The fall-out continues

Who would have thought at the end of 2008 that, four years on, the consequences of the financial crisis would still be a major matter of public debate. The issue is kept alive at the moment by the link to the survival of the eurozone, via the impact on sovereign solvency. The imminence of the US Presidential election also helps.

But in the pages of this Newsletter, interest has never flagged. Readers have enjoyed a continuous debate firstly over causes of the crisis itself but now over the causes of, and appropriate response to, a double-dip recession. Looking back over the last few issues, the balance of opinion has probably been hostile to the current policy of fiscal austerity, but this month John Fender offers some words of caution, especially regarding the estimates of mutliplier values, in his partial defence of the approach.

What we might not have anticipated in 2008 is that the crisis would spark such a substantial debate about the nature of economics and what students should be taught. In this issue we have two more reports of the recent Bank of England/GES Conference. The first is by Diane Coyle who draws readers attention to a collection of papers now available from that conference. The second, by Inna Pomorina of the Economics Network, reports survey evidence on what employers and students think they need from an economics education in the light of recent events.

In addition, we have Angus Deatons regular Letter from America. His description of bureaucratic oversight of research in US universities will send shudders (of premonition?) through all readers. Finally, but certainly not least, we have interesting features on comparative welfare compensation arrangements from a team at the ISER and, in an age when the writing of a collective letter to the press by economists appears to have become a habit, Robert Neild describes the famous, first example from thirty years ago.
Editor

Prof Peter Howells,
Centre for Global Finance,
Bristol Business School,
UWE Bristol,
Coldharbour Lane,
Bristol BS16 1QY

Fax: (44) (0)1722 501907
Email: peter.howells@uwe.ac.uk

Administration Officer

Mrs Amanda Wilman,
Royal Economic Society,
School of Economics and Finance,
University of St. Andrews,
St. Andrews, Fife, KY16 9AL, UK

Fax: +44 (0)1334 462444
Email: royaleconsoc@st-and.ac.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:

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

Published quarterly in
January, April, July and October

Next issue

Newsletter No. 160 - January 2013

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

15 December 2012

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

16 December 2012

Contributions from readers

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

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

Visit our website at:

www.res.org.uk

Visit our website at:

www.res.org.uk
Letter from America

Your wolf is interfering with my t-value!

Angus Deaton reports on the creeping regulation affecting academic research in US universities.

M y friend Dustin raises Black Angus cattle on a ranch in Montana. Yellowstone National Park, about 120 miles to the south, reintroduced long-extinct wolves fifteen years ago, and their descendants are now widespread in South West Montana. According to Dustin, they prey on his cattle, and he regards the restoration of wolves with only slightly less detestation than he would the restoration of his land to the Crow and Shoshone who once lived there. To him, the wolves are a pest, imposed on him by coast-dwelling liberals, who compound the injury by passing laws that prevent his protecting his livestock. According to a doubtlessly exaggerated account, when he has his rifle sights on a wolf that is attacking a calf, he must get live permission from all of the bureaucrats who have jurisdiction over him, his rifle in one hand, his cellphone in the other, and letting his 4x4 steer itself. He hates bureaucrats, he hates the federal government, and he hates the Darwin-believing Democrats who force him to host their not-so-cuddly pets.

Mitt Romney agrees. His website notes that ‘Regulations function as a hidden tax on Americans’ with a burden that is ‘much higher than the entire burden of individual and corporate taxes combined. The end result is an economy subject to the whims of unaccountable bureaucrats pursuing their own agendas.’ Among other regulations to be abolished if Romney is elected are those against emissions of carbon dioxide, those that limit the production of coal and oil, as well as the Dodd-Frank regulations of the financial sector, though these last are to be replaced by something else, not currently specified. Chief among the unaccountable bureaucrats, at least until his recent resignation, was President Obama’s head regulator, Cass Sunstein, the coauthor with Richard Thaler of Nudge, who is roundly denounced on Romney’s webpage. Sunstein’s performance was widely criticized from both sides, and he was accused of being both an under- and over-regulator, perhaps as good an accolade as could be expected.

Regulation and research

Universities are not as heavily regulated as power plants, pharmaceutical companies, or banks. Yet regulation is becoming a significant part of the lives of academic economists in America. After the Oscar-winning documentary Inside Job pilloried the financial malfeasance of economists, the American Economic Association imposed disclosure requirements on its authors ($10,000 or more from interested parties, in cash or kind-including data-over the previous three years.) The National Institutes of Health, reeling from a series of scandals in which prominent scientists were paid hundreds of thousands of dollars by pharmaceutical companies to provide apparently disinterested scientific backing for their products, has instituted a new set of conflict of interest rules. According to an account in Nature, Sunstein successfully moderated the draft proposals, but the final rules are draconian enough. Those of us who have NIH grants must make annual declarations of all of our family’s sources of income and holdings of assets (other than mutual funds-a gift to the industry), as well as trips financed by others (e.g. for me to give a talk in London), and if ‘an unaccountable bureaucrat’ decides that there is a possible conflict, all of these income sources, assets, and trips will be made publicly available by Princeton, either on a website, or on request within five days. One consequence of these and related regulations is that the groups that support research within universities, originally set up to help academics with logistics and funding, have been turned into unpaid policing organizations for the state. Our shepherds have been turned into wolves, and many of us have had to hire yet more bureaucrats to deal with their demands. The cost of meeting these regulations is large, not least in the fast rising ratios of bureaucrats to researchers in universities. The AEA, unlike the NIH, has no penalties for those who ignore its rules, and one might wonder whether these regulations, well-intentioned although they are, will justify their burden by doing much to rein in evildoing; as Dean Inge noted, it does the sheep little good to pass resolutions in favour of vegetarianism when the wolf remains of a different opinion.

The regulators are concerned, not only with financial ethics, but with statistical ethics, not only our values but our t-values. In order to prevent the selective reporting of the results of randomized controlled trials, all clinical trials must be pre-registered with the government, and medical journals will not publish results where this protocol has not been satisfied. The American Economic Association is under pressure to maintain (and enforce) a similar registry for economic experiments. Judging by recent trends in medicine, this is only the beginning. An article in the Journal of the American Medical Association argues that all results should be reported to
the state, and that a well-run research team should be able to monitor and report every cross-tabulation or exploratory regression; otherwise, how can we judge the significance of the results that are published? Along similar lines, it is argued that we must somehow take into account not only all of the calculations that have been done, but those that people chose not to do. That such regulations might have an adverse effect on creativity is noted, but dismissed, given the absolute necessity of preserving the purity of t-values. Bias should be regulated by sticking to randomized controlled trials, and t-values regulated by banning free form data exploration.

It is hard to believe that the science is so fragile that it needs this sort of protection. Would the case for (or against) a stimulus be affected by a new revelation about Keynes’ financial portfolio? Should we stop using antibiotics until we have an account of paid trips made by Alexander Fleming? Or until we are sure that his assistants did not peer into the petri-dish in advance? One of the problems is surely the reliance on randomized controlled trials, whose results depend, not on scientific advance or on convincing demonstration of a new mechanism, but on the precise circumstances under which they were conducted; if the experiment was tainted in any way, the results are automatically suspect. If RCTs are the only way of doing science, then we need the bureaucrats to guard the sanctity of their t-values. Yet, one wonders how so much good science managed to get done in the past.

If we want to have both cattle and wolves in Montana, someone is going to have to sort out the inevitable conflicts. But are we really so overrun with wolves in economics? Is data mining such a serious threat? And while there certainly are villains, are they really undermining the integrity of advance in economics? And would we really be better off running under state supervision?

Call for papers

Rethinking the Economics of Pensions: Is There a Crisis of Pensions or of Pensions Governance and Regulation?
March 21/22 2013

- a two-day conference organized by the Financial Services Knowledge Transfer Network and the Centre for Competitive Advantage in the Global Economy (CAGE), University of Warwick.

We invite submissions, from both academics and practitioners, which address any aspect of the economics of pensions and pensions policy

Confirmed speakers so far:

Nick Barr, London School of Economics
Tim Jenkinson, Said Business School, Oxford University
Con Keating, Brighton Rock Group
Juan Jermo, OECD
Dennis Leech, Warwick University

Preferred themes, deadlines and further information can be obtained from: shaul.david@oba.co.uk

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

The Rybczynski Prize for Business Economics

The Society of Business Economists has, since 2000, awarded an annual prize for the year’s best piece of writing on an issue of importance to business economists. The Rybczynski Prize — worth £3000, thanks to the generous sponsorship of KPMG — is awarded in memory of the late Tad Rybczynski, an eminent economist and long-serving former Chairman of the Society.

Essays can be written especially for the competition, or may be work published in the course of 2012. The judges will be looking for around 3000 — but not more than 4000 — well-written and thought-provoking words.

Previous winners have been Roger Bootle, Simon Briscoe, Joanne Collins, Fergus Hicks, Thomas Mayer, Pam Woodall, Kevin Daly, Ian Bright, George Buckley and, last year, Sam Tombs of Capital Economics.

To have the chance of adding your own name to this list, please contact the SBE secretariat at admin@sbe.co.uk, or visit the SBE website, for an entry form. The closing date for entries is 10 December 2012

The Norman Houblon-George Fellowship

Applications are invited for Houblon-Norman/George Research Fellowships tenable at the Bank of England during the academic year 2013/2014. Appointments will be for full-time research on an economic or financial topic of the candidate’s choice, preferably one that could be studied with advantage at the Bank of England. The length of any appointment will be by agreement, but will not normally be less than one month, nor longer than one year.

Senior Fellowships will be awarded to distinguished research workers who have established a reputation in their field.

Fellowships will also be available for younger post-doctoral or equivalent applicants, and for these, preference will be shown to British and other EU Nationals. The award will normally be related to academic salary scales.

Application forms (to be returned no later than 25 November 2012) and details are available from: http://www.bankofengland.co.uk/research/houblonnorman/index.htm or by emailing the Houblon-Norman/George Fund account MA-HNGFund@bankofengland.co.uk, postal applications should be addressed to the Secretary to the Houblon-Norman/George Fund, Bank of England, Threadneedle Street, London EC2R 8AH.
What’s the use of economics?

Earlier this year, the Bank of England and the Government Economic Service sponsored a conference to discuss the teaching of economics in the light of the recent crisis. In this article Diane Coyle describes plans to take this initiative forward.

This provocative title arises out of a number of conversations last year with people who employ economics graduates. These came about because at the time my eldest son was in his final year of his degree and starting to think about looking for a job (he is now gainfully employed, as an economist). When I mentioned this to fellow-economists in the course of general chat, it triggered some remarkably similar complaints: that new graduates had almost no contextual knowledge about recent events or economic history, and less interest; that the technical skills they have are strong but narrow, and rarely include practical experience in econometrics; that few have the capacity to adapt simplistic models to real problems; and above all that their ability to communicate to non-specialists is weak.

Any sensible employer knows that a newly-minted graduate will need a lot of on-the-job training, and that there is no short-cut to gaining experience. Some of these complaints, especially about the lack of communication skills and intellectual curiosity, are voiced by employers of graduates in any subject. But there was a strong sense of a deeper dissatisfaction with the kind of economics graduates being turned out by UK universities, a dissatisfaction that mirrors some criticisms of economics as a subject. Employers, like many other people in the wake of the crisis, are asking whether economics is too narrow and reductive, at least as manifested in how it is taught to students.

