The conference issue

The Society’s Annual Conference was held again this year at the University of Surrey and John O’Sullivan of the Economist has done a remarkable job of summarising key moments of that meeting. Next year’s Conference will be held at Royal Holloway College, Esher, and readers are referred to details on p. 21.

We have also become accustomed in the July issue to Ray Rees’s ‘letter from Germany’. In his latest contribution Ray warns of what can happen when banks are run as public enterprises. With so many banks around the world dependent (temporarily or otherwise) on support from the public finances and with a popular press demanding that politicians should use this public investment as a basis for forcing the banks to ‘do something’, it is a salutary warning.

Another regular feature is an edited version of the Society of Business Economists 2009 salary survey. The survey was probably carried out a bit too early to pick up the full effects of the banking crisis and the recession but makes very interesting reading and, as always, we are grateful to the SBE for permission to use their data.

A decidedly irregular feature is a survey of some rather negative comments on the recent UK budget. The critics make the interesting point that adverse comment from economists has been somewhat muted, which seems strange given the hostility to the government’s austerity plans when they were first produced in outline. When Sir Austin Robinson first proposed the idea for a Society Newsletter it was, in part, to provide an informal and timely platform for policy debates. We wait to hear from supporters of George Osborne’s proposals.
Published quarterly in
January, April, July and October

Next issue

Newsletter No. 151 - October 2010

Articles, features, news items, letters, reports etc. should be sent to the Editor by:

15 September 2010

Items concerning conferences, visiting scholars and appointments should be sent to the Information Secretary by:

16 September 2010

Contributions from readers

The Newsletter is first and foremost a vehicle for the dissemination of news and comment of interest to its readers. Contributions from readers are always warmly welcomed. We are particularly interested to receive letters for our correspondence page, reports of conferences and meetings, and news of major research projects as well as comment on recent events.

Readers might also consider the Newsletter a timely outlet for comments upon issues raised in the Features section of The Economic Journal. We can normally get them into print within three months of receipt.

Visit our website at:

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Letter from Germany -
Old Problem, New Crisis

In his latest letter, Ray Rees looks at the scandalous developments surrounding the Bavarian State Bank which he sees as a warning of what can happen when banks are run as public enterprises. Ray is an emeritus professor in the economics faculty of Munich University and a programme director at the Centre for Economic Studies (CES) there.

There used to be a subject area known as public enterprise economics. Most of it was concerned with the normative analysis of pricing and investment policies in public utilities. This was conducted largely in abstraction from the facts of ownership and control of the enterprises concerned, whether regulated private firms or public ownership. It was simply accepted that because of their importance to the economic infrastructure and their natural monopoly, some sort of ‘social control’ was required. This was modelled in the form of a benevolent, omniscient planner fully capable of implementing the policies deemed to be optimal.

A small part of the literature however wrestled with the problems arising out of the nature of public enterprise itself, the problems of formulating consistent objectives, overcoming the problem of soft budget constraints, providing incentives for economic efficiency and realistic demand forecasting and investment planning, while restraining the ‘wrong’ and enabling the ‘right’ forms of political intervention. Then more or less out of the blue came privatization. The hunt for the appropriate framework for public enterprise was over. They had shot the fox.

However, this did not result in a contraction of the opportunities for gainful employment of economists, working at all levels of abstraction — far from it. Underlying technological change as well as structural changes accompanying privatization created new issues for normative analysis, for example access pricing in telecommunications, or wholesale markets for electricity, while the problems of designing the appropriate framework of social control, the systems of regulation of the various markets, became if anything even more challenging.

My reason for this brief excursion into history is its relevance to the recent (current?) financial crisis. This is not because of the widespread view, to which I subscribe, that the crisis represents a failure of the regulatory frameworks of the banking and finance industries in the US and UK. (As a brief aside, I think the recent self-flagellation of some academic economists over our ‘failure to predict’ the crisis is completely misplaced. If those supposedly regulating these markets and close to the facts of the situation could not foresee the crisis, why should outside economists be expected to have done so? I am sure for example that any economist, when told that rating agencies were paid by the issuers of the debt they were supposed to be evaluating, who were also allowed to shop around for the best valuation, would have immediately proposed a downgrading of the credibility of those ratings. The whole episode illustrates the paradoxical situation of having a regulatory system overseen by political appointees who either cannot grasp the concept of market failure or are ideologically unable to accept that it can actually take place — Alan Greenspan seems to have acknowledged his membership of this group).

My aim is rather to consider the point that as a result of the crisis, in the UK at least, the pendulum has swung back. We now have a new group of public enterprises, those banks rescued from collapse by being taken into state ownership. A failure of regulation has led to public ownership, rather than the reverse. Of course, this does seem to be seen as a transitory state: once those banks have been restored to health, they will be sold back to the private sector, and so any economist who wants to start working on the framework of control of public enterprises in the banking sector would be wasting her time. I hope that is true. But, just in case it is not, I offer here what I hope is an instructive case study in the problems of public enterprise in the banking sector, based on the recent history of the Bavarian State Bank (BSB).

Public ownership of banks is widespread throughout the world, but in Germany it is particularly significant. More than 40 per cent of total banking assets are held by federal, state or municipally owned banks, and the five main state banks (Landesbanken) are among the ten largest banks in Germany, by assets held. Their origins as clearing banks and investment channels for the funds accumulated from small savers by the network of municipally-owned savings banks (Sparkassen) have been left far
A recent careful empirical study\textsuperscript{2} shows convincingly that incompetence, corruption or just plain public enterprise?

Could it have happened?

The HGAA was and still is a medium-sized bank based in Klagenfurt, capital of the province of Carinthia in Austria, and does a lot of its business in the Balkans. It was taken over by the BSB in mid-2008 at a price widely regarded as inflated at the time, and in 2009, after further capital injections to cover bad debts had brought the total amount sunk by the Bavarian bank to 3.8bn euros, it was sold to the Austrian government for one euro. These 3.8bn euros, give or take a euro, were a straightforward loss to the Bavarian taxpayer, amounting to around 600 euros per employed Bavarian, or about 25 per cent of the average monthly pay. How could it have happened?

Incompetence, corruption or just plain public enterprise?

A recent careful empirical study\textsuperscript{2} shows convincingly that the German state banks as a group have performed far worse in the crisis than comparable private banks, with write-offs ranging from 135 per cent to 250 per cent of those of their private counterparts. It also shows that while the professional managers and chief executives in the state banks are paid salaries comparable to those in the private sector, the supervisory boards have much lower levels of qualifications and experience in finance and management, reflecting the fact that they are composed of government ministers and their appointees from politics and state administration. (In fact one response by the Bavarian government to the HGAA fiasco has been to propose appointing more people with financial and management expertise to these supervisory boards.) The authors of the study argue for causation — incompetence in the supervisory board leads to excessive risk taking (as well as lower, not higher, rates of return generally, in good times as well as bad, as already shown by Sinn). The proposed solution is then indeed to increase the competence of the members of supervisory boards. The discussants of the paper however were not so sure about this — desirable may be, but not the solution. I agree with them.

The BSB takeover of HGAA appears to have been a very shady deal, and some of the leading actors on both sides (though not the senior government ministers on the supervisory board at the time) are now being investigated on grounds of corruption. A private financier and ex-colleague of the then Chairman of the BSB is alleged to have proposed the deal to him, and then formed a consortium of wealthy investors who bought up a sizeable chunk of the HGAA and made a profit of between 100mn and 150mn euros when the sale to the BSB later took place. When the BSB Chairman was sacked as a result of the large losses the bank had made on its holdings of mortgage-backed securities, he was offered a consultancy to the HGAA by the same financier, who was now its chairman, paying 5000 euros a day up to a maximum of 20 days a year. When this became public, the ex-chairman did not endear himself to the Bavarian taxpayer by intimating that he would never have engaged in corrupt acts for such a ridiculously small amount. An interesting detail is that the then Prime Minister of Carinthia and right wing demagogue, the late Joerg Haider, is alleged to have made it a condition for his approving the deal that the BSB pay 2mn. euros to help fund a brand new football stadium in Klagenfurt, his seat of government, and it is claimed that this was indeed paid. That alone would lead to a conviction for corruption.

As titillating as these details are, there is more to the case. As Sinn pointed out, state banks are underwritten by the state governments, which by law cannot allow them to go bankrupt, and which also seem happy to accept well-below market rates of return. The banks therefore have the high credit ratings and low borrowing rates of German sovereign debt. We can infer that this encourages a climate of high risk-taking and soft budget constraints, the culture out of which came the HGAA takeover. Moreover, senior politicians, right up to the then Prime Minister of Bavaria, were apparently aware of the less than savoury past of the takeover target. There had already been convictions for criminal activities at the bank, and a scandal resulting from the fact that a dozen or so recipients of soft loans were actually Balkan war criminals. The BSB’s own financial consultants reported that the HGAA had provided completely inadequate documentation of its asset and loan portfolios during the pre-takeover evaluation, and that it had refused to give a commitment to accept liability for any bad debts that might be discovered post-takeover. The BSB’s own analysts recommended against it. Yet it still went ahead, and leading politicians, including the then Bavarian finance minister, hailed the move as a great contribution to the future prosperity of Bavaria. Political enthusiasm for the takeover at the highest level seems indisputable.
The former BSB chairman confirmed this picture of political involvement. Following one failed takeover of an Austrian bank in late 2007 he claims he was under great pressure from the highest political levels to succeed with another, to spearhead Bavaria’s drive into the economies of eastern Europe and the Balkans. The grand strategists were the politicians.

