The evolving Institute

50 years of the NZ Institute of Economic Research

1958-2008

Introduction and thanks

The foundation of the New Zealand Institute of Economic Research in 1958 was the result of the work of Horace Belshaw, Macarthy Professor of Economics at the Victoria University College (as it then was) and a quartet of Wellington businessmen, encouraged by the Reserve Bank and with the support of the Prime Minister, Walter Nash.

This publication contains the recollections of six of the eleven Directors who have led the organisation since its formation, as a record of its first fifty years. Colin Gillion, one of NZIER's first staff members, has also recorded his recollections.

NZIER expresses its gratitude to its former Directors, Colin Gillion and Sir Frank Holmes for their contributions. Sir Frank was heavily involved with the activities that led to the Institute's establishment.

NZIER especially wishes to acknowledge the contribution of Professor Conrad Blyth, the founding Director, for gathering and organising the recollections in this publication. His effort and enthusiasm for the task, as fifty years ago, were instrumental in bringing together this collection of essays.

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Some recollections of the birth and early life of the NZIER

by Sir Frank Holmes

Sir Frank was heavily involved with the activities that led to the Institute's establishment, and was an ex-officio trustee from 1959-1966.

In my opinion, as the New Zealand Institute of Economic Research celebrates its 50th anniversary in 2008, Professor Horace Belshaw deserves to be remembered as the "father of the Institute", for the work he did during the 1950s to secure support for its establishment. As the Board of the Institute said in an obituary in its 1963 annual report, "As far as we are concerned he will always be remembered as the one man without whose foresight, enthusiasm and energy the Institute would not have come into being."

I have always counted myself exceedingly fortunate to have had Horace as my adviser and mentor when I began my career as a university teacher at Victoria University College, in the Economics Department of which he was head as Macarthy Professor of Economics. I am also indebted to him for encouraging and assisting me to combine my university responsibilities with an active involvement in public affairs, as he himself had done throughout his long and distinguished career.

Horace was distressed at the relative lack of serious, independent economic research going on in New Zealand as he took up his position at Victoria in the early 1950s. He was determined to try to do something to rectify this situation. He involved me to some extent in his efforts to do so. One of the milestones in public policy that assisted those efforts was the report of the Royal Commission on Money Banking and Credit Systems 1956. When I received an invitation to serve on the Secretariat of that Commission, Horace encouraged me to accept. I was able to continue my teaching programme, which in those days was concentrated in the late afternoons and early evenings, but it was inconvenient for the Department in limiting my capacity to be involved in other aspects of its work.

In the course of their deliberations, the Commissioners also became concerned about the lack of economic research being done at the time. Their report was especially useful to Horace in his efforts to gain support for an Institute. Section 9 of their report has two elements that are relevant to the history of the NZIER. Part XI D on pages 193 to 194 deals with the proposal to establish an Economic Research Institute. Part XII B on pages 199 to 200 deals with the proposal to establish an Economic Advisory Council.

In its evidence, the Reserve Bank made a strong recommendation to the Commission that "an Institution to conduct original research in the economic field should be established in New Zealand."[1] The Bank emphasised that New Zealand was lagging well behind what was being done in other countries. It listed a number of overseas institutions that conducted the sort of research it had in mind. It observed that most of the work being done by government institutions in New Zealand was limited to the day-to-day investigations necessary for the determination of important matters of policy. There was a need for more long-term systematic research which would prove helpful to both government and private enterprises.

The Bank listed 14 topics that would be suitable for research. The items that were included in the list reinforced its emphasis on how little research was being done in the country on very important economic relationships at that time. The Governor expressed the view that the necessary research would be best carried out by an "absolutely independent institution"[2] rather than, for example, as a branch of the Reserve Bank, although he indicated that the Bank was ready and willing to undertake the responsibility.

The Royal Commission was satisfied that New Zealand needed such an organisation, "of modest size and scope commensurate with our population and financial resources". They therefore recommended that steps should be taken to establish an Economic Research Institute to undertake investigations into fields and on the lines set out in their report.

The Commissioners were firmly of the opinion that the organisation should be a completely independent body, "not an appendage of the Reserve Bank or any similar concern". (They mentioned the Council for Educational Research as a body functioning in the independent manner required.) They did not want it to be encumbered with collecting statistics that it needed, which should be obtained through the Department of Statistics. Its primary function would be economic research.

Given the need to ensure economy in the use of existing facilities and the desirability of relative independence, they considered that the most suitable arrangement would be for the organisation to be attached to the Economics Department of one of the university colleges. Victoria University College would be "the appropriate institution"[3] because of its situation in the capital city. This would enable close contacts to be established with government departments, the Reserve Bank, and the head offices of many business concerns. Funding should be obtained by contributions from the Reserve Bank, the Department of Statistics, Victoria University College, organisations representative of business, workers and employers, trading banks and other private concerns that might be sufficiently interested to give the venture material support.

No New Zealand academic economist gave evidence to the Commission. (The only academic economist appearing before it was the Australian Colin Clark, who was visiting New Zealand at the time. The Commissioners decided that they should listen to his proposals to stabilise the value of New Zealand's currency through a commodity reserve currency scheme.

1 RCMBS Report, p 193, s 872

2 Op.cit p194, s 877

3 Op.cit p 194, s 879.

They were not persuaded by his proposals.) Horace Belshaw was quoted by Walter Otto, appearing for Henry Kelliher, whose submissions contained a proposal for a Council of Economic Advisers. The Belshaw statement that he quoted said that there was a "need for an advisory agency of Government, not simply Treasury, to analyse economic trends and structural changes on the basis of which an economic budget can be framed".[4]

The Commission was not prepared to recommend the adoption of Kelliher's proposals in toto, but it was convinced that it would be desirable to set up an Economic Advisory Council. It asserted that while the government must govern and take responsibility for its administration, it should receive "all possible assistance by way of advice before decisions were made upon the many and ever- increasing number of difficult and complex economic questions which come before it."[5] It saw a greater need than formerly for thorough preliminary analysis because the Second Chamber of Parliament had been abolished.

The Council it had in mind would consist of five independent permanent members, "of unimpeachable integrity", appointed for a minimum of five years. The powers, duties and functions that it set out for the Council were remarkably similar to those that the National Government that was elected in 1960 enacted in establishing a Monetary and Economic Council in 1961.[6] (The Commissioners included the power "to initiate and recommend avenues of additional economic research" among those set down for the proposed Economic Advisory Council).

There is no doubt that the report of the Commission was an influential source of support for those who wished to see the establishment of independent economic research and advisory agencies in the country. As indicated, one reason for the emphasis on the need for independence was some disquiet about the abolition of the Second Chamber. Another was concern by several groups about the lack of independence of the Reserve Bank from governments that they believed could not be trusted to assume responsible control of credit and ensure the maintenance of a stable price level.

In this context it was notable that, in proposing the sources of nomination for membership of the Economic Advisory Council, the Commission should say "we have not mentioned the Reserve Bank or the Treasury as we regard the Minister of Finance as being representative of those institutions." The Reserve Bank appointed a number of economists to its staff in the 1950s as more graduates became available, but the recommendation it made to the Commission suggests that it was concerned about political constraints impeding some of the research that it might have liked to conduct.

The Treasury was also beginning to build up its economic expertise, particularly by recruiting some of the very good economists who had been working for the Economic Stabilisation Commission, the regulatory agency at the centre of the comprehensive incomes policies adopted by

4 Op. cit. p200, s 910

5 Op cit., p 200, s 913

6 It did not adopt the unusual nomination process recommended by the Commission: appointment by the Governor-General in Council of two members nominated by the Minister of Finance, two by the Senate of the University of New Zealand and one by The NZ Bankers' Association.

the government during the war and the early post-war period. However the accounting functions of the Treasury continued to be much more important than its economic advisory and research functions at that time. Moreover, as the Reserve Bank evidence to the Commission suggested, most of the economists were caught up in the short term operations of that agency. A select few -- for example Henry Lang, Jim Moriarty and Geoff Schmitt -- were given the opportunity to study full-time in mid-career for two academic years for the Diploma in Public Administration at Victoria University College, but only some of them undertook significant research projects during that period. Geoff Schmitt managed to complete a thesis for his Master of Commerce degree as well as a project for the DPA, both of them centred on balance of payments problems and policies.

The Commission showed some confidence in the capacity of Economics Departments in the Universities to provide a base for independent economic research. However, the typical Economics Department in the 1950s was relatively small and the research output relatively meagre.

When I went to Auckland to complete my B.A. degree in 1948, the head of the Department, Professor Colin Simkin, who already had a good reputation for his research, was away on leave in Oxford completing a PhD degree. The administration of the Department was in the hands of the economic historian Harold Rodwell, and a relatively new and very able appointee, Malcolm Fisher, was the only full-time lecturer in economics, with little time to devote to research.

When I joined the staff of the Economics Department at Victoria in 1952, the very experienced and able Horace Belshaw had recently taken up the position of Macarthy Professor and head of department. He was vigorously engaged in research, particularly in relation to his recent experience in developing countries. However his predecessor had not been noted for recent research, nor had the other two full-time members of staff, who were both nearing retirement. I was the first lecturer that the department had been able to appoint for many years, despite rising rolls. Jim Rowe was added to the staff as a lecturer later in the 1950s; (He would become Director of NZIER in the late 1960s.)

The Belshaw approach to the teaching of economics was very different to that I had experienced at Otago and Auckland. He was very helpful in assisting me to cope with the four courses that he gave me to teach: -- public economics for honours, public economics for the DPA, economic organisation for stage one and money and banking for stage one. Although we offered no tutorial program at the time, the demands of coping with the new courses, for large numbers of students, and taking some part in the administration of the department and faculty, left little time for research. I did manage to follow up some of the work I had been doing during my three years in the Department of External Affairs. I enrolled as a staff member to undertake a research programme for the PhD degree. I chose immigration policy as my subject - a project related to the work that Belshaw was doing on population growth and levels of consumption, with special reference to that up to developing countries. Mine was to have special reference to New Zealand.

Given the staffing situation in the Economics Department, and my research programme, I did not expect Horace to advise me to accept the invitation to join the secretariat of the Royal Commission. Although I was able to continue my teaching programme, work for the Commission inevitably meant postponement of any progress with my research project for the PhD. Horace took the view, I think correctly, that I would learn more from the opportunity to serve the Commission than I would from continuing that research during the period involved. In those days, the PhD qualification was not such an essential prerequisite as it later became for appointment or promotion within the university system.

I was to be described as one of two "technical advisers" - the word economist may have turned off some of the monetary reformers whom the government wanted to be involved in the proceedings. The other adviser was Albert McGregor from the Treasury's research division. The Social Credit Political League had been securing a proportion of the electoral votes that made the two major parties uncomfortable. One of the government's major reasons for establishing the Commission was to secure a thorough analysis of Social Credit doctrine by a respected group, which it hoped would expose the fallacies of the A+ B theorem and other elements of the doctrine upon which the Social Credit programme was based.

The government was also at pains to appoint members of the Commission who could not be accused of being professional bankers or financiers or economists having a vested interest in the continuation of the existing financial system. The very effective chairman was the highly respected Judge of the Arbitration Court, Arthur Tyndall. His attitude to those who took the trouble to wish to present their submissions personally was summed up in his instructions to his technical assistants that, whether or not they considered an individual submission to be unworthy of the Commission's attention, they must find at least a few questions to put to the witness.

The members were Bill Fernie, a leading retailer from Christchurch (who would become one of the original members of the NZIER board); Mac Hutton-Potts, managing editor of the Southland Times; Clem Trotter of Hawera, managing director of the Farmers' Cooperative there (and father of Sir Ron who would later be a member of the NZIER Board); GG Gibbes Watson, a leading barrister of Wellington, who had been at one stage considered likely to be Chief Justice ; and Ernie Wilkinson a leading public accountant from Auckland (who would become one of the original members of the Monetary and Economic Council).

The Commissioners were told by the Minister of Finance that they should be able to complete the task within about three months. To their credit, they were determined to undertake a thorough analysis of the money, banking and credit system and its effects on the New Zealand economy, and to make a critical assessment of the policies of regulation of money and credit in the context of the major issues confronting the New Zealand economy.

To that end, they required McGregor and me to cross-examine leading figures in the public service, the Reserve Bank and the economic and financial system who appeared before them, to provide them with assessments of the information provided and proposals made in submissions and prepare drafts for approval for their report. In the process, we brought together statistical information on the financial system as a whole, (in addition to that for the banking system alone), which provided a useful basis for later work in the Reserve Bank, the MEC and the NZIER to build upon.

My own direct participation in the NZ financial system had been with the Post Office Savings Bank, the State Advances Corporation and the Government Life Office. My early lectures in money and banking were therefore rather bookish and given the lack of published research in NZ heavily influenced by overseas texts, notably work by Richard Sayers. My Commission experience enabled me to make them more interesting and relevant for NZ students. The opportunity to work with the knowledgeable McGregor, and to interact with the heads of the Treasury, Reserve Bank, trading banks, other financial institutions and the major interest groups which then had such a powerful influence in the highly regulated economic system, also greatly increased my understanding of the New Zealand system and the policy issues confronting it, to the great benefit of my subsequent career.

The Commission's report, and the evidence that the Reserve Bank had offered, gave Belshaw powerful ammunition to launch a vigorous campaign to get an Institute of Economic Research established. Two other organisations with which we were both involved were important in assisting him to establish very good relationships with people in the private sector whose support was vital for the success of such a campaign.

The Wellington Branch of the Economic Society of Australia and New Zealand was very active at the time in arranging a programme of lectures and discussions on important economic issues confronting the country. Belshaw had always been an enthusiastic participant in such continuing education activities outside the university, and encouraged me to follow his example. The Economic Society attracted many leading figures in the private sector and the trade union movement, such as Jim Andrews of the National Bank, unusual in banking at the time in having a Master's degree in Economics, Gert Lau, a leading public accountant and financial adviser, and Philip Proctor, chief executive of Dunlop New Zealand and a leading figure in the manufacturing sector.

Another active institution in which we both became involved was the New Zealand section of the Round Table. This was a group chaired by Sir John Ilott which met quarterly to prepare an article on New Zealand for the Round Table, a journal of the Royal Institute of International Affairs in London, which at the time attached considerable importance to developments in the British Commonwealth. The group consisted of a number of leading business people, public servants and academics from VUC. It included Clifford Plimmer, chief executive of the stock and station agency Wright Stephenson, who often provided the venue for the meetings (and made the tea for the gathering's supper).

