



ROYAL ECONOMIC SOCIETY

# NEWSLETTER

Issue no. 154

July 2011

ROYAL ECONOMIC SOCIETY

## The conference issue

This year's Annual Conference took place at Royal Holloway University of London just as the April issue went to press. We were able to squeeze in the Secretary-General's Annual Report but the report on the conference proceedings inevitably took longer and is printed here. Readers who are familiar with the conference will raise a wry smile at Aditya Chakraborty's discovery that economists are prepared to talk even when no one is listening. We've read this comment in earlier conference reports though may be not so explicitly expressed.

The April issue also contained an article by Philip Booth and Len Shakleton which defended the current austerity package in the UK against a number of attacks. In this issue we have a reply from Vicky Chick and Ann Pettifor. There is also a letter on the subject from Christopher Gilbert. So, after a slow start, we do seem to have provoked a debate about current economic policy — one of the purposes for which the *Newsletter* was originally conceived.

Being the April issue, we also have Ray Rees's 'Letter from Germany' wherein he discusses the recent scandal of plagiarism in a politician's PhD. There are also some interesting insights into the role of the PhD amongst German professionals.

Leaving aside the Society's news items and conference diary, this issue ends with a major feature by David Autor which we have just managed to shoehorn into the available space. This looks at a worrying trend in (but not confined to) the US labour market, whereby the market increasingly favours the skilled and educated at the expense of the unskilled.

In the middle of the cricket season, it might also be appropriate that we have a tongue in cheek look at the connection between the sport and economic growth and development.

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# NEWSLETTER

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## 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](http://www.res.org.uk)

# Letter from Germany: What's in a Footnote?

*In his latest Letter from Germany, Ray Rees looks at plagiarism in high places.*

When Germany's head of government, Angela Merkel, made her now famous off-the-cuff response to a hostile question about her support for Karl-Theodor zu Guttenberg: 'I appointed a defence minister, not a research assistant', she could hardly have expected the storm of indignation that it would arouse from Germany's university community. Though not her intention, the remark seemed to encapsulate perfectly the apparent lack of understanding among politicians of the norms and values of the academic world, and in particular, of the weight it attaches to appropriately-placed footnotes when using the words of other academics in one's own writing.

## The story

For those unfamiliar with the story: Karl-Theodor Maria Nikolaus Johann Jacob Philipp Franz Sylvester Joseph Freiherr von und zu Guttenberg, often referred to as 'the Baron', was Germany's most popular politician, highly prized by the leaders of his own party, the Bavarian CSU, and its coalition partner, the CDU, as a vote-catcher extraordinaire. A young, handsome aristocrat, with an element of charisma totally lacking in all leading German politicians, he was seen as the potential rescuer of the electoral fortunes of both the Bavarian party, still reeling from a series of banking scandals and poll setbacks, and of the ruling government coalition, losing badly in regional elections and slumping dangerously in the opinion polls. With his equally attractive and aristocratic wife, born Stephanie Graefin von Bismarck-Schoenhausen, a great great granddaughter of the Iron Chancellor Otto von Bismarck, they made a Kennedy-esque couple who had become the darlings of the illustrated magazines, bringing glamour and sex-appeal to a political world that was totally lacking in both.

His abilities as a minister seem to have been much more modest, despite his meteoric rise following his first becoming a member of the national Parliament (Bundestag) in 2002. After less than seven not particularly distinguished years as an MP he was in 2009 suddenly

appointed Economics Minister, and just over a year later Minister of Defence. His performance in the former position was remarkable only for his threat to resign over the bailing out of the Opel car company, caught up in the financial crisis of its parent General Motors. In general his lack of experience was palpable. A lawyer by training, he seemed out of his depth in economic affairs, and must have been relieved as well as delighted when he was promoted to Defence Minister. Here he was much more at home, and despite some difficult moments, again reflecting his lack of political experience, seems to have been doing an acceptable job, in particular pushing through the decision to end conscription in Germany and to reorganize and professionalise the German armed forces. His public popularity was in any case sky high. Then came the crash. Not because of a sexual scandal or shady financial dealings but something which professional politicians found almost laughable as a threat to a stellar political career: allegations of plagiarism in his PhD thesis.

## The political fallout

On the 16th of February of this year the leading national newspaper the *Sueddeutsche Zeitung*, based in the Bavarian capital Munich, published a story based on some checks carried out by a Law professor at the University of Bremen, Andreas Fischer-Lescano, which showed that a number of passages of Guttenberg's PhD thesis on 'Constitution and Constitutional Contract' (Verfassung und Verfassungsvertrag) had been taken verbatim from the work of others without acknowledgement or citation.

Guttenberg's response was to plead carelessness, confusion and overwork. He had submitted his dissertation, containing 475 pages and over 1200 footnotes, in 2005, well after his political career had begun. He had a young family that also placed heavy demands on his time. He had lost track of all his sources, spread over 80 diskettes and several laptops, and in the desire to have his thesis out of the way had simply been very careless. His examiners, incidentally, awarded the dissertation the highest possible

grade, *Summa Cum Laude*. He denied categorically any deliberate attempt to plagiarise. As the criticism from the academic world intensified and the evidence mounted, he handed back his PhD to the University of Bayreuth (which had only symbolic significance, since the granting body alone can reverse the award of the qualification), and finally, sixteen months after taking office, in what he called 'the most painful step in my life', with his 'strength exhausted', and to the disappointment of the senior politicians who had supported him, he resigned.

## German PhDs

What is an academic from a different tradition, whose only experience with the German PhD system is in economics, where PhD standards are far more rigorous, to make of this story?

The response of the politicians to the charges of plagiarism, as evidenced by Angela Merkel's remark, is easy to understand. She really meant to say, I think, that it did not matter whether a politician has a PhD or not (she herself has a PhD in physics), but of course she ignored the wider issue of whether an act of plagiarism is a good signal about the integrity and moral scruples that we would like our politicians to have. On the other hand, a cynic could imagine a German equivalent of Sir Humphrey Appleby saying something like:

Well, Prime Minister, one might have thought that the ability to take the work of others, present it as one's own and achieve great success with it, is exactly what one needs to be a leading politician.

I think the most interesting aspect of the story is what it tells us about the German PhD. In the Anglo-Saxon system, we are used to thinking of the decision to do a PhD as by and large a commitment to an academic career path

— it is an academic qualification in the narrow sense. In Germany that is decidedly not the case. In my experience, even in economics fewer than half of those who are awarded a PhD aspire to an academic career, the others see it as a qualification for a career in the economy more generally, in consultancy, banking and finance or the public sector. In areas such as law and medicine, apparently as much as 90 per cent of those graduating with a first degree see it as desirable or even necessary to acquire a PhD, as a purely professional rather than academic qualification, conferring status rather than scholarly research skills and deeper knowledge of a subject area. It is hardly surprising that in these areas particularly there will be a high demand to do a PhD from people who do not have the interest or ability to carry out serious research. In the end, it was estimated by the Bayreuth University committee, which has just stripped him of his PhD, that around 70 per cent of Guttenberg's law dissertation was directly copied, without attribution, from other sources.

Is his however really a unique case, or is he just a public figure whose prominence and success make it worth the while of someone, with possibly a political motivation, to run a plagiarism check? Two further cases of alleged PhD plagiarism have made the headlines, one concerning a prominent politician in the European Parliament, another the daughter of the recently retired Prime Minister of Bavaria. There seems to exist a fertile fishing ground in which only the biggest catches are worth reporting.

What of Karl-Theodor zu Guttenberg's future? He is going to spend the next two years with his family in the USA. His support from senior politicians remains strong and his popularity among the public remains high. Will he make a successful come-back as a politician or will his case remain just a footnote to the political events of the past few years? My money is on the former.

## Annual Conference 2012

The RES2012 Annual Conference will be held at the University of Cambridge, 26 to 28 March 2012.

Further details will be available shortly on the RES website (and in the next *Newsletter*)

# The Royal Economic Society's Annual Conference

*The Society's Annual Conference this year was held for the first time at Royal Holloway University of London, 18-20 April. This report comes from Aditya Chakraborty of The Guardian.*

I came to the Royal Economic Society conference feeling rather like an interloper. I wasn't there to deliver a paper, to provide moral support to a friend delivering a paper, or even to kneecap a rival delivering a paper in my field. Not for me dreams of tenure or the low thousands of a post-doctoral research grant.

No, I was there as an economics journalist, someone whose deadlines are measured in days and hours rather than months and years, and whose idea of peer-review is a hard-pressed subeditor armed with a Collins dictionary.

As such, I began the three days at Royal Holloway college with three questions. First, could I find anything that might help with the day job? Insights that might inform forthcoming editorials; material to trigger columns; or simply interesting people. Second, how had academic economics been changed by the financial crisis? Finally, what could I learn about its tribe of practitioners?

Over the past three years no group of academics has been as discussed as those people on the payroll of the economics faculties. They've been derided for missing the financial meltdown; lambasted for trying to wedge the profane cash nexus into even the most elevated spheres of human activity; dismissed as, in the words that Nye Bevan once flung at Hugh Gaitskell, 'dissipated calculating machines' (Gaitskell was then chancellor of the exchequer, unsurprisingly). Here was my chance to find out the reality.

What follows, then, is as much an attempt to give an outsider's perspective on a gathering of specialists as it is to give a flavour of the conference itself. Working on the premise that the research of the keynote speakers is most likely to be familiar to readers of this newsletter, I've decided to highlight those whose work may be less well-known. And since what happens outside the seminar rooms can be just as interesting as what goes on inside, the following remarks also reflect conversations with participants, organisers and other attendees. Naturally, I make no pretence at comprehensiveness.

*Observation no 1:  
Economists will talk even if no one's listening*

A few times over the conference, I would barge into a session to find the presenters presenting pretty much to themselves, on one occasion without even a chairperson.

The first time this happened, I expressed my bewilderment to one of the organisers, who shrugged, and recalled the session 'right at the end of one conference' in which two academics ended up showing their results to each other, with no one else present at all.

The occasional sparse audience is probably par for the three-day course. Any event with 125 listed general sessions (21 on the Monday afternoon alone) is going to see some empty rooms; sadly, the result was that some interesting findings did not get the audience they deserved.

One of those was in a paper given by Renata Bottazzi at the University of Bologna. Her research, done with Thomas Crossley at the University of Cambridge and Matthew Wakefield at the Institute for Fiscal Studies, assessed the impact of rising house prices in England on access to homeownership. With all the talk of 'Generation Rent' (so named by Halifax, whose executives doubtless have their eyes on the buy-to-let mortgage market), of a cohort of 25-40 year olds apparently locked out of the owner-occupation game, this was a timely paper.

Bottazzi and her colleagues looked at two generations who came of age in England either side of a massive housing bubble. One was born in 1967 and hit their 20s amid the Lawson boom; the second was born in 1975 and entered their 20s in the long slump of the mid-90s.

Together, the two samples make a pretty good illustration of an age lottery in the property market. In 1989, when the 1967-cohort turned 22, the average house cost 5.5 times the average income. By 1997, when the 1975-cohort hit 22, house prices had dropped by more than 20 per cent so that the ratio was now only 4. A big difference, then, but what impact did it have on them getting their own bricks and mortar?

The answer is: large in the short term, but diminishing over the long run. When the two generations each hit 30, there was indeed a big difference between their rates of home ownership, which the researchers cannot account for by different rates of settling down. Indeed, they argue if house prices are 17 percentage points above trend, then home-ownership dips by approximately 3.2 percentage points. But, crucially, by the time each generation hit 40, that gap had narrowed. The cohort that had plunged into bricks and mortar when they were 30 obviously didn't

need to keep buying new houses, while the other group closed 80 per cent of the ownership gap by the time they were 40.

With the housing market in London and the south-east bouncing back after the crash in the City, findings like that are helpful for economics journalists. That doesn't mean they are necessarily comforting for our readers.

Those waiting to get on the property ladder may be less than pleased at the prospect of an extra decade of renting. It might also be pointed out that those able to buy into the market at 30 then have the rest of their adult lives to trade up, with all the increases in wealth that that supposedly brings.

Another piece of research on the accidents of age came from Dan Anderberg at Royal Holloway and Yu Zhu at the University of Kent, who looked at what difference staying on at school makes to marriage partners.

The two men crunched through a sample of 227,000 English and Welsh women born between 1957 and 1971. For most of that period, a child who turned 16 by the end of January could leave school in spring. Those who were born in February or after had to wait until the summer holidays.

The difference is small — just a few months. And yet, found Anderberg and Zhu, it could amount to a lot. Those who stayed on in school were more likely to pick up some academic qualifications — and to marry a husband with qualifications and a job.

