



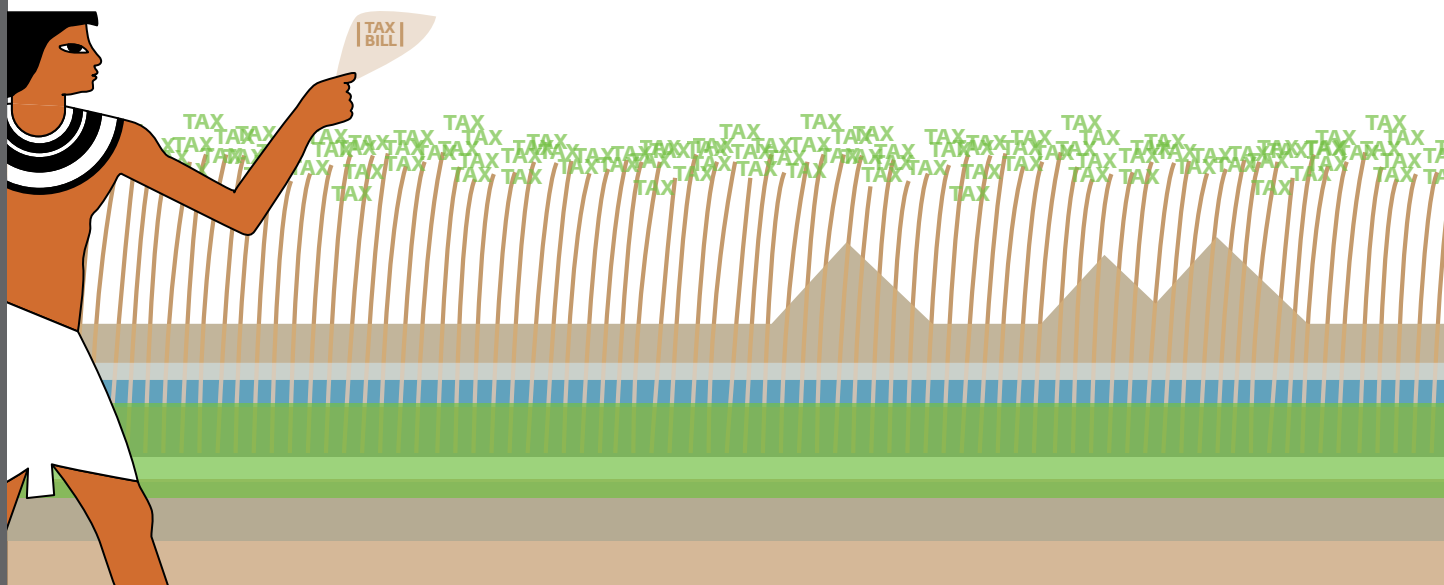
WARWICK ECONOMICS

Bulletin

Winter 2014

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The Transparency Effect

Winter 2014

THE UNIVERSITY OF
WARWICK

DEPARTMENT OF
ECONOMICS

Winter 2014

WARWICK ECONOMICS Bulletin

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The Bulletin is a publication of the University of Warwick Department of Economics and the Warwick Economics Research Institute. The institute was begun in 2007. It promotes quality research and enhanced public understanding of economic issues. It advocates the funding and organisation of research projects that have the potential to offer new insights into difficult economic issues and to lead to better-informed public policies. It supports scholarly activities such as conferences and research networks that extend beyond the routine scholarly life of the University of Warwick Department of Economics.

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Introduction

By Abhinay Muthoo

In England, where history is always at our side, one might think that the key lessons from the past have already been learned. And yet, new discoveries emerge now and then to challenge this notion. The Philae lander touches down on a comet, and creates an opportunity to 're-write what we know about ourselves', as one scientist put it. Ground is broken in a Leicester parking lot, and the remains of King Richard III are unearthed to reveal new insights about a chapter of British history. And from our own department, remarkable new research underscores once again how delving into our past promises to lead to new understanding of our historical roots and our contemporary societies.

This edition of the *Bulletin* showcases research by Professor Omer Moav and colleagues who put forward a new theory about the development of the ancient world. Their examination of the 'transparency' of crops in ancient Egypt and Mesopotamia leads them to offer a plausible explanation for the emergence of the state and the powerful role the ability to tax production played. The research weaves together a fascinating account of the array of factors that led ancient regions to develop in strikingly different ways. But more than that, the work has the potential to shed light on contemporary issues, such as the unprecedented rise of taxation over the past century. It is part of a broad line of inquiry that seeks to answer the question of why some nations succeed more than others.

In addition, the *Bulletin* highlights recent work by Assistant Professor Fernanda Brollo and colleagues, who examine one of the world's fastest-growing social welfare programmes. Conditional cash transfer programmes require recipients to meet certain criteria to receive certain benefits. Such programmes often ask recipients to ensure that their children get routine vaccinations and regularly attend school, for example. Brollo and her colleagues look at the political dimensions surrounding Brazil's Bolsa Familia (Family Allowance), the largest conditional cash transfer programme in the world. The findings are important for policymakers interested in making these programmes effective levers for the alleviation of poverty in the short and long term.

Also in this issue, Associate Professor Dennis Novy analyses two important trade issues on the world stage. His work on the theoretical front is generating new thought about the forces that may have led to the Great Trade Collapse in the wake of the recent financial crisis. In addition, his expertise on global

trade issues is being tapped by the House of Lords as it seeks insights about the Transatlantic Trade and Investment Partnership (TTIP), a proposed pact between the European Union and the United States that, if approved, would be the largest agreement of its kind. As Novy explains, the agreement could become the blueprint for trade regulation in the twenty-first century.

This *Bulletin* also puts questions to Nicholas Christakis, a Yale University researcher whose work examines the ways in which social networks influence us all. Christakis, a physician and sociologist, was a recent guest in the department. His work championing the social sciences to re-invent themselves in order to generate more meaningful research makes him a kindred spirit with Professor Andrew Oswald, who co-authored an article in the *Times Higher Education* entitled, 'Do the social sciences need a shake-up?'

Elsewhere in the *Bulletin*, Nicholas Crafts, the director of the department's Centre for Competitive Advantage in the Global Economy (CAGE), explains what is on the research agenda for the next five years as the result of a £3.5 million award from the Economic and Social Research Council. Elizabeth Jones, director of undergraduate studies, and Jo Hart, marketing manager, announce the development of a new student education module created to enhance skills and expand the horizon of our department's students.

Finally, I take this opportunity to reflect on one of the milestones of 2014, the opening of the first Warwick Economics Summer School. The summer school proved to be an inspiration to me, and prompted me to think in new ways about how we approach economics research in a way that benefits society. The summer school energised our department by bringing non-traditional students and their non-traditional perspectives into our midst. The students gave the summer school exuberant reviews. As one student said, 'I have had a life-changing experience.' As a result, we consider our summer school to be such a success that it bears repeating over the summers to come.

Abhinay Muthoo is head of the Department of Economics at the University of Warwick, director of the Warwick Economics Research Institute, and co-director of the Warwick Policy Lab.



Photo: Michelle Temison

Warwick
Economics
Summer
School
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The Transparency Effect

A new theory on the ancient world's development offers insights about deep-rooted factors affecting economic development today.

By Omer Moav

Ancient Egypt has been described as 'a civilization without cities'. It developed with a powerful, central capital state run by Pharaohs, who ruled over a vast army of peasant farmers. Land ownership among farmers was, by and large, nonexistent.

By contrast, Ancient Mesopotamia has been called 'the most urbanized society of antiquity'. Developed through urban revolution, it was ruled by rival and independent city-states. Owner-occupied farming was commonplace in some parts of it.

These two, strikingly different development stories, written over millennia by civilizations from the ancient world, underlie my recent research with Joram Mayshar and Zvika Neeman. Our work aims to understand why nations of antiquity developed different institutions and why some nations succeed more than others. We believe that a key force in addressing these questions is one that has been overlooked: transparency of farming. We further claim that this transparency was affected by the different geographical conditions in different regions of the world.

We argue that what distinguished the successful nations of antiquity was the state's ability to appropriate revenue, an ability that was determined, essentially, by the visibility of the process of production. In the agriculturally based economies of the ancient world, some types of farming were simply more visible than others. Geography determined the type of crop grown, the sources of water and the irrigation technologies employed, and the storage needed for certain crops. The greater the transparency, the greater the taxability and the ability of the state to oppress its subjects and siphon off a large fraction of output to the consumption of the elite.

