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The conference issue
As many readers will know, this year’s Annual Conference took place at the University of Manchester at the beginning of April. Ryan Avent of the Economist bravely undertook the task of reporting on the wealth of activities. The excellent result is a major feature of this issue.

But we also have Michael Burda’s first ‘Letter from Germany’ in which he reflects on the transformation of the German economy in the last twenty years.

Readers will know we have published a number of articles relating to the financial crisis several of them featuring proposals for curriculum reform. (In the web version of this Newsletter these are all linked for convenience).

In this issue Alvin Birdi reviews the major contenders and we report on the first of these — the INET-CORE project led by Wendy Carlin at UCL. In future issues we shall feature alternative proposals.

By the time that the next Newsletter appears, we shall (most likely) know the result of the referendum on Scottish independence. Two articles give a range of divergent views.

Finally, we need to apologise for a number of errors that crept into the April issue at the last moment. Apart from a few typos, whose correct version is self-evident, we particularly regret:

• in Janek Toporowski’s article on Polish contributions to economics, p. 12, col. 2, the omission of the final line of text which should have read ‘... Osiatynski, born in 1941’).
• in Riccardo Bellofiore’s obituary of Augusto Graziani, p. 23, col. 1, the misspelling of the name Bernard Schmitt.
• in the articles by Michael Joffè and Mark Harrison pp. 16 and 19 respectively, incorrect page numbers for the continuation of the article.

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

The Society’s bee logo

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

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

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

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Next issue No. 167 October 2014 Deadline for submissions 16 September 2014
For many years, this column was written by Ray Rees. It’s a delight and an honor for me to step into his very large shoes. But is the RES showing their desperation by choosing me, a Yank, to take over? I don’t have a UK passport and I haven’t been to a RES meeting in more than a decade (shame on me). I would guess that Ray’s reason for the ‘Letter from Germany’ was his wonderful vantage position as a prominent professor at one of Germany’s best universities — and his conviction that academics provide a powerful medium for furthering international relations. I share that view. Although a US citizen, I’ve been living in Europe for 25 years now, five in Fontainebleau at INSEAD and twenty in Berlin. My mother is from Liverpool and was raised there. She also remembered the war as a child which has always made it a little difficult to deal with the fact that her son lives in Berlin. I’m also serving my last year as president of the Verein für Socialpolitik, the RES’s German-speaking sister organization (slightly older than the RES by the way). So I guess I have marginal street-creds as a wannabe European. I hope to share some of my economic perceptions of life in Germany in these interesting times.

The great labor market success

Let’s turn our attention very briefly to football, a sport roundly scoffed at by most Americans (but not by me!) The relative success of the Germans in the World Cup (as opposed to England) has been a theme this summer all over Europe, raising the perennial fear of German dominance. (Witness recent Economist and Financial Times editorials concerning the Cameron-Merkel showdown over the Presidency). While it’s too early to know how well the soccer team will have done, at the time of this writing, the German record in the labor market has indeed been stunning. Since 2003, unemployment fell from 9.8 per cent to 5.3 per cent (national definition), employment grew by a phenomenal 13.2 per cent to an all-time high of 41 million, while the population shrank by almost 2 million over the same period! All boats seem to be rising, so that while wage inequality has edged upward, family income hasn’t, meaning that modest GDP growth has managed to reach most workers’ families. This is not simply a good run, but represents more than a complete business cycle encompassing the Great Recession, when German GDP fell from peak to trough by more than six per cent.

It turns out that the eight year winning streak in the labor market, which began in 2006 or two World Cups ago, may be coming to an end. The narrative in Germany seems to be shifting: The vaunted Hartz reforms introduced in 2003, in which Social Democratic Chancellor Gerhard Schröder rolled back, Thatcher-like, central German aquis sociales in the labor market, had long been accepted as a necessary element of the German labor market success story. Now it seems that Germany is determined — in grand Continental style — to roll back its own success. There are plans to put a minimum wage in place from 2015 which will be universally binding after 2017. The retirement age, which was lifted from 65 to 67 with much internal strife, will be relaxed for workers with 40 years or more of ‘continuing service’ (which will include time spent in unemployment up until two years before retirement). This will paid for by the pension funds, which are currently flush with contributions related to the favorable labor market. Furthermore there are plans to grant pension benefits to mothers who stayed at home in earlier decades to raise their children. The economic justification for this revisionist charge has been informed by a recent paper in the Journal of Economic Perspectives by Christian Dustmann, Bernd Fitzenberger, Uta Schönberg and Alexandra Spitz-Oener, which shifts the narrative of the labor market success from the Hartz reforms (2003-2005) to the flexibility of German collective bargaining over the past two decades. This is a crucial debate with central ramifications for macro and labor policy in southern Europe. After up to five years of austerity, Southern Europe is getting impatient. The Dustmann et al
revisionist argument — that the social system need not have been dismantled to resuscitate Teutonic labor markets — has been picked up not only by southern Europeans and Britons but also by a large component of the German political class as well. The argument is subtle but not easily dismissed: Germany’s labor institutions are simply hard to beat — strong industrial unions which bargain across occupations and tasks in (not surprisingly) Stackelberg fashion across geographic regions; an well-oiled, finely-tuned apprenticeship system which takes human capital formation seriously; a system of short time working that manages (in a fashion which I still cannot fathom) to target and subsidize companies suffering from business cycle loss in custom; generous but disciplined access to unemployment benefits with an increasingly tough search-based means test. Overall, industrial relations are based on strong — some Anglo-Saxon-US analysts would say cartelized — employers’ associations which are absent in most continental European and the UK. These institutions are designed to deliver skilled labor to stable industries in established trades in an orderly way. In the past fifteen years, they were well-poised to supply the goods the newly industrializing economies of the world wanted.

Sharing the benefits

Despite this impressive run, the public perception is that the fruits of the labor market miracle have not been shared fairly, and that those at the lowest end of the distribution deserve more. As a result, the ‘grand coalition’ of conservative (CSU/CSU) and Social Democrat (SPD) parties has agreed to a number of measures designed to win general public support and serve loyal clienteles. First and foremost, the government will introduce Germany’s first statutory minimum wage of €8.50/hour starting in 2015 and applying to all workers in 2017. In doing so they recognized massive public support of more than 70 per cent for the idea. The possibility of a global minimum pay rate in the EU’s largest economy has Belgian and French meatpackers rubbing their hands in delight that it might raise those German unit labor costs — which have been falling secularly since the 1990s. It may well create some extra demand from credit-constrained German households and help bring down those outsized trade surpluses. By estimates of the Essen-based institute RWI, this statutory minimum (from which there are still no exceptions for youth, the aged, long term unemployed, etc.) would put Germany well ahead of the UK on the Kaitz index metric, ahead of Belgium, Hungary and Ireland and just behind Greece. Naturally, the whole distribution will adjust but all the same, the minimum wage ‘bite’ to UK levels, the general wage level needs to rise by about 8 per cent!

On the basis of gross aggregate labor share in GDP as reported by the OECD as a crude metric for unit labor costs and competitiveness, the argument that nominal wage moderation (in particular the growth of fringe benefits) has been significant since the mid-1990s is compelling. Since 1993 the wage share in Germany fell from 55.4 per cent to 50.9 per cent, implying an overall decline in unit labor costs of 8.1 per cent. Yet in the Netherlands the reduction was greater, from 70.9 per cent to 64.7 per cent (8.7 per cent), and unit labor costs fell in the US on this metric by only 2.6 per cent over the same period. The lion’s share of the story is manufacturing, where the decline has been much larger, since the outset of monetary union and is due to accelerated outsourcing of low productivity services in that sector. That outsourcing really took off after 1990 and gained further speed after eastern EU enlargement.

Low and declining labor shares may indicate high profits which can be redistributed, yet before drawing hasty conclusions we need to remember where Germany came from. Unification was an enormously expensive affair, costing taxpayers upwards of EUR 2 trillion over 20 years. Much of this was the cost of social insurance for Easterners — funding unemployment benefits, pensions, disability and health insurance — who had no real economy to speak of at the outset. Those who are old enough will remember that Chancellor Kohl promised no new taxes to finance reunification, borrowing instead and raising the social contribution rates on current Western workers (Germans don’t consider these to be taxes, but never mind!). Indeed the social contribution rate (the share of gross wages paid to social insurance funds as a fraction of the gross wage bill) rose in Germany from under 30 per cent in 1990 to almost 37 per cent in 1998. The wage share was already high in West Germany in the 1980s and rose even further after unification as a result.

But East Germans are back to work and their unemployment rate has fallen to levels not seen since the early 1990s. More importantly, overall labor force participation and employment ratios are up, close to Dutch levels, and for older people are higher than they ever were. Exports continue to boom and the German current account surplus does not seem to want to go away. So undoing the Hartz reforms could be interpreted as part of a multi-pronged strategy of the Grand Coalition to roll back huge German balance of payments imbalances in the monetary union which have been the source of much tension and misinformed rhetoric both inside and outside Germany. Throttling Germany’s überperformance in this particular way is more likely a part of the survival strategy of the Social Democrats, who paid a high price for Chancellor Schröder’s reforms a decade ago and got little credit for it.

Explaining labor market performance

I don’t share Dustmann et al.’s view that Germany’s Weltmeister labor market performance is only due to flexible wage setting, because they don’t really prove the point in their paper. When my students ask me how to explain the German labor market miracle I say ‘it’s all in
Correspondence

It's not enough for unions to agree to lower wages and fringes and to eliminate paid overtime. Wage moderation doesn’t help if workers aren’t willing to work at those wages. While one decisive element of the Hartz IV reform — reducing generosity and duration of unemployment benefits and follow-up assistance — certainly incentivized unemployed workers to accept job offers more rapidly, another (Hartz III) was about better monitoring of job search, placement assistance, and information exchange. In standard models of search these measures will lead to lower reservation wages for unemployed and increase job acceptance, and indeed empirical evidence shows an uptick in exits from unemployment following the reforms. Chris Pissarides notes that the Beveridge curve in Germany shifted inward after 2008, consistent with an increase in matching efficiency and increased job search. Looking at Dustmann et al.’s Figure 2 (reproduced above), the big decline in indexed wage growth for the 15th percentile starts in 2004, the year reforms were put into effect. Yet collective bargaining institutions have existed for decades. Labor supply must be a part of any account of the German labor market miracle.

Higher Education Academy award

Rob Ackrill, Professor of European Economics and Policy at Nottingham Business School, Nottingham Trent University, has been awarded a National Teaching Fellowship by the Higher Education Academy. This award recognises excellence in higher education teaching and support for learning.

