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Editorial

Welcome to the second issue of the New Zealand Public Finance newsletter for 2015 – its April already! In this issue we have a feature on the 'return to surplus' and whether it really matters (page 3), as well as a research report exploring the effects of Working for Families policy implementation of labour supply (page 7). A number of new working papers are profiled in this issue, with a strong focus on tax with 'Personal Capital Gains or Rate of Return Taxation? A Survey of Theory in Reform Proposals' from David White, 'Taxation and the User Cost of Capital' from John Creedy and Norman Gemmell and 'Revenue-Maximising Tax Rates in Personal Income Taxation in the Presence of Consumption Taxes' from José Félix Sanz-Sanz.

This issue we have included a broad range of topical news stories (page 12), with a greater focus on New Zealand as we inch closer to the release of the 2015 Budget on 21 May –you can remind yourself of the policy goals and priorities for the upcoming budget by glancing over the Budget Policy Statement 2015.

Our Upcoming Events (page 11) also include some activities close to home. The 2015 Public Finance Debate series, organised by the Government Economics Network and Chair in Public Finance, begins this month through to mid-June. The first debate, on Monday 20 April is centred on the motion that 'Today's policy settings unfairly favour the baby boomer generation'. Commentated by Professor Bob Buckle (Victoria University Wellington), Ms Becky Prebble (New Zealand Treasury) will argue for the motion with Dr Simon Chapple (University of Otago) as her opponent. The motion for the second debate on 20 May is 'Economic evidence should play a greater role in health policy evaluation', and the third debate on 22 June will explore the motion: 'The "investment approach" provides a helpful new tool for public spending policy and evaluation'. There is still time to register for the first debate, see www.victoria.ac.nz/cpf for further information.

We hope you enjoy this issue of the New Zealand Public Finance Newsletter, and welcome any ideas for future issues.

Libby Wight
Editor, NZPF Newsletter

Norman Gemmell
Chair in Public Finance, VUW

New Zealand Public Finance (NZPF) www.nzpublicfinance.com is an apolitical website dedicated to promoting research and informed policy debate on public finance issues in New Zealand. The NZPF Newsletter is an extension of the website promoting recent public finance research, news and events. To contribute to the website or the newsletter, please contact the editor

Features

Return to Budget Surplus in 2015: Does it Matter?

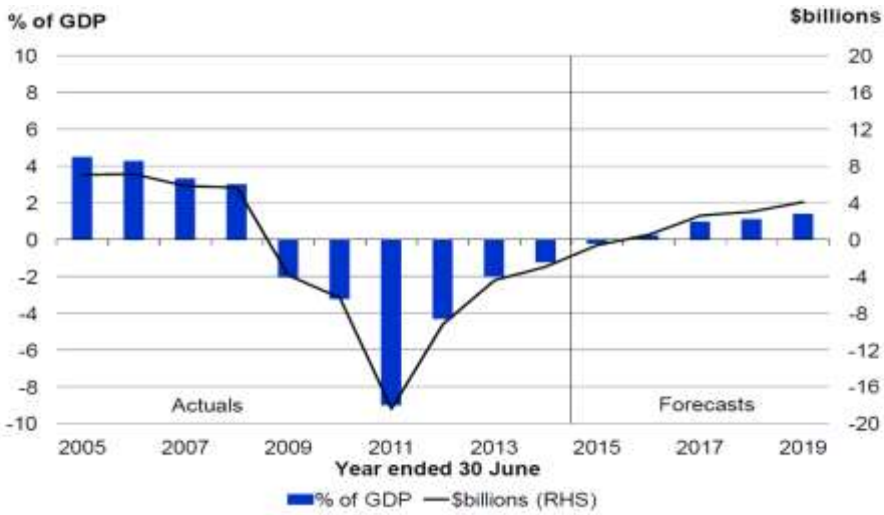
Norman Gemmell

In the run-up to the 2015 Budget on 21 May, there will no doubt be plenty huffing and puffing in the media over whether or not the government will, or will not, meet its self-imposed target of an operating account surplus by the end of the 2014/15 fiscal year in March. Of course, regardless of the speculation and conclusions come Budget-time, it will not be until near the end of 2015 that the final set of government accounts are available to answer the question definitively. By which time, it will likely be politically and economically irrelevant.

The Official Data

What is already clear from the 2015 Budget Policy Statement (PBS), published last December, is that the government and the Treasury take slightly different views on the prospects for a surplus for the 2014/15 year. As Figure 1 shows, Treasury's forecast in the PBS– which will be updated before the Budget – predicts a slight financial account deficit for 2014/15. The government, on the other hand, clearly feels more optimistic, stating that 'the Government believes those [final] accounts will show an OBEGAL surplus, due to the underlying strength of the economy' (BPS, 2015, p.4).

