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## **DIRECTOR'S REPORT BY PROFESSOR RAY BARRELL, ACTING DIRECTOR**

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From the outside, and especially in the press, the Institute is often regarded as just a forecasting body. However, this has never been its major function. Rather we see ourselves as intervening in the policy debate in a wide range of areas supported by academically respectable empirical research. Increasingly that respectability has had to come from publications in outside journals, and 2010 saw the largest number we have had. However, the public face of the Institute remains the *Review*, where we publish forecasts, macro-economic policy discussion and research papers.

The *Review* Editorial Board strives to keep the contents of the journal topical, and in 2010 we produced special issues on 'Policy Reactions to the Crisis' in January, 'Labour's Economic Record' in April, in July we focussed on 'Immigration' and in October we looked at 'Unemployment'. The financial crisis has led to a need for fiscal consolidation, and we have regularly discussed plans, cautioning against too rapid implementation of consolidation and arguing against ringfencing departmental spending. In its report on the Comprehensive Spending Review in November 2010, the Treasury Select Committee quoted extensively from our submission to this topic, and we would hope our work leads to a more balanced programme of spending reductions over the next few years. The year has also seen an extended discussion of changes to financial regulation, and we have contributed to that on a number of occasions in the *Review*.

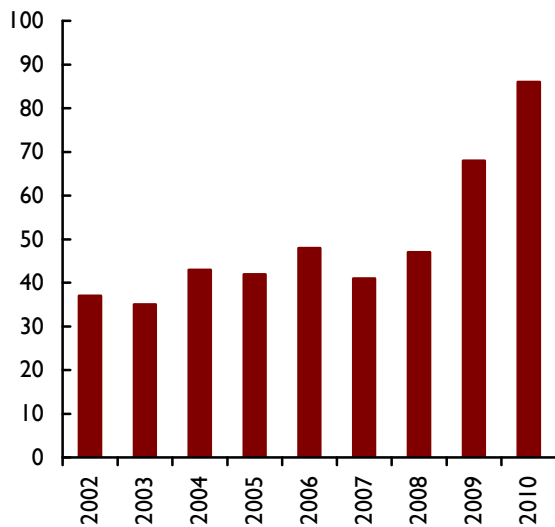
The special topics in the *Review* have recently had a focus on more economic themes, and this may be one reason why we have managed to ensure the circulation is stable. We need to react continually to changes in technology and find better ways to disseminate our material. Work on the forecasts for the *Review* is largely financed by revenue from the NiGEM model user group, and more details of the forecasts are available to that group and to subscribers to NiGEMWEB.

Over the past twenty years the Institute has changed, and teams are less common with funding coming in smaller blocks. However, the three main fields of research remain basically the same. The largest single group involves itself in macroeconometrics and forecasting, producing the *Review*, models and tools, academic papers and economic forecasts. There is a large body of people who work on the labour market in one way or another, with some focusing on employment relations, some on inequality, and also on migration. Productivity and economic performance has always been a major feature of Institute work, and this continues to occupy our time. Although we can see groups in the Institute, the themes people work on cut across the group structure. The body of the annual report brings out the themes we work on with contributions from across all groups.

Although the structure of interests has changed little over the past twenty years, the organisation structure has done so, and many more individuals work in small groups rather than teams. We have twelve Senior Research Fellows and four Research Fellows in a research staff of twenty-four, and only four researchers who do not initiate some of their funding applications. In 2000 there were four Senior Research Fellows and five Research Fellows in a research staff of twenty-five, and most staff did not initiate funding. Only the macro modelling team has remained the same size and structure. Even there the funding structure has changed, with more reliance on model income and short-term projects.

The Institute is not immune from the effects of the financial crisis or from the impacts of the consolidation of the UK government. Some sources of income, such as the return on our investments, have declined, but in 2009–10 our income overall held up relatively well, with a small surplus of £12,600 in that year following on from a surplus of almost £29,000 the previous year. The overall income of the Institute has been

### Number of live grants



increasing noticeably in recent years, with research projects raising £1,990,000 in 2009–10 as compared to £1,506,000 two years previously. Overall income has risen in line with these figures and in 2009–10 reached £2,825,000 as compared to £2,365,000 two years previously. As we can see from the figure above, the number of active grants held by Institute staff has risen noticeably in recent years, and is double the number we held in 2002, although staff levels have been constant.

The funding situation in 2010–11 looked uncertain in the early part of the year as much of our income comes from UK government departments, and these are facing severe cutbacks in their spending programmes. However, in September we were relatively clear that we might make a small surplus in the financial year. In the last quarter of the calendar year we had a number of successful applications, so that the funding position for the financial year now looks significantly more robust than usual. Given contracts that are currently in place, prospects for 2011–12 look normal. The Institute staff, however, are not complacent, as longer-term funding prospects may not be as good as usual, and efforts are in place to ensure our funding position remains sound.

The Institute is lucky both in the generosity of its current financial supporters, who we would like to thank, and in the existence of what others might call its ‘foundation income’ from its assets. The combination of donations, investment income and the implicit rent on our building contributes about 15 per cent to our overall budget, and without it we would find it much harder to operate as an effective research oriented charity working in the public interest.

The Institute staff would like to thank the members of the Institute’s Council of Management. They take overall responsibility for our affairs and give up their time to support the National Institute’s staff in our work; their involvement is a crucial component of our continuing success. We would also like to thank Martin Weale, who resigned as Director in July 2010 to take up a post on the Monetary Policy Committee of the Bank of England. Martin has been the Director of the Institute for fifteen years, and has played an excellent role as its public face.

It is sad to record that the past year has seen the death of Sir Bryan Hopkin, who was Director of the Institute between 1952 and 1957. The Institute has had only five Directors in its 72 years, and all have contributed to our current structure and interests.

The Institute is in the fortunate position of being well enough funded and sufficiently flexibly structured that we can respond when new areas of research emerge. It is useful in the report to emphasise one such area of research. This demonstrates the Institute’s capabilities, and they are not just confined to this theme. In the rest of this report you will find summaries of work on the themes that Institute staff focus their work on.

The financial crisis in 2007 and 2008 allowed us to develop our interest in the third pillar of macro economics, macro-prudential regulation of the

financial system. It was clear to policymakers that the design flaws that caused the crisis were not just in poor fiscal and monetary policy, but mainly in the structure and regulation of banks. Our work in 2010, which was led by Ray Barrell and Philip Davis, developed from our work for the Financial Services Authority on Optimal Financial Regulation, which was published in late 2009 and was worked on by most members of the macro modelling team. In that report we set out the four key features that structured our work and much of the policy debate in 2010:

1. What are the causes of crises, have they changed over time, and do regulators have any capacity to reduce the probability of crises occurring?
2. What are the costs of financial crises, both in the short run in terms of their effects on output, and in the long run in the impacts on sustainable production?
3. What are the costs of changing regulation and, in particular, what are the impacts of higher capital and liquidity standards for banks on potential output?
4. What are the net benefits from changing regulation and reducing crisis probabilities, and hence expected costs, as compared to the costs of regulation?

The past year has seen the rapid production of answers to these questions in response to the needs of the Financial Services Authority, the Bank for International Settlements in Basel and the Bank of England and HM Treasury. Of course we would have liked to produce answers to these questions much earlier, but despite our interest in them, no funding was available until after the crisis broke.

In the past year we have undertaken three studies of the causes of crises in the OECD between 1980 and 2008. These all follow on from the paper by

Ray Barrell, Philip Davis, Dilly Karim and Iana Liadze in the *Journal of Banking and Finance* where we found that, between 1980 and 2006, low levels of capital and liquidity and the pre-existence of a property price bubble were excellent predictors of crises, at least as compared to other indicators such as the growth of credit and the level of government borrowing used in work in the field. Our funders induced us to return to the topic in our paper 'Was the subprime crisis different?', We were asked to include the most recent crises, a narrower measure of liquidity in banks, as our broad measure had failed in the crisis in 2008, and also to look at a wider range of potential variables. We were pleased to discover that our essential argument remained valid. Lower levels of capital and liquidity along with the pre-existence of property price bubbles, and excessive borrowing from abroad are the only significant factors affecting crisis probabilities. We can also show both that the sub-prime episode was no different from others and was easy to predict as a possibility well in advance. A subsequent paper on 'Calibrating Macro Prudential Standards' demonstrated that this model was recoverable on data available in 1998 and could have been used to suggest sensible increases in capital and liquidity that would have reduced the probability of a crisis. These papers have been presented at the Bank of England, the European Central Bank, the OECD, the US Federal Reserve and elsewhere, and after extensive discussions formed the basis for much of the BIS work on the causes of crises.

Our work for these funders led us into a new area, micro studies on individual banks. Banks take risks, and make bad loans and suffer losses as a consequence. Their accounts show both loan provisions for the former and charge-offs for the latter, and these accounts are collected together in an international database, BankScope. We found in this work that banks with more core equity from their shareholders took fewer risks, whilst those who depended more on subordinated debts for the base of their operations took more risks.

This research helped the policy community focus on strengthening the loss-absorbing capital base of the banking system. It also led us to investigate the role of bank size on risk taking.

