

# ASymmetric information

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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).

## PAST ISSUES

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### WEAI CONFERENCES 2017 AND 2018

NZAE is now an Allied Society of Western Economics Association International (WEAI), giving NZAE members the ability to submit sessions to WEAI's conferences.

The dates of WEAI's June/July North American conferences would normally conflict with NZAE's annual conference, but NZAE members could be particularly interested in WEAI's International conferences held usually in early January.

**The 2017 and 2018 WEAI Conferences are scheduled as follows:**

13th International Conference, January 3-6, 2017, Santiago, Chile; and

14th International Conference, January 9-14, 2018, Newcastle, Australia

Further information can be found at <http://www.weai.org>

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# EDITORIAL

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This issue's interview with an eminent New Zealand economist features Murray Sherwin, Chair of the New Zealand Productivity Commission. He is interviewed by Grant Scobie, who is also with the Productivity Commission.

The 'Five Minute Interview' is with Eric Crampton, Head of Research at The New Zealand Initiative.

Bryce Wilkinson contributes a piece on Treasury's Living Standards Framework, and this is accompanied by Girol Karacaoglu's response. Bryce is Director of Capital Economics Limited and a Senior Fellow at The New Zealand Initiative. Girol is New Zealand Treasury's Chief Economist.

Paul Walker contributes his regular 'Blogwatch' column, and from Motu, Dave Maré, Jacques Poot and Ceridwyn Roberts present insights into Auckland's residential assimilation of migrants.

Alan Bentley describes the new measures of inflation being developed by Statistics New Zealand. The design of these Household Living-costs Price Indexes (HLPs) is explained and illustrated, in the context of Statistics New Zealand's Consumer Price Index (CPI). We have a Report from GEN advising their new Committee, their Training Courses for 2016, and their upcoming events. This issue's Research in Progress comes from the Reserve Bank of New Zealand. Those who joined the Association as New Members in January, February and early March of this year are also recorded in this issue.

NZAE is now an Allied Society of Western Economics Association International (WEAI), giving NZAE members the ability to submit sessions to WEAI's conferences, so members will find in this issue the dates and venues for WEAI's January 2017 and 2018 International conferences.

## INTERVIEW WITH MURRAY SHERWIN

by Grant Scobie



**Q. Murray, A good place to start would be when you went to Waikato to study Economics. Was that just a serendipitous event that you were going off to be a young undergraduate and you just happened to choose Economics, or were there some other influences in your earlier years that might have led you to that decision?**

A. Like a lot of economists, I was quite sure I was going to be an engineer and went through high school with that in mind. At the end of my 7th form year I went off to the US on an AFS scholarship for another year of high school. The school I attended in Connecticut required exchange students to do one course on American history and another on "Contemporary American Issues." The latter turned out to be a really interesting programme run by a superb teacher who took us through issues of racial prejudice in the US, poverty and income distribution, and different perspectives on the Vietnam War, which was raging at the time. For a naïve farm boy from Pirongia, that course was a revelation. But we were also introduced to economics. That was all new to me, and completely fascinating. I returned home thinking engineering may not do it for me after all.

Waikato University was offering its Social Science degree, unique in NZ at the time, which enabled me to do Sociology, Philosophy, Psychology,

politics and geography, together with Economics. Having been fired up by my experience in the States, I found this a pretty attractive option.

**Q. What were some of the highlights of your years at Waikato University?**

A. Waikato was a very new, small and lively university with all sorts of shenanigans going on, on campus. But the Economics Department was becoming well established and had a number of key people on board: John Ward was the Head of the Department. John became quite important for me. His field was what he called at the time, Social Economics. I ended up doing quite a lot of work with him, including on consulting projects that he was undertaking in the health and transport fields. One consequence of that was funding from the National Roads Board for my Masters thesis which focused on application of cost benefit analysis techniques in allocation of road safety funding – which John supervised.

We had some very young lecturers, such as Brian Silverstone who was just starting out his career and was confronted with large classes of unruly students, largely because the School of Management had just opened and required its students to do stage 1 micro and macro economics. These were not their favourite courses and they made that clear with their behaviour. Even the decision to open a Management School at Waikato had proved contentious. Half the campus seemed to think this would contaminate the socialist sanctuary they were creating and actively opposed its establishment. Hard to imagine now.

We had a few other characters as well. One I particularly remember was Bill Reindler, an Austrian who had come to NZ to escape Hitler just pre-war. He knew more about the Austrian School than any of us could ever absorb, despite his best efforts. He was well-known for low opinion of NZ students and his deep sarcasm. I recall one end of year exam where he arrived with the exam papers, looked at this small class and in his heavily accented voice said, "There are 10 questions. The first five are for the illiterate. The second five are for the innumerate. Unfortunately, many of you will not be able to do any of them."

**Q. Following the years at Waikato, your professional career started by going to the Reserve Bank. What led you there?**

A. As I completed my studies the obvious question was: "What does one do in New Zealand with an economics degree?" My preference was for a role in the private sector. I contacted a number of companies that might be likely employers. Generally, the interviews proceeded well until the inevitable question: "But do you have any accounting?" There didn't seem to be a place for economists. So I gave up on that strand.

In the public sector the Reserve Bank seemed an attractive option, not least because of the staff mortgage facility. I applied a couple of times

to the Economics Department, unsuccessfully. I was declined by the Treasury. I was interviewed and declined by Kerry McDonald, then head of the NZIER. The Ministry of Transport was interested, on the back of the work I had done for my Masters on road safety issues, but I was less interested in them. MFAT offered me a job but from my brief view of it, the culture at the time didn't seem like a good fit for me.

So I was still scratching my head when Lindsay Knight, then Chief Cashier at the Reserve Bank, visited Waikato on a recruiting round. He was creating what he called the Chief Cashier's Research Office, a small group of economists in the Chief Cashier's Department, essentially to provide him with analysis and advice on the operational matters of the department, but also to provide some degree of contestable advice to that of the economists in the Economics Department. He offered me a job and I was delighted to accept. It turned out to be a very good fit because I quickly concluded that I really wasn't a research economist. I was more comfortable with the operational/delivery issues, found that much more stimulating and enjoyable, and it probably played better to my strengths.

**Q. There is a certain irony that the Reserve Bank was building up a very strong economics department at that point, under Roderick Deane. But that was the era of heavy duty econometrics and econometric modelling, wasn't it? So were there essentially two groups of economists in the Bank at that point? Did they talk to each other?**

A. The Chief Cashier's Research Office (CCRO) was very small and largely focussed on some of the operational matters, particularly those associated with the exchange rate regime. The NZ Dollar was still fixed, although the peg had just shifted from Sterling to US dollar. The CCRO did a good deal of the work to develop the trade-weighted basket and then to operationalise it; first fixing against the basket, and then the move to the crawling peg.

I don't think there was a lot of competition between the groups of economists, probably because our orientations were rather different. Roderick Deane had a team putting together the first large scale econometric model. Since NZ did not have quarterly national accounts data at the time, a huge effort was going into building that data for the model. It was heavy-duty econometrics, with quite a big research group including the likes of Grant Spencer and Gareth Morgan, to recall just a couple of familiar names. Others in Roderick's Economics Department were focused on monitoring the domestic economy, and advising on monetary policy – to the extent that there was one under a fixed exchange rate regime.

**Q. Your time at the Bank was followed by an interlude at the OECD. Was that a fruitful experience, as sometimes these large international organisations have a rather bureaucratic culture?**

A. That emerged when a note offering trainee positions at the OECD was distributed by the then-chief cashier, Ray Hardie who asked: "Anyone speak French?" and I wrote, "Mais oui" on the bottom of it – the full extent of my school boy French, and thought nothing more of it. A few months later in early December of 1978, a message came back from the OECD saying, "You're accepted and we want you to start work in Paris on the 2nd of January."

I was assigned to the group doing the country analysis on Australia, New Zealand and Ireland. Colin Gillion, ex Victoria University, joined the team shortly after I got there. He replaced Ian Macfarlane, who'd gone back to Australia to the RBA, later to become governor. It wasn't a terribly productive professional experience for me. I hadn't done much macro analysis previously, and struggled to come to grips with the notion of adding value and insights when working at a distance with unfamiliar data and without much of the historical, or even current, context. I also found the OECD to be quite compartmentalised, so didn't get a strong sense of what was going on elsewhere around the organisation.

At the end of that year I was offered a chance to stay on but concluded I'd rather go back to the Reserve Bank. Whatever reservations I had about the professional experience, the opportunity to live in Paris was never regretted.

**Q. That was the bonus. The years back at the Bank then led to the period of the '84 Election and the subsequent floating of the exchange rate. That must have been an exciting time for an economist. Can you tell us something of the way the Bank**

**handled that? Do you think it followed the best possible course it could have, given the economic and political issues at the time?**

A. To back up a little bit, I was assigned to Rob Muldoon's advisory group at DPMC through '82, '83, which was an interesting insight into our political system, and to Muldoon's politics and policy thinking.

I was there as he introduced all the price controls and controls on interest rates, rents, dividends and directors' fees and anything else that moved, as he tried to outlaw inflation. Through that period, we also experienced a couple of devaluations. Typically, these emerged in the middle of the night with the Australians sending a message saying they were devaluing by 10% or whatever. A group of Treasury, RBNZ and DPMC officials would convene to work up a response. The advice was always that NZ would have to devalue with the Australians, because we couldn't do much else. It was an interesting insight into Muldoon's deep resistance to exchange rate movements and discomfort with the emerging world of market determined exchange rates. We had seen that earlier with the operation of the crawling peg, where he tolerated it on the grounds that it was helping to sustain competitiveness for exporters - but was generally reluctant to allow it to move very much.

So in 1983 I returned to the Reserve Bank to head up the Foreign Exchange Desk dealing with foreign reserves and the international operations area. I went off to the Federal Reserve Bank of New York on a fantastic six-week course, which gave me some great networks and a lot of training and exposure in a very relevant field. I also visited the Bank of England, BIS and the Singapore Monetary Authority on the way home. Back pre-Christmas, I wrote a memo saying, our reserves are negligible, we're in a highly risky position and this is not a good place for New Zealand or the Bank to be. And by that time, our borrowing capacity was already becoming constrained as the nation's foreign currency debt ratios expanded. So the Bank was left operating a fixed exchange rate, but with negligible reserves.

**Q. So this was the build-up to events in 1984?**

A. The Treasury was the borrowing agent, not the Bank. But given the constraints on international markets, they were reluctant to borrow more to bolster reserves. So we had this ongoing issue of having to meet the market, but with very little buffer to play with.

With the June 1984 announcement of the election, all hell broke loose. In retrospect, the astonishing thing was how quiet the extent and the nature of the FX run was kept throughout the election campaign. We had sold our available reserves at the Bank within five minutes of opening the desk on the day after the election was announced, and did so most days over the following month. I'd spend the rest of the day and most of the night on the phone to the BIS, to the commercial banks and to anybody else who might be able to assist, trying to scrounge up enough money to cover the next day.

