

2013

# Chair in Public Finance Annual Report

VICTORIA BUSINESS SCHOOL  
ORAUARIKI

## Sponsoring Institutions:



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# 1. Introduction

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Welcome to the second *Annual Report* of the Chair in Public Finance at Victoria University of Wellington (Victoria). This report summarises the activities and achievements of the Chair during 2013.

The ‘Chair’ includes myself as Professor of Public Finance, and the Chair administrator, Cherry Chang, who helps organise the events, research and other initiatives of the Chair. We also work with research associates, both internal to Victoria University and external.



Norman Gemmell  
**Chair**

Since the start of the Chair, we have been working collaboratively on a number of projects with researchers and policy advisers at the Treasury, Inland Revenue, the Ministry of Social Development and the Productivity Commission of New Zealand. This report provides more detail on these projects and events.

Our biggest project in 2013 was the design and launch of the New Zealand Public Finance (NZPF) website. The website acts as a hub, disseminating research and data in addition to promoting public finance events. Through the website, we also launched the Long-term Fiscal Calculator, an initiative co-sponsored by the Treasury (see section 7.2). The NZPF website will continue to host a number of web tools to generate further interest in public finance issues.

We are again indebted to various sponsors of our activities during the year. In addition to the generous ongoing core funding from the three government departments mentioned above and PwC, we have been supported financially for several specific projects and events (see section 8).

My thanks too, to the numerous colleagues who contributed to our second series of public finance debates. Their willingness to prepare, present and organise their contributions was much appreciated and led to another highly successful set of debates.

I am grateful to colleagues in Victoria Business School (VBS), especially the Dean, Professor Bob Buckle and the VBS support staff. Much of the work reported here would not have been possible without Bob’s continued support and enthusiasm for this position. Also my thanks to colleagues in the School of Accounting and Commercial Law, the Centre for Accounting, Governance and Taxation Research and the School of Economics and Finance, whose assistance has ensured the smooth running of the Chair.

A handwritten signature in black ink, appearing to read 'Norman Gemmell'.

Norman Gemmell  
January 2014

## 2. Chair in Public Finance aims and objectives

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Chair in Public Finance  
Victoria Business School

The Chair in Public Finance (CPF) was established in 2011 at Victoria University of Wellington with sponsorship from the University, three New Zealand government departments (Inland Revenue, Ministry for Social Development and the Treasury) and advisory firm PwC. The Chair is located in Victoria Business School within the School of Accounting and Commercial Law, and reports to an advisory board. The Chair also works collaboratively with researchers in the Tax Research Interest Group in the School of Accounting and Commercial Law, the School of Economics and Finance and the School of Government.

The Chair aims to build up expertise in the area of public finance (broadly defined) and to promote research, debate, policy analysis and advice on public finance matters. Specifically, the Chair's objectives are:

- to advance rigorous, respected public finance research in New Zealand
- to improve the quality of public finance analysis and discussion among key stakeholders in New Zealand
- develop public finance research/teaching capabilities in New Zealand
- to strengthen collaboration between Victoria University and the public and private sectors on public finance issues.

Key areas of public finance that the Chair seeks to promote include:

◆ sustainability of fiscal policy	◆ taxation, social welfare and economic behaviours
◆ economics of government expenditure programmes	◆ roles of fiscal policy in macroeconomic stabilisation
◆ distributional implications of fiscal policy	◆ fiscal policy and long-run growth
◆ personal and corporate income taxation	◆ economics of public debt

Research on these topics focuses on broad conceptual, empirical and policy issues and on specific applications to New Zealand public finance and social welfare policy debates.

### 3. Chair in Public Finance advisory board

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The Chair in Public Finance (CPF) is supported by an advisory board that includes senior representatives from the University, partner and sponsoring organisations. The role of the board is to advise and support:

- the research work programme of CPF
- links with key stakeholders
- policy and public engagement initiatives
- the financial underpinning of the Chair.

The CPF reports on a regular basis to the advisory board on the research, public and executive education and other matters relevant to its work programme.

The board consists of the following members:

Mr Chris Money	Director, PwC <sup>1</sup> (Chair)
Dr Matt Bengé	Assistant Deputy Commissioner, Policy and Strategy, Inland Revenue
Mr Gerald Minnee	Manager, Performance Hub, the Treasury
Dr David Rea	Principal Adviser, Ministry of Social Development
Professor Morris Altman	Head of the School of Economics and Finance
Professor Bob Buckle	Pro Vice-Chancellor and Dean, Victoria Business School
Professor Ian Eggleton	Head of the School of Accounting and Commercial Law
Professor Chris Eichbaum	Acting Head of the School of Government



Panorama view of the political centre of New Zealand.

<sup>1</sup> In this report, “PwC” refers to PricewaterhouseCoopers New Zealand, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

## 4. News and event highlights, 2013

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The second year of the Chair continued with a series of initiatives and outputs from 2012 including a number of media articles; further contributions to Working Papers in Public Finance; research publications in several journal articles and a number of conference invitations and events.

At a personal level, the Chair was delighted with the awarding of an A grade in the Performance-Based Research Fund (PBRF) exercise. In addition, ‘The Growth Effects of Tax Rates in OECD’ (Working Paper in Public Finance Series, WP02/2013) was listed on Social Science Research Network as one of the top 10 downloaded papers under the Economic Growth (Econometrics) topic.

A number of research projects continued on from 2012 including research on ‘Public expenditure, tax rates and growth’, ‘Revenue—maximising tax rates in New Zealand and the United States’ and ‘Measuring New Zealand firms’ user cost of capital’.

