



Welcome from Professor Norman Gemmell and Dr Nazila Alinaghi

Welcome to the Spring 2018 edition of the public finance newsletter highlighting activities, research and news from the Chair in Public Finance. Quite a lot has been happening in the last quarter, including another massive dump of documents from the Tax Working Group (TWG) and, of course, their [interim report](#).

Last Newsletter we highlighted the recent arrival of the Ministry of Education's chief economist, Andrew Weber, from New South Wales. This time we go back to 'old' South Wales – with a fascinating report from Georgina Haarhoff in Cardiff at the (comparatively new!) Welsh Treasury in the UK. As deputy director of Tax Strategy, Policy and Engagement there, Georgina and her team have the unusual and challenging task of designing a new tax regime for the Welsh Government. It's not quite a 'blank sheet of paper', however, since the UK Government imposes various constraints of what taxes can, and can't, be levied. As her report below highlights, Georgina reckons there are quite a few lessons from New Zealand that she took back to Wales after her visit here earlier this year.

Among the new set of [Working Papers in Public Finance](#) this quarter are papers on income inequality and mobility by John Creedy and Norman Gemmell; on redistribution through the tax and transfer system in New Zealand by Matt Nolan; and a historical review of New Zealand's fiscal governance institutions by Bob Buckle.

We also have a major three-day event coming up on 6, 7 & 10 December with a **workshop** on [Modelling Tax Policy and Compliance](#). This is being organised jointly with the Tax Administration Research Centre at the University of Exeter, UK, and includes speakers from Australia, United States, United Kingdom and New Zealand. With an eclectic mix of empirical and theoretical papers on the provisional programme it should have wide interest. There is no charge

to attend, but for catering purposes please email [Anna Burnett](#) if you would like to participate.

Also in this issue is a summary of a recent piece in the New Zealand Herald on the Government's proposal to introduce an ***Independent Fiscal Institution*** in New Zealand. This proposal – somewhat under-the radar so far – looks like it could be the Government's next 'big thing' in the public finance space as the TWG's deliberations draw to a close. Certainly it deserves wider public debate.

Finally, special congratulations to three of our well-known Kiwi economist colleagues – **Professor Gail Pacheco** of AUT for being awarded NZIER's 'Economist of the Year' for 2018 and to **Professors John Creedy** and **John Gibson**, recently elected as a Fellows of the Royal Society of New Zealand. Between them, in one year they have substantially increased the number of New Zealand economists honoured in this way.

Norman Gemmell and Nazila Alinaghi
November 2018

People News

John Creedy and John Gibson

The Royal Society of New Zealand (RSNZ) recently announced twenty new Elected Fellows to be inducted next year as part of the Society's Centennial year. Two of those new Fellows are well-known and respected New Zealand economists: Professor John Creedy of Victoria University of Wellington and Professor John Gibson of Waikato University. Read more...[here](#).



Gail Pacheco

Gail, Professor of Economics at AUT, has received the 2018 NZIER Economics Award in recognition of research that provides insights into social issues affecting the country. Her work covered a wide range of social issues with a specific focus on labour and health research. Read more...[here](#).



Ian Ball

Ian has returned to VUW (for the fifth time) as Professor of Public Financial Management in the School of Accounting and Commercial Law. Previous roles have included Professor of Accounting and Public Policy (1995-2002) and Senior Lecturer in Government Finance (1977-1981). Between these periods he has been with the Treasury (1987-1995), where he was involved in the design of the Public Finance Act 1989 and the financial management reforms the Act introduced, and CEO of the International Federation of Accountants (IFAC) (2002 - 2013). He has also served as chair of the IFAC Public Sector Committee (1995 - 2000), where he initiated the program to establish International Public Sector Accounting Standards. More recently (2010 - 2014) he was involved in the development of Integrated Reporting, as a Board member and as chair of the Working Group which developed the International <IR> Framework, and he remains involved in this initiative.



