



ROYAL ECONOMIC SOCIETY

NEWSLETTER

Issue no. 128

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A new form of 'crowding out'

This is a bumper issue to start the year. Appeals to members to communicate their news have worked so well that attentive readers will notice that we have had to adopt a number of unusual devices to get the maximum material into what is a very crowded issue. Even then, some potential contributions have had to be postponed for the April issue.

Our regular features include the (last) report from *The Economic Journal's* current managing editors; a brief report of the Annual RES Public Lecture; a look at the work of this year's winners of the Bank of Sweden's Tercentenary Prize in Economic Sciences and Alan Kirman's Letter from France. In this, Alan explains (and laments) the indiscriminate distribution of research funds between French institutes of higher education. This comes at a time when many in the UK are having second thoughts about the consequences of the Research Assessment Exercise which has adopted the opposite principle. We may return to this in the next issue.

In addition, Leighton Vaughan Williams tackles the topical issue of legislative changes to the UK gaming industry. David Bell documents the changes taking place in the staffing of UK university departments of economics and reveals yet again that UK graduates find an academic career relatively unattractive. With the G8 summit meeting coming up and Mr Blair's stated intention to place greenhouse gas emissions high on the agenda, David Henderson has written a disturbing piece about the treatment of economic aspects of this debate by the Intergovernmental Committee on Climate Change.

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Next issue

Newsletter No. 129 - April 2005

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

15 March 2005

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

16 March 2005

Contributions from readers

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

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

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The Economic Journal

Managing Editors' Report

The Managing Editors made their Annual Report to the Council of the Royal Economic Society in November 2004. The report was presented to Council by Mike Wickens on the completion of his term as Co-ordinating Managing Editor.

THIS IS THE FINAL REPORT of the Managing Editors of *The Economic Journal* for the period July 1996 - June 2004 at the completion of their second, and final, four-year term of office. Instead of just covering the past year, as in previous reports, before turning to the latest editorial statistics, this report starts by briefly reviewing the whole eight years of tenure of the Editors.

A review of the period 1996-2004

From the outset, our main concern has been to improve the international standing of *The Economic Journal*. The RES took a significant step in this direction when in 1996 it appointed an editorial team of five people instead of having, as before, just a single Managing Editor. It had become increasingly difficult for one person to make informed decisions on papers across the whole breadth of economics as, even with the advice of associate editors, the final judgment still rests with the Managing Editor. Making decisions when one knows an area well is difficult enough, as we have found; making decisions without knowledge of an area invites errors of judgment and an overdue dependence on the advice of referees. With a team of Managing Editors we have been better able to ensure that submissions are dealt with by an editor with specialist knowledge of the area. This improves the selection of appropriate referees and the interpretation of their advice. I wish I could say that we had always been successful in these matters, but regrettably this would not be true. The decision of the RES to continue with a team of Managing Editors is surely correct.

One of the first things we did as new Managing Editors was to re-organise the *Journal* into three separate sections: 'Articles', 'Features' and the 'Conference Issue'. Previously, submitted and invited papers were together with other items such as the 'Policy Forum', software articles and book reviews appearing in each issue. The complaint, made by a large number of people, was that submitted articles were not accorded the status they deserved as it appeared that they were being treated on a par with invited papers of all sorts. The result was that authors were reluctant to submit their own research to the *Journal*. Although we felt that this view tended to overlook the merit and value to the reader of invited papers, we accepted that the *Journal's* first aim must be to publish original research of the highest quality for the benefit of the general reader, hence the re-organisation.

To judge by the responses that we received, the change of format was welcomed with enthusiasm. Introducing 'Features'

also gave us the opportunity to widen the scope of invited papers and provide a better vehicle for keeping the general reader up to date with developments in economics and reviews of different areas in the subject. I think that Steve Machin, who has edited 'Features' from the start, has done a wonderful job and established 'Features' as an essential component of *The Economic Journal*.

As part of our efforts to raise the international profile of *The Economic Journal* we appointed a Board of Editors chosen for their eminence as international scholars to advise on general policy, to assist in editorial decisions and to encourage the submission of outstanding papers they become aware of before their submission elsewhere. The annual Board meeting has been held at the Royal Economic Society's Conference in order to encourage participation in the conference. Having an editorial board also gave the Associate Editors the opportunity to participate in the general policy formation of the *Journal*. We introduced *The Economic Journal* Lecture which has been delivered at the annual RES conference and published in the *Journal*. This has been given by major international scholars, including our Board members. We have also sought to apply the highest international standards to paper selection by seeking referees from abroad who are currently working in the relevant area.

We also attempted to encourage the submission of more technical papers. At the same time, we have sought to take account of *The Economic Journal* being a general journal by requiring authors to write an introduction, suitable for the general reader, that explains the significance of the paper and its findings.

Advances in electronic access are steadily changing the face and role of academic journals. We have been trying to take advantage of these by making the *Journal* more web-based. Together with Blackwell and the RES, we have improved the *Journal's* web site, putting book notes and reviews on the web and, most recently, switching to on-line submission, which will begin soon. In response to requests from members we have made the *Journal* available on CD ROM. We made a number of changes to the *Journal* designed to make substantial savings in production costs. With the RES's support we have reduced the real cost of members' subscriptions in an attempt to retain membership and maximise the readership of published articles.

A more profound issue arising from developments in electronic access is whether in the future there is still likely to be a role for journals and peer review when the latest research can be

made available more or less immediately it is completed. I think the answer is that the role of journals and peer review will change, and is already changing. Instead of providing access to current research as in the past, increasingly the role of journals will be to assess and signal the quality of this research, and to provide informed comments to authors. The peer review element will therefore become more important. Already, of course, statistics on the numbers of downloads provide a measure of the interest in a paper.

To judge by the correspondence received by editors, journals are assumed to be almost exclusively for the benefit of authors.

Where does this leave the reader? If readers dislike the articles published in a journal, they simply stop reading and subscribing to the journal. The decline in the exposure of articles would then be to the detriment of authors. Editors must therefore strike a balance between the interests of the author and the reader. For example, the most common complaint is the length of time taken to make a final decision on a paper. In most cases this is due to the slowness of referees (i.e. other authors). Speeding up decisions is of course highly desirable, but there is a trade-off between the interests of the author and reader. The author wants a quick decision. The reader too would like journals to publish research as soon as possible, but also expects articles to have been carefully screened for errors, to be well written and, most important, to have something of substance to say. An important role of the editor is to adjudicate on this trade-off. Now that the reader has easy and fast electronic access to the latest research, and the signalling element is becoming more significant, we could find the decision-making process taking even longer. It is certainly something to be aware of and to guard against.

This is a good opportunity to express our enormous thanks to our thousands of referees. We all know how important it is to have competent and conscientious referees to assess our work. The life of an editor becomes a nightmare if referees give incorrect or poor advice, are extremely late with their reports, or fail to send one in at all without informing the editors. These are the main cause of delays in decisions. They also make wrong decisions more likely and are a great source of frustration for editors. On the other hand, to a very large extent we are all dependent on the goodwill and social conscience of referees. The editors have tried to match the referee to the paper by taking advantage of the search facilities of the web. As well as the author getting a sound report, hopefully the referee will then also get some benefit from reading the paper carefully. In this way, refereeing becomes less costly in terms of research

time given up. Even so, there are many unsung heroes who have given an enormous amount of their time in helping to raise papers to the required standard for publication when they could have just sent in a brief report recommending rejection. I thank these referees especially.

The Managing Editors are also greatly indebted to our editorial assistants. Especial thanks are due to Kathy Crocker, for her many years of service to the RES both as Membership Secretary and for running the *Journal* office so efficiently. We are also extremely grateful to Mary Brooks, Paula Cook and Annette Johnson also at the York office, to Elaine Herman who

has assisted Christopher Bliss throughout, to Jim Myton who has assisted David De Meza and to Tamar Pagrach who has assisted Gerard van den Berg .

Table 1: Geographical Breakdown of Submissions 2000-June 2004

UK	41 (19%)	108 (22%)	89 (20%)	99 (23%)
USA & Canada	60 (27%)	156 (32%)	137(31%)	140 (32%)
USA	54	141	121	124
Canada	6	15	20	16
Europe	89 (40%)	160 (33%)	150(33%)	121 (28%)
Belgium	5	7	9	6
France	9	11	10	10
Germany	13	29	30	19
Italy	15	19	15	12
Netherlands	11	24	28	23
Scandinavia	14	35	27	20
Spain	7	12	18	7
Other	15	23	13	24
Other	30 (14%)	68 (13%)	70 (16%)	72 (17%)
Australia/NZ	3	15	16	12
Hong Kong	2	4	9	6
India	1	5	2	4
Israel	7	11	11	14
Japan	6	10	9	13
Other	11	23	23	23
Total	220	492	446	432

the case. They also tell us that *The Economic Journal* has tended to maintain its readership more than nearly all of its other journals, having a renewal rate of about 82 per cent.

The Economic Journal's ranking

The ranking of *The Economic Journal* is very different depending on the measures used. The ranking of *The Economic Journal* in the *Journal of Economic Literature*, June 2002, by Pieters and Baumgartner is 6. This looks at citations in the 42 leading economics journals after deducting self-citations. The *Journal* ranks after the *AER*, *JPE*, *Econometrica*, *QJE* and *REStud*. The SSCI 'impact factor' ranking in 2002, which does not deduct self-citations, is 28, the SSCI 'immediacy factor' ranking is 14. The overall ranking corrected for age of journal, impact, self-citations and page numbers is 18, according to a recent study by Kalaitzidakis, Mamuneas and Stengos (2003).

The Economic Journal Lecture

The Economic Journal Lecture at the 2004 annual RES conference at Swansea was given by Douglas Bernheim (Stanford). Ariel Rubinstein (Tel Aviv University) has agreed to give the Lecture in 2005.

Royal Economic Society Prize

The prize, worth £3000, for the best article in *The Economic Journal* in 2003 was awarded to Geir Asheim and Martin Dufwenberg for their paper, 'Deductive Reasoning in Extensive Games' which appeared in the April 2003 issue of *The Economic Journal*. The prize committee consisted of the President of the Royal Economic Society, Professor John Sutton, Professor Alan Carruth, a member of the Royal Economic Society Council and, on behalf of the editors, Mike Wickens.

Statistics

As already noted, one of the main aims of the Editors when we began eight years ago was to strengthen the international standing of *The Economic Journal*. The editorial statistics for 2003, the last complete year for which there are statistics, indicate a measure of success. In 2003, 492 articles were submitted compared with 446 in 2002, 432 in 2001 and 493 in

1997, the year we started. Table 1 shows that 33 per cent of the total number of submissions were from Europe (excl. the UK), the same as in 2002, but 4 percentage points higher than earlier years. Submissions from North America have stayed constant for the last four years. In 2003 they were 32 per cent. An increase in European submissions occurs in most countries, but the increases in Germany, Scandinavia and Spain have been particularly large. To some extent these changes are a reversal of previous trends. As suggested in a previous annual report, perhaps they reflect an improvement in research quality in Europe that allows authors to aim more for top international journals like *The Economic Journal*. It also implies that the

Journal is establishing itself as a key player among European journals. The proportion of submissions from the rest of the world fell from 16 per cent to 13 per cent. UK submissions were 22 per cent, compared with 20 per cent in 2002.