For recent awards to the Society’s officers, see p. 25
April is a transitional month, and as I rode the train north from London to Manchester I noted the transition from cold and wet to colder and wetter. Inundation had proved good for the British economy, however, which was undergoing its own shift: from a halting and uncertain recovery to rip-roaring growth. GDP expanded at 0.8 per cent in the first quarter of 2014, and one could just about discern the sound of muffled cheering from beneath the layers of rain gear.

Indeed, the world economy as a whole seemed to be shaking off the economic troubles of the last half decade as economists converged on the University of Manchester for the annual conference of the Royal Economic Society. That promised to make the gathering an interesting one. Economists continue to explore how things went so badly wrong in the five years from 2008, while also turning their attention to a new set of questions and challenges. In the weeks leading up to the conference an active and public debate built over questions of rising inequality, the effects of new technologies, and the possibility of prolonged ‘secular stagnation’. I was interested to see what light the economists in Manchester might shed on these and other burning issues.

I did not have to wait long. In the conference’s opening act, the Hahn Lecture, economist Sendhil Mullainathan of Harvard University described the remarkable ways in which technology was beginning to change the practice of economics itself.

The robot theorist
As Mr Mullainathan pointed out, econometric analysis is constrained by the imagination of the researcher. Economists can use theory to guide statistical analysis, choosing particular relationships in the data to test. But this process is not amenable to the discovery of unknown unknowns: meaningful relationships in the data that have not yet been described by theory. Before the development of germ theory, he pointed out, medical scientists were left groping for explanations for why some patients developed infection and died while others did not. Baffled researchers grasped at straws, like the links between patient health and a positive mental outlook.

Only when patient data was carefully searched through for correlations did it emerge that doctors who washed hands between patients lost fewer of them. Artificial intelligence techniques and ‘Big Data’ offer a similar opportunity, to find interesting new empirical relationships, which may in turn suggest theoretical constructions economists had not previously considered.

How? Mr Mullainathan described using machine learning through a process of cross-validation. The technique works best when researchers have access to really big data: datasets that are both deep, containing many entries for each variable, and wide, containing many variables. The researcher can then divide the data into many subsamples and set the computer to going through them one by one, divining relationships from one and testing the results on another to eliminate spurious correlations. In this way the machine can learn to detect meaningful patterns in the data.

A researcher can then test how her theories stack up against the machine’s results by comparing an analysis of the data which includes the researcher’s theories against one which does not. If the explanatory power of the analysis is no better with the researcher’s pet theories, the machine may be picking up a more important or fundamental relationship in the data than existing theory had managed to detect: an economic equivalent to hand-washing. Mr Mullainathan went on to suggest that the theorization process itself could ultimately be automat ed, and machines left to build up robust models of the data that best the human competition in terms of predictive power. Of course machine intelligence is only as powerful as the data are deep. Yet as the amount of information collected explodes such techniques will become more useful, giving savvy researchers a means to boost up their analytical strength.

With that to mull over, participants broke for the first round of paper sessions. As always, the conference provided a bonanza of intriguing new research across a dazzling array of subfields, including my personal favourite, economic history. A fascinating paper by Luigi Pascali, of the University of Warwick, used the introduction of a new shipping technology — the steamship — to assess
the importance of trade growth to industrialising economies. Steamships had a differential effect on market potential across economies; those favoured by trade winds enjoyed negligible improvements in effective distance from other markets compared to those disfavoured by the winds. That pattern allows Mr Pascali to estimate fairly directly the causal impact of increased trade. He reckons that the steamship deserves significant credit for launching the first great wave of globalisation in the second half of the 19th century, but also that economies with poorer institutions benefitted remarkably little from greater trade.

A political economy

Quite a lot of the research presented focused more heavily on live economic issues, including a British productivity puzzle that has survived the upick in growth and hiring. A special session sponsored by the Bank of England and the National Institute of Economic and Social Research (NIESR) focused on ways in which financial market disruptions might account for the dramatic shortfall in productivity (about 15 per cent relative to the pre-crisis trend). Work by NIESR scholars Rebecca Riley, Chiara Rosazza-Bondibene, and Garry Young examined whether banks tightened lending standards during the crisis, disproportionately harming bank-dependent businesses and thereby weakening productivity growth. Lending did dry up, they note, but productivity declines did not appear to be concentrated among the businesses most dependent on bank financing. The puzzle deepens.

Whether obstacles to resource reallocation might play a role was also examined, but results were less conclusive. The first set of authors reckon the crisis impaired the reallocation of resources across firm but did not turn up much evidence that this breakdown was a major factor behind Britain’s disappointing productivity growth. Another piece of research, by Alina Barnett, Ben Broadbent, Adrian Chiu, Jeremy Franklin and Helen Miller reckoned the matter was worth further study. The authors argue that dispersion in output, prices, and returns across sectors has been on the rise, even as capital levels across sectors have not changed very much, making the flow of investment (or lack thereof) look more a potential culprit in the case of the missing productivity growth.

Britain’s productivity conundrum made the perfect example of the desperate need for solid economic analysis in government. That very subject, in turn, was the focus of the Government Economics Service (GES) plenary discussion on the most poignant of topics: had the economics profession managed to contribute to better policy-making since the creation of the GES 50 years before?

Leading off the discussion was Nick Macpherson, Permanent Secretary to the Treasury, who gave economics good marks, all things considered. Over the past half century, he noted, dismal scientists regularly steered policymakers in the right direction: in urging government to rethink macroeconomic policy in the 1970s, in arguing that a fixed exchange rate was not needed as a nominal anchor, in outlining the limitations of price stability in guaranteeing a healthy economy, and in setting out a new agenda for productivity growth. Economists also seem set to play critical roles on looming issues, he reckoned, related to the economic approach to climate change policy and in balancing the pursuit of economic growth with measures of well-being.

Yet Nick Crafts, of Warwick University, warned that economists ought not overstate their own importance. Yes, he noted, economists could claim some credit from a move away from costly industrial subsidies and toward a policy of embracing competition and globalisation. But there are lots of things economists know are good ideas — sensible supply-side reforms — that rarely make it onto the political agenda because they are vote-losers. Maybe, Mr Crafts reckoned, it was time for both economists and politicians to think about new institutional architectures, which duplicate the successful experience of monetary policy in turning over some choices to relatively independent technocrats.

Of course, as Wendy Carlin of University College London (UCL) pointed out, the rather gentle assessment of the policy contributions made by economists glossed over the disaster of 2007-9, when the world economy teetered on the brink of a new Depression thanks to a near financial meltdown. The bitter truth is that economists simply did not understand the financial system before the crisis struck, she mused. Economists must learn from recent failures, to investigate how the ‘financial cycle’ shapes the business cycle, and how the banking system reacts to economic changes and government policy in accumulating massive piles of leverage.

What seems clear, concluded Richard Blundell, of UCL and the Institute for Fiscal Studies, is that government economists and academics need each other. Both bunches benefit from their interaction, as does society as a whole. That is true even though, as Professor Crafts noted, society often enough ignores the best advice of economists. A number of research sessions focused on major questions of national governance — on the possibility of Scottish independence from the United Kingdom and on the benefits of European Union membership — reiterated the ways in which sensible economic judgments may be cast aside amid populist fervour.

A special session on the macroeconomic challenges that would confront an independent Scotland underlined how economically fraught the decision to rupture the Union
Features

could be. The currency question might prove most vexing in the short run. Work by Angus Armstrong and Monique Ebell emphasised that while an independent Scotland would have several currency options available to it, each involves a troubling balance between costs and benefits. Remaining within a sterling zone (informally, if the UK government declines to accept a formal currency union) would minimise transaction costs within Britain and the need to build new Scottish financial institutions. But it would also mean sacrificing the possibility of an independent monetary policy and would tie the Scottish government’s hands in the event of financial instability. Scotland would also need to run large budget surpluses to maintain the credibility of its continued use of the pound—especially if, as is likely to occur, Scottish borrowing costs rise above those for the rest of the UK.

An independent Scottish currency would provide more flexibility. But it would require Scotland to build new financial institutions and financial markets, and transaction costs would rise. The new central bank might struggle to build monetary credibility; the more the bank felt the need to pursue hard money to establish that credibility the less monetary freedom it would consequently enjoy. Joining the euro zone, another possibility, would entail fewer transaction costs, but also less monetary and fiscal flexibility. And Scotland would probably not be able to join the currency area immediately upon its independence.

Currency issues aside, Scotland would face significant fiscal challenges, according to work by Gemma Tetlow, and by David Bell. Its fiscal position is worse than that of the rest of the UK, entailing less revenue and more spending per person. Meanwhile, revenues from North Sea oil production are declining. Mr Bell reckoned Scotland could work with the rest of the UK to pursue new constitutional arrangements, involving hybrid fiscal regimes. But Scotland is unlikely to enjoy terms nearly as favourable as those it does now, thanks to the large gap in size, in terms of population and economy, between Scotland and England. A hard-nosed analysis of the independent question suggests Scotland has a tough road ahead of it should it vote to separate. Yet it is far from clear that economics will have a deciding say in the matter.

Another session included fascinating work by Nauro Campos of Brunel University, Fabrizio Coricelli of the Paris School of Economics, and Luigi Moretti, of the University of Padua. The authors used an intriguing technique—synthetic counterfactuals—to assess the benefits of membership in the European Union. For every economy that has acceded to the union, they build a shadow economy consisting of a weighted average of non-EU economies which closely tracked the new member’s performance prior to its joining the EU. Then they compare the performance of the new member after joining up with that of the synthetic alternative to gauge how membership affects economic performance.

With the exception of Greece, the benefits are strikingly large. Real GDP per capita in Britain, for example, is estimated to be more than 20 per cent higher as a result of its participation in the European Union. Yet counterfactuals are as difficult for the public to appreciate as they are to assess empirically; despite this clever analysis, anti-EU sentiment remains all too common across the UK electorate.

Hollowing out

On Tuesday afternoon, participants gathered in the auditorium to hear MIT economist David Autor deliver the Economic Journal Lecture, and to provide grim news on labour markets in grim detail. Mr Autor presented results from his efforts to untangle the effects of automation and offshoring on labour markets. The two processes are often seen as linked, if not practically identical, in their influence on workers, not least since statistically separating their effects can be tricky. The two forces often operate alongside each other and may reinforce each other; new technologies often make offshoring of particular tasks easier. In some cases they are effective substitutes; firms may have the option to either ship costly tasks abroad or turn them over to a machine.

But in fact, trade and technology operate in different ways and on different parts of the economy at different times. Studying these differences yields insights on the nature of recent labour-market dislocations. Mr Autor used measures of susceptibility to automation—his Routine Task Intensity index—and the degree of exposure to foreign imports to analyze trends across American metropolitan areas.

