

# CESifo Bulletin

Volume 12 No. 3  
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## SHARING RISK, SHARING WEALTH

The ability of regions and countries to exploit their comparative advantages depends largely on their degree of risk sharing. The more the risk is shared, the easier it is for a region to become specialised, as **Oved Yosha**'s research suggests. *(page 2)*

## CROSS-BORDER EQUITY FLOWS

In a globalised economy, equity flows across borders with remarkable ease, lending it an increasingly important role in determining rates of exchange. **Harald Hau** will explore the issue while at CES. *(page 2)*

## INTERGENERATIONAL TRANSFERS

The transfer of human and physical capital onto coming generations significantly affects income inequality and capital accumulation. **Yitzhak Zilcha** will examine some of the issues raised by this phenomenon in a book he will be working on at CES. *(page 6)*

## IMPROVING PUBLIC GOODS...

Public goods are, well, good. It pays to find out, then, which factors prompt jurisdictions to offer optimal public goods. **Myrna Wooders** will pursue this line of research during her stay at CES. *(page 3)*

## ... AND MEASURING WELL-BEING

The whole point of economics is to improve human well-being. Ironic then that economics has found it so difficult to measure this concept. **Bernard van Praag** has done much to correct the anomaly, and will continue to work on it while at CES. *(page 5)*

## WORLD ECONOMIC CLIMATE TAKES A DIP

The upward trend shown by this index during the April survey reversed itself in July, but only slightly. Check out the **Ifo News** section for the latest findings. *(pages 4-5)*

## MINING PANEL DATA

**Badi Baltagi** is one of the foremost architects of cross section and panel data econometrics. He will refine and expand his mastery in this area while at CES. *(page 6)*

## ECONOMICS AND CULTURE

With a potent blend of cultural calibre and macroeconomic grasp, **Rick van der Ploeg** is well-placed to tackle simultaneously the effects of migration on convergence and the realities of book pricing in Europe. *(page 7)*

LABOUR MARKET INSTITUTIONS  
AND PUBLIC REGULATION  
CONFERENCE  
*(p. 5)*

MUNICH SEMINARS  
*(p. 2)*

Ifo NEWS  
*(p. 4-5)*

2002 VENICE SUMMER INSTITUTE  
*(p. 8)*

FACULTY NEWS  
*(p. 8)*

MUNICH ECONOMIC SUMMIT  
*(p. 8)*

CESIFO PRIZE IN  
PUBLIC ECONOMICS  
*(p. 3)*

## RISK SHARING AMONG REGIONS AND COUNTRIES

Yosha

If inter-regional and international capital markets are well integrated, regions and countries can insure against idiosyncratic shocks and thereby “afford” to better exploit comparative advantage. Therefore, regions within countries are more specialised than countries as a whole, since there is more risk sharing within various federations than among countries.

**Oved Yosha**, Senior Lecturer of Economics at the Berglas School of Economics at Tel Aviv University, will devote part of his upcoming stay at CES in September to research on this topic.



Oved Yosha

Risk sharing can be found at all levels of economic activity: among individuals within the family or within organisations such as the police or a trade union, and sometimes also among corporations, e.g., conglomerates. At the macroeconomic level, we can think of risk sharing among various regions within a country. For example, the states of a federation gain from sharing state-specific output risk through inter-state ownership of productive assets. Similarly, risk sharing

can take place between countries through international holdings of securities.

Half a century ago, economic theory provided a benchmark formalization of what is meant by the term risk sharing, and characterized efficient risk sharing within a group of agents. Empirical research on risk sharing started much later with a series of micro-level and macro-level tests of whether individuals and countries achieve efficient risk sharing. Most of them flatly rejected the hypothesis.

Pierfederico Asrubali, Bent E. Sorensen, and Oved Yosha developed a method for measuring how much risk sharing is actually achieved and found that within the United States there is considerable risk sharing (although efficient risk sharing is not achieved). They concluded that “home bias” within the United States is much smaller than among European countries.

Yosha, in collaboration with Sebnem Kalemli-Ozcan, Ariell Reshef, and Bent E. Sorensen will be working on an article that studies capital flows within federations.

