



# Newsletter

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## Keep calm...

For more than twenty years, the inside front cover of this *Newsletter* has carried the reminder that the *Newsletter* is '...first and foremost a vehicle for the dissemination of news and comment of interest to its readers...' — in effect a call for papers. The results have been modest. The number of unsolicited contributions has grown albeit from a low base. In present circumstances, therefore, it is perhaps unsurprising that such contributions continue to focus on Brexit and on the state of economics, two themes that have had a substantial airing in recent editions. The 'comment' by Thomas Colignatus is particularly timely since, as we go to press, the first crumbings are beginning to appear in the hitherto universal consensus that the referendum of June 2016 was the ultimate expression of democratic preferences that must be accepted by everyone, whatever their view of its implications. Thomas has pointed out before that the 2016 referendum was a silly question, unworthy of a true democracy.

In an effort to find some cheer in recent developments in the USA — increasing inequality, decreasing life expectancy, stagnating real wages, a political system that is failing the majority of citizens, Angus Deaton looks to the history of the UK for signs that these trends can be reversed. Let's be hopeful. But historical parallels are always tricky. The UK of the nineteenth and twentieth centuries was moving towards benefits that were novel, but much-desired. It's rather worrying that a society that has already tasted those benefits chooses, for whatever reason, to reject them.

Any prize for the longest-running unsolicited contribution must go the Money, Macro and Finance research group, whose conference reports have appeared here for more than twenty-five years. This year was their 50th Anniversary. Good for them!

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## THE ROYAL ECONOMIC SOCIETY

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#### The Society's bee logo

The Society's logo, shown below, has been used from its earliest days. The story behind the use of the bee refers to the 'Fable of the Bees' by Bernard Mandeville, an 18th Century essayist which alludes to the benefits of decentralisation by looking at co-operation amongst bees and showing how the pursuit of self-interest can be beneficial to society. The Latin quote comes from Virgil and speaks of the drive of bees.



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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, reports of conferences and meetings**, and news of **major research projects** as well as **comment on recent events**.

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# Letter from America — Trying to keep cheerful

*In his latest Letter from America, Angus looks to the history of nineteenth century Britain as an antidote to the despair caused by recent developments in the USA.*

**I**N THE CURRENT SITUATION IN AMERICA, and the endless train wreck of Trump and his administration, it is easy to find historical parallels that did not turn out well. I have been trying to keep cheerful by looking for more positive parallels.

First, the bad stuff. Life expectancy at birth is falling in America, for three years in a row for white non-Hispanics, and for two years in a row for the population as a whole. If two becomes three, as recent indications suggest it will, it will be the first time in America in a century — the last time being during the first world war and the influenza epidemic that followed it. Unlike Europe, where recent declines in life expectancy are driven by higher mortality among the elderly, in the US, deaths are of people aged 25 to 64, mostly among non-Hispanic whites, though blacks' mortality has also recently started to climb. There is an epidemic of suicide, alcoholism, and opioid overdoses; the last is the largest of the three. Opioids include prescription painkillers, as well as heroin and the more recent and much stronger fentanyl. Preliminary data for 2017 show that 72,000 Americans died from opioid overdoses. This is higher than the annual number of deaths from HIV, from guns, or from automobile crashes at their peak. It is higher than the total number of Americans who died in Vietnam and the cumulative total since 2000 is higher than the total number of Americans who died in the two World Wars.

## Education offers some protection

Most of those dying are less-educated Americans without a bachelor's degree which, in the US, takes four years of college. The lives of the less-educated have come apart in many dimensions. Their real wages have declined for half a century, as has their participation in the labor force. Marriage rates are declining, and a majority of white mothers without a BA have had at least one child out of wedlock. Men and women cohabit, without getting married, and have children in what are often unstable relationships. The freedom not to commit that was so attractive in youth looks like a disaster in middle age, when many men finish up living apart from their children. Pain levels are on the rise and so is obesity. The long-term decline in mortality from heart disease has stopped and seems to be reversing. Churchgoing is declining, private sector unions are vanishing together

with the social life and political representation that they provided. Most working people no longer believe that there is any point in voting, because elections are rigged in favor of the rich and big corporations; the empirical evidence on whose interests are represented in Congress shows that they are right.

Today, we have stagnant or falling wages, declining life expectancy, and a failing democracy. American capitalism and American democracy are no longer delivering for less-educated Americans.

## A hopeful comparison?

Which sounds just like Britain in 1800, though Britain was worse. Wealth and income inequalities were vast compared with anything that we see today. The hereditary landowners not only were rich, but also controlled parliament through a severely limited franchise. After 1815, the notorious Corn Laws kept out imports of wheat until the local price was so high that people were at risk of starving; high prices of wheat, even if they hurt ordinary people,

“ The lives of the less-educated have come apart in many dimensions. ”

were very much in the interests of the land-owning aristocracy, who lived off the rents supported by the restriction on imports. Rent-seeking of the classic and here literal kind, and rent-seeking that did not stop at killing people. Adam Smith, who was deeply aware of the underside of capitalism, and of the favors that the powerful sought from the state, wrote that such rent-seeking laws should have been 'written in blood'.

The Industrial Revolution had begun, there was a ferment of innovation and invention, and national income was rising. Yet working people were not benefiting. Mortality rates rose as people moved from the relatively healthy countryside to stinking, unsanitary cities. Each generation of military recruits was shorter than the last, speaking to their ever-worsening undernutrition in childhood, from not getting enough to eat and from the nutritional insults of unsanitary conditions. Religious observance fell, if only because churches were in the countryside, not in the new industrial cities. Wages were stagnant and would remain so for half a century. Profits were rising, and the share of profits in national income rose at the expense of labor. It would have been hard to predict a positive outcome to this process.

Yet by century's end, the Corn Laws were gone, the rents and fortunes of the aristocrats had fallen along with the

## Features

world price of wheat, especially after 1870 when wheat from the American prairie flooded the market. A series of Reform Acts had extended the franchise, from one in ten males at the beginning of the century to more than a half by its end, though the enfranchisement of women would wait until 1918. Wages had begun to rise in 1850, and the more than century long decline in mortality had begun. All of this happened without a collapse of the state, without a war, or a pandemic, through gradual change in institutions that slowly gave way to the demands of those who had been left behind.

### Maybe not

A nice story, but in Trump's America, the gradual change in institutions is currently going in the wrong direction. In particular, the liberal bias in the legal establishment has been replaced by a conservative bias, with judges who are more likely to rule in favor of corporate interests and against labor. Much of this came from the influence of free-market Chicago economics permeating law schools. That the law should promote efficient competition is one thing, that it should blindly support corporate interests on the grounds that all profit-seeking practices are efficient is another thing altogether. In Britain, institutions changed, not through violence, but because there was a constant threat of it. There is certainly a deal of anger in America today, and perhaps it too will fuel positive change.

Note:

This article is based on, and contains extracts from a book by Anne Case and Angus Deaton with the working title *Deaths of Despair and the Future of Capitalism* to be published by Princeton University Press in 2020.

## Houblon-Norman/George Fellowships

Applications are invited for Houblon-Norman/George Research Fellowships tenable at the Bank of England during the academic year 2019/2020. Appointments will be for research on an economic or financial topic of the candidate's choice, preferably one that it would be particularly beneficial to study at the Bank of England. The length of any appointment will be by agreement with successful applicants, but will not normally be less than one month, nor longer than one year.

Senior Fellowships will be awarded to distinguished research workers who have established a reputation in their field. Fellowships will also be available for younger post-doctoral or equivalent applicants. The award will normally be related to academic salary scales.

Application forms (to be returned no later than **31 October 2018**) and details are available from:

<https://www.bankofengland.co.uk/research/research-funding-and-fellowships>

or by emailing the Houblon-Norman Fund account [MA-HNGFund@bankofengland.co.uk](mailto:MA-HNGFund@bankofengland.co.uk)

Postal applications should be addressed to the Secretary to the Houblon-Norman Fund, Bank of England, Threadneedle Street, London EC2R 8AH.

## Modigliani Research Grants — Worth €10,000 per year UniCredit Foundation

The Modigliani Research Grants aim to support academic research in Europe as well as to reinforce the cooperation among universities. The competition is open to young researchers of any nationality employed at any European universities within UniCredit perimeter.

The Foundation offers 4 grants for research projects in the fields of economics and finance. Each grant is worth **€10,000 per year** (gross of taxes) and shall be awarded for a maximum duration of two years.

Applications must be submitted online no later than **15 November 2018**. The winner will be selected by the Scientific Committee of the Foundation and will be announced by **February 15, 2019**.

### How to apply

Candidates may only apply online using the application form available on the Foundation's website at [www.unicreditanduniversities.eu](http://www.unicreditanduniversities.eu).

In the application each candidate must indicate:

- her/his first name, surname, nationality, date and place of birth;
- her/his mailing address, including post code, as well as telephone number and e-mail address;
- a short description of the research project;
- that she/he has never been convicted of any crimes and that she/he has never been held in preventive detention or under house arrest;
- that there are no criminal proceedings pending against her/him;
- that she/he authorises the Foundation to process her/his personal details, pursuant to regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016.

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# 50th Money, Macro, Finance Annual Conference

*The 50th MMF Annual Conference took place on 5-7 September at the purpose built Conference Centre within the parkland of the Royal Bank of Scotland's Gogarburn Headquarters near Edinburgh. This report comes from Julia Darby, University of Strathclyde.*

**A**S IN PREVIOUS YEARS, the papers covered a wide range of theoretical and empirical topics in money, macro and finance. Alongside four keynote lectures, a special lecture and four special sessions, a further 88 papers were presented in parallel sessions and lunchtime poster sessions saw 23 compete for a prize that included an invitation to the winner to present their paper at the Bank of England. Although located at RBS Headquarters our hosts were Herriot-Watt University, and we were warmly welcomed by Principal Professor Richard Williams and Chair of Court, Dame Frances Cairncross. The Bank of England hosted a reception on Wednesday and on Thursday delegates enjoyed an evening on the Royal Mile, with a pre-dinner drink at Panmure House, the last surviving residence of Adam Smith (bought and subsequently renovated by the Edinburgh Business School of Heriot-Watt University in 2008). Drinks were followed by dinner at The Hub, Edinburgh's Festival Centre.

Given the range of topics covered during the conference it is impossible to review all the sessions, but a selection of the highlights are presented below beginning with the special sessions and then the keynote addresses.

## Integration, disintegration: Scotland and Brexit

The opening special session began with Ronnie MacDonald (University of Glasgow) offering a critique of elements of the SNP's latest vision for an independent Scotland, as set out in the Sustainable Growth Commission's final report published in May. Ronnie identified how this vision differs from that of the 2013 Whitepaper (the 'Blueprint for Independence') and welcomed the Commission's recognition that volatile oil revenues should best be invested for the long-term, but was disappointed that the currency question has been side-stepped, again. He warned that informal sterlingisation would see an independent Scotland lose the ability to deal with asymmetric shocks (such as future oil shocks), would lack credibility and most likely lead to speculation and a currency crisis, with significant negative consequences for the Scottish economy. He summed up that the Commission's proposal is 'completely wrong and nothing short of disastrous', and reiterated his long held view that the only realistic option for an independent Scotland would be to issue a separate currency, floating from day one, alongside conservative monetary and fiscal policies, allowing the administration to gain credibility and accu-

mulate foreign exchange reserves.

Robert Zymek (University of Edinburgh) turned to 'Brexit: the UK and EU Trade and what we (don't) know yet'. He outlined the Prime Minister's Brexit Trilemma, in which just two of the three key elements of the Chequers plan (ending freedom of movement; maintaining soft borders; having freedom to make trade deals) are achievable. The final outcome could be represented by any one of the corners of the triangle: a free trade agreement akin to 'Norway'; a customs union akin to 'Jersey'; or a trade agreement, 'Canada'. He ventured that a relationship of the UK with the EU akin to Jersey's might be the most feasible for Theresa May's government to achieve, though that would involve quietly dropping the Brexiter's ambitions for the UK government to negotiate independent trade deals. He was clear that anyone hoping for a speedy end to Brexit related uncertainty will be disappointed; he also pointed out that the various estimates of the costs of Brexit made before the referendum are unlikely to be useful guides to the eventual outcome, given that they made a variety of assumptions about post Brexit arrangements. He stressed that under some scenarios trade in services may be impacted more than trade in goods.

