



MARCH 2018

Welcome from Professor Norman Gemmell

Welcome to our latest public finance newsletter highlighting recent activities, research and news from the Chair in Public Finance. This year we aim to send these out regularly with updates of activities and publications, so if you have news to share, please let us know.

There have been a number of changes in personnel in the CPF group at Victoria University in the last few months. In addition to Professor John Creedy joining VUW full-time last year, and Dr Nazila Alinaghi joining as a Research Fellow in Public finance from Canterbury University, [Anna Burnett](#) joined us at the start of 2018 as the CPF Administrator. We introduce Anna (to those who have not met her yet), and also highlight some of Nazila's work, below.

Among recent and forthcoming events you might be interested in, the CPF website now has a page devoted to the programme and presentations from the recent [Tax & Transfers Microsimulation Modelling workshop](#) held earlier this month. The title might not sound like a blockbuster but some vital work is being done, across several countries, to improve the ways we can analyse income taxes and transfers to get a better handle on their impacts. This applies not just to impacts on the revenues they generate, but also to how they affect income inequality, poverty and broader social welfare. It involves sometimes tricky but important modelling issues – as the recent media attention on Treasury's re-estimation of the child poverty effects from the new government's Families Package demonstrates.

Up-coming on April 10th we have another [public economics research day](#). This will bring scholars together from across New Zealand and Australia to share recent research on, among other things, tax compliance. See the outline later in this email, and let Anna know if you would like to attend.

[Four new working papers](#) have been produced so far in 2018, covering such topics as: the New Zealand tax and benefit system and its impact on vertical and horizontal equity; and the impact of New Zealand's 'PBRF' research assessment process on the research quality of university staff. Future papers will cover self-employment tax compliance, and modelling 'optimal' income tax reforms in New Zealand.

Professor Norman Gemmell

Chair in Public Finance
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Treasury's 2018 Investment Statement

[The Treasury's 2018 Investment Statement \(IS 2018\)](#) was published this month. It is the Treasury's second Investment Statement and builds on the findings and conclusions from the first statement published in 2014. This Investment Statement also complements the Treasury's 2016 Statement on the Long-Term Fiscal Position. It analyses the government balance sheet – which in general seems healthy and resilient to adverse events (shocks).

The analysis in the statement supports the Treasury's function of promoting good practice in relation to central government balance sheet and investment management. At a launch of IS 2018 earlier this month a panel of four (including the CPF) debated its contribution. Apart from the obvious huge amount of work collecting performance indicators for numerous Crown assets and entities, one take-away from the Statement is the limited extent to which these indicators can be, or are being, used to improve performance.

People News



Anna is the Administrator for the Chair in Public Finance. She organises the work programme of the CPF including conferences, working papers, the CPF website and administrative support to the Advisory Board.

Prior to joining the CPF team, Anna worked for six years as the Events and Centres Coordinator at the Faculty of Law, Victoria University of Wellington.

Anna will be the first point of contact for people who are looking for more information about the Chair anna.burnett@vuw.ac.nz.

Since joining the team **Nazila** is working on two public finance projects: (i) with Inland Revenue on taxable income elasticities; and (ii) with Treasury on tax microsimulation.

She has also been awarded a grant from the International Initiative for Impact Evaluation ([3ie](#)) to re-analyse and validate evidence-based research outcomes of an influential policy paper titled "Risk Sharing and Transaction Costs: Evidence from Kenya's Mobile Money Revolution" by Jack and Suri, 2014. This project is categorized under Financial Services for the Poor and is funded by the Bill & Melinda Gates Foundation. She will be presenting the results on an upcoming conference in Rome.

Her recent paper titled "[Meta-Analysis and Publication Bias: How Well Does the FAT-PET-PEESE Procedure Work?](#)" is forthcoming in the Journal of Research Synthesis Methods.