He is also currently emeritus chairman of CIPFA International (CIPFA is the UK - based Chartered Institute of Public Finance and Accountancy), chairman of the Audit Committee for the Financial Statements of the New Zealand Government, and principal of Public Sector Performance (NZ) Ltd. Ian is a life member of Chartered Accountants Australia and New Zealand, a member of CIPFA and an honorary member of a number of other professional accounting bodies. He has accounting degrees from VUW and a PhD from the University of Birmingham, in the UK.

Arthur Grimes

Arthur, Chair of Wellbeing and Public Policy at Victoria University of Wellington, is planning to write a 'Wellblogging' column once a month - appearing first in NewsroomPro around the middle of each month (and then a few days later on public release on the Newsroom website). Future columns will include material on inequality (using various measures, including subjective wellbeing) and material on factors that the literature finds improve people's own wellbeing. Read more...[here](#).



Penny Mok

Penny is currently reviewing MBIE's migration forecasting model and looking into ways to incorporate the changes in the way Stats NZ collect information on external migration. The model is used to advise the Minister on the inflow and outflow of migrants in New Zealand and to monitor the New Zealand labour market.



Georgina Haarhoff

A country of natural beauty, world-class rugby and new taxes: that would be ... Wales

Wales, one of the four countries of the United Kingdom, first gained its own devolved administration in 1999.

Over the next 16 years, the budget which funded Wales' devolved responsibilities was determined wholly by the UK Government through a block grant. However, in a series of steps in the past few years, the Welsh Government has gained financial responsibility for non-domestic rates (April 2015); full powers over taxes on land and building transactions and landfill disposals (April 2018); and will shortly gain partial control of income tax rates (April 2019).

In 2019-20, these will contribute around £3.5bn, or 20% of the Welsh Government's budget.

The introduction of tax powers, in such a short timeframe, has been a steep learning curve for the Welsh Government and, in particular, for the new [Welsh Treasury and the new Welsh Revenue Authority](#). In developing our skills and expertise, we have sought to learn from best practice from within the UK and internationally, including the OECD, Republic of Ireland, Basque Country and New Zealand.

Welsh Ministers have set out their strategic priorities for taxation in the [Tax Policy Framework](#) and we have established an inclusive and transparent annual policy-making process – informed by New Zealand's GTPP and the work of Victoria University of Wellington – together with a more engaged and taxpayer-focused approach to tax collection and management.

Wales has a relatively low level of economic output and a small working-age population compared to the UK; a strong interest in



agriculture, impressive natural environment and strong community culture. It is closely integrated with England economically and socially, so labour is highly mobile. [Recent research](#) has highlighted the lack of resilience in the Welsh tax base but as a small and open country, there are opportunities to be innovative and ambitious in our approach.

I visited New Zealand in April to learn more about different models and approaches to taxation with the New Zealand Treasury, Inland Revenue Department and Victoria University of Wellington. I learned more about the tax policy process, tax administration, public understanding and engagement and the interaction between tax and wider government policy.

A key challenge for Wales will be to identify ways of supporting and strengthening our tax base through more coherent and coordinated policy development – for example, this could include promoting skills policy and long-term economic growth. We need to test whether, and how, our taxes support future public spending needs and priorities. A critical issue will be the behavioural impact of any potential future changes to income tax, which will be particularly important for a relatively small nation like Wales, which is closely integrated with the much larger economy of England.

The Welsh Government is currently exploring four new tax ideas, which were shortlisted following a national debate about new taxes – these are a tax on disposable plastics; a tourism tax; vacant land tax and a general (income-based) levy to fund social care in the future (where we have commissioned [external research](#)). These range from small and defined behavioural taxes to large scale revenue raisers to meet potentially significant demographic and spending challenges for Wales. Some of these ideas and background issues are being considered by other UK administrations.

The four tax proposals have differing timelines and priorities but they will each enable the Welsh Government to test the usefulness of fiscal levers to help deliver wider policy priorities.

With a range of property taxes now being administered in Wales – at national or local level – we are at the beginning of a debate about the most effective way to tax land and property in the future. There could be opportunities to improve the administration of our taxes, to enable them to better meet the needs of taxpayers and businesses in Wales. We will also review how we engage with taxpayers, enabling them to understand the scope of Wales' new powers; how they can be used and how they support the democratic process (@WelshTreasury).

