

So where are you from? Where'd you grow up?

I grew up in Wittenburg, East Germany, behind the Iron Curtain. I studied for my undergraduate degree in economics in Mannheim, and then went to Berkeley to work. In the end, I did my PhD in economics in Toulouse and Mannheim. I was in Sweden for a year before I came to New Zealand in 2006. Auckland is the third university that I've worked at in New Zealand, having worked at Massey in Albany, then Otago.

Did you first start studying economics in East Germany?

No, I was 16 when the Berlin Wall fell and then I finished high school. I went to work for a bank for two and a half years but was bored to death and went to Uni.

What attracted you to economics? I imagine economics wasn't exactly a popular subject in East Germany before the war?

When I first started University, I was a business administration student. There was a huge component of economics to it; in my microeconomics course, I must have fallen on the nerve of my lecturer by asking questions at some point, so he offered me a job. I became a research assistant for an economist and college professor in my first semester. From there, I started working on things that were actually interesting to me. It took me another two semesters to switch. I eventually did so in my third semester after hearing one of my management lecturers say you're not supposed to understand things, you're supposed to memorize them.

So, what ended up bringing you to New Zealand and ultimately the University of Auckland?

My wife is also a PhD trained economist so we were searching for jobs in countries where we both speak the language. Her German is not very good in my Italian is not very good. English is the common denominator.

So, could you talk about what you see as the public or media misunderstand economics or economists or what it is that you do through your study?

I think it's kind of two. The first one is that everyone thinks we work on interest rates and money. Some of us do, but most of us don't. Most of economics is about decision making: of firms, of voters in election, or of small committees. It can be good decision making, building mechanisms that allocate resources in a smart way, in a way that we're not wasting too much, and hopefully achieve distribution goals which are desirable.

The second I think is probably the role that we put on mathematical modelling and assumptions as tools. We quite often you hear the comment "Yeah, you with your unrealistic models." What can you actually say? That's coming from a misunderstanding of what modelling is able to achieve.

That's why I think it's probably part of our own fault because we don't teach it well enough in first-year economics. When I taught first-year, I made it my goal to instil this kind of thinking about modelling in my students. However, I don't think we're doing a good enough job at doing exactly this. There's a lot of people who get some first-level economics in all kinds of fields. If we were to communicate that there, I think we would achieve a lot.

Have been doing a lot of work with the media being an expert that they bring on or anything like that?

Very little actually. I do write translation pieces of my research. So, for example, I'm currently working on a theoretical model of climate teams. Which is a small group of countries where some countries have a high interest in greenhouse gas emissions reductions but relatively limited opportunities to do so, and other countries have large opportunities, but very little interest in doing so.

There, the question is how you structure incentive payments from countries that would like to see more reductions in emissions to countries that don't have that burning desire at the moment. So essentially what you want is you want to invest in green technology, and you want to reward the observation of relatively low emissions, and there the question is where and when should you pay transfers across countries. I wrote a short one thousand piece on an Internet blog. You can get the main gist of it. So that's something that I do but I really have other interactions with the media.

Is there something that you see New Zealand doing that the world could learn from or possibly the opposite?

One thing that I really enjoyed seeing New Zealand implement is the living standards framework for public policy, as well as the explicit acknowledgement that we need to think about how economic outcomes are distributed both within and across generations. It is extremely important for social cohesion, and for not depleting all resources before future generations can benefit from them. It's not something that many countries are doing and it's the source of a lot of the problems that we see. Populist parties coming into power in Europe and the US are coming out of this neglect of distributional concerns. That essentially is a question of the distribution of the economic pie.

We need to take this further. For example, you could say if taken seriously, we wouldn't have any need for having homelessness in New Zealand. This is something that really struck my eye when I first came to New Zealand in 2006. I almost never saw anyone homeless. Now if you go to town it's a striking difference to 13 years ago, it's something that a rich country like New Zealand doesn't need to have. You don't need to have homeless people, we don't need to have people living in garages or in cars. We don't need to have people living in houses that are not well insulated where it's impossible to get more than 18 degrees Celsius inside. We don't need these kinds of things, and these are all things that if we're taking this framework seriously, we can eradicate. We could invest in more state housing, not everyone needs to own their own house so we could invest in more tenant protections.

Investment in R & D and education is something that's very important. Including basic research, so research that doesn't have immediate implications. I think that's important because you never know what's coming out of this. Often, there are applications that you don't think about immediately when someone comes up with something.

Could you give an example for those kinds of policies overseas where you see that being very successful?

One of the things that Germany has been doing over the last couple of years is to leverage their free tertiary education to get highly skilled immigrants into the country. So, the trade-off that they're making, and very deliberately so making is to say "we're offering free education to talented international students because we hope that they will afterwards spend five years in the country and use what they've learned and apply their skills in the country". I think something like that would be possible for New Zealand as well

Or just very simple R & D funding in universities. If you're comparing research funding in New Zealand with that in Australia it's much much more generous in Australia than it is in New Zealand.

Do you know why that is?