In fact, exposure to trade is much more geographically concentrated than exposure to automation; the effects of the former are felt considerably more keenly in manufacturing and export hubs, which represent a relatively
small share of metropolitan areas. While both trade and technology are highly disruptive to labour markets, only trade seems to generate meaningful disemployment effects — including large departures of prime-age workers from the labour force. Automation effects, by contrast, are more apparent in wages and the composition of employment.

The balance of disruption has also changed over time. In manufacturing industries automation had its biggest effect in the 1980s and 1990s; computerization became less disruptive over time while trade-particularly with China, loomed larger. In non-manufacturing industries, however, the menacing hand of automation has grown over time: a striking datapoint given the criticality of non-manufacturing industries in generating recent employment growth.

Amid the forces, economic and political, that are buffetting rich countries it is easy to forget about the truly encouraging transitions elsewhere in the global economy. Wednesday morning’s IGC Plenary yielded a discussion of one of the most surprising: the improving economic prospects of Africa. Among other unexpected (and perhaps unlikely) developments in recent economic news is the rather impressive growth performance of African economies from the 1990s, back to rates last seen during the optimistic 1960s and 1970s. The Africa boom is often dismissed as yet another unsustainable commodity-driven phenomenon, but the panelists in Manchester reckoned there might be more at work.

Paul Collier noted that resource wealth is indeed part of the African story, but he provided an extraordinary statistic. In the OECD, there are roughly $300,000 in known sub-soil resource assets per square mile. In Africa, by contrast, the figure is just $60,000. That is not because Africa is uniquely bereft of mineral wealth on the contrary, given the enthusiasm with which rich countries have plundered their own land over the past three centuries it seems probable that Africa has considerably more resource wealth per mile. Yet what is there is largely unknown thanks to a poverty of infrastructure, data, and attention. Or rather, Mr Collier, noted, to a lack of capacity. For Africa to succeed now where it has failed in the past, he argued, Africa doesn’t simply need to develop its resource assets but to build the capacity to do it well. It must ‘invest in investing’, developing the institutions and known-how to take advantage of its advantages.

Commodities cannot be Africa’s sole focus, however, and John Sutton examined the prospects for African industry. There, too, the continent’s governments need to focus on building a proper foundation. Africa has manufacturing, Mr Sutton pointed out, but much of it is not particularly productive and not linked into global supply chains and markets. Working up to highly productive, high-wage industry is the right goal for Africa, he argued, but historically a broad industrial base has been a precursor to the development of high-value industry. Africa needs foreign direct investment, and lots of it, to begin building its industrial capabilities. Happily, multinational corporations are for the first time taking a hard look at the opportunities presented by sub-Saharan Africa.

Plenty of obstacles remain, however. In the modern global economy supply chains are draped across many different countries, each of which adds a relatively small share of the final product’s value. That makes cheap and efficient movement of goods in an out of individual economies absolutely critical. In Africa, where infrastructure is often rickety or absent, customs and trade finance a mess, and corruption endemic, participating in global supply chains is difficult. But by the same token, a little investment and reform could make an enormous difference.

A giant pool of money

Looming over so many policy debates, in rich and developing world alike, is the question of whether the financialisation of the global economy has served the purpose economists hoped it would. Among the most incisive critics of financial globalisation has been Hélène Rey, of the London Business School, who delivered Wednesday’s Sargan Lecture on the robustness of the international monetary system in a world of massive capital flows. Ms Rey’s presentation represented a strong challenge to conventional views on the virtues of open financial flows. Among economists, financial integration is widely assumed to deliver meaningful economic benefits, by enabling broader sharing of risk and by directing capital to its most productive uses, wherever in the global economy those may be found.

Yet despite years of work estimating the magnitude of these benefits, empirical agreement is hard to come by. Results vary enormously across countries and time periods. The literature suggests that net gains from opening to financial flows are possible but certainly cannot be taken for granted, reckoned Ms Rey.

To try to get a better sense of whether and how financialisation might yield benefits, Ms Rey has worked to build a general equilibrium model for the integration of a set of emerging economies into the global financial system. She began with a model without risk in order to focus on the benefits of capital reallocation. Openness yields a flow of capital toward emerging economies, where returns are higher. That shift does produce benefits. But, she cautions, they are transitory, and because they are shared between the developed and emerging world they are relatively small—especially when the effect of capital flows on the interest rate in the developed world (they increase it) is taken into account. In the model, welfare gains are surprisingly limited.

...cont on p.15
The past month has seen the launch of the new Pelican imprint of Penguin. The original and much-loved series began in 1937 with the Intelligent Woman's Guide to Socialism and Capitalism by George Bernard Shaw to whom is attributed the assertion that economists, even placed end to end, would fail to reach a conclusion.

If the surge of articles in the press and social media networks in recent months is anything to go by, Shaw's characterisation of economics as an embarrassing richness of perspectives about its object, the economy, has been replaced by concerns of an increasing homogenisation of views not just about the economy, but the world, the universe and everything besides.

Such is the charge of Ha Joon Chang's Economics: A User's Guide, the first in the new Pelican series launched three-quarters of a century on from the original series and again at a time of heightened and widespread eagerness in the general population to learn about the causes and remedies of serious downturns in economic activity.

If, as the critics hold, there is little challenge to the dominant perspectives from within the profession, there is certainly no shortage of viewpoints about what needs to be done to rectify the situation. In what follows, the Economics Network has compiled its own user's guide to the ins and outs of the debate with reference mainly to issues of teaching and curriculum.

Early rumblings
An international conference in London in February 2012 led to Diane Coyle's What's the use of economics? a collection of articles from academics, employers and others on the state of the profession and curriculum. Earlier, in 2009, Fontana and Setterfield's collection Macroeconomic theory and Macroeconomic pedagogy was more singularly focused on continuing debates about the adequacy of the underlying macroeconomics theoretical framework we teach to students, for some time dominated by the workhorse IS-LM framework, now superseded by the ‘New Consensus’ 3-equation model.

Discontented students
Students themselves have been organised and articulate players in the recent debates. Notably the ‘Rethinking Economics group’ and the ‘Post-Crash Economics Society’ (PCES) have articulated their concerns in various forums. The PCES’s report from early April, demanding a ‘rethink of the discipline’, complains that the syllabus is outmoded and monopolised by what it calls ‘neoclassical economics’, a term it relates to the methodological prescription of individuals maximising welfare subject to exogenous constraints and an overriding focus on exchange. Their accusation is that the ‘mainstream’ is devoid of ‘competing theories’ (Report, 55) and says relatively little about matters of distribution and social reproduction.

The report laments the absence of economic history and also ‘institutional, evolutionary, Austrian, post-Keynesian, Marxist, feminist and ecological’ viewpoints. It also criticises a perceived over-formalisation of theoretical approaches and an increasing distance from its empirical object of study, the economy.

It is representative of a group of critiques stemming from what might be termed a ‘schools of thought’ or a ‘heterodox’ economics position. The attention here is drawn to the contested nature of economic explanations and the problem of the presumed neutrality of the mainstream. Chang lists no fewer than nine major ‘schools’ of economic thought and immediately proceeds to supplement these with a further four while noting that considerably more sub-schools could be added. ‘Knowing different types of economics’, he writes, ‘is a vital part of learning about economics’ (Chang, 2014, 164). For students such plurality, he suggests, would equip them with a more critical approach to economic policy and the potential cross-fertilisation between the different schools of thought would considerably enrich economic discussion.

Responses
The PCES report stimulated a number of immediate responses on the blogosphere. Roger Farmer, encouraging the questioning of everything that is taught, nevertheless suggests that the students might ‘take the time to absorb those ideas that are in the mainstream’ as it is engagement with these that will ‘make meaningful changes that will advance our understanding’. Simon Wren-Lewis seems somewhat nostalgic about the noble pursuit of a value-neutral science but agrees that there may be hidden judgements lurking somewhere in the background of seemingly non-partisan
New teaching for economics: the INET-CORE project

One high-profile response to the need to revise the economics curriculum, is the CORE project financially supported by the Institute for New Economic Thinking (INET) and based at INET at the Oxford Martin School. We look at the background and progress of the project.

Firstly, some background. CORE is funded by the Institute for New Economic Thinking (INET) which was founded in 2009 as a reaction to the crisis. Sciences-Po and Azim Premji University in Bangalore have also contributed. Leading figures in the early development of INET included Joseph Stiglitz, Robert Johnson, John Kay and George Soros (whose foundation provided financial support).1 It is clear from its inaugural report that INET felt the economics profession had suffered severe damage to its credibility as a result of the crisis and that INET’s mission should be to ‘...create conditions for a younger generation of economists to step forward and examine the world freely.’ (INET 2011, p.2).

In late 2013 INET launched an international project, to run for three years, to produce a new core economics curriculum. The first major report on progress was a workshop at HM Treasury in November 2013 but much of what follows reflects further work undertaken since then. The project is led by Prof Wendy Carlin at UCL, and draws on the expertise of more than 25 academics from universities across the world, together with web designers and developers in Bangalore, and panels of students, teachers and employers to give feedback (a list of participants can be found on the website: www.core-econ.org).

What is the CORE project?

Above all, the CORE project is producing an interactive on-line resource for a first course in economics. The nearest widely-available parallels are the ‘virtual learning environment’ materials produced by the UK’s Open University. Although there is a certain amount of on-screen text that students are expected to read, the emphasis is upon ‘interaction’. The various activities in which students can engage (for each part of the course) are:

Carlin’s rearticulation of Coyle’s naked emperor is her plea to save the baby when throwing out the bathwater. According to her FT article (17th Nov 2013), economics explains the world but economics degrees do not and it is the gap between the two that the project seeks to close.11 The CORE project has already developed some prototype tools that are currently being evaluated by a number of parties across the UK and beyond. Some of the evaluation is being supported by the Economics Network which will hold a mini-conference on the issue of curriculum reform in Economics in February 2015.

At the same time as these developments are taking place, the QAA subject benchmark for economics is being reviewed. This is a process that involves a range of interested parties including academic staff, students and employers. What comes out of the recent mix of economic crisis, student discontent, efforts to reform the core curriculum and the review of the subject benchmarks remains to be seen. But at least George Bernard Shaw can rest assured that, one way or the other, there is as much disagreement amongst economists today as there was in 1937 when his inaugural Pelican text was published.

Notes for this article appear on p. 23

www.res.org.uk/view/resNewsletter.html
Wendy Carlin describes the logic of the course.

