



*2012 Annual Report of the*  
Victoria University of Wellington  
**Chair in Public Finance**



## Sponsoring Institutions:



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**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.



# I. Introduction

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Welcome to the first Annual Report of the Chair in Public Finance (CPF) at Victoria University of Wellington (VUW). This Report summarises the activities and achievements of the Chair during 2012.

The 'Chair' includes myself as Professor of Public Finance, and an administrator, Cherry Chang, who helps organise the events, research and other initiatives of the Chair. We also work with a number of Research Associates, both internal to Victoria University and external.

This past year (and next) we have been especially fortunate to have Professor John Creedy from the University of Melbourne, as a Visiting Professor to work with us. John has a three-year joint appointment with the New Zealand Treasury. This year we have also worked collaboratively on a number of projects with researchers and policy advisers at the Treasury, Inland Revenue Department and Ministry of Social Development. The following sections provide more details on these projects and events.

I should like to offer my thanks especially to the various sponsors of our activities this year. In addition to the generous on-going core funding from the three government departments mentioned above and PricewaterhouseCoopers, we have been supported financially for several specific projects and events this year. These include support from the N.Z. Government Economics Network, The Treasury, Booksellers New Zealand, and Victoria Business School (Faculty of Commerce research grant and student summer internships).

My thanks too, to the numerous colleagues listed in the Events section who contributed to our first series of Public Finance Debates. Their willingness to prepare, present and organise their various contributions was much appreciated and led to a highly successful set of debates.

Lastly, I am grateful to numerous colleagues in the Victoria Business School (VBS), especially the Dean, Professor Bob Buckle and the VBS support staff. Much of work reported here would not have been possible without Bob's continued support and enthusiasm for this position. Also colleagues in the School of Accounting & Commercial Law (SACL) and the Centre for Accounting, Governance and Taxation Research (CAGTR), with whom I am co-located in Rutherford House. The warmth and genuineness of their welcome has been greatly appreciated, in addition to the practical administrative support and accommodation that has been made available.



**Norman Gemmell**

January 2013



*Norman Gemmell*  
**Chair**

## II. CPF Aims & Objectives

The new Chair in Public Finance (CPF) was established in 2011 at Victoria University, with sponsorship from the University, three New Zealand government departments (Inland Revenue, Ministry for Social Development and the Treasury) and accountancy firm PricewaterhouseCoopers. The Chair is located in the 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 VUW Tax Research Interest Group in SACL, the School of Economics & 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:

1. To advance rigorous, respected public finance research in New Zealand;
2. To improve the quality of public finance analysis & discussion among key stakeholders in New Zealand; and
3. Develop public finance research/teaching capabilities in and on New Zealand;
4. 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.



# III. CPF Advisory Board

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The Chair in Public Finance is supported by an Advisory Board which includes senior representatives from the University, partner and sponsoring organisations. The role of the Board is to advise and support:

1. The research work programme of the Chair;
2. Links with key stakeholders;
3. Policy and public engagement initiatives;
4. 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 the work programme of the Chair. The Board consists of the following members:

- **Mr Chris Money**, Director, PwC (Chair).
- **Professor Bob Buckle**, Pro Vice-Chancellor & Dean, Victoria Business School, VUW.
- **Dr Matt Benge**, Assistant Deputy Commissioner, Policy Advice Division, Inland Revenue.
- **Mr Gerald Minnee**, Manager, Economic Research & Analysis team, The Treasury.
- **Mr David Rea**, Principal Adviser, Ministry of Social Development
- **Professor Morris Altman**, Head of the School of Economics and Finance (SEF), VUW.
- **Professor Ian Eggleton**, Head of the School of Accounting and Commercial Law (SACL), VUW.
- **Professor Peter Hughes**, Head of the School of Government (SOG), VUW.



# IV. News and Event Highlights, 2012

This year (2012) is the first full year of operation for the Chair in Public Finance, having taken up the appointment in November 2011. It has been a busy first year with a series of new initiatives and outputs including the introduction of new working papers series, *Working Papers in Public Finance*; publication of my research in several journal articles and book chapters and a number of conference invitations and events.

At a personal level, I was especially delighted to receive the New Zealand Economics Award for 2012 accompanied by a generous travel award from the New Zealand Institute for Economic Research's (NZIER) independent panel of assessors in August.

Of several substantive research projects begun or completed during the year, I was especially pleased to collaborate with:

- Robert Barro (Harvard), Debasis Bandyopadhyay (Auckland), Fiona McAlister and Jeremy Couchman (former colleagues at the New Zealand Treasury) on a project to measure personal effective marginal tax rates in New Zealand since 1907.
- John Creedy (VUW/Treasury), Simon Carey (Treasury) and Josh Teng (Inland Revenue) on a project to measure N.Z. taxpayers' responses to the 2001 income tax reforms. This project is expected to move to a 'second phase' to measure responses to the 2010 income tax/GST reforms as data become available in 2013.
- Chris Ball (Treasury), John Creedy (VUW/Treasury) and Katie Makale (VUW) on the tax and social welfare spending consequences of ageing in N.Z.

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

- Appointment to and participation in the VUW-Treasury Long-Term Fiscal Expert Panel which convened monthly, Aug-Nov, chaired by Prof. Bob Buckle and organised by the CPF, with fortnightly catch-ups between the Treasury's Long-Term Fiscal team and some VUW staff;
- The two-day Long-Term Fiscal Conference, 'Affording Our Future', in December, organised jointly with Treasury; and
- A new initiative, the Public Finance Debates (monthly, Aug-Nov), co-sponsored with the Government Economics Network. These debates featured four topical public finance subjects (such as "should the government adopt a public spending 'cap'?"), with a proponent, opponent and commentator each offering informative and lively perspectives. The CPF and GEN are especially grateful to Katherine and Aidan Meerman for producing a set of videos from each debate.



*Prof. Norman Gemmell (centre) at the University of Oxford, Centre for Business Taxation, Summer Symposium*



## Other highlights of 2012 included:

- An invitation to be an International Fellow of the ESRC/HMRC/HMT Tax Administration Research Centre at the University of Exeter, U.K., directed by Professor Gareth Myles.
- An invitation to join the Scientific Committee of the International Institute of Public Finance for the Annual Congress in Sicily in August 2013.
- Presentation/participation in two major international public finance conferences in June/July at the University of Marseille, Institute for Public Economics Annual Conference, Marseille, France; and at the University of Oxford, Centre for Business Taxation, Summer Symposium.
- Invited presentations to the N.Z. Government Economics Network, 2nd Annual Conference, December (on 'The top personal tax rate in N.Z.: how high is too high?') and at the Ministry of Social Development seminar series, December (on 'Ten things social policy analysts should know about tax').
- An invitation to join the New Zealand Government, Minister of Finance's Academic Economic Advisory Group (AEAG). This group meets with the Minister 3-4 times a year to discuss economic and policy issues of mutual interest.
- An invitation to be a peer-review expert for the Fiscal Affairs Department of the International Monetary Fund, on their research programme on measuring the 'tax gap': Revenue Authorities - Gap Analysis Programme (RA-GAP).

Last, but by no means least, July 2012 saw the appointment of Cherry Chang, replacing Charmaine Bowring, as Administrator for the Chair in Public Finance. Charmaine provided excellent early support to the new Chair, while Cherry has been a seemingly endless source of energy and enthusiasm delivering the various CPF initiatives and events in the second half of the year. Her extensive skill set includes making CPF YouTube videos and website/logo designing!

