



ROYAL ECONOMIC SOCIETY

# NEWSLETTER

Issue no. 130

July 2005

ROYAL ECONOMIC SOCIETY

## The conference issue

The Society's Annual Conference took place at the University of Nottingham on 21st-23rd of March, just days before the April *Newsletter* went to press. We have several times looked to see how we might modify the production arrangements in order to get the Conference Report into the April issue, but when one considers the effort involved in writing and editing that report it is tempting to conclude that it may be a step too far. Producing a survey of a Conference which includes over 150 papers and several plenary sessions is a heroic effort. This year, readers will see. it has been ably and entertainingly done by Heather Stewart of the *Observer* newspaper.

Amongst other regular items, we also have the Secretary-General's 'Annual Report' and Ray Rees's 'Letter from Germany'. Apart from showing that economists can actually agree, Ray's letter, which reviews three recent books on the state of the German economy, shows how much of the dissent in economic policy can still be interpreted within the age-old 'market-optimism/market-pessimism' framework. It also suggests an alarmingly low level of economic literacy in parts of the German policy-making process, rather reminiscent of the UK a generation ago. It would be interesting to know more about the situation in this regard in other EU countries.

Climate change, or at least the way in which policies towards it are being developed has turned out to be a sensitive issue. Readers will remember that David Henderson began the debate here in January. In this issue we publish his response to subsequent comments and an update. In our correspondence column, James Forder makes some interesting points about widespread misinterpretations of Kydland and Prescott's work on time inconsistency.

Finally, but only in the sequential sense, there is an important message from the Society's President, John Sutton, about the decision of the Society to organise and host an organized 'market' for new PhD graduates seeking academic jobs in the UK. The first even is scheduled for January 28th/29th, with key deadlines prior to that. So this needs the urgent attention of all potentially interested parties.

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# ROYAL ECONOMIC SOCIETY

# NEWSLETTER

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## Newsletter - subscription rates

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## Next issue

### Newsletter No. 131 - October 2005

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

**15 September 2005**

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

**16 September 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 Annual Report of the Secretary-General

*The Secretary-General, Professor Richard Portes, presented the following report on the Society's activities to its Annual General Meeting, on 21st March during the 2004 Annual Conference at Nottingham.*

THE RES ANNUAL CONFERENCE returned this year to the Nottingham, where we had a very successful meeting in 1999. The local organisation will doubtless be extremely efficient this year as well, and the facilities of the East Midlands Conference Centre provide an excellent environment. The Conference is an annual occasion for members of the Society to discuss their work and the issues facing economics in the UK and elsewhere. But the Royal Economic Society has a wide range of activities, and I shall report on our journals and the work of our various committees. I shall also discuss how RES expenditures support our members and the progress of our discipline.

After last year's changing of the guard, the new officers, editors and committee chairs have been working into their roles. We are beginning to see the changes initiated by our new President, John Sutton; the new editors of the *Economic Journal* and the *Econometrics Journal*; and the new chairs of CHUDE (the Committee of Heads of University Departments of Economics), the Committee on Women in the Profession, and the Committee on the Public Profile of Economics.

John Sutton has been characteristically thorough and judicious in his leadership of the Council and its Executive Committee. With the Treasurer, Penelope Rowlett, he has led a reconsideration of our investment policies. He has also brought the Council and CHUDE to consider various proposals for launching a 'job market', whether or not in association with the Annual Conference. These discussions continue, and we can expect to see the outcome in the next few months. The Council, who are also the Trustees of the RES (as an educational charity), make the final decisions on major policy proposals. New members are elected annually, and we welcome at this AGM six recently-elected members of the Council: Orazio Attanasio, Wendy Carlin, Amelia Fletcher, Hamish McRae, Mark B Stewart, and Mike Wickens.

Our Annual Conference is very different from that of our sister organization, the American Economic Association, perhaps closer to those of our French and German analogues (Association Française des Sciences Economiques, Verein für Sozialpolitik). David Warsh's perceptive report on last year's conference (*Newsletter* no.126, July 2004) brought out some of these features. He recalled how the Annual Conference devel-

oped from the initiative of Frank Hahn, President of the RES in the mid-1980s, to combine the RES annual general meeting with the annual conference of the Association of University Teachers of Economics. He went on to give general assessments of the invited lectures, the special sessions, and the contributed paper sessions, with a comparison of the overall ambience to regional association meetings in the United States. David had promised to return this year simply as a participant and observer, but a reporting task for his weekly [www.economicprincipals.com](http://www.economicprincipals.com) has kept him in the US. We hope to welcome him next year. Heather Stewart of *The Observer* will be reporting on this year's conference.

The RES is a large, international institution. We have almost 3000 individual members, of whom over 60 per cent are based outside the UK, and almost 2400 institutional members (essentially, subscribers to the *Economic Journal* and *Econometrics Journal*). Naturally, however, our primary preoccupations are with issues that concern the academic profession in the UK, although these are often better appreciated in an international context.

An example is the UK Research Assessment Exercise (RAE), the next round of which is gathering steam. The RES and CHUDE have taken a close, sometimes critical interest in the RAE and have worked hard to influence its procedures, criteria and choice of assessors in ways that we believe to be professionally appropriate. Whatever the objections to the RAE, however, there is no doubt it has effected a remarkable change in incentives. The stimulus of competition is strong, even if imposed from above in a heavily regulated environment rather than developing from below with light regulation. It has induced unprecedented market-led responses from our institutions, and this has interacted with the growing internationalisation of our PhD students and faculty. It is instructive to contrast this new environment with the relative insularity and lack of competitive pressures in the German and French universities — see the reports from Ray Rees in the July 2004 *Newsletter* and from Alan Kirman in the January 2005 *Newsletter*. I believe that overall the results are positive for both research and teaching, but we still must be concerned that we are unable to draw UK-trained undergraduates into our PhD programmes. The problems analysed by the Machin-Oswald report (*Economic Journal* June 2000, F334-349) are still very much with us, and it is no consolation that the top American univer-

sity graduate programmes are also populated primarily by students with non-American university undergraduate training — some of them, of course, our own.

## Publications

The new team of editors came in during last summer to manage the *Economic Journal*. Mike Wickens reported the efforts and achievements of the outgoing editors in the January 2005 *Newsletter*. They restructured the journal and enhanced its status as a leading general journal. The Society is very grateful indeed for their work. The new editors are Andrew Scott (London Business School), who succeeds Mike Wickens as coordinating Managing Editor and is joined by Marianne Bertrand (Chicago GBS), Leonardo Felli (London School of Economics), and Jaume Ventura (Universitat Pompeu Fabra). Steve Machin (University College London) continues as Features Editor. They have reaffirmed their ambition to raise the quality and impact of the journal, and they have put some emphasis on attracting submissions in economic theory, with *EJ* support for the European Summer Symposium in Economic Theory. The new team has also installed new software so that we have ‘straight-through’ electronic processing of manuscripts, and they are putting considerable effort into reducing the publication lag, while setting high standards for refereeing and editorial assessment. The new administrator, Heather Daly, is a great asset to the editorial team and to authors.

*The Econometrics Journal*, our fully electronic product, continues to thrive, now under the managing editorship of Karim Abadir.

The *Newsletter* is the primary source for information about the RES and its activities — and much more. Peter Howells, the Editor, commissions a range of feature articles that make it a valuable resource for all the Society’s members, in the UK and abroad, academic and non-academic. I have illustrated its range in references above to *Newsletter* articles. Members should turn to it for a wide range of news of the profession (including, sadly, obituaries) as well as the feature articles.

The media now give substantial coverage to *EJ* papers and to the Annual Conference. They are guided past the equations by our media consultant, Romesh Vaitilingam, who does a superb job in bringing relevant material to the attention of journalists. There are several pieces in yesterday’s and today’s newspapers about papers to be presented here in Nottingham. The Society’s media initiative is widely recognised as a model for other disciplines, and we are determined to build on this to enhance the public profile of economics and demonstrate its relevance. We try very hard to make it clear that true relevance must be based on serious analysis and empirical work. But it is essential to make that work accessible to a non-technical audience.

## Annual Conference

This is the sixth Annual Conference overseen by Jonathan Haskel, who chairs our Conference committee. It will be his last as Conference Secretary, and we are extremely grateful for his efficient and effective leadership. Richard Disney, the Programme Chair for this Conference, has assembled an excellent programme of both contributed papers and invited sessions. The invited lectures are being given by Bengt

Holmström (Hahn), Orley Ashenfelter (Sargan), Ariel Rubinstein (*Economic Journal*), and Clive Granger. The *EJ* Conference issue will be edited by Rachel Griffith and Carlo Perroni. The local organiser at Nottingham is Steve Humphrey, to whom many thanks.

## RES Committees

The Committee on Women in the Economics Profession is now chaired by Jane Humphries. CWEP will have a special session during this Conference, and its activities and output are set out in detail on the RES website. It is currently conducting another major survey of UK economics departments to obtain the essential statistical material to underpin its activities. The Society continues its interchanges with funders and users of economic research and employers of economists through the Research Liaison (with ESRC) and Public Sector Economists Liaison Committees. Denise Osborn now chairs CHUDE, which met this morning. Its agenda included a wide-ranging discussion with the Chief Executive of the Economic and Social Research Council as well as consideration of the current stage of preparations for the next Research Assessment Exercise.

The committee on the public profile of economics is now chaired by Andrew Dilnot. The fourth in the series of Annual RES Lectures launched by the committee was given by Carol Propper in London and Edinburgh. A brief article summing up her discussion of ‘Why economics is good for your health’ appeared in the January 2005 issue of the *Newsletter*, and a revised version of the lecture will be posted on the RES website. The lectures in this series — from globalisation through competition economics — together with the topics of the invited lectures in this Annual Conference show that the best of economic analysis can speak powerfully to the most complex of policy problems. The fifth lecture in the series will be given in London and Edinburgh by Paul Seabright in December of this year.

The committee has also led RES participation in Open Days organised by HM Treasury and also involving the Bank of England. These have brought the best final-year undergraduates from over 40 universities to London, seeking to convince them of the merits of economics as a career.

## Support for members

Despite our decision to keep the membership subscription frozen for the sixth consecutive year, the RES is determined to continue its support for activities that we believe are of considerable benefit to members and the profession at large. The Society is again offering six Junior Fellowships this year (applications are due by 9 May). The annual Easter Schools (now held well after Easter) in economics and econometrics, each lasting for a week, attract considerable excess demand from advanced PhD students and new faculty. That is because of the exceptionally high standing of those who come to lecture — this year, for example, Philippe Aghion and Nobu Kiyotaki on ‘Macrodynamics and growth’. We are grateful to ESRC for its support of these training workshops. We shall continue to offer small grants for support of research as well as conference grants. Anton Muscatelli now administers these funds, suc-

ceeding Chris Milner, whose long and efficient service deserves many thanks.

