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A year ago I reported that, in the Spring of 2007, a colleague had said, in evidence to a Parliamentary Committee, that not enough attention had been given to how the regulatory system would cope with a financial crisis. In the twelve months since my last report it has been clear that two major strands of government policy have failed. The first is the system designed to regulate the banking system, so as to ensure that banks have reserves adequate to meet bad debts and the second is the Government's fiscal rules which have been suspended for a lengthy period. The health of the economy has become a more general concern than either of these specific issues, with several quarters of falling output likely.

In such circumstances anyone who produces economic forecasts is asked why they failed to predict the recession, and the National Institute has been exposed to these questions as much as has anyone else. In April 2008 we put the chance of output in 2009 being lower than in 2008 at only 8 per cent. This was computed on the basis of our central forecast and our past forecast errors. So the chance of output falling by more than 1 per cent, as we now expect, would have been minimal. In other words the deterioration of the economy over the past nine months has been outside our past experience, and this is the obvious explanation of why economic forecasts have gone awry. At the same time it is clear that the approaches often proposed by people who refuse to see the point of structural economic forecasting, using last year's growth rate or choosing something between that and the trend rate, would have done even worse.

The experience draws attention to the hazards of learning from past experience. When we began to produce probability forecasts for inflation and growth in 1996 we relied on our past forecast errors as our guide. The long period of stability has meant that these have declined over time. Indeed statistical examination of the performance of our probability forecasts suggested that the bands were too wide. But judged against recent experience they have turned out to be too narrow. Perhaps such forecasts might be improved if we were to find a way of taking account of one in twenty or one in thirty year events, as the current crisis may turn out to be. But assessing such events and their implications for probabilistic forecasts on the basis of historic data is never going to be straightforward.

Of course the reality is that it is much easier to point out structural weaknesses in the economy than to say how they will be resolved. The National Institute was prominent in pointing out the underlying structural weakness of the Government's budgetary position. Indeed commentators have recently criticised organisations like the National Institute for saying this "too early"– pointing to their own difficulties in understanding the difference between the structural and the cyclical position. In fact the Treasury currently estimates the structural deficit to be much larger than we had thought when we first raised the issue in 2003. We also pointed out the inherent problems which were likely to arise from the low structural level of saving in the country; so far there is little evidence that policy-makers are considering how best to help the economy to adjust to one where saving is adequate (or less inadequate). Of course other commentators also drew attention to these and other weaknesses in the economy. But even though people drew attention to the odd nature of some of the transactions in financial markets, no one foresaw a banking crisis which would gain in intensity for more than twelve months, as has in practice happened. No doubt the role of specific factors such as the collapse of Lehman Brothers will be debated for many years to come.

The immediate effect of the crisis has been to increase interest in our macroeconomic work. Media activities have increased and we have also been approached to undertake research in which there would have been little interest a few months ago. For example, in next year's annual report I expect we will be describing the findings of work on the macroeconomic implications of different approaches to financial regulation, which we are about to start for the Financial Services Authority and the Economic and Social Research Council. In October, for the first time, Bloomberg recorded for subsequent transmission the press conference at which our forecast was presented. Looking further ahead we are obviously trying to anticipate the effects of the crisis and its resulting impact on the structure of the economy, for the sources of funding we have access to.

I have repeatedly observed that work on the macroeconomy while the most visible of our activities is not the totality of them. The past year has seen us strengthen our capacity to work on employment relations and policy appraisal, with the appointment of two senior staff who have successful track records in research in these areas, and are also used to identifying sources of funding for their research. Their arrival puts us in a very strong position to be able to take on work in these areas and on labour market issues more broadly. Their success at fundraising seems likely to help us to a surplus in the current financial year and stands us in good stead for the forthcoming financial year.

Nevertheless, the Institute functions only because we are able to obtain support from both our research sponsors and corporate donors. I remain very grateful to them for making our work possible.

I am also very grateful to the distinguished group of Trustees who make up our Council of Management for the work that they have put in over the past year. And it is here that the National Institute is facing a major and immediate change. Professor Steve Nickell, who has been the Chairman of the Council of Management for six years, has resigned to devote more time to other activities. He is to be replaced by Professor Tim Besley, Professor at the London School of Economics and a member of the Monetary Policy Committee. My colleagues and I would like to thank Professor Nickell for the very helpful support both to the Institute and to me personally over the past six years. I am also very pleased that the Council has been able to recruit an economist of Professor Besley's distinction to be our new Chairman. It is of obvious and great value to the Institute to have this post filled by people who are both of high academic standing and also known widely outside academic circles.

The body of this report provides an inevitably incomplete account of the work we have done in the past year. But it nevertheless gives a good impression of the sort of topics that we have been working on and the way in which we have approached them. I hope that you will find it of interest.

Credit crunch to deliver £16bn squeeze on Darling's tax plans
The Times, 1 May

The blow to tax revenues from the credit crunch is set to send the Chancellor plunging £16 billion or more deeper into the red over the next two years than he has planned. . . The Institute calculates that the severe economic and financial impact of the credit crunch will mean that the Chancellor has to borrow an extra £8 billion in the present financial year, 2008–9 and another £8 billion extra in 2009–10. . . the equivalent of adding nearly 4p to the basic rate of income tax.

Lax British bankrupty rules 'make credit crunch worse'
The Times, 2 May

Bankruptcy reforms introduced in 2004 under the Enterprise Act allowed bankrupts to be discharged after one year instead of three to help to reduce the stigma of 'honest failure'. However, the National Institute of Economic and Social Research said that this had fostered an environment in which people were happy to take on debt that they could not repay, inflating the losses of banks and other lenders.

The Institute has called for international co-operation to make bankruptcy laws more stringent, especially in the United States, where lenient bankruptcy and mortgage rules allow borrowers to wipe out their debts without penalty. American borrowers who default on their mortgage can leave the property and write off any unpaid mortgage bills. This, the Institute said, amplified the scale of the global credit crisis.

The Institute is giving warning today that the economy faces its riskiest run for more than a decade. It predicts that a consumer crunch will cause household spending growth to grind to a halt in the autumn. . ."

UK edges towards recession as growth forecasts fall and job losses increase
The Independent, 12 June 2008

Fears grew yesterday that Britain is fast edging into recession with statistics showing unemployment rising for a fourth month in a row, and a warning from one of the nation's most respected think-tanks that the economy is 'scarcely growing'.

The National Institute of Economic and Social Research's latest estimate for economic growth – usually extremely accurate – suggests that the growth rate for the quarter to May was a mere 0.2 per cent, an annualised rate of 0.8 per cent.

Martin Weale, the NIESR director, said he 'would not be surprised' if the UK endured one quarter of negative growth this year.

Tories unveil reform plan for fuel duty worth 5p off litre of petrol
The Guardian, 7 July

The shadow chancellor, George Osborne, yesterday promised a radical reform of fuel duty that would have given motorists an immediate cut of between 5p and 6p a litre on the price of petrol at current rates.

The Conservatives, quoting the independent National Institute of Economic and Social Research, claim that the government will have a windfall of at least £2.8bn because of oil price rises between the budget in March and June.

Brown's £7.5bn black hole
The Independent, 8 July

The Chancellor is facing a £7.5bn black hole in his Budget for next year as a result of the economic downturn, an analysis of Treasury figures for The Independent *has found.*

The black hole means that Alistair Darling will either have to raise tax, cut spending or borrow more. Borrowing such sums risks stoking inflation and a further rise in interest rates.

The figures, given exclusively to The Independent *by the National Institute of Economic and Social Research, will increase the fears of Labour MPs that they are heading for a general election with the public finances in chaos.*

The NIESR predicts that the slowdown in the economy will cut at least £8bn from the tax revenues that Mr Darling predicted in his March Budget while the slump in house sales will halve the Chancellor's stamp duty receipts to £3bn. The only respite for Mr Darling as he prepares the pre-Budget report is the £4.5bn windfall in receipts in duty as a result of the soaring global price of oil.

Can the economy grow even if consumers wilt?
The Sunday Times 27 July

One good way of looking forward is with the National Institute's latest economic review. The National Institute of Economic and Social Research is the oldest of Britain's economic analysis and forecasting bodies, founded 70 years ago when John Maynard Keynes was still in his prime. At times during the Thatcher years, though not now, it was a kind of Treasury in exile.

Its latest forecast is interesting and not good news for retailers. Britain, it says, will have an outright consumer recession, with household spending dropping 0.8% next year after expected growth of 1.9% this year; 2010 will not be much better, with a spending rise of just 0.6%. Not for a long time have consumers been so squeezed.

Let's get financial rules back to the golden standard
Daily Mail, 11 August

Writing in the Daily Mail's Monday View, *Martin Weale criticised the Government's fiscal framework; "As far as one can tell, the rules were produced without serious debate. While his [Mr Brown's] reforms to the Bank of England have ensured that has not become a problem for the fiscal rules, the flaws which would have been avoided by serious discussion have proved fatal."*

Britain is entering recession, says King
The Financial Times, 22 October

Mervyn King last night gave his gloomiest assessment of Britain's economic prospects since becoming Bank of England governor in 2003, saying that the country was now 'entering a recession'.

