ROYAL ECONOMIC SOCIETY

NEWSLETTER

Issue no. 157 *April 2012*

ROYAL ECONOMIC SOCIETY

The debate continues

'From famine to feast' would be a reasonable description of the effects on the *Newsletter* of the aftermath of the crisis. For more than ten years we lamented the shortage of contributions from readers and especially the lack of commentary on current issues. We now have a deluge (and may have to think about suspending the discussion while events work themselves out). In this issue we have articles from John Weeks and Dennis Leech. Although written from very different angles, they share a view that the current package of austerity measures is misguided. We've been saying on this front page for several issues that events will eventually show who is right (in so far as evidence is ever conclusive in economics). The picture still looks gloomy. The growth of output seems unlikely to help reduce the critical ratios in anything like the near future.

Once again, in the April issue, we have been able to include the Secretary General's Annual Report. The fact that we can do this within days of its being given to the Society's AGM is due to the short production time to which we currently work, but also to John Beath's heroic efforts to produce the Report in publishable form to a tight deadline. On the subject of heroic efforts, we are able to include a brief report on the new RES website, much improved by the work of Robin Naylor and colleagues. We also have Angus Deaton's ever-entertaining 'Letter from America', a comment on the Australian economy from Nigel Stapledon and our regular news and features.

In this issue —

ROYAL ECONOMIC SOCIETY

NEWSLETTER

Published quarterly in

January, April, July and October

Editor

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

Email: peter.howells@uwe.ac.uk

Administration Officer

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

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

Newsletter - subscription rates

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

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

Designed by
Sarum Editorial Services
www.sarum-editorial.co.uk

Next issue

Newsletter No. 158 — July 2012

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

15 June 2012

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

16 June 2012

Contributions from readers

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

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

Visit our website at:

www.res.org.uk

Letter from America

Weathering the storm

In this Letter from America, Angus Deaton argues that most commentary on the US recession is focused on its likely relevance to the forthcoming presidential election. By way of contrast, Angus looks at its impact on those more directly affected.

The American economy is limping out of the Great Recession; new jobs are being created, but unemployment is falling slowly, if at all, and it will be many years before the unemployment rate returns to the five per cent level of less than four years ago. The suffering that the recession has brought is little reported in the media. While there is endless speculation about the effects of unemployment and recession on the election prospects of President Obama and his opponent, and while the merits of stimulus and further austerity (firing people to create jobs) are debated, there is little discussion of what the recession is actually doing to people. Apparently, the main effects of interest are those on the chances of politicians in the election.

Happiness and unemployment

One of the achievements of the 'happiness' literature has been to show that being unemployed is very bad for people's well-being. Most people have always known this, though economists have tended to resist, if only because the standard textbook model assumes that leisure is good and that the harm of unemployment resides only in the fact that it reduces income, a harm that is at least partially offset by the leisure that comes with not having to go to work. Yet when people are asked how they are doing, either in terms of an overall assessment of their lives, or by reporting emotional distress, those who are unemployed are much worse off than can be accounted for by their loss of earnings. Jobs mean more than income, and the loss of a job brings a loss of structure and meaning and it is most likely this that brings the loss in well-being. The American data show this, and the size of the effect is similar to those consistently found in Europe.

> "Indeed, overall wellbeing was rising quite rapidly in the late spring of 2009, as the unemployment rate headed to its peak. Should we think that unemployment isn't so bad after all?"

Given this, we might expect that average well-being would have been badly hit by the recession. But this didn't happen, or if it did, it happened at the wrong time. Gallup asks a random sample of 1,000 Americans every evening about how their life is going and about their emotional experiences on the previous day; as the unemployment rate rose from five to ten per cent in late 2008 and early 2009, the measures moved only a little. Indeed, overall wellbeing was rising quite rapidly in the late spring of 2009, as the unemployment rate headed to its peak. Should we think that unemployment isn't so bad after all? Perhaps the happiness measures are just not very useful, and many economists remain sceptical of them. Indeed, there is some evidence to support scepticism. People are often not sure how to respond to questions about how their lives are going, so that their judgments are seriously affected by the questions that come just before. If people are reminded that they think the US is going in the wrong direction, then they will also report that their own lives are doing badly. When they are not reminded, there is no effect, even when they believe that the country is going wrong. The reminding causes people to reinterpret the wellbeing question. What is happening in the stock market also seems to matter, even for people who have no direct or indirect interest; perhaps it is peculiarly American to see life through the stock-market. Yet, even if the self-reports are taken seriously, it is too much to expect to see large effects in the national averages. After all, even if the effects of unemployment on wellbeing are large for any individual who is unfortunate enough to become unemployed, 'only' one in twenty workers actually lost their jobs during the run up, and about half that fraction in the adult population as a whole. The effect on the average is then less than a twentieth of the effect on the individual, which is small enough to be difficult to see. We might reasonably conclude that happiness measures, however useful in the cross-section, are not so well-suited for tracking over time or for monitoring the state of the economy. Alternatively, they might be doing just fine in elucidating an important truth: sure, unemployment is high, and many are suffering, but only one in twenty workers has lost their job, so why should the rest of us care? It is certainly consistent with my reading of how much the general population seems to care.

The effects on health...

The recession has certainly affected people in many other ways, some of which are a good deal less than obvious. Epidemiologists tend to take it for granted that recessions are bad for health. Richer people have better health than poorer people, and there are many studies on the adverse health effects of losing a job. While it is too soon to assess the effects of the Great Recession, there are certainly reasons to be concerned. The states, who are responsible for much of healthcare for the poor and for many children and elderly, have suffered severe revenue shortfalls, are constrained by balanced budget laws, and are cutting everything that it is possible to cut. Yet, research has repeatedly shown that overall mortality rates in the US are *contra*-cyclical, that recessions are good for health. Recent work by Ann Huff Stevens, Doug Miller, Marianne Page and Mateusz Filipski argues that the cyclical fluctuations in mortality are largely among the elderly, especially elderly women living in nursing homes or assisted living, whose survival is better when the facilities are better staffed, which happens during recessions.

In the Gallup data people were much more likely to report worry and stress during the period when unemployment was rising rapidly. Worry and stress are unpleasant and may have knock on effects in other aspects of people's lives. My colleague Eldar Shafir, working with Sendhil Mullainathan at Harvard, suggests that poverty and the associated stress may actually compromise cognitive function, because of the overload of having to focus so hard on making ends meet. This effect makes it harder to cope, and can compound economic difficulties by compromising judgment and decision making. There is also some evidence that people turned to religion, perhaps seeking a sanctuary against the difficulties in their lives. During the black days around the Lehman Brothers collapse, there was a noticeable uptick in the fraction who reported that religion was important in their lives. This should not be dismissed as superstition but as an effective defence mechanism.

...and on income

The effects of the recession can be seen even at the very top of the income distribution, among the famous top one percent and beyond. According to tax data assembled and reported by Emanuel Saez, the top one per cent saw a reduction of more than a third in their real incomes from 2007 to 2009, compared with half of that for the population as a whole. But as the recovery began in 2009 to 2010, top incomes resumed their faster growth at five times the rate of the average. Which brings us back to the election. Two years ago, a Supreme Court decision authorized unlimited spending by private individuals on behalf of candidates, and this funding has already reshaped the Republican primaries. It remains to be seen whether the general election will be more heavily swayed by the unemployed or by those at the very top, by the many or by the few.

The new RES website

Following several months of hardwork by the team led by Robin Naylor, University of Warwick, the redesigned website went 'live' on 22nd February. This article is a guide to the new website and in particular to online Newsletter *material.*

The improvements — actual and planned

We hope that readers will find the new site gives greater prominence to the rich array of RES events and activities, including: the various sources of financial support awarded by the RES; the variety of events (Annual Public Lecture, Young Economist of the Year essay competition, Policy Lecture Series, RES Training Schools, PhD Meeting and Job Market, Annual Conference) and other activities including publishing the *EJ* and the *EctJ*, supporting the profession through the work of CHUDE and the RES Women's Committee, supporting the Economics Network, and engaging with the media, the policy community and the wider public through media briefings and related publications.

We hope it provides a clearer network of pathways to relevant RES activities for specific groups of website visitor. In the career/education section of the site, visitors can click on relevant areas appropriate to whether they are school students, university undergraduates, postgraduates, or academic or other professional economist, for example.

The resources section is partly a work-in-progress in which we are floating particular mini-projects and inviting suggestions and contributions — for example, in the creation of a catalogue of useful data-sets and of job listings.

There are improvements in functionality on the new site. Various application forms (eg for the special project grant scheme) are available to enable electronic submissions. The current expectation is that future RES Council elections will be conducted online. We also intend to integrate the Annual Conference pages, currently off-site, onto the res.org site.

As before, RES members are able to log in to the site and will be able to gain privileged access to journal resources. Joining and renewing Membership online is being made more straightforward. We have not yet re-launched an enhanced membership directory area of the site, but intend to do so in the next 12 months.

A major motivation for the re-developed site was to enable RES administrators to manage content independently of the site host and this is enabling us to keep the site much more up to date. Similarly, administrators, members of the executive and other RES groups are able to access through the site administrative areas and thereby enhance administrative processes.

....continued on p.13

Secretary-General's 2012 Annual Report

The Secretary General, John Beath, presented this report to the Society's AGM at Cambridge on 26th March

The bee is the symbol of the Society and I am happy to be able to report that our hive is particularly healthy this year for two reasons. The first is that our established colonies are maintaining their vigour; the second that new colonies are establishing. I will explain my reasons for making both statements in what follows.

Established colonies

Membership

Let us start with membership. At the end of 2011 this stood at 2,942, up by some 200 on 2010. A particular feature of note has been the steady growth in the number of student members. This I think is in response to the scheme of subsidised student membership that was introduced six years ago, and to the online-only initiative introduced this year.

Finance

The Honorary Treasurer's report to the AGM showed that we were financially in robust good health and this had allowed us to significantly expand our charitable expenditure in 2011.

Governance

At last year's AGM, Council sought the approval of members to changes in the Society's Bye-laws so that our governance accorded more closely with good practice as recommended by the Charity Commission. In December 2011 we heard that the Privy Council had approved the revisions. Under the new Bye-laws the Executive Committee is now the set of Trustees of the Society and so the effective governing body. While the Executive Committee has the power to manage and direct the concerns of the Society, Council however continues to have important powers. Not only does it control membership of the Society, it also appoints members of the Council to the Executive Committee, has to approve any co-option to the Executive Committee and recommends candidates for appointment as President, Treasurer and Member of the Council — indeed key items of business at the AGM. Moreover, members of Council also play an important and active role in a variety of ways in supporting the range of activities of the Society and we are always looking for new routes through which the Society can draw on and benefit from their expertise and wisdom.

Finally, on governance, two matters. Firstly, Jonathan Haskel has joined the Executive Committee from the cohort elected to Council last year. Secondly, I express my thanks on behalf of the Society to those members of Council whose terms of office come to an end: Eric Berglöf, Stephanie Flanders, Costas Meghir, Hashem Pesaran, Robert Skidelsky and Jonathan Thomas. They have contributed in a variety of ways and I would like to use this occasion to thank them publicly. However I think special mention should be made to Stephanie Flanders for her support of and considerable input into the Young Economist of the Year competition and to Hashem Pesaran and Jonathan Thomas for the hard work they have put in as assessors in the Junior Fellowship scheme.

New colonies

Communication and engagement

It is important for any Society that it continues to seek ways to enhance and extend its activities. This year this has been through our investments in communication and engagement.

In 1993, my predecessor Richard Portes said that he wanted to see the Society opened up further, not only to the benefit of its members, but also to the wide constituency of those with an interest in economics and its application to policy. Among the innovations that emerged from that were the appointment in 1996 of a media consultant in 1997 whose brief was to ensure the wider and better reporting of economic research and the creation of a website in 1997.

On taking up the Presidency, Richard Blundell wanted to see new effort put into communication and engagement. An immediate result was the creation of a Second Secretary who would take charge of that portfolio. Robin Naylor became Second Secretary at the start of 2011. Showing incredible energy, Robin rapidly analyzed the key areas of communications and laid out an effective strategic plan for their expansion and refinement. His analysis and plan were accepted by Council and the Executive Committee. 2011-12 has seen the steady implementation of the strategy.

Under Robin's leadership active steps have been taken to develop new or enhanced areas of engagement with members and with other organizations and users (so further opening up the Society to all those who are interested in economics and economic policy). Over the past two years a period of review and assessment has led to the development of a new website which has now been constructed in conjunction with Wiley Blackwell. This was launched at the beginning of February 2012. The site is a significant improvement over its predecessor in a number of important respects:

• First, the appearance and navigability of the site are much enhanced.