The idea that it might be constructive to have employers and academics teaching young economists discuss these issues took shape in a conference under the auspices of the Bank of England and the Government Economic Service in February 2012. I reported on it in this Newsletter in April 2012. (The book of the pre- and post-conference papers is now published as What’s The Use of Economics? Teaching the Dismal Science After the Crisis.) There was consensus at the conference that, while no participants believed mainstream economics to be fundamentally flawed, appropriate post-crisis humility meant it ought to become more pluralistic and pay more attention to institutions and recent history. What’s more, participants agreed that the consistent messages from employers deserved careful attention: employers clearly feel that universities are teaching undergraduates as if they will become academic economists, whereas most will work as practitioners, if they become economists at all. So it was agreed that finding a mechanism for continuing to discuss how the teaching of economics might evolve was desirable. A working group, consisting of representatives from the RES, GES and Bank of England, Society of Business Economists, CHUDE the Economics Network, and a number of individual academics, has since met to discuss how to take this forward.

One immediate outcome is that the Society of Business Economists will run a survey of its members to complement a recent survey of the Government Economic Service, conducted for the GES by Paul Anand of the Open University and Jonathan Leape of the London School of Economics. The two surveys, when completed, will give some insight into what tasks professional, non-academic economists are required to do and the corresponding skill needs. The early headlines from the GES survey are that economists in the public service need to use a range of institutional knowledge, to synthesize evidence from different sources and using different empirical approaches, and above all to communicate with non-specialists.

A second outcome of the conference is a forthcoming Festival of Economics in Bristol on 23rd-24th November. (The Royal Economic Society and GES are among the sponsors.) Its aim is to bring together academics (including from the other social sciences as well as economics), students and the wider public to discuss some of the momentous economic issues of the day. What is the outlook for the UK economy? What do we know about the connections between poverty, individual characteristics, and social context? What is the post-crisis state of economics? One reason for this experiment with a Festival for the public is that many participants in the conference concluded that economics, and the teaching of economics, would be enriched by more dialogue between the academic and non-academic worlds. Of course, the emphasis on ‘impact’ for academic research is creating an incentive to do so anyway, but it is not at all clear what kinds of engagement will prove most fruitful. Communicating more directly with interesting members of the public may prove good for the public understanding of economics, and good for economists.

However, these two initiatives obviously do not address all the issues raised, and the steering group will discuss next steps at a meeting in November. Other ideas at present include a student conference, facilitating a debate about curriculum content and about the Research Assessment Framework, looking at pedagogical practice and tools, and also how to spread best practice given time pressures on academics.
However, we would welcome suggestions from readers of this newsletter, especially given our awareness that there may well be a selection bias if we confine the discussion to our own group. There is a complicated nexus of issues concerning the incentives for academics, and the competing pressures they face, the demands of students as fees rise, the educational legacy of ‘teaching to the test’ at the secondary level, the tough jobs market, and also questions about the character of economics as a subject in the light of the crisis. The wider the range of perspectives and insights we can gather on these issues, the better.

News from the Economics Network

Economics Graduates' Skills and Employability
by Dr Inna Pomorina

In February 2012, the Government Economic Service (GES) and the Bank of England hosted an event which explored economics teaching and learning in UK universities in the wake of the financial crisis (see RES Newsletter, No 157). As a follow up to this event the Economics Network agreed to survey and interview employers, to explore their views on graduates and the skills they require for the world of work. The survey was partially funded by the Higher Education Academy and forms part of a continuing research project into the effectiveness of learning and teaching in Economics HE. The results of all the surveys in this project are available on the Economics Network website: www.economicsnetwork.ac.uk/projects/surveys.htm.

It is interesting to compare the results of 2007 employers’ study with the current one. Due to the big differences in the employers’ organisation distribution between 2007 and 2012 surveys we believe that full comparison is inappropriate. At the same time the results on knowledge, understanding and skill requirements of graduate appointees from both studies have many similarities. In 2007 the need to develop ‘communication’ and ‘application’ skills by economics graduates was often mentioned by the employers, as well as graduates’ preparation for interviews. The same skills were rated as very important by four out of five employers in 2012.

It should be stressed that all employers in the survey and interviews were able to select the best graduates in this very competitive job market and their replies relate exclusively to those graduates who passed a very rigorous screening process.

The study found that employers clearly value economics graduates and the skills and knowledge they bring to the workplace. The results show that respondents employ economics graduates, above all for their ‘knowledge and understanding of economics’, as well as for ‘the work they are required to do’ and the ‘skills they bring with them’.

Important skills and knowledge for graduates
Both ‘analysis of economic, business and social issues’ and ’communication of economic ideas’ are perceived as ‘very important’ by 80.0 per cent of respondents, while the ‘ability to organise, interpret and present quantitative data’ and ‘abstraction (the ability to simplify complexity while still retaining relevance)’ are rated ‘very important’ by three quarters. These findings mirror the discussion at the GES-BoE conference, where such skills were highlighted as essential for graduates who are prepared for the workplace.

With regards to knowledge, the majority of respondents perceive a grasp of ‘opportunity cost’, ‘social costs and benefits’, ‘incentives and their effects’ and ‘microeconomics of decision-making and (constrained) choice’ as ‘very important’, while more than a quarter believe that ‘stability and instability of the economy and markets’ and ‘equilibrium and disequilibrium’ to be of ‘little or no importance’.

Respondents provided a lot of advice to students, which will be added to the http://www.studyingeconomics.ac.uk/ site. Among the suggestions were the following:

- Don’t be narrow in thinking or reading. Economics, sociology, behavioural science, history, mathematics, philosophy, physics, biology all offer important thinking to economists.
- I would recommend taking a History of Economic Thought module if available. Understanding of core theory, and where the rest of theory comes from, why we do or don't think certain models are relevant, is hugely important (and often overlooked in favour of complex mathematics).
- Get used to talking about economics and applying the general principles to new issues. Practice written explanations of more complex economic concepts for non-economists, being clear and easy to follow but not patronising!

If you’d like to discuss the issues raised in this study and/or would be interested in receiving further advice and support on how to develop students employability skills, please contact Dr. Inna Pomorina at Economics Network inna.pomorina@bristol.ac.uk.

The New Lecturers’ workshop
This is a two-day residential workshop aimed at new and early-career economics lecturers. The focus of the workshop is to discuss and evaluate what makes effective teaching of economics: including lectures; seminars and...cont on p.10

Notes:
1. Diane Coyle is the Director of Enlightenment Economics diane@enlightenmenteconomics.com
2. Available to readers of this newsletter at a 10 per cent discount for £13.49 (free P&P in UK, £3 elsewhere) — please contact mo@centralbooks.com to request an order form/invoice, or email address, all relevant credit card details and number of books required.
3. For details see http://www.ideasfestival.co.uk/?p=4627
Welfare compensation for unemployment in the Great Recession

New research by Mariña Fernandez Salgado (University of Essex); Francesco Figari (University of Insubria and ISER University of Essex); Holly Sutherland, Alberto Tumino (ISER University of Essex) analyses the extent to which tax-benefit systems provide an automatic stabilisation of income for those who became unemployed at the onset of the Great Recession.¹

The focus of the analysis is on the compensation for earnings lost due to unemployment which is channelled through the welfare systems to this group of people who are clearly vulnerable to the recession’s adverse effects. In order to assess the impact of unemployment on household income, counterfactual scenarios are simulated by using EUROMOD, the EU-wide microsimulation model, based on EU-SILC data integrated with information from the EU-LFS data. The study provides evidence on the differing degrees of relative and absolute resilience of the household incomes of the new unemployed.

The consequences of the crisis on the most vulnerable individuals depend on their individual characteristics and the interaction between their labour market participation, their living arrangements and the capacity of the tax and benefit systems to absorb macro-economic shocks.

The paper focuses on a set of six countries of the European Union: Belgium, Estonia, Spain, Italy, the Netherlands, and the UK. These countries experienced different macroeconomic changes during the first phase of Great Recession, with large unemployment increases in Estonia, Spain and the UK (the latter two countries accounting for most of the increase in unemployment at EU level between 2008 and 2009) and relatively moderate increases in Belgium, Italy and the Netherlands. Moreover, these countries have different unemployment protection schemes (and, generally, welfare systems), ranging from a flat scheme in the UK to generous earnings related schemes in Belgium, Spain, and the Netherlands.

Analysis of the automatic income stabilisation effect across European countries focuses on both relative and absolute resilience provided by the welfare state, taking into account the interactions of the tax-benefit policies with other existing household income and household composition.

First, in order to assess the level of stabilisation of incomes relative to the pre-shock baseline, the researchers use the Net Replacement Rate which is the ratio between household disposable income after and before the unemployment shock.

Moreover, in order to measure the extent of protection offered by public support, they introduce a new indicator, namely the Compensation Rate which measures the proportion of net earnings lost due to unemployment, compensated by public transfers net of taxes.

This new indicator isolates net public support from the effect of other earnings present in the household of a new unemployed individual, which usually play an important role in determining the income after the unemployment shock. The compensation rate gives a direct indication of the net public contribution as proportion of the net market income lost due to the unemployment shock.

In order to test whether the income stabilisation offered by the tax-benefit systems prevents the new unemployed from falling below an absolute income threshold, the researchers compare the equivalised disposable income before and after the unemployment shock to the poverty threshold at 60 per cent of the median in the pre-shock baseline. In this way they distinguish the new unemployed who are poor already before the unemployment shock (‘Poor in work’), those falling below the threshold as a result of the shock (‘At risk’) and those remaining above it in spite of the shock (‘Protected’).

Main results

Net Replacement Rate

In the short term, the household income of those entitled to unemployment benefits on average falls to as much as

<table>
<thead>
<tr>
<th></th>
<th>Belgium</th>
<th>Estonia</th>
<th>Spain</th>
<th>Italy</th>
<th>Netherlands</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entitled to UBs</td>
<td>0.81</td>
<td>0.64</td>
<td>0.77</td>
<td>0.65</td>
<td>0.72</td>
<td>0.57</td>
</tr>
<tr>
<td>Not entitled to UBs</td>
<td>0.78</td>
<td>0.84</td>
<td>0.81</td>
<td>0.47</td>
<td>0.78</td>
<td>0.64</td>
</tr>
<tr>
<td>Long term</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All new unemployed</td>
<td>0.56</td>
<td>0.50</td>
<td>0.51</td>
<td>0.40</td>
<td>0.48</td>
<td>0.57</td>
</tr>
<tr>
<td>Sole earner households</td>
<td>0.48</td>
<td>0.39</td>
<td>0.45</td>
<td>0.16</td>
<td>0.32</td>
<td>0.52</td>
</tr>
</tbody>
</table>

Notes: Net Replacement Rate is the ratio of household disposable income after and before the unemployment shock. Source: EUROMOD version F4.23.
81 per cent of its pre-unemployment level in Belgium and the corresponding figures are also relatively high in Spain (77 per cent) and the Netherlands (72 per cent). The average Net Replacement Rate is lower, around 65 per cent, in Estonia and Italy, while in the UK it is just 57 per cent. (see Table 1).

Individuals entitled to unemployment benefits face the highest average level of protection in countries characterised by generous and long lasting earnings-related unemployment benefits like Belgium, Spain, and the Netherlands. At the other extreme, in the UK the flat rate Unemployment Benefit payable for at most 6 months offers the lowest level of replacement rate.