Fabian Zuleeg (European Policy Centre) took on the task of drawing together the themes addressed by Ronnie and Robert, beginning with the observation that there is no doubt that the outcome of the Brexit Referendum and the eventual exit of the UK from the EU has reopened the Scottish Independence debate and highlighted different attitudes to the EU in Scotland (where majority voted to remain), and the different political and social preferences of Scotland's voters relative to the much of the rest of the UK on issues such as migration etc. Added to this, Brexit is seen as clear evidence of the UK government having broken their promise on Scotland's prospects for economic stability within both the UK and EU. However, there has been no great surge in opinion polls in favour of Scottish Independence, so the obvious question is 'why not?' Fabian suggested voters may simply be waiting to see the deal on offer, or perhaps more dangerously, may have become complacent. From the EU perspective he pointed out that the 27 remaining EU member states are consistently agreeing to support the EU negotiator's strong position in Brexit negotiations, and agreement is reached with unprecedented speed. Fundamentally, the EU cannot be seen to help any coun-

try to be better off by leaving the EU, since anything else would threaten the integrity and sustainability of the EU. So, from the perspective of the remaining EU27, Brexit needs to be seen to have a negative impact on the UK. He ventured that the most likely outcome is for the UK and EU to ultimately announce a ‘new, special, unique relationship’ — in effect a complex variant of Norway’s relationship with the EU, though this will be technically very difficult to negotiate and will likely take more time than the currently proposed transition period — ‘there is no off the peg choice’. As ever, on the subjects of Brexit and Scottish Independence it was difficult to come out of this session feeling optimistic, though perhaps better informed of some of the constraints that reflect political realities.

### Analysing spillovers from international economic shocks

A special session organised by NIESR, showcased ways in which external organisations use NIESR’s model of the global economy, NiGEM, to inform policymakers.

Elena Rusticelli (OECD) outlined how NiGEM simulations inform analysis in Chapter 2 of the most recent OECD *Economic Outlook* — ‘Policy Challenges from Closer International Trade and Financial Integration: Dealing with Economic Shocks and Spillovers’. Elena and co-authors used NiGEM to illustrate how EME’s greater integration into the global economy has changed the strength of transmission channels of external shocks and of macroeconomic policies. The upshot is that stronger policy responses are needed to mitigate spillovers from external shocks, but domestic shocks may require smaller policy responses for two reasons: i) part of the shock is absorbed by trading partners and ii) collective policy actions can now be expected to be more powerful.

The remaining papers were all published in the May 2018 edition of the National Institute Economic Review. Andreas Esser (Deutsche Bundesbank) presented work that examines the global impacts of recently enacted US tax reforms and of a hard landing in China. He and his co-authors began by modifying some NiGEM equations to differentiate the import content of components of demand (largest for investment, lowest for public consumption). They then used model simulations to show that higher US demand has a positive impact on activity in close trading partners like Mexico and Canada, but that the effect on countries like Germany and Japan is less clear cut since higher global real interest rates offset the direct demand impact. A slowdown in China was assumed to have its greatest impact on investment, resulting in strong simulated spillover effects onto countries that provide China’s imports. He faced some questioning on the assumptions made with respect to the sources of shocks and their impact on the exchange rate.

Sophie Haincourt (Banque de France) presented ‘The nature of the shock matters: NiGEM estimations of the macroeconomic effects of recent dollar and euro fluctua-

tions’ and emphasised the importance of identifying the source of the shocks. She attributed sources of dollar and euro fluctuations in 2017 to variations in risk premia and monetary policies and traced their effects on inflation and activity. Contrary to popular belief, she asserted that the depreciation of the US dollar over the period was associated with lower US growth, caused in part by a rise in risk premia, which was detrimental to US investment.

Lastly, Graeme Walsh (Central Bank of Ireland) explained the two-step approach he and his co-authors took to analyse the effects of selected shocks on the Irish economy. First, they used NiGEM to evaluate the effects of each shock on Ireland’s main trading partners, then they fed these estimates into their sectoral model of the Irish economy, COSMO. A hard Brexit scenario was shown to have a sizeable impact on the Irish economy, arising from fall in demand for Irish exports (for which the UK is a major market) and the deterioration in Ireland’s relative competitiveness due to the modelled depreciation in sterling.

### Nowcasting and forecasting

This special session was organised by the Bank of England.

Nikoleta Anesti (Bank of England) described her co-authored work using real time data from the Bank’s archives to incorporate the GDP revisions process into a dynamic factor model and showed that this information improves the accuracy of nowcasts of the state of the economy, particularly from 2008 onwards.

Tony Garratt (Warwick Business School) described his co-authored work which demonstrates that forecasts of inflation and growth from Bayesian VARs can be improved upon by mean tilting to forecasts that incorporate judgement (where various sources of ‘judgement’ are used including forecasts from NiGEM, from the Bank of England’s Monetary Policy Committee and from Bank of England Surveys).

Stuart McIntyre (University of Strathclyde) explained that while data on GVA growth of the UK regions are currently only available at an annual frequency and are released with a significant delay, he and his co-authors are able to provide improved information on regional growth by using mixed frequency methods with entropic tilting: they update regional nowcasts as more timely UK data is released.

Jennifer Castle (University of Oxford) took on the role of discussant, neatly summarising that all three papers propose new frameworks to incorporate additional information into nowcasting /forecasting, whether that be information on the revision process; additional judgement; or higher frequency information from aggregate data. All three approaches are likely to work well in the face of a structural break in UK data. She wondered whether other information might also be helpful, for example, could

knowledge of an imminent and significant scale of infrastructure project within a specific region be fed into the regional nowcasts? More provocatively she wondered whether the use of GDP or GVA data as a timely indicator of economic activity might be outdated?

### Islamic Finance

The final sessions on day 2 included a special session on Islamic Finance, chaired by local organiser David Cobham (Heriot-Watt University).

Mahmoud El-Gamal (Rice University) explained why, after 1400 years of Islamic history, the Islamic Finance industry has emerged. He explained how the industry operates, what sustains it, and considered the opportunities and some of the dangers it presents.

Abdallah Zouache (Sciences Po Lille) set out his critique in 'Islam, institutions, development, and the mistakes of orientalist economics'. He stressed that while institutions matter, economists working on Arab economies should not forget the economic structure and mechanisms into, and from which, institutions are invented and evolve. He explained the importance of natural resources and features such as transport networks to the development of Islamic finance and stressed that we should not underestimate the role of religion in the economic failures of the Arab world.

Pejman Abedifar (University of St Andrews) completed the session with a review of the empirical literature in Islamic banking and finance. With few exceptions, he explained that the empirical literature suggests there are no major differences between Islamic and conventional banks in terms of their efficiency, competition and risk features, although small Islamic banks have been found to be less risky than their conventional counterparts. He pointed to some evidence that Islamic finance aids inclusion and financial sector development and summarised that results from the empirical literature find little evidence that they perform worse than standard industry benchmarks.

### Fintech

The final day of the conference began with a special session on Fintech which showcased ongoing work on a rich dataset from Renrendai — a Beijing based company specialising in facilitating peer to peer lending in China. Oleksandr Talavera (Swansea University) provided an overview of the rapid growth of peer to peer lending in China, then focused on the role of the verification of information provided by prospective borrowers. A central finding was that borrowers face incentives to exaggerate their income, which is feasible given that there is not full verification of income declarations. There is clear scope to improve the efficiency of lending via fuller screening of loan applicants.

Chaowei Wang (Cardiff Business School) presented joint work with Kent Matthews. He explained that 75 per cent of Chinese Commercial Bank's lending goes to State Owned Enterprises, yet SMEs, whose collective

output accounts for over 60 per cent of GDP, have poor access to bank credit and disproportionately rely on the Chinese shadow banking sector (informal finance, online peer-to-peer lending platforms, and other non-banking financial institutions). A consequence is that financial market shocks can have large short run impacts, but he argued that given their familiarity with local business conditions and needs, options within well-managed non-bank-financial institutions could provide an enduring foundation for commercialised financial intermediation serving SMEs.

Lin Xiong (Robert Gordon University) returned to Renrendai data, reporting on joint work with Mustafa Caglayan and Oleksandr Talavera which tracks significant numbers of discouraged borrowers (including a sizeable number who have made repeated, but rejected applications). Lin stressed that improvements in credit scoring are needed to achieve a more efficient allocation of funds.

Finally Mustafa Caglayan (Heriot-Watt University) described his joint work with Oleksandr Talavera and Wei Zhang (Tianjin University) on 'Herding behaviour: Automatic versus Human Investors on Renrendai'. Mustafa highlighted key characteristics of the market, including the speed with which bidding takes place. While automatic bids and herding behaviour can speed up the funding process he explained that a downside is that there can be cases of worthy borrowers not receiving funds.

### Keynote addresses

#### *International Monetary Theory*

Yuliy Sannikov (Stanford Graduate School of Business) provided insights into his ongoing work with Markus Brunnermeier in which they seek to explain why different currencies co-exist. He outlined their model of a small country and a large country in which the value of money arises from financial frictions. Currencies are imperfect substitutes due to their different risk profiles. Agents prefer to hold some of their country's currency because its value is more aligned with the price of the local consumption basket and as a hedge against idiosyncratic risk. Meanwhile, they hold the large country's 'global' currency because it provides a better hedge against terms of trade and productivity shocks. He went on to explain the scope for monetary policy in each country, and explained an irrelevance result that applies to Central Bank holdings of foreign exchange reserves.

#### *Modelling money and credit: the New Monetarist approach*

Fabrizio Mattesini, University of Rome 'Tor Vergata'. Fabrizio gave an accomplished overview of models with endogenous money that characterise the New Monetarist approach. He then outlined his work with Randall Wright and others in which they argue that an economy does not in general need both money and credit: if credit is easy, money is irrelevant; if credit is tight, money is

essential but then credit becomes irrelevant. Their conclusion that changes in credit conditions are neutral follows because real balances respond endogenously to keep total liquidity constant. He went on to discuss how these results might be overturned by introducing particular frictions, for example in an OLG model in which the young need to consume and the old need cash, there is a role for credit alongside money; likewise money and credit are complementary if credit is required to finance investment (as outlined by Rocheteau, Wright and Zhang in their 2018 *AER* paper). His fundamental message was that credit might matter less than people think and he cautioned those working on models of credit to check that their models and their conclusions are robust to the inclusion of money. He argued that overturning the credit neutrality result requires explicit modelling of the conditions under which exchange takes place.

### *Rebalancing the macroeconomy*

The MMF special lecture was given by Peter Sinclair (University of Birmingham) and dedicated to the memory of the Scottish born Nobel Prize winning Economist James Mirrlees, who spent much of his professional life to reforming tax systems and sadly died on 29th August 2018. Peter's lecture was a true tour de force in breadth of analysis combined with faultless Shakespearian delivery. He outlined five dimensions of macroeconomic imbalances, explained where things have 'gone wrong' and went on to suggest what could be done to put them right. His policy prescription include a switch from income tax and employee and employers' national insurance contributions to value added tax, the elimination of any age limit in payment of national insurance contributions by older workers, taxation of 'bads' such as diesel fuel, carparks, sugar and non-biodegradable packaging and the removal of deductibility of debt interest from corporation tax. He also advocated taxation of ATM withdrawals.

### *Finance and growth: a look at the dark side*

Stephen Cecchetti (Brandeis University) presented elements of his paper co-authored with Enise Kharrobi (Bank for International Settlements). Their key thesis is that financial development can be a double edged sword: adding to growth by reducing transactions costs and improving the allocation of capital and risk; but subtracting from growth through competing for resources, creating vulnerabilities and potentially causing the misallocation of resources. He asserted that the 'dark-side' of finance dominates once bank credit exceeds 100 per cent of GDP and the employment share exceeds 4 per cent, at which point a further 10 per cent growth in the financial sector can be responsible for a 1 per cent decline in GDP growth. Some sectors, particularly those that are R&D intensive sectors and/or rich in tangible assets, are more adversely affected than others: this follows from the fact that credit expansion is focused on those that can pledge collateral, which acts to bias the allocation of finance to sectors with weak productivity growth; ambitious projects

for which lenders are less able to recoup value in the event of a default, but which have the potential to generate higher productivity growth, tend to suffer. He concluded that there is a pressing need to reassess the relationship of finance and real growth in modern economic system.