The life cycle of a politician initially successful in gaining power seems to consist of four phases: hubris; disaster; denial; and remorse. In Bavaria we seem now to be somewhere between the third and fourth phases. Thanks to an active parliamentary opposition and an independent press, the case was well publicized and the leading political figures involved lost office while their party did badly at the latest elections. Although cleared of criminal wrongdoing, the four senior government members who sat on the supervisory board, if found guilty of neglecting their statutory duty to exercise due diligence in scrutinizing the takeover plan, are liable for the losses to the full extent of their personal wealth.

Nonetheless, it is clear that the old problems of public enterprise are still unsolved. The proposed solution is eventually to privatize the state bank. This seems to be just about where we came in.

Notes:

1 For a very readable account of these banks see Hans-Werner Sinn’s *The German State Banks*, Edward Elgar, 1993.

The University of Surrey hosted the annual Royal Economic Society conference for a second successive year in 2010. In addition to the 70 or so general sessions devoted to a range of subjects, from health economics to charitable giving, the conference offered three lectures, as well as three special sessions, where delegates had to choose between four separate (and equally enticing) seminars. What follows is an account of some of the big set-piece lectures and sessions to give a flavour of the conference.

Many of the conference events focused on issues relating to the global financial crisis. But one of the most interesting seminars was devoted to ‘The Economics of Criminal Behaviour’. The session, organised by Steve Machin of UCL, teased out two of the big themes in the economics of crime: deterrence (what is it that prevents crime?) and incentives (what is it that makes for law-abiding citizens?).

To start, Philip Cook of Duke University unveiled a study of Business Improvement Districts (BIDs) in Los Angeles. BIDs are not-for-profit bodies that provide services, such as private security guards and sanitation, on behalf of local firms. These are public goods that are supplied privately. The trick is to get the beneficiaries to pay for them. A change to Californian law in the 1990s addressed this problem by forcing all businesses to join a collective scheme if enough local firms had signed up to it.

The study compares crime rates in 30 BIDs set up after 1995 with those in neighbouring districts. Each $10,000 spent by an average BID resulted in 3.4 fewer crimes per year. To work out whether this was money well spent, a cash value was put on each crime prevented. People were asked whether they would vote for a scheme that reduced a particular crime by 10 per cent at a particular cost in tax dollars (the range of ‘offers’ varied from $25 to $225). The responses were used to assign a social cost to different crimes. The results suggested that every $10,000 spent by the average BID bought some $200,000-worth of crime prevention.

A 20:1 benefit-to-cost ratio is impressive—a ‘slam dunk’ in the words of Prof Cook. It seems clear that private security is good value for society as a whole. So good, in fact, that it might be that some of the costs were missed by the study. Perhaps crime was not stamped out but merely shifted elsewhere. Or perhaps BIDs work so well because they draw on extra support from the police. In fact, establishing a BID leads to fewer arrests and so reduces the cost of policing. Nor is there evidence that crime increases in neighbouring districts. If anything, crime nearby falls.

Why is private security apparently so cost-effective? One reason is simply that guards are paid less than police officers. Another is they are dedicated to a single district and are directly responsible for making it safe. Guards can specialise. They know which shifty characters to look out for and which policing works best in their area. Unlike policemen, they are not called away to supervise a parade or protect a dignitary.

The research shows how effective ‘target hardening’ (ie, self-protection against crime) can be. In a similar vein, a paper presented by Ben Vollaard of Tilburg University argued that newly built homes are harder to burgle. Homes put up after a change in the Dutch building code in 1999 were 26 per cent less likely to be broken into than those built beforehand. To comply with the code, builders had to fit high-quality locks and burglar-proof windows and doors. They may only delay a break-in by three minutes but ‘three minutes is an eternity in burglar time’, said Prof Vollaard. Is this a cost-effective policy? The estimated costs of complying with the code are $430 per home. The benefits are only a little higher at $460. But there is a big dead-weight loss: the code reduces a risk that is already fairly low and it does so in a crude way.

Are there ways to prevent people from becoming criminals in the first place? There is plenty of evidence that links a lack of education with criminal behaviour. Studies of America’s jail population in the 1990s showed that most inmates had not finished high school. But few studies have established that less education is a cause of crime.

A third paper, presented by Olivier Marie of Maastricht University, uses a clever instrument to find a causal link between low education and crime. The paper’s authors looked at the crime rates of a cohort of British school-leavers, some of whom were forced to stay in school for longer because of a legal change to the school-leaving age. This group was less likely to engage in criminal
behaviour than an earlier cohort. One year of extra education reduces property crimes by 1-2 per cent. What is more, the cost of the extra schooling is outweighed by the benefits of reduced crime.

The Economic Journal lecture

This year’s Economic Journal lecture was given by Carmen Reinhart of Maryland University, co-author (with Harvard’s Kenneth Rogoff) of This Time is Different, a widely-cited history of financial crises. Her lecture was based on work with Prof Rogoff that finds a common pattern in history and across countries: large increases in private debt burdens are followed by banking crises and then by sovereign defaults.

The conference organisers made the most of Professor Reinhart’s presence. She gave a second presentation, with husband Vincent Reinhart at a session on ‘International Capital Flows’, organised by Hélène Rey of London Business School.

Some economists believe that the deeper cause of the global financial crisis of 2007-09 was ‘global imbalances’ — the pattern of large and persistent current-account deficits in America, Spain, Britain and some other rich countries, matched by surpluses elsewhere, notably in emerging Asia, but also in Germany and Japan. The Reinharts’ paper looks back over history and finds that big external deficits — what they call ‘capital-flow bonanzas’ — usually spell trouble.

Mr Reinhart likened the issue of payments imbalances to the scene in the funhouse at the end of a 1940s film noir. What seems real depends on where you are looking from. A country’s current-account deficit is its capital-account surplus. It is also someone else’s current-account surplus. He defined a capital-flow bonanza as a current-account balance in the bottom fifth of the distribution as a percentage of GDP. The really big payments deficits (or capital-flow surpluses) tend to occur in low-income countries.

Bonanzas are clustered: there are many countries that have them at the same time. We’ve just been through such an episode, said Mr Reinhart. There was a smaller bonanza cluster in the run-up to the East Asian crisis in 1997-98. The last really big one was in the early 1980s just before the Latin American crisis. A typical bonanza lasts 2-4 years. The biggest predictor of bonanzas is low real US interest rates in the four or five years prior. Mr Reinhart did not openly blame the Federal Reserve’s low-interest rate policy in 2001-03 for the financial crisis we have just lived through but the implication seemed plain.

Carmen Reinhart set out the study’s results, which showed that the ‘maturing’ phase of a bonanza increases the probability of crises-bank failures, a collapsing currency and so on. Bonanzas bolster government finances, at least for a while. Policymakers believe they are genius-es: they receive bumper tax revenues and then extrapolate these into the future. Then the revenues suddenly disappear. This historical pattern fits with the recent experience of Spain and Ireland, noted Mr Reinhart. These countries whose public finances looked strong until the crisis hit and are now struggling with huge budget deficits.

Next up, James Feyrer of Dartmouth College addressed another issue related to global imbalances: what happens to global savings when one big country saves more? One motivation for the research was Ben Bernanke’s idea that America’s run of large current-account deficits was a response to a global ‘savings glut’. To test this idea, Prof Feyrer examined the global response to fiscal shocks in America, and asked the question: when US fiscal policy changes, where does the money go?

There are three possible responses to such a shift. Private savings might change in the opposite direction to public savings — what Prof Feyrer called ‘hard Ricardian equivalence’; or private investment is crowded out (or in) by bigger (smaller) budget deficits; or the shift in the budget balance is reflected in the current account balance.

The results support the idea that a saving glut in one part of the world can crowd in investment elsewhere. Each dollar change in public savings induces a 17-cent change in US investment and a 37-cent change in private savings. So there is clearly some Ricardian equivalence: a tax cut would lead to higher savings in the expectation of future tax increase. But it is also true that if America saves more then other countries respond by saving less. A change to the fiscal balance changes the current-account balance by 46 cents. Overall, there is a roughly symmetrical crowding in of investment in the rest of the world when US taxes rise: about half of the tax savings get transmitted abroad. The net effect is an increase in world savings.

The Frank Hahn lecture

Two of the big set-piece lectures at the conference drew on theory rather than empirical research. Robert Hall of Stanford University gave the Frank Hahn Lecture. The subject of his paper was the impact of financial frictions on economic activity. This work built upon his previous research on tax frictions. The financial sort work in a similar way. Taxes are a ‘wedge’ between employers’ costs and workers’ take-home pay. Financial frictions are the gap between what borrowers pay and savers receive.
A well-capitalised financial system, said Prof Hall, is largely free of such frictions. The essence of the financial crisis was a loss of faith in assets that were backed by real estate of uncertain worth. That uncertainty introduced financial frictions. Banks were holders of these dubious assets and general concerns about their solvency raised the cost of credit within the banking system. The real-economy effects of these frictions were so large because credit is needed to finance big-ticket spending. Recessions are driven by falling spending on goods that yield a service over a long period-consumer durables, housing, machinery, and so on. The rest of GDP is unaffected. Prof Hall set out a model of how financial frictions raise the cost of investment and then of output and produce ‘a scaling down of the economy’. His approach helps explain why conventional monetary policy was powerless. Cuts in policy rates had little impact on the interest rates paid by private borrowers—indeed they rose. ‘The notion that interest rates function to cushion shocks fell down in this crisis’ said the author. By and large, low interest rates were not transmitted to private borrowers.