As expected, in the long term when the entitlement to unemployment benefits is exhausted for all new unemployed, household income falls much more consistently within a range between 40 per cent (Italy) and 57 per cent (UK) of its pre-unemployment level. Interestingly, in this scenario the country with the highest Net Replacement Rate is the UK with an average value equal to that for those entitled to unemployment benefits in the short term. The UK Net Replacement Rate is also highest in the long term for the sub-group of new unemployed who live in households with no other people with earnings. These are the likely to be among the new unemployed to experience large reductions in income and low incomes in the long term. In all countries the Net Replacement Rate is lower for this sub-group than for the new unemployed as a whole, strikingly so for Italy.

As shown in Figure 1, a substantial part of the cushioning effect on household income is attributable to the market incomes of other household members and to public transfers (i.e. mainly pensions, in all countries but the UK) which are not primarily designed as automatic stabilisers or as protective safety nets in case of an unemployment shock. Moreover, given that earnings of other household members are progressively more important as household income increases, the average Net Replacement Rates are likely to be pushed up by the presence of these incomes at the top of the income distribution and this is only partly compensated by progressive income tax.

Considering entitlement to unemployment benefits, it emerges that these play a large role in Belgium (63 per cent of post-unemployment household income), the Netherlands (67 per cent) and Spain (55 per cent). In Italy and Estonia they make up around 40 per cent of post-unemployment household income. In the UK the contributory Unemployment Benefit contributes only 11 per cent of the post-unemployment income while Social Assistance makes up 24 per cent of it. The general lesson of this analysis is that it is necessary to look at the social protection system as a whole and how it interacts with household composition and incomes received by other household members. Focusing exclusively on unemployment benefits is not sufficient.

**Compensation rate**

In the short term the average net public contribution to the disposable income as proportion of the net earning lost due to unemployment ranges from 40 per cent in Estonia to 74 per cent in Belgium for those entitled to unemployment benefits and from 2 per cent in Italy to 26 per cent in the UK for those not entitled (see Table 2). As expected, the average Compensation Rate is usually much lower for those not entitled to unemployment benefits than for those entitled, with two extreme situations that are of interest. First, the lowest value is achieved in Italy where the Compensation Rate is close to zero given the absence of general Social Assistance schemes and the only source of income support being channelled through limited fami-
those not entitled to unemployment benefits is very similar to that faced by those entitled to unemployment benefits. This illustrates how the British contributory Unemployment Benefit does not offer protection that is as generous as in other countries and at the same time, the level of protection offered by the Social Assistance benefits is on average greater than in other countries (assuming full take-up).

The role of Social Assistance and the extent to which public support is targeted at the bottom of the distribution is made explicit by looking at the average Compensation Rate by household income quintile group for those entitled to unemployment benefits in the short term (Figure 2). The most striking pattern is observed in the UK: due to Social Assistance, and the decreasing effect of the contributory Unemployment Benefit the Compensation Rate shows a decreasing pattern from a 57 per cent for the new unemployed from the first quintile group to 14 per cent for those at the top of the income distribution. It is also clear that the cushioning role played by Family Benefits (mainly the means-tested Child Tax Credit and the Working Tax Credit). On the other hand, from the second quintile on, increases in these benefits contribute to a higher Compensation Rate (and in particular the presence of someone still working in the household may trigger entitlement to Working Tax Credit). On the other hand, at the very bottom of the distribution, households where the only earner becomes unemployed lose their entitlement to the Working Tax Credit contributing to a lower Compensation Rate.

In the other countries, the average Compensation Rate decreases with income quintile but to a lesser extent than in the UK. Social Assistance emerges as a component of public support for those at the bottom of the income distribution in Belgium, Estonia and, above all, the Netherlands. Moreover, the role of income tax paid on unemployment benefits in reducing the overall Compensation Rate is not negligible in the Netherlands and in Belgium, Estonia and Spain for those at the top of the income distribution.

Notes: Compensation Rate is the proportion of household disposable income lost due to unemployment that is compensated by public transfers. Source: EUROMOD version F4.23.
Features

Poverty

The extent to which tax-benefit instruments allow the new unemployed to avoid falling below a given level of income depends on the generosity of the system, entitlement to receive unemployment benefits, the income position of the new unemployed before becoming unemployed and their household circumstances.

As shown in Table 3, the share of those at risk of poverty before unemployment ranges from around 2-4 per cent in the Netherlands, the UK, and in Belgium to much higher levels in Spain, Italy and Estonia (around 9-12 per cent). Among the new unemployed entitled to unemployment benefits, in the UK 44 per cent are at risk of falling below the poverty threshold on becoming unemployed. The percentages for the other countries are 30 per cent in Italy, 27 per cent in Estonia, 18 per cent in the Netherlands, 17 per cent in Spain and 11 per cent in Belgium.

As expected, the situation is worse in the long term when benefits are exhausted. Less than half of the new unemployed are protected from poverty, with larger shares of people at risk of poverty than in the short term in all countries (except the UK). However, it is when looking at the sole earners that the dramatic share of those inadequately protected by the welfare system becomes clear: in Estonia only 4 per cent of the new unemployed receive enough public support to stay above the poverty threshold, and around 12-14 per cent in Belgium, Spain and Italy. In the Netherlands and the UK, the Social Assistance schemes allow up to 21 per cent and 26 per cent, respectively, of the new unemployed to stay above the poverty threshold.

However, the share of the new unemployed not protected by the welfare system, when unemployment benefits are exhausted, supports the view that social protection for working age individuals has become less adequate and social redistribution less pro-poor. Social Assistance schemes do not stop those losing their job from descending into poverty.

New lecturers’ workshop

...cont from p.6

small-group teaching; assessment and feedback; e-learning; module/unit design; classroom experiments and games.

• University of Bristol, 19-20 October 2012

For more information or to book your place, please visit: http://www.economicsnetwork.ac.uk/events/newlecs.

Feedback from our 2011 programme (11 workshops, over 220 attendees):

‘It’s been a brilliant few days. Useful to think about the issues discussed - with no pressure to adopt — and to be able to talk them through in an encouraging environment. I would recommend this to all new lecturers and maybe even a few of the older ones! Thanks to all!!!’

‘I will definitely use some of the tips for making lectures more effective. I will try to use games. I will look at the technology available out there and see what / how I can use it.’

‘Some gems of information provided: online seminars, online quizzes, teaching not coverage matters. Plan to put more though into how to present material.’

www.res.org.uk/view/resNewsletter.html
The ‘1981 statement by 364 economists’ revisited

Thirty years ago, when cuts in public expenditure were once again at the centre of a controversial policy to reduce the level of public sector borrowing, 364 economists famously signed a letter of protest to The Times. Professor Robert Neild was one of its authors.

In 1981 my colleague Frank Hahn and I wrote a letter criticising the Mr Howe’s budget. We intended to send it, signed by the two of us, to The Times, but it grew into a 'statement' signed by 364 economists which created rather a stir when it was published. I shall recount how that came about and how I now see the episode in retrospect. At 87 my memories, filtered by age, are clear but of course subjective. I have referred to documents and statistics of the period to the best of my ability.

The monetarist debate

The statement was a climax in the Keynesian:monetarist debate, the nature of which it is worth briefly recalling.

Keynes’s great contribution to economics was a causal explanation why aggregate demand in an economy may not match its productive potential with the consequence that there is unemployment — or inflation. In The General Theory, published in 1936, he thus led us to understand why unemployment had plagued the world in the inter-war years. Then in How to Pay for the War, published in 1940, he estimated how much civilian demand would need to be restrained by budgetary means if war expenditure was to be met without inflation. In doing so, he pioneered the use of national income accounts in macro-economic management.

With few exceptions, economists accepted his theory. It is logically coherent; it relates to measurable variables (in the national income and expenditure accounts); and it recognises the importance of psychology, in particular the ‘animal spirits’ of entrepreneurs: it is rational and realistic.

For twenty-five years after WWII budgetary policy was based on demand management using Keynesian analysis: the probable course of aggregate demand was forecast and the balance in the budget was set so as bring aggregate demand towards the full employment level. The technique was far from perfect but the result was low unemployment, moderate inflation and real growth of 2 per cent a year.

This period of relative economic harmony was shattered in the 1970s when inflation exploded, triggered by sharply higher prices for oil and by the reaction of the trades unions to the consequent squeeze on real wages. The annual rate of inflation hit a peak of 24 per cent in 1975 and averaged 14 per cent a year in that decade. British governments, reluctant to reduce aggregate demand so as to cause unemployment to the point where money wages were checked, tried negotiating incomes policies with the trades unions and employers. They had little success: there were strikes and social unrest.

It was against that background that monetarist doctrine was adopted by Sir Keith Joseph and other Conservatives in the 1970s and became part of the policies that were evolved in that period and applied to the economy when Mrs Thatcher came to power in 1979. The evangelist of the doctrine was Milton Friedman. His message, like that of other evangelists, was wonderfully simple. Unions were not to blame for inflation, nor oil sheiks. It was all the result of excessive expansion of the money supply: ‘inflation can be mastered. The technical instruments for controlling the money supply are available. The obstacle is lack of political will.’ The policy would involve high unemployment only temporarily since the economy, being self-regulating, would soon return to the ‘natural rate of unemployment’. The message was supported by a graph or graphs showing that over time prices and the money supply move approximately together.

The doctrine had two flaws. First, demonstrating that the money supply and prices move together is no better than showing that the length of life and the number of meals a person has eaten move together: simple association between two variables tells us nothing about causation. Secondly, the causal explanations that Friedman offered did not bear scrutiny.

At the beginning of 1980 Frank Hahn and I criticised monetarist doctrine on these grounds in an article in The Times, ‘Monetarism: why Mrs Thatcher should beware’. We quoted Milton Friedman’s view that unemployment would revert to a natural rate which ‘...is the level that would be ground out by the Walrasian system of general equilibrium equations, provided there is embedded in them the actual structural characteristics of the labour and commodity markets, including market imperfections....’ and explained that:

a. In the previous decade mathematical economists had shown that, even if there were no market imperfections, the Walrasian equations could not be expected to produce a general equilibrium with full employment.

b. The idea that they would do so in the presence of market imperfections, which abound in reality, was even more far fetched.
We concluded:

There are neither theoretical foundations nor empirical support for the monetarists’ proposition that the real economy is self-regulating and that activity and employment can be relied upon to recover automatically from the present fiscal and monetary squeeze.

It is not our purpose to propound or debate alternative policies here. Indeed we have held different opinions about policy in the past and might well do so again were we to debate it now. Our common concern is that the Government’s policy, as well as analysis and debate of alternatives, should not be based on a misleading notion of how the economy works.

In a rather aggressive reply a week later Milton Friedman accused us of writing about the ‘Phillips Curve’, to which we had made no reference. After this diversion, he went on to say ‘We can know that a bird flies and have some insight into how it is able to do so without having a complete understanding of the aerodynamic theory involved,’ and listed a series of points to the effect that there was an historical association between money and prices with variable time lags. Without offering any better causal explanation than that, he reasserted in remarkably strong terms his view that the economy would recover automatically from the monetary squeeze:

...reduced monetary growth such as Mrs Thatcher’s government is trying to achieve, may increase unemployment temporarily, to be rewarded by a much sharper reduction in unemployment later.8

That was the doctrinal background to our letter.

The economic background was that unemployment was rising to levels not seen since the inter-war years. Since the war, the central objective of economic policy had been full employment, which had come to mean a rate of unemployment of 3 per cent or less, and that had been pretty well maintained until the 1970s. When unemployment rose to 7 per cent in 1980 and to 10 per cent in 1981, I certainly felt morally indignant that the great achievement of modern economics — the creation of full employment in place of the mass unemployment and the misery of the pre-war years, which I could remember — was being betrayed. I believe most economists felt the same. The feelings of the 364 economists were surely roused by further fiscal tightening in the 1981 budget when unemployment was already so high.