## CROSS BORDER FLOWS

Hau

Why are European stock market appreciations increasingly correlated to euro currency depreciations? According to **Harald Hau**, Associate Professor of Finance at INSEAD and specialised in international finance, capital markets and microstructure, the reason is the growing role cross-border equity flows are playing in the determination of exchange rate. He will devote part of this stay at CES to explore this issue further, in a joint project with Helene Rey from Princeton University.



Harald Hau

Hau was an undergraduate at Bonn University and pursued a M.A. in Economics at the University of Virginia before obtaining a Ph.D. at Princeton University. He taught at ESSEC before joining INSEAD. He was a visiting professor at the University of California, Berkeley, in 2000 and a visiting scholar at the International Monetary Fund in 2002, and a prolific contributor to several academic and professional journals.

His most recent empirical work compared the proprietary trading profits of 1200 local and international traders participating in the Xetra trading system of the Deutsche Börse. This analysis of information asymmetries in cross-border equity investments was granted the Josseph de la Vega best paper award of the Federation of European Stock Exchanges.

A second research project deals with the role of transaction costs for financial market stability. It is often claimed that lower transaction costs in equity transactions can explain why volatility for individual stocks has increased over the past decade. Some even claim that a security transaction tax (Tobin tax) may improve stock market stability. Hau's latest work shows that this claim is incorrect and that (exogenously) higher transaction costs increase market volatility.

JS

## OPTIMISING THE PROVISION OF LOCAL PUBLIC GOODS

Wooders

In economic situations where it is optimal to have many jurisdictions offering competing packages of public goods, the Tiebout Hypothesis says that the movement of consumers to jurisdictions where their wants are best satisfied and competition between jurisdictions for residents will lead to near-optimal “market-like” outcomes. Individuals sort into taste-homogeneous jurisdictions.

**Myrna Wooders**, Professor of Economics at the University of Warwick, has worked extensively on related questions, and will pursue this line of research during her stay at CES in September.

Research has provided a foundation for the Tiebout Hypothesis, based on price-taking assumptions and also on co-operative game theory. When individuals and jurisdictions are price-takers and price-setters respectively and there is no strategic behaviour, then near optimal equilibrium outcomes exist and are stable against co-operative group formation. Indeed, when all small groups of participants in an economy are effective for the achievement of all or almost all gains to collective activities then, as Tiebout suggested, economies with congestible and excludable public goods are markets and the public goods may be optimally provided by private enterprise. There is thus no need for any government intervention.

Another branch of literature arrives at quite different conclusions. According to received wisdom, competition between governments for mobile capital will result in a “race to the bottom,” with tax rates too low and with public goods under-provided. In order to prevent capital from fleeing elsewhere, each government has an incentive to engage in wasteful competition through lowering taxes.

From this literature, it follows that governments must collude in some way –say, through tax harmonisation– to prevent tax competition from undermining

public good provision in jurisdictions linked by capital markets. George R. Zodrow and Peter Mieszkowski (1986) and John D. Wilson (1986) were the first to formalise the intuition of this argument, expounded by Wallace Oates in 1972.

Myrna Wooders is especially interested in reconciling these two very different views of local public good provision. Her recent research results (carried out in part with Amrita Dhillon and Ben Zissimos, both of the University of Warwick) show that when the assumptions of that Zodrow-

Mieszkowski model are relaxed, in fact there may be a “race to the top” with overprovision of public goods. It appears that the nature of competition between jurisdictions is crucial: it is crucial whether competition is for the tax base or residents, who benefits from the public goods provided, and whether groups of consumers (or firms) can opt out of paying taxes and provide the public goods for themselves.

If jurisdictions try to tax players (consumers, firms or other economic actors) in excess of the external effects they impose (which may be positive or negative), there is a potential for profitable secession or opting out. Because of the assumed mobility of players in Tiebout economies, the redistribution implicit in such taxation cannot be sustained.

Aware of the need for further investigation of these issues, Wooders recently published an article in the *Proceedings of the National Academy of Sciences* providing a short summary of the state of the literature on the Tiebout Hypothesis, and will now devote part of her stay in Munich to delve deeper into this field.

