

2014  
**Chair in  
Public Finance  
Annual Report**

VICTORIA BUSINESS SCHOOL  
ORAUARIKI

# Introduction



## Highlights of 2014

The year 2014 was busy for the Chair, with a record number of contributions to the *Working Papers in Public Finance* series, several exciting research projects, various journal publications, three new issues of the *New Zealand Public Finance Newsletter* and several conference presentations and external events.

We also hosted a number of informative and enjoyable events in 2014:

- pre-Budget event (May)
- Tax Administration in the 21st Century conference (June)
- pre-election public lectures (September)
- Public Finance Great Festive Debate (December)

The Chair was delighted with the acknowledgment of the academic excellence of two of the students supervised by the Chair. Carolyn Palmer, a PhD candidate, was the inaugural recipient of the Robin Oliver Tax Policy Scholarship from Inland Revenue. Honours student Athene Laws was the top student in the School of Economics and Finance's 2014 Honours programme and was also awarded the prestigious Woolf Fisher Trust Scholarship to study for her PhD at Cambridge University in the United Kingdom.

## Plans for 2015

The year ahead is shaping up to be a busy one. The Chair is planning the following events, initiatives and research projects for 2015:

- Chair in Public Finance and Government Economics Network debate series
- pre-Budget release event in May
- further quarterly releases of the New Zealand Public Finance (NZPF) newsletter
- completion of two summer research scholarship projects on housing
- developments in tax and social policy modelling in collaboration with researchers at the Tax and Transfer Policy Institute in Canberra, Australia
- collaborating with Inland Revenue on experiments on tax compliance and debt repayment
- increased research focus on income inequality, poverty and mobility in New Zealand.

We would like to take this opportunity to thank all of our sponsors for the support the Chair received in 2014. We have received several generous contributions (detailed on page 15) in addition to the substantial core funding received by the Chair.

Thank you also to all of the colleagues and research associates who have collectively made a significant contribution to the work and outputs of the Chair in 2014. Particular thanks are due to the Tax Administration Research Centre (TARC) at the University of Exeter, United Kingdom, and to the Centre for Business Taxation, University of Oxford, United Kingdom, for supporting visits by the Chair in March and July 2014 respectively.

**Norman Gemmell (Professor)**

**Libby Wight (Administrator)**

## Chair in Public Finance aims and objectives

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 aims to build up expertise in the area of public finance 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
- to develop public finance research and teaching capabilities in New Zealand
- to strengthen collaboration between Victoria University and the public and private sectors on public finance issues
- to research these topics, focusing on broad conceptual, empirical and policy issues and on specific applications to New Zealand public finance and social welfare policy debates.

## Chair in Public Finance advisory board

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

The CPF reports regularly 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 (Chair)
Dr Matt Bengé	Chief economist, 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 Brad Jackson	Head of the School of Government

# Research

## Project highlights from 2014

The impact of taxes on long-run OECD growth	
<b>Researchers</b>	Norman Gemmell, Richard Kneller and Ismael Sanz
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.	
<b>Published papers</b>	Gemmell, N., and Au, J. (2013). Government size, fiscal policy and the level and growth of output: a review of recent evidence. <i>Journal of the Asia Pacific Economy</i> , 18, 203–209. [Revised version published as: Do smaller governments raise the level or growth of output? A review of recent evidence. <i>Review of Economics</i> , 64, 2, 85–116 (2013).]
	Gemmell, N., Kneller, R., and Sanz, I. (2013). Fiscal decentralization and economic growth: spending versus revenue decentralization. <i>Economic Inquiry</i> , 51, 1915–1931.
<b>Forthcoming paper</b>	Gemmell, N., Kneller, R., and Sanz, I. (Forthcoming 2015). The growth effects of tax rates in the OECD. <i>Canadian Journal of Economics</i> .
<b>Working papers</b>	Gemmell, N., Kneller, R., McGowan, D, Sanz, I and Sanz-Sanz, J. (2013). Corporate taxation and productivity catch-up: evidence from European firms. <i>Working Papers in Public Finance</i> , No. 01/2013. Victoria Business School, Victoria University of Wellington. Gemmell, N., Kneller, R. and Sanz, I. (2014). Does the composition of government expenditure matter for long-run GDP levels. Victoria University of Wellington, <i>Working Papers in Public Finance</i> , WP10/2014.