The CORE course is divided into 21 units and begins with ‘the capitalist revolution’ introducing the student to what the economy is (rather than, as is more common, what economics is). This starting point focuses attention on a series of pressing problems today — including economic prosperity, environmental challenges and inequality. And it underlines the fact that the economy is embedded in its social and environmental context. Knowledge that comes from other disciplines — from history, political science, climate science, demography, and psychology — is part of the formation of an economist.

In each unit the kinds of problem to be addressed are signalled with an opening vignette whether it be Apple’s global system of production, the South African government’s suit against pharmaceutical companies to permit use of generic retrovirals, or the global price and quantity ramifications of the cessation of U.S. cotton exports during the American Civil War.

Through the presentation of a series of long-run data sets, the first unit draws attention to the recent origin of consistently rising living standards and of the divergence in economic fortunes of regions of the world. The scene is set for the second unit which asks how some economies escaped the Malthusian poverty trap — why this happened first in England and why in the 18th century. Here we embark on systematic model-building and, as throughout, this is motivated by a real world question, knowing that empirical relevance and application are among the keys to effective teaching of conceptual material. A model of the choice of technique allows the student to learn about relative factor costs, production isoquants, iso-cost functions, and Schumpeterian rents (see below).

The vast increases in productivity made possible by technical progress then poses the question motivating our next model building task, taken up in Unit 3: how can a model of individual optimization subject to constraint illuminate an individual’s choice of work hours in the process of technical progress.

Students will however realize that there are two things missing from this Robinson Crusoe-like picture: strategic interaction with others, and preferences that may value the outcomes experienced by these others. So in Unit 4 we introduce the elements of game theory, social dilemmas, and non-self-regarding preferences, taught using real world examples of cooperation in social dilemmas and behavioural experiments. At this early stage in learning economics, students come to see that the subject encompasses a rich set of behaviour and that there are tools they can master to make sense of it. They also see that the experimental method, which they will have encountered in science courses, can enlighten economics.

Unit 5 extends the problem of strategic interaction to study the mutual gains from trade and how these are
implemented and then shared among participants as the result of the individual endowments and economic institutions. By introducing interaction and conflict over the gains from trade early, students will learn that markets are just one way that economic institutions implement outcomes by influencing who does what and who gets what.

The habit of thinking of evaluating outcomes and policies from the dual perspectives of efficiency and fairness is established at this stage and is used in a wide variety of settings down the line in the course. Welfare economics is not hived off into a separate box. This is the reason for developing the intuition and modelling of the gains from exchange and conflict over their distribution before turning to markets.

In Unit 6, for the same reason, we introduce price-setting firms before competitive markets. Students get to think in terms of asking questions about who is making decisions in the economy, about the rules of the game and how to evaluate the outcome in terms of efficiency and fairness. Rents, opportunity costs and trade-offs are the fundamental concepts which allow beginning students to build an understanding of the economy as an inherently dynamic social system characterized by conflicts as well as mutual gains.

In Unit 6 incomplete contracts arise naturally by asking how firms hire workers, set wages, and seek to induce workers to provide high quality effort. This topic is often left to a late chapter on information economics or as part of the motivation for intermediate level macroeconomics. Here it follows directly from having established the role of large firms and wage labour in historical context in Unit 1 and then introducing the firm as both an actor in the economy and a stage upon which employees owners, managers and other actors play a part. (Incomplete contracts arise throughout the course, for example, in our treatment of credit markets in Unit 11).

Having laid these foundations and illustrated the concepts with a diverse range of empirical examples, markets are introduced in Units 7 (limited competition) and 8 (competitive markets). Given the dynamic nature of the concepts and examples used, students will be curious about how prices change and what they measure. Unit 9 addresses this question, building on the Hayekian insight of prices as messages that allow a decentralized economy to adapt to change.

Unit 10 draws together the themes of the preceding units to address the question of market failures and successes. When we turn to remedies for market failures, the concepts thus far developed allow for both a Coasean private bargaining perspective and a Pigouvian tax and subsidy public policy approach.

Units 11-21
Unit 11 introduces the credit market and intertemporal tradeoffs, and makes the connection to the aggregate monetary economy with money and banks. Units 12-16 will teach a set of facts about the aggregate economy and a simple framework for understanding how it works so that students move seamlessly to macro from the empirically based microeconomic theories of markets in labour and credit. The unit on credit markets and money is followed by the one on economic fluctuations. We take the household’s eye view of the macro economy, for example the problem of consumption smoothing in the face of employment shocks, before introducing macroeconomic aggregates and accounting. Using the idea from Unit 9 that prices can send the wrong messages, bubbles are introduced along with leverage cycles in the discussion of the global financial crisis.

The macro sections give equal emphasis to long run supply side determinants of macro performance (productivity including capital stock and its other determinants, wage-setting institutions and market structure) and to aggregate demand’s role in cyclical behaviour. They provide a simple and institutionally realistic model of macroeconomic policy-making consistent with both long and short run aspects of performance.

The remaining units address the international economy, the economy and the environment, economic inequality, innovation and the knowledge based economy, and the economics and politics of the public sector.

Course materials
The course is divided into twenty-one units.2

1. The capitalist revolution
2. Innovation and the escape from the poverty trap
3. Scarcity, work and progress
4. Strategy, altruism and cooperation
5. Property, contract and power
6. The firm and its employees
7. The firm and its customers
8. Competitive goods markets
9. Market dynamics
10. Market successes and failures
11. Credit markets, banks and money
12. Economic fluctuations and unemployment
13. Macroeconomic policy tools
14. Managing unemployment and inflation
15. Employment and living standards in the long run
16. The Great Depression, the golden age and the financial crisis
17. The nation in the world economy
18. The economy of the earth
19. Inequality and economic justice
20. Innovation, information and property
21. Political economy of government successes and failures

Each unit offers the interactive facilities that we referred to earlier. For example, the familiar process of model building by the use of diagrams is enlivened by the use of animated (sometimes interactive) diagrams. Unit 1 takes the long view of history by showing the imperceptible
increase in GDP per capita for major economies from 1000 to 1800AD before focusing on the ‘take-off’ thereafter, beginning with the UK. Described as the ‘hockey-stick’ chart, the major issue here is the mechanisation of production, the lowering of costs and the increase in output. To understand this students are introduced to isoquants. (Readers will have to imagine the following diagram, animated so as to appear on screen, step-by-step).

Further animation reveals the effect of new technology:

'SURPRISE ME: Adam Smith kidnapped'
At the age of four, Adam Smith, who made the intellectual case for laissez-faire capitalism, was "stolen by a passing band of gipsies" in words of his 19th-century biographer John Rae. If he had not been found, the history of economics might be very different—but, fortunately, he was seen and rescued by his relatives. Rae wryly noted that Smith, a "delicate child... would have made, I fear, a poor gipsy".

A recent introduction, at the request of the instructors and students who reviewed the draft material, is a series of ‘Debates among Economists’ that stresses the unsettled nature of much of economic knowledge, and how economists sometimes do manage to settle their differences. The text and links to further reading offers evidence and arguments on both sides of the debated topic. Included will be ‘Discounting the environmental costs to future generations,’ ‘Homo economicus in question: altruism, reciprocity and self interest’, ‘How big is the multiplier?’ and ‘The minimum wage: effects on jobs and incomes of the poor.’

Although the package will be an open-access online resource available to any student or indeed anyone at all with an interest in economics, it is designed to complement the instructor’s classroom teaching and additional written materials. It is not an on-line course (MOOC). The CORE project will also develop a series of guides to help teachers/instructors to make best use of the material.

The box on the next page is an example of the first page of a teacher’s unit outline (to unit 4) and shows, inter alia, how recent developments in behavioural economics and recognition of institutional realities are built into the course from an early stage.

An aim of the project is to convey to students the excitement that economists feel about their research and policy engagement. The first two ‘Economist in Action’ videos feature economic historians: Suresh Naidu from Columbia University and Bob Allen from Oxford. Others lined up for the series include Olivier Blanchard, Richard Freeman, Kathryn Graddy, Jim Heckman, Thomas Piketty and Juliet Schor.

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

Introducing risk does not much change the picture. In a risky world, and in which emerging economies are more volatile, initial inflows reverse in the medium-run as emerging markets buy safe assets for precautionary savings purposes. In effect, Ms Rey notes, the gains available from reallocation of capital to higher yielding investments are a substitute for the gains available from greater risk sharing. What’s more, her model naturally yields growth in global imbalances as a result of precautionary saving in emerging economies.

Against the possibly modest benefits to openness comes a set of costs: in particular, Ms Rey emphasized, an exposure to the global financial cycle. The wave of financial integration that began in the 1990s led to massive growth in economies’ external balance sheets. The global economy become characterized by large capital flows, which were highly correlated with growth in asset prices and leverage and negatively correlated with volatility. At the heart of the system sits America’s Federal Reserve, the monetary master of the world’s reserve currency and manager of the world’s favored safe assets: American government debt. As a result, Fed policy shifts appear to have sizable effects on measured volatility.

The world therefore finds itself in a tricky position, in which looser American monetary policy can launch a global boom in asset prices and borrowing that smaller economies struggle to manage. And when Fed policy reverses, tightening credit can lead to a sharp retrenchment, and occasional crashes and crises. Economists should recognize these dynamics, Ms Rey argued. A great deal of further research is needed, she said, to investigate whether the benefits of financial openness are substantial enough to offset the potential costs of integration—and whether there are policy steps that can be taken to maximize the benefits of global capital flows while minimizing potential harm.

And a great deal of research there will be. As my train rolled southward toward London and into clearing skies I reflect on how different the mood of the economics profession seems now from that of the past few years. Then a bunker mentality often held sway, as economists fended off populist criticism while struggling to understand and fix the crises battering the world. The world economy has not necessarily grown any cuddlier. But the questions now facing the profession are profound and testing, and economists are stretching themselves to answer them. I would wager that RES conferences will prove plenty lively in years to come.

Wendy Carlin reports that at the recent project workshop in Oxford in June, Juan Camilo Cardenas from Universidad de los Andes in Colombia presented progress on developing in-class and e-games to fit the curriculum. Rob Axtell from George Mason University is building simple simulation models for use in a number of units.

Feedback from reviewers on thirteen of the units was presented to the June workshop by Alvin Birdi of the Economics Network and is being used to prepare the beta version of the eBook for the Introduction to Economics course. The course materials will be tested in the autumn at UCL, UMass Boston and Warwick University. From early 2015, they will be tested at Sciences Po, Sydney University, Azim Premji University Bangalore and the University of Chile, Santiago.