There was a further contributory cause that I hesitate to mention since it is personal. I do so because it is germane to understanding what happened. It is that Milton Friedman, who was very clever and made original contributions to economics, was an exceptionally artful debater whose rhetorical skills in the advocacy of monetarism were such that some politicians embraced him as a saviour offering a painless escape from inflation, whilst some economists saw him as a charlatan.9

At this time I was invited by the BBC to debate monetarism with him live on television. I was forewarned by my next-door neighbour Elaine Sofer (a sociologist, daughter of Benjamin Graham, the father of modern equity investment theory) that Friedman was a dangerous opponent in debate. She, when helping as a student to organise debates at Chicago University, had found that he was a most brilliant and enthusiastic debater. He did not mind being asked at short notice to take part in a debate, and typically would consent before asking what the subject was. If told that it was, say, capital punishment, he would say ‘Great, which side?’ and perform brilliantly whichever side he was on. Although forewarned, I found the way he avoided saying what caused the historical association between money and prices by means of prevarication and mockery so maddening that I lost my temper with him on the live programme. The shame I felt at making a public exhibition of myself imprinted the episode in my memory.

The relative importance of these three strands of opinion — that monetarism was theoretically incoherent, that unemployment was already shamefully high, and that Friedman was behaving as a charlatan — will have differed from person to person; and other considerations may also have been in their minds. But as I remember those days, these were the dominant reasons why so many economists signed the statement. How it came into being was this.

The statement

After the budget, Frank Hahn and I, over coffee at the Faculty of Economics, set about drafting a joint letter to The Times criticising its monetary foundations. Others wanted to join and add their names till they were so numerous that I telephoned The Times to see how many signatures they would publish. Since the number wanting to sign exceeded the limit, the alternative evolved of turning the letter into a statement and inviting economists in all the universities in the country to sign it. I was amazed at the huge response.

The statement, which in essence repeated what Frank and I had said a year before in The Times, appears in the panel on the next page.

The aftermath

In March 1984, the third anniversary of the statement, I was one of six of the signatories that were asked to say what they now thought about the statement. The rate of unemployment was now at 12 per cent, which proved to be the peak: it remained above the figure of 10 per cent till the end of 1987. Inflation had fallen from a peak of 18 per cent in 1980 to five per cent in 1984. Similarly the rate of increase in wage rates had fallen from 18 in 1980 to six per cent in 1984. Commodity prices had eased. The rise in unemployment had clearly been accompanied by a swift decline in inflation; the economy seemed to have levelled out at a high level of unemployment.

My comment was this:

I see no reason to modify my view about how the economy works. The levelling-out in activity has been in large part induced by the government relaxation of
Faculty of Economics and Politics,  
Sidgwick Avenue, Cambridge  
28 March 1981

The following statement on economic policy has been signed by 364 university economists in Britain, whose names are given on the attached list:

'We, who are all present or retired members of the economics staffs of British universities, are convinced that:

a) there is no basis in economic theory or supporting evidence for the government’s belief that by deflating demand they will bring inflation permanently under control and thereby induce an automatic recovery in output and employment;

b) present policies will deepen the depression, erode the industrial base of our economy and threaten its social and political stability;

c) there are alternative policies; and

d) the time has come to reject monetarist policies and consider urgently which alternative offers the best hope of sustained economic recovery.'

Analysis
Those who signed include:

a) present or past professors;

b) a majority of the Chief Economic Advisers to the Government since the war: Prof James Meade, Lord Rotherthall, Sir Alec Cairncross, Sir Bryan Hopkin and Sir Fred Atkinson.

The statement was circulated as university terms were ending. The rates of response have therefore been influenced by when term ended, by how dispersed is the community of university teachers in the vacation, as well as by the climate of opinion in each university.

Origins
The statement was sent by us to one member of each university on 13 March which said:

'We believe that a large number of economists in British universities, whatever their politics, the government’s present economic policies to be wrong and that, for the sake of the country – and the profession – it is time we all spoke up. We have therefore prepared the attached statement cast in terms which we hope will command wide agreement.'

We can now see that the budget was expanded by 1.5 per cent of GDP between the 1981-82 and 1983-84, a significant but not extreme change. The extent of the tightening that went before is extreme. Between 1978-79 and 1981-1982 (which reflects the first-year impact of the 1981 budget) the budget was tightened by no less than 6.3 per cent of GDP. By far the greater part of that tightening (4.9 per cent) was introduced in the 1981 budget.

Cyclically-adjusted budget deficit as % of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-79</td>
<td>4.8</td>
</tr>
<tr>
<td>1979-80</td>
<td>4.0</td>
</tr>
<tr>
<td>1980-81</td>
<td>3.4</td>
</tr>
<tr>
<td>1981-82</td>
<td>-1.5</td>
</tr>
<tr>
<td>1982-83</td>
<td>-1.4</td>
</tr>
<tr>
<td>1983-84</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Today we can judge the budgets of that period by looking at the historical estimates of the cyclically-adjusted budget balance, (also called the ‘structural budget balance’) produced by the Office of National Statistics:

The statement in retrospect

Paragraphs a) and c) were statements about economic theory. They said that there was no basis in economic theory or supporting evidence for the government's monetarist belief in an automatic recovery, and that there were alternative policies. These, I believe, remain irrefutable propositions.

Paragraph b) made the prediction that present policies would deepen the recession with adverse economic and political consequences. In fact unemployment remained above 10 percent for six years and, as noted above, reached a peak 12 per cent in early 1984. The recession did not deepen as much as we had predicted; nor did the economy recover within a period consistent with any reasonable interpretation of Friedman’s ‘variable time lags’.

In a vulgar political debate over the consequences of monetarism the participants might call ‘Quits’.

Paragraph d) follows from the others and requires no comment.

To get a better understanding of what happened in this period, economic historians will need to trace causation from the exogenous variables in macroeconomics, the most important of which are actions taken by the government (including the central bank) that influence the level of demand, and changes in demand and commodity prices in the world economy, through to the responses of the economy as recorded in the national income accounts, the monetary statistics, and the statistics of unemployment and prices. They will never achieve a perfect explanation but they should be able to do better than I can now.

A few points are worth noting now:
Features

1. It is clear that after 1979 many changes in policy were made in pursuit of two aims that were sometimes in conflict: the desire to check inflation and the desire to liberate market forces in the credit markets and other parts of the economy. The expansion of consumer credit that helped to sustain demand in this period is an example.

2. The Employment Acts of 1980 and 1982 and 1984 that cut the power of the trades unions must have contributed to the rapid decline in inflation.

3. The monetarist doctrine of Friedman has now been abandoned in favour of trying to use interest rates to control inflation, not the money supply. It is recognised that the money supply is endogenous, not exogenous, a passive indicator of how the demand for loans is going, not a policy instrument — a view for which there is ample backing.\(^\text{11}\)

Conclusion: the veil of monetarism

That the pursuit of full employment might lead to inflation was widely foreseen. For example, Beveridge in his 1944 book, *Full Employment in a Free Society*, wrote:

> There is a real danger that sectional wage bargaining, pursued without regard to its effect upon prices, may lead to a vicious spiral of inflation….\(^\text{12}\)

And in the same year the White Paper on *Employment Policy* warned that:

> Action taken by the Government to maintain expenditure will be fruitless unless wages and prices are kept reasonably stable …it will be essential that employers and workers should exercise moderation in wage matters….\(^\text{13}\)

When inflation struck in Britain the necessary response was (a) a short hard dose of deflation and (b) a radical reform of the trades unions. A hard-headed Keynesian analysis, or common sense, would have led to that conclusion. But before 1979 Labour and Conservative governments jibbed at such harsh policies, and so did the great majority of economists of whom I was one. Much as I abhor the social philosophy of Mrs Thatcher (and her follower, Mr Blair) I now give her credit for having introduced these two controversial policies that were necessary to check inflation — though I deplore the fact that monetarism so blinded the government that it pressed home deflation too hard and too long.

Monetarism served as a veil for politicians and central bankers in that it permitted them to avoid saying that they were imposing deflation and causing unemployment so as to check inflation. Instead they could say that their aim was to check the money supply so as to stop inflation, with or without the rider that they believed with Friedman that temporary unemployment would correct itself. I believe that the Conservative politicians that directed economic policy in Britain at this time spoke to this effect with complete sincerity, since they appear to have been converts to Friedman’s faith. But that was not true universally. In the important case of the United States there is strong evidence that Paul Volcker who, as chairman of the Federal Reserve dominated monetary policy, adopted monetary targets cynically as the only means of getting away with the big increases in interest rates needed to check inflation. A detailed account by William Greider of how he did this was published in *The New Yorker* in 1987. Greider reports that when Henry Wallich, a member of the board of the Federal Reserve, was told by Volcker that he proposed to adopt money supply targets, he accused him of making a pact with the devil, to which Volcker replied, ‘Sometimes you have to deal with the devil.’ Later in the article Greider writes that ‘The monetarist alternative offered a clever solution to Volcker’s internal political dilemma: it would serve as a veil to cloak the tough decisions.’\(^\text{14}\) A biography of Volcker gives the same interpretation of his tactics.\(^\text{15}\)

Now the idea that economies, including financial markets, are self-regulating has come round to smite us again, this time into a depression with no redeeming features.

Notes:

1. Lest ‘once again’ be read as a clumsy link to current controversies, readers should recall the panic over public borrowing that earlier erupted in 1930 leading to the setting up of the Committee on National Expenditure under Sir Robert May. The *Report* (allegedly described by Keynes as ‘the most foolish document it has ever been my misfortune to read’) recommended substantial economies. Foolish or not, the Report led to the break up of the first majority Labour Government, its replacement by a ‘National Government’ and *inter alia* by a brief mutiny in the Royal Navy in September, 1931, when the cuts were implemented. (ed.)

2. Robert Neild is a Fellow of Trinity College and Emeritus Professor of Economics at the University of Cambridge


5. Office of National Statistics, long term price series CDKO.


9. In his obituary of Paul Samuelson in the *New York Times* of 13 December 2007, Philip Lane recounted that ‘Mr. Samuelson said he always had fear in his heart when he prepared for combat with Mr. Friedman, a formidable engaging debater. ‘If you looked at a transcript afterward, it might seem clear that you had won the debate on points,” he said. “But somehow, with members of the audience, you always seemed to come off as elite, and Milton seemed to have won the day.’


In (partial) defence of fiscal austerity

Recent issues of this Newsletter have included articles somewhat critical of current austerity policies. In this contribution John Fender, University of Birmingham, puts a partial defence.

There has been much debate recently over the UK coalition government’s fiscal consolidation programme. A number of economists, including Robert Neild in the January 2012 Royal Economic Society Newsletter and John Weeks and Dennis Leech in the April 2012 Newsletter, have argued that the pace of fiscal consolidation is too fast and should be slowed down. ‘A Manifesto for Economic Sense’ which was published in the Financial Times of 28th June 2012 is similarly critical of austerity policies. This article is more sympathetic to the fiscal consolidation policy and argues that relaxing the policy is unlikely to have much of a positive effect on economic activity and could well be risky.