Mr King's speech came as the National Institute of Economic and Social Research, one of the leading academic think-tanks in Britain, forecast that it was odds-on that the economy would contract for four successive quarters starting with the third quarter of this year.

UK recession likely, says Bank of England
The Independent, 22 October

The Governor of the Bank of England, Mervyn King, said yesterday: "it now seems likely that the UK economy is entering a recession". . . Yesterday, the respected National Institute of Economic and Social Research joined the recessionary chorus. The NIESR said the economy would shrink by 0.9 per cent over 2009, the first full year of recession since 1991.

The Institute said that the stagnant housing market, lower consumer spending and collapsing business investment would push the economy lower.

UK manufacturers warn of gloomiest outlook since 1980
The Guardian, 22 October

Meanwhile, more bad news arrived as a leading economic think-tank said today the British economy has entered a recession that could last until the end of 2009 and would leave the country with "permanent scars".

The National Institute of Economic and Social Research predicted the British economy would contract by 0.9% in 2009 – the first annual fall since 1991.

The NIESR said the country entered a recession in the third quarter of this year and that it would last four quarters. However, it acknowledged there was a one-in-three chance that the recession could run until the end of next year and added that growth in 2010 would be only 0.8 per annum.

The NIESR said consumer spending is expected to fall 3.4% in 2009 due to credit rationing, weak economic growth and negative wealth effects. Unemployment is expected to breach 2 million.

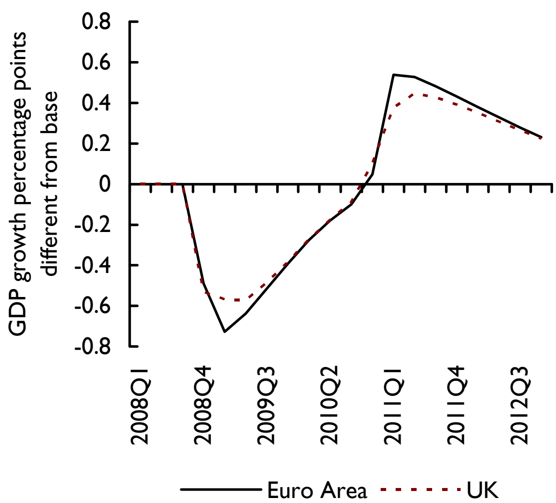
The Institute said that there would be a global recession in 2009, with the worst recession in industrialised countries since 1982. It called for a co-ordinated rate cut of two and a half percentage points to "partially offset the output decline in the US and the UK". It added that US interest rates would have to drop to zero to have a significant impact. The NIESR said property prices would drop 9% in 2009 but would pick up in 2010.

THE SHORT-TERM IMPACTS OF THE FINANCIAL CRISIS

The past year has seen Institute researchers increasingly worried about the prospects for a financial crisis shattering the prospects for growth. What in January was a downside worry around the forecast became by May a serious downside risk. By October it became the main scenario. This was avoidable, and our forecasts and policy advice over the past year have been designed to find ways around the crisis. If the US had managed to avoid the collapse of Lehman's we would not have seen the sudden fault line shift in global financial markets that developed in the middle of September. A banking crisis is like a car crash, we should not forecast one, but warn the driver that it is becoming more likely, explain the consequences and advise on how to prevent it happening.

Our research has made it clear that once a banking crisis arises, the structure of the economy changes. Building on previous research, and on other papers in the October special issue of the Institute *Review*, Ray Barrell, Simon Kirby and Ian Hurst analysed the impacts on output of a temporary and sudden disruption of the banking system. They used NiGEM in its fully forward looking dynamic stochastic general equilibrium mode.

Impacts of a financial crisis on GDP growth (400 basis points for 2 years on shadow discount rates)



Forward looking firms and consumers suddenly face borrowing constraints they had not anticipated in a banking crisis. This implies that the shadow price of borrowing rises sharply, and we modelled this with a 400 basis point rise in discount rates used for two years. In addition, the premium used in discounting future profits in equity markets was raised by the same amount and for the same period. Output growth was anticipated to fall sharply as a result of the collapse of Lehman's, as we can see from the figures below. This was embedded in our October forecast in the *Review*.

In a forward looking world the longer the crisis is expected to last the worse it is now, and the research showed that quick resolution reduced costs. We assumed in October we would see such a quick resolution, with a rapid and large scale recapitalisation of the global banking system by governments. The effective nationalisation of many institutions has been slower than we anticipated. As a result the crisis looks much worse one month on from the publication of the October *Review* because of this delay. The crisis may also have long-term scarring effects on the economy as medium-term risk premia and long term investment plans are revised.

The work on financial crises was undertaken by Ray Barrell, Phil Davis, Dawn Holland, Simon Kirby and Ian Hurst. Regular updates have been provided in the Institute *Review* and at conferences for policymakers throughout the year, with increasing emphasis as the situation deteriorated. Contact: r.barrell@niesr.ac.uk.

COMBINING FORECAST DENSITIES WITH UNCERTAIN INSTABILITIES

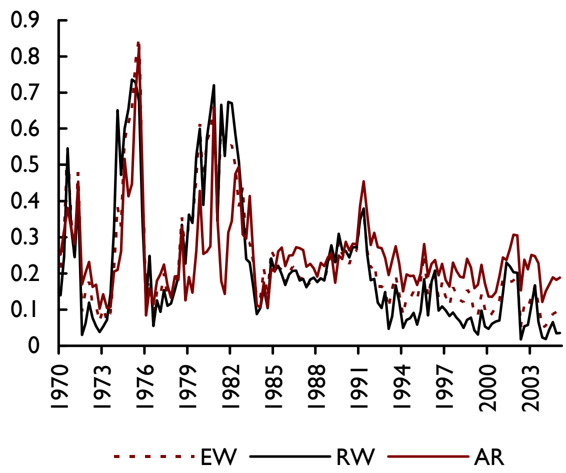
Forecast combination is often found to be an effective method of improving point forecast accuracy in the presence of uncertain instabilities. Indeed experience has taught economists that equal weight combinations are particularly hard to beat, in terms of the 'root mean squared error' (RMSE) of the point or 'central' forecast. But the effectiveness of combination methods in the presence of uncertain instabilities for more general, but unknown, loss functions, has not been studied previously. This is surprising given the plausibility of asymmetric loss functions where the range of uncertainty about a point forecast matters. For example, policymakers may not care equally about inflation above and below zero.

Therefore we studied the effectiveness of both recursively weighted (RW) and equal-weighted (EW) combination strategies for forecast densities from Vector Autoregressive models (VARs) of output, prices and the short-term interest rate using real-time US data. The models included a wide range of VARs and ARs, which differ in their sensitivity to structural changes, including models estimated over the full sample, rolling windows, and break models.

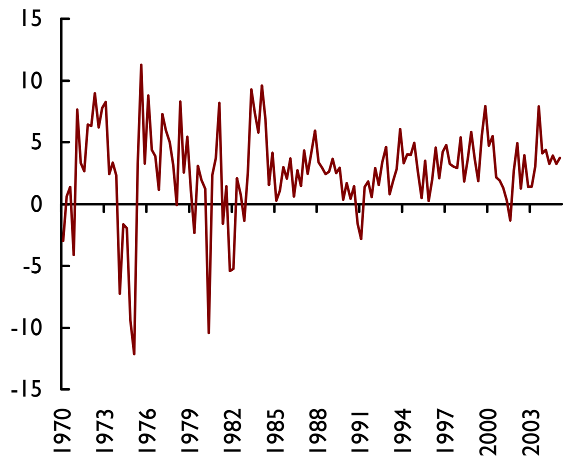
We found that our proposed RW density combination strategy, based on the recursive logarithmic score of the forecast densities, produces accurate predictive densities for Great Moderation data by giving substantial weight to models that allow for structural breaks, particularly shifts in volatility.

The figure illustrates how EW density combinations produce inaccurate forecast densities for output growth in the presence of the shifting volatilities exhibited in the US sample. The top panel plots the 1-step ahead probability, computed in real-time, that output growth is less than zero per cent. The bottom panel plots the (second) realisation of output growth. From the mid-1980s we observe that neither the benchmark (full-sample) AR nor EW pick up the shifting volatilities as well as RW. Output growth drops

Probability of negative GDP growth



Quarterly GDP growth
(2nd release in % at an annual rate)



very rarely below the zero per cent threshold for Great Moderation data. The density forecasts from an AR estimated over the full-sample period give a poor indication of the probability of this particular event, forecasting a 20–30 per cent probability of a (one-period) recession for most of the past 10 years. Broadening the model space to take an equal weighted combination across all the models considered, including rolling and break models, does deliver some improvement. But the probability forecasts from EW are still too high, at between 10–20 per cent over most of the past 10 years. However, using weights based on the recursive logarithmic score produces more accurate probabilities.

