



ROYAL  
ECONOMIC  
SOCIETY

# Newsletter

Issue no. 192

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## ■ Correspondence

Letter from France —  
When will they ever learn? p.3

## ■ Features

The Public's Understanding  
of Economic Statistics p.6

The IFS Deaton Review of Inequalities p.8  
Publish (and be saved?) p. 11

Society of Professional Economists  
Salaries Report 2020 p.13

Rediscovering the history  
of economic thought p.16

The Case for Income Tax Reform  
in the US and UK p.19

The Intergenerational Transmission of Wealth  
in Britain and Other Rich Countries p.20

Universities' superannuation fund is  
accumulating surplus assets! p.26

News from the women's committee —  
A growing divide p.29

## ■ Obituary

Edward P Lezear p.31

## ■ RES News p.32

## Happy New Year

Is it? It's certainly not what we hoped for. There are some positive signs but they rely heavily on vaccines and government competence in delivering them. The development of vaccines so quickly has been a remarkable achievement — worthy of celebrating when the opportunity arises. But what price government competence? Not much if we follow Alan Kirman's view of events.

Back in October, a survey of new economics undergraduates by the Economics Network reminded us that 'inequality' was still seen as the principle economic problem. It dominated the work of the late Tony Atkinson and Sir Angus Deaton has recently warned of dire consequences if nothing is done to halt widening divisions in society. Their views find expression in two of our features — the IFS Deaton Review of Inequalities by Robert Joyce and Brian Nolan's article on the Intergenerational Transmission of Wealth and, to a lesser degree in arguments over income tax reform. The first of these also stresses the dramatic and wide-reaching contribution to inequality that is being made by the covid pandemic as we discover that while we may all be in the same storm we most assuredly not all in the same boat. The analogy comes from the Society's Women's Committee which shows how coping with covid has differential gender consequences.

Two other features will interest long-time readers of this *Newsletter*. These are the communication of economic ideas to the general public and the role of the history of economic thought in an economics education.

Finally a *mea culpa*. In the July 2020 issue of this *Newsletter* we reported on the sad passing of Peter Sinclair, who was one of the early victims of the covid virus. Unfortunately, the front page announced the obituary of Peter Spencer. We apologise to all concerned.

Strictly unconnected with this error, your editor is leaving after 22 years (and 88 editions). These occasions are always a compound of sadness and relief but fortunately in this case tempered by the knowledge that my successor, Jon Temple will do an excellent job. I wish him, and all readers, well.

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## The Society's Newsletter

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



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

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## Letter from France —

## When will they ever learn?

*Looking at recent events, Alan Kirman reflects sadly on the lack of communication between governments, in France and the UK, and the people they govern.*

My father told me, when I was very small, that ‘intelligence is the capacity to profit from previous experience’. Judging by what has been going on in the world in general and in the UK, the US and France, intelligence so defined has been in very short supply among those who govern. I suggested last year that 2020 could not be much worse than 2019. How wrong can you be? Consider the case of France. The beginning of the year after massive protests about pension reform got off to a bad start. The government was reduced to forcing the highly unpopular reform through in February. As *Le Parisien* said in its headline, ‘Prime Minister Édouard Philippe pushed through the Macron government’s controversial pension reforms without a parliamentary vote on Saturday, after the opposition filed more than 40,000 amendments to the draft law’. To be fair, debating that number of amendments would have taken time, but the popularity of the government fell even lower as a result.

Then came Covid-19 a gift from the ‘Invisible Hand of Jupiter’ as Adam Smith described the cause of exogenous shocks. Despite its terrible human cost this should have been the occasion to show what good governance could do to face up to a catastrophe. There are, of course, extenuating circumstances, there has been a great deal of uncertainty about the nature of the virus, its transmission and above all about how to treat severe cases. But some things have been understood for some time now. PPE or personal protective equipment was always going to be useful in many of the public health crises that France might face, including as it turned out, the current pandemic. Resilience, a term much used these days, involves, in part, having reserves of products such as surgical masks which become essential in an emergency. It is not intelligent to have a ‘just in time’ supply chain in those circumstances. What is needed is a ‘just in case’ stock. France was relatively well armed in this regard. It had 754 million units at the end of 2017, but as the limit dates for their use passed, the strategic stock of surgical masks dwindled to only 100 million at the end of 2019. The Directeur Général pour la Santé (DGS) was warned of this decline and the medical authorities recommended building a stock of a billion masks. But investigation by the French Senate in December 2020 has revealed that the order was reduced to 50 million for budgetary reasons and that the sci-

entific report recommending the stock of 1 billion was modified *a posteriori*, to justify this decision.

Then came the onset of the pandemic. At the start things were chaotic, recommendations were contradictory and for some the whole problem was overblown. Yet, as the number of deaths and people in intensive care increased there was still an air of disbelief. In Marseille Professor Didier Raoult who asserted that the well established drug hydroxychloroquine had a positive effect in the treatment of Covid and whose advice was followed by Trump and Bolzanaro, became a folk hero. Statuettes of him were selling like hotcakes this month. But, after the first wave which was dealt with by a lockdown, things seemed to come back to normal until people went off together to crowded beaches and parks and by October the second wave had hit. Social distancing and mask wearing were recommended and were enforced on public transport. But, as the number of deaths and entries to intensive care started to climb the answer was to install a curfew from 9 pm

and to limit travel to a minimum. This has not had the desired effect at the time of writing and although Christmas travel will be permitted the curfew will be in force on every day except for Christmas Eve and the ski resorts will remain closed till the middle of January.

Vaccines will be distributed as from the beginning of January to the most vulnerable and the most exposed but all of this can be changed at short notice.

Polls show that the French have a poor opinion of the government’s handling of the pandemic and the question is whether that is justified. Teachers who have recently been told by the Minister of Education that it is essential to keep children in school are troubled by the announcement that it would be desirable to keep children at home on the Thursday and Friday before the holidays. This is the essence of the problem. When faced with a rapidly evolving problem where information about it is constantly changing, how should the authorities handle it so that the information and the evidence that it contains is accepted? The reasonable individual would admit that measures taken need to be changed if the reasons behind the change are explained. However, the basic attitude of the government is that ‘we receive expert advice and you should

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The reasonable individual would admit that measures taken need to be changed if the reasons behind the change are explained. However, the basic attitude of the government is that ‘we receive expert advice and you should follow it’. That does not work and, by now they should have understood this. If advice on one day is followed by orthogonal advice on the next, people have to have a lot of confidence in those giving the advice to follow it. ”

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follow it'. That does not work and, by now they should have understood this. If advice on one day is followed by orthogonal advice on the next, people have to have a lot of confidence in those giving the advice to follow it. But time and time again authority is exercised without consultation and prior information and the public are extremely sceptical about the competence of those in charge especially after the mask fiasco before the onset of the disease.

On a comparative basis a number of countries seemed to have outperformed France in terms of handling the pandemic but the recent bad experiences of South Korea and Germany suggest that France, while not doing well, has not suffered as badly as the US the UK and Brazil for example and is somewhere in the middle of the field. Yet one message has become clear which is, that what is of prime importance, is the confidence that the public has in the person who is proffering the advice. As I will point out in what follows this is the weak point in France but much more so in the UK. As I am writing Macron has declared that he has tested positive for Covid and is in a 7-day quarantine. He joins a number of heads of state, but he, unlike the others, did not minimize the Covid problem. Now that vaccines are going to be available, things may improve. Unfortunately, there are still many people who are hesitant about being vaccinated. But, as a recent article from INET<sup>1</sup> argues, one thing stands out, putting the economy above the public health problem does not pay off.

### Brexit and fish

Let me come to my second topic, that of Brexit, which is coming to an untidy end. The French have a real interest in this but they feel with considerable justification that the Brexit campaign gave a completely distorted picture of the picture and that the UK's insistence on modifications in both quotas and access to territorial waters is outlandish for people who should be prepared to pay a price to gain some benefits from a club that they have decided to leave.

The leave campaign for Brexit used fishing as its poster child. Getting back 'sovereignty', however that was defined, was an essential part of the story which was supposed to have a populist appeal and was a nostalgic reminder of the time when Britannia ruled the waves. The idea purveyed was that of many small fishing boats unable to fish enough as a result of the nefarious practices of French, Spanish and other European vessels. So, increasing and redistributing fishing quotas would be an important contribution to the UK fishers and the towns where they were based.

But, a more careful look at the fishing situation raises a number of problems. Firstly, who actually does most of the fishing or, put another way, who owns most of the fishing quotas at the present time? The shadow secretary for the environment in the UK drew attention to a report on the fishing industry in the UK published in 2018.<sup>2</sup> That report showed that a large proportion of fishing quotas was owned by families on the *Sunday Times* 'rich list',<sup>3</sup> and foreigners. This means that the idea that the UK fishing industry at large would profit from leaving the European Union was questionable.

The interesting question here is how fishing came to be such an important sticking point in negotiations. Catching fish makes up just 0.1 percent of the British economy and employs barely 12,000 people, or 0.04 per cent of the British workforce. Even if the fish processing industry, which is roughly twice as large is included, the whole industry is very small indeed.

People in the UK have very conservative tastes in fish and 75 per cent of the fish they eat is concentrated on five species: salmon, cod, shrimp, tuna, and haddock, and, in part because of this, 80 percent of British fish landings are *exported*, mostly to the EU. If there is no deal, these exports will carry tariffs which will, paradoxically cause most harm to the small fishermen who catch a lot of shellfish. The bigger shellfish markets are largely European: France, Spain, and Portugal in particular and making access to those markets more difficult will be very problematic for those who were supposed to gain from Brexit. Neither will the smaller fishermen benefit from a redistribution of quotas as the Government White Paper on the subject explicitly states that there will be no redistribution of quotas.

As the EU quota system evolved, quotas became commodities and in such a framework the small players soon essentially disappeared. Although small vessels make up 79 per cent of England's fishing fleet they have only 2 per cent of England's quotas. half of which are ultimately owned by Dutch, Icelandic, or Spanish interests. More than half of Northern Ireland's quotas were concentrated *on one trawler* which has recently been replaced and the new vessel is too large to land its fish in Northern Ireland. As for the quotas for Scotland which is the largest UK fishing nation, five families on the *Sunday Times* 'Rich List' own or control directly and indirectly nearly half (45 per cent) of them. With, or without, a deal the bulk of UK fishing rights in the hands of a small domestic elite and a handful of foreign multinationals, not exactly what the Brexiters had promised.

Responding to the report at the time, the shadow environment secretary Sue Hayman said ministers needed to take 'urgent action to use the powers that they have domestically to redistribute fishing quota to deliver a fairer deal for smaller boats. Fishing was the poster child of the Leave campaign, and environment secretary Michael Gove has already broken promises he made to the industry to secure full control of our waters during the transition,' she continued. 'With all the talk of "take back control", ministers have the power to distribute UK quota now and put the smaller-scale fleet first. So why wasn't it mentioned in their white paper? This report shows that, while it points the fingers at others, this government is to blame for a sector rigged in the interests of the super-rich. Any future fishing policy must consider how new and existing quota can be more fairly distributed and we will treat this as a priority in the upcoming fisheries bill.'

Yet, the government has continued to vaunt the benefits to the fishing industry of Brexit, even with no deal and, of course, nothing of the potential redistribution of quotas has happened. Furthermore, the threat to send the gunboats in to

police UK waters has a distinct 19th century flavour to it.

### Climate change policy

The third problem that I wish to mention is that of policy towards climate change which has become something of a French speciality in recent years. The Paris Agreement, and the recent follow-up conference on the subject have placed France as a leader in the field of positive action in response to climate change. Yet paradoxically, while Macron insists on the importance of the problem, his inherent bias towards the private sector and the idea that it is only there that one will find adequate solutions to pressing problems, has prevented him domestically from taking major steps. He recently convoked a Citizens' Convention on climate change. After much discussion the convention came up with 150 proposals for measures to improve the situation. Macron proposed to implement all of the 150 propositions without any modification. So, once again he gave the impression that he was listening to the French people and wanted to do something in their interests after consulting with them. However, when it came to the time to do something concrete about this, he only put 50 of the original proposals on the table. This produced an angry reaction from those who had participated in the convention and felt that they had somehow been cheated. Macron's reaction was to argue that it was necessary to modify Article 1 of the French constitution, to include considerations of environmental importance. This proposal attracted a lot of attention and shifted the focus from the fact that the convention was not being followed. But, it is not clear that this will in any way reinforce confidence in those who govern France. As someone once said, 'one should say what one means otherwise nobody will believe that one means what one says'.

On the environmental front, it is interesting that France in order to keep its emissions low has decided to keep nuclear power at the centre of its energy policy. France currently generates 75 per cent of its electricity from nuclear power and has promised to reduce that to 55 per cent by 2030. This poses two problems, firstly what will be the source of the electricity to replace that currently generated by nuclear power? Secondly how will the ecologists greet the announcement that nuclear power is not to be phased out? It is worth recalling that France earns some 2.5 billion euros annually from exporting electricity. Once again it is not difficult to see that Macron has come down on the side of economic interests.

### Conclusion

There is a common thread running through much of what I have said and it is that governments that either take an authoritarian, or to be kinder, a paternalistic attitude, or who simply do not tell the truth, tend not to generate much confidence in the populations of their countries. Not only have the problems that I have mentioned been at the forefront in 2020 in France, but there has been a series of other problems which have come up in this country which have shown the same tendency. A fairly radical reform of the French University system and of the research organization has been

pushed through despite almost unanimous condemnation of academics and researchers. Many of the promises made have not been fulfilled and it seems that the government pays little attention to the actors in this sector. The result has been a loss of trust in the government, if there had been any, by both students and university teachers in France.

As another example, recently a law was proposed and an amendment voted to prevent people taking photographs of the police when on duty. This, it was claimed, was to protect the police from possible attacks. Yet, as huge demonstrations have shown, most people laboured under the illusion that the police were there to protect the people and not vice versa. This is but another reflection of the lack of communication of the government with the people it governs. I dare not even hope this year to suggest that the next will be better but, being as bad a forecaster as many economists, I hope that my forecast will be wrong.

In any event however all of this turns out I would like to take the opportunity to wish all those who read this a Happy New Year.

Notes:

1. Phillip Alvelda, Thomas Ferguson, and John C. Mallery 'To Save the Economy, Save People First' INET publication November 2020
2. The report by Uearthed, part of Greenpeace was published in September 2018
3. This list, of which I was not aware before writing this piece, is published each year by the *Sunday Times* and lists the 1000 wealthiest families in the UK.

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## Annual Maxwell Fry Global Finance Lecture

The 2020 lecture was presented on 14 October via Zoom to an international audience. Professor Richard G Anderson<sup>1</sup> spoke on the topic 'Central Banking in Interesting Times and the Demand for Base Money'.

Anderson argued that central bank policymakers seem always to live in interesting times: it's one macroeconomic shock after another. The past two decades, for example, saw the tech boom and meltdown of the late 1990s, the stagnation of the early 2000s, the global financial crisis of 2007-2008, and the novel coronavirus/covid-19 pandemic of 2020. He cited the 1950s dean of British banking scholars, Richard Sayers, that [t]he very essence of central banking [is] that it should be fluid and should adapt its way to the needs of the time'.

Note:

1. Richard Anderson is currently visiting research professor at the University of Missouri - Kansas City, and a research fellow at the Hammond Institute, School of Business, Lindenwood University, Saint Charles, Missouri. The Fry lecture was recorded and is available through links on the MMF website ([www.mmf.ac.uk](http://www.mmf.ac.uk)). The slide deck is available on request and at the speaker's web site <[rgandersonstl.com](http://rgandersonstl.com)>

# The public's understanding of economic statistics

*Following the 'Brexit' referendum in 2016 a number of public organisations including HM Treasury, the UK Government Economic Service, the Bank of England and the RES, expressed concern at the level of public understanding of economics that the debate revealed.<sup>1</sup> Johnny Runge<sup>2</sup> reports on a recent survey.*

TOGETHER WITH COLLEAGUES from the National Institute of Economic and Social Research (NIESR), Full Fact, Royal Statistical Society (RSS) and King's College London recently published a report on the 'Public Understanding of Economics and Economic Statistics', carried out as part of the research programme of the Economic Statistics Centre of Excellence (ESCoE) and funded by the Office for National Statistics (ONS). We conducted a series of 12 focus groups with 130 people in October 2019 and a nationally representative YouGov survey with 1,665 respondents in February 2020, to explore how the general public view different aspects of the economy and economic concepts.