The four people I have mentioned were to play a very significant role with Belshaw in securing the funding from both the public and private sectors that was essential to get the Institute started. They formed the Wellington core of an interim committee structure that was established, with offshoots in Auckland, Christchurch and Dunedin, to solicit potential members and providers of funds for the proposed Institute. I do not know who attended the first meeting of the interim committee on 13 August 1957, (I was in Britain during that year), but I know that Horace Belshaw spent a great deal of personal time and energy on the project.

It was he who framed a proposed constitution for the Institute. An obituary published in the annual report of the Institute, published shortly after his sudden and untimely death in Rome on 22 March, 1962, extolling the prodigious work he had done, commented that it was a "tribute to his understanding and foresight that the Institute today is almost identical in form to the proposals he first framed in early 1957". That he had enthusiastic supporters in the business community is evident from the success of the people involved in the work of the interim committee in recruiting 147 members, spread throughout the country, by the time of the first annual report in 1959, and sustaining their support through a rather prolonged process of recruiting the first Director and senior research staff.

The agreed constitution provided for most of the members of the board of trustees to be elected by members who had provided funds for the Institute's operations. As would be expected, the first election resulted in the core group being elected, with Jim Andrews as the first chairman, and Gert Lau as his deputy. Woolf Fisher from Auckland, Bill Fernie from Christchurch and Les Nisbet from Dunedin, all of whom had been important in the work of the interim committee in their area, were elected, as was Eric Marris, the editor of the New Zealand Financial Times.

It was generally agreed from the start that the University should be represented ex officio on the Board of the Institute by the Vice Chancellor and the Professor of Economics, along with the Secretary to the Treasury and the Governor of the Reserve Bank. Jim Williams as Vice Chancellor served from the inception of the Board until 1967. Horace had decided to retire early from the Macarthy chair at the end of 1958, so that he could accept more readily the invitations he was receiving to serve on overseas economic development missions. He was co-opted to serve on the Board, and did so until his untimely death. I succeeded him as Macarthy Professor, and continued to serve on the board from the beginning of 1959 until I left the University to join the management of the Tasman Pulp and Paper Company in the latter part of 1967.

We at the Economics Department at VUW were delighted that the Institute was able to attract Dr Conrad Blyth to come back to New Zealand to be its foundation Director. We were also very happy that the Government had been prepared to buy a house to accommodate staff of the Institute over the road from the University in Kelburn Parade.

Belshaw and I had hoped and expected that there would be considerable interaction between the Director and his staff and members of the staff of the Economics Department.. While we recognized that there would be limits to the extent to which Institute staff could participate in our teaching programme, we hoped that it might be useful to them to be involved in building up our masters and PhD programmes through supervision of theses and influencing the topics upon which graduate students might do their research. We arranged for the Institute to have full access to the University's library facilities, and the Institute was able to arrange for assistance from the Applied Mathematics Laboratory of DSIR, then housed at the University..

Conrad and I were in general agreement that we would cooperate closely in the development of our respective institutions, and assist one another in our programmes to the extent that our major responsibilities permitted. In that respect, we envisaged more interaction than was at the time regarded as desirable by many of the science departments at the University, who were concerned that their own growth and research programmes might be held back if they came to rely too much on interaction with colleagues in the Department of Scientific and Industrial Research.

Thanks to the positive reception that both of the major political parties gave to the recommendations on salaries and staffing of the Report of the Parry Committee on Universities in 1959, (on whose Secretariat I was pressed by the University to serve shortly after my appointment to the Chair), we were able to increase significantly, throughout the 1960s, the numbers and quality of the full-time staff in the Economics Department and the Faculty of Commerce in Administration of what by then had become an independent VUW. The expansion involved considerable administrative responsibilities, but I somehow found time to do more research and to accept appointment as the foundation Chairman of the new Monetary and Economic Council from1961 to 1964.

In that position, my colleagues and I and our successors, drew considerably on the work that Conrad Blyth and his staff were doing at the Institute in the early 1960s. Our reports were focused particularly on promoting public discussion on how New Zealand might improve its rate of growth and productivity, achieve greater stability in its expansion, curb inflationary and balance of payments pressures with less detailed administrative restrictions, and reduce its dependence on the British market and a narrow range of primary export products.

When the Council was established, as indicated above, economic research in New Zealand was in a rudimentary state. The main sources of support for our work were to be found in the Reserve Bank and the Meat and Wool Boards Economic Service. We saw considerable improvement in the situation in the 1960s, as University staffing was considerably improved, more economics graduates became available, the Treasury and the Reserve Bank stepped up the volume and quality of their research activities, and professional interaction among economists intensified. (The New Zealand Association of Economists will celebrate its 50th anniversary at about the same time as the Institute).

The 1960s were notable for forward-looking planning exercises directed to effective diversification of the New Zealand economy and its overseas trade as a basis for more rapid and stable expansion. The work done at the Institute, for example on strategic factors in growth, its pioneering studies in industrial economics, its contribution to the development of better national income statistics and information on financial flows and the financing of growth, made a substantial contribution to improving informed discussion of the issues involved. A particularly useful development was the institution of the Quarterly Survey of Business Opinion in June 1961, which provided the basis for the Institute to begin to make a major contribution to the improvement of economic forecasting in New Zealand through the publication of Quarterly Predictions late in 1964.

The Institute also promoted useful discussion on diversification of our overseas trade. I had been doing considerable research into the possibilities of closer relations between Australia and New Zealand after a visit I paid in 1957 to London to study likely developments in the relationship between the United Kingdom and the EEC, then in the process of completing negotiation of the Rome Treaty. The interaction in which I was involved with the Institute is indicated by the papers I wrote for publication by the Institute. Although I was not named in its first discussion paper in 1961 on "Should we have free trade with Australia?", I was in fact the author. This provoked a considerable debate both within academic circles and more generally in the community.

An important contributor was Peter Elkan of the Institute staff, who put forward the ingenious, but I thought unnecessary, idea of a "customs drawback union" or "balanced free trade in compartments" between the two countries. This was designed to ensure that benefits of freeing trade would accrue to the smaller as well as the larger country. I wrote discussion paper number 10 for the Institute on "Freer trade with Australia?" in 1966, reviewing the developments and the debate that had occurred in the previous five years, and updating the suggestions on future policy made in the first paper. Later in that year, I also wrote "Some Thoughts on Immigration", which the Institute published in three instalments of Quarterly Predictions, issues 9, 10 and 11.

While the staff of the Economics Department welcomed the proximity to our campus of the Institute in its early years, there were some on the Board of the Institute who feared that their staff might become too involved in academic discussions and publications, to the detriment of their capacity to focus on badly needed research into issues of major concern to the business community. Accordingly when the need arose for larger premises as a result of expansion, with the successful introduction of a Contract Research Unit in 1966, they preferred to seek accommodation down town, rather than in larger or additional facilities nearer the University. The first move was to 169 The Terrace, and later to its present premises in Thorndon.

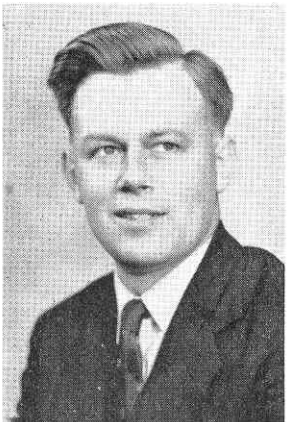
There was an unusual degree of stability in the elected membership of the Board in its first decade of existence. The core group of Andrews, Lau, Fernie, Marris, Plimmer and Proctor remained. Rolf Porter had replaced Woolf Fisher who had had to retire because of ill-health and JK Skinner had replaced Les Nisbet as the Dunedin member. Both of these had been very active members of the interim committees established to bring the Institute into being. There was also a stable core group of staff throughout Conrad Blyth's directorship, with Alan Catt and Peter Elkan as senior research officers, assisted by Bill Poole, Paul Hamer and H. B. Smith as Secretary.

The most important job of any board is to appoint a competent and effective chief executive. The NZIER board had successfully met this criterion by appointing Conrad Blyth as its foundation director. From the applicants to succeed him, it chose my former colleague at the University, Jim Rowe, Jim had been a senior lecturer at Victoria. It was significant that the New Zealand Bankers' Association had recognized the increasing importance of having a leading economist to represent its interests by appointing Jim as its foundation research director in 1961. His blend of academic and business experience appealed to the Board of the Institute as we embarked on the staff expansion required to satisfy the demand for the services of the new Contract Research Unit to supplement the demanding research programme then in progress.

Jim Rowe's skills were in demand not only by the business community that he was serving at the Institute but also by government departments under increasing pressure by ministers to prepare for more comprehensive planning exercises that culminated in the National Development Conference of 1968-69. He and I were both involved in assisting the Treasury in establishing its own planning unit in 1966. Jim would later be called upon to play a leading role in the Targets Advisory Group of the NDC, under the chairmanship of Alan Low, by then Governor of the Reserve Bank and an ex officio trustee of the Institute. My own contribution to the NDC would be made primarily through its Forestry Development Conference component, as Chairman of the Forest Industries Working Party and one of the spokesmen for forestry in the national conference.

Early days

by Professor Conrad Blyth, Director of NZIER 1960-1965



I do not remember when I first heard of the Institute; I don't think anyone in New Zealand told me; it must have been an advertisement in the Times or Economist in early 1959 for a Director and a Senior Research Officer. At any rate it caught me at a time when I was thinking of returning to New Zealand and I applied or said I was interested. I had just reviewed Condliffe's two books (the new and the old) for both the Economic Journal and Landfall so maybe interest was revived, although my four year old son's question: Daddy, what is a Grandad? may have been more compelling.

After an interview in London I was first offered the post of Senior Research Officer and later the Directorship. I subsequently found out that the Directorship had been offered to Arthur Beacham, a Welshman who at the time was visiting Otago as Professor of Economics, and who subsequently served as Otago's Vice Chancellor. I got to know Arthur well both in New Zealand and later in the UK: he would have been an excellent Director. On my interviewing panel was Eric Haslam, an Auckland Rhodes Scholar who then worked at the Bank of England, and would have been known to Jim Andrews (who had been stationed in his bank's head office in London in the 50s) and E.C. Fussell, Governor of the RBNZ and an ex officio Trustee of the Institute. Jim told me that the question he put to the interviewing panel was: yes he is young, but is he a mature young man? Apparently I passed the test (on that occasion).

By the time the offer came I was into the new Cambridge academic year (1959-60), and I told the Board I would not be able to arrive before July 1960. I also insisted that we travel by sea. The only thing that went wrong was that no one told me to arrange to take a car (old hands will remember the continued shortage of foreign exchange and cars in New Zealand).

August 1960 can be taken as the effective start of work in the Institute. I found a house in Kelburn Parade and a secretary, the one bought the other chosen by Jim Andrews. The house was partly occupied by a student tenant, and our first months were spent coping with the living arrangements of a young woman who seriously worried my elderly secretary until she left at the end of the year and we could get the builders in. (Actually, the tenant was responsible for the purchase of the house: her father worked in the National Bank with Jim Andrews and had passed on the information that the owner was ready to sell.)

What were my expectations and what did I find? I had no experience of working in a research institute, although I knew how the Cambridge

Department of Applied Economics functioned. After my appointment I visited the National Institute in London and received much useful advice from Christopher Saunders, the Director, who was in the early stages of launching the National Institute Review, containing a periodic macro analysis and forecast of the British economy. The Review probably gave me an idea, but certainly not a firm intention, although it fitted well with the work I had done on the American business cycle. The other intellectual baggage I carried back to New Zealand was Solow's work on factor productivity and technical change, and Chenery and Clarke's demonstration that programming models could be applied to development problems and the allocation of resources on a national scale. The former formed the basis of our first research paper, and the latter sowed the seeds for the Blyth-Crothall programming model.

When I got off the ship at Lambton Quay I was aware of some impatience on the part of the Board, reflecting their awareness that members had paid two years' subscriptions without seeing anything for their money. Jim Andrews deflected this impatience away from me; Gert Lau felt it his duty to let a little through; the other Trustees were understanding and let Jim and Gert be my mentors. Before I arrived, the Board, concerned at the delays, had set up a group of Wellington economists - Arthur Ward of the Dairy Board was prominent - to discuss suitable research topics, but apart from providing a list the group played no advisory role, although as individuals they certainly contributed to the emerging plans.

For the first six months I felt under some pressure, largely of my own making, to demonstrate the Institute's presence: we appointed good staff and they started to work, but it seemed to me essential to "get something out". That something turned out to be a few pages on New Zealand's economic growth which we pretentiously called our first research paper. Using official statistics it drew attention to what most economists already knew that our growth in the 1950s appeared to be slow, and it suggested (thanks to Solow) some reasons. There was not much to it, it was done in a hurry (after Jim Andrews had supported my idea), and Horace Belshaw was I believe a little disappointed at the substance of our first effort. But, it got the publicity and (I like to think) launched us and gave us some breathing space. An old Cambridge friend of mine, reviewing it for the Economic Journal, said it was my research agenda!

How did the ideas for what subsequently came to be our two flagships emerge? Neither I nor anyone else on the staff had previous experience of conducting or using opinion surveys. Furthermore, we had no plans at the time to move into the short-term forecasting business. However, two academics, Colin Simkin of Auckland, and my former teacher at Otago, Harro Bernardelli, each suggested starting an opinion survey, modelled no doubt on the Munich konjuncturtest. With the impatient member problem in mind, my response was that by using the members as the surveyed panel we might forge closer links. Thus the manufacturing members formed the initial panel; the survey form had nothing to do with Munich but was modelled on the Bank of NSW-ACMA survey form (we decided to survey every quarter while the Australians did it every four months[7]).

7 Some years later when I was working in Australia the Bank of NSW consulted me on a revamp of their survey, and amongst the resulting changes was a shift to a quarterly survey, making the results easier to compare with the more common quarterly statistics.