• Second, as a Society, we now have direct control over content management, which means the site can be used to keep members up-to-date with the very latest RES news and media briefings as well as information on the journals, events, and other activities. For example, there is now an online version of the quarterly 20-year old RES *Newsletter* (still distributed in its print version).

• Third, we hope that the web-site makes much more transparent the wealth of areas of activity of the Society, including the various sources of financial support provided by the RES. The new web-site identifies the specific types of educational or career support and engagement available viewable by particular member category - from school student, through undergraduate and postgraduate student to academic and professional economist.

• Fourth, the site now enables particular groups within the Society — such as CHUDE and the RES Women's Committee — as well as the RES Executive and Council, to conduct administrative business more efficiently than previously.

As indicated above, one of the aims behind the construction of a wholly new site has been to allow the Society to develop new or enhanced areas of engagement with members and with others groups. Some of these developments are the focus of on-going projects. These include establishing closer links with the economic policy community. This has begun with the inauguration of the new Policy Lecture Series (the first talk last year was by Council and MPC Member David Miles). Over the coming months, we also plan to develop further the engagement of the RES in other specific areas, partly through the medium of the website. Further web-based projects include increasing the availability of webcasts and podcasts and generating jobs listings and links to economic data sources. For the 2013 Annual Conference, we intend to locate the conference web-pages with films of the Conference speakers within the new RES site rather than off-site, as has previously been the case.

Members are encouraged to browse the website to find out more about what the Society has to offer. If you also log in to the site, you will be able to gain online access to the Economic Journal and the Econometrics Journal. The new site does not currently contain a membership directory — through this is something we intend to re-establish. Members are also encouraged to send comments and observations regarding the web-site to the RES Office — there is a contact form to allow you to do so from the website.

Review of the Society's activities

Let me now turn to a review of the activities of the Society in pursuit of its charitable objectives. The Royal Charter of 1902 established the Society to promote and foster the study of economic science and its application. To help to achieve its charitable objectives, the Society has established a number of vehicles: publications, conferences, lectures, workshops, and a variety of grants and projects.

Annual Conference

The 2011 conference at Royal Holloway University of London was well organised and very successful, with a strong programme of lectures and events. Attendance was up on 2010 by some 570. In part this reflects organic growth but also the easier availability of accommodation. First indications are that this year in Cambridge we will see a further increase in numbers.

Journals

The *Economic Journal* and the *Econometrics Journal* continue to be acknowledged as leading journals in the field of economics. Wiley-Blackwell, the Society's publishers for both, tell us that they are among the most accessed journals of those they publish. This year has seen changes in the structure and organisation of the *Economic Journal* editorial board. This now consists of six joint managing editors working with a production and publishing editor and a team of associate editors. Also, the *Econometric Journal* has now joined the *EJ* by making its past issues available through JSTOR, the online journals storage facility.

Both journals award prizes. The **RES Prize** is awarded to the best paper published in the *EJ* in a year. In 2011 this went to Loukas Karabarbounis (Chicago) for his paper, 'One Dollar, One Vote'. The **Austin Robinson Prize** is awarded to the best non-solicited paper by an author or authors within five years of receiving their PhD. The winner this year was Guy Michaels (LSE) for 'The Long Term Consequences of Resource-Based Specialisation', Continuing the success of the ***EJ* Referee prize**, 10 prizes of £500 each are awarded to those whom the Editors consider to have made an outstanding contribution. Details of the winners are provided on the website (and on p.16 below).

The **Dennis Sargan prize** of £1000 will be awarded for the first time in 2012 for the best (unsolicited) article published in the *Econometrics Journal* in the previous year by anyone who is within five years of being awarded their doctorate.

I would also like to report that both the *Economics Journal* and the *Econometrics Journal* were part of JSTOR's recently launched 'Register and Read' scheme. This should give all members of the Society access to the journals' archive. We hope shortly to post a link on our website to the JSTOR site where one can then sign up to take part in this new initiative. We are one of only a few learned societies who are part of the initiative currently. Other participants are the Royal Society, the Royal Geographical Society and the Brookings Institution.

...continued on p. 22

Understanding the Crisis: clarity on measurement, clarity on policy

John Weeks, School of Oriental and African Studies, argues for more precision in the current debate about fiscal deficits.

What is the problem?

In this newsletter in 2010 Victoria Chick and Ann Pettifor set out an analytical and empirical argument to demonstrate that the economic policy of the Coalition government was inappropriate in that it would undermine the growth of the UK economy, and be unsuccessful in its major objective, reducing the public sector deficit. To emphasise their view that the policy was fundamentally misguided, they suggested that the government had a 'deficit fetish' (I prefer 'deficit disorder').

Subsequently two interventions appeared in support of government policy, by Booth and Shackleton who 'welcome the fact that the Government acted decisively', and Harrison who speculated that Keynes might have been pulling our legs by allegedly advocating 'that we should borrow our way out of recession' and 'spend our way of debt'. While interesting, the former intervention manifests a primarily political argument, with the authors at the end explicitly stating their political (ideological?) preference for considerably less public regulation of business and a substantially smaller role for the public sector both qualitatively and quantitatively. The Harrison intervention focuses upon a very long run view of the UK public debt organized around interesting but subjective assessments of changing historical circumstances.

As economists we all should agree that issues of economic policy should be approached with clarity and precision of concepts and measurement. Our teaching is dedicated to those principles. Imagine, for example, that in late 2009 a lecturer in economics at a UK university sets his introductory students the essay topic, 'In light of the current severe contraction of the economy, discuss the appropriate government policies for economic recovery (feel free to use algebra and diagrams in your answer)'. Further imagine that one (or several) of the students begins her/his essay with the following introduction:

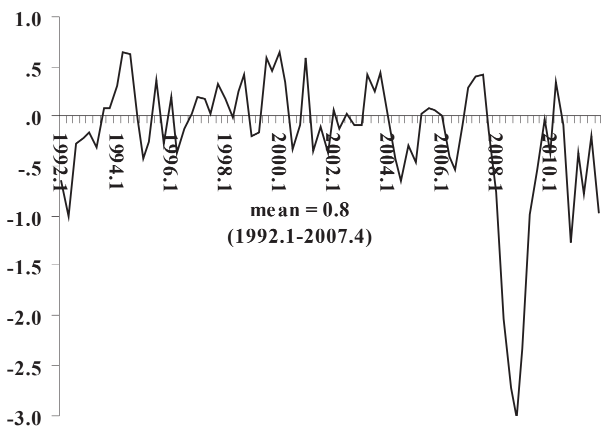
> The most pressing problem of the UK economy is the public sector debt and the associated fiscal deficit. Therefore, the first priority of economic policy must be to reduce that deficit by an appropriate mix of expenditure cuts and tax increases. If this is not done, the continuation of the deficit and the large debt burden will undermine business confidence and unsettle financial markets, driving up public sector borrowing rates, thus rendering fiscal policy unsustainable. In this context Keynesian recovery policies are not feasible.

We would expect a conscientious instructor, whatever her/his political views, to provide comments of the following type:

> This interesting essay would be strengthened if the author were to clarify the concepts essential to the argument: are all debt and deficit measures equally appropriate to business confidence and financial market stability? What caused the deficit and is this related to the method to reduce it? Is confidence the same for all sectors of and size of business, and what is the empirical evidence for the interaction of fiscal policy and financial market stability in the United Kingdom? Finally, what is meant by 'Keynesian policies'?

These queries would be appropriate to impress upon the student that economics is a discipline whose empirical inferences are theoretically based. A first step by the student towards answering these queries would be to demonstrate the seriousness of the current economic situation, such as shown in Figure 1. Quarterly growth rates are measured as deviations from the sixteen year average, 1992-2007. Since the end of 2007, in only one quarter was the growth rate above that average (2010.2). In the subsequent six quarters as well as below the average, the growth rate was negative in two and zero in one. The conclusion that we observe little sign of recovery should be non-controversial.

Figure 1: UK GDP growth, deviations from average, 1992-2011



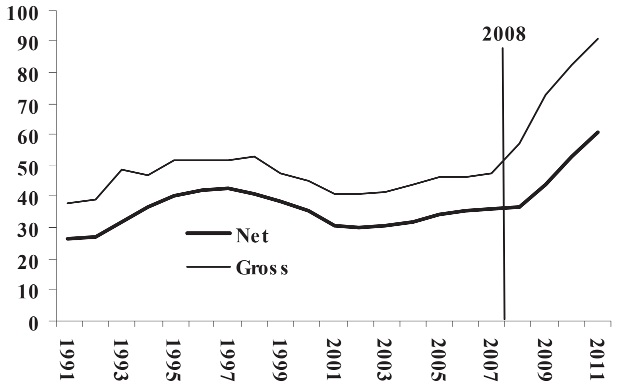
Source: Office of National Statistics January 2012.

Definitions and measurement

Moving to definition, the relevant measure of public indebtedness is not the infamous trillion pounds in the headlines in January of this year. That much-trumpeted number refers to the gross public debt. By that measure Norway would be close to the almost infamous Maastricht criterion of 60 percent of GDP, when the country's treasury has net assets of 150 per cent of GDP. The net measure is the one used by Harrison in his comment and by the Treasury. At the end of 2011, the UK net debt stood at 62 percent of GDP, which was below the same statistic for the United States (73 per cent), and not far from the German ratio (56 per cent). It is worth noting that the debt to GDP ratio is not in itself a good indicator of fiscal health, verified by Spain, that has a ratio below that of Germany.

Inspection of Figure 2 makes it obvious that the increase in the UK debt-GDP ratio was a phenomenon of the global financial crisis. Even into the crisis at the end of 2008 the net debt ratio was lower than it had been in the second half of the 1990s (41 per cent for 1995-99, compared to 37). Basic macroeconomics predicts this outcome, that recession generates fiscal deficits, and the borrowing to cover those deficits manifests itself in increased public debt.

Figure 2: UK Gross and Net public debt, per cent of GDP, 1991-2011 (end year value)

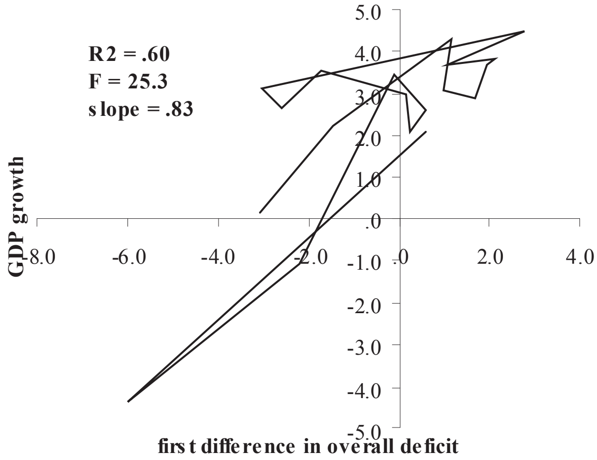


Source: Office of National Statistics January 2012.

It would be reasonable to expect an undergraduate to do the algebra to demonstrate the deficit-GDP relationship deficit. It produces the simple identity that the change in the fiscal balance equals the change in tax revenues plus the change in expenditures. The former declines when national income falls because of the income elasticity of revenues (close to unity). The latter increases with rising recession-associated transfer payments (most notably unemployment payments).

The public deficit is determined by the level of national income, and the GDP growth rate causes changes in the deficit. The interaction between growth and the first difference in the fiscal balance is shown in Figure 3 for 1992-2011. This approximation ignores changes in tax rates and expenditure programmes, but is statistically significant and corresponds to what theory predicts, with a slope quite close to unity.

Figure 3: UK GDP growth rate and 1st difference of the public sector borrowing requirement (percent of GDP)



Source: Office of National Statistics January 2012.

Applying macroeconomics to available statistics we reach the conclusion that the UK public sector deficit and the increasing debt to which it adds resulted from the severe recession that struck the global economy in 2008. With causality identified, we can move to the policy issue, is the deficit so large that it requires immediate expenditure and tax measures? A student with some knowledge of public finance would know that there are different categories of deficits. The measure in Figure 3 is the overall deficit, total public revenue minus total outlays (expenditures plus lending, the 'public sector borrowing requirement'). This is not the deficit relevant to managing fiscal balances, because it includes payments on the public debt which cannot be reduced without default or negotiation with creditors.