### *Inflation targeting*

The fourth and final keynote lecture was given by Adam Posen (Peterson Institute of International Economics), subject of 'How can inflation targeting still be right when our assumptions are proving wrong?'. As a co-author of the book *Inflation Targeting Lessons from the International Experience*, with Ben Bernanke, Thomas Laubach and Frederic Mishkin back in the late 1990s, Adam is credited with setting out the advantages of inflation targeting and the necessary institutional requirements to achieve this. Alongside his policymaking experience while an external member of the Bank of England's Monetary Policy Committee, he is in a strong position to pose the question 'at what point do we need to talk about the next monetary policy regime?'. He explained that a motivating force behind the Bernanke *et al* volume was the desire to resist a push from some in the US Senate toward adopting a new Gold Standard — they quite simply needed to offer a compelling alternative. He noted that while economists dreamt up 'laundry lists' of institutional settings for inflation targeting Central Banks, he now believes that only transparency and commitment to disciplined discretion (or constrained discretion) look to have been necessary to reap rewards.

He argued that for a long while inflation targeting had been convenient for central bankers, who have simply faced disciplined discussion about the best way to achieve the inflation target and did not need to worry about 'other stuff'. However, with current problems of continuing low inflation, which seems unresponsive to policy, and the monetary policy rate at or close to the zero lower bound it is now hard to argue that the maxim 'if it ain't broke, don't fix it' still applies to monetary policy. He now strongly believes 'central bankers need to get their hands dirty'.

Questioning probed whether the mix between monetary and fiscal policy should be re-visited, Adam Posen agreed it should. Peter Sinclair questioned what central bankers can do about wider problems such as tax dodging, tariff wars and Trumpary? Adam's response was that the best recourse in such circumstances is to be technocratic: to provide reliable statistics; report what will happen if eg. tariff wars take place; and to keep the worst at bay.

As the conference came to a close, the winner of the poster competition was announced as Miguel Herculano (University of Glasgow) for his work on 'The role of contagion in the transmission of financial stress'.

Thanks are due to the organisers for another successful conference. Next year will see the 51st conference held in London at the LSE.

# Bristol Festival of Ideas

## Festival of Economics 2018

Wednesday 7 to Saturday 10 November

In association with Triodos Bank:

We support the Festival of Economics to foster further debate about our economic future. Now is the time to promote more alternative thinking around our economic and financial system. We can no longer measure success purely in terms of growth when our resources are finite – and we can work harder to create a global economy that works better for people and planet.

— Bevis Watts, Managing Director, Triodos Bank UK

In the seventh Festival of Economics, programmed by Diane Coyle, economists and other experts from around the world will be debating with each other — and their audiences — some of the key economic questions of our time.

A season ticket for all events at £70 / £50, can be purchased online or in person. Please note there are a limited number of season tickets: book early to avoid disappointment. The season ticket does not include the schools event or the two pre-festival events: Glen Weyl and Richard Wilkinson. Please book those separately.

For the full programme, details of venues and admission arrangements go to:

<http://www.ideasfestival.co.uk/seasons/festival-economics/>

Topics and speakers include:

Thursday 1 November, 19.00-20.00

*Glen Weyl*

Radical Markets

Tuesday 6 November, 18.30-19.30

*Richard Wilkinson*

The Inner Level

Wednesday 7 November, 18.30-19.30

*Paul Tucker*

Unelected Power

Wednesday 7 November, 20.00-21.30

*Simon Burgess, Sandra McNally, David Willetts and others*

Higher Education: Decline and Fall?

Thursday 8 November, 12.30-13.30

*Linda Yueh*

The Great Economists

Thursday 8 November 18.30-19.30

*Rain Newton-Smith*

Growth in the Time of Brexit

Thursday 8 November, 20.00-21.30

*Mirabelle Muïls, Aditi Sahni, Alex Teytelboym, Margaret Heffernan and others*

Does Economics Care About the Future

Friday 9 November, 09.30-15.30

*Schools event (free entry)*

Discover Economics

Friday 9 November, 18.30-19.30

*Andy Haldane*

Central Banks: Past, Present and Future

Friday 9 November, 20.00-21.30

*Andrew Carter, Diane Coyle, Patricia Greer and others*

The Rise of the City

Saturday 10 November, 11.00-12.30

*Jillian Anable, David Metz, Christian Wolmar and others*

Trains, Planes, Automobiles - and Buses

Saturday 10 November, 13.30-15.00

*Kim Scharf, Peter Backus, Sarah Smith and others*

What are Women Worth?

Saturday 10 November, 16.00-17.30

*Vicky Pryce, Andrew Sentance, Roger Farmer and others*

Forecasts: The Good, The Bad and the Ugly

The festival is supported by:

The Royal Economic Society

Bank of England

Arts Council of England

Bristol City Council

Universities of Bath and Bristol

Office for National Statistics

and many other organisations.

### Errata

In the July issue of the *Newsletter* (no. 182) we erroneously said (p.25) that the appreciation of Peter Groenewegen written by Tony Aspromourgos was a condensed version of an obituary that would be forthcoming in the *Journal of the History of Economic Thought*. This should have read *The European Journal of the History of Economic Thought*.

We also referred (p.8) to the 'Inomics 2018 Salary Survey'. This should have read 'Inomics 2018 Salary Report'. The Report was based upon a survey carried out in 2017.

We apologise to all concerned for any confusion these errors may have caused.

# British Science Association Festival of Science

*The annual meeting of the British Science Association (BSA) Festival of Science took place on 11th-14th September at the University of Hull. Barbara Petrongolo<sup>1</sup>, President of the Economics Section of the BSA, sends this report of the event that she organised.*

**B**ARBARA PETRONGOLO organised the Economics event at the Festival of Science in Hull. With fellow speakers Ghazala Azmat<sup>2</sup> and Manuel Bagues<sup>3</sup>, the session, titled ‘Mind the gender gap’ explored economic and social forces that hinder gender equality in the labor market, especially in high-profile careers.

## Women at work: the good news and the bad

Barbara Petrongolo argued that the increased participation of women in the labor market has been one of the most salient economic and social changes of the 20th century, with narrowing gaps in education and earnings, and the entry of women in careers traditionally occupied by men. However, sizeable gender gaps persist to date in virtually all countries, and women are under-represented in top occupations, possibly with a suboptimal allocation of talents. She then introduced evidence on gender differences in personality traits that may interfere with labor market success, and concluded that their impact on gender gaps is likely to be quantitatively small. As women remain the main provider of child care and domestic work, she discussed the role of work-life balance and the demand for flexibility, which — despite medical, technological and institutional changes — still seem to set limits to women’s professional development. She highlighted that, if gender roles within the household were equalized, work-life balance considerations would not be any more detrimental to female rather than male careers. Hence the recent interest into the impact of gender identity norms on asymmetric gender roles in the household, which induce gender disparities in the market. But what is the origin of gender norms and what can be done to alleviate their labor market impact? These questions prompted the next two interventions.

## Early self-perceptions, and future career outcomes

Ghazala Azmat moved the discussion on to the role of self-perceptions and aspirations in understanding gender differences in labor market investments and outcomes. Focusing on the gender promotion gap (the ‘glass ceiling’), she discussed the effect of early career aspirations on the gap in promotions and earnings among high-skilled professionals — namely, lawyers in the US. The law profession with its ‘partner track’ is a particularly interesting setting because promotions to partner at a law firm are well-defined, easy to track, and relatively com-

parable across firms, and data reveal that there is virtually no gender gap among law graduates, in terms of enrolment and academic attainment, nor at the junior lawyer level — but a substantial gender gap emerges at the partner level. The study, which tracks lawyers several years after law school completion, shows that early professional aspirations to partner status are a good predictor of promotions later in the career, over and above the impact of expectations about own prospects and actual performance. Both aspirations and expectations help explain a sizeable part of the gender gap in promotions and earnings.

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## Gender quotas in scientific committees

In order to increase women’s presence in high-profile careers against the backdrop of slowly-evolving gender norms, several countries around the world have introduced gender quotas that regulate gender representation in the corporate sector, politics and scientific committees. Manuel Bagues discussed work on the impact of gender quotas in scientific committees and argued that it is crucial to understand whether these quotas are indeed effective, because they would require disproportionate time investments from the (scarce) senior female researchers who qualify as evaluators, who would have less time available for ‘promotable’ tasks, most notably research. He presented an empirical study that addresses

these issues using information on roughly 100,000 applications to associate and full professorships in Italy and Spain, which were randomly allocated to 8,000 evaluators. This research finds that, all else equal, female applicants did not see their promotion prospects enhanced by female-intensive committees. Interestingly, while female evaluators were slightly more favourable towards female candidates, male evaluators became less favorable to female candidates in the presence of female evaluators. According to these findings, a generalized introduction of gender quotas would harm senior female researchers without helping their junior counterparts.

Following the talks, the session closed with questions and comments from the audience. A lively discussion ranged over the role of early years' education in shaping aspirations and norms, the strategies to identify the impact of gender norms, whether findings from research on top jobs generalise to less-skilled jobs, and what we can learn from the division of labor in same-sex couples. The audience participation clearly signalled that gender inequalities are of significant concern to the general public and an appreciation for economists' insights into this matter.

Notes:

1. Queen Mary, University of London and Centre for Economic Performance, London School of Economics.
2. Sciences Po
3. University of Warwick

## RES Annual Conference 2019

The 2018 Annual Conference of the Royal Economic Society will be taking place at the University of Warwick on **Monday 15 April to Wednesday 17 April 2019**

Keynote Lectures will be given by:

Anne Case (Princeton University), *Hahn Lecture*  
 James J. Heckman (University of Chicago), *Sargan Lecture*  
 Eliana La Ferrara (Bocconi), *Economic Journal Lecture*

The Past President's Address will be given by Peter Neary (Oxford).

The Society will also be holding a number of special events including a **Mentoring Retreat**, (on April 14th-15th) run by the RES Women's Committee for early career female lecturers and advanced female PhD students based in the UK; **RES Presents**, a series of early evening events open to the public and a **Symposium for Junior Researchers** (on April 18th).

Registration for the Conference will open on **January 14th 2019**.

Further details: <http://www.res.org.uk/view/conference.html>

## EEA to launch European Job Market

The EEA will launch the first European Job Market, on **December 6-7 2018**, in Naples, Italy. The Job Market will take place immediately after the Econometric Society Winter Meetings (ESWM). Participating candidates will be interviewed by institutions from all over Europe, including universities, business schools, research centres and central banks.

### Why a European Job Market?

Under the current system, some European institutions recruit in the US job market, some participate in the local job markets in Spain or in the UK, and many do not participate in any international job market. For the latter group, attending the existing markets is too costly relative to their perceived ability to identify candidates who would realistically accept a job.

A pan-European job market will provide a thicker and better functioning platform that can take advantage of economies of scale, move beyond national borders and make connections that would not otherwise happen.

The advantages will be:

a) Higher quality matches between candidates and European institutions. Employers will be able to interview a larger set of candidates and with a signal that these students are indeed serious applicants interested in working in Europe. A key gain will be to get more universities to hire on the international market.

b) Better placement of PhD students from European universities. While the very best students from the very best institutions would presumably still get offers through the ASSA job market, a large fraction of students would get access to jobs that they would not otherwise know about or be selected for.

We want to strive for the highest quality research we can achieve here in Europe — and one key way to do that is to have better matching of bright young economists with universities and research institutions. As economists, we spend a lot of time analyzing markets and how to make them work better — now we're turning our focus on better design for a market that is central to all of our professional lives.

Further information, including an impressive list of institutions committed to participate can be found at:

<https://www.eeassoc.org/index.php?site=&page=288&trs=287>

# The Digitisation of Money and Banking

*This is a report by Andy Mullineux on a 'round table' session at the 35th International Symposium on Money, Banking and Finance in Aix-en-Provence, France, on 7th June 2018.*

The symposium was organised by André Cartapanis and Céline Gimet, members of the host organisations, Sciences Po Aix and CHERPA (a multi-disciplinary research centre), on behalf of the GDRE (Groupement de Recherche Européen) in Money, Banking and Finance (MBF) with guidance from the other steering committee members, Jean-Bernard Chatelain (Université de Paris 1) and Alexis Direr (Université d'Orléans). The title of the symposium, which was a great success, was: 'Money and Banking and Finance: Towards a New Deal'.

The panel session on digital money and banking was organised by Andy Mullineux<sup>1</sup> on behalf of the UK's Money, Macroeconomics and Finance (MMF) research group. The panellists were: Colin Garland, Imran Gulamhuseinwala OBE, Alistair Milne, and Christian Pfister.<sup>2</sup>

Lael Brainard, a member of the Board of Governors of the US Federal Reserve Bank, famously stated that 'fintech' has the potential to transform the way financial services are designed and delivered as well as the underlying processes of clearing and settlement using distributed ledger or 'blockchain' technology; which can also be used to create digital currencies, such as Bitcoin. Is Bitcoin money and what would be the consequences for monetary policy of central banks creating digital money using distributed ledger technologies, or otherwise?

