluation of the legal system.<sup>4</sup>

<sup>1</sup> See, for example, McGuire, Henderson and Mooney (1988), for discussion of points 1-4.

<sup>2</sup> "Credence qualities are those which, although worthwhile, cannot be evaluated in normal use" (Darby & Karni, 1973, pp.68-69), so the quality is unknown both before and after purchase. This contrasts with "search" qualities of a good or service, which can be discovered through search prior to purchase, and "experience" qualities, which can be identified after purchase (Nelson, 1970).

<sup>3</sup> Car insurance and professional indemnity insurance policies are examples of policies which may give some cover in specific areas. As one example where this cover may be illusory, McDonald (2009) writes, "Financial advisers are hitting out at insurance firm Lumley for collecting their professional indemnity insurance premiums for years, then refusing to pay up now that angry clients are launching legal claims to recoup their losses." The company is said to cover 75-80 percent of the professional indemnity insurance market."

<sup>4</sup> One New Zealand attempt to address this problem is Rodney Hide's Regulatory Responsibility Bill and the associated Regulatory Responsibility Task Force (Hide, 2009)

Collectively, these points indicate that the theoretical conditions for efficient operation of free markets in legal services are unlikely to be met. Application of theory which overlooks characteristics such as these is likely not only to result in conclusions that do not match real world circumstances, but also to detract from or prevent the identification of problems that are occurring.

Darby, M. R., & Karni, E. (1973). Free Competition and the Optimal Amount of Fraud. *Journal of Law and Economics*, 16(1), 67-88.

Hide, R. (2009). *Guiding NZ out of recession and building an economy for the future*. Paper presented at the Simpson Grierson Insight Series, 9 June, Auckland. Retrieved 10 June

2009, from <http://www.beehive.govt.nz/speech/guiding+nz+out+recession+and+building+economy+future>

McDonald, S. (2009, 1 May). Financial advisers revolt against Lumley. *National Business Review*, from <http://www.nbr.co.nz/article/financial-advisers-revolt-against-lumley-101858>

McGuire, A., Henderson, J., & Mooney, G. H. (1988). *The economics of health care: an introductory text*. London: Routledge & Kegan Paul.

Nelson, P. (1970). Information and Consumer Behavior. *The Journal of Political Economy*, 78(2), 311-329.[]

## CHRISTCHURCH EVENT

18th November 2009

Darla Hatton MacDonald from CSIRO addressed an audience including people from Lincoln University, the University of Canterbury and Statistics NZ. She has been examining the impact of water restrictions on the value of different types of open, green space in an urban landscape. Her presentation was on the economics of water restrictions as a tool to control water use on private outdoor areas.

The event was a joint effort by NZAE and Statistics NZ (with thanks to Mike Moore for his input). Catering was provided by the AERU at Lincoln. There was a video link to StatsNZ in Wellington.



It is hoped that further similar events will be held twice yearly. The NZAE can assist with similar events elsewhere in New Zealand. If anyone is interested, contact the NZAE secretary- manager, Bruce McKeivitt ([economists@nzae.org.nz](mailto:economists@nzae.org.nz)) []

## EXIT AND VOICE

Hirschman (1970) distinguished between "exit" and "voice" as ways of signalling dissatisfaction. He saw the former as being considered in the realm of economics, and the latter within politics. He focused on the difference between the two (Hirschman, 1970, p. 17). Withdrawal, or "exit" is suggested by economists to be "the 'direct' way of expressing one's unfavourable views of an organisation". In contrast, "A person less well trained in economics might naively suggest that the direct way of expressing views is to express them!" This is what is meant by "voice". He contends, "In a whole gamut of human institutions, from the state to the family, voice...is all their members have to work with". Exit is not always an option, nor is it the only option. Economic theories of competition and markets tend to ignore this.

Hirschman, A. O. (1970). *Exit, voice, and loyalty: responses to decline in firms, organizations, and states*. Cambridge, Mass.: Harvard University Press.

## LINKING RESEARCH AND PUBLIC POLICY

by Howard Fancy

Moving from running government departments to being the director of a small but high quality economic research institute has been an interesting and stimulating experience. The two fields are closely linked. Economic research stimulates ideas about policy design and implementation, while contemporary and prospective policy issues raise interesting questions for possible research.

Current policy attention is focussed on raising New Zealand's economic growth rate and bettering the performance of the public sector. Doing so will require changes in the nature and drivers of performance. This means a sustained period of adjustment involving significant shifts in capabilities, relationships and business processes within and across the different sectors of the economy.

Simply changing policies will not be sufficient to lift economic growth. Policy makers will need to explicitly consider the effectiveness of existing policy approaches to cross-cutting major issues. For example, raising productivity will link to skills, innovation, infrastructure, capital markets and taxation. But increasing the effectiveness of policies in these areas will also need greater understandings of the barriers to improvement at workplaces, how new people capabilities are developed, the influence of different institutional arrangements and how different policies and services can more effectively be aligned and reinforce each other. All of these questions rely on quality feedback between business and policy makers.