Table 2: Subject Breakdown of Submissions 2001-June 2004

(Acceptances to date in brackets)

	2004	2003	2002	2001
General Economics and Teaching	2	3	7	6
Methodology/History of Thought	1	5 (1)	3	6
Mathematical & Quantitative Methods	9	14 (1)	18 (4)	25 (2)
Microeconomics	46	88	77 (7)	82 (10)
Macro & Monetary Economics	25	71 (1)	71 (2)	71 (9)
International Economics	34	62	36 (4)	42 (3)
Financial Economics	12	28 (1)	27 (5)	25 (1)
Public Economics	14	27	24	21 (1)
Health, Education and Welfare	10	21	19 (3)	15 (3)
Labour & Demographic Economics	21	70	71 (2)	50 (5)
Law and Economics	1	6	4	3
Industrial Organisation	11	27	23 (1)	33 (1)
Business Economics	3	2	1 (1)	-
Economic History	3	2	2	2 (1)
Economic Development	15	41	39	31 (1)
Economic Systems	2	3	4 (1)	2
Agricultural/Natural Resources	3	7	3	11 (2)
Urban, Rural & Regional Economics	4	9	14	7 (1)
Other Topics	4	11	4	-
TOTAL	220	497 (4)	446 (30)	432 (40)

Table 3: Editorial Processing after Initial Submission*

	2003	2002	2000	1998	1996
Submissions received	492	446	461	434	503
Papers withdrawn	6	2	4	1	1
Dealt with by Managing Editors alone	120	103	103	139	78
Sent to a referee:** Referee returned within:	365	341	354	294	424
1 month	16%	18%	14%	32%	31%
2 months	22%	25%	33%	30%	35%
3 months	22%	24%	25%	21%	22%
4 months	17%	16%	12%	10%	7%
even longer	23%	7%	15%	7%	5%
for an average of:	11 wks	9 wks	10.5 wks	8 wks	7.5 wks
Time distribution for all submissions (excluding withdrawn papers)	486	444	457	433	502
less than 1 month	6%	3%	12%	19%	12%
1 - 2 months	7%	5%	11%	11%	12%
2 - 3 months	9%	14%	7%	10%	15%
3 - 4 months	8%	9%	12%	11%	19%
4 - 5 months	9%	11%	13%	14%	12%
5 - 6 months	9%	10%	12%	9%	11%
even longer	52%	48%	33%	26%	19%
for an average of:	25 wks	24wks	19 wks	17.5 wks	17 wks

* These figures do not include the Conference issue, Lectures or Obituaries.

** Since 1999 the figures are for receipt of referees' reports only. All previous figures are receipt of a response.

Table 2 gives the subject breakdown. The proportions in different subject areas tend to fluctuate considerably from year to year which makes interpretation difficult. The main differences compared with 2002 are an increase in submissions in microeconomics and international economics. Microeconomics continues to be the largest subject area, with 18 per cent of total submissions in 2003. Although the number of submissions in microeconomics is highest, the proportion has been falling in recent years; it compares with 17 per cent in 2002, 19 per cent in 2001 and 22 per cent in 1999. The increase in international economics is considerable. The proportion has increased from 8 per cent in 2002 to 13 per cent in 2003. Macro and monetary economics retains its second position with 14 per cent of submissions, which is down from 16 per cent in 2002.

Editorial data for 2002 are given in Table 3. For comparison, the figures for 2002 are in parentheses. Of the 492 (446) submissions in 2003, 24 per cent (23 per cent) were rejected without being sent to referees. After the first round of refereeing 55 per cent (54 per cent) were rejected. 12 per cent (13 per cent) were invited to revise and resubmit. 7 per cent (10 per cent) are still without a decision. The situation on 2003 submissions on 22 September 2004 is 10 (7) papers have been accepted for publication, 80 per cent (77 per cent) were rejected, 7 per cent (9 per cent) are with authors being revised or with referees again after revision, 3 per cent (6 per cent) await an editorial decision, 4 per cent (6 per cent) still await a first decision, and 7 per cent (12 per cent) are in the process of revision.

800 (879) requests were made for referees' reports in 2003 of which 83 per cent (81 per cent) were provided in time to be of use in the editorial decision. The average time for referees to send their first report was 11 (9) weeks. 77 per cent (83 per cent) of referees' reports were received within 4 months.

Table 4 reports data on the time taken to send a letter inviting a revision or a rejection. Of the 57 (56) papers for which a revision has been invited, 8 (17) were made within six

months and 24 (34) within eight months. The corresponding figures for sending a rejection letter were 80 per cent (80 per cent) rejections in total, of which 56 per cent (61 per cent) were within six months and 72 per cent (81 per cent) within eight months. Taking a decision to reject is quicker because it can often be made after just one referee's report while an offer to revise is nearly always based on more than one report and often needs more detailed editorial scrutiny, including a letter of advice to authors. Even so, these figures show that over-all, decision-making has been significantly slower in the last year. This is very regrettable. Much of this deterioration can be attributed to one of the Managing Editors.

A total of £7993 (£9083) was paid in fees to referees in 2003

in the following manner: taken as cash 77 per cent (59 per cent), as an RES voucher 4 per cent (11 per cent), or paid to charities 19 per cent (30 per cent). Unusually, this year, OXFAM with 28 per cent was ahead of Amnesty International with 27 per cent, which was followed by Save the Children with 15 per cent.

Reviews (from Jayasri Dutta)

I have just completed my fourth as Review Editor. Starting in October 2000, I attempted to implement a slightly different policy for book reviews for the *EJ*, following discussions at

Books received, 1998-2004

1998	688	2002	600
1999	575	2003	390
2000	685	2004	553
2001	738	to September 2004	

Editorial board meetings. This policy was to have fewer reviews of books of higher research quality in areas of active and mainstream research in Economics, reviewed by top-flight researchers in those areas. In addition, I have commissioned several review articles surveying current research in some fields.

One of the consequences has been a far lower response rate from reviewers. The current volume contains 53 reviews (including joint reviews) and 2 review articles. This is somewhat lower than expected; I had hoped to raise the number to about 25 reviews per issue.

The response rate from reviewers has been particularly disappointing with respect to 'Notes' published on the RES web page. More than one reviewer declined on the grounds that notes on the web are less visible than those published in the *Journal*. There have been 22 Notes published so far this year and there are four which have been received and will be sent on to Blackwell's in due course.

There have been two review articles received this year; Vania Sena's review article was published in Issue 496, June 2004; and Michael Mandler's review article will be published in Issue 499, November 2004. Further review articles have been requested for future issues.

Features (from Stephen Machin)

This brief report summarises the current state of play with the 'Features' part of *The Economic Journal*. Details of the next issue in February 2005 are given below. This is followed by a summary of symposia and stand alone articles that are currently at various stages of the editorial process.

The February 2005 issue contains a feature on 'Parental Leave

Table 4: Responses to Authors

	Letters sent to authors inviting revision:				Letters sent to authors rejecting papers:			
	2003	2002	2001	2000	2003	2002	2001	2000
Within 1 month	0	0	(1)	(0)	27	15	(39)	(56)
Within 2 months	0	0	(7)	(0)	32	21	(61)	(50)
Within 3 months	0	0	(2)	(2)	44	60	(41)	(28)
Within 4 months	1	2	(9)	(5)	37	38	(26)	(48)
Within 5 months	2	10	(3)	(10)	44	37	(36)	(49)
Within 6 months	5	5	(3)	(15)	38	41	(35)	(40)
Within 7 months	8	6	(3)	(8)	37	36	(25)	(37)
Within 8 months	8	11	(2)	(10)	26	31	(23)	(26)
Even longer	33	22	(26)	(22)	108	66	(42)	(40)
TOTAL	57	56	(56)	(72)	393	345	(328)	(374)

Note: 35 authors from submissions in 2002 (64 in 2001, 43 in 2000) are still awaiting a decision.

and Child Outcomes' introduced by Paul Gregg and Jane Waldfogel. The papers are by Jennifer Hill and Jane Waldfogel ('Maternity Leave, Early Maternal Employment and Child Outcomes in the US'), Sakiko Tanaka ('Parental Leave and Child Health Across OECD Countries'), Paul Gregg, Elizabeth Washbrook, Carol Propper and Simon Burgess ('The Effects of a Mothers Return to Work Decision on Child Development in the UK').

The same issue includes articles by David Blackaby, Alison L Booth and Jeff Franks ('Outside Offers and the Gender Pay Gap: Empirical Evidence from the UK Academic Labour Market'); James Mitchell, Richard J Smith, Martin R Weale, Stephen Wright and Eduardo L Salazar ('An Indicator of Monthly GDP and an Early Estimate of Quarterly GDP Growth') and an obituary of Abram Bergson by Paul A Samuelson.

Features being considered for the future include 'Migration and the UK Labour Market' (Dustmann *et al*); 'Computability and Evolutionary Complexity: Markets as Complex Adaptive Systems (CAS)' (Markose *et al*); 'Monetary Policy and Sterling Exchange Rate' (Cobham *et al*) and 'Industry and Labour Market Symposium' (Bas Ter Weel *et al*).

Among the articles planned are: 'Akerlof, Accounting Scandals and Accounting Regulation', (Meeks); 'Emulation, Inequality and Work Hours: Was Thorsten Verblen Right?' (Bowles and Park); 'UK Real-time Macro Data Characteristics' (Garratt and Vahey); 'Can Private Learn from Public Governance' (Frey); 'Alan Peacock and Cultural Economics' (Towse); 'Globalisation and Corporate Power' (Cowling and Tomlinson); 'Wages, Mobility and Firm Performance: An Analysis using Matched Employee and Employer Data from France' (Abowd, Kramarz and Roux); 'Immigration or Bust?' (Blake and Mayhew).

Ex-President honoured

In July last year, Professor Partha Dasgupta, President of the Royal Economic Society from 1998 to 2001 was elected to a fellowship of the Royal Society. Partha is the first economist ever to enjoy this honour which recognises in particular his work in ecological economics.

The Peacock Legacy: Turning point or missed opportunity? March 18th-20th, 2005

At a time when the BBC's Charter is being reviewed by the government and when Ofcom is engaged in a major review of the future of public service television, it is timely to revisit and reassess the origins and influence of the 1986 Peacock Report.

This conference brings together key individuals involved in the events surrounding the Committee and its impact: **Sir Alan Peacock, Sir Samuel Brittan, Professor Peter Jay, Lord Birt, David Elstein, Lord Griffiths, Tony Lennon and Sir David Nicholas.**

Joining them will be: Professor Steven Barnett, Dr Peter Goodwin, Dr Anthony McNicholas and Professor Jean Seaton of the University of Westminster; Professor Richard Collins, Open University; Professor Tom O'Malley, University of Wales and Professor Kevin Williams, University of Wales, Swansea.

The conference will be of interest to policy makers, people working in the industry, and to students and academics interested in the organisation, politics and history of the mass media in the UK, in the late twentieth century. For further details and a booking form please go to the conference website at: <http://www.aber.ac.uk/tfts/peacock/> or contact Ceris Berry on 01970 628 648.

The RES Public Lecture

Professor Carol Propper, Director of the Centre for Market and Public Organisation at the University of Bristol, gave this year's RES Public Lecture, drawing on recent research to show the range of insights that economic analysis can bring to issues of health care. Entitled 'Why Economics is Good for your Health', this was the fourth in this popular series of annual lectures.

In public debates on health issues, the contribution of economics is often presented as focusing solely on costs. But Carol Propper showed an enthusiastic audience that the basic idea behind economics was that individuals have continually to make trade-offs based on the *benefits* as well as the full costs of competing activities and that this framework could reveal a great deal about how people made health decisions and how those decisions could be influenced as a matter of policy.

For example, on the topical issue of obesity, Professor Popper showed that technological change has lowered the price of food and made most work less strenuous than it was in the past. The consequence is calories have become cheaper while exercise has become dearer (it now has to be paid for — in time and money). The incentives to eat and exercise have changed considerably.

Recent reforms in the health service have also shown the importance of incentives. Financial incentives for doctors, performance targets and monitoring, have all lead to clear changes in behaviour. Unfortunately, the changes have not always been in the direction desired by government, but that demonstrates how important (and sometimes difficult) it is to get the incentives right, not that incentives don't matter.

Penal taxes on tobacco have long been recognised as an influential way of discouraging smoking. Governments in developed countries are now moving towards partial bans — e.g. on smoking in public buildings. As a discouragement to smoke, this should be seen in the same light as taxation insofar as it raises the cost of smoking. In this case it is a time/convenience cost in obliging people to stop work and stand in the street.

Letter from France — Sauvons la Recherche!

French academics have recently begun a campaign for the protection and enhancement of university research. In his latest letter from France, Professor Alan Kirman, Université d'Aix Marseille, argues that more money alone is not the solution while its distribution is indiscriminate.

