Changes at the Society

Over the last year, there have been many changes in the organisation and management of the Society, beginning with the setting-up of a permanent administrative office, through the appointment of a Chief Executive, Operations and Events Managers and their assistants. In September the Society’s Executive Committee held an awayday to begin the process of reviewing the Society’s strategy and plans for the future. Readers will be interested in the brief summary of these discussions provided by the Chief Executive.

Needless to say, Brexit remains a major preoccupation. Thomas Colignatus provides more evidence (if such were needed) that the referendum as it was conducted in June last year provides anything but a coherent message as to voters’ preferences. Andy Mullineux describes the deliberations of a symposium in Paris on the likely effect of Brexit on the City and we must all regret the way in which the BBC has, once again, treated an eccentric and minority view as though it deserved equal status with the overwhelming consensus amongst economists on Brexit’s likely effects. The Society’s earlier representations to the BBC’s Trustees have clearly fallen on deaf ears, to all practical purposes. Readers will note that the Society’s ability to represent this consensus is one of the issues noted by the Chief Executive and the awayday discussions.

Two items strike a rather sad note. Angus Deaton, in his Letter from America, laments the passing of several economists that he held in high esteem. His list includes Tony Atkinson, a past-president of the Society. Sadly also we must report the death of Donald Winch. In addition to an illustrious academic career, Donald was the Society’s Publications Secretary, amazingly from 1971 to 2016, and served on the Society’s Executive Committee for many years. The obituary by Mary Morgan and Roger Backhouse reveals the scale of his contributions.
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.

Visit our website at: www.res.org.uk/view/resNewsletter.html

The Newsletter is published quarterly in January, April, July and October

THE ROYAL ECONOMIC SOCIETY

• President: Professor Peter Neary (Oxford)
• President-elect: Professor Lord Nicholas Stern (LSE)
• Past-president: Professor Andrew Chesher (cemmap and LSE)
• Secretary-General: Professor Denise Osborn (University of Manchester)
• Second Secretary: Professor Robin Naylor (University of Warwick)

For other members of the Executive Committee, go to the Society pages on the website where all those involved in the structure and governance of the Society are listed.

The Royal Economic Society is one of the oldest and most prestigious economic associations in the world. It is a learned society, founded in 1890 with the aim ‘to promote the study of economic science.’ Initially called the British Economic Association, it became the Royal Economic Society on receiving its Royal Charter in 1902. The current officers of the Executive Committee are listed above.

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

For membership benefits, subscription fees and how to join the Society, see back cover or go to: www.res.org.uk

Newsletter subscription rates
The Newsletter is distributed to members of the Society free of charge. Non-members may obtain copies at the following subscription rates:

• UK £5.00 • Europe (outside UK) £6.50
• Non-Europe (by airmail) £8.00

Next issue No. 180 January 2018
Deadline for submissions 16 December 2017

Editor
Prof Peter Howells,
Bristol Business School,
UWE Bristol,
Coldharbour Lane, Bristol BS16 1QY
Email: peter.howells@uwe.ac.uk
mail@sarum-editorial.co.uk

RES Office
Chief Executive: Leighton Chipperfield
Operations Manager: Marie-Luiza De Menezes
RES Office, 2 Dean Trench Street,
Westminster,
London. SW1P 3HE
Tel: 020 3137 6301
Email: resoffice@res.org.uk
Website: www.res.org.uk

Designed by Sarum Editorial Services: www.sarum-editorial.co.uk
Letter from America —

Counting our losses

In his latest letter, Angus Deaton laments the recent passing of four economists who made a great impression on him.

In my last letter, I wrote about ‘madmen in authority’ in Washington trying to redesign healthcare. These madmen, when they understand any economics at all, see only the benefits of free markets. They know nothing of the late Ken Arrow’s work on why competitive markets are not capable of delivering it. It is notable, if ironic today, that the man who was so central in proving the basic theorems of competitive equilibrium, saw his own achievement, not so much in what markets might achieve, but in the clarification of the assumptions necessary for the validity of the theorems. The negative result is at least as important as the positive one.

One of the many trials of growing older is the loss of fellow economists who have been intellectual companions for many years, some great and well known, like Arrow or Tony Atkinson, who died on the first of the year, but also those who are less famous, important in other ways, or who simply led interesting lives. This Newsletter does a good job of writing about British economists who might otherwise be forgotten, and I am going to add a few thoughts of my own.¹

One economist who was important to me, and to other British development economists in the US, was Esra Bennathan, who died last year at the age of 93. Esra came to Birmingham, Cambridge and Bristol from Berlin via Palestine, and who fought in the North African campaign against Rommel in World War 2. He worked on transport economics and on development, often with his long-time friend from Birmingham, Alan Walters. He was an old-world intellectual of immense (and sometimes obscure) knowledge. He had a deep fund of wisdom and of fun; he was a fine companion and a friend. He had the invaluable skill, in academia and later in the World Bank, of making people happy by persuading them to do things they in no way wanted to do; he could make you sell your grandmother, and leave you feeling that you had done well by her and yourself.

Hans Binswanger-Mkhize was another unforgettable character, who also spent many years at the World Bank, died in August this year aged 74. Hans was a leading agricultural economist best known for his work on agricultural risk around the world. He was one of the first to assess attitudes towards risk using field experiments with farmers in India in the 1970s. He discovered that he was HIV-positive when that was an imminent death sentence. He sold up, gave away most of what he had, but the new therapies came on line, and gave him another quarter century. He moved to Zimbabwe where he founded and ran a residential school for HIV orphans. When he was expelled by the Mugabe government, he moved to South Africa, where he married his husband Victor in a traditional multi-day Zulu celebration.

Another friend who cared about the underdogs, and sometimes felt himself to be one, was the labor economist John DiNardo, who taught at Michigan and died this summer at the absurdly early age of 56. John had an (occasionally) overwhelming sense of humor, with a deep streak of irreverence that he loved to use to deflate the pomposity and pretensions of sophisticated econometrics. He wrote a memorable paper with Steve Pischke that poked fun at the interpretation of the wage premium for those who worked with computers; they showed that workers who carried pencils, or who worked sitting down, also received the premium. He was also famous for writing three (sometimes apoplectic) reviews of Freakonomics. He worked with Jack Johnston on late editions of the econometrics text that was standard for my generation of British students. When he finished his PhD at Princeton, he taught me that the class prejudice that I thought I had left behind in Britain, was as bad in the US. His affect as an Italian-American working-class guy, smoking when he could, not caring much about niceties of dress, and giving respect only when he thought it was due, told against him on the job market, though he quickly moved

¹ He had the invaluable skill .... of making people happy by persuading them to do things they in no way wanted to do; he could make you sell your grandmother, and leave you feeling that you had done well by her and yourself.
up as his work was appreciated.

A great recent loss is Tony Atkinson, still hugely productive at age 72, leaving much work still to be done, though it is true that his last book is a life-testament to his analysis, beliefs, and ideas about what should be done. The first seminar I ever heard in economics, in Cambridge in 1969, was Tony presenting his famous paper on the measurement of inequality. It made me think that economics was a pretty cool subject, I thought all economics talks were like this, and it ruined me for a lifetime of seminars. When he got a chair at Essex at the age of 26, all of us young researchers were inspired by the possibility, not of becoming Tony, but by the realization that academic recognition did not have to wait until just before retirement. I read an early version of Atkinson and Stiglitz, and made foolish comments which were treated, not with disdain, but with courtesy and gratitude. In later years, Tony read two of my books in draft, and wrote extensive comments that greatly changed what I ultimately wrote. Twenty years ago, he patiently explained to me that instrumental variables could rarely do what was expected of them, an insight that it took me a decade or more to absorb (and shamelessly exploit), and which is still misunderstood by many.

I have always wondered why there was no American Atkinson, or even a close equivalent, and what America would have looked like had there been. It is certainly true that Brits have long worried about income inequality in a way that was not true for Americans, at least until recently. But I think that if Tony had worked in the US for the last half century, inequality would have been a public issue much earlier, and it is not fanciful to imagine that it might actually have been less severe.

1. Editor’s note: We hope to publish an obituary of Esra Bennathan in the near future and also of Elizabeth Soren Johnson who did a lot of work for the Society in preparing the Keynes papers for publication. This is perhaps an opportune moment to encourage all readers to notify the RES Office (or the editor directly) of potential subjects of an obituary.

RES and ESRC Easter Training School

The twenty-eighth residential RES & ESRC Easter School will be held from Monday April 9 to Wednesday April 11, 2018 at Wivenhoe House Hotel on the University of Essex Colchester campus. It is intended primarily for advanced postgraduate students doing doctoral research but is also open to younger lecturers and postdoctoral researchers. The subject of the school will be Productivity: Firms, Markets, and Economies and the lecturers will be:

Professor Chad Syverson, University of Chicago
Professor Jan De Loecker, KU Leuven

Nominations are now invited from institutions interested in sending a participant, which must be received no later than Monday 15th January 2018 by email to: mailto:RESEasterSchool@essex.ac.uk marked Easter School 2018 in the subject line.

The euro has had more benefits than costs but membership of the monetary union should not be compulsory.

This is the result of the latest Centre for Macroeconomics and CEPR survey of economists. The background to the survey was Jean-Claude Juncker’s recent ‘State of the Union’ speech in which he said:

If we want the euro to unite rather than divide our continent, then it should be more than the currency of a select group of countries. The euro is meant to be the single currency of the European Union as a whole. All but two of our Member States are required and entitled to join the euro once they fulfil all conditions.

The first question of the expert survey asked panel members the following questions from an economic point of view.

1: Do you agree that euro membership should be compulsory for all EU member states?

Sixty-four panel members answered this question. 76 per cent either disagreed or strongly disagreed; 11 per cent neither agreed nor disagreed; and 14 per cent either agreed or strongly agreed. The outcome is similar when the answers were weighted with self-reported confidence levels.

The second question of the survey asked the panel of experts to make an overall judgement.

2: Do you agree that the euro has had more benefits than costs?

Sixty-six panel members answered this question. Only a small minority disagreed: 50 per cent either strongly agreed or disagreed; 24 per cent neither agreed nor disagreed; and 26 per cent either strongly disagreed or disagreed. When answers were weighted with self-reported confidence levels, then the fraction disagreeing increased slightly to 27 per cent.

For more information about the CFM-CEPR surveys, go to: http://cfmsurvey.org/about

For more information about this particular survey and to read the comments of respondents, go to: http://cfmsurvey.org/surveys/junckers-state-union-address

Taking the Society forward

RES Chief Executive Leighton Chipperfield discusses recent developments at the Society and plans for the future

The last few months have seen a hive of activity as we establish the Society’s new office in Westminster. I have also enjoyed visiting institutions around the country to learn more about what you think the Society should be doing. Last month, the Society’s Executive Committee held an awayday to begin the process of reviewing the Society’s strategy; in preparation for this I held a series of discussions with our trustees and Council members. In this piece, I provide a synopsis of the key points.

1. Credibility and visibility of the discipline
The reputation of economics, and economists, emerged as an issue that the Society should seek to address proactively. There was a real consensus that the Society should act as a catalyst for closer and better engagement with the public and the media. The recent Economics Network/ING survey confirmed the public’s high level of interest in economics, and we should find ways to engage with them. Greater engagement with schools and educators was also viewed as a priority, both as a means of improving public engagement and as a strategy to improve the diversity of those entering the discipline.

Within the discipline, we want to strengthen and broaden the organisation’s links with universities, including economics groups situated within business schools. Because many of these issues relate to communications, we have established a working group to consider how we can ensure our communications activities, including our website, are fit for purpose.

2. Serving economists
Central to the Society’s work is its activities directed towards members — the RES annual conference, our journals, grant schemes, Easter training school, job market, and so on. The Executive Committee felt it important to find ways to assess the impact of these activities to ensure they are providing maximum benefit, and that they are accessible to as diverse a community as possible. Additionally, some early ideas emerged on new activities that the Society could undertake to better serve its members.

3. Professionalising the Society
The Society has a rich heritage, built on the goodwill of members who volunteer their own time to support its work. This support will continue to be vital, though we hope the new office will absorb much of the administrative burden and leave the more interesting tasks for our volunteers! Importantly, we need to consider how to ensure the Society’s governance structure — its Executive Committee, Council and Committees — represents the breadth of our membership and makes best use of its talents.