In the area of environment and economic growth, many of the long term issues are much less about trade-offs and much more about how stronger economic growth can be achieved with better environmental outcomes. Improved urban development will link the environment with housing, transport, regional government and social services. Improving water quality will link to changes in farm, business and household practices.

Addressing these public policy issues will have significant implications for how the public sector works. It will require moves away from the traditional, vertical approach to more networked and integrated ways of working across agencies and with communities to achieve multiple outcomes. This means greater thinking about the dynamics within systems and how those dynamics can best be influenced and steered. It raises both policy and research questions about institutional arrangements and the relationships between different institutions and how they add value.

All of the above issues highlight the importance of the interfaces between researchers and users and how value is added across these interfaces. Here several dimensions seem to be very important in the years ahead.

Good and timely information will be critical. Data and the ability to access and effectively mine data are essential to good research. In New Zealand, we are fortunate to have access to detailed firm level data collected by Statistics New Zealand. This data, accessed under stringent security conditions, enables researchers to examine different aspects of firm performance. For example, Arthur Grimes uses a Statistics New Zealand survey of New Zealand firms, the prototype Longitudinal Business Database (LBD) to assess the impacts of infrastructure investment, such as broadband internet, on firm productivity; and Dave Maré uses this data to assess the effects of agglomeration on Auckland firm productivity. The micro nature of this data enables variation between different kinds of firms to be assessed and also the nature of changes occurring over time.

A second important link between researchers and users centres on evaluation. Research is backwards looking inasmuch as it draws on historical data to understand what has happened in the past. Policy analysis draws on historical evidence to highlight possible policy issues.

But in developing forward looking policies designed to bring about transformation it is nonetheless important to be clear about the nature of changes being sought and to have in place effective processes to assessing whether desired changes are taking place. This argues for a more deliberate approach to building evaluation into the front end of reform programmes as a more integral and a broader approach to ensuring policy effectiveness and to monitoring and assessing the nature of change. Such evaluation can increase understandings about the nature of responses to policy changes, and provide valuable information that enables policy reform programmes to be modified and refined in the light of experience.

A third area of important linkage centres on how better understandings can be built through relationships that enable more effective dissemination of research and important research questions to be better defined. There may be several levels to this question. At one level, individual pieces of research often only provide small insights into much bigger and more complex issues. Quite often a piece of research may simply say that a relationship strongly believed to be present cannot clearly be demonstrated. Improving research quality and relevance is important but so is the ability to understand and interpret research and then to apply such analysis. It has been interesting to see the range of seminars and workshops that take place involving policy makers and researchers. A question for the future might be whether there may be benefits in building stronger networks and relationships across different researchers and policy makers, and if so how this can be done.

The Motu web site is at: <http://www.motu.org.nz> []



# CALL FOR PAPERS

*New Zealand Economic Papers*

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Recent years have seen an enormous increase and interest in research at the interface of economics and psychology. This special issue aims to present a selection of such work, taken from all areas, to economists and consumers of economic knowledge.

Papers from all areas of behavioural economics and economic psychology are welcome, including but not limited to:

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Application to a New Zealand context is not a criterion for acceptance.

The special issue will be guest-edited by Simon Kemp (E-mail: [Simon.Kemp@canterbury.ac.nz](mailto:Simon.Kemp@canterbury.ac.nz)) and Gabrielle Wall (E-mail: [Gabrielle.Wall@minedu.govt.nz](mailto:Gabrielle.Wall@minedu.govt.nz)) of the Department of Psychology, University of Canterbury.

*New Zealand Economic Papers* is a fully peer-reviewed scholarly journal published by leading international publishers Taylor and Francis (under the Routledge imprint) on behalf of the New Zealand Association of Economists. The journal is indexed in leading international databases including EconLit, ABI/Inform and EBSCO.

Traditionally the journal has served as the primary outlet for high quality research in issues relevant to New Zealand in particular and Australasia in general. However the journal has undergone significant changes recently, including the formation of a new editorial board consisting of leading international scholars interested in providing the journal with a more diverse focus.

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For on-line access to articles and other information about the journal including instructions for on-line submissions, please visit the journal's website <http://www.tandf.co.uk/journals/rnzp>.

Selection of papers for the special issue will follow peer review. Submissions should be made on-line. Please indicate that your paper is meant for the special issue in behavioural economics and economic psychology during the submission process. Final version of accepted papers must be submitted in a format compatible with MS-Word.

**Deadline for submissions: March 1, 2010. []**

# FREE TRADE IN A SECOND BEST WORLD

*By Stuart Birks*

Much has been made of the suggestion based on economic theory that free trade is to be preferred over protection. As a theoretical finding, it relies on the underlying assumptions of the theory being relevant for real world situations, a point that seems to be commonly overlooked. An interesting point is made in a video at <http://www.archive.org/details/EconomyInCrisis-TheVATAndTheUS770>. It is made by an American group with a web page at

<http://economyincrisis.org>.

