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Welcome from Professor Norman Gemmell and Dr Nazila Alinaghi

Welcome to the August 2019 CPF Newsletter. In this issue, for those who may have missed it, there is a link to the Government's 'new' Wellbeing Budget in May. Although, without specific wellbeing targets, some commentators are querying how new it is. Indeed, arguably the previous Government's social investment targets addressed more specific wellbeing objectives than anything in the 2019 Budget! We also provide a link to the Treasury's recently published tax revenue calculator – an Excel-based tool which estimates the change in tax revenue when the personal income tax system is modified. Now anyone can play around with changes to income tax settings and see how revenues react – though the results don't allow for any behavioural responses to those changes – an important limitation!

Other events and news items highlighted in this issue include:

- The recent 'The Public Finance Act Turns 30' conference at Victoria University of Wellington at which a variety of speakers presented, including past Ministers of Finance and senior officials at the time. Professor Ian Ball summarises the event for us.
- The New Zealand Association of Economists annual conference in Wellington in early July. We include abstracts of public finance related papers.
- The sad passing of Professor Martin Feldstein of Harvard University, a true giant of the public finance research community. Among his many influential papers over the years was his 1985 paper assessing the merits of debt versus tax funding when there is a temporary increase in public spending – a topic of vital importance to New Zealand at the time of the Christchurch earthquakes.
- The UK Institute for Fiscal Studies continues to produce material as part of their major inquiry into income inequality, chaired by Nobel Laureate, Angus Deaton. We link to the IFS's recent briefing note on 'who pays what' among UK income taxpayers, as well as Deaton's 'Letter from America' on employment effects of minimum wages.
- For more on these minimum wage employment effects ... Dr Peer Skov of AUT, along with Danish colleagues, has just published fascinating results from a 'natural experiment' exploiting a 'discontinuity' in Danish youth minimum wage rates. In the Danish case, reaching your 18th birthday seems to be bad for your immediate employment prospects! Perhaps some lessons

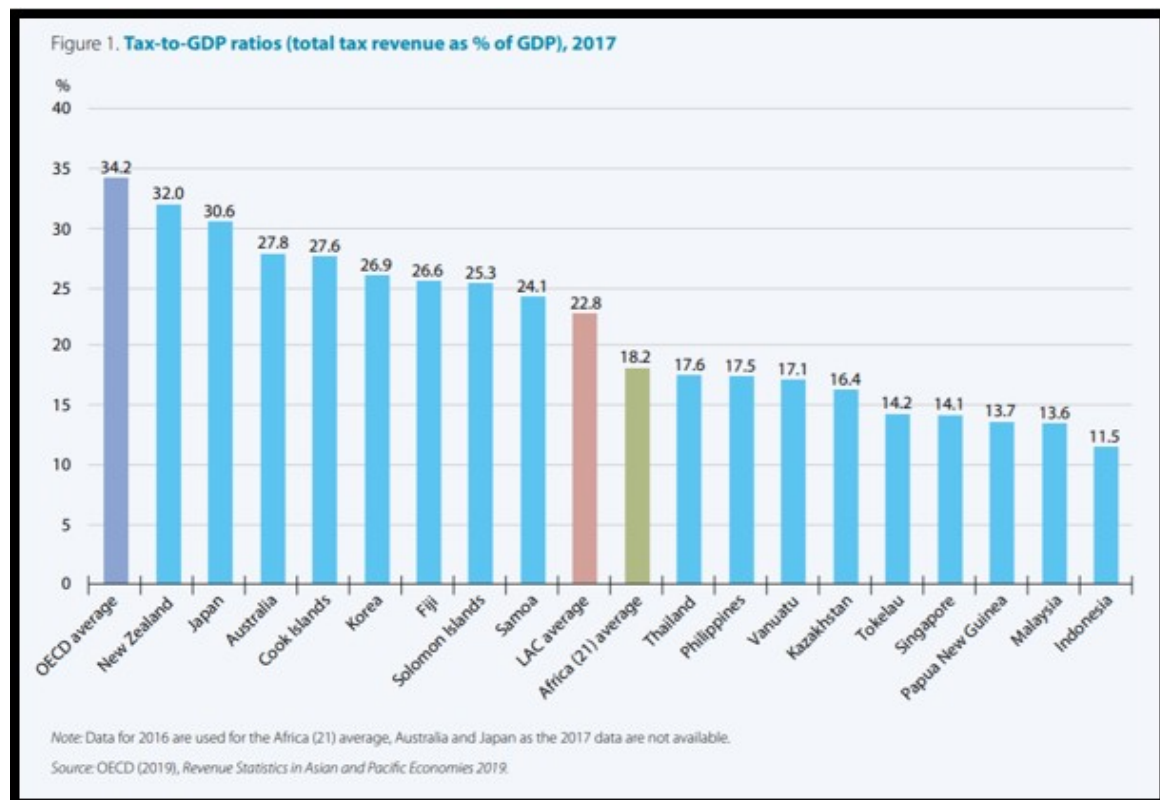
for us here?

