

2015

# Chair in Public Finance Annual Report

VICTORIA BUSINESS SCHOOL  
ORAUARIKI





# Introduction

## Highlights of 2015

The Chair in Public Finance (CPF) has had another challenging and exciting year. Once again, we hosted (with the Government Economics Network) a series of successful public finance debates on topical issues such as the investment approach to welfare spending and the role of economics in health policy evaluation, and engaged in a number of other events. Professor Norman Gemmill was made an honorary professor at the Tax Administration Research Centre (TARC) at the University of Exeter. He spent time over the winter undertaking research at TARC and building links with colleagues at Her Majesty's Revenue and Customs and the Institute for Fiscal Studies.

During 2015, the CPF was involved in several interesting research projects, including gaining insight into public sector productivity with the New Zealand Productivity Commission—a new CPF sponsor. The Chair continued to work on local taxes and the Auckland super-city amalgamation with Professor Arthur Grimes, supported by the Lincoln Institute for Land Policy in the United States, as well as being involved in the analysis of data from an experiment on Inland Revenue taxpayer debt.

Professor Gemmill was awarded a NZ-UK Link Foundation visiting professorship in the School of Advanced Studies at the University of London. He will take up the award during a three-month visit in 2017 to pursue comparative research on United Kingdom and New Zealand tax policy and to deliver a series of public lectures.

Finally, one of the key highlights for 2015, was congratulating Athene Laws, a former Victoria University honours student supervised by Professor Gemmill, on receiving a prestigious Woolf Fisher Trust Scholarship to study for her doctorate in the United Kingdom. Athene is now at the University of Cambridge, working on incentives in welfare design, with a focus on poverty alleviation and equity-efficient trade-offs. We wish Athene all the best for her future studies and will follow her career closely.

## Plans for 2016

This year will be exciting for the Chair, having been awarded a grant to assist with research on tax model benchmarking and another for research on income mobility. Other highlights will include:

- ongoing research on international tax-benchmarking with the Tax and Transfer Policy Institute at Australian National University
- visiting professorship at Dauphine University Paris, June–July 2016
- ongoing investigations into public sector productivity with the New Zealand Productivity Commission
- visit by Professor James Alm from Tulane University in New Orleans
- embarking on the second phase of research on Auckland agglomeration, with Motu Economic and Public Policy Research and the support of the Lincoln Institute of Land Policy
- visit by the Robin Oliver Visiting Scholar, Professor Joel Slemrod from the University of Michigan
- research into the social investment approach, applied across the public service
- continued research into income mobility of New Zealand taxpayers
- modelling of material hardship, with New Zealand Treasury
- modelling taxpayer audit choice, with Inland Revenue.

Thank you to colleagues and research associates in New Zealand and overseas for continued support of the CPF. Special thanks to Professor Bob Buckle, Dean and Pro-Vice Chancellor at Victoria Business School, and to Professor Ian Eggleton, head of the School of Accounting and Commercial Law, which is the home of the Chair in Public Finance. Active support from our sponsors, especially through the advisory board, is also much appreciated. We would not be able to undertake this breadth and quality of research without their commitment. Finally, we would like to express our appreciation to those who follow, and engage with, the work of the Chair. Feedback from interested parties is always welcome.

# Aims and objectives

The Chair was established in 2011 at Victoria University with sponsorship from the University, three New Zealand government departments (Inland Revenue, Ministry for Social Development and the Treasury) and advisory firm PwC. The Chair is located in Victoria Business School within the School of Accounting and Commercial Law and reports to an advisory board. The Chair aims to build up expertise in the area of public finance and to promote advice, debate, policy analysis and research on public finance matters. Specifically, the Chair's objectives are:

- to advance rigorous and respected public finance research in New Zealand
- to improve the quality of public finance analysis and discussion among key stakeholders in New Zealand
- to develop public finance research and teaching capabilities in New Zealand
- to research these topics, focusing on broad conceptual, empirical and policy issues and on specific applications to New Zealand public finance and social welfare policy debates
- to strengthen collaboration between Victoria University and the public and private sectors on public finance issues.

# Advisory board

The CPF is supported by an advisory board that includes senior representatives from Victoria and partner and sponsoring organisations. The role of the board is to advise and support:

- the research work programme of the CPF
- links with key stakeholders
- policy and public engagement initiatives
- the financial underpinning of the Chair.

The CPF reports regularly to the advisory board on its research, public and executive education and other matters relevant to its work programme.