**Q. That would be almost on a day-to-day basis?**

A. Yes literally.

**Q. In fact on an hour by hour basis?**

A. Yes, hour by hour, trying to find sufficient credit lines. But eventually we reached the position where we could no longer meet the demand.

Given that devaluation was ruled out by Muldoon, one of the few options open was the introduction of a forward contract facility. This posed the challenging question of how to price the contract. It needed to be attractive enough to take pressure off the spot market – in essence to push the foreign exchange shortage out to the future. But it also needed a price that was realistic in terms of the risk of a significant future cost to the taxpayer. Given the scale of the run, that was never going to be a comfortable judgement.

That was a month of not very much sleep followed by the debacle over the election and the post-Election period. Together with Spencer Russell and Bernie Galvin we went to Auckland to brief the incoming Lange Government after the election. We met in a board room at Auckland Airport. Lange sought assurance that he would be able to act on any information or advice we gave him. That assurance could not be provided. So Lange refused to accept a briefing on the situation.

Then came the decision to close the FX market. Spencer Russell, in a discussion with Muldoon over the phone on the Sunday after the election advised Muldoon that the market should be closed – largely because we had exhausted our capacity to meet further demand for

foreign exchange and had hefty liabilities stacked up with repayment coming due, and no way of meeting those obligations. After not getting a clear response, Spencer told him: "I'm going to close the market unless you order otherwise". Muldoon's response was along the lines of "You do what you want". This was high drama. So the market was closed from the Monday after the election. Within a couple of days, and under pressure from his senior Ministers, Muldoon had agreed to implement the decision of the incoming Government – which was the 20% devaluation.

The subsequent few months involved recovering from the election trauma and thinking about what would be needed next. On the Monday after the election the Bank implemented an internal restructuring and created a new International Department, a part of breaking up the old Chief Cashier's Department. I was appointed Chief Manager of the new department and took up that role in the midst of the election mess at a time when the exchange rate market closed. The new Department's responsibilities encompassed exchange controls, the Overseas Investment Office and a host of other aspects around foreign reserves and exchange rate management. It was a fairly sleepless, high action period over the next few months.

The decision to abolish exchange controls was the next major initiative. It wasn't just a very significant policy decision, but also had big administrative implications. The system was run by a couple of hundred people in the Reserve Bank in Auckland, Wellington and Christchurch – and probably more in the trading banks. Also, there was a lot of associated activity – not least of which was the Overseas Exchange Transactions statistical record which was hung off the exchange controls. The balance of payments record in the National Accounts was largely built on the OET record at the time. Abolished exchange controls had large employment consequences, in and out of the Reserve Bank, and also left the Statistics Department scrambling for alternative data sources.

Having removed the exchange controls, attention turned to preparation for floating the exchange rate. This involved a very difficult set of judgements about the size of the market, its depth and liquidity and so on. Would the NZ market be able to operate a reasonably stable and efficient float? A lot of effort went into encouraging new entrants into the market; encouraging the development of the market, and trying to make a reasonable judgement about how it might work in practice. In the end it was a case of hold your nose and jump, and see what happens.

That decision to float came quite late in the piece after two or three false starts, with many involved swapping sides as to whether we could or couldn't, should or shouldn't, until the decision was finally taken. While there was certainly some instability in the early period, and the currency moved around and into quite uncomfortable territory at times, I have no doubt that the float was the right decision at the time.

**Q. Was the decision to float taken by the Government, by the Minister of Finance, on the recommendation of the Reserve Bank, or did the Bank have the authority to make that decision unilaterally?**

A. The decision was taken by the then minister, Roger Douglas. We had approached it with him on a number of occasions. We'd gone through a number of discussions about the necessary preconditions and whether or not those had been satisfied, what risks were involved in the decision. As I recall, on a Saturday afternoon in March 1985, Douglas finally said, "Bugger it -there's only one way we'll find out – let's do it." He was right of course, because you couldn't test it.

We'd spent a lot of time looking at the Australian experience and learning from their approach since they'd floated the previous year. Lindsay Knight and I had spent quite some time with the RBA going through their processes leading to the float of the \$A, down to quite small and practical matters. But it was, I thought, still quite unclear as to whether we would need to retain a market backstop. In announcing the decision to float, we did retain the option of intervening to counter unstable conditions if that was judged necessary. While that option was never taken, we did come very close to doing so on a couple of occasions in the early months.

**Q. Was the Minister reluctant to do this, or was he sufficiently interested in the role of markets generally that he saw that this was just another step in that direction; or was it just that in reality he had virtually no alternative?**

A. His predisposition was to allow markets to discover prices and, importantly, to shift risk off the Government's books. The reservations were largely the pragmatic ones about just how liquid is this market; how big are the other players and what is the nature of the risks? But retaining a fixed exchange rate in the absence of effective capital controls was never going to be an enduring option.

**Q. So that situation was untenable.**

A. It was untenable to stay there for any length of time, so the decision was inevitable. The only question was the extent, if any, of intervention to stabilise the currency market.

**Q. Jumping forward, there's been some debate recently highlighting issues concerning the governance arrangements for the Bank. One argument is that a considerable amount of power is vested in the governor – an appointed rather than elected official, yet controlling a significant part of our economic policy. This has led to some concerns about the role of the Bank's board and the general accountability of the Bank to the political system. Do you think we've got it right?**

A. I'm not unduly concerned about the way it operates right now. It's evolved from the original conception, which had the Governor both as the sole monetary policy decision-maker and as the Chair of the Board. In that early phase we'd introduced the notion of the board of non-executive directors with the Chair of the Non-Executive Board assigned the task of overseeing the performance monitoring and evaluation of the Governor. The subsequent decision to take the Governor out of the role of Chair of the Board, I think, was the right one. The single decision-maker model is unusual obviously, and certainly carries some risks. But in practice I don't think it differs a great deal, for instance, from the RBA model where the Board formally makes the policy decisions. But in practice the Governor is very, very influential. Clearly, the structure we have at the RBNZ depends on the Board exercising its role with respect to the performance of the Governor with real diligence. I note concerns that those processes could be more transparent and have some sympathy with that. But we should also acknowledge that there has been a practice of having a high degree of scrutiny of monetary processes, with visiting experts observing and reviewing processes and practice.

Certainly in my time as Deputy Governor with Don Brash as Governor, I thought we worked quite hard at devising structures to recognise and manage the single decision-maker risks. At that time, I chaired the Monetary Policy Committee, essentially managing the process. We put a lot of effort into presenting competing views and alternative interpretations of monetary conditions, to try and reduce the risk of capture by a single dominant view. We commissioned staff members who weren't part of the formal monetary policy process to take the data and stretch the analysis to one side or the other, to see what alternative interpretations would look like and how plausible they were. So while Don, ultimately, took the final decision, he also had written positions from his senior policy team outlining their thinking. So lots of advice, but ultimately the Governor's decision. Graeme now has more formally put in place his team of senior colleagues and more of a voting type structure.

So I'm not unduly concerned about where that's at right now.

**Q. The Board of the RBA includes the Secretary of the Treasury. This presumably achieves some improved integration and coordination between the Treasury and the Bank. Might we benefit from that here?**

A. The Secretary to the Treasury used to be on the Reserve Bank Board prior to the reforms; but then monetary policy was not independent and ultimately, the Minister was the key decision-maker. With the move to an independent central bank and an independent monetary policy, it seemed inappropriate to retain the Secretary of the Treasury on the Board. That did not prevent a high degree of sharing of views across the Terrace, but the monetary policy decision was not a shared responsibility.

There is one caveat to my earlier comments about the governance arrangements of the Bank, and that concerns the prudential and financial system risk issues. When the Act was put together and the governance structure was devised, it was focussed almost totally on monetary policy and monetary policy governance. The whole financial system stability and prudential supervision side was a big part of the Act in terms of the volume of space occupied in the text, but not in terms of the attention of the organisation. That's changed now and the governance needs around the system stability and prudential supervision differ from what is required solely for the operation of monetary policy. The fiscal agency, inevitably and properly, has a very, very deep interest in these issues. That's one area where some rethinking of the governance structures may be appropriate.

**Q. After the Bank, your career then took you to CEO of MAF. What lasting residual impacts would you point to from your time at MAF?**

A. MAF, now MPI, is probably the most restructured organisation in town - restructured constantly over the last 30 years or so. It's only 5 or 6 years since I left it, but it is sometimes hard to recognise much of the organisation I led.

When I first went there I felt the organisation was fairly run-down. In earlier years, the former Department of Agriculture had been quite a heavy hitter around town, with a substantial economics and policy capability, as well as its operational roles. My sense was that it had lost a lot of that. So the mantra adopted internally was essentially one of putting MAF back at the top tables. That involved rebuilding its policy capability, its policy credibility and its capacity to be influential in matters associated with the primary industries.

Also, as I came into MAF, the biosecurity system was coming under real stress. There was a biosecurity strategy being worked up by a wider group of stakeholders; however that process was in some disarray. We managed to pick that up and produce a strategy which provided real impetus for the system's development. A part of that was the creation of what became Biosecurity New Zealand. That was just a brand within MAF but it consolidated a lot of the capability from other agencies, including DoC and the Ministry of Health and focused on lifting policy and operational capability together with greater engagement with stakeholders. That was, I think, a successful process and while the structure has moved on since, the lift in capability has endured.

The third area which I thought was underdone and was pleased with the progress we made, was that of animal welfare. This is a particularly interesting policy area with a mix of ethics, science, business drivers and human values. We tried to get a regulatory and enforcement regime that worked in what is very contentious territory. It was some of the most interesting and challenging work that we did.

There are many other issues and events I could mention – the development of the ETS regime, biosecurity operations such as the painted apple moth eradication in West Auckland, Waiheke Island Foot and Mouth disease scare, the challenge to Australia at the WTO over trade in apples, the China FTA and the unsung work of the Crown Forestry Group in managing and handing back to full iwi control one of the largest commercial forestry estates in the country.

MAF, now MPI, sits at the crossroads of most of the important public policy issues we deal with – economic performance, environmental performance, international trade, science and innovation, regional development, Maori development. That makes for a particularly interesting and rewarding set of policy and leadership challenges.

**Q. To what extent has your formal economics training been of use in these senior management roles that you have held?**

A. You never lose the formal economics background. It provides the tools that you fall back on all the time – the concepts; the way of thinking; the resort to data and evidence where you can. I always found that to be an essential part of the toolkit that I bring to bear on management and leadership in these roles.

**Q. So now to the Productivity Commission. This is a relatively new organisation. It appears to have survived its infancy. Can you identify some specific areas where you think the Commission has already had a significant impact?**

A. Certainly! We've now got eight inquiries behind us; two in progress right now – so that's two a year since we started. In each, I think we've

advanced the analysis of key issues, the diagnosis of problem areas and have been able to propose policy recommendations. We see evidence almost on a daily basis of how that work has helped reshape the thinking of officials in both central and local government. Much of this work takes time to filter through to particular policy decisions, but we do see them – the recent Australian decision which provides a better pathway to citizenship for New Zealanders living in Australia can be traced back to work we did jointly with the Australian Productivity Commission in 2013. The focus on housing supply in the context of the affordability problems can be traced to work we have done in 3 separate inquiries. Our work on regulatory issues in both local and central government has provoked a huge effort amongst regulators to lift their game and generally to raise standards.