And whether the transparency was evident to a central ruler or limited to the elite of scattered locations played a crucial role as well, determining,

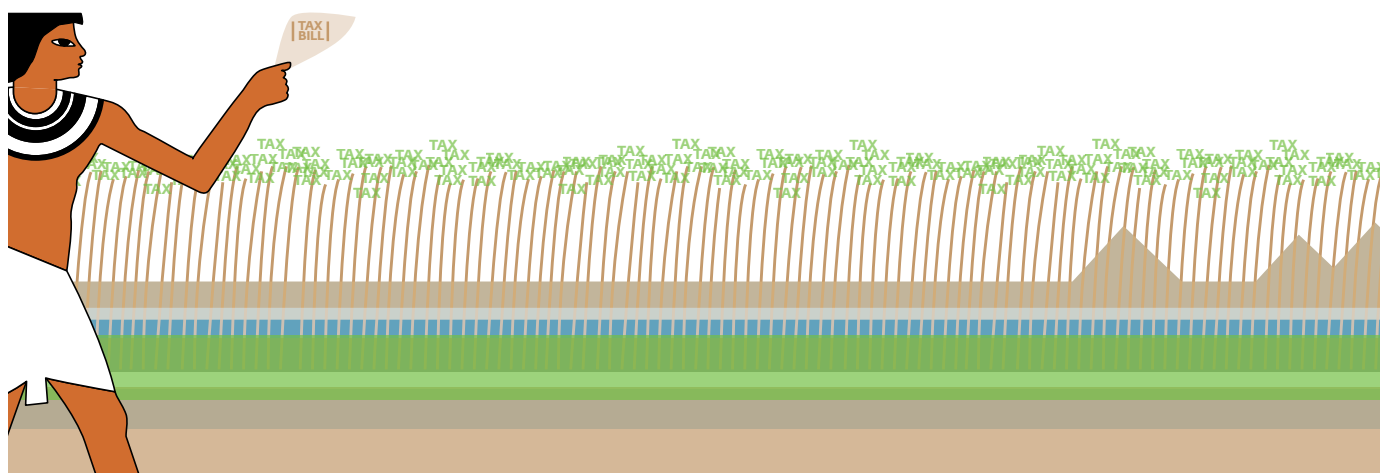
essentially, who wielded the power to extract taxes. Indeed, the tax capacity that stemmed from transparency proved to be the lynchpin of development – determining the scale and viability of the state, its hierarchical structure, degree of urbanization, centralization of power, land tenure arrangements and the existence of property rights, and, ultimately, the type of civilization that resulted.

In particular, we argue that the transparency of Egyptian farming explains the rapid rise of the powerful central state in Egypt, its subsequent resiliency, the weakness of its cities and the lack of land-owning peasants. Our paradigm explains key institutional differences that emerged in the development trajectories and governing institutions in Mesopotamia, where farming was more opaque.

Our theory stems from our analysis of the development of ancient civilizations, and thus has relevance for understanding the deep-rooted factors affecting economic development today. As such, it offers a plausible explanation for the emergence of different institutions across the world that might have persisting impact on current institutions. We contend that our theory can also explain the sharp and unprecedented increase in the scope of the state (as a share of total product) in the past century and a half – reaching levels at the range of 50 percent of output in developed democratic economies in the 20th century, following several millennia in which the share of the government has been about 5 percent to 10 percent.

Different institutions persisted for several millennia in the earliest civilizations of Mesopotamia and Egypt. Different levels of transparency in these regions were a result of the different sources of water for growing crops. Whether the farms relied on rain or irrigation – and the particular characteristics of the irrigation system – determined the transparency of the water supply, thus, who could exert power.

The tax capacity that stemmed from transparency proved to be the lynchpin of development.



The greater the transparency, the greater the taxability – and the greater the ability of the state to oppress its subjects and siphon off output.

Upper Mesopotamia (today's northwestern Iraq and northeastern Syria and southeastern Turkey) was mainly rain fed, whereas Lower Mesopotamia (southern Iraq, Kuwait and parts of western Iran) and Egypt relied on irrigation. However, since the Nile receives its water mainly from the early-summer monsoon rain in eastern Africa, its high-flow peaks during August, allowing for basin system irrigation in Egypt. The fields were flooded and then drained in October, just in time for the sowing season of the staple cereal food (mainly barley). The success of crops depended on the Nile's peak level, which was publicly observed, and gave the central government of the Pharaohs an advance indicator of what revenue to anticipate for the coming year. The height of the Nile flood determined how much tax would be assigned to each district. The Pharaohs used this information as a source of power over district governors and down the chain of middlemen engaged in remitting taxes back to the center of power.

The Tigris and Euphrates, on the other hand, are fed by winter rains and by spring melting snow from the mountains of modern Turkey and Iran. Thus, these rivers have low water levels in October-December, and they swell in April-May. This seasonal pattern posed a problem of mismatch with the cereal sowing and harvesting season as the fields required irrigation when the rivers were low, and, thus, in Lower Mesopotamia, rather than "flood basin" irrigation, an extended canal system was required. The canal system, in contrast to the basin system, created high levels of local transparency that could be a source of power for the elite who managed these floodgates, but it did not provide transparency to a potential central government located at a distance.

Thus, Egypt offers the polar case of Upper Mesopotamia – transparent rather than opaque, and

Lower Mesopotamia represents a hybrid case, with high transparency available only at the local level.

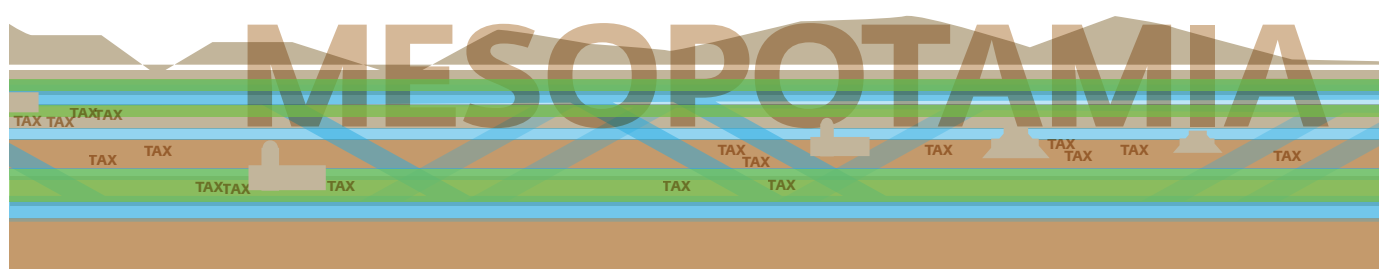
We argue that the faster rise of a powerful central state in Egypt and its subsequent greater stability and high state capacity, compared to Mesopotamia, reflect the high transparency of Egyptian farming, both at the central and local levels. The high transparency could also explain the absence of land-owning peasantry in ancient Egypt and the weakness of its cities. It explains why the Pharaohs could be so powerful, dismiss subordinates at will, and siphon off much of the tax revenue with a lean state bureaucracy. Indeed, at least in the early part of the Old Kingdom, the positions of governors and state bureaucrats were by a revocable appointment, and non-hereditary.

Our theory also offers an explanation for key differences between Upper and Lower Mesopotamia. In the former, mostly rain-fed region, transparency was relatively low, while in the irrigated South, transparency was higher at the local level but limited at the central level. Thus, in Upper Mesopotamia, owner-operated farming was common, and the central state was small and weak. By contrast, in Lower Mesopotamia, farmers were tenants cultivating land that was owned by the local powerful elite, which retained autonomy even in periods when a central state did exist.

Our theory suggests that irrigation systems provide information and means of control, thereby facilitating ongoing revenue extraction essential for the viability of the states and determining to a great degree the types of institutions adopted.

Agricultural storage is another important consideration that illustrates our theory. In his Pulitzer Prize-winning 1997 book, 'Guns, Germs and Steel', Jared Diamond attributes the economic underdevelopment of New Guinea to its inability to adopt the productive agricultural innovations that

The theory offers a plausible explanation for the sharp and unprecedented increase in the scope of the state in the past century.



The transparency of farming in Egypt and the opacity of farming in Mesopotamia explain different development trajectories.

benefited Asia and Europe. We suggest that the economic underdevelopment of New Guinea, and similarly many other tropical countries, could be explained by its adoption of agricultural technology that was not conducive to taxation and did not, therefore, facilitate state capacity. New Guinea's main agricultural produce were roots and tubers, which are non-seasonal and, upon harvest, perishable. As a result, storage is inefficient and not strictly required. Thus, output was rendered less taxable. In contrast, in the temperate regions, the staple food adopted by early farmers was cereals, which meant that food storage became not only feasible due to low-perishability, but also mandatory due to its seasonality. This made farmers vulnerable to expropriation, both by robber bandits and by the state: in a single inspection, the expropriator could impound a large fraction of a farmer's annual output. Thus, in contrast to Diamond, we emphasize the tax technology rather than productivity to explain the typical underdevelopment of the tropics.