The board consists of:

Mr Gerald Minnee

Dr Matt Bengé

Professor Bob Buckle

Mr Paul Conway

Professor Ian Eggleton

Mr Richard Forgan

Professor Brad Jackson

Dr Girol Karacaoglu

Dr David Rea

Associate Professor Jack Robles

Dr Philip Stevens

Group manager, Ministry of Health (Chair)

Chief economist, Inland Revenue

Pro Vice-Chancellor and Dean, Victoria Business School

Research and economic director, New Zealand Productivity Commission

Head of the School of Accounting and Commercial Law

Partner, PwC

Head of the School of Government

Deputy secretary, the Treasury

Principal adviser, Ministry of Social Development

Head of the School of Economics and Finance

Group manager analysis and research, Ministry of Education

# Research

## Research highlights from 2015

The impact of taxes and public spending on long-run OECD growth	
<b>Researchers</b>	Norman Gemmell, Richard Kneller and Ismael Sanz
This research builds on previous papers measuring the contribution of fiscal policy settings to long-run GDP growth rates. Recent research examined the robustness of fiscal-growth effects to alternative macro- and micro-based average and marginal tax rate measures and public expenditure 'composition', including the form of fiscal decentralisation.	
<b>Published papers</b>	<p>Gemmell, N., &amp; Au, J. (2013). Government size, fiscal policy and the level and growth of output: A review of recent evidence. <i>Journal of the Asia Pacific Economy</i>, 18, 203–209.</p> <p>[Revised version published as: Do smaller governments raise the level or growth of output? A review of recent evidence. <i>Review of Economics</i>, 64, 2, 85–116 (2013).]</p> <p>Gemmell, N., Kneller, R., &amp; Sanz, I. (2013). Fiscal decentralization and economic growth: Spending versus revenue decentralization. <i>Economic Inquiry</i>, 51, 1915–1931.</p> <p>Gemmell, N., Kneller, R., &amp; Sanz, I. (2015). The growth effects of tax rates in the OECD. <i>Canadian Journal of Economics</i>, 47, 4, 2015, 1–39</p>
<b>Working papers</b>	<p>Gemmell, N., Kneller, R., McGowan, D., Sanz, I., &amp; Sanz-Sanz, J. (2013). Corporate taxation and productivity catch-up: Evidence from European firms. <i>Working Papers in Public Finance</i>, 01/2013. Victoria Business School, Victoria University of Wellington.</p> <p>Gemmell, N., Kneller, R., &amp; Sanz, I. (2014). Does the composition of government expenditure matter for long-run GDP levels? <i>Working Papers in Public Finance</i>, WP10/2014. Victoria Business School, Victoria University of Wellington. Forthcoming <i>Oxford Bulletin of Economics &amp; Statistics</i>.</p> <p>Misch, F., Gemmell, N., &amp; Kneller, R. (2014). Complementarity in models of public finance and endogenous growth. <i>Working Papers in Public Finance</i>, WP01/2014. Victoria Business School, Victoria University of Wellington.</p>

Estimating the elasticity of taxable income and revenue maximisation	
<b>Researchers</b>	Simon Carey, John Creedy, Norman Gemmell and Josh Teng
This project is investigating two aspects of the elasticity of taxable income (ETI) concept: the role of different instruments in econometric estimates of the elasticity taxable income, based on taxpayer unit record data from the New Zealand 2001 reform and the definition and evaluation of revenue-maximising ETIs for United States and New Zealand income taxes	
<b>Published papers</b>	<p>Carey, S., Creedy, J., Gemmell, N., &amp; Teng, J. (2015). Estimating the elasticity of taxable income in New Zealand. <i>Economic Record</i>, 91, 292, 54–78.</p> <p>Creedy, J., &amp; Gemmell, N. (2015). Measuring revenue-maximising elasticities of taxable income: Evidence for the US income tax. <i>Public Finance Review</i>, published online June 2015. DOI: 10.1177 /1091142115589970</p> <p>Creedy, J., &amp; Gemmell, N. (2014). Revenue-maximising tax rates and elasticities of taxable income in New Zealand. <i>New Zealand Economic Papers</i>, published online, 31 March 2014.</p> <p>Creedy, J., &amp; Gemmell, N. (2014). Can fiscal drag pay for the public spending effects of ageing? <i>New Zealand Economic Papers</i>, 48, 183–195.</p>

