

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 or 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.

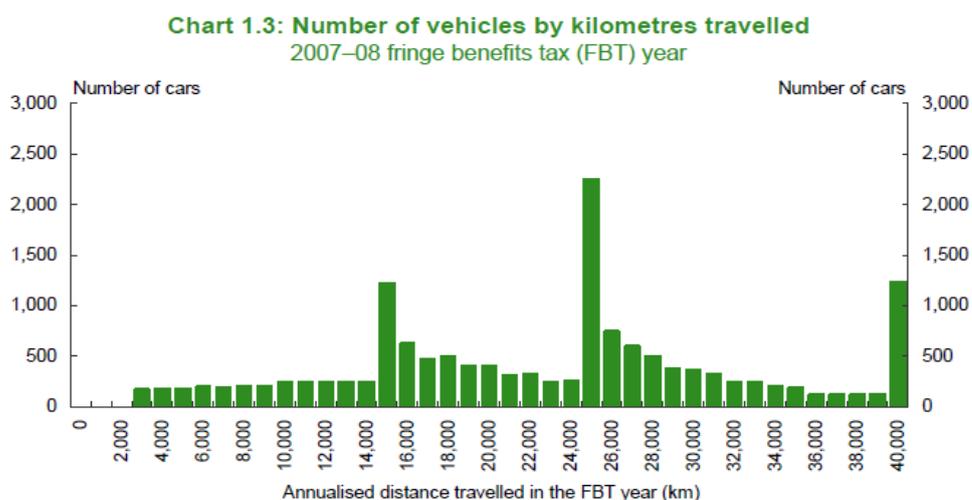
To finish, I leave you with a hypothesis (though hardly an economic one) that someone might like to test one day. My hypothesis is this: “that someone, such as myself, who has made at most a modest contribution to their chosen profession, gains more pleasure when that contribution is recognised by others, 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