

**CENTRE FOR THE  
MICROECONOMIC ANALYSIS  
OF PUBLIC POLICY**

**IFS**

**E·S·R·C  
ECONOMIC  
& SOCIAL  
RESEARCH  
COUNCIL**

**ANNUAL REPORT  
OCTOBER 2001 – DECEMBER 2002**

E·S·R·C Centre for the  
Microeconomic Analysis of Public Policy  
at the Institute for Fiscal Studies

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# ANNUAL REPORT

## 2001–02

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In 1991, the ESRC and IFS created a new centre of academic excellence in microeconomic research – the Centre for the Microeconomic Analysis of Fiscal Policy. This Centre was renewed in 2001 and, reflecting the broader remit of research that had developed over the first decade, it was renamed the Centre for the Microeconomic Analysis of **Public Policy**, **CPP**.

Research at the Centre falls into four broad themes: work, savings, wealth creation and welfare. The first covers the effects of tax policy and welfare programmes on work incentives. The second covers household saving and consumption behaviour, and includes work on pensions. The third covers taxes and business investment, innovation and productivity, and education and training. The fourth covers inequality in the distribution of incomes and expenditures, and broader issues in social welfare.

Alongside its research, the Centre promotes academic dialogue in its subject areas, serves as a training centre and conveys findings to policymakers with enough clarity to influence decisions. By organising conferences, providing a base for foreign visitors, sponsoring young scholars and providing media briefings, and through its network of Research Associates and Fellows, the Centre strives to be a national and international resource.

Due to the realignment of reporting dates, this report reviews the Centre's work for the extended period October 2001 to December 2002 and presents an account of ongoing research activity including future developments.

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MICROECONOMIC ANALYSIS OF PUBLIC POLICY**

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**ANNUAL REPORT  
CONTENTS**

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<b>1. EXECUTIVE SUMMARY</b>	<b>7</b>
<b>2. INTRODUCTION</b>	<b>10</b>
<b>3. OBJECTIVES</b>	<b>11</b>
<b>4. MAIN OUTCOMES OF THE YEAR</b>	<b>12</b>
<b>5. PROGRESS TOWARDS OBJECTIVES</b>	<b>15</b>
<b>6. ISSUES AND PROBLEMS</b>	<b>17</b>
<b>7. REPORT ON MAIN PROGRAMMES</b>	<b>18</b>
Theme A. <b>WORK: LABOUR SUPPLY, WORK AND RETIREMENT</b>	18
1. Labour Market Responses to Tax and Benefit Reforms and Other Policy Interventions	18
2. Microsimulation of Tax and Benefit Reforms	20
Theme B. <b>SAVINGS: ASSETS, CONSUMPTION, AGEING AND PENSIONS</b>	21
3. Saving and Consumption Behaviour	21
4. Wealth Holding: Portfolios and Housing	23
5. Pensions	24
Theme C. <b>WEALTH CREATION: INVESTMENT, INNOVATION AND HUMAN CAPITAL</b>	25
6. Taxes and Investment	25
7. Productivity and Innovation	26
8. Training, Education, Human Capital and Wages	28
Theme D. <b>WELFARE: ITS SOURCES, LEVEL AND DISTRIBUTION</b>	30
9. Inequality and Social Welfare	30
10. Welfare Measurement and Cost of Living	32
11. Health and Other Public Services	33
<b>8. FINANCIAL STATEMENT</b>	<b>35</b>
<b>9. PERFORMANCE INDICATORS</b>	<b>36</b>
A. Publications	36
B. External Relations	37
<b>10. A LOOK FORWARD</b>	<b>39</b>
Labour Market Responses to Tax and Benefit Policy	39
Microsimulation	39
Taxes and Investment	39
Productivity and Innovation	40
Education and Training	41
Inequality and Social Welfare	41

Welfare Measurement and Consumer Behaviour	42
<b>11. REQUESTS TO THE BOARD</b>	<b>43</b>
<b>APPENDIX 1. HIGHLIGHTS FOR RESEARCH PRIORITIES BOARD: SCIENTIFIC ADVANCES AND COMMUNICATION</b>	<b>44</b>
Scientific Advances	44
Here we present three advances. A more detailed description of research findings from centre research over this period is presented in Section 7.	44
The earnings distribution and the composition of the workforce	44
New goods and the welfare effects of product market innovations	44
Policy evaluation methods	45
Communication	46
The Budget 2002 and IFS Green Budget, 30 January 2002	46
Transatlantic Public Economics Seminar, 15–17 May 2002	47
Social Security Policy under New Labour: A Critical Analysis, 22 May 2002	47
<b>APPENDIX 2. STAFF</b>	<b>49</b>
<b>APPENDIX 3. TRAINING</b>	<b>50</b>
<b>APPENDIX 4. PERFORMANCE INDICATORS</b>	<b>51</b>
A. Publications	51
1. Books	51
2. Book chapters	51
3. Refereed journal articles	52
4. Non-refereed journal articles	54
5. Other publications	54
B. External Relations	57
1. Membership of committees, editorships and honours	57
2. Membership of networks	58
3. Overseas visitors (more than two days)	58
4. Overseas visitors (more than three months)	59
5. Substantial advice and consultancy	59
6. Conference papers and seminar presentations	60
IFS conferences	64
7. Media coverage: newspapers	64
8. Media coverage: radio and TV	65
9. International collaborative research projects	67

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2001–02**

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## 1. EXECUTIVE SUMMARY

The ESRC Centre for the Microeconomic Analysis of Public Policy at the Institute for Fiscal Studies (IFS) was established in October 2001. The Centre for Public Policy (CPP) builds on the success of a previous research centre, the Centre for the Microeconomic Analysis of Fiscal Policy, which supported core research at IFS between 1991 and 2001 and was one of the first Designated Research Centres to be funded by the ESRC. As suggested by its new title, the CPP covers microeconomic research on a broader range of areas where government policies influence the behaviour of households and firms, including areas such as education and technology, in addition to taxation and spending programmes.

The Centre for Public Policy supports the ESRC's mission objectives of providing high-quality research and training, communicating research findings to a wide range of users and beneficiaries, and promoting public understanding of the social sciences. The Centre provides an outstanding environment in which researchers can develop and disseminate knowledge that contributes to the effectiveness of public policy in the UK, and in which younger researchers can develop the skills needed to meet these objectives.

The high quality of the Centre's research is reflected in the representation of Centre researchers on the editorial teams of leading scientific journals and on the organising committees of leading international conferences, in the flow of influential papers published in top peer-reviewed international journals, and in the visibility and standing of the Centre among leading scholars in related disciplines in the USA and on the continent, as well as in Britain. The range and quality of our Research Fellows and Associates, and other visitors to the Centre, are indicative of our reputation in the international research community.

The relevance of the Centre's work is shown by the high level of interest that it attracts among the policy-making community and the media, reflected, for example, in the attendance at presentations on policy issues by Centre staff and in the popularity of our website. The Centre strives to engage with users of research both within and outside the academic community, and to raise the public profile of our work, not least through our support for the annual IFS Green Budget analysis and commentary on UK budgetary policy.