This research was carried out by James Mitchell for the ESRC. Contact j.mitchell@niesr.ac.uk.

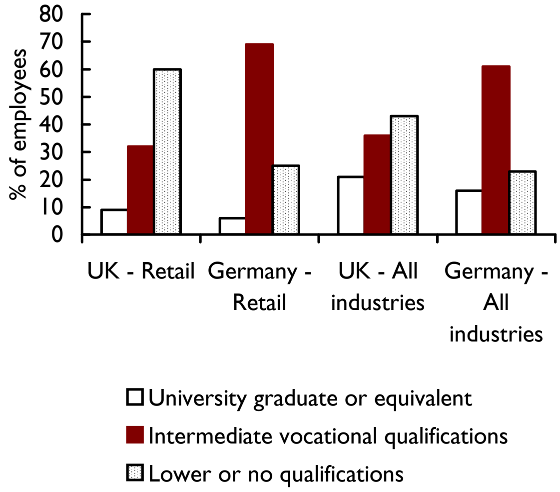
VOCATIONAL SKILLS TRAINING IN THE UK AND GERMANY

In a series of comparisons of matched samples of UK and German establishments in different sectors that were carried out in the 1980s and 1990s, NIESR researchers found that the relatively high incidence of craft apprentice training in Germany contributed to a greater share of output devoted to skill-intensive high value added goods and services relative to the UK. However, there is one major industry – retailing – where many UK observers have always found it hard to understand what benefits German employers gain from investing in apprentice training. In the UK mass market retailing (for example, in supermarkets selling food and drink products) is often seen as inherently a low-skill industry without the scope for developing high value added skill-intensive services.

Some light has now been shed on this issue by a new matched-sample comparison of retail establishments in the two countries. As shown in the figure, the proportion of UK retail employees holding vocational qualifications is much lower than in Germany and UK retail workers also tend to be low-qualified compared to the UK workforce as a whole. In the UK sample of retail firms these relatively low skill levels were typically associated with forms of work organisation in which sales assistants followed day-to-day instructions from their managers and took little independent responsibility for their work. They could be easily shifted between departments, and between sales and checkout functions, in response to changing daily requirements as perceived by managers.

By contrast, in the German retail firms sales assistants were responsible for the whole distributive process, including ordering, merchandising and advising customers, and they did not receive daily instructions from superiors. They also did not change between departments and rarely worked on checkouts. The result was not a lack of flexibility compared to the UK workforce but rather a different kind of flexibility since the German retailers could rely on sales

Workforce qualifications in the total economy and the retail industry, UK and Germany, 2004



assistants taking initiatives in response to changing circumstances. For example, it was the sales assistants themselves who were expected to optimise the assortment of products in order to meet changing customer preferences. Thus the German firms did not need to devote as many resources to management and supervision as their UK counterparts.

The institutional differences underlying these differences in skills and work organisation look set to continue into the future. The main German employer associations and trade unions still combine at sector level to organise apprentice training and periodically to update and modernise the content of training programmes. By contrast, in the UK apprentice training has never featured strongly in private sector service industries such as retailing. And even in manufacturing sectors where UK apprenticeships used to be strong, UK firms have so far failed to respond significantly to government efforts to rebuild apprentice training.

This research was carried out by Geoff Mason in conjunction with Dorothea Voss-Dahm of the Institut Arbeit und Qualifikation, Gelsenkirchen, Germany. It was supported by the Russell Sage Foundation. Enquiries to g.mason@niesr.ac.uk.

THE IMPACT OF PRICE–COST MARGINS ON THE LABOUR MARKET

In a recent study carried out for the European Commission, we evaluated the impacts of the introduction of the euro on both actual and potential output and employment in the Euro Area. One section of this study is concerned with determining the factors that drive the mark-up of prices charged by firms over the costs faced by firms. Price-cost margin estimates suggest that they have been higher in EU countries than in the United States, especially in market services. The literature on the role of the mark-up in the labour market is extensive, and it suggests that if mark-ups fall then equilibrium employment will rise. A number of factors such as the globalisation of production and the liberalisation of trade may influence the mark-up, and if EMU increases the scope of competition in the Euro Area, then there are likely to be effects on the mark-up of prices over costs.

To evaluate the impact of price-cost margins on the labour market, we estimate a series of price equations, using a production function approach to derive the marginal cost expression. Marginal cost in this framework depends on the nominal wage, labour productivity and an indicator of technology. Observed prices also include a profit margin or price mark-up. This mark-up is time varying, and depends on the cyclical position of the economy as well as factors driving competition and regulation. The key focus of this study is to identify some of the factors that drive the price mark-up. We consider three measures of trade liberalisation: the establishment of the European single market, which has increased competition across Europe; the establishment of the North American Free Trade Agreement; and a global measure of trade liberalisation to capture competition from the rest of the world.

Within a cointegrating framework, we estimated the determinants of the price mark-up as:

$$markup = \alpha_1 \ln(output\ gap) + \alpha_2 European\ Single\ Market + \alpha_3 EMU + \alpha_4 trade\ liberalisation + \alpha_5 NAFTA$$

Determinants of the mark-up

ln(*output gap*)	0.12	(4.8)
European Single Market	–0.0094	(7.3)
EMU	–0.0007	(0.9)
Nafta	–0.0057	(3.0)
Global trade liberalisation	–0.030	(3.2)
Adj. R-squared	0.47	

t-statistics in parentheses. Estimates were derived from VECM estimation of a cointegrating marginal cost equation. Country-specific fixed effects were included in estimation, with 2 lags of the dynamic endogenous variables.
Sample: 81q1-2004q4, 8 countries.

The results of estimation are reported in the table above. The parameter on the European Single Market indicator is significant in most countries, and indicates that, as the single market progressed, competition increased and had a negative impact on the mark-up of prices over costs. The regional integration associated with NAFTA has also had a significant impact on competition and the mark-up of prices over costs in the US, although the magnitude of the estimated impact is smaller than in the European Union. The estimated parameter on the global trade liberalisation measure is negative, indicating that increased globalisation has put downward pressure on the mark-up. The introduction of the euro itself, and the increased transparency associated with EMU, does not appear to have had a significant impact on price levels in the Euro Area economies, although the point estimate is correctly signed. We cannot identify a clear impact from EMU on the equilibrium employment rate. Trade liberalisation, on the other hand, both at the regional and global level, has significantly reduced price mark-ups in Europe and the US, and has raised the sustainable level of employment.

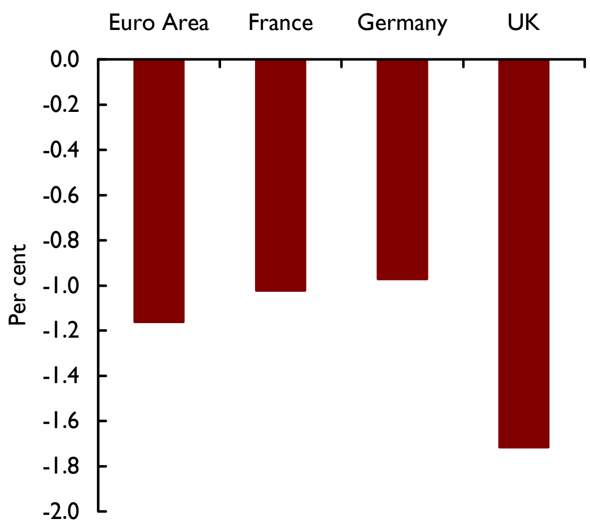
This work was undertaken by Dawn Holland and was financed by the European Commission as part of a study on the impact of the euro on growth and employment. The results are discussed in more detail in European Economy Economic Papers no. 318 (*http://ec.europa.eu/economy_finance/publications*). Enquiries to Dawn Holland (d.holland@niesr.ac.uk).

THE EFFECT OF RISING RISK PREMIA ON TREND OUTPUT

After nearly two decades of stability the world economy is going through a period of financial turmoil as banks face the consequences of poor lending decisions. The credit boom has ended. Risk premia have risen in many markets leading to increases in the cost of finance for household and corporate sectors. Coupled with falling housing markets and, until recently, the impact of high oil prices, a number of economies look to have been tipped into recession. Work at NIESR was undertaken to gauge the likely impact on trend output from the various shocks buffeting the world economy.

Of particular interest is the rising risk premia associated with the crisis stalking global financial markets. Even before the collapse of Lehman Brothers (when this work was undertaken), risk premia had increased markedly. Between November 2007 and early September 2008 the BAA corporate bond spread over government long rates, a good measure of risk premia faced by private businesses, had been 200 basis points higher in the UK and the Euro Area than its average over the previous few years. In the simulation results presented in the figure below we have projected this rise in risk premia into the future using our global econometric model NiGEM. There are three main transmission mechanisms for a re-pricing of risk by financial markets with NiGEM. This is firstly via the investment premium, the spread between corporate and risk free government bonds: secondly, the equity price premia, adjustments to which are associated with a re-evaluation of the risk attached to future profit streams of the corporate sector. Thirdly, the final mechanism directly affects the household sector and is the spread between household borrowing and lending rates. All of these have increased to varying degrees across European countries.