Myrna Wooders is also Editor of *Journal of Public Economic Theory*, Director of the Warwick Centre for Public Economics, and President of the Association for Public Economic Theory.

SÜ

## CESIFO PRIZE IN PUBLIC ECONOMICS

During the CESifo Annual Area Conference on Public Sector Economics, held in Munich on May 10-12 2002, the Committee for the CESifo Prize in Public Economics granted the **CESifo Distinguished Affiliate** award to **Emmanuel Saez** for the scientific



originality, policy relevance and quality of exposition of his paper *Optimal Income Transfer Programs: Intensive versus Extensive Labor Supply Responses* presented at the conference.

The committee was comprised of Jeremy Edwards, Assaf Razin and Peter Birch Sørensen (chairman).

Saez's paper sheds new light on a central issue in Public Finance theory and policy by showing that negative marginal tax rates at low levels of income can be optimal if one adds an extensive labour supply margin to the intensive one present in the basic optimal income tax model of James Mirrless. In other words, if there is a discrete participation decision –as opposed to an incremental decision regarding hours worked that might generate non-participation if optimal hours reach zero– the potential income gains from participation might justify negative marginal tax rates at low incomes.

With this result Saez has provided an important theoretical justification for policy measures which seek to promote the employment and net earnings of the low-skilled by turning transfers aimed at increasing the incomes of the unemployed into transfers aimed at getting them back to work. His paper also makes an important contribution to the optimal tax literature, as witnessed by its being cited in the new *Handbook of Public Economics* even though it was unpublished, and by the fact that it has been accepted for publication in the *Quarterly Journal of Economics*.

## MUNICH SEMINARS

Confirmed Lecturers

02.12.2002

**Dr. Ferdinand Graf von Ballestrem**

Member of the Board of MAN AG

Info at [www.CESifo.de](http://www.CESifo.de)

13.01.2003

**Prof. Dr. Wolfgang Fikentscher**

Department of Law, LMU Munich

*Culture, Justice and Commerce: An Anthropological Approach to Markets*

17.02.2003

**Prof. Dr. Manfred J.M. Neumann**

Institute for International Economics

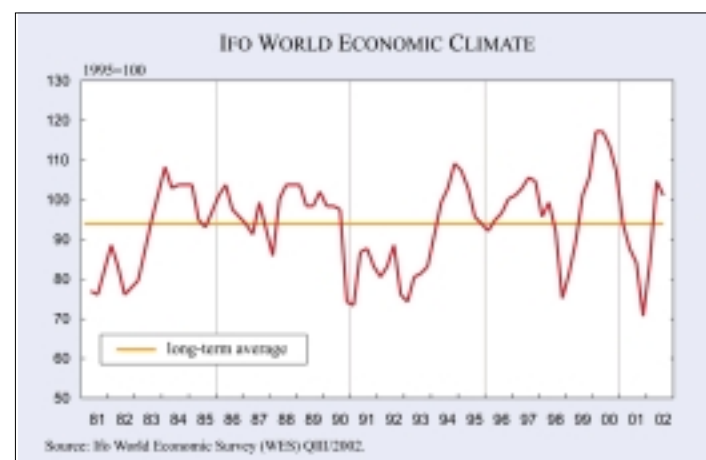
Info at [www.CESifo.de](http://www.CESifo.de)

# Ifo NEWS

## WORLD ECONOMIC CLIMATE WORSENE D SLIGHTLY IN JULY

The **Ifo World Economic Survey (WES)** of July 2002 polled 1055 experts at multinational corporations and various institutions in 90 countries. According to the July survey, the **Ifo World Economic Climate** indicator declined slightly (from 104.7 to 101.1) after having risen sharply in the January and April surveys, signalling that the world economy is still on track, although the upswing will have less momentum in coming months. The decline of the indicator resulted exclusively from more cautious expectations for the coming six months, whereas the assessments of the current economic situation became a bit more positive. In most countries, the recovery of the hard-hit capital expenditure sector is expected to be more pronounced than that of private consumption.

The climate indicator improved for **Asia** (from 104.6 to 105.6), continuing its upward trend. This contrasts with **North America** (from 106.8 to 104.6) and especially **Western Europe** (from 104.1 to 97.2), where the economic recovery has temporarily stalled.