I can remember no specific event which signalled the decision to move into short term macro forecasting and launch Quarterly Predictions, although the Monetary and Economic Council had been set up in 1961 with Frank Holmes as its chairman. Frank inquired if the Institute would act as the secretariat of the Council; I demurred on the grounds that so early in its life the Institute would appear to be falling short of full independence. However, the institution of the MEC raised the question of short term analysis and forecasting amongst the Institute's staff at the same time that we launched the opinion survey. There were, however, competitors. BERL had been founded about the same time as the Institute and the members of their team became good friends: Brian Philpott, Norman Macbeth, Hugh Walls, Jim Rowe I think left when he went to the Bankers' Association, and Alan Catt may have been a member before he joined the Institute. BERL, a private enterprise, was concerned that it might have to compete unfairly with the Institute, a charity. It was clear to me that if the Institute did get into this line of business we would need to differentiate our product. We first of all experimented with the idea of each research officer specialising and producing a forecast of a particular sector of the economy i.e. industry by industry. That did not work; it was too difficult for junior staff, would require extensive and intensive supervision, and for some sectors there was little data.

What we decided to do (foolishly, I think it transpired) was to create quarterly national income and expenditure accounts and forecast ahead on a quarterly basis. There was no doubt our product was differentiated! New Zealand had no official quarterly income and expenditure (or output) statistics. We actually tried to construct quarterly business profits using information supplied by (some) members. We were persisting with this foolishness when I left, and my successor properly abandoned it and revamped the whole QP approach. The initial foolishness was entirely my doing; despite this Alan Catt as editor successfully launched the Institute into macro analysis and forecasting.

The Institute was surrounded by established economic institutions: the Treasury, the Reserve Bank, the Statistics Department and the university economics departments, to name only the most important. Our interactions with each were uniformly friendly but differed. The Treasury and the Bank were represented ex officio on the Board and were scrupulously non-interfering: the Bank of course was a major financial contributor. Alan Low assured me that I could rely on the Bank's financial support; the Treasury whose Secretary, E.L. Greensmith, was personally supportive, of course was concerned that none could accuse it of trying to influence the Institute. The Statistics Department was uniformly helpful in our efforts to plug gaps in data or create new statistics. Personally I owed a lot to the staff of the national income and inter-industry sections.

Relations with the university departments varied. The constitution of the Institute envisaged a close relationship with Victoria University, both the Vice-Chancellor and the Macarthy Professor being ex officio Trustees. With both of the incumbants, Jim Williams and Frank Holmes, I established good relations. Jim's office was nearly opposite mine, and of an evening he would wave to me indicating the whisky bottle was open. Frank wrote our first discussion paper on Tasman relations (which like the first research paper demonstrated we had arrived) and I found him an invaluable source of help and encouragement. Alan Catt and I assisted in his department's lecturing programme at times.[8]

Nevertheless, I was anxious to demonstrate that we were a national institution, not just a Wellington one, and early in 1961 I invited all four economics professors, along with Horace Belshaw, to meet at the Institute to discuss our research programme with Alan Catt and myself. It was informative in more ways than one: it transpired that Colin Simkin from Auckland was firmly of the opinion that the Institute was closely linked to the Victoria department, and I doubt whether even Horace Belshaw's powers of persuasion dissuaded Colin. Certainly, while my relations with Colin and the rest of the Auckland staff were good (I had first met Rex Bergstrom in Cambridge when he was finishing his PhD when I was starting mine), there was no doubt in their minds the Institute was a long way away. On the other hand, Alan Danks from Canterbury was a prolific producer of Directors of the Institute: he strongly recommended Brian Easton and Kerry McDonald as research assistants, while David Sewell and Graham Crothall were also Canterbury graduates. It would be true to say that Canterbury University's contribution to the Institute in its early days was human capital (malleable?): I could not imagine four more gifted research assistants.

That leaves the recruitment of the first senior staff which the Board left to me. From the applicants I interviewed Peter Elkan in London, and the others when I arrived in Wellington. Alan Catt gave us the macro strength we needed, and was in effect Deputy Director during my time. Peter Elkan, a refugee from Hungary and a Cambridge graduate who had actually attended one of my classes, and at that time working at the National Institute, was the quintessential research economist: faced with a problem he designed a suitably feasible approach, assembled the data and provided a solution. Bill Poole from Otago turned out to be a most constructive assistant as well as being an expert on financial statistics. Paul Hamer was an LSE graduate and working in the Department of Industries and Commerce. Colin Gillion, I like to think, developed with us his distinguished career as an applied economist and statistician. Looking back on the original staff and considering their subsequent careers, it seems that the Institute provided us all with training on the job and an education which was useful in later years: which after all was one of the original purposes of the Institute.

The early focus of research was spread over several fields and relied on temporary visitors and commissioned work.. One persisting theme was New Zealand's export performance and relations overseas. Peter Elkan was engaged with the impact of the European Common Market on New Zealand, and started his path-breaking work on effective rates of protection, Frank Holmes as mentioned wrote for us a discussion paper on Trans-Tasman relations, Duncan Ridler, a chance temporary visitor from the FAO, undertook some pioneering research into our markets in Asia for dairy products and meat, while Peter Lloyd wrote a research paper on the economics of tourism (including a survey of motels). Also on the export theme we held a series of workshops with members on the prospects for

8 Which is how I first met Gary Hawke, Steve Turnovsky and David Preston in an econometrics class, Steve going on to produce under my supervision a thesis on New Zealand's disequilibrium car market which appeared as an Institute technical memorandum and was published in the Economic Record.

manufactured exports which resulted in an early contribution to the policy issues.

Looking back on those years, it is clear that much of our effort and finances was spent on New Zealand's export problems and prospects. But obviously not entirely. Alan Catt and Bill Poole, along with their other tasks, were engaged in exploring New Zealand's credit and finance industries, Paul Hamer was starting some deep statistical analysis of New Zealand industry's productivity performance (including comparisons with Australia, and – partly because of the needs of QP - Brian Easton was engaged in a study of consumption and Kerry McDonald of capital formation. David Sewell made a one-off study of New Zealand's protected consumer durables industry. Of course the fruits of some of these ventures did not appear until after my time.

The essential role of secretary and internal accountant was first performed by Ian Pullar, Jim Andrew's assistant in the National Bank After the workload increased and when this geographical separation proved tricky, we were very fortunate in getting the services of H.B. Smith, recently retired Secretary of the Transport Department and a 1930s economics graduate of Victoria. 'Mr Smith' as we all called him, was invaluable not just as an accountant, but as a source of wisdom and good sense. Paul Hamer succeeded him, doubling as secretary and research officer. I have referred to Mabel McBride, chosen by Jim Andrews, formerly secretary to the redoubtable Dr C Beeby. Miss McBride led me through the tortuous Wellington pathways and saved me from many mistakes. Every Director needs a Miss McBride, even if she scares the junior staff.

Growing pains: contract research

It had become clear to Catt and Blyth that the membership base was limited, and revenue for expansion was insecure. Consequently, the Board's approval was sought and given in 1965 for contract research to be undertaken. As Sir Frank Holmes has suggested above, the times were ripe. Jim Rowe, Director 1966-1971, was responsible for launching the Institute into the contract research business, and reflects on the experience: "On the whole what was achieved in the first few years was substantial and credible as well as necessary for the Institute's survival. Several grant-aided quasi-contract research assignments are noted in the annual reports, and sufficient time has now elapsed to enable one to identify the major contract on the Manapouri dam which featured discounted cash flow techniques that were not then in common use." (7 May 2007).

Reflections on my time as Director

by Dennis Rose, Director of NZIER 1971-1976

Dennis Rose was a research officer 1966 to 1971, and served as Director 1971 to 1976. Dennis has reflected on his time at the Institute, and illustrates the Institute's emerging role in economic debate in the 1970s. He also has thoughts on contract research.

Introduction

My time as Director spanned the early 1970s, a time of continued growth and rising inflation spanning the interval from the National Development Conference through to the first oil shock. Politically Holyoake, Marshall and Muldoon gave way to Kirk and Rowling, and at the end of my directorship Muldoon returned as Prime Minister.

Research efforts were concentrated in three main areas, industrial and sectoral economics, regional and urban economics and a diverse array of institutional and macro issues. Staffing issues constrained our work. Three staff, Kerry McDonald and Rory O'Malley in addition to myself, were present throughout my term as Director. Kerrin Vautier and Helen Oliver worked at the Institute for the first three years. Our appointments of junior research economists were rewarding in terms of useful and hassle free output.

The range of work

Industrial and sectoral economics

The early 1970s were a time of transition from the war and early-post war phase of protected import substituting development to more open economic structures. The limited free trade agreement with Australia had been signed in 1966 and the National Development Conference had in 1968 reached its landmark compromise on the mode of protection. In 1973, Britain finally entered the EEC and in 1974 the world economy was hit by the first oil shock.

The general question of manufacturing protection was addressed in two papers by Peter Elkan, Industrial Protection in New Zealand 1952 to 1967 (1972), which provided industry level estimates of the rate of effective protection, and The Meaning of Protection (1977), which presented a three sector model with diminishing returns in agriculture, and economies of scale in manufacturing production and in imports. Elkan concluded that the balance of industrial policy had been broadly correct and noted that his model pointed to the advantages that could be expected to flow from enlarging the manufacturing sector through exports and integration with other markets, particularly Australia. Dennis Rose also addressed protection in Quarterly Predictions, Protection at the Current Stage of New Zealand's Development (November 1973). Arguing that protection had been justified in infant industry terms, as a mechanism for transferring pastoral rents to the urban sector, and as a short term employment promoter, I concluded that the first two justifications were time bound and that New Zealand should now be moving to lower levels of protection.

Manufacturing economies of scale and their implications for New Zealand's protective policies and her relations with Australia had been the subject of Peter Lloyd's New Zealand Manufacturing Production and Trade With Australia (1971), completed in Jim Rowe's term. Lloyd advocated movement towards free trade with Australia with a minimum list of items subject to tariff quotas.

One matter that I recall with no pleasure is my failure to complete a study on manufacturers' export pricing policies that had been initiated with assistance from Helen Oliver before I became Director. This was seen as an element in a programme exploring issues associated with an increased international orientation of manufacturing. I prepared a general theoretical chapter and literature review and we surveyed some fifty or so firms. Once we started to write the results up I found that the respondent's descriptions of pricing policies fell into two main groups, cost-plus pricing and market sensitive pricing. The question arose did this reflect characteristics of the firm or was it driven by the respondents position in the firm. What we should have done, and at this point in time I do not understand why we did not, was to telephone around our respondents and establish the facts. In the event pressures on my time kept putting this project on the back burner and it was never completed. As it happened parallel work by Richard Willis and Harvey Franklin of the Victoria Geography department carried these issues forward (see Harvey Franklin Trade Growth and Anxiety (1978)

Sectoral balance was also addressed by Rory O'Malley, Colin Gillion and Dennis Rose in Farming and Inflation (1973). This was a contract study funded by the New Zealand Dairy and Meat Producers' Boards. The report set the inflationary pressures on farming in the context of exchange rate and protective policies leading to recommendations for consideration of the case for a further devaluation, adoption of more flexible exchange rate policy and for further attention to problem of securing more orderly, and less inflationary, systems of wage and income determination.

In October 1971, Comalco published Manapouri/Bluff Aluminium Industry an economic appraisal a contract research project prepared by Bill Poole, Kerry McDonald and Jim Rowe. The report estimated the projects contribution to national income and the rate of return secured on the government's investment. The terms of reference for the report had been deliberately restricted to an assessment of the economics of the combined Manapouri and Bluff projects as they were being constructed in terms of the 1963 and 1966 agreements. In addition, commercial sensitivity placed limits on the range of detail that could be published. As a result the report did not provide full quantitative assessments of alternative uses of the power resource although the broad shape of two alternative hydro design options was discussed. Neither did the report consider the environmental debates that had arisen around the raising of Lake Manapouri. The first of these issues was the basis of McCann's criticism of the report An Examination of an N.Z.I.E.R. Report by Ewen McCann, which we published in Quarterly Predictions (March 1972) along with Bill Poole's response What was all that about?

Helen Oliver's Printing and Publishing in New Zealand (1976) explored the performance of an industry in which about half of New Zealand published books were also printed in New Zealand despite the absence of any protective tariff (in accordance with the UNESCO agreement on the free flow of cultural materials) and in face of an Australian bounty system favouring Australian printing. It was this openness of the industry which first attracted our attention. The report examined the factors influencing the choice on local or overseas printing and reported on ongoing interactions between industry bodies and the government.

During my Directorship I completed two overseas assignments stemming from my earlier work on motor assembly, which was picked up by the UN Industrial Development Organization. A month long UNIDO funded project in Peru was a cautionary tale on economic consulting. A planned briefing in Vienna was replaced, on mistaken grounds of travel economy by a "briefing" from a man in Santiago who had no idea what the project was about. On arrival in Lima I found that the original objectives had been overtaken by events and we ended up designing a new list of questions for me. The second project, on low cost vehicle manufacture in developing countries was much more successful. The Australian government hosted a seminar and I prepared the main background paper on the basis of a brief tour of plants in India, the Philippines and Indonesia. This formed the basis of a subsequent UNIDO publication.

Jules Ellis' Industrial Concentration calculated concentration ratios for almost all manufacturing industries and provided summary descriptions of the main corporations within each industry. In his theoretical introduction Ellis was concerned to distinguish between industrial concentration, as such, and the more complex issue of determining the exercise of monopoly or oligopolistic power. The report also provided a rare comprehensive picture of the corporate make-up of New Zealand Manufacturing at a point in time.

Business Archives in New Zealand (1975), by Jules Ellis was a brief paper reviewing the case for more active preservation of business archives, exploring overseas practice and reporting the results of surveys of New Zealand libraries and of 175 companies operating in New Zealand. Ellis proposed establishing a national co-ordinating council along the lines of the Australian Business Archives Council.

During 1975 and 1976 Dennis Rose collaborated with Rob Gapes, a mechanical engineer as the principal contractor, in preparing a research report The Heavy Engineering Industry in New Zealand (1976) commissioned by a Trade and Industry advisory committee. The study involved a high level of cooperation from the diverse array of private and public heavy engineering works and had joint foci on public and industry level policy issues. We recommended a move from blanket import licensing protection to more cost conscious mechanisms. Similarly we saw a need for increased attention to comparative cost criteria in deciding on allocation of work between public and private workshops. Our lead recommendation to establish a heavy engineering industry organization lead to the setting up of the Heavy Engineering Research Association funded by a levy on imported steel forms, which is still functioning.