Throughout the process of preparing for, and implementing,

Welsh taxes we have engaged actively with policy experts, analysts and wider stakeholders – both on our approach and the details of our intentions. This is a very different approach to the UK Government, and we have been challenged about whether this transparent and inclusive approach creates benefits. Our consistent view is that early and open policy debate can only improve the quality of the policy and legislation and help build capacity and capability in a new tax jurisdiction.

As we further hone tax policy in Wales, we will continue to seek to learn from the experiences and best practices of the more-established international tax administrations. I would welcome your thoughts about our direction of travel and priorities.

Georgina Haarhoff,
Deputy Director Tax Strategy, Policy and Engagement,
Welsh Government

Events

Past Events

International Institute of Public 2018 Annual Congress

The 74th Annual Congress of the International Institute of Public Finance was held this year in Tampere, Finland on 21st -23rd August, on the theme of “**The Impact of Public Policies on Labour Markets and Income Distribution**”. More details about the keynote addresses (including Henrik Kleven, Princeton University) and other presentations can be found [here](#). Papers and abstracts are available [here](#).

Forthcoming Events

Tax Working Group 2018 Public Symposium

There is an upcoming public symposium on the **Future of Tax in New Zealand** organized by the Tax Policy Scholarship Charitable Trust in association with the University of Auckland and Victoria University of Wellington on **28th November**. Registration to attend the Wellington Symposium is available [here](#). For further information, please visit [here](#).

Modelling Tax Policy and Compliance Workshop

There is an upcoming [workshop](#) over **6th – 10th December**. This will bring scholars together from across United Kingdom, New Zealand, and Australia to share recent research on, among other things, modelling tax policy and tax compliance. Please email [Anna Burnett](#) if you would like to be added to our invite list.

New Research

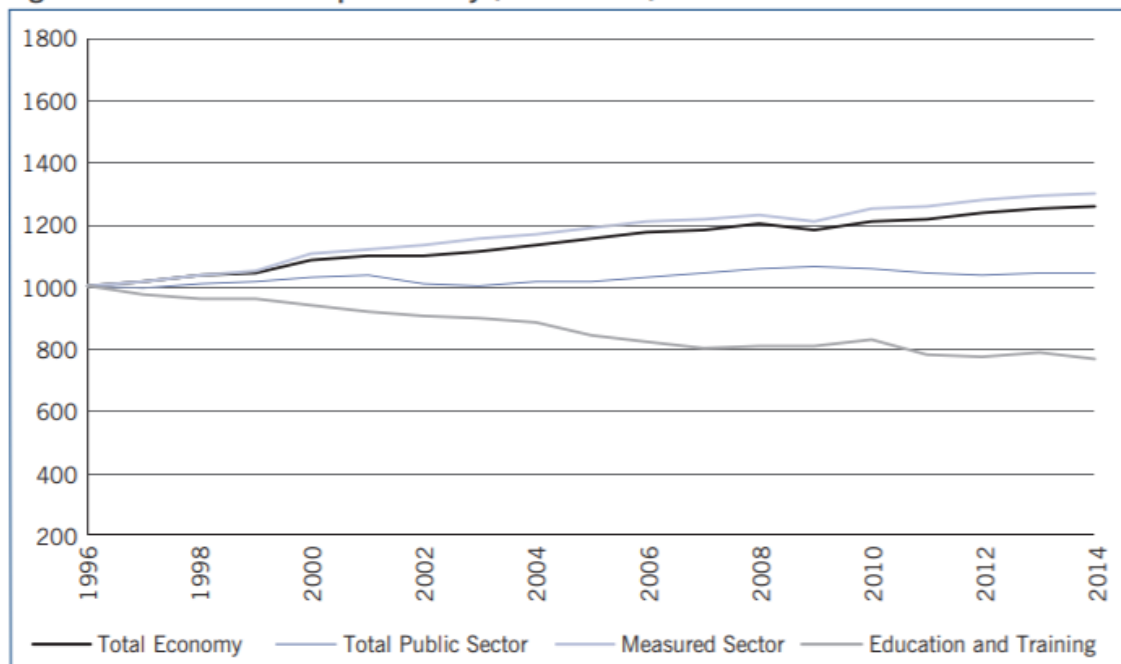
Quality Adjusting Education Sector Productivity (by Norman Gemmell, Patrick Nolan, and Grant Scobie)

This paper can be found in the latest version of [Policy Quarterly](#), August 2018.