This makes an interesting addition to the literature on assortative mating — the shift towards men and women choosing partners closer to their own position on the earning scale. Where doctors used to marry nurses, say, they are now more inclined to couple up with another partner. It also has political implications — if even the slightest reduction in educational inequality can reduce social inequality, then a government that wants to close the wealth gap needs also to close the education gap.

*Observation no 2:  
Economics has been changed by the financial meltdown, but not by much - yet*

In contrast to the empty chairs of some presentations came Tuesday afternoon's special session chaired by Charlie Bean of the Bank of England. 'Bit of a squeeze in here, isn't it?' remarked my neighbour, before we all had to budge up again. The formal title was 'Interactions between Monetary and Fiscal Policy' — but clearly for speakers and audience alike it might as well have been called 'How On Earth Do We Get Out Of This One'? With great difficulty and over a long time, came the not

entirely unsurprising answer, albeit presented in three intriguing ways.

Journalists are always on the lookout for when key players in a particular area expand the range of possibilities they are willing to consider: not necessarily their central forecasts, but rather the outlier scenarios. In a fast-moving situation, such as the eurozone debt crisis, the outlandish is sometimes only a few weeks away from being quite plausible.

This session was full of shifting possibilities. Vittorio Grilli, the snappily-dressed director-general of the Italian Treasury and chair of the increasingly-important EU Economic and Financial Committee, made it clear that the old eurozone orthodoxy of a rigid separation between national fiscal and continental monetary policy was, as far as he was concerned, dead. It is, he said, 'very hard to run one monetary policy and 17 un-coordinated fiscal policies'. So did this mean greater control from Brussels over national economic policies and/or the European Central Bank stepping in further to help out struggling governments? Mr Grilli was charmingly vague.

Next came Carlo Cottarelli, Director of the IMF's Fiscal Affairs Department, who discussed other 'unorthodox ways' out of the crisis such as a sovereign state defaulting on its debt. He stopped short of advocating that, mind, but the possibility was left hanging. And it's worth recalling an IMF study of the effects of sovereign defaults, published in 2008, which concluded: 'The economic costs [of default] are generally significant but short-lived . . . we almost never can detect effects beyond one or two years.' Whether this finding applies to a country locked into a relatively new and inflexible large currency union is a debate worth having.

The final speaker had much less need for hedges and qualifications. Although he has advised both the Bank of England and the Treasury, Andrew Scott mainly works in the relative purity of British academia. Donning that hat, he made a fittingly-strident case for keeping calm about the UK's debt. Yes, persistently-big borrowing is a problem, he said quoting Adam Smith's warning from over 200 years ago: 'The practice of funding has gradually enfeebled any state which has adopted it'.

Fine, but when does enough become too much? Quoting Carmen Reinhart and Ken Rogoff' assertion that public debt of 90 per cent of GDP was the typical tipping point, Scott observed that they had failed to find whether big borrowing was the cause of economic distress, or merely a major symptom.

Instead, he described debt as 'a buffer' often used by British governments to smooth out the costs of wars and

other big economic shocks. If a sovereign can get long term loans and has the option to roll over their borrowing, then gradually sorting out the public finances is far better than abruptly whacking up taxes and cutting public spending.

Measured against national income, debt has been above its current levels for more than half the long stretch since 1692; while as a proportion of tax revenues government debt is still below its average of the past 100 years. Scott closed with another quote from Smith, from 1776: 'Great Britain seems to support with ease a debt burden which, half a century ago, nobody believed her capable of supporting'. And as was pointed out, Britain's debt burden grew even more just after that statement.

Personally, I buy this argument, all the more so when presented by someone as persuasive as Andrew Scott. But he fell into the trap usually waiting on this side of debate, in failing to address how governments manage the process of borrowing more without making debt markets jumpy. The lacuna was especially noticeable after the grim European scenarios painted by the previous two speakers.

One riposte to Scott was delivered in a separate session's presentation by Michael Arghyrou and Alexandros Kontonikas. At Cardiff Business School and University of Glasgow Business School respectively, they've studied the causes of the Greek crisis — and found it was as much to do with the financial markets' collective loss of faith in the Athens government as a deteriorating economy. Britain is obviously not Greece — for one thing, it's not quite as imaginative in totting up its public finances. But still, Kontonikas and Arghyrou's emphasis on the importance of trust in the relationship between governments and bond markets should give pause to deficit doves.

Going by the crowd it drew and the comments from the floor, the crisis session was one of the most vibrant of the lot. Indeed, it suggested a case for carving out more room in future conferences to discuss up-to-the-minute subjects. There were, I was informed, many more sessions on macroeconomics than in previous years — for which this year's programme chair Rachel Griffiths and her deputies Juan Pablo Rud and Melanie Luhrmann deserve congratulations. Still it would be an interesting experiment to have a couple of small panels of senior economists debating topical issues, without the aid of publishable papers.

Plainly, the current economic crisis is also partly a crisis of economics. Yet I was struck by how little forthright discussion there was of how the discipline should change. As Marcus Miller of Warwick observed to me during one sunny break, as conference-attendees colonised every available patch of Royal Holloway grass: 'You would never guess that most of the people working in economics failed to spot the crisis coming, and then had little to say about how to deal with it.'

On this front, the Institute for New Economic Thinking led by George Soros has raised good questions about which of the old concepts — such as the efficient markets hypothesis — ought to be overhauled, and how the subject should take on more insights from history or biology. There is no reason the RES shouldn't move these debates along.

*Observation no 3:*

*Economists sometimes prefer models to reality*

Early in the conference the RES media consultant, Romesh Vaitilingam, told me: 'When faced with some new economic finding, journalists want to talk about what it means and how it can be applied; economists want to discuss how you got those results.' That rule didn't always hold up; more than once a presenter squeezed for time would race through PowerPoint slides full of data tables to arrive at the conclusion. In one deliciously frank instance the researcher merely said, 'And I tested my data many times and it was remarkably robust... Any questions?'

But still, that fondness for methodology and models is one of the things that marks out economics — and it can be unhelpful. Let me give you a couple of examples drawn from a series on papers I sat through on the media and politics. For me, this was one of the most interesting sessions both for what it confirmed to me about my trade and what it told me about the economics profession.

The session was chaired by Benjamin Protte of the University of Mannheim. His own paper was titled 'Does Fleet Street Shape Politics?' and looked at the impact that reporting of globalisation in British newspapers has on public attitudes. In particular, he investigated whether there is a link between reporting and voters' demands for higher unemployment benefit, to compensate for the greater insecurity they felt in the face of insecurity over freer trade.

Protte worked out that a link did indeed exist. What is more *The Star* was the most anti-free trade, while *The Express* was the most gung ho in its support for globalisation. Fascinating findings, and passed through all sorts of controls to make a firm conclusion. You could not fault the methodology.

But while I don't know much about 'wild boot straps' and other robustness checks, I have occasionally flicked through a tabloid. And it surprises me that the *Express* would have much coverage of the globalisation debate in amongst all its Princess Diana conspiracy theories and pictures of Cheryl Cole. Sure enough, Protte revealed that he looked out for reports filed in the newspaper database under such categories as 'free trade agreements' and 'non-tariff barriers'. Perhaps it's my newsagent's fault, but I've never found that section of *The Daily Star*. Personally, I imagine the more obvious link is between newspapers'

coverage of ‘benefit scroungers’ and how their readers feel about welfare.

Then there was the fascinating presentation that found a link between newspapers’ endorsement of political candidates on polling day and their eventual share of the vote. I found the actual study, by Fernanda Leite Lopez de Leon at the University of East Anglia, fairly convincing. Less so was the iron-bound confidence of one member of the audience that ‘newspapers like to sell issues and backing a winner obviously means they sell more issues’. Well, Nick Clegg counts as a winner from the last general election and my paper backed him; and I think the only obvious result was a deluge of angry letters and e-mails from current readers.

The truth is that newspapers back candidates largely out of a sense of democratic duty, and partly out of the excitement that comes naturally to a politically-engaged staff. I am not so naïve as to think that there are absolutely no material considerations at play; but they are rather more subtle than my friend in the audience might imagine.

By contrast, some of the best papers were those in which academics blew a hole in such mechanistic explanations. Two that stand out were on the subject of religion, now a fashionable subject for economists. Why was moneylending in Medieval Europe dominated by Jews, asked Maristella Botticini at the Universita Bocconi.

The conventional explanation is that Jews were barred from other ways of making a living such as farming, while usury was forbidden to Christians and Muslims. Not so, argued Botticini, pointing out a numbers of exceptions to this rule. In much of Medieval Europe, for instance, Jews were allowed to own land and could have gone into farming. The reasons why they chose finance instead were positive rather than negative: Jews came to the continent with more capital, networks of friends and associates and greater literacy skills.

They thus had the tools to run lucrative moneylending networks.

Just how persistent is anti-semitism, asked Nico Voigtlaender of UCLA in research conducted with Hans-Joachim Voth of Universitat Pompeu Fabra. They compared towns and cities in Germany, each with Jewish communities dating back centuries. When the plague came to Europe in the 13th century, killing half the population, it was often the Jews who were blamed and in Germany there was a wave of Black Death pogroms.

Over 600 years later, those towns and cities in which there had been violent anti-semitism were six times more likely to be the site of attacks on Jews in the 1920s. They were also more likely to vote for the Nazis. Even if they were only 20 miles away, places that hadn’t experienced

anti-semitism in the medieval era were much less likely to produce it during the rise of Hitler.

Work like this, of intrinsic interest and far-reaching implications, is bound to be talked about and argued over for a long time to come. A good note then to round off the RES conference.

In closing, I should say that I was struck throughout by how sociable the entire conference was. The annual gathering of my colleagues is at the British Press Awards, an occasion which an American reporter compared only a few years ago to ‘a soccer match attended by a club of misanthropic inebriates.’ In contrast, this was an event marked by good-humour and a high level of collegiality.

*My final observation, then:  
Economists are surprisingly easy-going and make pleasant company for three days.*

Not at all like those sociologists.

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## Special issue *Applied Economic Perspectives and Policy*

### Call for papers

With the ageing of populations in western economies and social changes regarding family, the question of how best to finance, organize, and manage long-term care services is at the forefront of policy-making debates.

With this in mind, *Applied Economic Perspectives and Policy* is inviting top quality papers for inclusion in its first special issue on ‘New Developments in the Economics of Long-Term Care’:  
[www.oxfordjournals.org/page/4246/1](http://www.oxfordjournals.org/page/4246/1)

The deadline for submissions is: **31 August 2011**



# The Ricardian Vice anno 2011

*Thomas Colignatus takes a critical look at what is often referred to as the 'Ricardian Vice' and explains the relevance of its proper meaning to the recent crisis.*

When economists evaluate each other's work they may sometimes refer to the 'Ricardian Vice'. Schumpeter in his *History of Economic Analysis* (1954) created that term with respect to David Ricardo (1772-1823). Kurz (2008) clarifies: 'It was intended to highlight Ricardo's alleged habit of introducing utterly bold assumptions into an already oversimplified representation of the economy and treating these as givens when in fact they are unknowns.'<sup>1</sup> The term found its way into the literature.<sup>2</sup> Brad DeLong (2011) uses the term with respect to current austerity by governments,<sup>3</sup> an issue now sometimes called 'deficit fetishism'.<sup>4</sup> These two issues are not to be equated however. The issue of the deficit is a particular instance while the Vice is a general phenomenon, and DeLong with his recent *Seven Sins of Macroeconomic Error* indeed widens the scope. However, we now have the problem that Kurz rightly suggests that Schumpeter did not quite get the point so that the proper term would be 'Schumpeterian incomprehension'. Thus we now have a section of economic literature that is based upon a misconception. Rather than conclude that all this literature is nonsense it seems better to reconsider the term since there still is some useful element in it.

Let us define the Ricardian Vice as taking the (mathematical) model as reality, but not just that, but rather to overindulge in it and take the wrong model to tackle reality. The proper Vice is the relative interpretation, i.e. the overindulgence rather than the absolute position. Schumpeter took an absolute position but then the notion is self-defeating. Since no one knows reality for sure, we are all at risk of suffering from the vice. Making models is the best way to deal with uncertainty about reality, and the distinction between 'model' and 'reality' tends to become rather academic. When we discuss reality we do this unavoidably in terms of models. Statistical data and historical overview are required to put a check on overindulgence — but these depend upon models too.

The theory of statistics provides us with the Type I and Type II errors that allow us to define the relative interpretation of the Ricardian Vice anno 2011. To sail between the Scylla and Charybdis of these errors we require model-hopping for the best model at the right moment. The Type I error is that the model is right but the data cause us to reject it. The Type II error is that the model is wrong but the data fail to reject it. In the latter case we have a clear view on the data but they are insufficient themselves. The Ricardian Vice in 2011 can be defined

such that the model is wrong but we fail to recognize that the evidence tells us to reject it. The data are sufficient for a rejection but there is human error in interpretation. This proposed new definition does not imply that Ricardo suffered from it, though Schumpeter (above) and Malthus on the state of market demand in Keynes's *Essays in biography* might have thought so. In economic discussion we then indeed have some economist explaining that another economist misinterprets the evidence.