A slight drop: World Economic Survey July 2002

## IFO BUSINESS SURVEY OF AUGUST 2002

In August the Business Climate of the German Business Sector (Manufacturing, Construction, Retail and Wholesale Trade) weakened further, mainly due to pessimistic expectations. In western

Germany, the indicator fell for the third time in a row. This indicates – hopefully – only a temporary interruption of the upswing. In eastern Germany, the business climate deteriorated marginally. The even slightly better assessment of the current business situation was not offset by the more pessimistic assessment of the outlook.

## IFO ANNUAL MEETING 2002

On the occasion of Ifo's 53<sup>rd</sup> Annual Meeting on 25 June 2002, President Sinn presented an analysis of Germany's structural problems.

Prof. Sinn called for a number of reforms to tackle the structural problems of the German economy. The high level of unemployment, rising steadily for the past 30 years, is a major reason for Germany's poor growth performance. Past excessive wage increases frightened away foreign investors and reduced German competitiveness. He pointed out that the Ifo Institute had time and again called for a reform of the wage-setting laws, a reduction of the tax burden on labour income and a reform of the social security system in order to improve the functioning of the labour market and boost German growth.

Following Prof. Sinn's presentation, Werner Müller, Federal Minister for Economic Affairs, spoke on "Germany in the fast lane". He believes that the German economy is doing better than reported in the press and assessed by the economic research institutes. He did concede, however, that Germany's growth rate should be higher. Unemployment could only be reduced at

growth rates of 2% or more. He blamed the anaemic growth on the continuing severe recession in the construction sector, the insecurity of the economic agents following the terrorist attacks, and

the destruction of capital caused by the crash of the high-tech stock markets. He precluded that private consumption of an ageing population could become the driving force behind a recovery. Instead he put his money on foreign investment and a closer integration of the German economy in a globalised world.

## EUROPEAN CONSTRUCTION ACTIVITY EMERGING FROM TROUGH

According to the forecasts of the economic institutes meeting in Dublin in early June, the Western European construction industry reached its cyclical trough in 2002. The industry's growth rate is expected to be markedly higher in 2003 and especially in 2004.

The key factor behind this growth forecast is the expected recovery of the German construction industry. In the period 2002 to 2004 Germany is by far the strongest brake on faster growth of European building output; the other four big West European economies are making higher positive contributions to construction growth (Volker Russig, *SD 14/2002*).

## IFO PRIZES FOR IFO STAFF

Several members of the staff were awarded prizes for outstanding work. The Scientific Prize went to Robert Fenge for his paper *How much fiscal equalisation? A constitutional approach*, published in the *Journal of Institutional and Theoretical Economics*. The first prize for Successful Management of a Commissioned Research Project went to Rigmar Osterkamp and Wolfgang Ochel for establishing and feeding the Database for Institutional Comparisons in Europe (DICE). The second prize went to Hans-Günther Vieweg and Herbert Hofmann for their project *Machinery production of SME's in Germany – Opportunities and Risks in the Age of Globalisation and New Economy*.

## BERLIN EVENING OF THE IFO INSTITUTE

On 27 June, the Ifo Institute conducted a Berlin Evening. Following the introduction by Prof. Hans-Olaf Henkel, President of the Scientific Association Gottfried Wilhelm Leibniz, Prof. Sinn presented the research and work profile

of the "new" Ifo Institute. Around 100 guests attended the event, in which the executive board and the department chairmen of the Ifo Institute participated. Besides members of parliament and representatives of the foreign embassies, a number of economists from Berlin universities and members of the press showed interest in the latest Ifo forecast and Prof. Sinn's analysis on the reasons for Germany's poor growth performance. The discussion was moderated by Dr. Norbert Bense, Member of the Board of Deutsche Bahn AG.

## AN EVEN CLOSER RELATIONSHIP BETWEEN IFO AND LMU

On 20 June 2002 the Senate of the Ludwig-Maximilians-University of Munich voted in favour of a proposal by the University President to make Ifo an "Institute at the University". In this way the University expresses its high esteem of the Ifo Institute and emphasises the close collaboration in research and teaching. Several members of the Ifo staff have teaching assignments at the University, and professors of LMU hold research directorships at the Ifo Institute or are members of various Ifo bodies. The University's decision was recently confirmed by the Bavarian State Ministry for Science, Research and the Arts and thus has become official.