Regional and urban economics

The first item in this category Kerrin Christie's Retailing: Performance, Planning and Policy (1973), could equally well be grouped above as an industry study. Stemming in part from a National Development Conference recommendation Christie's paper presented a comprehensive description of the industry based on the Census of Distribution, industry interviews and overseas research material. Particular attention was paid to the measurement of retailing performance and productivity and to the impact of scale. Prepared at a time of major new innovations in the design of shopping centres and malls the paper also discussed the local planning environment and canvassed town planning issues.

In 1974 we followed up with an Auckland Retailing Seminar with the theme Criteria for Investment in Retailing (Discussion paper 16). Lead by a paper from Kerrin Christie the seminar also included papers from prominent retailers, developers and town planners. Discussions were around two main themes; the commercial considerations that guided development decisions by retailers and the ways in which these were influenced by funding sources and the aspirations of property developers and also the way in which they necessarily interacted with town planning processes and decisions. There was some interesting by-play with Conrad Blyth's comments on first come first served as a guiding rule in NZ decision making and Kerrin's references to Warren Freer and Joe Walding's views on oversupply of retailing and fly-by-night retailers.

Kerry McDonald's Regional Development in New Zealand (1969), a commissioned report to the Minister of Industries and Commerce, concluded that government should not intervene directly at the present time to influence the pattern of regional development. The finding was against the thinking of a significant number of those in the responsible departments and led to continuing controversy culminating in a report by a subcommittee of the National Development Council in 1971. We published Kerry's response Regional Development Rejoined in 1972, in which he argued that regrettably much of the debate on regional development focused on the characteristics and performance of regions rather than on their implications for the people within the regions, which perhaps suggested a misunderstanding of the objectives of economic policy in general and regional policy in particular. The issue was further discussed in a note by Brian Easton in Quarterly Predictions along with a response from Kerry in November 1972.

Kerry's next major project during my Directorship was Urban Transportation and Land Use (1974) a two year study for the Urban Public Passenger Transport Council. It reported an amazing amount of detail on capital and operating costs for each and every transport mode along with an examination of the way in which such costs interacted with city form. Detailed reportage of New Zealand data forms the backbone of the report but this is extensively supplemented by appeals to international data. In his introduction Kerry is at pains to emphasize that the study purposely uses a fairly narrow cost-oriented methodology. Broader based judgements between modes and on city form properly take account of wider considerations but will be made easier by the reported economic data. Practitioners are challenged to articulate those other considerations.

Mike Copeland's Urban Development Costs: Residential Building, Land and Services (1975) was designed as a complementary study to Kerry's Urban Transportation and Land Use. The study estimates residential urban building, service and land costs for seven different building types (ranging from single detached houses through semi-detached and unit houses to blocks of flats) taking account of service costs for electricity supply, sewage, storm water, water, telecommunications, postal services and access roading. Although the studies purpose was essentially empirical the results of the summary table 8.2 which show annual building and service costs per household for the full range of housing types and a range of city sizes are of interest. City size has little influence on average costs but unit costs for high density detached houses, for semi-detached houses and for town houses (4 and 8 unit) are notably lower than those for low density detached houses and, more particularly, for blocks of flats.

Institutional, Macro and Other

Private Savings Flows 1960-1980 (1972) by Bill Poole and others is on one level a counterpart to the McDonald and Easton papers on New Zealand capital formation and consumption, in that it builds up institutionally based estimates of key liability and asset variables, and thereby private savings flows, over the period 1955 to 1971. These institutionally related estimates accounted for the major part, normally in excess of 75 percent, of the national accounting private savings figure (a residual estimate) and dovetailed with anomalies noted in Easton's consumption paper. These estimates form the basis for trend and modified trend projections of liability, asset and savings variables over the years to1980. The forecasts are related to National Development Conference forecasting assumptions. The paper was part funded by UDC and was completed by Helen Oliver and Dennis Rose following Bill's appointment as Research director to the New Zealand Bankers' Association.

Kerrin Vautier's The New Zealand Superannuation Scheme (1974) was a contract research report prepared for the Life Offices' Association of New Zealand. It originated with a request from the Association for a macro-economic assessment of the implications of a scheme such as had been proposed in the NZ Labour Party's 1972 election manifesto. It was not part of the Institute's brief to pass an overall judgement on the scheme or to examine alternative ways to secure similar ends. The report presented the results of a comprehensive modelling of likely future financial flows over a fifty year horizon and attempted a judgement on the central question of the extent to which savings flows mandated under the proposed scheme would constitute additional savings over what would otherwise have accrued and the extent they would be diversionary. It also estimated the likely scale of future asset holdings of the scheme and compared this to current assets of life offices.

The superannuation scheme was the subject of subsequent Quarterly Predictions notes by Hugh Barr (Maths Division, D.S.I.R.) and Kerrin. Hugh reported (June 1974) on a DSIR model of the scheme, which he noted gave similar results to the NZIER model. He explored the sensitivity of scheme outcomes to variations in assumed rates of real return (not surprisingly outcomes were very sensitive) and compared a pay-as-you-go scheme to the proposed cash accumulation scheme. Kerrin's note (September 1974) revisited the issue in the light of the final provisions of the Act establishing the Superannuation Corporation and a Treasury clause-by-clause guide. She reported some changes in modelled outcomes consequent on changes in final legislation and commented on a range of matters including the distinction between schemes where pension payments were directly wage-related and those, such as the legislated NZ scheme, where the level of payment would be determined by cash accumulation.

The early 1970s were a period of high inflation and this reflected in the Institute's work programme in a number of ways. It was, of course, a constant element in our two quarterly publications, particularly Quarterly Predictions. Dennis Rose assisted the Monetary and Economic Council in the preparation of their report Inflation and the Labour Market (1971). The June 1972 issue of Quarterly Predictions carried a seminar paper The regulation of wages and prices as a part of macro economic policy in which I took a retrospective look at attempts to regulate wages and prices as an aspect of general economic policy. The paper drew in part of my earlier Incomes Policies: Some Problems (1966).

1973 saw the publication of Farming and Inflation, which I have discussed above under sectoral economics. In September 1973, Quarterly Predictions carried invited notes by Conrad Blyth and Jim Rowe on The likely rate of inflation in the years to 1980. The two authors came to similar quantitative conclusions, Blyth 3-10% with 5, 6 or 7% most likely, Rowe 5 to 8 %. Conrad included some quotable words "I believe the basic dilemma of full employment policy remains unresolved: the pursuit of full employment requires "off-on" or "stop-go" policies to control the balance of payments and the rate of inflation and such policies inevitably disrupt the achievement of other political aims like …. Inflationary crises will continue to bring panic stabilisation measures which in turn will generate the frustrations, irritants and distortions that force the scrapping of the measures – until the next time".

In 1974 we published as a discussion paper Len Bayliss' The Political and Economic Measures Required to Achieve Price Stability. The paper was based on Len's public address to the NZ Association of Economists annual conference. It provided in reasonably brief compass a compelling argument on the scale of the problem, its origins and implications and the range of policy responses necessary.

The September 1974 issue of Quarterly Predictions reprinted Dennis Rose's address to the same conference, New Zealand and the Contemporary International Economy, which dealt with the oil situation, the international monetary system, international inflation and the likely extent of the current recession.

Looking back it is striking how much emphasis was placed on distributional issues as the source of the inflation problem. Most of us saw that the commitment to full employment contributed to a bidding war between different groups. Our aim was to seek to protect the employment objective by finding ways to soften that conflict. In the event inflation was not brought under control without substantial damage to the employment objective.

In a March 1975 Quarterly Predictions note Profit and Inflation in the National Accounts, Dennis Rose discussed the impact of inflation on conventional measures of profit and examined the case for modifying national accounting and tax treatment of profits. Some of the argument seems less than compelling as I re-read it, although the central point that adoption of replacement cost accounting conventions to commodity trading would seem to imply that no trader in commodities ever made a profit still seems strong. The discussion of contemporary developments in national accounting conventions suggests that this could be an issue worth re-visiting.

The salience of inflation as an issue led us to suggest to Case Cannegieter that he should prepare a paper for publication by the Institute. I'll talk further on that appointment below. Sufficient to note at this point that his draft, even after substantial editorial input from me, was judged irremediable by the Trustees, one of whom, Conrad Blyth, volunteered to make good the deficiency by preparing his own report. This was published in 1977 by George Allen and Unwin in association with the Institute.

Conrad concluded his central chapter on the causes of inflation with "the economy (is) a sensitive mechanism of inter-related parts, the main form of communications between the parts being the pricing system. Some parts of this system are subjected to shocks which are transmitted to the other parts by the pricing system. Whether a shock will generate an inflation depends partly on the size of the shock, partly on the sensitivity of the mechanism, and partly on the working of the pricing system. Any student of inflation who fails to consider all three aspects of the problem will give an inadequate account" (page 76). The concluding chapter warned against thinking one could live with high inflation, suggested that once high inflation was present fiscal or monetary correction would entail losses in output and employment and discussed the competing reform options of competitive and controlled labour markets.

In 1973 and 1974 Dennis Rose spent some time on issues related to foreign investment. In 1973 the Institute was commissioned by the Ministry of Foreign Affairs to recruit a team of consultants and prepare a background paper for a Colombo Plan conference session on Joint ventures and their Relationship to Aid Programmes, which was published as an Institute Discussion Paper (1974) and as part of the conference proceedings. The initial team for the study comprised Dr R.E. Low and Dennis Rose but following the withdrawal of the former from the project Dennis was joined by Helen Oliver. The other consultants were Peter Ady (Oxford), Donald Brash and Ashok Desai (Fiji). The report examined the potential of joint ventures as a way of marrying the interests of foreign investors and host country governments and considered ways in which aid programmes could assist the development in commercial enterprise.

Dennis Rose prepared a more comprehensive paper New Zealand's Economic Objectives and the Role of Foreign Investment as one of six papers presented to the 1974 convention of the NZ Institute of Public Administration and published in their proceedings. I suggested that much of the debate about foreign investment stemmed from frequently unacknowledged differences in underlying valuations in areas such as the economic growth/ecology divide, the capitalist/socialist divide, nationalism and conflicting direct interests in particular projects. Together these seemed to justify some element of preference for local over foreign enterprise but that any attempt to accord such preference needed to be open to challenge by the community. Ideally the margin of preference would take the form of encouraging local entrepreneurs rather than discouraging foreign ones.

Contract research

My thoughts on the role of contract research were covered in a 1975 paper, Social Aspects of Economic Research, to a Royal Society seminar on Social Science Research Applications in the Public Sector, in which I discussed the way in which we determined our research programme. It is a fairly long quote but is of interest.

"There are in fact two main streams of this. First we determine the major part of the programme ourselves. Secondly, we accept some contract work and in such instances it is of course the client who determines the subject of our research. … Our own funded research programme is very much determined by the staff themselves working in consultation with the Director, and subject to a final clearance by the Board of Trustees. We are of course a small institution while the array of possible research topics is large. There is thus a difficult problem of choice. Since its inception the Institute has found it sensible to give senior staff considerable freedom of choice. The Director exercises a more direct role in planning the research effort of junior staff and is of course responsible for ensuring that the overall programme is reasonably balanced.

"The advantages of our adopted course are I think obvious. Experienced economists will have skills and developed interests in particular areas, and will be well aware of the state of the art in these. They are thus well placed to judge which topics are more urgent, or more likely to repay research effort.

"The disadvantage is that we may unduly fragment our research effort. It is for example unusual for us to mount team efforts on particular projects although we have in recent years completed a number of these. However, the simple fact of the matter is that we do not have the resources to cope with any extended programme of team research.

Nevertheless we do build around common themes. In our recent work the most notable example of this has been in the area of urban studies. …….

"These topics interconnect, and we have derived some extra benefits and insights from this. For most of our programme however the interconnections are small and arise primarily from those consequent on having a group of professionals working together.

"The question of contract research raises some difficult issues. Obviously to the extent that we undertake paid work we lose freedom of choice over the subject area. Of courses one does not have to accept all work that offers and the Institute follows a policy first of limiting the proportion of its total revenue that may be covered by contract payments and grants, and second by giving preference to contract work proposals where the result will be of significant public interest and can be published.

"The client is of course interested in the results of the research that he pays for, and the Institute derives benefit from this.

"The important issue, however, for an institution that values its reputation for independence, is to ensure that the results of contract research meet the same standards of objectivity as does no-commissioned research. The procedures are of course the same. The researcher's work is exposed to criticism as he proceeds and the Institute retains the right to ensure that a client does not misrepresent the results of its work and if need be to defend its work in public, in exactly the same way as it can its own funded work. On these counts we have not in fact encountered any significant problem.

"A more difficult problem arises at the point of project selection. The very fact of researching a particular topic carries some information content and floats into public discussion topics that might otherwise remain quiet.

"A possible example is the Institute's early work on Trans-Tasman trade which clearly played a formative part in the development of N.A.F.T.A. Would this have been regarded in the same light if it had been funded by the Australian Department of Trade and Industry? Suppose on the other hand that the Institute had, as it well might in terms of staff interest, undertaken on its own account an examination of the Manapouri/Bluff Aluminium Industry. Would that report have had a different reception from that funded by Comalco? Would my study of the motor assembly industry been differently received if it had been funded by General Motors – or Skoda?

"It is impossible to ignore the fact that the public reacts sceptically to commissioned research. I think that the real grounds for this scepticism lie not in the common inference that the results are pre-determined by the fact that money flows but by the fact that money is unlikely to flow unless the client can see some reasonable prospect of benefit from the results.

"The test that we have to apply here, is to distinguish between the research and public relations content of the research proposal. The key question has to be, what is it that the client expects to find from the research that he did not know before, and is this substantial enough to outweigh the almost inevitable public relations content of any such exercise?

Assuming that we can achieve, and I believe we do, a reasonable insulation from the client's view of the desired research result the main problem that remains is one of balance within our total research programme. If the issues that we research on contract are genuine and if the individual researcher is objective then it is only in the selection of these issues from amongst the whole spectrum of available projects that there is a serious possibility of bias.