## 'Open banking' in the UK

The well attended panel session took place in light of the EU's implementation of the General Data Protection Regulation (GDPR) in May 2018 and the UK's introduction of 'Open Banking', which implements the EU's PSD2 (second Payments Services Directive), in January 2018. The UK's Open Banking regime goes beyond the requirements for PSD2 because it contains a series of sequenced remedies imposed by the UK's Competition and Markets Authority (CMA) following its investigation of retail banking in the UK.

Colin Garland, the CMA's Remedies Director, explained that the remedies were designed to address issues, such as: barriers to accessing and assessing information held by banks on their clients, which in the past had been treated by the banks as proprietary, rather than owned by the account holders. Other issues included: barriers to switching accounts to another bank; and low levels of customer engagement to overcome the strong information advantage banks have over their account holders,

particularly SMEs. Open Banking was only one part of the CMA remedies package. Others included: improved switching arrangements; better information to customers; requiring text alerts regarding overdrawing; and requiring banks to set a monthly cap on charges for unarranged overdrafts.

Giving potential competitors (including Fintech companies, but also 'Big Tech' (Google, Facebook, Amazon *et al*) and 'Telcos' secure access to consumers' payments and other banking services usage data (with the customer's express permission) could transform banking. Will the customers be willing to give the necessary permissions given concerns about data security and usage aggravated by the recent high profile Facebook/Cambridge Analytica scandal and the TSB information technology platform-switching debacle? If they do, will it be the new Fintech platforms that win the business from the banks, or will the big banks simply buy up the competition and adapt; or will the Big Tech companies finally prove the traditional banks to be dinosaurs ready for extinction; as prophesied by Microsoft's Bill Gates a couple of decades ago? The success of the financial services subsidiaries of the Big Tech companies in China suggest that the big banks elsewhere will have to deal with similar competition from Big Techs. For Big Tech (and Telcos), the most valuable data relates to consumer transactions to enable the better targeting of advertising and their entry into the provision of payments is already well underway (Apple Pay and Google Pay and Amazon loans etc).

The unique feature of the UK's implementation of PSD2 is the required usage the API (Application Programming Interface) as a standardised method of sharing data to assure greater interoperability between providers and assure security. 'Screen scraping', which requires password disclosure and is thus less secure, is permitted under PSD2.

Imran Gulamhuseinwala, who heads the Open Banking implementation agency in the UK, believes the API-based approach will facilitate improved household financial decision making. Customers will find it easier to choose the financial services and products that best meet their requirements from internet-based platforms through which providers offer and help find suitable products and services. It is however likely that the less financially literate (and least wealthy) will benefit least and so there is a role for financial education to play in

assuring that the most suitable products and services are provided to all customers. In the UK, platforms using APIs will require regulatory approval prior to operation. PSD2 is a maximum harmonisation directive, and so has to be complied-with, but it is technologically agnostic and so does not require the use of APIs, unlike the UK. Even if they benefit the least, the financially excluded (three million adults in the UK do not have a credit file and are ‘non-banked’) might nonetheless benefit as the new providers could construct credit files using transactions data. The greater the use of standardised APIs to assure interoperability, the less the opportunity for big banks to build esoteric consumer interfaces or ‘pipes’. There has been a tendency for big banks in the UK, and elsewhere, to hold back on financial innovation to maintain their market dominance. To survive, the big banks may need to develop ‘open platforms’ with other providers in order to serve their customers better, and some prominent banks are indeed doing so. Such developments are likely to see the end of ‘free banking’ (for customers in credit) in the UK and the inefficient and unfair cross-subsidisation associated with it.

### Crypto assets and monetary policy

Next, Christian Pfister, making it clear that he was presenting his own views, not those of the Banques de France or the ‘Eurosystem’, gave a presentation on crypto assets and monetary policy. He concluded that, in the absence of central bank creation, crypto-currencies, such as Bitcoin, would have little impact on the conduct of monetary policy as they were unlikely to be widely used as money and might only begin to replace fiat monies if the latter lost their credibility. Interesting scenarios would follow from central bank issuance of digital (not necessarily crypto-) currencies. This would particularly be the case if the central bank digital currency (CBDC) were legal tender and issued at par with paper currency and reserves held at the central bank by banks. CBDC would simply be an accounting device at the wholesale level but could facilitate the issuance of fractional crypto-currencies by commercial banks. What about retail CBDC? What would be the advantage to the central banks and governments of retail issuance?

Issuance and distribution of notes and coins is costly and digitisation could progressively reduce the cost. Usage of notes and coins also affords anonymity, facilitating tax avoidance, ‘black economy’ transactions and money laundering etc. Anonymity may be seen as a citizens’ right, whilst digitisation potentially allows all transactions and transfers to be tracked, opening up a possible ‘big brother’ scenario and a need to protect privacy where society deems it appropriate. If digital money fully replaced notes and coins as fiat money (perhaps by decree) then it would become a potentially powerful monetary tool, allowing negative interest rates (or a Friedman-style ‘tax’ on money) to be paid or charged on all accounts held at the central bank. Furthermore, all

might be allowed to hold payments accounts at the central bank, with the central banks providing payments services, and possibly also loans (instead of the central bank just issuing ‘electronic banknotes’, which would be distributed by banks); or contracting such services and products out to a competitive network of providers with API interfaces. Under such extreme scenarios, traditional banks could then potentially be disintermediated, leading to an end to fractional reserve banking under which traditional banks create around 90 per cent of the money and thus to multiple credit creation upon receipt of new deposits. Traditional banks would lose their near monopoly of credit supply built on their traditional dominance of a current account based payments system and their profitability would evaporate, leading to their extinction.

Beyond this, do we need CBDCs to be issued by more than one central bank given that the technology would allow global issuance; or should CBDCs simply be allowed to compete (perhaps with privately issued digital currencies) in a framework of competing currencies advocated long ago by Hayek?

However, if central banks refrain from offering accounts to households, or if the households do not want them, all this is a matter for conjecture. CBs (and the governments that ultimately benefit from them) seem likely to try to safeguard their ‘seigniorage’ profits by trying to prevent currency completion, but this may become more difficult over time with progressive digitisation.

In the short to medium term, however, limited CBDC issuance can be anticipated: with the public preferring banks to continue to be allowed to create money through their lending activities, in response to demand. Hence, the fractional reserve banking system would survive with central banks continuing to use interest rates, perhaps supplemented by ‘macro-prudential tools’, to control consumer price (and perhaps asset price) inflation. The nature of the banking system itself may however be transformed by the IT revolution and the associated economies of scale in the payments system and data management along with the proliferation of digital platforms discussed above.

### Digital currencies and banking

The final speaker was Alistair Milne, who gave a presentation drawing on his ongoing review of the burgeoning literature on digital currencies and digital banking. He broadly agreed with Christian’s assessment that the CBDC currency issuance currently being contemplated would have little impact on current monetary arrangements and that there is little reason to expect much demand for CBDC alongside existing banking liabilities and notes and coin. Crypto-currency technology could however be used to support more radical reform and to isolate payments systems from bank failures by ushering in a form of ‘narrow banking’ based on borrowing secu-

rities based on pledging loans to a distributed ledger. This sophisticated version of narrow banking would not be subject to the criticisms of previous narrow banking proposals, dating back to Irving Fisher and revived after the 2007-9 financial crisis by Laurence Kotlikoff, if the commitments to loan repayment indeed prove unbreakable.

Alistair wound up by asking if concerns about the impact of CBDC on monetary policy was simply ‘much ado about nothing’, as Christian had argued in the paper on which his slides were based? He argued that, if the CBDC system is essentially simply a ‘digital wallet’ system, then indeed not much changes. China provides examples of widely used digital wallet systems. It has recently decreed that the reserve funds are not the property of the payments institutions — ownership belongs to the users. The providers (e.g. Ant Financial, a subsidiary of Alibaba, and WeChat, a subsidiary of Tencent) can no longer make a profit on these balances, whether by depositing them with commercial banks to earn interest or using them to fund digital platform-based lending. Instead, from January 2019, the funds will ultimately be placed then with the central bank (People’s Bank of China), where they will no longer earn interest.

At least initially, the CBDC payments accounts would sit alongside a traditional banking system, which would originate the lending in competition with new providers using digital platforms. Fractional reserve banking would continue to operate, with the banks, and possibly also ‘shadow banks’ and all digital wallet providers, required to hold reserves with central banks. It should be noted that digital banking does not require the use of a wallet system, since direct transfers between bank accounts, not all or which need be in credit, is increasingly being utilised. An open small payments system, with a unified interoperable system payments interface accessed via APIs with common characteristics, has been developed in India, for example. Such systems reduce the accumulation of idle balances associated with wallet systems.

The issuance of crypto-CBDC though could be taken much further. It would be possible to use the technologies of digital currency creation to move to full reserve (narrow) banking. The distributed ledger system could be used to address one of the principal objections to narrow banking by providing elasticity in the supply of CBDC through securitisation of bank loans by pledging them to a ledger, Alistair explained. The issuance of crypto-CBDC though could be taken much further. It would be possible to use the technologies of digital currency creation to move to full reserve (narrow) banking. The distributed ledger system could be used to address one of the principal objections to narrow banking by providing elasticity in the supply of CBDC through securitisation of bank loans by pledging them to a ledger, Alistair explained.

Is there a need for this, or could fractional reserve banking be made to work effectively through open banking and responsible lending? It may be best to regulate retail banks as utilities, but should this be done at the country, regional or global level in the digital age? With central banks as both the CBDC issuers and the credit suppliers governments might revoke central bank independence, so that the current financial repression is replaced by the direct use of CBDC issuance and credit creation to fund government expenditure. This was the initial purpose of the older central banks — why rely on variable seigniorage income, as opposed to direct funding?

Notes:

1. University of Birmingham.
2. Respectively: Director, Competition and Markets Authority, UK; Implementation Trustee, Open Implementation Banking Entity, UK; Professor of Financial Economics, Loughborough University; Banque de France and Sciences Po.

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## More on women and the early days of the RES

In the July issue of this *Newsletter* (no. 182, July 2018) Ian Preston described the activities of a number of women associated with the RES in its early days. One of these was the well-known suffragist Millicent Garrett Fawcett (1847-1929). Her husband, Henry Fawcett, had been Professor of Political Economy at Cambridge and she herself was the author of a text *Political Economy for Beginners* that was first published in 1870 and went through ten editions.

At about the same time that we received Ian Preston’s article (but unknown to us) Timothy Taylor, editor of the *Journal of Economic Perspectives*, was drawing attention to an interesting debate between Millicent Fawcett and Eleanor Rathbone that took place in the *Economic Journal* (edited at the time by J M Keynes), roughly a century ago. It began when Rathbone (1872-1946), an early graduate of Somerville College Oxford and later a British Member of Parliament, published ‘The Remuneration of Women’s Services’ (*EJ*, 2017, 105, pp.55-68). In this paper she accepted that the fact that men were generally paid more than women was partly justified by the fact that men had families to support, though this argument would have less strength if the state were to provide more help with the costs of raising children (her main objective). By contrast, Fawcett’s rejoinder ‘Equal Pay for Equal Work’ (*EJ*, 1918, 109, pp.1-9) argues for equal pay, largely on the grounds of fairness.

It was an interesting debate and resonates with issues of concern a hundred years later. The details can be followed in Professor Taylor’s article at:

<http://conversableeconomist.blogspot.com/2018/03/equal-pay-for-equal-work-rathbone-and.html>

# Tony Atkinson's last works

*In our January issue, following Tony Atkinson's death and prompted by Geoff Harcourt, we speculated on whether we had seen Tony's final publication. Little did we guess how wrong that might be as this article by Andrea Bardolini and John Micklewright<sup>1</sup> reveals.*

A commentary in the January 2018 (no. 180) issue of this *Newsletter* reported a suggestion by Geoff Harcourt that the lead article in the October 2017 issue of the *EJ* 'was probably the last published article by Tony Atkinson, probably the most beloved and admired economist in the world, who died on the 1st of January this year'. (The article is 'Charitable bequests and wealth at death', written with Peter G Backus and John Micklewright, vol. 127, no. 605, pp. 1-23.) This prompted the editor to launch a search for Tony's 'genuinely final publication'.