Long-run models of endogenous growth with public finance	
<b>Researchers</b>	Norman Gemmell, Richard Kneller and Florian Misch
This research has extended existing conceptual long-run, endogenous fiscal policy and growth models to examine how results differ between growth-maximisation and welfare maximisation objectives, and the impact of allowing for complementarity among factor inputs.	
<b>Published papers</b>	Misch, F., Gemmell, N., and Kneller, R. (2013). Growth and welfare maximization in models of public finance and endogenous growth. <i>Journal of Public Economic Theory</i> , 15, 939–967. Misch, F., Gemmell, N., and Kneller, R. (2014). Using surveys of business perceptions as a guide to growth-enhancing fiscal reforms. <i>Economics of Transition</i> , 22, 683–4725.
<b>Working paper</b>	Misch, F., Gemmell, N., and Kneller, R. (2014). Complementarity in models of public finance and endogenous growth. <i>Working Papers in Public Finance</i> , WP01/2014. Victoria Business School, Victoria University of Wellington.

Conventional measures of the tax gap and taxpayers' behavioural responses	
<b>Researchers</b>	Norman Gemmell and John Hasseldine
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 the OECD and on how taxpayers' behavioural responses can be suitably incorporated into conventional tax gap measures.	
<b>Published papers</b>	Gemmell, N., and Hasseldine, J. (2014). Taxpayers' behavioural responses and measures of tax compliance 'gaps': A critique and a new measure. <i>Fiscal Studies</i> , 35, 275–296. Gemmell, N., and Hasseldine, J. (2012). The tax gap: A methodological review. <i>Advances in Taxation</i> , 20 (December), 203–231.

International comparisons of the prices of goods and services in New Zealand	
<b>Researchers</b>	Norman Gemmell and Rod Falvey with Cherry Chang and Guanyu Zheng
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.	
<b>Working paper</b>	Gemmell, N. (2014). The prices of goods and services in New Zealand: An international comparison. <i>Working Papers in Public Finance</i> , WP06/2014. Victoria Business School, Victoria University of Wellington. Falvey, R., Gemmell, N., Chang, C., and Zheng, G. (2014). Explaining international differences in the prices of tradables and non-tradables (with a New Zealand perspective). <i>Working Papers in Public Finance</i> , WP08/2014. Victoria Business School, Victoria University of Wellington.

## Pensions, taxation, housing and retirement savings: Modelling household behaviour

<b>Researchers</b>	John Creedy, Norman Gemmell and Grant Scobie
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:	
<ul style="list-style-type: none"> <li>How do state-provided contributory and non-contributory pensions affect households' retirement savings behaviour and housing demand?</li> <li>How would reductions in, or elimination of, interest income taxation affect households' retirement saving and housing demand?</li> </ul>	
<b>Forthcoming paper</b>	Creedy, J., Gemmell, N., and Scobie, G. (Forthcoming 2015). Pensions, savings and housing: A life-cycle framework with policy simulations. <i>Economic Modelling</i> .
<b>Working paper</b>	Creedy, J., Gemmell, N., and Scobie, G. (2014). Pensions, savings and housing: A life-cycle framework with policy simulations. <i>Treasury Working Paper No. 14/14</i> . New Zealand Treasury, Wellington.

## Estimating the elasticity of taxable income (ETI) and revenue maximisation

<b>Researchers</b>	John Creedy, Norman Gemmell, Simon Carey and Josh Teng
This project is investigating two aspects of the ETI concept:	
<ul style="list-style-type: none"> <li>The role of different instruments in econometric estimates of the elasticity taxable income, based on taxpayer unit record data from the New Zealand 2001 reform.</li> <li>The definition and evaluation of revenue-maximising ETIs for the United States and New Zealand income taxes.</li> </ul>	
<b>Forthcoming paper</b>	Carey, S., Creedy, J., Gemmell, N., and Teng J. (Forthcoming 2015). Estimating the elasticity of taxable income in New Zealand. <i>Economic Record</i> .
<b>Published papers</b>	Creedy, J., and Gemmell, N. (2014). Revenue-maximising tax rates and elasticities of taxable income in New Zealand. <i>New Zealand Economic Papers</i> , published online, 31 March 2014. Creedy, J., and Gemmell, N. (2014). Can fiscal drag pay for the public spending effects of ageing? <i>New Zealand Economic Papers</i> , 48, 183–195.
<b>Working paper</b>	Creedy, J., and Gemmell, N. (2014). Measuring revenue-maximising elasticities of taxable income: Evidence for the US income tax. <i>Working Papers in Public Finance No. 02/2014</i> . Victoria Business School, Victoria University of Wellington.