## THREE STARS FOR IFO WEBSITE

The U.K.'s Williams de Broë Guide to Economics Websites rated the Ifo Website among the best among its peers, with three stars out of a maximum of four. We quote their comments:

"The Munich-based Ifo Institute for Economic Research is famous for its wide range of business surveys. The site is available in English as well as German. The surveys are international in scope and long historic runs are provided in chart form. It is possible to access a wide range of research papers in English and hyperlink to other sites. An interesting site to explore for those who want a break from purely Anglo-Saxon economics."

HS

## IN WHAT SENSE IS WELL-BEING MEASURABLE?

van Praag

Utility is one of the key concepts in economic theory, as most theories are based on utility-optimising behaviour. Curiously, according to mainstream economics utility is not measurable, which would imply that our science is seriously hampered. Beside psychologists and sociologists, a few economists like Clark, Oswald, Frey, and Blanchflower doubt the thesis that utility cannot be operationalised empirically. Early forerunners of that scientific connexion were Easterlin, Van Praag and Kapteyn.



Bernard van Praag

There is still not a standard empirical approach. Various authors use "happiness", "satisfaction", or "well-being" instead of utility. There is also ambiguity on the ordinal or cardinal character of what is measured. **Bernard Van Praag** developed a theory on individual welfare (1968) which departed from a cardinal basis. In successive years he worked on the further operationalisation of the welfare concept. It was applied to derive subjective family equivalence scales, define and measure subjective poverty, derive climate equivalence scales and

define subjective income inequality. The work is also known under the term "Leyden School", after the town where Kapteyn, Hagens, Van Praag, and others worked in the seventies.

In late September, during his stay at CES, he will expand his work on "subjective inequality", and will present his recent work with Ada Ferrer, based on the German Socio-Economic Panel (GSOEP) data, which includes papers analysing the anatomy of subjective well-being and the subjective costs due to chronic diseases by using an alternative model for monetary appraisal.

Van Praag is currently University Professor at the University of Amsterdam, where he received his doctor's degree in 1968. He was appointed professor in 1972 at the University of Leyden, became a professor at Erasmus University, Rotterdam, in 1984, and moved to Amsterdam in 1992. Apart from his work on welfare measurement he has written several articles on econometric methodology, health economics, social security and retirement pension problems.

MS

## LABOUR MARKET INSTITUTIONS AND PUBLIC REGULATION CONFERENCE

European Labour Markets are often criticized as being overregulated and too inflexible. Indeed, such traits are blamed for the high unemployment rates observed in several European countries.

This was the focus of the second part of the joint CESifo/ISPE conference on **Labour Market Institutions and Public Regulation**, held at Cadenabbia, Italy. In an extremely congenial atmosphere at this most picturesque corner of lake Como, a group of labour market experts worked on reform proposals for the labour and education markets and the possible



consequences they might have. After lively discussions, which continued well into the balmy Cadenabbia nights, the results were not only derived theoretically but also based on country comparisons and on the experiences of single countries, so they can (and hopefully will) be taken as a solid basis for policymakers' decisions.

The papers will be published individually under the CESifo working paper series and collectively in a conference volume by the MIT Press.

KT

## CALL FOR PAPERS

## PUBLIC FINANCE AND FINANCIAL MARKETS

59TH CONGRESS OF THE INTERNATIONAL INSTITUTE OF PUBLIC FINANCE

The 59th Congress of the International Institute of Public Finance (IIPF) will be held in Prague during August 25-28, 2003. Prospective contributors are invited to submit papers or abstracts of papers before **January 31, 2003**. Both practitioners and academics are encouraged to participate.