In any analysis of the current economic situation, it is important to acknowledge that we do not live in ‘normal’ economic times any more. The last few years have seen:

- a major world financial crisis;
- the largest banking crisis in the UK’s history;
- the greatest worldwide decline in output (in 2008 - 9) since the Great Depression;
- the largest ever peacetime public sector deficits in the UK;
- a massive increase in private sector indebtedness in many countries including the UK;
- a major on-going crisis in the euro-zone.

These events are of enormous importance in understanding what has been happening in the UK economy recently and in formulating appropriate policy.

1. The fiscal policy multiplier in good and bad times.
It is crucial to the arguments of those opposing austerity that the fiscal policy multiplier is reasonably large, or at least can be expected to be large in current economic circumstances. And indeed there are some recent papers which do argue for a large multiplier: for example, Romer and Romer (2010) estimate a multiplier of nearly 3 for tax changes and Christiano et al. (2011) suggest that a government-spending multiplier of 3.7 might be plausible in a constant interest rate environment. However, a crucial question is whether these multipliers are large in times of high (and/or rapidly rising) public sector debt, and there is evidence that in such times fiscal policy multipliers may be much lower and could indeed be negative. This is the message of Perotti (1999), who argues that the effects of fiscal policy in ‘good times’ (i.e. low debt) may be very different from its effects in ‘bad times’ (i.e. high debt).

Ilzetzki et al. (2010) present evidence that the fiscal multiplier is zero in countries with debt-GDP ratios above 60 per cent. It has in fact even been suggested that fiscal contraction may be expansionary: Giavazzi and Pagano (1990) argue that the fiscal consolidations undertaken by both Ireland and Denmark in the 1980s were expansionary. There is also evidence (see Reinhart and Rogoff, 2010) that in countries with debt-GDP ratios greater than 90 per cent economic performance deteriorates sharply.

The question that arises, of course, is why low and possibly negative fiscal policy multipliers may occur with high public sector debt. The main mechanism in the literature (see, e.g. Sutherland, 1997) is somewhat as follows. Suppose a country is experiencing a rapidly rising public debt which is unsustainable. Some consolidation is necessary; the only question is when will it be introduced? The longer the delay in introducing the policy, the more painful it will be. The sudden introduction of a fiscal consolidation programme removes the uncertainty about when it will be introduced and means that it is less painful than expected, and for both these reasons it is expansionary. However, there is a complementary explanation for how a fiscal consolidation programme can be expansionary: the programme reduces the budget deficit over a number of years, so at the end of the programme, the stock of public debt is considerably lower than it otherwise would have been. If the debt takes the form mainly of long-term government bonds, and assuming that these bonds are imperfect substitutes for other assets, including shorter term bonds, the lower supply of such bonds means their price will be higher, and hence their yield will be lower. So future long-term interest rates will be lower than they otherwise would have been and with foresight current long-term interest rates will be lower as well. So the policy works by reducing current and expected long-term interest rates; it does this given the time path of expected short-term rates, meaning it reduces the term premium on government bonds. Lower long-term interest rates may increase both consumption and investment spending as suggested by the textbooks. They may well mean higher asset prices, and these may stimulate spending in a variety of ways. Higher share prices may stimulate consumption spending through a wealth effect and investment spending by making it easier for firms to raise equity capital. An increase in asset values may strengthen firms’ balance sheets, and this may encourage bank lending. Perhaps most importantly, it may result in a depreciation of the exchange rate (it raises the price of foreign currency, another asset), and this may stimulate demand...
by raising exports and shifting domestic spending from imports to domestic goods. So, there are a number of ways in which a fiscal consolidation programme may raise spending through reducing longer term interest rates. For the overall policy to be expansionary, it is necessary that these indirect effects outweigh the direct effects of the policy. Of course, even if they do not completely offset these expansionary forces, they may offset them partially and make the contraction less severe than it otherwise would have been.

A recent IMF study (IMF 2010) has sometimes been cited as evidence that fiscal consolidation is contractionary; the main finding is that a ‘fiscal consolidation equal to 1 percent of GDP typically reduces GDP by about 0.5 percent within two years’ (op. cit., p. 94). But this article does not contend that fiscal contraction is never contractionary. Indeed, the evidence is overwhelming that on average fiscal contraction is contractionary. Rather, the contention is that when there is a ‘problem’ with the public sector debt, the fiscal policy multiplier may well be much smaller than on average and could possibly be negative.

2. Possible consequences of relaxing the fiscal consolidation programme

However, we must ask whether the above argument is applicable to the United Kingdom, which currently has a public debt to GDP ratio of about 65 per cent and a public sector deficit to GDP ratio of about 8 - 9 per cent. We consider the effects of relaxing the fiscal consolidation programme in the light of the above arguments.

(i) Effects of a fully credible relaxation of the consolidation programme.

Suppose we consider a package of a two-year reduction in VAT and some increase in public expenditure (relative to what has been announced) for the same time period. Assume the policy is fully credible (i.e. it is believed that the programme will be implemented as announced). Then the ‘direct’ effects of the policy should be expansionary. But there will be some indirect effects going in the opposite direction; higher future taxes may be expected, and there will be the effects described in the previous section whereby the expectation of higher debt raises longer term interest rates and asset prices. All these effects will tend to reduce spending. But the net effect could still be positive.

(ii) Effects of a less than fully credible relaxation of the consolidation programme (with some chance of default).

The above discussion assumed that the policy (of temporarily raising spending and reducing taxation) is fully credible. However, this is a dubious assumption. For example, suppose a two-year reduction in VAT is announced. This would involve raising VAT in the year before an election, which politicians may be reluctant to do — perhaps they will claim that the recovery ‘is not yet fully consolidated’ and postpone restoring VAT to its previous rate. Having relaxed fiscal policy once, the government might be more inclined to do so again. So a greater increase in public sector debt would be expected, and the contractionary forces listed above would be stronger. This would be so even if there is complete confidence that the government will ultimately repay its debts. But the effects might be greater if the policy change erodes this confidence.

(iii) Effects of a less than fully credible relaxation of the consolidation programme (with some chance of default)

It might be argued that there is no chance of any UK government defaulting on its debt. It has not, in over 300 years! But, for there to be a problem, it is not necessary that a default is likely, it is merely sufficient that there be just a small probability that default might take place in certain circumstances, and markets would react negatively. Interest rates on government debt would rise, and the possibility of self-fulfilling expectations arises — interest rates rise, making financing the public debt more expensive, raising the probability of default still further, and so on. Several countries in the euro-zone are familiar with this problem.

A scenario that might lead to a positive expectation of default is as follows: suppose a laxer fiscal policy is pursued over the next two years, and a negative shock then sends the deficit still higher. The deficit is over (say) £100bn. and the debt-GDP ratio is about 80 per cent (and rising) in 2014-15 with a general election pending. Uncertainty about the outcome of the election (with the chance that the resultant government will not be tough on the deficit) could provoke a crisis of confidence. However, although default would occur with unchanged policies, what is much more likely is that the crisis would force a rapid policy change (higher taxes and lower government expenditure) which would restore confidence but which would be much more painful than the current measures.

3. Why is output stagnant in the UK?

The recent low growth in output in the UK has attracted much comment and discussion. We are now in a ‘double-dip’ recession, with output about 4 per cent below its pre-crisis peak. Why has output growth been sluggish? There are several possible explanations. Firstly, and perhaps most importantly, we should mention the aftermath of the credit crunch. There is evidence that recovery from financial crises is often long and painful (e.g. Reinhart and Rogoff, 2010). Many consumers and firms may be over-leveraged, and take considerable time to reduce their debts and start spending at a more rapid pace. Many consumers may find it difficult or expensive to borrow, and hence adopt a more cautious approach, saving up to buy items they might previously have bought on credit. Banks may be unwilling to lend too freely, and may be concerned about future regulatory changes. So, it seems, there will be a period of painful adjustment following a credit crisis which may last many years. However, as households adjust, then one would expect them to spend at a higher rate. The second reason why growth has been sluggish is surely the euro-zone crisis. This has affected exports to the euro zone and lending by banks that hold the debt of the countries that may default, or who are indirectly so exposed. A third plausible reason for sluggish economic growth is high and volatile...
commodity prices, which may have negative effects on output through both supply and demand side channels.

The fiscal consolidation programme may have been another factor. However, the fact that the UK economy now has record low interest rates (both short term and long term) may be to some extent a product of the fiscal consolidation programme and these may well promote expansion, as might the competitive exchange rate (sterling depreciated by about 25 per cent between mid-2007 and early 2009).

As credit constraints gradually unwind, consumers may spend more freely, although this may take a long time. Confidence that the consolidation programme is working may be another force tending to promote expansion, as may lower commodity prices.

4. History of government debt in the UK

One argument often used by opponents of the fiscal austerity programme is that UK government debt is fairly modest in comparison to its level throughout much of its history. For example, it was well over 200 per cent of GDP after both the Napoleonic Wars and the Second World War, so it might be asked why a debt-GDP ratio of about 65 per cent, which is approximately its current level, be a major concern? (See chart.) This is undoubtedly an important question, to which the following remarks may provide a very brief and inadequate answer.

(a) There is evidence (see Reinhart et al, 2012) that real long-term interest rates have been higher in times of high public sector debt in the UK than in periods of lower debt.

(b) Government debt was clearly on a downward path in both periods (i.e. between 1815 and 1914 and after 1945). For example, the postwar debt-GDP ratio peaked at 238 per cent in 1947; in 1952 it was 162 per cent, in 1957 122 per cent and by 1962 it was just under 100 per cent. The above discussion has suggested that what may be relevant for crowding out is not the current deficit, nor the current debt, but the expected future time path of the debt. Possibly a high but rapidly falling national debt may be less damaging than a low but rapidly increasing national debt.

(c) Reasons for the downward trajectory of national debt in the Victorian period were conservative budgetary policy, and both economic and population growth. In the post 1945 period, inflation and economic growth combined with fairly modest budget deficits were the main factors. However, it is unlikely that either population growth or inflation will reduce debt significantly in the next few years.

(d) Demands upon the state were much lower during these time periods. In much of the nineteenth century, over 90 per cent of central government spending was on debt interest and defence. In the period after 1945, it is true that the welfare state was built, but demands on the welfare state were far more modest than they are now. There are a number of reasons for this. In the early post war period, the proportion of pensioners was far lower, as was the number of university students and the proportion of school children educated beyond the age of 15. Spending on the health service (3 per cent in the early post war era as opposed to about 8 per cent today) was much lower as a percentage of GDP. This list of reasons could surely be lengthened.

(e) Debt interest payments (at about 6 per cent of GDP) were relatively modest in the immediate postwar period in part because much of the debt was issued in ‘forced lending’ campaigns during the war. Also, as argued by Reinhart and Sbrancia (2011), the government managed to reduce its debt servicing costs by implementing various types of financial repression.

(f) Demographic factors such as an ageing population may mean that the ‘true’ government debt at the moment is much higher than that quoted (because of higher pension costs, extra health expenditures in the future, etc.)

It seems, then, that although debt was extremely high in the periods mentioned, it was clearly affordable, there was no risk of default and it was on a steady downward path. This contrasts with the current situation, where debt is rapidly rising, there are considerable demands on the government budget, and a significant increase in the ratio of taxes to GDP may not be feasible politically. So, the fact that debt has been much higher in the past in the UK than at present is no reason for being sanguine about the current level of debt (or its rate of increase).