Notes:

1. For more on INET see INET (2011a).

2. More examples of the CORE material can be found at http://core-econ.org/the-core-curriculum/

References:


At the April meeting of CHUDE, I discussed the work that the Bank of England has done over the past year to increase its engagement with the academic community. In this brief article, I discuss why the Bank has embarked on this initiative, what precisely we have been doing, and to what we would like to see this effort leading in the future.

**Vision**

A key goal of the Bank is to make sure that we are at the forefront of research and analysis. And one way of helping us to get to that position is for us to engage with those researchers outside of the Bank who are already at the forefront of research and analysis in areas of interest to the Bank: macroeconomics, monetary economics, banking, finance, monetary policy and the transmission mechanism, the arguments for, and effects of, macroprudential regulation, the arguments for, and effects of, microprudential regulation, and the intersections between these different areas. One particular group with whom we already engage to some degree are economists based in universities. But it is not always clear that we know the right academic economists, nor the right researchers in other disciplines, who may be able to shed light on problems of interest to us. We have tended to rely on personal contacts, but there are likely to be many researchers in academia whom we simply do not know and there is likely to be much more work being done on issues of interest to us than we know about.

So our vision is a world in which we know exactly who is working in the areas of interest to the Bank, and where they are based, so we know exactly who to call for insights on any particular issue as it arises: ie, we have a ‘little black book of expertise’. Furthermore, we want to be in the position of having strong enough links with academia that we can encourage academic researchers and their PhD students to work on particular questions in which we have a clear interest.

**What have we done so far?**

At a very micro level, we helped to set up the Centre for Macroeconomics (a joint venture with the London School of Economics, University College, London, the London Business School and Cambridge University) and several of our researchers are members of this. One of the Centre’s activities is a quarterly ‘London Macroeconomics Workshop’ (involving researchers from various London Universities as well as us). We also have a group of Visiting Researchers who come into the Bank from time to time on an informal basis as well as a number of academic consultants.

But, we are anxious to engage with academic researchers in other areas of economics, in other disciplines, and from a much wider geographical area than simply London and the South East of England. To that end, researchers at the Bank have embarked on a series of visits to university departments throughout the United Kingdom. These visits have given us the opportunities to find out who is working on areas of interest to us and where, to let academic researchers throughout the country know the key questions on which we’ve been working, and to present, and obtain feedback on, some of our own research.

To further this cause, the Bank has also worked with the ESRC’s Money, Macro and Finance Research Group (MMF) on a couple of initiatives. First, we put together a ‘Drinks Reception’ for junior economists (PhD’s and those within five years of completion) at last year’s MMF Annual Conference at Queen Mary College, London, which was well attended. As I write, we are currently organising a repeat of this for this year’s MMF Conference in Durham. Second, together with the MMF and the University of Warwick, we organised a Macroeconomics Workshop for final year PhD students in Warwick in April. The aim of this workshop was to give PhD economists an opportunity to present their work in front of a ‘critical but friendly’ audience of senior academics and policy makers as a way of disseminating their research and, more importantly, honing their presentation skills ahead of the job market. Again, we hope to make this an annual event.

**Future plans**

Perhaps the most obvious way in which we plan to increase our engagement with the academic community over the coming months is by publishing our key research questions for all to read. The idea is that, by doing this, we will open up our research agenda to contributions from external academic researchers from all
over the world. Such contributions could take the form of research within the academic sector, joint research between academic researchers and bank staff, bank staff presenting their work at academic seminars and conferences and receiving comments, or, more informally, chats by e-mail, phone or over coffee. One particular way that the academic world can contribute to our research is via PhD students working on questions that fall within our agenda. Typically, PhD students have the time and either have, or will develop, the technical skills needed to do research but do not necessarily know where to apply these skills; in contrast, we have an almost endless list of questions with only a finite resource with which to answer them. The gains from trade here are clear!

Finally, to help further encourage the exchange of thoughts, ideas and research questions, we intend to continue visiting universities, both within the United Kingdom and further afield, presenting our work at seminars, making new contacts and renewing old acquaintances. And we aim, of course, to maintain the relationships that we have built up over the past few years by via inviting academics into the bank to give seminars, participate in roundtables or simply visit bank researchers. The opportunity is there for increased engagement. We want to engage more with the academic community; we hope that academics will take the opportunity to engage more with us.

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**Features**

**News from the Economics Network**

The Economics Network’s workshop programme for graduate teaching assistants will run once again in autumn 2014 with the support of the Royal Economic Society and Scottish Economic Society.

The GTA workshops are specifically designed to meet the needs of economics postgraduate teaching assistants/tutors with a focus on small-group tutorials, seminars and workshops.

This year, the Network’s workshop for new lecturers will be combined with our teaching symposium to become a full two day event in April 2015. As a result, the workshop will cover a wider range of topics and give time for more practical training and engaging discussions on what makes effective teaching of economics, including: large-group and small-group teaching; assessment and feedback; elearning; module/unit design; classroom experiments and games.

Feedback from 2013 participants included:

‘I think this was the most relevant and useful workshop I have ever been to.’

‘I have attended generic T&L courses at my institution and it was far more useful to come to this workshop, which was tailored to the particular issues faced in effectively teaching economics.’

‘Overall the workshop was excellent and really helpful for future teachers.’

‘A well thought-out course. The facilitators kept us all engaged at all times and allayed our fears about teaching for the first time.’

Further details including dates and locations are available at: http://www.economicsnetwork.ac.uk/events.

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**Subscription to the Economics Network**

The Economics Network has recently contacted economics departments about our subscription scheme. The Economics Network, generously supported by the Royal Economic Society, the Scottish Economic Society, and over 50 economics departments, works with the economics community to support and develop university economics teaching. Membership benefits include:

• Priority access, booking and prices for all Economics Network events, including free workshops for graduate teaching assistants and new lecturers, the Developments in Economics Education conference and thematic one day conferences.

• Advice, support and consultancy for internal departmental workshops and away days.

• Liaison with subscribing institutions to negotiate economics lecturers' exemption from parts of generic institutional training programmes upon attendance of Economics Network workshops.

• Opportunities to be involved in Economics Network research activities.

• Priority access to unique research and data resources.

• Publicity of your department and its support for the Economics Network.

• Dedicated email communications, giving early notification about Economic Network events, resources and initiatives.

For further information, including a membership information pack, please see:

http://www.economicsnetwork.ac.uk/about/supporters.
Scotland would not be better off as an independent nation

Would Scotland be better-off in economic terms as an independent country? Not according to an overwhelming majority of respondents to the third monthly survey of the Centre for Macroeconomics (CFM). But suppose that Scotland were to make that choice. What should the rest of the UK do when it comes to a monetary union with an independent Scotland? A majority, albeit a smaller one, of the same experts agree that the UK would be acting in its own economic interests by ruling out a monetary union with an independent Scotland. This is the first survey of independent professional economists specifically to address economic issues in the Scottish independence debate.2

Scotland’s population is 5.3 million or 8.3 per cent of the total UK population.3 The value of output per head in 2012 was £20,571 in Scotland and £21,295 per head in the UK as a whole.4 Labour productivity is exactly the same in Scotland and the UK, while unemployment is 6.4 per cent in Scotland compared with 6.8 per cent in the UK overall.5 According to the Scottish government, the onshore fiscal deficit is estimated to have been 14 per cent of output in 2012/13 compared with a 7.3 per cent deficit in the UK overall.6 If Scotland is allocated 84 per cent (a ‘geographic’ share) of taxes from North Sea oil and gas operations, its deficit is estimated to have been 8.3 per cent of output.7 In 2012, both Scotland and the rest of the UK had the same old age dependency ratio of 26.8 per cent, which is projected to rise to 40.5 per cent in Scotland and 37.4 per cent in the rest of the UK by 2032.8

Under the current fiscal arrangements, the Scottish government is responsible for allocating 60 per cent of public spending in Scotland. Under the Scotland Act 2012, the Scottish government will be responsible for taxes (including part of income tax), which raise 16 per cent of total revenue.9 If Scotland becomes independent, its government would be responsible for all public spending, revenue raising and borrowing and current cross-border fiscal transfers would cease. The Scottish government has said that it will accept a fair share of the existing UK debt and that it intends to form a formal monetary union with the UK. The UK has ruled out taking part in a formal monetary union with an independent Scotland.

There is inevitably some uncertainty around what would be the final terms of a settlement between an independent Scotland and the rest of the UK. We invited the CFM survey respondents to answer the first question based on their understanding of what these terms are likely to be. We suggested that ‘economic terms’ includes income per capita and possibly other aspects of economic advancement.

On 18 September 2014, the Scottish electorate will be asked the following question: ‘Should Scotland be an independent country? Yes/No.’ In the event of a ‘Yes’ vote, the plan is that Scotland would become an independent country in March 2016, and thereby no longer a constituent nation of the UK after 307 years. The CFM survey asked two key questions about the potential economic consequences of a ‘Yes’ vote:

Question 1: Do you agree that Scotland would be better-off in economic terms as an independent country?

Twenty eight of the 46 CFM experts replied to this question. Three quarters of the respondents said that they either disagree or strongly disagree with the proposition. Only one of the 28 respondents either agrees or strongly agrees. Excluding the six respondents who say they neither agree nor disagree, 95 per cent of respondents either disagree or strongly disagree that Scotland would be better-off in economic terms as an independent country.

The CFM respondents’ main concerns are over the fiscal outlook for an independent Scotland. George Buckley (Deutsche Bank) describes an independent Scotland as being exposed to weaker tax revenues from declining oil resources and a worse demographic profile than in the rest of the UK. John Driffill (Birkbeck) notes that an independent Scotland could set its own policies to suit preferences in Scotland, but may lose out because some things that are done better jointly by Scotland and the rest of the UK will become more difficult to coordinate. Both Michael Wickens (York) and Martin Ellison (Oxford) say that Scotland might pay higher borrowing costs than the UK.

Several respondents question the wisdom of unpicking many institutions when the effectiveness of the institutions that will replace them is unknown. David Cobham (Heriot-Watt) asks whether pulling apart the members of well integrated nations makes sense; Jagjit Chadha
Several respondents are concerned at the uncertainty over the time it might take an independent Scotland to (re-)join the European Union (EU). Marco Bassetto (UCL) says that in his view the process of accession to the European Economic Area (and the EU) are more important than the issue of monetary union. Richard Portes (LBS) and Nicholas Oulton (LSE) also express concerns that the uncertainty over the EU could be detrimental for the economy.

Question 2: Assuming that Scotland becomes an independent country, do you agree that the UK government’s position of ruling out a monetary union is in the economic interests of the continuing UK?