The Banking Commission is investigating the role of bank structure and bank size in the UK in order to advise the Coalition on possible changes. In order to advance the debate we have used our large dataset to investigate the impact of size on charge-offs. Larger banks should have lower charge-off rates as they pool risks. However, we find that larger banks have higher charge-off rates, and are clearly taking on more risk as they know that as they get bigger they become too big to fail, and the government will have step in to save them. Our conclusion would be that large banks should either be broken up or face increasingly steep capital requirements in order to induce them to change their behaviour. We will discuss our work at the Royal Economic Society annual conference in April 2011 in a special session organised by the Bank of England.

We have also provisionally answered the second question posed above: do bank crises affect equilibrium output? Interestingly the majority of financial crises that we have experienced in the OECD in the past 70 years have had no long-run impact on output, and they are not always associated with recessions. In two cross-country studies of OECD countries we find that there is no evidence that any postwar financial crisis in the UK had a permanent impact on output prior to 2007. Systemic crises, where the majority of the banking system collapses, such as those we saw in Japan in 1991, the US in 1988 and Sweden and Finland in 1991 reduced equilibrium output by 4–5 per cent, however. The current crisis is systemic in a large number of countries, and as such it will probably reduce sustainable output by 4 per cent from its effects on risk premia.

If we know what causes crises, what defences we can raise against the risks, and what the costs are,

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**Martin Weale has stood down as Director to join the Monetary Policy Committee at the Bank of England. He arrived at the Institute in 1995 from Cambridge University, and immediately started to play an active role in leading the Institute's academic efforts.**



Martin Weale, CBE, MA, ScD, Hon. F.I.A., Hon. DSc, Director 1995–2010

**In his time here we have focussed on academic research and widened our activities significantly. We have also played an increasingly prominent role in policy discussion. During the past fifteen years the funding environment has changed, with the disappearance of long-term large grants for the macro team from the ESRC. Martin has played a vital role in our survival through these difficult times. I am sure the Institute staff, past and present, would like me to give him our thanks for his dedication to his task. We wish him well in his new role, and we are pleased that he will still be working with us two days a week as a Senior Research Fellow.**

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we can then evaluate what we should do to reduce the costs. In the *Review* in July, in Barrell, Holland and Karim, and in our presentations to policymakers at the Bank for International Settlements and elsewhere, we have argued that the costs of tighter regulation are not great unless they are introduced too rapidly. This appears to be the outcome of the debate, and it is now generally agreed that the benefits of tightening regulation are far greater than the costs.

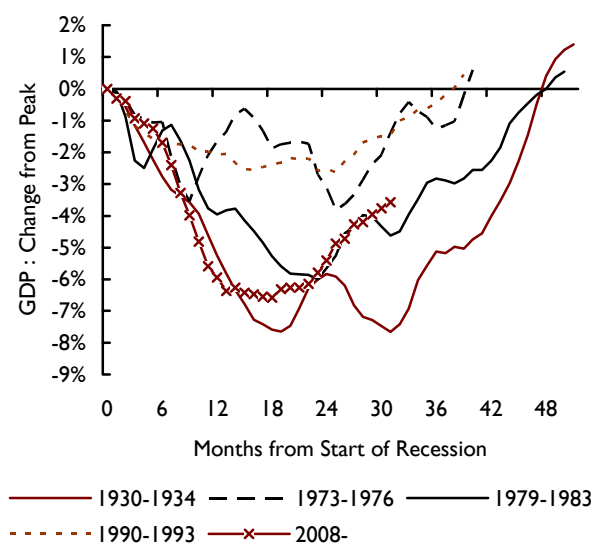
### *Macroeconomic Modelling and Forecasting*

The National Institute has a long and distinguished history of producing economic forecasts. Currently the Institute produces a forecast of the UK and world economies on a quarterly basis, using its global econometric model NiGEM. Forecasts by the Institute are highly regarded and widely reported in the UK and international media. The forecasts are published in the quarterly *National Institute Economic Review* (<http://ner.sagepub.com/>) and on the Institute's web-based product: NIGEMWEB (<http://nimodel.niesr.ac.uk/>).

The primary tool for macromodelling at the Institute is the National Institute's Global Econometric model, NiGEM, which has been developed by the Institute since the 1980s for both internal use and a growing body of external modellers from both the public and commercial sectors. The model has been continually expanded and updated throughout its lifetime, in line with user interest and developments in economics and econometrics. The NiGEM team has been led by Ray Barrell for the past twenty years, and Ian Hurst has been the model manager for some time. Dawn Holland manages the forecast process, assisted by Iana Liadze, Tatiana Fic, Ali Orazgani and Rachel Whitworth, as well as by other staff. Simon Kirby manages the UK section of the forecast with assistance from other members of the team. There is a separate section of this Report on the model as it encompasses the Institute's largest single activity.

The Institute also uses statistical projection techniques to project UK GDP one month ahead, which we publish as the Institute's widely reported monthly GDP estimates (<http://www.niesr.ac.uk/gdp/GDPestimates.php>). We also estimate economic growth in the three months ending in the month just ended, and each calendar quarter an estimate of quarterly growth is produced about three weeks ahead of the Office for National Statistics. The projections are

**The profile of recession and recovery**



currently produced by Simon Kirby with help from other members of the team. The model is used internally in the Institute quarterly forecast published in the *Review*, and has been widely discussed as a tool for monitoring the recent recession. It is possible for us to track the recession on a monthly basis, and as the figure suggests, we have been through one of the three worst episodes of the past century.

In addition, the Institute, and James Mitchell in particular, aided by Silvia Lui, regularly uses a wide range of statistical models for short-term 'real-time' forecasting, including the prediction of the current level of output, which is commonly known as nowcasting. There has also been extensive work on business cycle analysis. These studies have regularly, but not solely, been funded by Eurostat and have been used by European policymakers. Of particular interest have been the production, combination and evaluation of density forecasts in James Mitchell's paper with Jore and Vahey and elsewhere, and the use of qualitative business survey data, including panel data, when nowcasting and forecasting, as is discussed in his paper with Matheson, and Silverstone.

### *Macroeconometrics and Modelling*

Econometric work on macroeconomic data is a common activity for many Institute staff, and much of it is subsumed under forecasting and modelling. The Institute continues to develop and apply time-series and panel data econometric models to address a variety of applied macroeconomic issues. Of particular interest this year have been the evaluation of qualitative business survey data and density forecasts.

Qualitative business survey data are consulted widely since they are more timely than official data. In addition, they provide indicators of expectations as well as outcomes. Sylvia Lui, James Mitchell and Martin Weale, in two forthcoming papers, compare the individual qualitative responses provided to the Confederation of British Industry's Industrial Trends Survey with those collected by the Office for National Statistics (ONS) on a firm-by-firm basis. They ascertain the informational content of qualitative retrospective and prospective (expectational) survey data by examining the consistency between these data and the quantitative data provided by the same respondents to the ONS. They develop a Bayesian indicator to construct an early indicator of the quantitative data based on the qualitative data. They find that the qualitative business survey data are likely to prove more useful for nowcasting than forecasting. They suggest that it would help if the surveys elicited quantitative rather than qualitative responses to the expectational question. At present, it is unclear whether firms report subjective means, modes or some other quantile of their subjective density forecast.

Given that forecasts are increasingly presented probabilistically, James Mitchell and Ken Wallis, in the *Journal of Applied Econometrics*, compare statistical methods to evaluate the quality of these forecasts, *ex post*. They criticise evaluation tests which seek to reward predictive distributions which are 'sharp'. Instead they show that

information-based methods can distinguish between competing density forecasts. An extension to information-based procedures to test the efficiency of density forecasts is proposed.

### *Financial Regulation*

The Institute has extensive experience of research work on issues linked to financial regulation and surveillance, having in recent years undertaken major projects for the Financial Services Authority and the European Commission as well as receiving funding from the ESRC. The Director's Report discusses some of the work on this theme.

We have also undertaken an extensive evaluation of indicators of cross-country contagion of financial instability applied to Eastern Europe in a large project on financial instability for the European Commission. Much of our work is relevant to other aspects of macroeconomic policy, notably analyses of the costs of financial instability and integration of banking sector models into our global model NiGEM.

### *Pensions and Retirement*

The pensions theme covers all strands of the Institute's methods. We have published papers using large-scale model simulations commissioned by the Department for Work and Pensions (DWP), and papers with estimation and analysis on synthetic panels of 10,000 individuals, in particular looking at myopia in decision making. We have also undertaken survey and interview-based analyses on the perceived adequacy of pensions.

Together with Pamela Meadows and the survey company TNS-BMRB, Hilary Metcalf designed and analysed the *Second survey of employers' policy and practice with respect to age*, a representative survey of approximately 2000 establishments (funded by the DWP and Department for Business, Industry and Skills (BIS)). The study identified the extent of age-related policies and practices at work, changes since anti-age-



discrimination legislation in 2006 and provided input into the government's re-assessment of the default retirement age and employers' ability to retire employees compulsorily. John Forth and Lucy Stokes published a report on a survey of employers' pension provisions, and found that the proportion of employers providing pensions for their employees declined to less than two-fifths between 2007 and 2009, even though the government's workplace pension reforms will require all employers to provide pensions from 2012. A report by John Forth and Helen Bewley on a companion survey of employers' attitudes to the reforms showed that the majority of employers are still unaware of their forthcoming obligations.