Though the Society is fortunate to have healthy reserves, we must continue to ensure its financial sustainability. Finding new sources of income in the long-run to mitigate the reliance on journal revenue will be one strategy.

4. Gender balance and diversity
The Society has an active Women’s Committee, and runs a long-established survey on the position of women in economics. But it is reasonable to say that improvements in gender balance have been slow, and there is a desire to increase activity to tackle the issue. Equally, there is a desire to look at diversity more broadly, particularly within the Society’s governance structure and in its future public engagement activities.

As we consider how to put these things in practice, we will be launching a member consultation in early 2018. Please look out for it. In the meantime, please do let me have your own ideas by emailing me at l.chipperfield@res.org.uk. I look forward to hearing from you, and to meeting you at a future RES event.
O n June 12-13, close to the general election on June 8 2017, YouGov.com (2017) conducted a poll on Great Britain’s preferences on Brexit options. This poll gives an insight in voters’ views at a crucial moment in time. YouGov’s original publication only gave a summary table, and I thank Anthony Wells for making the full preference data available. The data are in the Appendix below.

4 options and 24 preference orderings
YouGov (2017:13-16) gives a clear description of the four options, so that those polled would not need to suffer confusion about their meanings. We use the labels:

- \( R \) = Remain;
- \( S \) = European Economic Area (EEA) aka Single Market aka ‘Soft’;
- \( T \) = Tariffs aka ‘Hard’;
- \( N \) = No Deal, World Trade Organisation (WTO).

Hence, there is a logical order \( R, S, T, N, \) in terms of the political and economic distance between the UK and the EU.

With \( A > B \) we denote that \( A \) is strictly preferred over \( B \). A consistent Remainer would tend to have the ranking \( R > S > T > N \), and a consistent Leaver would tend to have this in reverse. With 4 options there are \( 4! = 4 \times 3 \times 2 \times 1 = 24 \) possible strict preference orderings, excluding indifferences. Preference orderings can also be denoted with rankings (1st, 2nd, 3rd, 4th) and with ordinal utility levels (4, 3, 2, 1). The 1st preferred has the highest preference value 4. We will look with special attention at Cases 1, 5, 9 and 24 mentioned in the Appendix. Only 25 per cent have the preference \( R > S > T > N \) and only 15 per cent its reverse, so that 60 per cent has something in between.

Table 1 gives the original results. (For a wider discussion see Wells, 2017). We find that \( R \) has dropped as a first preference from 48 per cent at the 2016 referendum to 35 per cent now. These Wells calls the ‘Re-Leavers’. Apparently 26 per cent of those polled express explicitly that they respect the outcome of the referendum and adjust to the current situation of ‘Leave’, which for some may run against the objective of the poll to discover what their first preference still is. 47 per cent put \( R \) last, while 17 per cent (a 1 per cent missing due to rounding) (and more than 48 - 35 = 13 per cent) has \( R \) sandwiched between options of \( L \). One would wonder how such people would vote in a referendum when they are presented with only two options \( R \) or \( L \).

Discerning the collective preference
There are various methods (including elections) to turn the orderings and their weights into a collective preference. What one calls the ‘GB volonté générale’ depends upon what method one selects. Let us consider some major methods, using Rob LeGrand’s (undated) online calculator.

- **Pareto Optimality**: Everything that is better than the status quo. Since the status quo is EU membership, the 35 per cent for \( R \) can block a change, unless they would be compensated for their loss. Part of the status quo is that the UK may leave by invoking article 50. However, the process that caused the invoking of article 50 leaves much to be desired. The 2016 referendum question was flawed, see Colignatus (2017a). For example, voters might have got the impression they might vote about membership afresh without the need, under the Pareto principle, to compensate those who benefit from Remain. The Re-Leavers apparently show loyalty to a flawed referendum question.

- **Plurality** (the system used in districts for general elections): \( L \) is dispersed, and 35 per cent for \( R \) is higher than each of the others.
• Instant Run-Off: S and N drop out and eventually R gets 45 per cent and T gets 55 per cent.

• Borda: This selects Case 9, with is S > T > R > N. Only 2.2 per cent actually expressed this directly but Borda selects it as the GB collective preference.

• Condorcet (Copeland): S is also the Condorcet winner, i.e. wins from each other option in pairwise contests.

• Borda Fixed Point: The combination of Borda and Condorcet implies that S is also the Borda Fixed Point winner (excluding considerations on the status quo).

Single peakedness

Figure 1 plots Case 9 or the Borda choice, putting the logical order R, S, T, N on the horizontal axis and the ordinal utility levels on the vertical axis. The connecting lines are only for readability, so that we can better see the plotted dots. The lengths of the connecting lines have no meaning since both axes are ordinal.

![Single-Peakedness](image)

Case 9 is curious since it sandwiches R between S, T and N. It still has a single peak that respects the logical order however. Option S would be a ‘bliss point’, with lower utility on both sides. Economic theory has a core belief that voters are rational, so that any preference would have some logic. The logical order R, S, T and N on the horizontal axis might seem arbitrary to some voters who may think otherwise. We do not impose that order but invite voters who think otherwise (these would be at least 8.8 per cent) to explain why they choose a different order. Potentially each voter has his or her own criteria to create logic and order. However, voters with multiple peaks on the common logical order would have more to explain to us, merely for us to understand them, than voters with a single peak. Without a good explanation, we cannot reject the possibility that there is some confusion. For example, it is not clear what to think about R > N > S > T (Case 5, 1.3 per cent). This would be Remainers who would rather prefer No Deal to the EEA or some agreement not to have a trade war on tariffs. A tentative explanation is that these voters have a somewhat binary position, as Remain versus No Deal At All, while the other options are neglected.

Summary overview, spotting likely confusion

Table 2 categorises the preference orderings on two rational perspectives, with a remainder that subsequently is identified as confusing on both rational perspectives. The columns distinguish orderings with R first and R last, which would seem to be rational, and thus a remainder (17.3 per cent) with a sandwich that raises eyebrows. The rows distinguish between: (i) cases 1 and 24, that are the rational opposites, (ii) the other single peaked cases, that thus respect the logical order of the horizontal axis, and (iii) the remaining multiple peaks (26.8 per cent), that thus presume some unknown logic. We find 8.8 per cent with a sandwich with multiple peaks, that defy understanding on both counts.

<table>
<thead>
<tr>
<th>Cases 1 or 24</th>
<th>R first</th>
<th>R last</th>
<th>Sandwich</th>
<th>Sum</th>
</tr>
</thead>
<tbody>
<tr>
<td>24.8</td>
<td>15.0</td>
<td>0.0</td>
<td>8.5</td>
<td>33.3</td>
</tr>
<tr>
<td>Other single peaked</td>
<td>0.0</td>
<td>24.8</td>
<td>8.5</td>
<td>33.3</td>
</tr>
<tr>
<td>Multiple peaks</td>
<td>10.5</td>
<td>7.4</td>
<td>8.8</td>
<td>26.8</td>
</tr>
<tr>
<td>Sum</td>
<td>35.4</td>
<td>47.3</td>
<td>17.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Potentially, the 8.8 per cent confused, as I tend to identify them, are only present amongst the Re-Leavers or the non-voters. However, the same pattern can be seen amongst 2017 voters for the Conservative Party and Labour, who also took part in the 2016 referendum (ConR/L, LabR/L). In 2017 all 8.8 per cent are L, and in 2016 at least 50 per cent would be L at the time of the referendum, notably when we focus on ConL and LabL. Potentially the outcome of the 2016 Brexit referendum has been decided by this group. This 8.8 per cent concerns 145 people in a poll of 1651 GB adults, while perhaps 4 per cent uncertainty as a rough rule of thumb might be wise to assume for polls in general (unless you happen to hit upon the right poll). I am not aware of the existence of such a poll at the time of the referendum, and we really do not know for sure.

A perspective from Proportional Representation (PR)

Clearly this exercise hinges strongly upon the uncertainties in polling, in which those polled did not answer the question with the same amount of rational attention as we are trying to discern here. Yet the exercise draws attention to aspects that would benefit from attention by policy makers.

www.res.org.uk/view/resNewsletter.html
The UK has District Representation (DR) and Holland has Proportional Representation (PR). I tend to regard Brexit as an example of how DR tends to cause mishaps. In 2015, UKIP got 12.6 per cent of the vote and only 1 seat. UKIP started to threaten the seats of the Conservative Party, and David Cameron, no supporter of Brexit, called a referendum in the hope that this would put the issue to rest. It might have done so, but the referendum question was flawed. We still have no idea how the UK electorate thinks about the options for Remain. A referendum gives proportions but referenda tend to be silly and dangerous, as they are an instrument of populism rather than of representative democracy. The June 8 2017 general election was again a severe mishap. The PR Gini for the UK was 29.7 per cent in 2015 and this improved to 15.6 per cent in 2017, since voters returned to the model of voting either Labour or Conservative. Yet this also involves strategic voting at the cost of first preferences. This compares to the Dutch 3.6 per cent in 2017, see Colignatus (2017b). The UK might be advised to adopt PR (also used in EU elections) and let a House of Commons elected under PR reconsider Brexit. The other EU Member States might accept a Bregret when the UK shows what major change was required to resolve the confusion (of only 8.8 per cent?).

Nevertheless, given the observable tendency in the UK to prefer a soft Brexit, the EU would likely be advised to agree with such an outcome, or face a future with a UK that rightly or wrongly feels maltreated. As confused as many Brits have been on Brexit, they might also be sensitive to a ‘stab-in-the-back myth’.

### Appendix: YouGov(216:13-16), Full Data


<table>
<thead>
<tr>
<th>Code letter = Code words</th>
<th>YouGov’s text actually used in the poll:</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>‘Remain a full member of the European Union’</td>
</tr>
<tr>
<td>S</td>
<td>‘Britain leaving the EU but remaining in the single market, giving free trade on our exports in exchange for following some rules, paying a fee and allowing immigration from the EU’</td>
</tr>
<tr>
<td>T</td>
<td>‘Britain leaving the EU and having only a limited trade deal, giving Britain control over our borders, but putting barriers or tariffs on some of our exports’</td>
</tr>
<tr>
<td>N</td>
<td>‘Britain leaving the EU and not having any special trade deal, giving Britain complete control over our rules and borders, but facing barriers or tariffs on our exports’</td>
</tr>
</tbody>
</table>

The 1651 polled also contain non-voters. The labels ConR/L and LabR/L are for those who voted Conservative or Labour in 2017 and who voted R or L in 2016.

