The conference issue

Before we turn to more recent matters, let’s note that this is the conference issue, the issue in which we publish a report of the Society’s Annual Conference. This heroic task was taken on this year by Ferdinando Giugliano. The excellent results can be read starting on page nine.

But there have, of course, been other events too, some of them foreshadowed at the Conference on which Ferdinando reports. This included a plenary session at which the presenters were in broad agreement that the UK’s exit from the EU would involve substantial costs and a show of hands that showed overwhelming support for this view from the audience. We all know the result and there are interesting issues for economists to ponder, in addition to the outcome itself. This includes the unwillingness of the media to report the widespread consensus amongst academic economists and the denigration of ‘experts’ by a man who, until recently, had been Secretary of State for Education! Simon Wren-Lewis reflects on the declining status of academic economists in media circles and offers some explanations.

By chance, an economist who was at the forefront of macro-policy debates in an era when academic economists were frequently called upon by radio and television to elucidate for listeners, died in April. We are very pleased to publish an entertaining and affectionate obituary of Maurice Peston by Danny Blanchflower.

The referendum took place just days before we went to press. Michael Burda’s ‘Letter from Germany’ gives the Berlin view of the UK’s possible exit from the EU (before the event) and in an article written against a very tight deadline, Andrew Duff gives some firm indicators on what happens next.
The Newsletter is first and foremost a vehicle for the dissemination of news and comment of interest to its readers. Contributions from readers are always warmly welcomed. We are particularly interested to receive letters, reports of conferences and meetings, and news of major research projects as well as comment on recent events.

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

Brexit, seen from Berlin

*Writing a few days (17 June) before the British referendum on continued EU membership, Michael Burda at the Humboldt University of Berlin reflects on the externalities involved in that decision.*

NUNDATED BY NONSTOP SPAMMING that even an American in Germany can receive on Brexit, I have to paraphrase Winston Churchill: Never has so much been written by so many to be read by so few. Showboating and attention-grabbing in the social media are de rigueur with the most dire and outlandish statements on the consequences of Brexit in both directions. Our Donald would be impressed by the trumpeting; he has undoubtedly inspired some of the political tactics. While I think I know where the elite stands, the voting public is 50-50 and it will go to the wire.

Yes, there is a very real probability that in the referendum of 23 June, the United Kingdom, with 65 million inhabitants, will vote to leave the EU. Europe, with its rickety and presently unsustainable governance, will come dangerously close to ungluing itself. In this comment I’d like to point out what that means, seen from the land of *Vorsprung durch Technik*. I am writing this note not knowing the outcome, but as someone very concerned with its consequences. And the problem will not go away with a vote to Stay.

Regardless of the outcome, tensions leading up to the stay-or-leave vote strongly suggests that all of Europe — and not merely the UK — has reached an integration singularity. A large slice of the political class in most countries of the Union has concluded that deeper economic and especially political integration offer no further welfare gains, at least not for the median voter. Unfortunately, this defensible assessment has been conflated with one that the EU itself has outlived its usefulness and is of no further benefit, or even detracts from welfare. In this judgment, an accumulated capital stock of European law, rules, directives and regulations can be thrown to the wind, devaluing the knowledge and human capital accumulated by tens of thousands of UK civil servants over the decades. *Tant mieux,* many will say. Yet divorcing the EU will be a bonanza for lawyers, not for economists. (I remember that Shakespeare had some interesting thoughts about the lawyers.) There is no guarantee that what emerges in its stead will be any better. Anyone who doesn’t believe that need only look at Switzerland, Norway and Iceland, and the incredible protection enjoyed there by special interest groups, especially farmers.

My kin in the UK are on the fence. My uncle, long gone, fought in an artillery unit during the Second World War and helped liberate Bergen-Belsen. He had his own special opinion about the Germans and I am sure he would have voted to Leave, and he casts a long shadow over his offspring. Yet it is so telling but also so very curious that most of the Brexiteers are well over 40. But the fact that my relatives are undecided tells a story of its own. The present perception of UK voters is that the EU has robbed them of their sovereignty, not that it has opened markets for their companies or lowered prices for their consumers. The latter was the original intent of the Union, but in the minds of many, the former is reality. Again a quick look at Norway would be instructive. Rich, closed, and protected. Is that where Great Britain wants to be in the future?

**Why is this happening now?**

Critics of the EU certainly have a point, and the UK certainly does not have a monopoly on such critics. The European Union is cumbersome and ungovernable, and the behemoth grows larger with each new accession. Yet it is also cheap: 1 per cent of GDP remains a bargain for a common legal framework for business, human rights and legal principles, product market regulation and standardization, minimum labour standards including child labour, job safety standards, environmental protection… Where else in the world is there an automatic cap on the size of ‘big government’ like in the EU?

It is all too easy to forget how far Europe — and the UK in particular — has come is a result of the European Union, and not in spite of it. As Gordon Brown points out in a viral video filmed in the ruins of Coventry Cathedral, the counterfactual to the EU is more likely to be centuries of chronic warfare than the decades of peace since its founding. How can that not be related to common values and common prosperity?

Observing the process of economic integration since 1945, with ever deeper trade, migration, and capital mobility, one must conclude that it leads inexorably to interdependencies that are not only economic, but increasingly and ultimately political. And that is the trigger for the integration singularity. Europe — including the UK — obviously wants to remain a mosaic of peoples, each referring to its own culture, history, and common tradition. A common constitution, government, or even fiscal policy are difficult if not impossible even to imagine, let alone construct. Why not simply call a moratorium on further integration — rather than cancelling the whole project?
The US experience on the gains from intelligent integration holds valuable lessons for Europe. In the early 20th century, the US was emerging as a nation which could project power around the world, yet was hampered by the presumptive powers of individual states guaranteed by the 14th Amendment; in a form of automatic subsidiarity, those rights not expressly granted to the Federal Government are reserved for the constituent states. This arrangement was no accident: In the 1780s, different ex-colonies had distinctly different economic, social and cultural interests, and mutual respect for those interests was synonymous with preserving the Union. But increasing trade integration and factor mobility spurred the growth of large corporations and large-scale commerce that transcended state boundaries. Corporations were forced to deal with regulations and governments state by state in the Progressive Era, at a time when consumers and workers demanded decisive improvements in food quality standards, product safety, worker protection and common liability rules. It was only natural and efficient to establish institutions to transcend state boundaries, like the Interstate Commerce Commission (1887), the Food and Drug Administration (1906), the Federal Trade Commission (1914) and the Federal Reserve System (1913), to be followed later by the banking union via the Federal Deposit Insurance Corporation (1933), the Federal Communications Commission (1934) and the Social Security Administration (1935). Federal agencies emerged as the right option for presenting a single regulatory face not only to large corporations but also to an increasingly mobile population. This was a natural development, and Europe has followed a similar path, although more readily in some dimensions (food health and safety standards, Social Charter, antitrust law) than others (common currency, banking union, capital market regime, unemployment benefits).

Exit, voice, loyalty and the unanticipated consequences of Brexit

On June 23, 65 million Britons — of which perhaps half will actually vote — will choose the course of European integration for almost 510 million persons in the EU over the next two or three decades. To many in this country, this is seen as unfair. Yet Germany, led by Chancellor Angela Merkel, pulled the same stunt in August 2015, when it unilaterally opened its borders to refugees. In a EU world of open borders, this decision had immediate consequences for its neighbours — not just for Greece, Italy, Hungary and the Nordic countries, but even for the insular Britons. Apparently it had never occurred to the Brussels bureaucrats that any full blown migration crisis, which could just as well have come from the Ukraine or Maghreb as from Turkey or Syria, would blow apart the Schengen consensus and severely threaten the four freedoms, even in the Nordic countries. But this catastrophe is not a reason to leave the EU; it is a reason to lead and reform it.

Recently I picked up Albert O. Hirschman’s classic work *Exit, Voice and Loyalty*, which had spent three decades of gathering dust on my shelf. In that masterpiece, the author — exiled to the US by the Nazis in the 1930s — describes the conundrum of how to deal with a deteriorating situation — a market, the workplace, a labour union, a country or region, a club, or some other association. Leave (exit) or stay and invest time and energy in change (voice)? Hirschman presciently points out that while exit gives immediate liberation from the problem at hand, it is possibly suboptimal. Moreover, exit creates external effects on the stayers, possibly nudging them into resolving the problem, in which case the leaver is the loser. Sometimes collective action within can be more effective. It is probably in the UK’s narrow interests to stay inside and assemble coalitions to improve the EU’s workings than to leave empty-handed.

The Germans certainly see themselves as losing if the UK leaves. While I occasionally hear ‘let them go!’ from colleagues and friends, they don’t really mean it. Germans don’t want deeper European integration any more than the French do. Even if their view of capitalism is a little less competition-oriented and a lot more corporatist than in the UK, they will miss the voice of liberal pragmatism as a counterbalance to Cartesian and statist French thinking, or mistrustful and Machiavellian Italian politics. Brexit could spur northern Europeans to reform the EU, and will certainly cause Germany to redouble its efforts — but it may also cause the union to blow up.

Will the UK lose as well? Possibly, if they have to renegotiate everything (remember the lawyers). Probably, if thousands of UK farmers lose access to CAP payments (estimate: more than €3bn), including some land-endowed aristocrats. Most significantly, leaving means renouncing any influence on EU standards that govern 50 per cent of UK exports. Give up influence on those standards and relegate yourselves to the status of Iceland, Russia, Norway, Turkey or Switzerland? Madness.

...cont. on p.19
Europe after Brexit — ‘As ye sow, so shall ye reap’

Andrew Duff ¹ reflects on the UK’s relationship with the EU following the decision to leave and discusses likely future developments.

The future of the European Union has never been more precarious. The EU’s past success has been based on its ability to bring peace, security and prosperity to the peoples of Europe; its present woes stem from its inability to continue to provide such public goods. Unless normal service is quickly resumed the EU will fall apart.

Disintegration has started. On 23 June 2016 the United Kingdom decided to leave the EU after 43 years membership. The referendum was self-inflicted (or rather imposed on the hapless British electorate by its ruling Conservative party which found itself, as ever, in deep disarray about Europe). Nobody asked the British to leave. Circumstances in the EU, although troubled by manifold crises, had not changed recently to a degree that would objectively justify the withdrawal of any member state.

The referendum campaign

The campaign was hard fought. Naturally, it was both simplistic and divisive. Decades of misinformation and distortion about Europe propagated by a political class that has been invariably ignorant or prejudiced were not and could not be wiped out in the space of a few weeks. Many were propelled to vote by the noise and bluster of the campaign, but few were compelled to commit by serious substantive argument. Indeed, the Brexit camp ridiculed the role of ‘experts’, especially those attached to the profession of economics. Although the overwhelming majority of economists warned of the risks of leaving the single market, the likelihood of financial instability, lower investment and reduced rate of growth, a majority of the British people wilfully or wantonly opted in their vote to make the country poorer.

Among the economic facts that were largely ignored was that UK trade is enhanced and not impaired by EU membership: the eurozone slump would have happened whether or not the UK was a member of the EU. Trade in financial services, where the UK has a surplus, will not be liberated worldwide in the case of Brexit: protectionism pervades global commerce, including that of the ‘Brexiteers’ Anglo-sphere nirvana. The EU has been a force for trade liberalisation: its clout in trade talks will be diminished by Brexit, and it will be difficult to hear the UK’s voice outside the EU. Foreign direct investment into Britain is encouraged, and not impeded, by investor access via the UK to Europe’s large single market with its reliable regulatory framework and its uniform social, product and environmental standards. Brexit will require a vast swathe of new home-grown regulation to be put in place by the Westminster parliament to replace that which is surrendered to the EU. Similarly, any savings made on withdrawing from the EU budget will have to be spent domestically, for example on regional development and on supporting Britain’s farms and fisheries. UK productivity will still lag our main European competitors after Brexit: the need for large-scale public investment on health, houses, transport and education will persist. The size of the financial cake was in any event continuously exaggerated by the Leave side: the UK’s net contribution to the EU budget runs currently at only 0.5 per cent of its GDP.