Figure 1 Total Crown Operating Balance before Gains and Losses (OBEGAL)



Source: BPS (2015, page 4)

So, does it matter whether the outturn is a small deficit or surplus for 2014/15? As with many questions around the government budget, the answer depends on circumstances. Two important such circumstances are: (1) what the longer-term trends in the budget surplus/deficit look like, and whether they are sustainable. And (2), how resilient would the government budget be, faced with a major new shock to the New Zealand economy, such as it experienced in the aftermath of the global financial crisis (GFC) or the Canterbury earthquakes?

Are Budget Trends Sustainable?

Figure 1 shows the budget over the last ten years and the next five. This reveals at least three important ‘circumstances’ that matter. Firstly, the budget was in a healthy surplus of around 3-4% of GDP in the lead-up to the GFC, and had been in surplus for several years earlier. Secondly, despite these healthy finances, the GFC precipitated a rapid deterioration of the budget balance, equivalent to a fall of around 12% of GDP (from +3% to –9%) from 2008 to its low point in 2011. Thirdly however, a combination of a buoyant economic recovery in New Zealand since 2011, and a persistent programme of careful government budgeting since 2009, has generated the substantial upturn in the budget balance evident in Figure 1, with forecast surpluses to continue through to 2019.

Various fortuitous external circumstances helped to soften the blow of the GFC on New Zealand’s economic performance, such as a relatively unaffected banking sector andfavourable trends in world commodity prices. Without these, together with the healthy budget surplus before the crisis, there can be little doubt that the required economic and social adjustment post-GFC would have been much more substantial.

Lessons from Abroad

The performances of the Greek and Spanish economies and their currently perilous fiscal positions are often held up as examples of the adverse consequences of poor fiscal management. But being members of the common currency Eurozone has had a fundamental role to play in their fiscal outcomes and current economic predicaments. This makes them unsuited as relevant counterfactuals for New Zealand. For a small open economy like New Zealand, the UK with its floating exchange rate provides a much better comparator. The UK went into the GFC following a deteriorating fiscal balance over several years (from a budget surplus up to 4% of GDP in the late 1990s to regular deficits of 2-3% by the mid-2000s).

As a result, UK public sector debt levels were already around 40% of GDP in 2008 when New Zealand’s had fallen to only 17%. UK public debt then rose to almost 60% by 2011, is still rising, and is forecast to peak at over 80% next year, when New Zealand’s is expected to peak at just over 26%.

What might this tell us about long-term trends and sustainability of fiscal deficits? One lesson surely it that, though the UK has not suffered the same degree of fiscal implosion as Greece and Spain and the intensely painful adjustment that follows, it has had to undertake a much more substantial fiscal adjustment programme than New Zealand. The top income tax rate has been raised to 50%, while a temporary increase in the VAT rate and massive cuts to real public spending were implemented.

Yet, UK real GDP per capita remains stubbornly below pre-GFC levels, with the country still struggling to get its public finances in balance and its public debt down to levels that markets believe are sustainable. This is despite the fact that the increase in deficits in the UK following the GFC was, if anything, slightly less than happened in New Zealand. The UK budget deficit (as a percent of GDP) worsened by about 9 percentage point from 2008 to a trough in 2010 (from a balance of -2% to -11%). This compares with the 12 percentage point decline in the New Zealand balance, 2008-11.

Longer-Term Trends

One reason why this shock was less severe in New Zealand in its effects on both the government's finances and the economy more generally was undoubtedly in part due to the favourable long-term trend before the GFC and the credibility of the fiscal adjustments the government introduced after it. These (a) made recovery from the shock a less daunting task – so avoiding some of the worst effects of public spending cuts; and (b) provided greater assurance to private markets that New Zealand could weather the economic and fiscal storm.

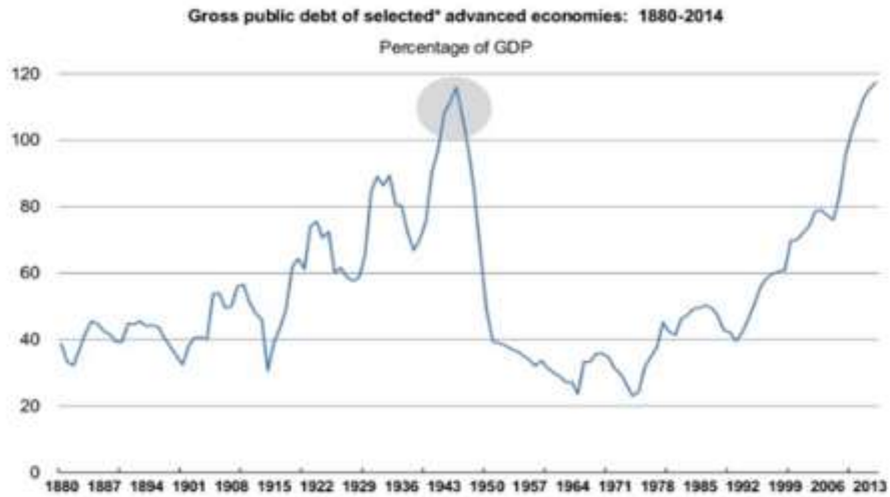
All of this adds up to the forecast trend in New Zealand's deficits in Figure 1 (whatever the precise outcome of the 2014/15 fiscal balance) that represents both a rapid turn-around from the GFC-induced deficits and a prospect of sustainable surpluses with relatively benign public debt trajectories into the immediate future.