New research projects begun in 2013 include:

- ◆ modelling pensions, tax and housing in New Zealand
- ◆ fiscal incidence by age and gender in New Zealand
- ◆ measuring the tax gap and behavioural responses
- ◆ New Zealand’s relative international price levels

Further details of these projects can be found in section 5.2.

The second half of the year turned out to be a very busy time with several major events including:

- ◆ the launch of the New Zealand Public Finance (NZPF) website and, in collaboration with the Treasury, the Long-term Fiscal Calculator web tool on the site
- ◆ presentation of papers at the International Institute of Public Finance congress in Italy and at the New Zealand Association of Economists (NZAE) annual conference in Wellington
- ◆ appointment to, and participation in, the external advisory group for Treasury’s inaugural Investment Statement
- ◆ another series of public finance debates (see section 6.1).

Other highlights of 2013 included:

- ◆ release of the first New Zealand Public Finance e-newsletter
- ◆ co-hosting Professor Alan Auerbach from the University of California, Berkeley with Victoria Business School
- ◆ co-hosting Professor Mark Skidmore from the University of Michigan with the Treasury. Professor Skidmore gave seminars at both sponsoring institutions on local government research
- ◆ visiting the Tax Administration Research Centre (TARC) at the University of Exeter, UK, as one of their international fellows, for two weeks in September and attending the Tax Research Network annual conference held there this year
- ◆ seminar presentations at the UK Treasury, Revenues and Customs departments and at TARC,
- ◆ seminar presentation to secondary school commerce teachers as part of Victoria's Commerce Teachers Professional Development Day
- ◆ judging schools' presentations at the Treasury's Long-term Fiscal Schools Challenge.



Professor Alan Auerbach's public lecture at Victoria Business School:  
From left: Professor Auerbach (University of California, Berkeley),  
Dr Matt Benge (Inland Revenue), Professor Bob Buckle (Victoria),  
Professor Norman Gemmill, Professor John Creedy (Victoria and Treasury)

**New initiatives for 2014 include:**

- ◆ organising events in the lead-up to the 2014 budget release and the 2014 election
- ◆ developing the data hub section of the New Zealand Public Finance website
- ◆ supervising new School of Economics and Finance Honours and PhD students.



## 5. Research

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### 5.1. The 2013 Performance Based Research Fund (PBRF) Evaluation

Following the 2012 submissions of university research portfolios to the Tertiary Education Council's PBRF evaluation, it was announced in early 2013 that Victoria University is ranked number one in New Zealand for the quality of research undertaken by staff. "The evaluation shows Victoria has 678 staff actively involved in research, and 70 percent of those are operating at the highest levels (rated either A or B)."



Victoria Business School with the Beehive and Parliament in the background

([www.victoria.ac.nz/research/research-intensity](http://www.victoria.ac.nz/research/research-intensity))

Victoria University improved its rank from fourth in 2006 to first in 2012<sup>2</sup>. Victoria Business School was also ranked first and its economics discipline improved from sixth to first place<sup>3</sup>.

In the recent evaluation, Professor Gemmell was awarded an 'A' rating, that "signifies researcher excellence at the highest level" (PBRF Quality Evaluation Guidelines, 2012, p.198).<sup>4</sup>

### 5.2. Project highlights

The research work programme of the Chair can be grouped under three broad themes, each containing a number of projects and associated collaborators (see next page). Projects undertaken in 2013 represent a mixture of ongoing development of earlier work and new projects.

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<sup>2</sup> [www.tec.govt.nz](http://www.tec.govt.nz) (PBRF Evaluating Research Excellence – the 2012 Assessment Interim Report)

<sup>3</sup> [www.victoria.ac.nz/sef/about/news](http://www.victoria.ac.nz/sef/about/news)

<sup>4</sup> The Tertiary Education Council, PBRF Evaluation Guidelines, 2012 (p.108) defines quality category 'A' in more detail as follows: "it would normally be expected that the staff member has, during the assessment period in question, produced research outputs of a world-class standard, established a high level of peer recognition and esteem within the relevant subject area of their research, and made a significant contribution to the New Zealand and/or international research environments."

## ***Fiscal Policy and Growth in New Zealand and the OECD***

This theme involves a number of projects/papers focused on measuring the impact of taxes and public expenditures on GDP and productivity using either macro, or firm-level micro data.

### **The Impact of Taxes on Long-Run OECD Growth**

This research builds on previous papers measuring the contribution of fiscal policy settings to long-run GDP growth rates. Recent research examined the robustness of fiscal-growth effects to alternative macro- and micro-based average and marginal tax rate measures and public expenditure ‘composition’ including the form of fiscal decentralisation.

#### **Researchers**

Norman Gemmell, Richard Kneller, Ismael Sanz

#### **Published Papers**

Gemmell, N. and Au, J. (2013), ‘Government Size, Fiscal Policy and the Level and Growth of Output: A Review of Recent Evidence’, *Journal of the Asia Pacific Economy*, 18, 203–209.

[Revised version published as: ‘Do Smaller Governments Raise the Level or Growth of Output? A Review of Recent Evidence’, *Review of Economics*, 64, 2, 85–116 (2013).]

Gemmell, N., Kneller, R. and Sanz, I. (forthcoming 2014), ‘The Growth Effects of Tax Rates in the OECD’, *Canadian Journal of Economics*.

Gemmell, N., Kneller, R. and Sanz, I. (2013), ‘Fiscal Decentralization and Economic Growth: Spending Versus Revenue Decentralization’, *Economic Inquiry*, 51, 1915–1931.