While economics dominated the airwaves, the politics of the European Union played next to no part in the referendum. Questions relating to the ‘future of Europe’ were barely discussed (even by ‘experts’), and it would be a mistake to draw many conclusions from Brexit about the EU’s own internal reform agenda. The days are long gone when the UK could lay a claim, as both Thatcher and Blair did, to ‘leadership’ in Europe. The number of British opt-outs and cop-outs from the EU mainstream has risen steadily over the years — most recently from banking union. British exceptionalism was to be compounded had the Remain side won and the terms of the ‘new settlement’ reached by David Cameron with the European Council on 19 February been implemented. The status quo was not an option in the referendum: an In vote would have secured Britain a ‘special status’ as a deviant member state, distant from the core, exempt from all future political integration. In fact, the true choice of 23 June was between hard Brexit of Leave and soft Brexit of Remain.

As things turned out, EU leaders were puzzled, and not a little annoyed, that Cameron’s famous ‘renegotiation’ of British terms of membership which they had endured for three years turned out to have little salience in the referendum. The PM was well aware that the deal he had struck with the European Council would not stand up to too much critical inspection — notably in substantiating his claim that the deal would curb the flow of EU citizens into the UK. Dislike of immigration seems to have trumped all other issues in the campaign, although the feeling that the British people had to ‘take back control’ went wider than control of the borders: a yearning for national sovereignty regained, of bringing democracy home, was irresspressible. The notion of sovereignty weighed more heavily than the reality of political power: a majority of voters preferred not only a poorer Britain but a less powerful one too.
Can we blame them? Where it is not ill-informed, much of the British media distorts the reportage of EU affairs. Britain has next to no civic education in schools, and the teaching of European languages is in decline. British citizens have been deprived of the full fruits of European integration, neither using the euro nor benefitting from the Schengen area.

Entirely predictably, it was the older, poorer, provincial and less educated people who voted Leave; younger cosmopolitans (London, Oxford, Cambridge) voted Remain, as did Scotland, Northern Ireland and Gibraltar. For the less well-off, unhappiness at continued austerity (real and imagined) coupled with a widespread distrust of the political elite were decisive factors. It should not be forgotten that the Tory party won the 2015 general election on only 37 per cent of the popular vote. And the Labour electorate is deeply divided in terms of social class between pro and anti-Europeans.

The officially recognised campaign organisations, Vote Leave and Stronger In, were not much better at campaigning than the political parties. The former was riddled with inconsistencies and blatant untruths, while the latter appeared defensive and leaden. The rise of immigration as a theme of Leave was not effectively countered by Remain arguments about Britain’s vital need for the supply of new labour; and we heard very little about the advantages, economic and otherwise, of living in a multi-cultural open society. Of the many misconceptions peddled about the EU, the worst was that in 1973 the UK had joined a mere free trade area, dubbed the common market, and that the appurtenances of economic and political integration had been somehow added later surreptitiously without the knowledge or consent of the British people. EU institutions were, apparently, steered by French socialist eurocrats in pursuit of Napoleonic dreams. Foreign judges at the European Court of Justice were particularly attacked; and the European Parliament was treated with contempt, even by Cameron. The prime minister’s last minute conversion from toying with Leave to assuming leadership of the Remain campaign was frankly implausible.

Of the many foreign voices that sought to intervene in the referendum that of Barack Obama was the most distinguished. But it is wrong to think that England is in love with the US. There is a large swathe of public opinion, prevalent especially on the Tory right, which feels itself to be rather superior to the Americans. The warnings from the IMF and OECD were dismissed as stemming from sources funded by the EU. Even Mark Carney, Governor of the Bank of England, who fulfilled his duty scrupulously to advise and warn about the adverse consequences of Brexit, came under harsh attack.

In short, this was a classic referendum in which populism and nationalism flourished, and racism and xenophobia stalked. We should recall here that a young, pro-European MP, Jo Cox, was assassinated. The referendum was a bad experience. Its result will weaken the UK in Europe for many years to come. In the short term, sterling and UK sovereign bonds are taking a pounding, the City of London is agitated, and George Osborne, Chancellor of the Exchequer, has been forced to abandon his precious fiscal target.

The aftermath

In the first week after 23 June, there was much talk of reversing the decision. This state of denial affected not only angry Remainers (including young people, two-thirds of whom did not vote) but also those Leavers who, like Boris Johnson, had never thought they would win the referendum and were now suffering pangs of buyers’ remorse.

On 28 June, however, the European Council told the disgraced Cameron that it wanted the UK government to trigger the secession clause, Article 50 of the Treaty on European Union (TEU), as soon as possible. No informal discussions about the nature of any future relationship would take place unless and until the UK activated Article 50. With the memory of their aborted decision of February still fresh, Cameron’s erstwhile colleagues were once bitten twice shy. On 29 June, the EU 27 leaders met without Cameron. Their mood was tough. As Donald Tusk, President of the European Council, put it: ‘There will be no single market à la carte’. German Chancellor Angela Merkel emphasised that Britain’s continued access to the single market via the European Economic Area (EEA) would be dependent on its acceptance of all four principles of free movement, namely capital, goods, services and labour. There would be no more accommodation with the British who had been offered a lot, possibly rather more than they deserved, and had voted to reject the offer. The negative referendum will not be allowed to lead to an over-privileged partnership where the UK could free-load off its erstwhile partners. The UK will not get better treatment as an ex-member state than it had as a member state. For the European Council as far as Britain is concerned ‘out means out’.

Article 50 TEU was introduced under the Lisbon treaty largely as a precaution and without any particular intention that it would ever be used. It says that a state which chooses to secede from the Union shall notify the European Council. In accordance with guidelines set by the European Council, an agreement shall be concluded with the departing state ‘setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union’.

A period of two years is stipulated for the Article 50 process to be concluded, partly in order to avoid procrastination by the seceding state and partly to prevent the peremptory expulsion of a state by others. Extension of the timetable has to be agreed by unanimity. The withdrawal agreement is negotiated by the Commission on behalf of the Council, which can conclude the negotiation by a qualified majority vote of 20 out of the 27 states; the European Parliament also votes on the final deal.
Article 50 has been criticised for not being sufficiently precise — but it is admirably flexible. Clearly, Article 50 must cater for all the technical aspects of withdrawal; it may (but need not) include the outline design of the future relationship, although the substance of that deal will take the form of a separate and later treaty under a different legal base. The Article 50 agreement will involve such matters as extrication from the EU budget (including its spending programmes), looking after the acquired rights of British nationals living elsewhere in the EU and EU citizens living in Britain, relocating EU agencies away from British soil (notably the European Banking Authority), managing British officials working in the EU institutions, and so on. These are all complex issues but fairly straightforward, and conclusion of the agreement inside two years should be feasible if the provisions of the treaty are adhered to.

The cohesion of the Union depends on the strict application of the rule of EU law. A seceding state remains a member state until such time as it departs; Article 50 is the only legal way a state can secede; not to deploy Article 50 would result in an even more disorderly situation than we have now. Leaving in any other way — for instance, by repealing the European Communities Act 1972 and unilaterally abrogating the UK’s EC Accession Treaty — would amount to a breach of both EU and international law.

Timing is important. The EU institutions are determined that early application of Article 50 will stem the spread of the British contagion. If Brexit is put off indefinitely, or if Brexit is made to seem too easy, the temptation to copy the British may prove irresistible to certain states, like Hungary, Poland or even Sweden. Nationalist and populist parties across Europe are already exploiting the Brexit adventure — and elections loom during 2017 in France, Germany, the Netherlands and possibly Italy.

There is a lively dispute in train about when exactly the British will invoke Article 50. Cameron, who had promised before the vote to activate it himself, has once again broken his word and passed the buck to his successor. A new Tory prime minister will be in place at the latest by 9 September. It is to be hoped that he or she will take the prudent course and immediately notify President Tusk that the new government wants to conclude a narrow and technical agreement inside two years should be feasible if the provisions of the treaty are adhered to.

Although the treaty is silent on the matter, it is accepted that, having once embarked upon the Article 50 route, the UK (under a new government, after a general election) would be able to change its mind and revoke the secession process before it reaches its denouement. Given the febrile state of British politics that eventualty should not be entirely discounted. At this stage of the Brexit crisis nothing should be ruled out; and nothing should be ruled in.

Beyond Article 50

Assuming a smooth completion of the Article 50 process, however, what happens then? Speculation as to the nature of the next phase of the UK EU relationship is fuelled by the chaitic response of the Brexiteers to their referendum victory. Evidently, they had no single view as to what kind of British-European relationship they foresaw for the longer term. Currently, the options for the UK range from membership of EFTA and the EEA (like Norway) to having no formal treaty relationship with the EU at all, thereby falling back on trade under WTO rules. However, what is most likely in my view is a novel set of bespoke arrangements involving customs union (like Turkey) plus a number of add-ons to deal with scientific research and development, public procurement rules and trade in services. Cooperation between the UK and the EU in foreign and security policy, and in future defence, would also be mutually beneficial.

All the possibilities have drawbacks and none will put the UK in the driving seat. Articles 216 and 217 of the Treaty on the Functioning of the EU provide legal bases for any such arrangement, and Article 218 lays down the negotiating procedures that the EU will follow. In the medium term, as part of the next general revision of the EU treaties under Article 48 TEU, a new category of affiliate membership of the Union short of full membership might be created (Article 49 bis TEU). In the longer term, of course, the UK might change its mind and decide to re-apply to accede as a full member state of the Union (Article 49 TEU).

The question remains about the impact of Brexit on the future of Europe. Had it not been for the distraction of Brexit, the EU would at this time have been following through the Five Presidents’ Report of June 2015 on the completion of Economic and Monetary Union. As it is, there is a clear majority in the European Council, and probably also in the Commission and European Parliament, for a policy of “extend and pretend”, of kicking the can further down the road. The euro crisis therefore remains unresolved, mutated but not evaporated. The best efforts of Jean-Claude Juncker, Commission president, and Mario Draghi, President of the European Central Bank, have not so far been able to overcome the resistance of Tusk and Jeroen Dijsselbloem, Eurogroup president, to a course of action which involves deeper fiscal integration and the creation of new competences and institutions, notably a treasury, at the EU level. This is a pity, because without fiscal union and the establishment of a strong executive to manage the sharing of the debt burden among tax-payers, the euro is surely doomed to fail on the impact of one of its future shocks. It is in this sense that the Brexit vote of 23 June 2016 may prove eventually not only to have ruined Britain but also to have destroyed Europe.

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Publications Secretary retires

After 45 years of invaluable service, the Society’s Publications Secretary, Donald Winch, has retired. He became Publications Secretary in 1971 and in a very real sense, the rich set of publications the Society has is a tribute to his energy and scholarship and his legacy to the Society has served for almost half a century. He played the major role in restoring the long tradition of the publication by the Society of important contributions to scholarship in the field of Economics and kept careful watch over the Society’s archive at the LSE. With Austin Robinson he was a central figure in putting together the 30-volume set of Keynes’s Collected Writings and was instrumental in the paperback and now digital versions of this work. He also handled astutely the agreement with the Liberty Fund to take over the publication of Ricardo’s Works and Correspondence, an arrangement of financial benefit to the Society. However, one should not overlook the work he did taking responsibility for the other scholarly publications by the Society such as the papers and correspondence of Marshall and Edgeworth’s papers nor indeed his own scholarly contribution (with Susan Howson).