Our analysis of how the tax technology affects state institutions, property rights and economic growth relies on an examination of these ancient civilizations, but its applications extend beyond antiquity. We believe our insights apply to the modern phase of human history as well. Our work sheds important light on key economic and political concerns, unrelated to antiquity or to the impact of the environment. Our analysis underscores the role played by information asymmetry – that is, where one party involved in a transaction has better or more information than another – in the transformation of state power, institutions, and the rights of individuals. These are core issues for the modern world.

The transparency of production in ancient times allowed for the emergence of the state because it facilitated appropriation of food by non-producers. A similar theory may explain the sharp and

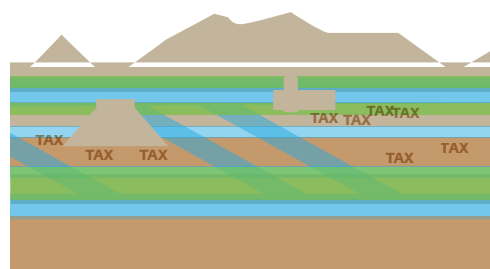
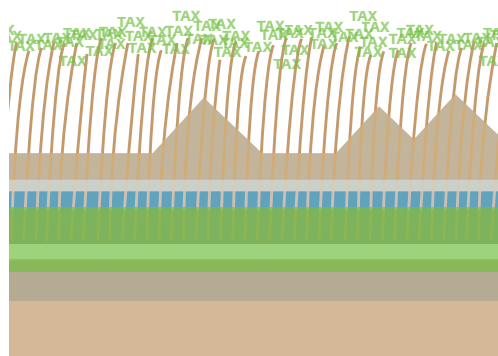
unprecedented increase in the scope of the contemporary state.

We believe that the increased efficiency of tax technology today results from the increased transparency of production. Transparency grew in part with the shift to mass production by hired labor in large corporations – a shift that was accompanied by a massive accounting paper trail. This paper trail exposed productive activity to the state and transformed the state's ability to tax. One way this has occurred is by effectively turning private companies into efficient tax collection agencies and by facilitating the taxation of income.

In particular, our paradigm underscores the important role in modern taxation and institutions that is played by information asymmetry. The prevailing perception is that asymmetry of information hinders efficiency – it increases moral hazard problems that exist between individuals who are attempting to cooperate, such as borrower and lender, tenant and landlord, employer and employee. But our framework reveals that the lack of transparency of individuals' activities – also known as privacy – may also have a silver lining in that it protects individuals' well-being and freedom. We show that high transparency allows a landlord (the state in Egypt, or the local elite in Southern Mesopotamia) to incentivize an agent by relying heavily on punishment, whereas opacity renders punishment too costly and ineffective, and thus the landlord incentivizes the tenant with a higher remuneration upon producing high output.

Our research into how increased transparency of production fueled state power in the ancient worlds, and continues to do so in contemporary times, underlines the truth of the old adage, 'Knowledge is power.'

The economic underdevelopment of many of the world's tropical countries could be the result of taxing ability rather than productivity.



The Researchers

Joram Mayshar is the emeritus John Alfred Weinberg Professor of Economics in the Department of Economics at the Hebrew University of Jerusalem.

Omer Moav is a professor in the Department of Economics at the University of Warwick, and a research associate at its Centre for Competitive Advantage in the Global Economy (CAGE). In addition, he is a professor at the Interdisciplinary Center (IDC) of Herzliya, and a research fellow at the Centre for Economic Policy Research.

Zvika Neeman is a professor of economics at The Eitan Berglas School of Economics Tel Aviv University, and a visiting Professor at the Cowles Foundation and Department of Economics at Yale.

Additional information

This article summarises 'Geography, Transparency and Institutions,' a working paper, available at http://www2.warwick.ac.uk/fac/soc/economics/staff/omoav/mmn_8_14.pdf

Social Welfare Statecraft

Research from Brazil shows how politicians manipulate the implementation of the world's largest conditional cash transfer programme for the poor

By Fernanda Brollo

Conditional cash transfer programmes are a fast-growing and well-regarded tool for fighting poverty around the world. These social welfare programmes typically provide a small stipend to poor families so long as they meet certain criteria, such as making sure their children get routine vaccinations and regularly attend school.

The interest in – and scope of – conditional cash transfer programmes has grown enormously over the past 15 years since they were pioneered in Mexico and Brazil. They now operate in more than 30 countries – in virtually every Latin American nation and in more than 15 countries in Africa and Asia. Cash incentive programmes linked to children's schooling have spread from developing to developed countries – most recently to New York City and Washington, D.C.

The aim of conditional cash transfer programmes is to reduce short-term poverty through cash transfers, while, at the same time, fighting long-term poverty by encouraging investments that can enhance the human capital of the next generation. These programmes have been shown to be effective levers of change, raising household consumption and leading to increased use of preventive health services, higher school attainment and reduced child labour.

But as my recent research with Katja Kaufmann and Eliana La Ferrara underscores, electoral incentives can lead politicians to manipulate the implementation of these programmes, and this could affect their success.

Our work examines the politics surrounding Brazil's Bolsa Família (Family Allowance), the largest conditional cash transfer programme in the world. Bolsa Família reaches more than 12 million poor families, roughly a quarter of the Brazilian population, providing them with a monthly cash benefit conditional on certain criteria. Recipients must ensure that all school-age children in the family attend school, and that children in the family receive certain health check-ups. Bolsa Família imposes penalties of increasing severity for failure to comply with school attendance requirements. Initially, non-compliance leads only to a notification of potential penalties, but repeated non-compliance leads to the postponement of benefit disbursements, then to temporary suspension of benefits, and eventually can lead to exclusion from the programme. Requirements are enforced mostly by the federal government, with some reliance on local authorities. Since 2006, the Brazilian central government has significantly increased efforts to effectively monitor school attendance and enforce programme rules.

Our work analyses political dimensions surrounding the enforcement of programme rules: whether voters punish elected officials when they

receive any penalties for not complying with the rules, and whether officials try to limit any threat of voter backlash by finding ways to reduce enforcement of penalties.

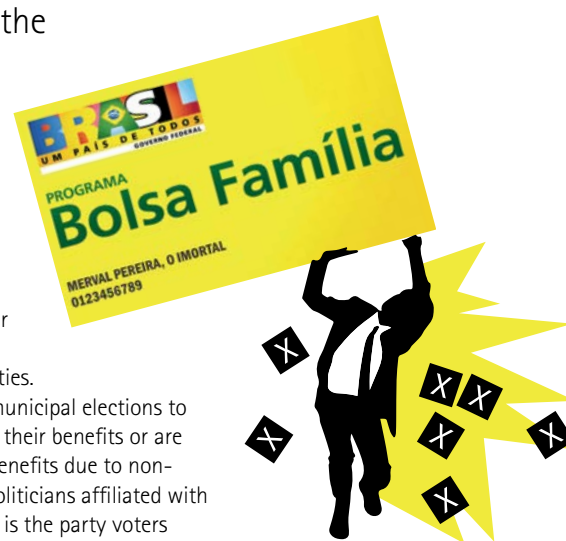
Our work uses the 2008 municipal elections to test whether voters who lose their benefits or are threatened with the loss of benefits due to non-compliance tend to punish politicians affiliated with the President's party – which is the party voters associate with the Bolsa Família programme. We compare the vote in postal codes where a higher fraction of beneficiaries received penalties right before the elections with the vote in postal codes where a higher fraction received penalties right after the elections. We find that the vote share for local candidates from the President's party and its coalition is lower in areas where more penalties were received before the elections.

We next test whether local authorities take into account this potential punishment at the ballots by manipulating the enforcement of the Bolsa Família rules in the run-up to the elections. Our work shows that enforcement of the rules – the revoking of cash benefits and the threat of revoking benefits – is weaker around the time of elections in municipalities with mayors from the President's party and its coalition who are seeking re-election.

Our work also uncovers a possible mechanism for this manipulation: school principals may 'justify' the lack of attendance, so that beneficiaries face no penalties for not meeting the attendance requirements. Using information on whether or not school principals were politically appointed, and comparing data from before and after elections, we find that politically connected school directors tend to manipulate justifications for non-attendance before the elections.