Several years ago Tony had asked us to help his son Richard carry out the role of being his literary executor, therefore we can help clarify this matter. Indeed, soon after Tony's death in 2017, we carried out an extensive investigation of his ongoing projects by contacting the many researchers with whom we knew he was, or had been, collaborating. Tony kept working undeterred by his ill-health until the last days. Since the diagnosis of his illness in Summer 2013, he published two major books, *Public Economics in an Age of Austerity* (Routledge, 2014) and his intellectual testament *Inequality: What Can Be Done?* (Harvard University Press, 2015), in addition to about a dozen articles and book chapters (<https://www.tony-atkinson.com/>). He chaired the Commission on Global Poverty set up by the World Bank in 2015 and wrote single-handed the Commission's report, *Monitoring Global Poverty* (World Bank, 2017). He collaborated with Joe Hasell, Salvatore Morelli and Max Roser in compiling *The Chartbook of Economic Inequality*, eventually published by INET in May 2017. In August 2016 he gave an interview about his life and work to Nick Stern, which was later published in the *Annual Review of Economics* (vol. 9, 2017, pp. 1-20). But this is not all. He was engaged in many other projects that have led, and will lead, to several posthumous publications. (We recognise that our knowledge of these may not be complete.)

The *Journal of Economic Inequality* is publishing three special issues in honour of Tony, of which the first two contain four articles by him. The first issue (vol. 15, no. 4, 2017) includes 'Reducing poverty and inequality through tax-benefit reform and the minimum wage: the UK as a case-study', written with Chrysa Leventi, Brian

Nolan, Holly Sutherland and Iva Tasseva (pp. 303-323). Three articles are in the second special issue (vol. 16, no. 2, 2018): 'Wealth and inheritance in Britain from 1896 to the present' (pp. 137-169), 'Top incomes and the gender divide', written with Alessandra Casarico and Sarah Voitchovsky (pp. 225-256) and 'From classes to copulas: wages, capital, and top incomes', co-authored with Rolf Aaberge and Sebastian Königs (pp. 295-320). Another article, 'Top wealth shares in the UK over more than a century' written by Tony with Facundo Alvaredo and Morelli (pp. 26-47), features in the special issue honouring Tony of the *Journal of Public Economics* (vol. 162, June 2018), the journal that Tony established in 1972 and edited for 26 years.

Several other articles, some of which are available as discussion papers, could possibly be published in the near future. They include 'The median as watershed', written with Aaberge (Statistics Norway DP 749, 2013), 'The ins and outs of top income mobility', with Aaberge and Jørgen Modalsli (Statistics Norway DP 762, 2013), 'On the measurement of long-run income inequality: Empirical evidence from Norway, 1875-2013', with Aaberge and Modalsli (Statistics Norway DP 847, 2016), 'Capital and labor: the factor income composition of top incomes in the United States, 1962-2006', with Christoph Lakner (World Bank, Policy Research WP 8268, 2017), 'A different perspective on the evolution of UK income inequality', with Stephen P Jenkins, 'UK household indebtedness over the long-run', with Morelli, and 'Top incomes in the Netherlands', with Wiemer Salverda.

Tony was involved in two further important projects. In his final years, he became very interested in studying top incomes in the former British colonies in Africa. He wrote a number of reports covering over a dozen countries: Ghana, Kenya, Malawi, Mauritius, Nigeria, Seychelles, Sierra Leone, South Africa, Tanzania, The Gambia, Uganda, Zambia, Zanzibar and Zimbabwe. All these papers can be downloaded from the electronic library of The World Inequality Database (<https://wid.world/>). One of these papers, co-authored with Alvaredo, is under revision for a journal: 'Top Incomes in South Africa over a century 1903-2013' (an earlier version appeared with the title 'Colonial Rule,

“ Over a career spanning half a century, the concern for poverty and inequality has remained central to Tony's work. Its increasingly international dimension, from national to global, is a revealing sign of Tony's deep convictions. ”

Apartheid and Natural Resources: Top Incomes in South Africa, 1903-2007' as CEPR DP 8155, 2010). This material constituted the backbone of a book comparing British and French colonial rules in Africa seen from the perspective of income distribution. Tony discussed with both of us the project leading to this book, tentatively titled *Top incomes in Africa and the colonial heritage*, which he was planning to write with Alvaredo, Denis Cogneau and Thomas Piketty.

Finally, in his last months of life, Tony was working intensely on a major new book, *Measuring poverty around the world*, a project that had grown out of the report he had prepared for the World Bank. Tony intended to write a book for a broad audience about the nature and extent of poverty across the world. While drawing substantially on the report for the World Bank, he planned to go beyond it in many respects. First, his purpose was to start from first principles by making explicit the ethical judgments that are embedded in poverty measurement — the enduring intuition of his landmark paper on the measurement of inequality in the *Journal of Economic Theory* in 1970 — before moving to an in-depth discussion of data sources and definitions. Only then he meant to turn to examining what the available data actually reveal — data on both financial poverty measured by low income or expenditure and data on other indicators of deprivation used in multidimensional measures of poverty. Second, he argued for integrating international organisations' measurement of poverty with national analyses produced within each country. For 60 countries, Tony set out to assemble and document the measurement done at the national level and then to compare it with what was published by international organisations. The novelty of Tony's approach is not the comparison at the country level *per se*, but his call for a systematic integration. He saw it as the way not only to provide a cross-check of results but also to strengthen the political legitimacy of both national and international measures, and eventually of the policy decisions that are taken based on them. Third, Tony planned to intertwine the discussion of the evidence for the world's main regions with an examination of selected 'general issues' about the causes and correlates of poverty, such as the extent of the 'trickle down' to the poor from economic growth, the legacy from the colonial period to poverty today in former colonies, the poverty suffered by indigenous peoples, and the persistence of poverty in rich countries.

Sadly, Tony was unable to finish this book. He left an incomplete draft. In particular, the second half of the book remained largely unfinished, though his broad plans for the use of his 60 national reports to address the general issues are clear. Before his death, Tony asked us to take his manuscript forward to publication. As we were unsure of how he planned to develop his lines of argument in the second half of the draft, we decided to

bring the book to a state where it could be published while remaining incomplete. The only partial exception to this decision of not filling the gaps concerns two 'general issues': the relation between growth, inequality and poverty reduction, and the relation between poverty reduction and action on climate change. Tony saw these issues as fundamental in the fight against poverty but he had no time to address them. Thus, we asked François Bourguignon and Nick Stern, long standing co-authors and friends of Tony and leading scholars in these two areas, to deal with these subjects in two extensive Afterwords. The draft left by Tony is incomplete but contains many insights; the unfinished chapters offer a foundation on which other researchers can build and a challenge to them to do so. It is a book worth reading, but readers must be aware that it is an unfinished book.

This book will be published by Princeton University Press in Spring 2019 and will appear exactly fifty years after Tony's first, published in 1969, *Poverty in Britain and the Reform of Social Security*. In the middle, two decades ago, Tony published *Poverty in Europe*. Over a career spanning half a century, the concern for poverty and inequality has remained central to Tony's work. Its increasingly international dimension, from national to global, is a revealing sign of Tony's deep convictions.

Note:

1. Banca d'Italia and University College London, respectively.

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## Marriage as Insurance

How our degree of risk aversion influences whom we marry

New research uses the economics of insurance to help understand who marries whom. The study by Johannes Gierlinger and Sarolta Laczó, published in the August 2018 issue of the *Economic Journal*, proposes a theory in which more risk-averse women tend to marry more risk-averse men.

The researchers assume that any promise of insurance within a marriage – say, to take care of a partner in the event of future unemployment or health problems – is informal and subject to credibility issues. In other words, spouses only continue to provide insurance to each other as long as they prefer to do so rather than going it alone.

This makes risk-averse individuals particularly attractive partners on the marriage market. They can credibly commit to more generous insurance transfers, since the future benefits from continuing a relationship are more likely to dominate today's cost of supporting their partner.

<http://ow.ly/EcoS30lpuIe>

# New ‘Witches’, Old Tricks

*Using data spanning more than 500 years, Peter Leeson, George Mason University, shows that hunting witches would seem to be a long-standing strategy for shoring up political or religious market share in the face of heightened competition. In Donald Trump’s America, the strategy lives on.*

**T**HERE’S AN OLD TRICK FOR DEALING WITH RIVALS. As the adage goes, ‘If you can’t beat ’em, hunt witches’. Okay, so that’s not quite how the adage goes—but it should be. For nearly half a millennium, public authorities have hunted witches, figurative and literal, to get a leg up against competitors.

## Donald Trump’s witch hunts

To find the most recent incarnation of this phenomenon, look no further than the politics section of an American newspaper — or at President Donald J Trump’s Twitter feed — where, on any given day, you’ll likely find the President or one of his surrogates slamming Special Counsel Robert Mueller’s investigation into ‘Russian collusion’ regarding the 2016 election as a ‘witch hunt’. Trump’s charge: his opponents are angry they lost political power and, desiring but unable at this juncture to impeach him, have resorted to digging for phantom crimes committed by him or his associates.

Differing views of the Special Counsel investigation’s desirability aside, the political strategy of Trump’s rivals seems clear: Whether hunting for ‘Russian witches’ delivers evidence of Trump malfeasance or not, at least the electorate will know that Democratic leaders are committed to ‘rooting out evil’, perhaps persuading some to vote for Democrats and against Republicans in the next election.

Surprisingly, similar logic may have driven the hunt for literal witches in sixteenth- and seventeenth-century Europe, which prosecuted more than 80,000 people for witchcraft and claimed the lives of half of them. In a new study published in the *Economic Journal*, Jacob Russ and I identify competition between Catholicism and Protestantism for churchgoers in post-Reformation Christendom as a central source of Europe’s ‘witch craze’ (Leeson and Russ 2018).

## The witch as a threat

For the first time in history, the Reformation presented large numbers of Christians with a religious choice: stick with the old Church or switch to a new one. And when churchgoers have religious choice, churches must compete.

The Church tried to deal with Protestant competition by criminalizing the new faith. But not unlike the early efforts of some of Trump’s opponents aimed at delegit-

imizing his presidency (‘But he lost the popular vote!’), this strategy flopped. In a handful of Catholic strongholds, such as Spain, Italy, and Portugal, rulers were willing and able to prosecute Protestants with inquisitions. However, within a couple years of Martin Luther’s *Ninety-Five Theses*, many European rulers and citizens had become Protestants, and they weren’t about to lead inquisitions against themselves.

The Church thus had to take another tack. Given the then-popular belief in witches, the one it took is unsurprising and was quickly emulated by its Protestant rivals: In an effort to woo the faithful, competing confessions advertised their superior ability to protect citizens against worldly manifestations of Satan’s evil by prosecuting suspected witches. Similar to how contemporary Republicans and Democrats focus campaign activity in political battlegrounds during elections to attract the loyalty of undecided voters, historical Catholic and Protestant officials focused witch trial activity in religious battlegrounds during the Reformation and Counter-Reformation to attract the loyalty of undecided Christians.

Using data that contain more than 40,000 suspected witches, whose trials span 21 European countries over the course of more than half a millennium (1300-1850), our study analyzes the relationship between confessional competition and witch trial activity. It finds that when and where confessional competition, as measured by confessional warfare, was more intense, witch trial activity was more intense too. Factors traditionally blamed for Europe’s witch craze, such as bad weather and weak government, have no relationship with witch trial activity.

## Religious rivalry and the witch hunt

Geographically, our data reveal that witch trial activity was most intense where Catholic-Protestant rivalry was strongest, and vice versa. Germany alone, which was ground zero for the Reformation, laid claim to nearly 40 per cent of all witchcraft prosecutions in Europe. In contrast, Spain, Italy, Portugal, and Ireland — each of which remained loyal to the Church after the Reformation and never saw serious competition from Protestantism — collectively accounted for just six per cent of Europeans tried for witchcraft.

Temporally, our data reveal that the witch craze began

only after the Protestant Reformation in 1517, following the new faith's rapid spread. Witch-hunting reached its zenith between c.1555 and c.1650, years coextensive with peak competition for Christian consumers, evidenced by the Catholic Counter-Reformation, during which Catholic officials aggressively pushed back against Protestant successes in converting Christians throughout much of Europe. Then, c.1650, the witch craze began its precipitous decline, prosecutions for witchcraft virtually vanishing by 1700.

