

Motu

ANNUAL REPORT

July 2005 to June 2006



Chairperson's Report

I am writing this in Finland. This is a small country like New Zealand. Yet the real incomes of the Finns vastly exceed those of the Kiwis (well, at least those of us who have remained in New Zealand).

For over 800 years Finland was overrun and ruled by foreign powers—first the Swedes, and then Russia. The twentieth century brought mixed fortunes. While independence was achieved in 1917, Britain declared war on Finland in 1941, when the Finns had drawn close to Germany as a way to stall a threatened attack from Russia. Peace and stability really came for the first time in 1948, at which time Finland was a war-torn, poor, mainly rural society.

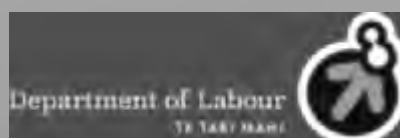
The transformation has been truly stunning. One is drawn at once to ask: what really explains this economic performance? There is never a simple answer to that question. True, Finland is relatively close to European markets but it lies above a latitude of 60° north and so suffers long, harsh winters. It has limited agriculture (supported doubtless by European subsidies), and plenty of fish. But there are high costs to maintain basic services and infrastructure, with low population density and a harsh environment. Large icebreakers are needed to keep open a minimal number of essential shipping lanes in the Baltic every winter.

Stable institutions, the rule of law, protection of property rights, and judicious investment in infrastructure, health, and education must all be candidates to explain Finland's success. In short, public policies matter. The contrast with Estonia, a mere 80km across the Baltic from Helsinki, is marked. Here is a country struggling to establish a new order and put in place the building blocks of a prosperous society. It is pulling down both the buildings and the institutions of its recent past. Sad to tell, New Zealand looks more like Tallinn than Helsinki.

No country can simply adopt the path followed by another. The ecological, social, cultural, and historical contexts all differ and there is no simple magic bullet to achieve sustainable economic development. But it is always instructive to learn from the successes and failures of others.

In large part, New Zealand's progress to having higher living standards will reflect the choices we make. Of course some forces will act from outside, but their impact can be modified by how we respond. In the end, whether we build a prosperous society—a Finland in the South Pacific—will depend in large part on the policies we adopt.

Patrons

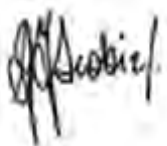


No country can expect to develop a cogent set of policies without vigorous and open debate. Motu's fundamental strength is its ability to undertake the research that informs that debate. That ability in turn reflects the quality of the staff and our affiliates, and our contribution comes through the dissemination of rigorous analysis of an international standard. In doing this we aim to contribute to New Zealand's capacity to undertake public policy analysis. As Motu's reputation has grown, it has been able to take a lead role in developing collaborative research programmes, building on wide local and international expertise.

This is a lofty aim, and Motu could not have established itself as a leading centre for public policy analysis without the support of the wider community. In the past year we have significantly expanded our Patrons Programme, establishing alliances with key government agencies and a range of commercial companies which have a strong interest in sound public policy debate. This is a further important development in the long-term support of public policy research in New Zealand.

Undertaking long-term policy studies whose results are widely disseminated presents many challenges, not the least of which is the funding. Motu has been successful in winning research grants, and acknowledges the support of the funding agencies. Our dissemination involves many channels, but the Motu Public Policy Seminar Series has been particularly successful. We fully acknowledge the support of a number of departments in making this series possible.

Finally, I would like to express my thanks to the staff for their dedicated work, and to my fellow trustees for their support. As a founding trustee I will be stepping down from the Board this coming year. After more than 6 years as Chair, it is time for a change. I have presided over the growth of Motu from a fledgling group with an uncertain future to a strong independent organisation with a formidable record of output and a solid base of support. This has been one of the most rewarding challenges I have had. I am confident that Motu will continue to be the pre-eminent source of public policy research in New Zealand. Its work will continue to contribute to the policy debates through rigorous analysis of relevant issues. That is one element of higher living standards for all New Zealanders.



Grant M Scobie



Acting Director's Report

2005/06 was another successful year for Motu.

One of the many highlights was securing funding from the Foundation for Research Science and Technology (FRST) for a major 4-year research project into aspects of New Zealand's infrastructure. Dr Arthur Grimes will lead this project which will include New Zealand and international experts on infrastructure, regional economic analysis, and economic development.

We continued to make good progress on our major research programme "Adjustment and Inequality", which forms the core of our population and labour economics research and research on local markets. Dr Dave Maré and Dr Steve Stillman lead this programme. During the year they held a very useful workshop for key stakeholders to review the research to date, to seek input into the balance of the programme, and to discuss effective ways to report on and disseminate the research outcomes.

Dr Steve Stillman led our research into a range of labour and migration issues including the impact of immigration on the geographical location and mobility of New Zealanders. Together with Dr John Gibson, he also analysed the impact of migration on the wealth and health of Tongans and Fijians who migrate to New Zealand.

Dr Arthur Grimes led a major research project that examined aspects of New Zealand's housing and rental markets. The key streams of work analysed regional housing markets, the behaviour of house prices, land prices and housing supply, and the relationship between rents, house prices, and socio-economic characteristics of communities.

While on sabbatical in Chile, Dr Suzi Kerr continued to lead Motu's major research programme studying human-induced land-use change processes and their implications for the environment, and modelling possible management systems at national policy level. Suzi also continued to develop a multi-disciplinary programme of market-based instruments for resource management and environmental protection, and coordinated a research project on consensus-building for measures designed to improve water quality.

During the past year Motu's research activities had an increased focus on establishing closer working relationships with end users, and on expanding our collaborative research activities. Both initiatives were very successful, and will significantly enhance the potential benefits resulting from our public policy research.

In particular, we strengthened our links with a number of key government agencies and private sector groups through our Patrons' Programme. The Board of Trustees decided to establish a Motu Research and Education Foundation which will give organisations that support Motu's objectives an opportunity to assist with funding independent public policy research and related activities. The funds generated by the Foundation will enable Motu to broaden and deepen the research it already undertakes, and to embark on other public policy research that is not funded from the usual sources.

Motu remains strongly committed to enhancing New Zealand's capacity for public policy research. During the year two very highly qualified new graduates, Kelly Lock and Melanie Morten, joined the team as Research Analysts. We continued work on our major data initiative with a website that provides information on all our data sets. We also strengthened our contacts with the Māori research community, and established a scholarship for a student of Māori descent undertaking an Honours or MA thesis.

As part of our objective of promoting wide public debate on important public policy issues, we again ran well-attended public seminars on a wide range of topics. The presenters included Motu's Senior Fellows and Affiliates, and a number of eminent international researchers.

Over 2005/06 Motu further consolidated its role as a leading independent economic research institution with strong and growing international linkages.

For me as Acting Director it was a stimulating year, working with many talented people who are extremely committed and passionate about their work.

On behalf of Motu, I would like to thank all those persons and organisations with whom we worked during the year, and who helped us in many ways to meet the challenging goals we set ourselves.

A handwritten signature in black ink, reading "Rob McLagan". The signature is fluid and cursive, with a prominent flourish at the end.

Rob McLagan
Acting Director



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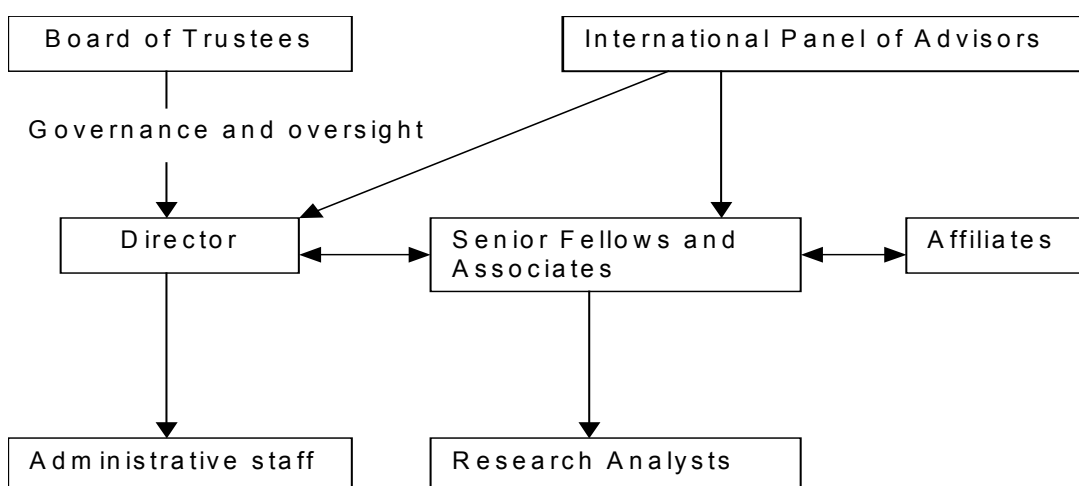
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Motu Purposes and Structure

Purposes

1. Carrying out and facilitating empirical and theoretical research on public policy issues relevant to New Zealand: the quality of the research will meet international academic standards, and be suitable for acceptance in reputable academic journals.
2. Making existing knowledge more accessible for policy debates in New Zealand: this may be done by summarising and critically reviewing existing work on public policy issues, or by contributing to and facilitating policy discussions through seminars, workshops, and dialogue groups.
3. Disseminating the results of our work and knowledge through publication (particularly in refereed publications), the Internet, conferences, seminars, workshops, dialogue groups, and teaching.
4. Building New Zealand capacity to carry out empirical and theoretical research on New Zealand public policy. This will be done through means such as training, collaboration, sponsorship of students or researchers, and development of New Zealand databases.
5. Maintaining close links with international experts working on topics related to our purpose through communication and collaboration.
6. Advancing our work and purpose within New Zealand by facilitating the visits of relevant international visitors.

Structure



Board of Trustees



Dr Grant Scobie
Trustee and Chairperson since September 2000

Grant received his undergraduate degree from Massey University in Palmerston North. After completing a Master's degree in Australia, he was awarded a PhD in Economics from North Carolina State University. His major areas of interest and research have been in the economics of research and development, agricultural research, international trade, and economic growth and development. As well as holding research positions in the Australian and New Zealand governments, Grant has been an Associate Professor of Economics in the United States, and was Professor of Economics and Chair of the department at the University of Waikato. He served as a member of the Todd Commission on Funding Education and was a lay member of the High Court of New Zealand between 1993 and 1995. He has held a number of positions and consultancies with the Consultative Group for International Agricultural Research, and between 1995 and 1999 was Director-General of the International Centre for Tropical Agriculture in Colombia. Grant received the New Zealand Institute of Economic Research Economics Award for 2004. He joins a small but select group who have received this prestigious award. Grant is currently Principal Advisor in Policy Coordination and Development in The New Zealand Treasury. He is a National Board Member for Save the Children and serves as Chairman of their Overseas Programme Committee.