*The argument in the video is as follows:*

1. Taxes distort markets.
2. There are different taxes in different countries.
3. This can cause an imbalance affecting international trade.
4. The US relies on income and property taxes, whereas other countries rely heavily on sales taxes.
5. Income and property taxes affect costs of production, and apply equally to exports and to goods sold domestically.
6. A value added tax (VAT) such as New Zealand's GST applies to goods sold within a country, but not to the country's exports. The same could be said of other forms of domestic sales taxes. Therefore manufacturers in those countries face lower taxes on their exports than on goods for their domestic market.
7. This combined effect is equivalent to non-US exporters receiving an export subsidy (negative tax) from their governments, with no equivalent subsidy for US exporters.

His point, which applies to sales taxes in general, is that differences in tax structures may favour some countries over others.

US State tax revenue data for 2008 can be found at:

<http://www2.census.gov/govs/ntax/table2.xls>

US Federal tax revenue data for 2008 can be found at:

<http://www.taxpolicycenter.org/briefing-book/background/numbers/revenue.cfm>

New Zealand tax revenue data for 2008/9 can be found at:

<http://www.treasury.govt.nz/government/revenue/taxoutturn/tax-revenue-sep09.xls>

These show that:

- For the US, Federal income and payroll tax revenue plus state income and property tax revenue come to over 81% of total (state plus federal) tax revenue.
- For New Zealand, direct taxes come to under 65% of total tax revenue.

This, and the equivalent in other countries, is the basis for the speaker's claim. In this particular instance, US exporters are adversely affected. He has a point, but he is taking a piecemeal approach. It does not mean that US exporters are disadvantaged

by the overall pattern of government interventions, or that the US as a whole is disadvantaged.

An Infometrics article, "There's a hole in my GST, dear Lisa" (*Dominion Post*, 14 August 2009), can be found at: <http://www.infometrics.co.nz/article.asp?id=4822>. There it is argued that service exporters in New Zealand are disadvantaged. Goods exporters are zero rated for GST. However, services such as tourism and education for international students are subject to GST as the transactions occur in New Zealand. Of course, goods exports would be subject to whatever sales taxes apply in the importing country. Perhaps a more precise measure of any VAT-based subsidisation of exports, or differential treatment of exports of goods and services, would be the difference in sales tax rates in the relevant countries.

If we accept the questionable theoretical suggestion that perfect competition everywhere gives an optimal outcome, then a case can be made for the removal of a single distortion. If there is more than one distortion, then the Theory of Second Best states that the removal of one distortion may not lead to an improvement. In this instance, a case is being made for a change in the nature of one distortion (introducing an export subsidy to match those given elsewhere) in the presence of others.

There are several points to be taken from this. One basic point is that free trade does not necessarily mean an absence of tax distortions on trade. A more general point is that differences in tax, spending and regulatory policies over countries results in a complex mix of influences. Rather than looking at the issue as presented in the video, further consideration could be given to overall levels of tax, levels and patterns of government spending, exchange rate effects, and implications for other groups besides exporters (such as consumers). It is far more difficult for economists to incorporate these aspects into an analysis, and drawing welfare conclusions is even harder.

Perhaps it is better if we forget about that and stick to saying that distortions from perfect competition are bad. That would be the easy way, and it fits the material learned by numerous students in first year economics. We can continue to do this as long as the rhetoric has "traction", or it fits the "agenda", or people accept this "framing" of issues. Otherwise we have a problem persuading people that our points are relevant.

An alternative approach is to suggest that countries have problems when their policies are out of step with those adopted elsewhere. This is plausible, but unlikely to be universally true. For one example which may be valid, consider tertiary education in a market with internationally mobile skilled labour. In the US, students cover much of the cost of education. To get a return on their investment, the (after tax) income premium for qualifications is likely to be higher than in countries where tertiary education is more highly subsidised. This could be considered as US graduates competing in their local labour market against subsidised overseas graduates, or overseas countries subsidising their students and then missing out on a return on the investment that would otherwise have come via extra income tax revenue and lower costs of skilled labour. The US generally benefits, though their graduates lose

out, and overseas (non-US) countries lose out generally, though their graduates benefit.

For an example where differences in policy may not harm the odd-one-out, consider the elimination of agricultural subsidies in New Zealand. Few in New Zealand would argue for their reintroduction (although we may still have some if we take a broader definition of "subsidy").

There is a further point that can be made, and that relates to the rhetoric of policy debate. In the video, a case is being made for a policy change on the basis that the current situation disadvantages a particular group. Consequently, it is unfair, and the advocated policy change would rectify that injustice. This reasoning is very common, and drives much of our policy making. As indicated in the example above, things are not so simple. A generalised version of the problem is addressed in the following piece entitled, "Showing disadvantage" on p.???