### The end of the rivalry

The reason for this decline? The Peace of Westphalia, a treaty entered in 1648, which ended decades of European religious warfare and much of the confessional competition that motivated it by creating permanent territorial monopolies for Catholics and Protestants—regions of exclusive control, wherein one confession was protected from the competition of the other.

In the Western world, at least, hunting witches would seem to be a long-standing strategy for shoring up political or religious market share in the face of heightened competition. Indeed, the very existence of 'witches' seems to hinge largely on competition. Not only did the Catholic Church mostly avoid prosecuting witches until it faced significant religious market competition in the sixteenth century, until the turn of the fifteenth century, it denied there was such a thing. Perhaps similarly, the Democratic Party, which is now certain that 'Russian witches' are casting spells on American politics, decried Joseph McCarthy's 'witch hunt' in the 1950s and denied the existence of 'red witches'.

Reference:

Leeson, Peter T, and Jacob W Russ. 2018. 'Witch Trials'" *Economic Journal* 128: 2066-2105.

# Brexit's deep roots in confusion on democracy and statistics

*In the last few days before we went to press the possibility of a second referendum on leaving the EU began to look a possibility, albeit still an unlikely one. Until then, UK politicians of all persuasions had treated the first vote as sacrosanct — a democratic expression of preference that could not be gainsaid. As Thomas Colignatus<sup>1</sup> points out, this reverence overlooked the fact that there was little, if any, useful information in the first vote.*

Let us look beyond Brexit and determine some deeper implications for conventional thinking. Namely, the UK seems quite confused on democracy and statistics, with a big problem in the vocabulary.

UK democracy has two formal instruments to get information about voter preferences for collective decision making, namely the House of Commons, using district representation (DR), and the occasional referendum. Currently we see that both the Referendum of 2016 and the General Election of 2017 fail to provide adequate information on voter preferences. The situation can be seen as chaotic. The debate continues while the very lack of proper information is neglected. Instead it is better to stop the debate and to concentrate on the real problem: why doesn't the UK model of democracy generate the required information about voter preferences ?

To start with: What does the UK electorate really want w.r.t. Brexit or Breman ? The answer is: we don't know. The 2016 Referendum Question concerned the legal issue of Leave or Remain. The policy options were left to the polls. The very Referendum Question fails the criteria for a decent statistical enquiry. I am surprised that the Royal Statistical Society (RSS) did not protest. The question of Leave or Remain is a binary legal issue but the true issue

are the policy options. It took some time to analyse this, but with the help of Anthony Wells of YouGov.com I managed to dissect this, in an earlier *Newsletter* (177, October 2017). Some 17 percent of voters ranked Remain between different options for Leave, which implies a grand game of guessing what to vote for strategically. The Referendum failed in the expression of preferences.

The political parties in the House of Commons are split on both direction and options as well. It is rather damning for a claimed democracy that its two formal instruments do not result in clarity on this basic issue. Remarkably, politicians across the board agree that the electorate would have voted to leave and that this would constitute an expression of the 'popular will' that must be respected at all costs. This however fails to recognise that the Referendum Question precisely did not generate the required information for policy decisions. The politicians look for a policy conditional on the outcome of the Referendum, but the outcome of the Referendum was conditional on guessing the policy. There is far too little awareness that the policy issue better is reconsidered when more details of the exit attain clarity.

The instructive question is why the UK had the referendum in the first place. Holland since 1917 has a system of equal

proportional representation (EPR) for the Dutch House of Commons so that referenda are not required. The UK system of DR lacks such proportionality, and this invites the idea as if referenda might be used to get a degree of proportionality. This however neglects the importance of bargaining between the EPR representatives. Bargaining cannot be done by voters each in a voting booth, but requires the elaborate process between their representatives.

Within political science there is the branch on 'electoral systems'. This branch enhances the current state of confusion by using the same word 'election' while its meaning for DR or EPR is quite opposite. In EPR all votes for candidates indeed go to their representative of choice. In Holland two per cent of votes are wasted on tiny parties that don't make it and that remain unrepresented. The Dutch don't think that these voters would be represented by another party. In DR there is no such proper election but rather a contest. The district winner is supposed to represent the district but many voters explicitly did not vote for this person to be their representative. In the UK more than 50 per cent of the votes go to candidates who don't make it. There is no effort to collect those votes into seats, and thus those votes are discarded and not just wasted. The UK is locked in confusion by its vocabulary and disinformative statistics on electoral outcomes.

My suggestion is that the UK switches to EPR, say adopt the Dutch system of open lists (in which you may always vote for a regional candidate though people don't tend to do so), has proper elections, and then let the new House of Commons discuss the relation with the EU again. It is not unlikely that the EU would allow the UK the time for such a fundamental reconsideration on both its democracy and Brexit.

It remains to be seen whether the UK would want to switch from DR to EPR, but the first step would be to provide the public with proper information. For the latter reason, I took the last year to deconstruct this infor-

mation and vocabulary on democracy and statistics. Below references contain my findings. The main paper is (2018a). My diagnosis is that 'political science on electoral systems' still is no science but is locked in tradition and the humanities.

Note:

1. Colignatus is the name in science of Thomas Cool, econometrician and teacher of mathematics, Scheveningen, Holland.

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(2017c), 'Dealing with Denial: Cause and Cure of Brexit', <https://boycottholland.wordpress.com/2017/12/01/dealing-with-denial-cause-and-cure-of-brexit/>

(2018a), 'One woman, one vote. Though not in the USA, UK and France', <https://mpira.uni-muenchen.de/84482/>

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(2018e), 'The solution to Arrow's difficulty in social choice (sheets)', Second presentation at the annual meeting of Dutch and Flemish political science, Leiden June 7-8, <https://zenodo.org/record/1269392>

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# What's *really* wrong with economics?

Prompted by Ben Chu's observations about the state of economics in our July issue, Michael Joffe, Imperial College London, explains what he thinks is really wrong with economics.

**B**EN CHU'S REPORT of the RES Conference in the last *Newsletter*<sup>1</sup> (no. 182, July 2018) begins and ends by referring to recent accusations against the profession. He contrasts them with the actual content of the conference, finding the accusations to be misplaced. And yet, there is some disquiet about the current state of economics. This invites the question, is there a problem? If so, what precisely is it?

## When theory and evidence don't match

It is now widely recognised that some parts of traditional 'textbook' theory do not correspond well with the evidence. There are five possible ways of relating to this situation, which are not mutually exclusive:

(i) *True belief mode*: maintaining the theory is considered more important than the awkward facts that contradict it. This involves being in denial and clinging to discredited aspects of traditional standard theory, even when they have been shown to misrepresent the real world.

(ii) *Reactive mode*. The converse is the view that demonstrating the falsity of (aspects of) standard theory is in itself a contribution to knowledge. In its pure form, it is mere criticism and produces no new ideas. Typically, it involves the belief that all mainstream economists are dedicated to true belief mode and repeats the same accusations that have been around for many decades. This should not be confused with the legitimate critiquing of existing theories that is part of the process of developing new theory.

(iii) *Distancing mode*: the explicit rejection of traditional simplifications and dogmas. For example, Diane Coyle emphasises that nowadays 'Economics does not require that people be rational, calculating automatons ... it assumes there is a fog of uncertainty ... Economists know that few markets are perfectly competitive, ... and disequilibrium is the norm.'<sup>2</sup> It focuses attention on what aspects of standard theory are *not* regarded as true. The positive case is that economists are mainly concentrating on producing good empirical work, e.g. evidence that is policy relevant.

(iv) *Incremental mode* maintains that traditional theory is a good starting point, that can be modified to fit the empirical data. It provides a benchmark from which one can study *departures*, e.g. 'altruism towards our children' as a departure from 'the infamous *homo economicus* theory', 'irrational behaviour when drinking', market imperfections, etc.<sup>3</sup>

(v) *Selective replacement mode* — evidence, ideally of

diverse types, is used as the basis for generating theory. More on this below.

The first two positions, the extremes, clearly do not move the debate forward. In fact, they obstruct progress. When reactive mode gets the target wrong, it generates discussion around the wrong issues. The same old arguments are traded back and forth: perfect competition is assumed *vs* no, we study market imperfections; assumptions are unrealistic *vs* we relax those later; humans are not rational *vs* we study departures from rationality; etc. I will focus on the other three.

Before proceeding further, it is necessary to say what I mean here by 'theory'. I follow the usage in the natural sciences: an account of the causes that bring about the observed phenomena. It is not necessarily in the form of a model. Development of theory requires the ability to integrate disparate sources and types of evidence, and to produce a causal explanation. In economics this will typically involve multiple causes, and heterogeneity between different economies and at different times. The result is an empirically based causal theory.<sup>4</sup> Ideally, for each causal relationship one can characterise both the mechanism and the phenomenon that it produces. Models can then be built, embedded in the wider descriptive theoretical account, by selecting some of the identified causes.

## Responding to the mismatch

*Distancing mode*. Economists who put forward this view are often doing good empirical work, which may have important policy implications. Examples include the impact of immigration on training for native citizens, the causes of the decline in the share of national income going to labour in rich countries, and the effectiveness of international aid.<sup>5</sup> Some past examples have had an important impact on policy, notably the evidence on the limited employment consequences of minimum wage legislation. This view is a legitimate defence against the false criticism of being over-dependent on unrealistic theorising and abstract mathematics. But by maintaining that their work is independent of standard theory, there is a danger of ignoring the need for new and better theory. We could be in danger of neglecting such 'big questions' as the existence of large-scale unemployment in some economies, the apparent ability of modern (post-industrial revolution) economies to grow indefinitely at previously unprecedented rates, and the now-well-recognised tendencies towards growing inequality in some countries, as well as periodic crises.

*Incremental mode*, in taking standard theory as the starting point, accords it special priority status. This can narrow the focus and lead to the neglect of other causes. An obvious example is the way that DSGE modelling was used before the financial crisis, with an *unrecognised* assumption that the financial sector would continue to operate perfectly. In such a case, the traditional accusation of over-simple models is valid. A solution is to embed one's model in a previously-constructed empirically-based causal theory, which allows one to see what is being omitted.

This is not the only, or perhaps even the main, problem. And it is certainly not confined to macro. A more general implication of incremental mode is that it necessarily implies two processes: one that accords with theory, and one that modifies it. An example is the concept of 'bias' in behavioural economics, if taken to imply that standard theory corresponds to one causal process, and in addition one or more other processes are operating. This works well when the theoretical starting point is causally correct. But if there is no actual causal mechanism corresponding to standard theory, then *neither* of the suggested causal processes can be considered to exist — a case of double error.<sup>6</sup> This may be far more widespread than just behavioural economics.

In some cases, standard theory implies the wrong causal direction. In such a case, any suggestion of an incremental modifying force will be meaningless. Much of the academic literature concerning the copious poor-to-rich country capital flows (especially from China to the US) that began around 2000 is rooted in the idea that all capital should flow from rich to poor countries, due to their differential rates of return — the Lucas puzzle or 'paradox'.<sup>7</sup> However, the correct causal direction is readily discerned from the available historical/institutional and statistical evidence: rather than the existing capital stock being the primary cause, it is clear that the phenomenon results from the underlying economic forces (in China's case, highly profitable manufacturing) that generated the capital flows. This is recognised by the participants and by well-informed economic journalists.<sup>8</sup>

*Selective replacement mode* implies that theory is derived from evidence, rather than the more time-hallowed tradition of starting with an *a priori* model. This is routinely done in the natural sciences such as biology,<sup>9</sup> but has so far only been patchily applied when generating economic theory. There have been numerous objections to this idea, some based on old ideas from the philosophy of physics, but they do not stand up to scrutiny.<sup>10</sup>

Crucial here is that when a satisfactory causal account is achieved, this leads to a *replacement* of the pre-existing theory. All too often in economics, one finds that old theoretical notions continue to be presented alongside the evidence that demonstrates their inadequacy. They do not disappear.

Thus, the evidence on China-to-US capital flows has not led to the abandonment of the erroneous starting point of the Lucas puzzle. And to take another example, the source of money in the modern economy (e.g. Britain) is now well understood,<sup>11</sup> but one still commonly encounters the notions that banks act simply as intermediaries, or that they 'multiply up' central bank money to create new loans and deposits.

Ultimately, the feasibility of selective replacement mode — and evidence-based economics<sup>12</sup> more generally — can only be conclusively demonstrated by doing it in practice. It is achievable, especially now with the abundance of good evidence, improved analytic methods and prevalence of empirical research. It requires going beyond evidence collection on individual topics, and consolidating often-disparate types of evidence into a coherent theoretical structure. Its implications then need to be subjected to continuing hypothesis testing. It is likely that such a process is already occurring in some subdisciplines; if so, it would be helpful if this were made more widely known for economists in other subdisciplines and other interested people.