Apryll Parata MNZM
Trustee since October 2002

Apryll is of Ngati Porou, Ngai Tahu descent, and was educated at Ngata Memorial College, the University of Waikato, and Auckland Teachers College. Apryll embarked on a career in education in 1983 and within 10 years had progressed from being a first-year assistant teacher in Māori and English to becoming, as Principal of Ngata Memorial College, the youngest secondary school principal in New Zealand history, and the only female principal of a state co-educational school in 1992. In 1997 Apryll was awarded the New Zealand Order of Merit (MNZM) in the New Years Honours List for outstanding service and performance in education as the Principal of Ngata Memorial College. She is currently the Executive Director of Gardiner Parata Limited (Wellington), which specialises in advising on public policy, negotiations, and consultation.



Dr Steve Thompson
Trustee since October 2002

Steve has a PhD in Agriculture and an Honours degree in Agricultural Science from the United Kingdom. He has a Master's degree in Economics from Canada and is a graduate of Canada's National Defence College and the Queen's University Programme for Public Executives. He has an academic background in agriculture, economics, and business, and extensive experience in science management. Steve was Chief Executive of the Foundation for Research Science and Technology from 1997–2000. He is currently Chief Executive of the Royal Society of New Zealand



Dr Roderick Deane
Trustee since October 2004

Roderick has had an extensive career in business as a Director of New Zealand and Australian companies and earlier in the public sector and central banking. He is currently Chairman of Fletcher Building Limited and the New Zealand Seed Fund, and is also Director of Woolworth's Limited based in Australia. Dr Deane was CEO of Telecom Corporation of New Zealand Limited from 1992 to 1999 and Chairperson from 1999 to 2006. He recently retired as Chairman of the ANZ National Bank Limited, as Chairman of Te Papa Tongarewa (the Museum of New Zealand), and as Chairman of the City Gallery Wellington Foundation. He is Patron and on the Board of Governance of IHC Inc (New Zealand's largest charitable organisation). In the past, Dr Deane has been involved in the executive branch of government as Chairman of the State Services Commission, Deputy Governor of the Reserve Bank of New Zealand, and as Alternate Executive Director of the International Monetary Fund. Dr Deane was named Chief Executive of the Decade in 1999 in the top 200 New Zealand Corporate Awards. He has an Honorary LLD from Victoria University of Wellington.



Colin James
Trustee since October 2004

Colin is a political journalist of 30 years experience and was political columnist of the year in 2003. He writes a weekly political column in *The New Zealand Herald* and a monthly column in *Management Magazine* and is an occasional commentator on radio and television. Colin is the New Zealand correspondent for Oxford Analytica. He is an associate of the Institute of Policy Studies at Victoria University of Wellington. Colin is managing director of The Hugo Group, a forecasting panel with a membership of around 80 medium-to-large corporates. He is frequently asked to make presentations on the strategic environment to companies, industry associations, government departments, and other groups. Colin has written six books. He has occasionally lectured in politics at the University of Canterbury, and has contributed papers to academic seminars in New Zealand, Australia, Japan, and the United Kingdom. Colin has held several university fellowships, including JD Stout Research Fellow at Victoria University in 1991 and inaugural New Zealand Fellow at the Centre for Comparative Constitutional Studies at Melbourne University in 1993.

Senior Fellows and Associates



Suzi Kerr
Director and Senior Fellow

Suzi graduated from Harvard University in 1995 with a PhD in Economics and was an Assistant Professor at the University of Maryland between 1995 and 1998. She has been a visiting scholar at the Massachusetts Institute of Technology (MIT) and at Resources for the Future (RFF). Suzi's research work empirically and theoretically investigates domestic and international emissions trading issues with special emphasis on climate change regulation, emissions and sequestration related to land use in New Zealand and the tropics, and the New Zealand Fisheries Individual Transferable Quota (ITQ) system. She is the programme leader for Motu's "Adjustment and Inequality" research project (funded by the New Zealand Foundation for Research Science and Technology (FRST)), and is the research leader of Motu's "Land Use, Climate Change and Kyoto: Human Dimensions Research to Guide New Zealand Policy" research project, also funded by FRST.



David C. Maré
Senior Fellow

Dave completed his PhD in Economics at Harvard University in 1995. Before joining Motu he was at the Department of Labour. His research focuses on empirical labour economics, covering a broad range of topics including geographic labour markets, income distribution, migration, firm dynamics, the effectiveness of active labour market policies, and education and training issues. He is the research leader of Motu's FRST-funded project "Adjustment and Inequality".



Steve Stillman
Senior Fellow

Steve received a PhD in Economics from the University of Washington in 2000 and is an affiliated research fellow at the Institute for the Study of Labor (IZA) and the William Davidson Institute. Before joining Motu, Steve worked as a senior research economist at the New Zealand Department of Labour and was a postdoctoral fellow at the RAND Corporation. Steve's research focuses on empirical labour economics, specialising in the behaviour of individuals and households. In recent research on New Zealand, he has examined the effect of a large change in minimum wage rules on youth labour market outcomes; the effect of suffering injuries on future labour market outcomes; the relationship between employment history, time receiving benefits, and successful transitions off benefits; and long-term trends in youth employment and educational activities.



Arthur Grimes
Senior Research Associate

Arthur completed his PhD in Economics at the London School of Economics in 1987. He received a number of academic prizes and awards, including the Ely Devons Prize for best student in MSc(Econ), the Robert McKenzie Prize for Outstanding Performance in MA, MSc, MPhil, or PhD degrees, and the Sayers Prize for Distinguished Thesis in Monetary Economics. Before joining Motu, Arthur was Director of the Institute of Policy Studies, Victoria University of Wellington, and had prominent roles at the Reserve Bank of New Zealand and National Bank of New Zealand. He has published papers on finance, banking, and monetary, macroeconomic, and economic reform topics in international academic journals, and has contributed to many policy and practitioner journals. Arthur is Chair of the Board of the Reserve Bank and Adjunct Professor of Economics at the University of Waikato.



John Gibson
Senior Research Associate

John graduated from Lincoln University and completed his doctorate from Stanford University. His teaching and research interests are in microeconomics and in the microeconometric aspects of development, labour and the international economy. Currently John is Professor of Economics at the University of Waikato.

International Advisory Panel



A. Denny Ellerman
Massachusetts institute of technology

Denny is a leading energy economist and is recognised internationally as an authority on emissions trading and coal economics. He is the Executive Director of the MIT Joint Program on the Science and Policy of Global Change and the Center for Energy and Environmental Policy Research. His current research interests focus on the US nitrous oxide emissions trading programmes and emissions trading as a component of climate change policy. Denny is co-author with Sloan School colleagues of *Markets for Clean Air: The US Acid Rain Program*. He has a PhD in Political Economy and Government from Harvard University.



Edward Glaeser
Harvard University

Edward is a Professor of Economics in the Faculty of Arts and Sciences at Harvard University, where he has taught since 1992. He is Director of the Taubman Center for State and Local Government and Director of the Rappaport Institute of Greater Boston. He teaches urban and social economics and microeconomic theory. Edward has published dozens of papers on cities, economic growth, and law and economics. In particular, his work has focused on the determinants of city growth and the role of cities as centres of idea transmission. He edits *The Quarterly Journal of Economics*. He received his PhD from the University of Chicago in 1992.



John McMillan
Stanford University

John is the Jonathan B. Lovelace Professor of Economics in the Stanford University Graduate School of Business, a Senior Fellow at the Stanford Institute for Economic Policy Research, and Co-Director of the Center for Global Business and the Economy. His undergraduate degree is from the University of Canterbury. His research interests are economic reform, mechanism design, cross-country comparisons of market institutions, and entrepreneurship in developing and transition economies. John is the editor of *The Journal of Economic Literature*. He has a PhD from the University of New South Wales.



Wallace (Wally) Oates
University of Maryland

Wally is a visiting scholar in Resources for the Future's (RFF) Energy and Natural Resources division and a Professor of Economics at the University of Maryland, College Park. His primary research and teaching interests are in public finance, with a particular emphasis on fiscal federalism and state-local finance, and environmental economics. Currently his research efforts address the international dimensions of environmental policy and issues concerning fiscal decentralisation in both industrialised and developing countries. He has a PhD from Stanford University.



Paul R. Portney
Resources for the Future

Paul is President of Resources for the Future (RFF). An economist by training, Paul joined the research staff of RFF in 1972. Since then, he has become a Senior Fellow and directed two of RFF's research divisions—Quality of the Environment and the Center for Risk Management. He became Vice President of RFF in 1989 and was named President in 1995. Paul has a PhD in Economics from Northwestern University.



Stephen Jenkins
Institute for Social and Economic Research

Stephen is a Professor of Economics at the Institute for Social and Economic Research (ISER), University of Essex. His research interests are in applied economics from a longitudinal perspective, with particular reference to the distribution of income and its redistribution through taxation, social security, and the labour market. He is also interested in the measurement of inequality and poverty, modelling labour supply, and social security benefit spell durations. Stephen did his undergraduate degree at the University of Otago and received a PhD from York University in 1983.

Affiliates



Andrew Coleman
University of Michigan

Andrew is an Assistant Professor of Economics at the University of Michigan where he teaches economic development and international finance, and researches the development and integration of markets in nineteenth century America. Before taking up this position, he worked at The New Zealand Treasury and the United Building Society. During 2004 he took a 6-month sabbatical at Motu. He has a PhD in Economics from Princeton University.



Deborah Cobb-Clark
The Australian National University

Deborah is the Director of the Social Policy Evaluation Analysis and Research (SPEaR) Centre at the Australian National University (ANU). Deborah has extensive experience evaluating the effects of health, labour market, income-support and immigration policy both within Australia and Internationally. In addition to reports for government agencies, she has published extensively on the subject of immigration, sexual harassment, health, old-age support and promotion in international journals, including the American Economic Review, the Journal of Labor Economics, the Journal of Human Resources, and Journal of Population Economics. Deborah is an Associate Editor for the Journal of Population Economics.



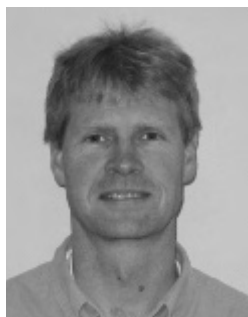
Richard Fabling
Ministry of Economic Development

Richard Fabling joined the Ministry of Economic Development's Strategy Group in 2002. His job focuses on improving the Ministry's understanding of the economic growth process, and on developing the economic strategy of the organisation. His current research interest is in describing and understanding the performance of firms, and the application of this understanding to issues of public policy. Prior to working at the Ministry, Richard worked at Tokyo-Mitsubishi International in London and, before that, the New Zealand Treasury. Richard holds a doctorate from the University of Waikato in Applied Mathematics (Magnetohydrodynamics). He has published in both economics and astrophysics though not, as yet, simultaneously.