### **Corporate Taxation and Productivity Growth**

This project explores how far higher rates of corporate taxation affect firm productivity convergence by reducing the after tax returns to productivity enhancing investments for small firms. It uses micro firm-level data for 11 European countries for 1996–2005 and compares results with the German tax reform ‘natural experiment’ in 2001.

#### **Researchers**

Norman Gemmell, Richard Kneller, Danny McGowan, Ismael Sanz, Jose Sanz-Sanz

#### **Working Paper**

Gemmell, N., Kneller R., McGowan, D., Sanz, I. and Sanz-Sanz, J. (2013), ‘**Corporate Taxation and Productivity Catch-Up: Evidence from European Firms**’. Victoria University of Wellington, Working Papers in Public Finance, WP 01/2013.

## Long-Run Models of Endogenous Growth with Public Finance

This research has extended existing conceptual long-run endogenous growth models to examine: (a) differences in results between growth-maximisation and welfare maximisation objectives (b) the impact of allowing for complementarity among factor inputs.

### Researchers

Norman Gemmell, Richard Kneller, Florian Misch

### Published Paper

Misch, F., Gemmell, N. and Kneller, R (2013), 'Growth and Welfare Maximization in Models of Public Finance and Endogenous Growth', *Journal of Public Economic Theory*, 15, 6, 939–967.

### Working Paper

Misch, F., Gemmell, N. and Kneller, R. (2014), '[Complementarity in Models of Public Finance and Endogenous Growth](#)'. Victoria University of Wellington, Working Papers in Public Finance, WP 01/2014.

## Short-Term Fiscal Stimuli and Long-Run Fiscal Sustainability Modelling the Trade-Offs?

The fiscal fallout following the global financial crisis, especially in the US and the Eurozone, has prompted much debate over the size of fiscal stimulus effects on the economy and the potential conflicts with sustainable fiscal policy. Using simple simulation models, this research examines the sensitivity of long-term fiscal sustainability measures to alternative assumptions regarding government debt dynamics, long-run growth determinants and the size and nature of fiscal stimulus effects.

### Researcher

Norman Gemmell

### Working Paper

Gemmell, N. (forthcoming 2014), 'Fiscal stimulus versus fiscal sustainability. How big is the trade-off?'

## **Personal Income Taxation:**

### **Behavioural, Revenue and Distributional Aspects**

Much of this research is based around applications of Feldstein's (1995) 'elasticity of taxable income' (ETI) measure of taxpayer responses to tax rate changes. Projects in this part of the research programme are exploring both conceptual and specific empirical aspects of ETI application to New Zealand and the United States. The role of behavioural factors in tax gap measurement is also being examined, and current New Zealand-specific research is focusing on the impact of ageing and the fiscal (tax, expenditure) system on revenues and income redistribution.

### **Revenue and Behavioural Responses of New Zealand and United States Personal Income Taxpayers**

This project examines a number of aspects of the behavioural responses of New Zealand personal income taxpayers. This includes deriving ETI expressions for multi-step income tax systems, simulating revenue-maximising ETIs and using unit-record data to estimate ETIs from New Zealand's 2001 income tax reforms.

The project also estimates the size of revenue-maximising ETIs for individual personal income taxpayers in New Zealand and the United States.

#### **Researchers**

Simon Carey, John Creedy, Norman Gemmill and Josh Teng

#### **Published paper**

Creedy, J. and Gemmill, N. (2013), 'Measuring revenue responses to tax rate changes in multi-rate income tax systems: behavioural and structural factors', *International Tax and Public Finance*, 20, 974-991.

#### **Working Papers**

Carey, S., Creedy, J., Gemmill, N. and Teng, J. (2012), '[Regression Estimates of the Elasticity of Taxable Income and the Choice of Instrument](#)'. Victoria University of Wellington, Working Papers in Public Finance, 03/2012.

Creedy, J. and Gemmill, N. (2013), 'Revenue maximising elasticities of taxable income in multi-rate income tax structures', *Treasury Working Paper 13-27*. [New Zealand evidence]

Creedy, J. and Gemmill, N. (2014), '[Revenue maximising elasticities of taxable income: Evidence for the US income tax](#)', Victoria University of Wellington, Working Papers in Public Finance, 02/2014.

## Conventional Measures of the Tax Gap and Taxpayers' Behavioural Responses

This research examines the reliability of alternative measures of taxpayer compliance: the so-called 'tax gap'. Having reviewed conventional methodologies, current research concentrates on assessing new methods proposed by the International Monetary Fund and OECD and on how taxpayers' behavioural responses can be suitably incorporated into conventional tax gap measures.

### Researchers

Norman Gemmell and John Hasseldine

### Working Paper

Gemmell, N. and Hasseldine, J. (2013), 'Taxpayers' Behavioural Responses and Measures of Tax Compliance 'Gaps': A Critique'. Victoria University of Wellington, Working Papers in Public Finance, 11/2013.

## Tax and Social Spending Effects of Ageing

This project is part of the Treasury's Long-Term Fiscal Statement research agenda in which the Treasury examines fiscal sustainability over a 40 to 50 year horizon from 2013. A particular focus is on the fiscal consequences of demographic ageing. This project is examining how far the ageing process in New Zealand can be expected to influence the level and composition of tax revenues, choices over social welfare spending, and the distributional aspects of these changes.

### Researcher

Chris Ball, John Creedy, Norman Gemmell and Katie Makale

### Published paper

Creedy, J. and Gemmell, N. (forthcoming 2014) 'Can tax rises pay for the public spending effects of ageing?' *New Zealand Economic Papers*. [Earlier version available as Victoria University of Wellington, Working Papers in Public Finance, 03/2013 and Treasury Working Paper 13-22.]