### Percentages

<table>
<thead>
<tr>
<th>Case</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
<th>peaked</th>
<th>order</th>
<th>% ConR</th>
<th>% ConL</th>
<th>% LabR</th>
<th>% LabL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>R</td>
<td>S</td>
<td>T</td>
<td>N</td>
<td>Peak</td>
<td>Clear</td>
<td>24.8</td>
<td>28.6</td>
<td>0.5</td>
<td>55.2</td>
</tr>
<tr>
<td>2</td>
<td>R</td>
<td>S</td>
<td>N</td>
<td>T</td>
<td>-</td>
<td>Almost</td>
<td>3.8</td>
<td>7.7</td>
<td>0.5</td>
<td>6.5</td>
</tr>
<tr>
<td>3</td>
<td>R</td>
<td>T</td>
<td>S</td>
<td>N</td>
<td>-</td>
<td>Random</td>
<td>2.4</td>
<td>3.0</td>
<td>0.5</td>
<td>4.6</td>
</tr>
<tr>
<td>4</td>
<td>R</td>
<td>T</td>
<td>N</td>
<td>S</td>
<td>-</td>
<td>Binary</td>
<td>1.9</td>
<td>4.2</td>
<td>0.5</td>
<td>3.9</td>
</tr>
<tr>
<td>5</td>
<td>R</td>
<td>N</td>
<td>S</td>
<td>T</td>
<td>-</td>
<td>Confusing</td>
<td>1.3</td>
<td>1.2</td>
<td>4.2</td>
<td>0.5</td>
</tr>
<tr>
<td>6</td>
<td>R</td>
<td>N</td>
<td>T</td>
<td>S</td>
<td>-</td>
<td>Binary</td>
<td>1.1</td>
<td>0.6</td>
<td>0.8</td>
<td>1.6</td>
</tr>
<tr>
<td>7</td>
<td>S</td>
<td>R</td>
<td>T</td>
<td>N</td>
<td>Peak</td>
<td>EEA</td>
<td>5.0</td>
<td>11.3</td>
<td>0.3</td>
<td>7.5</td>
</tr>
<tr>
<td>8</td>
<td>S</td>
<td>R</td>
<td>N</td>
<td>T</td>
<td>-</td>
<td>EEA</td>
<td>0.9</td>
<td>0.6</td>
<td>0.7</td>
<td>1.2</td>
</tr>
<tr>
<td>9</td>
<td>S</td>
<td>T</td>
<td>R</td>
<td>N</td>
<td>Peak</td>
<td>EEA</td>
<td>2.2</td>
<td>1.8</td>
<td>1.6</td>
<td>1.3</td>
</tr>
<tr>
<td>10</td>
<td>S</td>
<td>T</td>
<td>N</td>
<td>R</td>
<td>Peak</td>
<td>EEA</td>
<td>6.7</td>
<td>6.5</td>
<td>6.8</td>
<td>3.3</td>
</tr>
<tr>
<td>11</td>
<td>S</td>
<td>N</td>
<td>R</td>
<td>T</td>
<td>-</td>
<td>EEA</td>
<td>0.9</td>
<td>2.4</td>
<td>0.8</td>
<td>0.7</td>
</tr>
<tr>
<td>12</td>
<td>S</td>
<td>N</td>
<td>T</td>
<td>R</td>
<td>-</td>
<td>EEA</td>
<td>3.6</td>
<td>3.0</td>
<td>4.5</td>
<td>0.3</td>
</tr>
<tr>
<td>13</td>
<td>T</td>
<td>R</td>
<td>S</td>
<td>N</td>
<td>-</td>
<td>Random</td>
<td>0.7</td>
<td>0.6</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>14</td>
<td>T</td>
<td>R</td>
<td>N</td>
<td>S</td>
<td>-</td>
<td>Random</td>
<td>0.4</td>
<td>0.6</td>
<td>0.3</td>
<td>1.0</td>
</tr>
<tr>
<td>15</td>
<td>T</td>
<td>S</td>
<td>R</td>
<td>N</td>
<td>Peak</td>
<td>T-SP</td>
<td>1.2</td>
<td>1.2</td>
<td>1.8</td>
<td>0.3</td>
</tr>
<tr>
<td>16</td>
<td>T</td>
<td>S</td>
<td>N</td>
<td>R</td>
<td>Peak</td>
<td>T-SP</td>
<td>4.7</td>
<td>7.1</td>
<td>8.9</td>
<td>2.0</td>
</tr>
<tr>
<td>17</td>
<td>T</td>
<td>N</td>
<td>R</td>
<td>S</td>
<td>-</td>
<td>Almost</td>
<td>1.6</td>
<td>3.6</td>
<td>2.9</td>
<td>0.7</td>
</tr>
<tr>
<td>18</td>
<td>T</td>
<td>N</td>
<td>S</td>
<td>R</td>
<td>Peak</td>
<td>Almost</td>
<td>13.5</td>
<td>8.9</td>
<td>30.5</td>
<td>0.7</td>
</tr>
<tr>
<td>19</td>
<td>N</td>
<td>R</td>
<td>S</td>
<td>T</td>
<td>-</td>
<td>Binary</td>
<td>1.0</td>
<td>0.6</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>20</td>
<td>N</td>
<td>R</td>
<td>T</td>
<td>S</td>
<td>-</td>
<td>Binary</td>
<td>0.9</td>
<td>.</td>
<td>1.0</td>
<td>.</td>
</tr>
<tr>
<td>21</td>
<td>N</td>
<td>S</td>
<td>R</td>
<td>T</td>
<td>-</td>
<td>Random</td>
<td>0.8</td>
<td>.</td>
<td>0.3</td>
<td>1.2</td>
</tr>
</tbody>
</table>

www.res.org.uk/view/resNewsletter.html 8
...cont.

<table>
<thead>
<tr>
<th>Case</th>
<th>N</th>
<th>S</th>
<th>R</th>
<th>T</th>
<th>Random</th>
<th>Confusing</th>
<th>Random</th>
<th>Confusing</th>
<th>Random</th>
<th>Confusing</th>
<th>Random</th>
<th>Confusing</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>N</td>
<td>S</td>
<td>R</td>
<td>T</td>
<td>1.7</td>
<td>0.6</td>
<td>1.6</td>
<td>0.7</td>
<td>0.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>N</td>
<td>S</td>
<td>T</td>
<td>R</td>
<td>15.0</td>
<td>5.4</td>
<td>30.8</td>
<td>0.7</td>
<td>22.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>N</td>
<td>T</td>
<td>R</td>
<td>S</td>
<td>35.4</td>
<td>45.2</td>
<td>2.4</td>
<td>76.1</td>
<td>8.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>N</td>
<td>T</td>
<td>S</td>
<td>R</td>
<td>Peak</td>
<td>Clear</td>
<td>15.0</td>
<td>5.4</td>
<td>30.8</td>
<td>0.7</td>
<td>22.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Notes:

1. Including, in these pages, RES Newsletter no. 177, April 2017. Colignatus is the name in science of Thomas Cool, econometrician and teacher of mathematics, Scheveningen, Holland. This article summarises Colignatus (2017c, d) in the references. The editor and author are grateful to Carlo Perroni at the University of Warwick for comments on an earlier draft of this article.

2. For example, on 1st September 2017, the Financial Times reported Sue Shaw, a school worker in Staines, as saying that she had expected Brexit by last Christmas. “A lot of people I work with thought we would be out within a week, they thought that if we voted leave we would get on and leave,” she said.

References:

Colignatus, Th. (2017b), ‘Two conditions for the application of Lorenz curve and Gini coefficient to voting and

allocated seats’, https://mpra.ub.uni-muenchen.de/80297/

MMF Annual Conference

The Money, Macro and Finance Research Group held its 49th Annual Conference at King’s College London 5-7 September. This report comes from Paul Mizen.

The MMF CONFERENCE was hosted this year by what is possibly the newest business school in the country. Kings College London has created a new business school which is located in Bush House, London, the former home of the BBC. Our 49th Annual Conference was privileged to be located nearby in the impressive Strand Building, and was organised by Kings.

The format of the conference followed the pattern of many previous successful conferences, selecting about 120 papers for presentation in parallel sessions that were arranged around the keynote lectures. The topics of the papers covered the full range of money, macro and finance, and were both theoretical and empirical in character, and so did the keynote lectures.

Regulating banks

The first of our keynote addresses was given by Anil Kashyap, speaking in his capacity as Professor at the University of Chicago, rather than as a member of the Bank of England’s Financial Policy Committee. His topic appropriately enough was regulation of banks. His starting point was to ask what do banks do? If they provide liquidity insurance, facilitate credit, and facilitate risk sharing do they supply the correct amounts of those services? He (and co-authors Dimitrios Tsomocos and Alex Vardoulakis) approach the question by modifying a workhorse Diamond-Dybvig model of bank runs by adding several new features. They assume that banks make risky loans funded by deposits and equity, that the
loans have uncertain liquidation values and depositors get signals and make decisions about whether to run based on the liquidation values. Runs then depend on fundamentals e.g. the bank’s lending and funding choices. This makes the model more realistic than Diamond-Dybvig, and it also introduces certain frictions that ensure that even though a bank optimises and fully understands the consequences of its actions, it acts differently from a social planner. This is due to limited liability.

A bank will take more credit risk and more leverage than a social planner would do. As a bank exploits limited liability, it will prefer too many loans, too little equity, even though the bank recognises that this affects the probability of a bank run. The planner, by contrast, cares about utility of the agents as well as the utility of the banks and therefore chooses more liquidity, more capital and has more assets on the balance sheet.

How then should we mitigate these incentives facing the banks? They explore the four Basel regulatory ratios currently used to regulate banks comprising the risk-weighted capital ratio (CR), the leverage ratio (LevR), the liquidity coverage ratio (LCR), and the net stable funding ratio (NSFR). In their model all are not needed, we can choose one liquidity ratio and one capital ratio and that will be sufficient. But there are some caveats: used individually the tools must be used more aggressively; and if the right combination is not deployed regulated economy will not match the planner’s.

‘Present bias’

Our second keynote speaker was David Laibson of Harvard University, who took us in a different direction altogether. His research has focused on behavioural economics and in particular present bias — the tendency to value the present rewards above the long term benefits of our actions. He began with a tour of the literature — to show that present bias discounting leads to inconsistent preferences. Self \( t \) and self \( t+1 \) cannot agree about what should be done today versus tomorrow. Lots of lab evidence supports the present bias view that we are more inclined to choose the better long term options with a delay, and less likely to do so for immediate consumption. We only have to think about how readily we take exercise, diet or revise our lecture notes to verify this statement.

Laibson showed that a sophisticated individual would recognise this and would do today what the future self would want him/her to do. An implication is that agents should be willing to tie their hands. There is increasing evidence that agents are willing to tie their hands, even when the result of doing so is no better, or even worse, than other alternatives offered to them. And increasing the penalty increases the proportion willing to tie their hands. Laibson looked at consumption choices over a lifetime, and solved for preferences that describe consumer behaviour. He showed his model embedding present bias assumptions is able to explain the use of credit cards and wealth accumulation shown by the data, and his conclusions inform how we should organise savings and pensions schemes if present bias occurs. In a two-period model, representing working life and retirement, where current spending depends on how valuable pre-retirement spending is to the individual he showed that household’s consumption is maximised by setting up a liquid account and a second completely illiquid account for saving, with penalties for withdrawal. The option to tie their hands ensures households save more than they otherwise would, and welfare gains are estimated to be up to 3.4 per cent of output versus a system where this option is not available.

Could the private sector take the place of government? Could a private pension scheme replace paternalism? He argued in his lecture that even naïve agents will sign commitment contracts when they offer a means to tie their hands. They would choose this option over complete freedom because these constraints can increase saving, work hours, and productive effort that pays off in the future. Even if agents don’t understand why it works, we find it does work. Potentially, this offers a design framework for financial contracts, employment contracts, mortgage arrangements, pensions with in-built commitment that offsets present bias, and this will be welfare improving.

Low interest rates

In the middle of our conference we hosted two special sessions by the Bank of England on ‘The Causes and Consequences of Low Interest Rates’ and ‘Productivity …’ by ESCoE at the National Institute of Economic and Social Research. In the first session, Greg Thwaites and co-authors, showed that aging can explain a large part of the fall in real interest rates since 1980, the rise in house prices, the slowdown in labour productivity and relative net foreign asset positions between countries, which the model predicts will get more dispersed over time. Phil Bunn and co-authors looked at the consequences of low rates. They modelled the effects of growing pension deficits on firms’ investment, cash holding, dividends and wages. using a new dataset from The Pension Regulator. They showed that firms’ investment spending fell by about 3 per cent and dividend payments were lower than they otherwise would have been. In a third paper Alice Pugh and co-authors asked what were the distributional impacts of monetary policy under low rates. Although this lies outside the Bank of England’s remit, there has been concern about the inequality effects of monetary policy since 2008. It turns out that in aggregate monetary policy has had small effects on income and wealth inequality, but there are greater negative effects on younger households (via employment and wages) and positive effects on older households (via wealth effects).
The productivity puzzle

The second session coordinated by the ESCoE group at NIESR asked whether mismeasurement of the volume of output has been persistently presented as one of the plausible reasons behind the poor productivity performance of the UK economy. Diane Coyle argued that the digital economy has enabled the household sector to make a range of substitutions that have shifted activity across the production boundary that defines GDP. This issue is not just the disintermediation caused by households replacing the ‘traditional’ approach to booking holidays and obtaining insurance and mortgages with their own online searches, it includes sharing economy such as Airbnb, which may not be captured in existing measures of activity. On the UK productivity puzzle itself, Ana Rincon-Aznar, Rebecca Riley and Lea Samek showed that since the crisis a small group of industries was behind the continued poor UK performance. Ignoring the small contribution from the structural decline in the oil sector, finance and insurance account for 30 per cent of the difference from the UK’s pre-crisis trend and the wholesale and retail sector accounts for 7 per cent. The question is whether this is mismeasurement all over again. Lastly, in exploring the mystery of TFP, Nicholas Oulton focused on the question of whether or not structural change had been favourable to TFP growth. Using almost 40 years of industry level data for 18 economies he observed a shift towards industries with low TFP growth from the high growth TFP industries. In addition, TFP in business services were shown to persistently decline while TFP in the market sector overall has had no long run tendency to decline.

