

Annual Conference of the Money, Macro and Finance Research Group

The 43rd Annual Conference of the MMFRG was held on 15-17 September at Birmingham Business School. This Report was compiled by the Group's President, Peter Smith.¹

Once again, MMF members enjoyed another Annual Conference thanks to the outstanding organisational efforts of Andy Mullineux and his colleagues at Birmingham Business School. The Conference this year was concerned with many of the pressing issues of the day, including the efficacy of fiscal policy, developments in the regulation of banking and the challenges to macroeconomics.

Fiscal policy, multipliers and output

Two guest lectures at the conference by Fabio Canova (Pompeu Fabra) and Giancarlo Corsetti (Cambridge) concerned the impact of fiscal policy on output. Fabio Canova focused on whether the conditions required in theory for fiscal expansions to be effective are supported in the data. In his work this is evaluated by employing a structural VAR to impose the predictions from theory. Canova discussed evidence for the US, the Euro Area (EA) and the UK and showed that the evidence for the size of the fiscal multiplier for the three areas differs mainly due to the increased openness of the UK compared with the US and EA and not due to the greater size of the government sector or slower speed of adjustment of real wages in the EA. The unrestricted fiscal multipliers estimated for each area are generally greater than one for the US and EA and below one for the UK. Applying the identifying restrictions provided by sticky-price New Keynesian models, these multipliers are estimated to be much larger, above 3 and 4 for the EA and US and above 2 for the UK. Discussion at the conference focused on the likely impact of the recent large fiscal expansions. Giancarlo Corsetti picked up the same theme of the size of the fiscal multiplier in a very different modelling context, namely the impact of cuts in local infrastructure spending in Italian provinces that result from city council dismissal by national authorities as a consequence of mafia activity. Corsetti proposed evaluating the impact of these particular government spending shocks on local area activity as an identified fiscal shock. The multiplier that is estimated from the empirical analysis of 45 local areas in Italy by Corsetti and his co-authors is between 1.2 and 1.4. Whilst these figures are lower than those estimated by Canova, they exceed the smaller figures found in other recent research. Lively discussion of these alternative approaches served to point up their interest to researchers and importance to policy makers.

Financial regulation

Michael Foot (Promontory Financial Group) drew on his experience, including his time as a previous executive

director of the Bank of England, to discuss the role of macro-prudential regulation in reducing financial instability. He pointed out that whilst macro-prudential policy isn't really a particularly new idea, there is still little firm evidence as to how it will be operated in practice. In terms of the new arrangements in the UK, Michael Foot asked how quickly the UK government would establish the rules that the new Financial Policy Committee had to work with. He argued for radical change in the ways in which banking supervision is carried out, particularly in terms of the independence of decision-making that the regulator allows them. Earlier Richhild Moessner (Bank for International Settlements) had drawn parallels between the recent banking crisis and that of the Great Depression. She pointed out that the timing of the various parts of the crises differed significantly and that the increased response from the authorities to the recent crisis had moderated the likely impact significantly.

Credit markets and the real economy

John Muellbauer (Oxford) took up the huge theme of real economy and financial sector interactions (and their change over time) For example, he showed that the impact of housing wealth on consumption in the USA has grown with mortgage market liberalisation: at the peak of the housing boom, a \$100 rise in housing wealth led to \$3.5 increase in spending. The implications of a slump in housing prices was obvious, though Muellbauer thought the bottom may be near, at least in the USA. Financial liberalisation and the reduction in the non-pecuniary cost of credit has also increased household gearing, again with implications for instability. He went on to show how the Friedman-Ando-Modigliano model of the consumption function could be improved by the addition of a credit channel which recognised differences in the 'credit architecture' of an economy. This involved quantifying changes in the structure of credit markets by the construction of a 'housing liquidity index' and 'consumer credit index'. It is differences in the structure of credit markets that allows us to explain why a house price rise may sometimes, as in Italy, lead to a fall in consumption (as future first time buyers and renters save more for a deposit (or higher future rents), while homeowners have limited access to home equity loans). By contrast, countries with 'deep' mortgage markets and readily available credit find the opposite (because a lower ratio of down-payments to future value applies so first-time buyers have to save little while higher collateral values boost spending as the result of equity withdrawal.