Viv Hall
Victoria University of Wellington

Viv is a Professor at Victoria University of Wellington and has held the Macarthy Chair of Economics since July 1989. He was previously Associate Professor in the Department of Economics at the University of Sydney. Viv's research and teaching interests span macroeconomic theory, modelling, and policy, with particular focus on monetary policy, fiscal policy, and inflation. His current research involves New Zealand's current account deficit; implications for New Zealand of an Australasian currency, or New Zealand adopting the US dollar; regional business cycles in New Zealand; Pacific Rim business cycles; and evaluation of central bank governance performance.



Dean Hyslop
The New Zealand Treasury

Dean is Principal Advisor in the Social Policy Branch of The Treasury. Before joining The Treasury, he was an Assistant Professor at the University of California, Los Angeles (UCLA), and has been a visiting research fellow in the Center for Labor Economics. His research interests are in labour markets and applied econometrics. Dean's recent papers include estimating the dynamic treatment effect of an earnings subsidy to long-term welfare recipients, understanding recent changes in New Zealand's income distribution, estimating the effect of inflation on nominal wage rigidity, modelling the behaviour of public sector disputants under an arbitration system, and measuring the impact of arbitration provisions on wage levels. He has a PhD from Princeton University.



Sholeh Maani
University of Auckland

Sholeh is an Associate Professor in the Economics Department at The University of Auckland. Before joining The University of Auckland in 1984, Sholeh Maani had an academic career in North America and she was the director of a major labour economics project in Chile from 1981 to 1982. She spent the 1991 academic year conducting research as a Visiting Scholar at Harvard University. Her fields of interest are the economics of the labour market, microeconomics, applied econometrics, and economic development. Sholeh has researched and published articles on human capital and income distribution, returns to education, unemployment duration, job search outcome, wage determination, compensation for hazardous risk, and migration. She is currently working on participation in higher education, student loans, and Māori education, and is the author of *Investing in Minds: The Economics of Higher Education in New Zealand* (Institute of Policy Studies, 1997). She was the President of the New Zealand Association of Economists from 1995 to 1997 and served on the New Zealand Royal Society Social Science Advisory Committee from 2001 to 2003.



Tim Maloney
University of Auckland

Tim is an Associate Professor in the Economics Department at The University of Auckland. Before joining the department in 1991, Tim Maloney was Assistant Professor of Economics at the University of Missouri and Bowdon College. His fields of interest are labour economics, poverty research, and applied econometrics. Tim has published several articles on the labour supply behaviour of married women, job search, income inequality, and the use of ability tests in employer screening. His current research interests involve estimating the rates of return to secondary education among women who have dropped out of high school, and analysing the various effects of recent welfare reform legislation in the United States and New Zealand. He has recently published articles on the labour market effects of New Zealand's Employment Contracts Act and the minimum wage.



John McDermott
Victoria University of Wellington

John is Associate Professor, School of Economics and Finance, Victoria University of Wellington. John's areas of interest include macroeconomics, international finance and econometrics. John's current research is on business cycles in New Zealand. John was the chair of the 2004 CPI revision advisory committee. John has been a visiting scholar at the International Monetary Fund, and taught at the World Bank Institute. John has held posts at the International Monetary Fund, Reserve Bank of New Zealand, and National Bank of New Zealand.



Richard G. Newell
Resources for the Future

Richard is a Senior Fellow in the Energy and Natural Resources division at Resources for the Future (RFF). He has been on the staff at RFF since 1997. His research focuses on the economic analysis of policy design and performance, with a particular interest in incentive-based policy and technological change. His research covers a range of environmental and natural resource issues, including energy efficiency, climate change, air pollution, and fisheries management. Richard's methodological approaches include econometric analysis, modelling, simulation, and cost-benefit analysis. He has a PhD in Public Policy from Harvard University.



James Sanchirico
Resources for the Future

James is a Fellow in the Quality of the Environment division at Resources for the Future (RFF). Before joining RFF in 1998, James was a postdoctoral researcher for the Pacific States Marine Fisheries Commission, investigating multi-species fisheries management in the Bering Sea/Aleutian Islands groundfish fishery. James's current research focuses on economic analysis of fishery policy design, implementation, and performance with a particular interest in analysing the ecosystem impacts of policies such as landing taxes, individual transferable quotas, limited entry, and protected areas. His other research interests include issues related to bioeconomic modelling, environmental policy, and land management. His methodological approaches include econometric analysis, spatial and intertemporal modelling, and simulation analysis. He is currently an associate editor of *Marine Resource Economics*. James received a PhD in Agriculture and Resource Economics from the University of California at Davis in 1998.



Motu Achievements

Motu's purposes can be summarised in three categories: producing and disseminating high-quality research; building capacity within New Zealand for research; and outreach to end users.

Research and dissemination

The following section reports on Motu's activities in its four major research areas: population and labour economics; economic geography and local markets; environmental regulation; and macroeconomics.

Population and labour economics

Adjustment and Inequality

Our "Adjustment and Inequality" research programme forms the core of our population and labour economics research, and our research on local markets. It encompasses several of the research streams listed under separate headings below. This programme is designed to greatly expand general understanding of the determinants and dynamics of socio-economic outcomes. The three main objectives of work within this programme are to understand the way that geographic communities adjust to change; to identify the determinants of unequal opportunities and outcomes; and to enhance New Zealand research infrastructure to pursue these objectives.

To achieve these objectives, we are undertaking high-quality research on specific topics. We are also enhancing the value of existing research efforts by promoting our activities in coordination, communication, and infrastructure development. We are working to promote dialogue and share insights among researchers taking different approaches to related questions. This will strengthen the contribution of ongoing socio-economic research to understand what factors determine the well-being of individuals, families, and communities in Aotearoa New Zealand.

Outputs of the "Adjustment and Inequality" programme are grouped with related studies under the following headings: Labour market dynamics, Education, Income distribution, Māori economic development, Housing markets, Local labour markets.

Researchers:

Motu: David Maré, Arthur Grimes, Steven Stillman, Jason Timmins, Sylvia Dixon, Isabelle Sin, Andrew Aitken, Yun Liang, Melanie Morten
University of Auckland: Tim Maloney, Sholeh Maani
Victoria University of Wellington: Malathi Velamuri

Funders:

Foundation for Research Science and Technology, New Zealand (FRST)

Presentations and Publications:

Overall for "Adjustment and Inequality" a total of six papers were published in peer-reviewed journals; seven papers were published as Working Papers, and nine presentations were made at domestic and international conferences.

Labour market dynamics

This year we have focused our work in this area on internal migration, and workers returning to the workforce after injury. We have also published and presented previous year's work on the geographical mobility of Māori and the impact of the 2001 youth minimum wage reform.

As part of the "Adjustment and Inequality" research programme, we have examined how immigration affects the geographical location and mobility of New Zealanders.

The Linked Employer-Employee Database (LEED) programme is an innovative new development led by Statistics New Zealand, which integrates existing employer and employee information to provide new insights into how the labour market operates, and its relationship to business performance. As part of this, we have examined the impact of injuries on the employment, benefit receipt, and income of workers in New Zealand. This paper applies a technique more commonly used to evaluate the impact of active labour market programmes; it matches injured workers to a random sample of people with similar characteristics to these workers before they were injured. This is done in order to estimate what each injured individual's labour market outcomes would have been had they not been hurt.

Researchers:

Motu: Steven Stillman, David Maré

Former Motu: Isabelle Sin

Department of Labour: Sarah Crichton, Sylvia Dixon

The Treasury: Dean Hyslop

Funders:

FRST

Contestable Departmental Research Pool through Department of Labour and Statistics New Zealand

Publications:

Hyslop, Dean and Steven Stillman. 2006. "Youth Minimum Wage Reform and the Labour Market," *Labour Economics*, forthcoming.

Crichton, Sarah; Steven Stillman and Dean Hyslop. 2005. "Returning to Work from Injury: Longitudinal Evidence on Employment and Earnings," IZA Discussion Paper 1857 (November).

Presentations:

"The Impact of Minimum Wages on the New Zealand Labour Market: Lessons from the 2001 Youth Minimum Wage Reform," Motu Public Policy Seminar Series, July 2005, Wellington.

"The Geographical Mobility of Māori in New Zealand," paper presented at the Australasian Labour Econometrics Workshop, August 2005, Sydney, Australia.

"Impact of Immigration on Native Mobility," Motu FRST Adjustment and Inequality Workshop, June 2006, Wellington.

Pacific Island–New Zealand Migration Survey

This World Bank-funded project is entitled "Wealth and health effects of migration: Evidence from a Pacific Island–New Zealand natural experiment". Phase 1 entails surveying Fijian and Tongan migrant households in New Zealand in 2005 to acquire information on the health and welfare effects of migration. The data collected from this project will be used to evaluate the impact of migration on Fijian and Tongan households.

Researchers:

Motu: John Gibson, Steven Stillman

World Bank: David McKenzie

University of Waikato: Hala Rohorua

Funders/Contributors:

World Bank
University of Canterbury
University of Waikato
New Zealand Immigration Service
Department of Labour
The Royal Society of New Zealand Marsden Fund

Publications:

McKenzie, David; John Gibson and Steven Stillman. 2006. "How Important is Selection? Experimental vs Non-Experimental Measures of the Income Gains from Migration," IZA Discussion Paper 2087 (April).

Stillman, Steven; David McKenzie and John Gibson. 2006. "Migration and Mental Health: Evidence from a Natural Experiment," University of Waikato Department of Economics Working Paper in Economics 4/06 (March).

Presentations:

"Income Gains for Tongan Migrants," seminars at the Department of Economics, University of Canterbury, and the New Zealand Immigration Service.

"Migration and Mental Health," Population Association of America (PAA) Conference, March 2006, Los Angeles.

"Income Gains from Migration: Evidence for Tongans in New Zealand," Pathways, Circuits and Crossroads, End-User Workshop, April 2006, Wellington.

The impact of immigration on New Zealanders

Funded by the Marsden Fund with co-funding from the Department of Labour, this research consists of three complementary analyses. First, it examines how the supply of immigrants in particular skill groups affects the employment, wages, and hours worked of the New Zealand-born. Next, it examines the impact immigrants have on local housing markets. Finally, it examines whether immigrants are more responsive to local differences in labour market opportunities than the New Zealand-born.