The DWP commissioned a study on the effects of extending working lives, by Ray Barrell, Simon Kirby and Ali Orazgani. The report looked at the benefits of increasing working lives by one, two or three years, implemented at different speeds and over differing future time horizons (starting now or in ten years' time). Increasing the supply of labour in the medium term raises potential growth, and in the long run will lead to higher output and consumption per head of population. For each year added to working lives we could produce more than 1 per cent of additional GDP and raise consumption by more than that as we would need to save less for retirement. In addition the public finances would improve because of higher tax receipts and lower pension payments. A policy that achieves these objectives is hard to oppose rationally but difficult to implement, and the Institute work has helped reshape the issue in the public debate.

Recent policy debate in the United Kingdom has emphasised the role of myopia in justifying state involvement in retirement provisions. It is important to ask how far myopia creates a need for publicly sponsored pensions, or whether a particular pension scheme is well suited to the needs of myopic individuals. In a report for the

DWP, Justin van de Ven and Martin Weale used a synthetic panel of 10,000 individuals to explore the empirical support for myopia. They also consider the implications of myopia for behavioural and welfare responses to the National Employment Savings Trust (NEST), a Defined Contribution (DC) pension scheme that will be introduced in the UK from 2012.

Justin van de Ven and Martin Weale are starting a study to explore how decision-making costs influence the effectiveness of tax incentives to save. The study will consider the empirical support for decision costs relating to participation in private pensions by estimating a structural model of household decision-making on UK survey data. It will also explore the influence of decision costs on responses to tax incentives to save. The analysis will focus upon implications for savings, labour supply, and welfare, and distinguish between households of different demographic and financial circumstances.

### *Migration*

The Institute has wide experience in research related to labour mobility and migration. Much of the Institute's work has focused on identifying the factors that drive migration, with particular attention to the two most recent enlargements of the European Union. Recent empirical work has been undertaken on migration by James Mitchell and Rebecca Riley, Ray Barrell, Ana Rincón Aznar and Lucy Stokes. The latter two have worked on the Local Geography of International Migration to the UK. The National Institute's quantitative work has been supplemented by several qualitative studies, allowing a more nuanced assessment of the impact on labour markets and the social situation and these are undertaken by Hilary Metcalf and Heather Rolfe, who has also given evidence to the Scottish Parliament on the theme.

James Mitchell and Rebecca Riley, in a Report for the Department for Communities and Local

Government, develop econometric models to examine the robustness of both economic explanatory variables and policy factors in determining gross and net immigration to the UK from 14 different source regions. In particular, they evaluate the factors contributing to the sharp increase in UK immigration over the past decade. Importantly, this is done acknowledging that there are many possible models of migration distinguished not just by their choice of explanatory variables but their dynamic form. While the data may *prefer* one model to another they do not attach a probability of one to the *preferred* model. Accordingly, Bayesian Model Averaging methods are used to attach probabilities to different models and thereby identify, in a robust manner, the determinants of migration.

The National Institute also has an established methodology for assessing the economic impact of migration both on home and host country economies. The methodology has been applied in published work such as the paper in the *Journal of Common Market Studies* by Ray Barrell, Rebecca Riley and John Fitzgerald. Migration simulations using the well established National Institute model, NiGEM, allow us to quantify the macro-economic impact of EU enlargement and transitional arrangements on both the sending and receiving economies, within the context of an established modelling framework. The European Commission are funding a new study by Dawn Holland and others along these lines on the potential impacts of migrants from the two most recent members, Romania and Bulgaria. Institute work by Ray Barrell and Simon Kirby on the impacts of the recent recession on patterns of migration to the UK has been cited by the UK Treasury and by the Office for Budget Responsibility in their forecasts for the UK economy during 2010.

### *Education and Training*

The emphasis of Institute research on education and training is on the benefits of training, education and

skills to the economy, to employers and to learners. Research has covered all age groups of learners from early years, through secondary school pupils to graduates and older workers, and has included stakeholders including learners, employers, schools, training providers and universities.

Much of the Institute work has been under the auspices of the ESRC-funded LLAKES centre (Centre for Learning and Life Chances in Knowledge Economies and Societies), with Geoff Mason taking the lead in this area with input from Martin Weale, Richard Dorsett and Silvia Lui. We have undertaken a study of the tensions between competitiveness and social inclusion objectives and an investigation of trends in education and training participation by adults aged 25–64. Also as part of this programme, Rebecca Riley has studied some of the wider effects of learning, looking at the extent to which individuals' productivity is affected by the skills of their colleagues.

We have a wide variety of other projects on skills. The European Commission body CEDEFOP (European Centre for the Development of Vocational Training) is funding research on the benefits of investing in initial vocational education and training (VET) in EU countries. The work is being undertaken by Geoff Mason who is studying the comparative benefits of different types of VET such as apprenticeship training and full time VET in schools and colleges. In addition there has been a qualitative and quantitative evaluation of the Skills Conditionality Pilot, undertaken by Heather Rolfe, Anitha George and Richard Dorsett, which aims to test the effects of mandating jobcentre plus customers to training where they have skills gaps funded by the DWP. The Institute has continued its work on transitions of young people from education into employment through research on equality in careers education and guidance by Heather Rolfe for the EHRC in collaboration with the International Centre for Guidance Studies.

### *Health and Welfare*

One strand of Institute research focuses on issues of public sector productivity and performance, particularly in the areas of health and education. Lucy Stokes, Martin Weale and David Wilkinson are currently working on a study of local health economy productivity in the West Midlands for the West Midlands Strategic Health Authority.

Dave Wilkinson and Lucy Stokes worked on early years education as part of a wider Office for National Statistics (ONS) project, Measuring Outcomes for Public Service Users, which focused on areas of service delivery with a significant element of voluntary sector involvement. The main findings were that children who started early years education before their third birthday had better outcomes than those who started later. Furthermore, quality of service was related to outcomes for children, but the relationship was dependent on both the quality and outcome measures considered. For example, whilst most quality measures investigated were positively related to some outcomes for children, Ofsted (the Office for Standards in Education, Children's Services and Skills) ratings of provider quality did not predict any of the child outcomes considered, and there was no significant relationship between any of the quality measures considered and scores from the national assessment, the Foundation Stage Profile. The work was launched in June 2010 with two days of seminars and a report published by the Office for National Statistics, which attracted considerable media attention. The findings were also presented at the British Education Research Association conference in September 2009.

The Institute intends to extend our work on means testing, which plays an important role in the UK state pension system. The research undertaken by Justin van der Ven is especially important given the intention of the coalition to restructure the UK benefits system. Our analysis suggests that the proposed policy reforms will reduce the marginal

effective tax rate for poor families but possibly raise it for richer ones and will probably encourage the poorest third of all households to both save more and delay retirement, and have the opposite effects on richer households.

### *Policy Evaluation*

Policy evaluation provides an important focus for Institute research. Numerous evaluations have been carried out, exploring the effects of labour market programmes, training programmes and other initiatives. Over the years, the Institute has made influential contributions to the evidence base required for robust policy formulation, and our policy evaluation work forms a part of this. A large number of Institute staff are involved in this strand of our work, but Richard Dorsett, Hilary Metcalf and Heather Rolfe play a particularly significant role, as does one of our consultants, Pam Meadows. Our approach to evaluation research recognises three distinct but related activities.

First, we make use of the very latest methodological techniques in order to achieve statistically sound *impact estimates* of a particular policy. We devote considerable attention to identifying the causal impact of policy interventions as distinct from other factors that might influence observed outcomes. Some evaluations have used random assignment as a means of constructing a robust control group against which the outcomes of a 'treatment' group can be compared. For example, Richard Dorsett is using this technique whilst working on the DWP's programme on Employment Retention and Advancement. More commonly, econometric techniques are used to exploit particular characteristics of the policy in order to identify causal effects. For example, Richard Dickens, Rebecca Riley and Dave Wilkinson exploit the variation in the National Minimum Wage for different age groups, using regression discontinuity methods to study its impact on the employment chances of young people. It appears that employment chances of low skilled people in

their early 20s are not adversely affected by the existence of the minimum wage. The results were presented at a BIS seminar in June.

The second dimension to the evaluation research carried out at NIESR is *qualitative analysis*. This uses a variety of methods – depth interviews, focus groups, longitudinal studies, vignettes, case studies – in order to investigate evaluation questions from a different perspective. One aspect of this is process studies – understanding the nature of interventions, including how they were implemented. Another is seeking to achieve a more nuanced understanding of programme effects in a way that is not possible from survey data. Combining the quantitative and qualitative approaches can result in a well-rounded analysis with powerful insights, so we pay considerable attention to the challenge of effective integration. A good example is the evaluation of the Better-off In Work Credit pilot. The report to DWP on *The Better-off in Work Credit* highlighted difficulties with both the design and the implementation of the credit and provided the necessary basis to re-engineer the policy.

The third type of evaluation work is grounded in *structural models* of the economy. These allow broader impacts of policies to be considered; in particular, this type of evaluation work allows consideration of the likely impacts of policy where these cannot be assessed directly from the data. We have experience in behavioural micro-economic modelling, using simulation methods to explore the way in which people plan for the future, in the light of the prevailing tax/benefit system, their own expectations of future wages and the income risks that they face. The Institute macro models of the UK and of the rest of Europe provide us with a framework for studies of the macroeconomic implications. The UK sub-model provides a framework to allow us to study the macroeconomic implications of developments and policies such as the effect of migration, extending working lives, and Welfare-to-Work policies.