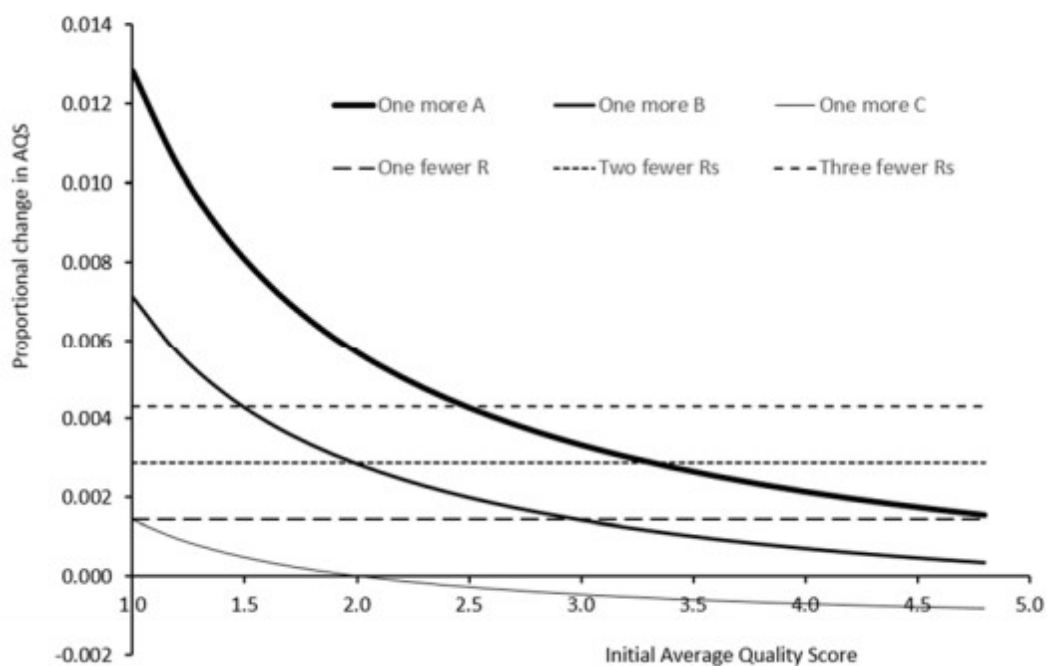


New Research

The impact of PBRF on Research Quality (by Bob Buckle and John Creedy)

The Performance-Based Research Fund (PBRF) was introduced in New Zealand in 2003. This is a method through which research funding has been allocated to tertiary education organizations on the basis of their research performance. According to the figure below (taken from the recent working paper), if a university has an AQS (average quality score) greater than 2, its AQS would fall as a result of hiring one more C-type researcher. It would need to recruit at least at level B, or reduce the number of R-type people to retain or improve its AQS.

Figure 3 Effects on AQS of Varying Quality Categories



While this paper provides convincing evidence that supports the substantial improvement of research quality among NZ universities, it also critically considers the PBRF assessment process and characteristics of the metrics used. It suggests that there is a scope for improvement in the assessment of researchers and the way in which universities are ranked.

Horizontal and vertical equity in NZ tax/transfer system

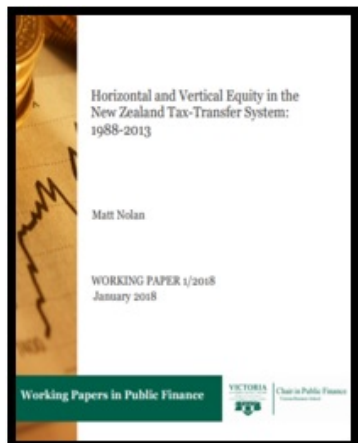
This study by Matt Nolan explores how redistribution measures (vertical and horizontal equity) in New Zealand changed between 1988 and 2013. The main purpose of this analysis is to evaluate two claims: (i) whether vertical equity declined in line with the reduction in the redistributive effect of the tax-transfer system, and (ii) whether measures of horizontal inequality declined. While vertical equity did decline, the measures of horizontal equity did not.