Researchers:

Motu: Steven Stillman, David Maré, Melanie Morton

Funders/Contributors:

The Royal Society of New Zealand Marsden Fund
Department of Labour

Education

This year we have examined recent changes in labour market outcomes for young people with post-school qualifications to identify the impact of the changing labour market for different fields of study. In addition, we have looked at how changes in the demand for and supply of different levels of qualification have affected the value of New Zealand's human capital. We have contributed to the Ministry of Education's planning for analysing data from the upcoming Adult Literacy and Life Skills Survey, and have completed work on trends in youth activity in New Zealand over the last 20 years.

Researchers:

Motu: Dave Maré, Sylvia Dixon, Steven Stillman, Yun Liang
The New Zealand Treasury: Dean Hyslop

Funders/Contributors:

FRST (through "Adjustment and Inequality" programme)
Ministry of Education
Department of Labour (Future of Work Contestable Fund and contract funding)

Publications:

Stillman, Steven. 2006. "Trends in Youth Activity in New Zealand from 1985–2004," Department of Labour Working Paper, forthcoming.

Presentations:

“Labour Market Outcomes for Young Post School Graduates,” Department of Labour, NZAE Conference; Adjustment and Inequality Workshop.

The impact of crime

This research collaboration uses the Household, Income and Labour Dynamics in Australia (HILDA) data set to examine the characteristics of crime victims and individuals that have been incarcerated. We also consider the impact of these events on a variety of labour market outcomes, health measures, and general measures of happiness and satisfaction.

Researchers:

Motu: Steven Stillman

VUW: Malathi Velamuri

Funders/Contributors:

Ministry of Justice

Publications:

Velamuri, Malathi and Steven Stillman. 2006. “The Cost of Crime,” *Report to the Ministry of Justice*, June.

Firm performance

We have been working with the Department of Labour and Statistics New Zealand to identify the separate contributions to observed earnings of worker characteristics and firm characteristics. This is part of a programme of research using Statistics New Zealand’s Linked Employer-Employee Data (LEED). In a separate stream of research, we are collaborating with the Ministry of Economic Development using unit record data on firm practices and performance. Other work on firm performance has focused on geographic productivity variations, and is reported on in the next section, “Economic geography and local markets”.

Researchers:

Motu: David Maré, Steven Stillman, Arthur Grimes

The Treasury: Dean Hyslop

Ministry of Economic Development: Richard Fabling

Funders:

Contestable Departmental Research Pool through Department of Labour and Statistics New Zealand

Ministry of Economic Development

Publications:

Fabling, Richard and Arthur Grimes. 2006. “Practice Makes Profit: Business Practices and Firm Success”, *Small Business Economics*, forthcoming.

Johnson, Robin; Weshah A. Razzak and Steven Stillman. 2006. “Has New Zealand Benefited from its Investments in Research and Development?”, *Applied Economics*, forthcoming.

Presentations:

“What Sets Successful Firms Apart from the Pack?”, Second Annual Lecture, November 2005, College of Business and Economics, University of Canterbury, Christchurch, New Zealand.

Income distribution

Our work in this area has focused on income transitions. We have worked on two projects—one examining child poverty in New Zealand, and movements into and out of poverty; the other dealing primarily with earnings transitions for working-age adults.

Researchers:

Motu: David Maré, Joanna Hendy, Ron Crawford

Funders:

FRST (through “Adjustment and Inequality” programme)

Publications:

Dixon, Sylvia and David C. Maré. 2006. "Understanding Changes in Māori Incomes and Income Inequality 1997–2003," *Journal of Population Economics*, pp. 1–28.

Hyslop, Dean and David C. Maré. 2005. "Understanding New Zealand's Changing Income Distribution 1983–98: A Semiparametric Analysis," *Economica*, 72:3, pp. 469–96.

Scobie, Grant; John Gibson and Trinh Le. 2005. "Household Wealth in New Zealand," Institute of Policy Studies, Wellington.

Gibson, John; Trinh Le and Les Oxley. 2005. "Measuring the Stock of Human Capital in New Zealand," *Mathematics and Computers in Simulation*, 68:5–6, pp. 485–98.

Presentations:

"Household Wealth and Retirement Incomes," Allied Social Science Association meetings, Philadelphia.

"Dynamics of Child Poverty in New Zealand 1997–2003," Motu Adjustment and Inequality Workshop, June 2006, Wellington.

"Income Transitions in the LIS: 1997–2004," Motu Adjustment and Inequality Workshop, June 2006, Wellington.

Retirement behaviour

This research collaboration uses the Household, Income and Labour Dynamics in Australia (HILDA) data set to examine the impact of health shocks, job loss, and changes in household composition on the expected age of retirement for older workers. Economic shocks can pose particular problems for workers nearing retirement as they may be left financially unprepared to retire as early as they had hoped. If we understand how workers plan for retirement, we can assess how much of the transition to retirement is voluntary or involuntary.

Researchers:

Motu: Steven Stillman

Australia National University: Deborah Cobb-Clark

Funders:

Department of Family and Community Services, Australia

Publications:

Cobb-Clark, Deborah and Steven Stillman. 2005. "The Effect of Economic Shocks on Retirement Intentions," *Final Report to the Department of Family and Community Services*, December, Australia.

Primary health care utilisation

The Health Research Council is funding this research collaboration. It uses data from the 1996/97 and 2002/03 New Zealand Health Surveys to examine the impact of fees charged by primary health care providers on access to and use of primary and secondary health care, and on a variety of health outcomes. We use an economic model of the demand for health to derive an empirical model of the relationship between fees, primary and secondary care utilisation, and health outcomes. Regression analysis is then used to estimate this model, controlling for a range of socio-economic factors that may influence health decisions, in order to isolate the direct effect of fees on health care usage and health outcomes.

Researchers:

Motu: Steven Stillman, Yun Liang

Health Services Research Centre, VUW: Jackie Cumming, Antony Raymont

Massey University: Amohia Boulton

University of Auckland: Gregor Coster

Funders:

Health Research Council of New Zealand

Ministry of Health

Russia during transition

Because of increased globalisation in recent decades, many less-developed countries have become more integrated into world markets. This integration has brought a higher risk of exposure to economic fluctuations and, in some cases, dramatic economic crises. The economies of the former Soviet bloc have been especially volatile since the transition to market-based economies which began in the early 1990s. This research programme examines the impact of this economic transition on the well-being of the Russian population along a number of dimensions, and the coping strategies used by individuals and households to manage economic uncertainty.

Researchers:

Motu: Steven Stillman
University of Colorado-Boulder: Randall Kuhn
UCLA: Duncan Thomas

Funders:

None

Publications:

Stillman, Steven. 2006. "Health and Nutrition in Eastern Europe and the Former Soviet Union during the Decade of Transition: A Review of the Literature," *Economics and Human Biology*, 4:1 (March), pp. 104–46.

Presentations:

"Economic Crisis and Nutrition," Swiss Panel Data Users Workshop, Neuchâtel, Switzerland.

Māori economic development

We prepared a background paper on Māori economic development, using historical statistical sources to highlight aspects of development from an historical perspective. The work was prepared as a draft chapter for a book to be published by the Business Roundtable.

Researchers:

Motu: Andrew Coleman, Dave Maré, Sylvia Dixon

Funders:

NZ Business Roundtable
FRST (through "Adjustment and Inequality" programme)

Publications:

Coleman, Andrew; Sylvia Dixon and David C. Maré. 2005. "Māori Economic Development—Glimpses from Statistical Sources," Working Paper 05–13, Motu, Wellington.

Economic geography and local markets

Housing markets

We have made progress on several major work streams relating to housing. These streams analyse regional housing markets in New Zealand, and also include one study of regional housing markets in the UK.

The first project (jointly with Kay Saville-Smith and Ruth Fraser (both CRESA); Bev James (Public Policy and Research); Ralph Lattimore (consultant economist); Ian Mitchell and Steve O'Malley (both DTZ)) addressed the causes of housing affordability problems in the Nelson, Marlborough, and Tasman regions, and possible solutions. We examined housing issues using a range of disciplinary approaches in the context of labour market, economic, social, and demographic developments. The study established the causes and effects of housing stress in the regions, with a particular focus on connections between the housing market and changing labour markets. We worked with local reference groups to develop relevant solutions for each region. The project (funded by CHRANZ, MED, and MSD) resulted in a 'solutions' paper "Affordable Housing in Nelson, Tasman and Marlborough: Taking Action", plus six companion

papers. The papers were released publicly by CHRANZ in August 2006, and are available from their website: www.chranz.co.nz.

A second major stream of work examines house price, land price, and housing supply behaviour at a Territorial Local Authority level. We detail house price movements, demographic and economic developments, and regional housing supply patterns. How housing supply responds to changes in demand determines the extent of regional house price rises. Rapid supply adjustment following an increase in demand results in the extra demand being met by matching extra housing supply—with little effect on prices. Slow supply adjustment results in the demand increase being reflected principally in house price rises. We explain what determines long-run developments in house prices, and house supply responsiveness. A paper analysing these issues has been accepted for presentation to the American Real Estate and Urban Economics Association (AREUEA) conference in January 2007.

A third stream of work examines the relationship between rents, house prices and socio-economic characteristics of communities at the area unit level across New Zealand. Presentations of this work were made to the New Zealand Association of Economists and to the University of Waikato. A Working Paper is forthcoming.

A fourth stream of work examines the convergence properties of regional house prices across the UK. Working with Professor Mark Holmes of the University of Waikato, we apply new econometric techniques to this issue, which has been the subject of several indeterminate investigations by other researchers in recent years. We intend to apply similar techniques to examine the convergence properties of Australasian house prices.

In addition to these streams of work, two papers based on work from previous years have been accepted for journal publication.

Researchers:

Motu: Arthur Grimes, Andrew Aitken

Funders:

Centre for Housing Research Aotearoa New Zealand (CHRANZ)

Housing New Zealand Corporation (HNZC)

Department of Building and Housing (DBH)

FRST

Ministry of Economic Development (MED)

Ministry of Social Development (MSD)

Publications:

Grimes, Arthur; Suzi Kerr, Andrew Aitken and Robert Sourell. 2005. "The Housing Fulcrum: Balancing Economic and Social Factors in Housing Research and Policy," *Kotuitui: New Zealand Journal of Social Sciences Online*, 1, pp. 65–79.

McLuskey, William; Andrew Aitken, Arthur Grimes, Suzi Kerr and Jason Timmins. 2006. "Rating Systems in New Zealand: An Empirical Investigation into Local Choice," *Journal of Real Estate Literature*, forthcoming.

Grimes, Arthur and Andrew Aitken. 2005. "Nelson-Tasman-Marlborough Housing: Regional Context & Characteristics," Centre for Housing Research Aotearoa New Zealand .

