



**September 2017 Edition**

## **Welcome from Professor Norman Gemmell**

It is a great pleasure to bring you a reformatted version of our public finance newsletter highlighting recent activities, research and news from the Chair in Public Finance.

At a personal level, I have been on research leave for a few months at the Tax Administration Research Centre, University of Exeter in the UK. Coming back in time for an unusually exciting election has meant a busy few weeks, including getting involved in tax debates ([see Newsroom articles](#)).

[Victoria University's research pages are currently profiling the work of the Chair in Public Finance](#), including a \$700,000 Ministry of Business, Innovation-funded project developing tools to analyse how people behave in response to tax and welfare changes to help policy advisers more accurately predict government revenue.

In other news, [Professor John Creedy](#) has joined the public finance group at Victoria University full-time, having previously been part-time with the Treasury.

[Five new working papers](#) have been produced in recent months, covering such topics as: Measures of inequality in New Zealand back to 1935, proposed reforms to New Zealand Super, and New Zealand's research quality and the PBRF process.

**Professor Norman Gemmell**

Chair in Public Finance  
Victoria Business School

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## Long-term Fiscal Sustainability

Following Treasury's 2016 Long-term Fiscal Statement (LTFS) the Office of the Auditor-General (OAG) undertook a review of Treasury's analysis. Published in July, this commentary points to a number of positive developments and weaknesses in the latest Treasury Statement.

What could Treasury have done better in the OAG's view? Consider a wider set of risks to New Zealand's long-term fiscal sustainability than the relatively predictable impacts of demographic ageing on New Zealand Super and public health costs. The OAG report concludes (p.3) that "the [LTFS] financial projections provide little insight into the size, timing, financial effect or interconnectedness of any other potential challenges and opportunities".

The OAG suggest that repetition of events like the 2008-10 global financial crisis, major earthquakes, or a large agricultural sector crisis like a foot and mouth disease outbreak could pose serious risks to sustainable public debt levels in New Zealand. Time for some further thinking before the next LTFS perhaps?

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## New Research Fellow in Public Finance

I am delighted to welcome Dr Nazila Alinaghi, who starts in October as a new research fellow to work with the Chair on public finance research and engagement over the next two years.

Nazila, originally from Iran, completed her PhD at Canterbury University on the topic of 'taxes and growth' and was awarded three prizes at the 2017 New Zealand Association of Economists annual conference.

These included the **Jan Whitwell prize** for best conference presentation by a student, the **Seamus Hogan prize** for best public policy paper written by a student, and a **Graduate Study Award prize** for participation in the 2017 conference.



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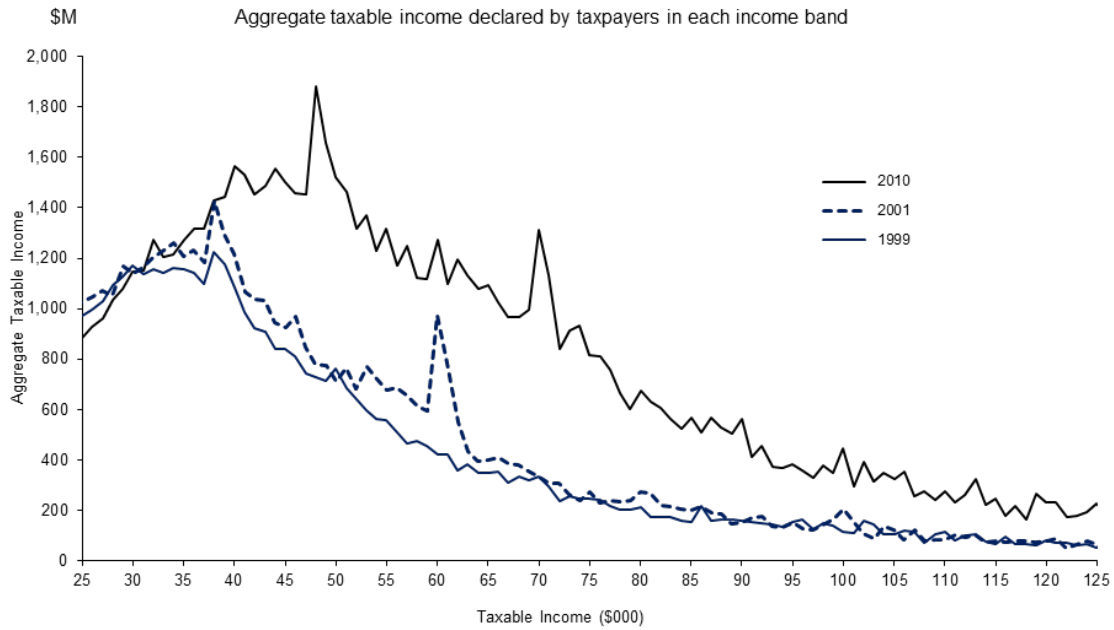
## New Research