## Income inequality, income mobility and the tax/transfer system in New Zealand

<b>Researchers</b>	Omar Aziz, Athene Laws, John Creedy and Norman Gemmell
Following initial work on the age and gender composition of income inequality and fiscal incidence in New Zealand, this project aims to identify the extent of income inequality and income mobility among New Zealand taxpayers. Research is being conducted with Inland Revenue to analyse personal income data from the early 1990s to the present. Future stages of the research programme will consider conceptual linkages between alternative inequality and mobility measures and the roles of taxes, transfers and other forms of social welfare spending in mitigating or enhancing income mobility.	
<b>Forthcoming paper</b>	Aziz, O., Gemmell, N., and Laws, A. (Forthcoming 2015). Income and fiscal incidence by age and gender: Some evidence from New Zealand. <i>Review of Income and Wealth</i> .
<b>Working papers</b>	Aziz, O., Gemmell, N., and Laws, A. (2013). The distribution of income and fiscal incidence by age and gender: Some evidence from New Zealand. <i>Working Papers in Public Finance No. 10/2013</i> . Victoria Business School, Victoria University of Wellington. Creedy, J. (2014a). Interpreting inequality measures and changes in inequality. <i>Working Papers in Public Finance No. 11/2014</i> . Victoria Business School, Victoria University of Wellington. Creedy, J. (2014b). A note on inequality-preserving distributional changes. <i>Working Papers in Public Finance No. 14/2014</i> . Victoria Business School, Victoria University of Wellington. Creedy, J., and Eedrah, J. (2014). Income redistribution and changes in inequality in New Zealand from 2007 to 2011: Alternative distributions and value judgements. <i>Working Papers in Public Finance No. 16/2014</i> . Victoria Business School, Victoria University of Wellington.

# Publications

## Journals articles, books and book chapters

<b>Forthcoming 2015</b>	Creedy, J., Gemmell, N., and Scobie, G. Pensions, savings and housing: A life-cycle framework with policy simulations. <i>Economic Modelling</i> .
	Aziz, O., Gemmell, N., and Laws, A. Income and fiscal incidence by age and gender: Some evidence from New Zealand. <i>Review of Income and Wealth</i> .
	Carey, S., Creedy, J., Gemmell, N., and Teng, J. Estimating the elasticity of taxable income in New Zealand. <i>Economic Record</i> .
<b>Published 2014</b>	Gemmell, N., Kneller, R., and Sanz, I. The growth effects of tax rates in the OECD. <i>Canadian Journal of Economics</i> , 47, 4.
	Gemmell, N., Kneller, R., and Misch, F. (2014). Using surveys of business perceptions as a guide to growth-enhancing fiscal reforms. <i>Economics of Transition</i> , 22, 683–4725.
	Gemmell, N., and Hasseldine, J. (2014). Taxpayers' behavioural responses and measures of tax compliance 'gaps': A critique and a new measure. <i>Fiscal Studies</i> , 35, 275–296.
	Creedy, J., and Gemmell, N. (2014). Can fiscal drag pay for the public spending effects of the population aging in New Zealand? <i>New Zealand Economic Papers</i> , 48, 169–182.
<b>Published 2013</b>	Creedy, J., and Gemmell, N. (2014). Revenue-maximising tax rates and elasticities of taxable income in New Zealand. <i>New Zealand Economic Papers</i> , published online, March 2014.
	Creedy, J., and Gemmell, N. (2013). Measuring revenue responses to tax rate changes in multi-rate income tax systems: Behavioural and structural factors. <i>International Tax and Public Finance</i> , 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. <i>Journal of the Asia Pacific Economy</i> , 18, 203–229.
	Gemmell, N., and Au, J. (2013b). Do smaller governments raise the level or growth of output? A review of recent evidence. <i>Review of Economics</i> , 64, 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. <i>Economic Inquiry</i> , 51, 1915–1931.
Misch, F., Gemmell, N., and Kneller, R. (2013). Growth and welfare maximization in models of public finance and endogenous growth. <i>Journal of Public Economic Theory</i> , 15, 939–967.	