The impact on GDP of a sustained 2 percentage points increase in risk premia (per cent difference from baseline)



The effects from a permanent increase in risk premia build over time. An increase of this magnitude would depress the trend level of output by 1¾ per cent in the UK, an effect which is almost 75 per cent greater than in France and Germany. Such a stark variation from a uniform shock is primarily due to the importance of financial markets in the UK. An increase in the equity risk premium depresses wealth as well as increasing the user cost of capital, reducing both demand and supply. The UK has far larger equity holdings relative to the euro zone. Consequently, the negative wealth effect and the impact on the user cost of capital are greater. Just taking the rise in risk premia in isolation highlights how the UK is perhaps not as well placed to weather the storm as are many of our European partners.

This work was undertaken by Ray Barrell and Simon Kirby. Enquiries to s.kirby@niesr.ac.uk.

CHANGES IN EMPLOYEE REPRESENTATION OVER 25 YEARS

The past quarter century in Britain has brought changes in economic conditions, political values and the breadth and depth of union influence. How did these changes affect the network of lay union representatives? Recent research at NIESR and the University of York drew upon the series of Workplace Employment Relations Surveys, undertaken in 1980, 1984, 1990, 1998 and 2004 to investigate the changing pattern of workplace employee representation over the past twenty-five years.

In 1980, there were around 328,000 shop stewards, with shop stewards present in 50 per cent of workplaces (see figure). By 2004, equivalent estimates suggest that there were only around 102,000 shop stewards, and these were present in just 23 per cent of workplaces. The decline had a number of causes. First, there were falling rates of union recognition and, second, a declining propensity for recognised workplaces to support on-site lay union representatives. Third, there were fewer shop stewards in workplaces where on-site representation had been maintained. Finally, there was the shift in employment towards private services, where unions were traditionally less well organised. The research indicated that these four factors each played roles of approximately equal importance between the high point of 1984 and the low point of 2004.

Prevalence of shop stewards of recognised trade unions, 1980-2004

Nevertheless, in workplaces with shop stewards, there were important continuities between 1980 and 2004. In 1980, senior shop stewards were likely to be older, white men. By 2004, this had not changed, despite the female share of all union members having increased substantially. Those shop stewards remaining in 2004 continued to enjoy similar levels of management-provided facilities to their counterparts of 1980. Shop stewards were spending more time on representative duties in 2004 than they were in 1998. But, despite this institutional continuity, there is also widespread evidence of a dramatic decline in the influence of shop stewards over the management of the workplace, and of a change in their role.

Analysis of data from employees showed that shop stewards were still, in 2004, clearly perceived to make a difference to many employees' experience of work. But there was nonetheless a degree of scepticism, with a minority considering that unions lacked power, that they were not taken seriously by management, and that they made no difference to the workplace. Nevertheless, union shop stewards have not been replaced substantially by non-union employee representatives. Furthermore, employees tend to rate non-union representatives as being less effective than union shop stewards. Overall, then, changes in employee representation can be seen as part of a wider pattern of declining collectivism, and the shifting ideologies of workplace governance.

For further details, see NIESR Discussion Paper No. 317. The research was undertaken by John Forth in collaboration with Dr Andy Charlwood (University of York). ESRC grant reference: RES-000-23-1603. Forthcoming in *The Evolution of the Modern Workplace* (CUP, May 2009). Enquiries to: j.forth@niesr.ac.uk

This programme of longitudinal research has two key aims. First, to improve our understanding of the career intentions and ambitions of part-time students and graduates, including their employment and training outcomes and the career guidance interventions required to support them. Secondly, to gain deeper insights into employers' views of part-time students, especially how and if they support and reward part-time students.

This research was undertaken by Rebecca Hopkin, Geoff Mason and David Wilkinson with Professor Claire Callender (Birkbeck College) on behalf of the Higher Education Careers Service Unit. Enquiries to d.wilkinson@niesr.ac.uk

Part-time students have always been on the periphery of higher education (HE), despite the fact that they make up 40 per cent of the HE student population. In the context of a drive to widen participation in HE, it is essential to consider this growing part of the sector which is essential to an economy based on lifelong learning. The Leitch Review of Skills (2006) sees part-time HE study as having a major role in meeting the skill needs of the current and future workforce, and in increasing participation in higher education.

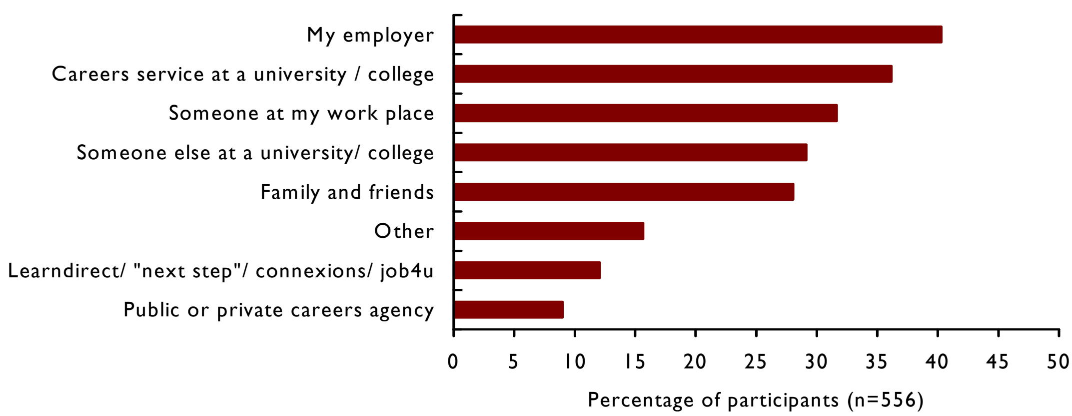
We have conducted an initial survey of students in the UK that covers six subject areas: Engineering, Technology, Social Science, Law, Business and Education. The survey is a split cohort design including roughly 2,000 first year students and 2,000 final year students. These students will be re-interviewed in two years time when the first year students will be expected to be in the middle of their course and the final year students will have graduated.

Study for this group of students was highly related to their careers, 90% reporting that their study related to career aims. Seventy per cent of students were in employment and their study was typically related to this employment.

Roughly 75% of students decided to study either because "they realised they need a higher education qualification to get ahead" or because "they realised that their existing qualifications were inadequate to meet their career ambitions". However, only a third sought careers information, advice or guidance before starting study. Over 70% of those who did not stated that it was because they knew what they wanted to do and did not need it. For students seeking information, advice or guidance, the figure indicates that this advice was from a variety of sources and the most common sources were the employer and the careers services at universities and colleges.

Future work will explore the role of careers services in developing career decisions for part-time students and consider career plans, costs of study, employer support and attitudes, and the benefits and constraints of study.

Source of students' careers information, advice or guidance

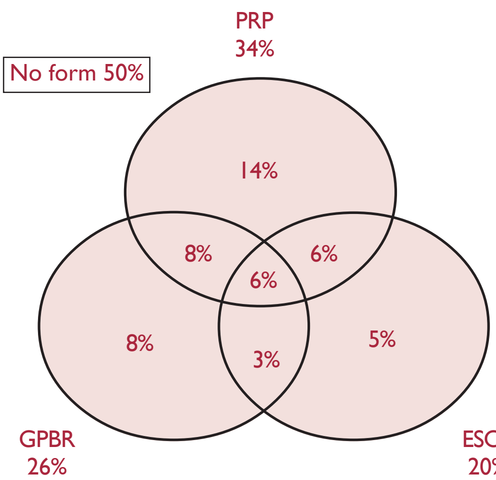


HOW DOES SHARED CAPITALISM AFFECT ECONOMIC PERFORMANCE?

Shared capitalism, by which we mean firms that pay all or almost all employees in part on the basis of performance of their enterprise or workplace, has traditionally been viewed as a niche part of an economy. Our analysis shows that in the UK and US, and to a growing extent in other advanced countries, shared capitalist modes of pay and work arrangements have increased way beyond niche economic status. In the US 44% of workers have part of their pay linked to company performance, and in Britain, one-fifth of private sector workplaces have share ownership schemes covering one-third of employees.

Some of the growth in share ownership in Britain over the past quarter century (and in Employee Stock Ownership Plans in the US) is attributable to government tax privileges given to firms that pay workers with ownership stakes. But it is also part of a movement towards giving workers incentives through collective forms of pay. But is this good for the economy? The narrowest theory of worker behaviour says not. Workers will free ride on the backs of others instead of trying harder because of the financial incentive. Under UK tax law employees have to hold onto shares for three years before they benefit from the tax breaks. Shares can go down as well as up. And worker

Incidence of combinations of shared capitalist pay schemes, WERS 2004



Note: Workplaces with 5 or more employees. PRP = profit related pay; ESOS = employee share ownership schemes; GPBR = group payments-by-results.