Thirty four respondents answered this question. Views are much more evenly split than for the first question: 53 per cent agree or strongly agree that ruling out a monetary union is in the economic interests of the continuing UK while 41 per cent disagree or strongly disagree. Excluding those who neither agree nor disagree (two respondents), the share who agree is 60 per cent when weighted by respondents’ confidence in their answers. A majority of the CFM experts believe that the UK is acting in its own interests by ruling out a monetary union and the responses reveal uncertainty over whether a robust supporting framework is viable.

The differences in views between the CFM experts in large part depend on whether they believe that credible and robust fiscal arrangements to support a monetary union could be implemented.

Martin Ellison (Oxford) says that the recent euro crisis shows how challenging a monetary union is without a fiscal, political and banking union. David Cobham (Herriot-Watt) thinks that any satisfactory constraints for the UK would preclude anything that could be called independence for Scotland. Luis Garicano (LSE) considers that any commitment not to bail-out an independent Scotland would not be credible with the world or the Scottish government. Therefore, the UK would end up with the worst of both worlds: a lack of market discipline and moral hazard.

Other respondents think that the taxpayers of each sovereign state could be isolated from the risks or the other. Andrew Mountford (Royal Holloway) considers that it should be possible to agree such arrangements. Wendy Carlin (UCL) and Simon Wren-Lewis (Oxford) are of the view that the UK could introduce conditions that would insulate it from risks, although they may prove problematic for an independent Scotland. Two respondents, Sir Christopher Pissarides (LSE) and John Driffill (Birkbeck), think that the UK’s stance is purely motivated to influence the referendum.

Some respondents question whether a monetary union is appropriate, irrespective of fiscal constraints. Richard Portes (LBS) notes that there are already enough problems with regional heterogeneity for the Monetary Policy Committee setting a single policy rate; Jagjit Chadha (Kent) believes that a monetary union makes sense as a transitional arrangement only; and George Buckley (Deutsche Bank) thinks that any decision to form a monetary union should be put to the people of the continuing UK.

Notes:
1. The Centre for Macroeconomics (CFM) - an ESRC-funded research centre including the University of Cambridge, the London School of Economics (LSE), University College London (UCL) and the National Institute of Economic and Social Research (NIESR) - published these results of its third monthly survey last month.
2. All background information to the survey and individual responses are available on the Centre for Macroeconomics website http://www.cfmsurvey.org. A summary of the results by Angus Armstrong (NIESR), Francesco Caselli (LSE), Jagjit Chadha (Kent) and Wouter Den Haan (LSE) are also published on http://www.voxeu.org This article is based on an earlier summary by Angus Armstrong and Romesh Vaitilingam. Any enquiries: should be addressed to Angus Armstrong, Director of Macroeconomics at NIESR: a.armstrong@niesr.ac.uk or 0207-654-1925 and 07969740428
3. As Scotland is a constituent nation of the UK, all of the economic data and projections are published by the Office for National Statistics (ONS) unless otherwise stated.
4. Measured by Gross Value Added (GVA) per head.
5. Labour productivity is measured by GVA per hour worked in 2011.
7. The allocation of UK offshore assets including oil and gas fields depends on what would be the agreed maritime boundary of an independent Scotland. The median line principle creates a so-called ‘geographic’ share, which the GERS report shows would allocate 84.2 per cent of the related tax revenue to Scotland.
8. Defined as the ratio of those aged 65 years and above divided by those aged between 16 and 65.
9. If Scotland remains within the UK, the Scotland Act 2012 will come into force in April 2016.
Why assessments of Scotland’s economy under independence are so often misleading

A majority of economists believe that Scotland would be worse off if she were independent, according to a new VoxEU survey. A smaller majority believe that the rest of the UK (rUK) would be acting in its own self-interest if it tried to rule out a currency union. Andrew Hughes Hallett1 explains why both beliefs are misleading.

To determine if Scotland would be better off or not, one has to reconstruct the national accounts to show how they would appear if Scotland were financially independent. This is because a number of revenue and spending transfers between Scotland and rUK would either cease to exist or be returned to the parent economy. Reallocation of these spending and tax flows would change Scotland’s fiscal balances significantly in Scotland’s favour.

This point is now acknowledged in relation to oil and gas revenues, and perhaps debt interest payments; but not with respect to the other transfers and subsidy reversals. In other words, most economists continue to use the national accounts as they are. Insofar as their projections show Scotland worse off, they are showing how the Scottish economy would look if the union continued. That is to make a case for independence, not against it.

An analytic framework

Faced with the need to create an economic policy framework from scratch, we have to start by creating policy system that ensures the economy’s financing needs, as represented in the macroeconomic accounting identity,

\[ S - I = (G - T) + (X - M) \]

S=savings, I=investment, G=public spending, T=government revenues, and X-M the current account balance] are always met. That is, the economy must have the capacity to manage three imbalances: the private financing (savings-investment) gap, the fiscal (public spending-revenues) gap, and the foreign financing (trade) gap. This in turn implies we need policies for financial regulation, for sustainable fiscal rules, and for a currency/monetary policy choice.

Scotland as an independent economy, or an economy with a large degree of fiscal autonomy, or as a devolved economy within the meaning of the 2012 Scotland Act, will be no exception.

The first point to realise is that the UK and Scottish governments are engaged in a series of parallel and overlapping policy games. A parallel game is where the same opponents play against each other in more than one arena: in this case, in the political and economic arenas. An overlapping game is where each player is engaged in a game against different opponents, where the strategies pursued in one game limit the strategies available in another. In this case, we have an economic game where the UK and Scottish governments play against each other, but also against firms in the private sector. It obviously impinges directly on the parallel economic and political games.

The solution of these games shows how the threat points — that is the best outcomes that each player can expect to achieve for themselves without cooperating, accommodating or otherwise making concessions to the other player — would alter from their status quo ante position. To illustrate, the currency choice poses a significant dilemma for both governments, although the outcomes for Scotland in the absence of cooperation, concessions or a formal currency union would be a considerable improvement of the current status quo position; while rUK would inevitably suffer worse economic outcomes.

To see this, one has to recognise that the UK government can do nothing to prevent Scotland taking the pound if she wishes, any more than the US government can stop Ecuador using the US dollar. All rUK can do is deny Scotland any influence over policy at the Bank of England. But that is just to reproduce the current position for monetary policy in Scotland. Nothing would change for Scotland if London were to refuse to share sterling and monetary policy, since it doesn’t share them now. Given independence, or fiscal autonomy, the only difference would be that Scotland gets to add tax powers to the existing monetary set up. She would therefore be unambiguously better off: more policy instruments to serve the same targets — instruments that can now be designed to fit Scotland’s specific needs, rather than the UK average.

But rUK would be worse off; not better off since monetary policy would be set exactly as it is now, but worse off to the extent Scotland uses her new tax powers to her own advantage; and because rUK would lose tax revenues/subsidies making her net debt and deficit positions worse.

Financial regulation and liquidity access

The difficulty with adopting sterling unilaterally would be the loss of access to liquidity, and the absence of financial regulation for Scottish financial firms. However Scotland could ‘opt-in’ into the EU banking union, giving her financial sector easy access to liquidity via both the Euro and Sterling markets, and to a wider pool of resolution funds for everything else. The threat point of the economic game shifts again, with consequences for the political game because to block monetary cooperation would start to make a political or fiscal union
look financially risky and less attractive for firms in rUK. Facing a tight general election in 2015, it is hard to believe the UK government would choose to deny a currency union when the consequences would make their own supporters worse off, but Scotland better off. Confusion on this point may explain why conflicting messages are coming from the Prime Minister’s office and from George Osborne as to whether a currency union would be negotiable or ruled out. After the referendum, there will be no incentive for either side not to agree a currency union as long as effective fiscal controls are put in place on both sides. Since the Scottish fiscal position will be stronger (a smaller public debt ratio, and a budget surplus when national accounts are restructured to reflect the changed flows of taxes raised and public spending under independence) this would not be hard to arrange.

It would be harder to persuade the UK government whose fiscal position will be weaker and therefore more of a threat to Scotland than Scotland is to rUK. Sterling without monetary union may therefore be a risky option for Scotland unless it is combined with an opt-in to the EU’s regulatory and banking union with formal ECB backing, as in Denmark (also not a Euro member). Faced with uncertainty and mixed messages from the UK government, and deeper liquidity markets, wider rescue funds and a more developed regulatory/banking union system, some financial firms could feel safer in Scotland.

This will not affect Scotland’s banks much since the UK’s own legislation (or EU legislation plus Basel III) will force them to reincorporate locally by activity level. The non-bank financial sector (insurance, pensions, asset management) however is three times larger by employment than in rUK. At present the UK is using its old default legislation in this sector; but the EU banking union is creating a new system for non-bank financial services. It would pay Scottish firms to get in on the ground floor to ensure the system is designed in a way that suits them. This they cannot do as long as the UK stands outside the EU regulatory system.

Fiscal imbalances
Under independence or fiscal autonomy, the loss of fiscal transfers from London will be more than compensated by the repatriation of tax powers; that is a restoration of a diversified set of revenues and fully functioning automatic stabilisers, supplemented by an oil fund to stabilise oil and gas revenues. The currency union issue is important here because research on optimal currency areas shows that the bulk of risk sharing in mature currency unions is born by cross-border asset holdings or financing loans. Risk sharing is therefore best preserved if a currency union is maintained.

The office of budget responsibility estimated Scotland’s fiscal deficit to be 5.2 per cent of GDP in 2013/14 — that is for current spending relative to combined offshore and onshore GDP. Many people quote larger figures because they include capital spending, to be paid for by future revenues, and then exclude offshore GDP — the obvious source of those revenues.

Under independence, this deficit figure would have North Sea revenues, positive if falling, added to it (£3.5bn); and then the repatriated taxes from cross-border commuters (£1bn); the return of subsidies currently made to rUK pensions (£1bn); the return or part-return of debt interest payments currently made to the UK treasury (£3bn, using historical debt); plus the gains from defence restructuring (£0.5bn); the return of Scotland’s share of quantitative easing assets at the Bank of England (£1bn), and subsidies to housing benefit (£0.5bn). These revenue and spending reallocations imply a fiscal surplus of £1.5bn, or 1 per cent of GDP, before any policy changes or new taxes.

More speculative savings: a) Tax collection in Norway and Finland costs 50 per cent less per unit of revenue; adopting their procedures could save perhaps £400m. b) According to HMRC, levies for banking regulation, resolution and deposit insurance would fall by £300m — confirming that bank assets at risk are smaller than usually advertised. c) One-off costs for creating new government departments: £200m-600m.