A source of particular pleasure comes from talking to groups that we've worked with, whether it's in the transport sector or, for example, the social services sector – and having them say, 'that inquiry really shifted the way we understand our sector, the way we think about our own business.' I think the work we did in social services has the potential to chart the way forward for some quite radical shifts in our approach to our most difficult sectors of society.

I should also touch on the Productivity Hub and the research side, because that's an area where we have been able to make great strides with very limited resources. The Commission, through Paul Conway, has been able to engage with Treasury, MBIE, Stats New Zealand and Motu and bring some energy and focus to the big issues in understanding New Zealand's sub-par productivity performance.

**Q. New Zealand, as you will well know, has had a long and rather undistinguished record of creating a whole series of economic quangos. Most of them have been pretty short-lived: we can think of the Planning Council, the Monetary and Economic Council, the Economic Development Commission, the Growth in Innovation Advisory Board. In each case the concept was that this would provide at least some semi-independent advice to the Government, standing outside the ministries, per se. But none of them have lasted for any significant length of time. Looking back over the history, how would you assess the contribution of these?**

A. I was an avid reader of the old Monetary and Economic Council documents. I probably learnt a good deal of my economics and understanding of the language and the concepts of economics through reading those documents. I admired the way the analysis was put together by people such as Frank Holmes, Conrad Blyth, Bert Brownlie, Brian Low and Gary Hawke.

Likewise with the Planning Council, I found their work instructive. But it certainly wasn't landing on fertile ground. Muldoon was the dominant force in both the political and economic policy landscape at the time, and was always reluctant to accept either the diagnosis or the prescriptions that came from the Council. Ultimately, it was simply an administrative decision to abolish it.

**Q. How confident are you that the Commission won't simply be added to this list of former quangos in a few years' time?**

A. The output of bodies such as those, and the Commission, has to be both relevant and valued. We have to bring fresh insights and added understanding to the issues before us and, because of that, make our arguments and analysis persuasive.

Critical, also, is the way we engage with the wider community. We've borrowed our working model from the Australian Productivity Commission but taken it further, especially with respect to a very heavy commitment to engagement and consultation. We do an enormous amount of it. But it builds a dialogue with the wider community which I think is absolutely invaluable. It builds a constituency for the organisation and its work which is probably our strongest asset as we continue to develop our impact and value.

We have one other asset that earlier bodies such as the MEC and Planning Council did not have. We are established under a dedicated Act of Parliament as an Independent Crown Entity. That gives us formal substance and structure. It puts any proposal to abolish the Commission a step beyond a simple administrative decision.

But in the end, if we're not performing we should be added to the list of former quangos. The challenge for us always, is to be relevant through delivery of quality, insightful material which is hard to ignore.

# THE FIVE-MINUTE INTERVIEW WITH... ERIC CRAMPTON



## 1. When did you decide that you wanted a career in economics?

I decided that I wanted to be an economist in the summer of 1997.

I was a farm boy from southern Manitoba who just went to the local university. I was interested in policy, but wanted some chance of employability, so went for a double-honours programme between economics and political science.

The Manitoba undergraduate programme was somewhat idiosyncratic, with full-year honours-level courses in Marxist value theory, and fairly strong emphasis on old-Keynesian and post-Keynesian approaches. When the university's faculty union went on strike, the economics classes got cancelled but the political science classes continued. I did not know that Manitoba was probably the only university in the world where economics sat far to the left of political science.

The summer before my honours year, I went to a week-long seminar in Washington DC hosted by the Institute for Humane Studies (IHS), which focused on public choice theory and Austrian economics. And then I knew not only that not all economics was like what was on offer at Manitoba, but also that I wanted to be an economist.

I was a bit bolshy in my honours year.

I took my GREs and applied to George Mason (GMU) – the place that specialised in the kind of research that I'd first encountered at IHS. Had they not accepted me with funding, I would likely now be in Ottawa somewhere. I'd taken a job as a legislative assistant in the office of the Reform Party's agriculture critic while waiting to hear back on the funding decision, and spent the summer there before moving to Fairfax.

## 2. Are there particular books which stimulated your early interest in economics?

Prior to 1997, not really. After the IHS seminar, I devoured everything I could find on Austrian economics and public choice. But finding wasn't easy: I was still using microfiche to get old newspaper articles when I was an undergraduate. And so I was perhaps a bit too influenced early on by the things I could find after the seminar: Hazlitt's *Economics in One Lesson*; Rothbard's *History of Economic Thought*; Shand's textbook approach to Austrian economics; Higgs's *Crisis and Leviathan*.

Once into graduate school, I could better see the limitations. But it was a fun, and combative, Honours year at Manitoba.

## 3. Did any teachers, lecturers or supervisors play a significant role in your early education?

I've had a few lucky breaks.

There were only 18 students in my graduating year in the small rural high school I attended. But the school ran two streams of English; I took David Watson's class, which focused on grammar, literature, and essay writing. We diagrammed sentences and wrote essays with footnotes. I'm not sure if any high school covers that these days.

At undergrad, Laura Brown's class in environmental economics was an excellent primer in the standard neoclassical approach, and an early hint that broader worlds existed. George Maclean's rigorous approach in international relations was also valuable.

But I was most extraordinarily lucky in graduate school. I was Tyler Cowen's research assistant, so I almost lived at Carow Hall: the Center for the Study of Public Choice.

At Carow, I regularly saw David Levy – an exceptional scholar in the history of economic thought. His work on the Carlyle-Mill debates reminded us of the dangers we face when we start assuming that our choices for others are better than the choices others make for themselves. Carlyle was serious when he spoke of the beneficent lash: he believed Africans to be sub-human, and that the only way to transform them into humans was through slavery. An analytically egalitarian approach, where the modeller cannot sit outside of the system and assume privileged knowledge of what's better for others, is far safer. There's a whiff of Carlyle in current public health debates that assume that poor people are incapable of making good choices without strong beneficent guidance from their betters.

Cowen became my primary supervisor. He is a natural contrarian, so his being in the middle of a bunch of free-marketers meant that he spent a lot of time in lectures showing the limitations of those models. That was helpful.

I regularly went to lunch with Cowen, Bryan Caplan and Robin Hanson, when Bryan was first hashing out his ideas on rational irrationality and Robin Hanson was working through the implications of prediction markets. I learned as much at those lunches as I did in the textbooks. I was Gordon Tullock's research assistant for a summer, which was also rather instructive.

In hindsight, I had a very lucky ignorance. If I'd known better, I would have applied to a much broader range of universities and would have wound up going to one ranked higher than GMU. But there is no way I would have had as educational an experience. The Mason economists love economics in a way few others do, and they bring the students along for the ride. You can't get through that programme without loving economics.

## 4. Do you have any favourite economists whose works you always read?

I always told my economics students of the Pantheon of the Econ Gods. Gordon Tullock of course took the place of Zeus, hurling thunderbolts of fury at all those who oppose him. I have less time now to keep up with the literature than I'd like, but if I notice a new paper by Ed Glaeser, Andrei Shleifer, Kevin Murphy, Bryan Caplan, Jon Klick, Tyler Cowen, Robin Hanson or Amihai Glazier, I'll read it. I used to have Google Scholar alerts for new work by James Heckman, but he writes faster than I read.

## 5. Do you have a favourite among your own papers or books?

I most enjoyed my work with Andrew Farrant on the socialist calculation debate. The Austrians argue that the benevolence of the planner is irrelevant, because Mises's calculation argument (and Hayek's knowledge problem) shows that even a benevolent planner will fail. We argued that the public choice problem has to have priority, as solving the calculation problem would only make outcomes worse for the median citizen if Stalin is dictator. Sure, GDP would look fine, but life would be terrible. Can you imagine anything worse than a version of Stalin who could solve the calculation problem?

## 6. What do you regard as the most significant economic event in your lifetime?

The fall of the Soviet Union and the subsequent rise of markets through the 1990s. So much misery and suffering has been alleviated through the abandoning of the Soviet model – not just in the Soviet Block, but also in developing countries influenced by that style of economic management.

## 7. What do you like to do when you are not doing economics?

Is it possible not to be doing economics? When I'm not at the office, I'm chasing my kids (5 and 8 years old) around. But there's economics in that too.

# TREASURY'S LIVING STANDARDS FRAMEWORK

By Bryce Wilkinson

The New Zealand Treasury has a vision. It is to be “a world-class Treasury working for higher living standards for New Zealanders”.<sup>1</sup>

In the pursuit of this vision it published a “Living Standards Framework” in May 2011.<sup>2</sup> It now describes this framework as comprising “The Heart of Our Policy Advice”.<sup>3</sup>

Personally, I am not a fan of vision statements for government agencies. Public servants are paid to serve their elected ministers in the wider public interest and perform their delegated authorities impartially, honestly and competently. Visions can embody agendas. For example, does Treasury’s vision see it as working for higher living standards for New Zealanders who want to achieve them at someone else’s expense? Some would hope that Treasury would oppose rent-seeking and privilege.

Nevertheless, it would be good to see Treasury excelling in its delegated roles of guardian of the public purse and of the quality of regulatory analysis. Its own analyses should set a high standard. It should encourage and support other public agencies to reach the same standard. It should always seek to protect and enhance the disciplines embodied in our fiscal and regulatory ‘constitutions’.

Yet high quality fiscal and regulatory analysis is difficult. For a start, politically powerful or influential spending and regulatory advocates might not welcome it. It is also difficult technically. The mainstream technique for analysing both regulatory and fiscal proposals is cost-benefit analysis.<sup>4</sup> Treasury is the custodian of that methodology in the public service.<sup>5</sup>

Given these gatekeeper roles Treasury can’t expect to be widely liked, but it should aspire to be respected. It should not confuse the two.

Yet the Living Standards Framework does appear to want to be all things to all people. It proposes evaluating spending and regulatory proposals from five ad hoc perspectives—their contributions to economic growth, equity, sustainability, reducing risk and enhancing social infrastructure.

The framework apparently leaves it open to spending and regulatory interests to cherry-pick amongst the five pillars and within them, deciding for themselves which pillar best serves their purposes in a particular case. It gives no disciplined guidance to Treasury officers or anyone else as to how to choose between, say, competing concepts of equity, or how to assess trade-offs between the pillars.<sup>6</sup> Nor is there an international literature to look to for guidance.

In contrast to this five pillar approach, cost-benefit analysis, for all its well-known weaknesses, provides an internationally mainstream framework for assessing whether the self-evaluated benefits to the New Zealand public from a fiscal or regulatory proposal are likely to exceed the self-evaluated costs. Some may choose to distinguish

between economic, social and environmental costs and benefits, but the technique itself transcends such inchoate distinctions.

The framework accommodates risk<sup>7</sup> and can accommodate equity considerations, albeit not uncontentiously.<sup>8</sup> Sustainability considerations are captured in the estimates of future costs and benefits.