Research at the Centre is organised around four broad themes covering work, savings, wealth creation and welfare. These programmes contribute high-quality research on ESRC priority themes, notably in the areas of economic performance and development, work and organisations, life course, lifestyles and health, and knowledge, communication and learning. Centre staff also engage in a range of important policy debates.

Research on labour markets covers individual and household decisions on hours of work and participation in the formal labour market, and how work incentives are affected by taxation and welfare programmes. How, for example, is employment affected by initiatives such as the working families' tax credit, by public support for childcare and by the minimum wage?

Research on issues related to saving includes how individuals save for retirement and to cushion shocks such as unemployment, how household wealth is allocated between housing and different financial assets, and the effects of public policies such as taxation, welfare benefits and the public provision of pensions on these decisions. Related research on consumption examines how households allocate expenditures between different commodities and how they value new products, with important implications for the measurement of inflation.

Research on wealth creation covers three broad areas: corporate taxation and investment; innovation and productivity; and education and training. Topics include developments in

taxes on company profits and their effects on the behaviour of firms; effects of technology and competition policies on investment in research and development; determinants of productivity growth and the influence of public policies in this area; effects of regional policies on the location of economic activity; participation by individuals in further and higher education; and the changing effects of education on earnings for men and women.

Research on welfare covers measurement of the distribution of wages, income and consumption, trends in inequality and measures of poverty, measurement of the cost of living, and variation in inflation rates across different types of households, such as pensioners and families with children.

Highlights during the period October 2001 – December 2002 covered in this report include work on discrete labour market transitions – for example, between education and employment and between work and retirement. Innovative empirical research has considered how the distribution of resources within households affects labour supply and consumption patterns – for example, how shifting financial support for low-income families from fathers to mothers may affect spending on children. Careful work on extending IFS's microsimulation model, TAXBEN, has allowed Centre researchers to analyse and comment on the incentive effects of new and proposed initiatives such as the working tax credit, the child tax credit and the pension credit.

Methodological developments have included the analysis and application of innovative matching methods to evaluate educational and labour market programmes, recognising that the same programme is likely to have different outcomes for individuals with different characteristics. Interdisciplinary research with specialists in epidemiology and public health has developed analyses of changing living standards and changing returns to education in Britain over three generations covered by cohort studies in the second half of the twentieth century. Collaborative research with economists at the National Bureau of Economic Research has documented and studied differences in household wealth distributions between the UK and the USA, highlighting home ownership and house price volatility as important sources of these differences.

Centre researchers have advised parliamentary committees on pensions, and participated in consultations on the design of the new R&D tax credit. Research on firms has included a study of the effects of Regional Selective Assistance grants on the location of new plants, and interdisciplinary work with specialists in manufacturing on the influence of entry by foreign-owned multinational producers on productivity growth in several UK industries. Collaborative research with economists at the Bank of England studied the impact of financing constraints on business investment, with important implications for monetary policy transmission mechanisms.

Work on inequality has included an analysis of how changes in the observed distribution of wages are affected by falling male and rising female participation rates, and how this affects measures of inequality, male–female wage differentials and educational premiums. We have also considered how changes in the measured distribution of consumption are affected by inaccurate recording of some components in standard expenditure survey data-sets. Centre researchers provide detailed checking of the survey measures of income used to compile the government's low-income statistics. Important work on welfare has also assessed whether the UK retail price index can be interpreted as a cost-of-living index, and how the introduction of new products can be incorporated into measures of inflation.

Centre researchers have continued to participate in both academic and policy debates. In May 2002, the Centre hosted the prestigious Transatlantic Public Economics Seminar (TAPES), at which leading scholars from around the world discussed research papers on the incentive and

distributional effects of income taxes. Centre researchers organise the Public Economic Working Group and the Econometric Study Group. As usual, over the last year, Centre staff have also helped to organise and participated in numerous academic conferences and workshops, including the Royal Economic Society annual conference at Warwick in March 2002 and the Econometric Society European Meeting in Venice in August 2002.

The contribution of the Centre to public policy debates included the organisation of a one-day conference in May 2002 on UK social security policy after five years of the Labour government. Centre staff have given evidence to Parliamentary Select Committees, and one has acted as a special adviser to the Work and Pensions Committee. Centre researchers have contributed several online Briefing Notes on public policy issues, including, for example, public sector investment, health spending, pension provision and the new pension credit, R&D tax credits, and trends in income inequality and living standards. In addition, the Centre provided increased support for the IFS Green Budget publication in January 2002, which brought together a range of analyses of the public finances, welfare reforms and tax policy issues. As in previous years, this provided an influential contribution to the policy debate in the run-up to the government's Budget Statement, was widely cited in the written and broadcast media, and helped to raise the profile of ESRC support for research on issues related to public policy.

This report describes the activities of the Centre for Public Policy in the period October 2001 – December 2002 in more detail. We believe that the Centre has built on the foundation provided by previous ESRC support for policy-orientated microeconomic research at the Institute for Fiscal Studies, and we look forward to developing this agenda still further in the coming period.

## 2. INTRODUCTION

This report covers the 15-month period up to end December 2002. It presents a summary of the activities of the Centre under its new name and new five-year period of funding. The change in the name of the research centre from Fiscal Policy to Public Policy reflects the broadening of the base of research at the Centre to cover the economic analysis of all aspects of the way public policy affects firms and households, whether it be education policy, tax policy or research and development (R&D) policy. Research at the Centre remains firmly based in empirical analysis and in applying and developing appropriate methods for such analysis.

During the period, the Centre has expanded its influence in the policy domain and extended its reputation as a leader in the international academic research community. We have also seen the transition from Andrew Dilnot to Robert Chote as Director of IFS. Robert has played a full role in supporting the research of the Centre, and this work remains at the core of IFS research activities. All the Programme Directors at IFS and both of the Deputy Directors are also involved in the management of the research of the Centre which provides an extremely effective base for the development and monitoring of new research.

This period has been a very exciting period for research at the Centre, with many new developments and important new findings. The Centre made a special attempt to identify new areas of research that could add in important ways to the research base in public policy. It has done this in a number of ways reflected in the report. First, it has engaged in regular discussion with the policy community, enhanced by IFS's long-standing reputation in the policy debate. Second, it has continued to draw on the expertise of academics from the UK research community. Many of these have become Research Associates or Research Fellows of the Centre and have become closely involved in the development of research projects. Third, it has run a number of high-profile international seminars and conferences involving the top international researchers in the field. Finally, it has presented research at the main international meetings and academic seminars worldwide. We believe our research output has maintained its strong policy relevance while at the same time strengthening our leading position in the international research community.

