

## Motu News Update, July 2016

### Director's Report

Motu is dedicated to the idea that careful and systematic analysis of policy issues, and widespread understanding of such analyses, lead to better policy choices. Recently, it seems this idea is up for debate.

From the Brexit vote to the popularity of building a wall along the Mexican border, there seems to be a rejection of careful costs and benefits analysis in favour of supposedly less elitist responses to real or perceived harms. There have always been 'duelling experts' offering conflicting analyses of what ails us and how to fix it. Recent debates, however, seem to be moving beyond disagreements about which analysis is right towards fundamental rejection of analysis as the best way to proceed. Indeed, Prime Minister John Key recently rejected one of our research reports, which was based on careful statistical analysis of extensive, detailed, public data, in favour of relying on anecdotes as the basis for determining the effectiveness of a policy.

We at Motu still believe analysis is vital, even in a world where some would rather rely on a good yarn or gut feelings. While we recognize that political decisions are always messy, we continue to believe that in the long run (though the run may be long indeed), good analysis drives out bad analysis and leads to better public outcomes.

However, we also recognize that we have to work to make good analysis meaningful and accessible to a wide audience. It serves no purpose to bemoan the shallowness of public debate. We have been experimenting more and more with using social media in new ways to communicate our research results, and we will continue to expand in that direction.

It is not elitist to insist that public decisions be based on analysis. But it is naïve to expect that good analysis will somehow carry the day by the sheer force of its brilliance. We accept we must work harder and in new ways to effectively communicate the implications of our research. We hope that journalists, public commentators, public servants, and politicians will join us in the effort to facilitate more widespread reasoned discussion.

Adam B Jaffe  
Director

### Motu and Poutama Trust

About three years ago, Motu entered into a partnership with Poutama Trust, an independent charitable trust established to provide business development services to Maori. Income generated from its investments enables Poutama to engage in activities and provide services that support and facilitate Maori business development. The idea behind the union was to bring to bear Motu's intellectual grunt upon Poutama's work with Māori enterprises. The initial manifestation of this relationship was support for a Motu intern to work with Poutama.





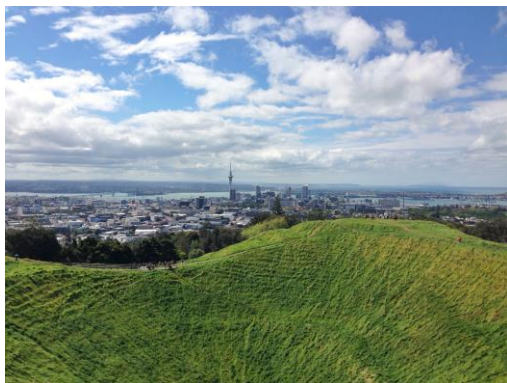
The inaugural intern was (now Dr) Jason Mika of Tuhoe, who worked with Arthur Grimes from Motu and Richard Jones and his team from Poutama on a project to examine the efficacy of Poutama's Māori business database for research. What they found was that Poutama's database of 2,000 or so Māori business clients is apt for three types of research:

- evaluative (e.g., value and impact of assistance);
- academic (e.g., enterprise assistance theory); and
- public policy (e.g., Māori business identity and numbers).

Two further Motu interns were recruited over successive summers in 2014 and 2015: Through her research, the 2015 intern, Storm Savage, was able to construct a profile of Māori businesses that indicated firm size and ownership structure significantly influence the success of Poutama assistance. 2016 Intern, Eru Pomare's research suggests using the IR 10 as a template to capture financial information clients provide as part of applications for assistance. The other innovation is to use financial ratios to analyse applicant information for comparative analysis. The combined findings of the three internships has been compiled into a Motu report, which can be viewed here.

Poutama has already commenced implementing the report's recommendations, including working with Dr Mika at [Te Au Rangahau](#), the Māori Business & Leadership Research Centre at Massey Business School. An initial focus of this partnership is to run a series of workshops with Poutama, Māori enterprises, and researchers later this year. The workshops are subject to funding, but if that transpires, the workshops will focus on building a Māori enterprise research agenda and connectivity between Poutama and Te Au Rangahau to undertake this work.

