



# NZCM



<https://www.nzmacro.org/>

## NZCM Newsletter #1

The goal of the New Zealand Centre for Macroeconomics is to improve the quality of macroeconomic research in New Zealand. By creating a hub, the NZCM hopes to facilitate research interaction between local academics, their interaction with the policy researchers, and aid the development of graduate students in macroeconomics. New Zealand is a prototypical small open economy of many macroeconomic models, open wide to capital and trade flows, with an active policy discourse to promote competitiveness, and a strong history of engagement in the economic development of the Asia-Pacific. For these reasons, the NZCM starts up with four research programmes: International Economics; Monetary policy, financial stability and macro-financial linkages; NZ macro-economy, productivity and regional development; and Economic growth and development. In addition to organizing regular workshops, NZCM disseminates research of its members by circulating working papers as NZCM working papers, disseminated on our webpage ([www.nzmacro.org](http://www.nzmacro.org)), and in the social media. In the coming months, these are going to be indexed on RePEc for more visibility. We hope to facilitate visits of leading international researchers in macro-related issues to New Zealand and promote the “sharing” of the visitors across member institutions.

Much remains to be achieved, and there has been welcome initiatives from the members. I am developing a proposal to the members to organize a New Zealand Summer School in Macroeconomics, where graduate students and possibly interested policymakers would take a battery of block courses in macro, while also obtaining feedback on their research. I am also working to further the links of NZCM with the policymakers, many of whom were interested in the development of joint research objectives during the Policy Forum organized in February. These might lead to some more sustainable financial structure, allowing the NZCM to operate beyond the three-year seed funding from Massey University.



Martin Berka, Director New Zealand  
Centre for Macroeconomics

NZCM will aim to facilitate special issues in prominent international journals as one way to promote research. In his position of the editor of the Journal of Economic Surveys, Les Oxley has kindly allocated a special issue of the journal in the second half of 2019 to a topic in the area of open-economy macroeconomics that will be of interest to many members (details will be available shortly). Subject to the member interest, New Zealand Economic Papers may also be interested in offering a special issue.

Some of the members will be attending the 2018 Workshop of Australasian Macroeconomic Society in Queenstown this November. I suggest that those interested have an informal meeting at some point during the workshop, and use it to develop more concrete proposals for collaboration. Please contact me if you are planning to come.

## **New Zealand Centre for Macroeconomics**

### **By Robert Kirkby**



Two promised advantages of the New Zealand Centre for Macroeconomics were on display in early 2018 at the Inaugural Workshop: showcasing quality macroeconomic analysis of New Zealand, and providing people with direct feedback on that work. This workshop promises to help analysis of New Zealand reach a higher level by both exposing people to high quality research, and providing feedback to improve the quality of projects underway. If this leads to higher standards of analysis, the Centre will already be a success!

The New Zealand Centre for Macroeconomics offers many possibilities beyond just this workshop. One difficulty with researching the New Zealand economy is the often widely dispersed outlets in which earlier studies appear. Providing a go-to listing of this research, pointing out existing work by topic would be tremendously useful. While Google can find such works when we know what to ask for, a listing would alert us to the many works we simply are unaware have

been performed. This would be especially helpful for many junior researchers and graduate students, who are often interested in working on New Zealand, but unsure of where to find out what has already been done. It would also make it much easier to find existing estimates for many questions of interest for New Zealand. Currently, Macroeconomic analysis of New Zealand tends to involve reinventing the wheel with every project, being easily able to access earlier works would allow research to build on them - to see further by standing on the shoulders of giants, as Isaac Newton put it. Complementary to providing a listing of existing research, would be providing a listing of available data sources. Beyond those of Stats NZ, other potential data for New Zealand tends to be dispersed and just knowing its existence would help.

More ambitious would be a blog-style outlet summarising recent New Zealand focused Economics research, along the lines of VoxEU.org. This would provide short summaries of research on the New Zealand economy, intended for audiences beyond the researchers themselves. This might involve a mixture of research on both contemporary and historical aspects of the New Zealand economy.