## RES administration

The smooth functioning of the Society has for many years depended heavily on the efforts of Kathy Crocker, our Membership Secretary, and Eleanor Burke, the Administration Officer who works with the Secretary-General. We are always happy to respond to any queries from members.

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### Institute for Social and Economic Research

## British Household Panel Survey 2005 Conference

As we go to press, the BHPS 2005 Conference is taking place at the ISER at the University of Essex. Amongst the many papers being presented, members may be interested in:

- *Living like the (Bridget) Jones's? Increasing singleness among British 20-somethings*

In spite of the attention given to single women in recent popular culture, Roona Simpson (LSE) points out that 'singleness' in the UK is much more marked amongst men. The proportion of men aged 30 who are not married or cohabiting is currently 15 per cent against a figure of 7 per cent for women. The research also shows that for women, most of the decline in marriage is due to an increase in cohabitation, for men it is attributable to remaining single. The trend has widespread implications for policy - relating to housing, family formation and care for the elderly.

- *Education, wages and job satisfaction*

It is generally accepted that more educated workers get better jobs and earn higher wages than the less well educated. But research by Maria Davia and Cecilia Albert shows that when the effect of higher wages is controlled for there are marked differences across countries in the level of 'happiness'. For example, Italian, Finnish and Danish graduates show high levels of frustration while Irish university graduates are wealthier and happier than those with only compulsory education. The explanation appears to lie with the closeness of the match between the level of education attained and the level required by the job. 'Overqualification' appears to lie behind much of the frustration. Worker dissatisfaction is costly for employers and the economy as a whole, resulting in high turnover and absenteeism.

- *From entrepreneurial aspiration to business start-up*

Research by Andrew Henley (Swansea) looks at the characteristics of aspiring entrepreneurs and finds that, compared with others in employment:

- They are slightly younger on average (mean =35 years)
- They are strongly motivated by job dissatisfaction
- They have less housing equity and income from investments
- They have a lower level of saving from current income

Overall, about 12 per cent of the working population aspires to self-employment but only 6 per cent make it within 12 months. There is little evidence of advance planning.

Further information, including paper downloads, can be obtained from: [www.iser.essex.ac.uk/bhps/2005/](http://www.iser.essex.ac.uk/bhps/2005/)

## 2008 RAE

### CHUDE special meeting

Members may wish to know that a special meeting of CHUDE (the Society's Conference of Heads of University Departments of Economics) has been arranged to discuss developments in the 2008 research assessment exercise.

In particular, it will be discussing the panel working methods which are due to be announced shortly. David Otley (Chair Main Panel), Mike Pidd (Chair Business and Management sub-panel) and David Greenaway (Chair Economics sub-panel) have agreed to take part.

The meeting is scheduled for **Monday 12 September** at LSE.

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## Funding opportunities for research, conferences etc...

### INTAS

The International Association for the Promotion of Co-operation with Scientists from the New Independent States (NIS) of the Former Soviet Union

is an independent International Association formed by the European Community, European Union Member States and like-minded countries to promote East-West scientific co-operation between INTAS members and INTAS-NIS partner countries.

It offers

- financial support for conferences
- individual grants
- funding for research projects

as well as making thematic calls for research projects

For more information, visit the website: [www.intas.be](http://www.intas.be) and look under 'funding opportunities'.

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## New *Journal of Institutional Economics*

The first issue of the new *Journal of Institutional Economics* has just appeared as we go to press.

The journal is published by Cambridge University Press and its editor-in-chief is Geoffrey M Hodgson, University of Hertfordshire. Papers in the inaugural issue include:

John R Searle - 'What is an institution?'

Cristiano Antonelli - 'Models of knowledge and systems of governance'

Peter T Leeson - 'Endogenizing fractionalization'

Sean Flynn - 'Why only some industries unionize: insights from reciprocity theory'

Further details can be found at: [www.journals.cambridge.org](http://www.journals.cambridge.org)

# The Annual Conference

*The Society's Annual Conference took place this year at the University of Nottingham, 21st-23rd of March. This report on the event was contributed by Heather Stewart of the Observer newspaper.*

**A**CADEMIC ECONOMISTS could once safely be confined to peering into the Treasury and Threadneedle Street, thinking they could probably do much better — or dizzying the rest of us with elegant but esoteric mathematical tricks. These days they're everywhere: in the board-room, in the wine-cellar, on the battlefield — they're even in your bedroom. Many of the hundreds of economists who gathered at this year's annual conference of the Royal Economic Society, in Nottingham University's leafy campus, were eager practitioners of this cradle-to-the-grave economics, striding gleefully across the entire horizon of human affairs. Sitting in on their efforts was, I can report, a bracing experience, even for someone whose grasp of the minutiae of time-series analysis and general equilibrium modelling is somewhat tenuous.

## Economics and marriage

For example, it ought to be a truth universally acknowledged that asking an economist for advice about your love-life is a terrible idea: one number-cruncher I knew used to say that the reason he stayed with his current girlfriend was the 'search costs' of finding someone else. However, on Tuesday afternoon Nick Powdthavee, from Warwick University, marched straight into an analysis of love and marriage, which, his research suggests, go together like a horse and carriage. He began by holding up his bare ring-finger and warning that he was approaching the question 'without first-hand experience' - but when did that ever stop an economist?

Nick explained that when two people are in love, they share each other's happiness (or — trust an economist to take the romance out of it — 'since loving someone usually involves affectionate caring about what happens to him or her, if  $M$  cares about  $F$ , this implies that  $M$ 's utility levels depend on  $F$ 's utility levels'). Using panel data about men and women's self-reported health and happiness, Powdthavee has found that for married couples, this psychological link shows up clearly. For example, one happy, healthy partner can help to offset the negative effects of unemployment on the happiness of the other, in a process Powdthavee calls 'mental risk-sharing'.

Apparently, however, these psychological trade-offs don't work nearly so well for unmarried, co-habiting partners: a finding which runs counter to the standard economic analysis, which would suggest that the division of labour, and utility-sharing, which make being in a couple worthwhile, would already exist between co-habiting couples. Perhaps, Powdthavee speculates in his paper, there is a selection bias at work here: 'Couples who live together may only agree to marry one another if there is enough reciprocal sharing of satisfactions between them'. Mercifully, he didn't pursue that line of thought any further.

Politics, as well as love, was high on the agenda at the uninspiringly named East Midlands Conference Centre. It may have

been the fact that a general election was due within six weeks or so, but there was plenty of advice for policymakers - and a series of government initiatives came in for tough scrutiny.

## Pensions and retirement

A useful lesson in the law of unintended consequences was offered in the session on 'Retirement and Retirement Policy'. Stakeholder pensions, the low-cost saving schemes with a stamp of government approval, launched in 2001, were pronounced a complete failure by the Institute for Fiscal Studies, which had a number of provocative papers at the conference. Although stakeholders were aimed at persuading middle-earners without an occupational pension to save more for their retirement, much of the increase in saving which has taken place since has instead been among lower earners.

The IFS's Matthew Wakefield speculated that this could be an unexpected (though with hindsight perhaps rather predictable) by-product of the reforms. At the same time as stakeholders were introduced the government increased the amount of money which could be saved into a pension without incurring tax. Wakefield said it was this change, not the stakeholder schemes themselves, which appeared to have altered savings patterns. In fact, the largest increase in saving among low earners has been by those with high-earning spouses, suggesting there may simply have been a transfer of pension contributions between couples. The impact of the much-vaunted stakeholder schemes themselves, meanwhile, has been almost nil. With radical pension reform very much in the offing in the next couple of years, this is a cautionary tale Whitehall policy wonks would be wise to bear in mind.

The much-maligned Child Support Agency has been more effective in altering behaviour, according to a paper by Yu Zhu and Ian Walker. Despite serious teething troubles since it was introduced 12 years ago, the CSA has changed the costs and benefits of separation significantly, they found. A parent contemplating leaving the family home now has a very different financial decision to make. Zhu found that without the introduction of child support payments, divorce rates would have been 14 per cent higher.

## Road pricing

Evidence of the glacial pace of government decision-making was on show on Monday afternoon, in the special session on road-pricing, which Transport Secretary Alistair Darling has since suggested could be implemented within the next few years. Tom Worsley, who worked on the recent Road Pricing Feasibility Study for Mr Darling, said the idea had been discussed since the 1920s. The Ministry of Transport, as it then was, produced a policy paper on the subject in 1964.

The problem itself is familiar: driving has significant externalities, from the costs of road repairs, to accident costs, and of course congestion. To an economist, the answer is obvious: ration road-use by charging for it, instead of through the current system of taxing fuel and vehicle ownership, which has an imprecise connection with the social costs of driving. London's successful introduction of a flat-rate, £5 a day Congestion Charge has sparked renewed interest in the idea. At present, when the volume of cars on a particular stretch of road reaches a certain level, the social cost of road-use starts to exceed the private costs falling on the drivers. Worsley and his colleagues found that even a revenue-neutral road-pricing scheme, replacing the current fuel and excise duties on motorists, and capping costs at 80p per kilometre, would generate 'significant' benefits, and cut congestion dramatically, if it was designed in a sophisticated way, with costs varying by place, time, road-type and so on.

As the discussion in the session revealed, however, there is certainly no consensus about whether, and how, such a scheme would work. Worsley himself stressed the difficulty of creating a market in road-use, when motorists have become accustomed to jumping in their cars without a thought. David Newbury, of Cambridge University, raised further questions about feasibility, arguing that a system which genuinely charged drivers the marginal social cost of each kilometre would have to price by road-junction, not just broad area. Furthermore, the revenue falls away rapidly as people adjust their behaviour. Newbury advocated imposing charges only in major cities, leaving the traditional system of fuel tax to meet the cost of building new motorways.

Stephen Glaister, of Imperial College, said the costs of establishing a road-pricing system — as revealed by the feasibility study — could be as high as £60bn, with running-costs of £5bn a year. In London, about two-thirds of the revenue from charging is gobbled up by the costs of running the scheme. Now that Worsley and his team have designed what they believe is an effective system, though, Glaister called for what Sir Humphrey Appleby would have called a 'brave' decision, from the Department of Transport. 'A national scheme, if it were ever to be successful, would require an extraordinary amount of political leadership,' Glaister said: Alistair Darling, beware.