One important take away from this study is that the traditional methods of estimating horizontal inequality in the tax/transfer system are ill-suited to an objective evaluation of the transfer system.

Research Publications

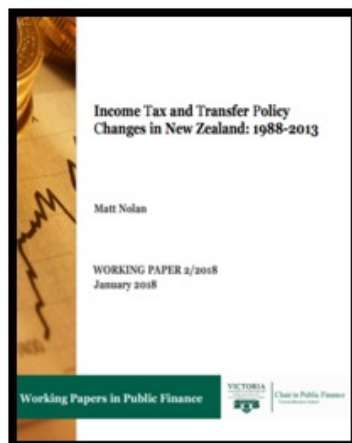
Recent Working Papers

Links to recent research and working papers from the Chair in Public Finance.



A working paper by Nolan Investigates horizontal and vertical equity in NZ tax-transfer system over 1983 – 2013.

[Download this paper](#)



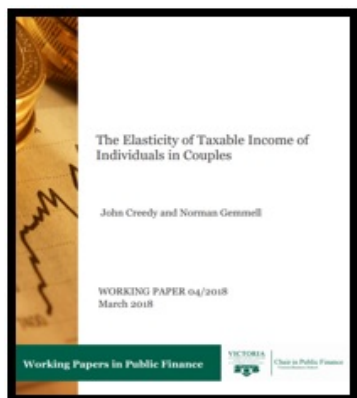
A working paper by Nolan Outlines the changes in income tax and transfer policy over 1988 – 2013 in NZ.

[Download this paper](#)



A working paper by Buckle and Creedy discusses the impact of PBRF on research quality in NZ.

[Download this paper](#)



A working paper by Creedy and Gemmell examines the ETI of individuals in the context of couples.

[Download this paper](#)

Recent Published Papers

Gemmell, N. et al. (2018) 'Corporate taxation and productivity catch-up: evidence from European firms', Scandinavian Journal of Economics, available online at <https://doi.org/10.1111/sjoe.12212>.

Creedy, J., Gemmell, N. and Nguyen, L (2018) 'Income inequality in New Zealand' 1935-2014. Australian Economic Review, 51, 1, 21-40.

Gemmell, N., Grimes, A. and Skidmore, M. (2018) 'Do local property taxes affect new building development? Results from a quasi-natural experiment'. Journal of Real Estate Finance and Economics, <https://doi.org/10.1007/s11146-017-9651-y>.

Law, D. and Scobie, G.S. (2018) 'Kiwisaver and the accumulation of net wealth'. New Zealand Economic Papers, 52, 4 (April), 1-20.

Creedy, J. and Scobie, G.M. (2017) 'Debt projections and fiscal sustainability with feedback effects'. New Zealand Economic Papers, 51, 3 (December), 237-261.

Law, D., Meehan, L. and Scobie, G.M. (2017) 'Kiwisaver: an evaluation of a new retirement scheme'. New Zealand Economic Papers, 51, 3 (December), 262-280.

Gemmell, N. (2018) 'Modelling public expenditure growth in New Zealand, 1972-2015'. New Zealand Economic Papers, forthcoming.

Media and Commentary

Recent featured commentary and media articles are as follows. Among others, you can find the media interview discussing GST on fruit and veg by the Chair in Public Finance.

Keep an eye on the [Newsroom website](#) for policy relevant articles, and an item by Creedy and Gemmell on Inequality in New Zealand on the [Austaxpolicy blog](#), coming up soon after Easter.



A discussion over [Taking GST off fruit and veg](#), does that really help low income earners?



The background paper provided by the Tax Working Group can be found [here](#).



New PTA requires the Reserve Bank to consider employment alongside [price stability mandate](#).



The source code for the Treasury's tax-and-transfer microsimulation model, TAWA (Tax and Welfare Analysis), is now publicly [available](#).



This NZIER [report](#) provides an assessment of the evidence for sugar taxes as a fiscal instrument to improve health.

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