- In people news, with all the hubbub surrounding the last days of Gabs Maklouf's tenure as Treasury Secretary, the news that Dr Carelee McLeish has been appointed as his replacement almost went unheralded. With perhaps the strongest background in economics of any previous Treasury Secretary in recent times, we look forward to seeing how she might drive forward Treasury's economic agenda and policy advice.
- Other recent appointees of note are two new Commissioners at the Productivity Commission – Gail Pacheco and Andrew Sweet. We summarise their bios below and look forward to their particular economic contributions to future Commission inquiries.
- Last, but not least, did you know that, according to a standard OECD definition, New Zealand has the highest tax-to-GDP ratio in the Asia-Pacific Region? At 32% in 2017 it was higher than both Australia and Japan. At least, so says a recent OECD report.

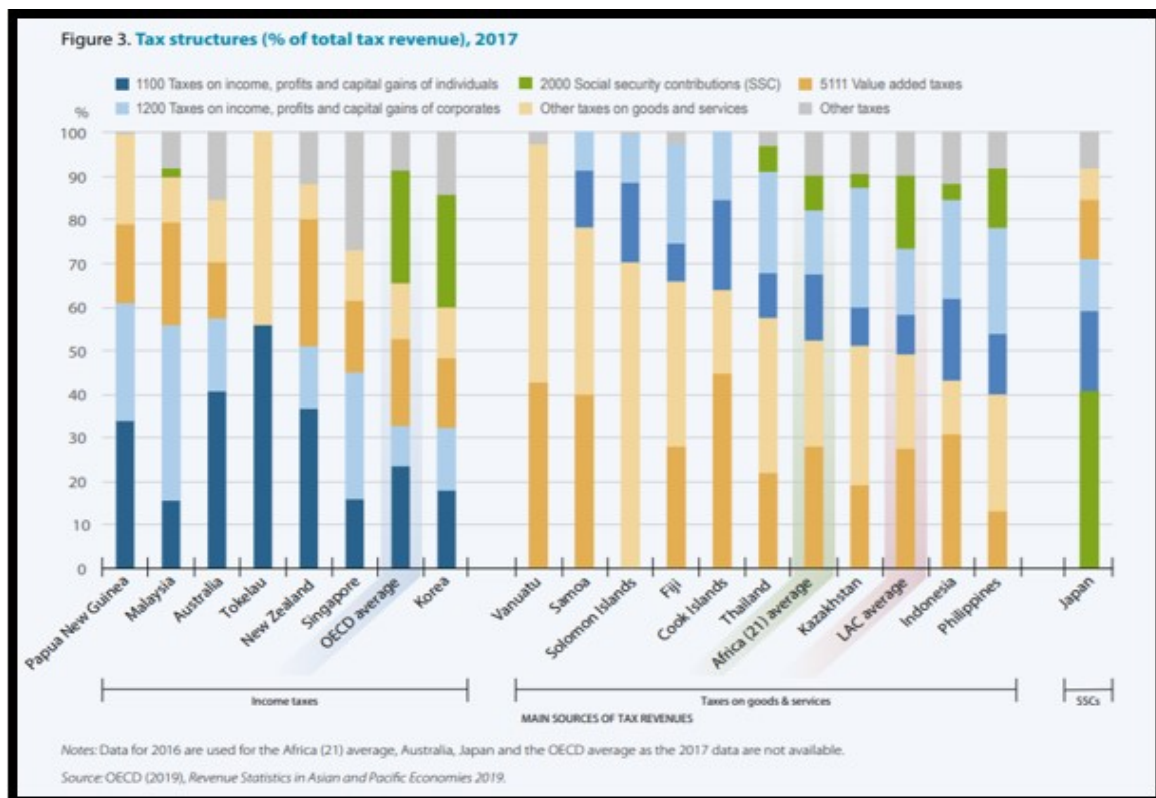
Norman Gemmell and Nazila Alinaghi
August 2019

Tax revenue in Asian and Pacific economies

According to a new OECD Report published last month, tax-to-GDP ratios increased in the majority of Asian and Pacific economies. A striking figure is New Zealand's position as the highest tax-to-GDP ratio with total tax revenue at 32% of GDP, though still below the OECD average over 34% (see figure 1).



A further chart from the Report (see figure 3 below), shows New Zealand is among countries where the largest shares of tax revenues are from income taxes and value added taxes (GST). However, this largely reflects the absence of any social security contributions or taxes in New Zealand, unlike most other OECD countries.



The Wellbeing Budget: taking aim, but without targets

Arthur Grimes

Arthur is Professor of Wellbeing and Public Policy in the School of Government at Victoria University of Wellington.

Wellbeing budgets have been delivered every year since the 1980s when the Liberal government introduced old-age pensions, free primary education and built the first state houses.

It seems that the New Zealand's 2019 "Wellbeing budget" has a clearer focus on (at least some of) the five priorities outlined by the Minister of Finance, Grant Robertson. Mental health services – a key contributor to wellbeing – are benefitting. The use of two regional pilot programmes linking mental health and addiction services together is one bright spot. Major initiatives to address family and sexual violence also have a strong wellbeing focus. However, programmes targeted specifically to assist Māori and Pasifika communities, particularly the Whānau Ora programme, appear lightweight by comparison.