## Spending on the regions...

Mr Darling was also implicated in a paper by Peter McGregor, of Strathclyde University, on a painful-sounding predicament called the 'Barnett squeeze'. The ever-controversial Barnett formula adjusts public spending to take account of population, and is gradually reversing the advantage Scotland has had for many years, in receiving more cash per head than England. In 1997, when he was Chief Secretary to the Treasury, Darling shifted to an annual updating of the population weights which determine the formula. Prof McGregor analysed the consequences of that decision using a general equilibrium model: economists' latest favourite toy, judging by how frequently they were mentioned in a multiplicity of sessions around the conference. Economists are often so fond of their models, they like to give them names: this one was called Amos, for A Model of Scotland (get it?).

Prof McGregor and his colleagues have used Amos to show that the current system has potentially powerful knock-on effects on Scotland's economy. As the population of a region declines, it receives a lower allocation of Whitehall cash; but less government activity tends in turn to lead to economic slowdown, job losses, and outward migration. Prof McGregor's analysis comes to the startling conclusion that eventually, the long-run effect of an annually re-weighted Barnett formula will be a four per cent reduction in the size of the labour force, as Scottish workers migrate to more prosperous areas.

## ...and the young

Giacomo de Giorgi of University College London gave the government's New Deal for Young People scheme the thumbs-up. Using 36,000 observations of men falling just on either side of the age threshold for inclusion in the scheme (25), he calculated that it had increased the long-term employability of those who were included by more than 6 per cent: though as was pointed out during subsequent discussion, balancing those benefits against the costs of the policy would be a necessary next step if his analysis is to contribute to policy-making.

## Corporate governance

From the nuts and bolts of the welfare state, to the workings of global capitalism: on Monday afternoon, Bengt Holmstrom — who is that rare thing, an economist with plenty of hands-on business experience — gave the packed conference hall a provocative, first-person analysis of corporate governance. Holmstrom, who sits on the board of Nokia, as well as his

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*... if President Bush had simply offered Saddam Hussein \$20bn to leave the country, and given the Iraqi people \$50bn to reconstruct their country, everyone would have been better off.*

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wife's family business, turned the familiar story of the corporate excesses of the dotcom boom upside down. He believes the stock option bonanza of the late-1990s was an essential 'lubricant' for the dramatic

restructuring of the corporate sector which had to take place so that firms could profit from the new technologies of mobile phones, the internet and so on. Because 'big firms exploit better, and small firms explore better', billions of dollars were reallocated from large firms to small ones — and stock markets were the best mechanism for doing that. 'Stock options were there to grease this restructuring wave... Basically these were bribes: if you can't use the stick, you have to use the carrot.'

The misdemeanours uncovered in cases like Enron were a direct consequence of that process: 'the more you are pressuring managers to perform, the more they are starting to misbehave... pressure was high enough on these people to perform that they essentially found it valuable — in their private calculation at least — to do immoral things.' Chief executives are also able to bid up their own value dramatically, because the board always has far more to lose in terms of the company's share price if the boss walks out, than if they agree to pay him a few (million) dollars more.

Holmstrom's prescription, which he tries to apply to the boards he works on — every economist loves a natural experiment, after all — is for stock options to be granted with longer time horizons, carefully benchmarked against what other firms are offering, and given in small, regular amounts, instead of one-off hand-outs. The board's function is to 'decide who decides'

— to pick an executive team, not to second-guess every decision; but with increasing pressure from shareholders, it can be hard to resist being aggressive and over-bearing, rather than risk being seen as a ‘sissy board’.

Like a good board chairman, Holmstrom raised as many questions as answers in his paper; but he did show that the pat analysis of corporate governance, in which greedy and unscrupulous chief executives are given free rein by weak directors and passive shareholders, is misleading, and can lead to knee-jerk solutions to complex problems.

Sean Holly, of Cambridge University, had been busy scrutinising that well-studied experiment in committee decision-making, the Bank of England's Monetary Policy Committee. He took the usual classification of inflation ‘hawks’ and ‘doves’, and made it more complicated, with a division between the more and less ‘activist’ members: those who like to be preemptive, and those who are more likely to wait and for more evidence before acting. Charlie Bean, the Bank's chief economist, apparently sits bang in the middle, as ‘median man’.

For those people who find their work-days constantly interrupted by computer glitches, there was some reassuring news from Helen Robinson, of Cardiff Business School. However frustrating it is to be slave to a lump of silicone and plastic, those workers who spend at least some of their day in front of a computer should be able to see the difference in their pay-packet. Robinson and her colleagues used panel-data to compare computer use and pay, and found that women who use computers at work earn 32 per cent more — and men 43 per cent more — than their lower-tech counterparts.

## Accounting for life

Matters of life and death were also high on the agenda in Nottingham, as the daffodils burst into life outside. Orley Ashenfelter, of Princeton, delivered a bravura lecture about the value we — or at least, gas-guzzling American motorists and the voters who determine their speed-limits — attach to the value of a human life. A speed limit of 55mph was imposed in the US in 1973, when the oil crisis made saving gasoline a national project. Not surprisingly, road fatalities per mile dropped sharply — but people were late. Thirteen years later, states were given the choice of raising speed limits on rural roads. Ashenfelter argued that the trade-off between losing more lives per mile driven, and gaining more minutes, as is often the case, Ashenfelter pointed out, Homer Simpson put it best: ‘Fifty five? That's ridiculous! Sure, they'll save a few lives, but millions will be late!’ With a bit of help from Homer, Ashenfelter put the statistical price of a life at about \$1.5m: but he quickly drowned out that answer with a blast of a quite dreadful 1984 song (complete with lyrics), by curly haired rocker Sammy Hagar: ‘I Can't Drive at Fifty Five’ (from the album ‘VOA’, also including the track ‘Rock is in my Blood’, in case anyone present was tempted to rush out and buy it).

Admittedly, some of the parallel sessions at the conference were so sparsely attended that it was clear the point of delivering a paper was to be able to say it had been given, rather than to stimulate discussion. However, there was plenty of lively debate at other sessions, plus a good helping of gossip over lunch about which papers were more worthwhile, who's up and who's down.

## The economics of war

One of the better attended seminars was on war — the main conclusion being that armed conflict is a rather costly business, and certainly more expensive than governments tend to estimate when they charge into it. Professor Keith Hartley, of York University, who specialises in the economics of war, set out his calculations for the costs of the Iraq war, and the continuing deployment of troops in the Gulf State. Britain will have spent more than £4bn by 2006. Hartley said he was keen for his analysis to inform decision-makers, but it might also have been handy for anti-war protesters: ‘Not in my name’ is a powerful enough moral argument, but ‘not with my money’ might have carried as much weight with politicians.

However, Britain's expenditure on the Iraq conflict has been dwarfed by the \$253bn of US taxpayers' money poured into the project: more than half the cost of the protracted Vietnam war. Hartley, with a characteristic economist's slant on geopolitics, suggested that if President Bush had simply offered Saddam Hussein \$20bn to leave the country, and given the Iraqi people \$50bn to reconstruct their country, everyone would have been better off.

## On pragmatism in model building

This pragmatism, which was displayed again and again at the many parallel sessions, must have impressed Sir Clive Granger, a man with no patience for pie-in-the-sky theorising. The formidable Nobel laureate, (and, according to conference chairman Richard Disney one of the ‘Top 100 Welsh heroes’, along with perma-tanned crooner Tom Jones), was warmly welcomed back to his home turf. He was an undergraduate and doctoral student at Nottingham, and taught there for a number of years, before leaving for the sunnier climes of California, where he has been based since the mid-1970s.

Granger offered a wealth of acerbic advice to aspiring number-crunchers, about the pitfalls of economic model-making, something he is well-qualified to do, having won his Nobel prize — with Robert Engle, in 2003 — for contributions to time-series analysis. Constructing a mathematically elegant model which ‘isn't any good’ was pointless, Granger insisted: ‘we need to know the purpose of the model’. In reality, he said, in a characteristic side-swipe at his profession, ‘we all know what the purpose is: the purpose is for this guy to get promoted.’ Instead of showing off their models, though, he urged economists to be ‘pragmatic’, and ask themselves, ‘does it work? Is it relevant?’ He recommended that economists do what the general public would like to think they are doing: help decision-makers to make better decisions.

War and peace; life and death; love and marriage: as an outsider sitting in on this year's conference, it was refreshing to find economists busily doing exactly what Sir Clive Granger had exhorted them to do: helping decision-makers, whether on the board of multi-million dollar corporations, or in the corridors of Whitehall. In all, the three days were a reminder that economics is a way of looking at the world, which extends well beyond questions of high finance. In fact, as far as improving my own decision-making is concerned, my only regret was not to have made the session on the economics of wine.

# Letter from Germany — Three Economists, Two Opinions

*At a time when the EU's proposed Constitution has come in for considerable criticism and been rejected (in some quarters at least) as being too 'Anglo-Saxon' in its economic orientation, Ray Rees, Professor of Economics at the University of Munich, provides this timely review of three books on the problems facing the German economy.*

**I**N ANGLO-SAXON ECONOMICS there is a great tradition of leading academic economists writing on economic affairs for the 'educated layman'. In a sense, most of classical economics was of that kind, but more recently economists such as Keynes, Friedman, Galbraith and Krugman have been leading contributors to the genre. In German economics there is no such tradition. The leading academic economists have written for their fellow professionals, leaving the field of popular economic debate by and large to journalists and politicians. It is perhaps a measure of the intensity of the debate that is currently taking place in Germany over the country's mediocre economic growth and seemingly irreversible high unemployment levels, that in the past year or so no fewer than three books have been published by leading academic economists, addressed to the general reader: Hans-Werner Sinn's 'Can Germany Still Be Rescued?' (*Ist Deutschland Noch Zu Retten?*); Horst Siebert's 'Beyond the Social Market: A Necessary Reorientation of German Policy' (*Jenseits des Sozialen Marktes: Eine notwendige Neuorientierung der deutschen Politik*); and Peter Bofinger's 'We Are Better than We Think We Are' (*Wir Sind Besser Als Wir Glauben*). In fact the three books represent the two sides of the debate, Sinn and Siebert on the one side, Bofinger on the other.

## Raising the standard of debate

The first two reflect the overwhelmingly dominant consensus among academic economists about what the problems are and how to solve them. Bofinger's book, on the other hand, as the title suggests, tries to argue that the reality is not nearly as black as the picture the critics paint, and his policy proposals reflect his closeness to the German trades unions and their representatives in the German ruling party, the SPD. Altogether, they give a comprehensive (if somewhat wordy, about 1400 pages in all) account of the problems and possible solutions. Since each is written with that air of unassailable authority and omniscience that economists typically adopt when writing this kind of book, with (Siebert's book excepted) no lack of side-swipes and put-downs directed at the other side, the 'educated layman' may well be left in the end wondering who is right, and will probably choose according to his initial political preferences and position in the economy as a gainer or loser under the various policies proposed. Nonetheless, the books do a great service in clarifying the economic arguments and informing the reader, and should at least help to raise the level of the debate, which, in particular in the last few months, has often been abysmal. And at least the number of opinions is smaller than the number of economists.