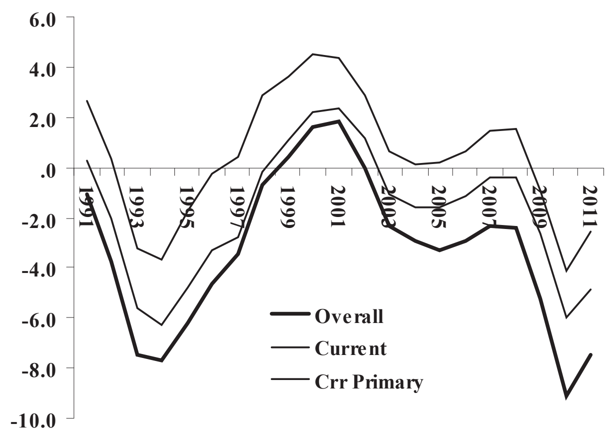
Subtracting interest payments gives the primary deficit. This measure is generally accepted, notably by the International Monetary Fund, as the one relevant for fiscal management. In principle if not in practice, all the items in the non-interest budget are policy variables. The non-interest budget is divided between current and capital components, the latter referring to investment. While not universally accepted, it is a common rule in public finance that public revenue should cover current expenditure and capital expenditure can be financed by bond sales. The justification for this rule for public finances is the same as for the private sector. If an investment is positive, and it should not be made if it is not, it will generate a revenue stream to service the debt it creates. Under circumstances when policy makers fear excessive inflationary pressures, the rule should not be applied. If it is not applied this is for reasons of macroeconomic management, not because of the financing decision on specific public investments.

Figure 4 shows the three deficits over the twenty-one years 1991-2011, overall, current and current primary (to reduce clutter I omitted the 'overall' primary). As the previous scatter chart suggested, the deficits show a clear cyclical pattern. A few obvious inferences can be drawn. First, the current wave of deep deficits is not substantially different from the experience of the mid-1990s by any of the three measures. For 1993-1994 the overall deficit averaged 7.5 percent of GDP, compared to 8.3 for 2010-2011. Because recessionary conditions were more severe during the latter years, it is surprising that the deficit was not larger. The annual overall deficit for 2009-2011 was almost exactly the same as for 1993-1995 (7.2 and 7.1). Second, five years of growth at an average of 3.5 percent during 1994-1998 brought the overall deficit into surplus, not expenditure reduction or tax increases.

Third, the primary deficit during 2009-2011 was 5.1 per cent of GDP and the current primary deficit was 2.5 per cent. A deficit on current expenditures is never sound fiscal policy, but not necessarily cause for alarm. During 1993-1995 the same measure was substantially higher, 4.7, and it did not prompt the Conservative government to undertake the type of substantial fiscal adjustment that the Coalition has. Finally, during 1993-1995 the public sector paid an average of six per cent to borrow, while during 2009-2011 bond yields were below one percent.

In summary, theory and evidence indicate that the current debt and deficit statistics are recession generated, and would be reduced through growth. The deficit levels are similar to those in the mid-1990s and more easily financed because of the much lower national and international bond rates. The hypothesis that deficit and debt reduction should be the first fiscal priority remains unconfirmed.

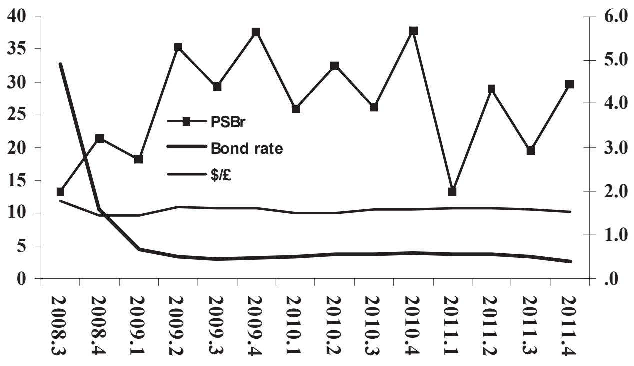
Figure 4: UK public sector fiscal balances, overall, current and current primary (less interest payments), 1991-2011, per cent of GDP



Note: The overall deficit is total public sector borrowing.
Source: Office of National Statistics January 2012.

Could the hypothesis be sustained by reference to the probable reaction of 'financial markets' to the continuation of debt and deficits at the current levels? The answer is 'no'. In light of the statistics presented above, it is reasonable to infer that 'financial markets', however defined, should not be alarmed by the state of UK public finances. This is what the evidence suggests. Figure 5 shows public sector borrowing by quarter for 2008-2011 (measured in billions on left hand axis), and the treasury bond rate and dollar-sterling exchange rate (right hand axis, percentage and ratio $/£). After the first quarter of 2009 both the yield on public bonds and the dollar exchange rate have been almost constant (coefficients of variation of .11 and .03, respectively), while public sector borrowing showed major fluctuations and debt grew by over £300 billion. If some believe that UK public finances require immediate expenditure and tax adjustment, financial markets do not appear to agree with them.

Figure 5: Quarterly public sector borrowing (left axis, bn) and the treasury bond rate and $/£ exchange rate (right axis, % and ratio), 2008-2011



Sources: Office of National Statistics January 2012, and Bank of England website.

What could be done?

Every great thinker suffers from misrepresentation and vulgarization of her or his views. Keynes is a case in point. Therefore, our eponymous student would profit from dropping the modifier 'Keynesian' and discussing the substance of policy. All economists agree that the level of output is at any moment determined by the level of demand. The fundamental difference is between those whose theory leads them to conclude that the level of demand (and simultaneously the level of output) in the short run adjusts to changes in relative prices, and those who conclude that the level of output and the level of prices adjust to aggregate demand. In his outstanding book, *Keynesian Economics and the Economics of Keynes*, Leijonhufvud names these two approaches 'price constrained' and 'quantity constrained' systems (see Weeks, 2012, Chapter 11). I suspect that few if any macro courses have the book on the reading list.

Harrison and Booth and Shackleton would seem to derive their conclusions from price constrained analysis. I interpret them as maintaining that rejuvenation of the UK economy will result from the recovery of depressed entrepreneurial expectations, which are low due to a combination of fears of public sector default and direct reduction ('crowding out') of private investment by public borrowing. These depressed expectations are aggravated by low household ('consumer') demand due to 'Ricardian equivalence' effects (anticipating taxation to service the public debt). As these authors would no doubt agree, it is not sufficient to assert the possibility of these price constrained processes. As an empirical discipline, economics requires clear specification of the conditions under which a theoretical process occurs, then some empirical evidence to assess its importance. For example, if the conditions for 'crowding out' are present, is the impact closer to zero or to 100 per cent? If the former, the argument may be theoretically correct but of little practical consequence. If the latter, it must be central to the analysis. The same applies to Ricardian equivalence. Those who propose these processes must demonstrate that others should take them seriously in formulating policy.

A more fundamental issue lurks in the background: the importance of entrepreneurial expectations and Ricardian equivalence require that the economy be price constrained. As every economist of every theoretical persuasion knows, an economy is price constrained if and only if there are no idle resources. If there are idle resources, more can be produced at prevailing factor and product prices; i.e., the economy is demand constrained.

Unless there is some very esoteric process at work, hidden from view, the evidence for demand constrained UK and European economies is overwhelming. If crowding out were a practical problem, it is difficult to explain why the Treasury could borrow in excess of £300 billion over three years and have no impact on bond yields.

Because the economy is quantity constrained, recovery requires a demand stimulus. This will not come from domestic business because of the lack of demand itself. It will not come from consumption because the larger part of consumption is a function of the income generated in the private sector which is demand constrained. With the continental European countries in the throes of their own recession, the stimulus is unlikely to come from exports. I lack the space to discuss monetary policy other than to suggest that it has not been notably effective despite substantial 'quantitative easing'.

It follows as practical matter that the choices are continued stagnation and decline, aggravated by reductions in public sector demand, or a policy reversal that favours a fiscal stimulus. This conclusion is not 'Keynesian' nor is it ideological. It is the implication of recognizing 1) that the UK economy is demand constrained, 2) the present levels of the public deficit measures are neither unusual nor a source of alarm, and 3) 'financial markets' have demonstrated no concern with the state of public finances.

The fiscal stimulus would be financed by a combination of personal income tax increases and public borrowing. The tax increases would be expansionary through the well-known 'balanced budget multiplier' (part of the taxed income would have been saved). With present bond yields, the borrowing would be at negative real interest rates. Once the recovery begins, both the deficit and the debt-GDP ratio would fall. As economists we once understood and practiced this policy process, guided by a wealth of empirical evidence. Nobel Laureate Paul Krugman has put the issue well:

> …[W]hat we've witnessed pretty much throughout the western world is a kind of inverse miracle of intellectual failure. Given a crisis that should have been relatively easy to solve — and, more than that, a crisis that anyone who knew macroeconomics 101 should have been well-prepared to deal with — what we actually got was an obsession with problems we didn't have. We've obsessed over the deficit in the face of near-record low interest rates, obsessed over inflation in the face of stagnant wages, and counted on the confidence fairy to make job-destroying policies somehow job-creating.
> [http://krugman.blogs.nytimes.com/2011/08/02/macroeconomic-folly/]

Our eponymous student and the Chancellor might benefit from reading a bit of Krugman, or perhaps Lord Skidelsky's biography of Keynes.

References:

Booth, Philip, and J R Shackleton, 'Are We Really Suffering from "Deficit Fetishism"?' RES *Newsletter* 153, April 2011, 17-18, 22

Chick, Victoria and Ann Pettifor, 'UK budgetary policy', RES *Newsletter* no. 151, October 2010

Harrison, Mark, 'Surely You're Joking Mr Keynes,' RES *Newsletter* 155, April 2011, 17-18, 22, 12-15

Office for National Statistics, *Public Sector Finances December 2011*, January 2012

Weeks, John, *The Irreconcilable Inconsistencies of Neoclassical Macroeconomics: A False Paradigm*, Oxford: Routledge, 2012

Letters to the editor

Sir,

I thank Professor Neild for his comments (*Newsletter* no.156). He sees my contribution as a sign of the excessive mathematization of economics and its divorce from history. It is understandable, therefore, that where I reported some regressions he would dismiss it as just maths, but unfortunate that, where I discussed the history of Britain's public debt (in words as well as numbers), he ignored it.

Professor Neild offers his own narrative of British public finance from 1816 to the present. I am not convinced that it meets his own standard, 'the careful analysis, in words as well as numbers, of the evolution of the world around us.' He presents the story as a sequence of comparative statics ' one damned thing after another. Where is the element of evolution? Only in the Treasury's long march towards Keynesian enlightenment and, more recently, back into the dark. We are left with clearer insight into Professor Nield's causal beliefs than into economic history.

Professor Neild concludes with something fresh: a country's fiscal capacity might be inversely related to its corruption level. 'Our good corruption score,' he writes, 'indicates that we are capable of raising tax or cutting expenditure. And, it might be added, our history is outstandingly good.' I agree. The question that divides us is whether Britain's fiscal capacity is best maintained under present circumstances by not using it.

Mark Harrison
University of Warwick

Fiscal stimulus improves solvency in a depressed economy

Dennis Leech Economics Department and Centre for Competitive Advantage in the Global Economy in the University of Warwick argues that the multiplier effect in a depressed economy may be larger than is commonly expected and could even be large enough to allow a stimulus package to be self-financing.

The Keynesian argument for a fiscal stimulus to a depressed economy either by an injection of government spending or a tax cut has been dismissed too readily by some on the grounds that it increases borrowing. We are told that the policy would simply make a bad debt problem worse: that the extra output induced by the stimulus will not yield sufficient additional tax revenue to pay for the extra government spending or to finance the tax cut because the multiplier effect described by Keynes in the *General Theory* is too weak.

However, this view is too pessimistic for two reasons. First, in general, what is important is not the *absolute* level of debt but its level *relative to* gross domestic product: it is the debt/GDP ratio that is the key indicator of solvency. This means that in deciding on the efficacy or otherwise of a stimulus package it is necessary to consider the magnitude of both components of this ratio and determine their net effect. When this is done, a different picture emerges. Secondly, in any case, there is growing evidence that the multiplier effect in a depressed economy might be more substantial than we sometimes allow. There are grounds for believing that the fiscal multipliers built into existing econometric models are underestimates for present conditions. There is even strong evidence to suggest that, with output well below capacity and interest rates near the zero lower bound, certain types of stimulus might be strong enough to be self-financing.

In this note I show that a fiscal stimulus in an economy like the UK, with a not especially strong multiplier effect, produces, under fairly mild assumptions, an increase in output such that the debt/GDP ratio falls. I concentrate on a temporary increase in spending since it is well known that such a stimulus has a bigger effect than a tax cut.

Theoretical framework

Let a country's stock of outstanding public debt be denoted by D and GDP by Y. Consider a stimulus of one unit (for example £1 billion) in the form of an increase in government domestic expenditure. The resulting increase in output, the direct and indirect effects of the extra demand, ΔY, is the multiplier effect. The change in government debt is denoted by ΔD.