A disappointing aspect of the budget is its lack of policy targets. After cancelling the last government's Better Public Services targets, we do have meaningful child poverty reduction targets (such as more than halving the proportion of children in poverty in 10 years). Unfortunately, however, we do not see similar targets for other key wellbeing areas being tackled in the Budget. For instance, government has refused to put a target on suicide prevention – despite having a target for road toll prevention.

Targets focus the mind by holding officials, ministers and



governments to account. A government that is serious about improving wellbeing would wish to be accountable in this way.

The Public Finance Act turns 30

Ian Ball

Ian is Professor of Public Financial Management in the School of Accounting and Commercial Law at Victoria University of Wellington.



Over the last weekend in July, the School of Accounting and Commercial Law in VUW hosted a conference to mark the 30th anniversary of the Public Finance Act 1989, to consider its achievements, assess its suitability today, and to look forward to how it might be further amended to better meet the needs of the 2020s and future generations.

The conference was attended by Ministers of Finance and senior officials, past and present, as well as a number of speakers from international organizations such as the IMF, the World Bank and the International Public Sector Accounting Standards Board, as well as academic observers from Australia (John Wanna) and Switzerland (Andreas Bergmann) and a number of journalists.

Around the time the Act was introduced, the then Auditor-General described the reforms as “enormous, ambitious, and largely unprecedented anywhere in the world”. The Minister of Finance who introduced the Act, David Caygill, noted at the conference the sense of crisis that was felt in the country at the time, and attributed the willingness of the government to undertake such radical reforms to that sense of crisis.

A number of speakers referred to the achievements of the Act. The Minister of Finance noted the strength of the Government’s balance sheet and the transparency introduced by the Act. Other speakers observed that the Government moved from two decades of deficits into ongoing surpluses, except for the years immediately after the financial crisis and the earthquakes. The comparative resilience of the balance sheet to external shocks was noted. Another result of the Act was that from a situation where departments routinely over-spent their appropriations, the Act led to consistent compliance with appropriation limits. And Ministers were better able to see exactly what services their departments produced, through the specification of departmental outputs, and to prioritize accordingly.

The conference was told how the Public Finance Act reflected lessons from the State-Owned Enterprises Act 1986, was developed in conjunction with the State Sector Act 1988, and was built on by the Fiscal Responsibility Act 1994. This latter act was subsequently incorporated into the Public Finance Act. Speakers from international organizations noted the extent to which the Act had been emulated in other countries, but also noted the emulation was neither as rapid nor as complete as the reforms in

the Reserve Bank Act. They did note that the New Zealand reforms had been important in supporting the rationale for the development of International Public Sector Accounting Standards.

Paul Kazarian, of Japonica Partners, presented an international investor's perspective on the fiscal performance and position of the New Zealand Government, comparing it (favourably) with other governments in terms of its relative fiscal performance and noting that this performance seemed not to be reflected in New Zealand's credit rating.

Notwithstanding the achievements of the Act, much of the conference was devoted to considering issues with its current performance and potential amendments. Jim Brumby, from the World Bank, noted that the Act has already been amended 58 times since its initial passage, but that the key elements (such as the use of accrual-based financial information for budgeting, appropriations and reporting) remain essentially unchanged. However, it was also observed that the transparency produced by the Act was necessary, but not sufficient, and the Auditor-General, John Ryan, noted that much of the performance information produced in compliance with the Act was neither read nor understood. Fran O'Sullivan cited a number of instances since the passage of the Act where transparency could be called into question, suggesting that transparency could be further improved.

"Wellbeing" was a theme that recurred throughout the conference, starting with the Minister of Finance's presentation and ending with a presentation from the Auditor-General of Wales on how wellbeing is reflected in their legislation.

The Minister of Finance identified a number of ways that the Act might be amended to assist the Government to achieve its broader view of performance. These included requiring the Government to specify how its wellbeing and fiscal objectives would guide budget development, requiring the Treasury to report on wellbeing at least every four years, changing the appropriation system to encourage collaboration and a more strategic focus by departments, and to modify the budget process to incorporate baseline reviews which challenge existing spending, rather than focusing only on new spending.

Between the Minister's presentation and that of the Welsh Auditor-General, Graham Scott, who was Secretary to the Treasury at the time the Act was passed, raised some concerns about the changes described by the Minister, including the risk of politicization of the Treasury if it were required to report on wellbeing.

Struan Little, the Acting Secretary to the Treasury, described how the Public Finance Act had been successful in meeting the challenges of its time, but changes were needed to address the issues of today. Struan outlined the work being undertaken in Treasury to address these issues, the focus of which was to enable a more strategic approach to the budget process, departmental planning and reporting processes, and asset management. This work by Treasury also addresses the structure

of appropriations and accountability requirements, so as to give greater flexibility and encourage collaboration.

Another concern with the operation of the existing Act was expressed by Andrew Kibblewhite, the Secretary of Justice, namely the failure of vote analysis within the Treasury to capitalize on the information available under the Act. Andrew suggested that the Act had been more successful at the macro, rather than the micro-level. Lesley Adcock also addressed a concern with the quality of vote analysis in a presentation entitled “The one that may have got away”.

A factor raised in considering the need for amendment to the PFA was the “enabling” nature of the Act, suggesting the changes envisaged by the Minister and others may be achieved without legislative amendment.