## Conclusion

If the accusation is that economics is over-theoretical, abstract and mathematical, there may now also be the opposite danger: neglect of theory in the pursuit of evidence that is practically useful. Perhaps more prevalent is the insistence that traditional theory provides a good starting point, even when the evidence demonstrates that it actually makes the task of causal explanation more difficult.

Notes:

1. <http://www.res.org.uk/view/art1July18Features.html>
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3. 'Dismal ignorance of the "dismal science" - a response to Larry Elliot', *Prospect Magazine*. <https://bit.ly/2Osty7j>
4. For a natural science example, consider the germ theory of disease. <https://www.cogentoa.com/article/10.1080/23322039.2017.1280983.pdf>
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6. Joffe M, 'Mechanism in behavioural economics'. *Journal of Economic Methodology*, 2019, in press.
7. Lucas R E Jr. 1990. 'Why doesn't capital flow from rich to poor countries?' *American Economic Review* 80 (2): 92-96. <http://www.econ.nyu.edu/user/debraj/Courses/Readings/LucasParadox.pdf>. In this paper, Lucas explains how zero flow is possible, but not copious poor-to-rich country flow.
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10. Joffe M, 'Economics based on evidence'. Paper presented at the AHE 20th Anniversary Conference, Leicester, 2018.
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12. <http://evidence-based-economics.org>

# Obituary

## John R Hudson

John Robert Hudson was born in Birmingham in 1947. He left school at 16 and, following several tool-making jobs in the engineering industry, entered Queen Mary College, University of London as a mature student to study for a BSc in Economics. He followed this with an MA in Economics and a PhD thesis, *Wage Inflation in the UK: 1951-1975, A Switching Regimes Hypothesis*, both at the University of Warwick. After temporary lecturing contracts at Durham and Sheffield Universities, he moved to the University of Bath in 1978 as Lecturer in Econometrics, Advanced Econometrics, Mathematical Economics and Macroeconomic Modelling. He held this position until 1990, when he became Reader in Economics. In 2002 he was promoted again, to Professor of Economics. He remained a caring teacher, PhD supervisor and prodigious researcher at Bath until his death on 13th July 2018.

John authored numerous academic articles, reports and books. His interests were macroeconomics in general, and the theories of J M Keynes, an economist he much admired, in particular. John's book *Inflation: A Theoretical Survey and Synthesis* (1982) was selected by *Choice*, the American library journal, as one of the outstanding books of the year. John followed this with *Unemployment After Keynes: Towards A New General Theory* (1988) and *Modelling a Developing Country: A Case Study of Cyprus* (1989). John was also a joint editor of *Business Regulation and Public Policy: The Costs and Benefits of Compliance* (2008). His final book, completed shortly before his death, was on the economics of robotics, an area in which he was becoming increasingly interested.

John was a prolific researcher publishing over eighty articles in international academic journals. These include the *Economic Journal*, the *Journal of Economic Perspectives*, the *Journal of Public Economics* and the *Journal of Banking and Finance*. He was also catholic in his interests and his work spanned beyond economics and finance to such disciplines as political science and sociology. Over the course of his career he worked on such apparently disparate areas as bankruptcy, tax policy and the informal economy, happiness, voting, citation indexes and institutional trust. His research into the economics of political behaviour shed insight into the relevance of how low-cost signals might help in explaining how and why individuals engage in political processes and how consumers assess the quality of services they intend to purchase.

John was perhaps best known for his work on development economics and, especially, the relationship

between economic growth and aid. This followed a seminal and hugely cited 1987 publication in the *Economic Journal*. This body of work was mostly co-authored with Paul Mosley and comprises many other studies, most notably a further (and increasingly cited) *Economic Journal* publication in 2004.

In addition to academic publications, John also produced reports for various government bodies, including for the Inland Revenue on the compliance costs of PAYE. He was involved with the South West Regional Development Agency and the Welsh Assembly, including studies analysing Regional Productivity. John also produced reports on Development such as for the Department for International Development, assessing the volatility of international aid flows and a further report called a 'Scoping Study on Economic Growth, Technological Diffusion, and Low Carbon Investment' in 2010.

John contributed to numerous economics-based organisations as the organiser and committee member across the world. The following give a taste of his international appeal: He was a member of the Economists Panel of the South West Regional Development Agency (2003-11), a Member of the Panel of Advisors for the Commonwealth Scholarship Commission (2007-date), Vice President of the European Academy for Standardization (2009-12). He was also on the Organising/Program Committees for the Institute of Electrical and Electronics Engineers (IEEE) Conference on Robotics and Automation in Barcelona (2005) and he chaired the panel discussion on The Economics of Trade and Standards at the Standardisation and Innovation in Information Technology (SIIT) conference in 2005 (Geneva). He was on the organizing committees for the IEEE Symposium on Computers and Communications (2007), for the International Association for the Management of Technology (IAMOT) conference on the Management of Technology for the Service Economy (2007) and for the 5th International Conference on Standardization and Innovation in Information and Technology (2007).

John was also the recipient of many project grants, often in conjunction with Slovakian universities, in particular with the University of Economics in Bratislava and Matej Bel University in Banska Bystrica, with which he maintained a close working relationship for over two decades. For example, together with Marta Orviska and others he received a grant from the World Bank's Global Development Network, administered by the Czech Academy of Sciences. He was also awarded grants by the Inland Revenue, the Welsh Assembly and the South West Regional Development Agency.

John had extensive experience in teaching, from first year macroeconomics to the more technical aspects of econometrics. He played a key part in the development and teaching of the specialist and prestigious BSc in

and teaching of the specialist and prestigious BSc in Economics, Computing and Statistics (1982-96). For a while he was head of the Economics Group, in the Department of Economics and International Development and, with Ajit Mishra, was instrumental in planning the creation of a separate Department of Economics in 2009.

John's unexpected and untimely death will rob us of a hard-working and caring colleague. He was something of an eccentric in an age of conformity. We will miss his

enthusiasms: Professionally, for 'good' economics; socially, for *The Three B's* - Birmingham City FC, Barcelona FC, and the Friday 'Beer'. Most of all, we will miss him.

He leaves two children, Alex and Chris, a grand-daughter, Effie, a grandson, Rory, his partner for over twenty years, Marta, and Marta's son, Roman.

*John Sessions*  
*University of Bath*

## RES news

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How we manage our membership is changing. Responsibility for managing the RES membership system will pass from Wiley to the RES office on 15 October 2018. In the past Wiley would have contacted you in the autumn to invite you to renew your subscription. Starting this year there will be a different process for renewals.

In due course we will launch our new website that will enhance your membership experience and offer various new features. Shortly after the website launches, you will receive an email invitation to sign up to the new site and renew your membership.

If you have any questions, please do not hesitate to contact the RES office.

### Sir James Mirrlees — A tribute to a former RES President

Former President of the Royal Economic Society (1989-1992) Professor Sir James Mirrlees passed away on 29 August 2018 at the age of 82.

Jim Mirrlees was one of the leading economic theorists of the 20th century. In 1996 he was jointly awarded the Nobel Prize for Economics with William Vickrey for their fundamental contributions to the economic theory of incentives under asymmetric information.

He developed the first formal model of optimal income taxation, making explicit the trade-off between equity and efficiency. Working with Peter Diamond, they produced a general approach to production efficiency and optimal commodity taxation that has wide applications to topics such as cost-benefit analysis and the optimality of free trade.

Jim Mirrlees was Emeritus Professor of Political Economy at the University of Cambridge and Master of Morningside College at the Chinese University of Hong Kong. In addition to serving as RES President he was also President of the Econometric Society in 1982 and President of the European Economic Association in 2000 - a testimony of the esteem in which his work was held worldwide.

He was known for combining a formidable intellect with a gentle and kind personality. With deep moral values, Jim Mirrlees held a strong commitment to making the world a better place, particularly in the context of economic development and overcoming poverty. Although he had a style which sometimes appeared severe and he firmly dismissed sloppy arguments, his kindness towards his students was legendary - and they were devoted to him.

We hope to publish an appreciation of Sir James in our next (January 2019) issue.

### Royal Economic Society 2018 Annual Public Lecture — What Economists Really Do

**London: 21 November 2018 17:30 - 19:00 at The Royal Institution**

**York: 28 November 2018 13:00 - 14:30 at the University of York**

'Money' is the most common word associated with economics — but the subject is about so much more than that. It's about making a difference to people's lives by seeking to understand the causes of the things that matter most to them — their livelihoods, their communities, their environment, their opportunities — and by thinking about how to make them better. Nowhere is that more

important than among the poorest people in the least developed parts of the world.

This public lecture by Professor Oriana Bandiera, director of the Suntory and Toyota Centre for Economics and Related Disciplines at the London School of Economics, will explore ‘what economists really do’ — particularly their efforts to analyse and advise on policies to fight extreme poverty and promote economic development that can transform people’s lives. She will outline some of the findings of her own research — on providing work for the poorest women in Bangladesh; on promoting vocational training for unemployed youth in Uganda; and on attracting talented community health workers in Zambia.

For more information visit:  
[tinyurl.com/PublicLecture18](http://tinyurl.com/PublicLecture18).

## PhD Meeting and Job Market

**Date: 18-19 December 2018**

**Venue: Westminster Business School**

Over our two-day postgraduate meeting event, there will be presentations and poster sessions by PhD students; interviews between recruiters and job market candidates; and plenary sessions offering advice on getting published and securing employment. There will also be a drinks reception on Tuesday evening for networking.

For free registration for the event please visit at [tinyurl.com/PhDMarket18](http://tinyurl.com/PhDMarket18). Students aren’t required to have submitted a paper form presentation in order to attend.

## Annual Conference Registration

Online registration for the 2019 Annual Conference will open on **14 January 2019**.  
(See p.11)

The 2019 Conference will be held at the **University of Warwick from 15-17 April**, with keynote speakers Anne Case (Princeton), James J. Heckman (Chicago), Eliana La Ferrara (Bocconi) and Peter Neary (Oxford). A mentoring retreat for early career female lecturers and advanced female PhD students based in the UK will run immediately prior to the conference, and the 2019 Symposium of Junior Researchers will take place on 18 April. Our ‘RES Presents’ series of early evening events will also be returning for the 2019 Conference — further information on these will be provided in due course.

For more information please visit our conference website at [www.resconference.org](http://www.resconference.org).

## LSE IDEAS

Department of International History and the Royal Economic Society present:

**Ten Years after the Global Financial Crisis: what have we learned and what did we forget?**

**18 October 2018**

Event Time: 17:30 - 19:00

Venue Location: LSE Old Building, Houghton St, London WC2A 2AE

Speakers: Professor Sir Charles Bean, Lord O'Donnell, Professor Catherine Schenk, Minouche Shafik

Chaired by Professor Lord Nicholas Stern

This event explores the causes of the 2008 global financial crash and the responses of the major advanced economies, which drew on the lessons of the 1930s.

A decade on from the crisis, the global financial system has yet to return to ‘normal’, with prolonged low interest rates posing a risk to its stability. It is time to reflect on previous financial crises and the policy lessons we have learned — and failed to learn — from them.

The event will be chaired by Nicholas Stern, the IG Patel Professor of Economics and Government, Chairman of the Grantham Research Institute on Climate Change and the Environment and President of the Royal Economic Society.

Charles Bean is Professor of Economics, LSE and a former Deputy Governor of the Bank of England.

Gus O'Donnell was Cabinet Secretary and Head of Civil Service 2005-11.

Catherine Schenk is Professor of Economic and Social History, St Hilda's College Oxford.

Minouche Shafik is Director of the London School of Economics and Political Science. Prior to this she was Deputy Governor of the Bank of England.

LSE IDEAS is LSE’s foreign policy think tank, connecting academic knowledge of diplomacy and strategy with the people who use it.

LSE’s Department of International History teaches and conducts research on the international history of Britain, Europe and the world from the early modern era up to the present day.

For more information visit  
[tinyurl.com/LSETenYearsAfter](http://tinyurl.com/LSETenYearsAfter)

## Does Economics Care About the Future?

(Bristol Festival of Ideas)

**07 November 2018**

Event Time: 19:00 - 20:30

Venue Location: We The Curious (At-Bristol)

We're delighted to be supporting an event at the Bristol Festival of Ideas this November, a celebration of the great writers, commentators and thinkers in and outside of Bristol.