Fiscal solvency improves if the ratio of debt to GDP goes down. That is:

$$\frac{D+\Delta D}{Y+\Delta Y} < \frac{D}{Y}$$

Rearranging, this becomes:

$$\frac{D+\Delta D}{D} < \frac{Y+\Delta Y}{Y}$$

that is,

$$\frac{\Delta D}{D} < \frac{\Delta Y}{Y}$$

or the proportional increase in debt is less than the proportional increase in GDP.

If the multiplier effect is very large, so that the extra tax revenue from the induced increase in GDP exceeds the cost of the stimulus, debt will fall, the left hand side will be negative. We are used to thinking that multipliers are very small empirically, typically less than 1, and habitually rule out this case as a practical possibility. However, given the changed circumstances, it might be wise to keep an open mind until we have seen the evidence.

An equivalent way of writing the condition is:

$$\frac{\Delta D}{\Delta Y} < \frac{D}{Y}$$

This says that the debt/GDP ratio will fall if the ratio of the increase in debt to the increase in output is less than the debt/output ratio.

All this is well known. What is of interest is how it relates to the Keynesian multiplier effect in a real economy. So I address the question, first, of how large the multiplier would have to be for the condition to be met, and then whether this is realistically likely in a real economy like the UK in present day recessionary conditions.

Recent New Keynesian literature has tended to report multiplier effects to be small, if not non-existent, in contrast with the traditional Old Keynesian account found in undergraduate textbooks, where they are substantial. In the *General Theory*, Keynes suggested a value in the region of 2 or 3 might be appropriate for the UK. This assumes a demand-constrained economy with excess capacity, elastic supply, and fixed prices and interest rates. This traditional aggregative model is nowadays conventionally regarded as deficient in that it is not based on rigorous micro-theoretical foundations, and can be thought of as at best a limited special case applicable only in certain circumstances. The New Keynesian approach, by contrast, relies on theoretical models of dynamic optimisation by households within a general equilibrium framework. This approach is equally open to criticism because of its use of a representative agent to stand for an aggregate of heterogeneous households and firms. However a number of researchers have shown that this distinction becomes much less important in a depressed economy where interest rates are close to the zero lower bound where multiplier effects are quite large. (See Christiano *et al*. (2009); Woodford and Eggertsson (2003); Eggertsson (2009); Eggertsson and Woodford (2006).) Therefore it is reasonable to proceed on the basis that there is a positive multiplier effect.

For economy of notation, let us write the multiplier effect $\Delta Y = m$, and the debt/GDP ratio $\frac{D}{Y} = d$. Then if the fiscal stimulus is financed by borrowing, the increase in government debt can be written as $\Delta D = 1 - tm$, where t is the net marginal effect of increased tax revenue less the endogenous reduction of counter-cyclical government expenditure (unemployment benefit and other types of social spending and transfers that rise in a recession) associated with a unit increase in GDP.

Therefore, the debt/GDP ratio will come down if:

$$\frac{1-tm}{m} < d \qquad (1)$$

Rearranging, we can write this condition explicitly in terms of the multiplier:

$$m > \frac{1}{d+t} \qquad (2)$$

The stimulus will be self-.financing and require no extra government borrowing if: $\Delta D < 0$, that is, $1 - tm < 0$, or:

$$m > \frac{1}{t} \qquad (3)$$

Empirical evidence

Three pieces of evidence are needed to test this condition: an estimate of the multiplier, the marginal e.effect of output on tax and government spending, and the debt/GDP ratio.

Estimates of the multiplier

Romer (2009) examined the US evidence and concluded that fiscal stimulus typically has a substantial effect. 'Current econometric models indicate that a tax cut is likely to have a multiplier of about 1.0 and that spending has a multiplier of about 1.6 after about 18 months. Even the most sophisticated econometric analysis, however, suffers from omitted variable bias. In trying to take account of this, David Romer and I have found that the tax multiplier is more likely to be around two to three; and we suspect that the spending multiplier is correspondingly higher than the conventional estimates.'

The multiplier depends on the marginal savings rate, the marginal propensity to import and net tax rates. It is higher the lower the marginal savings rate, which we would expect to be the case in a depressed economy, and lower in an economy that is more open to trade, so we would expect to find a higher multiplier for the USA than for the UK. It is also higher in an economy with lower marginal tax rates, and this would also suggest a lower value for the UK than the USA. The multiplier is the outcome of a dynamic process and estimates of it are reported for different lag lengths. Only the total effect is needed for the purpose of this paper.

Estimates of the multiplier for different countries have been published by the IMF who report a range of values (Spilimbergo *et al*., 2009). They conclude that the multiplier for the USA is somewhere in the range between 1.0 and 1.5, while that for a more open economy like the UK is likely to be in the range 0.5 to 1.0. The parameter values they report have been estimated using data for periods that do not include significant depressions such as we are currently experiencing, and therefore values at the higher end of the range might be thought to be more relevant.

Similar estimates have been reported by Auerbach and Gorodnichenko (2010) who found large differences in the size of US multipliers in recessions and expansions. They estimated a total expenditure multiplier in the range between 1.0 and 1.5 in recessions, and between 0 and 0.5 in expansions. They have also estimated separate multipliers for different components of government spending, the largest being that of military spending. It seems appropriate therefore to be conservative in taking a figure that might be applicable to the UK, although it is worth noting that Mountford and Uhlig (2009) reported very large multipliers, up to a maximum value of five.

Factors that limit the .fiscal multiplier are the effect of higher output on interest rates and exchange rates. Increasing interest rates choke off the expansionary effect of the increased expenditure by reducing investment and raising the exchange rate thereby reducing exports. However since interest rates are effectively zero, and will remain so if monetary policy remains accommodating, this effect is currently absent. It seems reasonable therefore to assume a value for the UK multiplier at the upper end of the range of estimates of 1.0.

Marginal net tax and spending rates

We need an estimate of what I have called t, the rate at which the government budget changes per unit increase in output. This is the extra tax from all sources less the reduction in government counter-cyclical expenditure on such things as unemployment benefit, housing benefit, and other benefits and services that increase during a recession, due to rising unemployment and low income. There are available published estimates of the marginal effective tax rate, which is the marginal rate of income tax less the loss of tax credits, for example in the Mirrlees Report (Mirrlees, 2010). Brewer and Shephard (2008) found that the effective marginal rate of tax for low paid workers entering employment is about 100 percent. For workers on average wages they estimate a marginal effective tax rate of 0.734. This figure is likely to be a considerable underestimate because it only includes means tested tax credits and omits indirect taxes on consumption, unemployment benefits, housing benefits and other expenditures. It seems reasonable to take t =0.734 as a conservative figure.

Debt/GDP ratio

According to the Office of National Statistics, the ratio of net UK government debt to GDP (excluding the temporary effects of financial interventions) in December 2011 was 64.2 percent (ONS, 2011).

The evidence

Using this empirical evidence, setting m =1.00, t = 0.734 and d = 0.642, we therefore estimate that the left-hand side of condition (1) is

$$\frac{1-tm}{m} = \frac{1-0.734 \times 1.00}{1.00} = 0.266$$

This is much less than the right-hand side debt/GDP ratio,

$$d = 0.642,$$

and therefore condition (1) is satisfied.

Alternatively, the lower bound for the multiplier, condition (2), is

$$\frac{1}{d+t} = \frac{1}{0.642+0.734} = 0.726$$

If the multiplier is greater than 0.726 then solvency will be improved by an increase in government spending. The empirical evidence described above suggests that this is the case.

The condition (3) for a self-financing multiplier is that it should be greater than $\frac{1}{0.734}$ = 1.36.

There is reason to believe that the multiplier for some classes of government spending might exceed this figure. There is every reason to believe that this condition will be more likely to be met the more depressed the economy becomes.

Conclusion

I have considered the e.effect of a .fiscal stimulus, comprising an unfunded increase in government spending, for a medium-sized economy like the UK. I have shown that, using available estimates of the multiplier, it will be likely to result in an improvement in the main measure of .fiscal solvency, namely a reduction in the debt to GDP ratio. Although there will likely be a small increase in national debt, nevertheless the country's ability to .finance it will be improved. It is therefore a mistake to focus on the size of the debt alone without considering the multiplier effects of the stimulus on income. There are grounds for thinking that, if the economy is sufficiently depressed, the multiplier effect might be big enough that the stimulus becomes self-financing.

We therefore can conclude, on what seem like fairly mild and conservative assumptions, that a Keynesian fiscal stimulus will improve the fiscal solvency of the UK.

References

Auerbach A J and Gorodnichenko Y, 2010, *Measuring the output responses to fiscal policy*, Tech. rept. National Bureau of Economic Research.

Brewer M, Emmanuel S, and Shephard A, 2008, 'Means-testing and tax rates on earnings', paper prepared for the Mirrlees Review.

Christiano L, Eichenbaum M., and Rebelo S, 2009, *When is the government spending multiplier large?* Tech. rept. National Bureau of Economic Research.

Eggertsson G B, 2009, 'What fiscal policy is effective at zero interest rates?' *New York Fed Staff Report*.

Eggertsson G B and Woodford M, 2006, 'Optimal monetary and fiscal policy in a liquidity trap', pp. 75–144 of *NBER International Seminar on Macroeconomics 2004*, Cambridge MA: The MIT Press.

Mirrlees J A, 2010, *Dimensions of tax design: the Mirrlees review*. Oxford: Oxford UP.

Mountford A and Uhlig H, 2009, 'What are the effects of fiscal policy shocks?' *Journal of Applied Econometrics*, 24(6), 960–992.

ONS, 2011, *ONS Statistical Bulletin*, December.

Romer C D, 2009, 'Fiscal policy and economic recovery', *Business Economics*, 44(3), 132–135.

Spilimbergo A, Symansky S and M., Schindler, 2009, 'Fiscal multipliers', IMF Staff Position Note 2009/11.

Woodford M and Eggertsson G B, 2003, 'Zero Bound on Interest Rates and Optimal Monetary Policy', *Brookings Papers on Economic Activity*, 2003(1), 139–233.

RES website

...continued from p.4

The *Newsletter* in the new website

So far as the *Newsletter* is concerned, the main consequence of the redesign is that individual items within each issue should now be easier to retrieve online. In the past we have posted a pdf version of the current issue (thereby accumulating an archive of past print copies). We have also reproduced the Conference Diary as a separate and additional file, again in pdf format. As we explain in a moment, this continues under the new arrangements but there is now much more in addition. In particular, component parts of the current, and earlier, issues can be accessed directly — under what we hope are helpful headings (but more of that in a moment). Furthermore, these items are generally in html format which makes access quicker (you do not have to wait for a pdf reader to load first) and enables us to make links between related items.

Starting from the Society's homepage, the *Newsletter* can be found under 'News/Events'. Within this part of the site there are three active headings:

• News • Events • Newsletter

...continued on p.24

Economics education after the crisis

In February, the Government Economic Service and the Bank of England hosted an event which explored economics teaching and learning in UK universities in the wake of the financial crisis. The following articles give two views on the conclusions reached by the discussion. The second also includes student views as reported in the Economics Network annual survey.

Are graduate economists fit for purpose?

by Diane Coyle, Enlightenment Economics and IPEG, University of Manchester.

One of the consequences of the financial and economic crisis since 2008 has been a re-evaluation of economics itself by at least some of its practitioners. This includes looking again at the teaching of economics in universities, the subject of a recent conference supported by the Government Economic Service, the Bank of England and the Royal Economic Society.[1] As a speaker in the opening session of the conference noted: ‘The crisis was a large intellectual failure. We all got it largely wrong and have been using the wrong intellectual apparatus.’

The question of whether the teaching of economics in universities needs reform is linked to the underlying question about the intellectual status of economics itself, post-crisis. A number of speakers noted that there had been huge progress in recent decades in some areas of economics, such as auction theory, or development economics, for instance. However, there was a degree of consensus among participants that economists need to acknowledge the limitations of what has been the standard paradigm in the subject for 50 years. Ideally, we now need to combine a greater modesty about the state of knowledge, an insistence on dogged empirical work to the highest scientific standards, and a new eclecticism about what explanation is needed to understand economic phenomena.

One speaker said: ‘We have an unreasonably strong prior that only one kind of model is acceptable.’ In reality, he said, there was true Knightian uncertainty about the status of different underlying models of behaviour, and there is no alternative now to the slow process of exposing the empirical status of the assumptions and conclusions of the models we are using.