For those who like to worry: the situation is more complex since also the statistics of the Type I and Type II errors are under discussion. Mandelbrot and Taleb in the *Financial Times* 2006 clarified that the dominant approach in financial mathematics neglected the modelling properties required for real risks.<sup>5</sup> It is a moot point how this relates to deregulation of financial markets and the adoption of DSGE models — but there clearly is a relationship to the onset of the economic crisis that broke out into the open in August 2007. Engineers appear to have a moral tradition with respect to bridges that can collapse which tradition appears to be absent with financial quants who design products that may collapse too — see Steinsaltz 2011.<sup>6</sup> Roubini and Mihov reject the 'black swan' idea and provide a longer time frame in which such collapses are normal phenomena.<sup>7</sup> Another example comes from McCloskey and Ziliak *The cult of statistical significance* in 2007: how Sir Ronald Fisher with his mathematical preoccupation with 'existence' overshadowed William Gosset with his more practical interest in effect size. Empirical research has been getting dominated by Fisher's approach. What is trivial to a statistician may not be so for a user — see also Andrew Gelman's comments on this debate.<sup>8</sup>

For those who really love to worry there is finally this paradise: mathematicians can be in error even with respect to mathematics itself. While economists can suffer the Ricardian Vice by adhering to their mathematical models, the mathematicians who support those models can be subject to the Ricardian Vice even w.r.t. mathematics itself. Mathematicians are trained on abstract theory but when they appear as teachers in front of a class then they meet with real life pupils, and suddenly didactics appears to be an empirical science that they have not been trained for. The mathematical curriculum appears to be dominated by tradition and not by didactics.

A good education in econometrics covers economics, statistics and mathematics. Drawing from these sources I

have had the good fortune of just completing a primer for mathematics education — *Conquest of the Plane* March 2011. A tiny example from a huge collection is the following. Compare  $2\frac{1}{2}$  for ‘two and a half’, where the position next to each other means addition, with  $2x$  for ‘two times  $x$ ’ or  $2\sqrt{2}$  for ‘two times the square root of two’, where the position next to each other means multiplication. The positions next to each other thus are interpreted differently, and pupils must be trained to see the difference. This also means that we must make sure that there is a space in between in  $2\frac{1}{2}$  that simplifies to 1. This tradition of different interpretations of positions is curious but it might still be acceptable when we use typesetting with fixed places. The tradition however is asking for problems in handwriting when a pupil may write  $2\frac{1}{2}$  as  $2\ \frac{1}{2}$  or conversely, and thus slip into error. The solution is to abolish the notation  $2\frac{1}{2}$  and to keep  $2 + \frac{1}{2}$  so that the ‘+’ may also be an end-station. This is similar to the case that  $\sqrt{2}$  can be an end-station and need not be expanded in decimals as 1.414... It takes a huge amount of time to train pupils now to write  $2 + \frac{1}{2}$  as  $2\frac{1}{2}$  (and not reduce this to 1) and the only reason is tradition for tradition’s sake.

*Conquest of the Plane* supports my earlier *Elegance with Substance* (2009)<sup>10</sup> and is proof that a good math course is possible. The main conclusion is that other fields like economics, physics, etc. should put a check upon the industry of mathematics education. Children suffer needlessly, and our economies suffer the consequences of a misdirected education in maths.

For the current debate on the economy, *Conquest of the Plane* may incidentally be useful too since it presents the difference between the partial and total derivative and uses the marginal tax rate as an example. Economic policy makers are focussed on the partial derivative but the true model for reality is the total derivative.

**Notes:**

1. Heinz Kurz (2008). ‘Ricardian Vice’, *International Encyclopedia of the Social Sciences*.
2. For example Chetan Parikh (2010), ‘Abstract Model-Building, Mathematics, and the Ricardian Vice’, Capital Ideas Online.
3. Brad DeLong (2011) citing Paul Krugman on ‘John Maynard Keynes on the Ricardian Vice’, <http://delong.typepad.com>
4. Royal Economic Society *Newsletter*, July 2010 and April 2011
5. <http://www.fooledbyrandomness.com/>
6. David Steinsaltz (2011), ‘The Value of Nothing: A Review of The Quants’, *Notices of the American Mathematical Society*, May 2011, <http://www.ams.org/notices/201105/>
7. Nouriel Roubini & Stephen Mihn (2010, 2011), *Crisis economics*, Penguin
8. <http://www.stat.columbia.edu/~cook/movabletype/archives/2009/02/mccloskey-et-al.html>
9. <http://www.dataweb.nl/~cool/Papers/COTP/Index.html>
10. <http://mpira.ub.uni-muenchen.de/15676/>

## Round Table Panel Discussion: Re-regulating banking in the UK and the EU

*The GdRE (GdR European Money Banking and Finance) annual international conference was hosted by the University of Reading on June 23-24; continuing the practice of periodically holding the conference outside France. It was very efficiently organised by the GdRE conference committee and a local team led by Alex Mihailov.*

The round table was organised by Andy Mullineux (the author of this report) on behalf of the Money, Macro and Finance (MMF) Research Group and chaired by Peter Smith, the MMF President. The panellists were Clive Briault (Managing Director of Risk and Regulation Consulting, and formerly of the Bank of England and the Financial Services Authority), Dominique Lacoue-Labarthe (Universite Montesquieu-Bordeaux IV) and Alistair Milne (Cass Business School).

Clive opened the 75 minute session with a presentation arguing that although regulation of financial institutions needs to be tightened, monetary, fiscal and public housing policies had also contributed to the crisis and were still in need of reform, especially with regard to promoting financial stability. The main focuses of his remarks related to the overall impact of the reform agenda and the operation of macro-prudential oversight. The new regulations, by raising the cost of capital and of funding more generally would lead to less and more expensive credit and slower growth. He also felt that while greater emphasis on macro-prudential regulation was necessary, this had to be co-ordinated with monetary policy and with tax and public policy. How will the responsibilities of the MPC and the new Financial Policy Committee within the Bank of England be co-ordinated given that both interest rates and macro-prudential tools will have an impact on credit and economic activity?

Dominique’s brief was to give an EU/French perspective and he concentrated on the resolution frameworks being developed by the European Commission (EC), pointing out that it was not the financial regulators that had taken the lead, but rather the Competition Directorate General and he detailed the five important Communications they had issued with the aim of assuring that countries did not institute bank bail outs that undermined the competitiveness of banks from other countries in the ‘single market’ for financial services. The dangers of a second round of bail outs sparked by a Greek default were also touched upon. The remainder of his intervention focussed on evolving approaches for developing orderly resolution regimes and assuring financial instability, including ‘bail-ins’, the issuance of contingent convertible (‘co-co’) bonds by banks, and supplementary capital requirements for strategically important financial institutions.

Alistair’s remarks focused primarily on the UK Independent Commission on Banking Interim Report’s  
*...cont on p.12*



## News from the Economics Network of the Higher Education Academy

As you may know, the Economics Network was formed in 1999 as one of 24 Subject Centres of the Learning and Teaching Support Network (LTSN). In 2004, the LTSN was merged with the Institute for Learning and Teaching to become the Higher Education Academy (HEA). The 24 Subject Centres were retained and have generally been seen as a successful innovation in providing support for learning and teaching in HE at discipline level. In 2009, the HEA was informed by HEFCE that funding would be cut by 30 per cent by 2012/13. The Economics Network, along with the other Subject Centres, instituted plans for managing such a cut, including the possibility of some sponsorship to make up part of the shortfall.

The HEA Executive considered various alternative models and in November 2010, following approval by the HEA Board, announce that it would discontinue funding to the Subject Centres. The HEA would provide all future support for disciplines within a centralised organisational structure based in the head offices in York.

It is appointing discipline specialists and plans to make a 0.5 FTE appointment in Economics. The Subject Centres have questioned the necessity and wisdom of these changes. Strong doubts have been expressed as to whether the centralised model will be able to deliver the depth and breadth of support at subject and discipline level.

With no public funding, virtually all Subject Centres will be forced to close at some point during the coming academic year, 2011/12.

### The future of the Economics Network

At the current time, the future of the Economics Network remains uncertain. We have funding from the HEA to allow us to continue until the end of November 2011. Until then we are committed to providing a full programme of events, projects and resources.

Whether we will be able to continue beyond that depends on funding. The Royal Economic Society and the Scottish Economic Society are willing to provide some financial support and we are in discussions with the University of

Bristol about future hosting arrangements. Nevertheless, we still face a large shortfall in funding. To continue we will need substantial sponsorship. We are pursuing this, but we may well be forced to close, either at the end of November or by the end of the academic year 2011/12.

Thank you

We would like to express our profound thanks for all the encouragement and support we have received over the past 11 years. The commitment to student learning in economics by colleagues throughout the UK has been truly inspirational. This has been reflected in our student surveys and in our student nominated awards. We have seen many innovations and changes to the ways students are taught and a willingness to share ideas and practices with colleagues in the economics community. We have witnessed the development of a vibrant community of economists of teachers of their subject. We hope that this community will continue to grow and develop.

## Events diary

### Developments in Economics Education Conference London School of Economics and Political Science 5th- 7th September 2011

The sixth international DEE conference will present the latest developments in economics higher education.

#### Monday 5th September: Annual Key Contacts Conference

This day is designed for Key Contacts but is open to all academic staff. The day will include sessions on Designing Induction Programmes and Using Games and Experiments.

#### Tuesday 6th September: Main DEE conference

Sessions will include a mixture of keynotes, papers, posters and workshop sessions.

Keynote: Diane Coyle, OBE is the author of *The Soulful Science: What Economists Really Do and Why It Matters* and *Sex, Drugs and Economics*.

#### Wednesday 7th September:

##### Internationalisation in Economics workshop

Attracting and supporting international students is an increasingly important aspect of higher education Economics: this workshop offers the opportunity to discuss, share and explore issues and practice to support internationalisation.

Further information including booking from:  
<http://www.economicsnetwork.ac.uk/dee2011>

## Economics Network GTA workshops

Friday 23rd September, University of Cardiff  
Monday 26th September, LSE  
Monday 3rd October, University College London  
Wednesday 5th October, University of Essex  
Wednesday 5th October, University of Nottingham  
Thursday 6th October, University of Sheffield  
Thursday 6th October, University of Glasgow  
Friday 7th October, University of Lancaster  
Wednesday 12th October, University of Lancaster

These workshops are specifically designed to meet the needs of Economics Postgraduate Teaching Assistants/Tutors with a focus on small-group classes, tutorials, seminars and workshops. More information including booking from:  
[www.economicsnetwork.ac.uk/news](http://www.economicsnetwork.ac.uk/news)

## Economics Network New Lecturers' residential workshop

Friday 14th October - Saturday 15th October  
University of Bristol

The workshop is aimed at new and aspiring economics lecturers. The workshop's main aim is to discuss and evaluate what makes effective teaching of economics: including lectures, seminars and small-group teaching, assessment and feedback, e-learning, module/unit design, classroom experiments and games. More information including booking from:  
[www.economicsnetwork.ac.uk/news](http://www.economicsnetwork.ac.uk/news)

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## The Olympic effect: How hosting or bidding for a 'Mega-Event' boosts national exports

Countries that host the Olympic games and other 'mega-events', such as the World Cup, enjoy a large and permanent increase in trade. That is one of the findings of a study by Professors Andrew Rose and Mark Spiegel, published in the June issue of the *Economic Journal*.

But while hosting a mega-event is sufficient to boost trade, it is not necessary. In practice, the researchers find that countries that bid for the Olympics unsuccessfully also experience a boost in trade, comparable to that received by actual Olympic hosts.

This result implies that the 'Olympic effect' on trade does not stem from a change in economic fundamentals, caused by the activity or infrastructure associated with hosting the Olympics. Instead, the empirical findings suggest that bidding for the Olympics is a costly policy sig-

## Re-regulating banking

...cont from p.10

proposals for 'ring-fencing' of retail banking. He argued that 'ring fencing' is an essential aspect of effective resolution plans (so called 'living wills') being promoted by regulators worldwide, and that effective resolution is in turn necessary to control moral hazard within large universal banks which combine retail and investment banks. But which assets are to be included inside the ring fence and how to ensure that the retail bank is not exposed to the rest of the banking group? One approach may be to require that claims from the ring-fenced subsidiary on the parent group are legally senior to all other liabilities. Banks complain that ring-fencing, and also higher capital and liquidity requirements, will increase their costs. But this is the point of the proposals. The increase in costs is intentional and results from the removal of the implicit subsidy to big banks from the provision of taxpayer support. If desired the negative impact on credit provision can be offset by providing more targeted subsidies, for example aimed at helping SMEs or first time house buyers.