Since the inception of ESRC-Centre-funded research at IFS in 1991, the research areas have developed to reflect new methodological challenges and new policy questions. In particular, we have seen a strong growth in research on microdata methods themselves, where IFS always had a strong reputation. There has been the expansion of work on ageing, partly reflecting the collection of a new exciting longitudinal database, ELSA (English Longitudinal Study of Ageing) and partly reflecting the policy interest in ageing, pensions, retirement and health. There has also been an enormous growth in the work on evaluating education policies. Finally, there has been increasing interest in research on innovation, R&D and growth. These developments have presented an opportunity for the development of new programmes of research at IFS. In microdata methods research, we have formed *cemmap* (Centre for Microdata Methods and Practice); in ageing research, we have started CERA (Centre for Economic Research on Ageing); in education research, we have become an integral part of the CEE (Centre for the Economics of Education); and in innovation research, we have started a new programme of research on productivity, competition and growth.

The remainder of this report provides more detail of the Centre's output and its contributions to the policy debate.

### **3. OBJECTIVES**

The objectives of the Centre for the Microeconomic Analysis of Public Policy remain those set at its inception. The principal aim is to inform debate on the microeconomic effects of public policies, addressing the growing need for sound evaluation and careful analysis of public policy. To do this effectively, the objectives include:

- (i) development and application of cutting-edge microeconomic and microeconometric research methods to analyse the scope for successful policy intervention and to evaluate past and proposed policy changes;
- (ii) provision of highly developed network access to firm-level and household-level databases, with detailed simulation models of how the fiscal system affects individuals and firms;
- (iii) collaboration with leading researchers in related disciplines in other Centres and elsewhere in the UK and abroad;
- (iv) provision of expert training and supervision for younger researchers, giving them close links to the policy arena;
- (v) active dissemination of research findings to a wide range of users in the academic and policy communities, and engagement in the policy debate.

## 4. MAIN OUTCOMES OF THE YEAR

This report of the ESRC Centre for the Microeconomic Analysis of Public Policy covers the 15-month period from October 2001 to December 2002. This was an exciting period during which the research agenda and identity of the new and broadened ESRC Centre were developed, building on the strengths and achievements of the earlier ESRC Centre for Fiscal Policy at the Institute for Fiscal Studies.

There have been a number of major research findings. For example, we have analysed the optimality and impact of introducing employment tax credits and used this analysis to evaluate the new tax credit proposals. Our work on wealth and savings has analysed the impact of pension provision on individual savings. This has been used to evaluate the proposals for pension reform. Research on the impact of Regional Selective Assistance grants on plant location has given some key results on the power of policy tools to determine location of plants and hence affect regional development. As another quite different example, we have examined the impact of changes in labour force composition (selection) on important aspects of the earnings distribution, such as gender wage differentials and educational differentials. Our work has also continued to examine the behaviour of consumers. For example, the work on valuing new goods is key to understanding how innovation affects the price index. This is of central importance for policy analysis, since a proper understanding of how the cost of living changes is needed so as to define welfare benefits. We have also made advances in our understanding of evaluation methods for labour market and educational programmes. Our analysis of the returns to education using a variety of methods has allowed a better understanding of the various approaches and has provided detailed and reliable estimates of returns to educational qualifications in the UK. These are just a few of the scientific advances that the Centre has been involved in over this period. Many more are listed below and further discussed in detail in Section 7.

Researchers at the Centre strive to maintain the highest academic standards of rigorous research on issues of direct relevance to public policy, to develop the analytical methods required for this research programme, to communicate the findings of their research to a wide range of interested parties and to draw on their experience to engage in policy debates. This is illustrated by the diversity of published outputs that the Centre has produced, ranging from scientific publications in leading academic journals, through surveys of particular areas and issues aimed at a wider audience, to less technical papers and newspaper articles on particular policy questions. Examples of the first include papers on asset holding and consumption volatility, published in the *Journal of Political Economy*, and on non-parametric testing of revealed preference theory, published in *Econometrica*. Centre researchers also contributed four of the 13 papers published in the Conference issue of the *Economic Journal* in March 2002. Examples of broader surveys include a paper on taxes and transfers, published in the *Oxford Review of Economic Policy*, and a review of the literature on the effects of corporate taxation on the location of economic activity, published in the *Swedish Economic Policy Review*. Centre research also figures prominently among the papers published in *Fiscal Studies*.

We also attach considerable importance to our role in informing and engaging in the policy debate. Most prominent in this area is the contribution made by Centre researchers to the Green Budget analysis of the overall budgetary position, and of specific areas of taxation and spending policies, published regularly by the Institute for Fiscal Studies in the run-up to the government's annual Budget statement. Data resources, simulation models and research findings developed at the ESRC Centre for Fiscal Policy have long been the foundation for

the material presented in the IFS Green Budget. In 2002, the new ESRC Centre for Public Policy also provided substantial financial support for the preparation of the Green Budget publication itself. As usual, this commentary and assessment of fiscal policy options was widely cited in the media, and our involvement helped to raise the profile of the ESRC Centre for Public Policy.

The period from October 2001 to December 2002 also saw numerous examples of our involvement in more specific policy debates. In May 2002, Centre funding allowed IFS to host a one-day conference on how five years of the Labour government has affected UK social security policy. This drew together views from a range of disciplines, and was opened by a talk from Ed Miliband, then a special adviser at HM Treasury. Centre research on pensions has also been influential. Centre researchers presented their analysis of how adequate levels of post-retirement income can be maintained as the population continues to age at a meeting of policy-makers from the Department for Work and Pensions, HM Treasury and the Cabinet Office, prior to the publication of the government's Pensions Green Paper in December 2002. Tax credits for R&D are another area where important contributions have been made. Centre researchers have both engaged in the consultation on design and implementation that preceded the introduction of a new tax credit for large companies in April 2002, and collaborated with the Inland Revenue and the Office for National Statistics in setting up a programme of data collection that will allow the earlier R&D tax credit for small and medium-sized firms to be evaluated rigorously.

In developing our research programme, staff at the Centre emphasise the importance of collaboration and contact with other researchers, both within and outside the discipline of economics, and within and outside the UK. Interdisciplinary research projects have been undertaken with colleagues at the Department of Epidemiology and Public Health at University College London, and with specialists in management and engineering at the University of Cambridge's Institute for Manufacturing (an EPSRC Innovative Manufacturing Research Centre). Collaborative research projects have been undertaken with colleagues at the US National Bureau of Economic Research (NBER), comparing household saving behaviour and the distribution of household wealth in the UK and the USA.

Further examples of our international focus are our International Research Associates, our programme of visitors to the Centre, and our participation and hosting of a range of international conferences. In May 2002, the Centre hosted a three-day Transatlantic Public Economics Seminar (TAPES) on income taxation, organised jointly by Richard Blundell and Roger Gordon (Michigan), and supported by the NBER. Among the distinguished visitors to the Centre during the year, we were delighted to welcome 2000 Nobel laureate James Heckman (Chicago), who presented the IFS Annual Lecture on educational attainment and economic success in September 2002. Other visitors to the Centre have included Daron Acemoglu (MIT), Andrew Bernard (Dartmouth), David Card (Berkeley), Jean-Pierre Florens (Toulouse), Thierry Magnac (INRA-LEA), Jacques Mairesse (CREST), Robert Moffitt (Johns Hopkins), Jim Powell (Berkeley), Jean-Marc Robin (CREST), Tom Stoker (MIT) and Ed Vytlacil (Stanford), as well as others from among our many Research Associates and Fellows.