## SHOWING DISADVANTAGE

By Stuart Birks

Advocacy research has been described as, "studies that seek to measure social problems, heighten public awareness of them, and recommend possible solutions" (Gilbert, 1997, p. 101). While recognising that such research would include "committed expression of concern", Gilbert suggested that, at its best, it would be based on unbiased measurement.<sup>1</sup> Advocacy researchers have an interest in showing disadvantage for their selected group and then presenting this in a persuasive way so as to generate support for their objectives. There are techniques which can be used to achieve this.<sup>2</sup> Inflating the figures is one, and this aspect is the focus of Gilbert's attention. The framing of the issue is another. The example of VAT in the column, "Free trade in a second best world", illustrates this approach. While some researchers may deliberately produce findings favourable to their preferred viewpoint, their ability to do so rests on the potential of the research methods to contain (or conceal) bias.<sup>3</sup> The following points apply irrespective of the reason research has been undertaken, adoption of a method and reasons for that adoption being distinct issues. As researchers, we should be aware of the distortions that may arise from our choice of method.

To show disadvantage, or, more generally, to undertake research which then concludes that disadvantage has been demonstrated, three steps are required:

1. Define the groups (the one of interest and another for comparison).
2. Select the indicator(s).
3. Interpret the results in terms of advantage/disadvantage.

### To show disadvantage:

- Define the groups
- Select the indicators
- Interpret the results

<sup>1</sup> He then suggested that standards have fallen since the 1960s with the increased popularity of such research, linking this to associated government funding. He was referring to the United States experience.

<sup>2</sup> As economists, we should recognise that any debate along these lines relies on interpersonal comparisons.

<sup>3</sup> Note that a method for identifying misspecification is to observe that the results do not fit with our preconceived expectations (or biases?). Conversely, correct specification is commonly assumed when the results do conform to those expectations.

### **In the VAT example:**

1. The group of interest was US exporters, and they were compared (somewhat vaguely) with exporters in other countries. By choosing groupings, there is an implicit assumption of homogeneity within each group.
2. The indicator was the proportion of tax revenue raised by sales taxes.
3. Interpretation involved:
  - a. Equating the interests of US exporters with those of the US in general;
  - b. Using data on sales taxes to make a case for a value added tax, and treating share of tax revenue as a measure of level of taxation;
  - c. Presenting the case as if the issue of VAT could be considered in isolation.

To challenge claims of disadvantage, or to test their validity, the same three questions can be used. To illustrate this, here is a topical example. It was pointed out recently that females are out numbering males in every level of tertiary completions by domestic students, with nearly twice as many obtaining bachelors degrees in 2008.<sup>4</sup> It was suggested that the poor relative performance of men would have far reaching consequences and needed attention.

First, consider the groupings. The standard aggregation problem is the assumption of homogeneity within groups. The breakdown is just according to gender, comparing all males obtaining qualifications with all females. The source data also give breakdowns by age cohort, so it is possible to compare males and females in the 20-24 cohort, for example. The results are similar. Nevertheless, it may be wrong to use strict gender-comparisons to show disadvantage for males. Steve Maharey put out a media release on a similar matter on 20 April 2006. In it he said, "we need to understand that most boys are doing well, while some boys are not and ensure extra help is reaching those who need it," and the way to improve male performance is "to continue our focus on effective teaching for all students." We should also note Simon Chapple's critique of "closing the gaps", in which he pointed out that there was much variation within ethnic groups and problems were perhaps more closely linked to other factors besides ethnicity (Chapple, 2000).<sup>5</sup>

Second, consider the indicators.<sup>6</sup> By taking domestic completions, males have lower numbers than females. A different result could be obtained if, for example, average pay were used, as with the gender pay gap. If average pay of recent graduates were used, this would give a different picture again. Differences in numbers would be concealed, and the figures would reflect other factors such as choice of qualification, commitment to work and emphasis on earnings.

Third, interpretation of results. Fewer male completions could be taken as poor male performance and a female-dominated

education sector not catering to male needs. Alternatively, the figures could be claimed to show that<sup>7</sup> males: have better job opportunities and so have less need of education; are more interested in occupations without a qualification structure; are inherently less suited to the sorts of work available in the 21<sup>st</sup> century; have gone overseas; or have lost interest in earning and expect women in future to be the main providers.

It should be evident that there is much scope to apply the rhetoric of disadvantage through appropriate structuring of an issue. The difficulty is not in devising the case and finding supporting evidence. The real problem is getting traction for a particular agenda and denying traction to competing agendas. Can you get general acceptance of your groupings? Is there recognition and concern for your preferred indicators? Do people agree with your interpretation? As there are no a priori reasons for the decisions at each of these steps, we are in a position commonly favoured by academics. Namely, we have issues which can be debated indefinitely, so long as the funding and journal outlets are available. []

Chapple, S. (2000). Maori socio-economic disparity. *Political Science*, 52(2), 101-115.

Davison, I. (2009, 5 November). Gender gap widens among university graduates. *The New Zealand Herald*. Retrieved 14 November 2009, from [http://www.nzherald.co.nz/nz/news/article.cfm?c\\_id=1&objectid=10607333](http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10607333)

Gilbert, N. (1997). Advocacy Research and Social Policy. *Crime and Justice*, 22, 101-148.

Hausmann, R., Tyson, L. D., & Zahidi, S. (2006). *The Global Gender Gap: Report 2006*. Geneva: World Economic Forum.