## Conference and seminar presentations

<b>2014</b>	Gemmell, N. (2014). <i>The elasticity of taxable income in New Zealand: Evidence for personal taxpayers from unit record data</i> . Invited presentation to the Tax and Transfer Policy Institute workshop, What Really Happens in the Tax and Transfer System: New Empirical Research Using Administrative Data. Australian National University, Canberra, Australia (November).
	Gemmell, N. (2014). <i>Pensions, savings and housing: A life-cycle framework with policy simulations</i> . Presented to the Centre of Excellence in Population Ageing Research workshop, Pension Taxation, Population Ageing and Globalisation. University of New South Wales, Sydney, Australia (November).
	Palmer, C. (2014). <i>Tax and natural disasters</i> . Presented to the 2014 Chartered Accountants Australia and New Zealand Tax Conference (October).
	Gemmell, N. (2014). <i>The growth challenge: Sustainable fiscal policy</i> . Invited presentation to the ANZSOG Annual Conference, Growing National Prosperity. Government's Role in the 21st Century. Canberra, Australia (August).
	Gemmell, N. (2014). <i>Comments on 'tax-loss mechanisms' by Jacob Nussin and Avraham Tabbach</i> . Presented to the Oxford University Centre for Business Taxation Summer Symposium, Saïd Business School, Oxford, United Kingdom (June).
	Gemmell, N. (2014). <i>Tax (non-) compliance research: A New Zealand perspective</i> . Invited presentation to the Cash and Hidden Economy International Revenue Conference, Auckland, New Zealand (April).
	Gemmell, N. (2014). <i>Revenue-maximising estimates of the elasticity of taxable income: Evidence for the US income tax</i> . Paper presentation to the second Annual Tax Administration Research Centre (TARC) Workshop at University of Exeter, Exeter, United Kingdom (March).
<b>2013</b>	Gemmell, N. and Hasseldine, J. (2013). <i>Behavioural responses to taxes and measures of the tax gap</i> . Invited presentation to Inland Revenue, Wellington (February).
	Creedy, J. and Gemmell, N. (2013). <i>Could fiscal drag pay for the public spending effects of ageing?</i> Paper presented to the Treasury's Long-term Fiscal External Panel, Victoria University, Wellington (March).
	Fabling, R., Gemmell, N., Kneller, R. and Sanderson, L. (2013). <i>Estimating firm-level effective marginal tax rates and the user cost of capital in New Zealand</i> . Paper presented to the New Zealand Association of Economists Annual Conference, Wellington (July).
	Gemmell, N. (2013). <i>Behavioural responses to taxes and measures of the tax gap</i> . Invited presentation to Her Majesty's Revenue and Customs, London, United Kingdom (September).
	Gemmell, N. (2013). <i>Taxes, growth and fiscal stimuli: What does the evidence say?</i> Invited presentation to Her Majesty's Treasury, London, United Kingdom (September).



## Working Papers in Public Finance

The *Working Papers in Public Finance* series includes papers by the CPF, NZPF Research Associates, visitors to the CPF and other public finance researchers. Papers in the 2014 series are as follows:

<b>WP01/2014</b>	Misch, F., Gemmell, N. and Kneller, R. Complementarity in models of public finance and endogenous growth.
<b>WP02/2014</b>	Creedy, J. and Gemmell, N. Measuring revenue-maximising elasticities of taxable income: Evidence for the US income tax.
<b>WP03/2014</b>	O'Connell, A. Longevity trends and their implications for the age of eligibility for New Zealand superannuation.
<b>WP04/2014</b>	Misch, F., Gemmell, N. and Kneller, R. Using surveys of business perceptions as a guide to growth-enhancing fiscal reports.
<b>WP05/2014</b>	Alm, J., Hodge, T.R., Sands, G. and Skidmore, M. Property tax delinquency—Social contract in crisis: The case of Detroit.
<b>WP06/2014</b>	Gemmell, N. The prices of goods and services in New Zealand: An international comparison.
<b>WP07/2014</b>	Skidmore, M. Housing affordability: Lessons from the United States.
<b>WP08/2014</b>	Falvey, R., Gemmell, N., Chang, C. and Zheng, G. Explaining international differences in the prices of tradables and non-tradables (with a New Zealand perspective).
<b>WP09/2014</b>	Marriott, L., and Sim, D. Indicators of inequality for Māori and Pacific people.
<b>WP10/2014</b>	Gemmell, N., Kneller, R., and Sanz, I. Does the composition of government expenditure matter for long-run GDP levels.
<b>WP011/2014</b>	Creedy, J. Interpreting inequality measures and changes in inequality.
<b>WP12/2014</b>	Arrazola, M., de Hevia, J. Romera, D. and Sanz-Sanz, J.F. Personal income tax reforms and the elasticity of reported income to marginal tax rates: An empirical analysis applied to Spain.
<b>WP13/2014</b>	Arrazola, M., de Hevia, J. Romera, D. and Sanz-Sanz, J.F. Determinants of the Spanish housing market over three decades and three booms: Long run supply and demand elasticities.
<b>WP14/2014</b>	Creedy, J. A note on inequality-preserving distributional changes.
<b>WP15/2014</b>	Palmer, C. Flood and fire and famine: Tax policy lessons from the Australian responses to natural disasters.
<b>WP16/2014</b>	Creedy, J. and Eedrah, J. Income redistribution and changes in inequality in New Zealand from 2007 to 2011: Alternative distributions and value judgements.