IN FRANCE THIS YEAR there have been rumblings of protest in the Universities. Normally speaking, this means that the students are unhappy and nothing worries the French government, of whatever colour, more than that. However, this time the threat comes from a different and much less intimidating source, the university teachers and researchers themselves. What is the complaint? French research is falling behind that in the rest of the world, we can no longer attract good students to this career and the good ones that get their doctorate in France are leaving for more rewarding shores. The answer proposed by the movement that has been created and which is called 'Sauvons la Recherche' is simple, more funds for research and, in particular, higher salaries for those entering the profession. The people who have organised this movement are not new entrants to the academic profession and can evidently not, they say, be accused of self-interest in this last recommendation! But it is a little difficult to believe that a substantial increase in entry salaries would not have a knock-on effect for their senior colleagues, *mais passons!*

The first and most obvious question is why should anyone outside the research community care about all this? Here, we economists enter into our own, for those responsible for the movement are at pains to point out that we have clearly shown that there is a strong and significant relationship between research and economic growth. Actually it is worse, for much

of the work in this area examines the relationship between expenditure on research, or more often R and D, and growth. Given this and a little faith it is not a big step to the conclusion that more resources would solve the problem. How clear the relationship is, in fact, is another question, and this is not the place to answer it. Nevertheless the way to get public backing for the movement is to show that voters have an economic interest in increasing the funds for research.

Resources are shrinking...

How bad is the situation? The movement claims that support for research in the public sector has been steadily diminishing and that fewer posts are being provided for the universities and the French research council, the CNRS. The government contests these figures and the global evidence is difficult to evaluate. However, in economics the number of posts made available in the last four years is roughly half the number in the previous four years and a number of research laboratories have seen their recognition (approved and consequently funded by the CNRS), removed.

Although the figures are open to discussion, France devotes some 0.6 per cent of its GNP to publicly funded research and the private sector about 1.5 per cent. In terms of the 3 per cent target set by the European meeting in Barcelona in 2002 the public sector should increase its effort by 50 per cent and the private sector by 33 per cent if we are to achieve the 1/3 to 2/3 division that is suggested. Hence, the call for more resources.

...and badly distributed

But is this the root of the problem? Some, like myself, feel that it is the distribution of the resources that is wrong. The protest movement by French researchers grew up to respond to what is seen as a Draconian plan to cut back on expenditure. When the government proposed a series of national meetings to examine the situation in higher education. The movement immediately proposed a series of parallel consultations which terminated in the recent *Etats Généraux de la Recherche* which, in a 90 page document made a number of proposals. Although the proposals make use of many terms, such as 'incentives' or 'evaluation',

...nowhere is it suggested that resources should be concentrated on those who are doing good research at the international level. Even less is it argued that those who do no research should not receive research funds.

nowhere is it suggested that resources should be concentrated on those who are doing good research at the international level. Even less is it argued that those who do no research should not receive research funds. Thus any increase in funds would be spread amongst all the 'enseignant-chercheurs' in the universities and the researchers in the CNRS. The basic theme is that everyone is good

at something and that we must find out what it is and encourage people to do it. In naïve economic terms we must bring the marginal social productivity of those who do not do much at the moment up to scratch, by giving people the right incentives. To do this within the public sector, as a whole would be laudable but to achieve it within the research and university sector as things stand would be nothing short of miraculous. One obvious idea would be to increase the teaching load of those who do not do research and to lighten it for those who are active in research. This is not on the agenda for the obvious reason that it would diminish substantially the support for the movement.

Perhaps, at this point, it is worth examining the actual state of research, at least in economics, in France. At first sight it does not seem to be too bad. France is classed third among European countries in a number of the evaluations of economics departments in Europe published in a recent issue of the *Journal of the European Economic Association*¹ and its most productive departments such as Toulouse and various Parisian groups such as CREST and DELTA,² are in the upper echelons. Combes

and Linnemer actually find that in terms of raw total output France ranks second behind the U.K. Such evaluations of research should be treated with care and, in a paper, in the same issue, with some co-authors we try to explain the statistical fragility of such exercises. Nevertheless they do give a basic guide until something better is devised.

The need for selectivity

So why should we be unhappy with French economic research? Consider the following question. Of all authors in France who have produced at least one article in a journal listed by the *JEL* in the last 10 years, what is the median number of articles published in the same period in such a journal? Note that we have already eliminated those who have published none at all and there is a considerable number of them. Well, the answer is one!! That is, the majority of people who achieve one article in 10 years do not publish another one. That the distribution of published articles is skewed is common knowledge but not to this point. Such a statistic shows why some of us are sceptical about spreading additional funds across all the academics in economics. Putting more money into centres of excellence seems an obvious way to reward those who are productive.

As the system stands, this cannot be in the form of salary increases since there is a common national scale, but can well be in the form of improved working conditions, support staff and funding for travel etc. A modest effort has been made in this direction with the creation of the Institut Universitaire de France, which elects 15 senior members, (across all disciplines) and 25 junior, (under 40) members per year. These individuals have two thirds of their teaching bought out and receive 15000 euros a year in research funding. But these are the happy few and this has little impact on the mass of academics.

This brings me to the next point, national salary scales. People are recruited into academic posts whether they are a lecturer at Paris 1 or at the technical institute of Saint Perdu, at the same salary. Promotion is on the basis of seniority. Whilst not arguing for a ferociously competitive system there does seem to me to be room for improvement here.

At the professorial level things are somewhat different in terms of promotion but the recruitment system is so bizarre that it might have been designed by someone trying to minimise the efficiency of the system. How does one become a professor of economics today in France? The principle route is via the 'agrégation'. This is a competition mainly entered by young recent doctorates. There is a first examination by a committee (chosen by the Ministry) on the basis of the candidate's research and if this hurdle is passed they must give two 'lessons', on the basis of subjects drawn at random, in fields more or less close to their interests. These are prepared in 8 hours in a locked room and are judged as much on form and precise timing as on content. The average age of the successful candidates in the last competitions was between 29 and 30. The committee that chooses the candidates has remarkably few publications to its names and the candidates themselves can hardly be refused on the quality of their research since they have not had the time to publish anything.³ Essentially they are judged, if at all, on their thesis and we are back to the good old days. The successful candidates do not publish significantly more than the rest of the population in their careers so it is astonishing that this system, which does not exist in the scientific or liter-

ary disciplines, should survive. Once he has obtained a post a professor's promotion is largely in the hands of a national committee, which uses seniority as its basic criterion.

There is another route into research, which is the CNRS, the closest equivalent in a Western country to the old Academies of Sciences in the former Soviet block. The CNRS employs full time researchers and they have no teaching obligations. Selection is on somewhat more rational criteria but the same skewed distribution of output persists.

From time to time it is suggested that the CNRS should become a funding agency like the ESRC or the NSF and not a major employer and that there should be a unique status for 'enseignant chercheurs'. This, like any change in the French system, is met with fierce resistance.

The selection system is not satisfactory and once people are appointed they have lifetime jobs. I would be the last to suggest that keeping people in a precarious situation is the best way to encourage productivity but the current system gives no opportunity to individuals to prove that they have the qualities necessary to do research before they are appointed. In addition jobs are allocated uniformly across universities and this is justified by the myth of the equality of all universities in France. This does nothing to encourage the growth of strong groups and the geographical allocation of young professors by their rank in the 'concours d'agrégation' does not help. We are selecting people some of whom will be rather successful in research but most of whom will do nothing. Is this because of the selection or because of the environment in which these young people find themselves? I suspect that it is a combination of both.

The main complaint of the 'Sauvons la Recherche' group is that research and higher education is becoming unattractive as a career. Yet the evidence is completely the opposite. Each year the national committee in each field decides which of the young PhDs who apply should be 'qualified' to apply for posts in France. In economics there are some 350-400 new PhDs in economics each year, most of whom are candidates for qualification and of whom about a half are refused. It is a little bit like a scene from the First World War, with several hundred brave young people coming out of the academic trenches and marching determinedly towards what will be, for at least half of them, certain academic death! The surviving candidates fight it out for the 50 odd posts of 'maitre de conférences' in various universities. Small universities mandate their representatives in the national committee to maximise the number of qualifications so that they may have a good chance of recruiting their own candidates and this explains the poor correlation between the rating of those qualified and their probability of getting a job. Nevertheless there is no lack of supply of candidates.

Do we then reject the best candidates? The 'Sauvons la Recherche' protagonists seem to suggest that in other disciplines this is not the case, for they argue that the professors come, in general, from the best of the 'Grandes Ecoles', so the best are not being discouraged from entering the race and furthermore they seem to make it. The problem is rather the type 2 error; too many people who get permanent jobs do little or no research in their careers.

The fact that a number of the good researchers come from the Ecole Polytechnique, the Ecole Normale Supérieure or other

less prestigious but still very selective institutions, brings me to the last piece of the puzzle, the Grandes Ecoles. If there is one part of the French system that seems to produce good students many of whom finally wind up in research jobs, this is it. But look at the contrast with the university system. For the Grandes Ecoles, the only equality is the equality of opportunity to sit the national exams to enter these institutions. Nobody pretends that they are of equal standing yet this seems to be perfectly acceptable. There is a system of scholarships, which enable the rigorously selected students to go to the Ecole that they succeed in getting into. Nothing could be more elitist.

The other side of the schizophrenic coin is given by the universities where most research is done. The main feature here is the fiction that all of them are equal and that any French citizen has access to the same level of education in his local university no matter where he lives. No aid is available for a student to study at a university elsewhere in his early years, and the reason given, is that such aid would be unnecessary since *égalité* prevails amongst universities. The latter argument has a further perverse result. Every university feels that it is entitled to its doctoral programme and this accounts for the fact that France produces so many PhDs in economics and, since many of them are recruited by their own university where research is not a priority, this also explains the lack of research activity among many young university teachers.

Given the system as it is now, the misallocation of resources is self-reinforcing. Many potentially good students do not get the education they need to do research at the international level. They may go on to do doctorates but the latter are of very varied quality. Having taken part in the National University Committee, where we decided who to qualify, I can testify to this. Many of those with poor theses slip through the net and once they do so they have some chance of finding a post, usually at their own university. Those who do not make it are usually not good and few good candidates are eliminated. But, to repeat, the problem is that too many candidates get through the first filter and after that quality is not the top priority in the local competitions.

So what is the general picture? Too many candidates are chasing jobs. There is no shortage of potential researchers. Many of those who get jobs will not do any research in any standard sense. Yet, in the name of equality, all those who have university jobs have a claim to any increase in funds. Thus to have any real effect the increase would have to be really substantial. However, if any additional research funding were to be concentrated on the more productive groups it would have a real effect. Doctoral programmes in universities not producing research could be shut down. These institutions could concentrate on undergraduate teaching, far from an unworthy task. In addition, if those groups or universities that are productive were to receive funding for jobs and the possibility to vary teaching loads to reward active researchers things could move ahead fast. One could also mention the possibility of pecuniary rewards but this would immediately be characterised as ultra-liberal and there are some labels that are difficult to live with in France.

You will have noticed that the modest reallocation of research funds suggested here does not suggest any more serious reform of the research system in France — university teachers would

still be civil servants and resources would still be allocated by a central authority. The only thing that would disappear is the idea of equal treatment for all in matters of funding. This will not be so easy to sell and to show why this is so let me describe an incident at a recent conference to discuss the future of the CNRS.

One researcher observed that the CNRS finances certain journals in economics. These journals are financed because they are considered to be of high quality. She suggested that a subsidy which amounts to x percent of a journal's costs should oblige the journal to give x percent of its pages to the CNRS. These would then be distributed equally to CNRS researchers in economics who could publish whatever they felt like. That way she asserted everyone would publish in high quality journals and everybody would be better off!

This sort of opposition is not hard to beat. However, much more reasonable people, with whom I often agree, find it difficult to contemplate taking any funds away from their colleagues so I find myself in a slightly uncomfortable position. Yet, what goes to the French universities for research is public money after all and is it too much to suggest that we give more money to those who do research and do not use research funds for those who do none? If it is, then it seems, to me at least, that what we are being asked to 'sauver' is not 'la recherche' but all those who have already embarked on the academic ship, whether passengers or crew.