New initiatives for 2013 include developing a New Zealand Public Finance website and web-tools, as research resources for public finance researchers and policy advisers. This will include a 'fiscal facts' data-hub to bring together key data on New Zealand public expenditure, taxation and debt. A 'Long-Term Fiscal Calculator' is also underway that will allow visitors to the site to experiment with their own choices over how to make the N.Z government's budget balance over the longer-term.



*Cherry Chang*  
**Administrator**



*Prof. Norman Gemmell,*  
*Chair of Public Finance Debates*



*Prof. John Creedy (VUW/Treasury), Prof. Norman Gemmell*  
*and Geoff Bascand (Statistics NZ) at the*  
*Long-Term Fiscal External Panel.*

# V. Research

## V.1 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.

### 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 (i) macro data and allowing for heterogeneous fiscal-growth effects across countries and over time; and (ii) using firm-level micro data. This allows us to address such questions as: do fiscal-growth effects differ across the OECD? Do these effects feed through quickly and do they persist for long? How do corporate tax settings affect firm-level innovation and productivity?

#### Projects:

### 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. Current research is examining 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 decentralization.



#### Researchers:

Norman Gemmell, Richard Kneller, Ismael Sanz

#### Published Papers:

Gemmell, N., Kneller, R. and Sanz, I. (2011), 'The timing and persistence of fiscal policy impacts on growth: Evidence from OECD countries', *Economic Journal*, 121, F33–F58.

Gemmell, N., Kneller, R. and Sanz, I. (2012), 'Fiscal decentralization and economic growth: spending versus revenue decentralization', *Economic Inquiry*, (published on-line, January 2013).

### 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 (forthcoming, 2013):

Gemmell, N., Kneller, R., McGowan, D., Sanz, I. and Sanz-Sanz, J., 'Corporate Taxation and Productivity Catch-Up: Evidence from European Firms', Victoria University of Wellington, *Working Papers in Public Finance*.

## Measuring Average Marginal Income Tax Rates in New Zealand

This research has estimated effective marginal tax rates faced by individuals, and for various aggregates of taxpayers in New Zealand. Estimates are reported for a number of personal marginal income tax rate measures for New Zealand since 1907, focusing mainly on the aggregate income-weighted average marginal tax rates (AMTRs) originally proposed by Barro and Sahasakul (1983, 1986). A paper describing the methodology, and a dataset containing around a century of Statistics New Zealand income distribution and tax data are available.



### Researchers:

Debasis Bandyopadhyay, Robert Barro, Jeremy Couchman, Norman Gemmell, Gordon Liao and Fiona McAlister

### Working Paper:

Bandyopadhyay, D., Barro, R., Couchman, J., Gemmell, N., Liao, G. and McAlister, G., 'Average marginal income tax rates in New Zealand, 1907-2009', Victoria University of Wellington, *Working Papers in Public Finance*, WP01/2012.

## Fiscal Stimuli and Fiscal Sustainability: How big is the Trade-Off?

The fiscal fall-out 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 is examining the sensitivity of long-term fiscal sustainability measures to alternative assumptions regarding government debt dynamics and the size and nature of fiscal stimulus effects.

### Researchers:

Norman Gemmell

### Working Paper (forthcoming, 2013):

Gemmell, N., 'Fiscal stimulus versus fiscal sustainability. How big is the trade-off?', Victoria University of Wellington, *Working Papers in Public Finance*.

## 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 New-Zealand specific aspects of ETI application. The role of the behavioural factors in tax gap measurement is also being examined, and current New Zealand-specific research is focussing on the impact of ageing and the fiscal (tax, expenditure) system on revenues and income redistribution.

### Projects:

#### Revenue and Behavioural Responses of New Zealand Personal Income Taxpayers

This project is examining 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.



#### Researchers:

Simon Carey, John Creedy, Norman Gemmell and Josh Teng

#### Published Paper:

Creedy, J. and Gemmell, N. (2012), 'Measuring revenue responses to tax rate changes in multi-rate income tax systems: behavioural and structural factors', *International Tax and Public Finance*, (published online October, 2012).

#### Working Paper:

Carey, S., Creedy, J., Gemmell, 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*, WP03/2012.

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

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



#### Researchers:

Norman Gemmell and John Hasseldine

#### Published Papers:

Gemmell, N. and Hasseldine, J. (2012), 'The tax gap: a methodological review', *Advances in Taxation*, 20, December, 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, 33-58.

## Tax and Social Spending Effects of Ageing

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



### Researchers:

Chris Ball, John Creedy, Norman Gemmell and Katie Makale

### Conference Paper:

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

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

Following work by Aziz and others 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? And, what is the 'net incidence' of fiscal policy in New Zealand over the life cycle? Both questions are analysed using the latest N.Z. Household Expenditure Survey (HES) micro data.



### Researchers:

Omar Aziz, Norman Gemmell and Athene Laws

### Published Paper:

Aziz, O., Gibbons, M., Ball, C., and Gorman, E. (2012), 'The Effect on Household Income of Government Taxation and Expenditure in 1988, 1998, 2007 and 2010', *Policy Quarterly*, 8,1, 29 – 38.

<http://ips.ac.nz/publications/files/2d6039de603.pdf>

## Corporate Taxation: Modelling Revenue and Behavioural Responses

This third research theme consists of a number of related projects which together aim to provide a better understanding of how companies in New Zealand and elsewhere behave in response to the setting of corporate tax parameters. This will be relevant to subsequent modelling of the impacts of company tax policies on exporting, productivity and forecasts of company income tax revenues.

### Projects:

#### 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 is therefore analysing 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

#### Corporate Tax Structures, Effective Tax Rates and Loss Use by New Zealand Firms

Building on the researchers' previous work on the effect of corporate tax asymmetries on effective tax rates (ETRs), this project is analysing N.Z. Inland Revenue firm-level data on profits, losses and (backward-looking) ETRs. The objective is a better understanding of firm- and industry-level and other determinants of cross-firm differences in ETRs. Future research will build models of firms' loss-acquisition and loss-use as tax off-sets in determining their effective tax rates and costs of capital.

#### Researchers:

John Creedy, Norman Gemmell and Sri Farley

#### Published Paper:

Creedy, J. and Gemmell, N. (2011), 'Corporate tax asymmetries: effective tax rates and profit shifting', *International Tax and Public Finance*, 18, 422-435.

## V.2 NZIER Economics Award, 2012

Norman Gemmell, the Chair in Public Finance at the Victoria Business School, was named recipient of the New Zealand Institute of Economics Research (NZIER) Economics Award, 2012, on 28th August. Professor Gemmell received the award for excellence in economics of relevance to New Zealand.

VicNews, Victoria University's regular News Bulletin, reported the Award as follows.

When presenting the award the NZIER noted Professor Gemmell's contribution to international literature on fiscal policy, as well as his role in establishing the Government Economics Network in 2010 while inaugural Chief Economist at Treasury. He was also recognised for his taxation and public finance research of significance to New Zealand and his contribution to policy-making in New Zealand including his involvement in the 2009 Victoria University conference on tax policy which led to the creation of the successful Tax Working Group.

Pro Vice-Chancellor and Dean of Commerce Professor Bob Buckle says the award indicates the significant impact and benefit Professor Gemmell's research, policy and public engagement activities have had on public finance policy in New Zealand. "A standout feature of Professor Gemmell's work has been his ability to make significant contributions to international research on public finance and to bring those skills and insights to bear on important contemporary policy concerns. His important contributions during his time at Treasury and during the Tax Working Group process are examples of this."