Looking further ahead though, there are longer-term fiscal implications from the effects of demographic ageing on future public spending on health and welfare. Achieving a budget balance or surplus on 'average' over an economic cycle will become harder into the future as these persistent fiscal costs have to battle for priority among all the other 'normal' demands for public spending. Debate over the 2014/15 surplus or deficit could soon become peripheral compared with the more substantive issue of how big a trade-off might be required between future spending priorities, tax and deficit levels.

Resilience to Shocks and Fiscal Buffers

One lesson that emerges from looking at responses to past fiscal shocks in OECD countries is that, for many countries over the post-World War I (WWI) period, the inevitable increases in fiscal deficits during recessionary episodes, have been followed by insufficient fiscal readjustment such that budget balances failed to recover to pre-recession levels before the next downturn hits. And, in any case, restoring fiscal balance after downturns, even with strong government commitment, takes time to achieve, especially with recessions as severe as the GFC. These patterns are evident in OECD public debt data shown in Figure 2.

Figure 2 Long-Term Public Debt to GDP Ratios in OECD Countries



Source: OECD Sovereign Borrowing Outlook, 2014

The dominant feature of Figure 2 is, of course, the dramatic rise, and peak, in public debt associated with World War II, followed by a rapid decline as reconstruction boosted economic growth rates and tax revenues, while defence spending was reduced and war debt repaid.

A second important feature of the chart, however, is the clear tendency for cyclical peaks and troughs in the debt ratio to shift up over time both before WWI and from the 1960s onwards. It seems that governments were good at stepping in with fiscal support to alleviate the adverse effects of economic downturns on living standards. But worryingly, they appear much less good at making the less palatable subsequent decisions required to restore fiscal health.

So, unlike in New Zealand, when a major global shock hit OECD countries' public finances in 2008-09, many of them did not have the fiscal buffers to avoid massive public debt increases to levels that markets could no longer be persuaded were sustainable or recoverable. In New Zealand, by contrast, fiscal deficits should (at worst) be all but eliminated in 2014/15, and public net debt levels peak at only 26% before tracking down again.

Future Risks

Surely then New Zealand has nothing to worry about? In my view this would be a risky premise on which to base future budget settings. Firstly, economists have not been good at identifying a 'safe' or prudent level of public debt for a country, even before the GFC struck. Is it 20%, 40% or 60%? What is clear is that this safe level will be quite different for different countries, depending on various other conditions that they face. As a small open economy, highly dependent on a volatile commodity sector and with relatively high levels of foreign (private sector) borrowing, New Zealand's 'safe' public debt levels are likely well below those of many other larger, less commodity-dependent OECD countries.

Secondly, in common with most of the OECD, New Zealand's population ageing is expected to generate a persistent growth in per capita demand for pensions and health care over several decades. If innovative and equitable ways to finance these privately are not found, the burden will inevitably fall on the public purse. This is a new phenomenon (except in Japan which is several decades ahead of most other OECD countries in this respect).

As noted above, these new demands will have to compete for priority with all the other public spending headings, while tax systems are struggling to keep up with the more mobile tax bases that increased globalisation and international migration bring. As a result, maintaining a safe fiscal buffer to help withstand those fiscal shocks and cyclical downturns is likely to be harder, not easier, in future.

Returning to the question at the start – does it matter whether we return to surplus in 2014/15? No, these small margins over a few years are insignificant in themselves. We should care though if they become a longer-term trend, and if the government is not planning ahead for the increasing difficulty of funding voters' demands for public spending. This may happen slowly and incrementally, which makes it easy to ignore. But as the post-GFC world has shown us, failing to tackle these seemingly inconsequential issues on a year-by-year basis, is like the smoker who persistently thinks that 'just one more' cigarette will not increase the likelihood of lung cancer. The country's long-term fiscal health is just as vulnerable and just as important.