## Taxes, Transfers and the Redistribution of Income by Age and Gender in New Zealand

Following earlier work modelling the effect of long-run demographic change on the redistributive properties of the tax system, this research explores two questions: How far does the current tax/transfer system redistribute income in New Zealand? What is the 'net incidence' of fiscal policy in New Zealand over the life cycle? Both questions are analysed using the latest New Zealand Household Economic Survey (HES) micro data.

### Researchers

Omar Aziz, Norman Gemmell and Athene Laws

### Working Paper

Aziz, O., Gemmell, N. and Laws, A. (2013), 'The Distribution of Income and Fiscal Incidence by Age and Gender: Some Evidence from New Zealand'. Victoria University of Wellington, Working Papers in Public Finance, 10/2013.

## ***Other Public Finance Research***

Other public finance research projects undertaken during 2013 include work on the user cost of capital among New Zealand firms; the impact of state pensions and taxation on households' demand for housing and the relative international price of non-tradable private and public services in New Zealand.

### **The User Cost of Capital, Investment and Exporting by New Zealand Firms**

New Zealand's corporate tax imputation system means that analyses of the user cost of capital (UCC) need to account for shareholder level, as well as firm-level, taxation. This project therefore analyses forward-looking measures of the UCC for foreign and domestic firms in New Zealand, under different share-ownership and debt-funding assumptions. A second phase of the research will use these measures to examine the responses of New Zealand investment and exports.

#### **Researchers**

Richard Fabling, Norman Gemmell, Richard Kneller and Lynda Sanderson

#### **Working Paper**

Fabling, R., Gemmell, N., Kneller, R. and Sanderson, L. (2013), '[Estimating Firm-Level Effective Tax Rates and the User Cost of Capital in New Zealand](#)', Victoria University of Wellington, Working Papers in Public Finance, 12/2013. [Also available as Treasury Working Paper, No. 13-29.]

### **International Comparisons of the Prices of Goods and Services in New Zealand**

This project, sponsored by the New Zealand Productivity Commission (NZPC) investigates how far the relative prices of tradable and non-tradable goods and services are high or low in New Zealand by international standards, using the detailed price data from the World Bank's International Comparison Project (ICP). It focuses on the relative prices of private and public services. The project will then explore how far established model-based explanations for such international price differences help explain New Zealand's relative prices.

#### **Researchers**

Norman Gemmell, with assistance from Cherry Chang and Guanyu Zheng

#### **Working Paper**

Gemmell, N. (2013), 'The Prices of Goods and Services in New Zealand: An International Comparison.' Research Report submitted to the NZPC, September 2013. [Forthcoming, Victoria University of Wellington, Working Papers in Public Finance Series, 2014.]

## Pensions, Taxation, Housing and Retirement Savings: Modelling Household Behaviour

This project develops a simple two-period overlapping generations model to explore the impact of tax and state pension policy on households' demand for housing, and their savings and borrowing behaviour. The conceptual framework is applied to a simulation model calibrated to capture the context of New Zealand households. The model helps to address such questions as:

- How do state-provided contributory and non-contributory pensions affect households' retirement savings behaviour and housing demand?
- How would reductions in, or elimination of, interest income taxation affect households' retirement saving and housing demand?

### **Researcher**

John Creedy, Norman Gemmell and Grant Scobie

### **Working Paper**

Creedy, J., Gemmell, N. and Scobie, G. 'Pensions, savings and housing: A life-cycle framework with policy simulations' [Forthcoming Treasury Working Paper 2014].

## 5.3. Publications

### 5.3.1. Journals articles, books and book chapters

#### 2013 and forthcoming

Creedy, J. and Gemmell, N. (forthcoming 2014), 'Could fiscal drag pay for the public spending effects of ageing?', *New Zealand Economics Papers*.

Creedy, J. and Gemmell, N. (2013) 'Measuring revenue responses to tax rate changes in multi-rate income tax systems: behavioural and structural factors', *International Tax and Public Finance*, 20, 974–991.

Gemmell, N. and Au, J. (2013a), 'Government size, fiscal policy and the level and growth of output: A review of recent evidence', *Journal of the Asia Pacific Economy*, 18, April, 203–229.

Gemmell, N. and Au, J. (2013b), 'Do smaller governments raise the level or growth of output? A review of recent evidence', *Review of Economics*, 64, 2, 85–116. [A revised and updated version of Gemmell and Au (2013a).]

Gemmell, N., Kneller, R. and Sanz, I. (2013), 'Fiscal decentralization and economic growth: spending versus revenue decentralization', *Economic Inquiry*, 51, 4, 1915–1931.

Gemmell, N., Kneller, R. and Sanz, I. (forthcoming, 2014), 'The growth effects of tax rates in the OECD'. *Canadian Journal of Economics*.



Misch, F., Gemmell, N. and Kneller, R. (2013), 'Growth and welfare maximization in models of public finance and endogenous growth', *Journal of Public Economic Theory*, 15, 6, 939–967.

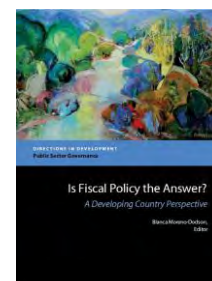
#### 2012

Gemmell, N. and Hasseldine, J. (2012), 'The tax gap: a methodological review'. *Advances in Taxation*, 20, December, pp.203–231.

Gemmell, N. and Ratto, M. (2012), 'Behavioural responses to taxpayer audits: Evidence from random enquiries of UK self-assessed taxpayers', *National Tax Journal*, 65, March, 33–58.