Maharey, S. (2006). Media release, 20 April: Government determined to lift boys' achievement Retrieved 14 November, 2009, from <http://www.beehive.govt.nz/node/25515>

"The word 'research' as a university ideal had, indeed, been ominously spoken in Oxford by that extremely cantankerous person, Mark Pattison, some years ago; but the notion of this ideal, threatening as it did to discredit the whole tutorial and examinational system which was making Oxford into the highest of high schools for boys, was received there with anger and contempt."

Logan Pearsall Smith, p.168 of *Unforgotten years* (London: Constable, 1938)

<sup>4</sup> It was reported in The New Zealand Herald on 5 November (Davison, 2009). The data can be found in sheet COM8 at: [http://www.educationcounts.govt.nz/\\_data/assets/excel\\_doc/0010/16300/Gaining-qualifications31109.xls](http://www.educationcounts.govt.nz/_data/assets/excel_doc/0010/16300/Gaining-qualifications31109.xls).

<sup>5</sup> One (female) researcher once suggested to me that there are big differences between the circumstances of divorced and never-married sole mothers, and yet they are generally grouped together in policy debate. It is also assumed that such status is permanent, rather than transitory.

<sup>6</sup> Here I am assuming that the indicators are realistic measures. Some indicators ensure a particular result, as with the gender gap index (Hausmann, et al., 2006) which it designed in such a way that it can never show women to be ahead of men, no matter how far ahead they may be. See "The global gender gap", pp.9-10 of AI No.28, March 2007, [www.nzae.org.nz/news/newsletters/AI28-March2007.pdf](http://www.nzae.org.nz/news/newsletters/AI28-March2007.pdf)

<sup>7</sup> Or "are consistent with a case that..."

# DISCIPLINARY STRAIGHTJACKETS

By Stuart Birks

Michael Perelman has suggested that one could:

[do] a service to economists by opening up more social science literature to economists...Very few economists do so, but we could benefit from learning about the richer parts of other social scientists' work. (Perelman, 2009)

Albert Waterston of the International Bank for Reconstruction and Development may have been making an oblique reference to Saxe's poem about the blind men and the elephant (Saxe, 1878) when he wrote, on the back cover of Ilchman and Uphoff (1969) (emphasis added):

I am attracted to their conception of the human environment as an integral one which embodies political, social and economic values. These must be explained within a common analytical framework. This we have all been told in elementary courses in political science, sociology and economics, but only in one sentence. Thereafter, the matter rarely arises as each of the social sciences proceeds to concentrate exclusively **on the part of the elephant it has taken hold of.**

The economist's approach to analysis of an issue commonly involves rushing in to model building, after which the results of the model are assumed to be relevant for the real world. At one conference I presented a paper pointing out that some widely used data was systematically biased. Someone suggested that we should use it anyway as there was nothing better. A similar claim has been made about models. We know they are partial and may be flawed, but they are all we have. It is hard to justify this reasoning if we do not then acknowledge the biases and the way they affect our interpretation of the results.

Model building is an area where economists have specialised and have gained a lot of expertise. The models have direct, practical value **if the models fit the real world.** Many established and widely accepted models were originally developed and presented with qualifying statements to the effect that they ignore factors which are known to be relevant. As they are adopted into mainstream thinking, the qualifications tend to be forgotten. It is an acknowledged requirement of a scientific approach that the starting assumptions are always open to question. However, the institutional or political environment of academia can limit that questioning, especially when it puts at stake the accumulated work and reputations of those established in the discipline. For several decades we have been able to cruise on the kudos of a large body of elegant-looking theories and techniques that are obscure and possibly bewildering to the uninitiated. They are still obscure and bewildering, but that is no longer enough for them to maintain credibility in the wider community.

So much for critical generalisations, but can the point be illustrated? Family law is commonly ignored by economists, but may be significant for several economic issues. I consider it here in relation to an area that has recently received attention, housing demand, with further brief mention of and savings and education behaviour.

A recent publication described a scenario approach that was used to consider older people's housing demand in 2050 (Saville-Smith, James, Warren, & Coleman, 2009). It is an interesting report addressing an important issue. Almost all of us fall into the demographic in the study. The writers include a good discussion on the merits of scenarios. They suggest that they are preferable to forecasting, which can be notoriously difficult and which limits the range of possible futures being considered. The authors also warn (para 2.9) of problems identified with past use of scenarios, such as limited or unrealistic options resulting in limited relevance. They then consider "three realistic scenarios of the possible futures for older people's housing" (Saville-Smith, et al., 2009, p. i).

Housing demand is a function of population numbers and household composition. One of the influences on household composition is the formation and termination of relationships. New Zealand has been a world leader in legislation affecting these behaviours. The Property Relationships Act 1976 was (paradoxically) passed in 2001. It changed the law on relationship property and its division for married, de facto and civil union couples.

I did word searches through the document for "legislation" and "relationship" and otherwise tried to find any consideration of the Property Relationships Act or the changes to relationship property law. The parliamentary debates between 1998 and 2001 that resulted in this legislation contained several speeches in which concern was raised about the lack of research into its possible implications. I found nothing in this report either.