Previous series are available at [www.victoria.ac.nz/cdf-papers](http://www.victoria.ac.nz/cdf-papers)

# New Zealand Public Finance newsletter



In November 2013 the NZPF website published the first of a regular newsletter series. Three further issues were published in February, July and October 2014. Each newsletter aims to provide:

- summaries of recent research
- a forum for discussion of topical public finance policy issues
- short articles by guest contributors
- updates on recent and forthcoming events
- web links to other public finance organisations in New Zealand and overseas.

The 2014 newsletters included research reports on indicators of inequality (Lisa Marriott, Victoria University), housing affordability (Mark Skidmore, Michigan State University) and analysis of benefit flows (John Creedy), conference reports from Norman Gemmill and Lisa Marriott, event reports from the Chair and a selection of topical news stories and publication of upcoming events.

In 2015 we expect to publish NZPF newsletters in January, April, July and October.

Past newsletters are available at <http://nzpublicfinance.com/newsletters/>

## 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 most interest. The *Working Papers in Public Finance* (WPPF) series is tracked via Research Paper in Economics (RePEc) and Victoria research archives. Downloads for the WPPF series began in September 2012.

WPPF series downloads		
	Tracked by RePEc	Tracked by Victoria Research Archives
As of Dec 2012	211	1,100
As of Dec 2013	397	2,182
As of Dec 2014	418	2

Citations of journal publications are tracked by Publish or Perish software.

Total number of citations				
Publication year	Dec 2012	Dec 2013	Dec 2014	% Increase
2011	41	56	80	42%
2012	8	26	26	0%
2013	NA	7	20	186%



# Research supervision and teaching


## 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. In 2012 the CPF began supervising two part-time PhD students, 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 Athene Laws, an Honours student in the School of Economics and Finance.


In 2014, both David and Carolyn completed their PhD proposals and completed registration for the Doctoral Programme. Athene completed her Honours thesis in November 2014.


	<b>Research project</b>	The performance of the New Zealand economy: Productivity, trade and savings
<b>David Law</b> Senior analyst, the Treasury	<b>Abstract</b>	<p>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.</p> <p>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 that 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.</p>
	<b>Research project</b>	Good tax policy—on shaky ground? An assessment of tax policy decisions in response to natural disasters
<b>Carolyn Palmer</b> Senior adviser, Policy Advice Division, Inland Revenue	<b>Abstract</b>	<p>In recent years a series of natural disasters placed 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.</p> <p>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.</p>
	<b>Research project</b>	The distributional effects of consumption taxes in OECD countries
<b>Alastair Thomas</b> OECD Centre for Tax Policy and Administration,	<b>Abstract</b>	<p>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.</p>

 <p><b>Athene Laws</b> Honours student in the School of Economics and Finance</p>	<b>Research project</b>	What does taxpayer microdata reveal about income mobility in New Zealand?
	<b>Abstract</b>	<p>This research examines:</p> <ul style="list-style-type: none"> <li>the main economic gains and losses from income mobility as identified by international and New Zealand literature</li> <li>the extent of income mobility among taxpayers in New Zealand using unit record data for New Zealand income taxpayers over the last two decades or so</li> <li>how far income mobility varies across demographic and socioeconomic decompositions such as taxable income bracket, age, gender and receipt of government benefits or tax credits.</li> </ul>

## Summer scholars

In 2014, the Chair began supervising two Summer Research Scholarship projects. Both projects have a strong housing focus and are being undertaken by two very promising Victoria University students.