We found there is a reasonably good level of public understanding in some areas, where the economy is seen as important for people's lives and personal finances. The main example is interest rates, driven by the impact on people's mortgages and savings. The survey showed that 57 per cent of the British public could identify that interest rates were considered low (compared to 12 per cent who considered them high), and around 75 per cent understood the personal implications of lower and higher interest rates on savings and borrowings, respectively.

However, public understanding of broader economic concepts is generally very weak, leading to questions about people's ability to understand economic news stories and evaluate the government's economic performance. Many feel economics is confusing and complicated, and regret they are unable to understand it.

As an example, people's understanding of Gross Domestic Product (GDP) is very limited. Around half (47 per cent) of the British public could identify the correct definition of GDP from a list of options, according to our survey. However, the focus groups showed that most people, even those who can broadly define it, have little or no understanding of GDP, and cannot speak in any meaningful way about it. Many said they had heard about GDP and seen it on the news, but they saw it as an example of economic jargon that contributed to the feeling that economics was inaccessible to them.

Around two-thirds (67 per cent) of the British public could identify that the UK government ran a 'budget deficit' (in February 2020, pre-Covid), as opposed to a surplus or a 'balanced budget'. However, when the same question was put to people in more everyday terms, i.e. whether government spending was higher than its income through taxes, only 38 per cent answered correctly. Our focus groups suggested that people have heard a lot about the 'budget deficit' during the

past decade, and often know that steps have been taken to reduce or eradicate it, but our survey shows that many have not necessarily fully understood what it means.

The general public also lack confidence in assessing and judging economic figures when they are reported as absolute numbers in millions or billions, or as proportions or rates in percentages. When participants were shown economic figures, such as GDP growth and the budget deficit, they struggled to make sense of them and tended to be more comfortable speaking in broad terms about economic statistics. In contrast, people were more confident in assessing economic figures that were more related to their everyday life, such as unemployment and inflation statistics.

However, around half (51 per cent) of the British public felt unemployment seemed higher than official figures suggest, and very few (4 per cent) felt it seemed lower. At the time of the survey in February 2020, the UK unemployment rate stood at 3.8 per cent. Focus group participants were often astonished that the figure was that low, contrasting it with daily struggles in their local community to make ends meet and difficult job prospects among friends and family. The most recent figure of 4.9 per cent for October 2020, in the midst of a pandemic causing business closures and redundancies, is likely to attract at least as much scepticism. This sometimes led to a lack of confidence in the accuracy and reliability of the unemployment statistics, which manifested itself in two ways.

First, some participants perceived the government as the source of the unemployment statistics, either because they assumed unemployment figures were based on benefit claimant data, held and collected by the Department for Work and Pensions (DWP), or because they associated economic data with politicians and the government who presented and discussed the figures in the news. This led some participants to believe figures were 'massaged', 'fudged' or 'manipulated' to reflect well on government performance. In reality, official UK unemployment figures are collected independently by the Office for National Statistics (ONS) through a large household survey.

Another way of making sense of the seemingly low figures was to focus on how unemployment figures were measured. Focus group participants often argued that the boundaries between employment and unemployment have become increasingly blurred in the modern labour market. They questioned whether this was captured accurately in official statistics, and argued that zero-hours contracts and other jobs with low or insecure hours and pay should not necessarily count fully as employment. Focus group participants often seemed

to assume that unemployment statistics categorised everyone as either ‘unemployed’ or ‘employed’ and were very surprised to hear that a third category existed — the ‘economically inactive’ — and how that was excluded from the figures.

People’s reactions to official inflation figures were similar. Around half (51 per cent) of people felt prices had grown by more than official figures suggested (1.5 per cent at the time). Focus group participants often questioned whether the figures were measured in a way that reflected ‘someone else’s’ inflation. With a lack of knowledge about how inflation was calculated, they often suspected that the calculations placed too much emphasis on luxuries and failed to take into account large items such as council tax and housing costs that were relevant to their own consumption. Others assumed it was based on a very simple basket of everyday goods, such as bread, milk or alcohol. And those few who, to some extent, understood that the ‘basket of goods’ contained a weighted, representative, selection of goods and services often felt their own consumption did not closely match this average household.

Throughout the focus groups, and particularly in relation to unemployment and inflation statistics, it was clear that economics is not only relatively poorly understood by the general public, economists and economic figures are also often distrusted — what Andy Haldane, chief economist of the Bank of England, has called the ‘twin deficit’<sup>4</sup> of economics. Such distrust is widely reported in surveys of trusts in different professions, and it came to the forefront at the time of the EU membership referendum in 2016 when Michael Gove claimed that ‘the people of this country have had enough of experts’,<sup>5</sup> at least partly referring to economists, and when a lady in Newcastle shouted ‘That’s your bloody GDP, not ours.’<sup>6</sup>

Similarly, our focus group participants were often keenly aware that any economic data and statistics can be used to promote a particular view. The following quote from a participant in a focus group in Manchester sums up the scale of the problem: ‘You can make statistics say anything you want, can’t you really? If they don’t give you the right answer, broaden the sample to tell a different story’. Participants were often sceptical and cynical about any data they saw, and ultimately they didn’t know what to believe. Our research shows that official economic data, such as unemployment and inflation figures, are subject to the same public scrutiny as any other data, especially when people have misperceptions about how concepts are measured, and who produces and publishes the statistics.

In addition, our study showed people are disillusioned with the economy. Focus group participants often associated the economy with moments of national crises. The economy was seen as an external negative force outside people’s control and as a threat ‘constantly hanging over us’. Focus group participants said they had been ‘hit by the economy’ and ‘suffered because of the economy’.

Luckily, addressing the lack of knowledge and confidence in economic statistics, and the disillusion with the economy, arguably involves many of the same measures. It requires economists from a wide range of backgrounds, whether they work in public facing organisations, in universities, or in any

other professional context, to communicate economic issues in a more accessible way. There is a need to engage more directly and actively with the public, and to take ownership of economic issues and statistics in the public realm. A failure to intervene may not be an option.

Communicating economic issues to the wider public needs to be a big priority. This is not achieved simply by writing more accessible explainers and briefings. It requires stepping out of our comfort zones, actively reaching out to people in their local towns and communities, and speaking to them directly about economic issues. There is a huge appetite for this among the general public. Our research shows that the general public are immensely interested in the economy, and often wish they had been taught it in school.

Our focus groups suggest there is an appetite to push for economic literacy classes in schools, and more broadly to learn more about economics and to speak directly to economists, without the media and politicians as intermediaries. This would potentially be an effective way forward to boost understanding and trust. Initiatives such as the Bank of England’s regional citizens’ panels<sup>7</sup> and the work by the charity Ecnmy<sup>8</sup> are examples of economists not only ‘preaching and teaching’ but ‘listening and learning’ about the public perspectives. The public ‘live and breathe the economy every day’,<sup>9</sup> and economists can learn a lot from their often insightful and nuanced perspectives, both to inform how we approach our subject, but also to improve our communication to the public.

In 1985, the Royal Society published a report called *The Public Understanding of Science*, or the ‘Bodmer Report’.<sup>10</sup> It provided an early roadmap to improve the general public’s scientific knowledge and attitudes towards science, including a focus<sup>11</sup> on the ‘need for scientists to learn how to communicate with the general public in all its guises, and to consider it a duty to do so’. The report is widely considered the birth of the Public Understanding of Science (PUS) movement in Britain. This movement has seen a cultural change among scientists towards public outreach, engagement and communication. Public Understanding of Science is considered a discipline in academia, with its own academic journal.<sup>12</sup>

Economics, too, pervades our everyday lives. Economics is often at the heart of decisions at home and at work, and it is key to most public policy decisions. While it would be irrational for everyone to take economics degrees and develop a complex understanding of economic theories, some understanding of economics would benefit everyone, including in people’s personal financial decisions and in evaluating government economic performance and policy, and informing democratic decision-making.

But, as an economics community, can we truly say we have had our Bodmer moment? Arguably, in recent years, we have increasingly come to recognise that we are not always in tune with the general public. In the past decade, through a financial crisis, austerity, Brexit, and now a pandemic, we have seen the challenges of communicating economic issues effectively, especially in a world awash with economic information and data. Our report provides further evidence

## Features

that there is a significant gap in expert and public understanding of the economy.

However, as a community, we still need to make a strong commitment to a culture of public engagement and outreach among economists. This should be a requirement for a subject that is so close to people's everyday lives and decisions. We need to explore in much more depth how to improve the general public's economic knowledge and attitudes towards economics, and how to improve our own communication. Some progress has been made, but to give an example from my own field as an academic researcher. I reviewed the academic literature as part of our report. While there are some great interdisciplinary studies in this field which are summarised in the report and is worth a read, it is clear there has not been a consistent effort to explore the practice of economic communication in society.

In the coming months, we will organise a series of roundtables with a wide range of economists, from the ONS, Bank of England, journalists, researchers, public bodies and departments, policymakers, politicians, private and third-sector organisations, to take stock and discuss our findings in order to draw out recommendations on how to go forward from here, and how to improve public understanding of economics and economic statistics, for instance through better public engagement, education and communication. If you are interested in taking part, please send me an email. We are interested in both

stakeholders based in the UK and abroad, and with as many different backgrounds as possible.

Notes:

1. For example in *Newsletters* nos. 175 (October 2016) and 178 (July 2017).
2. (j.runge@niesr.ac.uk)
3. <https://www.escoe.ac.uk/publications/public-understanding-of-economics-and-economic-statistics/>
4. <https://www.bankofengland.co.uk/-/media/boe/files/speech/2017/everyday-economics.pdf>
5. <https://www.ft.com/content/3be49734-29cb-11e6-83e4-abc22d5d108c>
6. <https://ukandeu.ac.uk/2016-a-review/>
7. <https://www.bankofengland.co.uk/get-involved/citizens-panels/the-uk-economy-insights-from-the-bank-of-englands-citizens-panels>
8. <https://www.ecnmy.org/about/>
9. <https://www.ft.com/content/ac72d19d-c567-4555-a143-96e9ad606b67>
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# The IFS Deaton Review of Inequalities

*This update, by Robert Joyce at the IFS, draws heavily on 'The IFS Deaton Review of Inequalities: a new year's message', which can be found at [www.ifs.org.uk/inequality](http://www.ifs.org.uk/inequality).*

A year and a half ago, the Institute for Fiscal Studies launched the Deaton Review of Inequalities, chaired by Nobel Laureate Sir Angus Deaton. It is the most ambitious study of its kind yet attempted. We argued, among other things, that we lacked a coherent understanding of how key forms of inequality relate to each other: like inequalities in health, income, wealth, educational opportunity and family life, and gaps between rich and poor, different parts of the country, different ethnic groups and different genders. And while many drivers of inequality are studied in great depth individually (whether it be market power, labour market institutions, redistributive policy, technology or political economy), there is a real need to bring these together if we are to work towards a coherent mix of policy solutions — and to do so not only within economics but while drawing on insights from across the social sciences. As we launched, Professor Deaton raised the possibility that inequalities may prove a threat to our economic, social and political systems unless we do rise to the challenge of tackling them effectively.

Since then the world has changed more than we could have imagined. And yet Covid-19 seems to have shone a light on many of the issues we raised pre-pandemic, more vividly than we ever could have. It has cruelly exposed huge variations in how easily we are able to weather threats to livelihoods, to educational progress, to physical and mental health. These disparities have been closely correlated with pre-existing

inequalities between groups according to their education, income, location, and ethnicity — in ways that are often hard to disentangle, but depressingly familiar. At the same time public policy responses have been of a type and magnitude previously unimaginable. The shape and scale of these responses reflect the severity of the crisis and cannot be sustained, but they illustrate the power of governments to intervene to shape and mitigate inequalities. They surely provide succour to those who believe that the inequalities we saw before the crisis struck were not immutable.

2021 will be a key year for the Review. We will be publishing a huge amount of material from its major evidence-gathering phase which has been ongoing since late 2019, involving dozens of leading experts from economics and other social sciences from around the world. We will span topics from public attitudes towards inequality to inequalities in income, health and political inclusion, to inequalities by geography, gender and ethnicity, to the role of firms, trade, migration, labour market institutions, tax and transfer policy and much more besides. The aim will then be to use this evidence to build conclusions about how inequalities should most effectively be tackled.

As we embark on the new year, below are some of the inequalities that 2020 has reminded us of and, in no small part, made worse.

## Labour market divides

The divide between the well paid highest educated, and the lower paid less well educated, has been viciously exposed by the pandemic. Of course, graduates and non-graduates tend to work in different occupations — a key route through which graduates are typically able to earn more, have better prospects of progression, and often better working conditions. Covid added a huge new twist to this story of occupational segregation: Zoom. Many people in occupations dominated by the highly-educated have continued their work safely and reasonably productively in the comfort of their homes — shielded from the virus and from the threat to their livelihoods.

The proportion of people doing any paid work fell by around 40 per cent between February and April among those with no more than GCSE-level qualifications, and by around 20 per cent for those educated to degree level (Benzeval *et al.*, 2020). By the third quarter of 2020 the proportion of non-graduates doing any hours of paid work was still 17 per cent lower than it had been pre-pandemic, compared to 7 per cent for graduates.<sup>1</sup> (These numbers all count those on furlough, but working zero hours, as not doing any hours of paid work.)

## Education

Educational inequalities begin early and, as we have seen, have big effects on what happens later. Fewer than half of pupils on free school meals reach expected levels of achievement in maths and writing by age 11, and only c.40 per cent get good GCSEs in English and Maths. Around 70 per cent of other pupils reach these basic benchmarks. There are very big gaps in entry to university by social background. Fewer than a fifth of pupils from the most disadvantaged areas go on to university by age 19 by comparison with more than 45 per cent of state educated pupils in the most advantaged fifth of areas.<sup>2</sup> Those from private schools are much more likely still to go into higher education, and the proportionate gaps are even greater when looking at entry into the most selective universities. Dive into the detail and the gaps get enormous. Just 8 per cent of white boys on free school meals at comprehensive schools in the poorest fifth of areas go on to university. 85 per cent of Asian girls not on FSM at selective schools in the most advantaged areas do so.<sup>3</sup>

The pandemic is likely to exacerbate these inequalities. Before the pandemic primary school children spent around six hours a day on educational activities, regardless of their family income. The Covid-19 school closures saw this fall by a quarter, to 4.5 hours a day, during early May. But school closures also fostered new inequalities; students in the richest third of families (based on pre-Covid income) saw their learning time fall by much less than their poorer peers.

And students trying to learn from home also faced different barriers. Among secondary school students, 65 per cent of parents in the richest third of families reported that their child's school offered active home learning resources like online classes or video chatting, compared with 53 per cent of children in the poorest third (Andrew *et al.*, 2020a). The inequalities at primary school were even larger. Sutton Trust research suggested that pupils at independent schools were twice as

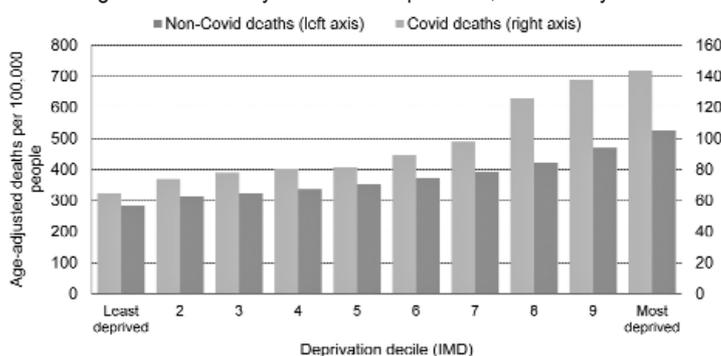
likely as those at state schools to take part in online lessons every day.<sup>4</sup> Students in better-off families were also far more likely to have access to quiet study space at home, and to have a device to access online schooling resources.