This article examines how quality-adjusted productivity indices for the education sector may be constructed and proposes methods for making such adjustments to basic measures of labour and multifactor productivity growth. Results highlight the need for careful measurement, showing that measures unadjusted for quality are unlikely to provide sufficiently robust signals about changes in productivity performance in the education sector on which policy advice could be built. Their evidence suggests that quality adjustment to both inputs and outputs can make substantial differences to conclusions about productivity growth trends over 2000–15 compared with unadjusted indices.

Why do we need to adjust for quality? Well, the figure below illustrates long-run labour productivity trends based on National accounts measures and suggest a clear secular downward trend in productivity in 'education and training'. Is this a 'true' measure of how productivity in this sector is changing or might it reflect a failure to allow for quality changes? The paper summarises recent investigations.

Figure 1: Trends in labour productivity (1996-2014)



Source: Statistics New Zealand

Nudging Businesses to Pay their Taxes: Does Timing Matter? (by Christian Gillitzer and Mathias Sinning)

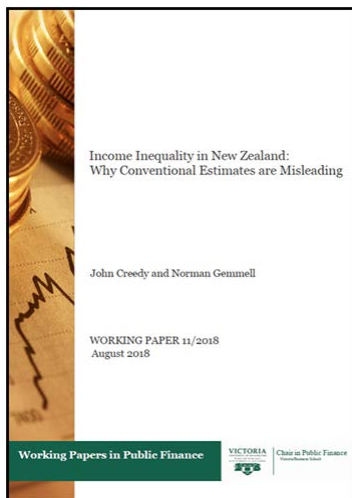
An earlier version of this paper was presented at the [2018 Public Economics Research Day](#).

This paper provides theoretical and empirical evidence on the implications of the timing of reminders by studying the effect of varying the timing of reminder letters to taxpayers on their payment behaviour. The collection of unpaid tax debts constitutes a considerable challenge for tax authorities. We show that varying the timing of a reminder letter has a theoretically ambiguous effect on tax payments. They study the payment behaviour of business taxpayers in a field experiment in Australia and find that a simple reminder letter increases the probability of payment by about 25 percentage points relative to a control group that does not receive a letter from the tax authority. However, variation over a three-week period in the timing of the reminder letter has no effect on the probability of payment within seven weeks of the due date. Their findings indicate that sending reminders early results in faster payment of debts with no effect on the ultimate probability of payment.

Research Publications

Recent Working Papers

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



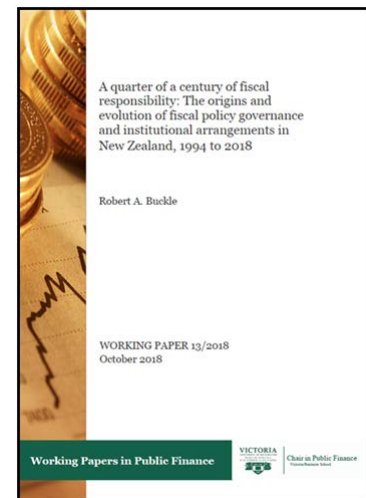
A working paper by Creedy and Gemmill investigates income inequality in New Zealand.

[Download this paper](#)



A working paper by Nolan looks at the impact of tax-transfer policy change on income inequality in New Zealand over 1988 to 2013.

[Download this paper](#)



A working paper by Buckle traces the origins and evolution of fiscal policy governance and institutional arrangement over a quarter of a century in New Zealand.