Following the presentations, there was a Q&A session culminating in an intervention from Marvin Goodfriend (Carnegie Mellon University), one of the keynote speakers, asking if it was a fair summary to say that: Clive had argued for discretionary macro-prudential policy to be co-ordinated with monetary policy; Dominique had advocated setting up procedures and rules to work collectively across the public and private sectors and across countries; and Alistair had emphasised the need to protect the taxpayer by ring fencing the payments related banking system, but would the firewalls implicit in the ring fencing actually work? The speakers broadly agreed with this summary, but that they would each concur with all these recommendations. However, they had tried to express their views in sharper relief to facilitate debate. They did an excellent job!

nal that is followed by future liberalisation. For a country pursuing a trade-oriented development strategy, such an outcome would clearly be attractive.

This is just one of several interesting and topical papers in the latest issue. Others include:

- 'One dollar one vote?: New evidence that income inequality matters for redistribution', Loukas Karabarbounis
- 'The overrated benefits of financial innovation — even in normal times', Wouter Den Haan and Vincent Sterk
- 'The questionable reliability of international statistics: evidence from the human development index', Hendrik Wolff and others
- 'Households in the euro area have not yet benefited from financial integration to smooth their spending patterns', Tullio Jappelli and Luigi Pistaferri
- 'Teenagers are key household decision-makers', Bernard Fortin and colleagues

# Debating austerity measures

*In last year's July issue of the Newsletter (no. 150) we published a critical view of the UK government's current austerity measures, based to a large degree on an article by Victoria Chick and Ann Pettifor. Given its provocative nature (see the letter on p.17) we were somewhat surprised at the lack of reaction until Philip Booth and Len Shackleton took issue with Chick and Pettifor in this year's April issue. Their reply follows below.*

We have been struck by the fact that so few economists have responded to the editor's challenge to come out in support of the government's austerity policies. While we do not agree with their arguments, we are therefore grateful to Philip Booth and J R Shackleton (hereafter B and S) for raising their heads above the parapet (in *Newsletter* no. 152, April 2011) and permitting this fuller debate.

B and S challenge our evidence on three points: that we ignore transfers, which have risen considerably in the century we study; that we do not deal with the lags implicit in our theory; and that our averaging process is suspect. We deal with these in turn and then comment on their approach more widely.

## Transfers

We did not *ignore* transfers. We excluded them quite deliberately, for two reasons, one theoretical and one statistical. The theoretical reason stems from our purpose: we were interested in the direct impact of changes in government spending on aggregate income and the debt ratio. The 'G' of  $C + I + G$  is government expenditure on goods and services. The statistics treat government expenditure slightly differently: there, 'G' is government current expenditure, and the government's contribution to  $I$  is reported under investment but can be extracted. Our measure combines these two elements to conform to the theoretical concept of  $G$ . (Recall that Keynes used the expression 'public works', not the modern 'government expenditure', which has misled B and S to argue that we should have included transfer payments.)

An increase in  $G$  at less than full employment raises income and taxes and reduces expenditure on unemployment benefit and income support, thus reducing the need to borrow. The numerator of the debt ratio may go down and the denominator will certainly go up. This is the immediate, first-round effect. We expect there to be further, reinforcing multiplier effects on income and borrowing which will further reduce the debt ratio over time.

Transfer payments do not stimulate output directly; they do what they say: transfer income from taxpayers or government bond-buyers to others. Their effect on aggregate income depends on differences in the marginal propensi-

ty to consume between the 'transferors' and the 'transferees' and will certainly act only with a lag.

The second, statistical, reason for excluding transfers is that the amount spent on transfers is governed, in the case of interest payments, by the amount of debt and, in the case of benefits, by the level of economic activity. The causality between our 'dependent' and 'independent' variables would be complex and uncertain if transfers were included. (For the same reason, we did not analyse taxes or measure the fiscal stance by the deficit.)

We looked at transfer payments (separately from the main analysis) in the second version of our paper, published after the original *RES Newsletter* piece on which B and S comment (see [www.primeeconomics.org](http://www.primeeconomics.org); go to 'publications').

In this second version we separated out interest payments on government debt (where the effect on the aggregate mpc today is ambiguous and in earlier years may have constituted transfers to the relatively well-off) from other transfers, mainly benefits, where the effect of increased payments is likely to be stimulatory. It would be quite wrong to lump these together, let alone add them to  $G$  in the analysis of the effects of government spending.

## The treatment of lags

It was to deal with lags of uncertain length that we decided to take averages over the periods when  $G$  is increasing or decreasing (or, since the Second World War, increasing at a faster or slower rate), hoping that most of the effect would take place within each period.

## Averaging

There is nothing in principle wrong with taking averages. From the statistical point of view you lose degrees of freedom but reduce random variation in the data. A relevant precedent is Phillips's original article (*Economica*, 1958). He used grouped data to eliminate the cycle, while we are using them to highlight the direction of change of policy. We also reported the results using unaveraged, annual data in an appendix. B and S do not refer to this. The correlation is less strong but the impact of  $G$  on the debt ratio, as measured by the slope, is even stronger than for the averaged data.

## Other issues

Outside of these three points, we would like to comment on a number of other contentious statements that B and S make. First, B and S charge Keynes with no understanding of monetary considerations, which, while conventional wisdom, is the reverse of the truth. As we detail in our paper, Keynes devised various mechanisms for the financing of public works expenditures, including short-term loans at very low rates of interest (Bradburys and TDRs), and for the reduction of the long-term rate of interest. In doing so, Keynes's fiscal and monetary policies were complementary. The present strategy sets the two main levers of policy against each other – not normally a virtue.

Second, B and S appeal to the need to appease financial markets. Evidence from recent experience in Portugal, Greece and Ireland demonstrates the gulf between the announcement of an austerity package and its imposition. The former is universally met with euphoria in financial markets. However, once the package is imposed, the actual cuts in government demand damage activity and employment. By contrast, the performance of the German economy in particular must be seen against the backdrop of an ongoing expansion of government demand and other state-devised mechanisms to support private activity. Even for the UK, the impact of austerity lies in the future.

Third, while B and S call for substantially lower public expenditure and taxes, we ask them to look again at our analysis of developments since the Second World War. The statistics that we study in some detail show clearly that economic conditions have deteriorated substantially ever since the move to the more liberal environment; which began even before the famous Healey/Callaghan surrender to the IMF in 1976, especially in terms of the monetary conditions. This deterioration is not only apparent from the perspective of 'real' outcomes: after 1976 the uninterrupted improvement in the government debt ratio came to a halt.

We are most grateful to the editor of the RES *Newsletter* for the opportunity to raise these matters. We hope that others will now contribute to the fuller debate demanded by what Keynes called the 'facts of experience'.

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## Monetary policy before, during and after the crisis

Conference and PhD training day  
September 30th 2011

SIRE and MMF are hosting a conference on 'Monetary policy before, during and after the crisis' at Heriot Watt University, Edinburgh on September 30th. This will be preceded by a training day for PhD students and young researchers on 29 September.

Further details are available at:  
[www.sml.hw.ac.uk/monpolconference/](http://www.sml.hw.ac.uk/monpolconference/)

## The Future of Capitalism: Conference in Honour of G.C. Harcourt

On 25-26 June the *Cambridge Journal of Economics* held a conference in Cambridge to honour Geoff Harcourt's many contributions to economics on the occasion of his 80th birthday. It was a gathering of his many friends – long-term colleagues, more recent friends and the many students he has inspired, nurtured and continued to support throughout their careers.

Many of the papers developed the theme of the conference (The Future of Capitalism) using analytical frameworks and empirical applications of post-Keynesian traditions: of Marx, Keynes, Kalecki, Josef Steindl and Kurt Rothschild as well as those developed by Harcourt in his own work. He was never reluctant to take up unpopular theoretical as well as policy stances, even if they implied less acceptance by the mainstream. His approach of providing theoretically informed policy interventions which can redirect current forms of capitalism to achieve better outcomes was explored by most of the participants. The discussions showed how continually relevant such analysis is. papers can be read from the conference website:

<http://www.cpes.org.uk/FutureofCapitalism>

Editor's note:

Geoff was obituaries editor of the *Economic Journal* for many years, before obituaries were transferred to the *Newsletter*. He has been a stalwart contributor to and supporter of the *Newsletter* and we wish him well.

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Green Economics Institute  
6th Annual Green Economics Conference  
Mansfield College, University of Oxford  
July 28th-30th 2011

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Prof. Graciela Chichilnisky, Columbia University USA

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# Is Cricket the Ticket to Faster Growth?

*In 1995, we published a paper by Howard J Wall on the links between cricket and baseball and economic growth. In the sixteen years that have elapsed, cricket at least has seen many changes, with one day internationals becoming commercially more important and the birth of the 20Twenty format. Pranjul Bhandari,<sup>1</sup> who works for the Deputy Chairman of India's Planning Commission, revisits the question.*

In the early 1900s, the cricket and the baseball schools of sport became two fiercely opposed camps, each arguing why their respective sport created a more productive labour force leading to higher growth. For instance, while the Cricket School claimed that a test match lasted five days, hence cricket players were trained in employing long term strategies for sustainable growth, the Baseball School sneered that it only took a spell of rain to make these long term strategies pointless. In 1995, Howard J Wall ran a cross-country regression for the 1960-1990 period, to show how playing baseball caused countries to grow rapidly while playing cricket actually took away from growth, thereby creating a dismal scenario for the sport.<sup>2</sup> In this paper I update Wall's analysis and find that since 1980, it increasingly seems that contrary to what was earlier thought, those countries which are cricket-fanatic are also growing rapidly. A possible explanation could be that cricket has changed in form to include not just test matches, but also the one-day and T20 formats, which could be training the labour force to use a perfect mix of long-, medium- and short-term strategies, to raise productivity and the rate of economic growth!

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|| So, what does all this mean? Earlier analysis suggested that only baseball-playing made countries grow more rapidly. In this paper, I find that since 1980, cricket-fanatical countries are also showing faster growth. ||

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Much before sophisticated growth theories kept economists buried at their desks, running millions of regressions to understand the drivers of economic growth, life was simpler. In 1889, Marshall marvelled how playing a sport could spur economic growth by its ability to build character, thereby creating a productive and useful labour force. He claimed that 'pursuit of sport and commerce are inextricably linked'.<sup>3</sup>

A few years and a few theorems down the line, two competing schools of thought, representing two highly popular sports came to being – the Marylebone School repre-

senting cricket and the Polo School representing baseball. While the Marylebone School claimed that a test match lasted five days, hence cricket playing individuals were trained in employing long term strategies for sustainable growth; the Polo School shot back that it only needed a spell of rain to make these long term strategies pointless. The Polo School claimed that a test match could end in a draw while baseball games had definitive winners making the labour force more suitable for intense competition.

In the second half of the 1900s, these camps were almost forgotten until picked up once again by Howard J Wall in his 1995 piece. Wall regressed a cricket-playing-country-dummy and a baseball-playing-country-dummy on real per capita income growth between 1960 and 1990, in a sample of 95 countries.

For baseball, he found the significant result that playing baseball caused countries to grow faster. On the other hand, for cricket he found an insignificant result that playing cricket caused countries to grow slower. In his conclusion, while he suggested 'baseball aid' for emerging economies, he moaned that 'years of cricket' had 'polluted the very souls' of the cricket playing countries.

In this paper I try to update Wall's analysis by using the latest available data (till 2009), to see if his conclusions still hold true. My equation is similar to the one Wall used:

$$g = \alpha + \beta_c D_c + \beta_b D_b + \epsilon$$

where I use  $g$  as the compounded annual growth rate of real per capita income from the Penn Tables<sup>4</sup> between 1960 and 2009, and  $D_c$  and  $D_b$  are dummies to indicate cricket- and baseball-playing countries respectively.

The difference from his analysis is that while Wall used the time period available then, i.e. 1960 to 1990, I use the time period up to 2009. I actually use two time periods. The first being the entire data available from 1960 up to 2009 while the second being more recent, between 1980 and 2009. The other difference between Wall's and my analysis is that his dependent variable is cumulative

growth over the period, while mine is compounded annual growth over the period, which will be useful to interpret across the two sample periods I use.

The reason I use the more recent, 1980 to 2009, dataset is to account for the following nuances:

1. Most cricket playing nations are erstwhile colonies of the British Empire, and a later data set will allow them some time to stand on their feet post-independence, before being examined.
2. Cricket as a game has evolved over time from only consisting of the five day Test Match format to also including the One Day Internationals (ODIs) and more recently the even shorter T20 format. Carrying on in the Polo/Marylebone vein of debate, cricket can now instill all – short, medium and long term – strategy-making capability in the labour force. Data starting 1980 includes the genre of cricket where both test and one day formats were popular.