In addition, when schools started to reopen in June and July, students from poorer families were substantially less likely to return when given the option (Andrew *et al.*, 2020b). Since September pupils in areas with lower GCSE attainment and higher levels of disadvantage have missed more days of school than others.<sup>5</sup> Taken together this means that the poorest students spent less time learning than their richer peers; they had fewer resources at home and from their school to learn effectively; they were less likely to return to in-person schooling when given the chance; and they have lost more days of schooling during the Autumn. There has been a very, very gradual closing of social class gaps in some measures of educational achievement over the last several years. There is a real danger that a long term consequence of the pandemic will be to halt, or even reverse, that all-too-modest progress.

## Health and geographic inequalities

One of the most salient inequalities is that between different places. Taking one of the most obvious metrics of the pandemic's impact — deaths from Covid-19 — it is deprived communities that have suffered the most, as Figure 1 shows. Very much

Figure 1. Deaths by local area deprivation, March-July 2020



Source: ONS 2020, Deaths involving Covid-19 by local area and socioeconomic deprivation: deaths occurring between 1 March and 31 July 2020.

in keeping with a key theme of the Deaton Review, this seems to reflect a number of overlapping disparities in different domains of life — such as the jobs that people work in, their pre-existing health, and housing conditions.

More generally, geographic inequalities in the UK are not best understood through simple rules of thumb like a North-South divide. The dividing lines are typically found at a more local level than that, and localities can often be in quite different places in the league table depending on what kind of outcome you look at. As early pieces of work undertaken for the IFS Deaton Review have shown, this was true both before and during the pandemic (Agrawal and Phillips, 2020; Davenport *et al.*, 2020). But geographic disparities in vulnerabilities to different aspects of life in a pandemic have certainly been large. Coastal towns, which were already relatively poor on average, are at the sharp end in more than one respect. Their reliance on tourism makes people's jobs relatively exposed to the impacts of social distancing, and their older populations

make them relatively vulnerable to Covid-19 itself.

### Ethnic inequalities

Early in the pandemic it appeared that Covid-19 deaths were higher among minority ethnic groups. A number of subsequent analyses confirmed these stark differences (Platt and Warwick 2020; Aldridge *et al.* 2020). Age-adjusted mortality rates were highest among Black African men, at 2.7 times the rate for White men, and among Black Caribbean women at twice the rate of White women, with elevated risks for men and women from South Asian groups as well.<sup>6</sup> These heightened mortality risks were associated with existing inequalities faced by minority ethnic groups. Overlapping risk factors of geography, deprivation, housing and overcrowding, alongside differences in pre-existing health conditions, were found to partly, though not fully, explain the differences in mortality.

Differences in the risk of Covid-related deaths across ethnic groups stemmed from both more severe outcomes among those infected, as well as greater risks of infection in the first place (Sze *et al.* 2020). Risks of infection can themselves be linked to geographical concentration and inequalities in housing conditions, but also, importantly, to occupational distributions. Ethnic minorities are over-represented in jobs which have been shown to have higher risks of Covid-19 infection and mortality, such as care workers and health care workers, but also transport workers, retail, and security guards.

While these occupational concentrations put workers at risk of infection, the pandemic also had disproportionate impacts on minority ethnic groups through loss of work and livelihoods. Those from minority ethnic groups, particularly Pakistani and Bangladeshi men, were much more likely to be working prior to the pandemic in jobs which were subject to the lockdown. Pakistani men are also much more likely than others to be self-employed, with 25 per cent in this position. They therefore face the heightened economic vulnerability that has affected own-account workers. Negative economic consequences also extend to families, since minority groups in hard-hit labour market sectors (as well as in vulnerable self-employment) were more likely to have children financially dependent on them.

### Generational inequalities

In the decades leading up to the crisis there was a sharp divide between the experiences of different generations. Between 2002 and 2019 the incomes of the over 60s rose by 30 per cent while the incomes of the under 65s rose by 7 per cent. (Bourquin, Joyce and Norris Keiller, 2020). Young people have had a particularly difficult time in the labour market: average earnings among employees in their 20s were still 2 per cent lower in real terms in 2019 than they had been in 2008 (Cribb and Johnson, 2019).

This crisis has exacerbated these inequalities. The young have been especially likely to work in shut down sectors, to lose their jobs and to suffer falls in incomes. By September and October, those aged 16-25 were more than twice as likely as older employees to have suffered job loss during the pandemic, and a majority of the group had seen their earnings fall (Elliot-Major, Eyles and Machin, 2020). Those over pension

age have been much more sheltered from the economic consequences of the pandemic. Most retired people report no financial impact from the crisis, while a fifth of them report that their financial situation improved after the coronavirus outbreak, almost twice as many as report the reverse. (Crawford and Karjaleinen, 2020).

More striking than the divergence in income growth between generations over the last couple of decades has been the different path of asset accumulation. There was a collapse in home ownership from 55 to 35 per cent among those in their 20s and early 30s between the mid-1990s and 2017 (Cribb and Simpson, 2018). Membership of generous DB pension schemes also came to an end outside of the public sector. Over that period real house prices rose by 170 per cent (Cribb and Simpson, 2018), and the fraction of those in their 60s owning two or more properties reached 14 per cent (Crawford, 2018).

There is certainly a risk that the current crisis will exacerbate some key wealth inequalities. Stock markets around the world have held up remarkably well and a combination of even lower interest rates and cuts in stamp duty have contributed to a rise in house prices of over 5 per cent in the year to November. The programme of quantitative easing and low interest rates in the aftermath of the financial crisis resulted, perhaps inadvertently, in a redistribution of wealth towards the older and wealthier and away from the younger and poorer; the same may happen again. It is important that fiscal policy recognises these distributional effects and leans against them, rather than doubling down on them as has happened over the past decade.

### Conclusions

It looks like government spending will have risen by c.£250 billion this year. About £80bn of that spending will have been on protecting people's incomes via the CJRS and SEISS, and through increases in welfare benefits. Spending on health services (including new measures like Test and Trace) are due to rise by a staggering £50 billion. Yet this has been a year in which many inequalities have been exacerbated. Poor children have been hit worse than the better off. Higher earners and graduates have had their work disrupted less than lower earners and the less highly educated. The poor, and ethnic minorities, have borne the brunt of the health crisis. And the young have suffered a much bigger economic hit than the middle aged while the old, who have been most at risk from the virus, have been largely insulated from the awful economic shock.

A complete measure of the effectiveness of our response to the pandemic is still to come. Whether or not we have a speedy vaccine rollout with the effects on public health that we hope for, the wider impact of the pandemic on social and economic outcomes is a story that is just beginning. Various groups who were already among the most vulnerable have been especially hard-hit by the events of 2020, but we do have the capacity to ameliorate the hangover from this most dreadful of years.

This will require a broad set of policies aimed at increasing skills of those in work, and doing more for poorer children still at school; at tackling the root causes of poor mental and

physical health; at ensuring those from all social backgrounds, ethnicities and parts of the country have similar opportunities; at supporting the younger generation as they enter the labour market, and recognising that while monetary policy perhaps has to support the older and wealthier, this strengthens the case for fiscal policy leaning the other way rather than, as over the last decade, pushing hard in the same direction; and it is surely now an inescapably urgent priority to find ways to adapt labour market and welfare policies to effectively support the growing numbers in self-employment and other forms of ‘atypical’ work.

The next phase of the IFS Deaton review will be focusing on all these issues, spurred by the even greater urgency created by the pandemic. We knew 18 months ago that finding a coherent and effective set of responses to pervasive inequalities was a priority for our generation. That fact could not have been brought home more clearly than it has by the events of 2020. We have to learn from the policy failures of the last decades. And we must build on what could be a once-in-a-generation opportunity to respond to a crisis so profound, and so disturbing in its impact on so many, that the need to effectively tackle these underlying inequalities seems inescapable.

Notes:

1. Calculations using Labour Force Survey 2019Q4 and 2020Q3.
2. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/798404/SMC\\_State\\_of\\_the\\_Nation\\_Report\\_2018-19.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/798404/SMC_State_of_the_Nation_Report_2018-19.pdf)
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...continued on p.15

## Publish (and be saved?)

*Publications have long been one important method of evaluating academic performance. A recently published eBook<sup>1</sup> examines these issues with a series of short essays focusing on how economists publish their research and measure academic success.*

### Measuring academic success

The eBook starts with a chapter by Daniel Hamermesh, who presents a critical evaluation of how economists measure success. The central message of the chapter is that we should not rank individual scholars’ achievements by summary measures, such as where the research is published or the institution with which a scholar is affiliated. This contrasts with the profession’s tendency to heavily discount papers published in less prestigious outlets. Research by Nattavudh Powdthavee, Yohanes Riyanto, and Jack Knetsch shows that this discounting can be so steep as to give *negative* value to publications in lower-rated journals. James Heckman and Sidharth Moktan study the tyranny of the ‘Top Five’ economics journals<sup>3</sup> and suggest that reliance on highly ranked journals as a screening device raises serious concerns both because of its weak empirical support (if judged by its ability to produce impactful papers) and because of the risk of clientele effects surrounding these journals and their editors. They suggest that the profession should start a conversation on alternatives for judging the quality of research.

### Citation patterns

The second section of the eBook focuses on citation patterns. Maria Victoria Anauati, Sebastian Galiani and Ramiro Gálvez study citation patterns of more than 6,000 economics research articles published in different types of journals and find that there is a strong overlap in the distribution of received citations across tiers and that the influence (in term of citations) of Top Five articles is overestimated. The same authors use a dataset consisting of more than 5 million citations to nearly 60,000 articles spanning 12 disciplines, from astronomy to statistics, to study patterns of citation ageing, showing that there are large differences in citation ageing across disciplines but also across fields within economics. They conclude that although citation counts can be a valuable tool for assessing the impact of academic research, there are caveats with ‘one-size-fits-all’ yardsticks and that citation counts should be adjusted by field- and discipline-specific factors.

Joshua Aizenman and Kenneth Kletzer study the potential importance of strategic citations by focusing on premature deaths by highly cited economists. Their findings support the view that citations are not a pure measure of scientific impact and may be affected by strategic considerations. The section concludes with a chapter that studies whether certain journals are particularly important for policy institutions. Raphael Auer and Christian Zimmerman focus on central bank publications and show that different journals have different audiences and that economists should not be evaluated on the

basis of one-size-fits-all rankings.

### Publication lags

In Section 3 of the book John Conley, Mario Crucini, Robert Driskill, and Ali Sina Önder provide evidence of a decrease in publications by young scholars. In the next chapter, Daniel Hamermesh shows that through the 1990s about half of the papers published in top journals were by authors under the age of 35 and almost nobody over the age of 50 published a paper in these outlets. Things have since changed, however. In 2011, authors under-35 accounted for only one-third of papers published in top journals and over-50 authors accounted for nearly 20 per cent.

The next two chapters of this section use confidential data to evaluate possible strategies to speed up the publication process. Ivan Cherkashin, Svetlana Demidova, Susumu Imai, and Kala Krishna study the handling of more than 3,000 papers submitted to the *Journal of International Economics (JIE)* between 1995 and 2004. They note that during that period, *JIE* had high ‘type 2 errors’ (7 per cent of published papers have no citations at all) and low ‘type 1 errors’ (very few papers rejected by the *JIE* were accepted at better-ranked journals) and that being well-connected increased the likelihood of acceptance. Raj Chetty, Emmanuel Saez, and László Sándor discuss the results of an experiment with 1,500 referees at the *Journal of Public Economics*. They conclude that a combination of shorter deadlines, cash and social incentives could play an important role in improving the process.

### Social ties and co-authorship patterns

Section 4 of the eBook focuses on social ties and co-authorship patterns. John O’Hagan and Lukas Kuld show that, between 1996 and 2014, the share of solo-authored published economics papers dropped from 50 per cent to 25 per cent, with most of the rise in multi-authored papers accounted for by papers with more than two authors. The authors stress the need for a discussion on how tenure and promotion committees should evaluate contributions to co-authored papers. This is also the focus of the chapter by Stan Liebowitz, who suggests that the system adopted by most economics departments promotes false authorship and may penalise honest researchers. Tommaso Colussi studies the role of connections in the publication process and shows that there are important benefits associated with being connected to an editor. By studying how social ties affect the number of citations, he finds that papers authored by an editor’s former PhD students increase the number of citations but that this positive effect does not apply to articles authored by other types of connected scholars. The last chapter focuses on the geography of published economics research. Jishnu Das and Quy-Toan Do show that low-income countries are heavily under-represented in economic research and that there is a US bias in top economics journals.

### The race problem in economics

Recent events in the US have sparked an intense debate on the race problem in economics. Section 5 of the eBook dis-

cusses this issue with a focus on US academia. Trevon Logan and Samuel Myers point out that most modern economists are not trained to address questions of ‘structural racism’ or ‘systemic racism’ and that this has led to the structural determinants of current racial inequalities being ignored. They conclude with a set of suggestions aimed at addressing the problem of marginalisation of race in economics. In the next chapter, Gregory Price and Rhonda Sharpe focus on the lack of African American economic professors in US universities. They show that while the number of African Americans who receive a PhD in economics has increased over time, there has been no comparable increase of black economic professors in US universities.

### Economic research in the time of Covid-19

The last section of the eBook discusses economic research in the time of Covid-19. Noriko Amano-Patiño, Elisa Faraglia, Chryssi Giannitsarou, and Zeina Hasna ask who is doing research at the time of Covid-19. The authors find that while there has been a surge of papers on the Covid-19 shock by senior male economists, the productivity of female and, more generally, mid-career research economists has been negatively affected by the lockdown measures. In the next chapter, John Cochrane asks who will publish all the papers on Covid-19 that are being produced right now. He suggests that a possible solution is to allow for simultaneous submissions and thus create a market which will allow papers to be better matched to journals. In the last chapter of this section, Charles Wyplosz described his experience as editor of *Covid Economics*.

### Concluding remarks

Our reading of the evidence is that while there is much to be proud of about the state of the economics profession, there is still work to be done to make economics more open and inclusive and the publication process fairer and more efficient. Promoting stronger competition among journals could help in dealing with many, though not all, of the issues highlighted in the eBook. One way to achieve this is to coordinate a higher weight in the assessment of economists’ career success to high quality, non-Top Five, journals.

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#### Notes:

1. *Publishing and evaluating success in economics: A new eBook*, eds. Sebastian Galiani and Ugo Panizza. The book can be downloaded from <https://voxeu.org/content/publishing-and-measuring-success-economics>. This article draws on the summary of the book published at <https://voxeu.org/article/publishing-and-evaluating-success-economics-new-ebook> (accessed 10.11.20).

# Society of Professional Economists — Salaries Report 2020

*The SPE's latest survey (for 2020) of economists' salaries was published at the end of last year. This is an edited version. The full report, compiled by Ian Mulheirn, can be read at <https://spe.org.uk/reading-room/salary-survey/>.<sup>1</sup>*

The Survey received replies from 104 respondents of whom 17 per cent were women. Inevitably all the results of our salary survey have to be treated with caution. We have to be conscious of the risk of selection bias in the respondents and the limited sample size when drawing any conclusions. In particular there was a big drop in the number of responses from economists in the public sector, from 49 last year, to just 13 this. Nevertheless, the survey represents a useful window on pay in the profession.

## *In summary —*

This year's survey shows that the typical increase in Members' pay overall was a healthy 5.0 per cent over the year, besting the 2.5 per cent recorded in our last survey, and well above the 2.9 per cent increase in median weekly full-time earnings across the economy as a whole in 2018-19. With CPIH inflation running at 1.7 per cent in 2019, these suggest the sector saw strong real-terms earnings growth last year. Median basic salaries, rose by a slightly weaker 3.0 per cent solid real-terms growth nonetheless.

Average total cash compensation was highest among financial sector respondents, at £209,000. Meanwhile the average in consulting stood at £130,000, industry £108,000 and the public sector £90,000.

## *Salaries and Financial Compensation*

Table 1 shows the distribution of salaries, including income from self-employment, and of total cash compensation (TCC), adding in salaries, bonuses and the value of any shares received, and compares these with last year's results.

Average base salaries of respondents were up slightly on last year, at around £102,000, which may have been driven in part by a reduction in the proportion of respondents from lower-paid roles in the public sector. The median base salary was up on both 2018 and 2019.