 <p><b>Loc Nguyen Phuoc</b></p>	<b>Topic</b>	Why have New Zealand's rents and house prices diverged?
	<b>Sponsored by</b>	the Treasury
	<b>Research project</b>	<p>For almost two decades residential accommodation rents have been approximately constant in real terms while house prices have more than doubled. This project will explore what factors may explain this divergence. In particular, it will analyse the relationship between house prices, rents and fundamental factors in New Zealand. Suitable models are used to empirically investigate this relationship.</p> <p>This project is jointly supervised by Dr Tugrul Vehbi (Economic Research and Analysis, the Treasury).</p>

 <p><b>Yen Le</b></p>	<b>Topic</b>	Agglomeration, local property taxes and the rate and density of new development. A case study of Auckland.
	<b>Sponsored by</b>	Lincoln Institute of Land Policy, Mass., USA.
	<b>Research project</b>	<p>In 2010, the Auckland 'super city' was formed through the amalgamation of seven cities, consisting of around 200 suburban entities and towns. The amalgamation resulted in communities using capital values as the basis for local taxation (rates), whereas some communities had previously used land values. The new city also transitioned to a single system of 'development contributions' paid by developers. In principle, economists often argue for the adoption of land value taxes instead of capital value taxes because the former encourage the highest and best use of land and are more efficient than a property tax.</p> <p>This project is jointly supervised by Dr Arthur Grimes (Motu Economic and Public Policy Research, Wellington) and Professor Mark Skidmore (Chair in State and Local Government Finance and Policy, Department of Agricultural, Food and Resource Economics, Michigan State University, USA).</p>

## Research associates

During 2014 the CPF worked with the research associates and groups listed below.

Professor John Creedy	Victoria University of Wellington and the Treasury
Dr Richard Fabling	Motu Economic and Public Policy Research
Dr Arthur Grimes	Motu Economic and Public Policy Research
Professor John Hasseldine	University of New Hampshire
Professor Richard Kneller	Nottingham University
Mr David Law	The Treasury
Dr Lisa Marriott	Victoria University of Wellington
Dr Florian Misch	Centre for European Economic Research ZEW, Mannheim
Ms Carolyn Palmer	Inland Revenue
Dr Lynda Sanderson	The Treasury
Professor Ismael Sanz	University Rey Juan Carlos, Madrid
Professor Jose Sanz-Sanz	Universidad Complutense de Madrid
Dr Grant Scobie	The Treasury
Professor Mark Skidmore	Michigan State University
Mr Alastair Thomas	OECD, Paris

## Research visits

**Dr Florian Misch**, Centre for European Economic Research (ZEW), Mannheim, Germany

Dr Misch visited Victoria University from August to October. While in Wellington, Dr Misch worked with the CPF, the Treasury and Inland Revenue on a project to assess the extent of profit shifting by New Zealand firms using the Statistics New Zealand Longitudinal Data Base.

Dr Misch also gave a public lecture at the Treasury—‘Real-time macro monitoring and fiscal policy’.

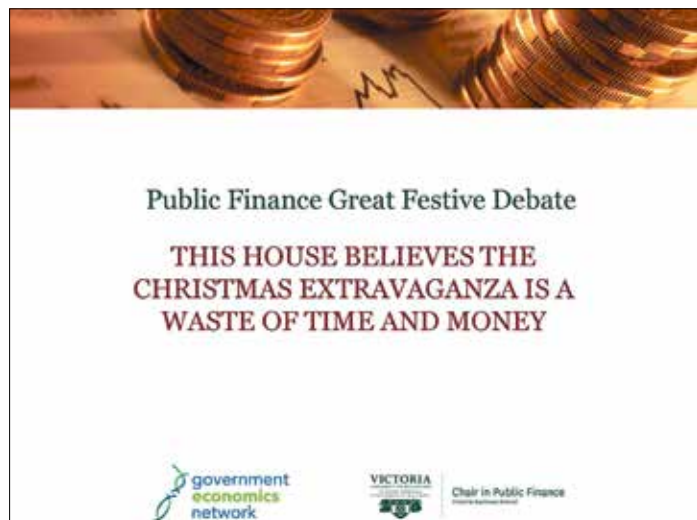
**Professor Ismael Sanz**, Universidad Rey Juan Carlos and Ministry of Education, Madrid, Spain

Professor Sanz visited the CPF at Victoria during June 2014 to undertake research on links between government expenditure and long-run GDP levels in OECD countries. Results of this research are published in the 2014 Working Papers in Public Finance series (WP10/2014).