Notes:

1. See *Journal of The European Economic Association*, Spring 2004, Vol.2 Issue 5.
2. The French system is particularly difficult to understand and most productive researchers belong to a CNRS recognised research group, which for some academics may not be attached to their own university. A number of the authors of papers in the special issue did not manage to penetrate the workings of the French system and this accounts for some bizarre rankings.
3. This is not quite fair. For both qualification and aggregation an article published in one of the journals listed in *JEL* is now considered essential. This may explain why the majority of those who have published have one, and only one article.

Apology to Angus Deaton

We regret that the Editorial introduction to Angus Deaton's last Letter from America — 'Unequal treatment, unequal incomes, and race' did not entirely reflect the content of the article. What we should have said is:

While large-scale income inequality goes largely unremarked in the USA, the same is not true for inequalities in health. In his latest letter from America, Angus Deaton questions the conventional explanation — that largely white physicians discriminate in various ways against ethnic minority patients. In practice, recent research shows, there is an informal apartheid system — some physicians treat whites, and other, different doctors, treat blacks. The problem is that the doctors who treat blacks are generally less well-qualified and have access to poorer resources.

We apologise unreservedly for any difficulty caused by our inaccuracy.

The Modernisation of the UK Gambling Industry — an issue of tax and regulation

In this article, Professor Leighton Vaughan Williams¹ explains the background to the government's recent proposed changes to the UK gaming industry.

IN THE MARCH 2000 BUDGET, the Chancellor of the Exchequer launched a consultation exercise to consider ways in which the system of taxing bets in the UK (then a system of General Betting Duty, based on turnover) could be modernised in the context of rapid changes facing the betting industry. The most urgent of these changes was the growing e-commerce environment, and linked to this the growth in the availability of (sometimes 'tax-free') off-shore betting outlets, providing competition to UK-based bookmakers.

It was the desire of Government that any change to the existing tax system should provide a fair basis for UK bookmakers to compete internationally as well as to make a fair contribution towards general tax revenues.

A consultation document ('An Economic Analysis of the Options for Taxing Betting', September 2000), commissioned by HM Customs and Excise from me, and my team consisting of Professor David Paton, of the Nottingham University Business School, and Professor Donald Siegel, now of Rensselaer Polytechnic Institute, New York, addressed the relevant issues within a framework which considered the advantages and disadvantages of the existing turnover-based tax system compared to a 'Gross Profits Tax' (GPT), i.e. a tax based on the difference between bookmakers' receipts from bettors and payout to bettors.

We provided an economic assessment of the proposed tax systems with reference to the following criteria: fairness, efficiency, sustainability of the tax system to a changing domestic, international and technological environment, scope for attracting international betting activity to the UK, and the maintenance of current levels of duty receipts.

We demonstrated in our report that in the presence of at least some monopoly power, a revenue-equivalent Gross Profits Tax (GPT), would lead to lower prices and higher output. In economic terms, allocative efficiency is increased and welfare losses are reduced. The greater the level of monopoly power, the greater are the efficiency benefits of a gross profits tax, but in any case, a revenue-equivalent GPT is always at least as efficient as a turnover tax. The intuition behind this is that a GPT is levied on price whereas the then tax system ('General Betting Duty') was levied on turnover. Consequently a GPT system provides an incentive for firms to follow a low-margin/high-turnover strategy rather than the low-turnover/high-margin strategy encouraged by a turnover tax.

In the 2001 Budget, the Government took on board the academic theory and decided to base its betting taxation policy on such economic criteria as reducing allocative inefficiency and maintaining competitiveness. The decision, announced in the

Budget, to switch to a gross profits tax, at a level effectively equal to roughly half of what it had been previously, was based on the assessment that it was likely to lead to a range of welfare improvements, not least lower prices for consumers and an industry better protected against ongoing changes in the competitive and technological environment.

On October 6, 2001, academic theory became public policy. A tax on price replaced a tax on quantity, at a lower effective level than at any time since the introduction of a tax on bookmakers 35 years earlier.

One year later we carried out an evaluation of the new regime for HM Customs and Excise, in which we concluded that the new gross profits model was more effective, fair and sustainable than the previous regime. Moreover, Exchequer revenues and betting turnover during the first year of GPT were in line with expectations.

The rest is history as the bookmaking sector has witnessed more than a four-fold increase in turnover, bettors have seen the abolition of deductions on their bets, and the Government is happy to have created a stable competitive base for a significant industry.

Since then the same principle has been extended to the bingo sector, which has also switched to a tax on its 'gross profits.'

Modernisation of the gambling industry is about more than taxation, however, as the Government seeks to bring into the 21st century the framework for regulating the gambling industry. Most of the measures proposed as part of the modernization are uncontroversial, drawn up in response to the need to amend legislation which was formulated in an era before the rise of many of the key influences on the present-day gambling sector, such as the Internet and other remote forms of gambling.

For example, while it is presently legal to bet on sports or current events by telephone or over the Internet, the bettor must be physically present under current legislation before being allowed to play 'games of chance', such as roulette or blackjack. The new legislation aims to bring betting and gaming under the same umbrella of regulation, both subject to a common Gambling Commission, with significant regulatory powers to ensure the protection of children and the vulnerable from the influences of a gambling culture, and of the public more generally from unfair practices and crime.

Again, current legislation was framed before the invention of person-to-person betting exchanges, which allow bettors to offer and take bets among themselves without the need for a bookmaker. These exchanges offer considerable advantages to the bettor, in that the margins implied in the odds are generally lower than are available with traditional bookmakers, and

bets can be made and taken on almost anything. Recent examples include markets on the capture of Saddam Hussein and Osama Bin Laden, which correctly predicted the date of capture of the former, and which foresaw the protracted elusiveness of the latter. Critics argue, on the other hand, that these exchanges offer exceptional opportunities for unfair practices, such as laying a horse to lose and subsequently preventing it winning. The new legislation is framed to address these issues.

The rise of Fixed-Odds Betting Terminals (FOBTs) in betting shops has also exposed the fragility of the existing legislation. These 'terminals' can offer bettors the opportunity to bet on virtual events, such as roulette or even penalty shoot-outs in a football match. The controversy over whether these machines are betting or gaming machines led at one point to an expected High Court showdown between the Gaming Board, which claimed that they should come under the gaming legislation and the big bookmakers, who argued that they should come under the less rigorous betting legislation. In the event, a compromise was reached in advance of a final resolution contained in the new legislation, which allowed bookmakers to maintain a maximum of four machines in any one licensed betting office, albeit with a limited maximum win payout and stake size, and a restriction on the frequency of repeat play.

At the same time, the impact of the change to a tax on margins from a tax on turnover has played a significant role in each of these areas of growth and contention, by actively encouraging such low-margin, high-turnover activity.

More controversial is the deregulatory aspects of proposed legislation, in particular the easing of restrictions on the development, promotion and marketing of the casino industry.

For example, opportunities for gaming establishments to promote their offerings are severely limited under current legislation, and potential clients of a casino have to register 24 hours in advance of playing, a restriction which does not exist for those wishing to bet on a horse or even to play the Lotto. Other anomalies abound, for example regulations on where casinos can and cannot be sited (in Nottingham, for example, but not in Norwich). In short, new legislation is necessary to drag an antiquated and anomalous system into a new era fashioned by technology and changing social attitudes towards gambling.

As part of the policy-making process a number of experts and industry figures were invited to give evidence before a Joint Scrutiny Committee of the House of Commons and House of Lords which was given the task of considering the proposals contained in a new Gambling Bill drawn up by the Department for Culture, Media and Sport (DCMS), the Government department with the responsibility for gambling in the UK.

My role was to give oral and written evidence to the Committee on the likely economic implications of the Gambling Bill, as constituted. I was also commissioned by the DCMS and by HM Customs and Excise, with David Paton, to assess the likely effects of the Bill for the Government.

In the consequent reports, we assessed the likely impact of the proposals on the number of casinos, divided into four categories: regional casinos, large casinos, small casinos and existing casinos.

Under the proposals, the regional casinos (commonly dubbed as 'super-casinos') are to be allowed up to a maximum of 1250

gaming machines, of unlimited payout, while the smaller casinos (defined as large or small depending on floor space) are allowed a maximum of 150 and 80 machines respectively, of limited payout. In each case, the number of machines cannot exceed a fixed multiple of the number of table games.

We calculated the impact of the proposed new legislation on the number of each type of casino, as well as the likely gross gaming yield (equivalent to gross profit) in each of these sectors, derived from estimates of table win per unit per day and machine win per unit per day, and cross-referenced this against aggregated estimates derived from estimates of average participation rates (casino visits) and mean spend per visit.

Further estimates were carried out on an assumption that one or more of each of these sectors would be capped at a given number.

Relevant elasticity and cross-elasticity estimates were also derived, and the impact of given changes to the casino sector estimated in terms of their impact on other sectors of the gambling industry.

Changes to the cultural fabric of the nation are about more than economics, however, and Parliament, in approving the final formulation of the Bill, has also taken heed of the input of academics and practitioners from other disciplines, notably psychology and sociology, in a culture framed by an awareness deriving more, it seems, from sentiments echoed in Fyodor Dostoevsky's *The Gambler* than from organized religious opposition. These sentiments, translated in sections of the media into well-publicized fears, were in part rationally based, but in another part the result of organized campaigns fuelled more perhaps by vested economic interests more than by genuine concern about the social or moral fabric of the nation.

The resulting Gambling Bill will be somewhat different from that which would have arisen if economists alone had their say, but also somewhat different to that which would have arisen without the input of professional economists. Many of the improvements over the old legislation would have taken place anyway, including the sweeping away of clear anomalies, as well as the introduction of new regulations on machine play designed to tackle the problem of addictive behaviour. Other changes to the legislation, some introduced at a very late stage, are new however, designed to cap the number of new casinos at a figure well below what was anticipated on the basis of original market projections.

In the field of tax reform with respect to betting, therefore, economists can claim a clear success. In the case of new regulation, economics has provided a valuable but less all-decisive input to the decision-making process. Taken all in all, then, we can count the contribution of economics, and in particular traditional economic analysis, to the modernization of gambling in this country as significant and radical. Is it too much to hope that the lessons learned from this practical experiment with our taxes and our legislation will be applied in the future to re-examine the taxation and regulation of other areas of economic and social activity? We shall see.

Note:

1. Professor Leighton Vaughan Williams is Head of Economics Research and Director of the Betting Research Unit at Nottingham Business School, Nottingham Trent University. He is also editor of *Economic Issues*.

UK Economics Survey

David Bell, University of Stirling, recently undertook a survey of UK economics departments, with the help of CHUDE, to inform ESRC discussions about training needs in economics. The following is an abbreviated report.

The role of the ESRC Training and Development Board is essentially to support and strengthen the UK's social science research base. It does this through a number of activities including the recently introduced post-doctoral fellowship awards. In the future and in conjunction with other parts of the ESRC, it may provide training support at other points in researchers' careers. But its main activity for the foreseeable future will be the support of research students. ESRC postgraduate research awards in the UK are based on the recognition of outlets delivering high quality training and support. There are around 500 recognised outlets distributed across social science disciplines in UK universities. Awards are allocated to recognised outlets partly by quota and partly by competition. For three years, most awards have been allocated under the '1+3' or '+3' models, implying support for one year of training and three years of research or simply for three years of research. Around 600 studentships have been allocated via these routes each year.

The ESRC has been aware that some subject areas have been experiencing difficulty in recruitment and retention of suitable postgraduate students. In particular, economics has had difficulty

in maintaining a steady flow of high quality graduates from UK universities through post-graduate studies and into academia. Steve Machin and Andrew Oswald (2000) first highlighted this trend. They pointed out that in 1998, neither LSE nor Nuffield College had attracted any UK graduates into their PhD programmes. As a consequence they suggested that in the future, UK undergraduates would probably not be taught by UK-born lecturers. This is not necessarily a bad thing, so long as foreign-born and UK-born academic staff are reasonably close substitutes across the full range of academic activities. But its inability to attract bright British graduates does imply that UK academic economics is not sufficiently prestigious and/or remunerative to attract the world's best graduates. Higher salaries in the US seem likely to attract the best mobile graduates.