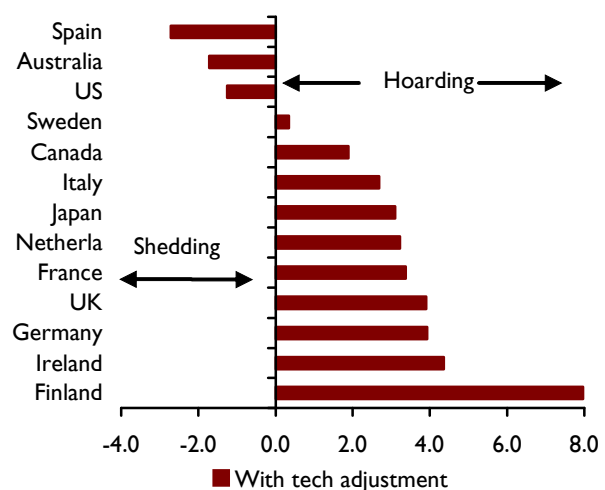
Much of our evaluation research is funded by government departments including: the Department for Work and Pensions; the Department of Health; the Department for Business, Innovation and Skills, the Department for Education, the Home Office, and the Ministry of Justice. However, we have also carried out evaluation studies for other bodies such as the Low Pay Commission.

### *The Analysis of Labour Markets*

The Institute has a large body of work on the operation of labour markets. Some approaches are macroeconomic and look at outturns across countries, whilst others use microeconometrics to look at the UK labour market. We also undertake qualitative work basing our reports and papers on semi-structured interviews. This is an area where we cooperate with researchers outside the UK on many projects, with contacts in the US, Germany and Norway being currently very important.

Recent analysis of labour markets from a macroeconomic perspective has focused on explaining the cross-country variation in responses to the onset of recession across most advanced economies. The differential response has been quite wide. Dawn Holland, Simon Kirby and

**Labour hoarding and labour shedding since pre-recession peak**



Rachel Whitworth undertook this research using the global database available from the Institute's global econometric model NiGEM. The main focus of the research was to explain why countries such as the US have experienced a far deeper fall in employment than in countries such as the UK and Germany. While the adjustment of working hours is part of the explanation, it has been the adjustment of real wages, in particular in the UK, that helps to explain why UK employment did not fall as sharply as previous experience would suggest. The figure shows the degree of labour hoarding or shedding in this recession given what has happened to output and real wages, and it shows job losses in the UK have been less than we might have expected, but have been larger in the US than expected. The evolution of this on-going research has been published in the *National Institute Economic Review*. Simon Kirby is also involved in contributing the macroeconomic analysis part of the Rebecca Riley led evaluation of Jobcentre Plus.

As labour markets change away from the 20th century model of the separation of the employee and the firm, other forms of incentives are being adopted in addition to wages. Alex Bryson, with Richard Freeman of Harvard University, has investigated worker participation through share ownership and its effects on economic performance in the UK. It is clear that having a stake, if well designed, does affect worker commitment and performance. Alex Bryson has also worked on incentive effects and their impact on worker and team performance in the economics of football and baseball. We have a number of ongoing projects on labour markets, and these include one led by John Forth on the incidence and impact of occupational licensing.

There has been a rich strand of qualitative work at the Institute, and this has continued with studies by Hilary Metcalf and Heather Rolfe on women's choices in the labour market and on gender equality, and their results have influenced

government policy. The same group are undertaking a large-scale study on the design of the restructuring of invalidity benefit. This will depend upon the new questionnaires doctors, employers and employees will have to fill in to allow somebody to claim this benefit. Well designed questions are central to the success of this reform and, as in many other areas, the Institute will be playing an active role in providing evidence and support for policy initiatives.

### *Employment Relations*

Institute research in this area analyses the interaction of the labour market and workplace employment relations. Our approach is multi-disciplinary with researchers' backgrounds spanning economics, sociology, psychology and social policy. Researchers deploy qualitative and quantitative methodological approaches, often in tandem, with studies using large and small-scale surveys, econometric analyses, case studies and in-depth interviewing. There is a strong emphasis on methodological rigour in design, conduct and analysis. Our aim is to inform the policy, academic and practitioner communities about the nature of the workplace and the labour market. In doing so, studies entail one or more of a number of aspects. The exploration of causal linkages between policies/practices and labour market and workplace outcomes in a theoretically coherent and empirically rigorous way is central to all our work. The objective is to map the contours of employment relations and the labour market in cross-section and over time.

The Institute has been involved in the design and analysis of the Workplace Employment Relations Surveys (WERS) and is co-sponsoring the 2011 survey. Alex Bryson, John Forth, Helen Bewley and Lucy Stokes are all members of the WERS 2011 research team and are funded by the Nuffield Foundation to explore the impact of the recession on workplaces and employment relations. Our current programme of work is also funded by research bodies and councils including

the Economic and Social Research Council, the British Academy, the Norwegian Research Council and the Finnish Work Environment Fund as well as trust funds including Leverhulme. A significant amount of our work is at the behest of government agencies, including the Department for Business Innovation and Skills, the Department for Work and Pensions, the UK Commission for Employment and Skills, as well as trade unions and the Trades Union Congress and international bodies such as the European Commission.

Projects are often undertaken in collaboration with colleagues elsewhere in Britain, Europe and North America. Alex Bryson is working with partners on a comparative analysis of workplace relations in Norway and Britain as well as a study of the impact of workplace practices on worker wellbeing in Finland. He has also published a number of studies on the decline of collective bargaining and its impact on wages in Germany. Both Alex Bryson and John Forth work on trade union trends and influence in the UK, and discussed their declining membership and influence in an Institute discussion paper. They have also used the British Social Attitudes Survey to study a quarter-century of employee attitudes to employment.

Our employment relations research often uses qualitative methods to explore the complex interaction between employers' attitudes, policies and practices, particularly to look at employment disadvantage. Based on interviews with employers, Hilary Metcalf and Heather Rolfe investigated the barriers to employers developing lesbian, gay, bisexual and transgender-friendly workplaces for the Government Equalities Office. Poverty and employment practices were examined through case studies in research on low paid, insecure work for the Joseph Rowntree Foundation. The report by Hilary Metcalf and Amar Dhudwar found large variations in the use of temporary work amongst otherwise similar employers, suggesting

that job security might be increased without detriment to business.

### *Studies of Productivity*

The Institute has long-standing experience of research on productivity issues. Our research includes studies of the determinants of productivity, ranging from human resource management to regulation, and studies concerned with the measurement of productivity and the development of new statistics. As in other themes Institute staff work with aggregate, industry and firm-level data.

Recent work by Ana Rincón-Aznar and others for the European Commission *Competitiveness Report* focuses on the impacts of product and labour market regulation on Information and Communications Technology (ICT) investments and productivity growth. Current work includes the development of industry-level measures of labour market regulation and study of its link to productivity performance. In collaboration with the Austrian Institutes, WIFO and WIIW, we have studied the implications of migration for sectoral productivity. Both of these projects were undertaken for the European Commission and published in their recent Competitiveness Report.

We use firm-level surveys to study the factors that influence business performance. In a project for the UK Commission for Employment and Skills, Geoff Mason assessed the impact of different kinds of skill shortage on firms' product strategies using data from the National Employers Skills Survey. As part of the European Commission funded SERVICEGAP project, led by Mary O'Mahony at the University of Birmingham, Rebecca Riley and Catherine Robinson studied firm-level and regional determinants of innovation. For the same project, Ray Barrell and a group of Institute researchers have completed a study with John Fitzgerald of the ESRI on the impacts of bank size on bank productivity and the implications of the re-territorialisation of banks on aggregate productivity in Europe.

In cooperation with DIW in Germany and the University of Vaasa in Finland, Rebecca Riley, in collaboration with Görzig and Piekkola, has been developing a methodology for measuring firm-level intangible assets using linked employer-employee data. Using these data Rebecca Riley and Catherine Robinson have evaluated the importance of R&D, ICT and organisational capital for UK productivity growth. These studies are undertaken as part of the European Commission funded INNODRIVE project, led by Hannu Piekkola at the University of Vaasa.

Our work on productivity includes country-specific studies as well as international comparisons of productivity, as in the paper by Ana Rincón-Aznar, Mary O'Mahony and Catherine Robinson in the *Review of Economics and Institutions*. As part of the European Commission's assessment of UK economic

performance, Ray Barrell, Dawn Holland and Iana Liadze produced a study using both growth accounting and cross-country panel regressions, and emphasised the role of skill formation and competition in explaining the relative improvement in UK performance over the decade to 2007. Subsequent work using a cross-country panel comparison of productivity found that skills have been a major driving factor behind productivity growth in the major European economies. In 2011 we will complete a major project for CEDEFOP on the impact of vocational education and training on relative productivity performance at aggregate economy and sectoral levels in seven European countries. This work is making use of the National Institute Global Econometric Model (NIGEM). The staff members working on this project include Geoff Mason, Ray Barrell, Dawn Holland, Rachel Whitworth, Ana Rincón-Aznar and Rebecca Riley.