Since the assessment of benefits and costs is familiar practice in private decision-making, commercial or otherwise, conclusions reached using this framework should be reasonably predictable and defensible to those being regulated or liable for paying the taxes. That is an important virtue.<sup>9</sup>

Nevertheless, while cost-benefit analysis provides a disciplined framework for evaluating competing considerations, the outcome even from a high quality analysis does not necessarily dictate the recommendation. Policy advice is more of an art than a science. Unintended consequences are rife. Assessing which recommendation might best meet the disparate needs of the democratically elected government and the public interest commonly requires wisdom and judgement in the face of many unknowns and conflicting considerations.

So what is the relationship between Treasury’s Living Standards Framework and its guidance manuals on cost-benefit analysis?

In June 2012, Treasury published a second working paper that aimed to present the details of a practical living standards tool designed to assist policy analysts to consider the key elements of the living standards framework “in their day-to-day work”.<sup>10</sup> Treasury’s chief economist, Girol Karacaoglu, presented the framework to the annual conference of this Association in 2012.<sup>11</sup>

Curiously, this document made no reference to cost-benefit analysis. It did not even include Treasury’s guidance documents in the bibliography.

With respect to equity, the paper and the conference speech endorsed Amartya Sen’s capability approach.<sup>12</sup> As articulated by Karacaoglu in an NBR article in 2010,<sup>13</sup> it means that everyone “has the right to the freedoms and capabilities that will give them the opportunity to pursue their individual purpose(s) in life. ... In a just society, these freedoms and capabilities would be equally distributed, which is what we often refer to as ‘distributional justice’”.

As articulated, whether an accurate synopsis of Sen or not, this seems to be an elitist and visionary assertion of an entitlement to the fruits of someone else’s labour. More to the point, how can this vision be practicable? People are born with markedly different capabilities (not just different IQ’s). What does it mean to propose that a Newton, Mozart and Pele should have equal capabilities - with each other and everyone else?

1 See <http://www.treasury.govt.nz/abouttreasury>

2 Working Towards Higher Living Standards for New Zealanders, New Zealand Treasury Paper 11/02, May 2011.

3 See <http://www.treasury.govt.nz/abouttreasury/higherlivingstandards/sp-livingstandards-advice-oct14.pdf>

4 But constitutional principles, and the rule of law must also be given much weight, as in CabGuide’s endorsement of the Legislation Design and Advisory Committee’s guidelines.

5 See <http://www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis/guide> and <http://www.treasury.govt.nz/regulation/regulatoryproposal/ria/handbook>

6 In January 2013, The Treasury published six short papers elaborating on the pillars. See <http://www.treasury.govt.nz/abouttreasury/higherlivingstandards>. A similar number of complementary background notes have also been published and are accessible on the same website page.

7 See the section on risk and uncertainty in Part 2 of Treasury’s guide.

8 The section on equity in Part 2 of Treasury’s guide recommends separate consideration of equity aspects but notes that the UK Treasury Green Book recommends the inclusion of distributional weights.

9 I am grateful to a colleague for making this point.

10 ‘Improving the Living Standards of New Zealanders: Moving from a Framework to Implementation Conference Paper’, June 2012

11 See also Girol Karacaoglu, ‘Improving the Living Standards of New Zealanders: Moving from a Framework to Implementation’, Speech to the New Zealand Association of Economists Conference, June 2012.

12 Ibid 4, 10 and 16.

13 Girol Karacaoglu, ‘Mind Share: Equality, justice and prosperity – just utopian ideas or actually achievable?’, National Business Review, 17 December 2010.

Few dispute about the role for a state safety net, along with private philanthropy in its multitude of forms. But what appears to be advocated here could be something vastly more ambitious and problematic.

How would such 'distributional justice' be pursued while preserving individual liberty? Apparently not by James Madison/Thomas Jefferson-style checks and balances aimed at limiting the potential for the abuse of the state's coercive power. To the contrary, Sen reportedly proposes that capability equalisation be achieved, or at least approached, by "democracy", meaning imposed by political majorities following "government by discussion". That proposition, Sen's or not, smacks more than a little of Rousseau's utopian and disastrous vision of an infallible "general will" as determined by a voting majority in general assembly.

Karacaoglu's article was surely written as a private individual rather than as a Treasury officer, but Treasury's subsequent endorsement of Sen's capability approach is a concern, at least if this is how it is being interpreted. Taxpayers may be happy to pay taxes to help those in desperate or distressing circumstances, but some may not want to be taxed much beyond that in order to give other people opportunities that they squander. So exactly what is Treasury endorsing when it endorses equalising capabilities?

In 2015 a further Treasury working paper, also by Karacaoglu, presented a stylised model of the living standards framework using the familiar utility maximising framework that constitutes mainstream frictionless neo-classical welfare economics.<sup>14</sup> All general matters relating to institutional quality, property rights, the rule of law, public choice theory and the role of the common law in addressing externality issues lie outside this framework. Political and bureaucratic decision-making is not modelled. The implicit assumption is that politicians have no interest in being re-elected. Their sole concern is altruistic—to make people better off. For example:

*We conceptualise governments as collective agents through whose activities public goods are provided or their provision is facilitated, and the associated externalities are realised. The purpose of all such collective action is to enhance (note, enhance or improve - not equalise) the opportunities and capabilities of individuals to improve their private wellbeings.*<sup>15</sup>

This statement apparently rejects the large economic literature analysing political and bureaucratic incentives. Much more dangerously, it apparently endorses the potentially totalitarian assumption that politicians are angels.

But politicians are not angels. They are elected by the same people that the model assumes act in a narrow self-interested way in situations involving externalities.

No sound public policy analysis of a government spending, tax or regulatory proposal would fail to assess possible unintended consequences due to flawed incentives and inadequate information. The proposition that governments do not respond to political incentives is one of the last things I would have expected to see from Treasury.

Since assumed benevolent government is the only means in the proposed framework of responding to any posited departure from the outcomes posited for a frictionless, static, stylised neo-classical nirvana, policy implications follow almost by default.

<sup>14</sup> Girol Karacaoglu, 'The New Zealand Treasury's Living Standards Framework - Exploring a Stylised Model', New Zealand Treasury Working Paper 15/12, August 2015.

<sup>15</sup> Ibid, 16.

In particular:

*A particularly promising policy package includes incentivising clean-technology research and penalising the use of dirty technology with a view to switching production towards clean technology - supported by subsidising skilling and education, as well as the immigration of skilled labour, engineers and scientists.*<sup>16</sup>

With respect to education, the model recognises that skilled workers earn more but contentiously assumes that their work does not complement that of unskilled workers. By assumption such unequal incomes violate the equity pillar. Education subsidies are therefore indicated. But what if the assumption is flawed and what about people who choose not to learn skills, work long hours or take on heavy work responsibilities? And how adequately has half a century of state-subsidised education dealt with the problem of the 'long-tail' of educational under-achievement?

Similarly, the case for subsidising scientific research and innovation rests heavily on a modelled departure from nirvana due to spill-over effects and the assumption that the causal connection between scientific research and innovation runs from the former to the latter rather than in reverse. However, the modelling and the recommendation do not address either Baumol's argument that the spill-over effects under capitalism have material 'efficiency' advantages or UK academic Terence Kealey's extensive historical rebuttals of the causal "linear model" presumption.<sup>17</sup>

All the indicated policy recommendations arose without consideration of likely unintended consequences, let alone a recognisable cost-benefit or law and economics analysis. Once again Treasury's cost-benefit guide is neither referred to nor referenced in the bibliography.

In short, the above-cited publications appear to be saying the mainstream cost-benefit and law and economics analyses of public policy proposals are no longer at the heart of a Treasury's officer's 'day-to-day' work. If so, who is to tell other agencies that they matter?

The critical thrust of this article is motivated in good part by the dispiriting amount of evidence of low capacity in the public service generally (notwithstanding good exceptions) to produce high quality cost-benefit and law and economics analyses. More analytical discipline is needed, not less. Yet the Living Standards Framework seems likely in practice to impose even less discipline on government agencies to justify policy interventions than before. The freedom to cherry-pick pillar priorities is the freedom to avoid responsible analysis.

Finally, despite these critical comments and concern, there is a lot of common ground. Of course government policy advisers must give due consideration to all the matters mentioned in the Living Standards Framework, and more. But good advisers always have.

<sup>16</sup> Ibid, iv.

<sup>17</sup> See William Baumol, 'The Free Market Innovation Machine: Analyzing the Growth Miracle of Capitalism', 2002, and, for example, with respect to Kealey, <http://www.cato-unbound.org/2013/08/05/terence-kealey/case-against-public-science> and <http://www.criticalrationalism.net/2010/10/02/summary-of-kealey-on-the-economic-laws-of-scientific-research/>



# TREASURY'S LIVING STANDARDS FRAMEWORK – RESPONSE TO BRYCE WILKINSON

By Girol Karacaoglu

First and foremost, huge thanks to Bryce for taking the time to provide constructive comments on our broader living standards work program.

Our exclusive aim with this program is to increase the effectiveness and efficiency of public policy towards improving people's lives. We welcome any commentary and criticism that will increase our chances of achieving that aim.

My response to Bryce comprises two parts. First, I decompose the living standards framework into its main components (see my 2015 Treasury Working Paper for details). Using this as a basis, I then disentangle Bryce's comments and critique to sharply identify the contentious issues at hand. Unless we achieve this, we will keep talking past each other.

## KEY COMPONENTS OF THE LIVING STANDARDS FRAMEWORK (LSF)

The ultimate purpose of public policy is to improve people's lives, now and into the future.

We do not know how each and every individual wishes to live his/her life, nor do we wish to pass judgement on how they should be living their lives.

Given this objective and this constraint, how then do we design and implement public policy in a way that enhances individuals' chances of living the lives they value?

Although we do not know how individuals want to live, nor do we wish to pass judgement on how they should be living, we cannot ignore the findings of numerous studies, covering a large variety of countries and cultures, about the broader domains of individual wellbeing across many societies. In other words, based on robust, primarily survey-based, empirical work we have a broad sense of the common elements of what individuals and communities value.

By way of example, the OECD's Better Life Initiative [OECD (2013), OECD and Clio-Infra (2014)] focuses on domains or spheres of individual wellbeing, classified under quality of life (health status, work-life balance, education and skills, social connections, civic engagement and governance, environmental quality, personal security, subjective wellbeing) and material conditions (income and wealth, jobs and earnings, housing).

I explicitly acknowledge that there are (at least) three prior questions that need to be answered before we proceed to explore the key attributes of good public policy in this broad context.

First, why is there a need for public policy (i.e. deliberate collective action through a representative government) at all, in enhancing individual and communal wellbeing and, if there is a role for public policy, what is its domain? Second, how do we ensure time consistency (i.e. ongoing alignment of public policy with individual and communal wellbeing)? Third, what are the instruments available to the government to deliver effectively and efficiently in its chosen policy domain?