The introduction of the '1+3' postgraduate award has made the ESRC particularly aware of the problems that economics faces and which distinguish it from other social science disciplines. Economics typically experiences drop-out rates of between 40 and 50 per cent after the first year MSc component. Few other disciplines have ever exceeded a 10 per cent drop-out rate. Economists, knowing the market value of a good taught MSc in economics, are not particularly surprised by this outcome. Steve Machin and Andrew Oswald suggested that 'an MSc in Economics has effectively become a professional qualification - like that required to be a chartered accountant. Yet the taxpayer does not provide large subsidies to training in accountancy'.

The difficulties being encountered by economics are reaching a wider audience. The December 2004 report of the House of Commons Science and Technology Committee on the work of the ESRC recognises that the '1+3' structure may not necessarily be appropriate for all disciplines. It recommended a more flexible approach to the provision of studentships. It also signalled its support for special measures to support quantitative disciplines in social science:

We are deeply concerned by the skills shortages afflicting, in particular, the quantitative branches of social science. It is hard to see how significant progress towards rectifying these shortages can be made through deployment of ESRC's limited resources. ... We recommend the establishment of a national Strategic Capabilities Fund to address skills shortages and ensure national coverage in key subject shortage areas by building local capacity. (House of Commons Science and Technology Committee, 2004 p34)

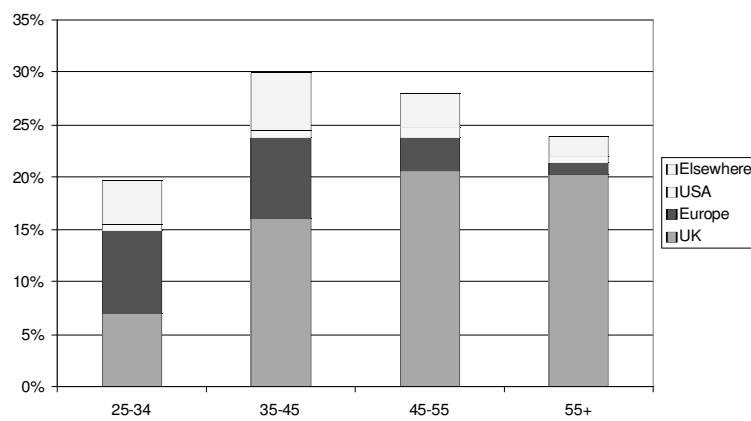
The ESRC Training and Development Board is aware that it

needs good evidence both to win the arguments on adopting a more flexible pattern of awards that will be more discipline-specific and to address policy issues associated with shortages in key quantitative disciplines such as economics. This evidence has to contribute towards the formulation of the ESRC strategic plan. To help build a picture of the difficulties faced by economics, I was asked by the ESRC to survey UK economics departments

in late 2004 so that we could understand the demography of the profession as well as recent patterns of hiring and quitting.

Forty three institutions provided responses. These covered a total of 827 FTE staff paid for by the funding councils. The size of departments ranged from 54 to 6.5 FTE staff. The mean number of staff per department was 19.2 and the median was 16.5. Among the responding departments, 25 had an associated recognised ESRC postgraduate training outlet. Distributed among these were 26 ESRC quota awards, 29 competition awards and four postdoctoral fellowships. A wide variety of research outcomes was present in the sample, ranging from 5* results in the 2001 RAE to departments which were not submitted. Some departments were submitted under rubrics other than economics and econometrics. Ignoring this distinction, 20 departments in the sample had scores of 4 or above in the 2001 RAE. All regions were represented, with numbers varying from six in London and seven in Scotland to two in both the North East and the North West.

Fig 1: Distribution by Age & Where took First Degree



Some departments were submitted under rubrics other than economics and econometrics. Ignoring this distinction, 20 departments in the sample had scores of 4 or above in the 2001 RAE. All regions were represented, with numbers varying from six in London and seven in Scotland to two in both the North East and the North West.

The survey asked for information on the age distribution of staff and where they received their first degree. The intention was not to determine individuals' country of origin, but rather to follow the route that they may have taken into UK academic economics. Information was also sought on the last three appointments and quits in each department. This included the location in which the first and the most recent degrees were taken. Data on leavers asked where they had taken their most recent degree and what their destination after leaving was: another UK academic job; an academic job outside the UK; a job outside academia or retirement.

Findings

The main findings from the survey were:

(1) The proportion of staff employed in UK economics departments whose first degree comes from a UK university is falling rapidly. Fig 1 shows that there are more than three times as many academic economists with a first degree from the UK aged 55 and above than there are aged 25-34. This is consistent with the Machin and Oswald evidence of poor levels of recruitment among UK undergraduates to postgraduate courses, and with their view that UK undergraduates view academic economics as an inferior career choice.

(2) In the 25-34 age group, more staff have a first degree from a university in mainland Europe than from a UK university. The emergence of mainland Europe as the principal source of new staff was not picked up in the Machin and Oswald study, but is a logical consequence of higher prestige associated with academic careers in Europe and perhaps also with less flexibility in European academic labour markets.

(3) The majority of staff joining UK departments have UK postgraduate qualifications, implying that a large number of Europeans undertake postgraduate study in the UK and then stay on at a UK department. This is particularly true among departments with a high research rating and is consistent with trends in ESRC awards in economics. In recent years large numbers of these awards have been made to students from other parts of the EU because effective demand from within the UK has been weak.

(4) Around a quarter of appointees to highly research active UK economics departments have US postgraduate qualifications. This development suggests that many departments now take the view that the best candidates for jobs in UK departments can be found in the USA. These are not necessarily US citizens, but will have been trained in the USA. US postgraduate qualifications are clearly more popular than those from mainland Europe. But increasing dependence on US training is worrying if the UK is seeking to close the gap in academic quality between itself and the US.

(5) Only around 50 per cent of those who leave a job in an economics department remain in UK academic economics. Almost a quarter retire, while the remainder are almost evenly divided between academic jobs outside the UK and jobs outside academia.

(6) Those who have completed their postgraduate work in the UK are more likely to find employment outside academic life, while those who complete their postgraduate studies outside the UK are more probable to find alternative work in academic institutions outside the UK. This finding may suggest that those from outside the UK who join UK departments see themselves more as part of a global labour market than those with exclusively UK-based training. Further, this group may be less involved with knowledge transfer within the UK, through taking jobs outside academia, such as in the civil service.

(7) There are distinct differences between departments with a rating of 4 or above in the 2001 RAE and those with a less favourable research assessment. The latter tend to be more reliant on UK trained staff and to experience less international mobility, but more mobility outside academia. Among the former group, it is clear that US postgraduate qualifications are having a considerable impact on the flow of new hires. This is quite consistent with research active departments being more closely linked to global academic networks.

Conclusion

Through time, the changes described above will radically change the composition of UK economics departments. Such change is not necessarily bad. A more globally connected UK economics community is surely a welcome development. Nevertheless, there are also risks associated with the falling proportion of staff whose first degree is from the UK. For example, external increases in the demand for academic economists, such as might be caused by attempts to resolve demographic problems in other countries or increased flexibility in European academic labour markets could result in a substantial exodus of staff. Further the Office of Science and Technology might want to consider how the changing profile of academic economics might impact on knowledge transfer within the UK. And there remains the Machin/Oswald question as to why UK graduates still find academic economics such an unattractive career to follow. Nevertheless, this survey has proved a useful information gathering exercise and may help provide ESRC with some of the arguments that might see significant resources being put in place to restore the attractiveness of the discipline.

The Leverhulme Trust

The Trust has just announced the results of the 2004 competition for the Philip Leverhulme prize. In economics the award went to Professor Steffen Huck, of University College London for his work in experimental economics, learning behaviour, and evolutionary game theory.

Philip Leverhulme Prizes are awarded annually to young scholars — defined as those under 36 at the time the Committee meets, normally in the autumn. There is likely to be a new competition for economics in 2006.

For further information about the Trust and this year's Philip Leverhulme Prize winners, go to the Trust's website: www.leverhulme.ac.uk

Obituaries

Fred Meyer

Dr Frederick Victor Meyer, who died on September 23 aged 85, was a former Reader in Economics at Exeter University, and the mentor and friend of generations of students. Fred was born in Vienna three days after the Armistice, on 14 November 1918, the son of Stefan Julius Meyer and Emilie Meyer. Stefan Meyer was a scientist working on radioactivity who eventually became Director of the Vienna Radium Institute.

Fred went to school at The Abbey of our Lady of the Scotts, a monastery in the centre of Vienna whose alumni included Johann Strauss. Two years after he left school, Hitler invaded Austria, and Fred left for England, the only member of his family to get out. After getting both a bachelor's degree and a Ph.D. from the London School of Economics he worked in the Foreign and Commonwealth Office, before going to Manchester University. In 1949 he moved to the then University College of the South West, which in 1955 became Exeter University. Fred stayed there until his retirement as Reader in International Economics in 1984. Indeed in one sense he never retired, continuing to take a close interest in the life of the economics department and becoming first president of the Exeter Economics Graduates Association (EEGA) on its founding in 1991.

The choice for this job was never in doubt. Fred left an indelible impression on his students, as an inspired and inspiring teacher, who could reverse their conception of economics, or anything in it, in the space of a single tutorial. You would meet a short stocky man with an accent he owed to his native dialect of Upper Austria and a whistling hearing aid. Fred never complained about his deafness, but in truth the compensations of being able to switch off departmental meetings, or economists with a rigorous analysis that was going nowhere, were minor indeed. It is for international economics that he will be best remembered, but in fact his teaching especially in the early years was varied and catholic. His research career, beginning in 1948 and continuing into his retirement, remains unique within his department for its longevity. Anyone who thought a university was primarily a research institute where students were peripheral could expect a sharp retort, yet the fact remains that he, more than anyone else, kept research going in a department which went through lean intellectual times more than once.

Fred's main books were *British Colonies in World Trade* (1948), *Great Britain, The Sterling Area and Europe* (1952), *United Kingdom Trade with Europe* (1957), *The Terms of Trade* (1962), *The Functions of Sterling* (1973), *International Trade Policy* (1978) and the co-authored *Problems of a Mature Economy* (1970). His edited work *Prospects for Recovery in the British Economy* appeared in 1985, and his many journal articles included "The Effects of the Overseas Slump on the British Economy" (with W.Arthur Lewis, 1949) and 'Complementarity and the lowering of tariffs', published in the *American Economic Review* in 1956. At the time of his death he was working on a book on the theory of international trade. In retirement he gave unstinting comments and advice on the research work of colleagues, including some who had not even joined the economics department until after he had left it.

Fred was the least intimidating of tutors, yet in a quiet way he expected a lot of his students. Some of the expectations were unconventional and not strictly academic. He expected them to be engaged to

be married (though not, given the then sex ratio, to each other) by the time they finished his third-year course on international economics. This may have been on the basis of his own long and happy marriage to Jean Jenkin, whom he married in 1948. But his alcohol-related recommendations were also eccentric. His invention of a 'Customs Union' was supposed to demonstrate the best side of trade integration, given that it was a 50:50 mix of English gin and Scotch whisky. If you could drink several and still walk a straight line, the customs union between England and Scotland was deemed a failure. Students on the other hand who limited themselves to one Customs Union at his end-of year parties, or, worse, refused to partake at all, would be met with a growl of 'Haven't I taught you anything?' Anyone who gave up smoking, a sacrifice he never remotely considered himself, was greeted with 'I see you're being sensible' and, as a former student remarked at his funeral, it was not said nicely.

The most demanding exam paper on the Exeter economics degree was the three-hour unseen essay (now alas discontinued) where students had a choice of topics from across economics. Fred held the record for the shortest question ever with "Why trade?", until the devaluation of the pound in 1967 prompted him to surpass himself with "£1=\$2.40?". His students' affection for him not only made him president of EEGA (BEEGA after the economics department merged with business studies in 1997) and guest of honour at all its meetings (which, until his last few months, he never missed), but also resulted in the raising of enough money from ex-students to fund two Fred Meyer scholarships. Initially these were reserved for students on the M.A. in the Economics of the European Union, which he himself had founded in the mid-1970s. More recently they have been available for research students pursuing European themes as well.