"I leave it to you to judge how we have managed on this front and add only that in research the fundamental test of the quality of research is its exposure to criticism over time. The fact that a research worker is retained by the state, by a private corporation, a trade union, a disaffiliated group, or what have you, of itself provides no guarantee that the researcher is bought or free."

Some concluding thoughts

The key issues facing research institutions are securing good, well motivated, staff, funding them, determining research priorities and maintaining independence. The scene has changed mightily since my time at the Institute. Major parts of public interest research are now carried out within major agencies such as Treasury, the Reserve Bank, and the Department of Labour. There is a considerable growth in private research companies relying on public funding for contract research. Other entities such as the Business Roundtable and the NZ Institute are active publishers of research. As always university staff and departments maintain active research and publication programmes. The model of a small independently funded institution determining its own research programme certainly feels less salient now than it did during the Institute's early years.

Looking back on a life spent largely in applied economic research I am conscious of the researcher's need for a home that provides stimulus, criticism, and engagement with others in defining research priorities, plus of course an income. We are always learning, widening our reading and expanding our skill set and for most that will be associated with some changes in institution during the course of a working life. For an entity such as the Institute this suggests placing emphasis on the need to attract key people in on short to medium term contracts. The range of relevant issues is so wide that any small institution needs to keep on mixing up and changing its gene pool.

Thinking of my term as Director I am conscious of my management shortcomings, particularly in the area of staff selection, where a couple of bad choices cost us a lot in terms of management hassle and wasted resources. I can also see that I tried to do too many things. I think I did a reasonable job in supporting other staff in their work, and contributing to various group projects, but failed to allocate resources that would have helped me complete my export-pricing project. Combining the editorship of Quarterly Predictions with the role of research director and responding too readily to requests to speak on this and that overstretched me.

My sojourn with the NZIER

by Colin Gillion, staff member of NZIER 1962-1972

Colin Gillion, who worked at the Institute from 1962 to 1972 (with a break when he worked at the National Institute in London), was actively involved in both basic research into structural relationships (developed from the Blyth-Crothall model and using inter-industry statistics, and financed from the Scientific Research Distribution Committee of the Golden Kiwi Lottery Funds) and contract research. He reflects on his experiences:

My sojourn with the NZIER fell into two distinct periods: the first when I had recently graduated and had all the ambition and a longing for travel, preferably London; the second was relatively more prolonged, from the time I left the NIESR to the time I joined the staff at Victoria University. During that time I had two bosses: the first was Conrad Blyth, of whom I stood in considerable awe: the second was Jim Rowe, whom I worked with under the programme which was known as the Golden Kiwi Programme (there had been a lottery of that name the profits of which my project was the recipient), although that became interrupted by the Airport Study and later the study of the demand for newsprint.

The principal concern was the Golden Kiwi Programme, in this I was helped very much by Zigmund Frankel, and the two of us worked on the programme. This turned out to be at once stimulating and frustrating. Stimulating because the basic idea was to work downwards and outwards, starting from the National Accounts (the National Accounts were not to be believed in any case, and then only as approximate indicators) and their principal disaggregates, Consumption and Investment, Exports and Imports, but the trick was to divide these up into components by industry, making sure that disaggregation agreed with the origins of the industries. This was repeated 11 times, from 1966 to 1978, and through all the industry classifications (27 in all). The frustration came with the tedium that all this involved: I soon got tired of calculating the number of pigs that were slaughtered, and reconciling this with the take off by the freezing works. Or the export of cattle and the division into how much was intended for export and how much for domestic consumption and how to reconcile the difference.

This became interrupted by the Airport Study. The situation arose because of a row that had developed between the Minister of Civil Aviation and the Wellington City Council: the Minister wanted the airport developed for international flights at the existing site; the Wellington City Council preferred development of an international airport at Paraparaumu. I was called in to sort out the difference. The debate resolved itself into two kinds of matrices: the first kind was to list all the technical options, starting with the assumption that the route could be operated out of Paraparaumu on the basis of DC 10 s doing the flying, and ending with the assumption that the existing facilities could be used and that 747 would do the flying. In between there were various factors including the types of aircraft that might be used, and whether or not the planes could surmount the hills with which Wellington was surrounded. The other issue was the nature of the constraints to which the project was subject. The time taken for journeys out to Paraparaumu or the existing site at Evans Bay, needed to be weighed against the loss of revenue by the shops in their respective locations. In the event, I decided for the existing set up, rather than some remote Paraparaumu based adventure. Events quickly proved me right and the site was eventually established at Evans Bay.

The other area where I had a modicum of success was in forecasting the demand for newsprint, although the cost overruns might imply otherwise. The project started off by recording runs of newsprint as measured by the take off of the newsprint rollers, against the demand as measured by advertising. There was a correlation between the two, and my job was to explore what it was, taking account of the things like advertising which determined how much the stories could run. All went well, and I established a connection" but in the end my enthusiasm got the better of me, and due to a mistake on my part I allowed the computers to run all night. Those were the days when computing was at a premium. Mea culpa. Still Jim Rowe was very decent about it and the incident was not held against me.

I only stayed a little over a year at the Institute from December 1985, most of it as Director. My time was cut short by the failure of Immigration to sort out my permanent residence before I lost my right to return to the UK. (It came through 2 weeks after I got back, after appealing to my MP.) This is still a great source of regret for me but Alan Bollard managed things well subsequently. Indeed, I regard persuading the Board to take on Alan, unfortunately only in an acting capacity initially, as one of the most important parts of the legacy.

Some thoughts on NZIER

by David Mayes, Director of NZIER 1986

My time at the Institute was precarious. Just before I arrived the Higher Salaries Commission had awarded the University sector a rise of over 30%. This pay rise was grand for universities whose income came from the taxpayer but a serious problem for the Institute where salaries were at that time linked to those in universities. I received a telephone call 10 days before I left the UK to come, telling me and asking whether I wanted to change my mind! It was too late even if I had wanted to. However, having just completed my book on 'Sharpbenders' looking at how companies achieved sharp and sustained improvements in performance putting the research into practice would have been a good idea anyway.

When I took over our usable reserves covered less than a month of the salary bill, expenditure was greater than income and the Trustees were worried that they would have to contribute personally. The potential cost was greater if we closed the Institute and paid for the redundancies than if we could organise a turn round reasonably quickly. In practice this occurred quite rapidly. When I arrived to take up the post of chief economist the then Director Brian Easton was on sick leave and John Gallagher was acting in his place. Brian then resigned and I was appointed all in reasonably short order.

The basis of the turn round was simple. We went for an increase in revenue on three fronts: first by asking our subscribers to increase their subscriptions and by seeking more subscribers; second by developing single client projects for which we could charge consultancy rather than academic rates (but with academic costs) and thirdly by a drive for new funded research projects. We reorganised the cost side in two main ways, first by decoupling from the university scales, introducing normal annual appraisal methods with bonuses and giving everyone the opportunity to share in any increase in revenue up to 10% of their salaries. Individual contracts on new terms and conditions had to be agreed with all the staff. Second, I appointed a professional office manager, so I could concentrate on project funding and the quality of the research.

It all turned out well. There were no redundancies. Only one person left. The cash flow problem was resolved within only a few months and we were able to pay the full 10% revenue bonus at the end of the year. The Board was ready to give up when I started and several of the senior staff were actively looking for a way out. I have no idea where the balance of praise should go, probably to good luck. I know the late Ray White had no idea he was going to have to spend so much time on the Institute as Chairman. He was an invaluable sounding board.

There were all sorts of other more minor administrative issues to deal with. I discovered we had no fire certificate and the changes required for such a wooden building turned out to be considerable. We put in place trying to find a more convenient building as part of the staff were next door in accommodation rented from the Royal Society – while the initial approaches to the Royal Society did not appear to work my successor was able to acquire the freehold from them and amalgamate the buildings – a very satisfactory outcome.

The fact that the administrative issues come first in this note reflects the severity of the problem. On the research side, the Institute was divided into three divisions: the single client project (corporate) side, which was already self-financing; the micro (industry) division, which was in good shape under Alan Bollard's leadership and the macro division including the forecasting and regular publications which was clearly loss making and in need of a methodological update. This formed my focus and we were lucky to recruit the main forecaster from the BNZ and start updating all the procedures to move to a much more model-based approach like that of the NIESR and NEDO from which I had come and away from the judgemental methods that were currently in play.

We got a major grant from the Reserve Bank for a string of projects and started to provide more direct services for members including a newsletter and forecast presentations and a more comprehensive approach to medium term issues. The only attempt that did not really work was to try to develop a market in Australia for research on New Zealand, especially the forecast, although we did recruit some clients.

The main intellectual effort as far as I was concerned was to try to understand the shape of the business cycle that was ensuing from the reform process. I argued two main things, the first was to stress that cycles are asymmetric – work which I am still carrying on today – and that was the theme of my lecture to the Annual meeting (labelled 'Change'). The second was to assess how far the economy might turn down as the inefficient was eliminated before the new activities emerged, particularly in terms of unemployment. We were heavily criticised by the then Prime Minister, David Lange, who described our forecast of a doubling of unemployment as 'irresponsible'. Of course he was right – we were wrong, unemployment trebled. I based much of the analysis on comparison with the UK, having been running the forecasting in NIESR during the early Thatcher years. The parallels turned out to be strong. We got furthest on showing asymmetries in the Phillips curve, in joint work published in Quarterly Predictions. It was a good opportunity to put together work on individual industries and the macro-economic picture.

The side we had most problems with was monetary policy and the impact on inflation. Our first project was simply to understand monetary policy (published as a SUERF study). I think our criticisms (Peter Keenan was my co-author) helped us get the RBNZ grant. However, we also started to look at financial liberalisation and in my view this work laid important ground work for the understanding of financial stability, over 10 years before it became fashionable and in advance of the 1987 stock market problem.

I did continue for a while on a consultancy basis and four main projects stand out for me. The first was the work on the problems of financial deregulation. We outlined very clearly what could go wrong from an evaluation of the experience in Latin America. I still find it amazing that the Nordic crises, for which financial deregulation was a major driver, took place a few years later. The potential problem was clear as were the routes for avoiding it. Still studying it now fifteen years after the event it is difficult to see how they did not learn the lessons and how they managed to persuade themselves that experience elsewhere did not apply. I guess comparison with Latin America was felt insulting. The second was that I secured a project with the UK Treasury to look at product market flexibility. As far as we could tell few people have tried to analyse what flexibility really means. This is still a key concept in trying to achieve structural reform but our work has not received the attention I think it deserves. Thirdly, we did a number of pieces explaining the reform process in New Zealand and the development of the pattern of trade. These are still well cited. Then everybody wanted to know about New Zealand now it is more a matter of history as the transition since the collapse of the Soviet Union has eclipsed the New Zealand experience.

Lastly, and most interesting I oversaw the reconstruction of the Phillips machine that now sits in the entrance to the Institute. It was completely refurbished by a small firm of model builders in Ascot in the UK. I took a series of photographs of it in the various stages. Particularly before the work started as otherwise the record might be lost. The builders had no idea what the machine was so part of the fun was explaining the point and that it was carefully calibrated. The detail was amazing, even variation in water pressure according to depth in the tanks had been allowed for in the original design. Modern plastics improved the visual look of the machine. The original had a lot of flesh coloured plastic looking as if it had been borrowed from artificial limbs. Once put together the machine was moved to the LSE for a public demonstration. The Institute's machine is unique as it represents 'the rest of the world' with the flow going in the opposite direction.

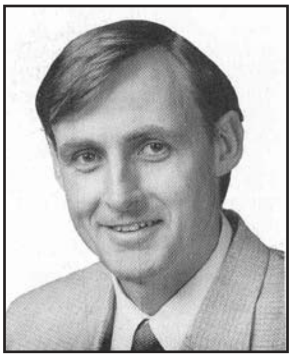
The LSE has one of the few conventional 'domestic economy' machines still in working order and the two were linked together for the celebration. James Meade had used the two machines in his lectures to explain the inter-linkage of economies. Although elderly he came again and set them running together as was originally intended. I had the privilege of sitting next to him at lunch. Newlyn who had worked with the original prototype machine at Leeds was also there.

The machine was then shipped out by Air New Zealand and it was heartbreaking to discover that it had been bent in transit and many of the joints broken. The machine was in the garage outside the Institute and I spent the next two weeks repairing it. One part had to be replaced but otherwise it was fragile but in working order by the end. One change made the danger of leakage less vital. The original used cochineal to colour the water but this stained badly. After several experiments we found that ordinary red ink for pens, which can be washed out, worked rather better. The original machine had been built by Bill Phillips in a garage in Croydon. Since I was living in Croydon at the time I felt repairing it in a garage was poetic even if it was in the wrong place.

The 1980s brought large changes in the relationships of the Institute and the public sector, and consequently on the structure and functioning of the Institute. Alan Bollard, on the staff from 1984 and Director from 1986 to 1994, reflects on the changes:

My memories of the NZIER

by Alan Bollard, Director of NZIER 1984-1994



I was recruited to the NZIER in early 1984 by Brian Easton. I had been working in the UK for five years and was keen to come back to New Zealand. Brian offered me a job as Head of a new Industrial Economics Section. The Development Finance Corporation had agreed to some initial funding.

My first impressions were of the old wooden building at No. 8 Halswell Street, with a rotting shed behind, a small lawn which Brian cut himself, a pad for parking out the front that previous Director Kerry McDonald had built, and a tennis court next door. My realisation that I had come a long way from London was reinforced by the casual way the staff behaved - on my first day one of the junior economists seemed to be wearing only swimming togs.

The Institute had a small group of staff, few enough to perch on the Formica benches in the small 1960s-style kitchen and discuss all sorts of economic issues at morning tea. The focus was on policy and current economic events. We had a good library and supply of research papers, but the focus was all on applied work.

The Quarterly Survey of Business Opinion was computed on the Victoria University Wellington mainframe computer, via a fixed link, the graphs drawn in-house on a noisy old matrix frame printer. In 1984 Joe Bullon and David Grimmond jointly carried out a study on the future of computing for the Institute, and concluded that the future was in mainframes(!). A few, but by no means all, staff had recently acquired personal computers - IBM-cloned XT86's I think, running a motley collection of software based on DOS and involving a spider's web of cables that wouldn't fit sockets, and small flickering screens with white lettering on green, and no mice. Most typing was still done on golf-ball typewriters, which gradually gave way to primitive word processors running the Word-Star programme. For many years we kept our outside typist, who insisted on doing perfect drafts on an old typewriter.