Income inequality, income mobility and the tax/transfer system in New Zealand	
<b>Researchers</b>	Omar Aziz, John Creedy, Norman Gemmell and Athene Laws.
Following initial work on the age and gender composition of income inequality and fiscal incidence in New Zealand, this project aims to identify the extent of income inequality and income mobility among New Zealand taxpayers. Research is being conducted with Inland Revenue to analyse personal income data from the early 1990s to the present. Future stages of the research programme will consider conceptual linkages between alternative inequality and mobility measures and the roles of taxes, transfers and other forms of social welfare spending in mitigating or enhancing income mobility.	
<b>Published paper</b>	<p>Aziz, O., Gemmell, N., &amp; Laws, A. (2015). Income and fiscal incidence by age and gender: Some evidence from New Zealand. <i>Review of Income and Wealth</i>, published online, March 2015, DOI: 10.1111/roiw.12165</p> <p>Creedy, J., &amp; Eedrah, J. (2015). Income redistribution and changes in inequality in New Zealand from 2007 to 2011: Alternative distributions and value judgements. <i>New Zealand Economic Papers</i>, DOI: 10.1080/00779954.2014.997455</p>
<b>Working papers</b>	<p>Creedy, J. (2014a). Interpreting inequality measures and changes in inequality. <i>Working Papers in Public Finance</i>, 11/2014. Victoria Business School, Victoria University of Wellington.</p> <p>Creedy, J. (2014b). A note on inequality-preserving distributional changes. <i>Working Papers in Public Finance</i>, 14/2014. Victoria Business School, Victoria University of Wellington.</p>

## Local taxes and Auckland agglomeration

**Researchers** Norman Gemmell, Arthur Grimes and Mark Skidmore

In 2010, the Auckland super-city was formed through the amalgamation of seven local authorities, consisting of approximately 200 suburban entities and towns. The amalgamation resulted in communities using capital values as the basis for local taxation (rates); some communities had used land values previously. The new city also transitioned to a single system of 'development contributions' paid by developers. This project is examining how far the changes in the Auckland property tax regime affected the location and intensity of building development.

This research is being undertaken with the support of Lincoln Institute of Land Policy, Cambridge, Massachusetts, USA, and Motu Economic and Public Policy Research, Wellington, New Zealand.

**Report** Project Phase I, Report to Lincoln Institute of Land Policy, February 2015.

## Public Service Productivity

**Researchers** Norman Gemmell, Matthew Horwell, Patrick Nolan and Grant Scobie

This project is reviewing current evidence on public sector productivity in New Zealand at both the aggregate level and for key sectors, drawing on international literature on concepts, measurement and evidence. It aims to develop a principled framework for the analysis of public sector productivity with a focus on the micro level. This micro focus is beginning with public education, specifically: reviewing and documenting existing evidence on productivity in the New Zealand education sector and assessing how established and new approaches to adjusting for quality in measuring productivity in major public sectors such as education can be adapted and applied in New Zealand.

**Report** Draft Productivity Commission issues paper: *Building more productive public services. Part one—measurement and evidence*. November 2015.

## Tax Compliance and Penalties

**Researchers** Norman Gemmell, Marisa Ratto and Peer Skov

Standard models of tax evasion predict effects on compliance that are dependent on the probability of detection, the tax rate and the penalty for evasion. While compliance effects of the first two have been extensively debated and tested, the effect of penalties has rarely been tested directly. This project is testing the effects of actual and perceived penalty rates on tax compliance based on an experiment involving thousands of New Zealand goods and service tax (GST) payers.