## NATIONAL INSTITUTE GLOBAL ECONOMETRIC MODEL

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The National Institute has been developing its global econometric model, NiGEM, since 1987. NiGEM is used internally for forecasting and policy analysis, and is also used by an external group of about 40 model subscribers, mainly in the policy community, including the ECB, the IMF, the FSA, the Bank of England, and the central banks of France, Italy, Netherlands, Spain, Portugal and Sweden. The Institute produces four forecasts a year with NiGEM. These projections are published in the *National Institute Economic Review* each quarter, along with a discussion of alternative scenarios around the central forecast and short notes based on recent model-based research. This work is also presented at several conferences each year, is widely reported in the press and is made available on NIESR's web-based product, NiGEMWEB (<http://nimodel.niesr.ac.uk>).

NiGEM is a global model, and most countries in the OECD are modelled individually. There are also separate models of China, India, Russia, Hong Kong, Taiwan, Brazil, South Africa, Estonia, Latvia, Lithuania, Slovenia, Romania and Bulgaria, while the rest of the world is modelled through regional blocks. All country models contain the determinants of domestic demand, export and import volumes, prices, current accounts and net assets. Economies are linked through trade, competitiveness and financial markets and are fully simultaneous.

A major use of the model is in policy analysis. In policy analyses the model can be switched between forward looking, rational expectations mode and adaptive learning for consumers, firms, labour and financial markets. Policy environments are very flexible, allowing a number of monetary and fiscal policy responses. The model framework can be used by any user to build a bespoke model or to change the existing structure.

For a macroeconometric model to be useful for policy analyses, particular attention must be paid to its long-term equilibrium properties. At the

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**Work with NiGEM is undertaken by Ray Barrell, Dawn Holland, Ian Hurst, Simon Kirby, Aurélie Delannoy, Tatiana Fic, Iana Liadze, Ali Orazgani, Paweł Paluchowski and Rachel Whitworth. Further details on the NiGEM model are available on <http://nimodel.niesr.ac.uk/advert/niesr2nigem.php>. Enquiries about NiGEM should be addressed to Ian Hurst: [aihurst@niesr.ac.uk](mailto:aihurst@niesr.ac.uk)**

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same time, we need to ensure that short-term dynamic properties and underlying estimated properties are consistent with data and well-determined. Output is tied down in the long run by factor inputs and technical progress interacting through production functions. As far as possible, the same long-run theoretical structure of NiGEM has been adopted for each of the major industrial countries, except where clear institutional, or other factors, prevent this. As a result, variations in the properties of each country model reflect genuine differences in data and estimated parameters, rather than different theoretical approaches.

Over the past twelve months NIESR has made a number of interventions in the policy debate based on its research on the world economy. There has been a strong focus on fiscal policy this year, through evaluations of the policy response to the downturn, a comparison of fiscal multipliers across countries and across models, assessments of the sovereign debt crisis in Europe, and evaluations of the fiscal consolidation programmes put forward in the UK and in the rest of Europe. This work has been published in the *National Institute Economic Review*, and has also been presented at conferences held by the United Nations, Euroframe, the Kiel Institute and Swedbank. Our work on fiscal consolidation plans has received wide coverage in national and international newspapers, trade and more general publications as well as on national and international TV and radio.



### No. 211 (JANUARY)

Financial regulation and commercial protection: should policy change? *R. Barrell and M. Weale*

A comparison of labour market responses to the global downturn *D. Holland, S. Kirby and R. Whitworth*

*Special issue on: Policy responses to the collapse of the financial sector* Editor: *Ray Barrell*

Policy responses to the collapse of the financial sector: introduction *R. Barrell*

Macroprudential regulation – the missing pillar *E. Philip Davis and Dilruba Karim*

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Managing housing bubbles in regional economies under EMU: Ireland and Spain

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Editor: *Simon Kirby*

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The Great Recession in the UK labour market: a transatlantic perspective *Michael W.L. Elsby and Jennifer C. Smith*

The German labour market miracle?

*Jens Boysen-Hogrefe and Dominik Groll*

Unemployment and real wages in the Great

Depression *Solomos Solomou and Martin Weale*

## NATIONAL INSTITUTE DISCUSSION PAPERS

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*Discussion papers exist to foster debate on Institute research. Recent papers listed below are available on our website [www.niesr.ac.uk](http://www.niesr.ac.uk) or free on request.*

350. Slip sliding away: further union decline in Germany and Britain

*A. Bryson, J.T. Addison, P. Teixeira and A. Pahnke*

351. The impact of global imbalances: does the current account balance help to predict banking crises in OECD countries?

*R. Barrell, E.P. Davis, I. Liadze and D. Karim*

352. Economic benefits of lifelong learning

*R. Dorsett, S. Lui and M. Weale*

353. Industry knowledge spillovers: do workers gain from their collective experience?

*R. Riley*

354. Calibrating macroprudential policy

*R. Barrell, E.P. Davis, I. Liadze and D. Karim*

355. An empirical investigation of quasi-hyperbolic discounting

*J. van de Ven and M. Weale*

356. The effects of myopia on pension decisions

*J. van de Ven*

357. Evaluating off-balance sheet exposures in banking crisis determination models

*R. Barrell, E.P. Davis, I. Liadze and D. Karim*

358. The effects of banking crises on potential output in OECD countries

*R. Barrell, E.P. Davis, I. Liadze and D. Karim*

359. Accounting for UK economic performance 1973–2009

*R. Barrell, D. Holland and I. Liadze*

360. The non-transparency of timeless rules

*B. Henry and J. Pearlman*

361. To join or not to join? Factors influencing employee share plan membership in a multinational corporation

*A. Bryson and R. Freeman*

362. Trade union membership and influence 1999–2009

*A. Bryson and J. Forth*

363. Was the subprime crisis unique? An analysis of the factors that help predict banking crises in OECD countries

*R. Barrell, E.P. Davis, I. Liadze and D. Karim*

364. Policy efficacy in the crisis, exit strategies and the return of growth

*E.P. Davis and D. Karim*

365. Heterogeneous worker ability and team-based production: evidence from major league baseball, 1920–2009

*A. Bryson, K.L. Papps and R. Gomez*

366. Do salaries improve worker performance?

*A. Bryson, B. Buraimo and R. Simmons*

367. Is there a link from bank size to risk taking?

*R. Barrell, E.P. Davis, T. Fic and D. Karim*

368. Density nowcasts and model combination: nowcasting Euro Area GDP growth over the 2008–9 recession

*J. Mitchell, G.-L. Mazzi and G. Montana*

369. Sustainability and the measurement of wealth

*K.J. Arrow, P. Dasgupta and L.H. Goulder*

370. A nonlinear panel data model of cross-sectional dependence

*G. Kapetanios, J. Mitchell and Y. Shin*

371. Do higher wages come at a price?

*A. Bryson, E. Barth, and H. Dale-Olsen*

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### *Forthcoming*

- Barrell, R., Kirby, S. and Orazgani, A., *The Macroeconomic Impact from Extending Working Lives*, DWP Occasional Paper.
- Forth, J., Brownlow, G., Shirlow, P. and McEvoy, K., *A Review of the Economic Costs of the Conflict in Northern Ireland*, Report to Home Office.
- Görzig, B., Piekkola, H. and Riley, R. 'Production of own account intangible investment and growth: methodology in INNODRIVE', INNODRIVE Working Paper no. 1.
- Metcalf, H. and Rolfe, H., *Barriers to employers in developing lesbian, gay, bisexual and transgender-friendly workplaces*, London, Government Equalities Office.
- , *Caste discrimination and harassment in Great Britain*, London, Government Equalities Office.
- , *Women's Choices in the Labour Market*, Government Equalities Office.
- Mitchell, J. and Riley, R., 'The drivers of international migration to and from the UK: a panel-based Bayesian averaging approach', DCLG Economics Paper.
- Riley, R. and Robinson, C., 'UK economic performance: how far do intangibles count?', INNODRIVE working paper.
- Rolfe, H. and Metcalf, H., *Review of Policies and Programmes Affecting Gender Equality in Employment*, Government Equalities Office.