3. Globalisation has brought with it many new challenges and opportunities which were different from those faced in the 1960s and 1970s. A later data set allows us to review the effects of baseball/cricket playing in this new world environment.

Table 1: Regression results - 1960-2009

	Coefficient	t-statistic	Prob.
Intercept	1.9	11.3	0.00
Cricket dummy	0.4	0.8	0.41
Baseball dummy	1.4	2.6	0.01

Table 2: Regression results - 1980-2009

	Coefficient	t-statistic	Prob.
Intercept	1.4	6.8	0.00
Cricket dummy	0.9	1.4	0.15
Baseball dummy	1.1	1.7	0.10

For the two dummy variables, I assign the value of “1” to the top-10 baseball/cricket playing nations.<sup>5</sup> My intention is to include the relatively more sport loving countries where the sport is important enough to influence one’s life and character. My sample consists of 103 non-OPEC nations. The cross-section OLS results are summarized in Tables 1 and 2.

Table 1 shows that in the broad dataset from 1960 to 2009, those countries which do not play either cricket or baseball, grew at about 1.9 per cent each year in real per capita terms between 1960 and 2009. Those who played baseball grew by 1.4 per cent more. The coefficient for baseball is statistically significant at the 1 per cent level. The results show that cricket playing countries grew by 0.4 per cent more, but this result is statistically insignificant.

Turning to the shorter time series of 1980-2009 I find some interesting differences. Table 2 shows that those countries which did not play either cricket or baseball grew at about 1.4 per cent each year in real per capita terms between 1960 and 2009. Those who played baseball grew by 1.1 per cent more, which is a bit lower than the 1.4 per cent we found in the longer time period. The

coefficient for baseball is statistically significant at the 10 per cent level, which is worse than the 1 per cent level we found in the longer time period, but still fairly significant.

The results show a much increased impact of cricket on growth. Cricket playing countries grew 0.9 per cent faster which is more than the 0.4 per cent margin in the longer time period. The level of significance has also improved considerably, to 15 per cent. While this is not as good as the 5-10 per cent threshold which is generally accepted, what stands out is the big improvement in the more recent time period.

So, what does all this mean? Earlier analysis suggested that only baseball-playing made countries grow more rapidly. In this paper, *I find that since 1980, cricket-fanatical countries are also showing faster growth.* A possible explanation could be that Cricket has changed in form to include not just test-matches, but also the One-Day and T20 formats, which could be encouraging the labour-

force to employ a healthy mix of long-, medium- and short-term strategies, to increase productivity and economic growth! Another explanation perhaps could be that what has got captured indirectly through cricket is the implicit role of media and technology with the advent of the new T20 format,

and the adoption of modern technologies is causing the stronger growth.

Cricket is changing in format as is the world order, and a new relationship between the two could be emerging; a relationship which may not have existed in the time of the Polo School or at the time of Wall’s 1995 thesis.<sup>6</sup> Through this paper, I intend to re-open the discussion around the role of cricket in nation-building. I feel revisiting this study after a few years, when a longer stretch of data is available to capture the changes in the game, and using more sophisticated techniques, could be interesting.

#### Appendix

The baseball and cricket dummy variables single out the top-10 sport playing countries. The countries I have chosen are as follows:

Baseball	Cricket
Canada	Australia
Cuba	Bangladesh
Dominican Republic	India
Japan	Ireland
Republic of Korea	New Zealand
Mexico	Pakistan
Panama	South Africa
Puerto Rico	Sri Lanka
Taiwan	United Kingdom
United States	West Indies



In choosing the top-10, I have applied the following judgement:

- For cricket, I have chosen the full members of the International Cricket Council (ICC) with the exception of Zimbabwe whose per capita income series looked very volatile and was inconsistently reported across sources. Inclusion of Ireland met several conditions including a recent valiant participation in the shorter formats. (Who can argue against Ireland's inclusion after the drubbing they just gave England in the 2011 One Day Cricket World Cup!).<sup>7</sup> For West Indies, I added across the sub-member countries.
- For baseball, I looked at winners, semi-finalists and defending champions of the last several world cups to single out the top-10 countries. Venezuela is a noted exception due to removal of OPEC countries from the sample.

Of course there is no hard and fast rule in drawing the line for sport loving countries, and using more than just the top-10 for both the sports gave me results in the same direction, that the coefficient and level of significance for cricket is improving.

#### Notes:

1. pranjul.bhandari@gmail.com. The author would like to thank Jairam Ramesh and Jim O'Neill for helpful ideas and comments.
2. Howard J Wall, 'Cricket versus Baseball as an Engine of Growth', Royal Economic Society *Newsletter*, 90, 1995 July, 2-3.
3. A more detailed summary of this is given in Howard J. Wall's 'Cricket versus Baseball as an Engine of Growth, January 1995'. See <http://research.stlouisfed.org/econ/wall/cricket.pdf>
4. Alan Heston, Robert Summers and Bettina Aten, Penn World Table Version 7.0, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, March 2011.
5. Details are available in the appendix
6. In this article which is mostly an update of Wall's 1995 paper, some caveats may be appropriate. For instance, one could argue that the specification is too simplistic and can suffer from omitted variable bias. Separately, one could also argue that playing cricket could work as an Instrumental Variable for something else, such as institutions the British left behind, given most of these countries are erstwhile British colonies.
7. See for example, 'Ireland prove they belong on the world stage', [www.espnricinfo.com/icc\\_cricket\\_worldcup2011/content/story/507462.html](http://www.espnricinfo.com/icc_cricket_worldcup2011/content/story/507462.html)

# Correspondence

Sir,

The contribution from Drs. Booth and Shackleton in the April issue of the *Newsletter* was welcome in offsetting a seriously unbalanced editorial in the January issue. I would make the same point in a simpler manner. No serious economist doubts the effectiveness of fiscal policy in delivering a counter-cyclical stimulus. However, the issue facing Britain in 2010 was primarily one of sustainability, not of efficacy.

As we all know and teach, sustainability depends on the difference between the likely growth rate and the interest rate. Post-2008, interest rates have been low but must be expected to rise. Growth is more problematic in a world in which economic activity is shifting to the emerging economies. This is true not for the whole of Europe but in Britain these problems are compounded by the need to rebalance away from finance and oil. I hope to be proved wrong but my expectation is for a period of anaemic growth, notwithstanding the current more active industrial policy. With the previous government's deficits projected to endure well into this decade, the macroeconomic policy appeared counter-secular as much as counter-cyclical. Many of us saw this as a gamble on growth. Politicians should not gamble with the prosperity of the nation and economists should forbear from advocating policies which have this character.

A deficit of the size envisaged by the previous government would have raised fewer sustainability issues if that government had managed to obtain a significant reduction in the national debt in the prosperous years prior to 2008 in order to make room for the possibility of later deficit financing if required. They did not do this.

The financial markets are only relevant to this discussion to the extent that they are quicker off the mark, and perhaps also less prone to wishful thinking, than politicians and, sadly, economists.

Yours sincerely

Christopher L Gilbert  
Professor of Econometrics  
University of Trento

# Impending US Labour Market Challenges: Males between the Blades of the Marshallian Scissors

*The difficulties faced by less educated males in a rapidly changing labour market are often remarked on as a source of social disruption. In this article, David Autor, MIT and NBER, offers a systematic and detailed examination of this phenomenon in the USA.*

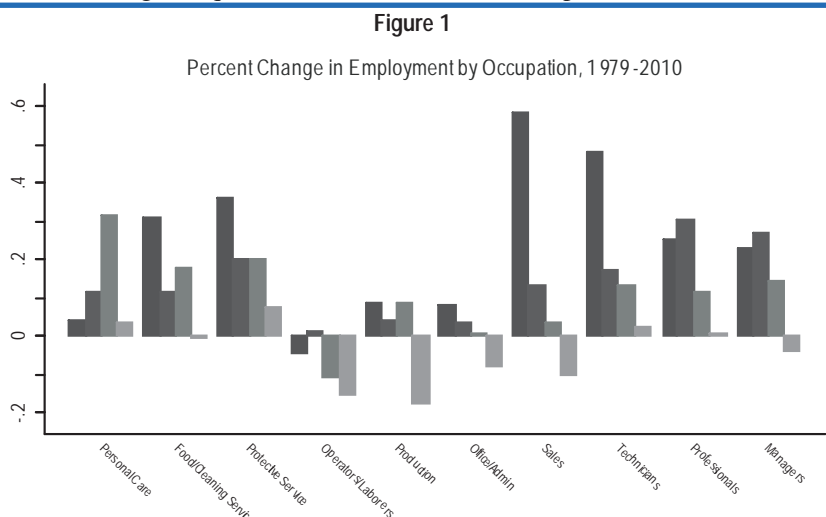
Two forces are rapidly shifting the quality of jobs, reshaping the earnings distribution, altering economic mobility, and redefining gender roles in OECD economies. These forces are: employment polarization (a demand-side force) and a reversal of the gender gap in higher education (a supply-side force), reflecting women's rising educational attainment and men's stagnating educational attainment. The result is a labour market that greatly rewards workers with college and graduate degrees but is unfavourable to the less-educated, particularly less-educated males.

While the economic and social repercussions of these shifts are only starting to receive study, it is clear that they will pose long-term challenges for economic and social policy in the decades ahead. One particularly worrying phenomenon is that US males have adapted poorly to changes in labour market opportunities. Not only has male educational attainment failed to keep pace with the changing distribution of earnings opportunities, even conditional on education, males appear to be falling in occupational stature. These adverse shifts bode ill not only for male earnings and labour force participation but also for other fundamental measures of social function including marriage, child rearing and criminality.

## Employment polarization

In the United States and other advanced countries, employment growth is polarizing with job opportunities increasingly concentrated in relatively high-skill, high-wage jobs and low-skill, low-wage jobs. Figure 1 plots changes in employment per decade for 1979 through 2009 for ten major occupational groups encompassing US non-agricultural employment. These occupations divide into three groups. On the right-hand side of the figure are managerial, professional, and technical occupations. These are highly-educated and highly-paid occupations. Employment growth in high-skill occupations was robust for the past three decades.

The middle four columns display employment growth in middle-educated and middle-paid occupations, including sales; office workers; production, craft and repair; and operators, fabricators and labourers. Their growth rate lags the economy-wide average and slows in each subsequent time interval. These occupations were hard hit by



the Great Recession with absolute employment declines from 7 to 17 percent.

The leftmost three columns depict employment trends in service occupations involved in helping, caring for, or assisting others. Workers in service occupations disproportionately have no post-secondary education and relatively low hourly wages. Employment growth in service occupations has been rapid in the past three decades, expanding by double digits in the 1990s and the pre-recession years of the past decade. Even during the Great Recession, employment growth in service occupations was modestly positive.

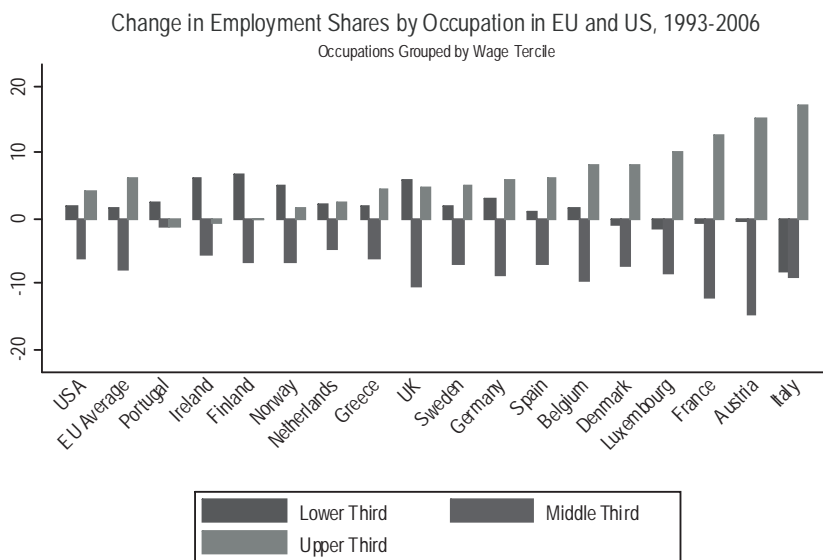
The consequence has been a sharp decline in the share of US employment in traditional 'middle-skill' jobs. These (occupations-sales, office workers, production workers, and operatives) accounted for 57 percent of employment in 1979 but only 46 percent in 2009.