Transparency isn’t always optimal

Our third keynote speaker was Jagjit Chadha, Director of the National Institute. His topic was the suspension of convertibility of paper currency into gold in 1797 during the Napoleonic wars. At the beginning of this period the Bank of England controlled payments in London, settlement services to provincial banks, and short term finance to the government. Chadha showed in this lecture that suspension of convertibility gave the Bank greater flexibility, and allowed it to form a contract between the Bank policymakers and public. The promise to go back on the Gold Standard at some point in the future, gave it credibility, prevented a bank run and supported low inflation expectations.

The story of how this was engineered was the intriguing dimension to the story. The Bank did not make the announcement of the suspension to convertibility; rather the Privy Council required the Bank to stop issuing gold in exchange for paper currency and fully indemnified the Bank. This step cleverly avoided a credibility-reducing statement by the Bank itself. Under the counterfactual, if the Bank had not been instructed to suspend convertibility, either gold bullion would have been exhausted, or interest rates would have been too high for trade to continue. Either outcome would have been disastrous, but the Bank effectively managed to maintain the gold reserves through this period, and after the war ended it was able to return to the Gold Standard and the gold reserves increased once again with the Bank’s reputation intact.

In discussion of the paper Charles Goodhart commented that the surprising feature of this period was that the Bank did not exploit this situation, but managed its reserves and loans very prudently. Quoting David Ricardo, he noted: the panic of invasion, rather than the actions of the Bank was responsible for suspension. They exercised their powers with discretion and caution, not exploiting their powers to make a profit in the short run for its owners. The end result was greater powers for the Bank of England and the emergence of the central bank.

The final keynote was given by Ricardo Reis, the AW Philips Professor at LSE, who spoke on anchored inflation expectations. Reis, citing work with several different co-authors, made three points. First, while inflation of the past seven years appears well anchored, he suggested that it is surprising that this is so. Second, he showed that viewed from a macro-finance perspective, inflation does not seem so well anchored. Third, he proposed a new theoretical perspective motivated by the Japanese monetary policy experience.

The evidence of stability can be observed by how strikingly close to their target of 2 per cent inflation has been in all advanced economies (excluding Japan). While Tobin in his 1972 presidential address could say ‘unemployment and inflation still preoccupy and perplex economists, households… and everyone else’ this is hardly the case now. Inflation is not something most people are preoccupied about. However, he argued that the major theories that we have for inflation, from monetarism to the Phillips curve, all suggest that the main drivers of inflation sharply changed after 2010. Without understanding why inflation stayed stable, there is no room for being complacent about it will continuing so.

When he explored with his co-authors the evidence from CPI options data, allowing for computation of the probability distribution of inflation outcomes, he found the evidence for anchoring is weaker. Distributions of inflation outcomes show tails are fatter than expected as the time horizon is extended. Visually, cumulative distributions do not shrink (as law of large numbers suggests they should), they look very similar for 1 - 10 year horizons. Non-parametric estimation of the distributions shows they are not shrinking fast enough (if at all). This implies that shocks persist more than we think, and there is less anchoring. Potentially it could mean a bad shock might persist for a long time.

.....cont on p. 23
I have previously argued\(^1\) that the effects of free-trade agreements are poorly understood, and that the current type of study purporting to predict their effects is unsuitable for the task. The central problem is the existence of other major economic forces that are far more powerful.

Traditional economic prediction models lack credibility

I compared a highly-cited 1992 report predicting the likely consequences of NAFTA for Mexico with a 2005 assessment by the same authors, ten years after implementation. One non-NAFTA factor had dominated: the crash in the value of the peso, due to a current account deficit that could no longer be funded. The peso’s overvaluation had been discussed in the academic literature, but this was ignored in the NAFTA forecasts.

The predictions turned out to be wildly wrong. The exchange rate, current account and maquiladora employment moved in the opposite direction. Wages dropped sharply, rather than remaining constant. Competitiveness — the main justification for NAFTA — did increase in a few sectors, but by far less than predicted, and — like the employment increase — in the ‘wrong’ sectors. Even the increase in trade flows was mainly due to the crash in the peso value, not to NAFTA. I concluded that one could do better tossing a coin.

The 2005 report also mentioned some issues that had not been considered in the forecasts. One was ‘litigation by business firms against a broader range of government activity than originally envisaged’. Another was the sharp decline of small and medium sized enterprises, demonstrating that the introduction of a free-trade agreement does not turn a relatively unproductive manufacturing sector into a world-beating one — intensified competition can sometimes be detrimental.

What should replace them?

Rather than relying on the old fashioned, discredited approach that has previously been used, any appraisal of the likely consequences of different policy options should be based on an empirically-based causal analysis of the economies involved in any trade negotiations.\(^2\)

The key is to describe the whole situation first, with an emphasis on trying to identify all the causal processes, including how they affect each other.

It is not as difficult as it may sound. There is broad agreement on the types of factors that could be relevant; the important thing is not to pre-judge what their impact may be, but rather to examine the evidence. Modern economics has generated a large quantity of high-quality evidence on a range of relevant issues, resulting from the availability of rich datasets plus improved statistical techniques, including causal inference. It is true that consensus has been difficult to achieve in many areas, but even when this is the case, adherence to a schematic account that is empirically wrong is worse than confronting the uncertainties that occur when dealing with the real world.

In this article,\(^3\) I focus on the economic information required for a possible UK-US trade deal as an example. To keep it short, I only provide an outline of how this could be done. Briefly, the first step is the broad causal description already mentioned. This includes an analysis of the strengths and weaknesses of different sectors of the UK and US economies. Special attention needs to be paid to important features such as the degree of competitiveness and productivity, as well as the extent of market concentration, regional factors such as the importance of particular plants to their locality, etc. This would include consideration of multiplier effects of large plants on the local economy, and of supply chains, both national and international. It is concrete and applied, not overly abstract.

Part of this is examination of the dependence of the various sectors on the regulatory framework. For example, US agribusiness is highly competitive, but this is largely because practices are allowed that are restricted in the UK and in the European Union more generally. Lowering of standards is not only important from the viewpoint of consumers, workers and the environment, but also a race to the bottom is against the interests of firms that maintain high standards.

This micro (or meso) analysis of actual industries also needs to be seen in its wider economic context, including the relationship with exchange rates, external debt, etc. The UK has a particularly high current account

www.res.org.uk/view/resNewsletter.html
deficit (it is high in the US too), and that must be given its due emphasis.

The second step moves on from this baseline analysis to consider the range of options that might be included in an international agreement. Each of the elements of liberalisation is taken in turn: trade in goods and non-financial services, investment, financial transactions, and migration. The issues are different for each.

With trade in goods, liberalisation benefits the most competitive firms, as was seen in the case of NAFTA with a sharp — and unpredicted — contraction in the number of SMEs. The longer-term consequences of intensified competition could possibly have beneficial consequences for most (if not necessarily all) UK inhabitants, but this needs to be established by a thorough analysis of the strengths and weaknesses of different sectors, in the context of the broader economic environment. In addition, competitiveness is not always a result of greater efficiency; it could stem from adaptation to a different regulatory regime, as with US agribusiness.

The advantages and disadvantages of a particular policy option also need to be evaluated in relation to existing tariffs and non-tariff barriers. Clearly if they are already very low, the case for change is weak. And where non-tariff barriers exist, the disbenefits of lower standards of protection need to be weighed against any possible economic benefits.

International capital movements are of various types. The most important division is between Foreign Direct Investment (FDI), involving more than just movements of capital, as against strictly financial flows such as of portfolio or bank capital.

The benefits of FDI in the transfer of technology and knowhow, especially to lower-income countries, are well established. FDI has also played an important role in the UK economy for some decades, as in the car industry where British-owned manufacturers were largely replaced by foreign-owned firms that had superior managerial and technological qualities. It is universally recognised, however, that foreign takeovers of productive companies can be disadvantageous, as was seen in the case of Kraft and Cadbury, especially when it is the takeover of an already-existing firm. Dangers include asset stripping and plant closure. Considerable caution therefore needs to be exercised, as to whether such Mergers and Acquisitions should be facilitated.

It is empirically unclear whether there is any advantage to having foreign ownership of infrastructure, utilities or services, in the context of the UK. The experiences in the energy sector and railways, for example, are controversial. Part of the disquiet is because the owners are not accountable, even informally, to domestic opinion. The prospect of foreign ownership of, for example, parts of the National Health Service would be difficult to justify using evidence-based arguments of significant benefit. In addition, in essential services like healthcare, the risk will ultimately always reside with the British government, not with any foreign (or private) company. The case for an international treaty that would facilitate such changes is extremely weak.

With financial flows and transactions, traditional theory and evidence do not necessarily coincide. For example as Obstfeld (1998) noted, ‘economic theory leaves no doubt about the potential advantages’ of capital account liberalization, sometimes known as financial openness. However, the empirical literature does not consistently bear this out. There are some papers that claim to demonstrate that the mainly negative empirical findings are misleading, and that the received theory is correct if a particular approach is taken. However, these are not generally accepted, and the jury is still out.

More generally, international economics is replete with ‘puzzles’. These include: the Lucas puzzle concerning capital flows between rich and poor countries; the home bias puzzles in trade and in equity holdings; and the Feldstein-Horioka puzzle on the preference for domestic investment. These indicate that a chasm exists between traditional international economic theory and the real world. In all these cases, the observed phenomena are not difficult to explain. The puzzle arises when trying to reconcile the observations and explanations with standard theory.

In relation to migration, as a general principle, the effects of any policy change should always be considered with an emphasis on the differential consequences for different groups — rather than what serves ‘the national interest’, which is an amalgam of several distinct impacts. This needs to be carried out in conjunction with the analysis of the differential sectoral/regional consequences of policy changes. The concerns are well known: possible pressure on employment, wages and working conditions, the strain on housing and services, and the ability of employers to avoid training their staff, instead importing already-trained workers (which is also a brain drain from the viewpoint of the exporting country). The evidence on these concerns is however unclear at present.

Conclusion

The phrase ‘free trade’ is widely used to cover trade in goods and non-financial services, FDI, and other international capital movements. But these all have different characteristics and consequences, so that a single term should not be used indiscriminately to cover such heterogeneous activities.

The East Asian experience clearly demonstrates that openness to international competition in goods can lead to growth and increasing prosperity. This depends crucially on the degree of competitiveness of the sectors involved; low-wage competition is not an option for
economies such as the UK and the US, so competitiveness must depend on other factors, such as innovative products, hyper-efficient production or brand prestige. Also, state intervention of various kinds has been widely used in East Asia, especially restrictions on capital movements, so the success of trade openness in that region is not an argument for unrestricted liberalisation. Financial deregulation carries significant risks of volatility, and substantial countervailing benefit would need to be demonstrated for it to be recommended.

Even in the case of trade in goods, introduction of a trade agreement would not turn a relatively unproductive manufacturing sector into a world-beating one, and could destroy it, or at least have adverse consequences for employment, wage levels, etc. The likely consequences cannot be deduced from first principles in a simple, abstract way. The argument needs to be made, separately for each sector, after a thorough review of the empirical evidence.

Finally, in practice most trade is carried out by firms, and most international trade is carried out by large corporations. The dynamics of trade between individuals, the textbook paradigm, differs substantially from the dynamics of trade involving corporations. One implication is that corporate profits are a poor guide to gains from trade. This applies even in narrow economic terms, as with Kraft and Cadbury, but is even more important if the outcome for all stakeholders is considered.