He joins other distinguished former and current Victoria staff members and alumni who have received the NZIER Economics Award including the late Sir Frank Holmes, Dr Roderick Deane, Emeritus Professor Gary Hawke, Professor Lew Evans, Professor Peter Lloyd, Roger Kerr and Professor Bob Buckle.

NZIER's full citation and Professor Gemmell's acceptance speech at the NZIER AGM can be found here:

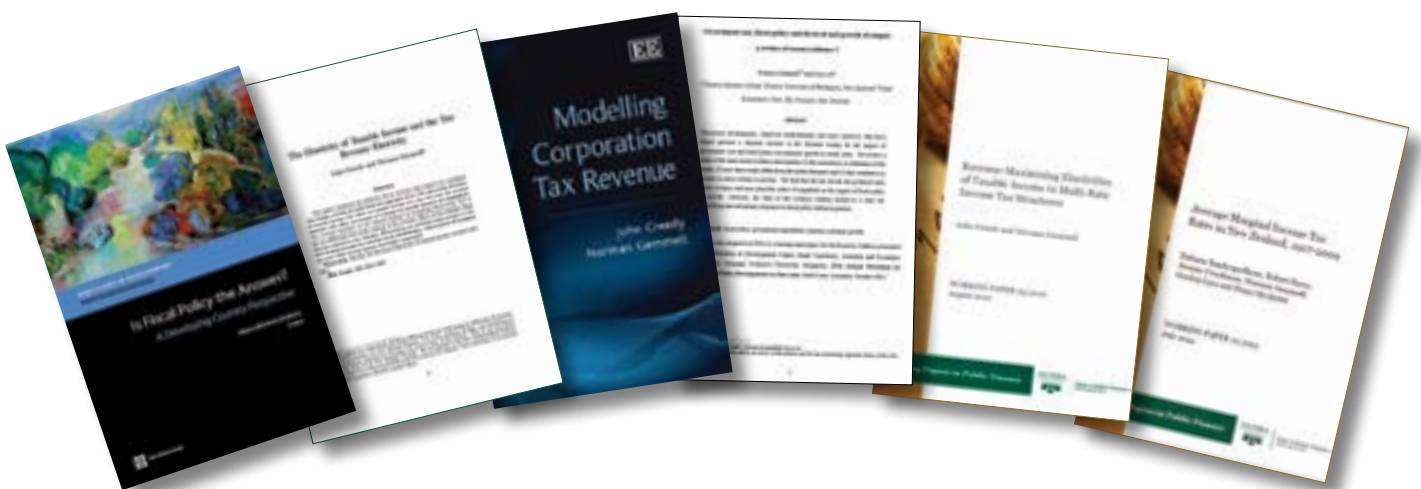
<http://nzier.org.nz/public-good/nzier-economics-award> (or see Annex A)

and here:

<http://nzier.org.nz/norman-gemmells-acceptance-speech> (or see Annex B)



*Michael Walls, Chair of the NZIER Board, presents Prof. Norman Gemmell with the 2012 NZIER Economics Award*



## V.3 Publications

### Journal Articles

#### 2012 & Forthcoming

**Gemmell, N.** and Au, J. (forthcoming), 'Government size, fiscal policy and the level and growth of output: A review of recent evidence', *Journal of the Asia Pacific Economy*.

**Gemmell, N.**, Kneller, R. and Sanz, I. (forthcoming), 'Fiscal decentralization and economic growth: spending versus revenue decentralization', *Economic Inquiry*, published on-line, January 2013. DOI 10.1111/j.1465-7295.2012.00508.x.

Misch, F., **Gemmell, N.** and Kneller, R. (forthcoming), 'Growth and welfare maximization in models of public finance and endogenous growth', *Journal of Public Economic Theory*.

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

Creedy, J. and **Gemmell, N.** (2012), 'Measuring revenue responses to tax rate changes in multi-rate income tax systems: behavioural and structural factors', *International Tax and Public Finance*, published online October, 2012. DOI 10.1007/s10797-012-9255-7.

**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.

#### 2011

Creedy, J. and **Gemmell, N.** (2011), 'Corporate tax asymmetries: effective tax rates and profit shifting', *International Tax and Public Finance*, 18, March, 422-435.

**Gemmell, N.** (2011), 'Can a fiscal stimulus boost economic growth rates?: Introduction', *Economic Journal*, 121, February, F1-F3.

**Gemmell, N.**, Kneller, R. and Sanz, I. (2011), 'The timing and persistence of fiscal policy impacts on growth: Evidence from OECD countries', *Economic Journal*, 121, February, F33-F58.

### Books & Book Chapters

#### 2012

**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> .



### Conference Presentations/Papers

#### 2012

**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 2012.

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*, VUW Business School, Wellington, December.

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



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.

## 2011

**Gemmell, N.** (2011), 'Taxes, growth and fiscal stimulus', Keynote Address presented at the Globalization & Development Centre, Bond University, Australia and Economic Growth Centre, Nanyang Technical University, Singapore, *First Annual Workshop on Economic and Policy Developments in East Asia*, Gold Coast, Australia, October.

Creedy, J. and **Gemmell, N.** (2011), 'Tax rates and revenue changes: behavioural and structural factors', paper presented to the *New Zealand Association of Economists Annual Conference*, Wellington, July.

Bandyopadhyay, D., Barro, R., Couchman, J., **Gemmell, N.**, Liao, G. and McAlister, F. (2011), 'Calculating Average Marginal Tax Rates for New Zealand, 1907-2009', paper presented to the *New Zealand Association of Economists Annual Conference*, Wellington, July.

Misch, F., **Gemmell, N.** and Kneller, R. (2011), 'Growth and welfare maximisation in models of public finance and endogenous growth', paper presented to the *N.Z. Macroeconomic Dynamics Workshop*, Victoria University of Wellington, School of Economics & Finance, Wellington, April.

## External Seminars/Workshops

**Gemmell, N.** 'Ten things social policy analysts should know about tax', presentation to *Ministry of Social Development Seminar* series, December 2012.

**Gemmell, N.** 'Taxpayers' responses to income tax rate increases. Do they reduce revenue?', paper presented to the *University of Otago, Department of Economics Seminar* series, March 2012.

## Working Papers in Public Finance:

A new series of working papers, '*Working Papers in Public Finance*', was launched in 2012 to assist with the early dissemination of research by the Chair in Public Finance and other researchers associated with the Chair. The series aims especially to publish work relevant to New Zealand and welcomes contributions from other researchers interested in public finance topics. The series is also available through RePEc (Research Papers in Economics) and SSRN (Social Science Research Network).

The following papers were published in 2012:

### WP01/2012

Bandyopadhyay, D., Barro, R., Couchman, J., **Gemmell, N.**, Liao, G. and McAlister, F., 'Average Marginal Income Tax Rates in New Zealand, 1907-2009'.

### WP02/2012

Claus, I., Creedy, J., and Teng, J., 'The Elasticity of Taxable Income in New Zealand'.

### WP03/2012

Carey, S., Creedy, J., **Gemmell, N.** and Teng, J., 'Regression Estimates of the Elasticity of Taxable Income and the Choice of Instrument'.

### WP04/2012

Creedy, J. and **Gemmell, N.**, 'Measuring Revenue Responses to Tax Rate Changes in Multi-Rate Income Tax Systems: Behavioural and Structural Factors'.