Our results have important policy implications, as the manipulation of the enforcement of programme rules has the potential to reduce the effectiveness of conditional cash transfer programmes. Research shows that programmes that impose more stringent conditions tend to have larger effects on schooling (higher enrolment and attendance and lower drop-out rates), health (more vaccinations and medical check-ups) and child nutrition.

Careful attention to the design and implementation of such programmes could reduce their vulnerability to political manipulation. For example, having more formal criteria to assess whether non-attendance at schools is justified would help. And, to the extent possible, giving decision-making power for justifications to less politically dependent authorities would also improve the system.



The Researchers

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Additional information

This article summarises 'The Political Economy of Enforcing Conditional Welfare Programs: Evidence from Brazil', a working paper available at <https://sites.google.com/site/fernandabrollo/home/research-agenda>

Votes for candidates from the party associated with Bolsa Família are lower when beneficiaries are penalized in the run-up to elections.

In these two articles, Associate Professor Dennis Novy probes international trade issues both in terms of underlying theory and in terms of contemporary policymaking. In the first, he offers new explanations about the possible reasons for the severity of the Great Trade Collapse in the wake of the recent financial crisis. In the second, he examines the details that will have to be addressed if the proposed Transatlantic Trade and Investment Partnership (TTIP) is to become a reality and a template for managing the emerging nature of global trade.



Trade and Uncertainty

When the great recession hit with full force in 2008, many countries experienced a sharp decline in their economic output. However, the accompanying decline in international trade volumes was even sharper, and almost twice as big. Globally, industrial production fell 12 per cent, and trade volumes fell 20 per cent in the 12 months from April 2008 – shocks of a magnitude not witnessed since the 1930s. In addition, the decline was remarkably synchronised across countries.

My recent research with Alan Taylor at the University of California Davis offers a new explanation of why international trade is so volatile in response to economic shocks as experienced in what is now known as the Great Trade Collapse in 2008–2009, as well as in prior episodes.

Our theoretical work shows international trade responses are magnified in the face of uncertainty shocks – the high-profile events that trigger an increase in uncertainty about the future path of the economy, such as the September 11th terrorist attacks or the collapse of Lehman Brothers.

In the wake of such events, firms adopt a wait-and-see approach, slowing down their hiring and investment activities – often leading to sharp recessions. Once the degree of uncertainty subsides, firms revert to their normal hiring and investment patterns. Previous research has shown this pattern with regard to the effects of shocks on the general economy, but our work builds on this to understand the effects on the international trade front. Our work shows that international trade responses are magnified in these shock situations.

Our research presents an alternative way of understanding international trade flows. Conventional theoretical models had failed to explain the severity of the recent trade collapse. These models generally incorporate increases in trade policy barriers. However, most evidence suggests that trade policy barriers – such as tariff hikes – moved little during the recession, and that freight rates actually declined for most modes of shipping, given the slackening of trade flows and surplus capacity.

A large fraction of international trade now consists of capital-intensive intermediate goods such as car parts and electronic components or capital investment goods – a feature of the global

production system which has taken on increasing importance in recent decades. Thus, our theoretical model incorporates these characteristics, by using a framework in which firms import inputs from foreign or domestic suppliers.

Our model, the first to examine the role of uncertainty shocks in the context of international trade, shows that both industrial production and imports decline in response to uncertainty shocks. However, the reaction of imports is considerably stronger – about five to 10 times as strong as in its period of peak impact during one year.

Our model generates some additional predictions that we confirm with data from the events. For instance, we find that the magnified effect of uncertainty shocks on trade should be more muted for goods characterized by higher depreciation rates. Perishable goods offer a case in point: the fact that such goods have to be ordered frequently means that importers have little choice but to keep ordering them frequently, even if uncertainty rises. Conversely, durable goods can be considered as the opposite case: they have very low depreciation rates, which allow for less frequent ordering and a wait-and-see response to shocks. We find strong evidence of this pattern in the data when we examine the cross-industry response of imports to elevated uncertainty.

Our work shows that in response to a large uncertainty shock in business conditions, whether to productivity or the demand of final products, firms optimally adjust their inventory policy by cutting their orders of foreign intermediates more strongly than orders for domestic intermediates.

This response leads to a bigger contraction and, subsequently, a stronger recovery in international trade flows than in domestic trade. Thus, international trade exhibits more volatility than domestic economic activity.

Can uncertainty shocks explain the Great Trade Collapse? We use a simulation exercise to argue that it could to a large extent. The four months following the collapse of Lehman Brothers, from September to December 2008 – were characterized by strong increases in uncertainty. Our model – using uncertainty shocks – explains a large fraction of the actual observed industrial production response and the amplified response of international trade flows compared to domestic flows.

The Researchers

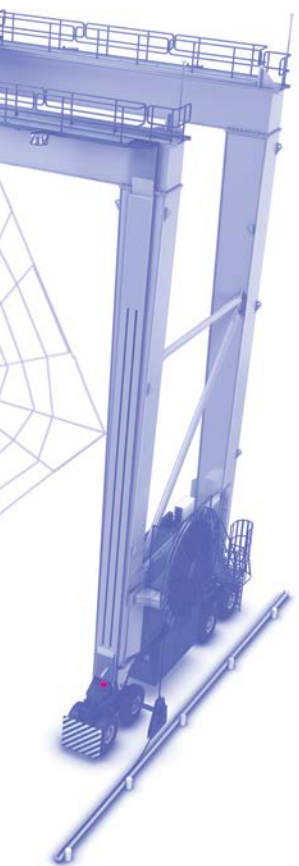
Dennis Novy is an associate professor in the Department of Economics at the University of Warwick and a research affiliate at its Centre for Competitive Advantage in the Global Economy (CAGE). He is also a research affiliate at the Centre for Economic Policy Research (CEPR) and an associate at the Centre for Economic Performance (CEP) at the London School of Economics and Political Science. He was the Specialist Adviser to the House of Lords on the Transatlantic Trade and Investment Partnership. In recognition of this advisory role, he was named a winner of the University of Warwick's Research Impact and Public Engagement Awards. The views Novy expresses here are his and do not necessarily reflect those of the House of Lords.

Alan Taylor is professor of economics and finance at the University of California Davis, a research fellow at the Centre for Economic Policy Research and a research associate at the National Bureau of Economic Research.

Publication details

This article summarises, 'Trade and Uncertainty', a working paper available at: <http://www2.warwick.ac.uk/fac/soc/economics/staff/dnovy/tradeuncertainty.pdf>

The paper is also available as NBER Working Paper #19941.



TTIP: A Trade Template

In colonial times, the UK was the manufacturing workshop of the world. The UK imported mostly primary products and then exported manufactured goods such as cotton shirts to the rest of the world.

Today, the picture is far more complex. High-end manufacturing has spread to many more countries. Mobile phones offer a prime example of the complicated, international production chains that weave around the globe. Many parts that make up an iPhone are made in Germany, Korea and Japan, and then assembled in China before reaching retail markets worldwide. Many modern products are therefore no longer 'made' in one location alone.

As this example illustrates, the dynamics of international trade have changed dramatically. International trade in the modern world is increasingly a tale of 'making things' more than 'selling things'. The rise of outsourcing, back-and-forth trade and global value chains have transformed international trade and foreign direct investment in profound ways.

The proposed 'Transatlantic Trade and Investment Partnership' (TTIP) between the European Union and the United States represents an attempt to provide a template for the characteristics that define trade in the twenty-first century. If successfully negotiated, the pact would be the most ambitious free trade agreement in history. This is both because of its sheer scale – the European Union and the United States represent about 45 percent of global output – and because of its attempts to tackle non-tariff barriers and regulation – the signature impediments to trade in the contemporary era.

As a mega-deal, the pact signals a potentially game-changing moment in the annals of modern trade. The enormous size and clout of the EU and US have the potential to make the pact a forum where twenty-first century trade rules are set. This pact is

supposed to be a 'living agreement' that creates a permanent dialogue for the future where new regulation is discussed and implemented.

The attempt to create a free trade area between the European Union and the United States was officially launched at the G8 Summit in Northern Ireland in June 2013. Though supported by US President Barack Obama, German Chancellor Merkel and UK Prime Minister Cameron, indications are that any agreement will likely take several years to complete. The potential benefits from liberalised transatlantic trade could be large, the road will be long and arduous, and many difficulties will have to be overcome.

A study produced by the Centre for Economic Policy Research indicates that in the best-case scenario, the average EU household of four could see its disposable income rise by EUR 545 per year by 2027 as a result of lower prices and higher productivity under the pact. But the degree of uncertainty involved in such predictions is immense, not least because they depend on the extent of the agreement. Will there be a comprehensive agreement with full-fledged liberalisation of non-tariff barriers, or a 'light' agreement with not much more than a cut in tariffs?