## Arthur Grimes on Housing



This article is reprinted from [The Spinoff](#) with permission.

In March 2016, the REINZ Auckland median house price reached \$820,000. Four years previously, it was \$495,000 – that's a 66% increase in 4 years. What's more alarming is that in 2012, many people considered that house prices were already getting out of reach for most people. That was particularly the case for young people and low income earners.

That extraordinary increase – coupled with the already high level in 2012 – was behind my call to a recent Auckland Conversations event that policy-

makers should strive to cause a 40% collapse in house prices to bring the median back to around \$500,000.

My call for policies to drive a house price collapse is driven by my personal value judgement that it's great for young families and families on lower incomes, to be able to afford to buy a house if they wish to do so. My concern is not for older, richer families, couples or individuals who already own their own (highly appreciated) house.

Others may have a different value judgement to mine – but rarely do they make such a judgement explicit. Or, they may argue that such a collapse would cause financial instability given banks' loans to mortgage-holders. Luckily, New Zealand's banks are well-capitalised and stress tests have shown that they can survive a large fall in house prices – mostly because the bulk of their loans pertain to older mortgages with plenty of equity behind them.



For those who share my wish to bring house prices back to a level at which ordinary people can afford, what is to be done?

One possibility is to try and stem the demand. Many Aucklanders seem to want their city to remain something like a rural town. In world terms, however, Auckland is a smallish city; while in Australasian terms, it is a mid-sized city sitting between Adelaide and Perth in size, and well behind the big three (Sydney, Melbourne, Brisbane). If New Zealand is to have one city of moderate size where head offices, R&D facilities and other wealth-generating activities reside, Auckland needs to be that city. To curb its growth is tantamount to saying that development should take place in Australia, not here. I favour Auckland being competitive in attracting high-value activities at least within the Australasian context. So I am not in favour of curbing Auckland's growth.

The question then is how can Auckland grow and at the same time have house prices that become affordable for more people. Logically, the only answer to that conundrum is that the city needs a massive increase in the number of dwellings.

Research at Motu (accessible from [www.motu.org.nz](http://www.motu.org.nz), and published in international scholarly journals) shows that (given current interest rates and incomes) a 1% increase in the number of dwellings relative to the population leads to a reduction in house prices of around 2.2%. Thus a 40% fall in house prices means that the number of dwellings in Auckland would have to expand by around 18% relative to the current dwelling stock. On top of that, the stock has to increase to reflect population growth. So with 2% population growth per annum, the stock of dwellings in Auckland would have to increase by roughly 30% if prices were to fall by 40% over the next 6 years.

There are currently around 500,000 dwellings in Auckland. A 30% increase in dwelling numbers over 6 years translates into an extra 150,000 houses over that time – i.e. 25,000 extra houses per year for each of the next 6 years. This estimate contrasts with much smaller (and nonsensical) estimates of housing shortages that are often quoted. The reason is that those smaller estimates (e.g. 10,000 extra houses) would just leave prices where they are!

So how can we get these extra houses and where can they go? Some people favour intensification and some favour expansion of the city's footprint. The size of the task means that both are required.

Auckland is lucky that it has plenty of farmland around it and – contrary to popular myth – farmland is almost worthless in farming uses compared with residential use. Expansion is therefore required, but with a proviso. A change in the zoning of rural land to residential gives the existing landowner a massive uplift in value – i.e. a multi-million dollar gift from the community. To my mind, this value should accrue to the community that grants the zoning change. The Public Works Act could conceivably be used (or changed) to enable Council to buy rural land at a premium (say 50%) above the rural land value and then all extra value uplift would accrue to the Council to be used for infrastructure and services for the enlarged community.

Auckland also has plenty of opportunities for intensification in areas where developers would wish to intensify and where people wish to live. For instance, Tamaki Drive is ready made for high-rise apartments where tens of thousands of people would no doubt wish to purchase apartments. Of course climate change may make development on Tamaki Drive a risk, but a few blocks back from the sea – on the ridges overlooking the harbour – would work just as well. Lift the restrictions on the heights of new developments, and I expect that we would see an utter transformation in the intensity of housing from Orakei through to Glendowie.