How much of the increase in borrowing costs reflected an increase in default probability — which is not a friction but a rightful benefit to lenders — is hard to say. Prof Hall also conceded that his model helps explain the size of the economic shock but not its persistence. Credit spreads in America are now closer to more normal levels but the unemployment rate is much higher than its pre-crisis level.

Prof Robin showed that his model could generate results that fit reasonably well with the business-cycle variations in unemployment and wage dispersion. A fall in aggregate productivity need only make a small share of workers unprofitable for the shock to generate a fairly big increase in unemployment. What is more, high and low earners are more likely to see their wages adjust to changes in business conditions. High earners are more likely than average to become unprofitable when the economy turns down. Low earners are more profitable than average when the economy recovers. At all times, median wages are likely to be best matched to business conditions.

The Denis Sargan lecture

In his Denis Sargan Lecture Jean-Marc Robin, of UCL and Sciences Po, Paris, set out a theoretical model that seeks to explain why shocks lead to such volatility in unemployment. His answer is that differences in workers’ abilities act to amplify the initial disturbance. His model can also explain another labour-market phenomenon: the increase in wage inequality in downturns, ie why wages at both tails of the distribution vary with business cycle more than median wages do.

In the Robin model, all firms are identical but the productivity of workers varies. Workers and firms are paired to form productive units. These matches form or break at the start of each period and depend on the state of the economy—more precisely whether it has just endured a positive or negative productivity shock. Each match generates a surplus in excess of what firms/worker could achieve separately. When the surplus turns negative (because of a fall in aggregate productivity), workers are laid off. A fraction of layoffs are matched with a new employer after a fresh wage bargain. There are only two possible negotiated wages: ‘starting wages’ (after leaving unemployment) and ‘promotion wages’ (in the event of a jump in productivity).
By and large, developing economies suffered less in the crisis than rich ones. One consequence of this relative resilience is that firm have become more keenly interested in investing in emerging markets. Saul Estrin of the London School of Economics noted an important milestone: in 2009, foreign direct investment from rich to poor countries overtook that between rich countries, when measured in dollar terms. Prof Estrin described some of the (mostly positive) implications of this.

He first set out some stylised facts about corporate governance and industry structure in developing countries. First, the costs of monitoring firms’ managers are even higher than in rich countries because enforcing contracts in courts is expensive. One response to this problem is a concentration in ownership. A second problem is that poorly developed capital markets mean it is hard to diversify risk. That is why conglomerates (where one firm spreads its operations and risk across a range of industries) are common. A third feature is lots of foreign ownership of firms—a channel by which new technology flows from rich countries.

Foreign ownership is also an important route to better corporate governance, argued Prof Estrin. His research shows that sales of state assets to foreign owners raises the efficiency of firms by more than sales to domestic owners does. Foreign ownership is best though domestic private ownership is improving. Contrary to some claims, privatisation programmes in developing countries have not failed but they work best where there is foreign investment.

The role of foreign ownership was a theme picked up by Thorsten Beck, who talked about the agenda for financial reform in sub-Saharan Africa. The region has a high share of foreign-owned banks, with investment often coming from richer African countries or from China. This carries risks but there is little alternative in most low-income countries. Finance is needed to spur economic growth but local banking is expensive. That is in part because African banks lack scale. It also reflects a lack of competition. Financial exclusion is widespread.

The financial crisis had little direct impact on African banks. They did not hold ‘toxic’ foreign securities of dubious value (since there were profitable loans to be made at home). There are few debt-laden households because most bank lending in Africa is to enterprises. And the linkages between troubled banks and the rest of the banking system are generally weak. The links with rich-country bank are tenuous, too.

That means the regulatory challenges in low-income countries are very different to those in the developed world. The G20 group of mostly-rich nations is wary of cross-border banking (it is harder to bail out or wind up failing banks when they operate in many countries). But in Africa, any restriction of foreign banks only reinforces rent-seeking and political capture in the financial sector. Scams are a bigger worry than derivatives so consumer protection is a more pressing issue than financial regulations.

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**Hannes Androsch Prize**

Submissions are invited for the Hannes Androsch Prize 2011. The Hannes Androsch Prize is awarded for a scientifically sound contribution to the following issue:

A Global Challenge to our Social Future: The Design of a Social Security System which can Cope with the Dual Threat of Demographic Developments and Financial Market Risk

The award amounts to € 100,000. The closing date for entries is:

January 31, 2011.

Entries should include a thorough analysis of the social welfare system. They should also provide proposals for an alternative design, which would optimise the magnitude and stability of pensions over time, and confront the double challenge of demographic developments and financial market risk.

Additional information on the Hannes Androsch Prize, sponsored by the Hannes Androsch Foundation at the Austrian Academy of Sciences, is available on the website of the Austrian Academy of Sciences www.oeaw.ac.at/hannesandroschprize
Autumn 2010 New Lecturer and Graduate Teaching Assistant workshop programme

Over the last two years, the Royal Economic Society has very generously supported the Economics Network workshop programme for New Lecturers and Graduate Teaching Assistants. The workshops are specifically designed to support the teaching of economics and complement any generic-based institutional training delegates might receive (and in some institutions exempts attendees from parts of such training). Participants receive a certificate of attendance.

Some comments from past delegates:
‘Very helpful workshop - thank you very much!’
‘Very valuable’
‘Thanks for a great day, really enjoyed it’.

2010 workshops:

Economics New Lecturers residential workshop:
• Bristol, Friday 15-Saturday 16 October

Graduate Teaching Assistant one day workshops:
• London School of Economics, September
• Queen Mary University London, September
• Cardiff University, September
• Lancaster University, 8th October
• University of Nottingham, October
• University of East Anglia, September/October
• Edinburgh, October/November

Workshop dates are currently being confirmed, so please check our website for latest information, programme and booking details:
www.economicsnetwork.ac.uk/news/

Events Diary (June 2010)

[The Economics Network’s Events Diary appears on p.5]
Economists’ salaries, 2009

The Society of Business Economists conducts an annual survey of economists’ salaries, which it has kindly allowed us to summarise for the last few years. The 2009 results appeared in vol. 40 (2) of The Business Economist presented by its editor, Jim Hirst. As always, we are very grateful to the SBE for permission to publish this edited version.

The results of the 2009 survey are based on a lower than usual response rate (98/600) and must therefore be treated with more than usual caution. For all that, and despite the calamities in financial markets and the rapid slide into recession towards the end of 2008, the Survey seems to show business economists enjoying on average both higher salaries than in the last survey and even, in most sectors, higher bonuses. Of course, the survey for the most part reflects members’ experience through 2008 before the full effects of the downturn had been felt in the jobs market. Perhaps, indeed, the lack of replies, sent in at the beginning of 2009, speaks of a thinning of the ranks of business economists as we moved into the new year and is the harbinger of straitened circumstances to come, although it is from industry and other service sectors that replies were most reduced, rather than from the City where the reduction might have been expected.

Table 1 shows the principal results by sector, and reveals few dramatic changes, although one lucky member reported a total remuneration of £1,500,000, and, at the other extreme, a retired member declared his part-time earnings of £4,000. It remains the case that the largest part—36 per cent this year—of those replying work in financial services, and another 21 per cent work in consulting.

![Table 1: General remuneration profile by sector](image-url)

Notes: 1. Including self-employment income; 2. Of those receiving bonuses or shares; 3. Total cash compensation includes bonuses, shares and options received.
Salary and total cash compensation

Table 2 shows salaries and total cash compensation (TCC) by range of value, and reveals a significant increase in the proportion of those reporting salaries over £100,000, though little change in the proportion reporting a TCC over £100,000.

The median salary overall, at £77,800, was 11 per cent above last year’s result, although median TCC was 4 per cent down, reflecting increases in the proportions reporting higher and lower earnings at the expense of those in between. However, all-in-all business economists have fared about as well as employees generally, with the Average Earnings Index having increased by 3 per cent between the end of 2007 and the end of 2008. Average salaries were higher in all sectors except for academics, where last year’s result had been influenced by one unusually high return. The biggest increases were in Asset Management, Investment Banking and Industry and Commerce. We see broadly the same pattern for average TCC, although the differences from last year were substantial only for those working in investment banking.

Bonus payments

Nearly three-quarters of respondents were in receipt of a bonus, and the average bonus reported in this year’s survey was £44,700, very much more than last year’s average of £22,900. Moreover, bonuses continue to provide as large a part of TCC as before. No sign, it would appear, of an end to the bonus culture. However, the high overall average seems to be the result of a small number of very large bonuses; in every individual sector except Consulting and Investment Banking the average this year was lower. And as nearly two-thirds of bonuses are paid in the first half of the year many of the bonuses reported would have been paid early in 2008 before the recession fully took hold.

Share and option schemes

Only about a quarter of respondents participated in a share or option scheme — of course those in the Public Sector and Academia do not enjoy this benefit — and of those only two-thirds received any benefit under their scheme this year. The average value received was £24,900, higher than last year, but again this reflected a few very large receipts; in all sectors except Investment Banking the average value received was lower than last year.

Pensions and other benefits

Nearly all — 95 per cent — of respondents report being in a pension scheme, considerably more than last year’s 85 per cent. This is probably more due to changes in the respondent sample than to changes in the pension experience of our membership generally.