Centre research is organised around the four broad themes of work, savings, wealth creation and welfare. Within each of these themes, there are a number of specific research programmes. The main outcomes of the research in each of these programmes are presented in more detail in Section 7 below. Here, we summarise briefly some of the main achievements.

In the area of work and labour markets, empirical research has emphasised the importance of transitions between non-participation and participation, particularly for women with children and for older workers. We have also considered the impact of changing employment

composition on the measured distribution of wages and what this implies about inequality, male–female wage differentials and educational premiums. Centre funding has allowed us to undertake important developments to the IFS tax and benefit microsimulation model, TAXBEN – for example, to incorporate new and proposed tax credits such as the working families’ tax credit, the child tax credit and the pension credit. The enhanced simulation model was used, for example, to undertake a study of the role of childcare costs in the employment decisions of mothers. Innovative empirical research has also investigated interdependencies in both the labour supply and the consumption behaviour of different individuals within couples and households.

In the area of savings and wealth, an important development has been the construction of comparable measures of household wealth for the 1995 and 2000 waves of the British Household Panel Survey. This required careful imputation of missing or incomplete data, and adjustments to obtain a consistent measure, accounting for differences in the wording of questions in the two surveys. The data have been used to provide a detailed description of the distribution of financial wealth in the UK, changes between 1995 and 2000, and a comparative study of household wealth holding in the UK and the USA. The data will also be deposited in the ESRC Data Archive. Other important work in this area has studied developments in UK pensions provision and analysed the challenges that government policy on pensions is facing.

Research in the area of wealth creation has covered business investment, developments in the taxation of companies, R&D, innovation and other influences on productivity growth, and work on the returns to education and training. A joint project with researchers at the Bank of England looked at the sensitivity of investment spending to internal cash flow, finding that for large UK companies this apparent sensitivity can be explained by the omission from standard empirical models of investment of relevant but difficult-to-measure expectations of future profitability. Careful work on measurement of the incentive effects of corporate income taxes, on both investment and location decisions, provided the basis for an evaluation of the evidence for tax competition between governments as an explanation for developments in OECD countries.

Research on productivity growth has looked at the evidence for spillovers from the presence of foreign multinational firms, combining econometric and case-study approaches, and at the importance of location in technology transfer and spillovers from R&D. Related work has looked at the links between product market competition and innovation by firms, and regional patterns in the relative wages of skilled and unskilled workers in the UK.

Research on the returns to education has evaluated alternative empirical approaches to measuring the impact of education on earnings using high-quality data from the 1958 National Child Development Study, and applied an innovative matching estimator to obtain robust empirical estimates using the same data. Other research in this area has investigated changes in the returns to education in Britain over the second half of the twentieth century, and the impact of training on labour market mobility.

Research in the area of welfare has studied trends in various measures of poverty and inequality, and examined how these have been influenced by changes in taxes and benefits, changing returns to education and changes in the composition of the workforce as a result of declining male and increasing female participation rates. Centre research has considered the contribution of transitory and permanent income shocks, and of inaccurate measurement of expenditures, to the evolution of different inequality measures. Other work in this area has tested the interpretation of the UK retail price index (RPI) as a household cost-of-living index, and analysed variation in the inflation rates faced by different types of households, reflecting heterogeneity in the types of goods and services they tend to purchase.

## **5. PROGRESS TOWARDS OBJECTIVES**

The research described above, and in more detail in Section 7, illustrates substantial progress towards our objective of developing and applying cutting-edge microeconomic and microeconometric research methods to policy questions and policy evaluations. Some examples of methodological developments include work on dynamic issues in labour force participation and on interdependence between individuals within households; investigation of measurement error in reported consumer expenditures, exploiting both recall interview and weekly diary measures in the US Consumer Expenditure Survey; the development and application of non-parametric tests for revealed preference axioms in consumer choice; the development and evaluation of propensity score methods for analysing the returns to education; and work on the role of cash-flow variables in empirical models of company investment. Some examples of more specific policy evaluations include work on the working families' tax credit and government support for childcare costs; analysis of issues surrounding government policy on pensions, and the December 2002 Pensions Green Paper in particular; and the impact of Regional Selective Assistance grants on the location of new manufacturing plants.

Progress towards our objective of developing simulation models to measure fiscal incentives has included extensions to the TAXBEN microsimulation model, incorporating the analysis of new and proposed tax credits for low-income workers, families with children and recipients of pensions. Other work has developed the measurement of incentives provided by corporate income taxes for business investment and location decisions, and used these measures to investigate tax competition between governments in the EU and the G7. Progress towards better data access has included work on the measurement of household wealth in the British Household Panel Survey, and work on the Family Expenditure Survey that underpins our analysis of differences in cost-of-living indices for different types of households. Centre researchers also continue to check official statistics on poverty and inequality before these are published.

Our objective of collaborating extensively with leading researchers in the UK and abroad has been pushed forward in several areas. Interdisciplinary collaborations have included work with specialists in epidemiology and public health in studying trends in the distribution of income and living standards over three generations; and work with specialists on management and technology in developing case-study research on the impact of foreign multinational producers on productivity growth in several UK industries. Collaboration within the UK has included joint projects with researchers at the Bank of England. International collaborations have included comparative projects on saving behaviour and the distribution of household wealth with researchers at the NBER in the USA.

The ESRC Centre for Public Policy has built on the strengths of its predecessor in providing expert training and supervision for younger researchers and giving them close links to the policy arena. Junior researchers learn research skills by working closely with senior staff in small teams on specific research projects. They benefit from contact with the extensive range of visitors to the Centre. Presentational skills are developed by encouraging the active participation of younger researchers in academic conferences, and by the opportunity to present findings to broader audiences, including politicians, civil servants and the media. This development is supplemented where appropriate by study or research for higher degrees in Economics, and by formal training courses in software, media or management skills.

Our objectives of communicating our research findings to a wide range of users and engaging in policy debates have been met in numerous ways. Perhaps most prominently, the Centre has provided increased financial as well as research support for the IFS Green Budget analysis and publication. We have also hosted conferences on various aspects of public policy – for example, on the Labour government’s policies on social security. Centre researchers have also engaged in a number of policy debates, including those on the future of pensions and on the form of an R&D tax credit for large companies.

In advancing these activities, the Centre for Public Policy contributes towards many of the ESRC’s objectives for research centres. Foremost among these, we contribute to the ESRC’s mission to advance and disseminate knowledge, and to promote public understanding of the social sciences. More specifically, the Centre shares the ESRC’s aim of contributing to the effectiveness of public services and public policy. Our research programme has contributed substantive knowledge on issues of major importance, such as the returns to education and the effects of welfare-to-work programmes. Improved research methods have been developed – for example, to control for the effects of changing participation rates on measures of earnings inequality. The Centre provides excellent research career opportunities, including training for postgraduate students and the development of new researchers. Centre staff have collaborated actively with leading scholars both in the UK and internationally, and the Centre continues to promote these interactions through its Research Fellows and Associates, its programme of visitors and its participation in conferences. The Centre for Public Policy places particular emphasis on the ESRC’s objectives of improving communication with users of research from outside the academic community, and raising the visibility and standing of UK social science. Our relationships with government departments, parliamentary committees and the media, described more fully in Section 9 below, provide evidence of substantial progress in this area.