We probably have a better sense of the cross-industry gains and losses. It is likely that the car industry stands to gain considerably on both sides of the Atlantic. In the case of the UK, other industries likely to gain include chemicals and the pharmaceutical industry.

But even if we believe that the pact would be beneficial for countries and consumers as a whole, it will inevitably create losers. For example, highly protected sections of the Mediterranean agricultural industry might shrink once their tariff and non-tariff barriers are removed. It is unclear how governments envisage mitigating the adverse effects.

In any case, cold numbers will not win over the electorate. The pact's potential benefits are likely to be diffuse, while costs will be concentrated. The lack of transparency surrounding the negotiations creates further suspicion.

Governments have to come up with much more convincing narratives and concrete examples if they want to sway the public debate on the agreement. How can the average person in the street benefit? Why is it in Britain's long-term interest to engage in such negotiations?

At the moment, in most EU countries the debate centres on specific items such as chlorinated chicken or international arbitration panels to resolve disputes. These issues are important and deserve a proper discussion in the public limelight. But on many occasions, cherry-picked items have been hijacked by campaigners with a certain political

Many political hurdles must be overcome if the pact is to succeed.



The pact will create winners and losers.

agenda. The public debate would benefit from a more diverse and balanced discussion that tries to see both sides of the argument. It seems that governments across the EU are currently losing the public debate.

Communication cannot be left to the EU Commission alone. Governments should engage more with their national electorates, and this engagement needs to happen at all levels of government, not only through trade and economics ministers.

A number of difficult issues stand out. They include:

- **Regulation and non-tariff barriers:** The meat of the negotiations is not about tariffs but rather about aligning regulation and removing non-tariff barriers. A classic example is car safety regulation. There is no evidence that cars are less safe in either the EU or the US. However, car manufacturers currently have to comply with two different sets of regulation. Removing duplicate regulation would bring down production costs and arguably consumer prices, even if this does not automatically generate new trade. While car safety is a common sense issue, negotiators face many controversial issues such as food safety regulation.
- **Agriculture:** Agriculture is traditionally a contentious area. For example, not all geographical indications such as Parma ham and champagne will be recognised by the US. Meat exports are another difficult issue.
- **Government procurement:** fair and open access to government contracts is supposed to be an essential part of the agreement. But access is especially difficult to obtain at the sub-federal level where the national government might have less power to legislate. Some promising progress has been made by the EU on that front in its recent free trade agreement with Canada.
- **Investor-State Dispute Settlement (ISDS):** at its core, the dispute settlement mechanism is an enforcement device that is supposed to deter discrimination against foreign companies. It is a particularly contentious issue in the European debate. In particular, a hostile stance has been adopted by the German government, large parts of the German public and increasingly also in the UK. Perhaps not surprisingly, political campaigners have generated a great deal of misinformation surrounding the subject. Considerable pressure is being brought to bear on the EU to drop the dispute settlement provisions from the negotiations. But given that the EU typically insists on such mechanisms

when negotiating trade agreements with lower-income countries, it would smack of hypocrisy to oppose them when negotiating with the US.

- **Financial services:** Financial services are a priority for the UK given their weight in the British economy. However, the US Administration strongly resists the inclusion of financial services under the agreement's umbrella, partly because it is occupied with implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Given the rise of emerging economies, TTIP might be the last opportunity for individual EU member countries such as the UK to have a major impact on setting high-standard global trade rules. The price of failure might therefore be high.

The US is also negotiating a 'Transpacific Partnership' (TPP) that includes 12 countries in total (US, Canada, Japan, Australia, New Zealand, Singapore, Malaysia, Brunei, Vietnam, Chile, Mexico, Peru). TPP is seen as more difficult politically since it involves low-wage countries such as Vietnam. Issues of labour and environmental standards are likely to come up. (These play less of a role in the US-EU negotiations.)

It has been suggested that the two proposed agreements are designed to contain China, or at least to encourage China to engage more actively in global trade initiatives. Ultimately, the US-EU agreement should not be a closed shop. Third countries should be allowed to participate, and appropriate arrangements need to be discussed.

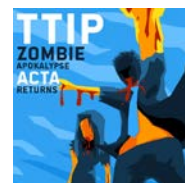
This trade agreement involves an enormous political agenda and would be difficult to handle even in the best of circumstances. Additional complications are manifold given the changing political landscape on both sides of the Atlantic. In the EU, the new European Parliament is likely to be less friendly towards international trade and investment.

On the US side, the mid-term elections in November diverted the pact's momentum. The US Administration is yet to secure Trade Promotion Authority (TPA) from Congress. Without this authorisation, the US Administration cannot make serious negotiating offers. If no major progress is made in the narrow window of opportunity after this November's mid-term elections (when the Republicans gained control of both houses of Congress for the first time since 2006), and before the presidential election cycle kicks in, then we might not see a successful conclusion of negotiations until 2017 or even 2020.

Publication details

This article is based on research conducted on TTIP for the UK House of Lords, and on academic research undertaken on international trade issues more broadly. The UK House of Lords report is available at www.publications.parliament.uk/pa/ld201314/ldselect/lddeucom/179/179.pdf

The report, 'Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment', by the Centre for Economic Policy Research is available at: http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf



The public debate would benefit from a more diverse and balanced discussion. It seems that governments across the EU are currently losing the public debate.



Questions for Nicholas A. Christakis

The first in a series of interviews with visiting researchers whose work puts them on the research frontier.

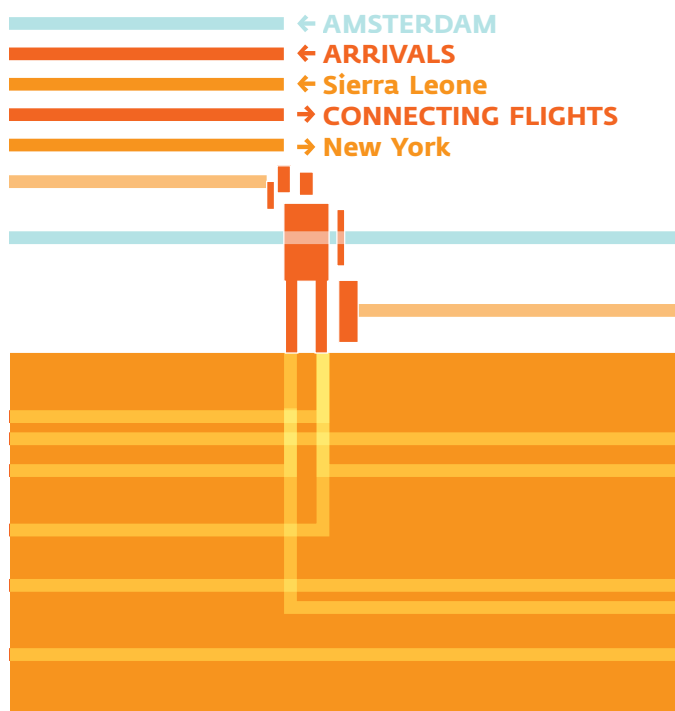
During the Autumn Term, the Department of Economics at the University of Warwick hosted a series of events featuring Nicholas A. Christakis, whose research on social networks has led to new insights about the person-to-person spread of a wide variety of traits – everything from happiness to obesity. Christakis, the Sol Goldman Family Professor of Social and Natural Sciences at Yale University, directs the Human Nature Lab, and co-directs the Yale Institute for Network Science. Trained as both a physician and social scientist, he worked in clinical practice with patients receiving hospice care before embarking on research focused on how social networks form and operate. In 2009, he was named one of Time magazine's most influential people in the world.

His book, 'Connected: The Surprising Power of Our Social Networks and How They Shape Our Lives,' co-authored with his long-time collaborator, James H. Fowler, has been translated into more than 20 languages. Christakis advocates making changes in the structure of traditional social science research departments to push forward new research agendas. His visit was part of a three-day series of events, including lectures at the University of Warwick and at the Cass Business School at City University London; and a debate, 'Do we need to shake up the social sciences?', co-sponsored by the Department of Economics at the University of Warwick and the London School of Economics and Political Science. This is an edited transcript of an interview conducted during his visit.

Q: As a physician and a specialist in social networks research, you are in a prime position to understand what the Ebola crisis says about our contemporary society. Tell us your view.

NC: Ebola has burst on the scene, but infectious disease has been of interest to people interested in social interaction and networks since time immemorial. Infections give a particularly real and vivid example of how things spread within networks. Spread is not limited to infections. Money spreads in networks. Emotions spread in networks. Ideas spread in networks. Behaviours spread in networks. Norms spread in networks. We're affected by those around us. But you really appreciate that when you consider something like Ebola.