Gemmell, N., Misch, F. and Moreno-Dodson, B. (2012), 'Public spending for long-run growth: a practitioner's view', *World Bank Economic Premise*, 99 (December), 1–4.

Gemmell, N., Misch, F. and Moreno-Dodson, B. (2012), 'Public spending and long-run growth in practice: concepts, tools, and evidence', Chapter 2 in B. Moreno-Dodson (ed.) *Is Fiscal Policy the Answer? A Developing Country Perspective*, Washington, DC: World Bank. pp. 69–108. Available at <http://www.scribd.com/doc/111543659/Is-Fiscal-Policy-the-Answer>





### 5.3.2. Conference and seminar presentations

(presenter in **bold**)

#### 2013

**Gemmell, N.** and Hasseldine, J. (2013), 'Behavioural responses to taxes and measures of the tax gap'. Presentation to Inland Revenue Department, Wellington, New Zealand (February).

Creedy, J. and **Gemmell, N.** (2013), 'Could fiscal drag pay for the public spending effects of ageing?'. Paper presented to the Treasury's Long-term Fiscal External Panel, Victoria University, Wellington, New Zealand (March). Forthcoming in 2014 in *New Zealand Economics Paper*.

Fabling, R., **Gemmell, N.**, Kneller, R. and Sanderson, L. (2013), 'Estimating firm-level effective marginal tax rates and the user cost of capital in New Zealand', presented to the New Zealand Association of Economists annual conference, Amora Hotel, Wellington (July).

**Gemmell, N.** (2013), 'Behavioural responses to taxes and measures of the tax gap'. Invited presentation to Her Majesty's (UK) Revenue & Customs department, London, UK (September).

**Gemmell, N.** (2013), 'Taxes, growth and fiscal stimuli: What does the evidence say?'. Invited presentation to Her Majesty's Treasury, London, UK (September).

#### 2012

**Carey, S.**, Creedy, J., Gemmell, N. and Teng, J. (2012), 'Regression estimates of the elasticity of taxable income and the choice of instrument'. Paper presented to the New Zealand Association of Economists annual conference, Massey University, Palmerston North, June.

Creedy, J. and **Gemmell, N.** (2012), 'Can tax rises pay for the public spending effects of ageing?'. Invited presentation to the N.Z. Treasury and Victoria University of Wellington, *Affording Our Future conference*, Victoria Business School, Wellington, December.

Creedy, J. and **Gemmell, N.** (2012), 'Taxpayers' behavioural responses and the Laffer effect'. Presentation to the 11th Annual LAGV Conference on Public Economics, University of Marseilles, June.

**Gemmell, N.** (2012), 'The top tax rate in New Zealand. How high is too high?'. Invited presentation to the New Zealand Government Economics Network annual conference, Wellington, December.

**Gemmell, N.** (2012), 'Revenue-Maximising Elasticities of Taxable Income in Multi-Rate Income Tax Structures', presented to School of Economics and Finance, Victoria University, Wellington, New Zealand, May.

**Gemmell, N.** (2012), 'Taxpayers' Behavioural Responses and the 'Laffer Effect', presented to MOTU Public Policy Research Seminar Series, April.

**Gemmell, N.** (2012), 'Taxpayers' Responses to Income Tax Rate Increases. Do They Reduce Revenue?', presented to Department of Economics, Otago University, Dunedin, New Zealand, March.

### 5.3.3. Working Papers in Public Finance

This Working Papers in Public Finance series includes papers by the Chair in Public Finance, New Zealand Public Finance (NZPF) Research Associates, visitors to the CPF and other public finance researchers. Papers in the 2013 series are as follows:

WP01/2013

Gemmell, N., Kneller, R., McGowan, D., Sanz, I. and Sanz-Sanz, J. F., ‘Corporate Taxation and Productivity Catch-Up: Evidence from European Firms’.

WP02/2013

Gemmell, N., Kneller, R. and Sanz, I., ‘The Growth Effects of Tax Rates in the OECD’.

WP03/2013

Creedy, J. and Gemmell, N., ‘Can Automatic Tax Increases Pay for the Public Spending Effects of Population Ageing in New Zealand?’.

WP04/2013

Creedy, J., ‘The Elasticity of Taxable Income, Welfare Changes and Optimal Tax Rates’.

WP05/2013

Ball, C. and Creedy, J., ‘Population Ageing and the Growth of Income and Consumption of Tax Revenue’.

WP06/2013

Ball, C. and Creedy, J., ‘Tax Policy with Uncertain Future Costs: Some Simple Models’.

WP07/2013

Creedy, J. and Makale, K., ‘Social Expenditure in New Zealand: Stochastic Projections’.

WP08/2013

Aziz, O., Carroll, N. and Creedy, J., ‘An Analysis of Benefit Flows in New Zealand using a Social Accounting Framework’.

WP09/2013

Creedy, J., ‘Alternative Distributions for Inequality and Poverty Comparisons’.

WP10/2013

Aziz, O., Gemmell N. and Laws, A., ‘The Distribution of Income and Fiscal Incidence by Age and Gender: Some Evidence from New Zealand’.

WP11/2013

Gemmell, N. and Hasseldine, J., ‘Taxpayers’ Behavioural Responses and Measures of Tax Compliance ‘Gaps’: A Critique’.

WP12/2013

Fabling, R., Gemmell, N., Kneller, R. and Sanderson, L., ‘Estimating Firm-Level Effective Tax Rates and the User Cost of Capital in New Zealand’.