Hon. Ruth Richardson, the Minister of Finance at the time the first accrual-based financial statements of the Government were produced, spoke about the development of the Fiscal Responsibility Act 1994 (later incorporated into the Public Finance Act), and the importance of embedding a commitment by politicians to fiscal responsibility. Sir Roger Douglas, the Minister of Finance at the time the framework for financial management that led to the Public Finance Act was approved by Cabinet, drew attention to New Zealand’s aging population and the need to recognize the impact this would have on future New Zealand Superannuation and health care costs. John Zohrab considered whether the Act’s requirement for “prudent” financial management was being met, and the desirability of an independent fiscal institution.

In the final sessions of the conference Ken Warren, from the Treasury, considered the “hard problems” faced by government today and how they could be addressed, while Girol Karacaoglu from the School of Government addressed intergenerational wellbeing and Adrian Crompton, the Welsh Auditor-General, described the developments in Wales under their 2015 Well-being of Future Generations (Wales) Act.

Other presentations were made by Lyn Provost, former Auditor-General, who recounted her experience of the PFA from the perspective of the range of roles she has held in the public sector; Neil Cherry, who presented a Chief Financial Officer’s view of the Act; and Stephen Walker, President of Chartered Accountants Australia and New Zealand and Executive Director of Audit New Zealand, who looked at the Act through the eyes of the accounting profession. Ian Ball reminded the conference of the key concepts underlying the design of the Act, and showed a [training video](#) used at the time to explain the intent of the Act.

This brief summary cannot convey the richness of the conference proceedings or the insights shared by the speakers. It certainly cannot convey the humour of Tom Scott’s speech after the conference dinner! Certainly, for those attending, the conference generated a host of issues to consider as the future direction of the Public Finance Act is considered.

People News

Caralee McLeish

Dr Caralee McLeish has been appointed as the NZ's new Treasury Secretary. She will join the Treasury on 16th September (for a five year term). She holds a Bachelor of Economics with First Class Honours from the Australian National University and a PhD in Finance from the University of Melbourne. She is currently Managing Director at Technical and Further Education (TAFE) New South Wales (NSW), Australia (to read more on the merits of an overseas Treasury's Secretary read [here](#) and [here](#)).



Gail Pacheco

Professor Gail Pacheco has been appointed as a new commissioner to the Productivity Commission Board. Gail is an experienced researcher with a focus on labour and health research themes. She is currently a Professor of Economics and the Director of the NZ Work Research Institute at the Auckland University of Technology leading large-scale funded projects, involving both academic and external collaborations. In 2018, Professor Pacheco was awarded the NZIER Economics Award for outstanding contributions to the advancement of economics and its applications to New Zealand. Professor Pacheco has a strong technical background and has extensive experience with complex research projects involving diverse stakeholder groups, including the government.



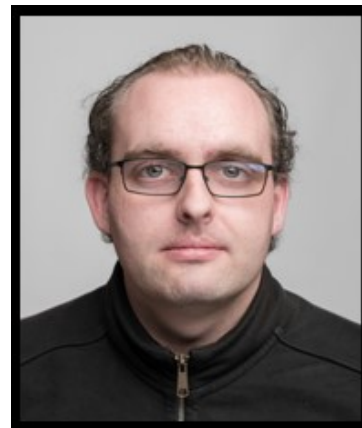
Andrew Sweet

Andrew Sweet has been appointed as a new commissioner to the Productivity Commission Board. Andrew is currently Director of consulting firm Firecone NZ where he provides economic, public policy, regulatory and commercial advice. He also runs the secretariat of the Small Advanced Economics Initiative which brings together senior officials from different countries to explore policy issues. From 2010-2014, he was Policy Advisor at the Department of the Prime Minister and Cabinet where he provided advice on primarily environmental issues such as the Resource Management Act and climate change. His other key areas of expertise are science and innovation policy, network utilities regulation and transport policy. Andrew has deep knowledge in a variety of policy areas, extensive experience providing recommendations on complex policy issues, as well as experience working with government.



Christopher Ball

Chris is in the Economics Department at the Reserve Bank of New Zealand, and has previously worked in the Economic Directorate at Treasury. Chris's current research at the Reserve Bank is investigating the empirical relationship between monopsony and income growth, as well as the determinants of on-the-job search and job-to-job transitions. Chris's PhD research, supervised by John Creedy and Norman Gemmell, will look at labour supply responses to tax-and-transfer changes using microsimulation modelling. The research will consist of four key contributions: 1) developing high-quality synthetic data for use in microsimulation modelling; 2) investigating parameter restrictions to ensure preference parameter estimates are consistent with economic theory; 3) extending the Random Utility Random Opportunity (RURO) discrete choice set to include transfer receipt; and 4) designing new methods to evaluate behavioural microsimulation modelling results.



Congratulations to Dr. Matt Nolan

Matt was recently awarded his PhD for his thesis on Tax, transfers, and income inequality in New Zealand during 1988-2013. He is Senior Analyst in the Economics team at Inland Revenue.