Notes:
2. This approach has been highly successful in biology and other natural sciences, and it could readily be applied to the economy — there are already some examples of good practice. See Joffe M. 2017. ‘Causal theories, models and evidence in economics - some reflections from the natural sciences,’ Cogent Economics & Finance. http://www.tandfonline.com/doi/pdf/10.1080/23322039.2017.1280983?needAccess=true
3. This is because an earlier version was prepared as written evidence to the parliamentary International Trade Committee, for their work on UK-US trade relations — available at http://www.parliament.uk/business/committees/committees-a-z/commons-select/international-trade-committee/inquiries/parliament-2015/uk-us-trade-16-17/publications/

Bristol Festival of Ideas
Festival of Economics 2017
In the sixth Festival of Economics, programmed by Diane Coyle, economists and other experts from around the world will be debating with each other — and their audiences — some of the key economic questions of our time.

Topics and speakers include:
Monday 13 November, 18.30-19.30
Michael Lewis
Kaneman and Tversky: a friendship that changed the world
Tuesday 14 November, 18.30-19.45
Gordon Brown
A Life in Politics
Wednesday 15 November, 18.30-19.30
Stephanie Flanders
Keynote address: Where is the Global Economy Heading?
Wednesday 15 November, 20.00 - 21.30
Romesh Vaitilingam and others
Who Owns Britain?
Thursday 16 November, 20.00-21.30
Soumaya Keynes, Daniela Gabor, Steve Keen and others
The Future of Money
Friday 17 November 12.30-13.45
Alvin Birdi, Felix Ritchie, Gloria Origgi and others
Statistics, Lies and Truth in the Post-fact World
Friday 17 November, 18.30-19.30
Jean Tirole
Economics for the Common Good
Friday 17 November, 20.00-21.30
Martin Sandbu, Hélène Rey, Monique Bell (and others)
Trade, Trump and Brexit
Saturday 18 November, 11.00-12.30
Diane Coyle, Sarah O’Connor, Matthew Taylor (and others)
Robots and Gigs
Saturday 18 November, 13.30-15.00
Adriana Castelli, Paul Johnson, Carol Proppre, Hugh Pym
The End of the NHS? Not with a bang but a whimper
Saturday 18 November, 16.00-17.30
Jonathan Haskell, Rory Cellan-Jones, Giuliana Battisti
Will the Fourth Industrial Revolution Bypass the Home of the First?

For the full programme, details of venues and admission arrangements go to:
http://www.ideasfestival.co.uk/seasons/festival-economics/

The festival is supported by the Royal Economic Society and many other organisations.

www.res.org.uk/view/resNewsletter.html
Andy Mullineux chaired the session. The three panellists were: Patrick Artus (Chief Economist and member of the Executive Committee NATIXIS); Paul Mizen (Professor of Monetary Economics and Director of the Centre for Finance and Credit Markets at the University of Nottingham) who is Chair of the MMF, and Pierre Bollon (Director General of the Association, Française de la Gestion Financière, AFG).

Andy welcomed the delegates to the plenary panel session; explaining that the GdRE (Groupement de Recherche Européen) in Money, Banking and Finance (MBF) is a French international thematic network that collaborates with the MMF. For a number of years now, the MMF has organised a special panel session at the annual international symposium of the GdRE (MBF) and reciprocally, the MMF has hosted a special GdRE (MBF) session at its annual conference.

Andy noted that because The City is a truly international (European and Global) financial centre, it could not expect to be regulated and supervised solely by its domestic authorities. Indeed, whose City is it anyway? Hence, a regulatory and supervisory agreement involving cooperative and mutual arrangements between a ‘college of supervisors’ seems to be called for.

Following his introductory remarks, Andy introduced the speakers.

Brexit and UK financial services

Patrick had forecast disastrous consequences for the UK as a result of Brexit after the June 2016 referendum. Andy wondered if his views had altered over the past year and particularly in light of the outcome of the UK’s general election in June 2017? This had weakened the government and arguably increased the chances of a ‘soft’ Brexit, with closer trading links and better access to European financial markets. Paul Mizen had been working with colleagues at the Bank of England and Stanford University on a survey aimed at gauging the changing views of the non-financial corporate sector in the UK to the likely outcome of the Brexit negotiations. Pierre Bollon was representing the French financial asset management sector. Pierre was alert to the opportunity presented to Paris as a financial centre from damaging effects if Brexit in the City of London.

Speaking first, Patrick explored whether Brexit would cause serious damage to the financial services sector in the UK. He assessed the importance of the UK financial sector compared to France and Germany and the UK’s share of financial activities across a range of EU financial markets. In the light of which, what would be the likely effects of Brexit on The City?

The UK hosts 2250 firms using MFID (Market of Financial Instruments Directive) passports covering investment banking, trading and fund management, and 212 firms using AIFMD (Alternative Investment Fund Managers Directive) passports to conduct hedge and private equity fund-management business, inter alia. Additionally, London hosts three major credit rating agencies and conducts 80 per cent of the clearing of euro denominated OTC derivatives; which is ‘passported’ under the aegis of the EMIR (European Market Infrastructure Regulations). Further, the EU’s ‘single passport’ regime involves numerous rules and ‘issuing authorities’, in addition to forthcoming MIFID II, AIFMD and EMIR (e.g. UCITS, Undertakings for Collective Investments in Transferable Securities).

‘Third country rules’ could apply to the UK, if the EU were to recognise that the legal regulatory and supervisory regimes in the UK as equivalent to the corresponding ones in the EU. However, existing third country agreements (e.g. Switzerland) do not grant full access to the single market in financial services. There is limited access for brokers, no access for investment funds and clearing and rating agencies require an assessment of the equivalence of their regulation by the ESMA (European Securities Markets Association).

Hence, the UK faces potential losses as firms and jobs move to financial centres within the EU in order to maintain ‘passporting’ privileges. Patrick attempted to gauge the likely impact on revenues and jobs in the UK financial sector, noting that much domestically oriented and retail business would be unaffected. The share of the UK’s financial sector business linked to the EU is approximately 25 per cent, whilst its international business not directly linked to the EU is approximately 30 per cent and is domestic business is 45 per cent.

Where might UK financial services business re-locate? The competitiveness of the Dublin, Frankfurt, London, Luxembourg, New York and Paris financial centres was compared. London remained most competitive overall, with New York second and so at least some international business might be displaced to New York; especially in the investment-banking sphere.

The overall impact would be proportionate to the size of the UK financial sector and the proportion of it linked to
EU business (25 per cent). Patrick felt that the impact of the UK’s net post Brexit and general election devaluation and the consequent rise in the UK inflation and fall in real wages, and resulting lower economic activity was likely to be five times larger than Brexit in its impact on job losses for the City. There is an assumption that the devaluation will not significantly boost export activity during a period of heightened uncertainty about future trading arrangements. It is notable that the post GFC depreciation of sterling had not significantly boosted exports.

Opinion in the UK
Collaborating with Nick Bloom (Stanford) and the Bank of England, Paul Mizen had been conducting a monthly survey of Chief Financial Officers (CFOs) in UK (non-financial) businesses (the ‘Decision Maker Panel’, DMP). The panel was polled regularly about their perceptions of business conditions (including sales, prices and costs) and consequent decisions concerning hiring, investment and borrowing. They were asked what impact withdrawing from the EU would have on their UK business. Brexit is seen as a major source of uncertainty and likely to reduce sales and investment whilst raising unit labour costs. It is likely to lead to some re-location abroad with some tendency to bring segments of their business back to the UK. On balance, firms tended to be more negative about Brexit than the general public.

Since the 2017 general election there had been speculation in the financial market that a softer Brexit (with a more favourable trade agreement) is more likely. The post-election views of the DMP indicated that there was an increase in uncertainty over investment levels.

To the extent that Brexit reduces UK trade, economic growth and investment in the non-financial sector, it would have negative consequences for the business the financial sector conducts with the non-financial sector (and consumers). Hence domestic and retail financial services businesses would be negatively impacted through this channel.

Asset management
The final speaker, Pierre Bollon, first outlined the scale and scope of the French asset management industry, noting its importance in the fund management sphere and assessing its competitiveness. Its depth (as host to banking, insurance and financial management groups); talent pool (drawing on an internationally recognised higher education sector); and its innovative contributions in creating new financial instruments were highlighted; along with the speed with which the French regulator (AMF, Autorité de Marchés Financier) can approve a new EU compliant product in France (in 17 days, ‘the fastest trade record in the world’).

What would be the consequences of a Brexit for the asset management industry? The simple ‘passports’ for UCITS and AIFM products and management companies would be lost. Hence, there would no longer be a possibility to automatically ‘passport’ UK funds and mandates in the EU (and EU funds in the UK!). The need to set up fund management companies in EU countries to gain access to ‘passporting’ would lead the job losses in London.

UCITS business might be attracted to Luxembourg, a traditionally strong base, and Dublin seems to be favoured by insurance companies; whilst France was clearly making a pitch for asset management business and Frankfurt is stronger in banking, given the location of the ECB. There will be keen interest in hosting the EBA (to be re-located from London) and Amsterdam is another contender.

The ESMA issued a general opinion on relocation and delegation at the end of May 2017. There would be no automatic recognition of existing authorisations. Authorisations granted by EU27 NCAs (National Competent Authorities, NCAs) should be rigorous and efficient. Special attention should be given to avoiding the establishment of letterbox entities, and outsourcing and delegations to third countries (such as the UK) will only be possible under strict conditions. NCAs should ensure that ‘substance requirements’ are met. These require that activities and functions that are key to the proper functioning of the regulated entity should be present in the EU27 (and not outsourced or delegated outside the EU27). NCAs should ensure sound governance of EU27 entities and must be in a position to effectively supervise and enforce EU law coordination to underpin effective monitoring by ESMA.

This has raised the question of whether the conduct of euro clearing can remain in London.

In Pierre Bollon’s view, the French asset management industry was large enough to create a viable eco-system and the relocation of the EBA from London to Paris would strengthen Paris’s position. For the UK, achieving equivalence will prove difficult given the multiplicity of ‘single’ passports. There would need to be a transition period perhaps extending beyond two years, but it should not be too long, as that would engender uncertainty. Pierre emphasised that the EU needs a good deal too because The City is very efficient, but special attention needs to be paid to the management of mutual funds and UCITS. In the absence of free trade with common rules, or a single market for financial services, a level playing field needs to be in place without any cherry picking on behalf of The City. In achieving an equivalence arrangement, it is important that the ESMA and the EBA coordinate their approaches, he concluded.

After the question and answer session that followed the panellists’ presentations, Andy took a ‘straw poll’ of the audience. More expected a ‘soft’ Brexit, with more trade access and less restriction on the movements of people, than a ‘hard’ Brexit, with less beneficial trade access and more restrictions on immigration from the EU27; but the largest show of hands was for the possibility of ‘no-Brexit’ in the end!

Notes appear on p.18
Professor Oriana Bandiera (LSE), as President of the Economics Section of the BSA, organised the Economics event at the Festival of Science in Brighton. With her LSE colleagues, Professor Maitreesh Ghatak and Professor Nava Ashraf, the session, titled ‘How can caring for one another affect economic decisions?’ explored the way in which the standard *homo economicus* model, based on the principle of self-interest, needs to be adapted to explain certain aspects of human economic choice.

**The limits of self-interest**

Oriana began with outlining how *homo economicus* could be described as nasty, but also imaginary. The concept has its uses, allowing economists to develop simple models, even though it is an incomplete explanation of behaviour. She used the map of the London Underground as an example of an explanatory device that fails to map the true geography of stations but provides the information we need to make journeys. She concluded that economic models based on a simple representation of human behaviour are fine as long as they do not lead to wrong conclusions. For example the standard model can explain the demand for cereals but not why people give to charity. She argued that giving up self-interest does not imply a lack of rationality. The key question is, with what do we replace self-interest. Can we improve welfare by abandoning self-interest? If so, what do other people care about? Is everything driven by financial incentives? For example is a doctor delivering better care because we pay her more?