Research Report

Working for Families changes: The effect on labour supply in New Zealand

Penny Mok and Joseph Mercante[1], The New Zealand Treasury

Introduction

Many policy changes to taxes and transfers are designed with the aim to influence work incentives, particularly those with low potential returns in the labour market. Hence, prior to the introduction of a new policy or to changes in an existing policy, it is important to understand the impacts of the policy on the labour market behaviour of the targeted group and the costs to the government after allowing for potential labour supply effects. If the policies are targeted to certain demographic groups, it might also have impacts on household income distribution.

The New Zealand Government's assistance to families has evolved over time, and between 2004 and 2007 substantial changes were introduced to in-work incentives and financial support for families with dependent children as part of a new package of welfare reforms referred to as 'Working for Families' (WfF). The policy changes were implemented to encourage benefit recipients with children to participate in the labour market and to address income adequacy issues for families with children.

The main components of the reforms were changes to the WfF tax credits, the Accommodation Supplement (AS) and Childcare Assistance (CCA). The WfF tax credits comprise four main tax credits: the family tax credit (FTC); the in-work tax credit (IWTC); the minimum family tax credit (MFTC); and the parental tax credit (PTC). The changes included shifting financial support for children from the welfare system to the tax system, increasing the rates of the FTC and AS, introducing the IWTC which is work-tested (replaced the former Child Tax Credit) and changing the abatement regime of WfF tax credits.

An article by Penny Mok and Joseph Mercante has recently been published in the Treasury Working Papers series.[2] The article examines the simulated labour supply responses to the WfF package of welfare policy changes which was fully implemented in 2008, using the New Zealand Treasury's behavioural microsimulation model.[3] The Household Economic Survey (HES) 2008/09 was used to capture the full effect of the policy. An ex-post evaluation of the policy by the Inland Revenue (IR) and the Ministry of Social Development (MSD) in 2010 provided a good opportunity to compare the estimated labour supply effects of the policy change obtained through two different approaches. Both approaches use different datasets and have different limitations and strengths but this comparison provides an idea of the sensitivity of the results to the approach chosen, which is important for policymaking.[4] The

[1] Joseph Mercante is a consultant for the Treasury.
[2] Working for Families changes: The effect on labour supply in New Zealand, New Zealand Treasury Working Paper 14/18.
[3] This model is currently known as TAXWELL-B, previously known as TAXMOD-B.
[4] The microsimulation could provide ex-ante evaluation at the policy development stage and could predict the effects from different components of a policy change separately but potentially overestimate the actual effects of the policy changes (due to restrictions on the demand side of the labour market). The ex-post evaluation

simulation model is a partial-equilibrium supply-side model where it assumed that all additional labour supply is met at unchanged wages by a sufficient demand for labour. Individuals in reality may not be able to work their desired number of hours and outcomes may be determined to some extent by the availability of jobs. A discrete hours framework is used in which individuals can move between specified discrete hours levels, rather than being able to vary hours continuously.

Results

The paper focuses primarily on responses by married couples and sole parents.[5] With the relatively low participation rate of sole parents observed in the data (slightly above 50%) and the increase in WfF tax credits which has an accompanying work test where sole parents must work for at least 20 hours per week, a potentially significant increase of labour supply for sole parents is expected. The large increase in net incomes at the 20-hours level may induce the non-participating sole parents into the labour market.

The results show that the WfF reform increases the labour supply of sole parents by an average of 0.62 hours per week and labour force participation by 1.76 percentage points. The net increase of 1.72 percentage points of sole parents who are expected to enter the labour market would be around 3,000 individuals (after grossing up to population values using the sample weights). Although the results show some sole parents decreasing their working hours, in net terms there is a 0.11 percentage points increase in sole parents working more hours. This dominant substitution effect is consistent with the findings from the WfF evaluation reports by the MSD and IR; however, the simulated results are more modest (Dalgety *et al.*, 2010).

Labour supply for married men and women are expected to decrease by 0.1 and 0.5 hours per week respectively. Married women are more likely to leave the labour market than enter while both married men and women are more likely to work fewer hours. The largest reduction in participation and hours of work are expected from married women. The net reduction in the number of married women in work is around 1.17 percentage points, which equates to approximately 9,000 married women. This is mainly due to the work test where couples must work at least 30 (combined) hours per week in order to be eligible. Most married men are already in full-time employment and the family already working over 30 hours. The reduction in labour supply for married women reflects the dominance of the income effect of the policy change.[6] This is different to the case of sole parents where half of the sole parents are not participating in the labour market.