Donald graduated from LSE in 1956 and took up his first academic appointment at the University of California at Berkeley. Most of his career, however, was spent at the University of Sussex where he famously helped John Burrow and Stefan Collini to establish a School of Intellectual History.

To a wider public, Donald will be better-known for his work on the history of economic thought during the classical period (Adam Smith to John Stuart Mill) and the Keynesian era in the twentieth century, chiefly Economics and Policy; An Historical Study (1969) and (with Susan Howson), The Economic Advisory Council, 1930-1939; A Study in Economic Advice during Depression and Recovery (1976).

With the support of the Leverhulme Foundation and the British Academy he completed an ambitious project on the intellectual history of political economy from the middle of the eighteenth century to the outbreak of the First World War. The first instalment appeared as Riches and Poverty: An Intellectual History of Political Economy in Britain, 1750-1834 (1996). It was followed by a volume with Patrick K O’Brien entitled The Political Economy of British Historical Experience, 1688-1914 (2002); and the sequence was completed by Wealth and Life: Essays on the Intellectual History of Political Economy in Britain, 1848-1914 (2009).

Donald was elected to a Fellowship of the British Academy in 1987 and served as its Vice-President in 1992/3. In 2007 he was elected a Distinguished Fellow of the History of Economics Society and in 2012 as an Honorary Member of the European Society for the History of Economic Thought.

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David Ricardo’s monetary theory

This report of a recent conference, supported by the RES, comes from Janek Toporowski, School of Oriental and African Studies, London.

2016 marks the bicentenary of David Ricardo’s pamphlet Proposals for an Economical and Secure Currency with Observations on the Profits of the Bank of England As They Regard the Public and the Proprietors of Bank Stock, his first extensive exposition of his monetary theory after his contributions to the Bullion Committee Report in 1809. A conference to commemorate this bicentenary was held on the 2 and 3 June 2016 at SOAS, University of London; sponsored by the Economics Department at SOAS, the Money and Development Seminar and the Ricardo Society of Japan; with financial assistance from the RES; and encouragement from Charles Goodhart and David Layder.

The first morning started with Jan Kregel (Levy Economics Institute of Bard College, New York) on ‘Financial Stability and Secure Currency’ highlighting, as many subsequent contributions, how far removed Ricardo was from the bullionism with which he is commonly associated. This was followed by papers by Pascal Bridel (Lausanne, Switzerland), Jou Ishii (Kanto Gakuin, Japan) and David Collard (Bath), on Sismondi, Barton and Alfred Russel Wallace, who had all been influenced by Ricardo’s views.

The afternoon began with a visit to the house, off Piccadilly, of Ricardo’s publisher, John Murray, courtesy of Virginia Murray, who has kept it much as it must have looked when Ricardo sent his pamphlet to be published. After tea with the Murrays, Richard Van Den Berg took participants on a walk through places in Soho associated with various political economists including Karl Marx. The walk concluded with a reception in Keynes’s house in Gordon Square.

On Friday 3 June, the conference returned to serious discussions with presentations by Susumu Takenaga (Daitobunka, Japan), Katsuyoshi Katerai (Waseda, Japan), Andrew Trigg (Open University), Michele Ciccone (Siena, Italy), Denis Melnik (National Research University Moscow), Isabella Weber (Cambridge) and Christina Laskaridis (SOAS) and Ken Mizuta (Waseda, Japan). In the afternoon, a second keynote address was given by Ghislain Deleplace (University of Paris 8) showing how the Proposals fitted into the evolution of Ricardo’s thinking on monetary issues. The final discussion was a round table with Arturo O’Connell (formerly of the Central Bank of Argentina), Maria Cristina Marcuzzo (La Sapienza, Roma) and Jan Toporowski (SOAS), taking up some of the themes coming out of the conference and tactfully avoiding mention of Ricardo’s scandalous criticisms of the management of the Bank of England. The conference shined interest from all quarters of the globe, owed how British political economy can still pull in interest from all quarters of the globe.
Conference Report 2016

The Royal Economic Society’s Annual conference was held this year at the University of Sussex in Brighton. It spanned all areas of the subject, but for convenience, I will focus on the four fields that I believe dominated the three days of the gathering: development economics, political economy, labour economics and macroeconomics.

The meeting showed that while economists are eager to explain via their models an ever-increasing number of areas of public and private life, their success at being relevant remains mixed. In particular, some areas of macroeconomics appear to have failed to learn adequately the lessons from the financial crisis. Several macroeconomic models are still too detached from reality and occasionally still miss crucial details, such as the role played by the financial sector. Conversely, microeconomists appear better-equipped to offer meaningful policy advice to politicians, who ought to take their lessons more seriously than they do right now.

The conference also included some light-hearted moments, courtesy of the outgoing president of the Society, John Moore (Edinburgh). Those who think economists can only be dull and dismal should have listened to his dinner speech, including a memorable fake phone conversation with UK Chancellor, George Osborne.

Development economics

The Economic Journal Lecture was given by Esther Duflo (MIT), the economist who — together with her co-author Abhijit Banerjee (MIT) — has revolutionised the world of development economics. Their ‘randomised controlled trials’ are one of the most important innovations introduced in the field in the last couple of decades. These experiments seek to overcome the problem that has long cursed economists: unlike many physical scientists, economists cannot test their theories in a controlled setting that allows them to isolate external factors. Duflo has addressed this problem by pioneering the use of field experiments, whereby economists offer a given policy to a selected set of people and then check its impact against what is happening to a so-called ‘control’ group.

This technique has raised both ethical and methodological concerns. One worry is that ‘randomised controlled trials’ may give the ‘treated’ individuals an unfair advantage over others. Politically, it is very hard to justify why a village may receive a given policy that is likely to produce positive effects, while another is left out. Moreover, some economists are worried that Duflo’s brainchild may be prompting researchers to address only very specific questions rather than tackling broader but potentially more meaningful issues.

In her lecture, Duflo addressed both sets of concerns. For a start, she said that one way to make experiments politically more palatable is to exploit their phasing-in period. This allows both the ‘treated’ and the ‘control’ group to experience a given policy eventually, though this will happen at different moments. While this solution is clever, it is not perfect: the later versions of the programme may be better than the initial one, as its design improves. Moreover, the behaviour of individuals may change if they know that a certain policy is going to take place in the future, biasing the results of the experiment.

Duflo also defended the technique from the accusation of producing results that are irrelevant for the subject. She said that randomisation is a natural and transparent way to provide a credible counterfactual — the holy grail of economics. Moreover, the communication of the results of experiments to policy-makers can be extremely simple. Finally, randomised controlled trials ensure that economists do not neglect details that are essential to draw policy conclusions. She cited the example of micro-credit, the idea of giving money to the ultra-poor even at high interest rates championed by Nobel peace prize-winner Muhammad Yunus. Randomisation has helped to show that it is typically ineffective.

Duflo also gave a separate, more technical presentation on her work on ‘Gossip’, joint with Banerjee, Arun Chandrasekhar (Stanford) and Matthew Jackson (Stanford). In spite of the colourful name, this is a mathematically dense paper that sits at the frontier of theoretical economics. But the central question of this study could not be more relevant for policy-makers involved in development: understanding who is influential in a given community is essential to ensure that a given piece of information on issues such as vaccination or contraception is disseminated widely.

Rather than seeking to assess who is influential, the paper cleverly turns the problem on its head, asking people in a village whom they have heard of the most. The evidence shows that using people identified via this technique is a more effective way of spreading information than, for example, simply relying on established figures, such as the village chief.
Features

In a separate session, there was one other interesting piece of work on development economics. A paper by Marco Manacorda and Andrea Tesei (both Queen Mary, University of London) looked at the role played by mobile phones in protests in Africa. It tests the widely-held hypothesis that mobile phones have acted as ‘liberation technology’, helping citizens who are dissatisfied with their governments to mobilise against them. The two authors find that on average mobile phone coverage does not lead to more protests. However, during a downturn, the spread of mobile phones is associated with more episodes of organised political discontent. One hypothesis is that portable devices make individuals better informed about the state of the economy. Technology may therefore allow the channelling of discontent when this is caused by some external factor, such as a recession.

Political economy

The RES conference did not shy away from the most important question facing the UK in 2016: whether or not it should remain as a member of the European Union (EU). The so-called ‘Brexit’ debate was too uncontroversial for my liking: all the panelists said that the UK would be better off by staying in the EU. However, this is largely a reflection of the consensus within the profession, rather than the consequence of a poor choice of participants from the organisers: most economists believe that the UK would become poorer, at least in the short run, if it were to leave the EU. A show of hands during the panel discussion also proved the audience was fully in favour of ‘Remain’.

During the discussion, Richard Baldwin (Graduate Institute, Geneva) made the useful point that Brexit would be particularly damaging for the UK’s trading prospects, since the very nature of trade has shifted. Countries that want to attract foreign direct investment need to guarantee that they will not disrupt the supply chains that are at the heart of the global economy. Brexit could create significant artificial barriers in the UK’s trade with the EU, hence dissuading companies from investing in the UK in the first place.

John Van Reenen and Swati Dhingra (both LSE) presented a study from the Centre for Economic Performance looking at the costs of Brexit. They found that this could be between 1.3 per cent and 2.6 per cent of gross domestic product just from a simple static model that only looks at trade. However, the cost could rise to between 6.3 per cent and 9.5 per cent of GDP if the dynamic, long-term losses are included. While these estimates are obviously imperfect, their central finding that Britain would suffer non-trivial losses in case of exit appears hard to rebut.

Enrico Spolaore (Tufts) looked at the political economy of the vote. He argued that while there are economies of scale from institutional integration, there are also high heterogeneity costs, since voters in different countries may have different preferences for public goods and policies. While economists have typically concentrated on the benefits of integration, the costs are left out of the analysis because they are harder to assess.

Spolaore argued that European monetary union may have been a step too far for participating countries, given the heterogeneous preferences of the different publics. However, the UK’s ‘partial’ membership (inside the EU, but outside the eurozone) may be optimal, as it allows the country to stay in the policy areas with little heterogeneity while avoiding those with larger differences — a point that seemed very well-taken.

During the Q&A, John Moore (Edinburgh) chose to side-step the trade issue and made a case for ‘Brexit’ based on sovereignty. He argued that just as there is an optimal size to a company, there is an optimal size to a country. Maybe the UK is closer to that particular size than the EU as a whole. He added that bringing people closer to the decision-making bodies is a good thing, as it allows us to reduce the democratic deficit.

This argument does not appear entirely convincing, as it treats the EU as if it were a single country. However, it was a useful reminder that there is a lot more at stake in the referendum than simple economic models can capture.

The other political economy session — on migration — was significantly more controversial. Some of the speakers on the panel made the case for restricting migrants’ rights as an effective way to decrease global inequality. This argument is extremely inconvenient for our liberal societies, but is very thought-provoking, since it is built on a careful evaluation of the trade-offs facing today’s policy-makers.

Glen Weyl (Microsoft) set the stage for the debate outlining how there are two clusters of wealthy countries in the world. One includes the members of the Organisation for Economic Cooperation and Development (OECD) and is characterised by fairly equal societies that are closed to migration. The second group includes the Gulf states: these are repressive and highly unequal societies, but they welcome a much larger number of migrants than the OECD states. Weyl outlined how, while the Gulf countries typically restrict the rights of migrants, their model does a lot more to help to reduce global inequality than what the OECD has to offer.