This is unfortunate because changes in family law may well have a major impact on relationship formation and dissolution, as well as people's willingness to accumulate assets to provide for their future. Briefly put, the law provides for equal sharing of assets after a relationship of three years. Where two people bring very different amounts of wealth into a relationship, this can mean a significant transfer.

As economists know, a change in property rights, or a change in the price of an activity, can result in a change in behaviour. Legislation could be seen as a form of regulation or, in this case, of price control (altering the amount that people pay or receive at the end of a relationship). If we consider rent controls, a rise in the cost or a reduction in the benefit of providing rental accommodation can be expected to result, in the long term, in a reduction in quantity and quality of supply. The implication for relationships is that people who risk losing their wealth will be more reluctant to enter into relationships, and people considering relationships will be less willing to accumulate wealth. It is unfortunate that the study did not at least mention the possibility that the changed legislation may increase the proportion of old people living alone, and, consequently, the quantity and type of housing stock required.

A similar point could be made about New Zealand's savings rate. Tower has called for compulsory savings (Hall, 2009). By reducing people's future property rights over their current and past savings, the relationship legislation serves as an economic disincentive either to save or, if someone is saving, to enter into a relationship. These effects may be particularly important for people making life choices later in life as much of their saving has been done and there would be little chance to rebuild an asset base depleted as a result of the legislation.

For longer lifetime planning, the legislation may also influence



people's willingness to sacrifice for study and career. Why put in effort to attain a high income career if the rewards may be taken away? This may be a factor in the major gender imbalance in education now (Davison, 2009; Hartevelt, 2009).

Economic analysis tends to rely on structural and institutional stability, except to consider particular changes selected for investigation. This is fine in a *ceteris paribus* world, but it may not fit our data and our reality. Other disciplines are unlikely to adequately assess the economic implications of the changes they study or advocate. Is there a gap in our policy assessments? Shouldn't legislative changes at least get a mention? []

Davison, I. (2009, 5 November). Gender gap widens among university graduates. *The New Zealand Herald*. Retrieved 14 November 2009, from [http://www.nzherald.co.nz/nz/news/article.cfm?c\\_id=1&objectid=10607333](http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10607333)

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Perelman, M. (2009, 15 August). Post to SHOE email list: "Re: The Curious Citation Practices of Avner Greif", from <https://listserv.yorku.ca/cgi-bin/wa?A2=ind0908b&L=shoe&T=0&P=1143>

Saville-Smith, K., James, B., Warren, J., & Coleman, A. (2009). Older People's Housing Futures in 2050: Three Scenarios for an Ageing Society Available from <http://www.chranz.co.nz/pdfs/older-peoples-housing-futures-2050-report.pdf>

Saxe, J. G. (1878). The Blind Men and the Elephant Retrieved 9 November 2009, from [http://www.noogenesis.com/pineapple/blind\\_men\\_elephant.html](http://www.noogenesis.com/pineapple/blind_men_elephant.html)

## BELIEFS AND POLITICS

The current urgency for passing legislation on emission trading arises from international political factors. Discussion on food miles and other factors is coloured by its potential importance for New Zealand's trade with the EU. There is a belief that, for favourable trade relations with the EU, it is necessary to demonstrate support for particular views. Otherwise there will be trade penalties.

The existence of such pressures should be remembered when thinking of expressed or apparently commonly held views. As discussed in *AI* No.35, there are group pressures that seem to affect the attitudes and behaviour of members of a group. There are rewards for holding those views, and penalties for going against them. So how many publicly stated opinions are expressed because people feel this is required of them, or in their best interest?

To return to the climate change theme, the validity of the science may be of little importance to us in comparison

to the reaction of others to our demonstrated position. We could ask, however, to what extent an overseas consensus is built on such pressures also. We could also ask whether all markets are looking for the same actions from us. If not, our choices become more complex.

## RESEARCH EFFICIENCY

Efficiency in research should consider costs and benefits. Changing technology can cause these costs and benefits to change, sometimes quite dramatically. We have experienced such a shift in recent years. It is ongoing, but we have been slow to respond. Our focus is still on model building and econometric estimation. This places economics as a discipline in a vulnerable position in relation to other social sciences.

There has been a big shift in the availability of and costs of access to textual data. Such data include government, political and media resources from here and overseas. Not only has there been a phenomenal change in availability of these data, but also there have been remarkable developments in processing methods. Given this technological shift, it would be hard to justify use of purely quantitative research to investigate an issue. Moreover, given economists' past emphasis on the quantitative, real gains may now come to those who specialise in analysing these other, largely neglected sources of information. However, given the inertia of academic disciplines, will our journal editors and referees be ready for such a change?

## MINISTRY OF WOMEN'S AFFAIRS FINALLY COMES CLEAN

At one time government spending on education was guided by the return to the country from its investment. As men were more likely than women to have lifetime full-time careers, more men than women went to university. Then this was interpreted as prejudice against women, or male privilege. There was a phase where girls were told they could do anything, and it was even argued that they should be subsidised more because they are less likely to be as committed to the workplace.