# Publications

## Journal articles, books and book chapters

<b>Forthcoming 2016</b>	Creedy, J., & Gemmell, N. (2016) Taxation and the user cost of capital. <i>Journal of Economic Surveys</i> . (Available online at DOI: 10.1111/joes.12137).
	Gemmell, N., Kneller, R., & Sanz, I. (2016). Does the composition of government expenditure matter for long-run GDP levels? <i>Oxford Bulletin of Economics and Statistics</i> .
<b>Published 2015</b>	Aziz, O., Gemmell, N., & Laws, A. (2015). Income and fiscal incidence by age and gender: Some evidence from New Zealand. <i>Review of Income and Wealth</i> . Published online, March 2015, DOI: 10.1111/roiw.12165.
	Carey, S., Creedy, J., Gemmell, N., & Teng, J. (2015). Estimating the elasticity of taxable income in New Zealand. <i>Economic Record</i> , 91, 292, 54–78.
	Creedy, J., & Gemmell, N. (2015). Revenue-maximising tax rates and elasticities of taxable income in New Zealand. <i>New Zealand Economic Papers</i> , Published online: 16 March 2015. DOI: 10.1080/00779954.2014.893860.
	Creedy, J., & Gemmell, N. (2015). Measuring revenue-maximising elasticities of taxable income: Evidence for the US Income Tax. <i>Public Finance Review</i> , Published online: June 2015. DOI: 10.1177/1091142115589970.
	Creedy, J., Gemmell, N., & Scobie, G. (2015). Pensions, saving and housing: A life-cycle framework with policy simulations. <i>Economic Modelling</i> , 46, 346–357.
	Gemmell, N., Kneller, R., & Sanz, I. (2015). The growth effects of tax rates in the OECD. <i>Canadian Journal of Economics</i> , vol. 47, no. 4. Published online, March 2015, DOI: 10.1111/caje.12105.
	Gemmell, N., & Morrissey, O. (2015). Distribution and poverty impacts of tax structure reform in developing countries: How little we know. In J. Alm & J. Martinez-Vazquez (Eds.), <i>Tax Reform in Developing Countries, Volume 1</i> . Cheltenham: Edward Elgar.

## Conference and seminar presentations

<b>2015</b>	Creedy, J., & Gemmell, N. (2015). Inequality in New Zealand: How should we measure it? Presentation to Victoria Business School Commerce Teachers Professional Development Day, Wellington and Auckland, (December).
	Gemmell, N. (2015). Making value judgements in economics: Inequality and redistribution. Invited presentation to the GEN Annual Conference, Wellington (November).
	Gemmell, N. (2015). How do penalties affect taxpayer compliance? Evidence from a taxpayer experiment. Invited presentation to Inland Revenue, Wellington (November).
	Gemmell, N. (2015). Evaluating investment in education: Economic frameworks, challenges and evidence. Invited presentation in Knowledge Seminar Series at the Ministry of Education, Wellington (October).
	Gemmell, N. (2015). The elasticity of taxable income in New Zealand. Evidence for personal taxpayers from unit record data. Presentation to the International Institute of Public Finance Annual Congress, Dublin, Ireland (August).
	Gemmell, N. (2015). How do penalties affect taxpayer compliance? Evidence from a taxpayer experiment. Presentation to Her Majesty's Revenue and Customs, London, United Kingdom (July).
	Gemmell, N. (2015). Taxpayers' responses to penalties: Evidence from a taxpayer experiment in New Zealand. Presentation to the Shadow Economy Conference, Tax Administration Research Centre, University of Exeter, United Kingdom (July).
<b>2014</b>	Gemmell, N. (2014). The elasticity of taxable income in New Zealand: Evidence for personal taxpayers from unit record data. Invited presentation to the Tax and Transfer Policy Institute workshop, What Really Happens in the Tax and Transfer System: New Empirical Research Using Administrative Data. Australian National University, Canberra, Australia (November).
	Gemmell, N. (2014). Pensions, savings and housing: A life-cycle framework with policy simulations. Presented to the Centre of Excellence in Population Ageing Research workshop, Pension Taxation, Population Ageing and Globalisation. University of New South Wales, Sydney, Australia (November).
	Palmer, C. (2014). Tax and natural disasters. Presented to the 2014 Chartered Accountants Australia and New Zealand Tax Conference (October).
	Gemmell, N. (2014). The growth challenge: Sustainable fiscal policy. Invited presentation to the ANZSOG Annual Conference, Growing National Prosperity. Government's Role in the 21st Century. Canberra, Australia (August).
	Gemmell, N. (2014). Comments on 'tax-loss mechanisms' by Jacob Nussin and Avraham Tabbach. Presented to the Oxford University Centre for Business Taxation Summer Symposium, Saïd Business School, Oxford, United Kingdom (June).
	Gemmell, N. (2014). Tax (non-) compliance research: A New Zealand perspective. Invited presentation to the Cash and Hidden Economy International Revenue Conference, Auckland (April).
	Gemmell, N. (2014). Revenue-maximising estimates of the elasticity of taxable income: evidence for the US income tax. Presentation to the second Annual Tax Administration Research Centre (TARC) Workshop at University of Exeter, Exeter, UK (March).

## Working Papers in Public Finance

The *Working Papers in Public Finance* series includes papers by the CPF, New Zealand Public Finance research associates and other public finance researchers.