5. Qualifications

The Chancellor seeks to eliminate the ‘structural deficit’. However, it might be argued that we do not need to do much more than stabilise the debt-GDP ratio and then set it on a gradually declining path. A deficit of 3 per cent should do this — with public sector debt peaking at about 80 per cent, and nominal GDP growth of about 5 per cent, this should produce a declining debt-GDP ratio. Also, there is nothing in the above analysis to suggest that fiscal consolidation is appropriate for the euro zone. Indeed many of the mechanisms which might bring about an ‘expansionary fiscal contraction’ are neutralised by the fact that the countries are members of a common currency area, and hence unable to adjust their exchange rate or interest rates vis-à-vis the rest of the zone. ...cont. on p.22
Obituaries

I M D Little

I M D (Ian) Little, who died on 13th July 2012 at the age of 93, was an outstanding figure in world economics in the later 20th century. His influence on economic affairs was wide-ranging, profound, and — last but far from least, and not to be taken for granted — unfailingly positive. Above all, he gave a new direction to development economics, focusing on exploitation of trade opportunities and correction of distorted price structures, rather than state controls and planning.

Academic prowess was not in his family’s tradition. On his father’s side his antecedents were cavalry officers (over two generations commanding the 9th Lancers). His mother was the granddaughter of a Victorian railway entrepreneur, Thomas Brassey, whose legacy included the country estate in Northamptonshire where Little passed his childhood as the youngest of six. After Eton, his undergraduate years at New College, Oxford, were interrupted by RAF service in World War II, as a test pilot for rotary-wing aircraft (the first helicopters, and their ancestor the autogyro). He was awarded the AFC and rose to the rank of squadron leader.

He returned to Oxford in 1945, aged nearly 27, a changed person — apart, that is, from his continuing skill at bridge and other competitive card games. Previously a playboy undergraduate, he now and for the next 60 years showed himself to be intellectually brilliant, sharply focused on academic investigation, and a workaholic.

In 1947 he gained a First in Philosophy, Politics and Economics (largely omitting the Politics, by virtue of the special dispensation for wartime degrees). In 1948 he was elected Fellow of All Souls by examination, and in 1949 was awarded the DPhil. His dissertation, published in the following year as A Critique of Welfare Economics, earned him an immediate reputation as an economic theorist, and by the standards of doctoral monographs became a best-seller. Its central insight was that the ranking of society-wide economic alternatives cannot dispense with value-judgements concerning the distribution of wealth and income. There followed several other works on welfare, notably ‘Direct versus Indirect Taxes’ (Economic Journal 1951), a classic refutation of the supposed classic case for direct taxation (which overlooks the trade-off between earnings and leisure).

Oxford remained Little’s base for the next 25 years, as his professional contributions multiplied and he acquired the status of a leading development economist. Yet the path was not as simple or direct as that. Exploratory restlessness led him to a varied succession of appointments and projects, as he sought to apply his economic understanding in different contexts and not allow specialism to shut out other interests.

From All Souls he was appointed in 1950 to a Fellowship at Trinity College, moving two years later to Nuffield College, which offered greater flexibility for outside engagements, and involved no obligation to teach undergraduates. In 1955-56 he was on secondment in HM Treasury as Deputy Director (to Sir Robert Hall) of the Economic Section, his one spell of UK Government service. The experience confirmed his interest and stimulated his versatility in applied questions of economic management and policy. Subsequent work on UK macroeconomic issues included the chapter on fiscal policy in Worswick and Ady (eds), The British Economy in the 1950s (Little had covered the same topic in their earlier volume on the years 1945-50); a long Memorandum of Evidence, jointly with R R Neild and C R Ross, to the 1958 Radcliffe Committee on Monetary Policy; and booklets with J S Fleming on the case for a wealth tax (Methuen, 1974), and with W M Corden and M FG Scott on the choice between devaluation and import controls in Britain (Trade Policy Research Centre, London, 1974 and 1980).

On the microeconomic side Little, together with Richard Evely, directed for the NIESR in the later 1950s a large-scale study of Britain’s industrial structure, published in 1960 under the title Concentration in British Industry (Cambridge UP). Far more eye-catching, and mind-bending, were his article ‘Higgledy-Piggledy Growth’ (Bulletin of the OU Institute of Economics and Statistics, 1962) and its book-length sequel a few years later with A C Rayner, Higgledy-Piggledy Growth Again (Blackwell 1966). This work stemmed, characteristically, from Little’s responsibility for the financial investment policy of Nuffield College, in conjunction with its broker Ralph Vickers. Little showed that it was useless to try to predict future corporate profits from any single past earnings growth ratio, or from dividend cover, or from asset size...It caused a sensation in the world of investment that is hard to overstate, and, even fifty years later, it remains deservedly influential.’ The words are those of Professor Colin Leach, reproaching the Times obituarist (3rd August and 6th August 2012) for neglecting the item.

Little’s introduction to development economics came with his joining the MIT India Project in 1958-59. This was thanks to Paul Rosenstein-Rodan, with whom Little had recently collaborated on an investigation of nuclear energy possibilities in Italy. Received wisdom was that market forces had failed the less-developed world, whose efforts to catch up must accordingly be based on centralised investment planning and trade restrictions, supplemented by foreign aid. Little had no initial reason to dissent. He wrote two books on the role of aid (Aid to Africa, Overseas Development Institute 1964; and with J M Clifford, International Aid, Allen and Unwin 1965), and had no time for sceptics such as Peter (later Lord) Bauer.

Two things changed his mind. One was an insight, gleaned during his second India visit in 1965, into the poor returns and other failings of India’s public investments. The other was awareness of the early successes of export-led growth in the ‘Asian Tigers’ (Hong Kong, Singapore, and especially South Korea and Taiwan). These real world out-

www.res.org.uk/view/resNewsletter.html
turns encouraged a re-examination of basic principles. The corollary was, in Little’s perception, that developing countries should drop inward-looking policies, liberalise trade, and align their domestic pricing and incentive systems with external opportunity costs through the application as appropriate of taxes and subsidies and the use of shadow prices in cost-benefit estimations. The new approach was elaborated by Little and colleagues (he being an inspirational team leader and not merely the senior author) chiefly in two publications of the OECD Development Centre: Manual of Industrial Project Analysis in Developing Countries, II, Social Cost-Benefit Analysis (1969) with J A Mirrlees (and its revised version of 1974, entitled Project Appraisal and Planning for Developing Countries); and Industry and Trade in Some Developing Countries (1970), with M FG Scott and T Scitovsky.

These works ushered in a new era of economic thought and achievement in developing countries, including the largest of them (China and India), and embracing also relevant international institutions such as the World Bank. It will be for future economic historians to assess just how much the ‘Little Revolution’ contributed to — as opposed to merely explaining — the spectacular advance of per capita incomes in these countries over the past 40 years.

Little himself certainly did not rest on any laurels. From 1970 to 1975 he held a statutory Chair at Oxford — Professorship of the Economics of Underdeveloped Countries, as it was still called (having not long before discarded a reference to the Colonies) — which he resigned on appointment to a medium-term position at the World Bank. From 1978 he was self-employed or ostensibly retired. During the last quarter of the 20th century he in fact produced ten books, wholly or mostly on development issues. Four were single-author volumes, another four jointly authored (two of them with V R Joshi on India’s macroeconomic policies over a near-forty-year span) and two others co-edited. Nor did he stop there. His last two books were, respectively, a review of principles of public policy entitled Ethics, Economics and Politics (OUP 2002), and an engaging autobiography, more personal than professional, entitled (naturally) Little by Little (privately printed, 2004).

He was elected FBA in 1973 and appointed CBE in 1997, an absurd under-recognition of his achievements when one recalls — to take just one example — that every outside member of the Bank of England Monetary Policy Committee is routinely made a CBE. For that matter, he could be said, by comparison with some of its recipients, to look distinctly overqualified for the Nobel Prize in Economics. Little himself, happily, was the last person to be troubled by such considerations.

Peter Oppenheimer
Christ Church, Oxford

Phyllis Deane, 1918-2012*

Sadly, my dear friend and long-time colleague, Phyllis Deane, has died. She and I were colleagues in the Cambridge Faculty in the 1960s. She supervised my Part I Trinity Hall pupils in economic history and I supervised her Part II Newnham pupils for the principles and applications papers in Part II. When I returned permanently to Cambridge in 1982 (I had been there on leave in 1972-73 and in 1980), Phyllis had just retired from her Personal Chair. We shared a room together. Shamefully, I cumulatively overflowed, as is my wont, onto her desk and she tactfully withdrew after a few years. I read a number of her later books in draft — I especially remember The State and the Economic System: An Introduction to the History of Political Economy (1989). Peter Kriesler commented to me that the book ‘was excellent in showing how economists’ views on the role of the state and economic policy are strongly tied to their overall economic outlook, to their underlying economic theory. [It emphasised] the fundamental nature of the relationship between theory and policy’. I went in the 1970s to the lectures that became The Evolution of Economic Ideas (1975). For many years, Maurice Dobb had lectured on the history of economic thought and Phyllis’s lectures continued this tradition. I loved Phyllis’s last major book, her biography of J N Keynes, The Life and Times of J. Neville Keynes: A Beacon in the Tempest (2001), one of the finest jewels in the crown of our profession. Phyllis much admired Neville Keynes for his integrity, hard work and good sense, like calling to like, I think.

Phyllis was both respected and liked by everyone in Cambridge’s deeply divided Faculty. Her own views were explicit and clear and her fair mindedness and balanced approach were a much needed Godsend. As a result she did far more than her share of committee work in the Faculty.

As a scholar her contributions were highly original, pioneering, and extremely wide ranging — regional development in Africa, using social accounting structures, United Kingdom economic history, the history of economic ideas and institutions. Phyllis was unassuming, never one to blow her own trumpet or fight for a place in the sun. When I told her that Bob Fogel and Doug North had won the Nobel Prize for their contributions to economic history, she was over the moon because, she said, it was at last proper recognition of their and her subject; to which, I add, she had made such major pioneering contributions. For example, part of the citation on Phyllis’s election as the 2010 Distinguished Fellow of the History of Economics Society (USA) states: ‘It is difficult to overestimate the significance of [her best known work, British Economic Growth, 1688-1959: Trends and Structure (1962, written with Max Cole)] in twentieth-century economic history. It represented the foundation of British quantitative economic history and guided and inspired a generation of economic historians.’ In my and that of many others, she should have received the prize herself.
When Nick Crafts’ (1985) celebrated volume with Oxford, *British Economic Growth during the Industrial Revolution*, came out, she told me that she was delighted that her much earlier estimates had now been superseded. In what was to prove to be my last conversation with her, I phoned to tell her she had been elected the 2010 Distinguished Fellow. Her comment: ‘How ridiculous!’

Phyllis came to Cambridge in the late 1940s, invited by Dick Stone in the early years of his Directorship of the Department of Applied Economics (1945-55). She worked on regional social accounts. She became a University Lecturer in 1961. She did sterling work as an editor of the *Economic Journal* (1967-75), working with her great friend and mentor, Austin Robinson, and also with David Champernowne and Brian Reddaway. In my view these were some of the greatest years of the *Journal*. That the *Journal* no longer contains either reviews (other than the excellent review articles of outstanding books in the Features issues) or book notes, or even obituaries, is a sad reflection on it not being what it used to be.

Phyllis was beloved by her pupils and her colleagues in Newnham. She followed her pupils’ subsequent careers with pride and enjoyment. She was an outgoing and caring person, combining an admirable moral outlook with quiet anger at injustice and/or stupidity, and informed, down-to-earth criticism of economic and social happenings.