Abstract: This dissertation investigates the role tax and transfer policy changes played in the evolution of New Zealand disposable income inequality between 1988 and 2013. Across five papers, the key changes in tax and transfer policies are identified, the labour supply response of individuals to the changes are estimated, and the impact of these changes on the income distribution is quantified. Overall, nearly 40% of the increase in income inequality during this period is attributable to changes in the tax-transfer system. The tax and transfer payment changes investigated in this dissertation cover the gradual flattening of the tax scale over the 1980/90s, the reduction in benefit payments following the 1991 Mother of All Budgets, the introduction of Working for Families in 2005, and the erosion of transfer payments relative to the average wage throughout the period. Given these changes, the efficacy of the tax transfer system for meeting vertical and horizontal equity goals is evaluated using data from the Household Economic Survey (HES). The redistributive effect of tax-transfer policy fell from 22.6 Gini points to 18.2 Gini points between 1988/91 and 2011/13, with a corresponding decline in the amount of vertical equity in the tax-transfer system. Between the same periods the degree of horizontal inequity rose, although this was predominantly the result of greater targeting in the tax-transfer system. The adjustment in the structure of the tax-transfer system not only leads to a change in tax liabilities and transfer payments, but also generates a behavioural change by individuals with regards to the number of hours they would be willing to work. Preference parameter estimates over hours of work and income are generated for individuals in the sample, with imputed wages estimated for those who are out of work. A tax-transfer microsimulation model, that utilises wage and preference parameter estimates, is then used to construct counterfactual scenarios where the tax-transfer system of a given year is applied to the population of other years. For example, the tax-transfer system of 1988-1991 is applied to the population in 2010-2013 in order to create a scenario representing what the disposable income distribution in 2010-2013 would look like with the 1988-1991 tax-transfer system. Estimates from this process suggest that nearly 40% of the increase in disposable income inequality between the 1988/91 and 2010/13 periods was due to the change in payments and labour supply behaviour associated with tax-transfer policy adjustments. Other potential drivers of income inequality change were investigated by reweighting the HES data of one period to more closely represent the population of another period. Although shifts in the share of individuals in part time work also generated an increase in income inequality, the lift in higher educational attainment over this period is estimated to have reduced income inequality more sharply (by nearly 22%). The shift in the age distribution towards prime-aged work

was not associated with any change in the aggregate income inequality measure (The full version of this thesis can be found [here](#)).

New Research

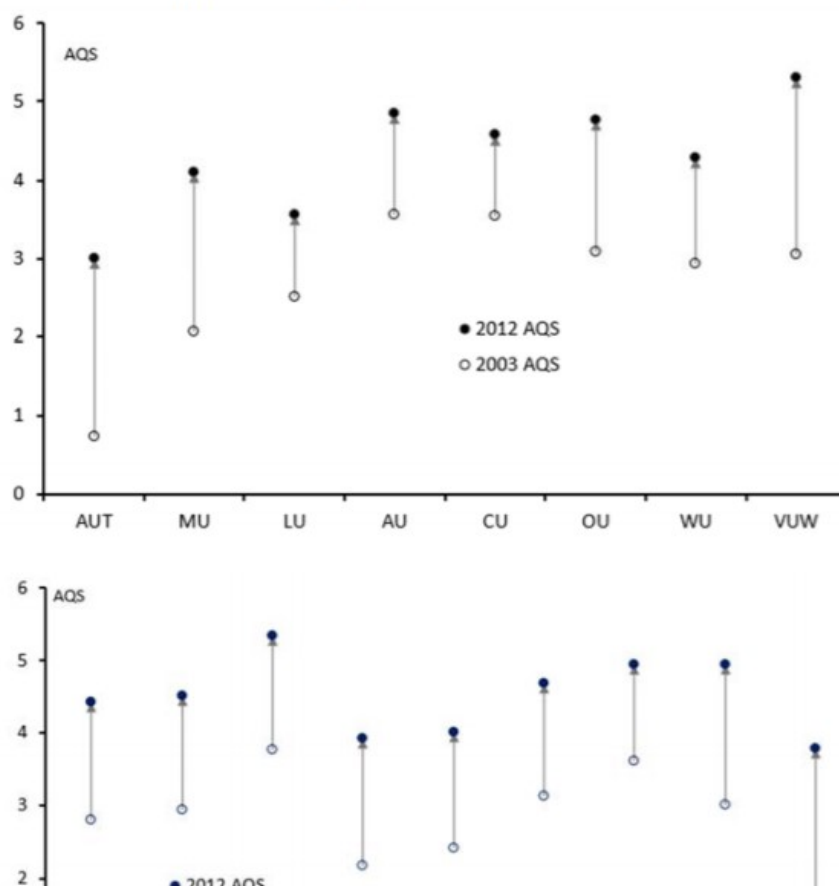
Is External Research Assessment Associated with Convergence or Divergence of Research Quality Across Universities and Disciplines? Evidence from the PBRF Process in New Zealand

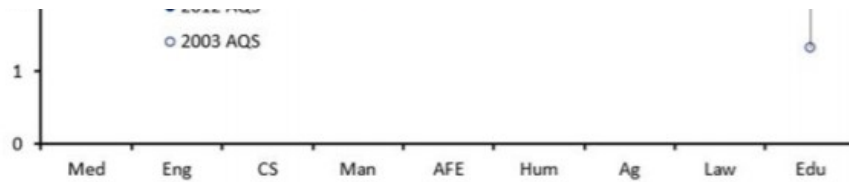
by Bob Buckle, John Creedy and Norman Gemmell