This research was funded by the Department of Business and Regulatory Reform and carried out by Alex Bryson (NIESR and CEP) and Richard Freeman (Harvard, NBER and CEP). Enquiries to a.bryson@niesr.ac.uk.

effort and activity is only one factor influencing the company's performance. Aside from CEOs and top executives few employees have sizeable holdings that give them both a large financial stake and influence on decisions. But share ownership and other forms of shared capitalism are large and growing. Shared capitalist enterprises are meeting the market test. So do they really lead to better performance?

We find that shared capitalism works for UK firms beyond the fabled John Lewis. We also find substantial differences in the effectiveness of various schemes, and that effectiveness differs in combination with other practices. Our work, based on workplace data from the 2004 Workplace Employment Relations Survey, finds positive effects of share ownership on workplace productivity variously defined, with the effects being much more pronounced when share capitalism schemes are deployed in combination. Among the single schemes, share ownership has the clearest positive association with productivity, but its impact is largest when firms combine it with other forms of shared capitalist pay. This may explain why British firms are increasingly choosing multiple collective pay systems.

The findings in the UK mirror research in the US which surveyed workers in firms concerned about what makes shared capitalism work more or less effectively. The research, to be published as an NBER volume in 2009, shows that shared capitalism improves outcomes for companies and their workers. It also finds that shared capitalism and high performance work policies have stronger effects in predicting an innovation culture when they are combined in a setting that encourages worker co-monitoring.

FULL NEW DEAL PARTICIPATION FOR OLDER UNEMPLOYED PEOPLE

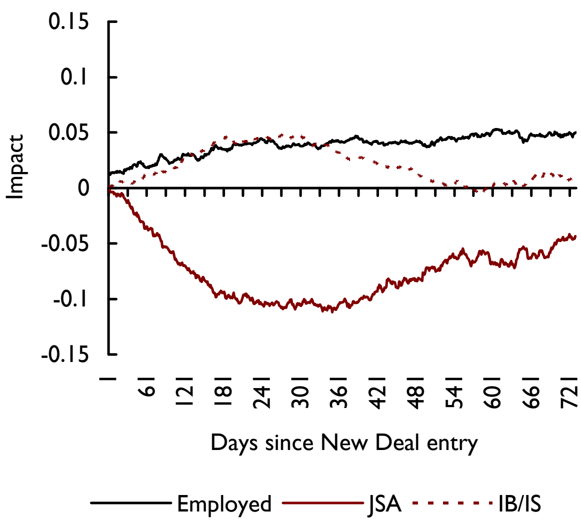
In the UK, long-term unemployed people aged 25 or over enter a labour market programme – the New Deal 25 Plus (ND25+). Historically, participation in the key element of ND25+ – the so-called Intensive Activity Period (IAP) – has been voluntary for the over-50s but compulsory for younger people. This research used an experimental approach to examine the effect of making participation compulsory for the over-50s.

This research was undertaken by Richard Dorsett in collaboration with Deborah Smeaton (Policy Studies Institute) on behalf of the Department for Work and Pensions (DWP). The final report is available at http://www.dwp.gov.uk/asd/asd5/rports2007-2008/rrep500.pdf. Enquiries to r.dorsett@niesr.ac.uk.

The origins of the research lie in the 2002 DWP Green Paper *Simplicity, security and choice: working and saving for retirement.* This announced the intention to carry out a pilot study examining whether there was a role for compulsion with regard to IAP participation in order to address the low participation rates among the over-50s and to conform to the Government's age equality strategy. Under the IAP, participants are offered a variety of assistance (training, work experience, etc.) lasting 13 to 52 weeks.

Pilots ran in 14 Jobcentre Plus districts. Between 2004 and 2006, individuals aged 50–59 who entered ND25+ in one of these areas were allocated by a lottery process into a treatment group for whom IAP participation was compulsory, or a control group for whom IAP participation remained voluntary. Comparing the outcomes of the two groups provides a robust estimate of the effect of making IAP compulsory.

Summary of the impacts of mandating IAP



Outcomes were taken from DWP administrative records of benefit receipt and employment. The main findings were that the requirement to participate in the IAP caused a sustained increase in employment and, in the longer run, a similar sized reduction in claimant unemployment. Two years after ND25+ entry, those required to participate in the IAP had an employment rate of 27.3%, some 5 percentage points higher than the rate for the control group. At 39.3%, Jobseeker's Allowance (JSA) rates were 4.4 percentage points below what they would have been were participation voluntary. In the shorter term, the requirement to participate caused a movement towards other benefits: Incapacity Benefit and Income Support (IB/IS). However, this impact was not sustained.

It is interesting to note that significant impacts were evident before the point at which individuals would normally be expected to enter the IAP (about four months after New Deal entry). This suggests that some people altered their behaviour in order to avoid having to participate in the IAP rather than as a result of having participated in the IAP.

Based on the results of the evaluation, the requirement for the over-50s to participate in the IAP was introduced nationally in June 2007.

WORK-RELATED LEARNING OPPORTUNITIES IN THE RURAL ECONOMY

Work-related learning (WRL) involves young people learning about the world of work, developing their skills and attributes to succeed in the future working environment. NIESR was commissioned by the National Endowment for Science, Technology and the Arts (NESTA) to examine models of engagement between smaller, more enterprising, companies in the rural economy and young people aged 14–19. The research included discussions with rural businesses involved with work-related learning and with more than 50 stakeholders in schools, connexions partnerships, education/business partnerships, local authorities, enterprise bodies and representatives of projects and initiatives delivering work-related learning. The focus of the study was on identifying good practice.

Key findings and recommendations

Rural economies represent some of the key features of the future world of work. These include the growth of micro-businesses and self-employment, IT-based products and services and diversification of traditional industries. Young people have much to gain from learning about these changes. Equally, rural economies need young people to ensure their future sustainability.

There is a wide assortment of work-related learning activity in rural areas, including work experience, enterprise competitions, employer visits, mock interviews, use of role models and mentoring programmes. Employers are involved in these activities for many reasons. They want to support their local community, inspire young talent and 'give something back'. They also want to explain their skill requirements and highlight job opportunities. While gaining satisfaction by assisting schools and young people, they also benefit their business by raising their profile, networking with other employers and learning young people's perspectives on their business projects and problems.

But employer engagement is sporadic in rural schools. Rural employers can find engagement harder because of their size. Small firms can ill afford a lot of non-productive activity. Getting to events can involve more time and cost than in cities. There may also be a lack of knowledge about how to become involved and confusion resulting from the sheer number of such programmes. As a result, much work-related learning relating to rural industries does not include the authentic voice of employers or have a focus on enterprise. Consequently, young people in rural areas may not have a complete picture of opportunities available locally and assume that their future is in employment in distant towns and cities.

Promoting employer engagement: what works?

- **Highlight the benefits** Rural employers have an interest in the health of their local economy, so should see the benefits of reducing youth unemployment, maximising local talent and revitalising their community. Approaches to rural employers that incorporate such messages, and appeal to the distinctive contribution of each business could help bring them on board.

- **Employer champions** The business benefits of such engagement should be widely publicised to foster business–education links. Messages can be most effective when delivered by champions working with local employer networks.

- **Simple options** Small rural firms may have little time to discuss complicated programmes and may not even be able to host work placements. But they may be enticed by simple options with specified time commitments. Brokers and networks can act as efficient go-betweens where businesses are dispersed.

- **Use IT** Information and communications technologies can greatly enhance work-related learning, not least through virtual work placements and e-mentoring. Their potential is greatest in isolated rural communities where travel between schools and workplaces is time-consuming and costly.

A copy of the full report is available at: http://www.nesta.org.uk/rural-opportunities-report/. NIESR and NESTA have also co-authored a report combining the findings of this and two other NESTA studies on WRL, available at http://www.nesta.org.uk/work-related-learning-for-an-innovative-nation/ or through contacting Dr Heather Rolfe at NIESR: h.rolfe@niesr.ac.uk

PAY GAPS ACROSS THE EQUALITY STRANDS

The Equality and Human Rights Commission (EHRC) commissioned a series of research reviews to inform its future research and policy agenda. NIESR reviewed the evidence on pay gaps by the six characteristics of concern to the EHRC (gender, ethnicity, religion and belief, age, disability and sexual orientation).

This research was conducted by Hilary Metcalf, funded by the Equality and Human Rights Commission. Enquiries to h.metcalf@niesr.ac.uk.

Pay gap research is concerned with pay differences between groups (e.g. women and men) and their causes. Of particular interest is whether differences stem from productivity differences or other factors, as the latter may indicate discrimination.

The gender pay gap has been subject to substantial scrutiny. Household division of labour, occupational, industrial and sectoral concentration have major impacts on the gender pay gap. Motherhood results not only in women withdrawing from the labour market for a period (affecting the development of human capital), but also in a shift to part-time work, which is highly concentrated in low paid occupations. However, not all the pay gap can be explained by differences in human capital and work patterns and pay discrimination and the undervaluing of work done by women remains.