**Identity, reputation and social norms**

Maitreesh Ghatak, observed that recent events such as the Global Financial Crisis, and the publication of Thomas Piketty’s book, have stimulated popular discontent with standard economic models. He noted that the limitations of these models, based on the principle of self-interest, have been known for a long time. Whilst *The Wealth of Nations* is seen as a starting point for much economic analysis, in the *Theory of Moral Sentiments* Adam Smith clearly understood that people have a variety of motivations when making economic decisions. But the assumption that markets work well allows us to separate these two aspects of individuals. Ghatak drew on his own previous work on labour markets (with his colleague, Professor Tim Besley) to confirm that many economic questions require a broader interpretation of behaviour especially when markets don’t work perfectly. Among a range of factors affecting the relationship between work and pay, he identified the role of identity, commitment to an ‘in-group’, reputation and social norms, rewards of status, intrinsic motivation as well as pure altruism. He pointed out that the increasing importance of private sector social institutions such as social enterprises, ‘not for profit’ organisations, NGO’s, indicated that economies tend to organise themselves in such a way, to cater for individuals who are not purely self-interested in their work commitments. This did not mean that the final outcome would not necessarily look like it is driven by self-interest. For example, he argued, someone may regard education as the most important economic activity but has a comparative advantage in making weapons. It may be efficient (but implausible) for that person to pursue self-interest and then donate their fortune to educational institutions. The key to understanding behaviour is to separate out intrinsic and extrinsic motivations. If people self-select according to intrinsic desires, when choosing employment, it may not be necessary to give high rewards.

**Altruism and self-interest in Zambia**

The third speaker, Nava Ashraf, moved the discussion on to field studies conducted in Zambia, to illustrate how both self-interest and more altruistic motivation provide explanations for observed behaviour. The first study she reported considered the distribution of female condoms through Hairdressing Salons and Barbers. The Zambian Government was working on the basis that a financial reward system to hairdressers, for selling these products, should be the most effective mechanism for promoting their use. The sample was divided randomly into four different groups: one group was offered a high financial reward, the second received a low financial reward, the third received a non-financial reward (a star) and the fourth received no reward. The group that received the social reward performed best. By separately considering donations made to charity this group were also found to be altruistic but not significantly different from the other groups. Ashraf moved on to another study examining the recruitment strategy for nurses. This considered two different promotional posters, one based around the idea that becoming a nurse opened up interesting career paths (and hence future financial gain), the other emphasising the (non-financial) rewards associated with nursing. These different campaigns were kept geographically dis-
creet. The study found that the poster based on future career opportunities was much more successful in recruiting nurses who performed better (as measured, for example, by number of polio vaccinations, the number of children referred to hospitals). These two studies with their contrasting results lead to the conclusion that self-interest is an important but not the only determinant of behaviour.

The session concluded with a number of questions and comments from the audience. These ranged over observations about the link between pay and behaviour, whether gender matters, if high status jobs are more worthy than those with high pay, the extent to which application pools are self-selecting and the influence that organisational structures have on employees’ altruism. The audience participation confirmed the view that the way that economists think about behaviour is of significant concern to the general public.

Note:
1. University of Birmingham and Recorder of the BSA economics section. The meeting is supported by both the BSA and the Royal Economic Society whose generosity is gratefully acknowledged.

Institute of International Monetary Research
2017 Public Lecture

‘The Committee of Public Safety’
by Martin Taylor, member of the Financial Policy Committee, Bank of England

At 6.30 on Tuesday 7th November, at the Royal Automobile Club, Pall Mall, London.

For tickets, email: gail.grimston@buckingham.ac.uk

Further information: http://www.mv-pt.org/events

Brexit and the City
...cont from p.16

Notes:
1. University of Birmingham
2. Christophe Boucher (Université Paris Nanterre), Michelle Boutillier, (Université Paris Nanterre), Jean-Bernard Chatelain (Université de Paris 1), and Alexis Diter (Université d’Orléans).

First ‘Keynesian’ Chancellor bequeathed PAYE tax system

Wood is well-known to economists as the first UK Chancellor of the Exchequer to present the annual budget in 1941 in a recognisably Keynesian framework. The second of a two-volume biography of Sir Kingsley Wood by Hugh Gault covers his career from 1925 to his premature death in 1943 and is rich in detail about Wood’s earlier political career including a four year spell in the early 1930s as Postmaster General. In this role he ‘dragged the Post Office into the twentieth century’ and clashed with Sir John Reith over the renewal of the BBC’s charter in 1933. In May 1938 he became Minister of Air and took responsibility for an important part of Britain’s re-armament. He was instrumental in persuading Neville Chamberlain to resign before becoming Churchill’s Chancellor of the Exchequer in 1940.

Non-economists will be more interested to learn that it was Wood that oversaw the development of the system of ‘Pay (income tax) as You Earn’ that was introduced after the War.

Hugh Gault, Making the Heavens Hum Part 2 - Kingsley Wood: Scenes from a Political Life 1925-1943
ISBN: 978-0-9562041-9-6

Biography draws on resources at the University of Kent and at ‘The Keep’

Sir Kingsley Wood was MP for Woolwich West. Some 33 volumes of press cuttings relating to his career are held in the University of Kent’s special collections. Other valuable sources drawn on by Hugh Gault are to be found at ‘The Keep’. This is a recently established world-class centre for archives that opens up access to all the collections of the East Sussex Record Office (ESRO), the Royal Pavilion & Museums Local History Collections and the internationally significant University of Sussex Special Collections. It is also a centre of excellence for conservation and preservation and represents the new generation of archive buildings in the UK.

The combined collections have synergies and have been brought together to provide, under one roof, an unrivalled, detailed record of the region’s history, dating back over 900 years. These archives document the lives of individuals, places and events from across the county and beyond, and they include written records, maps and plans, prints and drawings, photographs and films, oral histories, and digital and electronic records.

There is free public access to all the collections, with a drop-in service, and efficient systems for ordering, even when not in the building. The new electronic archive catalogue, with a full on-line search facility, gives remote access to the wealth of material in the collections.

www.res.org.uk/view/resNewsletter.html
The BBC - at it again?

For the last year or so the RES (and others) have been expressing concerns about the way in which the media, and the BBC in particular, report economic news. Recent events suggest this anxiety is likely to continue for a while yet.

In the course of the debate leading up to the referendum in June 2016, the BBC frequently reported the forecasts and opinions of research groups (practitioner and academic) and even individuals on the likely costs and merits of remaining within or leaving the EU. Predictably, the broadcaster found differences of view and no doubt was grateful for the whiff of controversy that this implied. However, this pretence at even-handedness completely obscured an important truth which is that the overwhelming majority of the economics profession thought that Brexit was likely to lead to a loss of output and other disadvantages. Members who were present will recall the overwhelming show of hands anticipating a negative outcome at the Society’s Annual Conference in Brighton in April 2015 (Newsletter no. 174, p. 10) and the vanishingly small number of hands that admitted to a change of mind at the Annual Conference in Bristol this year (Newsletter no. 178, p. 5). In spite of this and perhaps more strikingly in the face of negative predictions from the IFS, the National Institute, HM Treasury and others, the BBC insisted on treating the issue rather like a debate on the merits of fox-hunting.

This wilful misleading of the public by a refusal to report the true balance of opinion was the subject of a complaint by the Society to the BBC Trust which largely rejected it.

Disappointing as this was, some of us clung to the hope that the complaint might at least have been filed for action in the future and a resolution to do better next time. Apparently not. In the week beginning 21st August the BBC gave considerable publicity to Patrick Minford’s new report published by the ‘Economists for Free Trade’ on both Radio 4 (the ‘Today’ programme) and the BBC News website. Once again, the format was the classic ‘2-sided controversy’ with Monique Ebell from the National Institute of Social and Economic Research (NIESR) providing the main opposition.

In his ‘Mainly macro’ blog,1 Simon Wren-Lewis (who spoke about the BBC’s earlier referendum coverage in a panel discussion at the Society’s Conference this year)2 says the time has come for the BBC to be ‘deeply ashamed’. Why? Firstly, he says, because Patrick Minford is not an expert in international trade and when he published a similar report the merits of free-trade in the course of the referendum debate it was heavily criticised by groups and individuals who are such specialists. These criticisms are readily available. In other words, the BBC has failed to apply the most elementary and readily available form of quality control to its output.

Secondly, and once again, the Minford version is presented with no context. There is no mention of the fact that the overwhelming consensus is that the economic consequences of Brexit will be harmful and that Minford’s view is that of ‘a maverick’. It is, says Wren-Lewis, as though one or two climate change deniers were given airtime with no mention of the scientific consensus, or someone representing a drug company were allowed to claim to have a new wonder cure that the medical profession as whole had denounced as rubbish.3 Why does the BBC think it correct to withhold the information about the context?

As Ben Chu subsequently wrote in the The Independent4 ‘The legitimate news story around Minford’s work is how bad science can survive and thrive when it supports the desires and prejudices of powerful people in our society … the BBC … has become part of the problem’ Brexit is the Emperor’s New Clothes, and no one — including the BBC — dares say that the Emperor has no clothes.

Notes:
1. https://mainlymacro.blogspot.co.uk/
2. And at the symposium on ‘Economics: the profession and the public’ in May this year. See Newsletter no. 178 pp.9-10. (The fact that this symposium was jointly hosted by the Bank of England, HMT and the RES is perhaps an indication that the anxiety about the BBC’s treatment of economics reporting is widely shared).
3. Readers with good memories will feel a sense of unease at this analogy when they recall the way in which the BBC helped Andrew Wakefield to publicise his 1998 paper claiming that the combined MMR vaccine caused brain damage in small children. The result was a dramatic drop in the use of the vaccine and a sharp rise in infant cases of measles, mumps and rubella, sometimes, sadly, with fatal consequences. Wakefield was struck off the UK medical register in 2010.
Impacts of Trump Tax Reforms on Growth, Inequality and Debt

As President Trump finds it increasingly difficult to deliver any of his large pre-election promises, attention focuses increasingly on his plans to reform taxation in the USA. Keshab Bhattarai, Jonathan Haughton and David Tuerck take a look at what that might mean — if it happens.

Reforming the tax system of the US has become a major policy agenda of the Trump administration. After months of negotiations the ‘Big Six’, including the Treasury Secretary, National Economic Director, Republicans in the House and the Senate are gradually converging on the degree and scale of tax reforms. What will be the impacts of such reforms on growth, efficiency and redistribution of income among households is an issue of immense interest among the American people. We provide a summary of findings of a study conducted by a team of economists in the University of Hull in England and Suffolk University in Boston for the National Centre for Policy Analysis. The findings have also been published in refereed journals.

The original proposals
The tax reforms proposed by Donald Trump as a presidential candidate would be as extensive as those carried out through President Reagan’s tax reforms in 1981 and 1986 (better.gop). He proposed reducing the corporation income tax from 35 per cent to 15 per cent but the consensus is emerging towards bringing it down to 20 per cent with pass-through business rate to 25 per cent. It is hoped lower tax on corporate income in this way would bring back more multinational corporations to the United States. Seventeen of the 20 largest multinationals had headquarters in the United States in 1960. Only six out 20 had headquarters there in 2015. Many moved to tax-haven countries because of the higher US corporate income tax rate. Trump argued that the lower rate of 15 per cent on corporate income would bring these corporate headquarters back to the United States. This would create more jobs and expand the corporate sector in the United States.

Another more radical tax reform relates to individual income taxes. Trump proposed replacing the existing complicated tax system with four brackets. Initially Trump had proposed a zero per cent tax rate on income up to $25,000, a 10 per cent tax rate on income between $25,000 to $50,000. Then a 20 per cent tax rate on income between $50,000 to $150,000 and a 25 per cent tax on income above $150,000. The ‘Big Six’ is considering 0, 12, 25 and 35 per cent tax rates maintaining the progressive structure of the income tax in the US.

The positive effects
In a recently published research article, Bhattarai et al (2017a, 2017b) and Haughton et al (2017) found significant positive impacts on output, investment, capital formation, employment and household well-being of such corporate and individual tax reforms in the US economy. Using a dynamic CGE model built for the National Center for Policy Analysis in Dallas, Texas, they found that the corporate income tax and income tax reforms would bring about economic growth and create more jobs. The macroeconomic impacts of a reduction in the corporate tax rate from 35 to 15 per cent, combined with the cuts in individual rates, would be very powerful. Real GDP would expand relative to the benchmark, initially by 1.6 per cent and ultimately by 4.3 per cent. This increase in output would be made possible by an increase in investment and capital accumulation and an associated increase in the level of employment in the economy. More saving lowers the growth rate of consumption initially, but consumption rises to 3.5 per cent above the counterfactual benchmark (of no cut in the corporate or individual tax rate) by 2042. Real GDP increases by $230 billion, or by 1.32 per cent. Personal income increases by 4.14 percent and business investment by 2.19 per cent. The trade balance ‘improves’ by $6 billion. The trend continues in 2026 with the creation of 3.85 million private sector jobs (a change of 1.99 percent) over baseline. Income tax reforms also will have similar impacts. Real GDP will increase by 2.61 percent, and the trade balance will improve by 0.74 per cent. Every sector grows faster with the reforms in the corporate income taxes than without reforms, at least by the end of the 25-year period covered by the simulation. The machinery and instrument, and computer sectors grow faster than any other. These sectoral growth rates come mainly from the increased stock of capital across sectors and the creation of more jobs across sectors. The demand and supply for products in the markets increase because of the rise in the income of households and more investment by firms, leading to expansion across all sectors. The sectors that are more efficient attract more capital and create more jobs and grow faster. The underlying elasticities of substitution in consumption, production and trade also matter for the flexibility of markets and growth rates across these sectors.