No one could know Fred without knowing what a kind and generous man he was. Colleagues and students alike will remember his hospitality, and his succession of characterful and not especially well behaved small dogs. Fred and Jean were always the first to invite new lecturers to dinner, and when the Meyer sons went on to university they were surprised, after their experience of home, to find how seldom dons asked students round to their houses. Jean predeceased Fred in 1996. He is survived by his two sons Steven and John.

*John Maloney,
University of Exeter*

Jack Revell

John Robert Stephen Revell was born on 15 April 1920 in Tunbridge Wells and died in Cambridge on 4 November 2004. He was educated at Skinners' School, Tunbridge Wells and the London School of Economics. Before going up to LSE in 1947, he spent ten years in the Civil Service and army and qualified as an Associate of the Institute of Linguists (French and Spanish). On graduating from LSE, he worked as a researcher for Tass, the Soviet news agency.

Revell joined the Department of Applied Economics (DAE) at Cambridge in 1957. He was a Research Officer from 1957 to 1963 and Senior Research Officer from 1957 to 1963. From 1960 to 1965 he held several Director of Studies and tutoring posts in Economics. He was a Fellow (from 1965 to 1968) and Senior Tutor in Economics (1967 to 1968) at Fitzwilliam College. In 1968, he took up the Chair in Economics and Head of the Department of Economics at what is now the University of Wales, Bangor, which he held until 'retirement' in 1983 (he kept writing until just before his death). While at Bangor, he also held the post of Assistant Vice Principal (equivalent to Pro Vice-Chancellor). All these posts he discharged with distinction.

Revell's research at Cambridge laid the foundation for the international reputation that he developed later for his work on banking and financial systems. At Cambridge, he worked on national balance sheets within a unit headed by W.B. Reddaway. This work became an integral part of a more extensive research project at Cambridge, directed by Professor Richard Stone, that studied the financial implications of growth in the British Economy. Many major City and financial institutions provided funds to help support this wider research programme. Assisted by Graham Hockley and John Moyle, Revell produced the national balance sheet of the United Kingdom for 1957 - 61; his main contribution to this project is contained in *The Wealth of the Nation*, published in 1967.

During this time at Cambridge, Revell also began to document and explore the emergence of a new banking system, the so-called 'secondary banking system', that had developed alongside the traditional banking system. His exploratory work focused on the principles and implications of wholesale banking conducted within this new banking system. The growing importance of wholesale banking and the wider internationalisation of banking and finance were associated with the start of a new era in financial systems which was characterised by a series of fundamental changes in the industrial economics of banking. New kinds of banking firm, innovatory methods of banking and markedly changing competitive conditions were striking features of this 'new world' that wider market developments and regulatory policies helped to stimulate and sustain.

These new interests marked the beginning of Revell's research focus on banking and financial systems. He set up the Institute of European Finance at Bangor and established an international reputation for his applied research on banking and financial systems. At the same time, he built a strong team of researchers at Bangor with common interests in banking and financial studies.

Revell's work at Cambridge had equipped him with a practical set of skills that he deployed throughout the rest of his research career. In particular, he pursued strongly inductive research that documented methodically and in great detail the institutions that he observed and analysed. This 'institutional approach' was similar to that of early industrial economics, but it was not a fashionable path in the early 1970s with the growing movement towards more rigorous theory and an increasing emphasis on 'scientific method' in mainstream Economics. Revell never disputed the need for these wider developments, but his comparative advantage lay in a more practical, inductive style of research. This research took him closer to the institutions that he studied; he focused on how they developed strategies and made decisions. The burgeoning revolution in financial economics, on the other hand, sought more summary proxies to model and test in a world where assumptions like rationality and efficiency were assumed to be the norm. The world that Revell explored was more 'fuzzy'. His work essentially emphasised the need for a closer understanding of the practical workings of financial institutions and systems in a world where apparent irrationality and some inefficiencies could sometimes be central to an explanation.

In some respects, Revell pursued the kind of institutional research that Richard Sayers at LSE had conducted. Sayers had himself become internationally recognised as a leading exponent of the so-called 'institutional approach' for studying banking and financial system developments. Revell emphasised the importance of history in shaping institutional structures and strategies. His work at Cambridge on the wider financial and national balance sheets also led him to emphasise the linkages between financial institutions and financial flows. Revell's well-known book *The British Financial*

System in this vein was a worthy successor to Sayer's *Modern Banking* and a hallmark of Revell's 'institutional' style.

An apparent paradox of Revell's work was his strong socialist background. He left the Communist Party in 1956 when the Russians invaded Hungary, but retained strong socialist principles throughout his life. These were reflected in the kinds of banking research that he conducted and in which he developed an international reputation. In particular, he wrote widely on savings banks and social banking: a contemporary term for this kind of banking is 'proximity banking' (where bank physical presence is directed towards serving all local and regional demands and providing a vehicle for lessening asymmetric information problems, which are particularly attenuated for less profitable customer groups).

Revell was concerned that a free enterprise banking system driven solely by the profit motive could lead to some segments of society being increasingly excluded from financial services. Today these concerns are echoed in the growing policy concern with the problems of 'financial exclusion', now recognised as a key issue in attacking wider social exclusion problems. Many students believe in a need to re-invent proximity banking in order to help solve these problems, an approach long advocated by Revell.

Revell's kind of practical, inductive research also helped him to understand the forces that were shaping the industry so that he was able to 'look ahead' ahead and make some informed proposals. His work on proximity banking and the related issues of financial exclusion are an example. Revell was also one of the first UK researchers to identify the need for bank prudential regulation (or supervision) as a necessary condition to capture and sustain the economic benefits of contemporaneous liberalisation and deregulation (of banking structure and conduct rules). This need and respective policy balance have emerged as one of the big policy challenges of the modern era of banking and financial system development.

In the area of banking supervision, Revell was one of the first to study the importance of bank capital adequacy and the special problems of handling uncertainty associated with capital adequacy tests: he advocated the use of the technique of stress testing in this domain. He also suggested that banking supervisors should 'vicariously participate' in bank management in order to lessen the potential of 'regulatory arbitrage' (where banks attempt to innovate around restrictive regulations). Supervision and capital adequacy are now major drivers of the global banking industry. The much debated, new 'Basel 2' global standards for banks come into effect in 2007 and they include stress testing for capital adequacy and an emphasis by regulators on 'economic capital', the quantum of capital that an efficiently run bank, subject to the discipline of a well-informed market, should hold. These kinds of techniques and regulatory principles were first discussed and explored by Revell in his research monographs during the early 1970s when such issues were seen as somewhat quirky (at best) by mainstream UK monetary economists.

Many of Revell's research interests in institutional developments and related policy questions were shared by Continental European Economists, especially in countries like Italy and Spain. He was the leading light and founding father of the Wolpertinger Club of banking professors with a common interest in such research. This club (now over 70 strong and over 20 years old) meets once a year to conduct a two day research seminar on banking and financial issues. He leaves a wife, Pat, and three children, Barbara, Alison and David.

E P M Gardener
University of Wales, Bangor

The Treatment of Economic Issues by the Intergovernmental Panel on Climate Change

Issues relating to climate change, and to the choice of policies for dealing with it, are now highly topical. In Britain, both the Prime Minister and the Leader of the Opposition have recently emphasised the urgent need for measures to limit greenhouse gas emissions, and Mr Blair has stated his intention to place this issue high on the agenda of the coming G8 summit meeting. In this context, readers may be interested to hear of some recent exchanges relating to economic aspects of these issues. Aside from their intrinsic interest, the exchanges raise wider questions as to the role of economics and economists in the policy process. David Henderson, formerly (among other things) Head of the Economics and Statistics Department of the OECD, and now Visiting Professor at the Westminster Business School, has been one of the participants in the current debate. This is his personal report.

THE INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE (IPCC) is a joint subsidiary of two international agencies, the World Meteorological Organisation (WMO) and the United Nations Environment Programme (UNEP). It was created by the member governments of these two agencies in 1988. Since then it has produced three full-scale Assessment Reports, issued respectively in 1990, 1995 and 2001. Work is now in progress on the Fourth Assessment Report (AR4), which is due in 2007.

The Panel operates through three Working Groups. WGI is concerned with scientific aspects of climate change, WGII with the prospective impacts of such change and ways of adapting to it, and WGIII with mitigation of the impacts. Each of the Groups produced its own report as part of the Third Assessment Report. Alongside them was the *Special Report on Emissions Scenarios* (SRES), prepared for WGIII, which provided in particular a range of projections of greenhouse gas emissions, covering the period from 1990 to 2100. Between them these four reports make up some 3,300 pages of text. Their preparation involved a small army of participants — authors, contributors, reviewers, and commentators — with delegates from member governments closely involved in the final stages of revision. Collectively, these participants make up what may be termed the IPCC milieu.

An economic dimension

In an official document headed 'Principles governing IPCC work', which can be viewed on its website, the role of the Panel is specified as being:

... to assess on a comprehensive, objective, open and transparent basis the scientific, technical *and socio-economic* information relevant to understanding the scientific basis of risk of human-induced climate change, its potential impact and options for adaptation and mitigation. (Italics added).

Thus the responsibilities of the IPCC include that of advising and informing its member governments on the economic factors that may bear on 'human-induced climate change'.

The economic aspects are sometimes viewed as incidental or peripheral. For example, in a recent exchange in the House of Lords (15 July 2004) Lord Whitty, replying for the government to a question put by the former Chancellor of the Exchequer, Nigel Lawson (now Lord Lawson of Blaby), said that

... the scientific basis for, and the physical effects of, climate change are virtually unchallenged by any serious scientists. The economic calculations are subject to some degree of dispute. I am happy to urge people to engage in discussing these questions, but they do not undermine or threaten the basic conclusion that, unless we do something, this world will get dangerously warmer.

This is a misleading statement. For one thing, economic considerations, and criteria, are relevant to deciding what form the 'something' that 'we do' should take. For another, projections of global warming are based on projected atmospheric concentrations of CO₂, which in turn are based on the projections of CO₂ and related emissions which emerge from the SRES; and the emissions figures themselves are linked to SRES projections of world output, world energy use, and the carbon-intensity of energy sources. In these latter projections economic factors are central. True, they act in conjunction with demographic and technical factors, but these are themselves subject to economic influences. If and in so far as the treatment of these latter influences is open to question, the basis for IPCC projections of global average temperature changes cannot be taken as assured.

Given its unavoidably close involvement with economic issues, it is worth inquiring how and through what mechanisms the IPCC has chosen to deal with them. What is the role of economics and economists in the production of IPCC reports? Is there scope for improvement here? For me, recent personal experience has thrown some light on these questions.

A critique and its reception

Over the past two and a half years or so, I and a co-author — Ian Castles, formerly Head of the Australian Bureau of Statistics — have put forward a joint critique of economic

aspects of the work of the IPCC. While our main single target has been the SRES, our concerns extend to the IPCC process and milieu *as a whole*, including the Panel's sponsoring departments and agencies. Moreover, we have gone beyond criticism, by putting forward proposals for action.

The main heads of our critique of the SRES can be summarised as follows:

- For the base year of 1990 it compares real GDP across countries on the basis of market exchange rates (MERs), rather than purchasing power parity (PPP) converters. These comparisons greatly overstate the differences in GDP per head between developing regions and OECD member countries.
- It gives a misleading account of the factors that bear on the choice between MERs and PPPs, and of the implications of such a choice.
- It builds in, for reasons that are open to question, rapid convergence in GDP per head between developing regions and OECD member countries. By thus assuming the substantial closure of a greatly overstated initial gap, it arrives at projections of output and GDP per head for developing regions which are higher than they would have been if the 1990 starting point had been correct, and high by comparison with other projections
- As a result, total projected world GDP is pushed up; and this in turn is reflected in higher projected emissions. Hence even the scenarios which show the lowest cumulative emissions over the present century do not in fact represent lower limits. The SRES projections do not, as is claimed for them, adequately encompass the full range of uncertainties about the future.

Our critique thus covers not only the *results* of the exercise, in the form of specific projections of emissions, but also the *approach*, the analytical basis of parts of the Report.