## Costs of the welfare state...

The historical picture presented at some length by Siebert, more concisely by Sinn, has as its core the idea that the seeds of stagnation were sown at the peak of success. Throughout the 1950's and 60's, helped by low wages and social security contributions and an undervalued but stable D-Mark, (West) Germany rebuilt its economy, society and physical infrastructure after the terrible devastation of the Second World War, and re-emerged as one of the world's strongest economies. GDP and productivity growth were at levels now associated with the Asian tigers. However, the socialist-liberal coalition which ruled Germany in the 1970's, confident in the strength and prosperity of the German economy, put in place a Welfare State (*Sozialstaat*) which with its subsequent extensions, Siebert and Sinn argue, has become a major cause of high unemployment and slow growth. At the same time, the system of labour laws and labour market regulation, and the corporatist tendencies of German politics, always very strong, allowed the German trade unions far too much power in setting wage rates, hours and working conditions across the entire economy. As a result wages grew steadily at a faster rate than productivity, hours worked fell, and employment protection grew. Decade by decade, beginning in the seventies, growth rates of output and productivity fell steadily, numbers unemployed grew inexorably, at a trend rate of about a million per decade, and unit labour costs soared, to become just about the highest of any developed country in the world. Now the modest bursts of GDP growth seem insufficient, when they occur, to make a dent in unemployment, and Germany is characterised as the Sick Man of Europe, that status originally assigned to Turkey, but equally disparagingly applied to Britain in its time of similar travail in the 1960's and 1970's.

## ...and of reunification

German reunification could have restored the necessary dynamic to the German economy. A new frontier was opened up, with a population of over 16 million eager to make a rapid transition in living standards to those of the West. Unfortunately, in terms of economic policy, the integration of the two economies was incredibly badly handled. I remember the late John Flemming, who at the time, late 1990, was chief economist at the EBRD, telling me at a dinner at Nuffield College that east Germany was going to be a disaster, and I just could not believe him. What he knew, and I did not, was that the wage levels that were being negotiated for East German workers were such that the only way in which East Germans were going to be able to increase their living standards substantially would be through massive transfers from the west,

rather than by self-generated economic growth. And so it has turned out. Moreover, the burden of the continued flow of transfers to and persistent lack of growth of the East German economy continue to be serious problems for growth in Germany as a whole. Indeed, Bofinger makes this, rather than the Welfare State and the problems with the labour market, a major source of Germany's present problems, along with deficient aggregate demand. But both Sinn and Siebert show convincingly that the problems of slow growth and growing unemployment had set in well before this time in West Germany, and certainly cannot be explained historically by deficient aggregate demand. Indeed, the consumption boom of 1990, generated by reunification and the associated transfers, postponed the recession in Germany by about a year or so, but this seems only to have increased its intensity and duration when it did arrive.

## Poor economic literacy

A subtext of all three books, though given more explicit prominence in Sinn's, is the generally poor quality of German economic policy making by all governments, from the 1970's right down to the present day. Leading politicians, from the Prime Minister, (*Kanzler*) and his ministers for finance and economics, right down to the senior civil servants that staff the relevant ministries, seem to have an abysmally poor understanding of economics, and often reveal this in public statements (some of which Sinn uses at the head of his chapters. This is very unlikely to make him popular with the powers that be, though they perhaps are less of a problem with the powers that are about to be). This is as true of the present incumbents as of their immediate predecessors.

In Britain in the 1960's there was a collective loss of confidence of the ruling caste, in the face of the apparently insurmountable economic problems faced by the UK economy at the time, as it reeled from crisis to crisis. It became accepted that a first in classics or history from Oxford or Cambridge, though undoubtedly a signal of high intellectual ability, was an insufficient background to deal with the complex economic problems of the time. The contributions of the Economics Section of the Treasury and of the great economists who had worked in it pointed the way to a solution. There was a major recruitment of economists into the public service, as well as a large-scale attempt to teach economics to new and existing high-level civil servants (in which I participated), first at the Treasury Centre for Administrative Studies, then at the Civil Service College.

In Germany, hardly any properly-trained economists are employed in the major economic ministries. Senior civil servants are typically trained as lawyers. Junior ministers, depending on the party in power, may be trades union functionaries (about 75 per cent of SPD members of parliament are trade union officials, some still in position with their unions), lawyers or career politicians. Each ministry has its committee of economic advisers, consisting of outside academics, but nobody really knows what happens to their reports. There is a

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*Leading politicians, from the Prime Minister...right down to the senior civil servants that staff the relevant ministries, seem to have an abysmally poor understanding of economics, and often reveal this in public statements...*

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Council of 'Five Wise Men' (though recently one of the positions has been taken by a woman), the *Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung*, to which both Bofinger and Siebert belong, and this publishes voluminous and detailed annual reports on Germany's economic problems and proposes solutions. Siebert in his book draws extensively on these on the whole very good reports, and they represent the mainstream of academic opinion to which Sinn and Siebert both belong. Bofinger, a recent SPD-appointee, is something of an unreconstructed Keynesian outsider in this group. In any case, when the reports of this Council are distasteful to the Government, it ignores them or even publicly dismisses them, the label 'neoliberalism', by which is to be understood anything which stresses the importance of market forces, being a favourite term of abuse. Germany badly needs more economists at all levels in its public service.

## Freeing up market forces

The policy proposals of Sinn and Siebert for solving Germany's problem are also very reminiscent of the UK debate in the seventies. The Thatcherite terms 'rolling back the welfare state' and 'breaking the power of the unions', although they have not been used by the authors, summarise the proposed measures quite well. Of the two books, Siebert's is the tougher read. The 'educated layman' is required to have a good ability to read tables of statistics, follow a fairly dense discussion of them in the text, and have a good dictionary of economics at his side so that he can translate terms such as 'diminishing marginal productivity of capital', 'Harberger triangle' and 'moral hazard' into everyday language. The plentiful graphics are in black and white, sometimes easy to follow and sometimes not. The extreme detail in description of the problems is matched by generality in the discussion of their solution. 'Social market' is a term coined in Germany in the 1950's to express the idea that although the economy should function essentially as a market system, with free trade, unregulated markets, private ownership and so on, economic policy should be concerned with ensuring that the possible casualties of this system are looked after and that the prosperity that it generates is distributed fairly. There is to most economists located between the extremes of left and right nothing objectionable in that. However, over time, starting in the 1970's, the 'social state' has in fact extended the system of social insurance and regulation of labour markets to the point at which the economy has lost its dynamic. Siebert argues basically that Germans are over-protected from market forces, over-insured (by expensive state systems), under-worked and over-paid. The solution is the restoration of individual responsibility and the freeing-up of market forces, particularly in the labour market.

While Siebert's book would be a good textbook for an undergraduate course in economic policy, the best-selling book by Hans-Werner Sinn is a brilliant polemic. Written in a clear, lively and provocative style, it is scathing in its criticism of policy makers and graphic in its portrayal of the country's problems. Though on the whole its diagnosis of the latter is not

that different to Siebert's, it is much more specific and detailed in its proposed solutions. For example, it does an excellent job of spelling out the poverty trap created at low gross incomes by the way in which social benefits are withdrawn as earned income increases, and proposes in detail a form of earned income tax credit, of the kind long familiar in the USA and UK, as an attempt to overcome this. The problem of the lack of incentive to become re-employed, created by a generous system of unemployment insurance and social welfare, is portrayed as the Welfare State competing for workers with the real economy, adding to the competition the latter also faces from low wage countries abroad.

## The unions and reduction of labour supply

Its most scathing attack is however directed at the trades unions. Sinn uses a song written by Ernst Busch, a communist singer of the 1950's, to portray the German unions as a cynical and wasteful labour market cartel. In his song Busch satirises the capitalist system, by describing how in Brazil coffee beans were poured into the Rio Grande to maintain high prices, and how in the USA potatoes were dosed with petrol for the same reason (this was before the CAP made similar measures a commonplace in Europe). Sinn argues that the unemployment, the destruction of labour supply, that has been created by the German unions, in part through wage negotiations and in part by their pressure for a generous Welfare State, is precisely the same phenomenon. The unemployed outsiders are the victims of the unionised insiders. At many points, as at this one, the basic ideas put forward by Sinn, if expressed in academic language, would hardly turn a hair, but his choice of words often seems designed to provoke not just thought but rage in those he criticises. I would say that this reflects his sense of the gravity of Germany's economic situation and of the urgency of the need for fundamental reform, tinged with despair at the absence of this up until now. Certainly, the recent Hartz IV labour market 'reforms' for example seem to show little sign that the policy makers in the ministries have understood his exposition of the poverty trap.

## A more optimistic view

Bofinger's book is intended as a refutation of the arguments that Siebert and especially Sinn put forward. As an academic he is matched here above his weight, but nevertheless scores points. Some of these are quite easy. Anyone who relies heavily on international comparisons, as Sinn does, must not complain when these are used to some effect against him. A persistent theme of Sinn's is that Germany is bottom of the international league table, but it is always possible to find other comparisons that place Germany in a less unfavourable light. Two points however are more substantial.

A problem for anyone who wants to argue that the German economy is systemically and fundamentally in a mess has to confront the fact that Germany is a world leader in exports. The strength of Germany's export sector is undeniable, closely rivalling that of the US in terms of world share. Sinn's resolution of this problem lies in his introduction of the term 'bazaar economy'. Through the transfer of production facilities abroad, these German 'exports' are no longer to any substantial extent produced in Germany. The end stage of assembly takes place here, and they receive the stamp 'Made in Germany', but the

value added is generated abroad. Essentially, the German exporters are simply merchants who import the goods and then re-export them.

The term 'bazaar economy' has somewhat controversial overtones, suggesting as it does oriental practices of haggling and dealing rather than the solid German virtues of high quality engineering and high technology production. Decline and decadence seem to be the message. But in his desire to be graphic, Sinn here has I think taken a step too far. Of course there has been substantial foreign investment and outsourcing by German firms to take advantage of lower wages abroad, and the share of German value added in exports has fallen from around 70 per cent in 1995 to about 61 per cent in 2002. But according to a study by the Federal Office of Statistics, overall export growth raised the share in aggregate value added accounted for by the export sector from about 16 per cent in 1995 to just about 21 per cent in 2002. A rational response to globalisation and the increasing integration of the world economy is being used to reinforce a picture of decline, but here the case is overstated.