### WP05/2012

Creedy, J. and **Gemmell, N.**, 'Revenue-Maximising Elasticities of Taxable Income in Multi-Rate of Income Tax Structures'.



### WP06/2012

Creedy, J. and Héroult, N., 'Decomposing Inequality and Social Welfare Changes: The Use of Alternative Welfare Metrics'.

### WP07/2012

Creedy, J. and Moslehi, S., 'The Composition of Government Expenditure with Alternative Choice Mechanisms'.

### WP08/2012

Creedy, J., Halvorsen, E. and Thoresen, T. O., 'Inequality Comparisons in a Multi-Period Framework: The Role of Alternative Welfare Metrics'.

### WP09/2012

Gemmell, N. and Hasseldine, J., 'The Tax Gap: A Methodological Review'.

### WP10/2012

Gemmell, N. and Au, J., 'Government Size, Fiscal Policy and the Level and Growth of Output: A Review of Recent Evidence'.



## Other Papers

**Gemmell, N.**, 'Return to surplus the imperative behind most decisions', *New Zealand Herald* May 25th 2012.

McAlister, F., Bandyopadhyay, D., Barro, R., Couchman, J., **Gemmell, N.**, and Liao, G., 'Average Marginal Tax Rates for New Zealand, 1907-2009', *New Zealand Treasury Working Paper* WP12/04.

*The NZ Treasury*

## V.4 Research Supervision and Teaching

### PhD 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, both of whom maintain senior policy advice and/or research roles in the public service.

Student:

**David Law**  
(Senior Analyst,  
The Treasury)



Title:

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 questions 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:

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 jeopardizing 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 – Tohoku earthquake and tsunami; and United States – Hurricane Katrina.

## Summer Internship Projects

The Faculty of Commerce at Victoria University offers Summer Internships to undergraduate students to gain experience working with academic staff on small research projects over 10 weeks (December 2012 to February 2013). This year, the Chair in Public Finance is co-supervising three students (with colleagues in the School of Accounting and Commercial Law and the Institute for the Study of Competition & Regulation).

The three projects/students are as follows:

<p>Student:</p> <p><b>Anna Hamer-Adams</b> Supervisors: Norman Gemmell and Lisa Marriott</p>		<p>Title:</p> <p>The 'Investment Approach' to Social Welfare in New Zealand</p>
<p><b>Abstract:</b> This project is examining the 'investment approach' to social welfare payment setting, proposed by the 2011 Welfare Working Group in New Zealand (and adopted by the current government in its subsequent welfare reforms). It is assessing the merits of the approach and the extent to which the academic literature in economics and social welfare supports the idea. The project involves consultation with analysts at the Treasury and Ministry of Social Development.</p>		

<p>Student:</p> <p><b>Athene Laws</b> Supervisors: Norman Gemmell and Lisa Marriott</p>		<p>Title:</p> <p>The Distributional Impact of Taxes and Transfers in New Zealand</p>
<p><b>Abstract:</b> This project is describing and analysing the distribution of income tax, GST and the various social transfer payments (e.g. family tax credits, unemployment benefits) across individual and household income deciles. The objective is to (a) identify who gains from, and pays for, the various benefits and taxes in New Zealand; (b) how these distributional properties differ by age and gender; and (c) consider the merits of changes to the system that alter its distributional characteristics. The research is conducted in association with the NZ Treasury.</p>		

## Student:

### William Steel

Supervisors: Toby Daglish,  
Norman Gemmell,  
Lisa Marriott and  
Lincoln Gould  
(CEO, Booksellers NZ)



## Title:

Designing an Economic Methodology for the  
Collection of GST from Offshore Retailers

**Abstract:** Offshore online purchases valued at less than NZ\$400 are not subject to GST in NZ. This is likely to impact on the ability of NZ retailers to compete with online overseas retailers. The aim of the project is to review the literature on the impact of internet transactions on revenue authorities' potential and actual tax collections and to estimate the potential cost in lost GST revenue in N.Z. The project is also considering whether/how far cost-effective methods for collection of GST from offshore retailers may be possible. This Internship is supported financially by Booksellers NZ, a not-for-profit membership organisation representing almost 400 bookstores in New Zealand.

## Other Teaching

In addition Professor Gemmell contributed lectures or presentations to:

- VUW, School of Government, Financial Management in the Public Sector (PADM507) course in Trimester 2. Topic: 'Balancing the government's books while achieving economic growth'.
- VUW, School of Accounting & Commercial Law, Improving & Strengthening the Legal Framework for Resolution of Tax Disputes course. Training Programme for the Mongolian Revenue Authority delegation, 12-15 November 2012. Topic: 'New Zealand Tax Policy Issues'.

## V.5 Other Research Activities

During 2012, Professor Gemmell:

- Continued to serve as an elected member of the Council of the New Zealand Association of Economists (NZAE)
- Provided fortnightly peer-review of research and analysis produced as part of Treasury's Long-Term Fiscal Statement preparation
- Provided peer-reviews of submitted papers to the Treasury Working Paper series and a number of academic journals, including the European Economic Review, International Tax and Public Finance, National Tax Journal, New Zealand Economic Papers, Review of Public Economics (Hacienda Publica Espanola), and Public Finance Review.
- Contributed to the University of Oxford, Centre for Business Taxation, 2012 Summer Symposium as a session chair.
- Visited the School of Economics, University of Nottingham to pursue joint research with Professors Richard Kneller and Ismael Sanz
- Was invited to be an International Fellow of the Tax Administration Research Centre at the University of Exeter, UK.

## V.6 Research Associates

During 2012 the Chair in Public Finance has worked with a number of research associates and groups. These have included:

External Associates	Internal VUW Associates
<p>Mr. Joey Au (Treasury)</p> <p>Assoc. Professor Debasis Bandyopadhyay (Auckland)</p> <p>Mr. Simon Carey (Treasury)</p> <p>Dr Richard Fabling (MOTU Research)</p> <p>Professor John Hasseldine (New Hampshire)</p> <p>Professor Richard Kneller (Nottingham)</p> <p>Mr. David Law (Treasury)</p> <p>Ms. Fiona McAlister (Treasury)</p> <p>Dr. B. Moreno-Dodson (World Bank)</p> <p>Dr. F. Misch (ZEW, Mannheim)</p> <p>Ms Carolyn Palmer (Inland Revenue)</p> <p>Dr. M. Ratto (Paris)</p> <p>Dr. Lynda Sanderson (Treasury)</p> <p>Professor Ismael Sanz (Madrid)</p> <p>Professor Jose Sanz-Sanz (Madrid)</p> <p>Dr. Grant Scobie (Treasury)</p> <p>Mr. Josh Teng (Inland Revenue)</p>	<p>Professor John Creedy</p> <p>Dr Toby Dalgligh</p> <p>Dr. Lisa Marriott</p> <p>Assoc. Professor David White</p>
<p><b>Groups</b></p> <p>Treasury Macro Policy; Health &amp; Housing, Economic Research &amp; Analysis, and Tax Strategy teams</p> <p>Treasury Chief Economist Unit</p> <p>Policy Advice Division, Inland Revenue</p>	

# VI. Events

## VI.1 Public Finance Debates

The Chair in Public Finance, together with co-sponsor, the New Zealand Government Economics Network (GEN), organised a series of four 1.5 hour debates around some prominent NZ public finance topics from August – November 2012. The debates were co-chaired by Professor Norman Gemmell and Dr Girol Karacaoglu, Treasury Chief Economist and President of GEN.