### CONFERENCE/SEMINAR PRESENTATIONS

- Barrell, R., 'An evaluation of prospects and policies in the UK', European Council of Economists, February, and IfW, Kiel, Germany, March.
- , 'Macroeconomic aspects of changing financial regulation', Financial Stability Board Macroeconomic Analysis Group at the Bank for International Settlements, May.
- , 'Costs of crises and their impacts on economic prospects', MPC conference 17 July, Bank of England Seminar, July.
- , 'OMO with added QE but no CE', Bank of England Centre for Central Banking Studies, Course on Monetary Policy, July.
- , 'Financial regulation and the European policy architecture', paper presented at French Government Budget Conference, September.
- , 'Contagion and stress', Bank of England/ESRC Seminar, November.
- , 'Savings and the macro economy', HM Treasury Ministerial Seminar on Pensions Policy, December.
- Barrell, R., Davis, E.P., Karim, D. and Liadze, I., 'The impact of changing bank capital requirements', Centre for the Study of Financial Innovations, February.
- , 'Developments in early-warning systems for banking crises', LSE FMG Financial Regulation Seminar, April.
- , 'Developments in early-warning systems and the use of macro-models', HM Treasury seminar, 2 March, and Central Banking Conference, Cumberland Lodge, 14 April.
- , 'Calibrating new international standards in bank regulation', NIESR ESRC seminar, May.
- , 'The costs and benefits of bank regulation', Bruegel Institute Conference on Bank Regulation, Brussels, May.
- , 'Should we shut the stable door before the horse bolts again; the costs and benefits of bank regulation', ESRC, Westminster Economic

- Forum, June and Financial Services Club, ESRC meeting, IOD London, June.
- , ‘The costs of financial crises’, European Commission Service gap FP7 Conference, Birmingham, June and OECD National Economic Research Organisation meeting on the Financial Crisis, Paris, June.
- , ‘Financial protection and global and regional product regulation; off balance sheet activity and its consequences’, Euroframe Conference on Exit Strategies from the Financial Crisis, Amsterdam, June.
- , ‘Calibrating macro prudential policy’, Euroframe Conference on Exit Strategies from the Financial Crisis, Amsterdam, June, and OECD NERO meeting on the Financial Crisis, Paris, June.
- , ‘Calibrating macro prudential policy: off balance sheet activity’, Bank of England Seminar, July.
- Barrell, R. and Holland, D., ‘Fiscal consolidation in Europe’, OECD NERO meeting on the Financial Crisis, Paris, June.
- Barrell, R., Holland, D. and Liadze, I., ‘Accounting for UK economic performance’, European Commission Conference on UK Economic Performance, Brussels, June.
- Barrell, R. and Karim, D., ‘Financial fragility in the NMS’, a one day course for officials, European Commission, Brussels, January.
- , ‘Macro-financial stability and the real economy’, a one day course for officials at the European Commission, Brussels, July.
- Barrell, R. and Kirby, S., ‘Macroeconomic implications of pension reform’, DWP seminar, January, and Employers Age Forum, February.
- , ‘Fiscal prospects after the financial crisis’, Parliamentary Assembly of the Council of Europe, House of Commons, January, and National Audit Office February.
- , ‘What next for employment and unemployment in the UK?’, HM Treasury Labour Market Conference, February.
- Bewley, H., ‘The impact of the Pathways to Work programme on incapacity benefits customers: an analysis of administrative and survey data’, Centre for Analysis of Social Exclusion Welfare Policy and Analysis seminar, London School of Economics, March.
- , ‘Understanding the recession using the 2011 Workplace Employment Relations Survey’, Labour Market Statistics Users’ Group, Office for National Statistics, November.
- Bryson, A., ‘Keeping it in the family: the effects of family ownership on workplace closure and ownership change’, Royal Economic Society Annual Conference, Guildford, 30 March.
- , ‘Workplace Employment Relations Survey, 1980–2011’, The China-UK Joint Workshop on Data Collection and Sharing for Research in Economics and Management, Shanghai, China, 9 March.
- Bryson, A., Barth, E. and Dale-Olsen, H., ‘Innovation effects on worker wellbeing and the mediating role of trade unions’, (June 2010), presentation at the 2010 Fudan International Workshop on Employment Dynamics and Social Security, Shanghai, June.
- , ‘Do higher wages come at a price?’, CEP Labour Workshop, March, WPEG conference, University of Bristol, July, and presentation to Labour Market Dynamics and Growth, Sandbjerg Manor, Denmark, September.
- Bryson, A., Barth, E., Davis, J. and Freeman, R., ‘The contribution of dispersion across plants to the increase in US wage dispersion, SOLE/ EALE, June.
- Bryson, A., Buriamo, B. and Simmons, R., ‘Do salaried workers perform better than piece rate workers?’, Aalto University, Helsinki, May.
- Bryson, A. and Dale-Olsen, H., ‘Do unions contribute to workplace closure?’, Comparative Analysis of Enterprise Data Conference, Imperial College, London, September.
- Bryson, A. and Forth, J., ‘Trade union membership and influence 1999–2009’, June, European Science Foundation Workshop, RWI, Essen, Germany, September, and presentation to Prospect, October.
- Bryson, A., Lucifora, C., Pellizzari, M., Freeman, R. and Perotin, V., ‘Paying for performance: incentive pay schemes and employees’ financial participation, Cagliari, Sardinia, May.
- Davis, E.P., Barrell, R., Karim, D. and Liadze, I., ‘Macroprudential policy’, Federal Reserve, Bank of Chicago – IMF Conference, September.

- , ‘Calibrating macroprudential policy’, European Central Bank seminar, Frankfurt, November.
- Davis, E.P. and Karim, D., ‘Policy efficacy in the crisis, exit strategies and the return of growth’, European Commission on UK Economic Performance, Brussels, June.
- , ‘International developments in housing markets – lessons for Sweden’, Conference on Housing Markets, Monetary Policy and Financial Stability, Riksbank, Stockholm, November.
- Dickens, R., Riley, R. and Wilkinson, D., ‘The impact on employment of the age-related increases in the NMW: a regression discontinuity approach’, BIS seminar, London, 17 June.
- , ‘The National Minimum Wage at age 22: a regression discontinuity approach’, EALE-SOLE Conference, University College, London, 17–19 June.
- Dorsett, R., Lui, S. and Weale, M., ‘Economic benefits of life-long learning, LLAKES International Conference, Institute of Education, July.
- Fic, T., ‘EU macroeconomic policy after the crisis’, presented to Chevening Fellows at the University of Sussex Conference on EU Economic Policy after the Financial Crisis, March.
- , ‘Household debt and foreign currency borrowing in new member states of the EU’, Research Seminar, Warsaw University, Department of Economics, March.
- Fic, T. and Barrell, R., ‘Risks of deflation versus risks of excessive inflation in Europe’, 82nd Kieler Konjunkturgespräch, September.
- Holland, D., ‘The UK outlook and a British perspective on the Euro Area’, Swedbank’s Economic Outlook Conference 2010, Stockholm, May.
- , ‘Comments on the world economic outlook’, Project LINK Meeting, New York, October.
- , ‘Economic outlook for Europe’, Project LINK Meeting, New York, October.
- , ‘Fiscal positions in the EU economies and prospects for consolidation’, Project LINK Meeting, New York, October.
- Holland, D., Barrell, R. and Fic, T., ‘Fiscal positions in the EU and prospects for consolidation’, 7th Euroframe Conference on Exit strategies for EU economies in a globalised world, Brussels, June.
- Kirby, S., ‘The UK economy: recovery on track?’, 82nd Kieler Konjunkturgespräch, Berlin, 13–14 September.
- , ‘Prospects for the UK economy’, Low Pay Commission, December.
- Lui, S., Mitchell, J. and Weale, M., ‘Qualitative business surveys: signal or noise?’, 6th Eurostat Colloquium on Modern Tools for Business Cycle Analysis, Eurostat, European Commission, Luxembourg, September, and EU Workshop on Recent Developments in Business and Consumer Surveys, Directorate General Economic and Financial Affairs, European Commission, Brussels, November.
- , ‘The utility of expectational data: firm-level evidence using matched qualitative-quantitative UK surveys’, The 10th Comparative Analysis of Enterprise Data & COST Conference 2010, Imperial College, September.
- Lui, S. and Weale, M., ‘Economic benefits of life-long learning’, Institute of Education seminar, February.
- Mason, G., ‘Employer support for part-time study in higher education: pushing at an open door?’, Keynote lecture at conference on Repositioning Part-time Study in Higher Education, Birkbeck College, May, and Department of Education, Oxford University, October.
- Metcalf, H., ‘Employment in the Finance Sector’, Equality and Human Rights Commission Inquiry into Gender Inequality in the Finance Sector, London, October.
- Metcalf, H. and Dhudwar, A., ‘Employers’ role in the low-pay/no-pay cycle’, UK Commission for Employment and Skills Convention 2010, The Design Centre, London, 8–9 February, and CASE/LSE Seminar, Centre for the Analysis of Social Exclusion, LSE, London, 10 November.
- , ‘Reducing employers’ use of low paid, insecure employment: institutional pressures and policy responses’, ESRC Seminar Series 2010–11: Making Bad Jobs Better Seminar, September.
- , ‘How can bad jobs be made more bearable?’, ESRC Seminar Series 2010–11: Making Bad