However, the decline of the final salary scheme has continued apace. Only 34 per cent were in such a scheme, compared to about half last year and nearly two-thirds the year before that, and nearly half of those were in the Public Sector. Moreover, within both final salary schemes and defined benefit schemes there was a significant move away from non-contributory, down from 62 per cent last year to 26 per cent this, towards contributory schemes.

Other non-financial benefits continue to decline as a part of rewards. Those receiving medical insurance slipped back to 43 per cent of respondents, from 56 per cent last year, although nearly all respondents working in Asset Management reported having such insurance. The company car was enjoyed by 21 per cent of respondents, similar to last year, and 13 per cent reported various smaller benefits.

Salary by age and gender

The proportion of replies from men and women were the same as last year, at 81 per cent and 19 per cent respectively, but the median salary for the women respondents was substantially higher at £110,000 than last year’s £71,000, and substantially higher than for men at £73,000. Last year’s survey reported that the ratio of women’s salaries to men’s ‘has recently shown wild
swings’, and the dramatic rise this year to 1.5 may be equally erratic. Yet whilst we must be alert to changes in those responding, it is hard not to see progress to achieving a measure of equality of reward between men and women compared to the position 10 years ago, when women constituted only 9 per cent of respondents, and the ratio of women’s salaries to men’s was 0.6.

We have not recently reported on our respondents by age, but Table 3 shows the median salary by age group. If compared with 2004 when we last showed these data it would reveal an ageing membership: 39 per cent per cent were over 50 years old in this survey compared to 24 per cent in 2004, and 8 per cent were under 30 years compared to 21 per cent in 2004. However, those aged between 45 and 55 years of age reported the highest salaries relative to the overall average in both years, and those under 30 reported the lowest relative salaries. Otherwise relative salaries did not vary much with age in either year.

Table 3: Salary by age and gender

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<thead>
<tr>
<th>Age (years)</th>
<th>2009</th>
<th>2008</th>
<th>Median salaries (£K)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 30</td>
<td>8</td>
<td>13</td>
<td>51.0</td>
</tr>
<tr>
<td>31-35</td>
<td>14</td>
<td>14</td>
<td>75.0</td>
</tr>
<tr>
<td>36-40</td>
<td>14</td>
<td>14</td>
<td>80.0</td>
</tr>
<tr>
<td>41-45</td>
<td>10</td>
<td>10</td>
<td>60.0</td>
</tr>
<tr>
<td>46-50</td>
<td>20</td>
<td>19</td>
<td>95.0</td>
</tr>
<tr>
<td>51-55</td>
<td>19</td>
<td>19</td>
<td>110.0</td>
</tr>
<tr>
<td>Over 55</td>
<td>81</td>
<td>64.5</td>
<td></td>
</tr>
</tbody>
</table>

Note: 1. Including self-employment income

Salary increases by sector

Table 4 shows pay rise by sector. Unfortunately 17 per cent of respondents did not answer the question about their pay rise, compounding the narrowness of the sample. However, excluding them, the median reported pay rise overall was 5.0 per cent, up from 3.5 per cent reported last year, although significantly higher rises were reported in the Retail Banking and Industry and Commerce sectors (10 per cent). Even so, some 16 per cent of respondents reported no change in their salary and 3 per cent reported a reduced salary. Clearly the developing recession was having some effect on SBE members.

Table 4: Salary rise1 by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total respondents</th>
<th>Respondents under one year service</th>
<th>Median % increase in salary</th>
<th>Number with no increase2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
<td>2009</td>
<td>2008</td>
<td>2009</td>
</tr>
<tr>
<td>Academia</td>
<td>7</td>
<td>1</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Public sector</td>
<td>17</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Consulting</td>
<td>17</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Investment banking</td>
<td>11</td>
<td>3</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Retail banking</td>
<td>2</td>
<td>0</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Asset management</td>
<td>15</td>
<td>3</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Industry &amp; commerce</td>
<td>7</td>
<td>2</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Other services</td>
<td>5</td>
<td>1</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>All</td>
<td>81</td>
<td>18</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

Notes: 1. Including self-employment income   2. Including those with a reduced salary

Activity and pay

Table 5 shows the numbers in each sector engaged in each primary job function, and the median total cash compensation received by those in each function. Again, some 12 respondents did not answer this question, with Academic members having particular difficulty, and, in a Society of Business Economists with nearly a quarter of respondents seeing their primary function as General Management, it gives concern that the types of function listed as options may not fit members’ activities very well and we shall review them before our next survey. However, what
might be thought of as the core activity for business economists, Forecasting, Modelling and Econometric Analysis, occupies about 20 per cent of respondents, and it is not too surprising that the same number list public Policy Analysis as their primary function and almost as many list International and Country Analysis.

What is more surprising is that those engaged in International and Country Analysis reported the highest median TCC which, at £150,000, was ahead of General Management, with median total earnings of £110,000, and Market Trading and Fund Management, with median total earnings of £136,000. This was a complete reversal from last year’s results in which International and Country Analysis attracted relatively low rewards, and the change obviously reflects the different sample of respondents rather than any trends in the market.

**Academic qualifications**

We have grouped the answers to the question about qualifications a little differently this year, focussing more on the reported field of study. The results are set out in Table 6.

As might be expected nearly 80 per cent of respondents majored in economics, and of those who had studied other subjects most were in business related disciplines such as accounting, marketing or industrial relations. Surprisingly only two had qualified with an MBA degree, but the proportion qualifying with doctorates was significantly higher than in last year’s survey, up from 9 per cent to 19 per cent. Only 19 per cent relied solely on a first degree.

As might be expected the higher the qualification the higher were total earnings, ranging from a median of £101,700 for those with bachelor’s degrees to £214,000 for those with doctorates. There were however oddities, such as the lower earnings reported for those with a master’s degree in economics than for those with a bachelor’s degree. Yet this only echoes last year’s results in which those with master’s degrees generally earned a little less than those with bachelor’s degrees.

### Table 5: Activity by employment sector – median total cash compensation

<table>
<thead>
<tr>
<th>Sector</th>
<th>Econometrics modelling &amp; forecasting</th>
<th>Project analysis evaluation &amp; strategic planning</th>
<th>Markets trading or fund management</th>
<th>International or country analysis</th>
<th>Public policy analysis</th>
<th>Senior or general management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment banking</td>
<td>1</td>
<td>8</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail banking</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset management</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Consultancy</td>
<td>7</td>
<td>4</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Industry &amp; commerce</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Other services</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Academia</td>
<td>1</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Public sector</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>All sectors</td>
<td>17</td>
<td>11</td>
<td>5</td>
<td>15</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>Median total cash compensation (£K)</td>
<td>80.0</td>
<td>54.0</td>
<td>136.0</td>
<td>150.0</td>
<td>91.0</td>
<td>110.0</td>
</tr>
<tr>
<td>2008</td>
<td>78.0</td>
<td>75.0</td>
<td>155.0</td>
<td>73.0</td>
<td>71.0</td>
<td>103.4</td>
</tr>
</tbody>
</table>

### Table 6: Total cash compensation by qualification

<table>
<thead>
<tr>
<th>Per cent of responses</th>
<th>Average total cash compensation (£K)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2008</td>
</tr>
<tr>
<td>Bachelor’s</td>
<td></td>
</tr>
<tr>
<td>Major in Econs</td>
<td>12</td>
</tr>
<tr>
<td>Major in other</td>
<td>7</td>
</tr>
<tr>
<td>All</td>
<td>19</td>
</tr>
<tr>
<td>Master’s</td>
<td></td>
</tr>
<tr>
<td>Major in Econs</td>
<td>48</td>
</tr>
<tr>
<td>Major in other</td>
<td>10</td>
</tr>
<tr>
<td>MBA</td>
<td>2</td>
</tr>
<tr>
<td>All</td>
<td>60</td>
</tr>
<tr>
<td>Doctorate</td>
<td></td>
</tr>
<tr>
<td>Economics</td>
<td>18</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
</tr>
<tr>
<td>All</td>
<td>19</td>
</tr>
</tbody>
</table>

Note: 1. Including those not specifying their major study. Most of those specified were in business related disciplines such as accounting, marketing and industrial relations.
We also asked about professional qualifications, and 23 per cent of respondents indicated that they had these, although all of them also had an academic qualification. About one-third of these were qualified in accountancy, one-sixth each in marketing and industrial relations and the rest in a number of other disciplines. Having such a qualification did not seem to have a significant effect on total earnings: those with a professional qualification had median total earnings of £100,000 compared with the overall median of £92,900. Put another way, two out of the top ten earners had a professional qualification, about the same proportion as for all respondents.

**Envoi**

This survey shows business economists still enjoying a modest prosperity. Yes, there is the shadow of recent financial turmoil and of recession in the smaller number of replies, with its hint of members 'between jobs' with no salary to report. But those who have replied have enjoyed an increase in salaries in excess of the increase in earnings generally and their total incomes have about held steady. A few enjoy substantial incomes and all — except our retired member doing part-time work — have earnings well above national average earnings in 2008 of £25,100. Bonuses continue to be paid although more patchily, and most members are in pension schemes although less generous.