The point is that Germany's export success is largely based on four traditional medium to high technology sectors: mechanical engineering; vehicles; electronic engineering; and chemicals. Germany has somehow missed out on the more recent technological growth sectors such as computers, biotechnology, consumer electronics and communications technology. Its success in its traditional export sectors has been insufficient to generate much growth in the economy overall or to reduce unemployment, in fact they have scaled down their employment. In the last three decades, Germany, as other countries like the UK and US, has undergone a significant process of deindustrialisation, with a large transfer of the labour force from manufacturing to services. In 1970, 48 per cent of the workforce were in manufacturing, energy and mining, with 38 per cent in services, while in 2003 the proportions were 28 per cent and 70 per cent respectively. This process has not brought with it the growth in employment and exports of services that has characterised for example the UK and US. From a fast-growing manufacturing economy Germany has become a slow-growing service economy. The term 'bazaar economy' has little to do with this development. Indeed one might wish a little more of the bazaar in Germany's service sector.

A second point concerns the burden of Germany's welfare state. Sinn accurately and clearly demonstrates the harmful effects on employment created by the heavy burden of social security contributions, essentially payroll taxes, required to finance unemployment and health insurance and pensions. His and Siebert's solution is to cut benefits and move to funding, i.e. privatisation, of the pension system. Now the issue of funding pensions should be discussed on its own merits, and there is much to say against it, for example in terms of increases in transactions costs and risk. But this aside, Bofinger makes the valid point that Germany's overall value of social security expenditures is not particularly high by international standards. What is very high is the extent to which they are financed by payroll taxes rather than by general taxation. In other words, much more thought should be given to ways of financing the social security system that have less direct and harmful effects on the labour market.

*...continued on p.15*

# SRES, IPCC and member governments: the treatment of economic issues<sup>1</sup>

*David Henderson's article in the January issue attracted a great deal of comment and interest. Here is a response to the comment that we published in the last issue, plus an update.*

In their article in the last *Newsletter* (no. 129), Holtsmark and Alfsen (H-A) have made a good point about the Special Report on Emission Scenarios (SRES). I noted the point in my January evidence to the House of Lords Select Committee on Economic Affairs,<sup>2</sup> and I should have mentioned it in the *Newsletter* (no. 128) article of mine which provoked their comment. For the reason they give, Ian Castles and I assumed too readily that the high projections in the SRES of GDP growth for developing regions were reflected in the projections for emissions. We failed to notice that, in building in the closure of a greatly overstated gap between GDP per head in rich and poor countries, SRES models built in a corresponding reduction in equally overstated emissions-intensity gaps. However, this does not undermine our critique of the SRES, nor does it bear on our wider critique of the IPCC milieu and process.

## SRES

On the SRES, three observations, the last of which is the fundamental one.

*First*, it is hardly a merit of a modelling exercise that it provides for the closing of two exaggerated gaps rather than one, and that it incorporates twin analytical errors which happen however to be offsetting in their effects.

*Second*, and without disputing H-A's main point, it remains arguable that emissions projections in the SRES are in fact on the high side if not inflated.<sup>3</sup>

*Third*, our critique of the SRES exercise is not only, nor even primarily, a matter of the particular emissions projections that it has generated, nor are the weaknesses of the Report to be viewed as minor because they may not be reflected in projections that are inflated. The SRES is open to criticism chiefly because:

- It contains serious analytical errors. In particular, it treats international comparisons of GDP that are exchange-rate-based as measuring differences in real GDP.
- In some SRES scenario families, the main reason for building in convergence in GDP per head is a presumption that international inequalities are evidence of remediable injustice and that policies will be directed towards remedying it. This view of events and relationships is open to obvious objections; and it is a dubious procedure, in what is presented as a neutral scientific inquiry, to project a specific sequence of future outcomes, not on the basis of argument and evidence, but on the grounds that the world would be a better place if it occurred.
- Key results of the exercise remain unclear and indeed confused — more so, in fact, than we had suspected when we put forward our original critique.

- It is evident from the list of authors, reviewers and commentators, as also from the errors, omissions and questionable assumptions that the SRES contains, that those who took part in preparing the Report were not fully representative professionally. This situation has not been remedied.
- The Report is already dated, and will be more so by the time that the IPCC's Fourth Assessment Report (AR4), now in preparation, is published in 2007.
- There are significant gaps, rough edges, and inconsistencies in the Report, as noted in the written evidence submitted to the Select Committee by Ian Castles.
- The Report fails to provide a clear, informed and systematic account of past and recent developments, as a basis for reviewing the future.

For all these reasons, the IPCC's endorsement of the SRES, and its dismissive reaction to our critique, should not be taken as the last word. The Panel's member governments should think again. However, to be useful, such a rethink has to extend well beyond issues of scenario-building: it has to embrace the IPCC process as a whole.

## IPCC and governments: recent evidence

There is no need to amend or qualify the main points that I made about that process in my January article.

- In relation to economic aspects, there is good reason to question the claims to authority and representative status that the IPCC makes on its own behalf.
- The process can be improved only if member governments resolve to change it; and a prerequisite for change is that ministries of finance and economics should (at long last) take a serious interest in the issues, and become involved in the process.

Under both these headings, evidence presented to the House of Lords Select Committee on Economic Affairs has thrown some interesting light.

### *(1) Representation.*

A witness from the responsible British government department, the Department of the Environment, Food and Rural Affairs (DEFRA), told the Committee that 'there are very many distinguished economists working alongside ...[IPCC] scientists...' Readers who wish to inquire into this aspect may care to go to the IPCC website and trawl the list of around 400 persons who are expected to act as authors, contributors and reviewers for Working Groups II and III of the Panel in the preparation of AR4. In relation to these same lists of participants, Richard Tol, in his appearance before the Select Committee, said that in Germany, for the work on AR4, 'only

people with close connections to the Green Party have been nominated'. The representative status of those now taking part in the economic work of the IPCC was put in question by Ross McKittrick in a written submission. In his view, comparison of successive lists 'will confirm that the IPCC could no longer claim to have the participation of mainstream professional economists after 1995'.

#### (2) *Involvement*

Evidence given to the Select Committee by a representative of Her Majesty's Treasury reveals a failure to understand what is at stake. The official concerned, who holds the title of Chief Microeconomist, told the Committee:

With regard to the IPCC specifically, no, we in the Treasury do not have a direct relationship with the IPCC. We have made the conscious decision [that] that should happen via DEFRA in order, essentially, to avoid undue duplication of effort across government.

But the point is one of substance not procedure. It is not a relationship with the IPCC that is in question, it is a serious engagement with the issues. Lord Lawson, a former Chancellor of the Exchequer and a Committee member, made the pertinent comment that:

... you seem to leave the economic analysis to the IPCC, with some DEFRA input. I must say this is a change. In my time at the Treasury as Chancellor it would have been unthinkable for the Treasury not to spend quite a lot of time on a serious economic analysis of an issue as important as this...

As things now are, the Treasury is failing to perform, or even to acknowledge responsibility for, what should be one of its primary tasks.

#### Notes:

1. This note draws on an article that is about to appear in *Energy and Environment* (Vol 16 No 3 and 4) in which I review the whole range of issues relating to the IPCC's treatment of economic issues and the course of the debate that Ian Castles and I initiated nearly three years ago.
2. The Committee is currently inquiring into 'aspects of the economics of climate change'. Its report is due to be published at much the same time as this *Newsletter*.
3. The reasons lie beyond the scope of this note, and are summarised in Section 3 and Annex 2 of the article of mine just referred to. There are murky waters here.

## Annual Conference 2006

### CALL FOR PAPERS

The 2006 Annual Conference will be held at the University of Nottingham from  
**Tuesday 18th to Thursday 20 April 2006**

#### Keynote speakers include:

Colin Camerer, California Institute of Technology

David Card, University of California, Berkeley

John Sutton, London School of Economics (Presidential Address)

The Programme Committee invites submissions of papers from academic, government, and business economists in any field of economics and econometrics for the **General Sessions**. Proposals for the organisation of **Special Sessions** on Specific Topics are also welcome.

#### General Sessions

Papers are invited in any subject area included in the *Economic Journal*. **submissions must be made electronically** at the following url: <http://geminin.econ.umd.edu/conference/res2006>

#### The deadline for submission is 14 October 2005

Notification of acceptance will be sent by mid-December 2005.

There will be eight **special sessions**, and proposals for organising sessions on specific topics are invited. The Conference Committee is particularly looking for proposals that combine technical rigour with policy relevance. Proposals at this stage should contain no more than a **one page outline**, should specify the session theme and the name of the individual who would be responsible for the organisation of the session. Names of proposed authors of papers should be included in the proposal. Special session proposals should be sent by **30 August 2005** to Dr Gavin Cameron, Chair, RES Conf 2006 (by email in Word or PDF format) at [RES2006@economics.ox.ac.uk](mailto:RES2006@economics.ox.ac.uk)

#### 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*.

# A 'Job Market' Event for the UK

## A Report from John Sutton, President of the RES

THERE HAS BEEN A FEELING among many members of the Society for some time that it might be a good idea to have a more organized market for new PhD graduates seeking academic jobs in the UK. Over the past eighteen months, I have taken the views of members of Council, and of the Heads of UK Economics departments (via CHUDE). Led by the views of both these groups, the Executive Committee of the RES voted earlier this month to establish an annual 'PhD Presentations Meeting' to be held over the last weekend in January, at which up to one hundred final year (or newly-graduated) PhD students will present their work to representatives of participating universities. The first event will be held on Saturday 28<sup>th</sup> and Sunday 29<sup>th</sup> January 2006 at LSE, and will be organised by Professor Leonardo Felli.

### The rationale

The aim of the event is to provide a service both for UK departments wishing to recruit, and for PhD students at UK universities seeking academic jobs either in the UK or elsewhere in Europe. Two key arguments have motivated the decision to set up the event:

Some very able PhD students graduating from UK departments may take a job outside the UK early in their final year of study rather than wait through the course of the second term to see if any UK jobs are advertised. It is also the case that, while many PhD graduates from continental Europe apply for jobs in the UK, there remains a feeling that more such candidates might come forward were it not for the considerable uncertainty they experience in assessing the likelihood of getting a suitable UK offer. Thus, UK universities may be losing some good potential candidates.

From the point of view of PhD students at UK universities, it is beneficial that we set up a job market event which allows them to become more visible to all those universities who may be interested in hiring them. With that in mind, it is proposed that departments of economics from continental European universities should be allowed to participate in the meeting. Should this new event prove successful, it may in time attract wider participation from students and departments in continental Europe. With this in mind, the RES is keeping the European Economic Association informed on our current plans.