Grimes, Arthur and Andrew Aitken. 2006. "How Does Nelson, Tasman and Marlborough Housing Adjust?," Centre for Housing Research Aotearoa New Zealand, .

Grimes, Arthur and Andrew Aitken. 2005. "Regional Housing Markets in New Zealand: House Price, Sales and Supply Responses," *Report to Centre for Housing Research, the Department of Building and Housing, and Housing New Zealand Corporation*.

Holmes, Mark and Arthur Grimes. 2005. "Is There Long-Run Convergence of Regional House Prices in the UK?," Working Paper 05–11, Motu, Wellington.

Grimes, Arthur and Andrew Aitken. 2006. "Housing Supply and Price Adjustment," Working Paper 06–01, Motu, Wellington.

Presentations:

“House Prices and Rents: Socio-Economic Impacts and Prospects,” paper presented by Arthur Grimes and Andrew Aitken to New Zealand Association of Economists Conference, June 2006, Wellington; and to Economics Department seminar, University of Waikato.

“Affordable Housing,” four separate presentations to Project Reference Group Members, Nelson, Richmond, and Blenheim.

“Regional Housing Markets,” presentation to Centre for Housing Research, the Department of Building and Housing, and Housing New Zealand Corporation, Wellington.

Local labour markets

We have looked at how labour market outcomes vary across regions in New Zealand, and also at how different local labour markets respond to change.

We have undertaken three projects examining the geographic concentration of economic activity. First, we have described how geographically concentrated jobs are in New Zealand, and found that there is a moderate to high degree of concentration. Second, we looked at whether geographic concentration has a positive effect on firm productivity, as would be expected in the presence of local spillovers. We have found evidence of modest positive effects. Third, we have asked whether worker earnings are related to the sort of people who live in the same local labour market.

Researchers:

Motu: Steven Stillman, David Maré, Jason Timmins, Melanie Morton

Funders:

The Treasury

FRST (through “Adjustment and Inequality” programme)

Ministry of Economic Development

Publications:

Lewis, Geoff and Steven Stillman. 2005. “Regional Economic Performance in New Zealand: How Does Auckland Compare?”, Working Paper 05/08 (November), The New Zealand Treasury, Wellington.

Maré, David C. 2005. “Concentration, Specialisation and Agglomeration of Firms in New Zealand,” Working Paper 05–12, Motu, Wellington.

Presentations:

“Regional Economic Performance and Growth,” informal Treasury talk on contract work, July 2005, Wellington.

“Regional Economic Performance in New Zealand: How Does Auckland Compare?”, presented to Pathways, Circuits and Crossroads, End-User Workshop, April 2006, Wellington.

“Regional Economic Performance,” Motu FRST Adjustment and Inequality Workshop, June 2006, Wellington.

“Regional Economic Performance,” presented at The Treasury, Wellington.

“Geographic Concentration and Firm Productivity,” Adjustment and Inequality End-User Workshop; New Zealand Association of Economists (NZAE) Conference.

“Defining Areas: Linking Geographic Data in New Zealand,” Motu Adjustment and Inequality Workshop, June 2006, Wellington.

Infrastructure

“Modelling Infrastructure Productivity in New Zealand”

Is it feasible to estimate the impacts of infrastructure changes on land prices in New Zealand? Using previous studies as a guide, we discuss how such estimates enable us to judge the magnitude of net benefits accruing from an infrastructure development. Specifications for examining this issue are discussed in some detail, and include extending previous methodologies which use rental data as well as price data. Aggregate winners and losers (e.g.

residents as a group, or particular classes of workers and/or firms) can be ascertained with the use of additional data about wages, employment, employment types and firm types; or by examining the distribution of land price changes for land of different uses. We assess the potential for examining these issues with the data available in New Zealand. We outline the nature of infrastructure investments that are amenable to this type of analysis, and choose a number of infrastructure developments that could feasibly be examined with the available data. This preparatory work underpinned the successful grant application for funding for the programme “Physical, Technological and Social Infrastructure: Maximising Contributions of Infrastructure Investments to New Zealand’s Sustainable Economic Development”. The programme is funded by FRST under its programme “Sustaining New Zealand’s Economic and Technological Development”.

Researchers:

Motu: Arthur Grimes, Jason Timmins

Funders:

Ministry of Economic Development

Publications:

Grimes, Arthur. 2005. “Infrastructure Scoping Study,” *Report to the Ministry of Economic Development*.

Timmins, Jason. 2005. “Is Infrastructure Productive? Evaluating the Effect of Specific Infrastructure Projects on Firm Productivity within New Zealand,” Working Paper 05–14, Motu, Wellington.

Presentations:

Several informal presentations of this material were made to agencies and firms interested in infrastructure issues.

Environmental regulation

“Land Use, Climate Change and Kyoto: Human dimensions research to guide New Zealand policy”

This research programme aims to understand human-induced land-use change processes, understand their implications for the environment, and model possible management systems at a national policy level. Motu’s team has strong research and policy connections internationally. Our work addresses a global gap in understanding of land-use change processes, and the appropriate policies to address land use and climate issues at national and international levels. The research programme has two main components: the first is to build an integrated socio-economic/natural science land-use model; the second is to provide policy design and analysis, both by using this model and through additional qualitative research.

Researchers:

Motu: Suzi Kerr, Steve Stillman, Joanna Hendy, Kelly Lock, Jason Funk

Research Partner: Landcare Research

In collaboration with: Ensis, AgResearch, National Institute of Water and Atmospheric Research (NIWA), and others

Funders:

FRST

Publications:

Hendy, Joanna; Suzi Kerr and Troy Baisden. 2006. “Greenhouse Gas Emissions Charges and Credits on Agricultural Land: What Can a Model Tell Us?”, Working Paper 06–04, Motu, Wellington.

Baisden, Troy. 2006. “Spatially-Explicit Agricultural and Forest Productivity for Modelling Policy Scenarios: Evaluating Approaches for New Zealand Greenhouse Gas Mitigation Policies,” *Journal of the Royal Society of New Zealand*, 36:1, pp. 1–16.

Hendy, Joanna and Suzi Kerr. 2006. "Land-Use Intensity Module: Land Use in Rural New Zealand Version 1," Working Paper 06–05, Motu, Wellington.

Presentations:

"The Political Economy of Structural Reform in Natural Resource Use: Observations from New Zealand," paper prepared by Suzi Kerr for National Economic Research Organisations' meeting, June 2006, Paris.

"Forests, Cows and Sheep: Land Use and Climate Change," Motu Public Policy Seminar, December 2005, Wellington.

"Modelling Land Use," Motu Economic Research Workshop, November 2005, Wellington.

"Spatial Modelling of Land Use," Motu Economic Research Workshop, November 2005, Wellington.

"Model Uncertainty," Motu Economic Research Workshop, November 2005, Wellington.

"Spatial Modelling of Greenhouse Gases," NzOnet, October 2005, Wellington; Motu Economic Research Workshop, December 2005, Palmerston North.

"Benefits of Carbon Storage in Plantation Forests," Motu Economic Research Workshop, December 2005, Palmerston North.

"Examining Changes in the Value of Rural Land," Motu Economic Research Workshop, November 2005, Wellington.

"Modelling Land Use and its Environmental Impacts in New Zealand," invited presentation at workshop on Economic-Ecological Modelling, September 2005, University of Waikato.

"Simulations from LURNZ," NZARES conference, Nelson, August 2005; Ministry for the Environment, September 2005, Wellington; NZAE conference, June 2005, Wellington.

"Tradable Credits for Plantation Forestry," NZARES conference, August 2005, Nelson; Climate Policy Review Team, Ministry for the Environment, September 2005, Wellington; Motu Economic Research Workshops, November 2005, Wellington, and December 2005, Palmerston North.

"Monitoring," Motu Economic Research Workshops, November 2005, Wellington, and December 2005, Palmerston North.

"Projecting Changes in Land Use and Animal Numbers with LURNZ and PSRM," paper presented at NZARES conference, August 2005, Nelson, and to Climate Policy Review Team, Ministry for the Environment, September 2005.

Carbon sequestration through natural regeneration on Māori land

Closely linked to the previous project, we are running and evaluating a pilot project involving payments for carbon sequestration through regenerating indigenous forest on private land. Through this pilot we plan to identify and overcome barriers to participation in a programme such as the Permanent Forest Sinks Initiative, with a particular emphasis on participation on Māori land. We are also mapping some areas in East Cape that could be suitable for carbon sequestration projects.

Researchers:

Motu: Suzi Kerr

Stanford University: Jason Funk

Landcare Research: Craig Trotter, Garth Harmsworth, Troy Baisden

Funders:

The Tindall Foundation

Publications:

Funk, Jason. 2006. "Māori Farmers Look to Environmental Markets in New Zealand," *The Katoomba Group's Ecosystem Marketplace*, available online at ecosystemmarketplace.com

Presentations:

“Indigenous Forest Reversion Pilot Project,” Motu Workshops, November and December 2005, Wellington; NZARES conference, August 2005, Nelson; Ministry for the Environment, September 2005, Wellington.

“Predicting Land-Use Change in Response to Climate Policy in New Zealand,” Sixth Open Meeting of the Human Dimensions of Global Environmental Change Research Community, October 2005, Bonn, Germany.

Nutrient trading and water quality

This programme is beginning to explore how we can apply market-based instruments to the problem of non-point source pollution from agriculture that leads to contamination of lakes and waterways in New Zealand. To date the programme has considered the problems in Lake Taupo (with Environment Waikato) and Lake Rotorua. We have identified the key economics, natural science, and policy development process issues that must be addressed to effectively design and assess the potential value of a trading system in such a complex, contentious area.

Researchers:

Motu: Suzi Kerr

Ministry for the Environment: Tim Bennett

Consensus Building Institute (Cambridge, MA): David Fairman

Common Ground: Glen Lauder

Funders:

Ministry for the Environment

Ministry of Agriculture and Forestry

Fisheries management

Motu and Resources for the Future (Washington, DC) are jointly undertaking economic research on fisheries management in New Zealand. We are examining the role and effectiveness of market-based instruments, in particular the individual transferable quota (ITQ) system as a fisheries management tool. The project will empirically evaluate the effects of implementing New Zealand’s ITQ programme.

Researchers:

Motu: Suzi Kerr, Kelly Lock

Resources for the Future: Richard Newell, James Sanchirico

Cornell University: Kerry Papps

Funders:

Ministry of Fisheries

Publications:

Sanchirico, James. N.; Daniel Holland, Kathryn Quigley and Mark Fina. 2005. “Catch-Quota Balancing in Multispecies Individual Fishing Quotas,” RFF Discussion Paper 05–54.