I don't. I think it's the political will to invest in these kinds of activities. It may be that Australia was at some point milking the resource boom and saying "look, we have so much money, let's put the money somewhere". I don't know. I think it's the will of doing it often.

Connected strongly to the previous question. If you were the supreme leader of New Zealand and could introduce any three policies what would they be?

Well, before giving power back to parliament, if you are someone who doesn't need to be re-elected or doesn't need to be elected. Then you want to do policies that you think the politicians don't dare to do:

1. I'd want comprehensive capital gains tax. It's something that that has been talked about in this country for so long and politicians don't have the guts to do it. It makes a lot of sense, it's something that reroutes investment into financial means into investments that are actually productive.
2. The next thing I'd probably do is break up New Zealand's effective retail duopoly. I think we're doing a lot of damage and a lot of odds of distributional damage by having these extremely powerful duopolies who are having mark-ups that damage not only buyers but also suppliers.
3. The third thing I do is have a careful look at what the welfare expert advisory group has published last year and implement these things. There has been recommendations of this group on how to reform the welfare system in New Zealand. And there are a lot of really really sensible recommendations in there which I think are worth having a very careful look at. It starts with small things like dignity and it goes through a simplification of this, of the welfare system through a simplification in the decision process. The political decision process and the bureaucratic decision process. To having different government organizations, talk to each other and

coordinate better. To having more having a larger role for communities. For Whanau, iwi, families but also church communities et cetera. And there's a lot of things in there that I think would go a very long way and aren't expensive to implement.

What form do you see that capital gains tax taking place? Obviously, a few elections Labour suggested a 15 percent flat tax and then excluding the family home and things like that.

That would be a sensible approach. Be simple. When I first worked in the bank and then worked as a research assistant, I was working in a system that had a horrendously complex tax system with lots of exceptions and deductions. It's terrible. Make things simple.

Most of our tax system in New Zealand is very simple. The welfare system is not yet very simple yet but it's something we can work on. The tax system is super simple. So, for example, the income tax there is essentially no deductions that you have. You have a relatively flat tax schedule. Okay, I'm happy to pay a higher marginal tax rate on my relatively high incomes 33 percent. I think it's relatively low. There are things we could do if we were charging rich people like me hard at a higher tax rate, but the simplicity of it is something that I like a lot. Make this capital gains tax as simple as you can possibly be. Family home excluded, one tax rate.

Possibly implement the same tax rate as an inheritance tax if you're passing on your property to your children. Be simple. Try and distort decisions by as little as possible.

New Zealand productivity is low, it is below the OECD average. How do you see that issue? Do you see it as kind of situation of the nature of where the country is how big it is, things like that? Or what can we do about it?

Two things that I've already talked about. I think these are things that at least partially address this problem. So, if we have a capital gains tax, people would stop investing money in unproductive assets. If we were to deal with the lack of competition in this country in a stricter way, I think we would be avoiding a lot of misallocation of resources which will, in the end, be beneficial to productivity in the country. So, is it inevitable? No, nothing is inevitable. What we need to do is we need to get investment where it's productive, that will lift wages, real wages. And we need to do more about competition in this country. Competition, by the way, is something that's a very strong driver of innovation so, if we were to have more competition we would reduce deadweight loss and we would give people more incentives to actually get their ass up and innovate.

Are there other ways we can get more investment into more productive industries?

I think New Zealand has started doing the right thing when it comes to free tertiary education. I think it's important to have actively market policies which are again towards to a certain extent investment in education and re-education. For education of people who had skills that became obsolete and would like to acquire skills that they need in the labour market today. That's something that will raise productivity and raise wages. There are very simple things that one can do which would probably go a long way. We are in a disadvantaged geographical location, we are far away from any of the world's markets, but

we could also see that as an opportunity to invest in industries that aren't aided aren't so dependent on shipping physical goods. And being in these industries, often they are people who value living in a country like New Zealand that is far away from a lot of the craziness of this world.

Attracting those people here I think it would be beneficial for the country. I think my main answer to these questions is to get investment where it's productive and invest in competition.

New Zealand is consistently rated as one of the most business-friendly countries in the world, yet it is often considered an unfriendly environment for startups. What reasons do you see for this? How do you think New Zealand could become a country more friendly to innovation?

We're very far away from markets and financial markets. Our domestic markets are often small and not very competitive, they are highly concentrated. We're far from active venture capital and angel investor markets and I think these are things that are difficult to overcome. The first one I think we need to be looking at is markets where we don't have to ship so much and this sort of service industry.

Then the second one is very difficult because in venture capital angel investor markets it's really important to have face to face interactions. and it's important to have a lot of experience. We have a very thin market for these start-ups as it is in New Zealand. The critical experience is difficult to build up, so there may be a role for government there. Maybe we could use our NZ Super Fund that we have, our sovereign wealth fund for New Zealand. So, give them a mandate to have a larger share than their current - I think they're currently investing about 5 percent on risky start-ups in New Zealand - maybe give them a mandate of going up to 10 percent in start-ups in New Zealand or maybe invest these things through the New Zealand Venture Fund as well.