My 2015 working paper goes into quite a bit of detail in trying to answer these questions. In doing so, I strongly emphasise that the only economic rationale for public policy is not market failure; nor is Economics the exclusive domain of public policy.

I also recognise that governments fail too, just like markets and communities do, for all kinds of reasons, including the fact that they are subject to political influences that lead them to favour special interests rather than the general good. In addition, they do not have at their disposal all the information required concerning

people's preferences and the operation of the economy to be able to design optimal policies. The key is to acknowledge this, as well as the complementary strengths of all these institutions towards improving overall wellbeing when they do function reasonably well, and design public policy in a way that enhances the governance of these institutions towards improving their collective efficiency and effectiveness.

Based on previous works by Atkinson (2015), Sen (2009), and others, I specify the purpose of public policy as enhancing the capabilities and opportunities of individuals to pursue the lives they have reason to value (i.e. to increase their wellbeing) – or, to paraphrase Phelps (2013), provide opportunities and capabilities for individuals to flourish and prosper, towards creating an inclusive society that enjoys and benefits from mass flourishing.

This underpins our emphasis that wellbeing, and not welfare, is the primary (but not exclusive) focus of public policy in the LSF. The role of a "welfare state" is to deliver welfare - agency is typically assumed to reside with the government. A "wellbeing state" on the other hand aims to expand the opportunities and capabilities of individuals to enhance their own wellbeing. The personal agency of individuals is paramount. Citizens have a responsibility in being actively engaged in pursuing what they value; unless their circumstances make it inevitable, they cannot be passive recipients of what they want [Dalziel and Saunders (2014), Sen (2009)].

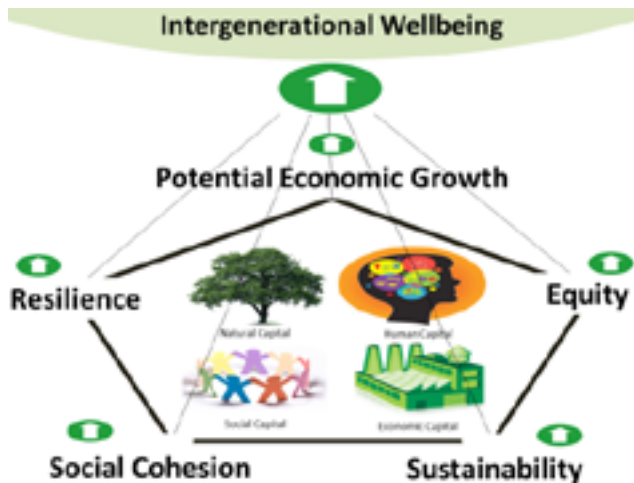
I then proceed to explore some possible arguments, suitable domains, and appropriate instruments, for public policy with the help of a set of generic and stylized models.

I adopt an agnostic and pragmatic approach to modelling strategy, trying to distill all the wisdom we can from a variety of approaches and models towards informing and improving policy. Unlike the academic literature, that emphasises points of difference and novelty, our policy-focused approach places emphasis on integrating and distilling knowledge from a variety of sources. In the spirit of Rodrik (2015), so long as they are helpful in giving us useful policy insights, we are happy to refer to and use a variety of different types of models, including optimisation and equilibrium models.

Starting with the generic model of Arrow et al (2012, 2013) as an analytical framework, I define the object of interest for public policy as shared and sustained intergenerational wellbeing. The source of wellbeing is "comprehensive consumption", which includes marketed consumption goods, as well as others such as leisure, arts, health services, and consumption services provided by nature. The ultimate source of comprehensive consumption is "comprehensive wealth", which comprises stocks of capital assets, broadly defined, that yield income and other sources of wellbeing. These assets include economic capital (including financial capital), human capital, natural capital, and social capital (including the institutions that underpin the way we work and live).

I then construct a stylised model (one possible model) towards operationalising this generic model into a more useful framework that can potentially inform policy advice. The evolving stylised and unified model I use to represent the LSF is constructed by weaving together threads from the wellbeing, sustainable development, endogenous economic growth, directed technical change (favouring "clean" technology), and credit-based-money literatures; it is work in progress.

The Figure is an attempt to capture the essence of this stylised model. (My 2015 working paper provides a set of mathematical models for it.)



In the middle of the diagram, we have the capital assets that comprise the key components of comprehensive wealth. Wrapped around these capital assets is a wellbeing frontier, framed by five key social outcomes or public goods that public policy aims to protect and enhance, to help us extract most value (wellbeing) from comprehensive wealth. These outcomes are (non-excludable and/or non-rival) public goods, which are potential sources of significant positive externalities. It is useful to think of them as defining the boundaries of our collective wellbeing frontier, and therefore of legitimate interest for a public policy that aims to push out these boundaries while being cognisant of the interdependencies (complementarities and tradeoffs) between them. Having identified these, public policy would then aim to minimise the tradeoffs, and/or maximise the complementarities, involved towards enhancing aggregate wellbeing through the use of appropriate policy levers.

Because the returns from investing in the capital assets and institutions that generate these spheres of wellbeing (“social goods”) will not be fully captured privately, this may lead to under-investment in, and over-use and/or under-protection of, the components of comprehensive wealth in the absence of deliberate collective action. There is no suggestion that the benefits associated with these positive externalities will not be provided at all; however, they may be under-provided. Through appropriate and deliberate collective action, we may be able to make markets, communities, and institutions work more effectively and efficiently in delivering these public goods.

Generically, wellbeing-enhancing policy instruments operate through their influence on broad access to, and protection of, the public components of comprehensive wealth, as well as the distribution (across society and across time) of the private components of comprehensive wealth.

The particular stylized model I use to represent the LSF suggests that a time-consistent policy package for a wellbeing state needs to be strongly grounded in the history, cultures and values of the society it represents. Universal access to basic income, as well as access to health services, housing and education for all, provides the necessary platform. A set of economic, social and environmental infrastructures (including strong institutions) act as enablers, and also provide the incentives to participate productively in economic and social life. Policies that ensure environmental sustainability include incentives for the use of clean-technology and penalties for the use of dirty technology with a view to switching production towards clean technology - supported by subsidising skilling and education, as well as the immigration of skilled labour, engineers and scientists.

This combination of policies would raise both the rate and the quality of sustainable growth by reducing the negative effects of production on the environment and on health. A reduction in inequity would follow as the relative weight of skilled labour and scientists (that are both wealthier and better paid than unskilled labour) increases in the working population. This package needs to be supported and

enhanced by poverty-reducing and (especially in an increasingly diverse society) community-building investments to ensure that social cohesion and resilience to systemic shocks are increased.

#### BRYCE'S CONCERNS

Using the above, and Bryce's note, I observe that:

- Bryce seems to agree with the wider specification of our wellbeing function, which has “comprehensive consumption” as its arguments.
- He accepts that we are right in giving due consideration to all the matters mentioned in the LSF, and more – but he says that there is nothing new in that: “good advisers always have”.
- So his objections seem to be centered on the way we are going about this:
  - *the way the LSF is guiding us to think about the scope, domain, and types of policy interventions and, within that,*
  - *the specific role that the Treasury itself plays.*

He is concerned that the first may have unintended consequences (we are putting too much faith and trust in government), and the second dilutes or compromises the Treasury's distinctive role as the government's chief economic and financial adviser.

In summary, Bryce's concerns revolve around the broader scope of public policy at large, the domain of economic policy per se, the unintended consequences of broadening both too much, the specific and distinctive role of the Treasury as a policy adviser, and specifically about the potential negative effects of broadening the Treasury's advisory role on the sharpness and value-add of that advice. In that latter context, Bryce keeps reminding us that Treasury must not forget the critical role that rigorous benefit-cost analysis plays in the performance of the Treasury's distinctive role as the chief economic and financial adviser to the government.

These are all valid concerns, and they should be taken very seriously in designing and implementing public policy.

In return, I note that one of the most important points of emphasis of the LSF is the recognition of the critical interdependencies between economic, environmental and social policies in the promotion of sustainable wellbeing. The Treasury is the only institution positioned to adopt this wider perspective and ensure that our policy packages deliberately take the interdependencies of economic, social and environmental factors into account – this is Treasury's unique systems role. And to that end, it is our public duty to undertake benefit-cost analyses that are not narrowly based, but take wider wellbeing benefits and costs of policy interventions into account – however difficult that may be. If the Treasury does not, no one else will – and that too (to mirror Bryce's concerns) may have huge unintended consequences. Ignoring the systemic interdependencies between economic, environmental and social policies, by allowing them to be designed and implemented in silos, could lead to big mistakes.

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# BLOGWATCH

By Paul Walker ([psw1937@gmail.com](mailto:psw1937@gmail.com))

The best way to reward innovation is a controversial topic, and has been for a very long time. Today in most countries patents are the most commonly used method of offering rewards, but as Michele Boldrin and David K. Levine argue “[t]he case against patents can be summarized briefly: there is no empirical evidence that they serve to increase innovation and productivity, unless productivity is identified with the number of patents awarded—which, as evidence shows, has no correlation with measured productivity”. Another method to reward innovators, one that has been used in the past and is again being touted with some enthusiasm in policy circles, especially in the U.S., is to offer prizes. But is this any better than patents? At the ‘Conversable Economist’ blog <http://conversableeconomist.blogspot.co.nz/> Timothy Taylor discusses work by economic historian B. Zorina Khan that argues prizes may not be any better than patents. Taylor writes Khan shows that the historical record for effectiveness of prizes for stimulating innovation is nowhere as good as it is often believed <http://conversableeconomist.blogspot.co.nz/2016/02/the-problems-with-prizes-as-innovation.html>.

At the ‘Stumbling and Mumbling’ blog <http://stumblingandmumbling.typepad.com/> Marxist economist Chris Dillow comments that football clubs, universities and big business have at least one thing in common: the power of history. Oxford is one of the world’s best universities not because it is remarkably well-managed, but because of its history. Manchester United is a great football club not because they are playing brilliant football but because they benefit from fan loyalty built up over decades. Business have, and try to protect, valuable brands built up over many years. History matters for all these organisations. Dillow then argues that “All this provides a justification for (globally) redistributive income taxes”, and more [http://stumblingandmumbling.typepad.com/stumbling\\_and\\_mumbling/2016/02/built-by-history.html](http://stumblingandmumbling.typepad.com/stumbling_and_mumbling/2016/02/built-by-history.html).

At ‘VoxEU.org’ <http://www.voxeu.org/> Gene M. Grossman, Elhanan Helpman, Ezra Oberfield and Thomas Sampson observe that for at least the past 100 years, the growth of industrialised economies has been remarkably balanced; output per worker has increased at a roughly constant rate, while the capital-output ratio, the real return on capital, and the shares of capital and labour in national income have remained fairly constant. They argue that the evidence suggests that such balanced growth results from schooling levels increasing over time. When capital and schooling are sufficiently complementary, increases in schooling offset the effect of capital deepening on the capital share and ensure that growth remains balanced <http://www.voxeu.org/article/schooling-and-balanced-growth>.