Looking back over the past ten years this has been a consistent story. The median salary has increase by 56 per cent, about 4.5 per cent a year, between the 1999 Survey and this was just ahead of average earnings in general, which increased by 49 per cent over the same period. There have been changes. We have become a little older: 39 per cent of our respondents were over 50 this year against 25 per cent in 1999, and 8 per cent were under 30 today against 17 per cent then. More to be welcomed, we have more women replying to the survey, 19 per cent of respondents rather than 9 per cent, and their incomes at last are near to parity with their male colleagues. However, the secular decline in the employment of economists in industry and commerce, where the Society had its beginnings, has continued, down from 23 per cent in 1999 to 9 per cent this year.

**Obituary**

**Wynne Godley**

The death on the 13 May at the age of 83 of Wynne Godley, formally the Honourable Wynne Alexander Hugh Godley, has deprived economics of a seriously questioning personality, one of a few whose intellectual legacy will continue to be argued over as our present economic and financial difficulties incubate more critical approaches to theory, policy and forecasting.

Wynne Godley’s work as an economist falls naturally into three phases. From 1956 to 1970, he worked at the Treasury, becoming Deputy Director of the Economic Section in 1967. In this period the post-War business cycle emerged, posing new challenges for policy and forecasting. Godley advised on key policy initiatives, such as the 1967 devaluation. His collaboration with Nicholas Kaldor on Selective Employment Tax impressed the Hungarian. Kaldor persuaded Godley to give up the Treasury and to move to Cambridge as Director of the Department of Applied Economics (DAE) and Fellow of King’s College.

The move to Cambridge initiated the second phase of Godley’s work. He established within the DAE the Cambridge Economic Policy Group (CEPG), which published an annual *Cambridge Economic Policy Review*. The Review rapidly acquired a reputation for gloomy forecasts which, in the economically turbulent decade of the 1970s (the ‘Barber boom’, followed by the 1974 crisis and then stagflation) proved to be largely correct. His suggested remedies, opposition to membership of the European Common Market and controls on imports of manufactured goods, were designed to protect Britain’s manufacturing capability which, like his friend Kaldor, he believed to be crucial to sustainable prosperity in this country. However, such policies were clearly out of tune with the Government’s increasing dependence on international capital inflows to fend off financial crisis.

The political shift to the right that followed the 1979 general election in the UK confirmed the trend of stagflation and economic instability. However, it also deprived Godley of important political patronage. The Economic and Social Research Council cut off funding for the CEPG. A sensitive man, Godley felt this very personally, as he also felt the sudden lack of interest in his work as academics and academic journals turned increasingly to exploring incidental insights and spurious econometrics. Godley articulated his criticism of theory and policy in two books and a series of articles, usually co-authored, the two books with Francis Cripps and Marc Lavoie respectively. His criticism of theory and conventional econometrics boiled down to his argument that economic variables are either stocks or flows, and that these are
related by accounting conventions in a 'stock-flow consistency'. His deep understanding of the interrelationships between economic stocks and flows gave him his apparently uncanny ability to identify incorrect or missing data from actual statistics or forecasts. Implicit in this approach is also a fundamental critique of econometrics as practised by most applied economists. For, if all variables are related in stock-flow consistency then, with the possible, but unlikely, exception of parameters such as prices, there are no independent variables in the system and theory is required to determine leading variables. Committed to what came to be regarded as old-fashioned Keynesianism, he believed that expenditure led economic dynamics.

His situation changed with the fall of Margaret Thatcher, and the debacle over Britain’s membership of the Exchange Rate Mechanism. As in one-party states, forecasts could be questioned but current policy was beyond criticism. In 1992, by then retired, Godley was appointed to the Treasury’s Panel of Independent Forecasters, set up to meet criticism of the Conservative government’s disastrous record of forecasting. In 1995 he was lured to the Levy Economics Institute of Bard College in up-state New York to develop their work on forecasting. His pessimistic interpretation of growing macroeconomic imbalances fitted well with the Institute’s core analysis established by Hyman P Minsky.

Perhaps the most striking feature of Wynne Godley was that he was always more than just an economist. The younger son of the second Baron Kilbracken, Wynne Godley was also a distinguished oboist. After Rugby School, he studied Politics, Philosophy and Economics at New College Oxford, where he found time to play duets with Hilary Behrens. He then studied for three years in the Paris Conservatoire before returning to England as a professional musician. He became principal oboe of the BBC Welsh Orchestra in 1951. In the classical and romantic orchestral repertoire the principal oboist is frequently required to play solo parts (for example, in the beautifully poignant slow movement of Bizet’s Symphony in C). Godley found such public exposure excruciating (he remained to the end of his life a deeply embarrassed public speaker). He abandoned his musical career to join the Metal Box Company as an economist. But he never abandoned music. In addition to the oboe, he played the piano with a rare sensitivity.

In 1955 Godley married Kathleen, the daughter of the sculptor Jacob Epstein. His father-in-law has left us an unusual monument to his daughter’s husband, the sculpture, for which Wynne Godley modelled, of St. Michael the Archangel on the wall of Coventry Cathedral.

Wynne Godley leaves behind his wife Kitty; three daughters; a dwindling band of ageing musicians who remember his musical talent and his generosity, but did not understand his economics; increasing numbers of economists who appreciate the understated rigour of his analysis; and too few us who ever heard his music.

Jan Toporowski
School of Oriental and African Studies
University of London

Sir Clive W Granger

The Newsletter published an obituary of the Nobel laureate in July 2009 (no. 146).

One year on, the European Journal of Pure and Applied Mathematics has published a special issue devoted to ‘Granger Econometrics and Statistical Modelling’. The volume contains fourteen essays by leading econometricians and can be found at:

www.ejpam.com/index.php/ejpam/issue/view/11

We all know that recovery from the economic recession as well as the outcome of fiscal consolidations in all open economies depends in part on the rate of economic growth in trading partner countries. (Joseph Stiglitz raises this point forcefully on p.20 below).

The CPB’s latest (June) Newsletter forecasts 1.25% growth for the Dutch economy in 2010, rising to 1.75 per cent in 2011. Neither of these growth rates is sufficient to reverse the continuing rise in unemployment, to 6 per cent in 2011.

Details of this forecast, and a summary of recent research publications can be read at: www.cpb.nl
Research at ISER

Does union membership cause absenteeism?

Does union membership increase sickness absence from work and, if so, by how much? And which specific channels does this effect operate through? These were the questions investigated by Michail Veliziotis at the Institute for Social and Economic Research based at the University of Essex. Using UK Labour Force Survey data for 2006-2008 Veliziotis shows that trade union membership is associated with a substantial increase in the probability of reporting sick and in the amount of average absence taken. This result can be largely attributed to the protection that unions offer to unionized employees. However, this need not mean that union membership encourages shirking. We know that many people attend for work when they are not strictly fit and well (a phenomenon known as ‘presenteeism’) and it may be that the tendency to take time off when ill is more the result of having the confidence to take legitimate respite than to a desire to cheat the system.

The research uses on ordered probit model to test for the effects of a number of characteristics on the probability of absence. This shows, inter alia, that higher absence rates have a u-shaped association with age, and are more prevalent amongst workers with low skill and educational attainment and those expressing dissatisfaction with working hours. There are also ethnic differences and sickness reporting is more common amongst females than males. Union membership is highly significant.

On the question of increased shirking or reduced presenteeism, the research poses the hypothesis that if union membership mainly increases absence through increased shirking, we should also expect to observe a positive coefficient on the union dummy in a model that uses absence due to ‘other reasons’ as the outcome variable. That was not the case. In fact, the same regression with the different dependent variable gives a coefficient on the union membership dummy that is much smaller than previous estimates and not statistically different from zero.

European welfare systems in an economic downturn

At a time when most European governments are very concerned about the interaction between the level of economic activity and the state of the public finances, the results of a research project by Francesco Figari, Andrea Salvatori, Holly Sutherland are especially timely. The researchers used the EU tax-benefit model EUROMOD to understand to the extent to which the incomes of the new unemployed are protected by tax-benefit systems and also to assess the cost pressures on the governments resulting from the degree of protection provided. The project provides evidence on the differing degrees of resilience of the household incomes of the newly unemployed due to the variations in the protection offered by the tax-benefit systems, according to whether unemployment benefit is payable, the household situation of the unemployed person, and across countries.

The five countries selected for the study are Belgium, Spain, Italy, Lithuania and the United Kingdom. These have very different welfare regimes: ranging from generous earnings related benefits with unlimited duration (Belgium) to flat rate, short-term low level amounts (United Kingdom). Furthermore, the characteristics of those most likely to become unemployed differ across countries: Labour Force Survey data for the most recent period show that the newly unemployed are more likely to be young and well-educated in Belgium but in Spain they disproportionately have lower educational qualifications and fall in the 25-49 year age group. In Italy the great majority are male. EUROMOD is a tax-benefit microsimulation model for the European Union that can be used to show what happens to household income when someone from the groups most likely to become unemployed loses their earnings.

Unsurprisingly, the factor which plays the major protective role from a large drop in relative income is whether there are others in the household with earnings. If this is not the case then household income, as a proportion of pre-unemployment income, falls much more sharply.

As regards protection from the welfare system, however, in the first year of unemployment, the Belgian system provides the highest level of protection to its new unemployed (82 per cent on average). The lowest level of relative income protection is provided in Lithuania (59 per cent) and the UK (62 per cent). Outcomes are also affected by other design features of the benefit system. Where unemployment benefits are paid largely or wholly on a flat-rate basis and/or are means-tested, then the income loss is proportionately larger for those households on higher pre-unemployment incomes. This is the situation in the UK, Spain and Lithuania.