The negative labour supply effects for married couples with dependents are about 16 and 41 times larger than for married couples without dependents. The largest negative effect is on married women. The net effect on married women with dependents is expected to decrease their employment rate by 1.94 percentage points. This estimate is close to the estimated 2.3 percentage points fall in employment rate of secondary earners reported in the evaluation

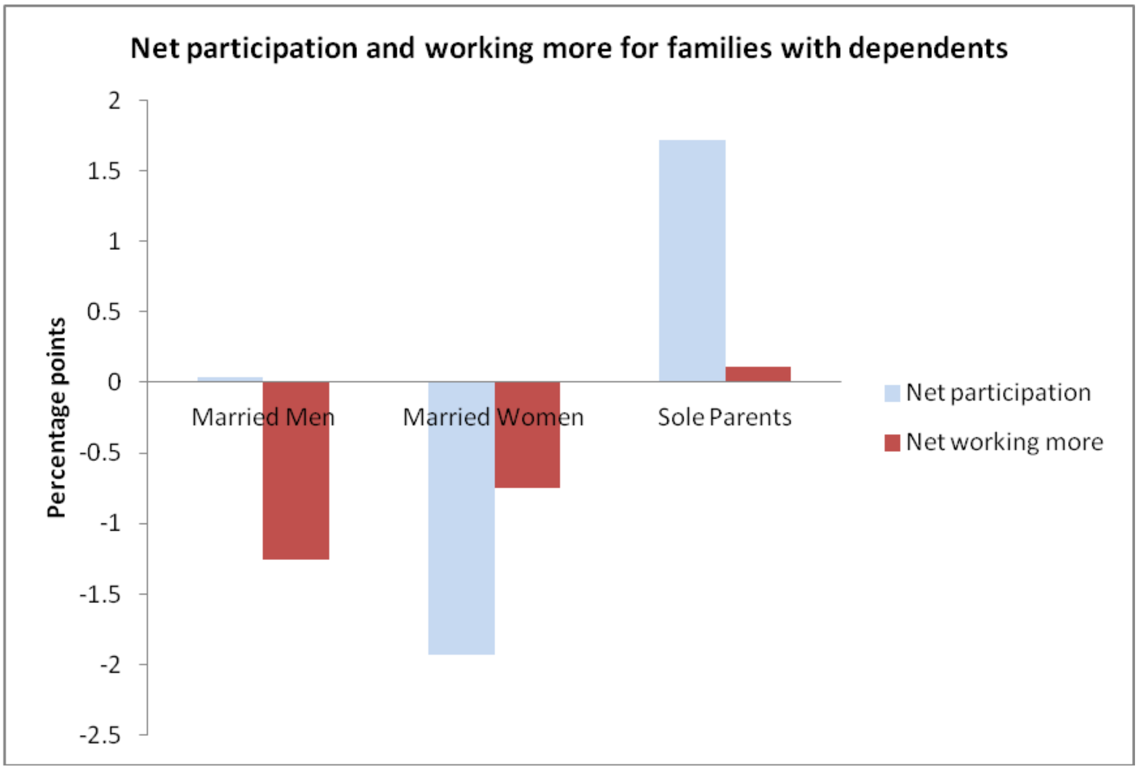
considers the demand side of the labour market but would have a problem finding the appropriate control groups. See Blundell *et al*. (2004).

[5] Singles are affected by the change in the AS but this change is not well captured in the model and is a relatively small change compared to the family payments in the WfF reform. Thus, there are very small labour supply responses by singles.

[6] The reduction of labour supply of married women is consistent with the findings by Blundell *et al.* (2000) in their simulation on the working families' tax credit in the UK.

reports by the MSD and IR.[7] For married men, the results from the simulation and the MSD and IR evaluation both show that WfF reform decreases working hours. The effects on participation and hours for families with dependents are illustrated in Figure 1.[8]

Figure 1: Net participation and working more for families with dependents



The simulations demonstrate the importance of allowing for labour supply effects when examining the government expenditure and revenue implications of tax and transfer changes. The paper shows that after allowing for labour supply changes, the cost of the welfare reform increases for couples but decreases for sole parents. This is due to the decrease in labour supply for couples but an increase for sole parents. These changes in labour supply are reflected in the tax revenue, family payment and benefit income changes for both subgroups. For sole parents, the reduction in expenditure on benefits is larger than the increase in WfF after accounting for labour supply responses. Overall, this results in a reduction in government expenditure, which is larger than the decrease in tax revenue. Sole parents who increased their labour supply or entered the labour market are likely to earn low wages, whereas those on higher incomes are likely to reduce their labour supply while remaining eligible for the WfF. The reduction in taxes paid by the latter group (who earn high income) is more than offset by the increase in taxes paid by the former. The paper also shows that the WfF reform reduced the incidence and intensity of poverty as well as income inequality.

[7] The WfF evaluation reports found that primary earners in couples are predominantly male, tend to have higher qualifications and are slightly older than secondary earners (MSD and IR (2010)).
[8] The diagram is based on Tables 1 and A.5 of the working paper. Net participation refers to the difference between workers entering the labour market and leaving the market while net working more refers to the difference between workers working more hours and working less hours (see Mok & Mercante, 2014).