<b>WP01/2015</b>	Creedy, J., Gemmell, N., & Scobie, G. Pensions, savings and housing: A life-cycle framework with policy simulations.
<b>WP02/2015</b>	Creedy, J. The welfare gain from a new good: An introduction.
<b>WP03/2015</b>	Creedy, J. A note on computing the Gini inequality measure with weighted data.
<b>WP04/2015</b>	Creedy, J., & Gemmell, N. Taxation and the user cost of capital: An introduction.
<b>WP05/2015</b>	White, D. Personal capital gains of rate of return taxation? A survey in theory in reform proposals.
<b>WP06/2015</b>	Sanz Sanz, J.F. Revenue-maximising tax rates in personal income taxation in the presence of consumption taxes: A note.
<b>WP07/2015</b>	Ball, C., & Creedy, J. Inequality in New Zealand 1983/84 to 2013/14.
<b>WP08/2015</b>	Thomas, A. The distributional effects of consumption taxes in New Zealand.
<b>WP09/2015</b>	Buckle, R.A., & Creedy, J. Fifty years of New Zealand economic papers: 1966–2015.
<b>WP10/2015</b>	Creedy, J., & Scobie, G. Debt projections and fiscal sustainability with feedback effects.
<b>WP11/2015</b>	Creedy, J., & Mok, P. Labour supply in New Zealand and the 2010 tax and transfer changes.
<b>WP12/2015</b>	Ball, C., Creedy, J., & Scobie, G. Long-run fiscal projections under uncertainty: the case of New Zealand.

## New Zealand Public Finance Newsletter



The New Zealand Public Finance (NZPF) newsletter was launched in November 2013. It is now produced quarterly, by the Chair in Public Finance, and has contributors from New Zealand and around the world. Each newsletter aims to provide:

- summaries of recent research
- public finance people profiles
- a forum for discussion of topical public finance policy issues
- updates on recent and forthcoming events
- web links to other public finance organisations in New Zealand and overseas.

The first issue of 2015 offered relevant public finance news in New Zealand and around the globe; a research report from two senior analysts at the New Zealand Treasury on the effects of fiscal policy in New Zealand; and a look forward to events happening in 2015. Issue six was released in April 2015 and featured an opinion piece on the return to surplus and whether it really matters, as well as a research report exploring the effects of Working for Families policy implementation on labour supply. The seventh issue of the series included a report on the economic effect of the most recent New Zealand Budget and a brief survey of the new capital gains tax. This issue also featured the first in our profile series of public finance people, introducing Dr Grant Scobie (pictured). The spring 2015 issue of the NZPF newsletter included a report from the New Zealand Productivity Commission on their latest inquiry into effective public services, a profile piece from Lilla Csorgo (pictured), chief economist at the Commerce Commission, and a feature on the latest study on imputation from EY.



In 2016, we expect to publish NZPF newsletters in January, April, July and October.

Past newsletters are available at <http://nzpublicfinance.com/newsletters/>

## Publication outreach

The CPF uses various tools to track the number of publication downloads and citations to show which research areas are generating most interest. Citations of journal publications are tracked by Publish or Perish software. The Working Papers in Public Finance (WPPF) series is tracked via Research Papers in Economics (RePEc) and Victoria research archives. Access rates for the NZPF newsletters are calculated through Google Analytics.

Total number of citations					
Publication year	Dec 2012	Dec 2013	Dec 2014	Dec 2015*	% increase
2011	41	56	80	112	40%
2012	8	26	26	59	127%
2013	-	7	20	59	195%
2014	-	-	0	9	-
2015	-	-	-	9	-

Downloads for the WPPF series began in September 2012. The table below shows the download statistics through the Victoria University of Wellington Research Archive and RePec for each calendar year from September 2012 to December 2015.

WPPF series downloads (annual)				
	As of Dec 2012	As of Dec 2013	As of Dec 2014	As of Dec 2015
RePEc	211	397	418	332
Victoria Research Archives	1100	2182	2135	2777*

## Newsletter readership

Newsletter readership is growing slowly, with a mailing list of more than 650 individuals receiving the newsletter directly and an increasing number accessing the newsletter through our website. The table below shows a marked increase in interest in the newsletter in 2015.