All of this comes back to the same main objective. The New Zealand Centre for Macroeconomics presents an opportunity to generate a higher quality of Macroeconomic analysis for New Zealand. Part of this will come from improving the standard of analysis being performed, and part from making such analysis easier to find and access.

The Inaugural Workshop of the New Zealand Centre for Macroeconomics certainly showed that the potential is there. If that momentum can be maintained the next few years should see it realised!

## **Macroeconomics in the 21st century: Less hubris and more history would help**

**By Les Oxley**

### **Challenges for macroeconomics (in New Zealand)**



I would propose that many of the challenges macroeconomics faces in New Zealand (apart from perhaps recruitment and retention of appropriately trained economists into posts that require these skills), are global problems, some of which we have brought upon ourselves.

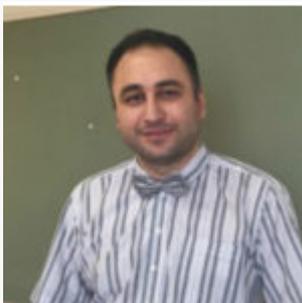
There is little doubt, except from John Quiggin's *Zombies* not even a good dose of fire and brimstone from the GFC can seem to kill, that macroeconomics has got some work to do to (re)establish itself as a credible influence on society, government and perhaps even students. Maybe that's a bit unfair, economics in general faces some reality checks (and balances) on what it claims it can address and answer. Interesting and clever as it was, *Freakonomics* has set us up for a fall when it promised anything and everything has an economic narrative and importantly, if you only understood what we (as economists) knew all along every human-based question or

problem would be predictable, understandable and solvable when appeal is made to for example, rationality. The colonizers of the intellectual high ground that we, as economists, have become needed and still need a daily dose of anti-hubris - "I can smell the hubris on your breath", - for those of us infected, and immunization against it of the next generation as part of the university enrolment process. Add-in a diet rich in economic history, heterogeneous agents, financial frictions, genuine attempts to model uncertain futures and some old fashioned learning from (other) behavioral sciences, and the foundations of a discipline that somehow lost its way when rationality (or perfect foresight dressed-up with a little bit of a random error process) and calibration took over from observation, and institutions (if they were considered at all), were assumed 'too big to fail' or always working in their customers long term best interests.

In many ways the invention and marketing of the "Great Moderation" in 2002 and its 'collapse' – I'm not sure something that was an illusion could collapse - with the GFC in 2007-08 shows how macroeconomics was way out of touch. Follow this with the "Great Recession" and we have two Great events either side of a vacuum of macroeconomic insights, solutions or real recognition that the discipline was caught asleep at the wheel. At least the bad press on driverless cars has led to recall and re-engineering of what is inherently a good idea. Macroeconomics and macroeconomists seem to have their heads-down waiting for the next Great thing to happen, hoping it is a good thing that they can claim.

So where to from here? As, amongst other labels, an applied time series econometrician, calibration never did it for me. If it did have merit, it was often tied-up in a linear world of local equilibria where uncertainty was slipped in as some low variance 'noise', symmetric and generally normal. Twenty-five, or fifty basis point simulations seemed to work OK, but whom would dream of trying 250 or 300, that would just be a waste of time. Really? It sort of worked during the early 2000s – like the driverless car on an interstate highway in the mid-west, - but when the car hit gravel, well the rest is (neglected) history. Some fat tails came along, but in most cases their introduction has been seriously neglected. Big data doesn't necessarily mean that we can answer all our problems either though, detailed patterns are one thing but we still have to ask some sensible and non-obvious questions where the answers really matter. Please click [here](#) for the entire article.

## A Glimpse of Some Recent Research on Economic Growth By Murat Üngör



The field of economic growth blossomed after the contributions of Robert Solow in the 1950s. During the 1960s and 1970s, there was a surge of theoretical and empirical contributions. On the one hand, interest in the measurement and sources of economic growth was at the centre of the research agenda pursued by scholars such as Edward Denison, Dale Jorgenson, Zvi Griliches, and John Kendrick. On the other hand, the application of the Hamiltonian approach to dynamic economics was at the centre of modern theory of optimal growth with significant contributions from scholars such

as Hirofumi Uzawa, Karl Shell, David Cass, and some others.