Newell, Richard G.; Kerry L. Papps and James N. Sanchirico. 2005. “Asset Pricing in Created Markets for Fishing Quotas,” RFF Discussion Paper 05–46.

Presentations:

“Assessing New Zealand’s Quota Management System: 20 Years On: What can the literature tell us?”, New Zealand Association of Economists Conference, June 2006, Wellington.

Market-based instruments for resource management and environmental protection

Motu is developing a multi-disciplinary research programme that covers measurement of environmental values; design and ex ante comparison of policies (including projected costs and benefits); governance regimes and processes for building consensus and cooperation; and evaluation of actual policies. The programme aims to design and operate market-based instruments that effectively address climate change mitigation, fisheries management, water allocation and quality management, and protection and enhancement of biodiversity.

Programme coordinator:

Suzi Kerr (Motu)

Research leaders:

Water quality and quantity: Clive Howard Williams (NIWA)

Climate Change: David Wratt (NIWA)

Biodiversity: Susan Walker (Landcare Research)

Fisheries: Alistair Dunne (NIWA)

Targets: Frank Scrimgeour (University of Waikato)

Policy design: Suzi Kerr (Motu)

Consensus/dialogue (interim): David Fairman (Consensus Building Institute, Cambridge, MA, USA)

Evaluation (interim): Richard Newell (Resources for the Future, USA)

Advisory Group

Stan Crothers (Ministry of Fisheries)

Kevin Guerin (The Treasury)

Paul Reynolds (MAF)

Stuart Calman (MED)

Rob Stavins (Harvard University)

Bill Bayfield (Environment Bay of Plenty)

Macroeconomics

Insolvency

We published findings from a study examining the determinants and implications of personal and company insolvencies in New Zealand. We examine national and regional patterns, and find that increases in regional economic activity and regional property values (the latter representing collateral effects) reduce regional insolvencies. An increase in credit provision (increased leverage) raises the rate of insolvencies. In a low-inflation environment, a rise in the inflation rate reduces insolvencies, but this effect disappears in a high-inflation environment.

Researchers

Motu: Arthur Grimes

MED: Richard Fabling

Funders:

Ministry of Economic Development

Publications:

Fabling, Richard and Arthur Grimes. 2005. "Insolvency and Economic Development: Regional Variation and Adjustment," *Journal of Economics and Business*, 57:4, pp. 339–59.

Money and central banking

Arthur Grimes contributed to a programme of study on the modernisation of the Reserve Bank of New Zealand. This resulted in a co-authored book published by Auckland University Press. In addition, a paper was published as a chapter in an international volume on Central Bank modernisation.

Researchers

Motu: Arthur Grimes

Victoria University of Wellington: John Singleton, Prof. Gary Hawke, Sir Frank Holmes

Funders

Reserve Bank of New Zealand

Publications:

Singleton, John; Arthur Grimes, Gary Hawke and Frank Holmes. 2006. *Innovation in Central Banking: A History of the Reserve Bank of New Zealand*, Auckland: Auckland University Press.

Singleton, John; Arthur Grimes, Gary Hawke and Frank Holmes. 2005. "Twenty Years of Modernisation: The Reserve Bank of New Zealand," in *Central Bank Modernisation*, N. Courtis and P. Nicholl Eds. London: Central Bank Publications, pp.167–82.

New Zealand and Australia

A paper arising from the programme "Is New Zealand an Economic State of Australasia?" has been accepted for journal publication. In addition, a study of developments in New Zealand's terms of trade and their effect on New Zealand's economic growth rate has been accepted for journal publication.

Researchers

Motu: Arthur Grimes

Funders

Marsden Fund (Royal Society of New Zealand)
Ministry of Economic Development

Publications:

Grimes, Arthur. 2006. "Intra and Inter-Regional Industry Shocks: A New Metric with Application to Australasian Currency Union," *New Zealand Economic Papers* 40, forthcoming.

Grimes, Arthur. 2006. "A Smooth Ride: Terms of Trade, Volatility and GDP Growth," *Journal of Asian Economics*, 17:4, forthcoming.

Building Capacity for New Zealand Economic and Public Policy Research

Teaching

Dave Maré and Steven Stillman each taught parts of the Victoria University of Wellington's graduate labour economics sequence (two courses per year).

Steven Stillman is jointly supervising (with Malathi Velamuri) a Master's thesis by Sorraya Yosyingyong.

Arthur Grimes is Adjunct Professor of Economics, University of Waikato, where he supervises three PhD students.

Suzi Kerr taught part of Victoria University's Economics of the Public Sector. Further afield, she gave two lectures on cooperation at the Universidad Austral de Chile (in Spanish!).

John Gibson is Professor of Economics, University of Waikato.

University affiliations

Motu continues to strengthen its working relationships with Victoria University of Wellington, the University of Waikato, and the Australian National University.

Arthur Grimes is an Adjunct Professor of Economics in the School of Management Studies at the University of Waikato.

Steve Stillman is an affiliated Research Fellow at the Institute for the Study of Labor (IZA), Bonn, Germany, and at the William Davidson Institute, University of Michigan, USA.

Suzi Kerr is a member of the inaugural advisory board for the Victoria University Centre for Marine Environmental and Economic Research.

John Gibson is Professor of Economics, University of Waikato.

Student internships

Together with Landcare Research, Motu continued to host Jason Funk, a PhD student from an interdisciplinary programme at Stanford, who is working within the "Land Use, Climate Change and Kyoto" programme. His work focuses on the potential for carbon sequestration through native forest reversion on Māori land in East Cape.

We also hosted Sandy Kerr, a doctoral student from Massey University's *Te Ropu Whariki – Māori Research Group*, to discuss economic evaluation methods and areas of shared interest.

Data sets

Developing common databases that can be used by a wide range of researchers is an essential component in building an effective New Zealand research community in our areas of interest. Motu's objective of enhancing research infrastructure includes developing and documenting data sets that can be made available to other researchers, including graduate students. We are developing a standard approach to documentation.

Detailed information on data sets held by Motu is on our website: www.motu.org.nz/dataset.htm.

This year we have significantly developed and enhanced the following databases:

Population Census Unit Record Database

As part of our "Adjustment and Inequality" work programme, we have assembled documentation and background information on the census data sets used in the Statistics New Zealand data laboratory. We have prepared the information in a form that will be useful and easily accessible to other researchers and to Statistics New Zealand.

The New Zealand Population Census is a key source of information for many of our research projects, including work on variation and changes in income distribution, geographic mobility, local labour market adjustment, and the impact of education.

Rural Economies Database

This database contains information on land cover/use, economic returns from major land uses, geophysical characteristics, land governance, and environmental impacts of land use. This year we have created several significant new data sets from secondary data: Territorial Authority land use 1980–2003; spatially variable forestry costs 1995; spatial mapping of Economic Service sheep/beef farming costs and revenues, 1980–2002; and regional dairy costs 1980–2005. Drawing on work by AgResearch, we have also created a map of nitrous oxide emissions potential.

Australasian Employment Database

This database is new this year. It contains employment data for six states and two territories of Australia; and also for New Zealand, Australia, and Australasia (New Zealand and Australia as a whole), quarterly from 1985 (fourth quarter) to 2002 (fourth quarter).

Exogenous Shocks Database

Motu has created a database of exogenous shocks that impact on communities over time. Data have been collected at four main spatial levels: world, New Zealand, regional council, and smaller spatial units (territorial local authority, area unit and meshblock). The data have been collected at as high a frequency as possible to allow for conversion to lower frequencies for specific projects as appropriate. The database is always expanding: variables have been added or updated over the last year.

Geophysical Amenities Meshblock Database

This database is developed from multiple sources on the productive/geophysical characteristics of the land, the local climate, and various local amenities. All variables are calculated at the meshblock centroid level.

Contributions to official statistics

Motu staff have participated in discussions and consultation on a wide range of statistical issues, including data laboratory; archiving; SNZ website dissemination; confidentialised unit record files; metadata standards; SNZ IBULDD project; and general SNZ user consultation. Motu staff also served on reference panels for the SNZ OSRDAC research fund; staff worked on the design of MSD's Working for Families Evaluation Survey; and the design of the Ministry of Health's 2006/2007 New Zealand Health Survey.

Research networking

“Adjustment and Inequality”

Motu co-hosted an end-users' workshop in Wellington in April 2006, entitled “Pathways, Circuits and Crossroads: New public good research on population, migration and community dynamics”. Hosted by Motu, Waikato University, and CRESA, the workshop focused on topics covered in our respective FRST-funded social research programmes. It enabled researchers and end users to discuss relevant projects and findings in areas of shared interest. A second research workshop in June 2006 brought together researchers with an active involvement or interest in the “Adjustment and Inequality” programme to discuss emerging findings and future work.

“Land Use, Climate Change and Kyoto: Human dimensions research to guide New Zealand policy”

Motu held research workshops in November and December 2005. The first meeting focused on the economic aspects of the Land Use in Rural New Zealand (LURNZ) model. It focused particularly on redeveloping the land use module, including creating a microeconomic model that predicts change at a territorial authority (TA) level, and the associated enhancement of the LURNZ data set. The second workshop focused on the scientific aspects of the model. Scientists participated from Landcare Research, the Climate Change Office, the Pastoral Greenhouse Gas Research Consortium, Ensis, and the National Institute of Water and Atmospheric Research (NIWA). We discussed improvements to the LURNZv1 model, including introducing spatially varying factors of emissions and carbon storage, and introducing uncertainty into the model. Policy issues surrounding carbon monitoring were also discussed.

We also held sessions where we presented preliminary model and policy results at the New Zealand Agricultural and Resource Economists Society conference, and for the Climate Review Team at the Ministry for the Environment.

International networking

Steven Stillman collaborated on new projects with a researcher at Australia National University, and continued his collaboration with researchers at the World Bank, UCLA, and the University of Colorado-Boulder. He also presented papers at the Australasian Labour Econometrics Workshop, Population Association of America, and Swiss Panel Data Users Workshop.

Suzi Kerr is a member of the Scientific Steering Committees of the “Analysis, Integration and Modelling of the Earth Systems” and the “Global Land Project”, two new core projects which began in 2005 as part of the International Geosphere/ Biosphere Programme. Suzi is also a member of the European Environment Agency and Directorate General for Environment of the European Commission “High-level Network of Leading Economists”. During her 2006 sabbatical she is developing collaborations with researchers in Chile. She will also spend extensive time in Europe and the United States consolidating existing relationships, particularly at the MIT Joint Programme on the Science and Policy of Global Change. Suzi presented a paper at the National Economic Research Organisations meeting in Paris in June. Through a joint project she is bringing mediation expertise from the Consensus Building Institute in Cambridge, MA to New Zealand.