Newsletter readership		
	As of Dec 2014	As of Dec 2015*
Newsletter homepage	46	258
Issue 1	8	20
Issue 2	17	24
Issue 3	8	12
Issue 4	6	13
Issue 5	-	46
Issue 6	-	53
Issue 7	-	30
Issue 8	-	33

\* December 2015 statistics collected on 16 December 2015

# Research supervision and teaching

## PhD and Honours students

	<p><b>Research project</b></p> <p><b>Abstract</b></p>	<p>The performance of the New Zealand economy: Savings and retirement Income</p> <p>This thesis uses a variety of empirical techniques and data sources to explore aspects of New Zealand's savings behaviour, policy and other issues related to retirement income adequacy such as housing affordability. In particular, the performance of a flagship policy (KiwiSaver) is examined, with particular attention given to the question of whether or not membership has been associated with higher levels of net wealth, saving or improved expected retirement income outcomes. With the performance of KiwiSaver being poor on all dimensions, the effects of other retirement income policies on national savings are examined by developing a model that links these policies to reductions in New Zealand Superannuation costs. Finally, patterns of housing affordability across individuals are described and explained, using panel regression techniques, and the likely effects of a policy designed to improve housing affordability are explored.</p>
<p><b>David Law</b> Senior analyst, the Treasury</p>		
	<p><b>Research project</b></p> <p><b>Abstract</b></p>	<p>Good tax policy—on shaky ground? An assessment of tax policy decisions in response to natural disasters</p> <p>In recent years, a series of natural disasters placed significant social and fiscal strain on a number of economies. Determining the appropriate government response to such natural disasters, in the short, medium and longer term, involves multiple complex policy decisions that often need to be made under significant time pressure with limited information. One area where governments are called on to respond is tax policy. Natural disasters raise a number of tax policy issues, such as how to treat insurance receipts, how to restore public finances and meet the public cost of natural disasters without jeopardising economic growth and what role tax should play in economic redevelopment. The focus for the study is tax policy changes made in response to three recent natural disasters: the Christchurch earthquakes in New Zealand; the Queensland floods in Australia; and the Tōhoku earthquake and tsunami in Japan.</p>
<p><b>Carolyn Palmer</b> Principal advisor, the Treasury</p>		
	<p><b>Research project</b></p> <p><b>Abstract</b></p>	<p>The distributional effects of consumption taxes in OECD countries</p> <p>This research investigates the distributional effects of consumption taxes in OECD countries. The analysis is based on consumption tax microsimulation models constructed using household expenditure microdata for 23 OECD countries, including New Zealand. The first part of the research investigates whether consumption taxes are regressive or progressive, by undertaking a detailed distributional analysis of consumption tax burdens across income and expenditure deciles. The models are then used to examine the effectiveness of reduced and zero GST/VAT rates at achieving redistributive goals. A third part of the research simulates the redistributive effects of various hypothetical reforms, including removing poorly targeted reduced and zero GST/VAT rates identified in the prior analysis.</p>
<p><b>Alastair Thomas</b> OECD Centre for Tax Policy and Administration</p>		
	<p><b>Honours thesis research project</b></p> <p><b>Abstract</b></p>	<p>This project combines results from existing studies to propose a New Zealand housing rent model where rent is a function of several exogenous variables: average number of houses per capita, consumption per capita and the interest rate. A convenient aspect of this approach is that the model can be solved to remove endogenous variables such as house prices. Estimated coefficients from New Zealand quarterly panel data (1996–2011) partly support the hypothesised magnitude of the effect of the interest rate on rent in the theoretical model. Using this model, Loc found that a shock in an exogenous variable takes around three years to achieve its full long-run effect on rent. The paper also discusses some limitations of the proposed rent model.</p>
<p><b>Loc Nguyen Phuoc</b></p>		

## Summer Scholars

In February 2015, the Chair completed supervision of two 2014–2015 Summer Research Scholarship projects. Both had a strong housing focus and were undertaken by two promising Victoria students. In November 2015, the Chair began supervising a 2015–2016 Summer Research Scholarship project with the New Zealand Productivity Commission.