## **6. ISSUES AND PROBLEMS**

This period has been an exceptionally productive period for research activity and policy impact of the Centre. There have been no important issues or problems save the usual ones of raising co-funding for the Centre's research, which is now only a little over 30% of the research income for IFS. During the period, we have seen the appointment of Robert Chote as the new Director at IFS and Steve Bond has joined the Centre team as a Deputy Director of the Centre. The ESRC has been enormously supportive in all these changes.

Although this period has seen ESRC finance for the research of the Centre at a very good level, we have to be aware of the severe taper in financial support that occurs from 2004. We are delighted that the ESRC has agreed to let us compete for further funding for the research of the Centre, but nevertheless we have had to think about restructuring research in the light of the taper. Our strategy has been to develop a new and focused set of projects on tax and welfare policy as it affects households and firms. This will form the mainstay of the future of the Centre research. At the same time, we have looked to develop new programmes of work that focus on ageing and on productivity. These are areas that have had seedcorn funding as part of the existing Centre but are now developing in a way that permits them to be stand-alone research areas.

It will be very important for us to know exactly the mechanism by which the Centre can compete for new funding by the end of Summer 2003. As the financial taper begins to bite hard in 2004, we will have to start the process of raising funds for these new and core research activities in the autumn of this year.

## **7. REPORT ON MAIN PROGRAMMES**

This section describes the research of the Centre over this period. It summarises the main findings according to the four broad themes, it provides the names of Centre researchers who can be contacted regarding this research and it also presents some selected references to published work. A full list of publications can be found in Appendix 4.

### ***Theme A. WORK: LABOUR SUPPLY, WORK AND RETIREMENT***

#### **1. Labour Market Responses to Tax and Benefit Reforms and Other Policy Interventions; Take-Up of Benefits**

##### **Labour market responses to policy reform**

Funding from the ESRC Centre has been central in our development of a dynamic model of labour market entry and exit. We were commissioned by HM Treasury and the Department for Work and Pensions to build a model of labour market transitions using data from the Labour Force Survey (LFS) quarterly panel and the Family Resources Survey (FRS) operating on the IFS tax and benefit model, TAXBEN. This provides a significant advance on existing ‘cross-sectional’ models of labour supply, by relating changes in work status to changes in the financial incentives facing individuals and families, taking account of all the salient features of the tax and benefit system, childcare use and costs, and the incomplete take-up of means-tested benefits. The model also incorporates a sophisticated treatment of each partner’s labour supply within married and cohabiting couples. We are currently using Centre resources to build new implementations of models in this vein on longer-run panel data sources, such as the British Household Panel Survey (BHPS) and the Families and Children Survey.

Centre resources have also been used to fund work on modelling responses to the financial incentives of individuals in married and cohabiting couples, taking into account the distribution of resources between partners. This pioneering applied research in ‘collective’ modelling of labour supply of couples has been conducted in cooperation with several other European centres. The UK part of the project focused on the effect of redistribution of resources within couples as a result of the introduction of the working families’ tax credit (WFTC). This work on collective models of household labour supply behaviour has progressed hand in hand with technical analysis of modelling collective choices. An increasing number of empirical studies of labour supply behaviour have adopted the ‘collective’ framework, in which two members with potentially different preferences make Pareto-efficient decisions on their joint labour supply. A standard problem with this model, however, is that it usually relies on the assumption that all commodities are privately consumed, thus excluding public consumption within the household. Children, in particular, are difficult to take into account in this context, at least if one is willing to assume (as seems natural) that both members of the couple derive utility from their presence. Thus in further research carried out at the Centre, it is shown how the collective model of labour supply can be extended to encompass public consumption. The modelling framework developed at the Centre has interesting and important implications relating to how public and private expenditures within a household are determined and how they are affected by changes in the distribution of power (Pareto weights) or changes in wages and non-labour income.

Other recent Centre-funded work on the labour market has included a detailed study of the patterns of mothers’ employment and of the use of different types of childcare in different

local authorities in the UK, and work addressing concerns relating to the effect of paying the WFTC through wage packets on the quality of gross earnings data in the LFS and FRS.

Blundell, R., Lechene, V. and Myck, M. (2002), *Does the Representation of Family Decision Process Matter? Collective Decisions and Fiscal Reforms in the UK*, report for the European Commission as part of the project 'Welfare Analysis of Fiscal and Social Reforms in Europe'.

Paull, G. and Taylor, J. with Duncan, A. (2002), *Mothers' Employment and Childcare Use in Britain*, London: IFS.

### **Tax and benefit policy evaluation**

In May 2002, Centre funding allowed IFS to stage a one-day conference looking at the impact of five years of the Labour government on social security policy. This was a high-profile and well-attended event, with speakers including Ed Miliband (then special adviser at HM Treasury) and John Hills (Director, CASE). The conference organisers (Mike Brewer, Tom Clark and Andrew Dilnot) commissioned a set of papers from economists and researchers in other disciplines, each taking a different approach to analysing social security policy since 1997, such as the impact on government spending and benefit caseloads, the implications for incentives to save and work, a gender assessment of the changes, and the voters' views. Many of these papers are being published, subject to the usual peer-review process, in *Fiscal Studies*.

As usual, Centre funding allows us to keep a constant overview of the changes to personal taxes and benefits, to undertake high-quality analysis of these reforms and to help promote public understanding and debate of government policies. In particular, Centre funding has continued to support IFS work on the implications of the new tax credits, to be introduced in April 2003, and on the pension credit. This work has focused on the distributional implications and likely revenue costs (both produced before the government had released such information), the impact on incentives to work and save, and whether the administrative changes are likely to lead to a simpler system.

Blundell, R. and Meghir, C. (2002), 'Active labour market policy vs employment tax credits: lessons from recent UK reforms', *Swedish Economic Policy Review*, 8, 13–37.

Brewer, M. Clark, T. and Myck, M. (2001), *Credit Where It's Due? An Assessment of the New Tax Credits*, Commentary 86, London: IFS.

Brewer, M., Clark, T. and Wakefield, M. (2002), 'Social security in the UK under new Labour: what did the third way mean for welfare reform?', *Fiscal Studies*, 23(4), 505–537.

Clark, T. (2002), 'Rewarding saving and alleviating poverty? The final pension credit proposals', IFS Briefing Note 22.