Keynes famously said we're all dead in the long run. We face major intergenerational problems, a housing crisis, automation of many traditional jobs, climate change, amongst many other issues — all of which will require long-term planning and delivery over many decades. How do we plan for the long-term beyond electoral cycles and annual business reporting? Is sustainable growth possible?

The panel, chaired by Margaret Heffernan, includes Mirabelle Muûls (Imperial College/London School of Economics), Aditi Sahni (Vivid Economics), Alex Teytelboym (University of Oxford), Kees Vendrik (Triodos Bank) and Dimitri Zenghelis (London School of Economics).

For more information visit [tinyurl.com/ideasfestival18](http://tinyurl.com/ideasfestival18)

## Editorial Board changes at the *EJ*

Three managing editors, Martin Cripps, Andrea Galeotti, and Kjell Salvanes have finished, or will finish their second 3-year term as Joint Managing Editors of *The Economic Journal* in 2018. *The Economic Journal* wishes to express its gratitude to Martin, Andrea and Kjell for the services they have provided to the journal over the last six years and the professionalism and skill they have demonstrated.

During this period, the journal has undergone a large number of changes, it has improved its standing in the profession, and it has had to deal with a very large growth in the number of submissions. Martin, Andrea and Kjell have been instrumental in the *EJ's* success in dealing with these changes and have made a lasting and positive impact on the journal.

Gilat Levy joined the Board of Managing Editors on 1 February 2018. Gilat is a Professor of Economics at the London School of Economics. She received her PhD from Princeton University in 1999 and she has published extensively on microeconomic theory, political economy, and on law and economics. She also currently serves as a Council Member of the European Economic Association and is a member of the Regional Standing Committee (Europe) of the Econometric Society.

Barbara Petrongolo joined the Board of Managing Editors on 1 April 2018. Barbara is a Professor of

Economics at the Queen Mary University of London. She received her PhD from the London School of Economics in 1998 and she has published extensively on applied microeconomics including topics such as labour markets, job search, gender inequality and public policy. Barbara is also the Director of the Centre for Economic Policy Research's Labor Economics Programme and she is a Council Member of the Royal Economic Society.

Gilat and Barbara replace Martin and Kjell (who will remain on the board until the end of October 2018), respectively, while Rachel Kranton joined the board in 2017 as a replacement for Andrea. With these changes, the current Joint Managing Editors of the *Economic Journal* are:

- Estelle Cantillon, Université Libre de Bruxelles
- Nezih Guner, CEMFI
- Rachel Kranton, Duke University
- Gilat Levy, London School of Economics
- Barbara Petrongolo, Queen Mary University of London
- Morten O Ravn, University College London
- Kjell Salvanes (until 31/10/2018), Norwegian School of Economics
- Frederic Vermeulen, University of Leuven
- Joachim Voth, University of Zurich

## New RES staff member

The RES welcomes new staff member Gabriella Di Salvo, who has joined the team as our Events and Conference Co-ordinator. She has more than 10 years' experience in organising events, especially in education and with universities. Currently she is working on some of the RES main events like the Annual Public Lecture next November in London, the PhD job market in December and the Annual Conference in Warwick University next year.

Gabriella will be based in our main office in Westminster and can be contacted via email on [events@res.org.uk](mailto:events@res.org.uk)

# Conference diary

2018

september

27-28 September *Florence, Italy*

A training course on **Bank Regulation, Supervision and Resolution** offered by the Florence School of Banking and Finance. Course instructors:

Bart Joosen (VU University)  
Stefano Capiello (Single Resolution Board)  
Jean-Jacques Van Helten (Visiting Fellow, RSCAS; formerly Bank of Montreal)

Further information: <http://fbf.eui.eu/training/>

october

10-11 October *Hamburg, Germany*

**Futures Past. Economic Forecasting in the 20th and 21st Century.** The conference at the University of Hamburg aims to bring together scholars from different disciplinary backgrounds to discuss the history of economic forecasting in the 20th and 21st century.

Further information:

<https://www.wiso.uni-hamburg.de/hh-forecast>

november

5-6 November *Frankfurt, Germany*

A conference on **Financial Cycles and Regulation** at the Deutsche Bundesbank. The aim of the conference is to improve our understanding of the nature of financial cycles and to discuss the corresponding analytical challenges and implications for macroprudential policy and financial regulation. The conference is also an opportunity for an exchange of views of researchers and policy-makers on the usefulness of regulatory measures. Keynote speakers:

Claudio Borio (BIS)  
John H Cochrane (Hoover Institution, Stanford Univ.)

Further information:

<https://www.bundesbank.de/en/bundesbank/research/conferences/-financial-cycles-and-regulation--738020>

5-7 November *Florence, Italy*

A training course on **Statistical and Econometric Methods** offered by the Florence School of Banking and Finance. Course instructor:

Massimiliano Marcellino (Bocconi University and EUI)  
The course is targeted at Financial Stability officers, Research department officers, Ph.D. and Post-doctoral researchers, Research department officers of private banks.

Further information: <http://fbf.eui.eu/training/>

7-9 November

*Barcelona, Spain*

The Barcelona Graduate School of Economics is holding an intensive course on the **Competitive Effects of Mergers**. This three-day course will provide participants with a thorough understanding of the crucial role of competition enforcement in merger control by looking at established and new economic theories on mergers, the relevant empirical methods, as well as providing insightful discussions on recent high-profile merger cases in Europe and the US. Course instructors:

Massimo Motta (ICREA-UPF and Barcelona GSE; former Chief Competition Economist, European Commission)  
Giulio Federico (European Commission)  
Natalia Fabra (Universidad Carlos III de Madrid)  
Aviv Nevo (University of Pennsylvania; former Chief Economist, Antitrust Division, US Dept of Justice)  
Elena Zoido (CompassLexecon).

Further information:

<https://www.barcelonagse.eu/study/professional-courses/competitive-effects-mergers>

11-13 November

*Ottawa, Canada*

Bank of Canada conference on **Capital Flows in Advanced Economies: Implications for Financial Stability**. The aim of the conference is to discuss and promote the latest empirical and theoretical research on the implications of capital flows for financial stability in advanced economies.

Further information:

[conference.fmd@bankofcanada.ca](mailto:conference.fmd@bankofcanada.ca)

30 November - 1 December *Dresden, Germany*

**12th CESifo Workshop on Political Economy** at the Technical University, Dresden. Keynote lectures will be given by:

Gilles Saint-Paul (Paris School of Economics) and  
Stefan Voigt (Universität Hamburg).

Further information: [c.lessmann@tu-braunschweig.de](mailto:c.lessmann@tu-braunschweig.de)

december

3-4 December

*Hong Kong*

Conference on **China's Economic Reforms: Where do we stand?** Organized by Global Research Unit, Department of Economics & Finance, City University of Hong Kong, Bank of Finland Institute for Economies in Transition (BOFIT), and Gabelli School of Business, Fordham University. The conference focuses on financial reform, and provides a platform for evaluating and discussing China's financial liberalization, integration with the global financial market, and the related implica-

tions for the global economy.

*Further information:*

<https://www.bofit.fi/fi/tutkimus/konferenssit-ja-tyopajat/2018/2018-12-03-conference-on-chinas-economic-reforms/>

**7-8 December**

*Munich, Germany*

**The 9th ifo Conference on Macroeconomics and Survey Data** will take place at Leibniz Institute for Economic Research at the University of Munich

*Further information:* [fournier@cesifo.de](mailto:fournier@cesifo.de)

**13-15 December**

*Seoul, South Korea*

**The Second Asian and Australasian Society of Labour Economics (AASLE) Conference** will promote research excellence and cooperation in Labour and Applied Economics. The conference aims to bring together researchers from around the world and will be hosted by Seoul National University.

Keynote speakers:

Richard Blundell (University College London)  
Henry Farber (Princeton University)

*Further information:* <http://aasle2018.org/>

**17-18 December**

*Oxford*

CALL FOR PAPERS

**2nd Annual NuCamp Conference.** The Nuffield College Centre for Applied Macro Policy (NuCamp) will be held in **Oxford 17-18 December 2018**. Contributions are welcome from academics and policymakers working on any aspect of empirical or theoretical macroeconomics. We are particularly interested in submissions from the different generations of macroeconomists based in or visiting the UK.

There is no registration fee and we will cover the cost of meals and accommodation for participants. The conference organisers are Martin Ellison, Andrea Ferrero and Michael McMahon (all University of Oxford), who will finalise the programme by the end of October.

*Further information:*

[http://users.ox.ac.uk/~exet2581/NuCamp\\_2018.pdf](http://users.ox.ac.uk/~exet2581/NuCamp_2018.pdf)

**2019**

**march**

**21 - 24 March**

*Tokyo, Japan*

**Western Economic Association International 15th International Conference** will be held at Keio University, Japan. Keynote speakers:

Peter Diamon (MIT)  
Robert Engle (New York University)  
John Shoven (Stanford University)

*Further information:* [www.weai.org/IC2019](http://www.weai.org/IC2019).

**april**

**11-13 April**

*Brussels, Belgium*

**Spring Meeting of Young Economists** will take place at the Université libre de Bruxelles. The goal of the conference is to promote the exchange of ideas and experience among young economists conducting research in all fields of economics. Keynote speakers:

Michael D Bordo (Rutgers)  
Paul Collier (Oxford)  
David K Levine (European University Institute)  
Eric Maskin (Harvard)

*Further information:* <https://smye2019.weebly.com/>

**may**

**20 -21 May**

*Nuremberg, Germany*

CALL FOR PAPERS

A workshop on **The Gender Wage Gap in Europe: What Can We Learn Using Linked Employer-Employee Data?** will be held at the German Federal Employment Agency, Nuremberg. The purpose of the workshop is to: Promote understanding of the role employers play in accounting for the GWG; Establish the size of the GWG across countries and how the gap varies when accounting for the identity of the employer; Identify mechanisms, which help explain the size of the GWG, e.g. discrimination, worker sorting, worker segmentation, monopsony employer power, rent-sharing, compensating wage differentials; Discuss methodological challenges and avenues for future research for academics using LEED to investigate the GWG.

If you wish to present a paper please submit a 500 word abstract to [Stefanie Wolter@iab.de](mailto:Stefanie.Wolter@iab.de) by **January 31st 2019**.

**june**

**3-8 June**

*Venice, Italy*

CALL FOR PAPERS

In co-operation with Venice International University the institute will focus on five themes:

Economics of the Gig Economy (3-4 June); Taxation in the Digital Economy (3-4 June); Poverty, Inequality and their Associations with Disasters and Climate Change (5-6 June); Gender in the Developed and Developing World (7-8 June). Economists working on these or related topics are invited to present and discuss their papers, exchange ideas and participate in discussions. Deadline for submissions: **1 December 2018**.

*Further information:* <http://www.cesifo-group.de/de/ifoHome/events/academic-conferences/Venice-Summer-Institute.html>

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# Membership of the Royal Economic Society 2019

How we manage our membership is changing. From 15 October 2018 responsibility for joining and renewing your membership of the Royal Economic Society transferred from Wiley to the RES office.

In due course we will launch our new RES website which will enhance your membership experience and offer new features. Shortly after the website launches you will be invited to sign up and renew your membership at the 2019 prices below.

As a member you contribute to the Society's aim to promote the study of economic science and your benefits include:

- Access to *The Economic Journal* and *The Econometrics Journal* including back issues and previews of papers before their publication.
- Being eligible to submit articles to the journals and have the chance to win one of the Society's prizes.
- Savings of up to a 1/3 on the ticket price for the annual conference and the opportunity to apply for the Society's grants and financial support.
- Our quarterly *Newsletter* which includes topical articles, comments and letters.

## Membership subscriptions 2019

RES Member: Print + Online 1 year	£59
RES Member: Online only 1 year	£41
RES Member: Online only 3 years	£107
RES Student Member: Online only 1 year	£12
RES Student Member: Online only 3 years	£19
RES Retired Member: Online only 1 year	£24
RES Retired Member: Print + Online 1 year	£32
RES Developing Countries Member: Print + Online 1 year	£32
RES Developing Countries Member: Online only 1 year	£24

In addition to the prices above, subscribers will be asked to pay the relevant VAT costs according to the rate for their country.

For questions about joining and renewing your membership please contact the RES office on [resoffice@res.org.uk](mailto:resoffice@res.org.uk) or +44(0)20 3137 6301