Branko Milanovic (City University, NY) showed that a large part of global inequality depends on economic differences between countries rather than within them. This creates some sort of ‘citizenship rent’, which the population of high-income countries enjoys vis-à-vis those living in poorer states. Milanovic describes migration as the attempt by inhabitants of the emerging world to appropriate some of this rent. Facilitating migration may
therefore be the best way to reduce global inequality. However, local citizens do not want to suffer from the reduction in their income and welfare that may ensue from a policy of open borders. Milanovic’s solution is therefore to discriminate between migrants and locals to make migration more palatable for the natives. This could include asking migrants to pay higher taxes or forcing them to return to their home country every 4-5 years.

Suresh Naidu (Columbia) went into more detail about how the labour market in a Gulf state, the United Arab Emirates, actually works. He suggested that preserving democracy may be a value per se, adding that one may want to think of other ways to achieve greater inequality than simply copying the model of these countries. This appears to be a wise suggestion, as it is hard to see democratic countries turning their back on decades of history and embracing active discrimination.

Labour economics

The debate over the minimum wage dominated the labour economics section of the conference. This is a subject of immense importance, in both the academic and policy literature. As Alan Krueger (Princeton) recalled, many economists were shocked by his finding, together with David Card (Berkeley), that raising the minimum wage in the US had no negative effect on employment. The conventional wisdom back then was that setting a wage floor would obviously displace some low-paid workers: this finding derived from the most basic model in economics, the Marshallian cross, which shows that any clearing wage above equilibrium would lead to an excess of labour supply over demand.

Card and Krueger showed that this result does not always apply. One reason, which has been studied among others by Alan Manning (LSE), is that the labour market for the low-paid often resembles a monopsony: the employer has the power to drive down wages below the equilibrium level by artificially restricting the number of workers hired. Government intervention can therefore simultaneously increase wage and employment levels, as a number of studies following Card and Krueger’s seminal paper have shown.

The debate over the minimum wage has acquired renewed policy relevance over the past couple of years. In the US, several states and cities have lifted the minimum wage substantially. The German government has also set one. In the UK, George Osborne has taken the bold step of raising the minimum wage well above the level recommended by the Low Pay Commission. This is part of a plan intended to reduce the amount of in-work benefits paid by the government to supplement income for the working poor.

These decisions have raised an important question: what is the turning point where the minimum wage becomes too high and starts having a detrimental effect on employment? This is one area where Krueger rightly asked for more work.

Arindrajit Dube (Amherst) showed that the US states that have chosen to raise the minimum wage are not random. They tend to have higher unionisation rates and tend to vote for Democratic candidates in elections. For this reason, his work has specialised in looking at inter-state borders, which let researchers control for these external factors. Dube also finds that a higher minimum wage tends to raise earnings and lower turnover, while having essentially no effects on employment, at least in the short-run.

Dube added, however, that the US is now going through a phase of substantially higher minimum wages, especially in cities such as San Francisco. In Los Angeles, between 30 and 40 per cent of the workforce will be affected by the minimum wage. This is remarkable and may have different effects from those we have seen in the past.

Stephen Machin (UCL, LSE) showed that in the UK the minimum wage has gone up since its introduction in 1999 by more than the average wage. Still, this increase has had no significant detrimental effects on employment. However, the introduction of the new ‘living wage’ announced by George Osborne this year poses significant challenges. The new minimum wage will be set at £7.20 an hour this year and will rise to £9 an hour by 2020, lifting the coverage of the living wage substantially. The question is therefore whether this new, higher, floor will have significant effects on employment and profits. The Office for Budget Responsibility only forecasts a reduction of around 60,000 jobs. Conversely, the value of shares of low-wage companies fell rather significantly on the day of Osborne’s announcement, offering provisional evidence that profits may fall in the future. Machin has looked at the company accounts published since the announcement finding that, indeed, most companies plan to take a hit on profits. However, there may still be an adjustment in terms of employment for those companies that earn little or no profits at all, for example, care homes.

Richard Blundell (UCL) looked at the interaction of the increase in the minimum wage in the UK with the reduction in tax credit. His main conclusion was that the increase in the living wage does not do much to compensate poorer people who have suffered from other reductions in their income. In fact, minimum wage and tax credit policies are complementary at the bottom end of the income distribution and one must think about this interaction when designing the right policy mix. He concluded that the minimum wage should not be seen as a way to reduce the welfare bill significantly, but more research is needed to understand exactly how these policies interact.
Macroeconomics

The financial crisis has exposed the limits of macroeconomics models. Not only did they typically exclude the financial sector, but, too often, they failed to make useful predictions or help to detect structural breaks. Unfortunately, the RES conference did not offer much hope for those concerned about the sorry state of the subject.

For example, a paper by Pietro Cova, Patrizio Pagani and Massimiliano Pisani (Bank of Italy) on the effect of quantitative easing on the European economy excluded the banking sector. Given the importance of banks in the transmission of monetary policy, to me this is a big enough failure to throw serious doubts over the results of the model.

The session on sovereign debt and austerity was also frustrating. The papers presented covered very topical questions, such as the design of rescue packages within Europe’s monetary union or the kind of fiscal policy governments should opt for during a crisis. However, the models were typically seeking to replicate the experience of recent crises, instead of offering predictions about the future.

Kristin Forbes (Bank of England) chose instead to discuss one of the most relevant topics for UK policy-making in a realistic and forward-looking way. Her lecture put forward a new framework to evaluate how dangerous a sizeable current account deficit really is. At 5.1 per cent of GDP, the UK’s current account deficit in 2014 was the largest in nearly 60 years and the largest of any advanced economy. Still, Forbes remains relatively sanguine about its size: she argued that the deficit is primarily driven by stronger relative growth in the UK vis-à-vis other countries, which has led to a deterioration of investment income from abroad. Forbes also believes that the UK has strong institutions, meaning that foreigners will continue to invest there. This means that the overall size of the external debt remains manageable.

Forbes said that in principle there are reasons to worry about a large current account deficit. It makes a country more dependent on foreign financing and therefore more vulnerable to ‘sudden stops’. It may also highlight the presence of vulnerabilities, such as a large fiscal deficit or lack of competitiveness. However, there are reasons why deficits can be optimal, for example in the case of a developing country that needs to attract foreign capital to grow.

The current account consists of both the trade balance and the investment income on international assets and liabilities. Forbes chose to concentrate on the latter, since this is the driver of the UK’s external deficit at the moment. She concluded that a large deficit on the investment side of the current account need not be a problem in the case of higher domestic risks in the UK. In fact, the current account acts as some sort of shock absorber, distributing part of the cost of the fall in asset valuation to foreign investors. Conversely, in the case of higher global risks, the large deficit in the investment balance of the current account can amplify the problems, since there is no risk sharing while there are still negative effects on the broader economy.

Forbes’ conclusion is extremely neat, though not fully compelling. Take, for example, the risk of the UK leaving the EU. Under her taxonomy, Brexit would qualify as a domestic risk: the current account would act therefore as a cushion, since some of the negative impact would be passed on to foreign investors holding UK assets. However, this explanation does not seem to fully account for the fact that foreign investors may be more risk-averse than domestic ones. As a result, a large current account deficit may be a prelude to a bigger sell-off in domestic assets than would otherwise be the case, causing significant problems for domestic investors too.

Conclusion

Overall, the Royal Economic Society conference offered a very good mix of purely academic and more policy-oriented research. I would encourage the organisers to continue on this path, as this is the right way to ensure that the subject stays relevant while maintaining its rigour.

Note:

1. Ferdinando Giugliano is economics commentator at La Repubblica in Rome. Between 2011 and 2015, he worked as economics journalist and leader writer at the Financial Times in London. He holds a master and doctorate in economics, both from the University of Oxford, where he has also worked as a lecturer.

Economics Network events

The Economics Network held its 2016 Early Careers workshop at the University of Westminster in April. The workshop was very successful with delegates from twenty different institutions in attendance. Read a report on the event at https://economicsnetwork.ac.uk/news/ecworkshop2016

The Network will be running its autumn workshops for graduate teaching assistants in September and October. We are in the process of arranging dates and venues and will update our website (https://economicsnetwork.ac.uk/events/events) as these are confirmed. Please let me know if your department would be interested in hosting a workshop.

For a list of resources newly available from EN, visit the website:
https://economicsnetwork.ac.uk/showcase/
On 18th May IPSOS published a poll that looked at beliefs about Brexit. A clear majority thought the UK would be worse off over the next five years, perhaps because of the reaction of sterling to possible Brexit, and the warning from the Bank of England a week earlier. In contrast, a slight majority thought we would be better off over the next ten to twenty years if we left the EU.

Where did this popular belief that we would be better off in the longer term come from? The Chancellor George Osborne had given considerable publicity to a Treasury study that concluded that each household would be over £4000 worse off each year by 2030. Perhaps voters were naturally suspicious of these estimates, but figures of the same order of magnitude had been produced by researchers at the LSE, OECD and NIESR. However, eight economists calling themselves ‘Economists for Brexit’ supported a study suggesting the UK would be much better off leaving. Most of the tabloid media propagandised for Brexit. With no further guidance, perhaps voters had simply assumed that once again economists were hopelessly divided.

With this in mind, Tony Yates, Paul Levine and I organised a short and simple letter. Those signing it agreed that ‘numbers calculated by the LSE’s Centre for Economic Performance, the OECD and the Treasury describe a plausible range for the scale of [Brexit] costs’. With little effort we gained 196 signatures from economists, most of which were UK academics. It was published in the *Times*, with a good write up from them, but the letter was largely ignored by the rest of the media. In contrast, when 300 business leaders backed Brexit in a letter to the *Telegraph* a few days later, it was covered by the *FT*, BBC, Sky, the *Guardian* as well as some of the pro-Brexit newspapers. A week or so later the *Guardian* published a poll of economists which confirmed an overwhelming consensus that Brexit would harm the economy, but this received almost as little attention in other media as our letter.

The obvious conclusion to draw is that the public are not that interested in what academic economists think, and find the views of business leaders more persuasive. Yet polling evidence suggests exactly the opposite. When asked who they trusted on issues related to the referendum, academics were trusted much more than business leaders, and were trusted almost as much as friends and family.

Nor is it the case that these economic issues were regarded as unimportant by the public. Polling evidence suggested that if voters could be sure there were long term economic costs to Brexit, a significant number would change their mind.

This is not the first time the views of academic economists seem to have been ignored by the media. David Cobham, in an article in this *Newsletter*, noted that some economists had been quite active producing information during the 2015 election, but they too had been largely ignored. I was one of those David mentions. I wrote many blogs and articles about how the dominant meme of the coalition government — that they had to ‘clear up the mess Labour had left’ and that this was the cause of austerity — was simply wrong. John Van Reenen at the Centre for Economic Policy produced similar analysis, but what he wrote also had little impact.

David Cobham suggested three possible explanations. Two were specific to that election, and his third was that faith in economics and economists had been badly hit by the financial crisis. Yet the polling evidence on trust noted above suggests otherwise. (As the poll specifically referred to Brexit, it seems likely responders had academic economists in mind.) What is more there are good, objective reasons why academic economists should be trusted more than others.

A mistake often made here is to ignore the autonomous role of the media in disseminating information. It is wrong to assume that lack of media interest is indicative of a lack of public interest. I fear this treats the media in the same way as many (not all) macroeconomists treated the financial sector before the crisis. The media does not just pass on information: it filters, selects, packages and presents information according to rules and conventions. Indeed economists are beginning to analyse the impact the media has, something media studies departments and other social scientists have done for some time.