Pay gap research is more limited for other equality groups. On average, pay rates for Bangladeshi, Black African and Pakistani men are around 20% below those for white men, but there is no significant difference for the other major ethnic minority groups. However, once qualification differences are taken into account all major UK ethnic minority groups suffer a pay gap, ranging from 10% for Chinese men to 27% for Bangladeshi men. Muslims suffer a pay gap compared with Christian men, whilst Jews have a pay advantage. The pay gap for disabled people depends on how disability is defined and measured, estimates have ranged from a gap of 3 to 26% for men. Most studies have found that adjusting for qualification differences lowers the gap. Men aged 60 and over have pay rates of 23% less than those in their 40s. Gay cohabitees tend to have a higher pay rate than straight cohabitees. However, this gap reverses once educational differences are taken into account.

The causes of pay gaps other than for gender is not well enough explored. Pay discrimination has been identified for some groups, but less clear is the degree to which differences in employment patterns affect the pay gap and the extent to which these patterns are affected by real choice or discrimination (for example in access to education and training). From a policy viewpoint, it is clear that policies to tackle the gender pay gap should focus on diminishing gender differences in the household division of labour, changing gender differences in economic activity and part-time work (or reducing their negative effects), reducing concentration and segregation and addressing the undervaluation of women's work generally. However, more research is required to identify the key policies for addressing other types of pay gaps.

	Comparator	*Unadjusted hourly pay gap*	*Adjusting for human capital*
Gender	Full-time men	Full-time women 17%[(a)]; Part-time women 42%[(a)]	Small reduction
Ethnicity (men)	White	Bangladeshi, Black African and Pakistani around 20%[b]; Indian, Black Caribbean, Chinese no significant difference[(b)]	All ethnic minority groups disadvantaged and gap widens
Religion	Christian men	Muslim men 17%[(b)]; Jewish men –37%[(b)]	Not available
Disability	Non-disabled men	Varies with definition of disability	Varies across studies
Age	Males aged 40–49	Males aged 60+ 23%[(a)]	Not available
Sexual orientation	Men cohabiting with women	Men cohabiting with men –8%[(b)]	Differential reversed

Notes: (a) ASHE, 2007. (b) LFS for 2004–7 in Longhi, S. and Platt, L. (forthcoming 2009), 'Pay gaps across equalities areas', EHRC Research Report, London, EHRC.

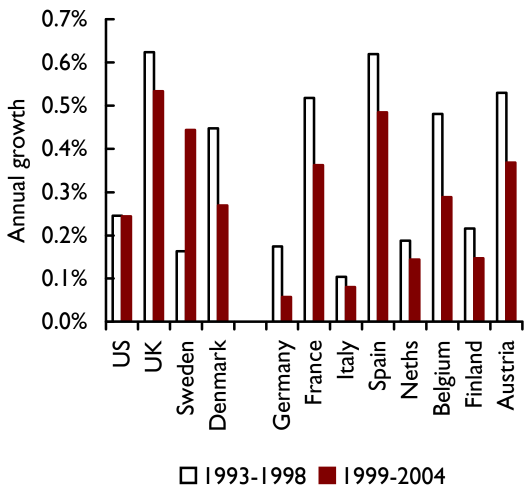
THE IMPACT OF EMU ON GROWTH IN EUROPE

Output growth in the Euro Area has been disappointing since the formation of EMU. Growth was particularly weak in Germany and Italy in the early years of EMU whilst it was strong in the UK, pointing to a possible role for monetary arrangements. Before we can draw this conclusion it is necessary to remove the effects of other factors. Two papers by Ray Barrell, Dawn Holland, Iana Liadze and Olga Pomerantz have tried to dissect the problems using growth accounting exercises and an econometric investigation of the determinants of output in Europe and the US.

There are several channels through which the euro may have affected growth: greater transparency and its impact on competitiveness and the effectiveness of the single market; integration of financial markets, which may raise productivity; and a more stable macroeconomic environment, which affects risk and investment decisions. These can only be evaluated after controlling for factors such as workforce skills, the research base, the openness of the economy, demographic developments and structural reform on the evolution of output. As the figure shows, the contribution of the growth of skills in the growth accounting exercise was weakest in Italy and Germany, explaining much of their slow growth, and skill growth was particularly strong in the UK. Skill growth is likely to be unaffected by EMU membership.

The econometric studies, which also included impacts from skills, concluded that EMU has probably had a small positive effect, with the direct positive effects likely to be larger in the core countries, raising their potential output by up to 2 per cent, despite their recent slow growth, and that EMU may lead to agglomeration of activities. It was not clear that peripheral countries gained from EMU.

Skills component of TFP growth



This work was undertaken by Ray Barrell, Sylvia, Gottschalk, Dawn Holland, Ehsan Khoman, Iana Liadze and Olga Pomerantz, and was financed by the European Commission as part of a study on the impact of the euro on growth and employment. The results are discussed in more detail in European Economy Economic Papers no. 318 (http://ec.europa.eu/economy_finance/publications). Contact r.barrell@niesr.ac.uk.

NATIONAL INSTITUTE ECONOMIC REVIEW

In line with our recent custom, each edition of the *Review* contained articles on a special theme. Articles which appeared during 2008 were as follows:

No. 203 (January)
Recent developments in economic forecasting
Editor: James Mitchell

The GDP fan charts: an empirical evaluation
Kevin Dowd
Here is the news: forecast revisions in the Bank of England survey of external forecasters
Gianna Boero, Jeremy Smith and Kenneth F. Wallis
Real-time probability forecasts of UK macroeconomic events
Anthony Garratt, Kevin Lee and Shaun Vahey
Forecasting the Swiss economy using VECX* models: an exercise in forecast combination across models and observation windows
Katrin Assenmacher-Wesche and M. Hashem Pesaran
A review of forecasting techniques for large data sets
Jana Eklund and George Kapetanios

No. 204 (April)
The European Union's new member states
Editor: Dawn Holland

Prices and price convergence in emerging Europe: an overview
Balazs Egert
Effects of foreign ownership on innovation activities: empirical evidence for 12 European countries
Martin Falk
Sustainable exchange rates when trade winds are plentiful
Jan Babecký, Aleš Bulíır and Katerina Šmídková
Creating productive jobs in East European transition economies
J. David Brown and John S. Earle
Real wage flexibility in the enlarged EU: evidence from a structural VAR
Jan Babecký and Kamil Dybczak

No. 205 (July)
Social mobility in the UK
Editor: Hilary Metcalf

Origins of social immobility and inequality: parenting and early child development
John Ermisch
A transgenerational model of status attainment: the potential mediating role of school motivation and education
Ingrid Schoon
Trends in intergenerational class mobility in modern Britain: evidence from national surveys, 1972–2005
John H. Goldthorpe and Colin Mills
Up and down the generational income ladder in Britain: past changes and future prospects
Jo Blanden and Stephen Machin

No. 206 (October)
The Great Crash of 2008
Editor: Ray Barrell

The evolution of the financial market crisis in 2008
Ray Barrell and E. Philip Davis
Risk management and the costs of the banking crisis
Patrick Honohan
Should monetary policy respond to asset price bubbles? Revisiting the debate
Sushil Wadhwani
Could early warning systems have helped to predict the sub-prime crisis?
E. Philip Davis and Dilruba Karim
The boundary problem in financial regulation
Charles Goodhart
Financial crises, regulation and growth
Ray Barrell, Ian Hurst and Simon Kirby

NATIONAL INSTITUTE DISCUSSION PAPERS

Discussion papers exist to foster debate on Institute research. Recent papers listed below are available on our website www.niesr.ac.uk or free on request.

302. Annuities and aggregate mortality risk
J. van de Ven and M. Weale

303. Combining forecast densities from VARs with uncertain instabilities
J. Mitchell, A.S. Jore and S.P. Vahey

304. Consumer confidence indices and short-term forecasting of consumption
A. Al-Eyd, R. Barrell and E.P. Davis

305. Monetary policy, beliefs, unemployment and inflation: evidence from the UK
S.G.B. Henry

306. Sectoral growth in the European Union: an overview of output and input trends
M. O'Mahony, A. Rincon-Aznar and C. Robinson

307. Productivity growth in the US and the EU? A sectoral analysis
M. O'Mahony, A. Rincon-Aznar and C. Robinson

308. Ambition versus gradualism in disinflation horizons under bounded rationality: the case of Chile
A. Al-Eyd and M. Karasulu

309. Unsecured indebtedness in the United Kingdom – implications from a rational agent model
J. van de Ven and M. Weale

310. The influence of unsecured debt on consumer responses to an adverse labour market shock – implications from a rational agent model
J. van de Ven and M. Weale

311. Are we living beyond our means? A comparison of France, Italy, Spain and the United Kingdom
E. Khoman and M. Weale

312. Notes on the Lisbon process: an analysis of the impacts of reaching the Lisbon targets for skills, R&D and the administration burden in the European Union
R. Barrell and S. Kirby