The role of the government in financial markets is extensive and complex. In some financial sectors, e.g. "social insurance," the role of the government is dominant, even though private markets often coexist. In other sectors, e.g. for consumer and business loans, governments normally limit their intervention to regulatory oversight, though tax distortions/incentives can be large. Yet the same qualitative problems, e.g. with adverse selection, exist in all of these markets. Interjurisdictional externalities can also be important, as seen in recent financial crises and in the role of tax havens. To what degree have government policies affected the amount of private savings, their allocation among alternative real investments (domestic and foreign), and the resulting allocation of risk? To what degree do they help overcome liquidity constraints, adverse selection problems, externalities, or time-inconsistent preferences?

While the main theme of this conference will be positive and normative studies of the role of government in financial markets, contributed papers on any topic in the field of public economics will be considered.

To submit a complete paper or an extended abstracts please go to the following web page:

<http://www.econometricsociety.org/conference/IIPF59>

You will first need to register as a new user, and can then submit a paper. Those who would be interested simply in serving as discussants or session chairs should also go to this web site and register as a new user. Only pdf files will be considered. (Please *embed all fonts* to make sure that your pdf file will be readable across systems.) The papers will be selected by a Scientific Committee consisting of Julian Alworth, Alan

Auerbach, David de-Meza, Jaroslava Durcakova, Roger Gordon, Bojka Hamernikova, Harry Huizinga, James Poterba, Assaf Razin, Hirofumi Shibata, Joel Slemrod, Hans-Werner Sinn and Alfons Weichenrieder. Authors will be notified about acceptance or rejection of papers by **April 15, 2003**.

Authors of accepted papers are expected to join the IIPF; payment of the modest annual membership fee prior to the Congress will ensure a reduced registration fee. Membership also carries with it a subscription to the journal *International Tax and Public Finance*. See the IIPF website [www.iipf.net](http://www.iipf.net) for further information.

Selected papers will be published in a special issue of the journal *International Tax and Public Finance*. To be considered for publication, papers should be available for review before the Congress. Given space constraints, only short papers can be considered.

AW

## FACULTY NEWS

• P.D. Dr. **Rainer Fehn** has accepted an invitation to start working at the faculty (temporary C3 position) as of 1 September 2002. Dr. Fehn specialises in structural and competition policy.

• The request for funding from the DAAD Programme *Ph.D. Studies at German Universities* has been approved. This means that there are now sufficient resources available to provide comprehensive support to foreign Ph.D. students in Munich. The move also provides effective support for the **Graduate School** slated to start operating this autumn, which will also offer Ph.D. courses in English. At least one third of the places in the programme are to be allocated to foreign students. The school will commence in October with 12 scholarship students for the PhD programme and 2 qualification scholarships.

• Prof. Dr. **Monika Schnitzer** and Prof. Dr. **Klaus Schmidt** have received an invitation to work at the University of Zurich, Switzerland

## FORMATION OF WORK NORMS

Nyberg



If children can count on financial support from their parents in the event they should prove unsuccessful in the labor market, their effort incentives will be reduced. Economic incentives, e.g. making bequests contingent on success, may not be credible if parents are truly altruistic. Non-economic incentives, such as a work ethic, work better in this respect. Work norms and their formation, therefore, constitute a field worth studying in depth.

That is one line of research which Sten Nyberg, Associate Professor of Economics at Stockholm University and member of the Market Court in Sweden, has pursued for the past several years. His other areas of interest concern social norms in economics, the political economy of income redistribution and industrial organization.

Together with Assar Lindbeck and Jörgen Weibull, Nyberg has studied work norms in relation to transfer and income insurance systems in the welfare state. One issue has been to examine what budget balanced tax-transfer policies emerge as political equilibria in a majority voting context, when the strength of the welfare stigma declines in the number of transfer recipients. The most recent paper on the subject highlighted the possibility that adjustments of norms to changes in benefit dependency exhibit inertia, which may give short-run incentives for providing more generous benefits than what is sustainable in the long-run.

In a joint paper with Lindbeck (*CESifo Working Paper No. 498*), Nyberg also studies the formation of work norms. This work explores altruistic parents' interest in influencing the work norms of their children and how that is influenced by the generosity of social insurance benefits.

During his stay at CES, in November and December this year, Nyberg will continue this line of research. He will also work on two related projects, one involving evolutionary formation of work norms and the other on norms to limit effort.