Given private investors in some parts of this world were able to learn how to pick winners, it may be possible to do that. This kind of risky investment on behalf of maybe even the taxpayer or NZ super fund could be a possibility of getting around those problems. TAnother thing already mentioned is attracting bright students and keeping them here. Many New Zealand students are talking of going to Australia for greener pastures. Staying in New Zealand I think would be very good for the economy, in that sense giving incentives to stay here would be good. There are incentives in place, so you don't pay interest on your student loan if you're staying in New Zealand, you don't have to pay interest and you do pay interest if you're going abroad. Maybe the point that I said earlier about attracting meritorious international students. This cannot be free for everyone but it should be targeted to get clearly bright students, and connecting that to a requirement to maybe work in New Zealand for five years after finishing university. I think that would be beneficial for New Zealand innovation and New Zealand productivity.

In terms of innovation, the two main drivers of private innovative activities are firstly wanting to escape your competition. So, if you have competition that doesn't allow you to earn a profit then one way of getting around this is to improve your business to innovate your way

out of this. That part of the motivation in markets that aren't very competitive is simply not there, and the second motivation is because you're able to appropriate a large part of the rents from your innovative activity. So, if you don't have a lot of competition then you can appropriate a lot of this. A lot of innovation is internationally seen as coming from the first part, coming out of trying to escape the competition, and in that sense, I think that probably puts into perspective what I said earlier that having more competition may actually be beneficial. It's a forum for innovative firms to innovate.

The second reason is the ability to appropriate rents... It's not very large because our domestic market is relatively small. So as long as you don't have a dominant international position that reason to innovate is also relatively small.

What's your perspective on climate change? How we can solve it?

The scientific evidence is clear we must do something and if we don't, we're going to have really dire consequences. There's a role for government, the government needs to give the right price signals. The government needs to tell markets what the right decisions are. So incentive regulation goes a very long way giving incentives to invest in green technology. I think it's very important.

Climate change action needs several things, it needs an internationally coordinated response, it needs a response that coordinates price signals that are sent internationally. So, for example, if you're thinking about cap and trade systems, emissions certificate trading systems these are giving price signals. That needs to also be internationally coordinated such that we know everyone is doing exactly the right amount of what they should be doing. Investments in green technology are something that I think is very important, in particular, because investments in green technology affect the incentives that we have when it comes to sticking to international agreements on greenhouse gas reductions.

Investments in green technology essentially make it less profitable to emit more and therefore it makes it easier to stick to international agreements on greenhouse gas reductions. So, we need to take those green investments into account in international agreements. Then I think it's very important to do things at the international scene in smaller groups as well. So, climate teams I think are very important, they provide investment and cooperation with developing countries that have a high potential for greenhouse gas emission reductions but are busy dealing with other pressing issues.

So teaming up with countries like New Zealand, where essentially 70 percent of our greenhouse gas emissions are methane from livestock, which unless we cull our livestock is something that's really hard to reduce. So it's really difficult to farm and sensibly reduce greenhouse emissions in New Zealand, but we have an interest in doing this.

We are a green country and we like to have a green country and we are relatively rich, so we have the means to do something. As such, I think that the initiative that New Zealand is doing together with Korea to invest in greenhouse gas emissions in Colombia is a phenomenal thing. It's a really good initiative and that's something we should probably do more of.

Can you tell me a little bit more about that initiative in Colombia?

It's three countries, New Zealand, and South Korea as two rich countries that are two countries who would benefit a lot from reducing greenhouse gas emissions but for whom it's really difficult to reduce. They are teaming up with a third country for which there is still a lot of potential, and relatively cheap to reduce greenhouse gas emissions in Colombia. They're just coming out of a costly terror war with FARC, they're building up their society. They have other really pressing issues, and social issues on their plate that they need to deal with, and who knows, maybe an investment in green technology in Colombia is something that's even going to be helpful in terms of social cohesion in the country.

There are also policies in New Zealand that would be beneficial in reducing emissions such as investment in better-insulated housing and more energy-efficient housing etc. Which besides being good for the environment would also have good distributional consequences. So, if we were to equip houses with proper insulation then poor people don't have such a high energy bill and don't have to live in cold houses. That's I think is a good thing.

Can the private sector be relied on to create climate change solutions? I think you can't do without the private sector, but it needs policy. In particular, those price signals that are talked about are very important. The private sector has a different mandate, their mandate is to do the most they can with their resources and that mandate doesn't include externalities. Yes, firms are all fluffy about stakeholder involvement in these kinds of things. I think when it comes to decisions, unless they see that their bottom line is affected by it, there's very little they do about it, and their bottom line essentially is affected either by consumer activism or people saying I am not going to work in a supermarket where anyone can get me a plastic bag.

But most of the time it's government policy that brings firms to benefit from incentives to take those responsibility goods into account. In the end, if there are the right signals there will be money to be made from green technology. There's an industry to build, or that is being built that can serve these needs that we have when we want to invest in cleaner technology. Without government probably not, but with the government, I think there is a role for the private industry, and it's an important role. In particular because private business is often better at allocating resources efficiently than government bureaucracy, so, command and control is typically not good.