New Zealand networking

Through our population and labour economics programme, Motu has collaborated on new projects with researchers at The Treasury, Health Service Research Centre, and Victoria University of Wellington. We continued to collaborate with researchers at The Treasury, Department of Labour, and the University of Waikato.

Through our environmental regulation programme, Motu continued to strengthen its relationships with New Zealand natural science providers, particularly NIWA, Landcare Research, and the University of Waikato Freshwater Restoration group. We are also building collaborative relationships with Infometrics, Common Ground, and the Centre for Competition and Regulation at Victoria University. We have continued to build our relationship with the Ministry of Agriculture and Forestry, and the Ministry for the Environment.

Motu’s housing research continues to develop with new projects involving collaboration with CRESA, Public Policy and Research, and property researchers at DTZ New Zealand.

Links with End Users

Motu Research Update

The tenth edition of Motu's newsletter *Motu Research Update* was published in June 2006. Around 200 copies are mailed and 2,600 e-mailed to people in New Zealand and overseas. The *Motu Research Update* can be downloaded from the website at <http://www.motu.org.nz/newsletter.htm> in PDF format. Copies are also lodged with the National Library of New Zealand (ISSN 1176-0206).

Motu Public Policy Seminars

These seminars are designed to disseminate the results of our research and make existing knowledge more accessible for policy debate in New Zealand. Seminar presenters are Motu staff, Affiliates, and other leading New Zealand and international researchers. The seminar series is designed to be accessible to people not deeply involved in research (such as policy analysts) who want to keep up with research developments in specific areas, and to the wider public who may be interested in a particular issue.

Motu has a database of 1400 people who have subscribed to the seminar series email list. The seminar series has received wide exposure and interest. Flyers are posted and distributed by email from communication contacts in various organisations.

Motu Seminars for 2005/06:

12 July 2005, "The Impact of Minimum Wages on the New Zealand Labour Market: Lessons from the 2001 Youth Minimum Wage Reform," Presenter: Steve Stillman, Senior Fellow, Motu Economic and Public Policy Research.

9 August 2005, "Performance Based Mechanisms for Improving Water Quality," Presenter: Suzie Greenhalgh, Senior Economist, World Resources Institute, Washington, DC, USA.

15 September 2005, "Environmental Policy in Open Economies," Presenter: Brian Copeland, Erskine Fellow, Canterbury University, and Professor of Economics at the University of British Columbia, Canada.

13 October 2005, "Academic Performance, Childhood Economic Resources, and the Choice to Leave School at Age Sixteen," Presenter: Sholeh Maani, Associate Professor, Economics, University of Auckland, and Motu Affiliate.

17 November 2005, "Recent Developments in the Theory and Practice of Utility Price Regulation," Presenter: Professor Lew Evans, Professor of Economics, Victoria University of Wellington.

1 December 2005, "Forests, Cows and Sheep: Land Use and Climate Change," Presenter: Dr Suzi Kerr, Director and Senior Fellow, Motu Economic and Public Policy Research.

23 February 2006, "The International Wage Flexibility Project," Presenter: William T. Dickens, Senior Fellow, Brookings Institute, Washington, DC, USA.

8 March 2006, "Quenching China's Thirst for Water: Policy Successes; Policy Failures and Future Policy Options," Presenter: Scott Rozelle, Department of Agricultural and Resource Economics in the University of California, Davis, USA.

3 April 2006, "Reflections on Visible Minorities, Immigrants and Employment Equity," Presenter: Dr Derek Hum, Professor of Economics, University of Manitoba, Canada.

2 May 2006, "What Sort of Transport System Should We Pay For?," Presenter: Bridget Rosewell, Chief Consultant Economist, Greater London Authority, and Volterra Consulting.

24 May 2006, "Housing Supply and Price Adjustment," Presenter: Arthur Grimes, Senior Research Associate, Motu Economic and Public Policy Research.

1 June 2006, "De-coding the Code Share: the Proposed Air New Zealand/Qantas Tasman Networks Agreement," Presenter: Professor Tim Hazledine, Department of Economics, University of Auckland.

Motu website (www.motu.org.nz)

There is comprehensive information about all our work programmes on the Motu website. All research is published as soon as we complete it. Positive feedback from local, regional, national, and international users has continued. Readers can download papers and reports from the website in PDF format, and can search for detailed information on the data sets held by Motu.

International visitors

Suzie Greenhalgh

Suzie Greenhalgh is a Senior Economist in the Information Program at the World Resources Institute, Washington, DC, USA. She is currently researching US agricultural policy on climate change and water quality; the 'dead zone' in the Gulf of Mexico; the use of nutrient trading as a mechanism for improving water quality in the US; and the impact of the Kyoto Protocol on US agriculture. Other research covers bio-energy production (in particular, ethanol) and its impacts on the environment, and developing accounting and reporting guidance for project-based greenhouse gas reductions. Dr Greenhalgh presented a public policy seminar during her visit to New Zealand in August 2005, and also spoke to other organisations that were interested in her work, including Landcare Research and Environment Waikato.

Brian Copeland

Brian Copeland is Professor of Economics at the University of British Columbia, Canada. His research has focused on developing analytical techniques to study the interaction between international trade and the environment. Professor Copeland visited New Zealand as an Erskine Fellow at Canterbury University, and presented a public policy seminar for Motu in September 2005. Victoria University's School of Government and The Treasury both hosted roundtable discussions with Dr Copeland as guest speaker.

William T. Dickens

Dr William T. Dickens is a Senior Fellow at the Brookings Institute, Washington, DC, and is a co-director of the International Wage Flexibility Project. This is a study across 13 countries, using data on individual wages and incomes to study the effects of inflation on wage setting, and to determine the nature, extent, causes, and consequences of several kinds of wage rigidity. The project aims to improve monetary policy and the regulation of labour market institutions in all countries. Dr Dickens presented a public policy seminar for Motu in February 2006 on the causes and consequences of wage rigidity, and modelling IQ gains in the twentieth century.

Scott Rozelle

Dr Rozelle is a professor at the Department of Agricultural and Resource Economics at the University of California, Davis, USA. He presented a Motu seminar in March 2006 discussing China's demand for water: their policy successes, failures, and future options. Dr Rozelle also presented a lecture at The Treasury on China's rural economy and the path towards a modern industrial state, addressing issues such as trade, biotechnology, and marketisation.

Derek Hum

Dr Derek Hum is Professor of Economics at the University of Manitoba in Canada. Dr Hum presented a Motu public policy seminar in April 2006, "Reflections on Visible Minorities, Immigrants and Employment Equity".

Bridget Rosewell

Bridget Rosewell is Consultant Chief Economist to the Greater London Authority and Chairman of Volterra Consulting. Ms Rosewell presented a Motu public policy seminar in May 2006 and a public seminar in Auckland, covering issues of transport infrastructure and funding. She also met with government policy advisors to discuss related policy issues.

End-user workshops

Motu hosted or co-hosted 3 workshops with end users to discuss findings from the following FRST funded research programmes: "Adjustment and Inequality" (2 workshops); "Land Use, Climate Change and Kyoto"(1 workshop).

The programme on Nelson-Tasman-Marlborough housing involved 8 meetings with local reference groups to discuss findings during and at the completion of the programme.

Working Paper Series

Motu has published 10 Working Papers in 2005/06. They are available online at www.motu.org.nz/motu_wp_series.htm, and copies are also lodged with the National Library of New Zealand (ISSN 1176-2667).

Media

8 September 2005: press release by the University of Canterbury announcing a research grant awarded by the Marsden Fund. "The effects of migration will be considered in a project headed by Professor John Gibson (Economics), along with David McKenzie of Stanford University and Steven Stillman of Motu Research in Wellington."

<http://www.scoop.co.nz/stories/ED0509/S00031.htm>

5 December 2005: *Dominion Post* article, "How to Predict a Winner," by John McCrone, reporting on a speech given in Christchurch by Arthur Grimes which looked at "the many aspects of running a business to discover which practices predict a company's success."

9 January 2006: *New Zealand Herald* article, "Heading for the Sun: Auckland Wage Rises 'Growth Key'" by Simon Collins. Authors Geoff Lewis from Treasury and Steven Stillman of Wellington research group Motu said Auckland "appears to be a relatively good performer and this is consistent with agglomeration economies being at work."

http://www.nzherald.co.nz/category/story.cfm?c_id=34&ObjectID=10362888

25 January 2006: press release by the New Zealand Business Roundtable announcing release of Motu Working Paper 05–13, "Maori Economic Development: Glimpses from Statistical Sources" by Dave Maré and Sylvia Dixon of Motu, and Andrew Coleman (Motu Affiliate), Assistant Professor of Economics, University of Michigan, USA.

http://www.nzbr.org.nz/documents/releases/releases-2006/maori_economic_development.htm

1 March 2006: Arthur Grimes was interviewed by Radio New Zealand in the 8.30am news bulletin about higher house prices.

1 March 2006: *New Zealand Herald* article, "Sun, Jobs Keep House Prices on the Rise," by Anne Gibson reporting on "Regional Housing Markets in New Zealand: House Price, Sales and Supply Responses," written by Arthur Grimes and Andrew Aitken.

http://www.herald.co.nz/section/story.cfm?c_id=1&ObjectID=10370536



Human Resource Management

Motu staff

Motu currently has 16 staff members: Acting Director (Rob McLagan), five senior staff (Suzi Kerr, David Maré, Arthur Grimes, Steve Stillman and John Gibson), six research analysts (Andrew Aitken, Yun Liang, Joanna Hendy, Kelly Lock, Sylvia Dixon, and Melanie Morten), and four support staff (Pauline Hornblow, Maxine Watene, Loren Evans, and Linda Townsend).

Jason Timmins (Research Analyst) left Motu in October 2005 and is now working for the Department of Labour.

Isabelle Sin (Research Analyst) left Motu in July 2005 to undertake PhD studies at Stanford University, United States.

Motu appointed two new staff members during the year. Kelly Lock started as fulltime Research Analyst in December 2005 and Melanie Morten commenced as a part-time Research Analyst in February 2006.

Training policy

Motu's aim is to enhance the opportunities for staff to reach their full potential by providing reasonable access to, and support for, training, career development, and continuous improvement. Career development opportunities include on-the-job training, internal training courses, external courses and conferences, and study assistance. During the 2005/06 year, most Motu staff took part in some form of external training.

Financial Information

Banking, accounting, legal, and insurance

Bank: National Bank of New Zealand

Accountant: Martin Jarvie PKF

Auditor: Grant Thornton

Legal Advisors: Andrew Blair (Employment Law), Chapman Tripp (Governance), AJ Park (Intellectual Property).