2012 series and recent 2014 releases are available at  
[www.victoria.ac.nz/sacl/about/cpf/publications/working-papers](http://www.victoria.ac.nz/sacl/about/cpf/publications/working-papers)

### 5.3.4. New Zealand Public Finance newsletter

In November 2013 the New Zealand Public Finance (NZPF) website (see section 7.2) published the first of a regular (three to four times per year) newsletter. In addition to news of recent and upcoming events, each issue will include short research summaries from current NZPF projects, guides to recent publications and working papers in the public finance area, and links to prominent public finance websites and institutions in New Zealand and overseas.

The first issue included short research summaries on:

- fiscal incidence by age and gender in New Zealand (Athene Laws)
- ‘Affording our future’: Treasury’s Long-term Fiscal Statement (Neil Cribbens)
- a guide to the Long-term Fiscal Calculator (Cherry Chang).

There was also a report on three recent public finance conferences in Europe (Norman Gemmill).

### 5.4. Publication outreach

The Chair of Public Finance uses various tools to track the number of publication downloads and citations to show which research areas are generating more interest. The Working Papers in Public Finance(WPPF) series are tracked via Research Paper in Economics (RePEc) and Victoria research archives. Downloads for the WPPF series, which began in September 2012 are:

As of 2012 Dec		As of 2013 Dec		% increase	
RePEc	Victoria Research Archives	RePEc	Victoria Research Archives	RePEc	Victoria Research Archives
211	1,100	608	2182	188%	98%

Citations of journal publications are tracked by ‘Publish or Perish’ software. The table below shows the total number of citations (by year of publication) at the end of 2012 and end of 2013.

Year published	As of 2012 Dec	As of 2013 Dec	% increase
2011	41	56	37%
2012	8	26	225%
2013	NA	7	NA

## 5.5. Research supervision and teaching

### 5.5.1. PhD and Honours students

One of the objectives of the CPF is to encourage the development of economic (and especially public finance) research skills in the New Zealand policy-making community. To this end the CPF took on two part-time PhD students in 2012, David Law and Carolyn Palmer, both of whom maintain senior policy advice and/or research roles in the public service. In 2013, they were joined by Alastair Thomas, a member of the OECD's Centre for Tax Policy and Administration, and School of Economics and Finance Honours student Athene Laws.

#### Student:

David Law

(Senior Analyst,  
the Treasury)



#### Title of Research Project:

The Performance of the New Zealand Economy:  
Productivity, Trade and Savings

**Abstract:** Both the level and growth rate of New Zealand's income per capita have been relatively poor for nearly four decades. There are many hypotheses for this, the reality being that there is no single driver responsible for our growth performance. However, possibilities put forward often fall into three areas: various causes of low labour productivity, low levels of international trade and low levels of domestic saving and capital accumulation.

This thesis uses a variety of empirical techniques and data sources to explore aspects of each. These range from those designed to identify or test possible causes of poor performance, to those which assess the success or otherwise of policy interventions designed to solve perceived problems. In particular, productivity decomposition techniques are applied to rich firm-level panel data to examine whether firm turnover has contributed positively or negatively to industry and aggregate labour productivity growth. Panel regression techniques designed to account for sample selection bias are applied to bilateral trade data in order to examine factors associated with higher levels of exports from, and imports to, New Zealand. Finally, the performance of a flagship policy (KiwiSaver) is examined, with particular attention given to the question of whether or not membership has been associated with higher levels of saving or improved expected retirement income outcomes.

#### Student:

Carolyn Palmer  
(Senior Adviser,  
Policy Advice Division,  
Inland Revenue)



#### Title of Research Project:

Good Tax Policy—on shaky ground? An assessment  
of tax policy decisions in response to natural  
disasters

**Abstract:** Recent years have seen a series of natural disasters place significant social and fiscal strain on a number of economies: Determining the appropriate government response to such natural disasters, both in the short, medium and longer term, involves multiple complex policy decisions that often need to be made under significant time pressure with limited information. One area where governments are called on to respond is tax policy. Natural disasters raise a number of tax policy issues, such as how to treat insurance receipts, how to restore public finances and meet the public cost of natural disasters without jeopardising economic growth and what role tax should play in economic redevelopment.

The focus for the study is tax policy changes made in response to four recent natural disasters: New Zealand—Christchurch earthquakes; Australia—Queensland floods; Japan—Tōhoku earthquake and tsunami; and United States—Hurricane Katrina.

**Student:**

Alastair Thomas  
(Centre for Taxation and  
Administration, OECD)

**Title of Research Project:**

The Distributional Effects of Consumption Taxes  
in OECD Countries

**Abstract:** This research will investigate the distributional effects of consumption taxes in OECD countries. The analysis will be based on consumption tax microsimulation models constructed using household expenditure microdata for around 20 OECD countries, including New Zealand. The first part of the research will investigate whether consumption taxes are regressive or progressive, by undertaking a detailed distributional analysis of consumption tax burdens across income and expenditure deciles. The models will then be used to examine the effectiveness of reduced and zero GST/VAT rates at achieving redistributive goals. A third part of the research will be to simulate the redistributive effects of various hypothetical reforms, including removing poorly-targeted reduced and zero GST/VAT rates identified in the prior analysis.

**Student:**

Athene Laws  
School of Economics and  
Finance Honours student

**Title of Research Project:**

What does Taxpayer Micro-data Reveal about Income  
Mobility in New Zealand?

**Abstract:** This research examines the following:

- the main economic gains and losses from income mobility as identified by international and New Zealand literatures
- the extent of income mobility among taxpayers in New Zealand using unit record data for New Zealand income tax payers over that last two decades or so
- how far income mobility varies across demographic and socio-economic decompositions such as taxable income bracket, age, gender and receipt of government benefits or tax credits.