The polarization of employment is widespread in the OECD. Figure 2 plots the change in the share of employment between 1993 and 2006 in 16 European Union

economies for three sets of occupations—low-, middle-, and high-wage—covering non-agricultural employment and grouped by average wages. In all 16 countries, mid

Job tasks that primarily involve organizing, storing, retrieving, and manipulating information are increasingly codified in computer software and performed by machines. These advances have also dramatically lowered the cost of offshoring information-based tasks to foreign work-sites. Measures of job task content uniformly find that routine tasks are most pervasive in middle-skilled cognitive and manual jobs, such as bookkeeping, clerical work, repetitive production, and monitoring jobs. The substantial decline in clerical and administrative occupations is substantially a consequence of the falling price of machine substitutes for such tasks.

Figure 2



dle-wage occupations declined as a share of employment.<sup>1</sup> Low-wage occupations increased as a share of employment in 11 of 16 and high-wage occupations increased in 13 of 16. In all 16 countries low-wage occupations expanded relative to middle-wage occupations.

### Employment polarization: the demand-side

A leading explanation for the polarization of employment in the OECD focuses on the computerization of many job tasks, altering the composition of jobs and the tasks workers perform within jobs. The price of information technology has fallen at a stunning pace. Nordhaus (2007) estimates that the real cost of performing a standardized set of computational task fell at least 1.7 trillion-fold between 1850 and 2006, with the bulk of this decline occurring in the last three decades.

The rapid, secular price decline in the real cost of symbolic processing creates enormous economic incentives for employers to substitute information technology for expensive labour whenever feasible. Simultaneously, it creates significant advantages for workers whose skills are complementary to computers and it disadvantages those whose tasks are easily substituted by computers. Although computers are now ubiquitous, they do not do everything. Their ability to accomplish a task depends upon the ability of a programmer to write a set of procedures or rules that appropriately direct the machine at each possible contingency. For a task to be autonomously performed by a computer, it must be sufficiently well defined (i.e., codifiable) that a machine can execute the task successfully by following the steps set down by the programmer. We refer to the procedural, rule-based activities to which computers are currently well suited as ‘routine’ tasks.

The automation and offshoring of routine tasks reduces the domestic demand for workers in these tasks, but it does not necessarily reduce overall labour demand. Rather, it raises relative demand for workers who can perform ‘non-routine’ tasks that are complementary to the automated activities. These non-routine tasks can roughly be subdivided into two major

groups on opposite ends of the occupational-skill distribution: abstract tasks and manual tasks. Abstract tasks are activities that require problem solving, intuition, persuasion, and creativity. These tasks are characteristic of professional, managerial, technical and creative occupations, such as law, medicine, science, engineering, and design. Workers who are most adept in these tasks typically have high levels of education and analytical capability.

Manual tasks, on the other hand, are activities that require situational adaptability, visual and language recognition, and in-person interactions. Driving a truck through city traffic, preparing a meal, or installing a carpet are all activities that are intensive in non-routine manual tasks. Such tasks demand workers who are physically adept and, often, able to communicate fluently in spoken language. Yet, such jobs are often organized in ways that may require little or no education beyond high school.

This latter observation applies with particular force to service occupations, e.g., food preparation and serving, cleaning and janitorial work, and maintenance. These jobs demand interpersonal and environmental adaptability, which are precisely the job tasks that are challenging to automate because they require responsiveness to unscripted interactions. Such jobs are also difficult to offshore because they typically must be performed in person, often in direct contact with final consumers (e.g., haircutting, food service, house-cleaning).

A consequence of these forces—rising demand for highly educated workers performing abstract tasks and for less-educated workers performing ‘manual’ or service tasks—is the partial hollowing out or polarization of employment opportunities seen in Figures 1 and 2. This hypothesis is

supported by a rapidly growing body of research that links the process of computerization to occupational change over time and across countries. Employment projections from the US Bureau of Labor Statistics forecast these shifts to continue for (at least) the next decade.

## Educational gender reversal

The polarization of employment opportunities in the last three decades has been accompanied by a substantial secular rise in the earnings of those who complete post-secondary education. The hourly wage of the typical college

graduate in the U.S. was approximately 1.5 times the hourly wage of the typical high-school graduate in 1979. By 2009, this ratio stood at 1.95. This enormous growth in the earnings differential between college- and high-school-educated workers reflects the cumulative effect three decades of more or less continuous increase. Many other OECD countries have seen increases in the wage gap between college and non-college workers, though the US case is more extreme.

The polarization of job opportunities is half the explanation for the growing wage gap. If the rate of growth of educational attainment had kept pace with the rising relative demand for highly educated workers, the increase in these earnings differential may have been held in check. But it did not in the United States. The explanation for why it did not is a puzzle and cause for concern.

As shown in Figure 3, female educational attainment rose substantially in these decades. Throughout the OECD, the share of females attaining post-secondary ('tertiary') education increased remarkably in this period. Comparing the fraction of women ages 25-34 with college education in 2009 with that of women ages 45-54 in the same year, we can see that college attainment among women more than doubled in many countries over two decades. In Spain, it rose from

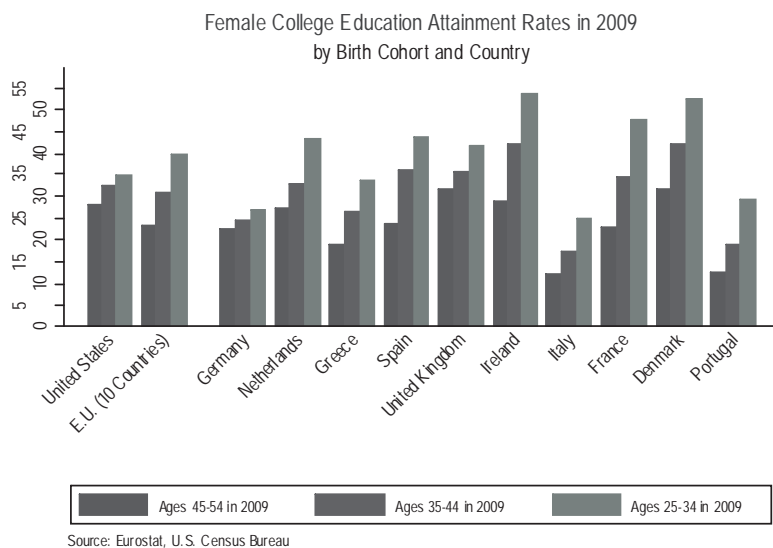
23 to 43 percent. In the U.S., the gains were more modest but substantial, rising from 28 to 35 percent. The counterpoint to gains in female skill investment is the lackluster increase among males. Figure 4 shows that male college attainment rose only weakly in most countries over the same period. In Spain, it rose from 27 to 33 percent. In the U.S., college attainment in 2009 was several percentage points lower among males ages 25-34 than among males who completed schooling two decades earlier.

Figure 5 shows that female rates of college attainment now greatly exceed those of males in most industrialized countries. Indeed, in 2009, the ratio of female-to-male college attainment exceeded parity among younger cohorts (ages 25-34) in all eleven countries in the figure. For the European countries this ratio averaged 1.3, almost identical to the U.S. ratio. For cohorts that were ages 45-54 in 2009, however, female to male college attainment was roughly at or below parity in eight of eleven countries.

The rising educational attainment of women is good news, but males' failure to keep pace is problematic. It means fewer young males will gain entry to high-end occupations and that the supply of workers who can perform high-end abstract tasks is not increasing as fast as demand. This exacerbates rising wage

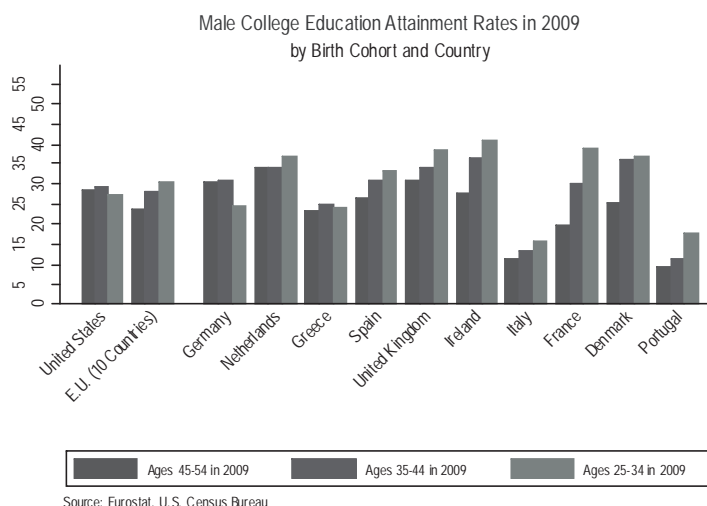
inequality and retards the growth of advanced economies, which depend on their best-educated workers to develop and commercialize the innovative ideas that drive economic growth.

Figure 3



Source: Eurostat, U.S. Census Bureau

Figure 4

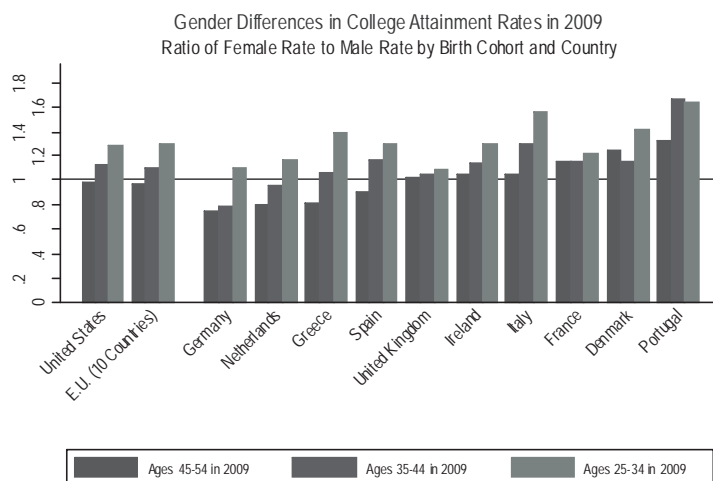


Source: Eurostat, U.S. Census Bureau

## Declining labour force participation: The role of labour demand shifts<sup>2</sup>

The employment-to-population rate fluctuates with the business cycle, and the current recession has taken a severe toll on employment. Even looking across business cycle peaks, however, it is evident that the last several

Figure 5



Source: Eurostat, U.S. Census Bureau

decades have witnessed a long-term downward trend in the employment-to-population rate of U.S. males, in contrast to the trend for females. Using the decennial Censuses and American Community Survey for earnings years 1969 through 2007, we can plot employment to population rates for young workers ages 25-39 by sex, race and educational attainment (high school dropout, high school graduate, greater than high school). The employment to population data in this case refer to any employment in the prior year, and hence is best thought of as a measure of long-term non-participation. The declines in participation among less educated males over these four decades are substantial: 35 and 15 percentage points among black and white male high school dropouts, respectively. More encouraging is the fact that Hispanic males do not exhibit a similar downward trend and, moreover, there are only minor differences in employment rates between more and less educated Hispanics. While female employment rates rise secularly over these decades, the increase in employment among the least educated females is relatively small. Among white females, it turns downward in the current decade.

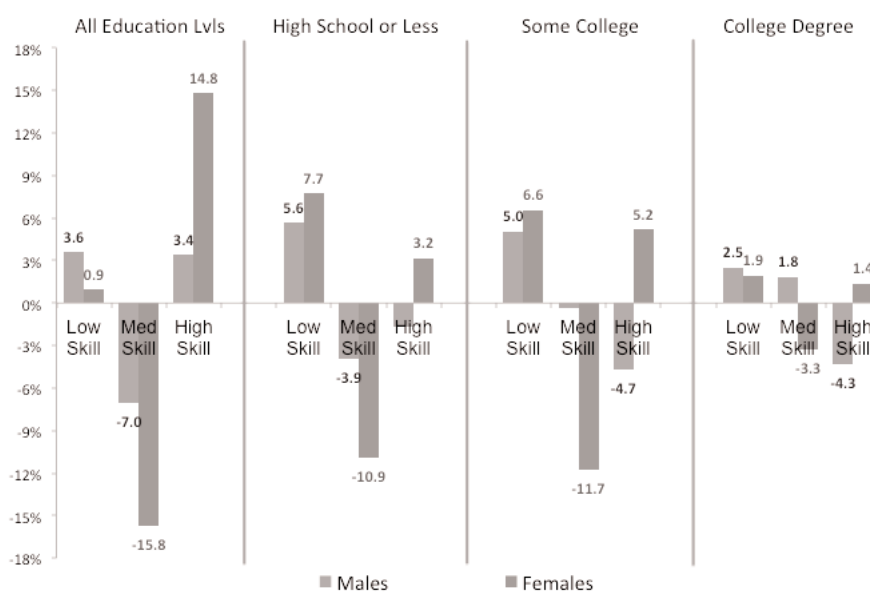
Though it is conceivable that these declines in labour force participation reflect rising affluence (i.e., rising incomes leading to more leisure), a more credible explanation is that declining earnings and employment opportunities have caused workers to drop out of the workforce. Indeed, looking across demographic groups, one can readily document that changing real earnings and changing employment-to-population rates are strongly and significantly positively correlated in each of the last three decades; that is, groups that saw the largest falls in hourly or weekly earnings also saw the largest declines in employment rates.