A proposition was chosen each month (see below for details) and three speakers were given a role, as Proponent, Opponent and Commentator. Speakers were asked to make the case strongly for or against each of the above propositions to help clarify the strength of the arguments (and in the case of the Commentator, to summarise the two viewpoints).

The four debated propositions focussed on some 'key numbers' for New Zealand public finance policy settings:

**Debate 1: “A 0% cap on real per capita government spending growth would be a sensible objective for New Zealand” (August)**

Proponent:	Bryce Wilkinson	Capital Economics
Opponent:	Bill Rosenberg	Council of Trades Unions
Commentator:	Anne-Marie Brook	The Treasury

**Debate 2: “New Zealand should tax all its capital income at 28% or less” (September)**

Proponent:	Michael Reddell	Reserve Bank of New Zealand
Opponent:	Robin Oliver	OLIVERSHAW (Formerly, Policy Advice Division, IRD)
Commentator:	John Creedy	Victoria University of Wellington

**Debate 3: “The New Zealand Government should sell 100% of its SOE stake, not 49%” (October)**

Proponent:	Paul Dyer	Accident Compensation Commission
Opponent:	Lew Evans	Victoria University of Wellington
Commentator:	Arthur Grimes	MOTU Public Policy Research

**Debate 4: “A discount rate of 8% for public sector projects is too high” (November)**

Proponent:	John Yeabsley	NZIER
Opponent:	Martin Lally	Victoria University of Wellington
Commentator:	Bronwyn Croxson	Ministry of Health

Following a welcome and introduction from the Chair, each debate proceeded with a Proponent and Opponent each allowed 20 minutes to make their respective cases, followed by the Commentator who offered some “middle ground” and adjudicating comments. This led into a question and answers session with the audience, and a final straw poll show-of-hands gave an (unscientific!) indication of the debate ‘winner’.

Around 70-100 people attended each debate, with many staying behind afterwards for informal discussions over light refreshments. The end-of-debate straw polls suggested strong votes against the first two propositions (i.e. against a spending cap and lower capital tax rates), a vote in favour of selling all 100% of SOE shares, and an evenly divided audience on the question of whether the public sector discount rate should be lower than 8%.

Special thanks go to Joey Au, Treasury Analyst, for his enthusiastic support and development of the debates idea and to Heena Chhagan (GEN) and Cherry Chang (VUW) for their organisation of each event. Aidan and Katherine Meerman generously devoted their time and skills to produce a set of debate videos.

#### Debate 1 : ‘A 0% cap on real per capita government spending growth would be a sensible objective for New Zealand’

Highlight		<a href="http://youtu.be/SizdrzkvYng">http://youtu.be/SizdrzkvYng</a>
Full Video	(1 of 4)	<a href="http://youtu.be/8Hwd1gKveSE">http://youtu.be/8Hwd1gKveSE</a>
	(2 of 4)	<a href="http://youtu.be/SviNOC3FSsA">http://youtu.be/SviNOC3FSsA</a>
	(3 of 4)	<a href="http://youtu.be/U2S0VmfUlt0">http://youtu.be/U2S0VmfUlt0</a>
	(4 of 4)	<a href="http://youtu.be/oYCPpZeXdaM">http://youtu.be/oYCPpZeXdaM</a>

#### Debate 2: ‘New Zealand should tax all its capital income at 28% or less’

Highlight		<a href="http://youtu.be/u3tUZrD63Po">http://youtu.be/u3tUZrD63Po</a>
Full Video	(1 of 4)	<a href="http://youtu.be/akyP53_KCcQ">http://youtu.be/akyP53_KCcQ</a>
	(2 of 4)	<a href="http://youtu.be/DySHSDZrHxY">http://youtu.be/DySHSDZrHxY</a>
	(3 of 4)	<a href="http://youtu.be/m5Y8AhuFLu8">http://youtu.be/m5Y8AhuFLu8</a>
	(4 of 4)	<a href="http://youtu.be/5mkVTtg6fmw">http://youtu.be/5mkVTtg6fmw</a>

#### Debate 3: ‘The New Zealand Government should sell 100% of its SOE stake, not 49%’

Highlight		<a href="http://youtu.be/_xyoSo2yY_M">http://youtu.be/_xyoSo2yY_M</a>
Full Video	(1 of 4)	<a href="http://youtu.be/yt_CZoDbOkG">http://youtu.be/yt_CZoDbOkG</a>
	(2 of 4)	<a href="http://youtu.be/xmo45QOnrSQ">http://youtu.be/xmo45QOnrSQ</a>
	(3 of 4)	<a href="http://youtu.be/fk8R0zn7Mkc">http://youtu.be/fk8R0zn7Mkc</a>
	(4 of 4)	<a href="http://youtu.be/tcDBtYSTGg4">http://youtu.be/tcDBtYSTGg4</a>

#### Debate 4: ‘A discount rate of 8% for public sector projects is too high’

Highlight		No highlight
Full Video	(1 of 4)	<a href="http://youtu.be/aT28uZV0imw">http://youtu.be/aT28uZV0imw</a>
	(2 of 4)	<a href="http://youtu.be/5eibo0LhzZY">http://youtu.be/5eibo0LhzZY</a>
	(3 of 4)	<a href="http://youtu.be/3a_TfOnRUDw">http://youtu.be/3a_TfOnRUDw</a>
	(4 of 4)	<a href="http://youtu.be/W3yICYSQems">http://youtu.be/W3yICYSQems</a>

Following positive feedback from this year’s debates, we hope to organise another series in the latter half of 2013.



*Debate Audience*



*Prof. John Creedy, Debate 2 Commentator*



## VI.2 The Long-Term Fiscal External Panel of Experts

As part of its requirement under The Public Finance Act, Treasury are required to produce a statement on the Crown's long-term fiscal position at least every four years. These statements provide 40-year projections of the Crown's fiscal position, and identify challenges future governments are likely to face, for example, from society's ageing population.

In preparation for its 2013 statement, in 2012 Treasury established an external panel of independent experts and commentators with whom it tested its assumptions and analysis. Treasury invited Victoria University to host the Panel. Professor Bob Buckle, Pro Vice-Chancellor and Dean of the Victoria Business School chaired the Panel with the CPF organising the Panel sessions.

These 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;
- Provide a forum for presenters at the Affording Our Future Conference 2012, held in December 2012, to share, test and identify issues and options for their conference papers.

The panel met monthly from August to November 2012 with the following topics for each session.

**Session One** (Thursday, 30 August): Fiscal Framework and Projections.

**Session Two** (Wednesday, 26 September): Framework for Policy Analysis of Long-Term Fiscal Issues.

**Session Three** (Thursday, 25 October): Retirement Income and Tax Policy Analysis and Choices

**Session Four** (Thursday, 29 November): Health Policy Analysis and Choices, Combined Scenarios and Features of Enduring Reform



*Prof Bob Buckle (VUW),  
Chair of Panel*



*Session 1 Panel*

## VI.3 The Long-Term Fiscal 'Affording Our Future' Conference

The Long-Term Fiscal 'Affording Our Future' Conference, on 10-11 December 2012 brought together specialists and commentators to share their expertise, and was a critical part of Treasury's efforts to raise the quality and profile of the next Long-Term Fiscal Statement. The conference summarised months of intensive work conducted by an independent External Panel (see section VI.2 above) and invited the general public to contribute to the discussion. Around 200 people attended, including 25 young people taking part in the Long-Term New Zealand Workshop organised by the McGuinness Institute. <http://longtermnz.org>

Key questions addressed at the Conference included:

- How will population ageing and rising incomes impact on the cost of public health care, superannuation, and government finances?
- Will future governments be able to afford to provide the same public services in the future or without excessive increases in public debt and taxes?
- What are the policy options for addressing the future costs of population ageing?
- Will reforms to retirement income policy, health policy or other areas of fiscal policy be necessary?