While modesty and eclecticism found general favour, there was less agreement about the extent to which both the practice and teaching of macroeconomics needs to change. Some speakers felt existing approaches could be sensibly supplemented with some recent economic history, including discussion of the Taylor Rule policy reaction function, and with some enrichments such as heterogeneous agents. At the other extreme, some participants argued that the standard macroeconomic framework of analysis has been proven redundant by the crisis. These participants emphasised instead two chasms in the knowledge of recent graduates: institutional knowledge of finance, money and banking and the ability to analyse the role of these institutions in the economy; and network models similar to those used widely in some other disciplines such as epidemiology and evolutionary biology.[2]

Employers taking part agreed, however, that economics graduates have a narrower range of skills than they need in their work. Even those working as professional economists in the financial markets, consultancy or the public sector lacked important skills, although in general their technical ability was good, according to employers. The ability to communicate well topped the list of missing skills, followed by an appreciation of the wider context in which graduates are applying their economic knowledge.

A surprising number of the employers present suggested the need for teaching more economic history; and also a focus on the international context rather than just national economic data; and a better practical grasp of quantitative methods including collecting and understanding data (as opposed to more sophisticated econometric techniques). A preliminary assessment of a survey conducted among employees in the Government Economic Service has confirmed these are important areas in undergraduate preparation. For example the preparation of briefing material for non-experts was described as the most important task, by some distance, of these public sector economists. The survey may now be extended to private sector economists through the Society of Business Economists.

However, there was also sympathy among the academics present for providing a broader context in economics courses, as indeed there was in a selection of essays by academics (mainly in the US) written for advance circulation to participants ahead of the conference.[3] Academics were cautious, however, about suggesting adding more to the curriculum without clarity about what could be removed. There was a discussion about the barriers to change within the university sector. Among the barriers cited were:

- The fact that the curriculum is already full, and that students have to spend a good deal of time applying for internships, as well as for jobs at the end of their studies;
- The resistance of students to having to use their initiative rather than being spoon-fed material to get them through exams, and the likelihood that course and teaching innovations would result in negative ratings in the National Student Survey;
- Competition between universities taking the form of an arms-race to teach more and more technical materi-

al, resulting in the selection only the most mathematically-able sixth formers;

• An unwillingness on the part of universities to provide a pathway for non-mathematical students who are nevertheless interested in economics, and too little variety in undergraduate courses; the related — and incorrect — presumption that most economics graduates will work as economists;

• The narrow selection of journals included the Research Assessment Exercise/Research Excellence Framework, resulting in a supply of teachers in universities whose interests and expertise fall into a relatively narrow range of subjects and approaches. For example, it was said there are not enough people in UK universities who could teach economic history courses at present;

• The need to use standard textbooks which all conform to the same approach, as large US publishers are unwilling to risk an alternative - yet most economists would regard the majority of the highly conventional material in most of these basic textbooks as over-simplified at best or actually incorrect.

This debate about the content of the university curriculum comes at a time of growing interest in the study of economics among secondary school students in the United Kingdom. The number of A-Level students has grown by more than 50 per cent since 2006.[4] Teachers of sixth-form economics attending the conference pleaded for the inclusion in universities course of important areas of economics they are now teaching in schools, including behavioural economics; money and banking; fast-growing economies; simulations and experimental techniques; economic history; and new technologies and network models. They also argued that university teachers need to make greater use of the internet as a medium for teaching, and other pedagogical innovations, saying that schools have become significantly better than universities in terms of active learning.[5]

A working group involving academics, employers including the GES, the Royal Economic Society, and the Economics Network will be considering practical measures to respond to this plea, and ensure that the economics profession does not waste this crisis. It would be a sad irony if the teaching of economics at universities cannot evolve at exactly the point at which the intellectual and empirical advances in economics in the past 20-30 years are proving so fruitful.[6]

Notes:

1. At the Bank of England on 7 February 2012.

2. See for example ‘Systemic Risk in Banking Eco-systems’, by Andrew Haldane and Robert May, *Nature*, 469, 351-355 (20 January 2011)http://www.nature.com/nature/journal/v469/n7330/full/nature09659.html

3. Available as a read-only Word file: http://www.enlightenmenteconomics.com/assets/EconomicsConferenceRO.docx

4. http://tutor2u.net/blog/index.php/economics/comments/a-level-economics-continues-to-grow/

5. There is a growing amount of innovative teaching readily material available online — see for example http://www.economicsnetwork.ac.uk/ and http://www.tutor2u.net/blog/index.php/economics

6. See Diane Coyle, Do economic crises reflect crises in economics? Keynote address, ‘Rethinking Economics’ conference, Stiftverband für die Deutsche Wissenschaft/Handelsblatt, Frankfurt am Main, 23 January. 2012. http://www.stifterverband.de/oekonomie/coyle.pdf

What post-crisis changes does the economics discipline need?

by Inna Pomorina and Ashley Lait, of The Economics Network.

Firstly, the lessons that need to be learnt from the crisis were addressed at the conference. The importance of basic principles was emphasised and it was agreed that despite their centrality to the discipline, they have at times been overlooked. This risks students being unaware of the core of their subject upon which more specialised modules build. It was therefore felt that these basic principles must be implicit in the teaching of economics throughout students’ degree programmes.

The development of macroeconomics as a discipline and of macroeconomics curricula was discussed by a number of speakers. There was consensus that the macroeconomics curriculum needs to integrate economics and finance more closely and include the impact of the development of financial instruments and the role of balance sheets. Existing macro models typically assumed well functioning markets and too little attention has been paid to leverage, global imbalances, the lack of macro prudential policies and the instability of the system as a whole. There was debate as to whether DSGE models could be adapted in the undergraduate curricula to take account of the functioning of financial markets and the behaviour of market participants, whether new models should be incorporated or whether students should be presented with a range of models that could be tested against the evidence.

Furthermore, in the light of the financial crisis, there is a sense that economics graduates would benefit if economic history and the development of economic thought were returned to the curriculum. This would help students not only to learn from the mistakes of the past, but also to see the development of theories over time. With an understanding of how the discipline has changed, students are more likely to question current assumptions and learn to accept the limitations of accepted models, which in turn will lead to more innovative thinking.

Whilst much of the discussion focused on areas of improvement for the discipline and the lessons that economics departments must learn, it was agreed that there have been benefits to the subject from the financial crisis. Above all, there is huge interest in economics among young people as they attempt to understand the issues that are in the news daily and have even been the subject of Hollywood films. It is important that educators seize the opportunity to encourage a new generation to study economics. This has great potential for the discipline too as, in the light of the crisis and in an increasingly globalised world, this generation will look at economic problems through a new lens and will be ready to reject assumptions and innovate. As a result, it is vital that courses are up to date, exciting and above all relate to what is going on in the outside world.

Students were not represented at the conference, but more than 1400 Economics students recently took part in the 6th biennial survey run by the Economics Network. The survey aimed to provide valuable information on students' perceptions of studying economics, including identifying strengths and weaknesses in the learning and teaching of economics. Topics included: how their course differed from their expectations, the best aspects of the course, what skills they developed by studying for their degree, and how the course had changed them. We are currently preparing the full report on the results, but believe that a few representative quotes from the survey will help to illustrate the points raised at the conference. Although the expectations of nearly three-quarters of students have been met by their economics course, others raised concerns:

> *The focus was mostly from an academic, research-based standpoint. During the entire economics course, we didn't really focus on the Financial Crisis, which would seem to be one of the most important economic events in history!? Much emphasis was placed on old, outdated theories that defy common sense.*

> *The course is very theoretical and contains a lot of maths. I think that the three micro-macro levels could have been compressed into two and offered a more hands-on approach, discussing current events too. It is difficult to practically apply the knowledge.*

Students were also asked about the best aspects of their course:

> *Application of economic theory to capital markets and real-life situations. I enjoyed learning models and ideas from people that combined the strengths that economics brings in terms of its approach to simplifying real-life along with some really intelligent ideas and theories using the latest economic knowledge, i.e. people that realise markets are not 'perfect' and find really intuitive ways to build these imperfections into models. I really enjoyed the essays, particularly when they related to current world events. For example, applying foreign exchange models to movements in the Yen following the Japanese earthquake and subsequent tsunami.*

> *I find that the best aspect of my degree is that economics enables individuals to look at particular issues and find the best possible outcome. I also feel that a high amount of what I learn during my degree is very useful as it can be applied to everyday life.*

> *I learned about the policies on how to tackle most economic problems by studying about them in the contemporary issues classes, which gave me the link on how to analyze the economic problems in reality. Apart from this, I also learned how the economic theories are used in reality.*

Questioned about the skills that their degree helps them to develop, they mention:

> *I have gained the skills of analysing financial data and gained a better understanding of economic principles which helped me excel in my summer internship and further helped me with managing my own finances.*

> *My economics degree seems very geared towards becoming an actual economist, which is obvious. However if I'm honest, I have no idea yet what exact occupation I am looking for in the job market. I feel my degree has given me a wider picture than just the necessary skills for a certain type of job. I'm more aware of the economy, my surroundings, my peers, my employers, how they all intertwine and work, and how this will affect my chances of getting jobs in certain markets.*

The full report on the survey results will be added to our website, — http://www.economicsnetwork.ac.uk/projects/surveys, in the summer.

As for the conference the important question now is how to implement these changes and suggestions into economics courses across the country. This represents a significant challenge for universities; it is easy to list what should be integrated into courses, but much harder to decide what should be left out. There were suggestions for a range of courses, where some could have a greater focus on mathematical economics, while others would concentrate more on political economy.

It was agreed that a network was needed to serve as a forum for discussion on these issues and to disseminate the results and ideas. Above all, this network and the economists who engage in teaching need to be innovative and inspiring in order to carry the discipline forward and to produce high quality and work-ready graduates.

For Economics Network resources, please visit:
www.economicsnetwork.ac.uk

The authors can be contacted at: inna.pomorina@bristol.ac.uk; ashley.lait@bristol.ac.uk

Winners of the 2011 *Economic Journal* referees' prize

Francesco Fasani, Inst. for Economic Analysis (IAE-CSIC)
Ethan Ilzetzki, London School of Economics
Julia Lane, National Science Foundation (NSF)
Gernot Müller , University of Bonn
Giacomo Ponzetto, CREi, Universitat Pompeu Fabra
Justin Rao, Yahoo Research
Burkhard Schipper, University of California, Davis
Andrew Shephard, Princeton University
Johannes van Biesebroeck, University of Toronto
David Vines, University of Oxford

Obituaries

Mark Blaug (1927-2011)

Mark Blaug's distinguished career stretched over five decades and many branches of economics. He tells us in his autobiography that he was first attracted to economics by Henry George, who did 'not entirely convince me' and by Karl Marx, who 'bowled me over. His long love affair with Marxian economics gave him a life-long insight into the workings of theoretical systems that are self consistent but empirically irrefutable. He had a similar experience with his even longer flirtation with Freudian psychology. His eventual disillusionment with the Marxists' approach of condemning capitalism because it is not fair led him to the pragmatism that also lasted the rest of his life: '...we can agree that capitalism is not an edifying system: it is crass, brutal and morally reprehensible but it does deliver the goods and in the final analysis it is the goods that we want!' (Blaug: 2000:202)

Writing about his evolution from a left wing Marxist towards the right wing, he gives what is a classic statement of the political position of many liberal economists: '[I am] rather right wing on questions of economic policy, such as privatisation, deregulation, trade union legislation and the like, but fiercely left wing on questions of social policy such as welfare payments, unemployment compensation, positive discrimination in favour of women, blacks and gays, the right to abortion, legalisation of soft drugs and so forth.'(Blaug 2000:205)

His most famous book, and a *tour de force* in the history of economic thought, *Economic Theory in Retrospect*, grew out of the graduate course that he taught at Yale for several years starting in 1955. The first edition was published in 1964 and the 5th edition in 1997. Various editions were translated into Italian, German, Portuguese, French, Spanish, Russian, Czech, and Polish. The only rival to this great book for its comprehensiveness and analytical depth is Schumpeter's *History of Economic Analysis*, which, at least in the English speaking world, never achieved the prominence of Blaug's book.. Blaug worked on and off on the history of thought for the rest of his life. His CV lists nearly 50 articles and several books in this field. One of the latter is his *Ricardian Economics: A Historical Study*, a penetrating analysis of the writings of an economist whose works are anything but easy reading. In his autobiographical essay he develops a cogent defence of the study of the history of thought. (Blaug 2000: 206-9) He argues that we cannot really understand an idea '...without knowing where it came from [and] how it evolved out of previous ideas.' This is because: '…great theories in economics as in other subject are path dependent…' Without knowing their history, '...they just drop from the sky.' Evident here is the tension between those who regard economic theories as universally applicable, similar to the laws of physics, and those who regard them as context specific, depending on various institutional and historical contexts.