JS

## SWITCHING FROM POLITICS BACK TO ACADEMIA

van der Ploeg



Rick van der Ploeg

**Rick van der Ploeg** began his career as an academic economist working on international macroeconomics, public finance, and environmental economics. He received his Ph.D. in 1981 from Cambridge University and then taught at Cambridge and the LSE, and was a professor in the Netherlands.

From 1994-2002, he traded in his hat of an academic for that of a politician in The Hague. The first half of his political tenure spanned the first purple coalition under premier Wim Kok — a period characterised by spectacular drops in government debt and unemployment rates. During this time, van der Ploeg was chief financial spokesman for the Labour party in the Dutch parliament. In this capacity, he was responsible for budgets, taxation and competition.

In the second half of his political career, van der Ploeg served as vice Minister for Education, Culture and Sciences; as such, he held the daunting portfolio of television, radio, internet, heritage (monuments, archeology, museums, and archives), literature and libraries, the arts, spatial planning and arts education at schools and in higher education. This was a time of heated debates over such issues as high culture versus low culture, arts for the sake of art, and cultural entrepreneurship.

Although he had earlier on decided not to run for office and instead return to his original calling as an academic, van der Ploeg's current research agenda is inspired by recent events in politics. This spring saw the murder of the immensely popular Dutch politician Pim Fortuyn, and the subsequent electoral defeat of purple coalition parties in which van der Ploeg had served. Fortuyn's popularity in large part reflected the electorate's malaise with the large population of foreigners (despite a reduction in the number of asylum seekers), as well as more general concerns regarding integration and safety in urban areas. Indeed, recent electoral outcomes across Europe seem to reflect similar phenomena.

As a result, van der Ploeg intends to devote his research primarily towards the study of political economy issues involving immigration in a continent whose population is both ageing and shrinking. He hopes to do so within the global context of North-South issues. In particular, he will delve into the effects of migration on the speed of convergence in a North-South model of economic growth.

He will also examine the public finance aspects of Baumol's disease in a growing economy. In particular, he will ask how the privatization of the engines economic growth — such as education, culture and health — will affect the tax rate, the marginal cost of public funds, and the rate of economic growth. An important question to answer here is whether a public sector with less than average productivity growth stifles growth prospects.

He will also research a paper on beyond the dogma of the fixed book price agreement, which gives the costs and the potential merits of granting this type of monopoly behaviour. This paper will use some formal models of the book market, allowing for the fact that reading books takes time, but also look at the empirical policy issues involved.

Van der Ploeg will also continue work on a review article on cultural policies in Europe for the *North-Holland Handbook on Cultural Economics*. This employs principles of public finance and institutional economics to compare the different ways in which the European countries conduct cultural policy. It is based on a previous survey of the rationale for cultural subsidies entitled *In Art we Trust*.

During the Michaelmas Term he will teach a Master's course in macroeconomics at the LSE, and in January, 2003, he will take a Chair in Economics at the European University Institute in Florence. This year he co-authored (with Ben Heijdra) an Oxford University Press textbook entitled *Foundations of Modern Macroeconomics*.

RJ

## MACROECONOMIC REGULARITIES

Tornell



Aaron Tornell

**Aaron Tornell** will be conducting his research at CES during August and September. Professor Tornell taught at Harvard University's economics faculty, and is now at University of California at Los Angeles. He is also a well-known researcher at CES, returning to Munich for his third visit.

His main fields of interest are economic growth and international finance. Currently he is working on two topics. One has to do with the macroeconomic regularities of middle income countries, both low frequency (like boom-bust cycles) and high frequency (the credit channel).

Unlike most other researches in the field, Tornell lays the emphasis on asymmetric sectoral developments in the economy. He argues that in particular the producers of non-traded output suffer in crisis, or after monetary contractions, much more than is visible in aggregate GDP or industrial production data. He discusses these issues based on a theoretical framework with tradable and non-tradable sectors, as well as in an empirical analysis of the data.

The other topic deals with the use of robust control methods to explain asset pricing anomalies such as the predictability of excess returns and the forward premium puzzle.

Aaron Tornell has published widely in leading economic journals on these issues and has been an Associate Editor of the *Journal of International Economics*.