While visiting Victoria University, Professor Sanz gave a public lecture (detailed on page 12), co-sponsored by New Zealand’s Ministry of Education, on using international test scores to assess the educational impact of teacher quality. He also engaged in round-table discussions with the Ministry of Education staff on research results from academics accessing educational databases in Spain, and implications for New Zealand’s educational evidence base.

# Events

## Public Finance Great Festive Debate



On 11 December 2014, the CPF and Government Economics Network (GEN) hosted a topical festive debate on the deadweight loss of Christmas. The debate was chaired by Professor Norman Gemmill and involved two proponents, Eric Crampton (head of research, New Zealand Initiative) and Patrick Nolan (principal advisor, New Zealand Productivity Commission), with Bronwyn Croxson (chief economist, Ministry of Health) and Anne-Marie Brook (principal advisor, the Treasury) opposing. The proponents argued for the motion that the 'Christmas extravaganza' was a waste of time and money. However, they were ultimately defeated, through audience vote, by the opposition, which appealed to the sentimentality and emotion of the audience. There was significant participation and engagement from the large audience. Following the debate, the Chair hosted an informal networking reception.

## Pre-election public lectures

In advance of the 2014 General Election, the CPF was very pleased to host two public lectures on the future of the government's finances.

On 1 September, Hon. Bill English, Minister of Finance and Deputy Prime Minister presented 'What will the economy look like under a National-led Government?' Mr English touched on a number of themes and measures, including sustainable growth, stabilising the housing market, continued investment in infrastructure, skills and education and the personalisation of welfare support to achieve real results for real people.

On 2 September, Hon. David Parker, Labour's finance spokesperson and Deputy Leader presented 'What will the economy look like under a Labour-led Government?' Key themes of his presentation were the reduction of government debt, the introduction of research and development tax credits, the introduction of compulsory KiwiSaver and raising the age of eligibility for superannuation to 67. The most important policy discussed by Mr Parker was the proposed introduction of a capital gains tax, which raised some interesting questions around the definition of a family home and whether or not this could be perceived as a significant inheritance tax.

The events were well attended, with over 60 people at each lecture, which resulted in very engaging question and answer sessions with each speaker.

## Tax administration conference

The Tax Administration for the 21st Century conference was held in Wellington over two days in June. Jointly hosted by Inland Revenue, the Treasury and Victoria University, the conference was an opportunity for public and private sector officials to have input into the policy and legislative implications resulting from Inland Revenue's business transformation.

## Public lecture

During his research visit to Victoria University in June 2014, Professor Ismael Sanz presented the results from his current research on the effect of introducing external and standardised tests on student achievement. The public lecture, 'Can standardised external tests affect school outcomes? Evidence and policy implications', was jointly sponsored by the New Zealand Ministry of Education and the CPF. It was attended by academics, representatives from the New Zealand Ministry of Education and other government departments, media representatives and interested members of the public.

## The Budget



My 2014 Budget - Programme	
9.00 – 9.15am	<b>Introduction</b> Norman Gemmill, Professor of Public Finance, Victoria University of Wellington
<b>Understanding Budget documents and processes</b>	
9.15-10.30am	Simon McLoughlin, team leader, Fiscal and State Sector Management, the Treasury Warwick White, principal analyst, Fiscal and State Sector Management, the Treasury Kamlesh Patel, senior analyst, Fiscal Reporting, the Treasury
10.30-11.00am <b>Break</b>	
<b>My 2014 Budget</b>	
11.00-12.30pm	Phil O'Reilly, chief executive, BusinessNZ Brian Fallow, economics editor at the <i>New Zealand Herald</i> Stuart Nash, former Labour MP and spokesperson for Revenue; Labour candidate for Napier in the upcoming election
<b>Wrap up</b>	
12.30-12.45pm	Kirdan Lees, senior economist, New Zealand Institute of Economic Research
12.45-1.30pm	<b>Networking and informal Q&amp;A</b> Light refreshments provided




In May, the New Zealand Institute of Economic Research (NZIER) and the Chair hosted a pre-Budget event, asking participants and the audience to consider ‘What do you think should be included in this year’s Budget?’ More than 60 people attended to learn more about the Budget process from Treasury staff, and what our speakers, Brian Fallow, Phil O’Reilly and Stuart Nash, would include in their 2014 budget.