References

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Blundell, R., Brewer, M., Duncan, A., Reed, H. and Shephard, A. (2004), 'The Employment Impact of Labour Market Reforms: A Bank of England Report'. London: Institute for Fiscal Studies.

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The full working paper, **Working for Families changes: The effect on labour supply in New Zealand**, is available at http://www.treasury.govt.nz/

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Joseph Mercante has worked on tax and transfer and behavioural microsimulation modelling in Australia and New Zealand. Joseph is currently a consultant to the New Zealand Treasury.

Upcoming Events

20 April – 22 May 2015
UNITAR
Economics of the Public Sector
Web-based

20 April 2015
Chair in Public Finance and Government Economics Network
Public Finance Debate: Today's policy settings unfairly favour the baby boomer generation
Wellington New Zealand

4 May - 05 June 2015
UNITAR
Public Funds and their Auditing
Web-based

4-5 May 2015
Government Economics Network training
Introduction to Cost-Benefit Analysis
Wellington, New Zealand

20 May 2015
Chair in Public Finance and Government Economics Network
Public Finance Debate: Economic evidence should play a greater role in health policy evaluation
Wellington New Zealand

01 June – 26 June 2015
UNITAR
Ethics in Public Finance
Web-based

22 June 2015
Chair in Public Finance and Government Economics Network
Public Finance Debate: The 'investment approach' provides a helpful new tool for public spending policy and evaluation
Wellington New Zealand

10-11 June 2015
OECD International Tax Conference
Washington D.C, USA

15-16 June 2015
Conference in Public Economics
Aix-en-Provence, France

18 June 2015
2015 Internal Revenue Service Tax Policy Center Research Conference
Washington D.C, USA

1-3 July 2015
International Conference on Public Policy
Milan, Italy

1-3 July 2015
New Zealand Association of Economists Annual Conference
Wellington, New Zealand

23-26 July 2015
Institute for Public Economics II
The 4th Shadow Conference
Exeter, United Kingdom

17-18 August 2015
Centre for European Economic Research
Workshop on Behavioural Responses to Income Taxation
Mannheim, Germany

20-23 August 2015
International Institute of Public Finance
2015 IIPF Congress
Dublin Ireland

3-4 September 2015
CEPAR & CESifo
Workshop: Pension Taxation, Population Ageing, and Globalisation
Munich,Germany

Recent Public Finance News

New Zealand News

- 10 April, Weak inflation dims prospects of surplus - English, The New Zealand Herald
- 09 April, Kiwi dollar spending power checks inflation, Business Day
- 7 April, Government may take out guesswork, Stuff
- 06 April, Christopher Niesche: 'Google tax' to come up with missing billion, The New Zealand Herald
- 01 April, New Zealand must not be held back by fear – Treasury boss, Stuff.co.nz
- 31 March, Benefits, student allowances, superannuation revamp kicks in, The New Zealand Herald
- 31 March, Tax changes to affect 'everyone', Stuff.co.nz
- 31 March, NZ dollar hits new high against Aussie, The New Zealand Herald
- 30 march, NZ dollar falls to one-week low vs British pound after BoE's Carney says next move is up, The New Zealand Herald
- 20 March, Migration hits new record in February, The New Zealand Herald
- 9 March, OCR expected to hold at 3.5%, The New Zealand Herald
- 7 March, Women losing boardroom battle, The Press
- 6 March, Landlords hit back at Reserve Bank crackdown, The New Zealand Herald
- 5 March, Reserve Bank tightens rules for landlords, The New Zealand Herald
- 3 March, Xero has Google factor over MYOB, The New Zealand Herald
- 3 March, Public servants could lose out on MP pay change: Andrew Little, The Dominion Post
- 2 March, Immigration may boost house prices: Treasury, Stuff.co.nz
- 2 March, Terms of trade dip on falling dairy export prices, The New Zealand Herald
- 25 February, Economic Issues deserve PMs attention, The New Zealand Herald
- 24 February 2015, NZ dollar muted overnight, The New Zealand Herald
- 21 February, NZ Super solid base, The Press
- 18 February, Bank may move again to cool home market, the Dominion Post
- 11 February, Finance Minister to present Budget on 21 May, Beehive.govt.nz
- 9 February, Ministers and opponents face-off in the house, The New Zealand Herald
- 6 February 2015, Region spends up big:$125.6m shelled out, The New Zealand Herald
- 5 February, some productivity gains flowing to labour as well as capital in NZ, The New Zealand Herald
- 22 January, 'Room for OCR cut' to aid kiwi, The Dominion Post
- 22 January 2014, Public sector staff on hunt for pay rise, The New Zealand Herald
- 20 January 2015, Late-year rate hikes will hit homeowners, HSBC, Stuff