Another issue is whether the protection prevents household incomes falling to or below some officially defined poverty level. Generally the risk of falling below the threshold is much lower in Belgium and Spain and higher in Italy. The existence (and level) of child-related benefits will also make a difference for some families.

The most obvious conclusion that can be drawn from the benefit side of this research is just how difficult it is to characterise a particular welfare regime as ‘mean’ or
two other recent comments by Joe Stiglitz in recent austerity budget risks causing serious damage to the UK economy. This critical interpretation joins ly relevant way. In a recent blog, John Van Reenen argues that the UK Chancellor of the Exchequer’ s article reviews those criticisms. Responses from readers for future publication would be welcome.

remains striking. 4 Within the last week  the UK (and excepted) about its overall macroeconomic impact economists (present company plus David Blanchflower political groups, but even so the lack of comment by sive nature of the package) was growing amongst some aspects of the budget (the rise in VAT, the overall regres- press (4th July), it was clear that opposition to certain deficit’ is a national priority. As this published on 6th June. Chick and Pettifor express alarm at the overwhelming political consensus, ‘parroted each day by ‘The Economic Consequences of Mr Osborne’, was pub- June while the article by Victoria Chick and Ann Pettifor, ‘The Economic Consequences of Mr Osborne’, was published on 6th June. Chick and Pettifor express alarm at the overwhelming political consensus, ‘parroted each day by the BBC’s economic correspondents...’ that ‘slashing the deficit’ is a national priority. As this Newsletter went to press (4th July), it was clear that opposition to certain aspects of the budget (the rise in VAT, the overall regressive nature of the package) was growing amongst some political groups, but even so the lack of comment by economists (present company plus David Blanchflower excepted) about its overall macroeconomic impact remains striking.4 Within the last week  the UK (and other) stock markets have fallen by roughly ten per cent in response to a succession of gloomy economic news relating to the US and Chinese economies as well as the precarious state of the European banking system. In these circumstances, Van Reenen may well be right and the situation about to change.

The starting point for all three of these critical comments is the effect on aggregate demand of large scale reductions in public spending (and rather smaller increases in taxation) and the danger of pushing the UK economy into the second part of a double dip recession. Part of the argument is about timing. The UK economy is barely staggering out of the recession that the large increase in public spending under Labour was designed to mitigate. Labour itself, as Van Reenen points out, was already committed to bringing down the deficit by £73bn in 2014/15. The Osborne budget adds a further £40bn to that consolidation.At the recent G20 summit this enthusiasm placed the UK government at one extreme with President Obama at the other — arguing for caution on the part of European governments threatening to engage in a competition for the wearing of the hairiest shirt.

All three articles point out that we have been here before. During the 1930s the UK Treasury argued that balanced budgets were the best way to encourage recovery. In fact, although none of the articles actually cites the incident, the parallels with the 1930s are closer than we might imagine. In May 1931, the then Labour Government, faced with a growing budget deficit and warnings of an imminent loss of confidence in sterling (then fixed at £1 to $4.87), set up a committee under Sir George May to make recommendations to stabilise the deteriorating fiscal position. When it was published in July 1931, the May Report recommended increases in taxation and cuts in spending in the proportion of one to four, uncannily close to the ‘Osborne ratio’. Keynes is reported to have described the Report as ‘the most foolish document I ever had the misfortune to read’5 and, when Parliament finally
implemented the recommendations in September 1931 he described the steps as ‘the most wrong and foolish things that Parliament has deliberately perpetrated in my lifetime’.6

The arguments

Although the message of all three articles is very similar, there are interesting contrasts in the nature of the argument. Van Reenan, for example, takes it for granted that a sharp reduction in aggregate demand must have real negative effects and that these will not be compensated by any significant ‘crowding in’. Hence the article attacks a set of propositions which, he claims, are used as the basis to justify the policy:

• ‘Mervyn King to the rescue’
In other words a tightening of fiscal policy will enable the Bank of England to loosen monetary policy. This is unlike-ly according to Van Reenan, given the zero lower bound problem and the modest impact of quantitative easing.

• The markets insist
This is the argument that investors will reject UK government debt forcing up the cost of long-term interest rates but, as Van Reen (and others) point out, the UK has had higher debt:GDP ratios in the past without a buyers’ strike, the average maturity of UK debt is comparatively long (unlike Greece, for example) and UK governments have a good record on honouring their obligations (though not quite perfect as Van Reenen claims). Furthermore, markets do not seem to have been unduly impressed by the budget. ‘...the argument that we should adopt policies that are objectively bad for the real economy because financial markets might reward us is wrong in both theory and practice’.

• Labour’s consolidation relied too much on tax increases
Under Labour’s proposals, tax increases would have made up 29 per cent of the deficit reduction. Osborne has decreased this to 26 per cent. This is trivial especially when compared with the much larger consolidation. Furthermore, we now know that the additional austerity is likely to fall disproportionately on the poor.

The Chick-Pettifor paper is overwhelmingly an examina-
tion of the historical evidence in which periods of fiscal ‘consolidation’ and ‘expansion’ are examined for their effect on the debt ratio and other variables.

Spending figures are shown alongside outcomes for public debt, interest rates, unemployment, GDP and prices. Outcomes are seen as running almost entirely contrary to conventional wisdom, or at least contrary to thinking derived from microeconomic considerations: fiscal consolidation increases rather than reduces the level of public debt as a share of GDP and is in general associated with adverse macroeconomic conditions. The exception was the consolidation after World War II. (p.1)

The following table summarises the findings:

<table>
<thead>
<tr>
<th>Government expenditure and the debt/GDP ratio</th>
<th>expenditure</th>
<th>debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>WWI</td>
<td>62.7</td>
<td>17.4</td>
</tr>
<tr>
<td>1918-23</td>
<td>-20.9</td>
<td>13.2</td>
</tr>
<tr>
<td>1931-33</td>
<td>-5.4</td>
<td>5.0</td>
</tr>
<tr>
<td>1933-39</td>
<td>18.3</td>
<td>-7.0</td>
</tr>
<tr>
<td>WWII</td>
<td>38.1</td>
<td>10.6</td>
</tr>
<tr>
<td>1944-47</td>
<td>-24.5</td>
<td>17.0</td>
</tr>
<tr>
<td>1947-76</td>
<td>10.1</td>
<td>-6.8</td>
</tr>
<tr>
<td>1976-2009</td>
<td>7.6</td>
<td>0.4</td>
</tr>
</tbody>
</table>


More succinctly, as public expenditure rises, the debt/GDP ratio falls. The paper quotes the following relationship (derived from the full data set):

\[%\Delta \text{debt} = 2.2 - 0.6\% \Delta G\]

with an $R^2$ of 0.98.7

Section 3 of the paper provides an analysis of the individual episodes in which the links to other variables can be seen. For example, the periods 1947-75 and 1976-2009 are brought together as ‘The long expansion’, the break being caused by the IMF loan which the authors claim marked a decisive shift in macroeconomic policy towards a more restrictive stance. The outcomes, pre- and post-IMF are shown in their table 3G.3.

The long-expansion

<table>
<thead>
<tr>
<th>Average over years:</th>
<th>1947-75</th>
<th>1975-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government expenditure (%GDP)</td>
<td>22.5</td>
<td>22.6</td>
</tr>
<tr>
<td>Government expenditure (real growth)</td>
<td>2.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Change in public debt (percentage points)</td>
<td>-7.1</td>
<td>+0.5</td>
</tr>
<tr>
<td>GDP (real growth)</td>
<td>2.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Unemployment</td>
<td>2.2</td>
<td>7.7</td>
</tr>
<tr>
<td>GDP deflator (growth)</td>
<td>5.8</td>
<td>5.6</td>
</tr>
<tr>
<td>Nominal interest rate</td>
<td>6.7</td>
<td>8.1</td>
</tr>
<tr>
<td>Real interest rate</td>
<td>0.9</td>
<td>2.4</td>
</tr>
</tbody>
</table>


The lower growth rate in public spending and the real economy, as well as the higher real interest rates and growth of the debt ratio are obvious in the post-IMF period.

While the Chick-Pettifor paper draws on the historical record as a warning of Osborne’s folly, Stiglitz is more concerned with cross section evidence. The starting point is essentially the same as that of the other critics. The rapid fiscal consolidation ‘...will make Britain’s recovery from recession longer, slower and harder than it needs to be. The rise in VAT could even tip us into a double dip
Describing the scale of retrenchment as ‘Hooverite’ (the US alternative to the ‘Treasury View’), Stiglitz draws his warnings from the recent experiences of Korea, Thailand, Indonesia, Argentina and, most relevant of all, Japan, whose recovery in 1997 was thrown off the rails by a rise in VAT.

Of the three critical pieces, Stiglitz is strongest on recommendations, these include a major redirection of spending:

- Major cuts in military expenditure
- Reduce oil and other subsidies
- Increase spending on research and development
- Increase spending on education and on infrastructure

Furthermore, the tax system needs to be restructured with a large increase in capital gains tax.

Unlike the other two papers, Stiglitz explains the current uncritical support for deficit reductions by reference to what is perceived in the USA as the failure of fiscal stimulus to boost the economy after the banking crash. But this, says Stiglitz was because the stimulus was not big enough and much of it took the form of beneficial finance for the wrong banks, with the result that additional lending was not forthcoming and the economy has struggled to restart. ‘Instead of producing a consensus that the government should have done more, it has created disillusion that the government can do anything’.