Existing residents of those suburbs (where I grew up) may oppose the development, but my value judgement favours the people who wish to live there but who are currently regulated out



of the market. In the end, choices have to be made about current residents versus future ones, and I prefer to do something for future generations.

Central government has set Better Public Services targets for many public services but has no targets for house prices. Auckland Council has taken a lead by signalling they wish house prices to be no higher than five times household incomes by 2030. This is broadly consistent with a 40% collapse in house prices.

We need both local and central government politicians to take decisions that will bring this collapse about. Every time I hear a politician talk about wanting affordable housing, I ask them how much they wish house prices to collapse by. I have yet to receive an answer. I suggest that this simple question should be asked every time a politician (of any stripe) talks on the subject. One can then see if they are really serious about making house prices in Auckland affordable for ordinary people.

## Motu News

- [Assessment: Academic return - Nature Magazine](#)
- [Ninety day trial law failure: report - RNZ Nine to Noon](#)
- [Govt changes tune on 90-day trial policy - RNZ Checkpoint](#)
- [Why the Gold Coast is the answer to our soaring house prices - NZ Herald](#)
- [Govt should crash house prices by 40% - RNZ Nine to Noon](#)
- [Bernard Hickey: The great housing down-trou - Herald on Sunday](#)
- [Fishing For Bright Spots in a World of Sick Reefs - Climate Central](#)
- [Motu research analysts look at food stamps, technology and productivity, Brexit and migration, taxing the poor, Presidential campaign myths, and more... - interest.co.nz](#)

## New Motu Publications

### Higher education institutions and regional growth: The case of New Zealand - [Working Paper 16-11](#)

Apatov, Eyal and Arthur Grimes. July 2016. We examine the relationship between the presence of Higher Education Institutions and local growth, using a sample of 57 New Zealand Territorial Local Authorities between 1986 and 2013. Our models include a large set of controls, including past growth. An innovation of our approach is that we include official population projections as a control to account for growth-related factors. Holding all else equal, we find that a greater university share of Equivalent Full Time Students (EFTS) to working-age population raises population and employment growth. At the means, a one percentage point increase in university EFTS share is associated with a 0.19 (0.14) percentage point increase in the annual average population (employment) growth rate. This relationship holds under all alternative specifications, including different HEI activity definitions, samples, and specifications. On the other hand, growth related to polytechnic activity was estimated less precisely, and is much smaller.

### The effect of trial periods in employment on firm hiring behaviour - [Working Paper 16-10](#)



Chappell, Nathan and Isabelle Sin. June 2016. An amendment to legislation in 2009 enabled New Zealand firms with fewer than 20 employees to hire new workers on trial periods. The scheme was subsequently extended to employers of all sizes. We find no evidence that the policy affected the number of hires by firms on average, either overall or into employment that lasted beyond the trial period. We also do not find an effect on hiring of disadvantaged jobseekers. However, our results suggest that the policy increased hiring in industries with high use of trial periods by 10.3 percent.

**Does money grow on trees? Mitigation under climate policy in a heterogeneous sheep-beef sector - [Working Paper 16-09](#)**

Timar, Levente, June 2016. This paper uses simulations from the Land Use in Rural New Zealand model to consider mitigation for different classes of sheep-beef farms under climate policy. Farmers in the model can respond to carbon prices by abandoning or afforesting marginal land.

**Low-quality Patents in the Eye of the Beholder: Evidence from Multiple Examiners" [NBER Working Paper No. 22244](#)**

de Rassenfosse, Gaetan, Adam Jaffe and Elizabeth Webster. May 2016. This paper uses novel data from inventions that have been examined at the five largest patent offices and an explicit model of the grant process to derive first-of-their-kind office-specific estimates of the height of the inventive step threshold and the prevalence of weak patents. The empirical analysis is based on patent applications granted at one office but refused at another office. We estimate that the fraction of patent grants associated with a patent standard that is lower than that of other countries ranges from 2-15%, with Japan having the tightest standard and the United States and China the loosest.