[Download this paper](#)

Media and Commentary

Recent featured commentary and media articles are as follows:



An Independent Fiscal Institution for New Zealand?

Independent central banks to oversee monetary policy became all the rage in the 1990s of which New Zealand's example is one of the most highly regarded. Independent fiscal institutions (IFI) or councils seem to be the 21st century equivalents, with numerous countries setting up some form of IFI to forecast fiscal aggregates or monitor governments' fiscal choices. The surprising news – to us at least – is that the current government has apparently already decided New Zealand needs an IFI, and is now consulting on what form it should take. You can read the CPF's take on this in a **forthcoming** *New Zealand Herald* article (keep an eye out). Treasury's consultation process for the IFI can be found [here](#).



(i) The Treasury published monthly and annual [financial statements of the government](#) for the year ended 30 June 2018.



(ii) The Government is currently consulting on the proposal to [embed a focus on wellbeing in the Public Finance Act 1989](#).



(iii) The Government was consulting on the proposal to [establish an Independent Fiscal Institution](#) as part of New Zealand's fiscal policy framework.



Brian Fallow wrote an [opinion](#) on the [report](#) released by IR officials two years ago, Wealth Accumulation Review. This report was amongst the officials' advice to the TWG.



A peice by Victoria University's Professor of Public Finance Management, Ian Ball, on NZ's fiscal position can be found [here](#).



An independent evaluation of the Productivity Commission's [State sector productivity inquiry](#) has been completed and released.



Tax Working Group published interim [report](#).



The latest fiscal monitor report titles [Managing Public Wealth](#) was released by the International Monetary Fund (IMF).

Recent Published Papers

Ball, C., Creedy, J., and Scobie, G. (2018). The timing of income tax changes in the face of projected debt increases. *Australian Economic Review*, 51 (2), 191-210.

Buckle, R. A., and Creedy, J. (2018). The evolution of research quality in New Zealand universities as measured by the performance-based research fund process. *New Zealand Economic Papers*, available online at <https://doi.org/10.1080/00779954.2018.1429486>.

Buckle, R. A., and Creedy, J. (2018). An evaluation of metrics used by the Performance-Based Research Fund process in New Zealand. *New Zealand Economic Papers*, available online at <https://doi.org/10.1080/00779954.2018.1480054>.

Buckle, R. A., and Creedy, J. (2018). The impact on research quality of performance-based funding: the case of New Zealand's PBRF scheme. *Agenda: A Journal of Policy Analysis and Reform*, 25 (1), 25-48.

Creedy, J. and Gemmell, N. (2018). Income dynamics, pro-poor mobility and poverty persistence curves'. *Economic Record*, 94 (306), 316-328.

Creedy, J., Mercante, J., and Mok, P. (2018). The labour market effects of 'Working for Families' in New Zealand. *Australian Economic Review*, 51 (2), 211-231.

Creedy, J., and Passi, H. (2018). Public sector discount rates: a comparison of alternative approaches. *Australian Economic Review*, 51 (1), 139-157.

Creedy, J. (2018). Optimal Tax Enforcement and Income Tax Rate: The Role of Taxable Income Inequality. *New Zealand Economic Papers*, available online at <https://doi.org/10.1080/00779954.2017.1394904>.

Creedy, J. (2018). A note on sugar taxes and changes in total calorie consumption. *New Zealand Economic Papers*, <https://doi.org/10.1080/00779954.2018.1516232>.

Creedy, J., and Hoang, H. (2018). Types of Microfinance Organisation: A Taxonomy. *Third Sector Review*, 24(2), 105-136.

Creedy, J., and Mok, P. (2018). Labour Supply Elasticities in New Zealand. *New Zealand Economic Papers*, <https://doi.org/10.1080/00779954.2017.1423509>.

Gemmell, N. and Ratto, M. (2018). The effects of penalty information on tax compliance: evidence from a New Zealand field experiment. *National Tax Journal*, 71 (3), 547-588.

Gemmell, N., Nolan, P. and Scobie, G.S. (2018). Quality adjusting education sector productivity. *Policy Quarterly*, 14 (3), 46-51.

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