After six years at Yale, he was passed over for promotion to a tenured post because the department saw no need for a specialist in the history of economics. He sought an academic post in the UK but was just ahead of the expansion of the academic job market that followed the setting up of the new universities in the early 1960s. Then by a lucky accident, he heard about, applied for and obtained a post in the economics of education at the University of London. Over the next 20 years he wrote extensively on the economics of education — his CV lists 173 articles and related items, as well as 15 books written or edited on that subject. Originally he was an advocate of the human capital approach but later he came to regard it as 'thin and unproductive'. He felt that it '...vastly exaggerates the role of cogitative knowledge in the undoubted economic value of education. ...what employers really value about education is not so much what educated workers know than how educated workers behave.' This insight, he believes, has important implications for vocational training, and educational planning and financing. Sadly, his potentially important work in this field was, on his own admission, '...without the slightest visible effect on either educational circles or the treatment of education by economists...'. (Blaug 2000: 211)

He spent considerable time in Asia and Africa as an educational consultant for various international organizations. Eventually he concluded, as did many others both before and after him, that aid to developing countries did more harm than good. He was a strong advocate of emphasising elementary education for the masses rather than higher education for the few and for the view that money spent on formal vocational training was largely wasted. He also felt that most the governments of developing nations failed to understand that rapid growth was incompatible with '...the immediate eradication of unearned incomes and perfect equality in the distribution of earnings...' to say nothing of their destructive attitude of wanting indigenous entrepreneurship while stamping '...on everyone who made money, particularly by selling shoddy goods to ordinary people in the so-called "informal sector".' (Blaug 2000:213)

From an economist's point of view, his most important area of interest other than the history of thought was economic methodology. His *Methodology of Economics: How Economists Explain* (first edition 1980 second edition 1992) is in my opinion a work that should be assigned to all graduate students of economics and many undergraduates for detailed reading and critical analysis. Even those who disagree with its strong Popperian slant will profit by detailing the reasons for their differences.

He was a relentless critic of the tendency in modern economics for what he regarded as excessive formalism achieved at the expense of empirical relevance. He disagreed strongly with economists such as Frank Hahn who believed that although general equilibrium theory might be empirically untestable (i.e., ruled out no conceivable observations), it could nonetheless help us to understand economic processes. In contrast, he argued (Blaug 1992: 169) that general equilibrium theorists had undertaken '... endless formalization of purely logical problems without the slightest regard for the production of falsifiable theorems about actual economic behaviour...'. In a similar vein he was highly critical of the reswitching literature, arguing that the determination of the interest rate '...has little if anything to do with static equilibrium theory, which is the domain of the great reswitching debate; it rests instead on the presence of uncertainty in a dynamic model of price determination á la Knight and Schumpeter.' (Blaug 1992: 184) As a student of economic thought, he was acutely aware of just how often excessive concentration on static equilibrium theory led economists to ignore the important insights of these two great economists.

In a recent scholarly essay 'The Fundamental Theorems of Modern Welfare Economics Historically Contemplated' (Blaug 2007) he dispelled many misconceptions concerning the historical antecedents of modern welfare economics while being extremely critical of its exclusive emphasis on static efficiency. He argued that the first fundamental theorem did not, as many economists have asserted, formalise the insights of Adam Smith who instead saw as the justification of competition that it contributed to 'the wealth of nations' by which he meant economic growth. He went on to observe that '... static efficiency does not necessarily imply dynamic progress, while dynamic progress may be incompatible with static efficiency.' (190). Most Schumpeterians would regard this as a correct but excessively cautious statement of the contrast between the two. Later in his paper Blaug justifies this comment of mine when he writes '...there is actually a world of difference between the ideal output enshrined in the first fundamental theorem and the real-world dynamic performance of a competitive economy. Adam Smith never made that leap from one world to the other, but modern general equilibrium theorists do so without the slightest hesitation.' (196-7) He is even more scathing about the second fundamental theorem: 'How can anything that is so patently impractical be a useful reference point? Well, actually, it cannot...' (200). He goes on to analyse economists' schizophrenia in accepting that although the assumptions required by these theorems bear little relation to reality, the theorems nevertheless are in some way useful in helping us to understand reality. The importance of these theorems lies, he argues, solely in their 'ceremonial value'.

Clearly Blaug was sceptical of the emphasis on equilibrium-based theorising by both micro and growth economists, holding instead an evolutionary view of the economic process. He believed that Schumpeter, in spite of his over glamorisation of the entrepreneur, '…said more about economic progress under capitalism than any other economist since Marx' and went on to observe that that was '...a sad comment on the last hundred years of economic theorising!' (221).

Mark did not suffer gladly those whom he regarded as fools and, as a result, he sometimes left enemies behind him. But he also left behind him a much larger group of admiring students and colleagues who attest to his high quality as a thinker, a teacher and a human being.

Richard G Lipsey,
Simon Fraser University

References

Blaug, Mark (1997) *Economic Theory in Retrospect,* 5th edn., Cambridge, Cambridge U P

___________ (1992) *The Methodology of Economics: How Economists Explain,* 2nd edn. Cambridge, Cambridge U P

____________(2000) Autobiographical essay in *Exemplary Economists, Vol II: Europe, Asia and Australasia*, R E Backhouse and R Middleton (eds.), Cheltenham, Edward Elgar Publishing.

__________, (2007) 'The Fundamental Theorems of Modern Welfare Economics, Historically Contemplated', *History of Political Economy,* 3(2) 185-207.

Subrata Ghatak

Credit market imperfections in developing countries are an obstacle to achieving sustainable growth and development. Theoretical and empirical research on finance and development is rife in the economics profession and much effort currently focuses on understanding developing countries like India. But there is a long and fruitful agenda on the topic and Subrata Ghatak was an early contributor.

Ghatak (1975) aims at understanding the behaviour of interest rates in India's rural areas. The study argues that interest rates are determined not so much by moneylenders' market power but by the risk and uncertainty which are pervasive in the market. The paper shows, *inter alia*, that there is a negative relationship between interest rates and repayment rates. Therefore, the investigation throws light on issues of direct relevance to influential contributions in the field, like Stiglitz and Weiss's model of credit rationing in markets with imperfect information. A related article by Hoff and Stiglitz (1990), introducing a World Bank-sponsored symposium on imperfect information and rural credit markets, refers to one of Ghatak's (1983) papers on the subject.

Subrata Ghatak was born in India in 1939. He was educated at the University of Calcutta, gaining undergraduate and postgraduate degrees in economics. Ghatak later moved to the UK to pursue postgraduate studies at the University of London. Subsequently, he taught Economics at the University of Leicester in the UK — starting as lecturer and reaching the rank of reader — and held visiting positions at the University of Florida in the US and the University of Guelph in Canada.

Ghatak was a prolific author. In addition to contributing to the understanding of monetary and financial issues in developing countries, starting with the PhD thesis on rural money markets in India submitted to the University of London, his research encompassed transition economies and migration. He authored and edited several volumes, including *Introduction to Development Economics*, *Current Issues in Monetary Economics* (co-edited with Taradas Bandyopadhyay), and *Migration and Mobility: The European Context* (co-edited with Anne Showstack Sassoon). Ghatak also published a substantial number of papers in academic journals, including the *Economic Journal*, the *Journal of Public Economics*, and the *Oxford Bulletin of Economics and Statistics*.

Following a long tenure at Leicester, Subrata Ghatak joined Kingston University's School of Economics as professor in 1997. He contributed to the teaching of economics at Kingston and was active in promoting the nascent research culture in the School. Notably, he worked alongside Professor Vince Daly in preparing Kingston's submission to the UK's research assessment exercise.

Ghatak retired in 2004 and became professor emeritus at Kingston University. He remained quite involved after retiring and was often at the School attending seminars, working with co-authors, and advising colleagues and PhD students. He also contributed at the national level in the UK as a member of the Economics and Econometrics panel for the research assessment exercise conducted in 2008. And at the international level he recently contributed to a research assessment exercise of Romania's universities. Ghatak also maintained a dynamic collaboration with colleagues in Poland, New Zealand, the UK, and India.

The last time I talked with Subrata, in December 2011, he was very much looking forward to visiting India after the New Year. But destiny had planned otherwise and he passed away soon after suffering a heart attack. Subrata's wife, Anita Ghatak, also an economist, passed away in 2005. He is survived by his daughter Churni Jennings. Friends, colleagues, and past students around the world will miss Subrata's bonhomie and willingness to teach and to collaborate in academic projects.

José R. Sánchez-Fung
School of Economics
Kingston University, London

References

Ghatak, Subrata (1975) Rural interest rates in the Indian economy, *Journal of Development Studies*, 11, 190-201.

Ghatak, Subrata (1983) On interregional variations in rural interest rates in India, *Journal of Developing Areas*, 18, 21-34.

Hoff, Karla, and Joseph E. Stiglitz (1990) Imperfect information and rural credit markets — puzzles and policy perspectives, *World Bank Economic Review*, 4, 235-50.

RES 2012 Autumn School

The third Autumn School organised by the Royal Economic Society, with financial support from the Economic and Social Research Council, will be held at **The University of Birmingham from Sunday 9th September 2012 – Thursday 13th September 2012.**

The School is intended primarily for advanced postgraduate students doing doctoral research but is also open to members of the teaching and research staff.

In 2012, the subject of the school will be **New Developments in International Trade and Macroeconomics**. The lecturers will be Professor Francesco Caselli (LSE) and Professor Peter Neary (Oxford). Further information can be found at http://www.birmingham.ac.uk/schools/business/departments/economics/events/index3.aspx.

Places are available for 25 resident participants. Nominations must be made through the applicant's Head of Department and should be supported by a short CV, a reference, and a note on the applicant's research interests. Applications should be submitted no later than **Friday 8th June 2012** by post to:

Royal Economic Society Easter School Secretary,
Department of Economics,
The University of Birmingham,
Edgbaston, Birmingham, B15 2TT

or by email: easterschool@contacts.bham.ac.uk.
Successful applicants will be informed in July 2012.

Australia doing it tough?! Structural change noise obscures cyclical story

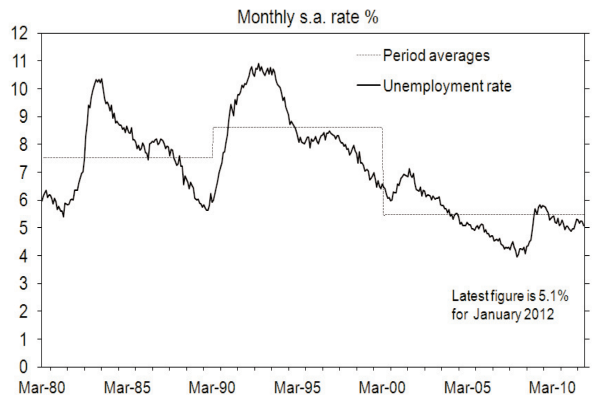
Nigel Stapledon argues that the popular view of Australia's recent current performance is distorted by a confusion over cyclical and structural changes.

If you believed the financial markets and the confidence indicators, Australia had a tough year in 2011 and is heading for another troubled, perhaps even tougher, year in 2012. If I[1] were talking about Greece or Europe generally, that might be credible but what explains this case study of negativity in Australia?

The popular story

Doomsayers, whom the media have a persistent and natural bias to report, will focus on the low business and consumer confidence and the fact that retail sales have had their first soft patch in 20 years and that housing activity has been subdued. But it doesn't fit with the broad indicators. The best up-to-date indicator of the current state of play is the labour market. It is true that the unemployment rate rose slightly during 2011 but the peak was 5.3 per cent and it is an even bet at the moment as to whether it will fall or rise in 2012. (The latest result was 5.1 per cent — see figure below.) At close to 5 per cent, the 'glass full' perspective is that the economy is still running close to its potential.

Australian unemployment 1980-2012: pick the recession in 2011?



The key forward indicator for the Australian economy is commodity prices — they are down on their peak levels in 2011 by about 10 per cent but are still at historically high levels (up by 30 per cent on 2010 levels) despite all the woes in Europe. Importantly, prices are still sending a very powerful message to the resources sector to invest. And there is already a big wave of resources projects still working their way through the economy.

As to the negative indicators, animal spirits (confidence) do matter but most studies show consumer confidence tends to follow activity and financial markets rather than lead anything. And financial markets were taking their cue from Europe. For the retail sector, it is certainly the case that the household saving rate rose in 2011 and that this took a bit out of consumer spending. (Retail sales volumes were up just 1.4 per cent in the December quarter over a year ago.) But the positive aspect to that is that it is a one-off adjustment — at worst the saving rate might stay high in 2012 but, if anything, it is more likely to decline. The big positive (from a spending perspective) is that wage rates are still growing at a 4 per cent pace and, reflecting the shift to higher paying occupations, full-time earnings are growing at closer to 5 per cent (real 2-3 per cent!), so households are now in a strong position to increase consumer spending in 2012. Similarly, in the case of housing, the market is extremely tight (continuing upward pressure on rents) and pent-up demand is building, which probably means there is only one way for activity to go in 2012 and that is up.