## 5.5.2. Undergraduate students

### Undergraduate students

Rob McAlinden  
Holmes Parfitt  
Anthony Radich

### Project:

New Zealand Public Finance website

The Chair in Public Finance worked with three undergraduate students on the School of Information Management course, 'Project in Information Systems and Project in E-Commerce'. As part of their course, the students were required to implement IT solutions for their sponsor. Their brief included improving the look and feel for the New Zealand Public Finance website. This proved to be a very useful exercise for both parties.

## 5.6. Other research activities

Activities in 2013 included:

- continuing to serve as an elected member of the Council of the New Zealand Association of Economists (NZAE)
- serving on the Treasury's Long-term Fiscal External Panel of Experts for its Long-term Fiscal Statement (January–June)
- serving on the Treasury's Investment Statement External Panel (October–December)
- providing peer-reviews of submitted papers to the Treasury Working Paper series and a number of academic journals, including *International Tax and Public Finance*, *National Tax Journal* and *Public Finance Review*
- visiting Nottingham University, UK, to collaborate on research with co-authors from the Department of Education, Madrid (September)
- visiting the Tax Administrative Research Centre, University of Exeter, UK (September)
- advising the Fiscal Affairs Department of the International Monetary Fund on their research programme on measuring 'VAT gaps' (January)
- advising MFAT on its project on tax reform in Pacific countries (November–December)
- membership of the Scientific Committee of the International Institute of Public Finance, reviewing conference papers for the 2013 Annual Congress in Sicily, (March–June).



Professor Bob Buckle and Professor John Creedy at a Long-term Fiscal panel session.

## 5.7. Research associates

During 2013 the Chair in Public Finance co-sponsored, with the Treasury, Professor Mark Skidmore from Michigan State University as a visiting research fellow, to work on a housing affordability project. The CPF also worked with a number of research associates and groups that are listed below.

Mr Joey Au	Treasury
Mr Simon Carey	Treasury
Professor John Creedy	Victoria University and Treasury
Dr Toby Daghish	Victoria University
Dr Richard Fabling	MOTU Research
Professor John Hasseldine	University of New Hampshire
Professor Richard Kneller	Nottingham University
Mr David Law	Treasury
Dr Lisa Marriott	Treasury
Dr Florian Misch	Centre for European Economic Research ZEW, Mannheim
Dr Alison O'Connell	Independent Consultant, Christchurch
Ms Carolyn Palmer	Inland Revenue
Dr Lynda Sanderson	Treasury
Professor Ismael Sanz	University Rey Juan Carlos, Madrid
Professor Jose Sanz-Sanz	Universidad Complutense de Madrid
Dr Grant Scobie	Treasury
Professor Mark Skidmore	Michigan State University
Mr Josh Teng	Treasury
Mr Alastair Thomas	OECD, Paris

## 6. Events

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### 6.1. Public finance debates

For the second year running, the Chair in Public Finance, together with co-sponsor, the New Zealand Government Economics Network (GEN), organised a series of three, one and a half hour debates around some topical public finance issues. As previously, each debate involved three speakers: proponent, opponent and commentator. Speakers were asked to make the case strongly for or against each proposition to help clarify the strengths and weaknesses of each argument.

This year's topics were:

#### Debate 1: It's time ... to tax the internet

Proponent	Opponent	Commentator
Toby Daghish Victoria University	Grant Scobie The Treasury	Lisa Marriot Victoria University

#### Debate 2: It's time ... New Zealand extended charging for public infrastructure

Proponent	Opponent	Commentator
Geoff Cooper Auckland Council	Peter Conway NZCTU	Chris Money PwC

#### Debate 3: It's time ... New Zealand adopted a social insurance approach for welfare

Proponent	Opponent	Commentator
Alison O'Connell Independent Consultant	John Gibson University of Waikato	Norman Gemmell Victoria University

Around 50 to 80 people attended each debate, with many staying behind afterwards for informal discussions over light refreshments. The end-of-debate straw polls suggested strong votes for the first two propositions (taxing the internet and charging for public infrastructure) and a vote against adopting a social insurance approach for welfare. The second debate was held at PwC and our special thanks go to the PwC staff for their generosity and support in making the debate a success.



## **6.2. Treasury external panels**

### **6.2.1. Long-term Fiscal External Panels**

In preparation for the publication of the Treasury's Long-term Fiscal Statement (LTFS) in July 2013, the external panel of experts continued to review the LTFS work programme in early 2013. This followed a series of panel deliberations in 2012 including the 'Affording our Future' conference in December 2012.

The external panel sessions aimed to:

- assist the Treasury to produce a robust, credible long-term fiscal statement by testing key assumptions and analysis
- promote a well-informed public debate on key policy choices for managing the long-term fiscal position.

The panel included the Chair in Public Finance and was chaired by Professor Bob Buckle.

### **6.2.2. Investment statement external panels**

In a similar manner to the LTFS panels, the Treasury invited the Chair in Public Finance to join a panel of experts prior to the release of the Treasury's Investment Statement in 2014.

The main objectives of the External Advisory Group sessions were to assist the Treasury value the Crown's significant assets and liabilities; consider how they have changed, and are expected to change, in value over time.

## **6.3. Professor Alan Auerbach public lecture**

On 12 March 2013, the Chair in Public Finance, in conjunction with Victoria Business School, was privileged to host the public lecture presented by Professor Alan Auerbach (University of California, Berkeley). Professor Auerbach was the 2013 Robin Oliver Scholarship Visiting Lecturer in Tax Policy. Professor Auerbach's lecture, 'International Tax Reviews and New Zealand's Tax Working Group: What can we learn?' examined the implications for tax policy in New Zealand in the light of the UK Mirrlees Review, the Australian Henry Review and New Zealand's Tax Working Group.