The influenza pandemics that killed millions of people on the planet were much more infectious



and much more deadly actually, with a huge impact on economic productivity and social fabric and many other things. But you can still think of Ebola and begin to think about how networks matter.

Networks matter in the sense of how the germ is flowing from person to person. There are certain structures of networks that facilitate flow compared to other structures. And I can cultivate an intuition in you regarding this by asking you to imagine two extreme conditions. In one extreme, nobody is connected to anybody else and in the other extreme everybody is connected to everybody else. Now you should have the intuition that Ebola or any other pathogen is going to spread much more quickly in one than the other.

Of course we don't live in those extremes. We live in between, and there are a lot of complicated mathematical ways we can live between the two extremes. The ways in which we organize our networks, those particulars way in which the social ties exist among us, have implications for how pathogens like Ebola spread. So, social networks matter for the spread of pathogens.

Our transportation networks are highly relevant. We live in an interconnected world with air travel, and things that happen in

one part of the world affect the rest of the world. SARS broke out a few years ago in China and spread to Canada, the United States, England and the rest of the world just because people were traveling by plane from place to place. You get a very rapid flow.

And you also recognize that it becomes impossible to seal your borders. For example, in the United States recently a number of Congressmen were saying we shouldn't have any flights coming directly from those affected regions of Africa. Well, it turned out that there were no flights coming directly from Sierra Leone. Actually, they were connecting from Amsterdam, but no one was prepared to say no flights could come from Amsterdam.

So there are many ways in which networks that are everywhere in our society are relevant to the spread of pathogens like Ebola. But, as I am suggesting, it's not just Ebola that they structure. Information flows, diffusion of innovation, behavioural norms, even fashion – all of those things are also affected.

Q: We now often think of an electronic setting when we speak of social networks. How would you compare and contrast the virtual, Facebook-oriented

Even 20 years ago, if you wanted to find a Norwegian Army veterinarian... good luck. But now it's pretty easy. Within a few minutes online I can find you such a person.

network of 'friends' with the old-fashioned, face-to-face network of friends?

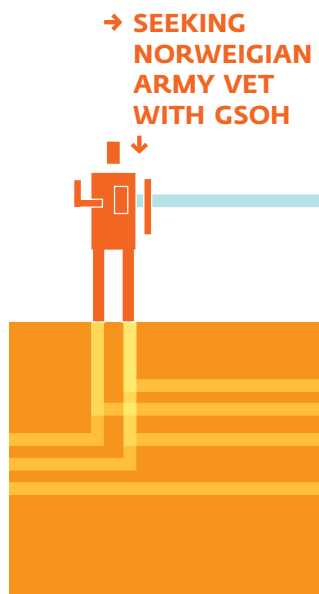
NC: What I think is really interesting is that these new, online tools - these telecommunication devices, the internet, online networks - are grafted onto a very ancient apparatus, one we humans have been making ever since we emerged on the African savannah. The desire for connection, the desire for social influence and the susceptibility to influence have always been with us.

One project we did mapped the social networks of the Hadza hunter-gatherers who live around Lake Eyasi in Tanzania. They are one of the last hunter-gatherer populations on the planet. They live like we did 10,000 years ago. They sleep under the stars. They have no material possessions to speak of. And when we mapped

their social networks we found that they looked just like ours. I think there is something deep and fundamental about human social networks, and I think these new technologies are grafted onto that deep and fundamental thing and are in the service of that thing. So, by and large, if you use US National Security Agency-type telephone data and map the networks of interactions in a country, the rules that govern how those networks are assembled look very similar to the rules that governed the assembly of our networks 10,000 years ago.

And you can also look at historical precedence. So, when the telephone was invented people were very concerned that this would create whole new ways in which we would interact. But think about this. It's not like because the telephone was invented people went from having two or three personal friends to having hundreds of personal friends. It's the same with Facebook. Facebook has not increased your propensity to make friends. Facebook has had other impacts on your life, but it hasn't changed your fundamental humanity.

Now what has it done? We argue in our book, 'Connected,' that there are a number of ways online differ from offline networks. One is enormity. The number of people you can interact with is greater. Specificity is the second idea. Your ability to identify individuals of a particular type is much easier with these tools than it used to be. Even 20 years ago, if you wanted to find a Norwegian Army veterinarian... good luck. But now it's pretty easy. Within a few minutes online I can find you such a person. Yet another way online networks differ from offline is the way we call 'communality'. Our ability to work together and to cooperate – for instance, in things like Wikipedia - is facilitated. Finally,



Science departments have evolved into molecular biophysics and neurobiology and more, but the same social science departments have been with us for a century. This suggests that the natural sciences are better at identifying the scientific frontier, declaring victory on a research topic, and then moving on.

another difference we call virtuality - which is the ability to sort of re-make yourself, to have a different kind of presence online. So, for example, men might have female avatars, or women might have male avatars. Now, it was always possible to cross-dress. But it's much more difficult to pass as the opposite sex in the real life than it is online. So, I think there are ways in which online tools facilitate different kinds of identity. Again, it's not a new thing, but the technology abets a kind of ancient predilection.

Q: Are they as powerful as our 'real' networks?

NC: No, not at all.

That's like asking the difference between your closest friend calling you up and saying 'Buy this cosmetic,' vs. a telemarketer doing the same. They both use the phone to reach you. Who has an effect on you? It's your friend. Just because they're using this technology doesn't mean they affect you. It's the same with Facebook. If one of your Facebook friends - who is not really your friend, but is one of your acquaintances - says she really likes this piece of music you might not even be aware of it let alone be affected by it. But if one of your real friends who happens to be on Facebook with you evinces an interest in this music, then it will affect you. So, we need to be careful not to confuse the medium and the messenger.

For example, if you could have spoken to my great-grandmother who lived in Greece before the last century, and you could have asked her how many friends she had as a little girl, she would have said she had one or two best friends and four or five of us girls who were very close. And if you could have spoken to my daughter, who is now 16, when she was 11, she would have said I had one or two best friends and

there were four or five of us girls who were very close. This is despite the fact that she has an iPhone in her pocket. So, the technology isn't changing a damn thing actually in terms of what really matters as far as I'm concerned.

Q: Your research shows that social networks influence us for good and for ill. What can or should an individual do to optimise his or her network?

NC: There is no one network position that is optimal. So think about Ebola right now. Who is in the best position with respect to Ebola with respect to the network? The person who has no friends and lives like a monk on a mountain. That's pretty good protection against Ebola. Now, consider, instead, if really valuable information is spreading through the network. Now who has the best position? That poor guy out on his own? He's never going to learn this good news. He is in the worst position.

So, the answer to the question, 'What is the best position to have in the network?', is: it depends. It's a very unsatisfying answer. It depends on a lot of things. It depends on what's spreading through the graph. Second, people have limited ability to actually change and to control where they are in the network. Some people are born shy, and some people are born gregarious. Now, by the time you're an adult it's pretty difficult to change that. You can make a deliberate effort to be more sociable if you're a shy person and to acquire more friends. But people have certain tastes for friendship and social interaction. Some of us want one friend we know really intimately. Others of us aren't interested in that. We want five or 10 people we can hang out with and have a good time with

but we really don't want to talk about personal matters.

People vary in this tendency, and I think it's very difficult to convert one type to another. What's interesting from an evolutionary point of view is: it is clear that both types of people are useful and valuable and beneficial in our groups. So, to answer the question, it's not clear what kind of network you would want, and there's not much you can do about it anyway.

Q: You have written about the need to shake up the social science research agenda. What led you to take this view, and what do you have in mind?

NC: When I went to med school in the late 1980s, we still had departments of biochemistry, physiology and histology and anatomy. All those departments are gone. We now have departments of molecular biophysics and systems biology and neurobiology and so on. And yet, from the social science part of my training, all the same five departments have been with us for 100 years: psychology, sociology, economics, political science and anthropology. Why is that? Why do the natural sciences seemingly have a different institutional trajectory than the social sciences? And might there be something we can learn from that? I began to think that it was more than a question of nomenclature. I think the natural sciences are better at identifying where the scientific frontier is, are better at declaring victory, saying, 'You know, we have studied this problem, and we have resolved it, by and large,' and then moving on. And then this is also organising their institutional arrangements to reflect where the scientific frontier is. So, you move manpower to where the scientific frontier is, and you back them up with institutional arrangements in accordance with that.