The final suggestion, still focused on banks, is that governments should set up their own banks to restart lending to businesses and households. He notes that some US$700bn was given to US banks. Taking just US$100bn and leveraging that by a factor of 10 from the private sector would create a bank with a trillion-dollar lending capacity: more than enough for a fraction of the bail-out.

Given that the authors are all dismissive of any possible economic logic to support the Osborne package, one might expect them to offer an alternative rationale. In Chick and Pettifor, that is left largely to the reader, but Stiglitz is in no doubt, ‘...politicians like George Osborne are driven by ideology; the national deficit is an excuse to shrink the state because that is what he wanted anyway’.

Van Reenen suspects something similar: ‘...there may be the simple ideology that having a state smaller than it was under Mrs. Thatcher is desirable’ but argues that this is something about which we should have an explicit and open debate. Whether this is the case or not, there are other advantages in taking such draconian steps within weeks of taking office. These include being able to blame any serious contraction in the economy on their Labour predecessors and (as many political commentators have pointed out) getting the pain out of the way as early as possible.

In the January 2009 issue of this Newsletter we talked of the ‘rediscovering of aggregate demand’. This followed an outburst of concern over economists’ (apparent) failure to warn of the crash and a recognition that a major recession was staring the UK in the face and that there was an overwhelming need for a major stimulus to demand. Now, however, we have details of the largest ever planned reduction in demand in the UK (and the prospect of similar, if smaller, reductions through Europe) and yet with the few exceptions noted here, there is little obvious alarm. And this cannot be because of the strength of the recovery. On 5th July, under the heading 'Investors take stock while doubts over recovery grow, the Financial Times listed the following worrying indicators:

- Poor US-household confidence surveys
- Weakening of growth in China and USA
- Disappointing US non-farm payroll figures
- Negative purchasing manager’s surveys
- The S&P 500 down 16 per cent from April
- Rising interbank rates

Of course, events may prove these gloomy predictions wrong and we may later look back on this extraordinary outburst of austerity as marking a positive turning point in the fortunes of the UK economy. But while we wait, it would be interesting to hear from supporters of this budget why this should be so.

Notes:
1. For further information about the blog go to: http://blogs.lse.ac.uk/politicsandpolicy/?page_id=2 or email the blog administrator, Chris Gilson at: c.h.gilson@lse.ac.uk
3. V Chick and A Pettifor ‘The Economic Consequences of Mr Osborne’, http://www.debtonation.org/
4. This should be interpreted as a reference to economists commenting on the budget after the details became known. This understates the number of economists opposed to the austerity strategy as a general principle. See for example the letter published in The Guardian on 27th March 2010
5. Quoted in H Dalton, Call Back Yesterday (London: Muller, 1953) p.290
7. This is a regression of contemporaneous variables. It might be interesting to see the effect of introducing lags since fiscal policy presumably takes time to work its effect on GDP
8. Stiglitz’s comments were made in an interview with The Independent newspaper and published on June 27th. The full text can be read at: http://www.independent.co.uk/news/uk/politics/osbornes-first-budget-its-wrong-wrong-wrong-2011501.html
Royal Economic Society 2011 Annual Conference

Call for Papers

The 2011 Annual Conference of the Royal Economic Society will be held at Royal Holloway, University of London from 18th April to 20th April 2011. Keynote lectures will be given by:

Elhanan Helpman, Harvard (EJ Lecture)
Jean Tirole, IDEI (Hahn Lecture)
Rosa Matzkin, UCLA (Sargan Lecture)

The Programme Committee invites submissions of papers for General Sessions from academic, government and business economists in any field of economics and econometrics. Submissions can be made from July at https://editorialexpress.com/conference/res2011
Details of the submission process will be made available on the Conference website.

Deadline for submissions is 15th October 2010. Notification of acceptance will be sent by mid-December 2010.

Proposals for Special Sessions are also invited. A Special Session would typically bring together 3 papers plus discussants but other formats can be proposed. There are no restrictions on topics. Special Session proposals should consist of a single-page document: further submission details will be published on the Conference website.
Authors of papers accepted for presentation at the RES Conference will be entitled to submit their papers for possible publication in the Conference issue of the Economic Journal. The Conference issue is edited to the same standards as regular issues of the Economic Journal and is published as part of the regular May issue in 2012. Promising papers not ready for publication in the Conference issue may be invited to resubmit for a later Economic Journal issue using the same referees and reports from the Conference issue.

The Programme Chair is Rachel Griffith (IFS) res2011papers@ifs.org.uk

The Deputy Programme Chairs and Local Organisers are Melanie Luhrmann (RHUL) and Juan-Pablo Rud (RHUL) res2011@rhul.ac.uk

Online Registration will be open from January 2011. Further details on registration, accommodation and other matters - including information on financial support for postgraduate students attending Conference - will be made available via the Conference web-site:

http://www.resconference.org.uk/
Nominations for RES Council

Nominations for the next cohort of the RES Council have been received and reviewed by the Nominations Committee. A ballot will be taken of all RES members in the Autumn and the results declared to Council at their meeting in November 2010.

The election will be ratified at the AGM in 2011 after which the new members will take their place on the RES Council. For current members of the RES Council please see the RES website.

Thesis Titles for Degrees in the United Kingdom

The list of thesis titles previously published in the June issue of the Economic Journal will be available through the website of the Royal Economic Society: www.res.org.uk

The list displayed there contains the titles for theses of higher degrees taken entirely by dissertation within the UK and it relates to degrees awarded in the academic years 2008/09 and early 2009/10. It has been compiled by Amanda Wilman, the Administrator of the Royal Economic Society.

Further details regarding the classification and content of the theses titles can be found with the list itself on the Royal Economic Society website.

Publications

Members Discounts

Members of the Royal Economic Society may order one of each of the Society’s publications for their personal use at the special price to members. A full list is provided on the Society website, www.res.org.uk but members should be aware that the special RES Memorial set of The Collected Writings of John Maynard Keynes is no longer available although individual volumes may still be in stock. Please apply to the Royal Economic Society offices at the following address, quoting your membership number, where current prices and stock levels will be advised:

Amanda Wilman, RES Administrator, The Royal Economic Society, School of Economics & Finance, University of St Andrews, Fife, KY16 9AL, UK.
Email: royaleconsoc@st-andrews.ac.uk.

See also p.24

RES Training schools

It is now more than twenty years since the RES first provided funds to the University of Birmingham to run an annual advanced training school for postgraduate students doing doctoral research. Known more familiarly as the ‘Annual Easter School’ a whole generation of students has benefited from the opportunity to develop their specialist interest with the help of leading authorities in the field.

As noted in the last Newsletter, the Society has been successful in obtaining funding from the ESRC’s Researcher Development Initiative which allow the University to run a second, autumn, training the school for the next three years. The first of these will take place on 20-13 September. The theme is ‘Evolutionary Game Theory and Electricity Markets’ and key speakers are Professor Peyton Young (Oxford) and Professor Richard Green (Birmingham).
Support for small academic expenses

The Society is able to offer financial support to members who require small sums for unexpected expenditures. The type of expenditures which could qualify for support under this scheme include travel expenses in connection with independent research work, the purchase of a piece of software, expenses for a speaker at a conference being organised by the applicant’s University or Institute, etc.

Please note that the awards under the grant schemes are highly competitive, and selection will be based on the following criteria. Preference will be given:

• for initiatives which are for the benefit of new entrants to the profession;
• to initiatives which cannot ordinarily be funded from other sources, such as existing research grants.

Please note that no awards will be made to any applicant who has received an RES grant (under the Conference Grant or Support for Small Academic Expenses schemes) in the 3 previous years.

The closing dates for applications are 31 January, 31 May, and 30 September each year and applications will only be considered at these times.

Conference grant fund

Please note change of address for applications, see below.

The Society’s Conference Grant Fund is available to members who are presenting a paper, or acting as a principal discussant at a conference; support of up to £500 is available. Awards are made three times a year.

The closing dates for applications are 31 January, 31 May, and 30 September each year in respect of conferences which take place in the ensuing four months.

Please note that the awards under the conference grant scheme are highly competitive, and selection will be based on the following criteria. These criteria should be addressed by the Head of Department in his/her supporting statement on the application form.

Preference will be given:

• to applicants who are new entrants to the profession;
• for attendance at high-impact international conferences;
• to applicants whose attendance cannot ordinarily be funded from other sources, such as existing research grants.

Please note that no awards will be made to any applicant who has received an RES grant (under the Conference Grant or Support for Small Academic Expenses schemes) in the 3 previous years.

Application forms and further particulars may be obtained from either:

www.res.org.uk/society/grants_fellowships.asp
or Professor Anton Muscatelli, Principal and Vice Chancellor, University of Glasgow, University Avenue, Glasgow, G12 8QQ
E-mail: k.gray@admin.gla.ac.uk

Young Economist of the Year competition

This year there were a record number of entries by the deadline in May, from which a final shortlist has been selected. The RES President, Richard Blundell and a panel of RES Council members will now review the final shortlist and we hope to announce the result by the end of the summer. A list of highly commended entries and also a list of all the schools and colleges - from the UK and overseas - that joined in for the 2010 competition is published on the Tutor2U website:

http://www.tutor2u.net/blog/index.php/economics/C539/
New editions of Keynes’ classic work

25% discount available to all RES members

In 1936 Keynes published the most provocative book written by any economist of his generation. Arguments about the book continued until his death in 1946 and still continue today. This new edition features a new Introduction by Paul Krugman which discusses the significance and continued relevance of The General Theory.