Economic growth will be higher if the tax rates were reduced according to the Trump tax plan (TTP). Replacing the higher tax rates under the tax structure...
Inherited from the previous administration will raise the incentives to work, save and invest and bring more prosperity to the United States.

Inequality and the government deficit

These studies also warn that there will be two side effects of Trump tax reforms. First, while tax cuts will support a more market driven capitalist economy, they will raise the income gap between rich and poor households in America. Another consequence of the policy with no cut in the level of public spending will be seen in a huge amount of budget deficit of the US government. Haughton et al. (2017) estimate such debt to be 26 trillion US$ in the next ten years (from 2017 to 2026) and the ratio of debt to GDP to be as high as 120 per cent. They show that the Trump tax plan that includes social security taxes, excise taxes, trade duties, certain other taxes and state and local taxes would diminish federal revenue by $673.68 billion (a decrease of 21.4 per cent) in 2017.

One of the main economic targets of the federal government is full employment. There will be two opposing effects of Trump tax reforms on this. The public sector is expected to be smaller, which is consistent with the Republican agenda of deregulation and privatization. Up to 597,000 jobs will disappear in the public sector. However due to favourable policies, the private sector is expected to expand. The Trump proposal would create more jobs in the private than those lost in the public sector. The US DCGE model results show that the Trump plan would create about 3.59 million private sector jobs, a change of 2.42 per cent against the baseline. The DCGE model does better than the forecasting Tax and Growth (TAG) model of the Tax Foundation as it has more decentralization of the household and production sectors and is based on intertemporal optimization and general equilibrium of the whole economy.

From months of negotiations it appears now that President Trump will propose a new tax reform measure that differs substantially from the one he proposed towards the end of his campaign. It is safe to say, however, that this new measure will include a combination of cuts in individual and corporate tax rates and the impact assessments we did still will be relevant in process of policy analyses.

Notes:
1. Keshab Bhattarai. The Business School, University of Hull, Cottingham Road, Hull, HU6 7SH, UK; K.R.Bhattarai@hull.ac.uk, phone: 44-1482463207; http://www.hull.ac.uk/php/ecsrb/
2. Jonathan Haughton. Department of Economics and Beacon Hill Institute at Suffolk University, 8 Ashburton Place, Boston, MA 02108; jhaughton@suffolk.edu phone: 617-573-8750; web: http://web.cas.suffolk.edu/faculty/jhaughton/

References:
Obituary

Donald Winch

Donald Winch was one of the leading historians of eighteenth and nineteenth century British economics, his last two books, Riches and Poverty (1996) and Wealth and Life (2009) telling that story from Adam Smith to the First World War. A principle to which he attached great importance was the need to understand economists’ writings in relation to the circumstances under which they were written and not to impose on them ideas that, though second nature to modern economists, their authors would not have recognised.

Born on 15 April 1935, he studied economics at LSE before taking his PhD at Princeton, supervised by the legendary Jacob Viner. As a Lecturer, first at Edinburgh and then at the recently founded University of Sussex, he produced a book on the political economists’ attitudes towards the colonies, and an edition of the writings of James Mill (a major figure in his own right and the father of John Stuart Mill) before branching out with a book on the interwar period, Economics and Policy (1969), followed by The Economic Advisory Council, 1930-1939: A Study of Economic Advice during Depression and Recovery (1976, with Susan Howson).

He began to present his work as intellectual history rather than history of economics during a sabbatical at Princeton in 1974-5, where he was guided by Quentin Skinner (a British intellectual historian also on sabbatical there) in writing Adam Smith’s Politics: An Essay in Historiographic Revision (1978). This book did not present politics as something additional to Smith’s economics but saw Smith’s Wealth of Nations as part of a much larger project, rooted in trying to make sense of contemporary political developments. Donald’s persuasive treatment of this foundational work argued that Smith should not be seen as an economist, for to do this would be to impose on the work a category that he would not have known and would probably have contested.

This approach was developed further with two colleagues at Sussex, John Burrow and Stefan Collini, in That Noble Science of Politics: A Study in Nineteenth-Century Intellectual History (1978). Smith had written of ‘the science of the legislator’ and nineteenth-century writers from Malthus, Ricardo, John Stuart Mill and, later in the century, Sidgwick and Marshall, described themselves as developing a ‘science of politics’, a very broad term that embraced what we now consider economics and sociology. This perspective led Donald to disapprove of his earlier work, even though those works on economics and policy continued to inspire economists, and be important sources for those interested in the use of economics in the public domain.

His last two books were very different in character. Riches and Poverty was subtitled An Intellectual History of Political Economy in Britain, 1750-1834. He shows how Smith’s science of the legislator was taken up by political figures as diverse as Edmund Burke and Thomas Paine against the backdrop of the American and French revolutions. This, not the very different mid-eighteenth century world out of which the Wealth of Nations emerged, was the context in which Malthus, helpfully presented as a ‘political moralist’, presented a set of arguments about riches and poverty that continued until the Poor Law Amendment Act of 1834. Malthus provoked a fierce response from the Lake Poets, a confrontation between two very different approaches to, and understanding of, life that continued into the twentieth century. In contrast, Wealth and Life, is modestly presented not as an intellectual history but a set of essays. Where the first book had centred on Smith, the second focussed on John Stuart Mill, who embodied the conflict between political economy and romanticism in his own life, and ended at the time when economics (a term in use since Marshall’s Principles) was becoming established as an academic discipline.

Donald’s academic life was not without honours (most especially: Fellow of the British Academy 1986, and then Vice President, 1993-4; and Distinguished Fellow of the History of Economics Society, 2007). Nor was it without duties (Dean, School of Social Sciences 1968-74, and then Pro-Vice-Chancellor 1986-9, of the University of Sussex); nor without interesting visiting positions (UC Berkeley, IAS Princeton, Kyoto and many others). In 1968 he organised the first UK history of economic thought conference, which became an annual fixture. His most significant contribution to economics as a profession lay in his service to the Royal Economic Society. In 1971 Donald became Publications Secretary, a role he held until 2016: an amazing tenure (which entailed long service on the RES Executive Committee during a period in which the Society moved beyond its Cambridge roots into a professional society for the wider discipline). This was no sinecure but a vital position for the society notably because of its commitment (with considerable financial implications) to publish not only the collected writings of Keynes, but also those of Ricardo and Jevons. He oversaw many other smaller projects including essays by Marshall, and he commissioned some of the most important editions of works by Malthus and Edgeworth. He initiated the digitization of these works, and regretted that he was unable to complete this project for the Society during his tenure. He also served for eight years as Book Review Editor of the Economic Journal, during a period when economists still read books!
Donald was the most wonderful scholar who will be heartily missed both within the circles of historians and economists who knew him. But, perhaps more important for our wider discipline, he was a wonderful ambassador for economics especially in relation to the humanities. In any interaction with Donald, he opened up horizons not just because of his own knowledge, but because he became so thoroughly engaged in questions his interlocutors were asking. Conversations with him developed into and out of so many directions, all of them rewarding, all of them worthwhile, and in all of them, Donald’s wit, irony, and tremendous intellectual energy left one with the experience of having had wonderful arguments that always made you think anew.

Roger E Backhouse, University of Birmingham
Mary S Morgan, London School of Economics

MMF Annual Conference ...cont. from p.9

Lastly, Reis asked ‘what anchors inflation?’. With current theories lacking, as a result of his two first points, he proposed a different theory based on asset purchases with risk and targets for the short and long term rates (à la BOJ). His theory is based on an independent central bank, operating like the BOJ which buys assets and has a remittance rule. The central bank can set targets on the yield curve, equal to the number of sources of uncertainty; and can take on risk in the form of asset purchases. Unconventional policies can then provide effective ways of anchoring expectations. This model offers a new approach to anchoring inflation not previously explored in existing models.

Honouring Charles Goodhart

This conference marked Charles Goodhart’s final appearance as President of the MMF and the MMF, together with NIESR, took the opportunity to thank him for his unstinting support by giving him a bound volume of letters of appreciation from his colleagues and friends. We hope of course that he will be around for many more conferences in the future.

The Bank of England’s ‘One Bank’ strategy

We reported on the Bank of England’s ‘One Bank’ strategic plan when it was launched in 2014. Amongst numerous objectives, the plan aimed to improve interaction between Bank of England staff and academic researchers working in areas of interest to the Bank.

In June this year the UK’s National Audit Office reportedly favourably on the progress already made under the strategy (http://www.bankofengland.co.uk/publications/Pages/news/2017/043.aspx).

Building on the original plan, the Bank recently launched its ‘One Bank Visitor Programme’. The OBVP invites visitors with a strong track-record in relevant research for a one week visit during which the visitor will give a seminar and interact with researchers and policy makers across the Bank.

A list of visitors for 2017/18 can be seen at:
http://www.bankofengland.co.uk/research/Pages/visi-
torprogramme/default.aspx
Nominations to RES Council and for RES President
The Nominations Committee met in September to review all nominations for the next cohort of the RES Council (to serve 2018-2023), and to produce a shortlist of candidates to go forward for election. The election results are subject to formal ratification at the AGM, held during the 2018 RES Annual Conference in Sussex, after which the new members will take their places on Council. The current list of members of RES Council is available at http://www.res.org.uk/view/council.html.

Full details on the nominating and election process can be found at: http://www.res.org.uk/view/governanceStructure.html.

Events
RES 2017 Annual Public Lecture
Why commit crime? Economic incentives for criminal behaviour
The 2017 Annual Public Lecture will take place on Wednesday 22nd November 2017 at the Royal Institution London and on Wednesday 29th November 2017 at the University of Manchester.

The 2017 Public Lecture will be given by Stephen Machin, Professor of Economics and Director of the Centre for Economic Performance at the London School of Economics.

What can economists contribute to our understanding of why people commit crime and what can be done to discourage, detect and apprehend criminals? In this lecture, Professor Machin will discuss the importance of economic incentives as a determinant of crime.

Aimed principally at sixth form students of Economics but of interest to all, the Annual Public Lectures have become an established part of the senior school calendar, and are also open to the general public. Individual tickets will be available from 1st October 2017, with priority going to school groups. For more information go to: http://www.res.org.uk/view/lectureEduTraining.html

RES 2018 Annual Conference
The 2018 RES Annual Conference will be held at the University of Sussex, Brighton on 26th - 28th March 2018.

The keynote lectures will be given by Maristella Botticini (Bocconi), Dave Donaldson (Stanford), Botond Koszegi (CEU), and the Past President’s Address by Andrew Chesher (UCL and CeMMAP).

Early bird registration will open on 8th January 2018. Further details can be found at: http://www.res.org.uk/view/conference.html

ONS Training Course
The RES, Royal Statistical Society and Office for National Statistics have developed a joint working group on Economic Statistics. The group recently partnered with EML Learning to deliver a course on National Accounts. The course was based on the second edition (October 2014) of the OECD manual Understanding National Accounts by François Lequiller and Derek Blades. The manual is available free online: http://www.oecd.org/std/understanding-national-accounts-9789264214637-en.htm

RES Competition Results
Video Competition 2017
The RES recently partnered with the Economics Network on a video competition for undergraduate students. Students were asked produce a three-minute film to show how economics can be used to make sense of the world we live in today.

The Joint Winners were Oskar Birol, University of Edinburgh (on the topic of automation) and Fraser Clark and Robert Clark, London School of Economics (on the topic of immigration).

The joint winners were each awarded a prize of £500 and a certificate signed by the RES President, Peter Neary.