Within a few tumultuous months of my arrival, Prime Minister Robert Muldoon had called an election, goaded by young MP Marilyn Waring crossing the House, followed by a hard-fought election where Bob Jones' New Zealand Party took traditional National votes, and a groomed David

Lange out-debated Muldoon to win a big victory for a Labour Government consisting of a radical group of Ministers. The New Zealand dollar was under attack in the markets during the election, and following election night this escalated into a full foreign exchange crisis. Caretaker Prime Minister Muldoon refused to devalue, and this sparked a constitutional crisis. The incoming Labour Government instituted an Economic Summit and summoned a big popular majority for change. Then followed seven years of rapid radical policy reform.

This affected the Institute in two different ways. It meant there was intense interest and focus on public policy issues, particularly the microeconomics of markets. On the other hand, as part of the public sector reforms, the two ex-officio Board members (the Governor of the Reserve Bank and the Secretary to the Treasury) removed themselves from the Institute's Board, removing also the suggestion that it had some quasi-official standing, and terminating the historical Reserve Bank subsidy of around $100,000 per annum. This sum had originated from early Government support for the Institute when it had channelled an ongoing sum through the Reserve Bank of New Zealand to reduce the likelihood of Government influence on how it was spent. There was, therefore, some dispute as to whether it was the Reserve Bank's to terminate. The Board meetings of that time were tough and there was some table-thumping. Brian Easton seemed to have difficulty persuading the Board to agree with his views. As Chair of the newly-formed lobby group, the New Zealand Business Roundtable, Ron Trotter was prominent in pushing for change.

The Government's view was that the Institute should stand or fall by its ability to compete for government and private contract work. The difficulty was that there was as yet almost no contestable government research funding, and some in Government were unsympathetic to the Institute. Pushed for funding, Brian Easton took exception to losing a big contract on the proposed new GST design to the Institute of Policy Studies, run by a team headed by Claudia Scott and John Prebble, who he argued were hardly independent of two of the chief policy protagonists, Graeme Scott and Richard Prebble. Another highly contentious piece of work was a study on the benefits of tariff reform, which Brian loudly disagreed with.

To make matters financially worse, subscriptions from members were being eroded. Many traditional New Zealand firms were coming under difficult competitive pressures in the newly deregulated economy and were cancelling subscriptions, and even going out of business. In addition, during this time the trading banks started employing teams of economists who would provide forecasts and other economic services to their customers for free. In the past, the 'old boys network' could be relied on to rally round and become a member. No longer.

After a year or two of this, Brian Easton abruptly left. He was replaced as Director by Dr David Mayes, who had been Chief Editor at the National Institute of Economic and Social Research. David initially came in keen and pursuing new opportunities. However, after a short period, in 1987 he surprised us by leaving at very short notice, offering little in the way of explanation.

As one of the senior three economists (the others were Des O'Dea and

John Gallagher), I only heard of David's departure a few days before he left. That evening the new Chairman of the Board, Ray White, rang and asked if he could talk to me at home. To my complete surprise he said the Board wished to offer me the Directorship. This was a big vote of support for me (I was only 36 and not particularly experienced). But it was also a double-edged sword. It became clear talking to Ray that the Institute was in very shaky condition, and the Board were becoming worried about liabilities to staff if the Institute was unable to pay salaries. My first task was to take stock and to prepare a close-down plan for the Institute as a fall-back if we were unable to rapidly earn more income. I hand-wrote this and kept only one secret copy. Luckily it never had to be used, though I had my first experience of management stress as I lay awake in bed worrying about when the payroll would be due.

Brian Easton's directorial approach had been enthusiastic and idiosyncratic, without a clear governance framework and with very little delegation. David Mayes' style had been more academic. I felt that the most appropriate operational model for this new environment was nearer the partnership structure used by the larger professional services firms. We set up a senior management group, senior economists had contract earning goals, and effectively employed the junior staff they could fund and manage. Stephen Gale, John Culy, Phil Pryke, Ian Duncan and Peter Clough were the core of this. They could do a mix of commercial and quasi-academic work, and would be paid accordingly. My aim was to give them what they wanted (be it a good computer, a quiet room, their own working hours, or a lot of autonomy) and rely heavily on them. Most of these staff stayed a long time and became the backbone of the Institute.

The macro team was taken over by Stan Vandersyp (recruited from the BNZ forecasting team). Under the Labour Government's micro programme of reform there was very little public funding for macroeconomics (indeed the Treasury had themselves seriously considered stopping forecasting). So we had limited funding available, mainly from the declining membership base. Despite the limited resources, Stan and a group of juniors rebuilt the forecasting from a mixed system based on single equation sectoral forecasts into a spreadsheet-based data set and model that forecast income and expenditure estimates for GDP and then painfully reconnected them. This may sound primitive now, but it represented a big step forward at the time. The F-9 key, used to update spreadsheet calculations, was the busiest on the keyboard.

I felt it was time to put the finances on a more stable footing. Graeme Forgie, the part-time bookkeeper left, and I appointed a Business Manager (Bill Baker, then Alan Froggatt), whose primary responsibility was to build up membership, appealing to them not for their charity but to pay for the best independent forecasting and consulting advice. Painfully, but gradually, we built up the membership base, but it was always difficult. We looked closely at Institute spending. Most went in salaries. We agonised over the library, which was good but expensive. However it seemed to be the key to getting our hands quickly on research material, either by our subscriptions or through one of the strange interloan systems that Margaret Malan and Noeline Bowie (replaced by Liz Hodgson) ran in those days before the internet.

Quarterly Predictions was still the Institute's flagship, competing with BERL for holding the record of the longest continuous independent forecasts in New Zealand. The Quarterly Survey of Business Opinion was another major publication, with some series going back to 1961, though it too was now competing with free bank opinion surveys and we very nearly lost the half-funding from the Government that kept it going. Phil Briggs became the keeper of QSBO.

We expanded the forecasting (under Brian Easton) with a monthly update (I suggested the name "Looney Predictions") and a five-year medium-term sectoral forecast (run by John Gallagher). We had to compete with BERL (Ganesh Nana, Kel Sanderson), Infometrics (Gareth Morgan), and Integrated Economic Services (John Lepper, Petrus Simons) for subscribers.

On the contract side, the rapidly deregulating New Zealand economy was starting to offer up some interesting work, and we did many reports that led into the Commerce Act, the electricity and gas industry restructuring, the tariff reviews, other industry-specific regulation, the telecommunications break-up, and labour market changes. Some of this used the new wave of (US-developed) thinking on industrial organisation - theories of property rights, public choice, principal-agency, contestability theory, among others. It was an exciting, if somewhat scary, time. We also benefited from hosting several enthusiastic American Fulbright Scholars and one very enthusiastic Japanese (who arrived carrying three tennis rackets saying his intention was to "dispel the myth that Japanese are hard working").

Gradually contract income built up and we were able to establish a small fund to finance our own or pro bono work. This was important because right through my time as Director we were trying to do two things at once - run an intellectually respectable research institute, at the same time as a commercially-successful contract shop. It was a hard combination to keep up, though it did mean we collected an eclectic group of staff who were either lower paid researchers or higher paid contractors, but who like the combination.

During this time the Institute recruited and trained some very talented young economists, who went on to be the core of New Zealand's bank economists. They included Adrian Orr (new CE, NZ Superannuation Fund), Stephen Toplis (BNZ Chief Economist), Brendan O'Donovan (Westpac Chief Economist), David Grimmond (Senior Economist, Infometrics), Tracey Mears (Senior Economist, Treasury), Phil Briggs (Senior Economist, RBNZ), David Harper (Economics Professor, New York University), John Savage (ex-Treasury Economist), David Cooling (Economist, Standard and Poor's), Cathryn Ashley-Jones (Deputy Government Statistician), and Peter Keenan (ex First NZ Capital).

By the early 1990s, the Government had set up the Foundation for Research, Science and Technology, and was starting to divert departmental and university funding into contestable pools. The social science allocations were tiny and the application procedures onerous, but it was a chance for the Institute to access more basic research funds. A number of the Institute's bigger public good projects at the time were funded this way.

I would never describe the Institute's funding as strong or secure during this time, but during my time we doubled our income, and year after year we built up small surpluses, and when appropriate researchers came on the scene we looked to expand. The offices were pretty dowdy by then, though the little private offices in the rickety wooden building on the edge of Thorndon attracted some refugees from the open-plan glass towers downtown.

It was becoming clear that we were running into capacity constraints. We instituted a search for bigger premises, preferably still in its own stand-alone building. After scouring various possibilities, we identified and made an offer for Bishop's Court, the beautiful old heritage synod building, between Old St Paul's and the Archives Building, taken by the Ministry of Works from the Anglican Church for the widening of Mulgrave Street. The church did not want it back. We made an offer, which was accepted, and we prepared to transfer funds. Then we were desolated to hear at the last minute that the church had changed its mind!

Back on the Halswell Street site, our immediate neighbour, the Royal Society, had had grand plans to redevelop the whole site. These had fallen through in the post-1987 property slump. We offered to buy from them the adjoining old house, No. 6 Halswell Street, whose top floor we had been renting. Then came architects, builders' quotes, planning consent, and we converted the two buildings to one with a new integrating entrance way between them. The builders were horrified that they had to build while we remained in occupation, but the project was carefully managed, and after a short time we had established our new offices.

We temporarily rented out the downstairs west wing to the New Zealand Computer Society. We improved the car parks in the front. But we ran out of money when it came to beautifying the grounds at the back. We continued to upgrade computing facilities - the AT286s gave way to 386s and even for John Culy, our computing wiz, an early Pentium. Software was now being colonised by Microsoft, but we still sported a range of one-off calculating and presentational software, some of it our own design. With this we now began laying out publications more professionally in-house.

At about this time I read an article in the Economist magazine about how the London School of Economics had rebuilt one of Bill Phillips' two Moniac machines in London. On a whim, I wrote and asked if we could have the other machine, subject to raising funds to restore it, and bringing it to New Zealand as a heritage project. To our delight they agreed, and then followed a long fundraising project. I eventually raised money from the Lotteries Grants Board, Compaq computers, and Air New Zealand. David Mayes helped at the London end. After the modellers restored it, the machine (No. 1 "The UK Economy") was moved to the London School of Economics, connected up to the No. 2 "Rest of the World" machine, and demonstrated to an historic audience, led by Professor James Meade.

The Moniac was then disassembled and shipped to Wellington, where (with difficulty) I reassembled the machine in the spare garage at the Institute. Where would it be displayed? I asked the newly built Te Papa Museum if they would like it. They rather condescendingly declined it. The Reserve Bank offered it a home in their foyer, but since they had refused to help fund it, I was not inclined to hand it over. Eventually we housed it into a display position in the entrance way of our converted NZIER building. Here it was wired and plumbed in, filled with red water, and could be demonstrated to groups of disbelieving school children.

The New Zealand economy was still going through turbulent times, with big policy developments. With this came a demand for the Institute as independent media commentator. Some of this was farcical. One Friday afternoon I remember being asked by a reporter to comment on some development with tariffs. I said I would need to study the press release first. Her deadline was looming and she snapped, "Look I don't give a damn what you say, I just need two minutes of anything!". My hardest media job was as TV commentator on the night of the 1991 'Mother of all Budgets', delivered by Ruth Richardson. There was a wine carton full of Budget documents and two hours to read, digest, and think up interesting commentary, then full on with the cameras in the Beehive.

It was hard to specialise at the Institute. The AGM talks through this period give an indication of the breadth of our interests. One of the interesting (and lucrative) lines of contract business we had developed was as expert witness before the courts. My specialty was the Commerce Act, which was developing precedent case law at the time. In 1994 Susan Lojkine, the Chair of the Commerce Commission, was about to retire and I was asked if I would take the job. I had been at the Institute 10 years and it was painful to leave, but the time was right. I had hired Dr John Yeabsley six months before, with a view that he could be a Director if the need arose, and he stepped seamlessly into my place.

An idiosyncratic view*

by Dr John Yeabley, Director of NZIER 1994-1997

* These recollections are personal and without the colour of research or cross checking.

In the beginning

I came to NZIER seeking a break from demanding management and a chance to get back to doing real economics. The stint I had just had at IPS reading economics and looking at various real world problems analytically had given me a taste for the sort of work NZIER would hopefully provide.

I had spent the previous 8 years with a large staff as well as resource and output delivery responsibilities. This time culminated as General Manager of the NZIS (immigration) where there were hundreds of staff around New Zealand and overseas to look after, and in addition to the general responsibilities of being part of a substantial organisation, large budgets to establish and monitor, select committee examinations, and so on.

My aim was to return to the personal challenge of research and problem solving in smaller teams virtually untroubled by administrative cares. But it turned out that Alan Bollard was leaving even as he interviewed me. Within weeks he had crystallised the issue, by announcing his departure for the Chair of the Commerce Commission, and the question naturally arose of who might take his place.

Appropriate flattery along with descriptions of the limited amount of management effort required to keep the place thriving had me applying for the Director's job. After a searching interview, including the most thoughtful question I ever faced in such a situation, (Board member, "what is the biggest risk we face if we appoint you?") and a seminar to staff and Board on the economics of compliance and deterrence, I was appointed.

Now all I had to do was match expectations.

NZIER is, of course, a product both of its environment - including its own past - and of its makeup. The NZIER that I found in the mid-90s is a long way from the one that exists today, just as the entity of the mid-nineties was already a long way from its precursors in the 1950s and 60s, not the least because of its far more competitive environment.

So, before discussing the impressions that come to mind when those days are mentioned, I want to spend a little time sketching the forces that were operating at that time, and the situation I found when looking carefully at the organisation after having been appointed director in early 1994.

Background

The NZIER of the nineties had a sound reputation but faced a market which said it was somewhat confused about its style and role. This was to a degree inevitable, as the shape and products had changed over the previous nearly 40 years without any (branding) campaign to consciously shift the image of the organisation in the minds of those that were becoming known as 'stakeholders.'

The original charity, researching New Zealand's economic problems, had long been subsumed by a significant stand alone, business-like operation, having to meet its significant payroll and overheads largely from the earnings in a growingly competitive market.