On p.5 of the September 2009 issue of the MWA publication, *Panui*, there is an article, "Pay gap work looks at graduates." It includes the following (emphasis added):

"Investigating what is driving the differences in post graduate incomes is an economic issue as much as a gender issue and, as the principal investor in tertiary education, the government has an interest in ensuring it is **getting the best possible returns from its investment**. Under-utilising the skills of female graduates will not achieve this."

Why am I reminded of the part of the Pinocchio story about boys and donkeys?

[*Panui* is available via:

<http://www.mwa.govt.nz/news-and-pubs/publications/az-publications/panui/>]

# 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 of Technology. The objective of this section is to share information about research interests and ideas **before** publication or dissemination - each person was invited to provide details only of research that is **new** or **in progress**.

## ... economics research at the Auckland University of Technology as at Spring 2009.

Contact details can be found via the website at <http://www.aut.ac.nz>

**Don Webber's** research interests concentrate on the comparative economic performance of areas, such as regions, cities, countries, and the urban-rural divide. Currently, he is working on (1) "Microeconomic foundations of spatial variations in labour productivity"; (2) "The economic performance of rural England"; (3) "The role of structural change in productivity convergence among EU regions"; and (4) "Disparities in European regional business cycles: Pro-cyclical, anti-cyclical and industrial composition artifacts"

**Gail Pacheco's** current research interests include: (i) investigating the link between rises in the minimum wage and poverty rates / employment rates, (ii) the impact of quality of life indices in determining migration flows in the OECD, (iii) the impact of political participation on life satisfaction in Europe, and (iv) the economic psychology of subjective well-being.

**Rahul Sen's** current research interests include: (i) analyzing the process of economic integration involving the ASEAN+6 economies, (ii) the impact of Preferential Trade Agreements in the Asia-Pacific region, including those involving New Zealand.

**Saten Kumar's** research interests include topics in macroeconomics and applied econometrics. His focus has been on relevant policy issues in the developing and OECD countries. Currently, he is working on (1) "Effects of trade openness on economic growth in OECD countries"; (2) "The relationship between government expenditure and economic growth"; (3) "Recent developments in monetary policy - a cross country analysis"; (4) "An investigation of aid-growth nexus for developing countries"; and (5) "Purchasing power parity - new evidence from OECD countries"

**Stephanié Rossouw's** current research interest remains primarily in, but is not limited to, the measuring of quality of life. She is actively investigating regional quality of life in New Zealand; focusing on entrepreneurial quality of life and whether it could be linked to the ease of doing business in a particular country; and whether or not quality of life when used in the gravity model does influence migration patterns between OECD countries. As a pet project Stephanié is also researching the economic consequences of child sexual abuse in New Zealand.

**Sadhana Srivastava's** current research interests are in i) Analyzing the role of Foreign Direct Investment (FDI) inflows and outflows in developing countries in the Asia-Pacific and their impact on trade flows and ii) outsourcing of services to developing countries, viz. India.

**Ying Zhou** has diverse research interests ranging from microeconomic theory, welfare economics, computable general equilibrium modelling, to Chinese economic reforms and macroeconomic policies. Her current research interest is in the field of Microeconomics with particular focus on imperfect

competition, the theory of the firm and microeconomic foundations for macroeconomics. The economic models that Ying is in the process of developing incorporate the microeconomics of non-perfectly competitive firms into the macroeconomic model, and provide a micro-macro analysis with elements of general equilibrium. The main objective is to explore the possible real long-run effects of events like a financial crisis, a business confidence collapse, the economy-wide changes in cost, and government policy implementations, in the presence of imperfect competition.

**Stefan Kesting's** diverse research interests range from institutional economic country comparisons, ecological and social economics to innovation and from the political economic analysis of social policy to the history of economic thought as a research methodology. The common link and philosophical foundation is the alternative microeconomic model of communicative economic action. More specifically, his current research projects include: (1) "Communication in the Economy - The Example of Innovation" (2) "Boulding's Welfare Approach of Communicative Deliberation" (3) "Political Aspects of Innovation in the New Zealand Dairy Industry" (4) "The Effect of Early Childhood Education and Care (ECE) Costs on the Labour Force Participation of Parents in New Zealand" (5) The Economics of John Kenneth Galbraith.

**Geoff Perry's** research interests concentrate on economic evaluation of labour market interventions. Currently, he is working on (1) Return-on-investment evaluation of workplace based language, literacy and numeracy programmes in New Zealand and (2) evaluation of active labour market programmes in New Zealand.

**Scott Fargher's** research interests include topics in labour economics and macroeconomics. Currently he is working on (1) an investigation into the consistency of indicators used in the economics of happiness; (2) changes in labour force participation patterns; and (3) macroeconomic indicators. []

## NEW ZEALAND ECONOMIC PAPERS

As most of our readers are probably aware, since the start of 2009 *New Zealand Economic Papers* has been published by the leading international publisher Taylor and Francis. The journal now has a new website: <http://www.tandf.co.uk/journals/rnzp>.