With inflation running at 1.7 per cent in 2019, the reported 5.0 per cent median nominal growth in TCC was very solid, and well above average full-time earnings growth across the rest of the labour market, which stood at 2.9 per cent. Median basic salary growth, at 3.0 per cent was closer to the whole-economy average.

## *Earnings by Sector*

Table 2 shows salaries and TCC by sector. Unfortunately this year saw a big drop in the number of responses from economists in the public sector, with just 13 compared to 49 last year, accounting for just 13 per cent of all respondents versus 41 per cent for 2019. There was a small increase in the number of respondents in all other categories. 34 per cent of respondents were in financial services this year and 30 per cent in consulting, with 15 per cent working as economists in industry.<sup>2</sup>

Average salaries of respondents ranged from £132,000 for those in the financial sector, significantly higher than last year, to £88,000 in the public sector, and £92,000 in industry ('other private sector'), the latter two categories substantially above last year's figures but probably due to significant changes in the composition of responses here.

TCC was lower in the financial sector, at £209,000, but up in most other sectors, which left the figures closer to the levels seen in 2018 than 2019. Notably TCC was up by around

Table 1: Salaries and total compensation

Range (K)	Salaries			Total cash compensation		
	Percent of replies			Percent of replies		
	2020	2019	2018	2020	2019	2018
<40	13	22	21	<40	11	23
41-60	22	18	21	41-60	19	17
61-80	14	27	16	61-80	11	20
81-100	14	16	19	81-100	17	15
101-120	9	10	12	101-120	8	7
121-140	5	3	2	121-140	4	3
141-180	13	14	15	141-200	10	10
>180	11	8	10	201-300	11	13
				>300	13	10
Average (K)	102	90	92	Average (K)	139	128
Median (K)	84	75	81	Median (K)	89	80
Maximum (K)	320	320	320	Maximum (K)	700	875
Median (FTE, K)	29	21	20	Median (FTE, K)	18	20
Number of responses	104	118	116	Number of responses	104	118
Median reported increase (%)	3	3	2	Median reported increase (%)	5	2.5

## Features

around £22,000 on average in consulting, despite average basic salaries being unchanged.

Table 2: Earnings by sector

Money values in K	Financial services	Consulting	Other private sector	Public sector <sup>1</sup>	Other
<b>Respondents 2020</b>	35	31	16	13	10
2019	32	26	10	49	6
<b>Average salary<sup>2</sup> 2020</b>	<b>132</b>	<b>90</b>	<b>92</b>	<b>88</b>	<b>69</b>
2019	141	90	61	62	85
Maximum 2020	320	305	300	180	110
Median 2020	20	28	31	30	20
Minimum 2020	120	75	60	72	68
<b>Average TCC<sup>3</sup> 2020</b>	<b>209</b>	<b>130</b>	<b>108</b>	<b>90</b>	<b>77</b>
2019	256	108	74	67	107
Maximum 2020	700	430	360	180	110
Median 2020	29	30	31	30	39
Minimum 2020	164	84	76	72	78
<b>No. receiving bonus</b>	31	31	16	3	2
<b>Average<sup>4</sup> bonus 2020</b>	<b>54</b>	<b>34</b>	<b>12</b>	<b>17</b>	<b>13</b>
2019	74	31	17	18	8
<b>No. receiving shares</b>	10	7	4	0	0
<b>Average value<sup>4</sup> 2020</b>	<b>7</b>	<b>N/A</b>	<b>19</b>	<b>N/A</b>	<b>N/A</b>
2019	46	N/A	3	N/A	N/A

Notes:

1. Including self-employment income 2. Total cash compensation includes bonus-es, shares and options received 3. Of payments received.

### Bonus Payments

Sixty-nine percent of respondents reported receiving a bonus this year, 11 percentage points higher last year, but the average bonus reported was £58,000, around £10,000 lower than last year and 2018, though well up on 2017's £42,000, owing to a handful of very large awards. Bonuses, for those receiving them, accounted for some 54 per cent of basic pay on average in the financial sector, 34 per cent in consulting, and 12 per cent in industry. Few in the public sector saw bonuses.

### Share Schemes

For employees in the private sector, schemes offering employees shares in the enterprise are much less common than bonuses, with only some 19 per cent of respondents this year reporting being in such a scheme, slightly above last year.

### Pensions and Other Benefits

Table 3 shows, for each of the five sectors identified, the number of respondents who participated in pension schemes and received other benefits. Once again the great majority – 88 per cent this year, against 87 per cent last – report having some kind of pension arrangements associated with their employer (and many of the rest

reported having a personal pension). The proportion in a defined-benefit scheme stood at 29 per cent this year, essentially unchanged on the last two years, despite fluctuations in the number of public sector survey respondents. The numbers in defined-benefit schemes in all other sectors were surprisingly high, at 20 per cent well up on the non public sector figure from last year.

The table also shows the numbers reporting other benefits in kind last year, which are broadly similar as a proportion of all replies to those reporting such benefits last year. About 42 per cent of respondents reported receiving medical insurance from their employer, compared to around 37 per cent last year and half the year before. The rise is perhaps unsurprising given the changing composition of survey respondents, with a higher proportion this year coming from the financial sector and consultancy, where such benefits are more common. Just 5 per cent reported having a company car this year, down from 8 per cent and 11 per cent last year and the year before, respectively.

Table 3: Pensions and other benefits by sector

Number in a scheme	Financial services	Consulting	Other private sector	Public sector <sup>1</sup>	Other
<i>Pensions</i>					
Number in a scheme	31	24	13	13	9
Per cent of total	91	77	87	100	90
Defined benefits schemes	6	5	4	11	3
Defined contribution schemes	37	22	11	2	6
<i>Other benefits</i>					
Medical insurance	20	11	9	2	2
Company car	3	1	1	0	0
Miscellaneous	11	4	5	0	0

### Activity and Salary

Table 4 shows the numbers primarily engaged in each of the activities we had listed and the median salary received by those engaged in each activity. This year the proportion of respondents reporting public policy analysis to be their primary activity, dropped back from 30 per cent to 20 per cent, largely reflecting the fall in the proportion of responses from public sector economists. Econometrics, forecasting and modelling accounted for the activities of a further 21 per cent of respondents.

This year, the median reported salary received by those in general management was lower than for the last two years, and again lower than that reported by respondents

Table 4: Salary and Activity

Activity	Number of respondents		Median salaries (£K) <sup>1</sup>	
	2020	2019	2020	2019
Forecasting and modelling	21	27	58	81
Business planning	7	8	53	54
Market trading & fund management	9	9	152	124
International analysis	17	12	120	155
Public policy analysis	20	37	64	66
General management	22	15	104	135
Other	8	12	75	76

1. Including self-employment income

in international analysis. The small number of respondents in each of these categories suggests reasons for caution in interpreting these comparisons however. The range between highest and lowest paid activities reported dropped to £67,000, down from £101,000 last year, and closer to the £70,000 of the year before that. Unfortunately it is impossible to say whether these fluctuations reflect any real shift in the underlying pay available in these sectors of the profession rather than merely reflecting the changing composition of survey respondents each year.

### Demography and Salary

Respondents between 35 and 55, and those over 55, had similar median salaries, more than twice the level of

under-35s. While there is an obvious correlation with age, it's notable that respondents with 10 to 20 years' experience with their employer saw median pay almost three times higher than those with less than 10 years.

The proportion of responses from women was 17 per cent this year but the pay gap was similar, at 31 per cent versus 34 per cent last year. Median salaries for men stood at £85,000 while for women it was £59,000. With the average age of male respondents, at 45, around 8 years older than for female respondents, some of this gap — though probably far from all — may be explained

by seniority, as well as a higher proportion of men being employed in the highest-paying sector (financial services). Sadly the relatively small sample prevents us from drawing many conclusions about the state of gender pay inequality across the profession.

Notes:

1. This *Newsletter* has published summaries of the annual salary survey conducted by the Society of Business Economists regularly in the past. In January 2018 the SBE changed its name to the Society of Professional Economists. We are grateful to the SPE for permission to publish this edited version of the 2019 survey.
2. Two respondents cited more than one sector.

## INOMICS

### INOMICS Salary Report

INOMICS is calling all economists to take part in its **Salary Survey 2020/2021** or to download the latest Salary Report including data on the effect of the coronavirus pandemic on the economics job market at: <https://inomics.com/salary-report>

*Editor's note:* This *Newsletter* publishes a summary of findings from the INOMICS Salary Survey (see for example no. 182, July 2018). Like most surveys, the quality of the results depends upon its coverage. Readers are strongly recommended to participate.

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...continued from p.11

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# Rediscovering the history of economic thought

*A recent issue of Oxford Economic Papers used the fiftieth anniversary of the British History of Economic Thought Conference to reflect on the reawakening of interest in the history of economic ideas that has accompanied the movement of the twentieth century from 'the present' to 'the past'. Roger Backhouse and James Forder<sup>1</sup> look at reasons for that reawakening and add some arguments of their own in support of the trend.*

Mark Blaug, probably the most well-known historian of economics from the 1960s to the 1980s, once predicted that, after the millennium, the study of the history of economic thought in the second half of the twentieth century would suddenly open up. There was no logical reason why this should happen, but he believed that the changing of the calendar would have a psychological effect, suddenly moving the whole twentieth century into the past, making it a subject fit for historical inquiry. His forecast has turned out to be correct.

In the latest issue of *Oxford Economic Papers*, we use the fiftieth anniversary of the British History of Economic Thought Conference to reflect on this change. The first conference, organised at Sussex in 1968 by Donald Winch, took place when the history of economic thought was predominantly concerned with what might be thought the classics of the subject: Adam Smith, David Ricardo, Karl Marx and other economists long departed from any economics syllabus. John Maynard Keynes was studied, but little historical attention was paid to his contemporaries or close predecessors, and there was little interest in what happened after the Keynesian revolution. Keynes was therefore something of an exception to a general rule that made 'history of economics' a matter of the eighteenth and nineteenth centuries. In so far as there was a rationale for this (such things are often the result of historical accident) it was presumably the view that once we have marginalist microeconomics (around since the 1870s) and Keynesian economics (since the 1930s), the key elements of modern economics are in place. In addition, there was, in 1968, still much work to be done unearthing the materials needed to undertake proper historical study of the classics. Unpublished materials by even well-studied economists such as Smith and Marx were still coming to light, and the massive task of editing Keynes's economic writings, sponsored by the RES, was not completed until the 1980s.

“ This association of the field with 'heterodox' economics has been a problem, for there is a tension between those who are hoping to change economics and those who see themselves as historians whose goal is understanding how it has developed... ”

The special issue of *OEP* to which our paper is the Introduction is the outcome of the fiftieth anniversary conference, held at Balliol College, Oxford, in 2018. It covers topics as diverse as macroeconomics in the 1960s and 1970s, environmental debates in the 1970s, the strategies adopted by experimental economists to get their work accepted, public finance theory and other topics far from the traditional canon. In place of Smith, Marx and Keynes we have Leijonhufvud, Hahn, Plott, Coase, Jensen and Meckling, Hoyt, Reid and Kyrk. There has clearly been a change, but beyond a change in attitudes, what has happened to make this possible?

## The varied fortunes of HET

The history of economic thought has a more marginal place in Anglo-American economics than was the case fifty years ago. No longer do the world's leading economists, such as Joseph Schumpeter, Maynard Keynes, Jacob Viner, Lionel Robbins, Paul Samuelson or Kenneth Arrow, study and teach the subject. It has been progressively excluded from economics journals and from the curriculum. One can argue that, irrespective of whether it is worthwhile for economics students to study it, this is understandable, because it is history rather than economics. However, the field has thrived. One reason is that, as economic ways of thinking have increasingly permeated public discourse, historians — and here we mean scholars with a training in history, or based in history departments, rather than economists who have turned to history — have taken an interest in the field. Another is that in some countries, notably France, Italy and Japan, the history of economic thought has been institutionally protected in a way not true in Britain or the United States. The field has also been sustained in business schools and in departments focused on political economy. This association of the field with 'heterodox' economics has been a problem, for there is a tension between those who are hoping to change economics and those who see themselves as historians whose goal is understanding how it has devel-

oped, but the interest shown by ‘heterodox’ economists has increased the size of the market, helping the field survive and even to thrive. Economics journals may devote fewer pages to history but there has been a proliferation of specialist journals and, as is generally the case in history, where arguments need to be developed across more pages than most journals allow, books remain very important.

### The impact of better resources...

However, the existence of a critical mass of scholars has been no more than a necessary condition for the field to develop. Clearly, studying the history of recent economics requires careful reading of economists’ publications, but to understand those publications it is usually necessary to go behind them. One development that has made this possible is the creation of archives of material such as economists’ unpublished drafts, their correspondence and other documents. Through their potential to reveal the way economists reached their published results, including their wrong turnings, advice provided by colleagues, and other points that do not make it into the published record, we can get a fuller picture of how published work was created.

We are also beginning to learn a lot more about the institutional context in which economic ideas have been developed. Organisations such as the National Bureau of Economic Research, the Brookings Institution, the Centre for Economic Policy Research, the National Institute for Economic Research have been important, and understanding their history can help us understand why certain ideas were successful when they were. It ought to go without saying that certain academic institutions — notably certain departments — have played important roles. This raises the question of what it was about, for example, the University of Chicago, the Massachusetts Institute of Technology, or the London School of Economics, that enabled their economists to achieve the prominence that they achieved. Such work is in its infancy, in that whilst there has been considerable work in writing the history of Chicago economics, there has been less on the history of MIT, LSE, Stanford, Carnegie-Mellon, Michigan, Rochester and the other universities that became important centres of economic research in the past fifty years or so. We are also learning more about the role of economists in government and other official agencies such as the International Monetary Fund, the World Bank, the Federal Reserve and the Bank of England.

### ...and arguments for curriculum reform

Students complaining about the current economics curriculum often ask that there be space in the syllabus for the history of economic thought.<sup>2</sup> Many economists resist this because they see calls for pluralism and history of economic thought as a barely covert appeal for the inclusion of approaches that they consider a waste of

time (the inclusion of ‘History of economic thought, Methodology and Heterodox approaches’ under the same *Journal of Economic Literature* code will be taken by many economists as a warning that this may be the case). Such an attitude can reflect an implicit assumption that the history of economic thought will be concerned with topics very different from those studied elsewhere in the curriculum. Such a view is implicit in Paul Krugman’s argument that the history of economic thought provides a source of ideas that can be used as the basis for developing new theories. Similarly Paul Samuelson claimed that unorthodox approaches (he had in mind Marxist economics) should exist in the discipline, just in case they turned out to have some merit.

It is true that, for those who see modern economics as complacent and narrow, readings from the past can seem to offer a corrective. But we see a further and quite distinct case for the renewed and broader study of the history of the discipline. Because of the way the field has changed in the past fifty years, there is now a case for the study of the history of economics which should have much more appeal as an aspect of the education of mainstream economists at any level.

One significant change is that the integration of the history of economic ideas into the history of the institutions in which economics is done makes it possible to show students more of what it is like to be an economist. Students can be shown how economic ideas were developed: for example, seeing Keynes’s struggles to develop a theory that would explain the depression makes it clear that ideas do not normally emerge fully formed: developing new ideas and new practices that work takes time. The history of the Arrow-Debreu existence proofs, which involved co-operation and rivalry between three very different personalities, Kenneth Arrow, Gérard Debreu, and Lionel McKenzie, shows how personal struggles lie behind even the most abstract of economic theorems. For research students, the insights made available should be instructive, and exciting.

### Reinforced by recent developments

Changes that have taken place in economics also make the history of economics potentially more interesting. In 1968, much in economics seemed to be settled. Marginalism and Keynesian macroeconomics seemed so much to set the framework for research in economics that it involves only a little exaggeration to say that there was not much for history to consider aside from the origins of these ideas, and how the erroneous ideas which had preceded them came to be rejected. This was perhaps particularly true of Keynesian macroeconomics, since it was treated as originating in a single, revolutionary book. There, the preceding mistakes and confusions seemed to have been swept aside with a single stroke. So, the jibe, attributed by Blaug to A C Pigou, that the history of economics consisted in studying the wrong

ideas of dead men resonated with the way economists viewed their field. The likelihood of finding rejected but valuable ideas or altogether different approaches that could turn out to be better than those of the moderns, naturally enough, seemed slight.