### Modelling income taxes and transfers

Earlier this year the Chair in Public Finance began a new project to model the New Zealand tax and transfer system, supported by a grant from the Ministry of Business Innovation and Employment's (MBIE) Endeavour Fund.

Working with collaborators at Victoria University ([Professor John Creedy](#)), The Treasury, Inland Revenue and MBIE, the research project will explore how various taxpayer responses to tax and social benefit changes can be integrated into models of revenue, distributional and welfare outcomes.

It will also benchmark New Zealand modelling against best international practice.



The graph above shows just one of the consequences of tax and transfers reform: spikes in the income distribution can appear around the new tax thresholds and rates, such as the new 39% rate in 2000, or when the tax thresholds shift, such as the \$60,000 to \$70,000 threshold in 2010.

## Inequality in New Zealand



This year's election is providing yet more rhetoric on the topic of inequality in New Zealand as the various parties vie for voters' recognition that they care for poorer New Zealanders.

'Worsening income inequality' is a common soundbite but, as various pieces of evidence already show, this is not the case for New Zealand over the last twenty-five years or so, following a rise in the late 1980s.

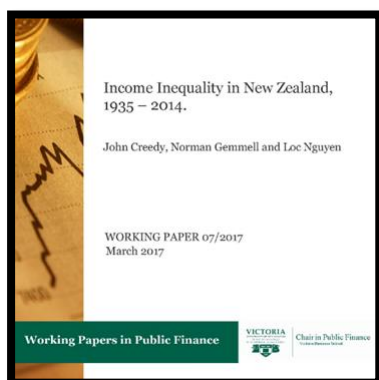
With support from the New Zealand Institute of Economic Research a new working paper (see the 'Research Publications' section below) examines previously unexplored data on New Zealand's income inequality back to the 1930s.

This shows that the rise in inequality in the 1980s followed a similar decline in previous post-war decades, but also that the patterns in New Zealand are remarkably similar to those in Australia. This casts some doubt on the previous argument that the New Zealand rise was predominantly due to the major late '80s policy reforms.

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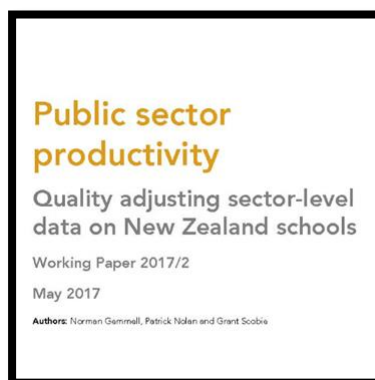
## Research Publications

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



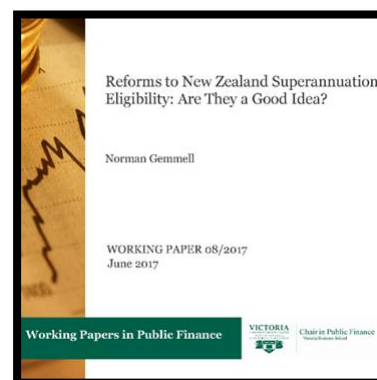
A [working paper by Creedy, Gemmell and Nguyen](#) examines previously unexplored data on New Zealand's income inequality back to the 1930s.

[Download this paper](#)



Ahead of the next Productivity Commission inquiry into education and health services, [a working paper on productivity in the state school sector](#).

[Download this paper](#)



A working paper on current and recently-announced reforms to New Zealand Super settings [focused on intergenerational consequences](#).

[Download this paper](#)

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## Media and Commentary

New Zealand superannuation and the need for a tax working group have featured in recent commentary and media articles from the Chair in Public Finance. Keep an eye on the [newsroom.co.nz](http://newsroom.co.nz) website for future articles.



A discussion about the [mechanics of a tax working group](#), and asks why New Zealand might need one.



"Reforms to New Zealand Superannuation Eligibility—are they a good idea?" in the latest [Policy Quarterly](#).



Discussion around [whether to keep the NZS age at 65](#) in the election lead-up overlooks three important points.

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