- Jobs Better, Seminar 2: St Anne's College, Oxford, 21 September.
- Metcalf, H. and Meadows, P., 'Employers' policies, practices and preferences relating to age, 2010', The Age Employment Network (TAEN) Conference: Employers and the Ageing Workforce: recent research and current issues, Institute of Materials, Minerals & Mining, 27 October.
- Mitchell, J., Garratt, A. and Vahey, S.P., 'Measuring output gap uncertainty', 6th Workshop on Forecasting Techniques, European Central Bank, 5–6 March.
- Mitchell, J., Weale, M. and Solomou, S., 'Monthly and quarterly GDP estimates for inter-war Britain', Eurostat Colloquium, Luxembourg, September.
- Riley, R., 'Industry knowledge spillovers: do workers gain from their collective experience?', Work and Pensions Group Annual Conference, University of Bristol, 12–14 July.
- Riley, R. and Robinson, C., 'Intangible capital and innovation in UK firms and city regions', INNODRIVE workshop, Ljubljana, 11–12 March.
- , 'Which firms innovate? Agglomeration Spillovers in British manufacturing and service Sectors', Servicegap Conference, Birmingham, 14–15 June.
- , 'UK economic performance: how far do intangibles count?', INNODRIVE workshop, Berlin, 16–17 September.
- Sefton, J. and Weale, M., 'Generational accounting for the UK', ONS Meeting on the Public Finances, July.
- Van de Ven, J. and Callan, T., 'Modelling pension policy options: a dynamic cohort simulation model for Ireland, European Commission, March.
- Van de Ven, J. and George, A., 'Implications of the NEST for low pay workers and their employers, Low Pay Commission, October.
- Weale, M., 'Unsustainable consumption: the structural flaw behind the UK's long boom, European Commission Seminar on the UK Economy, June.
- , 'Qualitative business surveys: signal or noise?', Seminar, Sheffield University, September.
- OTHER ACTIVITIES**
- Barrell, R., Davis, E.P. and Karim, D., Comments on the consultative document, 'Countercyclical capital buffer proposal', evidence submitted to the Financial Stability Board, September.
- Barrell, R. and Kirby, S., Written submission to the House of Commons Treasury Select Committee Enquiry into the Office for Budget Responsibility, August.
- , Written submission to the House of Commons Treasury Select Committee Enquiry into the Office for Budget Responsibility's Economic and Fiscal Outlook, December.
- , Written submission to the House of Commons Treasury Select Committee Enquiry into the 2010 Comprehensive Spending Review, November.
- Bryson, A., Buriamo, B. and Simmons, R., Men in black: the impact of new contracts on football referees' performance, CentrePiece, CEP, LSE, July.
- Bryson, A., Frick, B. and Simmons, R., The wage premium of two-footed footballers, CentrePiece, CEP, LSE, July.
- Kirby, S., The tension of expansion, Public Service Review: Central Government no. 21.
- Van de Ven, J., More penalties in extra time, The House Magazine, [www.ePolitix.com](http://www.ePolitix.com), April.
- Weale, M. and Kirby, S., 'Careful with that axe, George', Parliamentary Brief, June. <http://www.parliamentarybrief.com/2010/06/careful-with-that-axe-george>.

## NIESR IN THE NEWS

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NIESR has had a great deal of media coverage in 2010 with mentions occurring in nearly 3500 articles appearing during the year. We are also ranked number 1 on Google when 'economic research' is used as the search criteria. Seen as an independent and well-respected organisation, journalists value the insightful comments made by our researchers and are keen to report our research findings.

The *National Institute Economic Review*, with its highly regarded forecasts for the future of the UK and World economies and commentaries on topical issues, is the most prominent of the organisation's output in terms of media coverage. This has of course been more so given the current intense interest in economic issues due to the recent downturn. However results and comments originating from our many areas of research often feature in the press. The Institute has a complete searchable listing of its press coverage on its website where this activity is more than apparent. To search for topics of interest, readers can follow the following link: <http://www.niesr.ac.uk/press/niesrinnews.php>

A very small selection of the sort of press coverage we have attracted during the year is given below. This should help to demonstrate that our research generates interest amongst commentators and is considered worthy of serious analysis.

*Bank of England 'must wait and see' before QE, says NIESR, The Daily Telegraph, 20 October*

*The Bank of England must hold off from pumping any more money into the economy until the waters are clear enough to make a safe decision, a leading economic think-tank has warned. Policymakers are in uncharted territory with the "dangerous" tool of quantitative easing (QE), the programme of asset purchases with newly-minted money which already stands at £200bn, the National Institute of Economic and Social Research (NIESR) said.*

*House prices will fall in real terms over the next 5 years as inflation outstrips meagre rises in value, experts have warned, Mail on Sunday, 29 July*

*By 2015, the relative cost of property will plunge 8 per cent once increases in the general price of goods and services are taken into account, Britain's oldest economic think-tank said. It means house prices will slip back to 2003 levels in real terms. The National Institute for Economic and Social Research said the average property will be worth £213,000 in five years time.*

*Raise income tax by 6p in the pound, UK told, The Guardian, 30 April*

*Thinktank says big increase necessary to protect country from the next financial crisis as the turmoil continues across Europe. Britain should raise income taxes by 6p in the pound to make bigger inroads into its huge deficit or risk being vulnerable to the next financial crisis, according to a leading thinktank that advises the Treasury. Current plans by the political parties to reduce spending and pay down debt would not be enough to prepare the country for a collapse like that of Lehman Brothers and a deep recession, said the National Institute of Economic and Social Research (NIESR).*

*'Recession over,' says respected think-tank, The Independent, 10 November*

*The recovery is losing some momentum, but the National Institute for Economic and Social Research, the nation's oldest and most respected economic think-tank, says that the recession is "over", adding that the "UK economy's strong performance over the past seven months does not suggest a further round of quantitative easing is currently necessary". The NIESR, which enjoys an enviable record for predicting movements in GDP, estimates that growth in the three months to October was 0.5 per cent, a deceleration of the 0.8 per cent officially recorded by the ONS in the quarter ended September but still more robust than most expectations.*

## OUR EVENTS PROGRAMME 2010

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The National Institute of Economic and Social Research continued to organise a wide-ranging programme of events in 2009/10.

In November 2009 NIESR organised an international conference in Cardiff in conjunction with the UK Centre for the Measurement of Government Activity (UKCeMGA) on Public Service Measurement. The keynote speakers included Joe Grice, Chief Economist at ONS, Martin Weale, Director of NIESR, Erwin Diewert, University of British Columbia, Paul Schreyer, Organisation for Economic Co-operation and Development (OECD) and Jack Triplett, Brookings Institution.

The Institute continued to hold regular employment seminars when leading academics from throughout the UK presented their research to Institute staff and external participants. Seminars in this series during 2009/10 included 'Access to flexible work and informal care', Mark Bryan, University of Essex; 'European works councils in practice: a cross-national survey-based analysis', Paul Marginson, Warwick University; 'What do CEOs do? Evidence from time-use surveys', Oriana Bandiera, LSE'; 'Trends in the unequal pay of men and women across three British generations', Jenny Neuburger, Institute of Education, London; 'Collective agreements, restructuring and wages in transition economies', Simone Moriconi, LSE; 'Returns to lifelong learning: recent evidence from the UK', Franz Buscha, Westminster University; 'Did the US infertility insurance mandates affect the time to first birth?', Asako Ohinata, Warwick University; and 'Happiness and Productivity', Andrew Oswald, Warwick University.

The ESRC-funded Westminster Economics Forum series of seminars continued to attract high level audiences from business, policymaking and academia. Following the success of the 2008/9 series on the financial services sector we have continued with this theme for the present series.

The seminars were chaired by Sushil Wadhvani and held at the Institute between October 2009 and October 2010.

We started the series with a presentation by Charles Goodhart on 'Are policy-makers revising financial regulation correctly in the aftermath of the financial crisis?'. This was followed by Ray Barrell's presentation of 'Should we shut the stable door before the horse bolts again? Costs and benefit of bank regulation' based on research



Stephen Cecchetti, BIS

funded by the Financial Services Authority and the ESRC. The series continued with Mr Stephen G. Cecchetti, Economic Adviser and the Head of the Monetary and Economic Department at the Bank for International

Settlements in Basel, Switzerland, presenting 'Financial Reform: A Progress Report'.

In March, Kate Barker marked the end of her third term as a member of the Monetary Policy Committee with a seminar presentation at NIESR on 'Monetary policy – from stability to financial crisis and back?'.

In May the ESRC financed a half day seminar focusing on the financial markets. The title of the seminar was Basel III and Banking Regulation, 'What do we regulate? When do we regulate it? and How tough should the regulation be?' The seminar made a major input into the debate of restructuring the financial system in advance of the G20 meeting in June. Professor Charles Goodhart, an Institute Governor and former member of Council, introduced the topic, and discussed recent proposals and the difficulties of

implementing them. Specific suggestions on changes in regulation were made by Professor Ray Barrell from NIESR and Charles Haswell from HSBC. Professor Barrell drew on work undertaken for the FSA and the ESRC on the causes and consequences of banking crises, and on the costs and benefits of bank regulation. He made a case for increasing capital and liquidity requirements, and analysed their effects on the economy. Charles Haswell discussed an alternative approach to regulating the financial sector to that adopted by Basel. The event concluded with a round table discussing the case for regulation and the impacts on consumers. This was introduced by Martin Weale and Phil Davis from NIESR and concluded with a wider debate which included contributions from industry experts.

During the year we held seminars to coincide with the publication of the *National Institute Economic Review*. In April the theme was 'Britain's economic performance since the 1980s' and the presentations were by Jonathan Wadsworth, Royal Holloway College, University of London on 'The UK Labour Market in Recession and Recovery' and by Lorna Unwin, Institute of Education, 'Working and Learning under New Labour: what has happened to young people who don't go straight into higher education?'. In addition, Martin Weale gave an overview of economic performance under Labour and Kevin Sheedy discussed his paper with Tim Besley on 'Monetary policy under Labour'.