 <p><b>Yen Le</b></p>	<p><b>Topic</b></p> <p><b>Sponsored by</b></p> <p><b>Research project</b></p>	<p>Agglomeration, local property taxes and the rate and density of new development. A case study of Auckland</p> <p>Lincoln Institute of Land Policy, Cambridge, United States of America.</p> <p>In 2010, the Auckland ‘super-city’ was formed through the amalgamation of seven cities, consisting of around 200 suburban entities and towns. The amalgamation resulted in communities using capital values as the basis for local taxation (rates); previously, some communities had used land values. The new city also transitioned to a single system of development contributions paid by developers. In principle, economists often argue for the adoption of land value taxes instead of capital value taxes because the former encourage the best use of land and are more efficient than a property tax.</p> <p>This project was jointly supervised by Dr Arthur Grimes (Motu Economic and Public Policy Research, Wellington) and Professor Mark Skidmore (Chair in State and Local Government Finance and Policy, Department of Agricultural, Food and Resource Economics, Michigan State University, United States of America).</p>
 <p><b>Loc Nguyen Phuoc</b></p>	<p><b>Topic</b></p> <p><b>Sponsored by</b></p> <p><b>Research project</b></p>	<p>Why have New Zealand’s rents and house prices diverged?</p> <p>The Treasury</p> <p>For almost two decades, residential accommodation rents have been approximately constant in real terms while house prices have more than doubled. This project explored factors that may explain this divergence. In particular, it analysed the relationship between house prices, rents and fundamental factors such as immigration, in New Zealand. Various econometric models were used to investigate these relationships empirically.</p> <p>This project was jointly supervised by Dr Tugrul Vehbi (Economic Research and Analysis, the Treasury).</p>
 <p><b>Matthew Horwell</b></p>	<p><b>Topic</b></p> <p><b>Sponsored by</b></p> <p><b>Research project</b></p>	<p>Measuring productivity in the public education sector</p> <p>New Zealand Productivity Commission</p> <p>Future real economic growth will depend increasingly on higher rates of productivity growth. This applies as much to the public sector as the private or market sector, of which education is a major part. There are, however, major challenges in measuring productivity for the education sector, such as making adjustments for quality changes. This project is part of a larger investigation into the determinants of productivity growth in the public sector and will focus on how to account for changes in quality when measuring the outputs of government agencies.</p> <p>Matt’s research involves a review of international experience with quality adjustments (such as those used by the Office for National Statistics in the United Kingdom) and considers how different quality adjustment techniques could be applied in the New Zealand context.</p> <p>This project is jointly supervised Dr Grant Scobie and Dr Patrick Nolan at the New Zealand Productivity Commission</p>

## Research associates

Professor John Creedy

Professor Rodney Falvey

Dr Arthur Grimes

Professor John Hasseldine

Professor Richard Kneller

Associate Professor Lisa Marriott

Dr Florian Misch

Dr Patrick Nolan

Professor Ismael Sanz

Professor Jose Sanz-Sanz

Dr Grant Scobie

Professor Mark Skidmore

Dr Peer Ebbesen Skov

Victoria University of Wellington and the Treasury

Bond University

Motu Economic and Public Policy Research

University of New Hampshire

Nottingham University

Victoria University of Wellington

Centre for European Economic Research (ZEW), Mannheim

New Zealand Productivity Commission

King Juan Carlos University, Madrid

Complutense University of Madrid

New Zealand Productivity Commission

Michigan State University

University of Copenhagen

# Events

## Christmas debate

The Government Economics Network (GEN) and the CPF hosted a festive public finance debate on 9 December 2015. Professor Arthur Grimes proposed the motion ‘This house believes you can put a price on happiness (even at Christmas)’. He educated the audience on the costs of happiness, especially during the festive season, using a number of thematic case studies punctuated by bouts on the harmonica. Dr Veronica Jacobsen countered the motion, highlighting that the nature of the concept of happiness cannot be measured and touching on the achievement of happiness through giving and the inherent joy of Christmas. Professor Norman Gemmell concluded the debate with some commentary based on the famous quote from Coco Chanel: “The best things in life are free, the second best are very expensive.” The entertaining debate was closed with the usual votes and a lively networking session.

## Knowledge seminar—Ministry of Education

In 2015, the Government announced its intention to roll-out its investment approach to social welfare spending decisions to other areas of public expenditure, with public education spending a priority. In his contribution to the Ministry of Education’s knowledge seminar series, on 15 October, the Chair presented his assessment and critique of the investment approach, ‘Evaluating investment in education: Economic frameworks, challenges and evidence’.

## New Zealand Public Finance Debates

The 2015 Public Finance Debate series, hosted by GEN and the CPF, featured three topical motions to engage debaters and audience.

The first debate, on 20 April, was on the motion that ‘today’s policy settings unfairly favour the baby-boomer generation’. Debate organisers allocated positions for the two speakers in advance of the debate. Ms Becky Prebble was charged with arguing for the motion. She touched on housing, tax and education leading to entry in the labour market as key policy areas that definitely favoured baby-boomers. Dr Simon Chapple argued against the motion, stressing the various advantages and disadvantages across the generations. Both Ms Prebble and Dr Chapple answered insightful questions from the audience. Both arguments were strong, as was evident in the tie at the end of the debate.