The days when journalists typically had time to research stories in any depth have long gone. They will typically not come to academics for information. Another impor-
tant change over the last few decades has been the proliferation of think tanks and of City economists who are partly paid to respond quickly to media requests. Some think tanks do a good job of using academic knowledge to inform policy decisions, but others have a clear (and generally right wing) ideological position to promote. City economists are great if you want a story (and it is a story) about day to day currency movements, but their understanding of macroeconomic policy and even financial economics can be pretty weak or idiosyncratic (and tends to have a right wing bias). Academics know this, but a great many journalists do not. The days when being an academic gave the information you had to convey a privileged position are long gone. In addition because think tanks and City economists know how to play the media (it is a key part of their job), their influence often dominates that of academics.

The way the media increasingly treats facts, particular economic facts, should also worry us. Paul Krugman and other US economist bloggers have long complained about a style of reporting where, if a mainstream political party declared that the earth was flat, the media would report this as ‘shape of the earth: views differ’. This style of reporting was particularly evident in the EU referendum campaign, where the £350 million a week figure was reported as ‘contested’, even after the UK Statistics Authority declared it incorrect.

There is a corollary to this style of reporting, which I have called the politicisation of truth.8 (It could be one aspect of what sociologist Ralph Keyes calls the ‘post truth era’.9) If one political side continuously repeats a statement, and it is not challenged by the other side, then the statement begins to be treated as a fact by the media. The idea that the last Labour government’s fiscal profligacy, rather than the global financial crisis, caused the recession and austerity is an obvious example. But there is another rather closer to home.

After the 1981 Budget 364 economists wrote to the Times voicing their disapproval. (See a recent RES article by Robert Neild10 and also later responses.11) It seems to me that any reasonable person should agree that whether it was right or wrong is debatable. Yet as Steve Nickell has noted, the Institute of Economic Affairs has not only are letters from economists ignored today, but letters from a time when they were not ignored are trashed.

A typical response within universities to all this is to try and make academics more outward looking and better at dealing with the media. And as David Cobham shows, many academics do put considerable effort into getting their knowledge across. But to imagine that most academics will go further and learn the arts of PR or start cultivating relationships with journalists is naive. Academics will always focus on their own research and the research of others (scholarship), which after all is why their views should be valued in the first place.13

Getting individual economists to be better at PR is not going to solve this problem. To be frank, we will never be as good at managing the media as thinks tanks or City economists, and in the eyes of most journalists we have nothing to compensate for this inadequacy. Economists through organisations like the RES need to do more to get their collective view across. Rather than waiting for a newspaper to organise polls of economists on key issues, why not organise them ourselves? (The CFM survey in the UK,14 or the IGM survey in the US,15 are examples of what can be done, but both are selective in those sampled.) Perhaps we need some chairs in the public understanding of social science? There are probably other and better answers than this, but we really need to find them to help improve the public debate on economic issues.

Notes:
1. Simon Wren-Lewis is Professor of Economic Policy, Blavatnik School of Government, Oxford University. He writes the ‘mainly macro’ blog at: https://mainlymacro.blogspot.co.uk/
3. The NIESR analysis was not published at that time.
4. After publication the number signing rose to over 280.
5. http://indy100.independent.co.uk/article/these-are-the-groups-people-trust-and-dont-trust-on-the-brexit-debate-ZkxJoirAczb
7. For examples of economists work on the media, see Bates medal winner Matthew Gentzkow or the Handbook of Media Economics (North Holland, 2015)
8. https://mainlymacro.blogspot.co.uk/2016/06/the-politicisation-of-truth.html
12. https://mainlymacro.blogspot.co.uk/2016/06/the-politicisation-of-truth.html
13. Journalists should also worry that the individual academic they talk to may not reflect the consensus.
Reforming the Society’s constitution

The forthcoming retirement of Mark Robson as the Society’s Honorary Treasurer was announced in the April Newsletter. In his time as treasurer Mark did a lot of work to enhance the Society’s constitution. To mark the Society’s appreciation of those efforts, the editor invited Mark to explain the thinking.

Ed: Most readers will know you were not only the Society’s Honorary Treasurer but also that you did a lot of additional work in revising the Society’s constitution. How did you come to take that on?

MR: My good friend John Vickers invited me to lunch one day when he was President. I should have known something was up. He explained that John Beath was just getting into his stride as a very active new Secretary-General and needed support from a new Treasurer as Penelope Rowlatt was standing down. Would I be prepared to consider it, on a strictly honorary basis but unlikely to involve much regular effort, and even if it involved an election (for full transparency and a legitimate mandate)? As I find it hard to say no whenever anyone asks for help, I readily agreed and was duly elected. One of my commitments was to update the constitution so that it would be fully fit for purpose.

Ed: I gather that you’ve helped other organisations in this quasi-legal role. Why? It seems a rather arcane pastime.

MR: About twenty-five years ago it became clear that the constitutional model (what we now call governance) generally favoured by the Charity Commission in the 1960s was not working effectively. The formal governing body was typically a very large Council, of 30-40 strictly disinterested members able to represent a wide range of interests, but too unwieldy to meet often and exercise effective management and control. Too much was left to chance and trust. In consequence things had gone wrong, such as major frauds by unsupervised managers, or were at high risk of going wrong in too many charities. New legislation to facilitate change was introduced in 1992 and consolidated the following year. I had been a trustee of several educational charities including some I had set up from scratch and became interested in this practical application of the principal/agent model. There were two ways forward: first, to retain the Council as the governing body but shrink it to a manageable size and make its members clearly accountable for all the charity’s activities. In the university sector this approach was pioneered by Salford University and then City (where I was on the Council before and after reform). The second was to retain a large Council as an advisory body meeting perhaps only annually, but establish a much smaller Executive exercising effective management and control. This is what we did with the RES and with the Institute for Fiscal Studies, for example. The difference between those two cases is that, unlike the IFS, for the Society we took advantage of the relaxation of the old rule that charity trustees should be completely disinterested. We are able to reflect in our Executive Committee the fact that management and control of the Society truly lies with a combination of officers and volunteers (who must remain in the majority). So far this has proved to be a highly effective model.

Ed: Are you an economist by training or did you come to this role with a legal background?

MR: I was very fortunate to be able to ‘convert’ to economics (my first degree was Mathematics and Philosophy) by taking the MPhil in Oxford in the 1980s with the benefit of a civil service bursary and then joining the government economic service. But although I am not a lawyer, before that I had a lot of experience of tax law while working for the Inland Revenue. I also qualified as an accountant, which has often proved useful.

Ed: What were you concerned about when you were reviewing the Society’s behaviour as a charity? I heard it said that ‘size’ was an issue and that the RES was getting to a size where the Charity Commissioners were likely to take a close interest. But maybe there were other considerations?

MR: I wasn’t too concerned about any particular aspects of behaviour, just that we should have a governance model that was fully fit for purpose given that the RES management model is highly decentralised and largely virtual (with no employees). We also have a concentration of risk in the EJ and conference activity, given their importance to the Society reputationally and financially, so that close and regular scrutiny is important. With a turnover over £1mn the RES certainly does count as a larger charity, but I don’t think one that is ever likely to attract close interest from the Charity Commission for that reason alone. But if something should go seriously wrong that would be a different story and a very embarrassing one. I’m very pleased that under Charlie Bean’s Presidency we established the strategy working groups to think about the longer term.

Ed: In recent years issues have often been raised in the media about the legitimacy of charitable status — it’s too wide, too many organisations take advantage of it etc... Its use by public schools, for example, has sometimes attracted adverse comment. Do you have a view?

The big issue has always been what is ‘public benefit’. The basic approach has not changed since 1601 when four heads of charitable purpose were established in the first charitable statute.

...continued on p.24
The productivity fallacy

Six years into fiscal consolidation policies around the world, economists are wholly preoccupied with supply rather than demand. Productivity figures are regarded as indicating structural flaws, of far greater interest than the successes or otherwise of governments' fiscal strategies. This note by Geoff Tily\(^1\), argues that it is a fallacy to interpret failures of productivity outcomes as indicating a failure of supply. The disregard for the demand story is deeply problematic in practice.

PRODUCTIVITY STATISTICS dominate the interpretation of economic conditions and policy options. Even in spite of an inability to explain outcomes, almost unanimously and continuously the figures are interpreted as indicating deficient conditions of supply. Any weakness in the economy is repeatedly deemed structural rather than cyclical, and policy relentlessly driven on the present contractionary setting.

The OBR illustrates the unanimity of opinion in the UK with a comparison of output gap estimates across various institutions (see figure 1).\(^2\)

Twelve of 15 institutions regard the output gap as less than \(-\frac{1}{2}\) per cent, indicating no spare capacity in practical effect. Only two institutions (both non-banks) step gingerly outside the consensus.

But it is a fallacy to interpret productivity outcomes as indicating a failure of supply. It is wrong to use productivity outcomes to avoid discussing fiscal policy. The practical implications of this latest consensus in the profession are far from trivial.

The macroeconomic case for demand

The fallacy has been re-enforced by inadequate statements of the demand case. These generally rely on market failures: sluggish adjustment of labour to reduced demand or inadequate investment. Neither are strictly demand explanations and both are difficult to demonstrate decisively. The appropriate demand case is based on macroeconomic not microeconomic reasoning (owed originally to Martin and Rowthorne, 2012)\(^3\); it is simply stated in three steps:

- Weaker economic outcomes follow from inadequate aggregate demand, and more specifically from reduced growth (or cuts) in government expenditure; inherent to the productivity fallacy is an underestimation of the impacts of cuts in spending, i.e. of the multiplier, or equivalently an overestimate of the extent of 'crowding in'.
- The labour market has been forced to accommodate lower growth, and has done so through price — i.e. reduced wages and quality of work — rather than quantity, with employment numbers holding up.
- Low productivity is simply the residual of lower than normal economic growth against disproportionately higher employment growth.

Under the demand view causality is simply reversed, with productivity a symptom of wider economic conditions rather than a quantity with causal force.

The process can be simply illustrated using national accounts and labour market information. Starting with the expenditure decomposition of GDP, average annual

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\(^2\) Chancellor, Budget Speech, 16 March 2016

\(^3\) Martin and Rowthorne, 2012.
growth and contributions by sector before and after the financial crisis are compared. Nominal figures are used: statistically, the output indicators used for government spending are unhelpful and the corresponding income measure of GDP is derived only in nominal terms; economically, prices are an outcome of interest and, in the short-run, wages and the state of the government’s coffers depend on nominal GDP.

Table 1 shows growth rates and contribution to total UK growth by sector for the expenditure and income measures of GDP across pre- and post-crisis period and the change. The expenditure figures show 1.4 percentage points (ppts) of the 1.8 ppts shortfall in GDP growth accounted for by government final expenditure (consumption and investment). No private expenditure was crowded in, and household expenditure was also reduced. The OBR and others have attributed the weakness to the failure of the EZ, but trade figures are only marginally less weak than before the crisis (and exports are are still a demand factor).

The corresponding comparison of income figures shows the reduction in growth shared between labour (-1.5 ppts) and capital (-0.7 ppts), though the former more disadvantaged. The key action for productivity is illustrated by deconstructing the growth in compensation of employees between jobs and earnings, shown also in Table 1. (This can only be done as an approximation: here the sum of aggregate employment and average weekly earnings growth; NB compensation of employees also includes employers’ contributions to pensions.)

So the whole of the adjustment in labour income is accounted for by wages rather than employment. International comparisons show the UK labour market was one of several that adjusted in this way (TUC, 2015).4

A question of identification

To this point the argument shows how weak productivity outcomes are not inconsistent with weak demand, not that they are caused by weak demand. The relation between productivity and wages is an accounting identity, and the economic problem one of identification.