Abstract

Performance-based research quality measures have been adopted in many countries as a basis for allocating funding to universities. The question arises of whether this produces a divergence of research quality across universities and academic disciplines, or convergence whereby initially lower-quality institution and disciplines catch-up? This paper examines whether the introduction of the New Zealand Performance-Based Research Fund process produced convergence or divergence in research quality scores of universities and disciplines between the 2003 and 2012 assessments. Anonymous individual researcher quality scores in 2003 and 2012 were used to derive average quality scores (AQS) for disciplines and universities. Substantial convergence in average research quality is found over the period. With few exceptions, the hypothesis that rates of convergence have been uniform across almost all universities and disciplines is supported. The following graphs summarise the 2003 and 2012 Average Quality Scores by university and discipline (Full paper is available [here](#)).

Figure 1 *AQS values in 2003 and 2012*





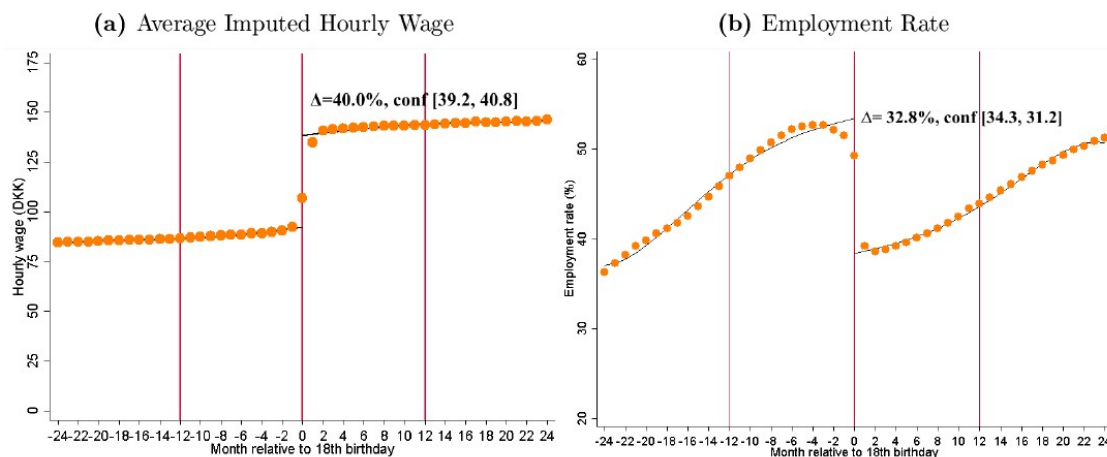
Do Lower Minimum Wages for Young Workers Raise Their Employment? Evidence from a Danish Discontinuity

by Claus Kreiner, Daniel Reck and Peer Skov

Abstract

We estimate the impact of youth minimum wages on youth employment by exploiting a large discontinuity in Danish minimum wage rules at age 18, using monthly payroll records for the Danish population. The hourly wage jumps up by 40 percent at the discontinuity. Employment falls by 33 percent and total input of hours decreases by 45 percent, leaving the aggregate wage payment almost unchanged. We show theoretically how the discontinuity may be exploited to evaluate policy changes. The relevant elasticity for evaluating the effect on youth employment of changes in their minimum wage is in the range 0.6 - 1.1 (Full paper is available [here](#)).

Figure 1: Wages and Employment around Workers' 18th Birthdays



Research Publications

Recent Working Papers

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

Wage Equation Estimates for Microsimulation Modelling in New Zealand

Christopher Ball and Gulnara Husevli

Is External Research Assessment Associated with Convergence or Divergence of Research Quality Across Universities and Disciplines? Evidence from the PBRF Process in New Zealand

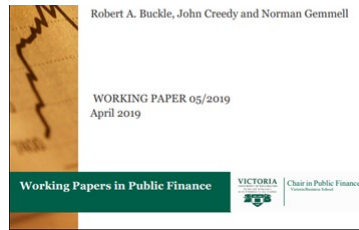
Who Would Win from a Multi-rate GST in New Zealand: Evidence from a QUAIDS Model

Alastair Thomas



A working paper by Ball and Huseynli explains updates to wage equation estimates used in labour supply microsimulation model using pooled annual cross-section data from 2006/07 to 2016/17.

[Download this paper](#)



A working paper by Buckle, Creedy and Gemmell examines whether the NZ PBRF process produced convergence or divergence in research quality scores of universities and academic disciplines between 2003 and 2013.

[Download this paper](#)

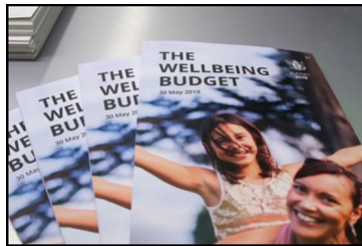


A working paper by Thomas investigates the distributional effects of a move to a multi-rate GST system.

[Download this paper](#)

Media and Commentary

Recent featured commentary and media articles are as follows:



The Wellbeing Budget

The Treasury released [the Wellbeing Budget](#).