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measures or encourage or discourage any particular type of research activity. The consultation explicitly requests feedback from respondents to help develop clearer guidance on the assessment of work which may be considered as exceptions to the general principle outline above. It was noted that journal publication in economics takes at least two years from manuscript to print and often considerably longer. Thus working papers are used to communicate the latest research and encourage interaction and comment while journal articles remain the version of record for scholarly output and the basis for the assessment of an individual's research activity.³ Since the use of working papers is such widespread practice across the discipline it is an activity to be encouraged not discouraged. With the proviso that the same work should not be submitted twice to two different research assessment exercises, it was felt that submitted outputs that had been published previously but not in full, for example as a working paper, should be assessed in full: working paper versions are part of the development process and should not subtract from the final published output. Otherwise there might be potential harmful effects on the UK profession. It was also the feeling of the meeting that, given the long publication lags in economics and as in past exercises, early career researchers should be able to submit working papers as evidence of their research activity.

Joint authorship

The third main issue discussed was that of joint authorship and double weighting of outputs. Again this is a point of difference from previous assessment exercises. In the past co-authors could submit papers to the same UoA if they belonged to different institutions or the same article to different UoAs if they belonged to the same institution. What was not allowed was for two co-authors from the same institution to submit the same output to the same UoA. The rationale was probably based on the possibility of spuriously adding co-authors to outputs to increase the volume indicator. However, the draft REF criteria allow for the possibility of joint co-authors from the same institution submitting a paper under the names of two of the co-authors (two is the expected maximum). Institutions have to make a case for doing so and the panel might reject the case being made. In addition there is some risk involved, as if the panel reject the case, the "missing output" is treated as unclassified and no reserve item is allowed. The meeting felt very much that the recognition of co-authorship within a department was a good thing and a positive change in the rules. However, it was felt that main panel C should provide much clearer guidance of when a case may be accepted or rejected and should consider whether a reserve should be allowed. This would help avoid the downside risk of making a case for submitting a jointly authored piece twice and would more genuinely recognise co-authorship within a department. A similar issue arises with double weighting of outputs. Submitting units may make a case for an output to be double weighted but no reserve is allowed if the case is reject-

ed. It was noted that main panel D would allow a reserve item to be submitted in where a case was made for double weighting of a submitted output. Again it was felt that main panel C should clarify the circumstances in which cases for double weighting would be accepted or rejected and consider allowing a reserve. It was felt unlikely that submitting units would abuse the possibility by asking for many items to be double weighted.

Responses to the consultation have to be made by 5th October 2011. On the basis of comments made at the meeting, the CHUDE steering committee will draft a response to the consultation that will be circulated to CHUDE members for comments, before final revision and submission to HEFCE. The funding councils will publish the finalised criteria and working methods in early 2012.

Notes:

1. 'CHUDE' is the Conference of Heads of University Departments of Economics. It is a sub-committee of the RES and its activities are regularly reported on the Society website and sometimes in these pages.
2. It may be noted that Simon Heffer's book, *Strictly English*, quotes extracts from a previous REF publication as one of three sinners of bad English. He writes 'The reader is saturated with abstracts. There is a torrent of jargon It is repetitious. When it seeks to explain ... it merely introduces more jargon ... that serves only to deepen the confusion.'
3. See, for example, the JSTOR commissioned report on 'Scholarly Communications in the Economics Discipline' by Michael Dawson and Matthew Rascoff, 2008

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In challenging a number of key assumptions in standard macroeconomic models, Jean-Bernard Chatelain (Paris 1) developed the topic of the future of financial macroeconomics from the debate held at last year's MMF conference that is reported in the recently published edition of the Manchester School (see <http://onlinelibrary.wiley.com/doi/10.1111/manc.2011.79.issue-s2/issuetoc>). He identified five issues of standard model specification which have been seen to be violated as a result of the recent financial crisis including the assumption of no systemic default, the use of the efficient market hypothesis, the application of the no Ponzi game condition, the use of unique stable path dynamics and the unconstrained Euler consumption growth equation. He outlined what new theoretical and empirical developments would need to include to overcome these failings.

Note:

1. With a small addition from the editor.