At the ‘Digitopoly’ blog <http://www.digitopoly.org/> Joshua Gans muses on “Game Theory and Apple’s Encryption Challenge” <http://www.digitopoly.org/2016/02/17/game-theory-and-apples-encryption-challenge/>. At one point Gans writes, “The game theory of this is important. Common knowledge requires that we all know and understand at a higher order (I know that you know that I know etc) that a phone can be not be decrypted. Relax that a little and much can unravel. Even if it is a hard thing to do, the knowledge that a backdoor exists is enough to ruin confidence. And with the phone becoming our life and identity, ruining that confidence would have grave unintended consequences. As usual, it won’t harm the criminals but will harm the rest of us. It is clear from this why Apple is making a stand. I suspect that all like-minded tech companies should join them on it. Otherwise, is unclear how much point there is to investing in secure devices”.

The price of houses is always a contentious issue. Over at ‘The Sand Pit’ blog <http://initiativeblog.com/> Eric Crampton asks whether we should “Ban foreign buyers?” <http://initiativeblog.com/2015/11/12/ban-foreign-buyers/> The question is raised because Phil Twyford’s bill banning foreigners from buying existing New Zealand houses has been drawn from the ballot. Crampton argues that Seamus Hogan argued a couple years ago that “The price of housing depends on the supply of available houses and the number of people wanting to live in houses coupled with their willingness to pay for housing. The price of houses depends on the price of housing today and the expected price in the future. Policies that affect who owns houses and the incentive to purchase existing houses as an investment are sideshows unless they change the underlying stock or the underlying demand for housing”. Thus there may be little point to Twyford’s bill.

We are forever being told we must eat healthier meals and an often suggested policy to help us do so is to discount “healthy foods” relative to “unhealthy foods”. But what happens when you give shoppers a discount on healthy food? According to Eric Crampton at his ‘Offsetting Behaviour’ blog <http://offsettingbehaviour.blogspot.co.nz/> not very much. This is the result of a new field study by Cawley, Hanks, Just and Wansink. The mechanism they used was simple. “Shoppers’ purchases at a supermarket were tracked via loyalty card; participating households also received a debit card. Depending on the treatment group, they either got a 10% rebate on all food purchases or a 10% wedge between healthy and unhealthy foods that was either framed as a tax on unhealthy foods, a subsidy for healthy foods, or as both: in all of those treatments, the real effect was a 15% discount on healthy foods and a 5% discount on unhealthy foods. Groups were evaluated relative to their baseline readings before treatment began, during which they all received a 10% rebate on all purchases; they then can run difference-in-difference to get treatment effects”. And the results? No significant effect on actual purchases, but a lot of perceived effects <http://offsettingbehaviour.blogspot.co.nz/2016/02/healthy-subsidies.html>.

Tyler Cowen has been wondering “Why is there a lesbian wage premium?” In a posting at the ‘Marginal Revolution’ blog <http://marginalrevolution.com/> Cowen notes that studies have shown that on average, there is a 9% earnings premium for lesbians over heterosexual women while there is a penalty of 11% for gay men relative to straight men. Cowen then offers a couple of possible reasons for the lesbian/heterosexual wage gap <http://marginalrevolution.com/marginalrevolution/2016/02/why-is-there-a-lesbian-wage-premium.html>.

And from ‘Greg Mankiw’s Blog’ <http://gregmankiw.blogspot.co.nz/> comes this link to a video of “The Stand-Up Economist” talking about “The Funniest Papers in the History of Economics” <http://gregmankiw.blogspot.co.nz/2016/02/the-funniest-papers-in-history-of.html>.

# RESIDENTIAL ASSIMILATION OF MIGRANTS

By Dave Maré, Jacques Poot and Ceridwyn Roberts



Dave Maré, Ruth Pinkerton, and Jacques Poot recently released a study documenting patterns of residential assimilation across cohorts of immigrants in Auckland. The cohorts are defined by immigrants arriving in the same years. New immigrants settle predominantly in metropolitan regions and are often concentrated in specific parts of cities and often in the same areas as earlier cohorts of migrants with similar backgrounds. In the years after arrival, immigrants tend to disperse across a wider range of locations – a process referred to as spatial assimilation because immigrant location patterns become more similar to that of the population as a whole.

The process of spatial assimilation has been linked to social mobility and, for migrants, to acculturation. It is thus tempting to interpret dispersion as a positive outcome, and spatial concentration as a symptom of poor socio-economic outcomes. Concentration is, however, neither a necessary nor a sufficient condition for social exclusion or poor settlement outcomes. Nor is spatial assimilation synonymous with successful settlement.

The authors examine the spatial distribution of immigrants when they first arrive in Auckland, and the change in this distribution as they spend longer in the host country. They analyse census micro-data on working-age immigrants within the Auckland Urban Area, for the years 1996, 2001 and 2006. Because these censuses were exactly five years apart, it is easy to follow people of a particular five-year age group across successive censuses. With the 2013 census being seven years after the 2006 one, there is no longer a perfect match in such age groups and the observation interval has clearly also become longer. 2013 data were therefore not used in this study, but the analysis can certainly be modified in the future to bring in the most recent trends. In 2006, immigrants accounted for 43% of Auckland's 25 to 64 year old population, up from 34% in 1996. Maré et al. focus on five countries of origin: the United Kingdom, China, Korea, India and South Africa, which were significant contributors to the growth in immigrants to Auckland between 1996 and 2006. By following successive cohorts of immigrants from 1996 to 2006 in the Auckland Urban Area, this research is the first to provide a detailed description of where immigrants choose to live on first arrival and how their locations then change over time.

The authors identify in which areas different immigrant groups are concentrated and summarise the changes using three related indicators of residential location:

- segregation – whether groups are concentrated in particular locations within Auckland relative to the rest of the population;
- isolation – whether they are on average a high proportion of the residents in the areas where they live; and
- spatial autocorrelation – whether – when they are a high proportion of the population in a neighbourhood – their compatriots are also over-represented in nearby neighbourhoods.

The New Zealand born share of Auckland's population declined from 65.8% in 1996 to 57.0% in 2006. There were particularly large increases in the population share of immigrants from the People's Republic of China (rising from 1.8% to 4.7%), and from India (rising from 0.9% to 3.2%). There were also increases in the population shares of South African and Korean immigrants, who in 2006 accounted for 2.1% and 1.7% of the population respectively. The single largest source country of immigrants in each year remained the United Kingdom, but its share declined from 10.0% to 7.6% of Auckland's population.

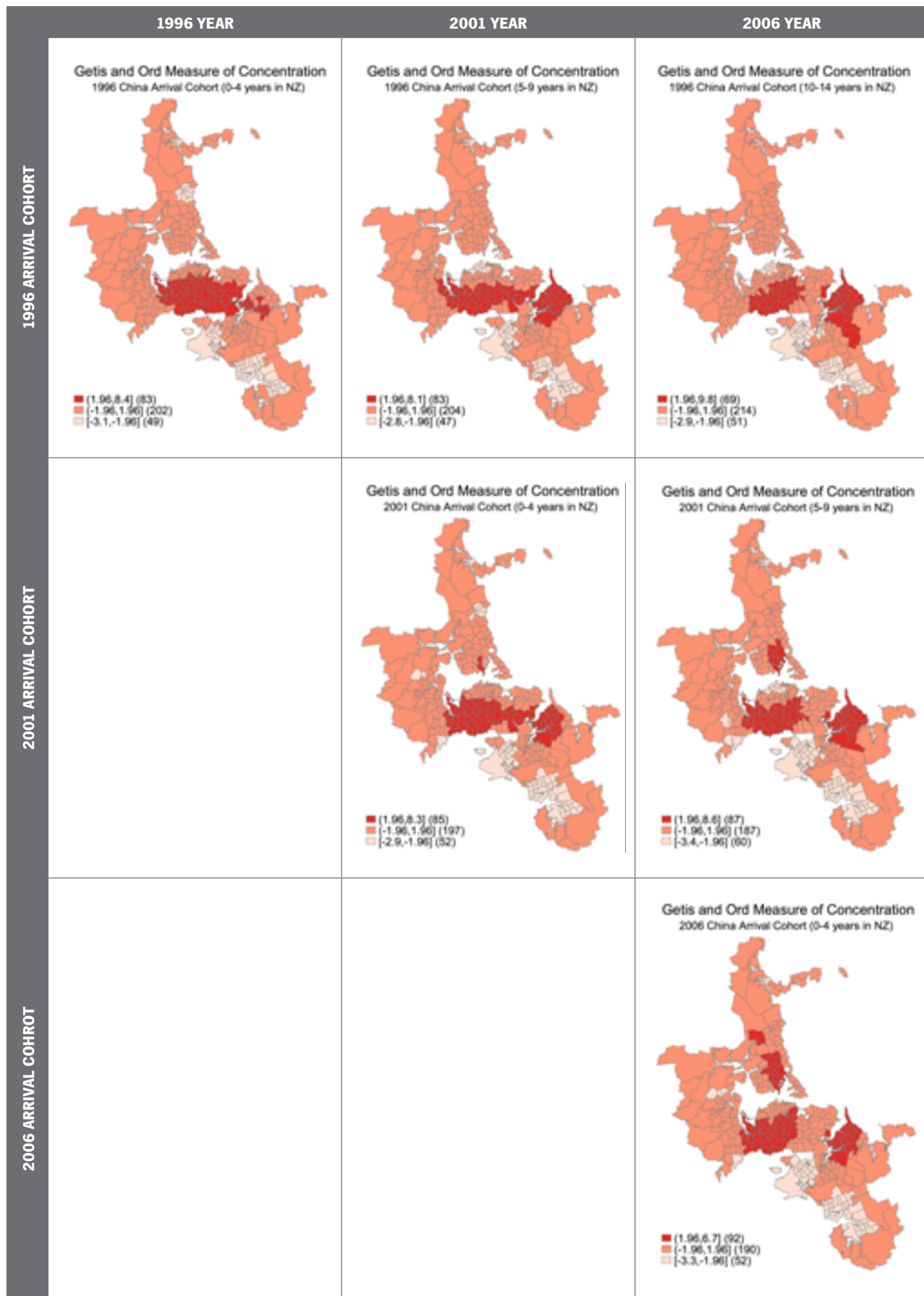
New arrivals (of 25-54 year olds) from the United Kingdom, China and India were a growing proportion of the Auckland population. However, new Korean arrivals as a percentage of population peaked in 1996, and South African arrivals peaked in 2001. China accounted for the largest share of new arrivals in 2006 (1.9% of population), up from 0.9% in 1996. The size of Indian arrival cohorts also increased markedly, accounting for only 0.3% of the population in 1996, and rising to 1.8% in 2006.

The immigrant groups differ by socio-economic characteristics, which may themselves influence residential location choices. There are also substantial differences between the foreign born and the New Zealand born. With the exception of UK immigrants in 1996, all immigrant groups were more highly qualified on average than the New Zealand-born population – a reflection of New Zealand's skill-focused immigration policies. In 2006, over half of Indian immigrants (57%) held a degree qualification, by far the highest among the groups considered. Despite their relatively high qualification levels, Chinese, Korean, and Indian immigrants experienced relatively low incomes and employment rates in all three periods. Even among the most highly qualified group (Indian immigrants in 2006), the proportion with high individual incomes was less than half that of the New Zealand-born, though they were more likely to be employed.