In 2018 the situation was very different. It had become much easier to see that the Keynesian revolution itself is the result of much more than a single book: there was therefore scope to explore how and why different interpretations of Keynes came to be accepted. Both the content of the practical Keynesianism of the 1960s and 1970s, and the reasons for its rejection by the mainstream of economists needed to be described and explained. Especially after the Global Financial Crisis, the origins of today's consensus framework in macroeconomics should be the subject of historical inquiry. That macroeconomics certainly does not have just a single source of the standing of *The General Theory* but stems from a number of sources, including the work of Phelps, Lucas, Sargent, Barro, Prescott, Stiglitz, Taylor and many others. The work of all of these authors can be, and is being, studied as history of economic thought.

The same is true when we turn to microeconomics. The emergence of game theory, principal-agent theory, satisficing, asymmetric information, mechanism design, behavioural and experimental economics and other approaches mean that microeconomics is much more than the marginalism of Walras and Marshall. For example, many economists, we conjecture, know little about Herbert Simon, Thomas Schelling, Elinor Ostrom, or about the way game theory emerged as a thoroughly interdisciplinary field, spanning not just economics but psychology and biology. We may think we know someone like Paul Samuelson, but in addition to being perhaps the archetypal mathematical economist of the postwar era, someone very different emerges from the pages of his introductory textbook, his policy advice and his voluminous publications in newspapers. (And, for reasons of space, we have not even mentioned the rich history of econometrics.) The history of economic thought can therefore have a broader appeal than was possible fifty years ago.

### And finally...

If, like Krugman, one were to think that there might be good ideas that were discarded in the past, it would seem much more likely that one would find them in these more recent developments than in Smith, Mill or Marx. For example, given that the Lucasian revolution was as much a matter of approach as well as content, and that it stirred up so much discussion, it seems very likely that historical study might turn up ideas of value which do not appear in the course of a normal undergraduate or graduate education in economics. Those who are active in developing such ideas today may have a broad idea of where ideas came from, but it is detailed knowledge that is more likely to turn up overlooked possibilities. That

kind of study requires that, as far as possible, one understands the mindset of earlier generations of economics, which involves more than simply evaluating earlier texts in the light of modern ideas.

The study of past thought can also reveal different ways of thinking about problems, and sometimes their value is enhanced when it is recognized that confidently held beliefs about the past are mistaken. For example, the widely held idea that Friedman was the first to take account of expectations in studying the relationship between inflation and unemployment turns out not to be true. The recognition of that point makes the study of analyses of inflation and unemployment before 1968 much more interesting. It may be unlikely to provide a revolutionary new theory (there may be good reasons why it would be absurd to try to wind the clock back) but learning about ways of conceiving the problem that are basically reasonable, but very different from our own might nonetheless provide new ideas.

Student interest in the history of economic thought is linked to unrest at the character of modern economics, and it might be that the study of recent economics would help to quell that unrest. If historically constructed accounts were taught, the students might see much to appreciate in the character of modern work which is otherwise invisible.

None of this, of course, detracts from the historian's goals and ambitions. To see those, one must adopt the values of the historian. That economists might be more tolerant of those values is a hope. But the way that the history of economics has developed in fifty years, and in particular the way in which it has in a certain sense, come up to date, opens the door for its profitable study — whether by students or professionals — whose goals, quite properly, lie elsewhere.

### Notes:

1. Roger Backhouse, University of Birmingham and Erasmus University Rotterdam; James Forder, Andrew Graham Fellow and Tutor in Political Economy, Balliol College, Oxford

2. Long-term readers of this *Newsletter* will recall the debates over curriculum reform following the 2008-9 financial crisis and the numerous calls for more teaching of history of economic thought (and economic history) in economics' courses. See for example *Newsletters* no. 162, July 2013; no. 168, January 2015; no. 169, April 2015 and no. 177, April 2017.

# The Case for Income Tax Reform in the US and UK

*The demands for reform of the tax system is widespread in many countries but in this article James Alston<sup>1</sup> argues that the prospects for serious tax reform are poor while so many politicians fail properly to understand the basics of their own tax systems.*

Whether someone favours higher rates of tax or not can tell you a lot about their political views. As a general rule, conservative politicians — at least since the 80s — have favoured fewer tax brackets and relatively lower rates of tax. The argument goes that this encourages people to work harder because they keep more of their money, which means more money remains in the economy; eventually it will trickle down to those not so rich. On the other end of the spectrum, more left-wing politicians argue that higher taxes on top-earners are an effective way of raising government revenue for public services, which help out those who need support, and that a few more dollars or pounds taken off of someone who earns astronomical sums already is a drop in the ocean.



Always one of the key issues between left and right, the debate over higher tax rates has again seen some action over the last few years in both the UK and the US. Currently there are four brackets in the UK, including one for tax-free personal allowance. From £12,501 to £50,000 you then pay 20 per cent, from £50,001 to £150,000 you'll pay 40 per cent, and anything above that 45 per cent. The Labour Party in the United Kingdom proposed in 2017 a 50 per cent tax rate for earnings over £123,000 and a 45 per cent for earnings over £80,000, with the plan that the top 5 per cent of earners pay a little more to fund the country and relieve the burden on the poor. This relatively moderate proposal resulted in a barrage of arguments for and against. And the issue blew up in America at the beginning of 2019, too, when Alexandria Ocasio-Cortez suggested that a 70 per cent income tax rate on incomes over \$10 million might not

be too bad an idea. As might be expected, conservative politicians pushed back hard against the idea, Rep. Steve Scalise, for example, tweeting that the Democrats would 'take away 70 per cent of your income and give it to leftist fantasy programs'.<sup>2</sup> Grover Norquist, head of Americans for Tax Reform, compared it to slavery, tweeting 'Slavery is when your owner takes 100 per cent of your production... Ocasio-Cortez wants 70 per cent... What is the word for 70 per cent expropriation?'<sup>3</sup>

On the surface these tweets show either a total misunderstanding, or worse, a deliberate misrepresentation, of how marginal taxation works. Ocasio-Cortez's proposed tax, for example, would only tax 70 per cent on every dollar a person earns over \$10 million, which is not exactly the majority of Americans. And less than three percent of Britons earn over £100,000, meaning very few would be liable for Labour's proposed tax bracket increase.<sup>4</sup> This is how progressive tax brackets work: you pay more tax only on money earned that falls within the new bracket; any percentage increase doesn't apply to every dollar or pound you earn. The issue of a large tax increase currently isn't in question: Joe Biden hasn't been particularly vocal about tax reform, and hasn't backed AOC's Green New Deal which was the catalyst for her proposed change. He's only committed to a modest 2.6 per cent income tax increase on those earning over \$400,000 and plans to raise corporate tax rates from 21 per cent to 28 per cent. Across the pond, Labour leader Keir Starmer has promised an increase on tax for the top 5 per cent of earners in order to pay for the economic downturn due to the coronavirus Covid-19 pandemic; however, he hasn't confirmed where the top tax bracket will sit, as predicting the size of the debt accrued as a result of the pandemic is difficult, seeing as it's still going on. But regardless of the new leadership's reluctance to discuss the matter, the issue of comprehensive reform hasn't been put to bed.

## Nothing is certain

A common argument against a higher top tax bracket is that it won't mean that the richest will pay more, but that they will retire earlier, figure out ways to keep their income from being taxed, and ultimately end up paying less. (In the 1970s in the UK something similar happened, the tax avoidance industry exploding due to

*...continued on p.24*

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# The Intergenerational Transmission of Wealth in Britain and Other Rich Countries

*Whether it's through Thomas Piketty's latest book, the distributional effects of unconventional monetary policy or even the identification of the major economic problem by the latest intake of economics undergraduates, wealth and its unequal distribution remains a matter of enduring interest. Here Brian Nolan<sup>1</sup> shows that the effect of intergenerational transfers of wealth in many richer countries tends to have an equalising effect, though this varies with the size of the transfer.*

## The importance of intergenerational wealth transfers

The distribution of wealth is of major concern for its potential economic, social and political impacts, with intergenerational wealth transfers in particular giving rise to a variety of normative and practical issues that loom large in current debates. Recent studies based on microdata have generally arrived at the, to many surprising, conclusion that inheritances are wealth-equalising. Boserup *et al* (2016) and Elinder *et al* (2018) find that inheritances reduce relative inequality measures such as the Gini coefficient and top shares, using data from tax records for Sweden and Denmark respectively. This is consistent with Wolff and Gittleman (2014) and Crawford and Hood (2016) based on analysis of household survey data for the US and Britain respectively.

These transfers are most often studied in their different national contexts. The aim of this study (Nolan *et al*, 2020) is instead to apply a comparative lens to household survey data on receipt of inheritances and gifts *inter vivos* in order to identify common patterns, see how current wealth levels of households are related to their past receipt of these transfers, and assess how much intergenerational transfers contribute to wealth inequality in different countries. In particular, the interest is in how Great Britain compares in these respects with six other rich countries — France, Germany, Ireland, Italy, Spain and the US.

## Data issues

The data come from specially designed large-scale household wealth surveys, which have become much more common in recent years and opened up this area for comparative research. These are the British Wealth and Assets Survey, the US Survey of Consumer Finances, and the Euro-zone Household Finances and Consumption Survey for the other countries, with data collected between 2010 and 2014. The Wealth and Assets Survey (WAS) covering Great Britain (but not Northern Ireland so not the entire UK) has been carried

out by the Office for National Statistics since 2006. The surveys for the other countries are cross-sectional and include questions about inheritances and gifts received at any point in the past. WAS by contrast is longitudinal in design, and only the first wave asked about inheritances received at any point in the past with subsequent waves asking about receipts since the previous wave, complicating its use for current purposes. We concentrate on those in Wave 3 (2010-2012) who were also in Waves 1 and 2, aggregating reported receipts of transfers across these waves. Many missing values for amounts received as inheritances before Wave 1 had to be imputed, and in order to align with the comparator country surveys before-tax values were estimated from reported after-tax amounts, small gifts were excluded from the British data, and the household rather than individual is used as the unit of analysis. Marketable not pension wealth is used as the wealth concept.

## Key features of wealth transfers in rich countries

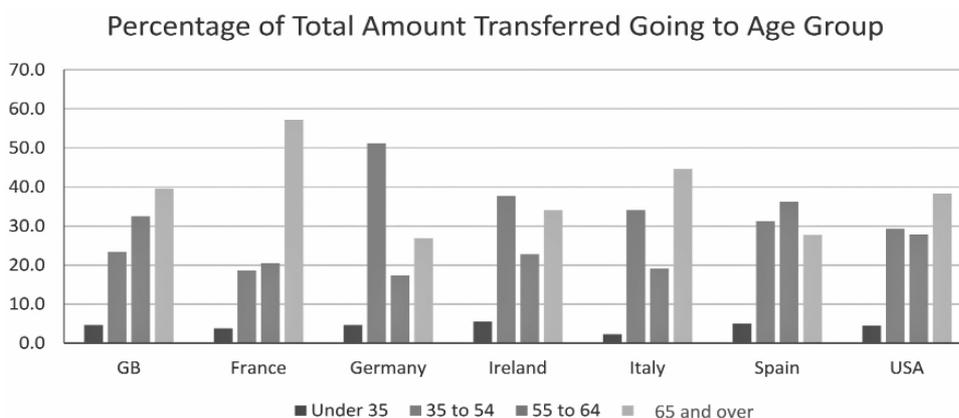
About one-third of households reported receiving an intergenerational wealth transfer at some point in the past across most of the countries we studied, including Britain, but that figure was only 19 per cent in the US. The average aggregate amount received was consistently much higher than the median as very large receipts boosted the average. Most of the total value of transferred wealth was via inheritances rather than gifts in Britain, Ireland, Italy, Spain and the US, whereas for France and Germany about one-third of the total reported amount received was via gifts.

One would expect the receipt of inheritances and gifts to be strongly related to where individuals and their parents are in their life-cycles. We find some receipt to be quite common across the entire age distribution (except in the US where few aged under 35 report any), but the average transfer receipts are consistently lowest for the youngest age group so typically only about 5 per cent of transfers has been received by them. Those aged 65 or more have had the longest time to accumulate transfers

and as Figure 1 illustrates they received the largest share of the total in Britain, Italy, the US and especially France, but the ‘middle-aged’ have done so in Germany and Spain.

these countries. About 56 per cent of those in the top quarter received an inheritance or gift in Britain compared with 15 per cent in the bottom quarter. In five of the six countries a substantial minority of those in the top

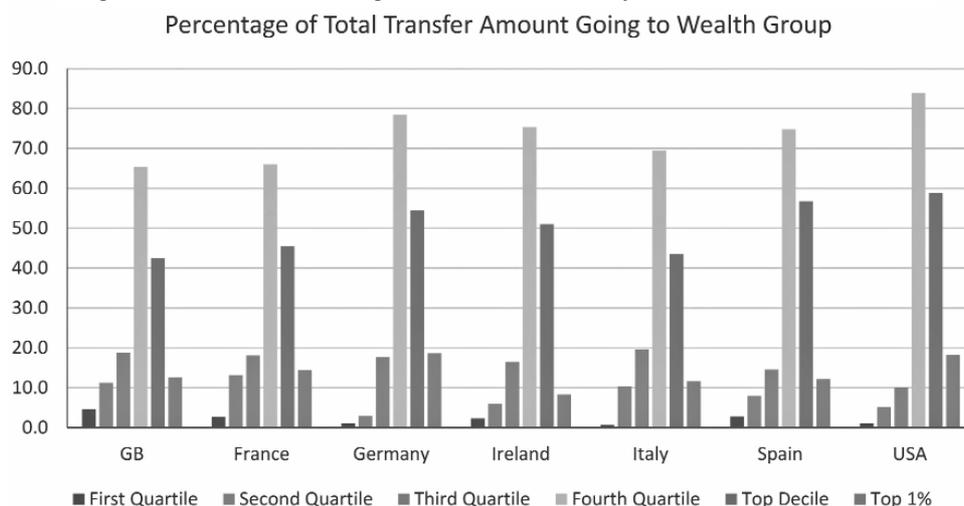
Figure 1: Distribution of Intergenerational Transfers by Age



The proportion reporting receipt generally rises with income, but the variation is often not so strong, and a substantial number of households in the bottom quarter and half of the income distribution have benefitted from transfers. Mean amounts received generally also rise as one moves up the income distribution, so households in the top current income quartile generally received 40- 50 per cent of total transfers compared with about 10-15 per cent for the bottom quartile (Figure 2).

1 per cent reported no inheritance or gift receipt, and in the US only 39 per cent reported any such receipt. However, the average amount received generally also rises as one moves up the wealth distribution and is by far the largest for recipients in the top 1 per cent. Households in the top 1 per cent received as much as 18 per cent of the total amount transferred in in Germany and the US. By contrast, the share going to those in the bottom quarter of the current wealth distributed is generally very low indeed (Figure 3).