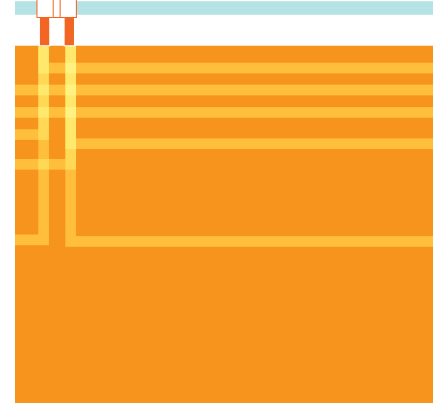
We still need people who will work in basic biochemistry and physiology and anatomy, and we certainly need to teach those fields. But it's interesting to look at the situation as a kind of case study. How are those fields organised, and does it mean anything? I think it does.

Q: If this change were to take place, how would the social sciences look?

NC: You would get a department of neuro-economics and geno-politics and computational sociology and evolutionary anthropology. You would get these hybrid departments that reflect where the fields are going.

So, as my colleagues Amanda Goodall and Andrew Oswald published in their *Times Higher Education* piece, there is a way in which there is a tremendous amount of repetitive work that is

✓ ZOOLOGY
 ✓ BOTANY
 ✓ ENTOMOLOGY
 ← HISTOLOGY
 ← PHYSIOLOGY
 ← BIOCHEMISTRY
 → MOLECULAR BIOPHYSICS
 → SYSTEMS BIOLOGY



There is a tremendous amount of repetitive work that is produced in the social sciences, I think arguably more than in the natural sciences, and interestingly, a lot of it doesn't tackle topics that you would think would be really important: global warming, for instance.

produced in the social sciences, arguably more than in the natural sciences, and interestingly, a lot of it doesn't tackle topics that you would think would be really important: global warming, for instance. They point out that there has been no paper published in the premier political science journals about global warming – which is kind of a crazy observation.

Now, I'm not one of those people who fetishes the sciences. I don't think they are so great either. For example, right now there is a lot of concern in the social sciences about the so-called replication crisis that work can't be replicated as easily as we would think it should be in economics and psychology. There was just a paper released recently saying that most findings in financial economics are probably false. The same type of replication crisis is affecting biology and physics. For example, in physics, there is the big experiment that they just did on background radiation that may be consistent with gravitational waves, the BICEP2 (Background Imaging of Cosmic Extragalactic Polarization) experiments. People are now worried that actually that may be due to interstellar dust, and they're not able to replicate those findings. In stem-cell biology they've had a huge problem with a number of major papers being retracted, not because they can't be replicated, but because they were fraudulent. So, in the sciences in general there is this problem.

To say that we have this replication problem in the social sciences doesn't mean that no one else has the problem, but it does mean we need to get our own house in order. And similarly, to draw attention to ways in which we in the social sciences can organise ourselves better for the frontier doesn't mean everyone else is doing it better or

worse, it just means that we need to think about this topic.

In fact what I would say is in the twentieth century the biological and physical sciences offered great advances that improved human welfare – from the discovery of plastics and polymer chemistry to the discovery of antibiotics to nuclear power and so forth. But I think that in the twenty-first century the social sciences offer equal or even more opportunities to improve human welfare. And I think many of the challenges we will face in the twenty-first century will be behavioural in nature. So we have just as much if not more to offer the world and human welfare as the natural sciences. The social sciences are not a weak sibling compared to the natural sciences. We're just different.

Q: Then what about the intersection of politics and social science? Economists can't seem to agree on very basic things. For example, in the wake of the financial crisis you have advocates of austerity vs. advocates of a Keynesian approach. How does this affect the idea that you can agree to a solution and move to a new research frontier?

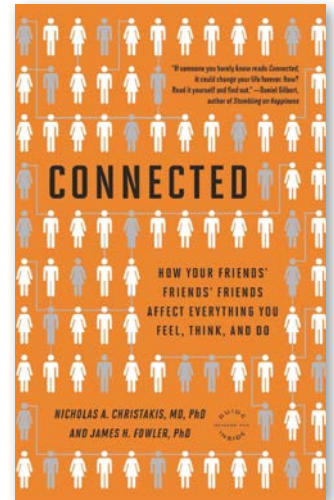
NC: I think all research can be politicised. It's not just the social sciences. There are big debates. For instance, there are debates about climate change, which is in the physical sciences, and evolutionary biology, which is in the biological sciences, and stem cell biology, in terms of the status of the foetus and embryonic stem cells. All of that is highly political.

I don't think it's just the social sciences that get politicised, so, again, I don't think we need to own that problem. But having said that others own that problem, too, doesn't mean that we can ignore our problem, either. I do think it's really important as much as possible to be objective.

Some would say it is not possible to be objective in the social sciences. I don't agree with that. I think it is possible to be objective in the social sciences. I think it is possible to know the world and to make generalisable statements about it. Just because however, we are goofing about – or that we don't yet know it – doesn't mean it isn't knowable.

So I would say – for example – with the ongoing debate about austerity or Keynesian approaches to economic crises – I think it's probably the case that most of the time one approach is better than the other. We may not know all the circumstances under which one set of approaches is better. We may not know how much better. We may not know how to implement it. But I believe it's possible to come to know that. And, you know, I think it's a work in progress.

This interview was conducted by Karen Brandon, editor of the *Warwick Economics Bulletin*.



Further reading

'Connected: The Surprising Power of Our Social Networks and How They Shape Our Lives,' by Nicholas A. Christakis and James H. Fowler. Information available at <http://connectedthebook.com>.

'Let's Shake Up the Social Sciences,' by Nicholas A. Christakis in *The New York Times*, http://www.nytimes.com/2013/07/21/opinion/sunday/lets-shake-up-the-social-sciences.html?_r=0.

'Do the social sciences need a shakeup?' by Amanda Goodall and Andrew Oswald in *Times Higher Education*. <http://www.timeshighereducation.co.uk/features/do-the-social-sciences-need-a-shake-up/2016165.fullarticle>.

'...and the Cross-Section of Expected Returns', a National Bureau of Economic Research Working Paper (No. 20592) by Campbell R. Harvey, Yan Liu and Heqing Zhu, available at <http://www.nber.org/papers/w20592>.

A New Module

An innovative module seeks to expand economics education

By Elizabeth Jones and Jo Hart

As a leader in the training of the next generation of economists, the Department of Economics at the University of Warwick strives to give students the intellectual training and the practical toolkit of skills they need to begin and sustain rewarding careers in the competitive labour market.

With this in mind, the department has launched a unique initiative to enhance the link between education and employment. The Economics Personal Development Module is an innovative, bespoke module created to enhance skills, improve employability and provide a broader economics education. Many of its components have been designed to address areas of development that were identified as important, either by our own students or by employers of our graduates.

Launched in Autumn 2014, the module incorporates Economics 360°, a guest-lecture series that brings leading economists and public figures to the department to give students insight into how economics skills and knowledge can be put to use in governments, NGOs, and industry – as well as in traditional banking and finance sectors. Speakers this academic year include Jonathan Portes, director of the National Institute of Economic and Social Research, and David Soskice, professor of political science and economics at the London School of Economics and Political Science.

Our mentor scheme is a key part of the module, in which our second- and third-year students provide first-year students with guidance and support to help them through their first year and to make the most of their opportunities. The scheme includes both pre-arrival contact

from the Mentors through Facebook and live chats and frequent meetings throughout the academic year. Mentors take the lead in this initiative, arranging meetings and subject matter.

Taking advantage of the full array of services within the University of Warwick, the module incorporates a series of sessions created especially for economics students in conjunction with the Library, the Department of Student Careers & Skills and the Centre for Applied Linguistics. The module includes workshops to hone academic writing and English-language skills, and career events that offer networking opportunities and interaction with potential employers. The intent is to expand the array of opportunities for student internships and professional placements.

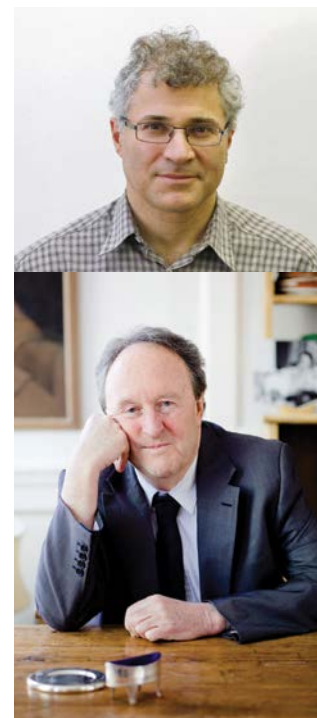
The department takes this initiative at a critical time. Many employers say that university graduates enter the workforce ill-prepared. More than half of senior decision makers in companies that employ graduates say none or few of them are 'work ready', according to a YouGov survey published last year by *The Times* and *The Sunday Times Good University Guide*. Though University of Warwick graduates – and particularly those from the Department of Economics – have long been sought after by employers, we want to do all we can to make sure our students graduate with all the expertise they need to compete and succeed in the increasingly competitive and global marketplace.