The study reports clear evidence of distinct spatial location patterns for different country-of-birth groups, including the New Zealand-born. The patterns are both statistically and substantively significant. Both time and cohort effects contribute to the rise in segregation and isolation. Most age cohorts can be found in Auckland with a higher initial level of segregation and isolation than the preceding age cohort did 5 years earlier. In addition, segregation and isolation of the New Zealand born rise as the cohorts become older and the spatial autocorrelation of their locations declines.

In contrast, segregation, isolation and spatial autocorrelation indexes for immigrant cohorts tend to decline, or are relatively stable, for each arrival cohort over time, consistent with residential assimilation. However, as noted above, each cohort tends to have higher index values than the previous cohort from the same country of birth did when they arrived.

Further insights can be gained by examining directly how the



spatial 'footprint' of different groups change over time. To illustrate this evolution, the figure below maps an index of where arrival cohorts of Chinese immigrants are over-represented (Getis and Ord's  $G^*$  index). Darker areas indicate area units where the over-representation of arriving cohorts is statistically significantly different from zero.

New arrivals appear to congregate wherever the preceding cohort is living at the time of arrival, rather than following in the footsteps of their earlier compatriots by choosing the previous 'ports of entry'. The pattern of new arrivals joining the previous arrival cohort from their country of birth is also evident for other country-of-birth groups.

For UK and South African entrants, the chosen ports of entry are more stable over time. There is a correlation of more than 90% between the entry points of the 1996 and 2006 arrival cohorts from these countries. For immigrants from other countries, there is greater change in where they first settle. Although arrival cohorts change their residential footprint with duration of residence, they do so in a way that echoes the changes experienced by the previous cohort of their compatriots.

There is clear evidence of residential assimilation for most immigrant groups. For each arrival cohort, geographic concentration declines, or remains stable, the longer they spend in the host country. The reduction in geographic concentration reflects a combination of immigrants relocating within Auckland, and immigrants disproportionately leaving areas within Auckland where they were initially concentrated. The only notable exception to this general pattern is the increased concentration of the 1996 UK arrival cohort, which became more geographically concentrated between 2001 and 2006.

Despite the dispersion of each arrival cohort, overall geographic concentration, as measured by indices of segregation, isolation, and spatial autocorrelation increased for each country-of-birth group, including the New Zealand-born, between 1996 and 2006. This change reflects the fact that, when finding their feet in Auckland, new entrants were more strongly attracted to the concurrent locations of their earlier-arrived compatriots than to the particular areas where those compatriots arrived themselves first.

The study identifies clear patterns of residential assimilation of arrival cohorts, and differences across cohorts and across countries of birth. There is nevertheless a high degree of persistence and stability in the location patterns of country-of-birth groups within Auckland. This is evident not only from the persistence of isolation, segregation and autocorrelation measures but also by the high correlations for different arrival cohorts at a point in time, for particular arrival cohorts over time, and between the initial arrival points of successive cohorts. This persistent concentration of immigrant groups within Auckland is the outcome of a dynamic process of ongoing adjustment.

More information is available in Motu Working Paper 15-20 Maré David C., Ruth M. Pinkerton and Jacques Poot. 2015. "Residential Assimilation of Immigrants: A Cohort Approach." <http://motu.nz/our-work/population-and-labour/migration/residential-assimilation-of-immigrants-a-cohort-approach/>

## NEW MEASURES OF INFLATION: INTRODUCING THE HOUSEHOLD LIVING-COSTS PRICE INDEXES (HLPIS)

By Alan Bentley (Statistics New Zealand)

It's easy to forget that the CPI (Consumers Price Index) is an average. It's an aggregate statistic. This makes it well suited for use as a national barometer of inflation. The methods are aligned with the CPI's principal use as a macroeconomic indicator for monetary policy purposes. Yet, hidden behind all averages is a distribution. The distribution of inflation means that the CPI does not necessarily align well with inflation experienced by different demographic groups.

To better meet this information need, new measures of inflation are being developed for groups of households, called household living-costs price indexes (HLPIS). These will provide greater insight into the inflation experienced by 13 different household groups:

- Beneficiaries
- Māori
- Income quintiles (five groups)
- Expenditure quintiles (five groups)
- Superannuitants

The conceptual design of the HLPIS will differ from the CPI in a couple of important ways.

1. The treatment of owner-occupied housing and interest payments will better align with individual household experience.
2. The aggregation method used will better reflect the inflation experienced by a 'typical' household within each group.

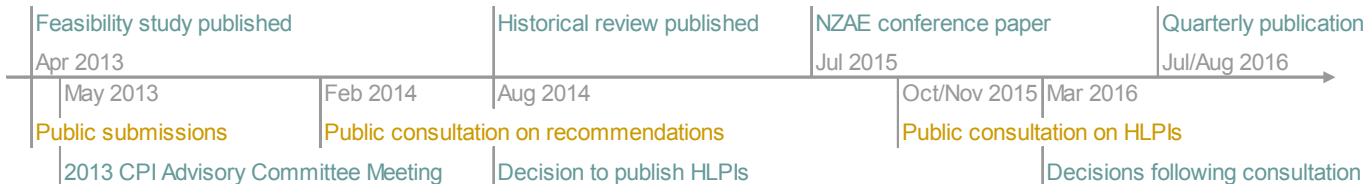
### PUBLIC CONSULTATION

The decision to create the HLPIS was a response to the 2013 CPI Advisory Committee recommendations and associated submissions from public consultation in 2014. The committee, a customer group set up to advise on the CPI, reconfirmed the CPI's principal use to inform monetary policy-setting, and acknowledged that its design is a compromise between this principal use and other uses, such as adjusting a range of public and private payments.

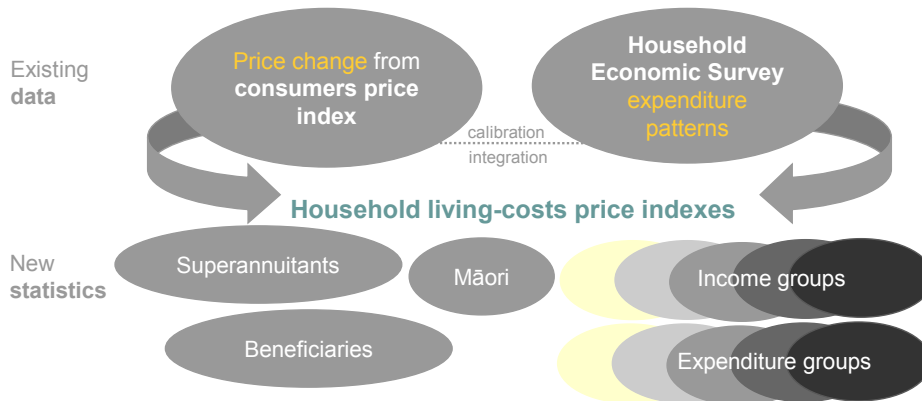
It was in this light that the committee recommended we provide extra indexes to reflect changes in the purchasing power of incomes for different demographic groups.

In November 2015 we conducted additional public consultation to ask customers their views on a number of technical decisions that will feed into the development of the HLPIS.

**Figure 1: Timeline of public consultation**



**Figure 2: Blueprint**

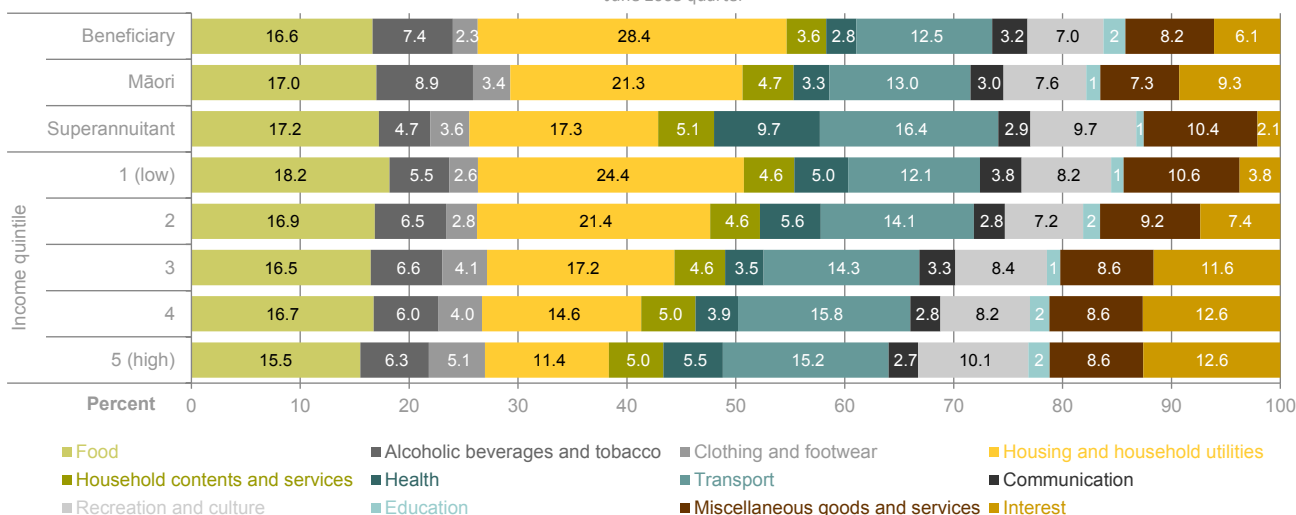


**Figure 3: Feasibility study expenditure weights**

**Expenditure weights by population group**

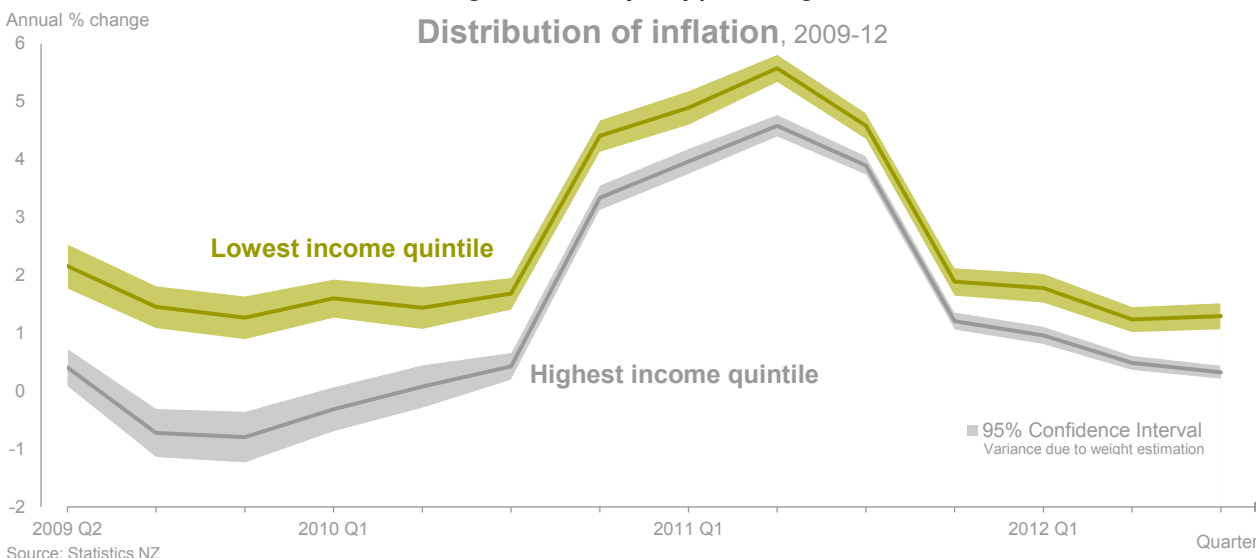
June 2008 quarter

Source: Statistics NZ



**Figure 4: Feasibility study price change**

**Distribution of inflation, 2009-12**



Source: Statistics NZ

HLPs are due to commence quarterly publication later this year.