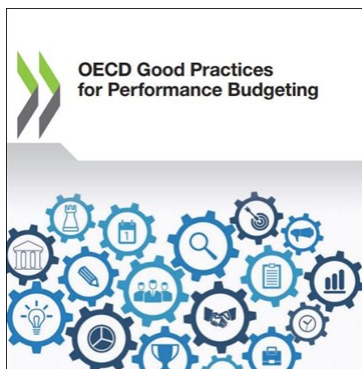
Change in the IRD Interest Rates

The use of money interest rates increased (read more [here](#)).



Aggregate Personal Income Tax Revenue Estimate Tool

[Here](#) is the link to an Excel-based tool, which estimates the change in tax revenue when the personal income tax system is modified.





OECD Good Practices for Performance Budgeting

The OECD has recently released the report [OECD Good Practices for Performance Budgeting](#).

Martin Feldstein

Martin S. Feldstein, Chief Economist under US President Reagan died in June at the age of 79 (read more about him [here](#)).

Tax Working Group

[Ministerial advice](#) relating to the Tax Working Group has recently been published.



Question on the LFS

The Treasury has been recently published [a series of videos](#) in which Chief Economic Adviser, Tim Ng, answers 10 burning questions on the LFS.



IFS Briefing note on UK top 1% taxpayers

A recent [report](#) by IFS shows that the top 1% of UK taxpayers earn 12% of total taxable income and pay 27% of all income tax revenues (Equivalent New Zealand numbers in 2015 were 8.5% and 13.3%).



Angus Deaton's 'Letter from America' to the UK's RES queries the employment effect of minimum wages

Find Deaton's comments on Minimum Wage [here](#).

Events

Past Events

New Zealand Association of Economists Annual Conference, 3rd – 5th July 2019

As usual, this year's annual NZAE conference, held at VUW, included a number of papers that fall under a public finance theme. The NZAE programme can be found [here](#) and full papers for some of the papers reported below are [here](#).

The New Zealand Superannuation Fund – Clarifying How It Works and Explaining its outcomes, Matthew Bell

Abstract: The New Zealand superannuation (NZS) Fund is one of NZ's largest policy-owned financial assets. Its primary purpose is to act as an inter-generational tax smoothing vehicle, to assist future taxpayers cover the cost of providing the public pension, NZS. This is because NZ's ageing population structure will, in the absence of any changes to pension settings, lead to a significant lift in NZS expenditure as a percentage of GDP over the next few decades, and the paper goes into the reasons behind this demographic change. The paper describes how the relationship between future paths of NZS and GDP as well as the Fund's past and expected future financial performance, determine the required capital contributions from the government and the later capital withdrawals from the fund to help offset

some of the NZS cost. The fundamental mathematical relationship behind the NZS Fund logic is explained and derived. Future outcomes for the Fund's size and its role in helping with the cost of NZS, depending on scenarios that vary the future path of NZS relative to GDP, are illustrated and explained. A brief history of the NZS Fund, including some of its most significant milestones to date, is discussed, along with an examination of how and why projections related to the Fund have changed over time.

Sky's the Limit? Investigating Fiscal limits in New Zealand using a Neoclassical Growth Model,
Andrew Binning and Hemant Passi

Abstract: Fiscal limits place non-trivial restrictions on the implementation of fiscal policy. Government debt target should be chosen to ensure the chance of hitting the fiscal limit is contained. Fiscal limits are not static and will, in general be state dependent, a function of the current economic conditions. To account for this state dependence, we investigate fiscal limits in a stochastic neoclassical growth model parameterised to match New Zealand. Moreover, changing debt target is not costless. We calculate fiscal sacrifice ratio – the amount of GDP foregone for a 1% reduction in the long run government debt-to-GDP ratio – using the same framework.

Re-estimating the Effect of the User Cost of Capital on the Investment Behaviour of NZ Firms,
Huseynli and Sanderson

Abstract: This paper investigates the link between the user cost of capital (UCC) and firm investment behaviour among New Zealand firms. Specifically, we follow the methodology applied by Fabling et al (2015) to consider how changes in the UCC due to business tax reforms were associated with changes in firm level investment. This research extends the time period of analysis to 2017, from 2012 in the Fabling et al (2015) research. Prior results suggested that aggregate investment behaviour was relatively unresponsive to changes in the UCC in New Zealand, a result that is at odds with results from other countries (e.g., Belgium, France, Germany, and UK). As a result, testing whether this results holds when a longer time period is analysed will be of direct interest for policy makers. Consideration will be given to alternative methodologies and how they may change the result.

Estimating Intergenerational Income Mobility in New Zealand, Leon Lusitini

Abstract: This paper attempts to estimate the degree of intergenerational income mobility in New Zealand using microdata from the New Zealand Longitudinal Census (NZLC). Compiled by Statistics New Zealand, the NZLC links individuals' census records over the seven census from 1981 to 2013. All these census identified 'families' within 'dwellings' and collected information on individuals' total personal income, thereby permitting an analysis of the association between the incomes of parents and their offspring. I focus on sons aged 2 to 14 years, and daughters aged 7 to 14 years, in 1981, and their fathers and mothers as identified in the 1981 census. I then use linear regression to estimate the intergenerational elasticities of log time-averaged income between the four parent-offspring dyads (father-son, father-daughter, mother-son, mother-daughter), taking into account well-known sources of measurement error, in particular bias arising from heterogeneity in income profiles over the lifecycle. I present my preferred estimates as well as estimates from sensitivity analyses.