It is expected that the participating departments will wish to use the event as a way of identifying potential candidates for forthcoming positions, and that the outcome of these meetings would be that students would be informed about forthcoming positions, and might be encouraged to apply. It is, of course, intrinsic to the problem we are trying to address, viz. the stag-

gered nature of hiring in the UK, that we cannot find a neat and satisfactory way of superimposing this kind of institution on the market. Some colleagues believe that at least some UK university departments may possibly modify the timing of their hiring if and when this initiative takes off. At the outset, however, we must accept that some universities may find the proposed timing is too early for them, while others may possibly find it too late. The best compromise we can manage on this front is to make clear that participating universities are not required to have already advertised a job. In many cases, however, a department will be able to ascertain whether it will be in the market by our November 1<sup>st</sup> deadline. That said, it remains the case that some departments see this timing issue as a serious problem facing any form of "job market" event in the UK.

### Practical arrangements

#### 1. Participating students

Students will be free to apply for a place in the PhD Presentations Meeting by filing an application on a website that we will establish by August 1<sup>st</sup>. In order to apply, they must meet the following conditions:

- Applications are open to students completing their PhDs either in UK departments or outside the UK. Applicants must have submitted a PhD thesis within the calendar year 2005, or else must anticipate submitting a PhD thesis before October 2006. Students on post-doctoral fellowships may apply, if they are available to take up an academic post from October 2006. Students in one year temporary lectureships terminating in Summer 2006 are also eligible to apply. Applicants must **not** be currently occupying a regular (i.e. non-temporary) academic post at a UK department.
- Each applicant must provide by October 1<sup>st</sup> (i) a c.v. containing the names of two referees from which individual universities will be free to solicit references; (ii) a reference from a supervisor describing the contribution of the thesis, and confirming that the conditions set out above are met; (iii) a job market paper (which would normally be expected to consist of the best chapter from the forthcoming PhD) in electronic form. Students whose papers are accepted for presentation will be required to provide a PowerPoint presentation of their talk in advance of the meeting.
- No fee is payable by participating students, but they are responsible for all travel and accommodation costs. No arrangements will be made for student accommodation,

and they are expected to deal with this personally if they choose to be present overnight in order to attend the meeting on both days. Students will be required to confirm their attendance by January 7<sup>th</sup>, after which they will be assigned time slots for their talks.

- The number of participating students will be limited to 100. Selection will be carried out on the basis of the papers submitted and the supervisors' letters. This selection will be carried out by a committee similar to that used for selecting papers for academic conferences. Students will be informed as to whether their submission has been successful by November 15<sup>th</sup>.

## 2. Participating universities

Each UK department will be invited to join the system, subject to a deadline of November 1<sup>st</sup>, and payment of a fee of £200. Each participating university will undertake to send two academic colleagues to the two-day event. Overnight hotel accommodation will, if required, be provided by the RES at no (additional) charge for these two colleagues. All participating universities will receive, in November, the student papers, the supervisors' letters, and the students' contact details. The RES will not organize universities' meetings with individual students. Rather, universities will be free to make direct contact with students, and to arrange individual appointments. Each university will be allocated a cubicle in a large meeting room for the two days, in which they can meet with students. It is understood that these meetings do not form part of the university's formal recruitment process; rather, they are a way of allowing universities and candidates to exchange information.

## 3. The format of the meeting

Sessions will run from 10am – 6pm on Saturday, and from 9.30am – 6pm on Sunday. There will be two parallel sessions, divided broadly into micro and macro, and we expect each participating university to have one colleague in attendance at each of these two sessions. Each student presentation will last twenty minutes. Students will be advised on an appropriate format and style for their presentations. They will be advised to assume that participants have already read their papers, and to talk for between ten and fifteen minutes, so as to leave a minimum of five minutes for questions.

## For further information...

In the course of the our consultations with Heads of Departments, we have so far had indications from fifteen UK departments that they are very likely to participate next January. We anticipate having a maximum of thirty participating universities, including those coming from outside the UK. Any department or student wishing to participate should visit the RES website (<http://www.res.org.uk/>) as of August 1<sup>st</sup>, where full details will be posted.

## Letter from Germany

...cont from p.11

Finally, all three authors have a blind spot when it comes to the household. A major root cause of the problem of financing social security is declining fertility. But if they are not having as many children, what are these women doing? They are not going into the labour market, at least to nothing like the extent they do in other economies with, incidentally, significantly higher fertility rates. The reasons are not 'cultural', but have to do with the ways in which the German tax and social security system treats working married women, as well as with the extreme shortage of pre-school child care and the half-day school system. In my view there is a significant growth potential there which only needs some appropriate policy changes to be realised.

So now we have four authors and three opinions. Still not enough to justify the old canard. Hans-Werner Sinn's book will shortly be appearing in English, and I recommend it most strongly to all economists as a lively, informative and stimulating read. Horst Siebert's book already exists in English, as *The German Economy: Beyond the Social Market*, Princeton University Press, 2005, and I would thoroughly recommend it for a detailed study of the German economy. It is very likely that the next German elections, most probably brought forward to September this year, will result in Germany's first woman Prime Minister. Neither in personality nor in ideology is Angela Merkel a Margaret Thatcher, but I expect very strongly that one of the authors I have been discussing will play an important role in advising her government on economic policy, and in the end the results may turn out to be much the same.

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## CPB Netherlands Bureau for Economic Policy Analysis

The CPB Netherlands Bureau for Economic Policy Analysis regularly sends us *Newsletters* and *Reports* and, when we have space, we try to draw attention to the most interesting items.

The June issue of the *Newsletter* contains articles on government policies to strengthen the knowledge economy and on a cost benefit approach to flood defences.

As the report on the latter says, because of the history and topography of the Netherlands 'Both the benefits and costs of policy measures are considerable'. At a time when the consequences of global warming are much in the news and the UK government is having second thoughts about existing policies on coastal erosion, there are many interesting points raised by the CPB's study of the optimal level of protection against flooding.

# Obituaries

## Alan Williams

In 1997 experts were invited to nominate articles or books that they thought had been most influential in the field of health economics. The winner was a paper<sup>1</sup> by Alan Williams, Professor of economics at the University of York, who died this June aged 77.

Alan was exceptional in academia. Rigorous analysis led to new concepts and ways of measuring public sector output. He first thought of and helped develop the Centre for Health Economics at the University of York, now one of the world's leaders. He was the inspiration behind and instrumental in establishing the graduate programme in health economics at York as a hot house for producing new generations of specialists in the field. He purposely published in journals directed at policy makers and health care professionals to ensure that the economics message reached people who could influence implementation. He lectured throughout the world to economists, health care researchers and policy makers. He had the gift of making penetrating and controversial comments with a wit and eloquence that ensured his audience was both persuaded and entertained. In 2002 Alan was the first health economist to be elected a Fellow of the British Academy.

Alan was born on 9 June 1927 in Birmingham. After national service he read economics at Birmingham University where the stimulating teaching of Frank Hahn directed him toward an academic career. For a year in Sweden he immersed himself in the Swedish school of public finance and taught at the Universities of Upsalla and Stockholm. Thus began a life long involvement with Nordic economists which was recognised by an honorary DPhil from Lund University in 1977. Alan died a week before he was to receive another honorary degree in Finland.

In 1954 he was appointed lecturer at the University of Exeter. He was a visiting lecturer at the Massachusetts Institute of Technology (1957-58) and at Princeton (1963-64). On returning from the United States he became Senior Lecturer, Reader and soon Professor at the (then) new University of York. During 1966-1968 he was seconded to the Treasury where, in his words, he was 'loaned out' to large spending departments (including the Home Office and Ministry of Health) to inject rigorous economic analysis into planning public services. This experience, though brief, was to have a long term impact on his subsequent academic work.

When Alan Williams joined Alan Peacock and Jack Wiseman in the new Economics Department at York, the scene was set for the birth of a stimulating academic community. Peacock and Wiseman were well known advocates of market solutions to public sector problems, stressing the primacy of individual liberty. Alan approached the same problems from a different

angle: equity and social justice had to be central to the analysis of efficient solutions to public sector production and resource allocation. All parties enjoyed and thrived on debate thus ensuring that students and young researchers were the beneficiaries of these ideological differences. York was soon attracting students of public finance from around the world.

Alan's early work in public finance focused on tax incidence and fiscal federalism. After his stint in the Treasury his research centred on the economics of public services. It had become clear to him that a major reason for failure to conduct proper economic appraisals of public services was the lack of good measures of output. This daunting problem was the one he tackled. Turning to the NHS, he developed the idea of the Quality Adjusted Life Year (QALY): the output of health care was to be measured in terms of its impact on quality of life and life expectancy. Alan led collaborators from many disciplines and countries to produce a practical instrument for measuring and valuing health states. The work was so successful that the resulting measure is now used in many countries. The UK Treasury now advocates the use of QALYs in public sector investment appraisal and the recent Atkinson Review of measurement of government output in the national accounts notes the potential value of data on QALYs. The National Institute for Health and Clinical Excellence (NICE), uses QALYs to prioritise treatments for NHS patients.

Toward the end of his life Alan found it ironic that early development of the QALY stemmed from his work in the Home Office, a Department which showed little interest in the concept. By 2003 the Home Office, impressed with the success of QALY-type thinking in health care priority setting, wanted to explore ways it could be adapted for use in evaluation of the criminal justice system. Alan, with relish, participated in the meetings.

Alan's influence as a teacher and researcher has been profound. He engaged in debate with philosophers and medical ethicists as well as economists, pressing the need to make interpersonal comparisons of welfare when allocating public sector resources. He deeply valued his relationships with students and scholars of all disciplines and continued to visit and lecture overseas until his death. Many would count him as having been the single most inspiring influence on their professional lives. Despite his pre-eminence he never intimidated, talked down to, or failed to encourage and nurture his colleagues at home and abroad, whether young or old. He will be sorely missed.

*Diane Dawson  
University of York*

**Note:**

1 'Economics of coronary artery bypass grafting', *British Medical Journal*, 1985, 291(6491):326-329.

## Andre Gunder Frank

The distinguished economist and sociologist, Andre Gunder Frank has died of cancer aged 76. He was a product of a culture and a way of thinking about economics that refused to divorce its technical aspects from their political and social circumstances and implications. His boldness in exploring and extending radical political economy made Frank a well-known figure far beyond development economics in which he based most of his work.