The size and scale

By the time I started to look at the accounts in early 1994 (and the figures were both less reliable and less frequent then) the turnover was of the order of $1.5 million; of which, about $500,000 came from around 300 major and minor members and from a small grant from the RBNZ. The remaining $1 million or so – always a significant majority of the cash – was the result of a steady stream of consulting work for a variety of clients. Much of the work was policy-related and largely for public sector clients.

We were then a body of about 14 economists (depending of course on comings and goings) of whom there were 2 economics PhDs and one retrained physics PhD. Several of the staff were in their first real job, and thereby requiring substantial mentoring. We were still struggling to think clearly about the way membership services (particularly Quarterly Predictions, at that time a rather expensive operation) fitted into the financial arrangements[9]. My predecessor told me (good advice, I thought then, and still do) that he had resisted increasing staff numbers, and he saw it as an error.

He was clearly right. Once I had carried out an overview and stocktake, it was clear that we were set up so we were carrying most of the fixed costs needed to sustain a significantly larger number of staff. All we lacked were the various systems upgrades required to be a functioning modern organisation (see below), and the confidence that the market would provide the opportunities to gather the necessary volumes of work for the expanded staff numbers.

Our emerging view then (and increasingly obvious today) was that the economic consulting and researching market was not one limited to any fixed amount of rigidly defined economic work, and so not a zero sum game. In fact, it was often a market for analytically based opinion that was, in a weirdly (almost counterintuitive) way expanded by an increase in the quality supplied. This worked because the advice/ policy market is often tightly driven by the fiercely competitive political decision-making world, where different interests are looking for different outcomes. Thus

9 A strange accounting mechanism priced QP work at lower rates than other work. This meant it was essentially cross subsidised by other paying jobs.

if one side hires economic advice, so might the other so as not to be outflanked. This means that if we missed the job of preparing the draft policy piece, often the "second prize" might be that there would be another task, to critique it, and (less frequently, but not without occasion), then yet another task, to try and pull the pieces together into a compromise version.

But in the meantime, there was a house style of being distinctly reticent about marketing. Before I had started, David Harper (who I had originally recruited for Trade and Industry from his degree course at Waikato – New Zealand is a small village) told me that working at NZIER was like being in a monastery: all the economists spent all day hiding in their individual cells illustrating manuscripts.

Unfortunately this attitude was coupled with a lack of basic understanding of the way the economics of the organisation actually worked (especially in terms of the flow of funds). It was not seen as a collection of largely separate and identifiable output units, but as a factory with individual's contributions being submerged into the whole.

The attitudes

The transition from the original 1950s "research animal" – with a heavy colouration of a university type institution (including the tied salary scale, only disentangled in living memory of some of the staff) to a jobbing consultancy was difficult for several of the economists to come to terms with, as it was for external observers to understand. For them there remained an air of detachment from marketing that would have been sensible in an institution with a large endowment to support an independent research programme.

On the other hand, several of the team, especially those who were engaged in the long running saga[10] of the reform of the energy sector, were well connected to the market. They were working hard and being rewarded with significant streams of earnings.

Marketing

In an intriguing instance of the "cobbler's children's shoes" many staff saw the market as an odd beast. The approach they adopted was very academic: think up an interesting topic and try to interest a likely customer. Frequent calls based on this approach were made on the good nature of people at the Treasury, the Reserve Bank and the then still relatively new Ministry of Commerce. For those who were innovative or sufficiently respected it could work; for others it was not very successful.

Some new and continuing sources of income had opened up over the longer haul. The Commerce Act 1986 changed the way commercial regulation occurred and started the regularisation of the use of economists as 'expert witnesses' in competition cases. And reviewing the reform processes had taken over as a work stream from the task of preparing the base documents with options for reform.

10 Somewhat akin to the 'painting of the Forth Bridge,' as it has never really come to an equilibrium that is (politically) stable. As this is written further changes are being discussed.

In my time my personal interest in law and economics, generally applied, which had originally been fostered at Essex in discussions with visitors, was shared by several of the younger staff. On this originally somewhat flimsy basis we undertook an exciting range of work in various applications of this thinking, including early studies on:

- Insolvency law - bankruptcy and liquidation;
- Rental vehicles - the legal framework;
- The basis for legal aid;
- Parallel importing - costs and benefits;
- Economics of the Motor Vehicle Dealers Act 1975 ;
- Auditors' liability;
- The costs of crime in New Zealand; and
- The demand and supply of censorship services – with applications to the funding regime.

These exciting new topics supplemented the older ones and opened up new clients as well.

Finances

It was quickly clear that the economic basis of the way NZIER was running was somewhat risky. The disparity in the earnings between different markets had to be addressed. We were facing significant changes among the client base. Similar challenges were also threatening among the membership. The useful idea of "major members[11]" was a waning earner, as it was hard to generate sufficient 'special service' ideas at a realistic cost.

And there was limited interest in paying to support a research agency doing public good work. We had an extensive debate at the board about this and the upshot was that we needed to make the most of our opportunities. We had to have a value proposition for the members – they were no longer (if they had recently at all) paying our subscription to be 'good corporates'.

Resources – the dying of the light

The changes that had happened in the rest of the economy and the regulatory structure were mirrored in the potential to find supporters for research into areas of pure public interest. Perhaps all ages see the previous one as a golden time, but looking at the string of NZIER published monographs that lead up to this time, and noting who paid for them, it is difficult not to be envious.

But realistically, the funds for the public good type of activity, that seemed to be available as a response to an institution's good reputation and

11 Who got better and greater service packages for a significantly higher subscription fee.

appropriate positioning, were becoming more and more difficult to find at all. This was especially true when five of the main sources are examined.

Foundation for Research Science and Technology

FRST in 1994 was still feeling its way. There was an annual round of bidding and almost any project with a connection to the national interest could be put into the pot. Many succeeded. NZIER had had an enviable record of success, with a range of different proposals gaining funding.

But in the next several years a combination of us trying too hard to develop new areas, and shifting goals among the awarding groups meant we had a continued but declining success rate. Eventually it became hard to gain funds in areas without a sustained track record – such as the trade work NZIER kept carrying out. We kept our toe in the FRST water but it became a professionals game involving being a determined and sustained researcher with publications in an area, rather than as an opportunistic chaser of interesting ideas as earlier.

Ministry of Commerce

In the late eighties and early nineties this organisation had been in the midst of contributing to a widespread set of reforms. The work was demanding and voluminous. Much of it was put out to reliable contractors and NZIER took a substantial share, especially in the specialist energy area, where our small team with impeccable credentials and a high work rate were at the coal face of the reforms.

As the decade continued the strength of the Ministry was built up, the funds for external commissioned work shrank, and in many areas our role was reduced to acting as second opinion.

Fulbright

The role of the Fulbright Foundation in New Zealand was to fund visitors from the US academic system. NZIER had been an eager participant. The individuals would put themselves forward and we would opt for the ones we liked. Then a selection of those to be funded would be made. This was a relatively low cost model that allowed the NZIER to gain significantly by having access to a stream of invigorating visitors at relatively low cost in terms of both time and contribution.

Though we made a cash payment, a significant share of the costs were covered by the scheme itself. After several years of increased costs, the whole basis of the programme shifted into a different model. It was characterised by higher transaction costs and, particularly, the need to predetermine who was to be invited. For us, with limited networks and marginal assured returns from the visitors, the game was no longer worth the candle and we, rather reluctantly, looked for other ways to attract the right sort of guests.

The Treasury

During the reform period of the eighties, and beyond, there had been many exciting commissions from the Treasury and they continued to be interested in thinking the unthinkable well into my term as Director. But, like Commerce, they shifted to wanting to build up their own resources and we found we were not being given the same degree of interesting work as earlier.

The Reserve Bank

The bank had been the original mechanism by which the government contribution to the NZIER had been conveyed. A residual commitment to commission (macro-economic) work from us carried over into my watch. Unfortunately, reasonably quickly, the shift of internal priorities and resources toward expensive large scale modelling squeezed us out of regular assignments.

Challenges – systems and other aids

On taking office the real issues that concerned me were not obviously related to the research topics, or even to the funding. These needs became obvious only with time. What was clear, perhaps because I had come from previous management roles in larger and more explicitly 'organised' organisations, was the state of the back office systems. These are the sinews of the organisation that shape the way things happen while allowing management to monitor what is happening.

What we in my day called 'hygiene factors' – the information and execution side of management - were all relatively hands on. Effectively, they substituted the dedication of significant quantities of time by the Director, for an investment of design-work and capital into building systems that would give a smoother ride with less engagement.

This demanded too much from the Director for my taste and I resolved to change the way things were organised. This meant that over the years, I steadily worked my way through the different aspects of the operation upgrading the support systems.

Getting a steer

But first I had to grapple with unfinished business. The Board had asked management to produce a full-blown set of modern management devices, including a vision. For a shop as analytical as this one this had to be built up from the ground – the basic work and thinking had to be the first step. Some thoughtful analysis had been carried out and discussed at several meetings including at least one facilitated "go bush" at Wilton House.

No convergence had resulted and it became a lengthy task for me supported by what was called the MAC (management advisory committee), a group of seniors and managers[12] who met monthly with the Director, to put together an acceptable, logical and applicable vision for the institute. Various papers were prepared and discussed before what is still largely in place as the vision emerged.

12 For most of my time this group was made up of Stephen Gale, Ian Duncan, Alan Frogatt and either John Savage or Phil Briggs.

The difficulty was in gaining sufficient distance from the situation to discuss it in real context without losing the analytics. In the end, over dinner at a late session one night, we managed to grapple with the task by using the idea of metaphor with the market for meals out[13]. We could locate ourselves, our competitors and where we wanted to be in terms of the local restaurant trade. Suddenly the metaphor clicked and illustrated our situation and thereby allowed us to develop the wording for the vision.

Systematic development

The gradual but widespread revamp described in part below was not a well-planned exercise. It was a series of overlapping reviews and improvements. All were designed to upgrade the workings of the organisation without overstretching the thin supplies of management time and ability available.

Information Technology

The state of computing was not appalling, but it was not supporting the staff in their efforts. The Institute, as I understood, had been an early user of computing power, but by the mid-1990s it was still coming to terms with the PC revolution and what it meant (and took) to have a machine on every desk. As many other organisations had at the time, we were using in-house consultants to design and advise on IT.

In the days gone by this integration was sensible and meant the decisions were informed and worked for the peculiar problems of the business. But by the time I arrived the standardisation (commoditisation) of both hard and software had driven the key features of the decisions toward the benefits of mass purchases of standardised equipment. They were cheap and maintenance could be outsourced to cheaper specialists.

The issue was discussed with the Board who agreed that this was one of the few areas where there was the chance to invest in labour complementing capital.

We were able to upgrade and stay upgraded relative both to the need and the potential. We also moved to outsource our IT servicing. This might have been a rational decision but it was not a noiseless one, as the level of moaning about support has never really reduced.

Industrial Relations

The 1990s of course was a period of radical shifts in the rules associated with the employment market. While members of the staff were experts on this,[14] it had not worked its way through to the way people were employed at NZIER. Individuals were on particular contracts with elements reflecting the date of joining, and that did not reflect current situation.

13 The insight was based on my experience with George Hickton at the Department of Labour, who used to talk about his branch, the Employment Service as "the MacDonalds of the placement market."

14 See for instance Savage (and Maloney) in Bollard, Lattimore and Silverstone, (1996) A study of economic reform: The case of New Zealand North Holland

I brought in Kevin Jenkins and he drafted up a new set of IR conditions. This included a standard contract to which all staff were joined. This took some effort and a fair bit of elapsed time. It did mean eventually that all were effectively on similar terms and conditions that meshed with the prevailing legal structure.

Finance

The situation with the organisation's finances was that the accounts were only prepared from time to time. In fact, when a serious board meeting was in prospect. This stemmed from the special effort it took. The information on exactly where the income and expenditure was on a week to week basis was missing.

We needed ways of collecting this and using it to monitor performance. The first audit report was qualified in various ways, several of them relating to this. Anxious to fix the problems by locating the necessary systems upgrade, I looked at the requirements and discussed the matter with the senior staff.

They told me no easy answers had been found when a previous attempt was made; everything likely was either ineffective or expensive for a small firm. Right, I thought, and went to see the auditor who had suggested we needed to improve our system. But he had no concrete suggestions, and when asked about what they used, he was irony itself "don't get what we've got, it's a disaster."

We persisted and eventually came up with a combination of an off the peg based IT tool with some carefully designed reports for our needs. This was in use until earlier this year (2008) – never quite satisfactory, but better than anything else we could locate at reasonable prices.

The dream was on its way – real time monitoring of the financial situation could be possible.

Constitution

The constitution of the organisation was still largely in the form it had been on inception. Its wording was antiquated – and firmly sexist – and the shape of the Board reflected the initial views that had shaped the Institute on its founding. We had lost the ex-officio representation by the Treasury but still had the two representatives from the University and one from the Reserve Bank. In my time the people who filled those slots were able and effective. They contributed significantly to assisting in the running of the place. But the structure seemed creaky. There was a large Board which met several times a year and an executive group (all resident in Wellington, including all the ex officios) which met more often and effectively ran the organisation.

I discussed with the Board what might be done in any review. In addition to tidying up the draft it was decided to:

- Bring the governance of the organisation back to the Board by subsuming the executive group;

- Eliminate the ex officios apart from the Director;
- Reduce the number of Board members to make it more wieldy; and
- Experiment with telephone conferencing to reduce costs of meetings.

I drafted a new constitution and after several rounds it was approved. It even met the exacting standards of the solicitor who we consulted. It was then taken to the AGM and, with some gracious behaviour by Board members,[15] implemented.

Going round the long way

Later another amendment had to be made to the Constitution. It is a tale that still carries with it a degree of irritation. Early in my time as Director we were contacted by the IRD. They were, they said, looking closely at the taxable affairs of a variety of organisations. (It soon emerged that this was simultaneous with the detailed examination of the affairs of a number of Maori Trusts, but that may have been coincidental.)

They (one person) came to see us and we explained our position, as a registered charity and genuinely asked how we could be of any assistance. We also raised several matters about management style that we thought should be got out of the way to prevent any misunderstandings in our subsequent dealings. These were:

- The deliberate high (relative to the market) level of salaries paid to encourage the recruitment and retention of the best people;
- The way bonuses were arrived at and the amounts paid; and
- The deliberate adoption of commercial management style, language and comparisons as a way of tightening the efficiency.

