

Comments by Dennis Rose on

Pacific People in the New Zealand Economy: Understanding linkages and trends

Introduction

This is an interesting paper. Unsurprisingly, given the complexity and breadth of the underlying issues, which are the comparative performance and prospects of Pacific Island peoples in the New Zealand economy, as measured by the usual cluster of statistical suspects, the study only takes us only so far. The authors acknowledge this, and the main point of their paper is to use system dynamics modelling to explore some aspects of these issues.

My comments will focus on five points

1. Persistence and convergence in income differentials
2. The implications of gift exchange
3. System dynamics modelling
4. Labour market modelling, and
5. Wealth modelling

Persistence and convergence in income differentials

The statistical review in the first part of the paper provides a reminder that income disparities are persistent, whether they be differences between ethnic groups (think of Maori pakeha differences), or differences between genders or between nations. Change occurs, but it occurs over long-time periods and reflects the interaction of a vast array of forces that we struggle to comprehend in our analyses and modelling. The major contribution of de Raad and Walton's modelling is to explore the extent to which differences in the incomes of Pacific peoples in NZ, from those of the majority culture are the product of different age structures, continuing migration and persisting skill differences. In particular the radically different age structure of the Pacific population in New Zealand suggests long persisting differences in mean incomes. So too do skill differences, to which I return below.

The implications of gift exchange

The paper includes some very interesting material on remittances and gifting. Note the contrast between the modelling assumptions on the consumption, gifting, savings mix (for the total population 90%, 2% and 8%) (Pacific population 84%, 15%, 1%). These are huge behavioural differences and call into question the presumption, implicit in most thinking on convergence, that the underlying objective functions of the target populations are for practical purposes identical. These statistics show that they are not. Two conclusions flow.

First, we have to be careful in attributing single causes to persistent differences in income. The long-standing difference in Maori pakeha incomes is consistent with hypotheses relating to discrimination but also to possibilities of lifestyle choice. Similarly, as Joan Robinson demonstrated many decades ago, male female

differentials will be sensitive to differences in male/female labour supply schedules as well as institutional features of the labour market.

Secondly, if we have clear evidence of significant differences between the objective functions of different groups then we need to consider how to adapt our analyses and adjust our models to take account of them.

System dynamics modelling

Having operated and maintained a system dynamics model of the New Zealand economy over a long period and also spent some time getting to grips with other peoples models I have some feeling for their strengths and weaknesses. Their great strength is that they enable the user to sketch logically consistent time paths for a set of related variables and to explore the sensitivity of those time paths to changes in particular modelling assumptions. Difficulties commonly arise (1) in specifying and quantifying relationships between variables of interest and (2) in communicating the results of model runs to the target audience in a way that illuminates its understanding of the issues and of the conditionality of the conclusions on the underlying sets of assumptions. The model operators understanding of these things develops as he or she tests the sensitivity of the modelled relationships. Communicating that understanding is a continuing challenge.

The modelling described by de Raad and Walton makes a useful start but it is limited in its scope.

Modelling the labour market

For example, the modelling of the labour market forward over a century is essentially driven by demographic forecasts of the proportion of Pacific peoples in the population, by its age composition and by the influence of migration on the balance between island born and New Zealand born Pacific peoples. To these projections are added age, skill group, and migrant specific factors relating Pacific peoples' incomes to those of the population as a whole.

The model then traces the evolution of overall average incomes as these demographic influences play out over time and explores some key changes in assumptions relating to changes in wage relativity. Figure 19 on page 34 exemplifies this process.

This really is a very limited process and does not take us much beyond what could be achieved by constructing standardised measures such as, what would today's average income be for Pacific peoples if their age and skill specific incomes were the same as those of the country as a whole.

To exploit the power of system dynamics modelling we need to build in additional elements to the model. At pages 19 and 20 the authors note that labour supply decisions might alter as average incomes and income support levels change, and that the skill balance is itself a function of educational choices, which must be presumed sensitive to labour market outcomes. I would encourage the authors to extend their model into these areas.

Modelling changes in wealth

Changes in wealth are essentially modelled through the accumulation of savings and earnings thereon. Given the radically different savings rates assumed, 8% for the population as a whole but only 1% for Pacific peoples the failure of Pacific peoples wealth to converge to that of the majority is hardly surprising. It is clearly foreshadowed by the assumptions, but, to the extent that it is empirically based, it is a very important result. It suggests the likely persistence of high rates of poverty and disadvantage amongst Pacific peoples.

It would clearly be useful to expand the scope of modelling in this area to try and build a framework that explores possible development paths.

Two features of the Pacific peoples situation need to be built-in. First the issue of remittances and gifting already discussed. Gift exchange is a form of wealth creation. However intangible it may be, the model needs at least to acknowledge its presence. Secondly, many Pacific persons enjoy the possibility of exercising a right of return to one of the island economies, to an environment with different living costs and some level of access to community support systems. The model needs such a link. However, quantification would pre-suppose a fairly clear understanding of the extent of return and how it plays out in practice.

Finally, a couple of more general points relating to wealth modelling. First, wealth is much more unevenly distributed than is income. This places a limit on the utility of modelling with a single average wealth aggregate. Disaggregation is desirable but of course massively complicates the modelling.

Secondly, gifting and bequests play an important part in the accumulation of personal wealth. They deserve a place in any model attempting to project wealth accumulation and loss. On these last two points there are some relevant papers prepared for the Office of the Retirement Commissioner by Adolf Stroombergen and others.

Adolf Stroombergen, Dennis Rose and Jude Miller, (1995) *Wealth Accumulation and Distribution: Analysis with a Dynamic Microsimulation Model* Business and Economic Research Limited.

Adolf Stroombergen, Dennis Rose (1998) *The Role of Inheritance* Office of the Retirement Commissioner