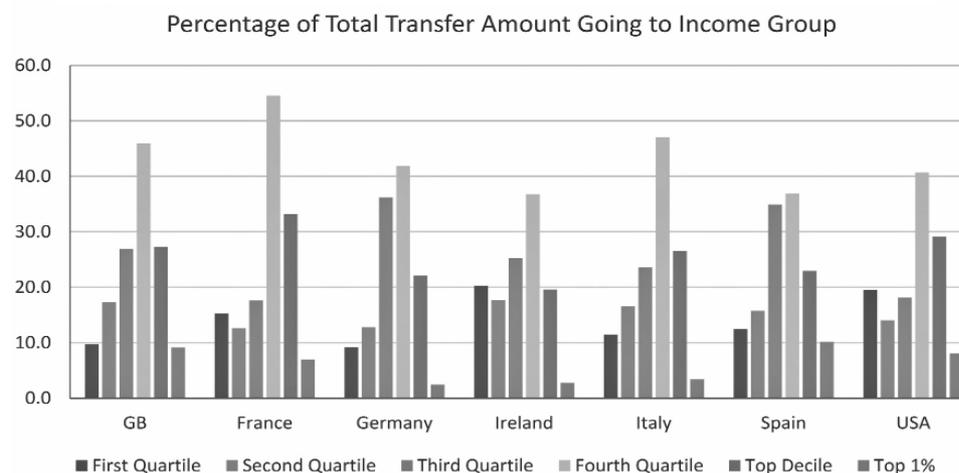
Figure 3: Distribution of Intergenerational Transfers by Household Current Wealth



Ranking households by current wealth rather than income level, the likelihood of having received an inheritance or gift was seen to increase rather consistently with wealth rank across

### Who receives intergenerational transfers?

Figure 2: Distribution of Intergenerational Transfers by Household Current Income



Probing the characteristics of those who had, versus had not, received intergenerational transfers and the varying amounts they received via regression, employing both two-stage and Poisson models, the estimation results show that age and level of education were strong predictors everywhere. Table 1 shows for example that for Britain, someone with a third-level qualification was 28 per cent more likely to have received

some intergenerational transfer than someone with only lower secondary education, controlling for age and gender, a gap that was similar in France and Germany but modest in Spain. Analysing variation in amounts received among recipients, in Britain a recipient with a third-level qualification would be expected to have received 68 per cent more on average than one with only lower secondary schooling. This gap was even wider for France and especially the US.

inheritance wealth than more wealthy ones. However, rather than (implicitly) comparing with a situation where there were no wealth transfers, it may be more relevant to ask what the wealth distribution would look like if transfers were distributed differently, or if there were more or fewer transfers. That perspective underlies the analysis we implement employing (recentered) influence function (RIF) regression methods which capture how marginal changes in the distribution of covariates impact on distributive statistics. We apply these methods to calculate the effect that a marginal increase in the number of households in receipt of transfers would have on the overall shape of the wealth distribution, holding constant the wealth distributions *conditional* on the transfer.

The results of this analysis, illustrated in Figure 4, suggest that in most of the countries studied, having more transfer recipients and correspondingly fewer non-recipients, or more recipients of small or medium-sized transfers, would be expected to reduce wealth inequality

modestly. This reflects the fact that those transfer recipients were more concentrated around the middle of the wealth distribution than non-recipients. In contrast, increasing the proportion of recipients of large transfers generally increased overall wealth inequality. These findings serve to reinforce the notion that the overall effect of intergenerational wealth transfers may be equalizing, but highlights a crucial heterogeneity in impact depending of the size of the transfers that has not been recognised in the previous research literature. This analysis is descriptive and static rather than attempting to identify causal or general equilibrium impacts, but is none the less informative.

### Taxing intergenerational wealth transfers

The implications for policy, most obviously with respect to taxation of wealth transfers, are significant. The disequalizing impact of large transfers in terms of overall wealth inequality reinforces the notion that strengthening the capacity to effectively tax them has to be a key element in reforming capital transfer taxes. The wealth transfer tax systems in operation in the countries we studied vary widely, including with respect to whether they are levied on the estate of the deceased or the beneficiaries, how bequests versus gifts are treated, and how thresholds, allowances and exemptions function, over and above the more easily compared headline marginal rates of tax. It is difficult to detect clear impacts of differences in tax systems on the varying patterns of intergenerational transfers across countries given all the other differences between them, but some previous studies have linked changes in transfer behaviour over time to changes in tax treatment. The case for moving towards a lifetime capital acquisitions tax for

Table 1: Regression Estimates Intergenerational Wealth Transfers and Education Level

	Britain	France	Germany	Ireland	Italy	Spain	US
<i>% increase in probability of transfer receipt*</i>							
Upper Secondary	14.8	12.1	11.8	8.9	4.6	-8	17.7
Tertiary	28.4	26.4	25.8	15.1	13.0	2.9	21.5
<i>% increase in size of transfer receipt**</i>							
Upper Secondary	25.1	39	17.1	10.6	33.6	31.6	65.8
Tertiary	67.7	121.1	61.5	-16.9	56.7	37.7	182.7

\* Estimated coefficient in logistic regression, all households

\*\* Estimated coefficient in OLS regression, households receiving wealth transfers only

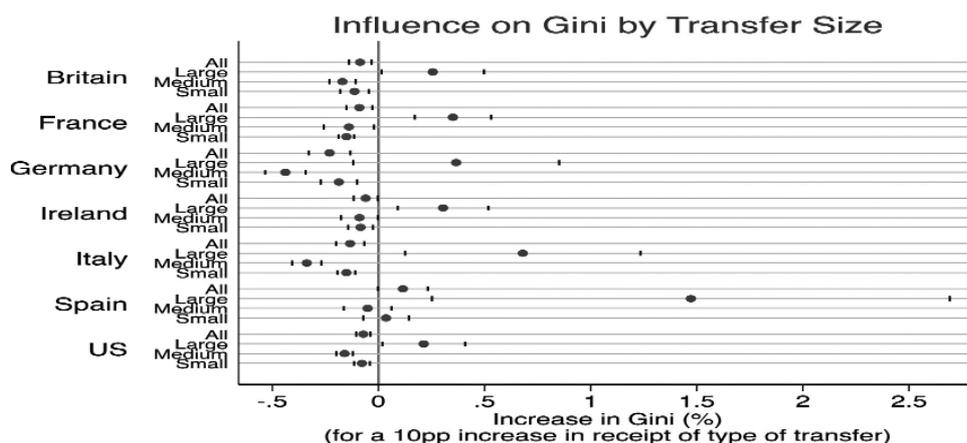
### Intergenerational transfers and household wealth

The influence of having received intergenerational transfers in the past on the household's current level of wealth is critically important but very difficult to assess reliably. The average wealth of transfer recipients is much higher than that of non-recipients in all countries, with that gap being particularly wide in the US. The relationship between transfer receipt and owning one's own house accounted for a substantial proportion of the difference, but financial and business wealth also played a major role for Britain and even more so in the US. When we control statistically for differences in age, education and household size the wealth gap between recipients and non-recipients narrows but remains substantial. In a separate analysis, having received some intergenerational inheritance or substantial gift in the past is associated with currently ranking a good deal higher in the wealth distribution, controlling for age and education, especially for recipients of the largest wealth transfers.

### Intergenerational transfers and household wealth inequality

As well as the relationship between intergenerational transfers and current wealth levels for households, the influence that inheritances and gifts have on inequality in the overall distribution of wealth inequality is an even more tangled question. As noted earlier, some recent studies conclude that inheritance is equalising rather than dis-equalising, in essence because less wealthy heirs inherit amounts that are greater relative to their pre-

Figure 4: Results of RIF Regression for Influence of Intergenerational Transfers on Gini Measure of Wealth Inequality



gifts and inheritances can be convincingly made purely in terms of fairness and efficiency. While this also has the potential to reduce the role these transfers play in generating wealth inequality, this could be considerably enhanced if combined with direct wealth endowments to all young people along the lines proposed by Atkinson (2015), Milanovic (2019), and on the most ambitious scale by Piketty (2019).

Note:

1. Institute for New Economic Thinking, University of Oxford. The Nuffield Foundation funded the project, the views expressed are those of the authors

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## Discover Economics — a quick update

*Discover Economics is a campaign led by the Royal Economic Society to broaden the appeal of economics to potential students. This note comes from Maeve Cohen, the DE's campaign manager.*

State school and black students are under-represented among economics undergraduates and fewer than 30 per cent of economics students are women.

The lack of diversity among economics students is a problem because economists – who occupy key policy roles in government departments and the Bank of England – need to reflect the society that they are helping to shape. By not studying economics, these students also miss out on a degree that leads to high-paid and rewarding future

Discover Economics, the Society's campaign to increase diversity in undergraduate economics has had a busy

few months! We ran a social media campaign for Black History Month showcasing some incredible black economists and economics students from across the UK. On our website, students tell us why they love economics, how it helps them understand the world and why they think more young people should get involved!

We also hosted Generation COVID webinar where 15-17 year olds asked economists from business to government about what Covid-19 means for the future of the economy. Finally, we launched our fantastic new website!

Go to [www.discovereconomics.co.uk](http://www.discovereconomics.co.uk) for all our latest news, events and projects!

If you would like to help us promote diversity in economics, you can join us by becoming a Discover Economics Champion!

For more information on what this entails please contact our campaign manager at [maeve.cohen@res.org.uk](mailto:maeve.cohen@res.org.uk)

## Income tax reform

extremely high upper tax rates.) Moreover, experts such as investment adviser Mark Dampier argue that traditional alleviations on tax, such as a decrease in VAT, won't be felt by the regular person on the street while buying their shopping (whereas it would be felt by a rich person buying a yacht, for example).<sup>5</sup> Instead, a simplification of the tax system and a raising of personal allowances will make much more of a difference to your average Joe Bloggs, in comparison to a redistribution of taxes on the rich which may not make that much money anyway if they can find ways of not paying. Dampier's criticism was in response to the UK Labour Party's aforementioned proposed tax rate increase. Since Ocasio-Cortez's proposal, too, other big names have come out suggesting it's a bad idea. Bill Gates argued in an interview with the Verge that in America, the highest earners gain their money through selling assets, rather than through their income: 'the top 400 earners in the US,' he argued, 'are only paying something like a 20 percent tax rate.'<sup>6</sup> This means the higher tax rate won't affect them as much of their money isn't earned through their incomes anyway, and those it would affect would simply move their money around so they won't have to pay.

Other arguments have a more political, and less economic, basis. A flat or flatter rate tax system, in which everyone pays the same or more similar rates of tax, is sometimes argued to be fairer for the simple fact that everyone is treated the same. Moreover, some say a lack of differing tax rates encourages the poor to work harder and to earn more money, striving to reach the top. After all, being able to make of yourself anything you wish was what underpinned the Thatcher-Reagan political reforms of the 70s and 80s; it stands to reason, then, that the way they taxed the population would change in line with these policies. On a more basic level, fewer tax brackets also means simplicity in the overly-bureaucratic process of state finance.

And yet, taking all of the above into account, history tells us that fewer tax brackets and lower higher rates is the exception, not the rule, and that the policies of the 80s did not make our societies more equitable. In Eisenhower's day, the top US tax bracket was 91 per cent. In the 60s, the top rate dropped to 70 per cent, before Reagan slashed it even further to 50 per cent. The number of tax brackets in the US steadily decreased also, from 33 in 1965 to 7 today. The results of this decrease in both brackets and the top taxation rate (though this of course wasn't the only cause) were steadily rising inequality, and a higher proportion of wealth being in the hands of the rich, particularly since the mid-80s — something that with hindsight seems very predictable.<sup>7</sup> Currently, the richest 0.01 per cent of Americans control around 11 per cent of the country's wealth, and the top 0.1 per cent's share of national wealth roughly equates to that of the bottom 90 per cent. This is significantly less equal than in the 60s and 70s, as reported by Vox in 2015.<sup>8</sup>

It's perhaps no surprise, then, that many of the world's wealthiest and economically equal countries have higher top rates of tax. Denmark and Sweden have top tax rates of around 60 per cent and 56 per cent respectively, two of the most prosperous countries on the planet. (Admittedly, they have a relatively flat taxation system, meaning many people get taxed at such high rates, not just the rich.) Germany has a progressive tax system, with the rate, after the personal allowance limit of €9,169 increasing linearly as income increases, up to 42 per cent when you earn €265,327, before jumping three percent to 45 per cent on all income after this. The system also means that a taxable income will never result in lower net income.

Other, better, systems exist, and it's evident some kind of tax reform is critical if we are to make society fairer. But what's the best way to go about this? Will more tax brackets help? Or is simply a higher top bracket rate necessary?

### Except death and taxes

70 per cent sounds like a huge increase in the top rate of tax, but some argue it's not quite enough. A 2012 paper from MIT by Peter Diamond and Emmanuel Saez argued for a top bracket of 73 per cent on incomes over \$400,000. The main argument for this was that after a certain amount, an extra dollar doesn't make a dent in a rich person's bank account, but for a poorer person, those few bucks could mean the difference between eating or going hungry. The paper's authors calculated that any tax rates higher than 73 per cent lead to people working less and evading tax. And there's a social argument for higher taxation, too: many talented people currently move into legal or financial roles, because they can earn more money. However, if taxes were high over a certain level of income, these roles would be less appealing, because you'd keep less of that additional money.<sup>9</sup> Evidently a second part of this would be to make currently lower-paying jobs, such as teaching and academic roles, more enticing, with higher pay and better benefits — not something necessarily related to tax. (That being said, it isn't inconceivable that revenue generated from higher top bracket tax rates could be redistributed to make civil servant jobs more financially appealing.) The social benefits of having a bunch of talented bankers and lawyers, especially if the lawyers simply work for the bankers, are incomparably small compared to those of having extremely brilliant teachers and academics.

Consider, moreover, when a company decides what it does with its revenue. With high brackets in place, instead of giving those at the top huge incomes and bonuses which simply get taxed away, that money gets sent downwards, invested back into the company, which includes in workers who normally would never see it. And so it was in the 1960s: bosses earned significantly less than today, and more money was invested into businesses at the lower levels, partly because of the influence of unions but also due to higher top tax brackets which meant paying bosses astronomical sums made no sense. As argued in *The Week* by Jeff Spross, when this system began to change in the

late 70s — combined with union collapse and increasing unemployment — the US saw money rocket to the top of the chain, and inequality increased massively.<sup>10</sup> Naturally the reasons for economic prosperity are complex, but in the years in both the UK and the US when tax brackets were more numerous and rates of taxation at the top higher, economic growth was greater and continued for longer, and living standards were higher.

Mainstream politicians are unwilling to have a considered debate on the topic, preferring instead to make misleading comments that miss the point and fail to grasp the nature of tax reform. There are other obvious social reasons for higher taxes, too. Ocasio-Cortez's suggested tax rates rise was directly related to the Green New Deal, a plan put together by young activists in the Sunrise Movement to combat climate change. It consists of a program of investments into renewable and clean energy, which, it argues, will make the economy environmentally friendlier and simultaneously juster. The money that will go into alleviating climate change isn't money that will be spent, but rather invested; it's clear that investment in renewable energy is essential not just for saving the planet but also for helping to keep the economy afloat and fixing inequality. Indeed, without it, there won't be much of an economy left. But some, such as aforementioned Nobel Laureate Peter Diamond, have said the 70 per cent suggested by Ocasio-Cortez is too little to fund the Green New Deal, arguing the top bracket must be higher to raise the funds necessary to save the planet.

## Taxing reforms

An important yet often ignored part of this debate is that tax reform can't just consist of raising rates and including more brackets. It must also focus on making the system less complicated, less bureaucratic, and less easy to cheat. It needs to come down hard on tax evasion, as well as closing loopholes and placing restrictions on the movement of capital to make tax avoidance more difficult. The common argument that fewer brackets equals a simpler and fairer system is disingenuous. Working out which tax bracket one falls into takes very little time and some simple maths. The difficult part is actually working out your income and declaring your tax, at least for self-employed workers or those working in complex systems such as the US.

The solution is surely threefold: simultaneously raise the highest tax bracket rates to increase government revenue, improve the system to make it significantly harder to evade and avoid tax, and increase the amount of tax brackets in order to lessen the leaps between incomes, thus making the progression fairer. These solutions aren't mutually exclusive; indeed, it's essential they are implemented in tandem with one another, else reform will fail. Some polls suggest the majority of people in the UK support a higher rate of taxation, showing public opinion is moving away from the received wisdom of neoliberal politics. And due to the economic effects of the pandemic,

some tax reform will be necessary to pay for the massive debt accrued since March 2019. Unfortunately, as the backlash to Labour's and Ocasio-Cortez's suggestions shows, some politicians are unwilling to have a considered debate on the topic, preferring instead to make misleading comments that miss the point and fail to grasp the nature of tax reform. Until they can sit down and discuss this broken system in a reasonable manner, taxes will remain as they are: inadequate and unfair.