Overseas News

- 9 April, Senate tax avoidance inquiry: the secret of its success,
- 9 April, Economies must work together to avoid decade of low growth, IMF boss warns, The Guardian
- 30 March, The nasty tax surprise about to hit the average Australian worker, The Sydney Morning Herald
- 17 March, Workplaces with equal mix of men and women happiest: economist., Reuters
- 8 March, Greece threatens new elections if Eurozone rejects planned reforms, The Guardian
- 8 March, Joe Hockey flags opening up super funds for houses, job training, The Sydney Morning Herald
- 6 March, Europe holds 'noose around Greek necks' as Athens scrambles to make debt payments, The Telegraph
- 5 March, Intergenerational Report: how Australia will change over the next 40 years, The Sydney Morning Herald.
- 5 March, Nigeria urged to boost public finances through tax reform, Public Finance International
- 4 March, Russian states rainy day fund drops as finances squeezed, The New Zealand Herald
- 2 March, Spain needs to further factor the environment into its recovery agenda, says OECD, OECD
- 01 March, China's manufacturing sector shrinks for second month running, The Telegraph
- 25 February, Greece submits reform plan as part of Eurozone deal, Public Finance International
- 24 February, IMF backs Greek reform plan, Public Finance International
- 17 February, Greece given deadline to agree bailout extension, Public Finance International
- 15 February, The destructive effect of dependency on the state, The Telegraph
- 13 February, The super-rich don't care about us. It will be their downfall. The Guardian.
- 13 February, What the RBA can't say: the government is the problem, The Sydney Morning Herald.
- 12 February, Greece at EU summit: timeline of hurdles coming up for Greece, The Telegraph.
- 7 February, The economic case for changing leaders, The Sydney Morning Herald
- 4 February, Hemlines down at David Jones as economy stalls, The Sydney Morning Herald.
- 26 January, The Greek Election: a travesty based on a lie, Public Finance International
- 22 January, Economists call for Greek debt to be written off, Public Finance International
- 22 January, Economist magazine appoints its first female editor, The Guardian
- 20 January, China post its worth growth in 24 years, CNN Money

Recent Publications

Working Papers in Public Finance

Latest papers from the Victoria University of Wellington series available on the NZPF website.

WP03/2015

Creedy, J. 'A Note on Computing the Gini Inequality Measure with Weighted Data'.

This note sets out some basic results regarding calculation of the Gini measure and its standard error in the context of cross-sectional micro-datasets where sample weights are provided for aggregation from sample to population values.

WP04/2015

Creedy, J. and **Gemmell, N**. 'Taxation and the User Cost of Capital: An Introduction'.

The aim of this paper is to provide an introduction to the concept of user cost and its determinants. Particular attention is given to the influence of taxation. The concept of user cost relates to the rental, the rate of return to capital that arises in a profit maximising situation in which further investment in capital produces no additional profit. This paper sets out in some detail the range of assumptions involved in obtaining alternative expressions for the user cost. The user cost refers to a before-tax capital rental, the rate of return that ensures that the (after-tax) cost of capital is equal to the post-tax returns over its life. Hence, associated with the user cost measure is an effective marginal tax rate. This can differ substantially from the statutory marginal rate applicable to the investor. A related effective average tax rate is also defined.

WP05/2015

White, D. Personal Capital Gains or Rate of Return Taxation? A Survey of Theory in Reform Proposals.

As the theory of public finance evolves in response to new insights and empirical evidence, opportunities continually arise to modify national fiscal systems to reflect these new insights. The ultimate objective of such innovation is to improve the equity-efficiency trade-off by making more informed choices.

WP06/2015

Sanz-Sanz, J.F. 'Revenue-Maximising Tax Rates in Personal Income Taxation in the Presence of Consumption taxes: A Note'.

This note computes revenue-maximising tax rates in personal income taxes in the presence of consumption taxes. It finds that the traditional Laffer analysis, which neglects the effects of marginal tax rates on consumption, overestimates the magnitude of revenue-maximising tax rates. The bias caused by this oversight is computed.

Recent publications from NZPF research associates

Brindusa Anghel, Antonio Cabrales, Jorge Sanz, and **Ismael Sanz** (2015). 'Publicizing the results of standardized external tests: Does it have an effect on school outcomes?', *IZA Journal of European Labor Studies*, 4:7. Published online DOI 10.1186/s40174-014-0029-3

Omar Aziz, **John Creedy** and Nick Carroll (2015). An analysis of benefit flows in New Zealand using a social accounting framework. New Zealand Economic Papers, 49, no. 1, pp. 1-21.