Though without going any further output gap estimates are put into context. The shortfall in ‘productivity’ is essentially arbitrary according to any projection of a preceding rate of growth from a specific point in time. As repeated ad nauseam, in the UK productivity is around 16 per cent below its pre-crisis trend; it is around 9 per cent below the OBR’s projection in 2010. Set against this scale of a shortfall, the miniscule range of output gap forecasts illustrate the extent of the bias to the supply view.

Identification depends on wider evidence for the dominant factor. The evidence for demand follows from an extension of the UK analysis to all OECD countries, and the brutal, natural experiment underway since 2010.

A simplistic but probably adequate regression of the change in government expenditure contributions against the change in GDP growth between pre- and post-crisis periods has a slope of around 3, loosely indicative of the multiplier (and a correlation of 0.76). Though high, this is hardly novel: in their October 2012 World Economic Outlook, the IMF conceded ‘multipliers have actually been in the 0.9 to 1.7 range since the Great Recession’, when previously ‘fiscal multipliers were near 0.5 in advanced economies during the three decades leading up to 2009’ (Box 1.1).

Table 1: GDP expenditure and income decompositions

<table>
<thead>
<tr>
<th>GDP</th>
<th>Growth per cent</th>
<th>Contributions to growth percentage points</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002-07</td>
<td>2010-15</td>
</tr>
<tr>
<td>GDP</td>
<td>5.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household</td>
<td>5.3</td>
<td>3.9</td>
</tr>
<tr>
<td>Government</td>
<td>7.8</td>
<td>1.3</td>
</tr>
<tr>
<td>Investment</td>
<td>5.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Exports</td>
<td>5.5</td>
<td>4.4</td>
</tr>
<tr>
<td>- imports</td>
<td>5.7</td>
<td>4.1</td>
</tr>
<tr>
<td>Income</td>
<td>Compensation of employees</td>
<td>5.3</td>
</tr>
<tr>
<td>w/ employment growth</td>
<td>1</td>
<td>1.1</td>
</tr>
<tr>
<td>earnings</td>
<td>4.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Gross operating surplus</td>
<td>7.2</td>
<td>4.1</td>
</tr>
<tr>
<td>other income</td>
<td>5.8</td>
<td>5.7</td>
</tr>
<tr>
<td>taxes</td>
<td>4.4</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Note: Figures may not sum to GDP totals because smaller items have been omitted.
In the meantime, inherent to the notion of a ‘productivity puzzle’ is the inability of commentators to find a satisfactory supply-side explanation (let alone one that might explain outcomes across all OECD countries). Indeed the most compelling contributions are ones that rule out various specific supply accounts.5

Correspondingly — and crucially — it is difficult to reconcile unprecedented lows for inflation with defective supply. (Notably the OBR barely try, though the Bank of England have not given up.) The evidence strongly suggests that the ongoing weakness in economic activity is caused by deficient demand.

Practical implications

Obviously this is a matter of the greatest importance. On the basis of the productivity fallacy, the failure of one round of spending cuts is leading blindly to another. Politicians and policymakers around the world may claim absolution (quote at start), but their actions are crushing activity, wages and the quality of work, as well as public services and social provision. There can be no end on the present course. The actions serve no reasonable purpose, with, furthermore, not the slightest dent made in seriously elevated public debt ratios across the world (there are a couple of exceptions, not least Germany). In this Newsletter six years ago, Chick and Pettifor were reported arguing ‘fiscal consolidation increases rather than reduces the level of public debt as a share of GDP and is in general associated with adverse macroeconomic conditions’.6 Others contested their view, but public debt ratio outcomes to date are with Chick and Pettifor. On a realistic view of the output gap (or rather spare capacity), the threat of deflation will not go away (and the impact is already very obvious in the steel and oil industries). This is a toxic prospect, given the unprecedented levels of private debt in the UK and globally.

None of this is to deny serious supply-side defects, not least in the financial sector and in public infrastructure spending. But the dominant factor driving statistical outcomes on a short horizon is demand, and supply cannot be addressed without momentum from demand.

It is not clear whether the consensus around the output gap is the result of blind application of mechanical processes (so-called real-time output-gaps). But the associated application of long-run theory to short-run outcomes, the belief in ‘crowding-in’ and in incredibly low multipliers, let alone the willingness to countenance an extreme expansion of central bank balance sheets, is hardly uncontroversial.

But of course the analytics are essential to holding the line on the necessity of cuts and keeping the possibility of expansionary fiscal policy off the table. The impression is of a profession that would prefer to discuss productivity so as to not rock the boat. I should note that I have shared and in some cases discussed these arguments with policymakers and other economists; the basic argument has not been contested, but it is ignored in practice.

Policymakers and economists need to recognise that the consensus portrayed on the OBR chart is entirely devoid of rational or scientific content. Given their business is not primarily ideological, a more impartial and considered reading of the evidence is to be expected.

Notes:

1. Geoff Tily is senior economist at the TUC and the author of Keynes Betrayed (Palgrave, 2010).


Royal Economic Society
Annual Conference 2017
Submission of papers and special sessions are invited for the 2017
Royal Economic Society Annual Conference
University of Bristol on 10-12 April 2017.

Papers must be submitted by 9 October 2016 via the link available on the conference webpage.
Proposals for special sessions must be sent by 25 October 2016 to the Programme Chair
(Conference2017@res.org.uk) and should comprise a short description of the proposed session, names of con-
tributors (typically three/four) and indicative paper titles.

Notification of acceptance will be by the end of December 2016. Online registration will open in January 2017.
Note that authors of papers accepted for presentation at the 2017 RES conference will be entitled to submit
their papers for possible publication in the associated conference issue of the Economic Journal.

Keynote speakers are:
Economic Journal Lecture
Hilary Hoynes, Berkeley University

Hahn Lecture
Gita Gopinath, Harvard University

Sargan Lecture
Jim Stock, Harvard Kennedy School

There will be a drinks reception at the Bristol Museum & Art Gallery on Monday 10 April and the Gala
Dinner on Tuesday 11 April will be at the Passenger Shed, Isambard Kingdom Brunel’s iconic old station.
Further information about the conference, including details of financial assistance for PhD students, is avail-
able via the conference webpage: http://www.res.org.uk/view/0/2017conference_home.html

Please feel free to contact the Programme Chair (Sarah Smith) or Deputy Programme Chair (Michael
McMahon) with any questions about this Call, or the Local Organisers (Senay Sokullu and Leandro de
Magalhaes) with wider questions about the conference.

Sarah Smith (Bristol) - Programme Chair              Michael McMahon (Warwick) - Deputy Programme Chair
Senay Sokullu and Leandro de Magalhaes (Bristol) - Local Organisers

Conference e-mail: Conference2017@res.org.uk

Brexit seen from Berlin
...cont. from p.4

Just as Merkel’s hubris-laden decision had far-reaching consequences for other EU members, Brexit has poten-
tially even more unimaginable ones. Like the dogs of war, Brexit will unleash a genie of anti-European feel-
ings and a chain reaction of unpredictable and uncontroll-
able events throughout the continent. It is likely to spur
referenda on the EU in the Netherlands, Denmark, and
Poland while strengthening separatist movements in
Catalonia, northern Italy, Scotland, Northern Ireland,
possibly even southern Germany.

This letter is about externalities in a continent of close
neighbours. The Brits were swamped by eastern
European immigrants who have claims on the system of
public goods and the welfare system. Part of this spillover originates in Germany's unwillingness to
accept Polish immigration until eight years after their
accession. Yet the Poles provided a mass of industrious
workers needed in a long-neglected low pay sector;
could not the spurt in GDP per capita growth which has
occurred in the past 10 years be a function of this sup-
ply-side bump, pulling it ahead of Germany? Whatever
the case, Great Britain is not an island — nor is
Germany. On June 23, Britons decide on remaining in or
leaving the EU, but they will also effectively decide the
future of Europe. To abuse Churchill again: Never has so
much been decided for so many by so few. The stakes
are very, very high.

Best regards from Berlin.
Exploring Economics at University College, London

‘ExploreEcon’ is an annual research conference for the university’s economics undergraduates. Introduced two years ago, the conference is seen as a way to further UCL’s stated objective of providing a research-based education. This article, by Mateusz Stalinski, is one student’s report on the experience.

University College London’s ExploreEcon conference is an annual undergraduate research showcase that takes place in March. The conference provides an excellent opportunity for undergraduate students to demonstrate their passion for the subject as well as to share their research ideas with peers. There is nothing more motivating to start your own project than the prospect of presenting it to others. The UCL Explore Econ has been extremely popular among UCL students and many high quality submissions have been rejected due to time constraints on the conference day. For me, personally, participating twice in the UCL Explore Econ conference was a truly enriching experience that allowed me to shape my research interests and gain invaluable skills necessary to pursue my interests further.

The conference is a genuinely professional event during which all presentations are assessed by a panel of distinguished judges. This year students had the privilege to share their work with Janet Henry (Global Chief Economist of HSBC), Gill Hammond (Bank of England), Adam Lyons (UK Government’s Department for International Development) and Professor Stephen Smith (UCL Department of Economics). Apart from students’ presentations, each conference has a keynote speaker who gives a brief introduction into their subject of expertise. This year the audience thoroughly enjoyed a presentation by Sharon White (Ofcom’s Chief Executive) on the role of the communication regulator in the UK and cooperation between Ofcom and the EU competition authorities.

It is important to note that the UCL Explore Econ conference is preceded by a long period of preparations. In fact, for the participants, this is the most valuable part of the project. All of us received detailed feedback both on conference proposals and on our first drafts. What is more, the conference organisers: Dr Parama Chaudhury, Dr Cloda Jenkins, and Dr Christian Spielmann (UCL Economics Department) run a series of workshops (called Skill Labs) on data exploration, academic writing, and giving presentations. Not only have the extra classes provided us with the skills necessary to do well on the conference day, but they have also inspired many of us to start researching a particular topic.

In my presentation ‘Consequences of incomplete employment contracts in a laboratory experiment’ I discussed results of an economic experiment which I conducted with university and high school students from December 2015 to February 2016. The main aim of the experiment was to evaluate impact of incomplete employment contracts on wages. 209 students played a computer game in which buyers and sellers could make interactive decisions. The game imitated labour market, in which effort levels chosen by workers were disclosed to employers with probability 0.6 in treatments, and 1 in controls. Comparing wage rate choices in the two groups allowed me to capture impact of incomplete employment contracts on wage determination. In my paper the empirical results were supplemented by a simple dynamic programming model of labour market which permitted long-term consequences of losing employment. The experimental data supported the research hypothesis that higher degree of incomplete employment contracts is associated with higher wage required to motivate workers to exert maximum effort.

In the conference students’ ideas are presented in different formats: essays, posters, and videos. Last year, as a first year student, I presented a research poster ‘Why (not) to join Boko Haram?’ evaluating push and pull factors of joining terrorist groups (Figure 1). The experience from the previous conference greatly helped me in writing an essay for ExploreEcon 2016.

Conducting research, especially collecting primary data for the first time, was undoubtedly a big challenge. It would not have been possible for me to create a methodologically valid experiment without guidance from members of the UCL Economics Department. Analysing feedback, opportunity to ask questions, and discussing the project during countless meetings with professors and other students, was a great learning experience. Thanks to participating in ExploreEcon I could apply theory from my microeconomics and econometrics classes in practice, which only enhanced my understanding and motivated me to study the often abstract concepts and models further. I strongly believe that the experience that I gained by participating in ExploreEcon will improve my future employability and help me to achieve success in further studies.