### Speakers at the conference:

- **Omar Aziz**, Senior Analyst, Treasury
- **Geoff Bascand**, Government Statistician and the Chief Executive of Statistics New Zealand
- **Professor Michael Belgrave**, Professor of History, Social Policy and Maori Studies, Massey University
- **Professor Bob Buckle**, Pro Vice-Chancellor and Dean of Victoria Business School, Victoria University of Wellington
- **Dr Andrew Coleman**, Principal Advisor, the Treasury
- **Diana Crossan**, Retirement Commissioner



*Conference Audience*



*Rt Hon Simon Upton (OECD)*



*Hon Sir Michael Cullen*

- **Hon Dr Sir Michael Cullen**, Chair of New Zealand Post Ltd; Minister of Finance, Labour-led governments (1999-2008)
- **Professor Chris Cunningham**, Director, Research Centre for Maori Health & Development, Massey University
- **Professor Norman Gemmell**, Chair in Public Finance at Victoria University of Wellington
- **Professor Ross Guest**, Professor of Economics, Griffith Business School, and Adjunct Professor, Australia and New Zealand School of Government (ANZSOG)
- **Colin James**, journalist and analyst (whose contributions will be strictly analytical, not advisory)
- **Dr Girol Karacaoglu**, Deputy Secretary – Macroeconomics, International and Economic Research, the Treasury
- **Gabriel Makhlouf**, Chief Executive and Secretary to the Treasury
- **Professor Nicholas Mays**, Professor of Health Policy and Director, Policy Research Unit in Policy Innovation Research, London School of Hygiene and Tropical Medicine
- **Dr Patrick Nolan**, Chief Economist, Reform think tank, London
- **Dr Susan St John**, Co-Director, Retirement Policy and Research Centre, University of Auckland
- **Rt Hon Simon Upton**, Director, Environment Directorate, Organisation for Economic Cooperation and Development (OECD); Minister of the Crown, National-led governments (1990-1999)

### Some notable comments from the Speakers:

“(It is) hard to find a major fiscal adjustment to a crisis in the last generation or so in which those at the bottom of the heap, and those in the middle, did not come out a lot worse off than those at the top.” – Sir Michael Cullen

“New Zealand has an opportunity to act pre-emptively to address the consequences of population ageing in a considered way before the full impact impinges on the Government’s finances, and before the political challenges of introducing policy change make this task more difficult.” – Rt Hon Simon Upton

The Conference has been a useful exercise in assisting the Treasury to develop the 2013 Long-Term Fiscal Statement, and will be followed by several other events in 2013 in the run-up to, and following, the Statement.



*Gabriel Makhlouf (Treasury)*

## VI.4 Minister of Finance's Academic Economic Advisory Group Meetings

This small group of economics professors meets with the Minister of Finance three to four times per year to discuss current economic topics and wider economic issues of mutual interest. Sessions are organised by the Chair in Public Finance in association with the Minister's Office, and funded by the Dean of the Victoria Business School, Victoria University. In 2012, the group consisted of:

- **Professor Bob Buckle**, Pro Vice-Chancellor and Dean of Victoria Business School, Victoria University
- **Professor Lew Evans**, School of Economics and Finance, Victoria University
- **Professor David Fielding**, Department of Economics, Otago University
- **Professor Norman Gemmell**, Chair in Public Finance, Victoria Business School, Victoria University
- **Professor John Gibson**, Professor of Economics, Waikato Management School, Waikato University,
- **Professor Arthur Grimes**, Senior Fellow at MOTU Economic & Public Policy Research, Chair of the Board of the Reserve Bank, Chair of the Hugo Group and Adjunct Professor of Economics at the University of Auckland.
- **Professor Les Oxley**, Professor of Economics, Associate Dean Research – Dean's Office, Waikato Management School, Waikato University



# VII. Chair in Public Finance Website

The Chair in Public Finance website is hosted under the School of Accounting and Commercial Law within the Victoria Business School (<http://www.victoria.ac.nz/sacl/about/cpf/>).

In developing the work of the Chair this year, our website has become a vital tool to disseminate research and information on events. In addition to a mailing list, the website is used to provide up-to-date information of the Chair's activities, new data etc, to the public. For example, 2012 has seen the development of numerous research and events pages, with YouTube videos available in some cases. Research papers and material from conferences and debates are available for download.

Using Google Analytics we have begun to monitor our website traffic (see Appendix C for more details). This reveals peaks in traffic when email invitations were sent out or when media statements were released. The number of visits to various event webpages also highlights the importance of this tool as a form of public engagement.








Looking ahead to 2013, the CPF plans to develop the website in a number of ways, including hosting a tax data-hub and a long-term 'fiscal calculator' tool. The CPF has purchased the domain names [www.chairinpublicfinance.co.nz](http://www.chairinpublicfinance.co.nz) and [www.nzpublicfinance.co.nz](http://www.nzpublicfinance.co.nz). We plan to develop these sites, in conjunction with sponsors, for public finance data, interactive tools and research in addition to our current website.



# VIII. Financial Support

'Core' funding for the Chair in Public Finance has been provided by the Victoria University of Wellington, PricewaterhouseCoopers and three New Zealand government departments – Inland Revenue, The Ministry of Social Development and The Treasury. This permits the Chair to undertake most of the activities listed in this Report.

In addition, a number of organisations have provided financial &/or in-kind support for specific activities. In 2012 these included:

External Sponsor	Project/Event
The Government Economics Network 	The Public Finance Debates
The Treasury 	Long-Term Fiscal External Panel & Affording Our Future Conference
The Treasury 	Long-Term Fiscal Tax Calculator
The Treasury 	2012-13 Student Summer Internship
Booksellers NZ 	2012-13 Student Summer Internship
Inland Revenue 	Tax data collection & preparation
New Zealand Institute of Economic Research 	2012 Travel Award

We are grateful to all of these organisations this year for their support and encouragement of our work. This has enabled us to extend both the range and quality of events and research that we undertake. In addition, working with a number of external organisations and individuals has been a highlight of the year.



# IX. Plans for 2013

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

- Assisting the Scientific Committee of the International Institute for Public Finance (IIPF) in the selection of papers for the Annual IIPF Congress in Sicily in August
- Further development of the CPF website into a prominent vehicle for the dissemination of research, fostering of policy debates and interactions with officials and others interested in public finance issues
- The building of a tax data-hub and long-term ‘fiscal calculator’ for New Zealand via a new website.
- Continuing work with the Fiscal Affairs Department of the IMF in Washington D.C. to support developments in their tax revenue analysis programme (RA-GAP)
- A 2013 Public Finance Debates series
- Further public finance conferences and workshops.



*IMF Building, Washington D.C.*



*Victoria Law School at the Old Government Buildings, built in 1876 and one of the world's largest timber buildings.  
Location of the Chair's Public Finance Debates*

## ANNEX A Citation for the NZIER Economics Award 2012

The NZIER Economic Award's Operating Guidelines enjoin the Awarding Panel to "look for outstanding contributions to the advancement of economics and its applications in New Zealand". To qualify for the Award, a contribution "must advance economic matters of direct relevance to New Zealand", and must be "likely to be of long term lasting importance to New Zealand".