## CONCEPTUAL DESIGN

For any group, there are two basic ingredients for measuring inflation:

1. Commodity-level price change
2. Expenditure patterns to aggregate price change

The approach to calculating the HLPs will be to use population-group-specific expenditure patterns from the Household Economic Survey to weight the lowest-level price indexes in the CPI basket of goods and services (see figure 2). The basket comprises about 700 commodities and is designed to be a representative sample of consumer spending. The Household Economic Survey expenditure patterns will be aligned to CPI expenditure totals, to minimise known reporting bias in the survey.

## OWNER-OCCUPIED HOUSING

The coverage of owner-occupied housing in the HLPs will include mortgage interest payments and a link to market value property prices. This treatment will align better with the inflation experiences of owner-occupier households. The exclusion of these in the CPI – which instead tracks the cost of purchasing new dwellings (excluding land) – is a design choice that aligns with the CPI's principal use for monetary policy purposes. The inclusion of interest payments would introduce a circularity in the use of the Official Cash Rate as a monetary policy tool.

The HLPs will include all interest payments. Interest rate changes will be quality-adjusted to maintain the purchasing power of the monetary amount of debt underlying these interest payments. Mortgage debt will be quality-adjusted using a market-value property price index (Quotable Value's house price index) and other debt will be quality-adjusted using the CPI (as a broad measure of inflation).

## AGGREGATION METHOD

The aggregation method – used to combine household expenditure patterns within each household-group – will use an unweighted average of the expenditure proportions for each household. This method is known as 'democratic weighting'. It will better reflect the inflation experienced by a 'typical' household, compared with the 'plutocratic weighting' method used for the CPI. The CPI approach, again best suited to a macroeconomic indicator, involves calculating expenditure patterns from aggregate household expenditure. This latter approach means that higher expenditure households have a greater influence over the composition of the aggregate patterns.

## FEASIBILITY STUDY REVISITED

The pattern of insights gained from the 2013 feasibility study (Bentley, 2013) provide a good guide of what to expect from the HLPs. Differences in expenditure patterns between household-groups appear to change little over time (figure 3 shows the patterns for 2008). Household-groups that have relatively higher expenditure on goods and services with greater price change will experience larger price change overall (figure 4 shows the impact, over the study period, for the highest and lowest income quintiles).

In response to the November 2015 public consultation, the HLPs will differ from the feasibility study indexes by using democratic weighting, and a market-value property price index to quality adjust interest payments, rather than a new dwellings price index (that excludes land price change). Additional improvements to the weights will flow from incorporating revisions to the first published Household Economic Surveys, and using store-type and regional weighting. There will also be some tweaks to the group definitions, most notably income quintiles will be defined using equivalised disposable income and we will also produce HLPs for expenditure quintiles (as expenditure appears to be a better proxy to standard-of-living than income).

For further information on the HLPs please contact:

Alan Bentley or Katrina Dewbery | Email: [hlp@stats.govt.nz](mailto:hlp@stats.govt.nz) | Phone 04 931 4600

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# NEW MEMBERS

## (JANUARY, FEBRUARY AND EARLY MARCH 2016)

Joseph Janczuk (Empire Economics, USA); Murat Ungor (University of Otago); Phillip Mellor (Treasury); Tracy Wilkinson (Statistics New Zealand); Terry Genet (New Zealand Productivity Commission); Edmund Iqyi Lou, Kate Preston, Wilbur Townsend (Motu); Gary Blick, Michael Ryan, Reinhard Pauls, Douglas Ian Birnie, Rohan Jayden Boyle (Sapere Research Group Ltd); Peter Nicholl (Nicholl Consulting Ltd); Bryce Hartell (CPIT Aoraki); Azreen Karim (Victoria University of Wellington), Konrad Hurren (BERL), Phoebe Sparrow (IRD).

# REPORT FROM GEN

## New GEN Committee

Following the committee members' election at the AGM in November 2015, we are delighted to introduce our new committee:

- Veronica Jacobsen, Chair, Ministry of Business, Innovation and Employment
- Joanne Leung, Deputy Chair, Ministry of Transport
- Michele Lloyd, Treasurer, Statistics New Zealand
- Zaneta Waitai, Secretary
- Girol Karacaoglu, NZ Treasury
- Bronwyn Croxson, Ministry of Health
- Patrick Nolan, Productivity Commission
- Jason Timmins, Ministry of Business, Innovation and Employment
- Donna Provoost, Office of Children's Commissioner
- Marcos Pelenur and Mark Lea, Ministry of Business, Innovation and Employment
- Daniel Griffiths, Statistics New Zealand

## GEN Training Courses for 2016

Looking for professional development opportunities in 2016? Here are a few training courses being planned:

Course title	Lecturer	When
<i>Behavioural Economics</i>	Marcos Pelenur	March 2016
<i>Cost-Benefit Analysis</i>	Adam Jaffe	April 2016
<i>Regulatory Practice</i>	Peter Mumford	June 2016
<i>Productivity</i>	Patrick Nolan	September 2016
<i>Introduction to Microeconomics</i>	Veronica Jacobson	August 2016
<i>Introduction to Economic Evaluation</i>	George Rivers	October 2016

If you would like to sign up to any of these courses, please visit our website [www.gen.org.nz](http://www.gen.org.nz) or email [info@gen.org.nz](mailto:info@gen.org.nz).

## Upcoming events

	Event	Knowledge Hub	When
1	<i>Travel survey workshop</i>	Transport	23 March 2016
2	<i>Debate: Can New Zealand overcome the competitive disadvantage of being far away from international markets?</i>	Transport	5 April 2016
3	<i>Impact of R&amp;D grants on performance of New Zealand firms with Dr Simon Wakeman</i>	Productivity	6 April 2016
4	<i>Competition and intangibles with Professor Adam Jaffe</i>	Productivity	18 April 2016

RSVP: [knowledgehub@transport.govt.nz](mailto:knowledgehub@transport.govt.nz) for events 1 and 2 | [hubsecretariat@productivity.govt.nz](mailto:hubsecretariat@productivity.govt.nz) for events 3 and 4

To subscribe to our mailing list for regular updates on events, please email [info@gen.org.nz](mailto:info@gen.org.nz).

# 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 Reserve Bank of New Zealand Research Team. 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.

## **Fang Yao**

Senior Economic Analyst, Ph.D. (*Humboldt University, Berlin*)

Fang's current research interest is in housing, macroprudential policy and dynamic stochastic general equilibrium modelling of financial frictions. He also has projects on real exchange rate dynamics, and sticky prices.

## **Christie Smith**

Manager Research, MCM (Lincoln), MA (*Johns Hopkins*)

Christie has three projects on-going: i) a project on econometric identification in a small open economy DSGE model; ii) optimal monetary policy in a small open economy (joint with James Graham, currently a PhD student at NYU); and iii) a project on monetary policy in the presence of an occasionally binding borrowing constraint, with housing as collateral (joint with Fang Yao and Punnoose Jacob).

## **Punnoose (Reuben) Jacob**

Senior Economic Analyst, Ph.D. (*Ghent University, Belgium*)

Reuben is currently working on three projects: i) developing an open economy model to understand the interaction between the macroprudential core funding ratio and monetary policy in New Zealand (joint with Anella Munro); ii) a theoretical model linking incomplete exchange rate pass-through to import prices and to demand persistence (with Lenno Uuskula); and iii) a project on monetary policy in the presence of an occasionally binding borrowing constraint (joint with Christie Smith and Fang Yao).

## **Anella Munro**

Senior Adviser, Research, PhD (*Oxford University*)

Anella is working in two main areas: DSGE models incorporating banks and macro-prudential policy; and exchange rate asset pricing models that incorporate explicit risk adjustments. We usually assume that the observed short-term government or benchmark interest rate is risk free, but theory and evidence suggest otherwise. The presence of a short-term premium raises interesting questions such as does monetary policy affect the risk-free rate or the premium? How does the exchange rate respond to changes in the premium?

## **Özer Karagedikli**

Adviser, Research

Ozer's research interests are in the area of applied macroeconomic and monetary policy analysis. He is currently working on: i) the role of inflation expectations in understanding low inflation in New Zealand; ii) estimating neutral real interest rates; and iii) uses of gross labour flows data for macroeconomic analysis in the New Zealand context.

## **Benjamin Wong**

Senior Economic Analyst, Ph.D.  
(*The Australian National University*)

Ben's research interests are in applied macroeconomics. His current projects are on evaluating whether the Phillips Curve trade-off is time-varying, understanding the link between the macro-economy and oil and commodity price shocks and estimating output gaps.

## **Tugrul Vehbi**

Senior Economic Analyst, Modelling, PhD  
(*Cambridge University*)

Tugrul is currently working on: i) Analysing the impact of migration on the New Zealand economy; ii) constructing a leading indicator index using Chinese data to forecast NZ export growth; and iii) understanding the transmission channels of US uncertainty shocks.

## **Leo Krippner**

Senior Adviser PhD (*Waikato*)

Leo's research field is term structure modelling with applications to macro-finance. His current work applies results from his framework for shadow/lower bound terms structure modelling to small-scale macroeconomic models for major foreign economies, i.e. using "shadow short rates" and the "effective monetary stimulus" as monetary policy metrics in conjunction with key macroeconomic variables for the United States and Europe. He also uses the term structure framework to infer the path of expected policy rates and risk premiums from yield curve data for New Zealand and its major trading partners.

## 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: \$130 (\$120 if paid by 31 March)

Graduate Student: \$60 (first year only)

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

Maxine Watene - 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)

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

# Economic Modelling using MATLAB



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The screenshot to the left shows a contour plot of a log-likelihood function for a GARCH(1,1) model fitted to a typical equity return series.

The Econometrics Toolbox lets you perform Monte Carlo simulation and forecasting with linear and nonlinear stochastic differential equations (SDEs) and build univariate ARMAX/GARCH composite models with several GARCH variants and multivariate VARMAX models.