## **6.4. GST seminars**

Following on from the summer internship<sup>5</sup> research on this topic, intern William Steel led a public seminar and a presentation to Inland Revenue staff on the topic of 'Designing an Economic Methodology for the Collection of GST from Offshore Retailers'. This research was co-sponsored

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<sup>5</sup> Supervised by the Chair in Public Finance, Dr Lisa Marriott (Victoria University), Dr Toby Daghish (New Zealand Institute for the Study of Competition and Regulation) and Lincoln Gould (Booksellers New Zealand)

by Booksellers New Zealand and is a topical issue on which Inland Revenue and Customs have commissioned further research, following the Revenue Minister’s call to release a public discussion paper<sup>6</sup>.

The seminar was chaired by Professor Rowena Cullen, Associate Dean of Research at Victoria Business School, with an introduction by Mr Lincoln Gould, Chief Executive of Booksellers New Zealand and commentary by Dr Gail Kelly (National Manager for Research and Evaluations at Inland Revenue). The event was well-attended by members of the public, academia, public servants and Members of Parliament.

### **6.5. Minister of Finance’s Academic Economic Advisory Group meetings**

This small group of economics professors met with the Minister of Finance three times to discuss current economic topics and wider economic issues of mutual interest. Sessions were organised by the Chair in Public Finance in association with the Minister’s office. The group consisted of:

Professor Bob Buckle	Victoria University
Professor Lew Evans	Victoria University
Professor David Fielding	Otago University
Professor Norman Gemmell	Victoria University
Professor John Gibson	University of Waikato
Professor Arthur Grimes	MOTU and University of Auckland
Professor Robert MacCulloch	University of Auckland
Professor Les Oxley	University of Waikato

<sup>6</sup> <http://www.stuff.co.nz/business/money/9376021/McClay-to-consult-on-GST-for-online-shopping>

## 7. Websites

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### 7.1. CPF webpages

The Chair in Public Finance website is hosted within the School of Accounting and Commercial Law, Victoria Business School, which now has an abbreviated URL (<http://www.victoria.ac.nz/cpf>)

Since October 2012, when analytical data became available, the website has recorded over 19,000 page views over 14 months, up to December 2013. The most popular pages related to the ‘Affording our Future’ conference in December 2012. The number of visits to various event webpages highlights the importance of this tool as a form of public engagement.

### 7.2. New Zealand Public Finance website

#### 7.2.1. The website

To improve the dissemination of collaborative research and jointly sponsored events, the Chair launched the New Zealand Public Finance (NZPF) website in 2013. A number of NZPF research associates contribute to the website ([www.nzpublicfinance.com](http://www.nzpublicfinance.com)).

In 2014, the website will be developed further, including a data hub section where useful data can be easily accessed.



#### 7.2.2. The Long-term Fiscal Calculator

Co-sponsored by the Treasury, the Long-term Fiscal Calculator web tool was launched on the NZPF website in July 2013. The Calculator was created from the Treasury’s Long-term Fiscal Model, to raise public awareness about policy change options to maintain a sustainable fiscal position over the long term.

The Calculator allows users to choose from a range of revenue and spending options that will maintain a net debt average of 20% of GDP for the next 40 years, while meeting the demands of an ageing population. The Calculator has generated much discussion in the media and, since its launch in July, the Calculator webpage has had over 2,300 views. The NZPF website as a whole has had over 8,600 views in the last five months, with the Calculator page generating the most traffic.

## 8. Working with sponsors

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Financial support from sponsors in 2013 again included core funding for the Chair in Public Finance from the University, PwC and three New Zealand government departments: Inland Revenue, the Ministry of Social Development and the Treasury. This has permitted the Chair to undertake most of the activities listed in this report.

A number of organisations have provided financial and/or in-kind support for specific activities. These are in the table below.

External sponsor	Project/event
Government Economics Network	Public Finance Debates series
Treasury	Long-term Fiscal External Panel and Fiscal Calculator
Treasury	Tax and Housing Research Project
Treasury	Investment Statement External Advisory Group
Treasury	Student Summer Internship
Booksellers New Zealand	GST Reform Research Project
New Zealand Productivity Commission	Relative Prices in New Zealand and the OECD
Ministry of Foreign Affairs and Trade	Tax Reform in Pacific Countries
International Monetary Fund	Tax Gap Research
PwC	Public Finance Debate 2

In addition to financial support, work with CPF sponsors has involved:

- working alongside the Productivity Commission of New Zealand research staff on a joint research project
- joint conference/workshop/debate organisation
- liaising with IMF staff and consultants on tax gap analysis
- meeting with core sponsors to explore ways of jointly addressing research on their public finance related policy priorities

## 9. Plans for 2014

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In addition to continuing and completing the research projects outlined earlier in this report, current planned activities include:

- a major conference with Inland Revenue, on tax administration
- policy articles on NZPF website visitors' responses using the LTF Fiscal Calculator
- events around Budget 2014 and leading up to the next election expected in November 2014
- development of a data hub on the NZPF website
- regular issues of the NZPF newsletter to provide public finance updates
- further visiting research fellows and joint initiatives with international researchers
- a book on 'good tax policy' bringing perspectives from economics, accounting and law.

**Victoria Business School** is located within the centre of New Zealand's thriving capital city. Wellington is the administrative and financial centre of New Zealand and many businesses have their head offices here.

Excellent links are in place with many of the corporate leaders, financial institutions, and government agencies in the city to develop mutually beneficial partnerships.