During his stay at CES, Aaron Tornell will be working on both topics. He and Frank Westermann will hold a CESifo Workshop on September 10 dealing with the subject of *Macroeconomics for Middle Income Countries*.

FW

## FIRST MUNICH ECONOMIC SUMMIT

The first **Munich Economic Summit**, an initiative aimed at bringing together academic scholars and decision-makers in politics, industry and finance to discuss vital European issues, was held on 7 - 8 June 2002 in Munich's posh Hotel Bayerischer Hof.

Focused on *Europe after Enlargement*, the event attracted over 100 distinguished guests who discussed key political issues concerning the future of the European Union: from questions of the appropriate design and scope of a future European constitution, through the challenges associated with the integration of future member states into the European and the Monetary Union, to the influence and potential of information technologies on European growth. Each session started with a scientific introduction from renowned economists followed by presentations by politicians and business leaders.

The Summit is organised by the **Herbert Quandt Stiftung**, Foundation of BMW AG, and the **CESifo Group**. Its patron is

**Edmund Stoiber**, Minister-President of the Free State of Bavaria. Generous supporters of the Summit were found in E.ON AG, the HVB Group, Knorr Bremse AG, the Bavarian Central Bank, Siemens AG and Walter-Bau-AG/ DYWIDAG. The organisers gratefully acknowledge their valuable contribution to the Munich Economic Summit's success.

In his opening remarks **Horst Teltschik**, Chairman of the Board of Directors of the Herbert Quandt Foundation, stressed that the organisers deliberately chose Munich as the permanent venue for the Summit to highlight the Bavarian capital as the leading economic region of

Germany for multinational companies, as well as for small and medium-sized businesses: "It is high time to underline its unique economic significance in an increasingly cohesive Europe with a conference with outstanding participants." Mr Teltschik also pointed out that 2002, the year of the first Summit, also coincides with many events that will shape the future of the European Union: the "Convention on the Future of the European Union" has been working on a draft for reform since the beginning of the year and it also marks the beginning of the decisive phase of negotiations for admission to the EU.



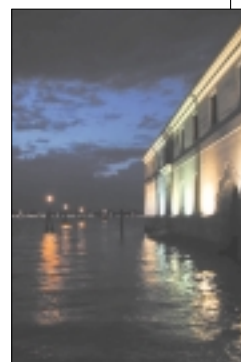
**Hans-Werner Sinn**, Professor of Economics and President of CESifo, emphasised that the title of the Summit *Europe after Enlargement* had been chosen intentionally to signal that the organisers regard the decision for enlargement as irrevocable. If all the countries join, the European Union will comprise 27 member states and 482 million people, forming a huge economic area. Mr Sinn pointed out that "the Summit has the adjective 'economic' because we wanted to concentrate on political problems of economic content. The economic problems of Eastern EU enlargement seemed the most topical issue for a start."

CK

2002

## VENICE SUMMER INSTITUTE

"The Venice Summer Institute is the most fun I've had since camp when I was 12 years old." That remark by Joel Slemrod pretty well summarises the atmosphere during this year's **Venice Summer Institute**,



held 13 - 20 July at Venice International University's San Servolo campus, off San Marco.

Not even the heavy rain that fell on the early days dampened the mood, which was well described by one discussant as the perfect combination of a retreat where workshop participants come together for an intensive, fruitful exchange, and a springboard for visiting one of the world's most fascinating cities.

This year's institute was the largest so far, with four well-attended workshops. The first dealt with exchange rate modeling and had as keynote speakers Richard Lyons, Berkeley, and Mark Taylor, Warwick. Scientific organiser was Paul De Grauwe.

The next workshop examined the tax burden on labour and capital, with keynote speeches by Michael Devereux of Warwick and James Hines of Michigan, under the scientific leadership of Peter Birch Sørensen.

Next in the pipeline was the workshop on banking regulation and financial stability, with keynote speakers Jon Danielsson, LSE, Claudio Borio, BIS Basel, and Jean Charles Rochet, Toulouse. Scientific organisers were Philip Davies and Gerhard Illing.

The last workshop dealt with the changing organisation of labour, with a keynote speech by W. Bentley MacLeod of Southern California. Scientific organisers were Kai Konrad and Marcel Thum.

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