Insurance Agent: Crombie Lockwood

Insurance cover (at 30 June 2006)

Type of Cover	Total Cover
Commercial Business Assets and Interruption	\$ 250,000
Senior Fellows (death/disability)	\$ 400,000
Public Liability	\$2,000,000
Association Liability	\$1,200,000
Professional Indemnity	\$1,000,000
Employers Liability	\$1,000,000
Statutory Liability	\$ 250,000

Financial highlights

(all figures in NZ\$000s)

2004–2005			2005–2006		
Revenues	New Zealand Sources	956	Revenues	New Zealand Sources	1,374
	Foreign Sources	0.6		Foreign Sources	0.0
Net Surplus		116	Net Surplus		193
Net Equity		164	Net Equity		358

Major funders

- Foundation for Research Science and Technology
- Marsden Fund – The Royal Society of New Zealand
- Centre for Housing Research Aotearoa New Zealand
- Health Research Council of New Zealand
- Housing New Zealand Corporation
- Department of Building and Housing
- Ministry of Agriculture and Forestry
- Ministry of Economic Development
- Ministry of Education
- Ministry for the Environment
- Ministry of Fisheries
- Ministry of Health
- Ministry of Justice
- Ministry of Social Development
- The New Zealand Treasury
- Department of Labour
- Statistics New Zealand
- The Tindall Foundation

Motu Patrons

Motu has seven patrons:

Mighty River Power, Department of Labour, Department Building and Housing, Fletcher Building, the Ministry of Economic Development, ANZ National Bank, and Telecom.

Motu Public Policy Seminar (PPS) Sponsors

Motu has five PPS Sponsors: Social Policy Evaluation and Research Committee (SPEaR), Statistics New Zealand, The New Zealand Treasury, The Ministry of Fisheries, and The Ministry of Agriculture and Forestry.

Motu Friends

Motu has 13 Friends of Motu.

Motu endowment fund

The following rules govern the management of the Motu endowment fund, which was established with a nominal sum of \$1,000 in October 2001.

- Each year 5% of the value of the endowment at the beginning of the financial year can be used to fund the ongoing activities of Motu.
- Any additional funds withdrawn from the endowment will need to be approved by the Trustees.
- If a funder chooses to put restrictions on the use of funds (by broad area of research or other purposes, not controlling specific research or activities) the funds will be directed only to those purposes.
- The funds will be invested in ways approved by the Board of Trustees.
- Contributions to the endowment will be regularly reassessed by the Board of Trustees.

**MOTU: ECONOMIC & PUBLIC POLICY
RESEARCH TRUST
FINANCIAL REPORTS
FOR THE YEAR ENDED 30TH JUNE 2006**

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**MOTU: ECONOMIC & PUBLIC POLICY
RESEARCH TRUST
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2006**

	2006	2005
	\$	\$
INCOME		
Foreign Research Grants	-	644
NZ Research Grants	575,110	565,853
Overhead Recovery	702,094	323,874
Interest Received	7,644	1,985
Patrons	70,000	38,889
Other Income	<u>18,871</u>	<u>25,480</u>
Total Income	1,373,719	956,725
Less Cost of Sales	352,082	63,587
Gross Profit/(Loss)	1,021,637	893,138
Less Expenses		
Audit Fees	4,000	3,836
Building Expenses	10,584	6,995
Communications	21,926	18,602
Conference Expenses	752	-
Depreciation	31,012	32,926
Foreign Exchange Loss	297	767
General Expenses	30,361	22,843
Insurance	10,067	8,092
Legal Expenses	2,603	-
Loss on Sale	750	716
Personnel	668,843	633,289
Professional Fees	1,365	5,215
Rent & Outgoings	29,400	29,400
Travel	<u>16,273</u>	<u>14,654</u>
Total Expenses	828,233	777,335
NET SURPLUS/(DEFICIT)	193,404	115,803
Less: Transfer to Motu Endowment Fund	(16)	(8)
NET SURPLUS/(DEFICIT) TRANSFERRED TO ACCUMULATED FUNDS	\$193,388	\$115,795

This Statement is to be read in conjunction with the Notes to the Financial Statements.

**MOTU: ECONOMIC & PUBLIC POLICY
RESEARCH TRUST
STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2006**

	2006	2005
	\$	\$
Net Surplus/(Deficit)	193,388	115,795
Motu Endowment Fund	16	8
Total recognised revenues & expenses	<u>193,404</u>	<u>115,803</u>
EQUITY AT START OF YEAR	164,371	48,568
EQUITY AT END OF YEAR	<u><u>\$357,775</u></u>	<u><u>\$164,371</u></u>

This Statement is to be read in conjunction with the Notes to the Financial Statements.

**MOTU: ECONOMIC & PUBLIC POLICY
RESEARCH TRUST
STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2006**

	<i>Note</i>	2006 \$	2005 \$
CURRENT ASSETS			
Bank Accounts	5	366,638	86,590
Petty Cash		6	(16)
Accounts Receivable		247,509	73,346
Payments in Advance		6,639	3,646
Work in Progress		49,305	94,551
Total Current Assets		<u>670,097</u>	<u>258,117</u>
CURRENT LIABILITIES			
GST Due for Payment		36,599	16,673
Accounts Payable		70,016	21,934
Accrued Expenses		68,603	54,712
Income Received in Advance		197,850	61,485
Total Current Liabilities		<u>373,068</u>	<u>154,804</u>
WORKING CAPITAL		297,029	103,313
NON-CURRENT ASSETS			
Plant, Property & Equipment	6	<u>60,746</u>	<u>61,058</u>
Total Non-Current Assets		60,746	61,058
NET ASSETS / (LIABILITIES)		<u><u>\$357,775</u></u>	<u><u>\$164,371</u></u>
Represented by;			
Accumulated Funds		356,729	163,341
Motu Endowment Fund		<u>1,046</u>	<u>1,030</u>
EQUITY		<u><u>\$357,775</u></u>	<u><u>\$164,371</u></u>

On behalf of the Board;

Director _____ Trustee _____

Date

This Statement is to be read in conjunction with the Notes to the Financial Statements.

MOTU: ECONOMIC & PUBLIC POLICY RESEARCH TRUST

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2006

1. STATEMENT OF ACCOUNTING POLICIES

Motu: Economic & Public Policy is a charitable trust registered under the Charitable Trusts Act 1957. The financial statements have been prepared in accordance with the Financial Reporting Act 1993.

Measurement Base

The general accounting principles recommended by the New Zealand Institute of Chartered Accountants for the measurement and reporting of profits and financial position on a historical cost basis have been followed.

Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and the financial position have been applied:

(a) Differential Reporting

Under Paragraph 4.23 of the Financial Reporting Act 1993, Motu: Economic & Public Policy Research Trust qualifies for differential reporting as it is not publicly accountable and it is small. Motu: Economic & Public Policy Research Trust has taken advantage of all available differential reporting exemptions.

(b) Revenue Recognition Policy

Income is recognised according to the terms of the signed contract for the job. Motu report income progressively as work is completed.

(c) Fixed Assets & Depreciation

The entity has the following classes of fixed assets;

Furniture & Fittings	11.4 - 60%
Office Equipment	26 - 60%

All fixed assets are recorded at cost less accumulated depreciation.

Depreciation of the assets has been calculated using up to the maximum rates permitted by the Income Tax Act 1994.

(d) Goods & Services Tax

These financial statements have been prepared on a GST exclusive basis except for accounts receivable and accounts payable which include GST as applicable.

(e) Income Tax

Motu: Economic & Public Policy Research Trust has charitable status and therefore has been granted an income tax exemption.

MOTU: ECONOMIC & PUBLIC POLICY RESEARCH TRUST

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2006

(f) **Leased Assets**

Operating Leases

Operating leases are those where all the risks and benefits are substantially retained by the lessor. Lease payments are expensed in the periods the amounts are payable.

(g) **Receivables**

Receivables are stated at their estimated realisable value. Bad debts are written off in the year in which they are identified.

Changes in Accounting Policies

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

2. **AUDIT**

These financial statements have been subject to audit, please refer to Auditor's Report.

3. **CONTINGENT LIABILITIES**

At balance date there are no known contingent liabilities (2005:\$0). Motu: Economic & Public Policy Research Trust has not granted any securities in respect of liabilities payable by any other party whatsoever.

4. **SUBSEQUENT EVENT**

On the 13th July 2006 an application was made to establish the Motu Research and Education Foundation under the Charities Act 1957.

The Foundation expects to commence operations in the next financial period.

The Motu Board of Trustees has the sole power to appoint and dismiss members of the Board of the Foundation.

The Foundation Board shall comprise of up to 5 members, up to 3 of those members shall be from the Motu Board of Trustees.

5. **BANK**

	2006	2005
	\$	\$
National Bank - 00	97,549	53,978
National Bank - 25	268,043	31,582
National Bank - 1000	1,046	1,030
TOTAL BANK	<u><u>\$366,638</u></u>	<u><u>\$86,590</u></u>

The Trust has an overdraft limit of \$50,000 with ANZ National Bank Limited. The interest rate at balance date was 11.05%. This overdraft facility is secured by way of a guarantee limited to \$110,000 from Norman L Meehan.

The Trust has entered into a USD Forward Exchange Contract. As at 30 June 2006 the Forward Exchange Contract totalled \$28,756.29NZD.

**MOTU: ECONOMIC & PUBLIC POLICY
RESEARCH TRUST
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006**

6. FIXED ASSETS

	2006	2005
	\$	\$
Furniture & Fittings		
At cost	25,649	22,900
Less Accumulated Depreciation	<u>10,158</u>	<u>7,607</u>
	<u>15,491</u>	<u>15,293</u>
Office Equipment		
At cost	174,995	147,344
Less Accumulated Depreciation	<u>129,740</u>	<u>101,579</u>
	<u>45,255</u>	<u>45,765</u>
Total Fixed Assets	<u><u>\$60,746</u></u>	<u><u>\$61,058</u></u>

7. DEPRECIATION EXPENSE

	2006	2005
	\$	\$
Furniture & Fittings	2,783	2,798
Office Equipment	28,229	30,128
	<u>\$31,012</u>	<u>\$32,926</u>

8. OPERATING LEASE COMMITMENTS

	2006	2005
	\$	\$
Lease of premises at Level 1, 93 Cuba Street, Wellington		
Within 1 Year	16,333	28,000
1-2 Years	<u>-</u>	<u>16,333</u>
	<u>\$16,333</u>	<u>\$44,333</u>
Photocopier Lease		
Within 1 Year	3,644	2,733
1-2 Years	3,644	3,644
2-5 Years	8,199	10,931
Later than 5 years	<u>-</u>	<u>911</u>
	<u>\$15,487</u>	<u>\$18,219</u>





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