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## Notes:

- 1 James Alston is Content Marketing Manager at INOMICS. An earlier version of this article appeared in the *INOMICS 2020 Handbook*, <https://inomics.com/handbook>
2. Scalise, 2019.
3. Norquist, 2019
4. Canocchi, 2016
5. Collinson, 2008
6. Mohamed, 2020
7. Chang 2019
8. Yglesias, 2015
9. Diamond and Saez, 2011
10. Spross 2015

# Universities' superannuation fund is accumulating surplus assets!

*Woon Wong<sup>1</sup> has argued in these pages before that the valuation of the USS's liabilities and the call for higher payroll contributions are incorrect.<sup>2</sup> In this article he argues that the scheme is entirely viable and indeed accumulates surplus assets even at the pre-2017 contribution rate of 26 per cent of payroll.*

## 1. A contrasting, positive, message

In its consultation (the 'Consultation') with the Universities UK (the 'UUK') on the proposed methodology and assumptions for the Technical Provisions in the 2020 valuation, the Universities Superannuation Scheme (the 'USS') reports deficits ranging from £9.8bn to £17.9bn, giving rise to contributions of 40.8 per cent to 67.9 per cent of payroll, respectively.<sup>3</sup> Prior to the 2017 valuation, the contribution stood at 26 per cent of payroll.

In sharp contrast to the Consultation, this article provides evidence that suggests the USS is viable at 26 per cent of payroll contribution, and has been accumulating surplus assets with several benefits in waiting for the stakeholders.<sup>4</sup> The benefits include (a) surplus assets to act as a further buffer to absorb investment risk; (b) the scheme will be self-sufficient which implies little support is required of employers; (c) future contributions lower than 26 per cent of payroll will be possible; and (d) it offers a cost-effective pension provision for the higher education sector that few other sectors and countries can rival.

The rest of this article is organised as follows. Sections 2, 3 and 4 provide evidence for the positive outlook whereas section 5 criticises the USS's valuation methodology. Finally, summary remarks are provided in section 6.

## 2. The falling funding cost

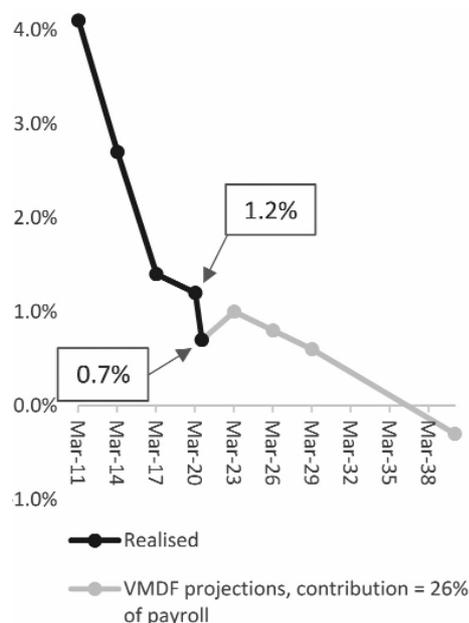
There are two sources of funding to pay for liabilities, namely the contributions by stakeholders and investment returns on assets held by the scheme. Since the controversies arise mostly from the setting of the discount rate (a prudent estimate of rate of investment returns), we consider here the funding cost in terms of the *required rate of investment returns*, which is defined as the discount rate that equates the present value of liabilities to the asset value. Keeping contributions constant at 26 per cent of payroll, Figure 1 shows that the realised funding cost (based on realised asset value) has fallen drastically since 2011 to 1.2 per cent in real terms as of March 2020.

The first sign that the USS is sustainable at 26 per cent of payroll contribution is to note that the scheme would continue to invest significantly in growth assets, the

long-term return of which is estimated by USS as 4.4 per cent, which is considerably higher than the funding cost of 1.2 per cent. Indeed, during the Valuation Methodology Discussion Forum (the 'VMDF') that took place earlier this year, the funding cost is projected to continue decline to negative territory in 2040.<sup>5</sup>

Falling future funding cost implies that assets would grow at a faster pace than the growth of liabilities. This prompted the USS to acknowledge that the scheme is fine in the long-term. To add to the good news, the valuation date of 31 March 2020 happens to be a low point for financial markets due to the pandemic. Since then, the USS's assets have rebounded from £66.5bn to £75bn, giving rise to an even lower funding cost of 0.7 per cent (see Figure 1), a strong indication that the scheme is in surplus.

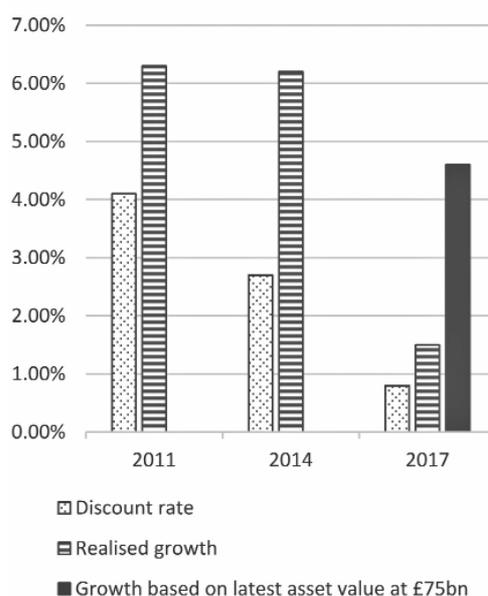
Figure 1: Funding cost in terms of required real rate of investment return



## 3. A reality check on discount rates

The positive message in the preceding section conflicts with the past and current deficits reported by the USS. Figure 2 provides an explanation.

Figure 2: Discount rate versus realised growth rate of assets (expressed in real terms)



The dotted bars in Figure 2 represent the discount rates used in the 2011, 2014 and 2017 valuations. They are significantly lower than the realised growth rates of the scheme assets (to reach the asset value in March 2020, represented by striped bars). For example, the discount rate for 2011 valuation is set at 4.1 per cent. The £32.4bn of assets in 2011 grew by 6.3 per cent per annum to reach £66.5bn in March 2020. The difference between the discount rate and the realised growth rate in 2014 has increased since, mainly due to a lowering of the discount rate.

The 2017 discount rate has fallen to 0.8 per cent. Despite March 2020 being the low point for financial markets, the realised growth rate of USS assets between 2017 and 2020 is higher than the discount rate. If the latest asset value (£75bn) is used, the realised growth rate (the right-most bar) is considerably higher. In short, the USS's assets have consistently grown at rates that are significantly higher than the discount rates. This not only explains the sharp fall in the funding cost over the past 10 years, but also implies that the USS's past deficits could be due to overly pessimistic discount rates. The next section shows this is indeed the case.

#### 4. Are ever lower discount rates justified?

This section shows that the lowering of the discount rate in both the 2017 and 2020 valuations are far more than what is justifiable by evidence.

For simplicity, suppose the USS invests only in gilts and equities. Let  $y$  and  $r_E$  denote the gilt yield and expected return on equities, respectively. If the weight of gilts is  $w$ , then the expected portfolio return ( $r_P$ ) is given by:

$$r_P = wy + (1-w)r_E$$

A gilt-plus approach to the discount rate assumes perfect correlation between gilt yield ( $y$ ) and expected return on equities ( $r_E$ ). For example, a 1 per cent fall in  $y$  is accompanied by the same fall in  $r_E$ , resulting in the gilt-plus discount rate declining also by 1 per cent.

Evidence shows that the expected return on equities is broadly stable despite the falls in long-term interest rate in the past few decades.<sup>6</sup> The implication is that as gilt yield falls by  $\Delta y$  in recent years, the discount rate would fall by  $w \times \Delta y < \Delta y$  as  $w$  is only about 0.35 for the USS.

The USS has repeatedly claimed that it does not use a gilt-plus approach to set a discount rate. It turns out that its discount rate is lower even than that set by the gilt-plus approach. To illustrate, gilt yield fell by 3.5 per cent between 2011 and 2020. Since the discount rate in USS's 2011 valuation is 4.1 per cent, the gilt-plus assumption would set the 2020 discount rate as 4.1 per cent minus 3.5 per cent = 0.6 per cent, which is approximately the upper end of the discount rates (0.0 per cent to 0.5 per cent) set in the Consultation. Since the proportion of low-risk assets held by the USS is less than half, the 2020 discount rate should be at least 3.5 per cent  $\div$  2 = 1.75 per cent higher. A 1 per cent rise in the 2020 discount rate reduces the liability by approximately £16bn.

If readers think the pandemic may make the above example less convincing, setting the discount rate lower than the gilt-plus method is also found in the 2017 valuation. If a gilt-plus discount rate is applied to the 2017 valuation, the liability would be reduced by £4.1bn.<sup>7</sup>

#### 5. Economically irrelevant methodology and un-evidenced assumptions

The deficits in the 2017 valuation and the current Consultation are driven primarily by the stipulation of a self-sufficiency portfolio (comprising mainly gilts and low-risk securities) in the valuation methodology to manage risks. In the former, the deficit is caused by de-risking the scheme portfolio to a hypothetical self-sufficiency portfolio over 20 years, in order to manage long-term risk. For the latter, the concern of short-term risk requires, among others, the sum of the employers' affordable risk capacity and assets to exceed the liability of a self-sufficiency portfolio. Because of quantitative easing, the liability of a self-sufficiency portfolio becomes exorbitantly expensive, exceeding the sum of employers' risk capacity and assets. Consequently, because of short-term risk, prudence is set at 73-85 per cent confidence level (cf. 65-67 per cent in past valuations), lowering the best estimate return by 2.1-2.6 per cent (cf. 1-1.1 per cent in past valuations) to arrive at the discount rates in the Consultation.

However, self-sufficiency is not required by pensions legislation. This is pointed out by the Association of Pension Lawyers in their recent submission to the Pensions Regulator on Defined Benefit's funding code:

[N]othing in the legislation suggests that a move to minimise dependence on the employer's covenant will always be appropriate or that trustees should be pushed in that direction... and of course could well be inconsistent with the sustainable growth objective [of the employer].

Moreover, successful risk management requires identifying and measuring risks that are relevant. The self-sufficiency portfolio is counterfactual and economically irrelevant to the USS because

- a) It is open, immature, has positive cashflow with last-man-standing employer support.
- b) There is no plan to de-risk the portfolio.

Therefore, the Joint Expert Panel (the 'JEP') set up in 2018 recommended more risk could be taken and criticised the hypothetical construct of a low-risk self-sufficiency portfolio in the 2017 valuation.

Consistent with the JEP's view, in the VMDF, stakeholders disagree over the use of a self-sufficiency portfolio and suggest cash flows as a basis for managing risk in the 2020 valuation. For example, the UUK notes that

...[m]aking self-sufficiency the centrepiece of the Trustee's risk metrics ... is fraught with difficulties. We believe other methods — that are more directly linked to cash contributions — are more effective to measure risk.

### *The need for evidence and transparency*

Regulatory guidelines require valuation assumptions to be evidence-based, and evidence suggests the impact of pandemic on valuation is considerably smaller than is implied by the low discount rates in the Consultation. A stochastic simulation finds the impact of the 1918 Spanish flu pandemic on the discount rate to be small. Intuitively, this can be understood by the long-term nature of the USS's liabilities — they take 80 years to payoff, whereas '...[t]he pandemic is unlikely to have significant long-term consequences for the sector as a whole.' (Consultation).<sup>8</sup>

Indeed, as financial markets are forward looking, the USS's low asset value in Mar 2020 has priced in the negative shocks and increased uncertainties caused by the pandemic. The low discount rate imposed on an already depressed market is effectively double counting the price of risk. Since the USS is relatively immature, the cash from contributions alone are sufficient to pay for pension outgoes for almost 20 years. Unfortunately, the USS chooses to disregard such evidence and insists on using self-sufficiency portfolio to justify the high confidence level of prudence. Moreover, as the Consultation remarks, '[d]ifferent assumptions could produce lower confidence levels,' no details are provided on what these assumptions are.<sup>9</sup> Also, no evidence is provided by the USS to justify the assumptions that give rise to the high confidence level of prudence.

Finally, the UCU has long complained the lack of trans-

parency in the USS's valuation methodology, which has been described as complex by both JEP and the Pensions Regulator (the 'tPR'). Therefore, evidence and transparency are vital for the USS to engage properly with its stakeholders, thereby resolving the disagreements in the 2020 valuation.

## 6. Summary remarks

Since quantitative easing to lower long-term interest rates is now an established monetary policy, gilts-based funding for pension schemes has become prohibitively expensive. The USS does not seek gilts-based funding; thus, gilts-aligned valuation methodology is inappropriate.

Most economists believe that quantitative easing benefits the economy, especially large institutions such as the USS. It is thus no surprise to find the scheme is not only viable at 26 per cent of payroll contribution, but also on a pathway to achieve self-sufficiency based on surplus assets.

What is concerning about the 2020 valuation is that the deficits and high contributions are due to issues that were neither resolved nor discussed in the VMDF. Indeed, the very low discount rates of 0.0 to 0.5 per cent in the Consultation are based on a methodology that uses un-evidenced assumptions and economically irrelevant input (a self-sufficiency portfolio).

Securing payments for accrued benefits may tempt the trustees to err on the side of excess prudence. On the other hand, an unnecessarily low discount rate using un-evidenced assumptions may render trustees breaching stakeholder trust. For tPR, securing the Pension Protection Fund and ensuring sustainable growth of employers provide similar opposing forces to the valuation. Surely, using evidenced assumptions as required by the regulatory guidelines to carry out the 2020 valuation is the best course of action for all parties concerned.

Notes:

1. Woon Wong is Reader in Finance and Director of Trading Room Operations & Development, Cardiff Business School, Cardiff University.
2. No. 185 (April 2019). See also the subsequent discussions in Nos. 186 (July 2019) and 187 (October 2019).
3. The USS is a privately funded pension scheme for pre-92 universities in the UK and the UUK is a representative organisation for the university employers.
4. Subject to agreement by the stakeholders, surplus assets may be kept in the USS via a contingent support vehicle.
5. The VMDF was formed in response to the second report of the Joint Expert Panel, and was participated by the USS, the UUK, and the University and College Union which represents the scheme members.
6. See Wong (2018) and the references therein.
7. See the letter submitted to the Pensions Regulator.
8. See page 63 of the Consultation.
9. See page 26 of the Consultation.

## News from the women's committee — A growing divide

*Covid-19 has taught us that, while we are all in the same storm, we are not in the same boat. The pandemic has exposed and intensified inequalities in many areas of our life, including academic life.*

*Chryssi Giannitsarou and Sarah Smith report.*

SINCE MARCH, many aspects of academic life have been transformed. Hybrid- and online teaching have replaced traditional methods and we have zoomed our way through meetings, seminars and workshops. More so than many occupations, academic economists are relatively well-suited to working from home — some reported little change in their working life, while others took advantage of reduced travel to free up quality time for research. The pandemic created a huge demand for rigorous and timely analysis and, in the last year, there has been a flurry of economic research activity the likes of which has never been seen before — a surge in the number of preprints and working papers in economics, a new journal (*Covid Economics*) devoted to pandemic-related research and a dedicated website (Economics Observatory) bringing economic analysis of all things Covid-related to policy and public audiences.

But while some people have forged ahead with new research, many others have had little time to devote research in the face of overwhelming, competing demands on their time. And there is growing evidence that the differences in our 'Covid experience' divides along gender and seniority lines.

Table 1. Number of academic authors by gender, seniority and research topic in 2020

	Women authors		Men authors	
	<i>Covid research</i>	<i>Other research</i>	<i>Covid research</i>	<i>Other research</i>
<b>Undergrad</b>	1	1	5	0
<b>Masters</b>	1	3	2	7
<b>Predoc</b>	0	3	4	2
<b>PhD</b>	38	91	101	264
<b>Postdoc</b>	7	28	17	50
<b>Junior</b>	36	175	126	466
<b>Midcareer</b>	19	123	96	400
<b>Senior</b>	63	215	280	1088

*Note: Junior academics include Assistant Professors and Lecturers, midcareer academics include Associate Professors, Senior Lecturers or Readers, and senior academics are composed of Professors, Full professors or Chaired positions.*

Back in April 2020, Amano-Patino, Faraglia, Giannitsarou and Hasna (2020) set out to collect data on research activity and output in economics by tracking a variety of information from two prominent repositories of early research output, namely the series of NBER Working Papers and CEPR Discussion Papers, aiming to quantify the impact of the pandemic on research productivity in economics.