Why so much gloom?

The soap opera of Australian politics has certainly not helped matters at all. One can only hope that the leadership in-fighting within the government is over but that is a known unknown. How much damaged it caused to business confidence is a second known unknown but it surely has not helped.

One economic factor reflects an inability to disentangle the short-run negatives from the Queensland floods of late 2010/early 2011 which hit all areas of activity. When, for example, the GDP figures came out for the March quarter showing a contraction of 1.2 per cent on the December quarter, the ABS pointed out the significant impact of the lost production on the GDP figures for the March and also (then coming) June quarters. This also translated on to a 30,000 decline in employment in the agriculture which, with the country now benefiting from excellent rainfall, should be reversed (and perhaps more) in 2012. (Also negative for retail sales, etc.) Somehow until observers actually see the rebound in the figures, the explanations are heavily discounted: perhaps a case of let us not spoil a good piece of bad news!

Another and dominant part of the answer in the second half of the year is that the television news was full of the unfolding Greek tragedy in 2011. Aside from the media bias to those punters with a negative spin on this for China and hence Australia, there was the real, albeit short-term, impact on cost of funds for Australian banks and hence borrowers. Never mind that the US economic story was (in the second half) actually starting to look more positive.

But the real story in 2011 is the magnitude of structural change going on and the difficulty, particularly it seems for most business economists, to distinguish between cyclical and structural factors impacting on the economy. In the labour market, the mining sector has directly generated 33,000 and 38,000 jobs respectively in 2010 and 2011 and similar growth can be expected in 2012. Building the new mining projects has generated 36,000 and 13,000 net additions to construction jobs over those two years, with the peak in construction activity in either 2012 or 2013.

With the economy operating at close to full capacity, the structural expansion of the resources sector is partly at the expense of a structural contraction of other sectors. In 2010 and 2011, the manufacturing sector shed 12,000 and 51,000 jobs respectively, so it can be seen that the pressure on manufacturing has been and remains significant. Not surprisingly, the best news stories are those about the losers when the car makers, aluminium smelters and other firms announce factory closures and job cuts.

Further contraction in manufacturing is inevitable and the key is the decline in investment in manufacturing which, with a lag, will lead to contraction in output and loss of jobs down the track. A high profile case is the car industry. This industry has been in decline since the 1970s and the high Australian dollar looks set to be the final nail in the coffin. Despite robust car sales, this was all captured by imports in 2011 and all three domestic car companies announced cuts in production and jobs. This led to political pressure on the Government which increased industry subsidies under the guise of 'co-investment'. These subsidies are helping fund short-term investment needed to tweak a few more years out of the current models. But, with the domestic share of the market down to 15 per cent and exports collapsed, volumes are well below economic levels. There is no logic to any car maker committing to the capital spending needed to keep the production lines running when the current model cycles run their course.
Ironically, one of the other industries contracting is aluminium, an industry which expanded rapidly in the 1980s on the back of Australia's bauxite mountains and low energy costs. So it is not just traditional highly protected sectors of manufacturing which are feeling the pressure of the high Australian dollar.

And beyond manufacturing, the services sector is also feeling the heat. Tourism is hurting principally from the high $A. Sure, recessed conditions in Europe and the US matter but, courtesy of growth of outbound tourism from countries like China, the world tourism market grew 4-5 per cent in 2011. Inbound tourism numbers into Australia shrank by about 4 per cent. At the same time, increased numbers of Australians are heading overseas (up 12.5 per cent in 2011) to take advantage of the high $A (and to enjoy some warm English beer).

Closer to home, universities are feeling the pinch as foreign student numbers decline, again courtesy of the high $A but also to some tidying up of visa rules which had provided a significant hidden subsidy to universities — up until 2009, permanent residency was (effectively) given as 'benefit' of doing your degree in Australia. Unfortunately, in a bizarre piece of bad public policy, the government has now outsourced decisions to universities on granting student visas — in the short run this will no doubt help boost numbers but the conflict of interest will certainly generate problems in years to come.

The retail sector itself faces structural issues. After a decade of high growth, the industry has been geared to high growth which explains why 1.4 per cent growth seems painful. At the margin adding to the pain is the growth of internet shopping which is exposing high cost Australian retailing to offshore competition. For the department stores, the high growth years also camouflaged the structural decline of this segment of retailing.
But for all these bad news stories, the seemingly unseen creation of new jobs has at least matched all the well-publicised losses. In net terms, jobs grew by 0.5 per cent in 2011. This does represent a significant slowing from the pace of 2010 when full-time jobs grew by an unsustainable 3.3 per cent. That pace, which had the unemployment rate heading to well below 5 per cent, forced the Reserve Bank to apply the brakes. It needed to see employment growth slow to be more in line with the 1.6 per cent growth rate of the labour force. It clearly overshot which was (wrongly, in the author's view) interpreted as the economy heading into recession. But, if we abstract from the noise of structural change, there is a more than even chance that 2012 will see employment growth continue to re-accelerate from its mid-2011 lows, and move towards that magic 1.6 per cent or better. That could see unemployment staying close to 5 per cent or better.[2] The early signs are good.

Notes:

1. School of Economics, University of New South Wales, Sydney, Australia

2. The official Australian Government forecast, and that of most market economists in Australia, is for the unemployment rate to edge up to 5.5% in 2012. Note all employment data is trend quarterly from ABS 6291.0.55.003 Labour Force, Australia. Unemployment data in figure is monthly seasonally adjusted data from ABS 6202.0 Labour Force, Australia.

Secretary-General's Annual Report

...continued from p. 6

Publications

The Society has published scholarly editions for many years and provided them at a discount to its members, in particular the works of Keynes, Ricardo and Malthus under the guidance of our Publications Secretary, Professor Donald Winch. This last year has seen the culmination of our efforts to bring the Collected Writings of Keynes to a wide audience with the signing this week of a contract with Cambridge University Press to produce a digitised version of the thirty volume 'Collected Works of John Maynard Keynes'. Digitisation is expected to be completed by the end of 2012, with the works being available online in 2013. By a happy coincidence, 2013 marks the centenary of Keynes first book: *Indian Currency and Finance*. It is also 110 years since Alfred Marshall awakened Keynes's interest in Economics as an undergraduate in Cambridge.

Events

The Society has continued its outward engagement with all who are interested in economic policy. There has been a gradual increase over the years and we hope to bring further developments on-stream this year.

The Annual Public Lecture, first held in 2001, has become a fixture in the calendar. The 2011 lecture was given by Robert Chote of the Office of Budget Responsibility and was extremely successful. An audience of over 850 people in London and Birmingham heard him provide a riveting account of Britain's public finances. Nobel prize winner Chris Pissarides will provide the 2012 lecture in London and another regional venue.

I have already mentioned the Society's new Public Policy Lecture series, designed as a series of talks by well-known speakers on economic policy, and kicked off by David Miles. Nick Crafts is scheduled to be the next speaker. Discussions are currently underway to launch a public policy portal to encourage further discussion of economic matters of policy.

Postgraduate Conference

The postgraduate conference held for the first time in 2006 has proved a success and continues to be held each January at one of the London university. This year it was held at Queen Mary University London. The Society plans to ask a Council member to review the event this year in order to ensure we are doing all we can to engage this vital group.

The number of students attending and the number of institutions represented has remained reasonably constant. 24 institutions were represented this time with 259 participants. 195 of these gave research presentations, either as formal talks or as poster sessions.

Young Economist Essay Competition

Launched in 2007 this popular essay writing competition invites another key group, sixth form students currently studying for A Levels and the International Baccalaureate, to write on a major current problem or topic of concern, set by the President and Council members of the RES. The judges this year were the President, Stephanie Flanders and Charlie Bean.

From an entry of over 500, Mayank Bannerjee was chosen as the winner in 2011 for his essay on the whether the rise of China was good for Europe. He received an engraved trophy and a cheque for £1,000 at the Annual Public Lecture. The two runners up received £500. The winning essays are published on the website.

Funding

RES Training Schools

Building on the success of twenty years of funding the University of Birmingham Easter School, RES financial support combined with success in obtaining funding from the ESRC's Researcher Development Initiative, has enabled two schools to be run in 2010, 2011 and 2012.

These schools are intended primarily for advanced postgraduate students doing doctoral research but are also open to members of the teaching and research staff. The purpose is to enable participants to become acquainted with the latest developments in the selected fields of economics, to have the opportunity for study and discussion with two internationally renowned experts in the topics covered, and to meet other young researchers.

The organization of these takes considerable time and energy. The Society owes an incredible debt of gratitude to Peter Sinclair and his colleagues at Birmingham both for their commitment, and for the quality of the organization.

Junior Fellowship Scheme

Seven awards were made in 2011:

- Michael Amior, University College London
- Kara Contreary, London School of Economics
- David Deller, University of Essex
- Paolo Falco, University of Oxford
- Christopher Parsons, University of Nottingham
- Sami Stouli, University College London
- Mauro Testaverde, University of Southampton

Support for Postgraduates attending RES Annual Conference

PhD students who are members of the RES can apply to the Royal Economic Society for financial support to assist with attendance at the RES Annual Conference.

Two of our long running schemes are administered by Professor Muscatelli (University of Glasgow) and I would like to pay him credit for the effective and efficient running of both. The Society's Conference Grant Fund is available to members who are presenting a paper, or acting as a principal discussant at a conference; support of up to £500 is available. The Society is also able to offer financial support to members who require assistance for unexpected Small Academic Expenditure (up to £600).

Special Project Grants Scheme

Applications are invited from Members of the Society for financial assistance on a one-off basis for the support of activities that further the understanding and use of economics. The Budget grants up to £5,000 to each successful application. £5,500 awarded in 2011. For example, this has assisted in the running of the Welsh Economics Colloquium and the running of an annual international competition for teams of research students: the Econometrics Game.

Visiting Lecturer Scheme

In 2010 we reinstated a scheme to encourage Economics departments in UK universities to suggest the name of a distinguished economist for a visit to their department. Budget grants £2000 to each successful application. £6,000 was awarded in 2011.

Economics Network

I would like to make special mention of the Society's support for the Economics Network. Based at the University of Bristol, the network has provided a range of valuable resources for use in the teaching and study of Economics: dedicated websites for school pupils, university students and university teachers; training workshops for PhD students to develop their teaching/tutoring skills in the discipline; CPD activities for young lecturers; and teaching handbooks. Initially established and supported by the Higher Education Academy, the Economics Network, like all the subject networks it supported, has been a victim of the severe reduction in the grant to the HEA. While almost all have closed, the RES has been working with Bristol to find a way to continue the key activities of the Economics Network through a significant financial commitment over the next two years, with a review to follow in due course to consider both the further development of the Network and the feasibility of longer term support for its activities.

Other activities

For many members, one of the highlights of the year is receiving the quarterly *Newsletter*. This provides members with all the news about the Society and its activities, more general information about economic issues and events, and of course the ever-readable 'Letter from ..' feature. Peter Howells continues to edit that with great skill and the Society is grateful for all the work that he puts into it.

Effective dissemination of economic ideas and research results is a central concern of the Society. We are lucky to have, in Romesh Vaitilingam, a media consultant who provides sterling service. He plays a very important role in ensuring wide media coverage for the material that appears in our journals as well as the papers that are presented at the Annual Conference.

RES Committees

CHUDE continues to play a key role in the link between the Society and UK Departments of Economics and in interaction between the discipline and the ESRC and the Funding Councils. Neil Rickman and Tim Worrall have provided great leadership of the committee and I would like them to know how much the Society appreciates the work that they and their colleagues on the Steering Committee have done over the past year.

Karen Mumford and her colleagues on the Women's Committee have worked hard on a range of activities but in particular I would like to mention the work that they have been doing on mentoring.

Acknowledgments

Finally, I would like to say a special thank you to those with whom I have worked closely on Society business. On the Executive Committee, Richard Blundell and Mark Robson have been first-class counselors. Kathy Crocker has provided excellent support in all matters related to membership. There is of course one person whose support has been quite crucial: Amanda Wilman, the Society's Administrative Officer.

Economics Network— events

25 May 2012, Kingston University
Workshop on Project-based Learning
This workshop introduces project-based teaching and assessment, which has been highly successful in terms of student engagement, performance and the development of transferable skills.

25 May 2012, Kingston University
Workshop on Assessment and Feedback
A workshop designed to promote creative uses and best practice in assessment and feedback, in order to improve student academic performance and engagement.

May 2012 (Date TBC), University of Nottingham
Workshop on Games and Experiments
A workshop designed to introduce a range of teaching games and experiments to engage economics students in small-group classes, seminars and workshops.