We were assured these would have no bearing on the investigation. We vowed cooperation and went on being helpful.

In the event this matter dragged on for months absorbing hours of scarce management time. Despite our repeated requests to know just what was under examination, we were never given any response, let alone let into the mystery of what was being sought. Eventually, after months and much agitation, we were given a letter that set out the worries the investigator had developed as his conclusions.

It turned out that we were being wrongly classified for tax purposes and were probably going to lose our tax free status. The reasons given, after all this time, turned out to be virtually the same three issues that had been so loftily dismissed at the first meeting.

No more mister nice guy. Through the accounting firm assisting with our books, we hired a tax specialist. He came to the next meeting where, thanks to his experience, it was soon agreed that our situation was impeccable except that we should make a minor (and incomprehensible)

15 A scheme to taper in the reduced numbers minimized the harsher impacts of the reductions.

amendment to the constitution. It was done, with the exact wording as requested the department.

Years later it was queried by IRD, who could not understand why anyone would need such a clause in their constitution.

Doing the business

When I first arrived at the NZIER, I was given the usual introduction. It included a tour of the building, being introduced to my fellow workers. A memory that stays with me to this day is going into the library, a reasonable sized room, overseen by one of the string of marvellous librarians we have had, Margaret Malan. The room was crowded with information in the form of printed records, mainly books, but pamphlets and other sources of vital gen.

But the greatest impression on me was made by the large wall-sized bookcase full of reports produced by NZIER, organised by separate years. Today the main reference for this material is, of course totally electronic, but the physical presence of the output was then most impressive. The volume of reports had increased – seemingly monotonically - every year. Moreover it was a vital (and unique, as many of these reports were private) backup for new consultants. It was a visual symbol to the metaphorical shoulders that the present staff stood on.

Through my time as Director there was continued growth in report production. I'm not going to work through them all but several of the themes strike me as important.

On the international front the enthusiasm and background of Chris Nixon, together with his old academic mentor, Professor Allan Rae, meant we could gain FRST funding for evaluation of the recent Uruguay round of the GATT. Another project they supported was one of Alan Bollard's ideas, the first significant investigation into New Zealand's outward direct investment. Jointly with VUW we carried out a study of the trans-Tasman migration flows and then went on a series of examinations of immigration policy and theory.

In the energy area our team (principally the amazing pair of John Culy and Stephen Gale) had the dream characteristics of unparalleled experience and skills, along with excellent reputations. We produced key papers in many of the redevelopment processes, and indeed, were the lead economic witnesses at both the Commerce Commission hearings on the wholesale electricity market. As the New Zealand policy work waned there were opportunities opening up in Australia.

We also decided to try and promote our membership packages over the Tasman, so a small team (Phil Briggs, Diana Cook, Alan Frogatt the business manager and myself) took the Quarterly Predictions presentations to both Melbourne and Sydney. As we had more members in Melbourne than in the South Island, at the time there were reasonable audiences but we did not pick up a surge of new members.

More potential was attached to an attempt to try and establish a working relationship with BIS Shrapnell, one of the leading forecasting groups headquartered in Sydney. It turned out to be owned by an old University of Canterbury classmate of mine, but despite many ideas for making joint products and or transplanting our individual successes to the other side of the water, it all eventually petered out. We did learn just how different the market was – they had no difficulty in having their audiences sit through very long presentations with expansive discussions of the detail of the forecasts. We found our members wanted the 'guts' and favoured a quick show.

Apart from the evolution of the law and economics work which sat nicely alongside the steady flow of Commerce Act investigations, there were other emerging fields of analysis. Peter Clough had a land use and agricultural background, so was interested in applying his skills to environmental applications of cost benefit work. This gradually grew over this period. We also carried out several investigations into the fascinating economics of the media, starting with a significant review of the effects and process of the broadcasting deregulation, but moved on to look at the appropriate intervention structure for television and then other work.

The range of work, when I look back, was extremely wide – something that has not abated recently. We have a large team of economists and the potential to tackle demanding issues in a methodical and client friendly way. There were few occasions on which I recall turning away work, though there was a discussion at the Board at one stage to suggest we should not be "all things to all people" and thus had to sometimes refuse interesting topics. The only significant task I passed on was one where we would have had to prepare a significant economically costed case to the Government under an article of the Treaty of Waitangi, in several weeks. We could not have possibly done it justice in that time period.

Looking back

Several incidents stay with me. In no particular order, I recall the scramble to finalise the mechanics of the address to the my first AGM. Then as now, this was one of the significant events on the Wellington economics calendar. The problem was the task of preparing a set of acetate overhead transparencies. These were actually produced using a photocopying technique. As remains the case the copier inevitably played up when it was needed the most and with a taxi not being available quickly I had to run down to the theatrette where the AGM was traditionally held.

The presentation (on the economics of seeking compliance with public regulation) went reasonably. I had decided to take, as an example of what not to do, recent changes in the tax sanctions, and as the talk went on I gradually came to be aware that one of the Ministers who had been responsible was sitting in the front row. He left before I got the chance to discuss my views with him.

All economics shops run on their people. We were subject to the turnover that comes with the territory. I was lucky enough to work with some outstanding contributors. In addition to those I have mentioned one way or another, I must add several others. Two young economists from Waikato in their first jobs, David Cooling and Tracy Mears were stimulating, hard working and interested in law and economics. Together we all played a part in helping get LEANZ off the ground (a couple of times David came to me soliciting a 'story' for the newsletter at the last minute). There was also Simon Chapple, a gifted economist, who contributed to many areas of output and has gone on to work in a variety of agencies.

The support I had from the Board in my term both individually and collectively was remarkable. Though I do recall during one discussion of the pay policy we were seeking to formalise, Jim McAuley, one of the ex-National Bankers who contributed so much to the place over the years saying, "this is a workers cooperative that's got out of control."

NZIER in the mid 1990s was as dynamic and exciting as it remains today. The changes in people in residence and the shifts in the market environment are stimulating and provide an evolving context. It created opportunities for all kinds of work and I remember we produced many public pieces in our working paper series in those days.

After several years as Director I found I was nearly 50 and still working hours I resented. On reflection (conscious of having been informed by Brian Easton on appointment that I was the oldest Director offered the job, till then) decided to seek to step down from the role. It was no easy decision, but at the time and in retrospect I think it was smart and probably extended my life expectancy.

A world-wide search process produced the next Chief Executive, Alex Sundakov, who was with the NZIER from 1997-2003.

NZIER 2003-2008

by Dr Brent Layton, Director of NZIER 2003-2008

My first knowledge of NZIER I can recall was in a Stage I economics tutorial at Victoria University of Wellington in 1970. The regular tutor, Noel Ruth, was unable to attend one tutorial and so a young economist from NZIER arrived in his place to take the class. He talked with us about a research project he had finished the previous year which had stirred up some debate. The young economist, Kerry McDonald, had had the cheek to take money from a government department and use it to produce a report that suggested that it and the government interfering to promote regional development was not such a good idea. I remember being very impressed that despite being obviously very young he was an active participant in a significant public policy debate.

Over subsequent years, first as an economic history student and then an academic, a futures broker and a full time company director, I regularly came across the work of NZIER. When I was a futures broker between 1984 and 1991 I would sit at the dealing desk on the days NZIER released its Quarterly Survey of Business Opinion and wait for the results to appear on the Reuters or Telerate screen. No other regular announcement at that time had more potential to move the currency (and towards the end of this period, interest rates) than the QSBO.

As a company director, I paid attention to the Institute's macro-forecasts. There were plenty of free ones available from banks, including banks I was a director of, but because I had worked as a dealer on a desk I recognised the dangers of institutional forecasters inadvertently "talking their own book". Futures broking had taught me you will not always make the correct prediction of the future and if you have a financial interest in the forecast being right you can be very slow to recognise your error. It is much easier to hang on to the idea you are right but it is just taking time for the rest of the world to realise it.

When I was an external member of the Reserve Bank's Monetary Policy Committee from 2001 until 2003 I was somewhat surprised at how much effort and time the Bank put into analysing the QSBO results, especially in relation to pricing intentions and indicators of capacity utilisation and labour availability.

In 2003 I read an advertisement in the NBR for the position of Director of NZIER and promptly thought nothing more about it because it was in Wellington and I lived in Christchurch. A few weeks later I received a call from a recruitment firm asking if I was willing to apply to allow my name to go forward to be a Commissioner of the Electricity Commission that was in the process of being formed.

The call was not unexpected as I had been a chair or member of a number of electricity industry self-governance bodies during the previous 10 years and knew the recruitment of potential commissioners was underway. So I was able to give the consultant a reply on the spot. "No, the Commissioners will have no real power, that will reside with the Minister. The Commissioners function is to be shot at dawn in place of the Minister if anything serious should happen to disrupt power supply. I do not want to be shot at dawn."

I also forecast the inevitable next question: "Can you suggest anyone else who might be suitable to be a Commissioner?" I reeled off my pre-thought out list. Then, as an after thought, the consultant asked me if I knew anyone who might be suitable to be the Director of NZIER, or perhaps, she tentatively inquired, I might be interested in applying myself. I said I would think about both questions. I thought about them and responded a couple of days later with both my list of suitable candidates and that I was interested in applying.

My reasons for applying were complex. My long time partner, Rosalind Patrick, had died very suddenly 15 months before, and it was largely because she liked her job at the University of Canterbury that we still lived in Christchurch. By this stage all my directorships involved me travelling to meetings elsewhere in New Zealand or in Australia, so there was no requirement for me to live in Christchurch. To cheer myself up I had had a project manager organise for the house in Christchurch to be painted and the garden remodelled in the previous 12 months, so it was in good condition to sell. I was looking for a new challenge as I was somewhat disillusioned with the relatively low pay and rapidly increasing risk of being a company director in New Zealand. I was also attracted to getting back to doing more economics and economic history.

I found the new challenge I was seeking in the job as Director. There had been a difficult transition for NZIER from my predecessor to me as my predecessor and several former staff of NZIER had left to establish their own consulting business. This had unsettled the remaining staff, some clients and the revenue stream relative to costs of the Institute. The cost structure was suitable for a much larger establishment than NZIER had ended the transition with.

However, the difficulties proved to be short-lived. Several of the younger staff who remained - Doug Steel, John Ballingall, Simon Hope, Preston Davies, Vhari McWha and Mark Walton - stepped into the breach left by the departures of the seniors and performed fantastically well. Several of the more established staff - Peter Clough, Chris Nixon and John Yeabsley - also made major contributions. It turned out that despite the transition to my tenure being a strain, my predecessors as Director had left me a fundamentally strong business, a culture that was suitable for the sort of business NZIER must be and a strong core of skilled economists. I thank them for all those benefits.

In the first couple of years of my tenure I focused a lot of my efforts as Director on ensuring the Institute was in a very solid position financially. We built up our cash reserves in line with a new Board policy. I rationalised the remuneration system to link the total income of economists more closely with their over all performance in generating revenue. I got the membership services costs into line with the membership revenue and introduced explicit contracting for our internally funded public good work so we had budgetary control over it.

In the last three years I have focussed more of my time as Director on raising the media and public profile of NZIER and its public good and public policy research activities. We have been particularly active in debates relating to savings policies, New Zealand's productivity performance, trans-Tasman income and tax comparisons, taxation, social welfare and fiscal drag, environmental economics and emissions trading schemes.

These two phases were connected. For NZIER to play an active and independent part in New Zealand's public policy debates it needs to be in a financially strong position. It needs to be in a position where it does not have to take on any particular job to pay its staff and bills. It needs to be in a position where it can afford to produce good economics and not the answers a particular public sector client may think it wants to hear.

Economics is not politics. Economists give policy makers, including politicians, advice about how to achieve objectives and the intended and unintended consequences of various policy options. Politicians can decide on the objectives and the policies as they see fit. They are accountable to the electorate. Unfortunately, some New Zealand politicians do not take kindly to research institutes which say a policy will not achieve what he or she thinks it will and will have unintended consequences he or she will not like. NZIER needs to be financially strong enough to not fear giving such policy advice. It also needs to be strong enough to be able to fund significant research from its own resources as in a small community some research may be potentially too 'sensitive' for outsiders to fund.

Fortunately, the difficulties of being independent do not generally arise in purely commercial economic research. Commercial clients are principally interested in making money and if your application of economics tells you something different than what they assumed was the case, they are usually grateful. Indeed, being independent and telling it straight are usually characteristics that commercial entities value in an advisor. So, there is rarely a conflict between having a reputation for an independent approach to public policy advice and getting private sector research contracts.

It is in public sector contracting that the conflict between being known to give good quality but independent advice even, when the customer does not want to hear it, and getting jobs can unfortunately arise. This is nothing new, as evidenced by Kerry McDonald's tutorial in 1970 on regional development policy, but it is something that I believe has become more noticeable in the last few years.

I also found in the role of being Director the opportunity to get back to practicing economics more which I was seeking when I applied. I have been able to spend well over two-thirds of my time on average on consulting and research work. The high quality of the support staff we have had at the Institute, the help I have had from Jean-Pierre de Raad as my Deputy and that most of the economics staff have been self-managing have allowed me to do a lot of economics and a lot of consulting work. In a way, I have also been able to get back to economic history through my involvement with establishing the Economic Research Institute for ASEAN and East Asia (ERIA) and participating in its initial research programme. ERIA is mainly about development economics, as is much of economic history.

In terms of support staff, Jessica Matthewson has been my equivalent of Conrad Blythe's, Miss Mabel McBride. There are some definite differences: Jessica is young and she is not scary to junior staff at NZIER, provided they use the document templates correctly! Karen Kam has also helped greatly by making sure the numbers all add up, everyone gets paid, debts are collected and we got nice clean audit reports.

I have also enjoyed a great deal of support and encouragement from the Board and its Chairman, Michael Walls. In my first three years, the Board had nine members plus the Director ex officio. It restructured itself down to six members plus the Director, now called Chief Executive ex officio at the 2006 AGM. Apart from this, and filling the replacement arising due to the death of Sir Peter Elworthy in January 2004, there has been a great deal of continuity in the Board's membership. The Board Members are very experienced company directors and/or public or private sector managers and know the role of a Board Member well.