Please see this website for information about the journal. Note (i) the new "Policy watch" section as in Issue 43(1), and (ii) the deadline for copy is three months before publication.

# NEW ZEALAND ASSOCIATION OF ECONOMISTS

## **Be there in 2010!**

Invoices for 2010 membership will soon be sent out to the 384 current members of the NZAE. The 2010 fee is \$120 for full membership and \$60 for New Zealand first-year graduate students (both GST inclusive for NZ residents). There are good reasons to retain your membership – and tell your colleagues.

- Another exciting NZAE **annual conference** is planned, this time in Auckland 30-Jun to 2-Jul 2010. Abstracts are welcome for both peer-reviewed and non-reviewed presentations. Awards from the NZAE Education Trust, totaling \$4,000 to \$11,000 in recent years, will again be available in 2010.
- Other economic **workshops and seminars** will be advertised on the NZAE's website, including those within the wider New Zealand economic community (see <http://www.nzae.org.nz/conferences/general/index.html>).
- The NZAE's **New Zealand Economic Papers**, now with its international editorial Board and priced at US\$217 p.a. to non-members, will again have three issues in 2010 before moving to four issues in 2011. Contributions are welcomed to this peer-reviewed journal.
- **Asymmetric Information**, the NZAE's newsletter containing comments, reviews and general information, will be available to members in March, July and November next year. Here's where you can say your piece.
- The NZAE's **website** remains a popular destination for local and international persons with over 15,000 unique visitors to date in 2009. Oft-visited pages include those pertaining to the annual conference and to NZEP, plus the members' profiles (yes, there is merit in keeping your profile up-to-date!). Also available is a link to employment opportunities.
- And in 2010 the NZAE will once more honor exceptional New Zealand economists by awarding some the title of "**Distinguished Fellow of the NZAE**".

In sum, the NZAE remains a vibrant vehicle for local economists to engage with local and international economists. Be part of the community – we can make it stronger. []

## UPCOMING PRESENTATIONS NOTIFIED TO THE NZAE ARE SHOWN AT:

<http://www.nzae.org.nz/conferences/general/index.html>

These include internal seminars and workshops at universities, plus various other talks. The list is maintained by Council member (and media celebrity) Anthony Byett. Organisers are welcome to email details of any forthcoming talks of relevance to economists to [anthony.byett@xtra.co.nz](mailto:anthony.byett@xtra.co.nz). The page is generally updated each weekend.

## 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](mailto:economists@nzae.org.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.

## WEB-SITE

The NZAE web-site address is: <http://nzae.org.nz/>  
(*list your job vacancies for economists here*).

## MEMBERSHIP FEES

Full Member: \$120 | Graduate Student: \$60 (first year only)  
*If you would like more information about the NZAE, or would like to apply for membership, please contact:*

Bruce McKeivitt - Secretary-Manager,  
New Zealand Association of Economists  
PO Box 568, 97 Cuba Mall. WELLINGTON 6011  
Phone: 04 801 7139 | fax: 04 801 7106  
Email: [economists@nzae.org.nz](mailto:economists@nzae.org.nz)

## MEMBER PROFILES WANTED

Is your profile on the NZAE website? If so, does it need updating? You may want to check...

## NEW MEMBERS

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

**Cathryn Ashley-Jones** (Statistics NZ); **Guy Beatson** (Ministry for the Environment); **Nick Clark** (Federated Farmers); **Hilary Croke** (Dept of Building & Housing); **James Kerr** (Dept of Building & Housing); **Julie Loke** (Dept of Building & Housing); **Keith Rankin** (Unitec Institute of Technology); **James M Stewart** (Unitec Institute of Technology); **Jason Timmins** (Dept of Labour)



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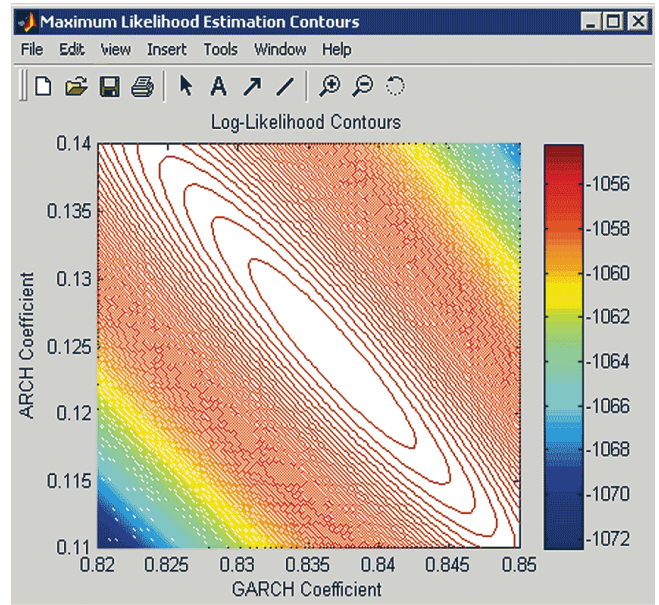
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