Our knowledge on the mechanics of economic growth has expanded considerably over the 1980s and 1990s, and we have learned a lot from the theories of Robert Lucas, Paul Romer, Philippe Aghion, Peter Howitt, Elhanan Helpman, and Gene Grossman, and some many others.

Philippe Aghion and Steven Durlauf have assembled a great collection of papers in Volume 1 (published in 2005) and Volume 2 (published in 2014) of the Handbook of Economic Growth. These two volumes provide very comprehensive assessments of our knowledge of economic growth (and its determinants) and summarise advances in theoretical and empirical research in the field. Since then there has been new research in several important areas of the subject, and today the literature on economic growth remains as vibrant as ever.<sup>2</sup> In this short piece, I highlight some of the exciting and important current research in the field of economic growth. Please click [here](#) for the remaining of the article.

## **New Zealand's productivity performance**

### **By Ryan Greenaway-McGrevy**



It is well-known that New Zealand's productivity performance has lagged behind that of other developed nations for some time now. The past seven years have been particularly disappointing: GDP per capita has barely budged, while asset prices have skyrocketed.

While productivity is not the be-all-and-end-all when it comes to enhancing the welfare of our society, it certainly helps. In that regard, unaffordable housing in our main urban centres is a significant impediment to improving our productivity.

Cities exist for a reason: they are very productive places. Firms and workers cluster together to reap the agglomeration efficiencies that drive growth and cultivate the hi-tech STEM, IT and creative industries.

But high housing costs erode the benefits of agglomeration and restrict growth. And although there is a substantial body of peer-reviewed research to back up that claim, it is not rocket science: High house prices push workers to move to where housing is affordable – not to where their labour is most productive.

If we want to wean our economy off low value-added, volatile commodities, and encourage further growth in our own home-grown STEM and IT sectors, we must first ensure that our cities are affordable. Achieving this goal will require careful, evidence-based research to inform and contribute to policy-making.

## **Summary of the Inaugural workshop**

### **By Martin Berka**

The Inaugural workshop of the New Zealand Centre for Macroeconomics took place on February 22 – 23, 2018 at Massey University's Palmerston North campus. The workshop was sponsored by the Treasury and consisted of academic research presentations and a Policy Forum. NZCM members presented their research in the areas of Financial stability and financial frictions (chaired by Prasanna Gai), Inflation and unemployment, Monetary policy in open economies (chaired by Özer Karagedliki), and Economic growth and development (chaired by Rukmani Gounder). The Policy Forum was chaired by Girol Karacaoglu and included the chief economists and managers from the New Zealand Treasury, the Ministry of Business, Innovation and Employment, and the Productivity Commission. The Policy Forum saw an honest discussion of the barriers to pursuing economic research projects in New Zealand. Some academic members highlighted the difficulty in accessing detailed statistical data from Statistics New Zealand, and limited funding to pursue data-intensive local projects, as key reasons for the limited research output on New Zealand.

Among the most important results of the workshop was the brainstorming of ideas to further develop research interaction in applied macroeconomics and related areas, both amongst the academics and between academics and policymakers. These included special issues of journals, joint PhD projects, a graduate summer school in macroeconomics, organization of conferences, and development of joint projects with interested policy-making agencies.

## **Working papers**

### **By Martin Berka**

Please find below the Working Papers, which have been added to the website (<https://www.nzmacro.org/working-papers/>):

#### **WP1 Real Exchange Rates and Sectoral Productivity in the Eurozone**

Martin Berka, Michael B. Devereux and Charles Engel  
International Economics

#### **WP2 Trade-Driven Sectoral Upgrading and the Global Imbalances**

Haiping Zhang  
International Economics

#### **WP3 Vietnam: The Next Asian Tiger?**

Tom Barker and Murat Üngör  
Economic Growth and Development

I strongly urge members to send their working papers to [admin@nzmacro.org](mailto:admin@nzmacro.org) so they can be circulated on our webpage and through our newsletters. Please also keep us updated about any publication successes so that we can circulate them within our network.