The second debate was on 20 May and the motion was that ‘economic evidence should play a greater role in health policy evaluation’. Professor Jackie Cumming (director, Health Services Research Centre, Victoria University of Wellington) argued for the motion and Mr Geoff Simmons (general manager of the Morgan Foundation) argued against it. Dr Bronwyn Croxson, (chief economist, Ministry of Health) commentated the debate. There was lively interaction with the audience and the debate was, once again, voted a tie.

The final debate was on 22 June on the motion that ‘the investment approach provides a helpful new tool for public spending policy and evaluation’. As in previous debates, positions were randomly allocated by the organisers, with Mr Derek Gill (principal economist, NZIER) speaking for the motion and Dr Bill Rosenberg (economist and director of policy, NZCTU) speaking against. Ms Fiona Ross (deputy secretary, Budget and Public Services, the Treasury) commentated the debate. Many questions came from the large audience. Both speakers presented very strong cases; however, the audience found the case against the motion slightly more compelling.

Thanks to everyone who attended the debates, and to all of our speakers for providing engaging debates, commentary and food for thought. Finally, thank you to the Ministry of Business, Innovation and Employment (MBIE) for providing the venue for the debates, and GEN for co-sponsorship and organisation.

## Stakeholder engagement

### Academic economic advisory group meetings

A small group of economics professors met with the Minister of Finance a number of times in 2015 to discuss topical economic issues of interest. The group includes academics from Victoria and the universities of Auckland, Otago and Waikato. Sessions were organised by the CPF in association with the Minister's office. We look forward to continuing these meetings in 2016.

### Corporate tax imputation study—EY

Staff from EY conducted in-depth interviews with 25 New Zealand corporates and 12 investor groups to underpin their report, *Imputation and the New Zealand Dividend Psyche*. The study concluded that tax has a major impact on corporate dividend policy and was launched with seminars in Auckland and Wellington. The latter, held on 23 November 2015, was co-hosted by the CPF and featured Andy Archer (EY), the author of the report, and David Snell (EY), Matt Bengel (Inland Revenue) and Norman Gemmill.

### Other activities

Other engagement activities included:

- advice to Inland Revenue on building economic models to assist in the selection of taxpayers for audit (September–October)
- facilitating a seminar by Booksellers New Zealand on the application of GST on internet sales
- advice to MBIE on prices in New Zealand, following related CPF research on this topic in 2014
- presentation on 'Inequality in New Zealand: How should we measure it?' to VBS Commerce Teachers Professional Development Day, Auckland (December)
- seminars at Inland Revenue, Wellington (November) and Her Majesty's Revenue and Customs, London, United Kingdom (July) on 'How do penalties affect taxpayer compliance? Evidence from a taxpayer experiment'.

# Working with sponsors

Financial support from sponsors in 2015 again included core funding for the CPF from the University, PwC, Inland Revenue, the Ministry of Social Development and the Treasury. The New Zealand Productivity Commission became a sponsor in October 2015, and the Ministry of Education signed up for sponsorship for five years from 2016.

We have received additional funding for specific events or pieces of work from the following organisations:

- EY—Imputation seminar
- Government Economics Network—debates
- Lincoln Institute of Land Policy—Auckland Agglomeration project
- New Zealand Productivity Commission—2015–2016 summer scholar.

## Websites

### Chair in Public Finance

The CPF website is hosted within the School of Accounting and Commercial Law, Victoria Business School.

The CPF site received approximately 4,700 page views in 2015. The most popular pages are the home page, the public finance debates page and the pages concerned with the 'Affording our Future' conference.

<http://www.victoria.ac.nz/cpf>

### New Zealand Public Finance

The New Zealand Public Finance (NZPF) website aims to improve the dissemination of research, publications and jointly sponsored events and hosts the quarterly NZPF newsletter.

In 2015, NZPF received more than 8,700 page views, with 90 percent of the traffic on the site generated by new users. The most popular pages were the home page and the 'What is Public Finance?' page. The Working Papers in Public Finance series and upcoming events also generate significant web traffic, along with the 'People' page, which profiles NZPF research associates.

[www.nzpublicfinance.com](http://www.nzpublicfinance.com)

Final web access statistics were collected on 16 December 2015.





TE WHARE WĀNANGA O TE ŪPOKO O TE IKA A MĀUI

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