Omar Aziz, **Norman Gemmell** and Athene Laws (2015). 'Income and Fiscal Incidence by Age and Gender: Some Evidence from New Zealand' *Review of Income and Wealth*, published on-line, March 2015, DOI: 10.1111/roiw.12165

Simon Carey, **John Creedy**, **Norman Gemmell** and Josh Teng (2015). 'Estimating the elasticity of taxable income in New Zealand', *Economic Record*, 91, 292, 54-78.

John Creedy & Jesse Eedrah (2015): Income redistribution and changes in inequality in New Zealand from 2007 to 2011: Alternative distributions and value judgements, *New Zealand Economic Papers*, DOI: 10.1080/00779954.2014.997455

John Creedy and Nicolas Hérault (2015). Decomposing inequality changes: allowing for leisure in the evaluation of tax and transfer policy effects. *Fiscal Studies*, Forthcoming.

John Creedy, **Norman Gemmell** and Grant Scobie (2015) 'Pensions, saving and housing: a life-cycle framework with policy simulations'. *Economic Modelling*, 46, 346-357.

Norman Gemmell, **Richard Kneller** and **Ismael Sanz** (2015). 'The growth effects of tax rates in the OECD' *Canadian Journal of Economics*, vol. 47, no. 4. Published online, March 2015, DOI: 10.1111/caje.12105

Public Finance Journals

1. FinanzArchiv
2. International Tax and Public Finance
3. Journal of Public Economics
4. Journal of Public Economic Theory
5. National Tax Journal
6. Public Budgeting and Finance
7. Public Finance Review
8. Public Finance and Management
9. Tax Notes International

Institutions Working on Public Finance Research or Policy

New Zealand

Centre for Accounting, Governance & Taxation Research (CAGTR)
Victoria University of Wellington
The CAGTR was established within the School of Accounting and Commercial Law to advance and apply knowledge germane to the accounting and legal professions, commerce and industry and the public sector.

Retirement Policy & Research Centre (RPRC)
The University of Auckland
"The Retirement Policy and Research Centre (RPRC) is an academically focused centre specialising in the economic issues of demographic change."

Chair in Public Finance (CPF)
Victoria University of Wellington
The Chair in Public Finance (CPF) is a joint venture between Victoria University and four sponsoring institutions with an interest in public finance The Treasury, the Inland Revenue Department, PricewaterhouseCoopers, and the Ministry of Social Development. The Chair conducts research and organises events to increase awareness and discussion around public finance issues.

World

Tax and Transfer Policy Institute
Canberra, Australia
"The Tax and Transfer Policy Institute (TTPI) carries out research on tax and transfer policy, law and implementation for public benefit in Australia."

CESifo Group Munich
Munich, Germany
Centre for Economic Studies, the ifo Institute and the Munich Society for the Promotion of Economic Research in Germany.

Institute for Fiscal Studies
London, UK
The Institute for Fiscal Studies aims to promote effective economic and social policies by better understanding how policies affect individuals, families, businesses and the government's finances.

London School of Economics Public Economics Programme (PEP)
London, UK
The PEP's activities include "theoretical and empirical work on the economics of taxation, the provision of public goods, social insurance and the economics of income distribution.

Oxford University Centre for Business Taxation

Oxford, UK

"The Oxford University Centre for Business Taxation is an independent research centre which aims to promote effective policies for the taxation of business."

University of Exeter, Tax Administration Research Centre

Exeter, UK

"The Tax Administration Research Centre undertakes research on tax administration in order to strengthen the theoretical and empirical understanding of tax operations and policies. The Centre is operated in partnership by the University of Exeter and the Institute for Fiscal Studies."

Office of Tax Policy Research

Michigan, USA

The Office of Tax Policy Research (OTPR) is a research office at the Stephen M. Ross School of Business at the University of Michigan. OTPR supports and disseminates academic research on all aspects of the tax system, with the goal of informing discussion about the future course of policy.

OECD Centre for Tax Policy and Administration

Paris, France

The Centre for Tax Policy and Administration (CTPA) is the focal point for the OECD's work on all taxation issues, both international and domestic.

Congressional Budget Office

Washington, DC, USA

The Congressional Budget Office (CBO) has produced independent analyses of budgetary and economic issues to support the Congressional budget process. The agency is strictly nonpartisan and conducts objective, impartial analysis.

National Institute of Public Finance and Policy

New Delhi, India

The National Institute of Public Finance and Policy (NIPFP) is a centre for research in public economics and policies. The institute undertakes research, policy advocacy and capacity building in areas related to public economics.

Centre for Public Finance Research

Washington, DC, USA

The Center for Public Finance Research (CPFR) offers research and education in public budgeting and finance, public financial management, public economics, and benefit-cost analysis at the local, regional, national, and international levels.

National Institute of Economic and Social Research

London, UK

"NIESR aims to promote, through quantitative and qualitative research, a deeper understanding of the interaction of economic and social forces that affect people's lives, and the ways in which policies can improve them".

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