Debt: taking a share of UK public debt is resolved by the UK government’s announcement that it would assume responsibility since it holds the legal title. So Scotland could start with no debt and no repayments. The possibility remains that Scotland might agree to assume a share voluntarily to create a cooperative start to the fiscal independence framework, but it is not required. Not to assume any debt would raise the UK’s debt ratio to 106 per cent, being the same quantity of debt divided by a smaller GDP level — about the same as Italy’s debt at the start of the crisis.

The compromise of Scotland’s historical debt figure, obtained by backing out accumulated budget surpluses since 1974 from Scotland’s population share of UK debt, would leave Scotland with a debt ratio of 45 per cent or half its population share of overall UK debt.

Credit markets and bank regulation
If the existing models for predicting risk premia for Scotland are correct, then the absence of material deficit or debt levels would lead to lower interest rates in Scotland than rUK after an initial adjustment period. Combined with a clear separation of private from public risk (the banking union being used to resolve the former, a fiscal council the latter), this would lead to lower market rates in Scotland than rUK. Whether this is realistic is yet to be seen; it depends on the supply and demand for financing flows in other sectors and their spillovers onto fiscal imbalances, and on policy changes on either side of the border. But the combined effects of the new regulatory system — that is, the UK Banking Reform Act, conduct
regulation, the EU’s banking union and Basel III, will help by reducing the financial assets under Scotland’s supervision to about the level of GDP, while raising those in rUK.

**Fiscal rules**

The obvious implication of this analysis is that the UK government’s reluctance to entertain the idea of a currency union has more to do with the fear that Scottish fiscal policy might become expansionary and unsustainable than the loss of political control. This is certainly a concern given that the identity at the head of this note applies to any common financial zone; unrestrained expansions of fiscal deficits can easily spill over into higher interest rates, and liquidity stops/capital reversals in the private or foreign capital markets — and ultimately to default in any of those markets. This may require, so the story goes, bailout funds from the taxpayer to stabilise those markets, re-establish liquidity flows and credit, but creating an attendant incentive for fiscal policymakers to free-ride.

While true, it is important to note that: a) this argument cuts both ways, the UK with weaker fiscal balances could just as easily disrupt the markets as Scotland but to larger effect; and b) while a unilateral adoption of sterling would remove any moral (as opposed to self-interested) obligation to bail out Scotland’s fiscal behaviour, it does not rule out or reduce the chances of disruptions or liquidity shortfalls. Hence a better way to go is to impose a set of fiscal rules, demonstrably enforceable, and overseen by an independent fiscal commission acting as monitor and fiscal regulator of last resort (‘chapter 11’ administrator) to separate public from private sector financing risks.

**Options for fiscal rules:**

- balanced budget rules, nominal or structural: the fiscal compact
- debt rules; debt targeting (which implies a primary surplus budget rule)*
- expenditure rules
- revenue rules
- golden rule of deficit financing*
- independent monitoring (to avoid moral hazard); the rules need to be forward looking
- effective enforcement; credible sanctions (they need to be ex-ante, not ex-post)

The UK has used similar types of rules in the past, but no more. The starred rules are the ones Scotland might use. Balanced budget rules/the fiscal compact are not recommended as they are neither necessary nor sufficient for maintaining sustainable debt ratios, and because it is not possible to calculate structural deficits reliably in real time as needed for the policy making process. Expenditure or revenue rules (austerity measures), popular in some quarters, have been criticised for being counterproductive because by operating on one side of the fiscal imbalance they damage the other side; and because they miss the source of the problem if other financing imbalances are the driving force.

**Letter to the editor**

**Keynes, dentists and humility**

Sir,

At the RES conference plenary GES session this year, Samantha Beckett, Deputy Head of the GES, quoted one of Keynes’s most famous sentences (from *Economic Possibilities for our Grandchildren*, 1930).

> If economists could manage to get themselves thought of as humble, competent people, on a level with dentists, that would be splendid!

Most people quote it as though Keynes was suggesting that economists should be more routine and workman-
like. Reading the full essay suggests that’s not quite what he meant.

Keynes pointed out that with the power of compound interest, by 2030 the UK would be eight times better off than it was at the time of his writing. He therefore predicted the end of scarcity and the need to only work 15 hours per week. With no scarcity, economic problems would vanish. That would mean that economics would become a specialised subject, for it would only be needed in industries where scarcity persisted.

That is the context in which he used the ‘dentists’ description, for he described them as specialists. And indeed, economics has become more specialised, not because scarcity has vanished, but in the same way that medical discoveries have led to the division of labour in medicine. So the full quote is this:

> It [the economic problem of scarcity] should be a matter for specialists-like dentistry. If economists could manage to get themselves thought of as humble, competent people, on a level with dentists, that would be splendid! I am all for economists being humble and competent, but let’s celebrate Keynes’ vision of us being specialists too!

Jonathan Haskel,
Imperial College Business School.

Changing the subject

Science advances not only by formal presentations but also by informal chats and private communications among scientists. In the field of economic methodology, the Journal of Economic Methodology, Economics and Philosophy, The Erasmus Journal for Philosophy and Economics, and others, provide outlets for formal communications. But for informal communications there are fewer provisions. This is inefficient, particularly for economists whose specialty is methodology, and for philosophers whose specialty is economics, as most lack similarly specialized colleagues in their own departments.

INEM has therefore decided to facilitate a discussion forum, along the lines of the economic historians’ eh.net. Professor Emeritus Thomas Mayer (University of California, Davis) has agreed to oversee and lightly edit this Forum, assisted by Dr. Michiru Nagatsu (University of Helsinki).

They envisage this Forum as encouraging a wide range of contributions. This includes comments on previous contributions to the Forum and on papers or developments that have appeared elsewhere. With journals having virtually eliminated their ‘Comments’ sections, such an outlet for criticism will fill an empty niche.

Another type is a conjecture or a research idea that its originator does not intend to develop into a full-scale paper. Hence ideas can be floated for others to pick up. What the originator should gain is a mention in the standard ‘the author is indebted’ footnote. Furthermore, ‘idea’ should be broadly interpreted. It might, for example, feature a dataset thus made available to others.

A third type is a brief note drawing attention to something methodologists should know but are unlikely to hear about. This could involve interesting new discoveries from archival papers of important thinkers or insights from discussions in other fields that appear to have applications in economic methodology. A fourth type might warn colleagues away from a failed research project.

And then there are book notes, book reviews and notes on ‘books received’. Finally, the Forum can also carry personal matters, such as listing job changes and retirements and even jokes about economic methodology!

Submissions to the Forum will not be peer reviewed in the usual sense but submissions will be screened to exclude rudeness, personal attacks, ranting, repetition and irrelevance. There will also be a length limit of 1,000 words.

Submissions should be sent to both Michiru Nagatsu@Helsinki.fi and tommayer@lmi.net.
RES News

Updating membership details

The Society is increasingly using online facilities via its website to contact and publicise its activities to members. You can now update membership details directly, including your email address by registering on the website at www.res.org.uk.

- Members joining or renewing online are automatically registered with login access to the RES website. Login is based on the email address and password you supplied in your membership application.
- Members who have joined by post will need to register online at www.res.org.uk.

We ask all members to please ensure that they have a current email address registered so that they can be contacted by the Society for the election of Council members which will take place online this autumn. If you receive the message that your email address is already registered please use the forgotten password facility which will allow you to reset your password for the email address. You should also soon receive your renewal letter from Wiley Membership Services and this might also prompt you to check that your email address is registered correctly with us. If you prefer to speak to someone please call Membership Services on +44 (0)1865 476038.

2014 Junior Fellowship scheme

Since 1995, the Society has invited UK universities to nominate economics students for one-year junior research fellowships. The number and amount of the fellowship was increased in 2013 to up to ten awards of £9,500 (£12,500 in London) and this year the field was so strong that eleven candidates were offered a fellowship. A report on their research is provided to the Secretary-General of the Society at the end of the academic year and award recipients are now also invited to both attend the RES Annual Conference and submit a research paper to the RES Conference Programme Chair for possible inclusion in a special RES Fellowship conference session.

A Junior Fellowship Network was successfully launched this year by two of the 2012-13 JFS cohort, Theo Koutmeridis and Dan Rogger, who wish to encourage interaction between Junior Fellowship recipients, greater awareness of the fellowship awards and the work of those receiving them and to provide the RES with support from and access to early career economists. This built on the success of the RES Junior Fellowship session at the RES Conference and the Society hopes that this will provide an increased presence by young academic economists at our meetings and events. All previous recipients have been contacted to inform them of the development and the JFN hopes to receive support from senior academics whose careers were supported in earlier times by a Junior Fellowship award. An RES short film was created around the Junior Fellowship award scheme this year which will be posted on the website shortly together with a web page for JF Network activities.

Congratulations are offered from the Society to the following candidates who have accepted a research Junior Fellowship for the forthcoming academic year, 2014-2015.

Rocco D’Este (University of Warwick): Empirical Microeconomics
Ryoko Ito (University of Cambridge): Dynamic conditional score: asymptotic inference and application to high-frequency financial data
Samuel Marden (London School of Economics): Essays in Economic Development
Laura-Lucia Richter (University of Cambridge): Econometric analyses of the diffusion of micro-generation technologies and their impact on electricity load curves
Christiern Rose (University of Bristol): Identification of peer effects
Jacob Seifert (University of St Andrews): Essays on competition policy, innovation and banking regulation
Pedro de Souza (London School of Economics): Estimating networks without network data: Adolescent behaviour and peer effects
Spyridon Terevitis (University of Warwick): Topics in information economics
Stephen Thiele (University of Cambridge): Essays in Time varying parameter models
Giulio Trigilia (University of Warwick): Essays in finance theory
Andreas Tischbirek (University of Oxford): Essays on unconventional monetary policy

The RES Annual Public Lecture

The Society’s public lecture will be given this year by Stephanie Flanders on 25 November in London and 26 November at the University of Liverpool. Tickets will be available for application by school groups in September and to individuals from October. Please see www.res.org or contact Amanda Wilman at royaleconsoc@st-andrews.ac.uk for full details and ticket applications.

AGM

The Secretary-General’s Report and the Accounts of the Society can be found at www.res.org.uk or on request from the RES Office (royaleconsoc@st-andrews.ac.uk) The AGM ratified the election of new members of Council and the President-elect, Professor John Moore.
of the University of Edinburgh and the London School of Economics. Professor Moore will become President at the AGM next April 2015.

The Society is pleased to welcome the following as members of the RES Council from April 2014 until 2019: James Banks, Diane Coyle, Amrita Dhillon, Stephen Machin, John Van Reenen and Silvana Tenreyo.

Society officers honoured

On behalf of all those who work with them as well as the wider membership of the Society, the RES wishes to congratulate our President Sir Charlie Bean who has been awarded a knighthood in the Birthday Honours list as well as recently retired Council and Executive Member Professor Nick Crafts who has been awarded a CBE for services to Economics.