Phyllis and Joan Porter, her inseparable companion of over 50 years who was noted for her down-to-earth wisdom, set up a combined home for their aging widowed fathers in Cambridge and continued to live there after their fathers died. Jane Humphries reminded me of the Norwich terriers who guarded the home and grew ‘even more plump on the doggie chocolate drops they earned for shutting the door’. Whenever our mutual friend Mark Perlman visited Cambridge, Joan (Harcourt) and I could be asked to this comfortable home in our mutual friend Mark Perlman visited Cambridge, Joan (Harcourt) and I could be asked to this comfortable home in Stukeley Close for wonderful lunches — traditional British fare served with excellent wines. Conversation would be lively and wide-ranging, with much good natured gossip and anecdotes thrown in, usually from Mark’s encyclopaedic knowledge of what was happening or had happened to whom in our trade, but with plenty of room for others to chip in.

Joan Porter’s death following years of ill health was a great blow to Phyllis — she told me that until it happened she reckoned she had led a charmed life. I don’t think she ever fully recovered from it and she gradually withdrew as increasing lameness and age made it more difficult for her to get out. A few years ago Philomena Guillebaud drove me out to visit Phyllis in her last home, Cottenham Court in Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing. That she died peacefully in her Cottenham village. We had a pleasant time but it was clear that she was withdrawing.
down the discussion on reform. However, under the patronage of his supervisor, he kept his position as Lecturer in Political Economy at the social science university run for activists in the ruling Party. He commenced work on the obligatory second doctorate (habilitation) that Polish academics need to get for advancement at universities. Lange asked him what topic he wanted to research. Kowalik answered ‘Rosa Luxemburg’. Lange, who had been in the PPS and had made too many compromises with the Stalinists, paused, reflected, and then said to the young Kowalik: ‘The topic is interesting. But it will do you no good at all.’ He obtained the degree in 1963, and was rewarded with a permanent position in the Economics Institute of the Polish Academy of Sciences, editing the Lange Collected Works.

In October 1965, Lange died. By then Kowalik was working with Kalecki in criticising the policy failures of the government, but also with the philosopher Leszek Kolakowski and the economist Włodzimierz Brus, who were using their party positions to protect dissidents within and outside the ruling party. With the failure of the government’s economic strategy, shortages of consumer goods culminated in another ‘meat crisis’ at the end of 1967. The party authorities responded with a crack-down on Jews and ‘revisionists’. Kowalik was called before the Disciplinary Committee of the Party, headed by the wife of the Party leader Zofia Gomulka, like her husband a trades union activist before the War who had been held in solitary confinement during the Stalinist period. She leafed through Kowalik’s file and remarked, ‘what a pity; what a pity: Such a good background wasted amid the corrupt intelligentsia’.

Kowalik was expelled from the Party. But he retained his position at the Polish Academy of Sciences. He was not allowed to publish, except for those Collected Works of Lange. Much of his output for the next two decades appeared under the name of friendly associates who were not subject to the ban on publication, most notably Edward Lipinski, the oldest and most distinguished Polish economist, who had given Kalecki his first job in 1929. After Kalecki’s death, in 1970, Kowalik took on the additional responsibility of supervising the editing by Jerzy Osiatynski of the Kalecki Collected Works.

In 1972 he came to Cambridge for two years as a Visiting Fellow at Clare Hall. This was an opportunity to resume his increasingly close association with Kalecki’s oldest friends at Cambridge, Maurice Dobb and Joan Robinson, as well as a new generation of Keynesians, Geoff Harcourt, Bob Rowthorn, and John Eatwell. In 1981-1983 he was a fellow of the Woodrow Wilson International Center for Scholars in Washington DC. In 1983, he taught for six weeks at Balliol College Oxford. In 1987-1988 he was a Visiting Professor at York University in Canada. In 1989, he taught at the New School for Social Research in New York. At the end of that year, he was finally awarded the Professorship that had eluded him for two decades, recognition that the government censorship office had not prevented him from becoming the most published econo-

Correspondence

Economics in the Netherlands

Sir,

I was intrigued to read the two articles on universities in the Netherlands. Fellow members may be interested to know the results of a comparison exercise I undertook a couple of years ago about a festschrift in his honour it turned down with the remark that ‘this is not my style’. He asked instead for a volume honouring Luxemburg, Lange and Kalecki. This integrity gave him a moral authority that few economists have ever had, and makes his death a loss to humanity as well as to the profession.

Tadeusz Kowalik leaves behind his widow Irena, a son Mateusz, and a daughter by his first marriage.

Janek Toporowski
School of Oriental and African Studies
London

I found that in 2002 the Netherlands spent roughly a quarter more than the United Kingdom and more than half as much again as Germany. See Journal of US-China Public Administration, January 2011, p.102 ‘Table 9: Expenditure per Student on Tertiary Education 2002: Three Alternative Volume Measures’. (All figures in OECD dollars).

Such results are consistent with the anecdotal evidence reported by Professor Arnold.

Yours sincerely,

Donald Roy
It should be clear that this article does not argue that it is never appropriate to use expansionary fiscal policy to combat a downturn in economic activity. Indeed, the expansionary fiscal policies pursued by many countries in response to the 2008-9 financial crisis were almost certainly justified and prevented the recession, bad as it was, from becoming far worse. Rather, the contention is that when the public sector debt is high, and/or rising rapidly, expansionary fiscal policies are far less likely to be successful in boosting economic activity.

A further point is that the macroeconomic consequences of public sector debt may well depend on what the debt is used for. For example, public sector debt used to finance infrastructure projects may have very different effects from that issued to finance social security spending. This is certainly something that needs further research.

6. Conclusion

There is some evidence that the fiscal consolidation programme is working - the deficit-GDP ratio was 11.2 per cent in 2009-10, but fell to about 8.4 per cent in 2011-12, a reduction of 2.8 per cent or a quarter. Figures so far for the current financial year are not encouraging, but figures for both public expenditure and taxation are notoriously volatile. But even though the deficit-GDP ratio may have come down, public sector debt is still rising at a rapid rate.

The basic argument of this article is that a relaxation of the fiscal consolidation programme is unlikely to have a significant expansionary effect and could well be quite risky. Government debt even with current policies seems likely to rise above levels that might be deemed desirable, and pursuing a policy which might allow the ratio to go much higher would be very risky indeed. Relaxation of the programme would be likely to result in higher long-term interest rates, lower share and asset prices and an appreciated exchange rate, as well as expectations that there would eventually have to be higher taxation and/or lower expenditure to get the debt under control, and these are likely to exert a contractionary force on the economy.

We have also argued that the fiscal consolidation programme is not responsible, in any major way, for the recent anaemic growth in output. Almost certainly, a number of other factors are responsible for this, in particular the after effects of the financial crisis of 2008-9.

It seems that the economy is in a strange kind of trap, with both conventional monetary policy and fiscal policy unable to stimulate the economy any further, because of the ‘zero lower bound constraint’ and the deficit/debt problem, respectively. However, the Bank of England might be expected to continue to pursue unconventional monetary policies such as Quantitative Easing, which may have some positive effect. The government might pursue policies design to free up bank lending, but there is not much else it can do; it needs to persist with its current programme, and, in due course, as credit constraints are unwound, the economy might be expected to recover.

One would not rule out relaxing the consolidation programme under all circumstances. Faced with a major collapse in the euro zone, for example, some strictly temporary and appropriately targeted government expenditure increases and tax reductions might be implemented. However, it would still be necessary to do this in a way which preserved the credibility of the government’s deficit reduction policy. And more generally, it needs to be emphasised that preserving the credibility of the government’s deficit reduction policy is absolutely key to its success. Credibility is not something that can be achieved easily, and politicians should be very wary of taking any actions that might jeopardise this credibility. This is something that has perhaps not been appreciated sufficiently in recent debates.

References:


Royal Economic Society 2013 Annual Conference

3rd April to 5th April 2013
At Royal Holloway, University of London

Call for Papers

Keynote lectures will be given by:

Raquel Fernandez Matthew Jackson
New York University (EJ Lecture) Stanford (Hahn Lecture)
Charles Manski Richard Blundell
Northwestern (Sargan Lecture) UCL (Presidential Address)

The Programme Committee invites submissions of papers for General Sessions from academic, government and business economists in any field of economics and econometrics.

Submissions can be made now at www.WebMeets.com/RES/2013

Deadline for submissions: 14th October 2012.

Notification of acceptance will be sent by the end of December 2012.

Online Registration will be open from January 2013. Further details on registration, accommodation and other matters — including information on financial support for postgraduate students attending the Conference — will be made available via the conference web-site: www.resconference.org.uk

Programme Chair: Imran Rasul (UCL), Deputy Programme Chair: Paolo Surico (LBS), Local coordinators: Philip Neary (RHUL) and Chris Gee (RHUL): RES2013@rhul.ac.uk
RES News

RES 2012 Young Economist of the Year Competition

From the final shortlist of 18 essays drawn from a total entry of over 750, the judging panel of Professor Richard Blundell (RES), Charles Bean (Bank of England) and Stephanie Flanders (BBC) selected four winners. Once again the overall standard was extremely high, with a number of entries from international schools. A list of highly commended entries and also a list of the schools and colleges from the UK and overseas that joined in for the 2012 competition is published at www.res.org.uk.

In first place —
The judges agreed that the best essay was by Calum You for his essay: ‘Lamentations of a Chancellor: Is there a better way out of the debt crisis than austerity?’

In second place —
Ravi Prasad was awarded second place for his essay answering the question on ‘A breakup of the euro provides the best hope for a durable recovery of the European economy. Discuss.’

And in third place —
This year the judges selected two winners for Joint Third Place: Andrew Mitson for his essay ‘To what extent can we use ideas drawn from behavioural economics to help address specific social and economic problems?’ and James King who wrote on the question ‘Africa is well placed to achieve rapid and sustainable development in the decade ahead. Do you agree?’

The winners are invited to an award ceremony to take place at the RES Annual Public lecture at the Royal Institution in London on 22nd November and their winning essays will be published on the RES website.

Junior Fellowship Scheme

The Society is able to offer at least 6 one-year junior fellowships, tenable at Universities in the United Kingdom. Applications are invited from Heads of University Departments in the spring term. The list of 2012 award winners follows.

2012 Junior Fellowship Scheme Winners

After a large and very strong field the Society has decided to offer ten awards under this scheme for the 2012-2013 academic year totalling £92,000. Congratulations are offered to:
E. Ciani, University of Essex
F. Costa, London School of Economics
A. Iaria, University of Warwick
T. Koutmeridis, University of Warwick
C. Krestel, University College London
O. Latham, University of Cambridge
D. Rogger, University College London
C. Steinwender, London School of Economics
B. Tarbush, University of Oxford
A. Walther, University of Cambridge

Election to the RES Council

The first online ballot for election to the RES Council in 2013-2018 took place in September when the majority of members were emailed a link to the candidates’ biographies and ballot paper. Results will be ratified at the Annual General Meeting on Thursday 4 April 2013.

Members of the Society are reminded of their right as members to propose names to be considered for election to the RES Council each year. The formal procedure is that the Nominating Committee, which meets early in February, considers all such names and puts forward to Council a list for approval. This is then the subject of a ballot of all members of the Society in the autumn. The successful candidates join Council after formal adoption at the following AGM.

Any member of the Society who would like to make a nomination may contact the Secretary General at royale-consoc@st-andrews.ac.uk or by post to the offices of the Secretary General, School of Economics & Finance, University of St Andrews, St Andrews, Fife, KY16 9AL. In addition to the name(s), there should be either a brief CV or a link to one. As the process needs to get underway in early February, we would be grateful to receive any nominations by 31st January 2013 at the latest please.