### **The design and impact of welfare-to-work programmes**

This research has focused on the design, implementation and employment impact of wage subsidy and job-search programmes. In particular, the New Deal for Young Unemployed, designed to move young unemployed individuals in the UK into work and away from welfare, is a major programme that has affected several million young people. It is also viewed as a programme that brings together the best of other such initiatives, combining job-search assistance in the first instance with subsidised job placement for those for whom the initial treatment was not successful. The evaluation of the programme has produced insights regarding the successful implementation of programmes in other countries. Our research shows evidence that the programme has successfully raised employment, although how long-lived these benefits will be is still an open question. The programme was piloted in certain areas before it was rolled out nationwide. Moreover, the programme has age-specific eligibility rules. The research developed new methods to use these area- and age-based eligibility criteria that vary across individuals of identical unemployment durations to identify the programme effects. Our research was able to show how they allow us to examine the

extent of substitution between eligible and non-eligible groups and to assess whether there are significant general equilibrium (or ‘community-wide’) effects of the programme. We use a variety of methods to provide sensitivity analysis on this issue and we find remarkably robust results. The approach to evaluation consists of exploring sources of differential eligibility and different assumptions about the relationship between the outcome and the participation decision. The research finds that the outflow rate to jobs has risen by about 20% for young men as a result of the New Deal programme.

Blundell, R., (2002), ‘Welfare to work: which policies work and why?’, Keynes Lecture in Economics, British Academy Proceedings, 117.

Blundell, R., Costa Dias, M. Meghir, M. and Van Reenen, J. (2001), ‘Evaluating the employment impact of a mandatory job search assistance program: The New Deal for Young People’, IFS Working Paper. W01/20, December.

### **Evaluation methods**

This research has considered four distinct but closely related approaches to the evaluation problem: (i) social experiments; (ii) natural or quasi experiments; (iii) matching methods; and (iv) structural econometric methods using instruments. The first of these approaches is closest to the ‘theory’-free method of medical experimentation since it relies on the availability of a randomised control. The last approach typically relies directly on exclusion restrictions drawn from economic theory. Natural experiments and matching methods lie somewhere in between in the sense that they attempt to mimic the randomised control of the experimental setting but do so with non-experimental data and consequently place reliance on independence and/or exclusion assumptions. However, structural methods often combine the application of economic theory with exogenous variation originating from a quasi experiment or a policy variation.

Our concern has been with the evaluation of a policy intervention at the microeconomic level, including training programmes, welfare programmes, wage subsidy programmes and tax credit programmes. At the heart of this kind of policy evaluation is a missing-data problem since, at any moment in time, an individual is either in the programme under consideration or not, but not both. Programme evaluation would be straightforward if we could observe the outcome variable for those in the programme had they not participated. Constructing this counterfactual is the central issue for evaluation methods, and implicitly each of the four approaches considered provides an alternative method of constructing the counterfactual.

Battistin, E. and Rettore, E. (2002), ‘Testing for programme effects in a regression discontinuity design with imperfect compliance’, *Journal of the Royal Statistical Society A*, 165, 1–19.

Blundell, R. and Costa-Dias, M. (2002), ‘Alternative approaches to evaluation in empirical microeconomics’, CeMMAP Working Paper CWP10/02.

**Contacts: Howard Reed, Mike Brewer, Costas Meghir**

## **2. Microsimulation of Tax and Benefit Reforms**

The ESRC Centre has funded significant enhancements in the IFS’s tax and benefit model (TAXBEN), which uses data on households in the Family Resources Survey (FRS) and the Family Expenditure Survey (FES) to simulate the effects of changes to direct and indirect taxes and to the benefit system. This is a time of seismic changes for the tax–benefit system, with the introduction of new schemes such as the working tax credit, the child tax credit and the pension credit in 2003–04. Centre resources have helped IFS researchers adapt the model in readiness for these new policies and likely extensions of them. IFS also takes a keen interest in modelling the impact of the tax and benefit system in the past, compared with the

present. A recent project for the Joseph Rowntree Foundation looking at changes in the generosity and structure of support for children in the tax and benefit system since 1975 was made possible by Centre-funded groundwork which allowed tax systems over a period of almost 30 years to be analysed on a given set of data in a consistent manner.

At the same time as consolidating our reputation for accuracy and thoroughness in our existing modelling methods, we have also been active on the cutting edge of microsimulation techniques. A large research programme co-funded by the Centre and the Nuffield Foundation and published by IFS in March 2002 looked at the relationship between price and quality in the childcare market. This project used a new model of how family characteristics and the price of childcare affect work and childcare choices to estimate the impact of the working families' tax credit reform of 1999 on the employment decisions of mothers and their childcare use. Other recent work, on Australian data, develops a method for assessing the impact of policy changes on labour supply when the level and distribution of equilibrium wages are allowed to vary in response to shifts in economy-wide labour supply and demand. Financial support from the Bank of England will allow us to replicate this analysis on British data.

Adam, S., Brewer, M. and Reed, H. (2002), *The Benefits of Parenting: Government Financial Support for Families with Children Since 1975*, Commentary 91, London: IFS.

Creedy, J. and Duncan, A. (2001), 'Aggregating labour supply and feedback effects in microsimulation', IFS Working Paper W01/24.

Duncan, A., Paull, G. and Taylor, J. (2001), 'Mothers' employment and the use of childcare in the UK', IFS Working Paper W01/23.

**Contacts: Howard Reed, Mike Brewer, Alan Duncan**

## ***Theme B. SAVINGS: ASSETS, CONSUMPTION, AGEING AND PENSIONS***

### **3. Saving and Consumption Behaviour**

#### **Life-cycle consumption**

Traditional empirical analysis of consumption over the life cycle has tended to focus on household behaviour, defining age as being the age of the household head. This past year, we have begun research that attempts to follow individuals over their life cycle and analyse their consumption behaviour. The present focus is on early life stages, such as leaving the parental home and setting up home with a partner. The aim is to investigate, within a life-cycle model, the effects of marriage probabilities, attitudes towards risk, economies of scale in household consumption and intra-household sharing on early life-cycle consumption profiles.

Another major area of research is the importance of risk in determining household consumption profiles. Some of our work has focused on evaluating the welfare costs of wage and employment risks separately. US Panel Study of Income Dynamics (PSID) data are used to estimate the extent of wage and unemployment risk that individuals face. It is then shown how individuals respond to the different types of risk, and the welfare benefits of reducing these risks are calculated, allowing for the various substitution effects. Simulations of individuals facing the estimated risk profile show that unemployment when young is primarily due to lack of job offers, whereas unemployment when old is primarily by choice. Our welfare calculations show that individuals are willing to pay considerably more to avoid productivity risk than employment risk. In assessing the reasons for holding assets, productivity risk dominates. However, ignoring employment risk leads to inaccurate predictions of participation.

Other research in this area has compared estimates of preference parameters using exact and log-linearised versions of the intertemporal Euler equation for consumption. A simulation analysis indicates that, in most situations, the estimates obtained from the log-linearised equation are not systematically biased, even when there is heteroscedasticity in the process generating income. An exception is found when discount rates are extremely high, but this bias is unrelated to the linearization, and non-linear methods perform as poorly in this case.