Our arguments have been strongly contested by authors who were involved with the SRES. Interested readers are referred to a series of articles that has appeared in recent issues of the journal *Energy and Environment*: the first four of these — two on each side — comprise the exchanges between us and the SRES authors, and three further articles have since appeared.¹ Those who would prefer to invest considerably less time can be recommended, first, to two articles from the 'Economics Focus' page of *The Economist* (15 February and 8 November, 2003), which weigh in on our side, and second, to an official press release issued by the IPCC in December 2003 and now posted, in a somewhat less impolite form than the original version, on the Panel's website. This latter document is concerned to expose our critique as baseless. Among other things, it states that 'In recent months some disinformation has been spread questioning the scenarios used by the IPCC'; and it refers to Castles and me as 'so called "two independent commentators"'.²

Along with our critique, our suggestions for change have been rejected by the Panel. The main proposals that we have made are three:

- That the SRES, because it is open to serious criticisms, should not be taken as the starting point of AR4: an alternative and firmer basis should be sought, through less elaborate and more short-cut procedures than those of the SRES.
- That in assessing possible future developments in the world economy, and ways of projecting them, the involvement of

economic historians and historically-minded economists should now be ensured — for the first time.

- That more generally, and going well beyond scenario-building, the IPCC process should be broadened, in particular through the active involvement, first, of national statistical offices in member countries, and second, of ministries of finance and economics.

As to the first of the above suggestions, the IPCC has determined that 'the SRES scenarios provide a credible and sound set of projections, appropriate for use in the AR4'. As to the other two, the Panel and its member governments appear as fully content with the present established procedures and arrangements for participation. The opening paragraph of the press release referred to above says of the IPCC that

It mobilises the best experts from all over the world, who work diligently on bringing out the various reports... The Third Assessment Review of the IPCC was released in 2001 through the collective efforts of around 2000 experts from a diverse range of countries and disciplines. All of IPCC's reports go through a careful two stage review process by governments and experts and acceptance by the member governments composing the Panel.

Overstated claims

In relation to economic aspects, there is good reason to question the claims to authority and representative status that the IPCC makes on its behalf.² Those of us who are sceptics do not question the numbers of those involved, their diligence, or the existence and observance of formal review processes. But we think that when it comes to the treatment of leading economic issues, the milieu is neither fully competent nor adequately representative. We also hold that building in peer review is no safeguard against dubious assumptions, arguments and conclusions if the peers are all drawn from the same restricted professional milieu.³

A leading illustration of our case (it is not the only one) is the issue of MERs versus PPPs. Here the internationally agreed System of National Accounts (SNA), which dates from 1993, gives unambiguous guidance. In its opening chapter, it specifies (paragraph 1.38) that:

When the objective is to compare the volumes of goods or services produced or consumed per head, data in national currencies must be converted into a common currency by means of purchasing power parities and not exchange rates ... Exchange rate converted data must not ... be interpreted as measures of the relative volumes of goods and services concerned.

Despite this ruling, misleading MER-based international comparisons have been uncritically made, not only by the SRES, but also in the reports of both WGII and WGIII; more recently, in a report issued by UNEP; and more recently still, in a document prepared for an IPCC-sponsored conference by one of the three current Vice-Chairs of the Panel. It seems probable that not one of the many participants in these various proceedings had heard of the SNA, and it is not referred to in either the text of the SRES or its 17 or so pages of references.

In the context of national accounts, there is a specific error in the SRES which, though only incidental, shows that mere numbers are no guarantee of representative status. On p. 115 of the Report the concept of GNP — now more usually referred to as GNI —

is wrongly defined. This basic error was not picked up by any of the 53 authors, 4 review editors and 89 expert reviewers who are listed as participants in the preparation of the SRES.

In the IPCC press release referred to above, the statement is made that 'the economy does not change by using a different metrics (PPP or MEX), in the same way that the temperature does not change if you switch from degrees Celsius to Fahrenheit'. This assertion could be interpreted in different ways, but on any interpretation the analogy appears as false. Admittedly, not all economists would accept without qualification the case for using PPP-based converters, rather than some exchange-rate-based alternative; but even the sceptics do not argue that the choice is immaterial.⁴

In the British case, it might be supposed that one or two members of the Government Economic Service, now said to be 800 strong, not to mention a person from the National Statistics Office, would have been brought into the economic work of the IPCC and made it less unrepresentative. There is no sign of any such involvement. Speaking in the House of Lords last April on behalf of the responsible department, the Department of the Environment, Food and Rural Affairs, Baroness Farrington said that 'the views of Mr Castles and Mr Henderson were considered extremely carefully... by the Government...' If such consideration has indeed been given, its results have not been communicated to me.

A way forward

The economic content of AR4 can be strengthened only if new participants are brought into the process, and this can be achieved only if and in so far as member governments act accordingly: the IPCC milieu appears impervious to unofficial criticism. In this context, it is the central economic departments of state — treasuries, ministries of finance or economics, and organisations such as the US Council of Economic Advisers — that have a potentially key role. Up to now, and despite the large amounts that are at stake, they have been content to leave the handling of economic issues within the IPCC process to the departments and agencies directly concerned. The questionable

treatment of these issues by the IPCC and its sponsoring organisations, which Castles and I have drawn attention to as independent outsiders, has apparently not been noticed by a single official in a single finance or economics ministry in a single country. It is high time for this situation to change, and for these departments to become involved.

Fortunately, a straightforward route to their participation exists for the taking. For the economic departments and agencies in OECD member countries, an instrument is to hand for their prompt collective involvement: it is the OECD itself. They should act now to ensure that IPCC-related economic issues are placed on the agenda of the OECD's Economic Policy Committee. This could be the start of a process by which economics and economists become more adequately represented in proceedings and decisions where much is at stake.

Notes:

1. The four articles are to be found in Vol 14, Nos 2 and 3; Vol 14, No 4; and Vol 15, No 1. Three further articles have appeared in Vol 15, No 3 — one by Warwick McKibbin and two colleagues from the Australian National University, writing as model-builders, one by Jacob Rytten, formerly of Statistics Canada, on the MER versus PPP issue, and the third by Ian Castles on the role of the IPCC.

2. Doubts on this score, as also about the current policy presumptions of both government and opposition in Britain, were recently voiced in a joint letter from seven economists to *The Times* (24 September 2004). The signatories were Wilfred Beckerman, Ian Byatt, Nigel Lawson, Julian Morris, Alan Peacock, Colin Robinson and me.

3. It is not only in relation to economic aspects that such queries have been raised about the IPCC process and its results, by critics writing about other subject areas.

4. An interesting by-product of our critique has been some high-level rapid-fire professional exchanges on the uses and limitations of PPP. Meghnad (Lord) Desai (House of Lords proceedings, 21 April 2004)) and Richard Cooper (in a letter to *The Economist*, 18 June 2004) have emerged as sceptics. A contrary view is taken by *The Economist* itself, in an editorial dated 29 May 2004; by Angus Maddison in a letter (10 July 2004) replying to that of Cooper; and (more fully) by Jacob Rytten in the article referred to in footnote 1 above.

Correspondence

Pensions and the paradox of thrift

Why in all the discussions on the so-called pension crisis in the UK, has no one even mentioned the old-fashioned argument that by urging people to save more, they, *cet par*, may end up either saving the same or even less than otherwise — which would hardly be a cure for the so-called crisis!

Call me old-fashioned, as Dame Edna often says, but this does seem to me a valid argument. Unless it can be shown that the injunction to people to save more (because of an impending pension crisis) will so change the general environment that aggregate planned investment will also rise *pari passu* with planned saving, the attempt to save more may well have the consequences outlined above. Indeed, if the initial contractionary effects of a fall in spending out of current income were to reduce business confidence generally, planned investment could well fall below what it otherwise would have been. This would have the second consequence that saving too will be even less than what it was initially, and what it would have been otherwise.

It may well be asked what then will be macroeconomic effects of using current taxation to finance current pension receipts? So long as they constitute internal transfers between citizens the effect is likely to be either neutral, or even expansionary, depending on the relative sizes of the marginal propensities to consume (mpc) of the taxpayers vis-à-vis those of the pensioners. *A priori* it seems obvious that the average mpc of pensioners is likely to be closer to unity than the average mpc of taxpayers.

There are all sorts of minor modifications, ifs and buts, that could be added to these arguments. But I submit that the overall case is robust. That it has not been stated arises, I think, because we have been dragooned back into a pre-Keynesian way of thinking after Keynes, into believing that it is saving that leads and investment that follows. If only it could be remembered that it is much more plausible to suppose that availability of finance not saving, *cet par*, leads to implementation of investment which in turn creates saving, that in general autonomous injections are required to offset induced leakages, we would have a more robust base on which to build an analysis of how to tackle the pension crisis — if indeed there is one in the offing.

G C Harcourt,
Jesus College, Cambridge

The Nobel Prize

This year's winners of the Bank of Sweden's Tercentenary Prize in Economic Sciences in Memory of Alfred Nobel were Finn E. Kydland and Edward C. Prescott. John Driffill of Birkbeck College puts their achievements in context.

Finn E. Kydland and Edward C. Prescott, were awarded the prize for two contributions: time inconsistency, and real business cycles. Both contributions launched research programmes that have embroiled armies of scholars for over two decades. While the real business cycle programme has been highly controversial and has influenced primarily academic economics, time-inconsistency has had a powerful influence on public policy.

The paper 'Rules rather than discretion: The inconsistency of optimal plans' (*Journal of Political Economy*, 1977) presented a wonderful intellectual riddle, which engaged the minds of many scholars in the late 1970s and early 1980s. Time-inconsistency was not a completely new discovery in 1975, when the paper was written, nor is it peculiar to macroeconomics. Robert Strotz, for example (*Review of Economic Studies* in 1956), had shown that it arises in the context of consumption and savings, if consumers do not discount future utility exponentially. But Kydland and Prescott first set out the problem in the macroeconomic context, and showed how it emerges as a direct consequence of rational expectations models.

Kydland and Prescott's work underlined the value of a policy maker's credible commitment to a policy rule. Subsequent work by others investigated how credibility might be established, whether through a reputation for following sound policies, or through public institutions that had the right incentives. It contributed to the intellectual foundations for having independent Central Banks conduct monetary policy with the single objective of price stability. It influenced academic research by stimulating interest in the game-theoretic aspects of macroeconomic policy and in the interactions of economics and politics: the new political economy.

But for Kydland and Prescott, time-inconsistency appears to have been just a way-station on the journey of discovery, where real business cycles look more like the terminus. In 'Rules rather than discretion....' they were applying optimal control to rational expectations models, but were still working with models built up of aggregate macroeconomic relationships, like the aggregate supply curve.

In the real business cycle model they went further towards putting into practice Lucas's injunction to construct models, capable of confronting data, based directly on optimizing behaviour of rational economic agents operating in the context of a market economy. The parameters of this economy ('deep structural parameters') describe preferences and technology and are therefore independent of public policy. Business cycles and longer term economic growth are joint consequences of a sequence of productivity shocks that hit an economy. Money is completely absent.

Kydland and Prescott have since remarked that their aim was to discover how much of observed business cycle fluctuations could be attributed to productivity shocks alone, and were pleasantly surprised to find that, for the United States, the

answer was as much as 70 per cent. Their followers have strained every intellectual muscle in the search for modifications to the basic model that would enable productivity shocks to explain all of observed business cycle fluctuations, not just 70 per cent, though without substantial success.

The RBC research programme has been strongly criticised. While its adherents have populated the US mid-West, its critics, stationed mainly along the East and West coasts, have been unwilling to accept its thoroughgoing insistence on a perfectly functioning Arrow-Debreu economy as the benchmark business-cycle model. Awarding the Nobel Prize to its progenitors may be seen as the apotheosis of freshwater economics.

The programme replaced econometric testing with calibration and simulation. It also introduced its own data, generated with the ubiquitous Hodrick-Prescott filter. Neither procedure has won universal acceptance. While the RBC school has claimed that every implication of a model, not just some, should be consistent with data, critics have pointed to the narrow range of auto- and cross-correlations used to judge empirical success. RBC models have had great difficulty in explaining the large fluctuations in aggregate employment without assuming implausibly large elasticities of labour supply. (Was the great depression simply a long vacation?) The much vaunted propagation mechanism in RBC models is weaker than initially thought. The time-series properties of the models are less the result of the internal workings of the economy, turning white noise into cycles, than simply the properties of the shocks, generally assumed to be serially correlated. Productivity shocks themselves have been lampooned as incredible. How can it be supposed that technology has got worse? Have we forgotten how to make things?