Andre Gunder Frank was born Andreas Frank in Berlin on the 24 February 1929. Four years later, with the assumption of power in Germany by the Nazi party, his father, a novelist and pacifist, sent his son to a Swiss boarding school. He joined his parents in the USA in 1941. He finished Ann Arbor High School in Michigan, and entered Swarthmore College in Pennsylvania to study economics. At the end of his studies he had become a Keynesian. He went on to the University of Chicago to study for a PhD, at which point he rebelled against the straight-jacket that an economics discipline, isolated from the other social sciences, imposes on the systematic analysis of economic problems. Despite this, his doctoral thesis, on Soviet Agriculture in the Ukraine, was accepted by the University of Chicago in 1957. He secured a job at Michigan State University. Already at Chicago, he had been introduced by the anthropologist Bert Hoselitz to the social aspects of development in poor countries. This inspired him to put behind himself the provincialism of American universities emerging from MacCarthyism and, in 1962, he started teaching at the University of Brasilia. This led to teaching in Mexico and eventually, through the good offices of Salvador Allende, to a chair in sociology at the University of Chile in Santiago. Following the Pinochet coup, he found refuge in Berlin, and taught at various universities in Europe. Between 1978 and 1983 he was Professor of Development Studies at the University of Amsterdam. From 1981 until his retirement in 1994, he held a Chair at the University of Amsterdam.

Frank is best known as an exponent of dependency theory. According to this theory, developing countries are not poor because they are behind the advanced capitalist countries in the process of economic modernisation, through successive modes of production in the Marxian version, to an advanced state of material well-being. Rather they are poor because they are incorporated into an international economic system in which weaker, poorer countries, are exploited by stronger, wealthier countries. In Frank's version, this theory was rooted in a critique of modernisation and its creation of artificial needs in poor countries in order to perpetuate a condition of dependency. This aroused fierce criticism from Marxists as well as advocates of capitalist development, who decried Frank's ambiguity about traditional economy and society, and the analytical roots of his analysis in international exchange. From the 1970s Frank developed his work into a critique of international capitalism that he saw as sliding into crises that bore most heavily upon the poor in the developing countries. A more academic interest in the last two decades of his life was a study of world economic systems, that he believed first emerged some five millennia ago. He came to regard capitalism as a feature of a Euro-centric phase of development that neglected previous and

possibly future dynamism in regions of the world outside Europe and the countries of European settlement.

Frank was a prolific writer, and author of over forty books, as well as numerous articles and edited volumes. His international reputation was founded upon his willingness to challenge accepted opinion and to embrace radical approaches to global social inequalities. The price he paid for this distinction was his professional insecurity in a world that expects its economists to be business-friendly and deferential. His extensive output, historical vision, and iconoclastic opinions will ensure that his ideas will continue to be discussed long after the contributions of more respectable economists have sunk into decent obscurity. He leaves behind his third wife, Alison Candela, and two sons, Paul and Miguel from his first marriage to Marta Fuentes, who died in 1993.

*Jan Toporowski (with thanks to David Simon and Mike Watts)  
School of Oriental and African Studies,  
London*

## George Blazyca

Colleagues will be saddened to learn of the death in March this year of George Blazyca of the University of Paisley in Scotland.

George was one of the UK's leading authorities on the Polish economy and author of numerous articles and books on that economy. After graduating from Sussex University in the early 1970's in Mathematics and Statistics, George then completed an MA and DPhil at Sussex with a thesis on the Polish economy. His early career took him to a Lectureship in Economics at the University of East Anglia, followed by a short period at Coventry Polytechnic (now University), and subsequently to the position of Head of the School of Social Sciences at Thames Polytechnic (now Greenwich University). From 1992 until his untimely death this year, George took up a Professorship at Paisley University. Until 2000, he was Associate Head of the Department of Economics and Management at Paisley and a crucial stage in his career culminated in his role in helping to establish Paisley's Centre for Contemporary European Studies in 1995/6, just prior to the 1996 RAE. In 2000, he became the Director of the Centre which went from strength to strength in raising its research profile, not least in the 2001 RAE which George led in the subject-area of European Studies.

George's publications and other activities in European Studies (eg he was an elected national member of BASES — the British Association for Slavonic and East European Studies and on the editorial board of a number of leading journals in the field such as the *Journal of East-West Business* and the *Journal of Communist Studies and Transition Politics*), were highly regarded by peers and others. He had a beautiful writing style and an ability to encapsulate the key issues pertinent to the problems of economies in transition such as the Polish economy. He worked collaboratively with many colleagues in Paisley and beyond. In particular, he was instrumental in estab-

lishing strong links with two of Poland's leading Schools of Economics — the Warsaw School of Economics and the Krakow School of Economics. With Professor Ryszard Rapacki of Warsaw, George co-authored two key works on Poland, *Poland into the New Millennium* (2001) and *Poland into the 1990's: Economy and Society in Transition* (edited volume) (1991) as well as numerous other journal articles and books.

George was, above all, an outstanding advocate of the European project. This was clearly manifested in a number of initiatives in his professional life such as the so-called West Coast Seminars on Economic and Social Change in Russia and Eastern Europe. George established the series in 1994 involving colleagues from the 4 West of Scotland Universities (Glasgow, Strathclyde, Caledonian and Paisley) in an annual series of seminars (usually 5 or 6 a year) which is now into its 11 year. A Working Paper series was also established in European Studies. However, possibly the highlight of George's

later contributions was the outstandingly successful 2004 conference that he organised at Paisley; "What does EU enlargement mean for Scotland?" which was held to mark the accession of the 10 new countries to the EU in that year. That conference was a great success, with all ten accession countries represented, thanks to George's tireless efforts and superb organising abilities. It is an enduring testimony to his contributions over nearly 30 years of academic life.

George was above all else a gentleman. Since his passing in March, his colleagues at Paisley, in Poland, and in many universities up and down the country continue to miss him dearly.

*John Struthers  
Paisley University*

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# Correspondence

## Time inconsistency

Sir,

John Driffill notes that Kydland and Prescott's work on 'time consistency' followed on from the work of Strotz and that it contributed to developments of thought leading to central bank independence. Indeed, there is significant truth in that, but in putting it this way Driffill risks perpetuating and contributing to a collection of intellectual muddles that threaten to undermine not just good policymaking but also the reputation of economists for logical rigour.

First, Kydland and Prescott's problem is fundamentally 'game theoretic' in the sense of arising as a result of the interaction of intelligent agents. Notwithstanding any tendency to describe it using similar-sounding labels, it is a very different thing from the issues arising from a single individual's non-exponential discounting considered by Strotz.

As to the relation between the Laureats' work and the case for central bank independence, it would perhaps be prudent to note that Kydland and Prescott quite plainly had the Federal Reserve in mind as their 'policymaker' which suffered from 'time inconsistency'. That should surely raise a doubt in anyone's mind as to whether central bank independence can possibly be a solution to their problem.

Further, Kydland and Prescott note specifically that the problem of time consistency is attributable neither to excessive discount rates nor the pursuit of sectional interests. That should be a warning that 'political short-termism' and such like are no part of the problem. Consequently, eliminating it really cannot be the solution.

One could go considerably further. It is precisely because

Kydland and Prescott's problem arises amongst policymakers who share the public's objectives, are not short-termist, and who understand perfectly the structure of the economy, that their insight is so striking. To treat them as having said, in effect, that if policy is set by selfish interests with the power to deceive the public, one result might be poor policy, is not just an intellectual blunder but an insult to the authors and the standing of the prize they won.

The threat to the standing and prestige of economics should be apparent, but policymaking can be damaged too. That happens when improper political influence on policy is confused with a 'credibility' problem. The solutions to the latter, of course, are either commitment to unpleasant policy, or its systematic adoption with a view to reputation-building. The danger is that a justified desire to limit improper political influence, or attempts to display the fact that it is not occurring, manifest themselves as an unjustified pursuit of contractionary policy. One need look only as far as Frankfurt for the suspicion that this is a real problem to take shape.

Driffill himself knows better than to fall into these traps. That is apparent from the careful wording of his tribute just as it is from his 1985 work with David Backus where the authors correctly noted that the objective of re-election will inhibit surprise inflations by a reputation-building policymaker. Nevertheless it is a pity for him not to draw attention to others' errors. And noting the influence of Kydland and Prescott's work without noting the puzzle that raises risks perpetuating confusion.

*James Forder  
Balliol College, Oxford.*

## More on the IPCC

Sir,

David Henderson's comment in the *RES Newsletter* (no. 128, January 2005) must be applauded. He and Ian Castle observe that the Intergovernmental Panel on Climate Change (IPCC) is weak on economics and, even, that this body is hesitant to repair that situation when they are informed of that. The reply by Bjart Holtsmark and Knut Alfsen (*Newsletter* no. 129, April 2005) goes part of the way for an answer but creates its own problems on the assumptions for technology. It is fortunate that more economists become aware of IPCC-related economics. Some decades ago the 'Report of Rome' by Meadows *et al*<sup>1</sup> was criticised for the lack of explicit economic modelling and succeeded in scaring a lot of people. Let us hope that a 'circus' like that can be prevented nowadays.

What is important to realize is that we economists ourselves are partly the cause for the void that the IPCC apparently has been working in. There exist some curious institutional mechanisms why economics and the environment don't easily mix, so that meteorologists and ecologists have been able to dominate the IPCC. The following, not touched upon by above authors, is a key example of the burden of our dismal science. This is something that one could not easily mention in an economic journal but that can very well be communicated in a newsletter like this.

In Holland, there is an institutional division of labour between the Central Planning Bureau (CPB) that develops econometric models and designs scenarios for the future, and the central statistical office (Statistics Netherlands, CBS) that determines the statistics used for that modelling. Since 1969, Dr Roefie Hueting has been working at CBS on the statistics of the environment, and in the course of this pioneering work he discovered that he needed econometric modelling to develop the proper statistics of Sustainable National Income. This followed the economic concepts of Hicks, Meade, Stone and Tinbergen of social welfare and national income accounting, while partly requiring assumptions for the preferences of current generations with respect to their views on future generations, and accounting for price reactions to unobserved choices along the sustainable path. One can imagine that CBS was and is hesitant on econometric modelling that deals with the future, while the CPB was and is hesitant on dealing with 'statistics'. Personally, I regard Hueting as a great economist who has done wonderful work, but one can imagine that not only CBS and CPB but also a body like IPCC and even professor Henderson's own OECD have provided a difficult environment for this work to fully bear its fruits.

The main intention of this comment is that we as economists should not be too harsh on the IPCC (which professor Henderson in my opinion is not) and that we would do well in reconsidering our own responsibilities. In Holland, fortunately, with the help of CBS and many others (myself formerly CPB), there was an important conference with new research based upon the work of Hueting.<sup>2</sup> I can only recommend this material for consideration when the IPCC opens its ranks to more economists. For example with respect to technology (the problems referred to above), following Hueting and Tinbergen the precautionary principle entails scenario's where technology

cannot be assumed beyond known frontiers. Clearly, only discussion will bring us further. Please note, too, that I am not an environmental economist,<sup>3</sup> only an economist who has some comments on the work of other economists who discuss environmental issues — which is to show how complicated things can get.