Tax-Transfer Systems and New Zealand's Income Inequality experience, Matthew Nolan

Abstract: Tax and transfer policies changes significantly over the 1988-2013 period. This presentation analyses the role these policy changes played in the disposable income inequality during this time. Utilising the Household Economic Survey (HES) and a behavioural microsimulation model (Treasury's TAXWELL-B) the relative contributions of tax policy and changes in various sociodemographic characteristics (age, highest educational attainment, and employment status) to the change in inequality are estimated. Changes in the structure and payments associated with taxes and transfers are found to have had a major role in the increase in income inequality, accounting for at least a third of the observed increase. Furthermore, non-policy related changes in the employment distribution also increased income inequality. However, increases in tertiary attainment and the proportion of workers in their prime earning years were both factors that reduced income inequality over this same period.

Labour Productivity, the Fiscal Outlook, and Living Standards, Patrick Nolan

Abstract: This paper starts by discussing New Zealand's labour productivity performance at the level of the whole economy, sectors, and individual industries. The goal is to illustrate trends in New Zealand's productivity performance through time and compared to other OECD countries. It then considers what this productivity performance means for the fiscal outlook. This draws on the Treasury's long-term fiscal and fiscal strategy models and involves testing the models' assumptions regarding total economy and state sector labour productivity. The effect of a reduction in productivity growth on GDP, the fiscal balance, and on specific areas of expenditure – such as New Zealand superannuation and healthcare – are shown. Overall, the discussion highlights the importance of understanding any slowdown in total economy labour productivity since the GFC and how measures of state sector output could be adjusted for factors like quality. This then leads to a discussion on the role of productivity in the living standards framework. This highlights that not only does a sustainable improvement in living standards require lifting New Zealand's productivity performance, but that techniques and approaches used in productivity analysis could be of value in any further development of the living standards framework.

The Status of Beneficiaries in New Zealand, Gail Duncan

Abstract: This paper considers the restoration of entitlement of ownership by beneficiaries of the income paid to them by the government. This would allow beneficiaries to have full responsibility for the disbursement of income in the same manner as wage and salary earners are entitled too. This would recognize beneficiaries as citizens of New Zealand and allow them to participate fully in the fabric of life in New Zealand. Such an approach would align the rights of beneficiaries with all other New Zealanders and be in keeping with the direction of the Living Standards Framework and Wellbeing initiatives. The income of a beneficiary needs to be reframed as being an income the recipient is entitled to as an econometric unit in New Zealand society rather than as a burden and inconvenience to the taxpayer. Derived from <http://www.scoop.co.nz/stories/HL1808/S00051/economic-review-of-the-status-of-beneficiaries-in-nz.htm>, Gail E. Duncan, published SCOOP August 2018.

Early Indicators of the Impact of the Regional Fuel Tax on Public Transport Use, David Norman

Abstract: An Auckland Regional Fuel Tax was introduced in July 2018, after much debate on its pros and cons. One of the potential side-benefits of the tax was that it could simulate a switch to public transport use. We examined patterns in PT use by mode and location to determine whether the tax was changing behaviour.

New Zealand Public Finance Act at 30



The 30th anniversary of New Zealand's highly regarded Public Finance Act 1989 held at Grand Hall, Parliament and Rutherford House on Pipitea Campus at Victoria University of Wellington on 26th – 28th July in Wellington. For further information, please visit [here](#).

Forthcoming Events

2019 International Institute of Public Finance (IIPF) Annual Congress



The 75th Annual Congress of the International Institute of Public Finance will be held this year in Glasgow, Scotland, UK from August 21 through 23, 2019, on the theme of "Taxation and Mobility". More details about the Congress can be found [here](#). Papers and abstract are available [here](#).



Public Economics Research Day

Keep an eye out for another research day likely to be in early November. Please email us if you would like to be added to our invite list.

Recent Published Papers

Buckle, R. A. and Creedy, J. (2019). The evolution of research quality in New Zealand universities as measured by the performance-based research fund process. *New Zealand Economic Papers*, 53 (2) 144-165.

Buckle, R. A. and Creedy, J. (2019). The 'disciplinary effect' of the performance-based research in New Zealand. *New Zealand Economic Papers*, available online at <https://www.tandfonline.com/doi/full/10.1080/00779954.2019.1636122>.

Creedy, J. (2019). Optimal tax enforcement and the income tax rate: the role of taxable income inequality. *New Zealand Economic Papers*, 53 (1), 77-88.

Creedy, J. and Mok, P. (2019). Labour supply elasticities in New Zealand. *New Zealand Economic Papers*, 53 (2), 125-143.

Kreiner, C. T., Reck, D. and Skov, P.E. (2019). Do lower minimum wages for young workers raise their employment? Evidence from a Danish discontinuity. *Review of Economics and Statistics*. doi:[10.1162/rest_a_00825](https://doi.org/10.1162/rest_a_00825).

Chair in Public Finance

+64-4-463 9656

www.victoria.ac.nz/cpf

cpf-info@vuw.ac.nz

Level 7, Rutherford House, 23 Lambton Quay, Wellington.

Victoria University of Wellington

+64-4-472 1000

www.victoria.ac.nz

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