Because we believe this kind of education is essential, we have made the module a compulsory element for first-year students on Economics-based Degrees, including BSc

Economics, BSc Economics and Industrial Organisation and BA Economics, Politics and International Studies.

Our students will achieve credit for their activities and the module will be recorded on their Higher Education Achievement Report (HEAR) to provide a way to demonstrate to employers the breadth of their education and the skills that they have developed both within and outside of their academic modules. The Personal Development module is being closely watched by other departments as a model for bespoke courses that have the potential to enhance workplace skills and employability.

This module is tailored to the wishes of students, who have expressed a desire to undertake training that will make them stand out in the pack of applicants. It is also designed for the needs of employers, who want to hire recent graduates who can hit the ground running. Finally, it addresses some changing currents within our own economics profession, which is in the midst of self-examination about the type of training needed to create a new generation of problem solvers who are equipped to take on the many economics issues that urgently need to be addressed.



Speakers this academic year include Jonathan Portes, director of the National Institute of Economic and Social Research, and David Soskice, professor of political science and economics at the London School of Economics and Political Science.

Elizabeth Jones is the director of undergraduate studies and a principal teaching fellow in the Department of Economics at the University of Warwick.

Jo Hart is the student experience manager in the Department of Economics at the University of Warwick.

For further information

Details on the Economics Personal Development Module are available at: <http://www2.warwick.ac.uk/fac/soc/economics/current/ug/resources/pdm>

Growing the Globalisation Research Initiative

The Centre for Competitive Advantage in the Global Economy receives a £3.5 million award to continue its mission and expand its research agenda.

By Nicholas Crafts

The Centre for Competitive Advantage in the Global Economy (CAGE), a research centre of the Department of Economics at the University of Warwick, begins a new chapter of its ambitious research agenda this year with a £3.5 million award from the Economic and Social Research Council.

This award secures our research future for the next five years. But, more broadly, the award serves as recognition of our vision, and allows us to take on a wider array of compelling issues now materialising on the world's economic and political stage.

We created CAGE to undertake the kind of research that would lead to better insights about how and why different countries achieve economic success in a world that is more and more globally connected.

Five years ago, the need for this kind of research could not have been more evident. The effects of the 2007–2008 financial crisis were still reverberating through the world's economies. We were in the trough of the Great Recession, the worst economic downturn the world has experienced since the Great Depression..

Five years later, the world continues to face economic challenges that signal an urgent need for research that has become a signature of CAGE. Fear of 'secular stagnation' haunts the Eurozone. Wage growth has been mediocre, and the gap between high- and low-wage

earners is expanding. Real risks and uncertainties loom – over matters as varied as monetary policy, unsustainable public finance practices and emerging geopolitical tensions.

In short, the globalised economy remains a puzzle that economists have yet to solve. Thus, in the five years ahead, we will continue to analyse issues that illuminate economic performance across time and across countries. Our research will take on issues about how countries can succeed in achieving objectives to improve living standards, raise productivity, maintain international competitiveness, and facilitate the economic well-being of their citizens. We will continue to hone our distinctive approach, in using economic history and historical perspectives to illuminate current policy debates and broaden contemporary understanding of current events. Our ultimate aims are to bring about new scientific understanding and societal impact.

Our new funding allows us to tackle a new research theme with particular resonance for our times: assessing the implications of globalisation and global crises for policymaking and for economic and political outcomes in Western democracies. Specifically, we will embark upon research that addresses the following questions:

- Will globalisation produce a race to the bottom that undermines European Economies?
- Which variety of capitalism



Photo: Michelle Tennison

- will cope best with the challenges of globalisation?
- How are preferences about market integration, redistribution and the welfare state affected by globalisation?

Then, too, we are expanding our outreach through two key partnerships. We will continue our partnership with Chatham House, the Royal Institute of International Affairs – the independent policy institute that provides us with a vital channel to the London-based international community of diplomacy and finance. And, a new affiliation with the Social Market Foundation, the independent public policy think tank, will provide us with a research partner and a conduit to the Westminster world of media, politics and policy.

With these resources and partnerships, our researchers will be poised to take on the demanding questions raised by these challenging economic times.

Nicholas Crafts, a professor in the Department of Economics at the University of Warwick, directs its Centre for Competitive Advantage in the Global Economy (CAGE), funded by the Economic and Social Research Council.

Prof. Crafts is widely recognised for his scholarly work in economic history, which provides insights that inform current policy debates. The most recent Queen's Birthday Honours List named Prof. Crafts a Commander of the Order of the British Empire (CBE) for his services to economic policy. He is also a Fellow of the British Academy, an honour recognising scholarly distinction in the social sciences.

On the CAGE agenda

- Can Western democracies maintain a generous welfare state and sustain international competitiveness?
- How does immigration affect political preferences regarding income inequality and redistribution of income?
- Does the form of aid – workfare or welfare – affect recipients' perceptions about their self-worth?
- What are the implications of bank failures on political beliefs?
- How do cultural differences and historical animosities affect modern economies?
- What are the policy implications of making well-being an indicator of economic progress?

Reflections on the department's first summer school

By Abhinay Muthoo

In July this year, the Department of Economics at the University of Warwick ran its first Summer School.

The department welcomed some 100 students from 20 different countries to spend three weeks studying one of nine economics courses. The school was a new venture for us and we were not entirely sure what type of experience it would turn out to be, not only for our students but also for the faculty and professional staff members who were involved in running it. I'm delighted to say that it proved to be an overwhelmingly positive one.

In addition to traditional courses such as macro, micro and econometrics - all of which were open to undergraduates with at least one year's economics learning - we also ran some specialised courses in areas that included behavioural economics, conflict and negotiations, economics history and money and banking. These were popular with undergraduate and postgraduate students who

wanted to deepen their knowledge in a particular field. The most in-demand course was actually our "Principles of Economics for Non-Economists," which attracted individuals who had no previous teaching in the discipline but who wanted to learn its basic ideas and theories.

In addition to the courses, which were taught in small groups and emphasised the academic rigour of the department, our school also included an external speaker series and cultural programme that brought the whole cohort together regularly throughout the three weeks. And it was in these moments in particular, when all of our students came together to debate and discuss the ideas they were learning, when I could really see just how lively and engaged the cohort were. Whether discussing the future of economics with Nobel laureates such as George Akerlof, the importance of happiness versus wealth with Professors Ken Binmore or Andrew Oswald or the application

The Final Word





of economics to government objectives with the former Cabinet Secretary Lord Gus O'Donnell, our students were challenging and thought-provoking in the questions they asked and in the diversity of opinions that they brought to bear.

The students ranged in age from 18 to 67, and they included undergraduates who wanted additional economics coursework, graduate students from other disciplines seeking to incorporate aspects of economics into their research, and a retiree wanting to update his own expertise. One follow-up note I received sums up the enthusiastic reception from this eclectic group of students. 'On the first day of the summer school, you told us that you wanted us to leave here feeling energised,' one student wrote. 'I haven't been this energised and hungry for knowledge as I am now.'

It was this enthusiasm - the enjoyment in exploring some fundamental questions - that made teaching at the summer school such a pleasure. As my own professional career progresses, I find myself increasingly asking what I call the 'so what' question. Whether through the research we undertake as academics or through the knowledge that we impart through our teaching - I believe that our community can be, and needs to be, more effective than it currently is in helping to address urgent policy challenges or discovering new information that will help us to better understand behaviour and, thus, influence decision-making. The annual teaching cycles and day-to-day timetables of a busy academic department, along with the current academic incentives to publish in a confined and overly narrow way, can too often thwart this type of thinking. The school provided a welcome break from that routine.

In a world in which universities are diversifying their income streams and delivering new initiatives in order to keep pace with the growing demands and expectations of an increasingly mobile and global student body, the introduction of a summer school was evidently sensible for many reasons. It allows us to provide a taster of what we offer academically to a diverse group of students. It helps us to forge new relationships and create new channels through which we can reach out to people and institutions. Over and above all of that, however, the unforeseen benefit of providing space to get back to the 'so what' question was very much an added bonus for me and something that I am now very keen to develop further as we look to deliver our second school in the summer of 2015.

The Author

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More information

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