May 2012 (Date TBC), Coventry University
Workshop on Technology in Teaching
A workshop specifically designed to introduce lecturers and graduate teaching assistants to technologies that can be used in the classroom, including: wikis, audience response systems (or 'clickers') and podcasts.

May 2012 (Date TBC), LSE, University of London
Workshop on Technology in Teaching
A workshop specifically designed to introduce lecturers and graduate teaching assistants to technologies that can be used in the classroom, including: wikis, audience response systems (or 'clickers') and podcasts.

More information on all these events, including booking, is at: http://www.economicsnetwork.ac.uk/news

RES website

...continued from p.13

In the months to come, we anticipate that there will be some adjustment to the design of the print copy of the *Newsletter* that will bring it more onto line with the website. At the simplest level, this may mean only a change in 'house colours' But some terminology will change. The sharp-eyed will already have noticed from the previous paragraph that 'Correspondence' on the website refers to the long-running series of 'Letters from (our regular correspondents in France, Germany and the USA)' and not to letters from readers. The following is a rough guide to the equivalence of terms at the moment.

The first point to notice is that some of the headlines under 'News' and 'Events' will be links to selected items in the *Newsletter,* though access to the full *Newsletter* will obviously come through clicking on the third heading. Furthermore, the 'Newsletter' heading is followed by a number of sub-headings ('Correspondence', 'Features', 'Obituaries', 'Comments and Notes' and others) which correspond to the main components of the *Newsletter.*

By clicking on 'Newsletter' readers will find that they are faced with a choice of 'Newsletter online' and 'RES Newsletter — print version', in addition to useful editorial information. Under 'print version' readers can open a pdf copy of the complete current issue as well as a small archive of recent issues. In this archive, there is a link to the London School of Economics which holds the RES archive, including virtually all past issues of the *Newsletter.* The LSE archive has an online searchable catalogue that shows detailed holdings of RES material.

Clicking on the sub-headings takes the reader directly to the named component of the current issue. Hence clicking on 'Correspondence' brings up Alan Kirman's (January) 'Letter from France'. Clicking on 'Comments and Notes' takes readers to Robert Neild's item on the 'National Debt in Perspective'. Notice that these items are all taken from the current issue. This was the January issue at the time of launch; they will be replaced by items from this issue in due course.

On the website....	*...in the print version*
Correspondence	Letters from France, Germany and USA
Comments and notes	Comment on current issues and debates (including 'Letters to the editor')
Features	Major, free-standing, items
Conference Diary	Conference Diary
Obituaries	Obituaries

RES news items

RES Website (www.res.org.uk)

The Society is delighted to announce the launch of our new website. We hope that you will agree that the new site has a dynamic contemporary design, improved navigation, greater functionality and even richer content for our members.

If you have previously registered with our website, you can simply log in using your email address and existing password (you no longer need your username). As before, logging in to the site will give you online access to the *Economic Journal* and the *Econometrics Journal*, as well as offering you the option to edit your details and renew your membership securely online. If you have forgotten your password, please click on 'forgotten password' under the login box.

All members were recently sent an e-mail about the launch of the website. You will also have recently received the information with the papers for the AGM. Both were sent to the e-mail address that you have given us. Please check that you have an e-mail address listed as part of your membership details. If you wish to change this address, or are unsure of the address that we have used when communicating with you, please contact us by e-mailing cs-membership@wiley.com. You can be assured that we will not provide your details to any other party.

If you have not previously registered, please do take this opportunity to register on the website and take advantage of your online access to The Economic Journal and The Econometrics Journal. You will need your membership number, which you can check by emailing cs-membership@wiley.com or by phone to the Membership Services department on 01865 778171.

Governance of the Society

The Privy Council approved changes to the Bye-laws of the Society on 20 December 2011. As a result, the Executive Committee is now the governing body of the Society, responsible for formulating and executing the Society's policy and coordinating the work of its Officers. It comprises the President, President-Elect or Immediate Past President, Treasurer, up three Editors, Secretaries, and five Councillors who are not Officers. Other members may be co-opted if approved by Council. Its current membership can be found on the website www.res.org.uk or by contacting the RES Administrator, Amanda Wilman.

The Council of the Society has an important supervisory and advisory role. It meets at least once a year and consists of: President, President-Elect or Immediate Past President, Treasurer, Secretaries and thirty elected Councillors (of whom five are appointed to the Executive Committee).

President-Elect of the Society

The Annual General Meeting on 26 March 2012 approved the recommendation of the RES Council that Charles Bean, currently Deputy Governor of the Bank of England be appointed as President-elect from 2012, to become President for the period 2013 to 2015.

Membership of the RES Council

The following new members of the RES Council were approved at the Annual General Meeting to serve from 2012-2017:

Martin Browning, University of Oxford
Tim Harford, Financial Times
Paul Johnson, Institute of Fiscal Studies
Kimberley Scharf, University of Warwick
Peter Sinclair, University of Birmingham
Sarah Smith, University of Bristol

Funding - next application round May 2012

The RES provides a variety of forms of financial support and welcomes application from members for funding assistance. Applications can be made using online application forms and will be considered three times a year by January 20, May 20 and September 20 with decisions to be made within 28 days where possible.

RES Autumn School see p.19

Special project grant scheme

Applications are invited from Members of the Society for financial assistance on a one-off basis for the support of activities that further the understanding and use of economics. Support of up to £5,000 is available.

Visiting lecturer scheme

Up to £2,000 is available for Economics departments in any UK university who may suggest the name of a distinguished economist for a visit to their department.

Conference grant scheme

The Society's Conference Grant Fund is available to members who are presenting a paper, or acting as a principal discussant at a conference; support of up to £500 is available.

Support for Small Academic Expenses

The Society is able to offer financial support to members who require small sums for unexpected expenditures. Support of up to £600 is available.

Support for postgraduates attending RES Annual Conference

PhD students who are members of the RES can apply to the Royal Economic Society for financial support to assist with attendance at the RES Annual Conference.

Conference Diary

2012

may

May 10 *UWE, Bristol*

PhD Conference in Monetary and Financial Economics
The Centre for Global Finance is pleased to announce a special conference for PhD students in the area of monetary and financial economics to take place on Thursday, 10 May 2012.

Further information at:
http://store.uwe.ac.uk/browse/product.asp?catid=994&modid=1&compid=1

May 10-11 *Nantes, France*

T2M 2012: Theories and Methods in Macroeconomics
The conference is partly aimed at young researchers who will present their papers in parallel sessions, but it also hosts more experienced researchers in parallel, semi-plenary or plenary sessions. This year's keynote speaker is Wouter den Haan, London School of Economics and Economic Journal Managing Editor.

Further information at:
http://sites.google.com/site/t2mnetwork/the-annual-t2m-conferences/t2m-2012

May 23-25 *Izmir, Turkey*

Annual Conference on International Political Economy - Challenges to the Welfare State. Gediz University, Florida International University and Leeds Metropolitan University invite paper and panel proposals for a joint multidisciplinary conference on International Political Economy entitled 'Challenges to the Welfare State'. It seeks to provide a forum for scholars of political economy, politics and international relations.
JEL classification(s): B, E, F, G, H, I, O

Further information at: http://ipeconference.gediz.edu.tr/

May 24 *London, UK*

BMRC-QASS Conference on Macro and Financial Economics. MRC-QASS Conference on Macro and Financial Economics The Brunel Macroeconomic Research Centre and QASS jointly organise a one day conference on Macro and Financial Economics on Thursday 24th of May at Brunel University.

Further information at: http://www.qass.org.uk/callfor-papers_brunel_12.htm

june

June 7-8 *Ljubljana, Slovenia*

Reforming Finance: Balancing Domestic and International Agendas. Topics to be considered for the workshop include but are not limited to: international cooperation versus coordination in monetary and/or fiscal policies; regulatory frameworks for banking and financial markets: Is more the merrier? the behavior of financial markets before, during, and following financial crises; assessments of monetary and fiscal responses since the beginning of the crisis; We especially welcome empirical papers, but we will also consider theoretical work. One session will be devoted to presentations by PhD students.

Further information at:
http://www.ssrn.com/update/fen/fenann/ann11369.html

June 7-8 *Coruna, Spain*

XV Applied Economics Conference. Call for Papers: March 1 2012.Contact: eea@unizar.es

Further information at:
http://www.revecap.com/encuentros/english/default.html

June 20-22 *Hong Kong, China*

The 2012 APJAE Symposium on Advances in the Studies of the Chinese Economy, Growth, FDI, Trade and Intellectual Property Rights

JEL classification(s): F, O, R, Z

June 29-30 *Antwerp, Belgium*

Rwanda from below. While research on Rwanda has in the past often adopted a macro approach, increasing numbers of (predominantly younger) scholars have studied the country from a grassroots, bottom-up perspective. This research is very demanding and often takes place in a dangerous, difficult and destabilising environment, but it has yielded important new insights into local dynamics of power, justice, ethnicity, land, and poverty. However, much of this research is scattered, and this conference aims at bringing some of these efforts together.

Further information at:
http://www.ua.ac.be/iob/rwandafrombelow
Deadline registration: **Visa Required - May 1, Non-visa Required - June 15**

June 29 - July 3 *San Francisco, CA, USA*

The 87th Annual Western Economic Association International (WEAI) Conference. You can present a paper, organize a session, discuss a paper, chair a session or just attend. There will be over 1,000 economists from all around the world. Also, take advantage of the opportunity to publish your conference paper in one of our journals, *Contemporary Economic Policy* or *Economic Inquiry.*

Further information at: http://weai.org/AnnualConf

June 30 - July 7 *Prague, Czech Republic*

Prague Summer Schools. The summer schools, on a range of topics, are seven-day academic programs designed to bring together undergraduate and graduate students of various nationalities and academic backgrounds to enjoy their summer holidays in the unique academic and cultural environment. Early-bird application deadline of **April 30, 2012**. The final deadline is **May 15, 2012**.

*Further information at:*www.praguesummerschools.org

july

July 2-4 *Rio de Janeiro, Brazil*

III World Finance Conference. Keynote Speaker Professor Franklin Allen, University of Pennsylvania.

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

July 3 *Galway, Ireland*

The National University of Ireland Galway is hosting a conference on **Applied Econometrics and Public Policy** on July 3rd, 2012 in conjunction with the Economic and Social Review journal. A selection of the highest quality papers submitted to the conference will be put forward for a special thematic edition of the journal to follow after the conference.

Further information at:
http://www.conference.ie/Conferences/index.asp?Conference=164

July 3-5 *Paris, France*

OECD-Universities Joint Research and Policy Congress. This is the 3rd biannual international congress for welfare economics. The theme is 'Economics for a Better World'. Contributions in the areas of economics of health, development, labour, education, social policy, personal finance, culture, sport; econometric theory; social choice and welfare; behavioural economics, experimental economics and happiness are especially welcomed. **Proposals for sessions are currently sought** and a call for individual papers will follow in due course.

Further information at:
http://www.open.ac.uk/socialsciences/welfareeconomics-theory/ or r.thomas@dph.ox.ac.uk

July 16-18 *Budapest, Hungary*

SING8 - 8th Spain, Italy, Netherlands **Meeting on Game Theory** organised jointly by the Institute of Economics, Hungarian Academy of Sciences and Corvinus University Budapest. SING8 is the 8th conference in the Spain-Italy-Netherlands series of meetings on Game Theory and the first organised in Hungary. While many of the participants come from the founding countries or other European countries, the conference is open to all and covers all areas and aspects of game theory.

Further information at: http://sing8.iehas.hu/

august

August 16-18 *Ontario, Canada*

RCEF 2012 Conference: Cities Open Economies and Public Policy. The Rimini Conference in Economics and Finance (RCEF) is a biennial conference series that alternates between Italy and Canada, but with a different focus each time. This year's theme will draw researchers from urban economics, with a micro focus on long run development, trade, and increasingly the environment and from international macroeconomics with a focus on business cycles, financial markets, and monetary policy.
Papers and proposals for submissions are welcomed through the conference website www.rcef.ca

Further information at: rcef@economics.utoronto.ca

october

October 11-12 *London, UK*

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

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

december

December 17-18 *Shanghai, China*

World Finance and Banking Consortium **'Asian Finance and Banking'.** The aim of this symposium is to establish a high quality discussion forum for the academics, professional societies and practitioners. The conference will additionally provide the opportunity to present research papers in the all areas of finance, these shall be considered for presentation at the World Finance Symposium.
Deadline for paper submission: **April 30**

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

Membership of the
Royal Economic Society

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

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

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

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

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

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

• Discounts on registration fees for the Society's annual conference.

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

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

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

Membership rates for
2012 are £46 ($79, €71)*

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

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

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

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

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

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

Name:

....

Address:

....

....

....

Occupation..

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