313. Financial crises, regulation and growth
R. Barrell, I. Hurst and S. Kirby

314. The impact of EMU on growth in Europe
R. Barrell, D. Holland, I. Liadze and O. Pomerantz

315. From industrial relations to human resource management: the changing role of the personnel function
D. Guest and A. Bryson

316. Conflict at work: the pattern of disputes in Britain since 1980
J. Forth, G. Dix and K. Sisson

317. Workplace employee representatives, 1980–2004
J. Forth and A. Charlwood

318. Competition and the retreat from collective bargaining
A. Bryson, J. Forth and W. Brown

319. The changing use of contingent pay at the modern British workplace
A. Bryson, A. Pendleton and K. Whitfield

320. Evaluating density forecasts: is sharpness needed?
J. Mitchell and K.F. Wallis

321. The rise of high involvement management in Britain
A. Bryson and S.J. Wood

322. Risk and mortality-adjusted annuities
J. van de Ven and M. Weale

323. Qualitative business surveys: signal or noise?
S. Lui, J. Mitchell and M. Weale

324. A simulation analysis of the effects of the socio-economic environment on fertility and female labour supply decisions in the United Kingdom
J. van de Ven, A. Skeen and S. Voitchovsky

MONTHLY GDP

The National Institute publishes monthly and rolling quarterly estimates of UK GDP. Estimates of growth in calendar quarters are published about three weeks ahead of official data. Subscribers are notified of the estimates ahead of public release. Further information can be obtained from Goran Stankov at g.stankov@niesr.ac.uk or by telephone on 020 7654 1931.

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Mason, G., Williams, G. and Cranmer, S. *Employability skills initiatives in higher education: what effects do they have on graduate labour market outcomes*, Education Economics *(forthcoming*).

Meadows, P. and Metcalf, H., *Does literacy and numeracy training for adults increase employment and employability? Evidence from the Skills for Life programme in England,* Industrial Relations Journal, September, pp. 346–53.

Metcalf, H. and Meadows, P., *Outcomes for basic skills learners: a four-year longitudinal study*, in Bynner, J. and Reder, S. (eds), Tracking Adult Basic Skills: Findings from Longitudinal Research, Oxford, Routledge, *forthcoming*.

Metcalf, H., Meadows, P., Rolfe, H., Dhudwar, A., Coleman, N., Wapshott, J. and Carpenter, H., *Evaluation of the Impact of Skills for Life Learning: Longitudinal Survey of Adult Learners on College-based Literacy and Numeracy Courses, Final Report*, London Department for Innovation, Universities and Skills, *forthcoming*.

Metcalf, H., Nadeem, S. and Rolfe, H., *Case Studies into the Recruitment, Retention and Progression of Black and Minority Ethnic Staff: Lessons for the Criminal Justice System*, Office for Criminal Justice Reform (Race Equality Unit) (*forthcoming*).

Metcalf, H., Rolfe, H. and Dhudwar, A., *Employment of Migrant Workers: Case Studies of Selected Employers in Wales and Scotland*, Welsh Government Assembly, *forthcoming*.

O'Mahony, M., *International comparisons of output and productivity in public service provision: a review*, in Boyne, G.A., O'Toole, L.J., Meier, K.J. and Walker, R.M. (eds), *Public Service Performance: Perspectives on Management and Measurement*, Cambridge, Cambridge University Press.

Riley, R., Metcalf, H. and Forth, J., *The Business Case for Equal Opportunities: An Econometric Investigation*, Department for Work and Pensions, Research Report no. 483, April.

Rolfe, H., *Rural Opportunities: A Study of Work-related Learning Opportunities in the Rural Economy for Young People aged 14–19*, London, NESTA.

Rolfe, H. and Crowley, T., *Work-related Learning for an Innovation Nation*, London, NESTA.

Salter, A. Bishop, K. and Reichstein, T., *Exploring the role of geographic proximity in shaping university-industry interactions*, in Venables, T. and Bessant, J. (eds), *Creating Wealth from Knowledge*, Edward Elgar.

Sefton, J., van de Ven, J. and Weale, M., *Means-testing retirement benefits: fostering equality or discouraging savings*, Economic Journal, April, pp. 556–90.

Sharp, J. and Hopkin, R., *Profession makes progress in primary science*, Primary First, 1, pp. 6–9.

Taylor, C., *Foreign direct investment and the euro: the first five years*, Cambridge Journal of Economics 2008, March, pp. 1–28.

Van de Ven, J. and Weale, M., *A general equilibrium of annuity rates in the presence of aggregate mortality risk*, in Alho, J.H., Hougaard, J. and Lassila, J., *Uncertain Demographics and Fiscal Sustainability*, Cambridge, Cambridge University Press, *forthcoming*.

Weale, M., *The Average Earnings Index and Average Weekly Earnings*, National Statistician, July.

PAPERS PRESENTED

Barrell, R., *Risk and the macro economy*, Kiel meeting, March 2008 and DZ Central bank Conference, Vienna, April.

—*The Great Crash of 2008 – Financial crises and the world economy*, United Nations, October and at the IMF, December.

—*Prospects for the world economy*, United Nations, October.

—*Prospects for the European economies*, United Nations, October.

—*Real oil prices – short and long-run impacts on output and income growth*, HM Treasury macroeconomics seminar, November.

—*Monetary Union and the crunch in 2010*, European Institute, London School of Economics, December.

Barrell, R., Holland, D., Liadze, I. and Pomerantz, O., *EMU on growth*, HM Treasury macroeconomics seminar, November.

Barrell, R., Hurst, I. and Kirby, S., *Financial crises, regulation and growth*, AIECE meeting, Budapest, May; Brunel University conference on financial crises, May, and the IMF, December.

—Extending working lives in Europe, DGEcFin conference, Brussels, March.

Barrell, R. and Kirby, S., *The budgetary implications of global shocks to cycles and trends in output*, ESRI Budget Outlook conference, Dublin, October.

Bewley, H., *Evaluating Welfare to Work: Pathways to Work*, DWP Special Session at the Annual Work Pension and Labour Economics Study Group Conference, University of Sheffield, July.

Bryson, A. and Freeman, R., *Worker well-being: what we know from non-experimental survey data and what we need to know with new measures and experimental data*, The role of the workplace and workplace policies/practices in worker well-being, October.

Hopkin, R., *Associations between birth-to-three pre-school and early cognitive development,* University of Exeter Student Educational Research Conference, May.

Lui, S., Mitchell, J. and Weale, M., *Business surveys: signal or noise?* Seminar organised as part of the ESRC Festival of Social Science 2008, London, Confederation of British Industry, March.

Lui, S., Mitchell, J. and Weale, M., *Qualitative business surveys: signal or noise?* Presentation at the ONS's National Statistics Methodology Advisory Committee, London, ONS, May.

Metcalf, H., *Causes of insecure low paid jobs*, TUC/ BERR Vulnerable Workers Project Seminar, Lessons and Opportunities for Unions, London, Congress House, July.

Mitchell, J., *Flash estimates*, 4th meeting of the network on 'Flash estimates of certain PEEIs', Luxembourg, Eurostat, April.

Mitchell, J., Mouradis, K. and Weale, M., *Flash and factor-based nowcasts of Euro-Area GDP growth*, 28th Annual International Symposium on Forecasting, Nice, June.

Mitchell, J., Jore, A.S. and Vahey, S.P., *Combining fan-charts: improving real-time forecasts for US inflation and output growth*, Birkbeck College, March and Economics Seminar, Leeds University, May.

—*Combining forecast densities from VARs with uncertain instabilities*, 28th Annual International Symposium on Forecasting, Nice, June and 3rd Annual CIRANO Workshop on Data Revision in Macroeconomic Forecasting and Policy, Montreal, October.

Van de Ven, J. and Weale, M., *Aggregate mortality risk and the annuity market*, Melbourne Institute of Applied Economic and Social Research, January.

—*Unsecured indebtedness in the UK*, Ministerial Seminar Series Department for Work and Pensions, March.

Van de Ven, J., *Modelling dynamic behaviour in an uncertain world*, Department for Work and Pensions Modelling Seminar, March.

Weale, M., *Savings, wealth and work*, Options for Britain Conference, Nuffield College, February.

—*Aggregate mortality risk and the annuity market*, Exeter University, February.

—*Saving for an ageing population*, DG-ECFin, Brussels, March.

—*Are we living beyond our means?* Peston Lecture, Queen Mary College, March.

Weale, M., *Aggregate mortality risk: mountains out of molehills*, FIRM Conference, The Actuarial Profession, Manchester, June.

—*Living beyond our means?* Seminar presented to BERR, August.

OUR EVENTS PROGRAMME 2008

The National Institute of Economic and Social Research continued to develop its wide-ranging programme of events in 2008.

Westminster Economics Forum

Three seminars were held in this series in 2008. On 5 February Dr Alistair Milne, Senior Lecturer in Banking and Finance at Cass Business School, spoke on 'Financial innovation', a seminar chaired by Dr Martin Weale of the National Institute.