This reissue of the authoritative Royal Economic Society edition of Essays in Persuasion features a new introduction by Donald Moggridge, which discusses the significance of this definitive work. The essays in this volume show Keynes’ attempts to influence the course of events by public persuasion over the period of 1919-40.

July 2010 | Paperback | £22.99 | 978-0-230-24957-8

This authoritative Royal Economic Society edition of Essays in Biography contains some of Keynes's finest writing. It has been reissued with a new introduction by Donald Winch that appraises Keynes’s achievement as biographer, character analyst, and intellectual historian.


This book brings together John Maynard Keynes’ infamous BBC wireless broadcasts, specially selected from the Royal Economic Society edition of Keynes’ Collected Writings. With an introduction by Donald Moggridge, this unique anthology provides an insight into Keynes’ influence and legendary contribution to economics, which still resonates today.

July 2010 | Hardback | £25.00 | 978-0-230-23916-6
Conference Diary

2010

July 16
Muenster, Germany

International Workshop of Negative Nominal Interest Rates. This workshop provides an opportunity for all those interested in the subject of negative nominal interest rates to discuss their research and to exchange ideas.

Further information:
www.infer-research.net/index.php?id=6
or contact: infer@insiwo.de

July 26-29
Athens, Greece

5th Annual International Symposium on Economic Theory, Policy and Applications. The Economics Research Unit of the Athens Institute for Education and Research (ATINER) will hold its 5th Annual International Symposium in Athens, Greece, 26-29 July 2010. The registration fee is 250 euro, covering access to all sessions, 2 lunches, coffee breaks and conference material. Special arrangements will be made with local hotels for a limited number of rooms at a special conference rate.

Further information:
www.atiner.gr/docs/2010INFORMATION_ECO.htm

July 29-31
Oxford

The Green Economics Institute will be holding its conference Greening the Economy and Green Jobs at Mansfield College, Oxford University, on the complex mesh of social and environmental justice, climate and global environmental change and biodiversity. Speakers from global institutions, European politicians, business and sustainability practitioners.

Further information:
Web: www.greeneconomics.org.uk
Email: greeneconomicsevents@yahoo.co.uk

August 17-21
Shanghai, China

The 10th World Congress of the Econometric Society will be hosted by Shanghai Jiao Tong University in cooperation with Shanghai University of Finance and Economics, Fudan University, China Europe International Business School and the Chinese Association of Quantitative Economics. The World Congress of the Econometric Society is the most prestigious international conference in the field of economics.

Further information: www.eswc2010.com/

August 23-26
Glasgow, Scotland

The Twenty Fifth Congress of the European Economic Association. The Congress is the main European conference that covers all aspects of economics, with a scientific program reflecting the very best work in the profession. The program will include lectures by Esther Duflo (MIT) and Orazio Attanasio (UCL).

Further information:
www.eea2010glasgow.org/index.asp

August 26-28
Tartu, Estonia

The 11th bi-annual European Association for Comparative Economic Studies Conference: Comparing Responses to Global Instability.

Further information: www.mtk.ut.ee/eaces2010
September 1-3  
**Girne, Turkey**

ICE-TEA 2010 - International Conference on Economics
Turkish Economic Association: *The Global Economy After the Crisis: Challenges and Opportunities.* The conference, which is supported by the International Economic Association, aims to generate a meeting ground for economists from around the world through invited and contributed sessions.

*Further information:* www.teacongress.org

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September 1-3  
**Limassol, Cyprus**

MMF 2010. The Money Macro and Finance Research Group *42nd Annual Conference* will be held at Cyprus University of Technology, Limassol, Cyprus. Speakers: Badi Baltagi, Athanasios Orphanides, Panicos Demetriades, Hashem Pesaran, Elias Tzavalis, Jose Manuel Gonzalez Paramo, Seppo Honkapohja, Jan Qvigstad, Simon Deakin and Peter Rousseau.

*Further information:* www.le.ac.uk/ec/MMF2010.html and www.cut.ac.cy/mmf2010

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September 3-5  
**Muenster, Germany**

12th INFER Annual Conference 2010 is the main annual event of the International Network for Economic Research. Researchers are invited to submit theoretical and applied papers across all areas of economics, including this year’s special topic Institutional Economics and Economic Policy: addressing the practical and theoretical challenges of applied economics. Young researchers are also encouraged to apply for the young economist award of INFER.

*Further information:* www.infer-research.net/ or contact: Cordelius Illgman on infer@insiwo.de

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September 6-10  
**Cambridge**

MICRO-DYN Summer School 2010. Firm-level analysis of innovation, competitiveness and employment. Applications to participate at this Summer School should be sent by **July 15th, 2010.**

*More information:* delean@wiiw.ac.at

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**Pescara, Italy**

September 9-10  

**XXV National Conference of Labour Economics.** The Conference consists of a thematic session and a session including free contributions. The thematic session will be introduced by an invited lecture given by Peter Sloane (IZA), followed by the presentation of the selected papers. A panel discussion on ‘The Future of Labour Economics in the Aftermath of the Global Financial Crisis’ will also take place including David Blanchflower (Dartmouth College), Michael Burda (Humboldt University) and Carlo dell’Arling (Università Cattolica).

*Further information:* www.aiel.it/index_en.htm

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**Berlin, Germany**

September 14-16

Global Labour University Conference, ‘Labour and the global crisis. Sharing the burden; shaping the future.’


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**Malta**

September 15-17


*Further information:* www.ieee.am

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**Zurich, Switzerland**

September 24-25

Swiss National Bank Research Conference, Monetary Policy after the Financial Crisis


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**Aarhus University, Denmark**

October 15-16


*Further information:* http://sofie.stern.nyu.edu/conferences
**November 4-5**  
**Rome, Italy**

**CALL FOR PAPERS**

Econometric Society European Winter Meeting at the Einaudi Institute for Economics and Finance (EIEF). Proposals of candidates from Great Britain and Ireland should be sent by email to Professor Oliver Linton at LSE, email: O.Linton@lse.ac.uk before **September 2, 2010**. They should include the candidate’s CV, the complete paper s/he would like to present, and a letter of recommendation. Successful candidates will be informed by October 1, 2010. The Programme will be announced in October 2010.

**November 11-12**  
**Norwich**

The ESRC Centre for Competition Policy at the University of East Anglia will host the 2010 annual conference of the Association for Competition Economics.  

**Further information**: www.uea.ac.uk/ccp

**November 30 - December 2**  
**Tenerife**


**Further information**: www.ieee.am

**2011**

**April 18-20**  
**Esher**

The Royal Economic Society 2011 Annual Conference will be held at Royal Holloway, University of London. The Programme Committee invites submissions of papers for General Sessions from academic, government and business economists in any field of economics and econometrics. Proposals for special sessions should be submitted to res2011papers@ifs.org.uk by **Friday 15th October 2010**.

**Further information**: www.resconference.org.uk/ and res.org.uk

see also p.21
Membership is open to anyone with an active interest in economic matters.

The benefits of membership include:

• Copies of the *Economic Journal*, the journal of the society, eight times a year.

The *Economic Journal* is one of the oldest and most distinguished of the economic journals and a key source for professional economists in higher education, business, government service and the financial sector. It represents unbeatable value for those who want to keep abreast of current thinking in economics. Issues are divided into those containing ‘Articles’ — the best new refereed work in the discipline — and ‘Features’ including symposia and regular features on data, policy and technology.

• On-line access to *The Econometrics Journal*, a new electronic journal published by the Royal Economic Society and Blackwell Publishers. The journal seeks particularly to encourage reporting of new developments in the context of important applied problems and to promote a focus for debate about alternative approaches.

• Copies of the Society’s *Newsletter*. This is published four times a year and offers an invaluable information service on conferences, visiting scholars, and other professional news as well as feature articles, letters and reports.

• The right to submit articles to the *Economic Journal* without payment of a submission fee.

• Discounts on registration fees for the Society’s annual conference.

• Discounted prices for copies (for personal use only) of scholarly publications.

• The opportunity to take advantage of the grants, bursaries and scholarships offered to members of the Society.

Details and application form are available from: The Membership Secretary, Royal Economic Society, University of York, Heslington, York, YO10 5DD.

Membership rates for 2010 are £48 ($77, €68)*

There is a reduced rate of £24 ($39, €34) for members who reside in developing countries (with per capita incomes below US$500) and for retired members. A special offer of three years membership for the price of one at this reduced rate is available to full-time students who join the Society for the first time between 2009 and 2011.

* All customers in the UK should add 7.5 per cent VAT to these prices or provide a VAT registration number or evidence of entitlement to exemption. Canadian customers please add 5 per cent GST or provide evidence of exemption. For EU members, please add VAT at the appropriate rate.

Ordinary UK member: £48 + £3.60 = £51.60
Ordinary EU member: €72 + appropriate rate
Ordinary Canadian member $77 + $3.85 = $80.85
Reduced rate members: $40.95/£25.80

If you would like to join the Society, complete the adjacent application form and return it to the Membership Secretary at the address above.

Please enter my name as an applicant for membership of the Royal Economic Society. I enclose a cheque for

................................. in payment of my subscription for 2010.

Name: .................................................................
Address: ..................................................................
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Occupation...............................................

Date............ 