The first session was led by the Treasury’s Fiscal and State Sector Management and Fiscal Reporting teams walking the audience through how the Budget works, outlining the phases of the Budget cycle and explaining how to understand key Budget documents.

The second session began with a presentation by Brian Fallow, economics editor at the *New Zealand Herald*, on what his 2014 budget would look like. Brian argued for faster growth in public expenditure than proposed in the government’s Budget, in order to prevent real per capita spending falling over the next few years.

Phil O’Reilly, chief executive of BusinessNZ, followed with a proposed budget that would stimulate growth in New Zealand from current resources. Key areas highlighted included a reduction of taxes and government spending, targeting of social spending and a focus on the production of the skills and research that are greatly needed within the business sector.

Our final guest speaker, Stuart Nash, MP for Napier, delivered his proposed budget, which was focussed around broad concepts such as implementing a capital gains tax, further economic development, further work on Corrections and reducing child poverty.

The session was concluded by Kirdan Lees, senior economist at NZIER, who summarised the thoughts of all speakers and added his own take on what should be included in the 2014 Budget. The event was an excellent precursor to the release of the Budget on 15 May.

## Minister of Finance’s Academic Economic Advisory Group meetings

A small group of economics professors met with the Minister of Finance several times in 2014 to discuss current economic topics and wider economic issues of mutual interest. Sessions were organised by the CPF in association with the Minister’s office. We look forward to continuing these meetings in 2015. The group consists of:

Professor Bob Buckle	Victoria University of Wellington
Professor Lew Evans	Victoria University of Wellington
Professor David Fielding	University of Otago
Professor Norman Gemmill	Victoria University of Wellington
Professor John Gibson	University of Waikato
Professor Arthur Grimes	Motu Economic and Public Policy Research and University of Auckland
Professor Robert MacCulloch	University of Auckland
Professor Les Oxley	University of Waikato

# Websites

## Chair in Public Finance

The Chair in Public Finance website is hosted within the School of Accounting and Commercial Law, Victoria Business School, and now has an abbreviated URL (<http://www.victoria.ac.nz/cpf>). The CPF site received more than 4,000 page views in 2014. The most popular pages are 'About the Chair', 'Publications' and the information from the 2012 conference, 'Affording our Future'.

## New Zealand Public Finance



The Chair launched the New Zealand Public Finance website ([nzpublicfinance.com](http://nzpublicfinance.com)) in 2013. The site aims to improve the dissemination of research, publications and jointly sponsored events and hosts the quarterly NZPF newsletter.

In 2014, NZPF received nearly 15,000 page views, with 70 percent of the traffic on the site generated by new users. The most popular pages were the Home page 'What is Public Finance?' and the landing page for the 'Tax Administration in the 21st Century conference', which includes registration information, the agenda, papers and footage of the conference. The *Working Papers in Public Finance* series, upcoming events and the 'Long Term Fiscal Calculator' also generate significant web traffic, along with the 'People' page, which profiles NZPF research associates.

# Working with sponsors

Financial support from sponsors in 2014 again included core funding for the CPF from the University, PwC and three New Zealand government departments: Inland Revenue, the Ministry of Social Development and the Treasury. This has enabled the Chair to undertake most of the activities listed in this report and allowed sponsors to contribute their policy priorities to the current and future research agendas of the Chair.

A number of organisations have provided financial and/or in-kind support for specific activities, as shown below.

<b>External sponsor</b>	<b>Project/event</b>
Government Economics Network	Public finance debates
The Treasury	Student Summer Internship
Michigan State University and Lincoln Institute	Student Summer Internship
New Zealand Productivity Commission	Relative Prices in New Zealand and the OECD project
NZIER	Pre-budget event, 'My 2014 Budget'



TE WHARE WĀNANGA O TE ŪPOKO O TE IKA A MĀUI

**VICTORIA**  
UNIVERSITY OF WELLINGTON