Nevertheless, the RBC programme has had a profound influence on macroeconomics, whether approached from the RBC, New Keynesian or any other perspective. It has established the stochastic dynamic general equilibrium framework as a benchmark. There is very widespread acceptance that modelling should start from firm microeconomic principles, and that dynamics and optimization over time are fundamental. There has been considerable convergence of what once were opposing views. Efforts have been made to get away from the representative household and to introduce income distribution into business cycle models. Features like money, imperfect competition, wage and price stickiness, and other market imperfections have gradually been incorporated. Economic policy has resurfaced. Michael Woodford's canonical *Interest and Prices* (2003) illustrates the degree of synthesis that has been achieved. What began as a whacky idea is approaching orthodoxy.

Whether you believe that the RBC programme has led macroeconomics out of the mists of confusion and onto the sunlit uplands, or that has set it back by twenty years, there is no escaping its influence.

RES news items

Annual general meeting

The Annual General Meeting of the Royal Economic Society will be held on Monday 21 March during the Society's Annual Conference (21-23 March 2005) at the University of Nottingham. Papers for the meeting will be circulated with the February issue of *The Economic Journal*.

One-year junior fellowship scheme Academic year 2005/06

The Society is proposing to award a small number of one-year junior fellowships, tenable in UK universities, to postgraduate students who have completed at least two years of their doctoral studies. Those awarded fellowships will be expected to undertake 60-80 hours teaching in their Universities during the academic year while continuing with their doctoral research. Those who have already completed their doctorate may also be considered.

Heads of University Departments of Economics in the UK are being invited to put forward candidates for these fellowships. The closing date for applications is **22 April 2005**.

Students interested in the fellowships should contact their Head of Department, from whom further information can be obtained.

Postgraduate students should not make direct application to the Society.

Support for small academic expenses - new application deadlines

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

Applications, in the form of a letter and stating the purpose for which a small grant (maximum £600) is required, should be sent to: Professor Anton Muscatelli, Vice-Principal (Strategy and Budgeting), Daniel Jack Professor of Economics, Adam Smith Building, University of Glasgow, Glasgow G12 8RT. Please note that the closing dates for applications are **31 January, 31 May, and 30 September** each year and applications will only be considered at these times.

NOTE This scheme does NOT cover assistance to members who wish to go to a conference at which they will be presenting papers or acting as discussants. A separate fund — the Conference Grant Fund — has been set up for this purpose. See details below.

Conference grant fund

The Society's Conference Grant Fund is available to members who are presenting a paper, or acting as a principal discussant at a conference; support of up to £500 is available. Awards are made three times a year. The closing dates for applications are **31 January, 31 May, and 30 September** each year in respect of conferences which take place in the ensuing four months. Application forms and further particulars may be obtained from: Professor Anton Muscatelli, Vice-Principal (Strategy and Budgeting), Daniel Jack Professor of Economics, Adam Smith Building, University of Glasgow, Glasgow G12 8RT. Fax: +44 (0)141 330 3547

Annual Conference 2005

The 2005 Annual Conference will be held at the University of Nottingham from
Monday 21st to Wednesday 23rd March

Keynote speakers include:

Professor Orley Ashenfelter (Princeton)
Professor Clive Granger (UCSD)
Professor Bengt Holstrom (MIT)

Financial Assistance

Postgraduate students who present papers at the Conference will be eligible for financial support.

Conference Volume

Papers which are accepted for the Conference will be eligible for consideration for publication in the Conference Volume of *The Economic Journal*.

(All speakers are expected to pay the conference fee.)

Further details are available from the Society's website:
www.res.org.uk
and
www.nottingham.ac.uk/economics/res/programme.html

Publications

The Society offers to its members a number of scholarly publications at special prices. These include: *The Collected Writings of John Maynard Keynes*; *Keynes Lectures, 1932-35*; *Malthus' Principles of Political Economy* and *An Essay on the Principles of Population*; *Official Papers of Alfred Marshall* and *The Correspondence of Alfred Marshall, Economist*.

A full list with the special prices may be obtained from Ms Eleanor Burke, Department of Economics, London Business School, Sussex Place, Regent's Park, London NW1 4SA. E-mail: eburke@london.edu or via the Society's home page on the internet (www.res.org.uk).

Conference Diary

2005

january

21-22 January *Budapest, Hungary*

CALL FOR PAPERS

*International conference on **Central and Eastern Europe: A feminist economic dialogue** organised by the International Association for Feminist Economics (IAFFE).*

Further information from: Budapest@iaffe-europe.org or www.iaffe-europe.org

february

3-4 February *Palma de Mallorca, Spain*

*Twelfth conference on **Public Economics** to be held at the University of Balearic Islands in Palma de Mallorca Spain.*

Further information from: ecopublica@ccee.unm.es or www.uib.es/congres/ecopub

march

21 - 23 March *Nottingham*

*Annual conference of the **Royal Economic Society** to be held at the University of Nottingham.*

Further information from: see page 21.

23-24 March *Erfurt, Germany*

*Eighteenth conference on **Law and Economics** organised by the University of Erfurt.*

Further information from: juergen.backhaus@uni-erfurt.de or www.uni-erfurt.de/finanzwissenschaft

29 -31 March *Perth, Scotland*

*Annual conference of the **Scottish Economic Society** to be held at the Ramada Jarvis Hotel, Perth.*

Further information from: www.scotecsoc.org

april

7-9 April *Vienna, Austria*

*Tenth annual European conference on **History of Economics** to be held at the University of Vienna. The theme will be: Economics and Utopia.*

Further information from: www.eche.eu.com

11 April *Nottingham*

*Fourth annual **GEP Postgraduate Conference** to be held at the University of Nottingham. Open to PhD students researching in the area of globalization and economic policy from both theoretical or empirical perspectives.*

Further information from: www.nottingham.ac.uk/economics/leverhulme/conferences

28-30 April *Pula, Croatia*

*Third conference on **Entrepreneurship and Macroeconomic Management**.*

Further information from: www.efpu.hr

may

12-14 May *Lodz, Poland*

*Fourth annual conference on **Forecasting Financial Markets and Economic Decision-Making (FindEcon2005)** to be held at the University of Lodz. The purpose of the conference is to share experience in forecasting emerging and developed financial markets and other markets and their impact on economic growth.*

Further information from: www.prf.webpark.pl

27-29 May *Ontario, Canada*

CALL FOR PAPERS

*Thirty-ninth annual meeting of the **Canadian Economics Association (CEA)** to be held at McMaster University. Abstracts should be submitted by 28 February 2005 through the on-line registration form for paper presenters at <http://economics.ca/2005/>*

Further information from: <http://economics.ca/2005/>

june

6-7 June *Barcelona, Spain*

*A workshop on **Decentralization, Governance and Economic Growth** to be held in Barcelona. Keynote speakers include Tim Besley, Robin Boadway and David E Wildasin.*

Further information from: www.pcb.ub.es/ieb/degoeco or ieb-degoeco@pcb.ub.es

16-18 June *Paris, France*

CALL FOR PAPERS

*Nineteenth annual conference of the **European Society for Population Economics (ESPE)**. The aim of the conference is to facilitate the exchange of research ideas and results across a range of fields, including the economics of the household, labour economics, public economics, demography, and health*

economics. All submissions should be sent by **1 February 2005** by e-mail to the programme committee, ESPE2005@law.usyd.edu.au.

Further information from: www.espe.org.

16-19 June

Erfurt, Germany

CALL FOR PAPERS

Eighteenth symposium on Economics and the Social Sciences: Reformation organised by the University of Erfurt.

Further information from: juergen.backhaus@uni-erfurt.de or www.uni-erfurt.de/finanzwissenschaft

22-24 June

Manchester

First international conference on e-Social Science to be held at the University of Manchester.

Further information from: www.ncess.ac.uk/conferences05.htm

24-25 June

Nottingham

Conference on Globalisation and Firm Level Adjustment to be held at the University of Nottingham.

Further information from: www.nottingham.ac.uk/economics/leverhulme/conferences

27 June - 1 July

Beijing, China

Fifteenth international Input-Output Conference to be held at Renmin University. The aim of the conference is to promote and stimulate the exchange of ideas among economists, government officials, engineers and managers with interests in input-output analysis and related methods worldwide. This includes economic theory; issues of policy and strategy such as growth and development or energy and the environment; all aspects of models, methods, and analytical frameworks; applications at the global, national, regional and local levels; the use of input-output analysis in new areas including interdisciplinary research and the collection of data and compilation of input-output tables.

Further information from: www.iioa.org/conf

July

15-17 July

London Business School

CALL FOR PAPERS

Seventh annual conference of the Association of Heterodox Economics to be held at City University. The theme will be Pluralism in Economics.

Further information from: [www.staff.city.ac.uk/andy.denis/research/AHE 2005.htm](http://www.staff.city.ac.uk/andy.denis/research/AHE%2005.htm)

18-20 July

York

CALL FOR PAPERS

Annual conference of the Work and Pensions Economic Group (WPEG) to be held at the University of York. Papers

from academics, government, and business economists in any field of labour economics and related areas (including pensions, poverty and housing) are invited and should be submitted by 28 February 2005 to wpeg-papers@york.ac.uk

Further information from: www.york.ac.uk/res/wpeg/

August

17-28 August

London

CALL FOR PAPERS

Third annual OxMetrics User Conference to be held at the CASS Business School. The conference aims to provide a forum for the presentation and exchange of research results and practical experiences within the fields of computational and financial econometrics, empirical economics, time-series and cross-section statistics and applied mathematics. Abstracts (100-200 words) should be sent by e-mail by 30 April 2005 to Giovanni Urga (g.urga@city.ac.uk).

Further information from: Giovanni Urga at the above email. Also www.cass.city.ac.uk/faculty/g.urga/info1.html

29 August - 2 September 2005

Morocco

CALL FOR PAPERS

Fourteenth world congress of the International Economic Association. Papers and abstract should be submitted electronically by 31 January 2005 to iea-wc@chu.hu. Papers should be in English, include name, affiliation, title of paper, postal and email address.

Further information from: Professor Laszlo Matyas, Central European University, Budapest, Hungary. E-mail: iea23aise@aol.com

September

22-23 September

Helsinki, Finland

CALL FOR PAPERS

Conference on Open Market Operations and the Financial Markets to be held at the Bank of Finland. Papers on any relevant topic are invited and should be sent by 28 February 2005 to David Mayes, Bank of Finland, PO Box 160, 00101 Helsinki, Finland. E-mail: david.mayes@bof.fi

Further information from: David Mayes at above address.

October

14 October

Erfurt, Germany

CALL FOR PAPERS

Fifth conference on Fiscal Sociology organised by the University of Erfurt.

Further information from: juergen.backhaus@uni-erfurt.de or www.uni-erfurt.de/finanzwissenschaft

Membership of the Royal Economic Society

Membership is open to anyone with an active interest in economic matters.

The benefits of membership include:

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

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

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

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

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

- Discounts on registration fees for the Society's annual conference.

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

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

Details and application form are available from:

**The Membership Secretary, Royal Economic Society,
University of York, Heslington, York, YO10 5DD.**

Membership rates for 2004 are £45 (\$65)*

There is a reduced rate of £22.50 (\$36) for members who reside in developing countries (with per capita incomes below US\$500) and for retired members. A special offer of three years membership for the price of one at this reduced rate is available to full-time students who join the Society for the first time in 2004.

* All customers in the EU should add 5 per cent VAT to these prices or provide a VAT registration number or evidence of entitlement to exemption. Canadian customers please add 7 per cent GST or provide evidence of exemption.

Ordinary UK member: £45 + £2.25VAT = £47.25

Ordinary EU member: 68 + 3.40 = 71.40

Ordinary Canadian member \$65 + \$4.55 = \$69.55

Reduced rate members: \$36/ 34/£22.50 + GST/VAT as appropriate.

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

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

..... in payment of my subscription for 2004.

Name:

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Address:

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Occupation..... Date.....