Finally, ExploreEcon is a great opportunity to get inspired by work of others. Watching my colleagues presenting their research was a great pleasure and yet another reason to start one of our endless debates about economics.
Figure 1: Why (not) to join Boko Haram? — a research poster for Explore Econ 2015
Obituary

Maurice Peston

Maurice Harry Peston, was born on the 19th March 1931 and died 23rd April 2016. He is survived by his wife Helen, whom he had known from when they were teenagers and whom he married in 1958. They had three children; Juliet, Ed and Robert of TV fame and two grandsons, Simon and Maximilian.

Maurice grew up in the East End of London and obtained a first at the London School of Economics before winning a Fulbright scholarship that took him to Princeton University. He returned to Britain for national service and — because of his research in the US into game theory — he was promoted to senior scientific officer in the Army Operational Research Group. Still in his mid-20s, he held the notional rank of lieutenant colonel. After a spell as a lecturer and reader at the LSE, at the age of 34, he was invited to establish and head a (Cockney) economics department in Queen Mary College in the University of London on the Mile End Road in the East End and within the sound of Bow bells! He remained there for more than 20 years retiring as emeritus professor in 1988.

He was an economic adviser to the Treasury (1962-64); to the Ministry of Defence (1964-66), and to the House of Commons select committee on nationalised industries (1966-70 and 1972-73). In 1987 he was created a life peer as Baron Peston of Mile End, (where else)? He chaired the House of Lords committee on monetary policy from 1998 to 2001. In his Lords biography he is listed as having been a member of fifteen committees ranging from the Library and Computers Sub Committee in 1987 — he had to start somewhere — and then progressed on to the Economic Affairs Committee in the early 2000s. In the mid-1980s Maurice did a weekly thirty-minute slot on LBC radio and also enjoyed occasionally writing Bill Keegan’s column in the Observer. His education writing was important to him, in his regular 1970s column in the Times Educational Supplement; and he had lots of fun on Robert Robertson's Radio 4 Saturday evening programme, Stop the Week.

I first encountered Maurice in 1984. I had arrived as a rather old lowly graduate student at Queen Mary College to do a PhD. It was my first economics seminar at QMC and I quickly realized that Professor Peston was sitting in the back of the class clearly paying little attention to what was going on. Half way through the seminar Maurice piped up ‘but have you thought about this…’? Of course the presenter hadn’t and it was downhill from there. I heard Maurice ask the killer seminar question so many times. It was a great training and a hard act to follow.

His students of course, loved him and still do. He was especially proud of the success of his first student Dame Collette Bowe Chairman of the Council of Queen Mary, University of London who chairs the Banking Standards Board now and of Gerard Lyons, from 1999 to 2012 at Standard Chartered and subsequently adviser to the then Mayor of London, Boris Johnson. He was proud of the fact that I was a dissenter on the MPC; he simply assumed he had taught me well and as usual was probably right. There is an annual lecture in Maurice’s honour at what is now Queen Mary, University of London, that has attracted a who’s who of economists, including Charles Goodhart, Sushil Wadhwani, David Currie and Richard Lipsey. Most recently Bank of England Governor Mark Carney gave the 2016 lecture on the fiftieth anniversary of the Economics Department that Maurice set up. His beloved son Robert gave the lecture in 2015. He said it well ‘Dad is a world class economist, who stayed firmly rooted in the economic landscape originally discovered, charted and developed by Keynes’. Indeed.

Maurice along with my other mentor at QMC, Bernard Corry, emphasized the importance of the economics of walking about. You breathe in the air and listen to what people say and take it seriously. If you tracked what business and consumers said, what Keynes called animal spirits, in the early part of 2008 it told you a nasty recession was coming. Maurice especially liked my story that a cab driver on Oxford Street in early 2008 told me that something was up as he noticed for the first time ever that shoppers didn't have bags. He also liked my story that a firm that serviced tyres and had tachometers on delivery trucks had told me that they noticed that the number of miles being driven was markedly down at Easter 2008, which was the start of the Great Recession in the UK. The Bank of England Agents’ scores started to turn down in early 2008 but they were largely ignored, also but the hard quantitative data didn’t turn down until much later.

As the years went by I came to know Maurice pretty well. We occasionally had lunch together at the House of Lords. I recall him coming back from the fortieth celebrations of the D-Day landings with Margaret Thatcher and striding into the common room and announcing that he had a great story. Maurice along with my other mentor at QMC, Bernard Corry, emphasized the importance of the economics of walking about. You breathe in the air and listen to what people say and take it seriously. If you tracked what business and consumers said, what Keynes called animal spirits, in the early part of 2008 it told you a nasty recession was coming. Maurice especially liked my story that a cab driver on Oxford Street in early 2008 told me that something was up as he noticed for the first time ever that shoppers didn’t have bags. He also liked my story that a firm that serviced tyres and had tachometers on delivery trucks had told me that they noticed that the number of miles being driven was markedly down at Easter 2008, which was the start of the Great Recession in the UK. The Bank of England Agents’ scores started to turn down in early 2008 but they were largely ignored, also but the hard quantitative data didn’t turn down until much later.

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Morrison song ‘The Master’s Eyes’.

I can’t do better than finish with lines from the Van eclectic economist.  Maurice was also a proud Arsenal fan. He was a truly delightful friend and mentor and a fine, sophisticated, but rarely is anything of value discovered.’ on the real world.  Econometrics too gets more and more emerges, and there is even the odd article that throws light forth.  Occasionally, something of intellectual interest ed largely to disguise the essential triviality of what is set accused of churlishness if I were to add that this is intend- in high-powered mathematical terms.  I know I should be tion and in the public finances.  He applied his economics to problems that mattered in people’s lives. Maurice though, was not much impressed by what has been going on in economics as it has become divorced from the real world.  His concerns, that I continue to share, were well expressed here on the twenty-fifth anniversary of the letter to the Times by 364 economists that he continued to express were correct, complaining about Thatcher’s eco- nomic policies.

‘Economics journals continue to be full of weird and won- derful theories, which are for the most part rehashes of earlier weird and wonderful theories.  What has changed is that it is now absolutely necessary to formulate everything in high-powered mathematical terms.  I know I should be accused of churlishness if I were to add that this is intended largely to disguise the essential triviality of what is set forth.  Occasionally, something of intellectual interest emerges, and there is even the odd article that throws light on the real world.  Econometrics too gets more and more sophisticated, but rarely is anything of value discovered.’ (M H Peston, ‘The 364 were correct’, 2006).

He was a truly delightful friend and mentor and a fine, eclectic economist. Maurice was also a proud Arsenal fan. I can’t do better than finish with lines from the Van Morrison song ‘The Master’s Eyes’.

‘And my questions all were answered
When the light shone from the master
When the light shone, from the master’s eyes’.

We will all miss him. A great man.

References:
Danny Blanchflower
Dartmouth College, USA.

Mark Blaug Student Essay Prize

In honour of the great economist Mark Blaug (1927-2011), from 2014 the Foundation for European Economic Development (FEED) is financing and awarding an annual student essay prize.

**Details of the 2016 Prize Competition**

Eligible essays for the prize must be critical discussions of any aspect of modern economics. Rather than applying economics to a particular problem, eligible essays must reflect critically on the state of economics itself, as Mark Blaug did in many of his works. Critical reflections may include the assumptions adopted, the suitability of the concepts deployed, the mode of analysis, the role of mathematical models, the use of econometrics, real-world relevance, the presumed relationship between theory and policy, the unwarranted influence of ideology, the use (or otherwise) of insights from other disciplines, and so on.

The required language is English. Eligible essays are by university undergraduates, or by graduates who obtained their Bachelor’s degree no earlier than 1 January 2015. There is no residential or geographical restriction.

Undergraduate dissertations must be converted to essay format and reduced to 6,000 words (inclusive of references and appendices) or less. Author names, affiliations and email must be placed on the first page, below the title of the essay.

Up to two prizes will be awarded each year, depending on the quality of the best papers. The respective awards will be £500 and £300. FEED will reserve the right to award no prize, or one prize only, if there are inadequate essays of quality. The prizes will be judged by a committee of leading scholars.

Essays should be submitted by email to: g.m.hodgson@herts.ac.uk by 1 October 2016. The awards will be made in late 2016 or early 2017.
RES news

The Society’s constitution  ...

The advancement of education and of religion were presumptively of public benefit and that was never contentious until very recently. Interestingly the relief of poverty did not historically have to be public: it could be just for the elderly and distressed members of one’s own family, for example. Then the fourth head was everything else of public benefit — what we would recognise as private expenditure on public goods such as roads, bridges, watercourses, flood defences and so on. Ed Balls modernised this basic framework to a longer list of purposes that is still not exhaustive, but must demonstrably include public benefit. That has been the contentious issue for public schools but the courts have provided useful guidance. Conversely of course some very worthy organisations are excluded from charitable status because of political campaigning, Amnesty International being one of the best known.

Ed: Future plans? I note your address is now the Centre for Central Banking Studies, while I think you were at the Bank’s Notes Division when you took on the RES Treasurer’s role. Is there any significance in that? Being at the CCBS suggests maybe a more ‘academic’ interest. Many readers will recall the work of Max Fry and Peter Sinclair at CCBS and will be interested that you’ve moved there.

MR: I was indeed in the Notes Division when I became Treasurer, with three responsibilities: renegotiating the Bank’s contract with De La Rue for its own note production; devising a new legal and operational regime for the Scottish and Northern Ireland note issuing banks; and being part of the small team that created the quantitative easing regime. Then I had six stimulating years running and expanding the statistics function, to include regulatory data after the PRA was formed. Now I am helping out in CCBS, principally in assembling the new central banking MSc qualification with Warwick Business School, who will start teaching it to our graduates this autumn. So that is a bit more of an academic interest! But having suffered health problems recently I am thinking about retirement before long. It is so easy to take good health for granted.

Ed: I’m sure our readers and all the Society’s members will want to thank you for your efforts in a very important, but less than glamorous, role. I can certainly recommend semi-retirement and hope with everyone else that your health improves.

RES news

Updating Membership Details

The Society increasingly uses online facilities via its website to inform and publicise its activities to members. We ask all RES members to ensure that they have a current email address registered to www.res.org.uk

2016-17 Junior Fellowship Awards

This increasingly popular research grant scheme received 47 applications this year from 18 universities. Congratulations to the ten successful Junior Fellowship candidates for 2016:

Lasse de la Porte Simonsen, Birkbeck, Residential Land Supply in 27 EU Countries: Controls or Nimbyism?
Shixuan Wang, Birmingham, Detecting at most two changes in Linear Regression Models
Katja Smetanina, Cambridge, Real-time GARCH: Does Current Information Matter?
Francesca Giaia, Edinburgh, Peer Effects on Risk Behaviour: The importance of group identity
Stephan E Maurer, London School of Economics, Voting Behaviour and public employment in Nazi Germany
Florian Blum, London School of Economics, Food For Thought: Nutrition and Agricultural Technology
Guo Xu, London School of Economics, How Does Collective Reputation Affect Hiring? Selection and Sorting in an Online Labour Market
Joshua Lanier, Oxford, Monotonic Demand and Expected Utility
Christopher Roth, Oxford, Conspicuous Consumption and Peer Effects: Evidence from a Randomized Field Experiment
Arun Advani, University College London, Melting Pot or Salad Bowl: The Formation of Heterogeneous Communities

JF 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 an RES Junior Fellowship conference session.