The recipient of the 2012 Award has made outstanding contributions in three distinct settings: in contributions to the international literature on fiscal policy (particularly in relation to taxation and public spending) and economic growth, in tax policy-making in New Zealand, and in setting up the Government Economics Network.

Before coming to New Zealand, the recipient of this year's Award established a strong international research reputation in the fields of development economics, growth, and public finance. His empirical work on the impact of human capital and taxes on economic growth, in particular, has helped to make him one of the most widely internationally cited economists in New Zealand, with papers published in such prestigious journals as the American Economic Review, the Economic Journal and the Journal of Public Economics.

In 2007 he joined the New Zealand Treasury as Principal Advisor, Tax Strategy, with a remit to develop the Treasury's medium-term tax policy advice. During his time at Treasury, and as a supporting official to the Tax Working Group, he used his strong analytical, empirical, and public policy skills to open up discussion on hard policy issues, based on applying multi-dimensional frameworks to policy analysis, producing new evidence on the behavioural and distributional effects of different policy options, and rigorously assessing the trade-offs between policy options. He combines a remarkable mix of academic rigour and effective real-world policy-making. He had the vision to first propose the February 2009 Victoria University conference on tax reform, which started the process that led to the creation of the Tax Working Group, which in turn was instrumental in provoking and informing a much-needed public debate on sustainable tax reform. This culminated in the Government's 2010 tax reform, described by the Minister of Finance as the biggest tax reform in 25 years.

His success in economic policy advice was recognised with his appointment in 2010 as Treasury's inaugural Chief Economist. During his time in that role, he set up the Government Economics Network. This was a new initiative for economists in the New Zealand public service, designed to help build the kind of economic capability necessary to support high quality economic policy advice across the public service. Now in his new role as the Chair in Public Finance at the Victoria University of Wellington, with support from three Government departments and PricewaterhouseCoopers, he is again pursuing his joint interests in economic research and policy advice, this time from within the academic research community.

The 2012 NZIER Economics Award is therefore given to Norman Gemmill.



## ANNEX B Professor Gemmell's Acceptance Speech of NZIER Award

### Acceptance speech by Norman Gemmell on receiving the 2012 NZIER Economics Award at the NZIER AGM, 28th August 2012.

Mr Chairman, Members of the Board, ladies and gentlemen.

To say that I am delighted and honoured to receive this award from the NZIER would be an understatement. Indeed when Michael Walls called me a short while ago to say that the Panel would like me to accept this award, 'understated' might best describe my reaction. I was so taken aback I was (almost) speechless. Not only because I consider my contributions to economics in New Zealand barely stand comparison with those of the previous recipients that I know – people like Bob Buckle, Arthur Grimes, Grant Scobie. But also perhaps because they, and others such as Gary Hawke, are such iconic New Zealand economists, I had assumed that only those with a long history contributing to New Zealand economics would be eligible. So I feel a real sense of privilege to be bracketed with such respected individuals.

When you receive an award like this it makes you reflect on your career – at least when you're my age! And I was reminded of that biblical parable from the New Testament known as the 'story of the prodigal son' (Luke's Gospel, ch. 15). It goes something like this.

Two sons are working on their, fairly wealthy, father's farm doing the normal things farming families do; and doing pretty well at it. But the younger son gets a bit bored with this life. So he asks his father for his half-share of the family farm inheritance. Father agrees. So, the NT tells us, he sets off for 'the far country' where he has a great time spending the inheritance riotously. You could say he went on his OE to "engaging in excess consumption" of Ferraris, Central Otago Pinot and Kim Kardashian (you're getting a modern Kiwi re-interpretation here!). But when the money runs out, Kim et al are not so keen on him anymore. So, dejectedly, he decides to go back to ask his father if he'll take him back – which of course he does unreservedly.

Now, you are probably wondering how this applies to me. Is New Zealand my 'far country' of excess consumption? And who's my Kim Kardashian!?

Actually, for me the 'home country' is economic research – the place where I first discovered the pleasures of applying economic ideas and principles to data. You could probably say that 'testing economic hypotheses' has been the bread-and-butter of my economics research. First stimulated by work with John Creedy (now at VUW) when he was a very young professor of economics at Durham University and I was a post-grad. John taught me so much about how to do empirical research and how to publish it. And he also first stimulated my interest in public economics issues in New Zealand when he arranged for me to visit the New Zealand Treasury in 2002 where we worked on a paper on the fiscal drag properties of NZ income taxes and GST – published in 2004. Actually this, and a companion 2002 paper, were the first to model the fiscal drag of consumption taxes analytically and led to a number of studies for other countries by ourselves and others.

But perhaps my academic research that has had most influence in New Zealand (certainly it is the most cited) was not specific to New Zealand, but rather relates to the linkages between fiscal policy and economic growth in OECD countries. In the mid-2000s, Treasury asked me to extend that OECD analysis, which excluded New Zealand, by adding New Zealand to the sample. They were trying to persuade Dr Cullen that cuts in corporate and personal taxes would be good for growth (and, incidentally, dissuade him from using recent revenue windfalls to establish Kiwisaver subsidies!).

In doing research I have always believed strongly in two principles. First, if research does not influence others (researchers or policy-makers) then it is an indulgent luxury at taxpayers' expense. Hence publishing and disseminating what we do is an absolute minimum requirement. Second, research on economic policy issues has to be firmly rooted in the second-best world of what is feasible in various political economy contexts. Knowing how to design optimal tax policy should a benevolent dictator seek such advice is not without its merits, but ultimately it is insufficient (and sometimes misleading) when trying to design tax reform that is implementable in a modern democracy.

Which brings me to the ‘far country’, because for me this was the world of tax policy advice in practice. In 2002, after 20+ years in academic research I was keen to try something different but which still used my basic analytical skills. That led to almost 4 years working on tax policy issues at the UK Treasury and Inland Revenue. That was both new and exciting (not exactly ‘riotous living’ perhaps, and certainly no Kim Kardashians!), but it gave me some fascinating insights into how politicians and advisers might use, and abuse, ‘evidence-based research’. That experience then led to me being offered the chance to come to New Zealand in 2007 and lead Treasury’s thinking on medium-term tax reform – in which, at the time, Dr Cullen had expressed some pre-election interest.

For me this was a huge privilege and opportunity to explore ‘fresh pastures’. I joined a Treasury tax team that, under Bill Moran’s superb leadership, encouraged the idea of evidence-based policy advice; advice that had to be robustly tested by putting it up against alternatives and by subjecting it to the scrutiny of outside experts. This was the process that led to the Tax Working Group in 2009, jointly undertaken by VUW, Inland Revenue’s Policy Advice Division and Treasury, and from which the 2010 Budget package emerged. Here I want to pay tribute to Matt Benge and Robin Oliver at IRD whose intimate knowledge of both the theory and practice of good tax policy in New Zealand served as a perpetual standard against which new thinking was tested.

Also, Bob Buckle’s public leadership of the TWG process was there for all to see. But what outsiders (and indeed often TWG members) didn’t see was his tireless working to bring out the best tax advice from a set of sometimes conflicting analyses or perspectives. I doubt that anyone could have better handled than Bob did as Chairman, the need to incorporate the best economic analysis and evidence with the delivery of an implementable, and politically feasible, tax reform package.