By the end of April, combining data from NBER, CEPR, Covid Economics and VoxEU, we reported that there was a large surge in new research papers in economics in the first four months of 2020, with about 32 per cent increase relative to the corresponding four-month average for 2015-2019, mostly driven by new research related to the pandemic. We also noted that the relative number of women authors in non-

pandemic related research has remained stable with respect to recent years at about 1 in 5 authors. However, only 1 in 8 researchers working on Covid-19 related topics were women.

Since then, we collected data relating to working papers from these NBER and CEPR which included information on the authors' gender and seniority from January 2004, until the end of October 2020. Tracking the research activity in economics in 2020 we continue to see that the relative number of women authors that contribute to research unrelated to the pandemic has remained stable at an approximate average of 21.5 per cent, following remarkably well the general trend of contribution of women authors to economic research since 2004.

But the relative contribution of women authors to research related to Covid-19 and the pandemic shows a very different pattern: as we showed early on, it starts at a low share of women of c.11.5 per cent of all authors for the month of April 2020, when many countries were in strict lockdowns. It then steadily increases to a high average of c.40 per cent in the late weeks of summer before reverting to an average of 20.5 per cent in October and November 2020, in line with the long run

trend. This may suggest that women authors were unable to respond fast to the new research challenges, due to the pressures of the division of labour at home during the early spring lockdowns. Nevertheless, they eventually caught up in the summer when more research time became available to them, e.g. due to less work-related teaching and administrative duties.

We also explored the relevance of seniority to the productivity of research during the pandemic. In our analysis from May 2020, we reported that senior researchers of both genders continued to be active and productive, as measured by research output, during the first part of the pandemic and produced the bulk of covid-related research in the first months of 2020. We also noted that among researchers of various seniority levels, junior and midcareer women were doing very little research related to the pandemic.

Fast forward to end of October 2020, we now focus on the subset of authors who are academics. We see that the women who are least productive in doing Covid-related research continue to be the junior and midcareer. Tables 1 and 2 show levels and shares of authors by gender, seniority and research topic. We see that the relative share of women PhD, postdocs, junior and midcareer authors to total PhD, postdoc, junior and midcareer authors participating in covid-related research is smaller than the corresponding shares of authors working on other topics. For senior academics, the shares of women to total authors in covid-related research is slightly higher (see Table 2).

Table 2: Share of academic women to total academic authors for each seniority level in 2020

	Share within same seniority group		Share within same gender	
	Covid research	Other research	Covid research	Other research
<b>PhD women</b>	27.3%	25.6%	23.0%	14.2%
<b>Post-doc women</b>	29.2%	35.9%	4.2%	4.4%
<b>Junior women</b>	22.2%	27.3%	21.8%	27.4%
<b>Midcareer women</b>	16.5%	23.5%	11.5%	19.2%
<b>Senior women</b>	18.4%	16.5%	38.2%	33.6%

Note: Junior academics include Assistant Professors and Lecturers, midcareer academics include Associate Professors, Senior Lecturers or Readers, and senior academics are composed of Professors, Full professors or Chaired positions.

Importantly the gap of research activity between covid and other research topics is larger for junior and midcareer academic women economists. Midcareer women have been the least involved in the new research field of economics of pandemics: a striking statistic is that out of the 991 authors that have been part of the research groups that wrote the 386 covid-related papers from March to October 2020, only 19 are mid-career women academics (see Table 1).

On a positive note, 2020 has seen a general increase in academic output in economics, as shown in Figure 1. However, the share of women to total authors has decreased in 2020 from 23.6 per cent in 2019 to 22.6 per cent in 2020 (with data until the end of October 2020), and importantly, women authors participation in covid-related research is overall smaller than in other topics, at a share of 21.1 per cent to all authors.

It is hard to believe that this gender divide is due to a relative lack of interest in Covid-19 among this subset of women. Covid research spans many fields in economics, including applied micro topics which typically attract relatively more women (Chari and Pinkam-Smith, 2018). Instead, the patterns bear out the hypothesis that women have been harder hit by the pandemic — in particular that they have borne a higher share of the increased burden of childcare following the closure of schools and nurseries and that this has reduced their productivity. The unequal effects of this additional burden have been well-documented for the general population (e.g. Alon, Doepke, Olmstead-Rumsey and Tertilt, 2020, Sevilla and Smith, 2020, and Adams-Prassl, Boneva, Golin and Rauh, 2020a). Some fathers

(when furloughed or laid off) took on a greater share of child-related work. However, in most households, roughly two-thirds of the burden of additional childcare was allocated to women. On top of childcare, women in academia — who often find themselves having more administrative roles (Guarino and Borden, 2017) — may have been more likely to find them-

selves at the frontline of dealing with the extra organisational work that Covid has created. Women have also reported having to supply more ‘emotional labour’ in- and outside the workplace, and evidence also suggests that lockdown measures have had a greater detrimental effect on women’s mental health (Adams-Prassl, Boneva, Golin and Rauh, 2020b; Etheridge and Spantig, 2020).

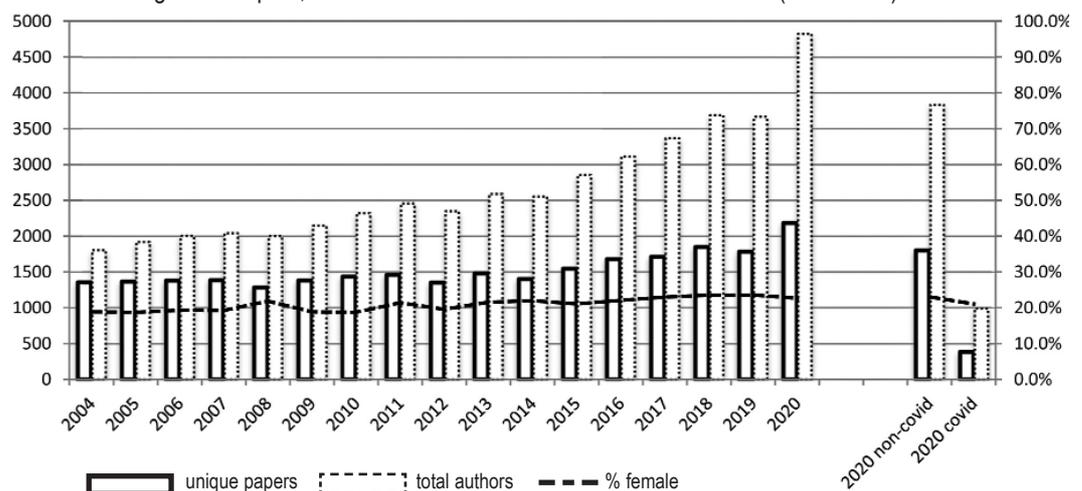
### What needs to be done?

The pandemic disruptions to research, even if they are temporary, are likely to have permanent ‘scarring’ effects on people’s long-term careers unless there are ways to compensate academics who have been affected. Several institutions are looking at responses and policies. Often such responses are targeted at carers rather than women.

One set of responses can be characterised as trying to compensate people by increasing the resources they have to do research. UCL has introduced a special fund, offering financial assistance with childcare costs as well as with research. Another route is to reduce administrative and teaching loads for those who had additional childcare, giving them more research time. It is unlikely that these initiatives go far enough. They are also likely not to be a substitute for other measures directed towards the promotions process — where the Covid disruption is likely to have the biggest material effect.

In institutions with a tenure track, a common approach to dealing with childcare responsibilities is to ‘stop-the-clock’ and extend the time before the deadline. However, evidence from the US suggests that this policy — when applied to periods of

Figure 1. Papers, authors and share of women authors over time (2004-2020).



Note: Data from NBER and CEPR working papers. Columns on right hand side show split between COVID related and other research in 2020. Left y-axis shows number of papers or authors. Right y-axis shows percent share of women authors per year. Note: data for 2020 contains only first ten months.

maternity or paternity leave — benefitted men more than women by giving them more time to produce research, raising the bar and increasing the gender gap (Antecol, Bedard and Stearns, 2018). Even without this unintended consequence, stop-the-clock policies also institutionalise the temporary childcare burden into a permanent loss of (lifetime) earnings.

An alternative approach is to take periods of disruption into account in assessing promotions, applying an adjustment to the appropriate threshold to allow for lost research time. Many institutions already make this kind of allowance in their official promotions processes, but they are often vague and open to very subjective assessments. Given the scale of disruption, it may be necessary to go further and be explicit about the process for taking account of the impact of COVID. And of course, different types of responses need to be put in place to more generally protect and improve the mental health of younger women academics who need reassurance about their career, tenure and promotion prospects. The danger of not doing so is that women in economics are likely to fall even further behind.

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## Obituary

### Edward 'Eddie' P Lazear

Edward 'Eddie' P Lazear died recently, at the age of 72. Eddie made path breaking contributions to research in economics. Not only his dedication to policy making shape a presidency, his passion for economics changed the lives of countless students.

His field was labour economics. Quite literally 'his' as he founded both the Society for Labor Economics (SOLE) and the *Journal of Labor Economics*. He won every prize and honor that our discipline awards to labor economists, as well as having the rare honour of having a prize named after him: SOLE will award the first E P Lazear prize in 2022.

Eddie's research was distinctive in style and topics. It is natural for many of us to find papers complex at first read and increasingly simple as we become familiar with them. This process is reversed when one reads Eddie's papers. At first, they come across as simple, and we only begin to see the complex architecture that underpins them after reading them several times. The papers appear simple because the ideas they present have the rare quality of seeming obvious after you read them, even though you could not imagine or formalise them before.

His ability to distil economic problems to their essence also came across in his seminars: one of us vividly recalls sitting in a 60-minute seminar by Eddie, 45 minutes of which were devoted to discussing the implications of one first order condition. His enthusiasm for the subject made it all seem so easy, yet the insights were deep and intuitive, and supported large bodies of subsequent empirical work.

His paper on the methodology of economics<sup>1</sup> should be required reading for any PhD student in economics, and other quantitative social sciences. As he himself exemplified throughout his career, the tools of economic analysis can be put to use to understand so many aspects of individual behaviour, and it was through this use that economists could contribute to the greatest policy challenges societies have faced.

Eddie was a pioneer in labour economics and the founder of personnel economics. He studied how workers choose how much effort to exert and which jobs to do, and how it shapes or should shape a firm's human resources policy. In his classic paper on incentive pay<sup>2</sup>, he opened up the possibility of using human resources data from individual firms to uncover the effect of personal policies on firm productivity. The paper shows that performance pay effectively raises worker effort as expected but perhaps more surprisingly half of the effect comes from a change in composition of workers. More productive workers are attracted by the performance pay contract and join the firm while slower workers lose out and quit. Eddie's attention to selection and sorting both across the hierarchy of the same firm and across firms explains many puzzles. In one of his last papers<sup>3</sup> he showed how overconfidence in one's ability at work need not be a behavioural bias but rather emerges in equilibrium from the selection process as workers accept jobs for which they've received a positive signal of their ability for the job itself. In a classic paper, Eddie explains why the 'Peter principle'<sup>4</sup>, which states that people are promoted to their level of incompetence, can be simply explained by mean reversion rather than being a mark of inefficiency.

Eddie was a firm believer in the market economy and the power of the price mechanism, but his openness to ideas and debate brought him the respect of all his fellow economists whose political positions were way to the left of his. As Richard Blundell puts it, 'He was always a republican (with a capital R in the American sense) but not a narrow and blinkered conservative. He loved debate, in the best Chicago tradition. He wanted to engage [...] he was always approachable and wanting to hear new ideas.'

Eddie's curiosity was limitless. Richard told us how, even after heading up the Council of Economic Advisors (CEA) for George W Bush, Eddie still hankered after the lively interchange of the research seminar. Richard found an email from him as he was finishing his time as Head of the CEA, he wrote 'Hi Richard, I am coming to London next week and thought I would volunteer to give a seminar on an insider's view of the

financial crisis with special emphasis on labor markets. I am sure that it is too late for you to juggle things at this point but thought I would write to offer.' Of course, we did find a slot for him. We certainly didn't reach agreement on every thing he had to say but it was a terrific seminar and we learned a lot. Eddie is already greatly missed.'

It also helped that Eddie was a very kind person. We experienced this kindness as young researchers, and his words of encouragement were a major reason we set up field experiments with firms. Many of his colleagues can attest to his generosity, hospitality and love of life. John van Reenen told us of when Eddie invited him for dinner and to his surprise took him to the garage where, in John's own words, 'there he showed me with pride, a gleaming Harley-Davidson which he told me he liked to relax by getting on and zooming about all over the USA. Eddie "Born to Be Wild" Lazear.' He will be sorely missed.

He is survived by his wife, Victoria and daughter, Julie.

*Imran Rasul, University College London*  
*Oriana Bandiera, Sir Anthony Atkinson Chair of Economics,*  
*London School of Economics*

Notes:

1. Edward.P.Lazear (2000) 'Economic Imperialism', *Quarterly Journal of Economics* 115: 99-146.
2. Edward.P.Lazear (2000) 'Performance Pay and Productivity', *American Economic Review* 90: 1346-1361.
- [3] Edward.P.Lazear (2016) Overconfidence and Occupational Choice, NBER Working Papers 21921.
- [4] Edward.P.Lazear (2004) 'The Peter Principle: A Theory of Decline', *Journal of Political Economy* 112: 141-163.

### Membership of the Royal Economic Society 2021

We offer a choice of print + online and online only membership with discounts and concessions for students, retirees and those from developing countries. All our membership subscriptions offer a range of benefits. These and the latest subscription rates can be found at: <https://www.res.org.uk/membership/join-online.html>

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

#### Membership pricing for 2021

The RES has capped membership price increases for 2021 at 1.5% to help those who have been financially impacted by the COVID-19 pandemic. The cap means that most members will pay an additional £1 only next year, with prices for student and retired members being frozen. Additionally a new concessionary rate of £12 is being introduced for unemployed members.

The RES Executive Committee has agreed to move to income-based member pricing from 2022: those on the lowest incomes will benefit from a reduced price, whilst those on higher incomes will be asked to pay more. More details on this change will be announced in 2021.

## RES news

### 2021 Annual Conference to be held online

The RES Executive Committee has chosen to take the 2021 RES Annual Conference online (**12-14 April**). We will be delivering the same rich and engaging content via keynotes and general and special sessions, as well as offering ways for you to connect with fellow delegates throughout the event.

You can read more about our Annual Conference on the Conference page <https://www.res.org.uk/event-listing/2021-annual-conference.html>. The full conference agenda will be available when registration opens in the new year.

### RES Presidents honoured

Professors Carol Propper and Rachel Griffiths, current and past presidents of the society, were made Dames in the New Years Honours List - further details, including citations, are available at [www.res.org.uk](http://www.res.org.uk)

### Discover Economics launches new website

The Discover Economics campaign has launched its new website, [www.discovereconomics.co.uk](http://www.discovereconomics.co.uk). The website showcases the campaign's work towards increasing diversity in economics, provides details of its various past and ongoing projects, gathers together economic resources and much more. There is also the Discover Economics blog. For more information, see p.23 above.

### Life membership awards

The RES Council has awarded life membership to **Peter Howells and Anton Muscatelli** for their outstanding contribution to the Society over many years. Peter Howells has edited the RES Newsletter since 1998 and stepped down at the end of 2020. Anton Muscatelli has managed the Conference Grant scheme for 16 years, as well as managing the Small Academic Expenses Grant scheme in recent years.

### RES COVID Academic Support fund

The RES has created a fund to support those who have been particularly affected by the impact of the COVID-19 pandemic on UK universities and academic departments, and to support innovations in teaching economics that have arisen from online/blended learning delivery during 2020. Funding will be allocated in two rounds. Round One will consider proposals for funding for the current academic year (2020-21) and will open in January 2021. Round Two will consider proposals for the 2021-2022 academic year and will open in April 2021.

### New grant schemes for RES members

The RES is relaunching its grant programmes from January 2021. The changes follow a working group review and are designed to better align with the Society's strategic aims of supporting economists and improving diversity in the discipline. Two new programmes are the **RES Knowledge Transfer Projects (KTPs)** grants and **Research Dissemination Grants** (formerly Special Project Grants). The **RES Small Academic Expenses** scheme has been discontinued, whilst the **Conference Grant Scheme** continues largely unchanged.