Dr Alistair Milne

The second seminar was held on 28 February, when Mark Tapley, Executive Director of BNP, Paribas Hedge Fund Centre, spoke on 'The expanding hedge fund market'. The event was chaired by Dr Sushil Wadhwani, who also provided a commentary.

Mark Tapley

The final seminar for this year was held on 23 June. Professor David Miles, Managing Director of Morgan Stanley Research, asked 'How will housing and mortgage markets emerge from the credit crunch?' The chair on this occasion was held by Bronwyn Curtis of the National Institute Council of Management.

Professor David Miles

The Westminster Economics Forum dinner was held at the Reform Club, where the speaker was Dr Paul Woolley of the London School of Economics. He presented a paper on 'The disfunctionality of capital markets'.

Dr Paul Woolley

ESRC Festival of Social Science

NIESR took part in the ESRC's Festival of Social Science in March 2008 by organising two seminars. The presentations were: 'The impact of capital adequacy ratios in emerging markets' by Sylvia Gottschalk, NIESR Senior Research Officer, and 'Business surveys: signal or noise?', by Dr James Mitchell, NIESR Research Fellow. The former was held at NIESR and the latter at the CBI.

The Stone Lectures

This year's Stone Lectures were given by Sir Tony Atkinson under the heading of 'Economic data and the distribution of income'. The first lecture was held at the National Institute on 15 April and was entitled 'Economic data and data in economics'. The second, a day later, was held at the Bank of England and was entitled 'The distribution of income: the $\cap$ + U hypothesis'.

Everyday Economics

Together with the National Audit Office, the National Institute has been organising a new series of lunchtime seminars under the banner of Everyday Economics. These focus on economic issues that affect people's daily lives. This series continued in 2008 with a seminar, entitled, 'Are we living beyond our means?'. This was held at the National Audit Office on 28 May, and the main speaker was Dr Martin Weale, NIESR Director.

Social Products of Educational Systems

Professor Marie Duru-Bellat

Professor Marie Duru-Bellat, of Sciences-Po, Paris gave a lecture on this topic on 4 July. Her work benefits from the most recent PIRLS and PISA survey data and relates them to characteristics of the educational system. By this means she aims to understand not only what influences student performance, but also to give an explanation for, firstly, the variety by country in the range of social inequality and, secondly, the diversity in a variety of pupils' attitudes.

Employment Seminar Series

Three seminars were held in this series during the year. On 11 October, Bernd Fitzenberger, of the University of Freiburg, spoke on 'Union density and varieties of coverage: the anatomy of union wage effects in Germany'. This was followed on 14 October by a second seminar entitled 'The effect of the National Minimum Wage 10 years on: can we get identification from geography?' given by Peter Dolton of Royal Holloway College and CEP. Finally, on 28 October, John Budd of the University of Minnesota spoke on 'First-timers and late-bloomers: youth-adult unionization differences in a cohort of the US labor force'.

Measuring the Quality of Early Years Provision

A major conference took place on 10 October which explored issues around the quality of early years' provision with a particular focus on the sector of provider. Bringing together leading academics in the field, it encompassed research carried out with a range of stakeholders and explored the outcomes of these services. Questions considered included: what are the key outcomes of early years' services, how do we assess the importance of such outcomes, and which provider characteristics are correlated with good outcomes? Speakers included Professor Kathy Sylva, University of Oxford, Professor Tony Bertram, Centre for Research in Childhood Development, Dr Verity Campbell-Barr, University of Plymouth, Ivana La Valle, National Centre for Social Research, Professor Helen Penn, University of East London and David Wilkinson from the National Institute. Papers from this conference will be published in the *National Institute Economic Review* in January 2009.

Economics and Demography

The final conference of the year was held on 5 November and presented the latest research on the interaction of economic and demographic issues. Two speakers, Professor Heather Joshi of the Institute of Education, and Dr Justin van de Ven from the National Institute, presented papers discussing economic influences on fertility. They were followed by Professor David Blake of City University and Dr Martin Weale, Director of the National Institute, who discussed economic aspects of uncertainty about future mortality rates.

The Institute could not arrange this wide range of events without the cooperation of many people who act as speakers, discussants and chairs. We would like to take the opportunity to thank them for their valuable contribution to NIESR's dissemination activities during 2008.

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The following organisations have funded research at the National Institute during the year.

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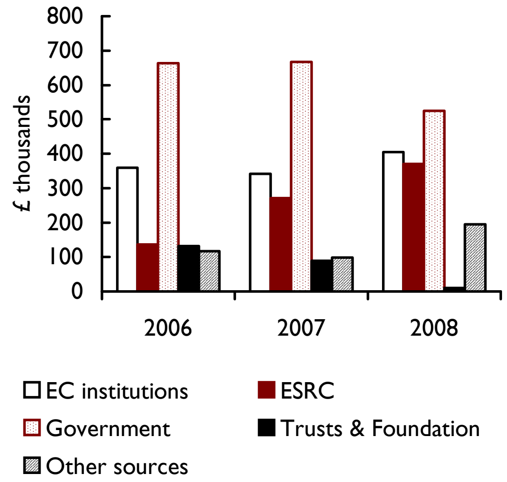

NIESR has a corporate membership scheme which helps to fund the generic research of the Institute and in particular the economic forecasts contained in the National Institute Economic Review. The support of these organisations is vital in assuring our complete independence. All corporate member organisations are acknowledged in the forecast section of the Review.

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Further details about the Corporate Membership Scheme, or how to make a financial donation to NIESR, are available from the Secretary, Gill Clisham: telephone 020 7654 1920 or e-mail g.clisham@niesr.ac.uk.

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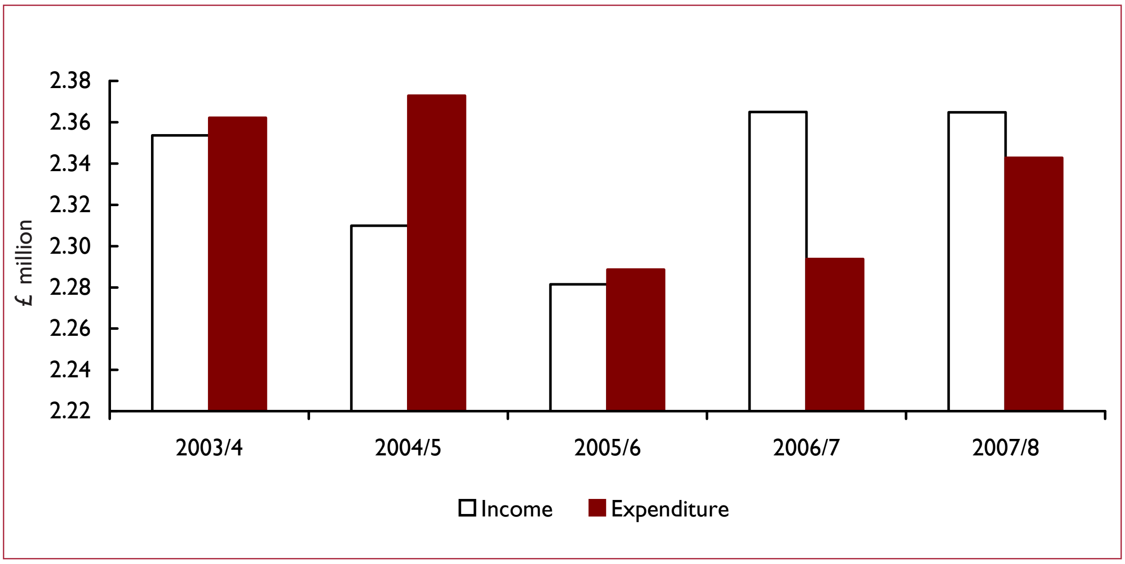
In the year to 31 March 2008 the Institute reported an operating surplus for the year. The policy of the Council is to balance income and expenditure over the long term, while recognising that fluctuations may occur in individual years. Full accounts for each of the years listed, including an unqualified audit report from KPMG Audit plc, have been filed at Companies House and the Charities Commission.

	2004/5	2005/6	2006/7	2007/8
Income				
Research	1,464,212	1,408,324	1,466,656	1,505,854
Publications & Misc	335,247	313,108	295,862	285,428
Model income	353,667	391,862	413,477	376,630
Corporate Supporters	51,900	35,000	26,500	27,040
Investments income	104,870	133,241	194,410	169,884
Total Income	2,309,896	2,281,535	2,364,964	2,364,836
Expenditure				
Research (incl Library)	1,771,615	1,549,687	1,659,275	2,084,307
Support Costs (incl non research salary)	486,726	630,102	535,131	152,993
Premises	51,800	51,465	48,221	36,824
Governance & professional costs	61,900	57,361	51,163	68,646
Total Expenditure	2,372,041	2,288,615	2,293,790	2,342,770
Operating Surplus/(Deficit)	**(62,145)**	**(7,080)**	**71,174**	**22,066**

Note: The categorisation of costs has been changed for 2004/5 onwards to comply with the new SORP on Charity accounts



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