Of course, economists analysing optimal policy are often quick to denigrate the politicians who implement it – or more often don’t. Not without good reason perhaps when so many politicians main motivation is keeping themselves in office, which can be at odds with doing what ‘good economics’ dictates. But in the TWG process and the subsequent build-up to Budget 2010, Ministers English and Dunne were, in my view, models of how an economic advisor would want a Minister to behave. Persistently they gave us carte blanche to explore all options; they encouraged, not merely tolerated, careful evidence-based research; and they were willing to take forward to Cabinet reform ideas of which they had been persuaded but that they knew would take some persuasion for their colleagues to agree to. The final 2010 tax reform package contained elements that many sensible economists could legitimately disagree with, demonstrating the political compromises that are usually necessary to deliver any reform. However, without both Ministers’ open-minded approach, I doubt that much of what I and others did in advising on the 2010 tax package would have had much traction.

Now, as most of you will be aware, after four years in Treasury, initially as tax adviser and then as Chief Economist, I returned to the ‘home country’, or my ‘first love’, of academic research in 2011 to my current role as Chair in Public Finance at Victoria University. This really feels like ‘coming home’ to applied economic research. There are two really exciting new elements for me. The first is the opportunity to work on New Zealand unit record tax data to try to understand why and how taxpayers respond when tax changes occur. Secondly, one of the challenges of my new Chair is to try to demonstrate that good public finance research can be directly applied to New Zealand and can help with policy in practice. But rather than do it within the public service, I’m now doing it from within the research community.

What attracts me back to public finance research? Mainly it is the ability to show that economic theories, arguments and evidence can truly inform policy debates that, without economists’ input, would be misguided or at least less valuable. As an example, if I had time tonight I would show you a chart from the Final Report of the ‘Henry Review’ – Australia’s equivalent of our Tax Working Group, which examined the merits and problems of Australia’s tax system recently. That Report has a chart [below] showing the kilometres travelled by car by individuals paying Fringe Benefits Tax (FBT) on that travel.

If I told you that the median distance travelled was about 20,000kms per year, you might expect that the distribution of annual kilometres travelled by FBT payers would be approximately bell-shaped around that median. A few travel large, or small, distances with most bunched somewhere in the middle around 20,000. But the legislated FBT ‘tax rate’ per kilometre falls, on all kms. travelled, if you travel more kilometres – in particular it falls once you travel more than 15,000, 25,000 and 40,000 kilometres per year. And guess



what? An awful lot of people seem to travel just over those distances, and very few just below! Taxes change the way people behave, or say they behave, and in ways that non-economists or politicians often seem not to appreciate.

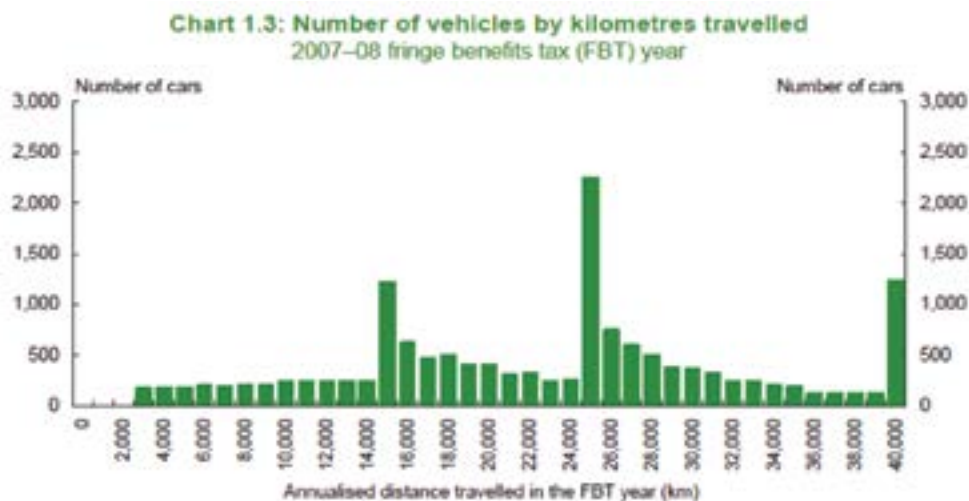
To finish, I leave you with a hypothesis (though hardly an economic one) that someone might like to test one day. My hypothesis is this: “that someone, such as myself, who has made at most a modest contribution to their chosen profession, gains more pleasure when that contribution is recognised by others, than those more famous who have made world-beating contributions”; (a kind of “diminishing marginal utility of recognition” perhaps?) Of course, this hypothesis stems from the worst of all possible scientific methods – namely generalisation from a non-random sample of one! However, I can certainly say that, to be recognized by the NZIER and the independent Panel, in this award, is an enormous source of pleasure for me. And if, as the award conditions state, my contributions turn out to have “lasting importance for New Zealand”, no-one will be more pleased than me.

Since my wife and I came to New Zealand almost exactly 5 years ago, we have felt so welcomed by the country and by so many New Zealanders, several of whom are here tonight. In response, the least I can do as a professional economist is to repay that privilege, by trying to focus my professional contributions on the country that has been so welcoming.

Members of the NZIER Board and the award panel: thank you very, very much. I am truly honoured to receive this award. Rest assured I will refer to it shamelessly in my New Zealand citizenship application to convince them that the country’s economic welfare would go into steep decline without me!

Thank you.

**Norman Gemmell**



Source: Australia’s Future Tax System (‘Henry Review’, 2009), Chart 1.3

## ANNEX C Google Analytics Output for Sept-Dec 2012

From mid-September we have begun to monitor the CPF website traffic. The charts below indicate the number of site visits and time spent on individual pages. (The Data do not include views of Debate or Conference YouTube videos accessed directly rather than via CPF website; e.g. by clicking on emailed YouTube links).

### September 15th -30th, 2012 (Note: Analytics not collected before this period)



**Emails sent out:** Sept 6th, Sept 12th, Sept 25th

**Event dates:** Sept 26th, Sept 28th

**Media release dates:** Sept 18th, Sept 25th

**Analysis:** Peaks corresponded to email invitations to debates and following media releases of Long-Term Fiscal External Panel (in conjunction with Treasury).

### October 2012



**Emails sent out:** Oct 8th, Oct 9th, Oct 17th- Oct 19th

**Event dates:** Oct 24th, Oct 25th, Dec 10th- Dec 11th

**Media release dates:** Oct 17th, Oct 24th

**Analysis:** Peaks corresponded to email invitations to debates and the Affording Our Future Conference and media releases of Long-Term Fiscal external panel (in conjunction with Treasury).

## November 2012



**Emails sent out:** Nov 6th, Nov 7th, Nov 9th, Nov 20th, Nov 27th

**Event dates:** Nov 23rd, Nov 29th, Dec 10th- Dec 11th

**Media release date:** Nov 23rd

**Analysis:** Peaks corresponded to email invitations to debates and the Affording Our Future Conference and media releases of Long-Term Fiscal external panel (in conjunction with Treasury).

## December 2012



**Email invitations:** Dec 6th

**Event dates:** Dec 10th- Dec 11th (Conference papers released from Dec 6th – 11th)

**News articles on the Conference:** Dec 11th- Dec 16th

**Analysis:** Peaks correspond to an email reminder about the Conference and an email notification of Conference papers online. Conference papers continued to be downloaded up until a few days prior to Christmas. Journalist reviews of the Conference probably also helped to drive web traffic.



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