The RES Annual Public Lecture 2016

‘In Search of the Perfect Match — the economics of picking our partners and jobs’ will be given by Professor Philipp Kircher (Edinburgh) at the Royal Institution London on 29th November 2016 and 30th November 2016 at the University of Manchester. Tickets will be available for application through the RES website in the autumn, with priority going as usual to school groups. Please see www.res.org or contact events@res.org.uk for full details and ticket applications.

www.res.org.uk/view/resNewsletter.html
Changes at the RES

The Society wishes to thank Mark Robson (see p.15) for his careful and level-headed stewardship of the finances and governance of the Society as Honorary Treasurer from 2007 until the end of June 2016, working with Secretaries-general John Beath and Denise Osborn and Presidents Sir John Vickers, Sir Richard Blundell, Sir Charles Bean and Professor John Moore as well as the current President, Professor Andrew Chesher. We welcome as Honorary Treasurer from July 2016 to 2021 Susan Holloway, an experienced manager, economist and trained management accountant, who has held senior roles in the public, charity and private sectors.

The Society regrets to announce the resignation of Professor Donald Winch as Publications Secretary (see p.7). His work on behalf of British scholarly publishing and the RES in particular has been extensive, thorough and irreplaceable. Donald took up the position in 1971, and served the Society in this role for an amazing 45 years. During that time he undertook much work in developing the RES Scholarly Editions (http://www.res.org.uk/view/scholarlyEditions.html) and, in recent years, was heavily involved in discussions which resulted in the publication of the Society’s 30 volume Collected Writings of John Maynard Keynes being transferred from Palgrave-Macmillan to Cambridge University Press and made available online. Although he retired from the University of Sussex many years ago, Donald continued to work for the Society until March this year. We thank Donald for his efforts wish Donald and his wife Dolly well in retirement.

The Society is also indebted to Professor Karen Mumford, who stepped down as Chair of the RES Women’s Committee in March 2016 after serving two terms in that role. Under her guidance, the role of the Women’s Committee expanded significantly, including the establishment of a triennial RES mentoring meeting, where junior women academics in UK economics meet and are mentored by senior women academics in related areas, and the Women’s Committee ‘Special Session’ has become an established part of the Annual Conference. Karen has also been a regular contributor to this Newsletter, keeping members in touch with the work of the Women’s Committee. The Society welcomes Silvana Tenreyro (LSE) as the new chair of the RES Women’s Committee, who has previously chaired the Women in Economics Committee of the European Economic Association and is an elected member of the RES Council.

Professor Sir Charles Bean ended his three year term as President at the AGM this year; during his three year term he has focused on the development of Council as a strategic and advisory body as well as increasing our outreach activities, including the Society’s investment in filming the Society’s Conference and streaming the public and policy lectures. He has been a great supporter of the Society and the Secretary General wishes to thank him on behalf of the Society Council and Executive Committee for his service and advice during his presidency.

AGM

The AGM ratified the decisions of the RES Council and Executive Committee that, with effect from April 2016, the Society should have a ‘triunvirate’ of Presidents, namely President-Elect, President and (Immediate) Past-President, each of whom would act for one year in each position. Thus, each would serve for a total period of three years, attending Executive Committee and Council meetings and undertaking other duties for the Society throughout this period.

The following were therefore ratified: Professor John Moore to serve another year as Past President until AGM 2017; Professor Andrew Chesher of University College London to serve as President from 2016-2017; Professor Peter Neary (Oxford) as President-elect, to take up the post of President from 2017-2018.

After ratification by the AGM, the Society is pleased to welcome the following as members of the RES Council from April 2016 until 2021: Professor Christian Dustmann (UCL), Professor Amelia Fletcher (UEA), Professor Rafaela Giacomini (UCL), Professor Beata Javorcick (Oxford), Professor Paola Manzini (St Andrews) and Professor Tim Worrall (Edinburgh). Professor Javorcick will also elected by Council to represent them on the Executive Committee.

Nominations and Election for RES Council

Nominations for the next cohort of the RES Council (to serve 2017-2022) have been received and reviewed by the Nominations Committee. New members of Council will be elected through an online ballot of all RES members to take place in the early part of 2017 in order to maximise the opportunity for all our members to choose the elected members of Council.

The election results will be ratified at the AGM in 2017 after which the new members will take their places on the RES Council. For a full list of members of the RES Council please see the RES website http://www.res.org.uk/view/council.html or contact the RES office.

Nominations for RES President

All Members are now invited to offer nominations for the next President (for a three year term from April 2017-2020 as President-elect, President and Past President) to be considered by the Nominations Committee in September 2016, who will report to the RES Council later this year. The President-elect will then be ratified at the next AGM in March 2017.

Nominations should be made with your membership number, together with brief C.V. and contact details for the nominee, to the Secretary-General at the RES office, royaleconsec@st-andrews.ac.uk.
Conference diary

2016

September

1-3 September  Duisburg, Germany
Chinese Economic Association (Europe/UK) Annual Conference, China’s New Way of Integration with the World: The New Silk Road and the Opportunities for the World Economy, co-organized by the Institute of East Asian Studies (IN-EAST) and Confucius Institute Metropolis Ruhr, University of Duisburg-Essen. All papers accepted for the conference are eligible for inclusion in a special issue of the Journal of Chinese Economic and Business Studies (JCEBS).

Submission: For individual submissions, abstracts should be submitted through the conference website or sent to conference@cea2016.org by January 31st, 2016. The abstract should include (1) the name of the author(s), (2) paper titles and abstract, and (3) Email contacts for each paper.

Further information: http://cea2016.org/

2-4 September  Shanghai, China
The 48th annual UK History of Economic Thought Conference will be hosted in China by Shanghai University of Finance and Economics (SUFE). SUFE has provided a generous subsidy to cover the cost of speakers’ conference fees, meals and accommodation from the evening of 1st September to the morning of 5th September.

Further information: (about SUFE) www.shufe.edu.cn. (About the UK History of Economic Thought Society) www.thets.org.uk.

5-6 September  Girne, North Cyprus
2nd International Conference on Applied Economics and Finance (ICOAEF 2016) will be held in Girne American University. Keynote Speakers:

Prof. Dr Badi H. Baltagi (Syracuse University, USA)
Dr. Zamir Iqbal (Head, World Bank Global Center for Islamic Finance, World Bank, USA) TBC.
Assoc. Prof. Dr. Talat Ulusever (President, Borsa Istanbul, Turkey) TBC.
Assoc. Prof. Dr. Aziz Turhan (Vice President, BDDK, Turkey) TBC.
Assoc. Prof. Dr. Alper Ozun (Director, HSBC Global, UK) TBC.

Further information: email to icoaef@gau.edu.tr or http://icoaef.gau.edu.tr

7-9 September  Bath
The 48th Money Macro Finance Annual Conference. The program committee invites submissions from academic, government and business economists in any area of monetary, macro and financial economics. The Committee also encourages and welcomes PhD students to contribute to our PhD student sessions. Selected papers will appear in the conference supplement of the Manchester School.

Invited speakers
Albert Marcet (Institute d’Anàlisi Econòmica, CSIC), Enrique Mendoza (University of Pennsylvania), Frank Smets (European Central Bank)

MMF Special Lecture
Charles Goodhart (London School of Economics)

Special Policy Sessions
Economic Growth and Policy (Maik Schneider, Bath), Fiscal Policy Sustainability (Vito Polito, Bath), Unconventional Monetary Policy (Chris Martin, Bath), New Approaches to Term Structure Estimation (Peter Spencer, York).

Further information: http://mmf2016.org/

15-17 September  Ghent, Belgium
The 28th Annual Conference of the European Association of Labour Economists will be held at the magnificent Aula Academica in Ghent, Belgium.

Keynote speakers will be Armin Falk (University of Bonn), Roland Fryer (Harvard University) and Philip Oreopoulos (University of Toronto). In addition, there will be parallel and poster sessions.

Further information: www.eale.nl

26-27 September  Gold Coast, Australia
Annual Australian Business and Social Science Research Conference. Manuscripts relating to all areas of Accounting, Banking, Finance, Economics, Management, Marketing, Education, Psychology, Sociology, Political Science, Computer Science, Anthropology, Philosophy and Journalism are invited for the above international conference organized by Australian Social Sciences and Business Research Institute (ASSBRI). Please send us either abstract or full paper directly via email address: papsconfo@gmail.com by 19 August 2016.

Further information: www.worldbizconference.com
Email: papsconfo@gmail.com

**October**

27-28 October Newcastle

The Regional Studies Association welcomes submissions of abstracts to our annual Student and Early Career conference, This conference will give PhD students and early career researchers the opportunity to network, collaborate and socialise with others working in regional studies and related fields. Participants will receive invaluable feedback, new ideas and will learn how to strategically develop and enhance their profiles for career progression. One session will focus on academic change and the job market. Editors of the RSA journals Regional Studies, Territory Politics Governance, Spatial Economic Analysis and Regional Studies, Regional Science will be present. Abstract submission deadline: Sunday 4th September 2016

Further information: http://www.regionalstudies.org/conferences/conference/rsa-stud-ec-conf-2016

**November**

3-5 November Manchester

The 28th EAEPE Annual Conference will take place at Manchester Metropolitan Business School. The conference theme is inspired by the historical legacy of the Industrial Revolution that has made Manchester a pre-eminent industrial metropolis of the world. The theme invites contributors to consider social and economic implications of industrialisation, deindustrialisation and transformation with particular attention to those institutions that flourish and decline around industries and manufacturing.

Further information: eaepe.org/?page=events&side=annual_conference&sub=eaepe2016_abstract_submission

17-18 November Warsaw, Poland

The Future of Europe – Central and Eastern Europe in a Comparative Perspective CASE – Center for Social and Economic Research 25th Anniversary Conference The conference will host a blend of thematic and plenary sessions covering the most important economic and political topics now facing Europe. To that end, we are soliciting high-quality, unpublished work from scholars in economics, public policy, political science, sociology, and other disciplines, which deals with the lessons of the past 25 years and how they may be applied to Europe’s future. More details can be found on the website http://www.case-research.eu/en/node/59054#overlay-context=pl

Submission of papers: case25conference@case-research.eu

Further information: agata.kwiek@case-research.eu

1-2 December Rome, Italy

25th International Rome Conference on Money, Banking and Finance. Keynote speakers:

Viral V. Acharya is Professor of Finance at the New York University, Stern School of Business, US;

Andrea Enria is the first Chairperson of the European Banking Authority, London, UK;

Jordi Galí is Director of the Center for Research in International Economics (CREI) at Universitat Pompeu Fabra

Further information: http://2016.mbf-rome.it

2017

**March**

1-3 March Guilin, China

The 7th Quantitative Economics Conference (QEC 2017) has been held annually in China since 2013. In 2017, QEC will be held from March 1 to 3, 2017 in Guilin, China. This conference will cover issues on Quantitative Economics. QEC 2017 and is now calling for papers and abstracts in hand now, you may submit through the submission system below:


Further information: eco_mar@engii.org
Membership of the
Royal Economic Society

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

- A print subscription to The Economic Journal, published eight times a year, depending on the membership package selected.
- Online access to The Economic Journal back to 1997 including access to forthcoming papers before publication of the print version.
- Online access to The Econometrics Journal including accepted papers as soon as they are typeset.
- Free submission of articles to The Economic Journal and the chance to win the RES prize of £3000 awarded every year to the author(s) of the best published paper.
- Quarterly copies of the RES Newsletter including topical articles, comment and letters.
- Reduced registration fees for both the RES Annual Conference and PhD Meetings and JobMarket.
- The opportunity to benefit from JSTOR’s ‘Register & Read’ initiative for individual scholars.
- Discounts on RES scholarly publications and 20 per cent discount on all Wiley books and journals through the RES Office.
- Access to apply for awards and grants offered by the RES as well as the opportunity to elect the RES Council and President of the Society.

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

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

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