Visiting Lecturer Scheme

Economics departments in any UK university may suggest the name of a distinguished economist for a visit to their department. It will be the responsibility of the host department to cover the costs of travel and hospitality. The Society will pay a fee of £2000 to the lecturer. Applications should be made in writing via the website or to the Secretary-General of the Society for consideration in February and in October.

Scholarly editions

As well as publishing the Economic Journal and the Econometrics Journal, the RES is responsible for the publication of scholarly editions including work by Keynes, Ricardo, Malthus, Marshall, and Edgeworth and offers discounted prices on its publications to RES members who may order one of each of the Society’s publications for their personal use at the special members price. New paperback editions of The Collected Writings of John Maynard Keynes will be published by Cambridge University Press in November 2012 (see p.23)

The full list of available volumes is on the website www.res.org.uk. To place a members-only order please contact the RES Office with details of your membership number and address.

www.res.org.uk/view/resNewsletter.html
Special Project Grant Scheme
Applications are invited from Members of the Society for financial assistance on a one-off basis for the support of activities that further the understanding and use of economics. Applications will be considered three times a year by January 20, May 31 and September 20.

Conference Grant Scheme
The Society’s Conference Grant Fund is available to members who are presenting a paper, or acting as a principal discussant at a conference; support of up to £500 is available. The closing dates for applications are 31 January, 31 May, and 30 September each year in respect of conferences which take place in the ensuing four months.

Support for Small Academic Expenses
The Society is able to offer financial support to members who require small sums for unexpected expenditures. Closing dates for applications are 31 January, 31 May, and 30 September each year and applications will only be considered at these times.

Support for Postgraduates attending RES Annual Conference
All PhD students who are members of the RES (regardless of their nationality) and are not in full time employment can apply to the Royal Economic Society for financial support to assist with conference attendance. No guarantee can be given in advance about the level of support for individual applicants. This application is made after the conference via an online claim form. Applicants will also be required to supply original receipts to support the claim. The deadline for claims next year will be 26th April 2013.

RES sponsored events

The RES Annual Public Lecture 2012
Nobel prize-winner Professor Chris Pissarides of the London School of Economics will talk on Unemployment in Recession on Thursday 22 November in London and Wednesday 5 December at the University of York. Entry is by free numbered ticket only. See the website www.res.org.uk or contact the RES Administrator at royaleconsoc@st-andrews.ac.uk for tickets (priority to school groups until end of October).

RES PhD Presentation Meeting and Job Market
The 8th RES PhD Meeting 2012 will be held on the weekend of 19/20 January at the Queen Mary, University of London, Mile End Campus, London E1 4NS. Submissions are welcome until 18 November and institutions should register with the RES office by 6 December. Full details are given at www.res.org.uk.

The aim of this event is to provide a service both for UK and European university economics departments who wish to recruit lecturers, and for PhD students seeking academic jobs in the UK or elsewhere in Europe. The event consists of two days of students’ presentations and poster sessions. Participating institutions attend these presentations and are also allocated space at the conference site in order to arrange individual appointments with participating students. Participants should note that presenting a paper at the Meeting does not guarantee attention of potential employers: most participating institutions meet job candidates only at interviews arranged in advance and attend only presentations of those candidates.

2013 RES Easter Training School
The twenty-third Easter School organised by the RES, with financial support from the ESRC will be held at the University of Birmingham from Sunday 14th April, 2013 - Thursday 18th April, 2013.

In 2013, the subject of the school will be DSGE Modelling and Financial Frictions. The lecturers will be Professor Mike Wickens (Cardiff University, University of York and CEPR) and Professor Paul Levine (University of Surrey), with Dr Cristiano Cantore (University of Surrey) and Professor Joe Pearlman (City University).

Places are available for 25 resident participants. Accommodation and meals will be provided for the duration of the course. Nominations must be made through the applicant’s Head of Department and should be supported by a short CV, a reference, and a note on the applicant’s research interests. Applications should be submitted no later than Friday 11th January 2013 by post to the RES Easter School Secretary, Department of Economics, The University of Birmingham, Edgbaston, Birmingham, B15 2TT or by email: easterschool@contacts.bham.ac.uk. Successful applicants will be informed in February 2013.
Conference Diary

2012

October

Royal Economic Society Annual Conference (April 3-5 2013)

CALL FOR PAPERS (see p.23)

October 11-12 London
First LSE/Bank of England conference on Macroeconomics. The BoE and LSE are holding a joint conference in the autumn, the first of an annual series. The aim is to ask what economics can tell us about unemployment, productivity and potential output, with a particular focus on the effect of the financial crisis and recession.

Further information: www.bankofengland.co.uk/publications/Pages/events/conf1012/default.aspx

October 19-20 Munich, Germany
CESifo Economic Studies and Uppsala Center for Labor Studies (UCLS) Conference on Families, Children and Human Capital Formation. A joint conference to stimulate research on ‘Families, Children and Human Capital Formation’ will be held on October 19-20 in Munich.

Further information: www.socialcapitalgateway.org/content/event/cesifo-conference-families-children-and-human-capital-formation

November

November 16 Guildford
2nd Workshop Structural Change and Macrodynamics. Funded by the Royal Economic Society under its Special Project Grant Scheme, hosted by University of Surrey. There is an increasing interest in academic and policy circles on the role that changes in the sectoral structure of the economy play for issues such as growth, macroeconomic stability, allocative efficiency, and international trade patterns. The aim of the workshop is to disseminate research and policy findings and to strengthen collaborative research on this topic among various European partners. Confirmed invited speakers will include Vasco Carvalho (CREI), Jean Imbs (PSE), Rachel Ngai (LSE), and Akos Valentiny (Cardiff).

Further information: email Cristiano Cantore at c.cantore@surrey.ac.uk.

November 15-16 Kiel, Germany
Green Growth Conference Co-organised by Dr. Ruth Delzeit, Dr. Dennis Görlund, Katrin Kamin, Linda Kleemann, and Sebastian Petrick (Kiel Institute for the World Economy) and financially supported by the Akademie der Wissenschaften in Hamburg under the Program ‘Forum junge Wissenschaft’. A group of young researchers students from Kiel is organising a conference for other young researchers at The Kiel Institute for the World Economy, Germany

Further information: www.ifw-kiel.de/ or by email to GreenGrowthConference@ifw-kiel.de

November 27 Brussels, Belgium
Fiscal relations across governments levels in times of crisis - making compatible fiscal decentralisation and budgetary discipline. The European Commission is running a one-day workshop focusing on how to render compatible the process of fiscal decentralisation in a large number of Member States with the required fiscal retrenchment to fulfil the new EU fiscal governance rules.

Further information: http://ec.europa.eu/economy_finance/procurement_grants/academic_contributions/calls4papers/ecfin_call_2012_01_0_c_en.htm
Contact Joaquim Ayuso Casals European Commission (Directorate-General for Economic and Financial Affairs) joaquim.ayuso@ec.europa.eu

December

December 17-18 Shanghai, China
World Finance and Banking Symposium ‘Asian Finance and Banking’. The aim of this symposium at Cheung Kong School of Business, is to establish a high quality discussion forum for the academics, professional societies and practitioners. The conference will additionally provide the opportunity to present research papers in all areas of finance, these shall be considered for presentation at the World Finance Symposium.

Further information: www.world-finance-conference.com/

December 17-19 New Delhi, India
Eighth Annual Conference on Economic Growth and Development. The Conference at the Indian Statistical Institute provides a forum for dissemination of modern research in economic growth and development economics, both theoretical and empirical.
Conference diary

2013

January 16-18 Genova, Italy

Fifth Italian Congress on Econometrics and Empirical Economics. Papers in any area of econometrics, theoretical or applied, as well papers in empirical economics are welcome. Keynote Speakers: Claudia Olivetti and Barbara Rossi. Registration deadline: Jan 16 2013

Further information: http://virgo.unive.it
Contact: V.Corradi@warwick.ac.uk

March

March 21-22 London

Rethinking the Economics of Pensions: Is There a Crisis of Pensions or of Pensions Governance and Regulation? A two-day conference organized by the Financial Services Knowledge Transfer Network and the Centre for Competitive Advantage in the Global Economy (CAGE), University of Warwick to take place at the Royal Statistical Society, London.

Further information: see p.4

April

April 3-5 London

Royal Economic Society Annual Conference at Royal Holloway, University of London. General sessions and special sessions from academic, government and business economists in any field of economics and econometrics. Submissions can be made until 14 October 2012 at www.WebMeets.com/RES/2013. Proposals should be submitted by e-mail to res2013papers@ucl.ac.uk.

Further information: or contact RES2013@rhul.ac.uk. (see also p.23).

April 8-9 Edinburgh

CALL FOR PAPERS

IMA conference on mathematics in finance, in conjunction with the Bank of England, now responsible for financial stability in the UK, and with reference to the Department for Business Innovation and Skills Foresight project on the Future of Computer Trading in Financial Markets. The aim is to encourage mathematicians, from a wide range of backgrounds, to address important societal issues in relation to the operation of modern markets. Deadline for papers: December 15, 2012.

Further information: www.ima.org.uk/conferences/conferences_calendar/mathematics_in_finance.cfm or by e-mail to conferences@ima.org.uk

May

May 30-31 Cambridge

Conference on Cross-sectional Dependence in Panel Data Models.

Further information: www.econ.cam.ac.uk/CSDPDM/panel-econometrics-conf/submission.html

May 9-10 Porto, Portugal

CALL FOR PAPERS


Further information: www.fep.up.pt/conferences/icee/

May 29-31 Wageningen, Netherlands

CALL FOR PAPERS


Further information: www.cooperation-conflict.wur.nl

June

June 14-22 New York, USA

The Levy Economics Institute is pleased to announce the fourth Hyman P. Minsky Summer Seminar which will be of particular interest to recent graduates, and those at the beginning of their academic or professional career. Application deadline: March 31, 2013. A small number of travel reimbursements may be available to participants.

Further information: www.levyinstitute.org/news/?event=42

July

July 3-5 Paris, France

CALL FOR ABSTRACTS

Economics for a Better World OECD-Universities Joint Conference. The third biannual congress for economics from a human perspective will again be a collaboration between universities, the OECD, and a number of other organisations.

Further information: www.open.ac.uk/socialsciences/welfareconomicstheory/

July 1-3 Limassol, Cyprus


Further information: www.world-finance-conference.com
Membership of the
Royal Economic Society

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

The benefits of membership include:

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

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

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

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

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

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

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

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

Details and application form are available from:
The Membership Secretary, Royal Economic Society, University of York, Heslington, York, YO10 5DD.

Membership rates for

2012 are £46 ($79, €71)*

There is a reduced rate of £23 ($40, €36) for members who reside in developing countries (with per capita incomes below US$500) and for retired members.

A special ‘on-line only’ offer of three years membership (2011-2013 incl.) for the price of $28/€19/£16 is available to full-time students.

* All customers in the UK should add 7.5 per cent VAT to these prices or provide a VAT registration number or evidence of entitlement to exemption. Canadian customers please add 5 per cent GST or provide evidence of exemption. For EU members, please add VAT at the appropriate rate.

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

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

................. in payment of my subscription for 2012.

Name:

....................................................................................

Address:

....................................................................................

....................................................................................

.....................................................................................

Occupation.................................................

Date..........