- Banks, J., Blundell, R. and Brugiavini, A. (2001), 'Risk pooling, precautionary saving and consumption growth', *Review of Economic Studies*, 68(4), 757–779.
- Attanasio, O. and Low, H. (2002), 'Estimating Euler equations', IFS Working Paper W02/06.
- Low, H., Meghir, C. and Pistaferri, L., 'Wage risk, employment risk and precautionary saving', mimeo.

### **Non-parametric consumer demand analysis**

There are three key objectives of our research in this area: first, to provide a powerful test of optimisation conditions on individual household data without the need for parametric models of consumer behaviour; second, to provide tight bounds on welfare costs of relative price and tax changes; and third, to provide tight bounds on demand responses. The aim is to allow price response parameters to vary across points in the income distribution. The idea is to fully exploit microdata on consumer expenditures and incomes across a finite set of discrete relative price or tax regimes. This is achieved by combining the theory of revealed preference with the semi-parametric estimation of consumer expansion paths (Engel curves). Recent developments in semi-parametric estimation of shape-invariant models with endogenous regressors are exploited. Empirical examples are given from the analysis of cost-of-living indices and from tax policy reform.

- Blundell, R. (2002), 'Nonparametric welfare analysis and revealed preference', Walras-Bowley Lecture, North American Summer Meeting of the Econometric Society, UCLA, 22 June 2002.
- Blundell, R., Browning, M. and Crawford, I. (2003), 'Nonparametric Engel curves and revealed preference', *Econometrica*, 71(1), 205–240.

### **Characteristics models**

Often, the economic theory of consumer choice is cast in terms of market goods: consumers are assumed to have preferences defined over alternative sets of market goods and choose the set that minimises the cost of reaching a certain level of welfare. An extremely useful alternative is to think of consumers as having preferences over the attributes or characteristics of market goods, and their behaviour as being a matter of choosing a set of product characteristics or attributes to maximise welfare. This type of approach is very useful in understanding the demands for closely related or substitutable market goods and has many applications in applied work on consumer welfare, the availability of new goods and product market competition. Typically, the applied research will be faced with a set of observed product attributes, the prices of market goods and the number of each good sold to the consumer. We ask, 'When are the data consistent with the characteristics model?'. In this research, which is joint with Research Fellow Martin Browning (Copenhagen), we have developed the minimal list of conditions that are necessary and sufficient for the data to look as if they were generated by such a model. With these conditions in hand, we can test the model against the data, and also impose the model to answer applied questions, such as the demand for related products and the need for unobservable characteristics to rationalise wage-equation-based estimates of the return to schooling.

- Blow, L., Browning, M. and Crawford, I. (2002), 'Nonparametric tests for characteristics models', IFS mimeo.

## Valuing new goods

In this research, we suggest a method for valuing the effect of the introduction of a new good on consumers' welfare. Generally, we think of the arrival of new goods as, potentially anyway, raising welfare because it expands the set of choices facing consumers. It is often important to put a value on this welfare increase – for example, in regulatory contexts. The key piece of information required is the reservation price of the good (the price that would just drive demand down to zero) for each consumer. This is very hard to estimate and the methods suggested so far are highly parametric (they require the estimation of a full demand system), and often involve a good deal of extrapolation (of the estimated demand curve). As a consequence, the results are rather fragile. We propose a non-parametric method, which places a lower bound on the value of a new good using the simple identifying assumption that the data are consistent with the basic theory of consumer demand. We have applied this to the introduction of the UK National Lottery and looked at the effects on the UK measure of inflation.

Blow, L. and Crawford, I. (2002), 'Valuing a new good', IFS mimeo.

**Contacts: Orazio Attanasio, Ian Crawford, Hamish Low**

## 4. Wealth Holding: Portfolios and Housing

The British Household Panel Survey (BHPS) contains data on financial wealth in two of the 10 waves of available data – 1995 and 2000. This represents the most complete and up-to-date microdata that are available for studying the wealth of the British population. Work has been done to ensure that a comparable measure of wealth is available for every household sampled in the two years. This involved imputing missing or incomplete data and making the necessary adjustments to ensure that the two measures are comparable across years. These data, which will be deposited in the Data Archive, have already been used extensively in two related areas of research.

The first was a comprehensive up-to-date description of the net wealth distribution of households in the UK in 2000, along with a preliminary description of how households have changed their holdings of wealth between 1995 and 2000. The results highlighted the inequalities that exist in the distribution of wealth even when looking at households of similar age and with similar characteristics. The findings also showed that almost half of the low-wealth population were still observed to have low wealth five years later and, whilst younger households were more likely to have low wealth in both years, there is certainly evidence of a substantial group of middle-aged households that did not manage to accumulate financial assets over the period 1995–2000 despite high real asset returns.

The BHPS data on wealth have also been used in work that attempts to explain differences between the household wealth distributions in the UK and the USA, with particular emphasis on the proportion of wealth held in housing. In the UK, households tend to hold a higher fraction of their wealth in housing and tend to move into home ownership earlier than in the USA. Higher housing price volatility in the UK is found to be an important factor in accounting for these differences, and the role of housing volatility in life-cycle saving and housing decisions continues to be an active area of research.

Banks, J., Blundell, R. and Smith, J.P., 'Understanding differences in household financial wealth between the United States and Great Britain', *Journal of Human Resources*, 38(2), forthcoming.

Banks, J., Blundell, R. and Smith, J.P., 'Wealth portfolios in the US and the UK', in D. Wise (ed.), *Perspectives on the Economics of Ageing*, Chicago: Chicago University Press, forthcoming.

Banks, J., Smith, Z. and Wakefield, M. (2002), 'The distribution of financial wealth in the UK: evidence from 2000 BHPS data', IFS Working Paper 02/21.

**Contacts: James Banks, Zoë Smith**

## **5. Pensions**

Centre researchers have continued to contribute to the debate on potential reform of the UK pension system. Analysis has been published which draws together many aspects that need to be considered. These include the extent to which the population is ageing, the economic activity of older individuals and their retirement decisions, the state pension system, other state benefits available to older individuals and the financial wealth holdings, both pension and non-pension, of the working population.

Many of the trends that the UK is now experiencing are not new – for example, the state pension system becoming relatively less generous for those not on means-tested benefits, employers shifting from defined benefit to defined contribution pension schemes, and life expectancies increasing. But the key issue is ‘How can we at least maintain post-retirement levels of income while the population continues to age?’. Being able to do this seems likely to require either growing levels of retirement saving (either individually or collectively through employers or the state) or longer working lives, or a combination of both. Our analysis of these issues, co-funded by the Leverhulme Trust and HM Treasury, was presented to policy-makers from the Department for Work and Pensions, HM Treasury and the Cabinet Office prior to the publication of the latest Pensions Green Paper in December 2002. Emphasis on the importance of looking at individuals’ pension and saving behaviour over time, rather than taking a ‘snapshot’ view, and on the importance of considering labour market decisions alongside retirement saving patterns, seems to have influenced the policy debate.