In July the theme was 'Immigration and the economy' and the speakers were Jonathan Wadsworth, Royal Holloway College, University of London, on 'The UK labour market and immigration' and Emanuela Lotti, University of Southampton, on 'Migration, skill composition and growth'.

The Institute collaborated with the National Audit Office in May to host a debate on the fiscal crisis. Martin Weale, Director, NIESR and Roger

Bootle, Capital Economics Ltd, presented differing views on the way to handle the crisis under the heading 'The economic cases for early, and for later fiscal tightening'. The large audience at the National Audit Office then contributed to a lively debate on the topic.

The Stone Lecture 2010 was given by Professor Sir Partha Dasgupta, FBA, FRS, Frank Ramsey Professor of Economics, Fellow of St John's College, University of Cambridge. His topic was 'Estimating National Wealth: the case of health'. Hosted by the Bank of England and NIESR with support from Cambridge University Press this event is held on a biennial basis and has attracted some of the world's leading academic economists.

It should be noted that during the year the Institute has seen its media activity increase significantly as economics has risen to the top of the policy agenda. Researchers have been commenting on, amongst other things, the causes of financial crises and their consequences, the future funding of pensions and, primarily, the causes of recession and the prospects for both the UK and the global economy in the future.

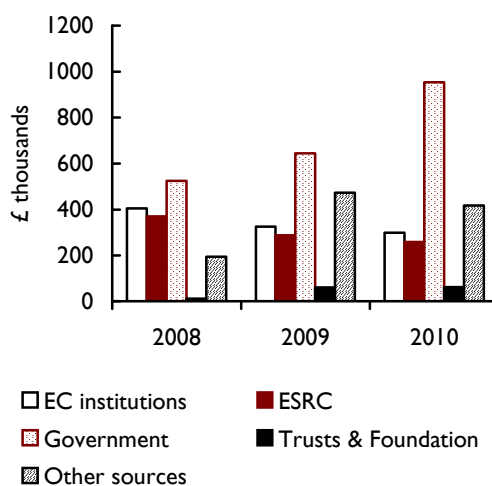
The level of subscriptions to the Institute's journal, the *National Institute Economic Review*, continued to be sustained throughout the year. This was no doubt helped by the current intense interest in economics-related subject matter as well as the topical themed issues. The latter included several articles analysing the UK's economic performance under a Labour government. This was published to coincide with the general election in May 2010.

## RESEARCH SUPPORTERS

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

Advisory, Conciliation and Arbitration Service  
 Dept of Business, Enterprise and Regulatory Reform  
 Department for Business, Innovation and Skills  
 Bank for International Settlements  
 British Academy  
 British Market Research Bureau  
 Computershare  
 Crown Prosecution Service  
 Database and Information Systems  
 Department for Communities and Local Government  
 Department for Education and Science  
 Deutsches Institut für Wirtschaftsforschung  
 Department for Work and Pensions  
 Economic and Social Research Council  
 Equality and Human Rights Commission  
 European Commission  
 European Foundation for the Improvement of Living and Working Conditions  
 Financial Reporting Council  
 Financial Services Council  
 Finnish Work Environment Fund  
 Fondazione Rodolfo de Benedetti  
 Foundation Degree Forward  
 Foundation for Research and Technology  
 Government Equalities Office  
 HM Revenue and Customs  
 Higher Education Careers Service Unit  
 Home Office  
 Institut für Arbeitsmarkt-und Berufsforschung  
 International Accreditation Board  
 IFF Research  
 Leverhulme Trust  
 Low Pay Commission  
 Ministry of Justice  
 National Audit Office  
 National Endowment for Science, Technology and the Arts  
 NHS West Midlands  
 Norwegian Research Council  
 New Zealand Ministry of Economic Development  
 Nuffield Foundation  
 Overseas Development Institute  
 Office for National Statistics  
 Office of Fair Access  
 Houses of Parliament  
 Riksbank  
 Skills for Care and Development

**Split of funds between various research supporters**



Trades Union Congress  
 UK Commission for Employment and Skills  
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### *Corporate Membership Scheme*

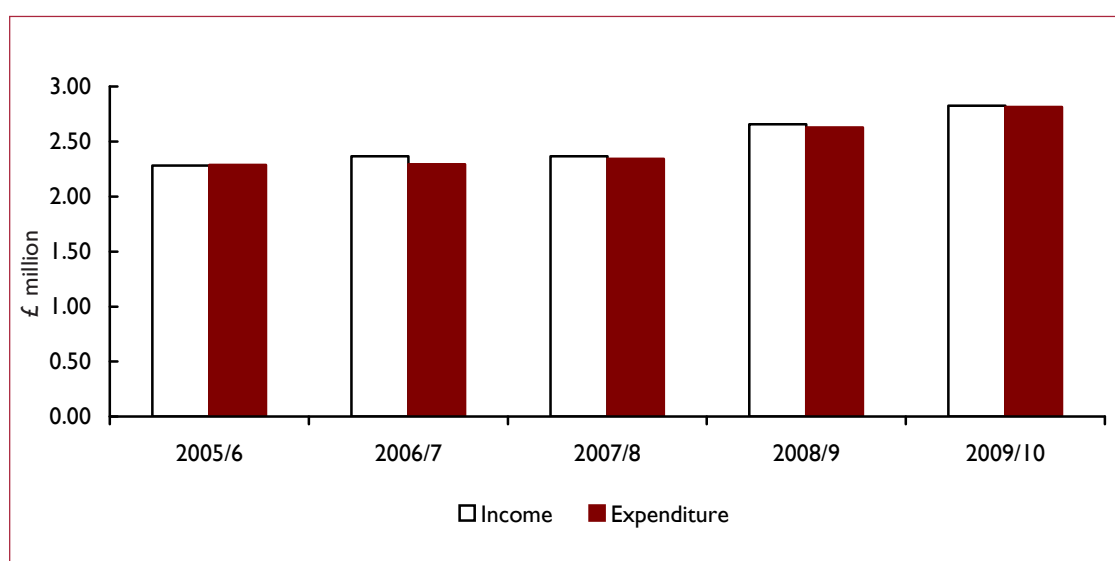
*NIESR has a corporate membership scheme which helps to fund the generic research of the Institute and in particular the economic forecasts contained in the National Institute Economic Review. The support of these organisations is vital in assuring our complete independence. All corporate member organisations are acknowledged in the forecast section of the Review. 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](mailto:g.clisham@niesr.ac.uk).*

Abbey plc  
 Bank of England  
 Barclays Bank plc  
 HM Treasury  
 Nomura Research Institute Europe Ltd  
 Office for National Statistics

## FINANCIAL SUMMARY

*In the year to 31 March 2010 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 PKF(UK)LLP, have been filed at Companies House and the Charities Commission.*

	2006/7	2007/8	2008/9	2009/10
<b>Income</b>				
Donations	26,500	27,040	44,000	41,000
Publications	231,966	244,766	195,846	203,093
Econometric model fees	413,477	376,630	422,451	418,538
Misc income	31,955	40,662	56,408	55,128
Fees for research work	1,466,656	1,505,854	1,792,584	1,990,606
Investment Income	194,410	169,884	145,275	116,902
<b>Total Income</b>	<b>2,364,964</b>	<b>2,364,836</b>	<b>2,656,564</b>	<b>2,825,267</b>
<b>Expenditure</b>				
Research including library	1,954,573	2,047,483	2,314,746	2,499,784
Publications costs	239,833	189,817	187,576	193,472
Premises	48,221	36,824	71,255	61,424
Governance and professional costs	51,163	68,646	54,157	58,036
<b>Total expenditure</b>	<b>2,293,790</b>	<b>2,342,770</b>	<b>2,627,734</b>	<b>2,812,716</b>
<b>Operating Surplus/(Deficit)</b>	<b>71,174</b>	<b>22,066</b>	<b>28,830</b>	<b>12,551</b>



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### INSTITUTE RESEARCH GROUPS

Institute research can be grouped into three streams of work, but staff work on a wide range of issues. This means that there is significant overlap between groups in terms of interests. The overlaps are caught in our list of themes. We also have a wide international coverage with only a minority of the staff working on purely UK related issues. The membership of groups is fluid and people may move.

#### *Macroeconomics and Statistics Group*

Ray Barrell, BSc (Econ), MSc, London, Senior Research Fellow  
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Tatiana Fic, MSc, PhD, Warsaw, Senior Research Officer  
Dawn Holland, BA, Tufts; MSc (Econ), London, Senior Research Fellow  
A. Ian Hurst, BEng, DipEng, PhD, Hull, IEng. MIET, Senior Research Fellow  
Simon Kirby, BA, Keele; MSc (Econ), London, Research Fellow  
Iana Liadze, MSc (Econ), London; PCEF, London; Diploma (Physics), Tbilisi, Georgia, Senior Research Officer  
Silvia Lui, BSc (Econ), MSc (Econ), PhD, London, Research Officer  
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Ali Reza Orazgani, BSc, UCL; MSc (Econ), London, Research Officer  
Rachel Whitworth, BMus; PGDip (Econ), MSc, London, Research Officer

#### *Labour Markets and Employment Relations Group*

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## THEMES

Contacts for each theme are printed in bold type. E-mail addresses for contacts are shown in the box at the foot of the page. \* Visiting Fellows. † Part-time PhD students.

### *Large-scale Macro Modelling*

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