## Gender differences in adaptation to occupational polarization

While the polarization of employment into low- and high-skill occupations has unfolded with increasing velocity over the past three decades, Figure 6 shows that it did not unfold evenly among the sexes. The first set of columns in this figure plot the change between 1979 and 2007 in the share of employment in high-, middle-, and low-skill occupations among each sex. This figure shows that the share of male employment in middle-skill occupations dropped by 7.0 percent. For females, the fall was even larger at 15.8 percent.

Yet, this ‘hollowing out’ of the occupational distribution had different consequences for the sexes. Females primarily moved upward in the distribution as they departed the centre. Male employment instead moved in roughly equal measures to the tails of the distribution—that is, high-wage, high-skill and low-wage, low-skill jobs.

Figure 6



The next three sets of columns in the figure depict these relationships separately for three education groups: high school or lower, some college, and four year college or greater. The second set of columns shows that the share of males with no more than a high school education employed in middle-skill occupations dropped by 3.9 percent between 1979 and 2007. More than the entirety of this decline is accounted for by a corresponding rise in employment in low-skill service occupations. Simultaneously, the share of employment among males with some college education declined in both middle- and high-skill occupations. Even among males with a four-year college degree, employment in high-wage occupations declined modestly, with the slack taken up approximately evenly by middle- and low-skill occupations.

Some portion of this occupational shift is mechanical. As the share of workers with higher education rises, it is inevitable that some subset will take traditionally non-college jobs. Moreover, college workers holding traditionally non-college jobs tend to earn substantially more than non-college workers in the same occupational categories (Carnevale and Rose, 2011). Nevertheless, the decline of middle-skill jobs has clearly displaced males toward the tails of the occupational distribution, with the net effect being a slight increase in the overall share of males in low-skill occupations relative to the share in high-skill occupations, and rise in the share of males at each education level employed in low-skill occupations.

Figure 6 paints a more encouraging picture for females. Females with less than a four-year college degree experienced substantial declines in the share of their employment in middle-skill occupations between 1979 and 2007. This decline was 11 percentage points for females with high school or lower education, and 12 percentage points for females with some college. Unlike for men, these losses in middle-skill occupations were largely offset by employment gains in high-skill occupations, and this is true for both high school and some-college educated females. In net, while female employment in middle-skill occupations declined by 16 percentage points between 1979 and 2007, female employment in low-skill occupations rose by only 1 percentage point. Employment gains in high-skill occupations account for the remainder.

These patterns of occupational change by gender and education find a clear counterpart in the marked divergence in real earnings among gender and education groups. As middle-skill blue- and white-collar jobs have declined, demographic groups that have maintained their occupational stature or moved upward in the occupational distribution have seen real wage growth. These groups include males with at least a four-year college degree, females with at least some college education, and, to lesser extent, females with a high school diploma. Conversely, groups that have moved downward in the occupational skill distribution as middle-wage employment opportunities have declined have seen their wages stagnate or fall. Downward occupational mobility and concomitant declines in earnings have been most pronounced for males with only a high school degree and for high-school dropouts of both sexes.

## Consequences beyond the labour market

Demand-driven falls in employment among demographic groups that have historically structured their economic and family lives around full time employment are likely to yield adverse consequences in domains beyond the labour market. I present evidence here on three such outcomes: incarceration, marriage and child rearing. My objective is not to claim a causal link. Rather, I wish to highlight the increasing economic and social dysfunction among less educated males, and to underscore the need to better understand the role of adverse labour market shifts in these developments.

A first indicator of social dysfunction is incarceration, an outcome carefully explored in widely cited work by Petit and Western (2004). Incarceration has risen disproportionately among demographic groups that have seen the greatest declines in employment (even excluding the incarcerated) and the greatest falls in wages (measuring using only those currently employed). We use Census and ACS data to plot incarceration rates by decade among young adults ages 25 through 39 for years 1970-2008.<sup>3</sup> Incarceration rates have increased five-fold among males over these four decades. Among young adult males who have dropped out of high school, approximately 5 percent of whites and Hispanics and 25 percent of blacks were incarcerated in 2008. Incarceration rates are typically half as high among high school graduates with no college education, ranging from 5 percent for whites and Hispanics to 12 percent for blacks.<sup>4</sup> Among males with any education beyond high school, the incarceration rate is approximately 75 percent below those of high school dropouts in the same demographic groups. Incarceration rates for females are far lower. But they are not negligible for female high school dropouts, which is the one female demographic group that has fared poorly in the labour market.

A second demographic characteristic that may be taken as an indicator of economic stability is marriage. The fraction of young adults who are currently married plummeted by 30 to 50 percentage points among all race, gender and education groups between 1970 and 2008. While this overall downward trend probably has little to do with labour market conditions, the differentials across education groups are suggestive. In 1970, marriage rates were equally high among college and non-college males within the three major demographic groups. By 2008, white high school dropout males were 17 percentage points less likely to be married than white males with any post-secondary. For black males, this differential was 20 percent.

While again speculative, it seems plausible that the differential decline in male marriage rates by education group reflects in part a fall in the marriage market 'value' of low education males, consistent with their falling wages. There may also be important feedbacks among falling male earnings, rising female employment, and declining marriage rates for low educated males. If males are less able to generate sufficient income to support a family, women will naturally adapt by investing more in their own skills and employment. This may further reduce women's economic need for males as marital partners.

If market forces are altering the incentives behind marital decisions, they will likely affect related decisions, including child rearing. To explore this possibility, I consider changes in the fraction of adults reporting that 'own' children (biological or adopted) reside with them in the same household. This outcome is not intended as a measure of fertility but rather as an indicator of whether adults are cohabiting with their children. There was only a modest change between

1970 and 2008 in the share of young adult females living with dependent children. This fraction stood at approximately 75 percent in 1970 among whites, blacks and Hispanics. It declined by approximately 10 percentage points over the next four decades among all race groups. The reduction was somewhat more pronounced for females with post-secondary education.

For males, the decline in the fraction living with related children was considerably steeper. For white and Hispanic men, the fraction fell from approximately 75 percent in 1970 to approximately 45 percent in 2008. In contrast to the pattern for marriage rates, however, the levels and trends in cohabitation with children do not differ as sharply by education group. Only among black males are substantial differences apparent by education group. For black males with high school or greater education, the fraction cohabiting with related children declined from a high of 60 percent in 1970 to a low of approximately 25 percentage points in 2008. This fall is roughly on par with but slightly larger than the decline among whites and Hispanics. For black male high school dropouts, the fall was 7 to 10 percentage points greater again. In 2008, only 20 percent of males of this demographic group were living with related children.

To what extent is the steep decline in males living with their related children accounted for by a fall in male fertility versus a change in family structure? Unfortunately, the Census does not contain information on total fertility among males-only cohabitation with related children-so I cannot answer this question using these data. It seems unlikely, however, that fertility among males would fall without a corresponding decline in fertility among females of the same education, race, and age groups. Hence, my strong hunch is that the declining fraction of males living with their related children is due to falling rates of custodial parenthood among fathers.

In sum, the differential rise in the incarceration rate and decline in marriage among less educated males suggest an overall decline in productive activity and economic stability among members of this demographic group. It is unknown to what degree these adverse developments are caused by changes in employment and earnings opportunities and to what extent declining employment and earnings are merely symptoms of the same underlying adverse trends. However, the evidence summarized above suggests that declining earnings and employment among less educated workers, particularly males, are caused in part by inwards shifts in labour demand.

## Conclusions

Two forces are shifting the quality of jobs, reshaping the distribution of earnings and job opportunities, and redefining gender roles in OECD economies: employment polarization, whereby job opportunities are increasingly concentrated in high-skill, high-wage jobs and in low-skill, low-wage jobs; and a reversal of the gender gap in higher education, reflecting women's rising education-

al attainment and men's stagnating educational attainment. The result is a labour market that greatly rewards workers with college and graduate degrees but is unfavourable to the less-educated, particularly less-educated males. The economic and social repercussions of polarizing employment growth and stagnating male educational attainment will present challenges for policy on multiple fronts. Developing a better understanding of the underlying causes and long term consequences of these trends is an important agenda item for social scientists.

### Notes:

1. The data in this figure are from Goos, Manning and Salomons (2011).
2. The data referred to in the remainder of this paper are available from the author (dautor@mit.edu) as a series of charts. They are omitted here solely for reasons of space.
3. Incarceration rates are measured using the institutional group quarters indicator in the Census and ACS. This measure will inadvertently also include those in psychiatric hospitals and elderly care homes. This imparts a minor degree of upward bias for the young adult population.
4. Hispanic male high school graduates are an exception to this characterization. Their incarceration rate of 5 percent is approximately equal to that of Hispanic male high school dropouts.

### References:

- Carnevale, Andrew P and Stephen J Rose (2011), 'The Undereducated American', Georgetown University: Centre on Education and the Work Force.
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## *Economic Journal Referee Prize* winners for 2010

Vasco Carvalho, CREi, Universitat Pompeu Fabra  
Andrew Clark, Paris School of Economics  
Emilia Del Bono, University of Essex  
Peter Neary, University of Oxford  
Karen Norberg, Washington University in St. Louis  
James Reade, University of Birmingham  
Bent Sorensen, University of Houston  
Martin Weale, National Institute of Economic and  
Social Research  
Lucy White, Harvard Business School

(further details, p.25)

# RES

## news items

### Changes to Bye-Laws of the Society

At the 2010 Annual General Meeting members approved outline proposals from Council to make modernising changes to the Bye-laws, which would, amongst other matters, establish the Executive Committee (rather than the Council) as the charity trustees of the Society, having general control and management of its affairs. Changes to the Bye-laws were notified to all members in the AGM 2011 papers, and are available on the Society's website. The following statement was then approved at the 2011 Annual General Meeting held on 18th April 2011:

That the proposed changes to the Bye-laws of which notice has been duly given to all Members of the Society hereby be adopted, to take effect once allowed by the Lords of Her Majesty's Most Honourable Privy Council, and subject to such changes as the Privy Council may require and which are agreed by the Council of the Society.

The Privy Council has now confirmed the very minor amendments that it requires. Council meeting in November will therefore be asked to confirm the new bye-laws in their final version.

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#### Don't forget —

for the latest news of the Society, go to the website: [www.RES.org.uk](http://www.RES.org.uk)

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### Second Secretary

A new executive position of Second Secretary reporting to the Secretary-General was approved by Council at its 2010 meeting. With an initial brief to co-ordinate and develop a communications strategy including the improvement and development of the Society website, Professor Robin Naylor was appointed to this role from January this year. He can be contacted on:

[robin.naylor@warwick.ac.uk](mailto:robin.naylor@warwick.ac.uk)

or via the RES office ([royaleconsoc@st-andrews.ac.uk](mailto:royaleconsoc@st-andrews.ac.uk))

### Nominations for RES Council

Nominations for the next cohort of the RES Council have been received and reviewed by the Nominations Committee. A ballot will be taken of all RES members in the Autumn and the results declared to Council at their meeting in November 2010.

The election will be ratified at the AGM in 2011 after which the new members will take their place on the RES Council. For current members of the RES Council please see the RES website.

### Publication of Thesis Titles for higher degrees in the United Kingdom

The annual list of thesis titles for higher degrees awarded in the United Kingdom in 2009/10 and 2010/11 has been compiled for the Secretary-General's office by the Administrator of the Royal Economic Society. They will shortly be published on the RES website.

### RES Funding

Members may not be aware of the variety of forms of financial assistance available to them which include:

- Conference Grants
- Small Academic Expense Grants
- Visiting Lecturer Grant scheme (see below)
- Special Project Grant scheme

Funding applications usually take place at certain times of the year. Financial assistance is also available to post-graduate students attending the RES Conference and application to the twice yearly RES Training Schools at the University of Birmingham is also available to members meeting the criteria. Full details of all these projects can be found on the Society's website ([www.res.org.uk](http://www.res.org.uk)) or by contacting the RES Administrator on: [royaleconsoc@st-andrews.ac.uk](mailto:royaleconsoc@st-andrews.ac.uk).

### The RES Visiting Lecturer Scheme

Economics departments in any UK university may suggest the name of a distinguished economist for a visit to their department. Such visitors may be from within the UK or from overseas. The Society will make up to five awards in each financial year, though the visit need not necessarily take place in the financial year in which the award is made.