*Thomas Colignatus*

### References:

1. D H Meadows, D L Meadows, J Randers and W Behrens, *The limits to growth*, New York: Universe Books, 1972.
2. E van Ierland, J van der Straaten and H Vollebergh (eds), *Economic growth and valuation of the environment: a debate*, Cheltenham: E Elgar, 2001.
3. [www.dataweb.nl/~cool/Papers/Environment/index.html](http://www.dataweb.nl/~cool/Papers/Environment/index.html)

## Abram Bergson

Sir,

Paul A. Samuelson, at 90, has paid a glowing tribute to the late Abram Bergson through an obituary published in the features issue of the *Economic Journal* (Vol. 115 (501) February 2005). Beyond biography, it provides an incisive coverage of normative economics over three centuries condensed into just three pages of text (pp F130 to F133).

At MIT, during the course of conversation with Prof. Samuelson in March 1971 (a few months after he had received the Alfred Nobel Memorial Prize for Economics, I was called upon to elaborate on the exquisite edifice of socialism being built by the then Prime Minister of India, Mrs Indira Gandhi. But, since then, several of her successors have brought about a virtual U-turn in the wake of LPG (Liberalisation, Privatisation and Globalisation). Yet, Pareto optimality (or, even Pareto improvement) continues to elude the reformers.

Both Bergson and Samuelson have ably recognised the limitations of Pareto's proposition. In *The Economic Sins of Nations* (Kolkata: 1978, p.507) I had argued: 'Even Pareto optimality is value added — based on the presumption that a person with three suits is better than one having two suits only. Why should the (optimum) utilisation of physical and human resources be not used as a criterion of development/welfare of a society?' Later, in *Guided Incomes Policy* (New Delhi: Sterling, 1983, p.43), while amplifying egalitarian, libertarian, rawlsian, Pareto, Karma and ethical concepts of justice, I concluded: 'With the use of a Relativity Index as a measure of welfare, no member of a group can be made (relatively) better off without making somebody else (relatively) worse off.' Inability to appreciate this hard fact has resulted in a chain of self-defeating pay revisions in India during 1986-1995 and, again, during 1996-2005.

In fine?, a specific reference may be made to Abram Bergson's work on *The Real National Income of Soviet Union since 1928* which has been of incessant interest to developing countries, India in particular.

*Om Prakash*  
*Former Vice-Chancellor and Emeritus Fellow*  
*University of Rajasthan*

# RES news items

## Support for small academic expenses

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

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

## 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](http://www.res.org.uk)).

Enquiries about rights, permissions and initiatives relating to editions and other scholarly works should be addressed to The Publications Secretary, Professor Donald Winch, Arts E, University of Sussex, Falmer, Brighton, BN1 9QN.

## 2006 RES Easter School in Econometrics

The sixth Easter School in Econometrics organised by the Society with financial support from the ESRC will be held at

**Nuffield College, University of Oxford  
from 20 to 24 March 2006**

The School is intended primarily for advanced post-graduate students, but is also open to recently appointed members of the teaching and research staff. The purpose is to enable participants to become acquainted with the latest developments in the selected field of econometrics, to have the opportunity for study and discussion with two leading authorities in this field, and to meet other graduate students.

In 2006, the subject of the school will be

**Dynamic Panel Data**

presented by

**Manuel Arellano (CEMFI) and  
Steve Bond (Nuffield College and IFS).**

Funded places are available for 20 participants coming from the UK and the EU. The funding covers meals and accommodation. There is a limited number of non-funded places. Application for registration should be submitted by:

**1 December 2005**

Further information about the school and registration can be found at:

<http://www.nuff.ox.ac.uk/Users/Nielsen/RES/EasterSchool2006.html>

# Conference Diary

2005

july

18-20 July

York

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

Further information from: [www.york.ac.uk/res/wpeg/](http://www.york.ac.uk/res/wpeg/)

august

17-18 August

London

**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.

Further information from: Giovanni Urga ([g.urga@city.ac.uk](mailto:g.urga@city.ac.uk)) or [www.cass.city.ac.uk/faculty/g.urga/info1.html](http://www.cass.city.ac.uk/faculty/g.urga/info1.html)

18-24 August

London

**Ninth world congress** of the Econometric Society to be held at University College London.

Further information from: [www.eswc2005.com](http://www.eswc2005.com)

24-27 August

Amsterdam, The Netherlands

**Twentieth annual congress** of the **European Economic Association**.

Further information from: [eea2005@caos.nl](mailto:eea2005@caos.nl) or [www.eea2005.org/eea\\_amsterdam.html](http://www.eea2005.org/eea_amsterdam.html)

29 August - 2 September 2005

Morocco

**Fourteenth world congress** of the **International Economic Association**.

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

september

1-2 September

Cambridge

**Third annual Developments in Economics and Business Education (DEBE)** conference to be held at the Møller Centre, Cambridge. Speakers include: Sir John Vickers (OFT), Professor Charles Holt (University of Virginia), Professor Monojit Chatterji (University of Dundee).

Further information from: [www.economicsnetwork.ac.uk/debe2005](http://www.economicsnetwork.ac.uk/debe2005)

22-23 September

Oxford

**Conference** of the **British Institute of Energy Economics** to be held at St John's College. The programme will include all aspects of the energy debate, including demand policies, emissions trading, technology and innovation, security of supply, environmental regulation, EU enlargement, fossil-fuel futures, nuclear and renewable energies, and energy modeling.

Further information from: [www.biee.org](http://www.biee.org) or email: [admin@biee.org](mailto:admin@biee.org)

22-23 September

Helsinki, Finland

**Conference on Open Market Operations and the Financial Markets** to be held at the Bank of Finland.

Further information from: David Mayes, Bank of Finland, PO Box 160, 00101 Helsinki, Finland. E-mail: [david.mayes@bof.fi](mailto:david.mayes@bof.fi)

26-28 September

Melbourne, Australia

*Thirty-fourth Australian Conference of Economists* to be held at the University of Melbourne. There will be keynote lectures, special sessions with invited speakers and contributed papers.

*Further information from:*

[www.conferences.unimelb.edu.au/ace2005](http://www.conferences.unimelb.edu.au/ace2005)

E-mail: [ace2005@unimelb.edu.au](mailto:ace2005@unimelb.edu.au)

## 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](mailto:juergen.backhaus@uni-erfurt.de) or [www.uni-erfurt.de/finanzwissenschaft](http://www.uni-erfurt.de/finanzwissenschaft)

19-20 October

Karvina, Czech Republic

*Tenth international conference on Finance and Banking.*

*Further information from:*

[www.opf.slu.cz/pb2000/2005/invitation\\_2005.pdf](http://www.opf.slu.cz/pb2000/2005/invitation_2005.pdf)

20-21 October

Clermont-Ferrand, France

*Fifth international conference on the Chinese economy: China in the world economy* to be held at the Université d'Auvergne.

*Further information from:*

[www.cerdi.org/colloque/chine2005/](http://www.cerdi.org/colloque/chine2005/)

## november

10-11 November

Genova, Italy

*Tenth annual conference of the Italian Health Economics Association* on the subject Individual and collective choices in health protection to be held at the University of Genova.

*Further information from:*

[www.aiesweb.it/convegno/co0006/convegno.htm](http://www.aiesweb.it/convegno/co0006/convegno.htm)

10-12 November

Bremen, Germany

*Annual conference of the European Association for Evolutionary Political Economy (EAEPE)* to be held in Bremen.

*Further information from:* [www.eaepe.org](http://www.eaepe.org)

16-18 November

Innsbruck, Austria

CALL FOR PAPERS

*Fifth annual conference on International institutions: new agenda of the WTO: challenge and contribution of the European Union.*

*Further information from:* [www.uibk.ac.at/csi/](http://www.uibk.ac.at/csi/)

## december

12-13 December

London

CALL FOR PAPERS

*Conference on Capital markets, corporate finance and money and banking* to be held at Cass Business School. The conference aims to provide a forum for the presentation and exchange of research results and practical experiences across a wide range of research topics in capital markets, corporate finance, corporate governance, banking, international finance and empirical analysis of financial markets including the econometric analysis of high-frequency data, derivative trading strategies and design, risk management and European monetary policy. Papers should be submitted by **31 October 2005** to Giovanni Urga ([g.urga@city.ac.uk](mailto:g.urga@city.ac.uk)).

*Further information from:* Giovanni Urga at above e-mail or [www.cass.city.ac.uk/faculty/g.urga/info1.html](http://www.cass.city.ac.uk/faculty/g.urga/info1.html) or [www.cass.city.ac.uk/conferences/mariecurie/index.html](http://www.cass.city.ac.uk/conferences/mariecurie/index.html)

15-16 December

Hamburg, Germany

*Conference on East Asian monetary and financial integration* organized by the Hamburg Institute of International Economics. The conference aims to bring together experts in the field of monetary and financial integration in order to discuss current developments in East Asian financial markets and the prospects of regional financial and exchange rate cooperation.

*Further information from:* Ulrich Volz, Hamburg Institute of International Economics, World Economy Department, Neuer Jungfernstieg 21, 20347 Hamburg, Germany.  
E-mail: Ulrich.volz@hwwa.de or  
www.hwwa.de/Forschung/Handel\_&\_Entwicklung/Veranstaltungen/Asia\_Conference\_2005.htm

## 2006

### january

*15-16 January*

*Berlin*

#### CALL FOR PAPERS

*First annual workshop* of the **Households in Conflict Network**. Speakers include: Robert Bates (Harvard), Klaus Deininger (World Bank), Macartan Humphreys (Columbia University) and Mansoob Murshed (Institute of Social Studies, The Hague). Completed papers (in PDF format) should be sent by **30 September 2005** to Theresa Jennings, Households in Conflict Network, Poverty Research Unit, School of Social Sciences and Cultural Studies, University of Sussex, Falmer, Brighton BN1 9SN. (t.jennings@hicn.org).

*Further information from:* [www.hicn.org/papers/callforpaper-sjan06.pdf](http://www.hicn.org/papers/callforpaper-sjan06.pdf)

### march

*20-24 March*

*Oxford*

*Annual* Royal Economic Society **Easter School in Econometrics** to be held at Nuffield College, Oxford. The topic will be **Dynamic Panel Data** presented by Manuel Arellano (CEMFI) and Steve Bond (Nuffield College and IFS). Open to advanced post-graduate students and recently appointed members of teaching and research staff.

*Further information from:*

[www.nuff.ox.ac.uk/Users/Nielsen/RES/EasterSchool2006.html](http://www.nuff.ox.ac.uk/Users/Nielsen/RES/EasterSchool2006.html)  
(see also p.20)

### april

*18-20 April*

*Nottingham*

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

*Further information from:* [www.res.org.uk](http://www.res.org.uk)  
(see also p.13)

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

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- 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.

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Ordinary EU member: 68 + 3.40 = 71.40  
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