Regular announcements relating to the administration of the society (publications, grants for small academic expenses, etc) can now be found on the Society’s website: www.res.org.uk

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**Conference diary**

**july**

**6-13 July** Marseille, France

4th Annual OxMetrics Summer School takes place at Aix-Marseille University, France. The OxMetrics Summer School features the same four courses as the Spring School, but delivered consecutively.

*Further information:* training@timberlake.co.uk, phone: +44 (0) 20 8697 3377

**6-12 July** Coventry, UK

The Warwick Summer Workshop in Economic Growth at the Department of Economics and CAGE, University of Warwick will provide frontier research in the field of Economic Growth. The workshop will consist of Introductory Lectures from Oded Galor (Brown University) and Stelios Michalopoulos (Brown University). Confirmed speakers for invited sessions include: Sascha Becker (Warwick), Carl-Johann Dalggaard (Copenhagen), James Fenske (Oxford), Moshe Hazan (Tel-Aviv University), Omer Moav (Warwick), Luigi Pascali (Warwick), Romain Wacziarg (UCLA).

*Further information:* www2.warwick.ac.uk/fac/soc/economics/news_events/conferences/ecogrowth2014/#s/hash.9sItwzV.CUXyfve9G.dpbs

Applications: Participants should complete the online application form if they wish to present their research, please include the paper or an abstract. Enquiries should be emailed to Jo Hart on j.m.hart@warwick.ac.uk

**21- 22 July** Loughborough, UK

Macroeconomic and Financial Time Series Conference at the University of Loughborough, with the support of the Royal Economic Society. Two prominent figures in this field, Prof Sir David Hendry (Oxford, FBA, FRSE) and Prof Ken West (Wisconsin-Madison, USA) will give keynote speeches. Further speakers include Prof Badi Baltagi (Syracuse, Leicester), Prof Mark Wohar (Nebraska-Omaha, Loughborough), Prof David Harvey (Nottingham), Prof James Mitchell (Warwick), Prof David Rapach (St Louis, USA) and Prof Esther Ruiz (Carlo III de Madrid), as well as others from leading universities. Key themes: stock return predictability, forecast uncertainties, financial and commodity markets, explosive bubbles and recent developments in macroeconomic modelling. Organising Committee: Prof Eric Pentecost, Dr Kavita Sirichand, Dr Andrew Vivian, Prof Mark Wohar and Mrs Justine Wood.

*Further information:* www.lboro.ac.uk/departments/sbe/research/conferences/cpcfconference21714/index.html
To Register your interest in attending please email Ruth Cufflin R.Cufflin@lboro.ac.uk

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Nominations for RES Council

Nominations for the next cohort of the RES Council (2015-2020) have been received and reviewed by the Nominations Committee. An online ballot will be taken of all RES members in the Autumn and the results declared to the Executive and Council.

The election will be ratified at the AGM in 2015 after which the new members will take their place on the RES Council. For a full list of members of the RES Council please see the RES website or contact the RES office.
Conference diary

19-26 July Cambridge, UK

2014 Econometrics Summer School at the University of Cambridge, comprising a series of three, 2.5-day courses running consecutively between 19-26 July 2014. The courses will be delivered by experienced, leading econometricians from the University of Cambridge: Prof Andrew Harvey, Prof Sean Holly and Dr Melvyn Weeks.

Timberlake summer schools are a fantastic opportunity for students, academics and professionals to expand their econometrics skills and learn how they can apply econometrics from econometricians pioneering research at the forefront of their specialist fields. In addition, participants can also take advantage of the spectacular Cambridge surroundings.

All courses will teach econometrics from an applied perspective and demonstrate the techniques in the internationally used econometric software packages of Stata 13, EViews 8 and OxMetrics 7 (STAMP).

Further information: training@timberlake.co.uk, phone: +44 (0) 20 8697 3377

24-26 July Cambridge, UK

2014 Econometrics Summer School at the University of Cambridge. Prof Andrew Harvey delivers Time Series Analysis & Modelling. This two and a half day course will show how economic and financial time series can be modelled and analysed paying particular attention to state space methods (utilising the STAMP software package).

Further information: training@timberlake.co.uk, phone: +44 (0) 20 8697 3377

August

21 July - 8th August Coventry, UK

Warwick Economics Summer School. The Department of Economics at The University of Warwick (Coventry) is launching its first Warwick Economics Summer School, a three week programme which will run from July 21st - August 8th 2014. The Summer School is aimed at current undergraduates studying Economics and the courses available will be taught by world leading Economists including Nick Crafts, Andrew Oswald and Ariel Rubinstein. There is also an inspirational programme of evening speakers including Lord Gus O’Donnell, the former Cabinet Secretary and Head of the UK Civil Service and Lord Robert Skidelsky. It is an excellent opportunity for students to further enhance their skills and knowledge in Economics through studying at one of the leading Economics departments in Europe. Courses include Core Courses, Specialist Courses and Principles of Economics, taught in a non-technical way, to provide the fundamental principles of Economics to anyone curious about Economics.

Further information: www.warwick.ac.uk/wess

September

3 September Norwich, UK

When Student Confidence Clicks: Academic Self-Efficacy and Learning in Higher Education. Free Project Workshop aimed at teachers and academic developers in HE at UEA campus - Norwich, UK 10am-4pm Full details and a link to the registration form for the Project Workshop are available from the Project Website.

Further information: https://sites.google.com/site/fabioarico/hea_tdg or by contacting the Workshop organiser Dr Fabio Arico email F.Arico@uea.ac.uk.

5-6 September Cambridge UK

IFS residential conference: Taxing remuneration: principles and practice. A residential conference, aiming to facilitate high-level knowledge exchange between practitioners, policy makers and academics on key areas of policy and practice. Mary Aiston (HMRC), Paul Aplin (A C Mole & Sons and ICAEW), Philip Baker QC (Gray’s Inn Tax Chambers), Colin Ben-Nathan (KPMG and CIOT), Judith Freedman (University of Oxford), Malcolm Gammie QC (One Essex Court and IFS Tax Law Review Committee), David Gauke MP (Exchequer Secretary to the Treasury), Mark Groom (Deloitte), Paul Johnson (Institute for Fiscal Studies), Daniel Lyons (Deloitte), Cerys Morgan (HM Treasury), Edward Troup (HMRC), Mike Truman (Taxation Magazine), Benjamin Webb (GE), John Whiting (Office of Tax Simplification).

Further information: www.ifs.org.uk/events/1025

www.res.org.uk/view/resNewsletter.html
17 -19 September Durham, UK

Money, Macro and Finance Research Group 46th Annual Conference. Invited speakers Douglas Gale (Imperial College London) Seppo Honkapohja (Bank of Finland) Rafael Wouters (National Bank of Belgium) MMF Special Lecture Mike Wickens (University of York). Special Sessions:
Scottish Independence Referendum
Human Capital and Growth

Further information: www.mmf2014.org

17-19 September Oxford, UK

Second Conference on Rational Inattention and Related Theories. The conference is organised by Martin Ellison, Filip Matejka, and Tim Willems. Confirmed participants include Fernando Alvarez (U of Chicago), Andrew Caplin (NYU), Chris Sims (Princeton), and Mirko Wiederholt (Goethe University Frankfurt).

Further information: ri2conference@gmail.com
http://users.ox.ac.uk/~ext2581/ri2conference.pdf

october

23-24 October Helsinki Finland

The Bank of Finland and CEPR two-day conference on Entrepreneurial finance, innovation and growth. Start-ups with high growth potential, and small and medium sized firms are vital to any economy. They are in the core of innovation activity that is a key to more efficient resource allocation, job creation and, ultimately, economic growth. They also provide the critical flexibility for an economy in the face of adjustment challenges brought by external shocks. In taking advantage of new business opportunities identified by entrepreneurs, financial conditions and other economic institutions play a critical role. There is an ongoing debate in Europe and elsewhere on whether the structure and behavior of the financial system, and whether economic environment more generally are conducive to entrepreneurial effort, innovation and new business generation. Academics can best contribute to this debate by pursuing high quality, timely research on issues relevant to and factors affecting new venture. Keynote speakers are Bronwyn Hall (UC Berkeley) and Per Strömberg (Stockholm School of Economics and CEPR).

Further information: Ms Liisa Mannila (liisa.mannila@bof.fi).

23-24 October Maastricht, The Netherlands

CALL FOR PAPERS:

European Meeting of the International Microsimulation Association. The conference is open to all areas of microsimulation including static, behavioural and spatial microsimulation methodologies and covering a wide range of policy domains. This year” conference will be held at the Maastricht School of Management (MsM) in Maastricht, the Netherlands. Information on the conference venue and travel directions can be found here. Keynote Speakers: Holly Sutherland, Research Professor and Director of EUROMOD, Institute for Social and Economic Research, University of Essex, United Kingdom; Matteo Richiardi, Assistant Professor at University of Turin, Italy.

The conference will consist of plenary and parallel sessions. Participants are invited to register and submit abstracts of up to 250 words to: IMAeuropeanmeet-gov@maastrichtuniversity.nl by 15 July, 2014. Successful applicants will be notified of acceptance by 31 July 2014.

november

14-15 November Bucharest, Romania

Future of Europe 2014

Against the background of developments within the European Union, the conference aims at bringing together scholars from all over the world to present papers and debate ideas covering a wide spectrum of economic issues: general theory and policy, from both interdisciplinary and core epistemological areas, qualitative and quantitative methodology and modelling with particular emphasis on money and banking, financial markets, business cycles and economic crises, business and government ethics, public and private regulatory frameworks, along with dedicated approaches coming from the field of communication and applied languages, focusing on the role of training, research, translation and interpretation, as well as terminology, in broad or specialized economic discourses.

Deadline for paper submissions: September 15, 2014
JEL classification(s): D, E, F, G, H, K

Further information: www.rei.cercetare.ase.ro/FoE_Conference/index.html
Membership rates for print and online for 2014 are £48 ($82, €57)*
Three year ‘online only’ membership is £100 ($170, €120)

There is a reduced rate of £23 ($42, €28) for members who reside in developing countries (with per capita incomes below US$500) and for retired members.

A special ‘online only’ offer of three years membership (2014-2016 incl.) for the price of £17/ $29/€20 or one-year online only for £10/$14/€12 is available to full-time students.

* All ‘hardcopy’ customers in the UK should add 10% and ‘online only’ customers 20% VAT to these prices or provide a VAT registration number or evidence of entitlement to exemption. Canadian customers please add 5% 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 2014.

Name:

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Address:

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

Date............