Executive Committee’s Awayday
See the Chief Executive’s Report on p. 5.
Young Economist of the Year 2017 Results

Once again this year, the Young Economist of the Year Essay Competition received a high level of interest from students GCSE, A level, SQC Intermediate 2/Highers and International Baccalaureate (IB) course students. With contestants choosing from the 6 possible topics given, essays were judged on originality, economic content, quality of writing and power/quality of their argument.

The 2017 judging panel faced with the difficult task of choosing a winner and runners-up is Jonathan Haskel (Imperial College London), Alvin Birdi (University of Bristol), Bridget Rosewell (Volterra Partners) and Andrew Cheshire (UCL).

The Joint Winners were Louise Averill (King Edward VI School, Stratford-upon-Avon) and Matthew Thorne (King's College Taunton).

Society Appointments and Thanks (Changes at the RES)

Conference Secretary Neil Rickman has been extended for a further year.

Alex Augustin has joined the Society as Office Administrator.

The RES Annual Conference Programme team have been appointed. Simon Gaechter has taken up the position as Programme Chair, with George Mackerron as Deputy and Ingo Borchert as Local Organiser.

There have been some changes at the Economic Journal, with Nezih Guner and Rachel Kranton joining as Editors.

In addition, over this year there have been new appointments to the Econometrics Journal. Jaap Abbring joins as Managing Editor. Tobias Klein has joined as Deputy Managing Editor, and John Rust as Co-Editor.

Updating Membership Details

The Society’s website is our hub for publicising RES activities, so we encourage you to keep your details up to date online. Members joining or renewing online are automatically registered with login access to the RES website. Once registered on the website you can update your membership details. Login is based on the email address and password you supplied in your membership application. Members who have joined by post will need to register online at www.res.org.uk. If you have any queries about your membership, please contact the Membership Services department at cs-membership@wiley.com or telephone +44 1865 778171. International toll free numbers can be found online at www.res.org.uk

Conference diary

2017

November

2-3 November Madrid, Spain

Monetary Policy in the 21st Century: The Renaissance of Austrian Monetary Economics will be held at the Universidad Rey Juan Carlos in Madrid. The aim of the conference is to bring together scholars interested in monetary economics in the tradition of the Austrian School and to stimulate the debate on the future of the monetary system. Keynote speaker: Prof. Dr. Jesús Huerta de Soto. Registration deadline is 31st August.

Further information: AustrianEconomics@fh-luebeck.de.

3-4 November Munich, Germany

CALL FOR PAPERS

CESifo Area Conference on the Economics of Digitization. The 2017 area conference on the Economics of Digitization is the inaugural conference of the new area of the CESifo Network. The new area will be led by Professor Stephen P. Ryan of Washington University in St. Louis. The purpose of the conference is to bring together researchers from a broad range of economic disciplines to present and discuss ongoing research leveraging data sets, made possible through the digitization of economic activity. The conference will have a focus on work at the intersection of digitization with public policy. Deadline for submission and registration is 31st August.

Further information: http://www.cesifo-group.org

8 November London

The Institute of Economic Affairs (IEA) and Institute of International Monetary Research (IIMR) are holding their annual monetary conference on Wednesday 8th November at the IEA, 2 Lord North Street, London. The theme is: ‘Has Financial Regulation Gone Too Far? And do banks really need all the extra capital?’ Participants include: Tim Congdon, Geoffrey Wood, Philip Booth, Forrest Capie, James Ferguson, Charles Goodhart. By invitation only.

Further information: http://www.mv-pt.org/events

Invitations from: gail.grimston@buckingham.ac.uk
Taking Fiscal Policy Seriously is a one-day workshop will take place in London on 9th November 2017 focused on fiscal policy, debt management and fiscal rules. The event is sponsored by the Money, Macro and Finance Research Group (MMF), Nuffield College Centre for Applied Macro Policy (NuCamp) and the Centre for Applied Macro-Finance at the University of York (CAMF). The keynote speech will be given by Rupert Harrison (BlackRock, former Chief of Staff to George Osborne), with additional contributions from Roberto Perotti (Università Bocconi), Dimitri Vayanos (London Business School), Charlie Bean (London School of Economics), Robert Chote (Office for Budget Responsibility), Roel Beetsma (University of Amsterdam and European Fiscal Board), Laura van Geest (Netherlands Bureau for Economic Policy Analysis), Elisa Faraglia (University of Cambridge), James Knight (UK Debt Management Office) and Michael Lamla (University of Essex). The conference organisers are Andrew Scott (London Business School), Martin Ellison (University of Oxford) and Michal Horvath (University of York).

Further information: http://users.ox.ac.uk/~exet2581/Seriously_2017.pdf and for registration please send an email to nucamp@nuffield.ox.ac.uk.

24 November Bordeaux, France

CALL FOR PAPERS
2nd International Bordeaux Workshop in Quantitative Finance, Risk, and Decision Theory. This workshop aims to widen the analysis of all factors impacting bank risk and firms’ financing nexus to the effects of the recent financial crisis, the role of unconventional monetary instruments, the implementation of a new banking regulation. Keynote speakers:
• Leonardo Gambacorta (Bank for International Settlements)
• Rainer Haselmann (Goethe University, Frankfurt)

Further information and submissions: ion.lapteacru@u-bordeaux.fr

8-9 December Munich, Germany
8th ifo Conference on Macroeconomics and Survey Data. The conference is intended to discuss ongoing research on survey and micro data and its role and usage in macroeconomics. Speakers include:
• Rüdiger Bachmann, University of Notre Dame
• Giuseppe Bertola, University of Turin

Further information: www.cesifo.org

14-15 December Amsterdam, Netherlands
28th EC² Conference on Time-Varying Parameter Models will take place at Pakhuis de Zwijger. Key speakers include:
• Christian Gourieroux (University of Toronto, Canada and Crest, France)
• Andre Lucas (VU Amsterdam)
• Andrew Patton (Duke University, United States)

Further information: http://www.tinbergen.nl/ec2/

2018

January

5-7 January Philadelphia, USA

The 2018 Annual Convention of Allied Social Science Associations will be held in Philadelphia. The convention includes meetings of the American Economics Association an AEA-sponsored continuing education programme and an AEA placement service. AN early registration fee is available until 3rd December 2017.

Further information: www.aeaweb.org/conference/

11-14 January Newcastle, Australia

Western Economic Association International 14th International Conference will be held at the University of Newcastle, New South Wales. Keynote Addresses include:
23-25 January 

**Lisbon, Portugal**

**CALL FOR PAPERS**

World Economic Research Institute (WERI), Faculty of Economics of Ostrava Technical University and the Socio-Economic Research Institute of Piemonte (IRES) are jointly organizing the **Seventh International Conference in Economics** (EconWorld2018@Lisbon). The Conference program includes plenary sessions, panels, and presentations of contributed papers. The conference is open to all lines of theoretical and empirical research in economics, finance and entrepreneurship. Deadlines — for paper submission **1 December 2017**; for registration **25 December 2017**.


---

**march**

26-28 March 

**Brighton**

The **2018 RES Annual Conference** will be held at the University of Sussex, Brighton on 26th - 28th March 2018.


---

**may**

22-23 May 

**Paris, France**

**CALL FOR PAPERS**

ESCP Europe is to host the **35th International Conference of the French Finance Association**. The conference will be jointly organized by ESCP Europe and the Laboratory of Excellence for Financial Regulation (LabEx-ReFi). Keynote speakers include: Maureen O’Hara, Robert W. Purcell Professor of Management; Samuel Curtis, Johnson Graduate School of Management; Michael Weisbach, Professor and Ralph W. Kurtz Chair in Finance, Ohio State University. Papers are invited in all areas of finance. Registration deadline is **31 January 2018**.

*Further information: [http://www.en.affi.asso.fr/131-conferences.htm](http://www.en.affi.asso.fr/131-conferences.htm)*

---

**june**

26 - 30 June 

**Vancouver, Canada**

**CALL FOR PAPERS**

Western Economic Association International **93rd Annual Conference**. Keynote Address by Orley Ashenfelter, Princeton University. Deadline for abstracts/proposals **5th December 2017**.

*Further information: [http://www.weai.org/AC2018](http://www.weai.org/AC2018)*

---

**july**

25–27 July 

**Granada, Spain**

**CALL FOR PAPERS**

13th **International Conference on Interdisciplinary Social Sciences** will be held at the University of Grenada. The conference examines the nature of disciplinary practices in the study of society and the interdisciplinary practices that arise in the context of ‘real world’ applications of social research and theory. The conference also investigates what constitutes ‘science’ in a social context and the connections between the social and other sciences. The focus of papers ranges from the finely grained and empirical (research practices and results exemplifying one or more disciplines) to wide-ranging multidisciplinary and transdisciplinary perspectives on knowledge and method.

Membership of the

Royal Economic Society

Membership is open to anyone with an interest in economic matters. The benefits of membership include:

• A print subscription to The Economic Journal, published at least eight times a year, depending on the membership package selected.
• Online access to The Economic Journal back to 1997 including access to forthcoming papers before publication of the print version.
• Online access to The Econometrics Journal including accepted papers as soon as they are typeset.
• Free submission of articles to The Economic Journal and the chance to win the RES prize of £3000 awarded every year to the author(s) of the best published paper.

• Quarterly copies of the RES Newsletter including topical articles, comment and letters.
• Reduced registration fees for both the RES Annual Conference and PhD Meetings and JobMarket.
• The opportunity to benefit from JSTOR’s ‘Register & Read’ initiative for individual scholars.
• Discounts on RES scholarly publications and 20 per cent discount on all Wiley books and journals through the RES Office.
• Access to apply for awards and grants offered by the RES as well as the opportunity to elect the RES Council and President of the Society.

### Membership Subscription

<table>
<thead>
<tr>
<th>Membership</th>
<th>The Americas</th>
<th>UK</th>
<th>Europe (non-euro zone)</th>
<th>Europe (euro zone)</th>
<th>RoW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three-year Ordinary Member</td>
<td>$170</td>
<td>£100</td>
<td>£100</td>
<td>£120</td>
<td>£100</td>
</tr>
<tr>
<td>(2017-2019 incl): Online Only</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary Member: Online Only</td>
<td>$65</td>
<td>£38</td>
<td>£38</td>
<td>£45</td>
<td>£38</td>
</tr>
<tr>
<td>Ordinary Member: Print + Online</td>
<td>$82</td>
<td>£48</td>
<td>£48</td>
<td>£57</td>
<td>£48</td>
</tr>
<tr>
<td>Ordinary Member Developing countries: Print + Online</td>
<td>$42</td>
<td>£23</td>
<td>£23</td>
<td>£28</td>
<td>£23</td>
</tr>
<tr>
<td>Ordinary Member Developing countries: Online Only</td>
<td>$37</td>
<td>£22</td>
<td>£22</td>
<td>£24</td>
<td>£22</td>
</tr>
<tr>
<td>Retired Member: Online Only</td>
<td>$37</td>
<td>£22</td>
<td>£22</td>
<td>£24</td>
<td>£22</td>
</tr>
<tr>
<td>Retired Member: Print + Online</td>
<td>$42</td>
<td>£23</td>
<td>£23</td>
<td>£28</td>
<td>£23</td>
</tr>
<tr>
<td>Three-year Student Member</td>
<td>$29</td>
<td>£17</td>
<td>£17</td>
<td>£20</td>
<td>£17</td>
</tr>
<tr>
<td>(2017-2019 incl): Online Only</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Member: Online Only</td>
<td>$14</td>
<td>£10</td>
<td>£10</td>
<td>£12</td>
<td>£10</td>
</tr>
</tbody>
</table>

You can join the Society and pay for your membership online by credit card at www.res.org.uk. UK members can now also request to pay by direct debit. If you prefer not to make payment online, please contact Membership Services by email to cs-membership@wiley.com in order to arrange payment by cheque or bank transfer direct to Wiley.

If you prefer to telephone the following numbers are available 24/7:
Americas Tel: +1 781 388 8599 Tel (toll free): +1 800 835 6770
Europe (inc UK), Middle East and Africa Tel: +44 (0)1865 778171
Asia Pacific Tel: +65 6511 8100

Non membership queries should be addressed to the RES Office on royaleconsoc@st-andrews.ac.uk or (0)1334 462479.