The visiting lecturer would be expected to give a series of lectures, seminars or workshops. At least one of the lectures etc. should be open to those outside the host University and should be publicised, for example in the RES *Newsletter*. It will be the responsibility of the host department to cover the costs of travel and hospitality. The Society will pay a fee of £2000 to the lecturer.

At the conclusion of the visit both the visiting lecturer and host department should submit a report to the Secretary-General. Payment of the fee will be conditional on both reports being received. Applications should be made in writing to the Secretary-General of the Society and will be considered by the Executive Committee in February and in October. The application should give the dates of the proposed visit and details of the arrangements for the programme of lectures, seminars and workshops.

To make an application please contact the Secretary-General or Administrator on:

[royaleconsoc@st-andrews.ac.uk](mailto:royaleconsoc@st-andrews.ac.uk) or by post to:

The Royal Economic Society  
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## Scholarly publications

### Members Discounts

Members of the Royal Society may order one of each of the Society's publications for their personal use at the special price to members. A full list is provided on the Society website, [www.res.org.uk](http://www.res.org.uk)

In addition, society members are reminded that in addition to discounts on all RES publications they can request 20 per cent discount on all Wiley Blackwell books and journals.

### Young Economist of the Year competition

Once again a high number of online entries were received to this annual essay competition aimed at sixth form students, from which a final shortlist has been selected. The RES President, Richard Blundell and a panel of RES Council members will now review the final shortlist and we hope to announce the result by the end of the summer. A list of highly commended entries and also a list of all the UK and overseas schools and colleges that joined in for the 2011 competition is published on the Tutor2U website:

<http://tutor2u.net/blog/index.php/economics/C572/>

### The RES Annual Public Lecture

The 2011 lecture will be given by

**Robert Chote, of the Office of Budget Responsibility**

in **London on 14th December** and  
**Birmingham on 15th December.**

Further details and applications for tickets will be posted to the RES website in the autumn with priority being given to school groups as usual.

### Membership Details and Updates

The Society wishes members to note that it is now possible to update personal details of membership directly via the Society website or by contacting the Membership Services team at Wiley-Blackwell on [ecove@wiley.com](mailto:ecove@wiley.com)

### Economic Journal Referee Prize

The *Economic Journal* depends greatly on the service of many referees for the functioning of the peer review process. Following feedback from many of these referees, and guided by findings in the research literature we have decided to discontinue payments to referees. We would like to thank all of our many referees who continue to provide their services without compensation.

While many referees help us tremendously with their comments, some of our referees contribute beyond the call of duty through their thoroughness and constructive feedback to the authors. This service in the profession rarely gets acknowledged. The *Economic Journal* is therefore recognising the contribution of these exceptional referees with an annual referee prize starting from 2010. See p. 23 above and the website for details of the nine winners of the first prize.

# Conference Diary

## 2011

### june

27 June - 8 July

Barcelona, Spain

**Barcelona Macroeconomics Summer School 2011** (BMSS 2011), will take place at the Universitat Pompeu Fabra (UPF) from June 27 to July 8, 2011. BMSS 2011 is organized by the Centre de Recerca en Economia Internacional (CREI), a research institute sponsored by the Government of Catalunya and UPF.

More information from: [bmss@crei.cat](mailto:bmss@crei.cat)

### july

July 4-8

Beijing, China

**International Economic Association Sixteenth World Congress**, 'Approaches to the Evolving World Economy' will take place at Tsinghua University, Beijing. Submissions of contributed papers are welcome in all areas of economics, including areas of particular interest to countries throughout the region.

More information from: [www.iea-congress-2011.org/](http://www.iea-congress-2011.org/)

July 6-8

Paris, France

**New Directions in Welfare**, OECD Paris. The range of papers and topics will follow a similar pattern to the Oxford 2009 Conference which was attended by over 130 economists and generated a special issue of the *Journal of Public Economics* in honor of Professor Amartya Sen.

More information from: [oxcon09@gmail.com](mailto:oxcon09@gmail.com)

July 8-9

Cambridge, UK

**Association of Christian Economists (UK) Annual Conference**, Sidney Sussex College, University of Cambridge.

Further information from: [www.christian-economists.org.uk](http://www.christian-economists.org.uk)  
Or contact Michael Pollitt e-mail: [m.pollitt@jbs.cam.ac.uk](mailto:m.pollitt@jbs.cam.ac.uk)

July 13 -15

Nairobi, Kenya

**6th Annual Conference of the African Econometric Society**, 'Econometric Modelling for Africa at the Kenya School of Monetary Studies', Nairobi.

More information from: [www.africametrics.org/](http://www.africametrics.org/)

august

August 1-3

Oxford, UK

**33rd Conference of the International Association for Time Use Research**. The Centre for Time Use Research invites all people interested in research into people's daily activities to join us at the 2011 IATUR conference taking place on 1-3 August 2011 in the Manor Road Building and St Catherine's College at the University of Oxford in the United Kingdom.

More information from: <http://iatur2011.timeuse.org/>

August 25-29

Oslo, Norway

**The Congress of the European Economic Association** is the main European conference that covers all aspects of economics, with a scientific program reflecting the very best work in the profession. The program will include lectures by Per Krusell (IIES, Stockholm University), Randy Wright (University of Pennsylvania) and Christopher Pissarides (LSE).

More information from: the Congress website, [www.eea-ese2011oslo.org](http://www.eea-ese2011oslo.org) and [www.eeassoc.org/](http://www.eeassoc.org/)

August 28 - Sept 2

Geneva, Switzerland

**2011 oikos Young Scholars International Economics Academy Conference** on 'Management of Natural Resources and International Trade'.

More information from: [www.oikosinternational.org/academic/iea/](http://www.oikosinternational.org/academic/iea/)

september

September 1-2

Cambridge, UK

**Conference** on 'The Yield Curve and New Developments in Macro-finance: What have we learnt from the 2007-2010 financial crises?' at Clare College, Cambridge, UK.

More information from: <http://international.ieseg.fr/teachers-and-research/ieseg-cambridge-conference/>

September 5-7

London, UK

**Developments in Economics Education international conference 2011**. The Economics Network's biennial conference Developments in Economics Education will be taking place in London on the 6th and 7th September 2011, venue to be confirmed.

Further information from: [www.economicsnetwork.ac.uk/news/](http://www.economicsnetwork.ac.uk/news/)

September 8-9

Karlsruhe, Germany

**Global Sustainable Finance conference**: 'Greening Financial Institutions' will be held from September 8th-9th, 2011 in Karlsruhe, Germany. This event will bring together stakeholders engaged or interested in green economy. The conference offers a good opportunity for discussing financial innovation and advancing our transition to sustainable economy.

More information from: [mail@etech.germany.com](mailto:mail@etech.germany.com)

September 9

Cambridge, UK

**Conference on Networks**: Faculty of Economics, University of Cambridge. This conference is being organized as part of the ESRC Seminars in Networks which is coordinated by Professors Marcel Fafchamps, Andrea Galeotti, and Sanjeev Goyal. The ESRC will cover travel expenses for participants whose papers have been accepted.

More information from: [www.econ.cam.ac.uk/faculty/goyal/](http://www.econ.cam.ac.uk/faculty/goyal/)

9 - 10 September

Greenwich, London, UK

**Economic Governance and Innovation: The Role of Institutions, Competition and Networks**, at The University of Greenwich, London.

More information from: [www.economicgovernance.net/contact.html](http://www.economicgovernance.net/contact.html) Email: [egc47@gre.ac.uk](mailto:egc47@gre.ac.uk)

September 14-16

Lima, Peru

**The CENTRUM Católica Graduate School of Business at The Pontificia Universidad Católica del Perú (PUCP)** announces the 10th year of completion of its management education services in the international education sector in conjunction with an International conference on Data Envelopment Analysis and its Applications to Management to be held at CENTRUM Católica, Lima, Perú.

More information from: <http://centrumwebs.pucp.edu.pe/icdeama/index.php>

September 15-17

Birmingham, UK

**Money Macro and Finance Research Group Annual Conference 2011**. The 43rd Annual Conference will be held at Birmingham Business School, University of Birmingham.

More information from:  
[www.york.ac.uk/res/mmf/index.htm](http://www.york.ac.uk/res/mmf/index.htm)

*September 29 Piraeus, Greece*

**International Conference on Applied Economics and Business (ICABE)**

More information from: [www.icabe.gr](http://www.icabe.gr)

*September 29 Southampton*

**European Conference on Banking and the Economy.** The Centre for Banking, Finance and Sustainable Development, University of Southampton, calls for papers on all aspects of banking, int'l banking, finance and banking, the link between banking and the economy.

More information from:  
[www.southampton.ac.uk/CBFSD2011](http://www.southampton.ac.uk/CBFSD2011)

*September 30 Edinburgh*

**Conference on 'Monetary policy before, during and after the crisis'** at Heriot-Watt University, sponsored by SIRE and MMF. This will be preceded by a training day for PhD students and young researchers on 29 September.

More information: [www.sml.hw.ac.uk/monopolconference/](http://www.sml.hw.ac.uk/monopolconference/)

*October 20-21 Clermont-Ferrand, France*

**CERDI-IDREC 8th International Conference on the Chinese Economy: 'New Challenges for China's Economy'**. Papers focusing on the proposed conference themes such as China's economic relations with Asian and other countries will be given preferences.

More information from:  
[http://cerdi.org/uploads/sfCmsContent/file/363/call\\_for\\_paper.pdf](http://cerdi.org/uploads/sfCmsContent/file/363/call_for_paper.pdf)

*October 27-28 Oxford*

**CALL FOR PAPERS**

**CBT Doctoral Meeting 'Public Economics and the Firm'**. Deadline for Papers: **August 15, 2011**. Extended abstracts or (preferably) full drafts should be sent to: [Tim.Schmidt-Eisenlohr@sbs.ox.ac.uk](mailto:Tim.Schmidt-Eisenlohr@sbs.ox.ac.uk)

Please indicate if you require financial support to attend the conference (some scholarships will be available to fund travel costs and accommodation). There will be an award of £1000 for the best paper presented at the CBT Doctoral Meeting.

More information from:  
[Tim.Schmidt-Eisenlohr@sbs.ox.ac.uk](mailto:Tim.Schmidt-Eisenlohr@sbs.ox.ac.uk)

*November 3-4 Amsterdam, Netherlands*

**14th Annual Research Conference 'Complex Systems:**

Towards a Better Understanding of Financial Stability and Crises'. Since 1998 the Nederlandsche Bank (DNB) has organised an Annual Research Conference with the aim to bring together researchers and policymakers to deepen understanding of macroeconomic and financial systems by using methods for complex systems to identify more efficient approaches for financial authorities and central banks to pursue their macroeconomic and financial stability goals.

More information from: [/www.dnb.nl/en/onderzoek-2/test-conferences/annual-research-conferences/index.jsp](http://www.dnb.nl/en/onderzoek-2/test-conferences/annual-research-conferences/index.jsp)

*November 17-18 London, UK*

**Bank of England/Economic Journal Conference on QE** In association with the *Economic Journal*, the Bank is organising a conference in London on 17 & 18 Nov 2011 to bring together researchers from both the international academic and policy communities to discuss what has been learned about Quantitative Easing (QE) and other unconventional monetary policies during the financial crisis.

More information from: [www.bankofengland.co.uk/publications/events/QEConference](http://www.bankofengland.co.uk/publications/events/QEConference)

## 2012

*January 28 Philadelphia, USA*

### CALL FOR PAPERS

**5th Annual Conference on the Political Economy of International Organizations**, Villanova University, Philadelphia, USA. The conference brings together economists and political scientists to address political-economy issues related to international organizations such as the World Trade Organization, the United Nations, the International Monetary Fund, the World Bank, and the European Union, and also other international organizations that have received less attention in the academic literature.

Empirical and theoretical papers will be considered. Please submit full papers to [conference@peio.me](mailto:conference@peio.me). The deadline for submission is **30 September, 2011**. Decisions will be made by 31 October, 2011. There is no registration or conference fee and all accepted authors are expected to attend the entire conference.

More information from: [www.peio.me/](http://www.peio.me/)

*April 1-May 30 Budapest, Hungary*

**The Subprime Crisis and Its Impact on The Financial and Managerial Environments: An Unequal Repercussion At the European Level.** Central European University Business School, Budapest in conjunction with ESCEM Tours-Poitiers, France. Paper submissions deadline: Dec 31 2011

More information from: [shastings@escem.fr](mailto:shastings@escem.fr)

# 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 2011 are £46 (\$79, €71)\*

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

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

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

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

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

..... in payment of my subscription for 2011.

Name:

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Address:

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Occupation.....

Date.....