Centre research has also examined the thrust of the current UK government’s pension reforms in the context of the system it inherited. It is clear that the reforms represent continuity with what went before in seeking to continue the privatisation of pension provision, but they herald a new emphasis on pensioner poverty reduction. There is a clear broad strategy even though not all of the reforms fit obviously within it – a more generous means-tested system, extensive private provision and a diminished contributory pension.

The increasing reliance on means-tested, rather than non-means-tested, support for pensioners is highlighted by the pension credit, which will be introduced in October 2003. Our analysis of this reform shows that effective marginal rates will typically be lower after the reform than they otherwise would have been. Furthermore, in the long term, this strategy has advantages in terms of containing public sector liabilities, but it does involve further downgrading of the contributory principle.

It will also affect the incentive to save for many individuals. Individuals currently on means-tested benefits will be able to keep more of their savings as a result of the reform. But those currently outside the means-tested benefit regime who expect to be brought into it as a result of the reforms will face a diminished incentive to save. There are questions about how much the pension credit will cost in the future and about its effects on long-term incentives to save, given that it seems likely that it will cover a growing proportion of pensioners. Most particularly, it remains unclear how the credit fits in with other parts of the government’s pensions strategy, notably stakeholder pensions for those on moderate incomes and the state second pension. For the growing number of middle-income pensioners who seem likely to be floated onto the benefit, given current government policy, the gains from having built up pension rights will be reduced.

Emmerson, C. (2003), ‘Pension reform in the United Kingdom: increasing the role of private provision?’ in G.L. Clark and N. Whiteside (eds), *Pension Security in the 21<sup>st</sup> Century*, Oxford: Oxford University Press.

Disney, R. and Smith, S. (2002), 'The labour supply effect of the abolition of the earnings rule for older workers in the United Kingdom', *Economic Journal*, 112, C136–C152.

## **Retirement Behaviour**

This research provides a comprehensive evaluation of the economic incentives for retirement underlying the UK pension system and analyses the impact on retirement behaviour. The UK is shown to have experienced a significant reduction in employment among those over 55 years of age, especially men. Using a sample of individuals aged 55 or older from the UK Retirement Survey, we model the probability of retirement in terms of the incentives underlying the individual's pension plan as well as other socio-economic factors. This follows an option value approach and allows a separate role for pension wealth and for spouse's economic and demographic characteristics. It distinguishes between the State Earnings-Related Pension Scheme and private occupational schemes and also models eligibility to invalidity benefit in calculating the incentive for early retirement. We compare the option value approach with alternative, simpler formulations and find the option value model to fit the data best, but we also find a strong additional role for wealth variables. Simulations are presented for a set of reforms designed to delay early retirement.

Blundell, R., 'Work, retirement and pensions', in *Preparing for an Aging World*, National Research Council Panel on a Research Agenda and New Data for an Aging World, Washington DC: National Academy Press.

Blundell, R., Meghir, C. and Smith, S. (2002), 'Pension incentives and the pattern of early retirement', *Economic Journal*, 112(478), C153–C170.

**Contacts: Carl Emmerson, Matthew Wakefield**

## ***Theme C. WEALTH CREATION: INVESTMENT, INNOVATION AND HUMAN CAPITAL***

### **6. Taxes and Investment**

Centre funding was used to develop empirical research on uncertainty and company investment. One strand of this has compared the usefulness of company-level measures of uncertainty derived from data on analysts' forecasts for profits (using forecast errors, or forecast dispersion across individual analysts tracking the same firm) with measures based on share price volatility in explaining company investment behaviour. Earlier work that considered how higher uncertainty slows down the response of investment to demand shocks was also revised and extended during the last year. In particular, we have compared empirical results using real company data to those obtained using data generated by a simulation model in which firms make partially irreversible investment decisions under uncertainty about future levels of demand. The impact of uncertainty on investment dynamics that we estimate for UK companies is strikingly similar to the effect predicted by this class of models.

Previous Centre funding for research on profit forecasts and investment underpinned a project supported by the Bank of England, which extended this work to data on UK firms. The main findings from the earlier research on US data were replicated in this study. Forward-looking forecasts of company profits, published by securities analysts, explain investment behaviour much better than do forward-looking stock market valuations, casting doubt on the proposition that share prices simply discount informed expectations of future profits. Evidence that investment is sensitive to current or past cash flow is not robust to the inclusion of these measures of expected future profits, suggesting that the main role of cash flow in previous investment models has been to proxy for important but omitted variation in expected

future profitability. Centre researchers also provided training to young economists at the Bank in the use of company microdata-sets as part of this project.

Centre research on tax competition has continued previous work. This led to the publication of a paper analysing the development of corporate income taxes in EU and G7 countries. The paper establishes a list of stylised facts about these developments. It was found that tax-cutting and base-broadening reforms have had the effect that effective tax rates have fallen on profitable investments but have remained stable on marginal investments. The paper also discusses possible explanations and concludes that these reforms were consistent with governments reacting to tax competition, as a result of increasing international mobility of both real and financial capital.

There has also been research on UK corporate taxes. One paper examined in detail how different theoretical tax measures perform in practice. The main finding was that these measures can vary enormously, so that empirical researchers need to take great care when deciding on which measure to use. To some extent, this is to be expected, as different measures are aimed at measuring different aspects of the tax system – for example, marginal and average tax rates may be very different. However, it was found that even measures aimed at estimating the same aspects can vary greatly, depending on data sources and underlying assumptions. This is also important in an international context, as it suggests that rankings of countries may depend on the measure used.

Another project on corporate taxes, which is still ongoing, investigates in detail the development of UK corporate tax revenues. One of the findings so far is that UK corporation tax revenue has become much more dependent on the performance of the financial sector of the economy over the last two decades. As new data become available, it will be interesting to see how falling profitability in the financial sector will affect corporation tax receipts.

Empirical research has also started to investigate what effects, if any, changes to the taxation of dividends in 1997 and 1999 have had on the financial and investment behaviour of UK companies. This work forms part of a larger IFS programme of research on large business taxation, which is supported by both the Inland Revenue and the Hundred Group of large UK corporations.

Bond, S., Klemm, A., Newton-Smith, R., Syed, M. and Vlieghe, G. (2002), 'The roles of expected profitability, Tobin's Q and cash flow in econometric models of investment', IFS mimeo.

Devereux, M. and Griffith, R. (2002), 'The impact of corporate taxation on the location of capital: a review', *Swedish Economic Policy Review*, 9(1), 79–102.

Devereux, M., Griffith, R. and Klemm, A. (2002), 'Corporate income tax reforms and international tax competition', *Economic Policy*, 35.

Devereux, M. and Klemm, A., 'Measuring taxes from income on capital: evidence from the UK', in P. Sorensen (ed.), *Measuring the Tax Burden on Capital and Labour*, Cambridge, MA: MIT Press, forthcoming.

**Contacts: Steve Bond, Alex Klemm**

## **7. Productivity and Innovation**

### **Productivity and foreign multinationals**

Collaborative work with the Institute for Manufacturing, and supported by the Gatsby Charitable Foundation, combined case-study evidence with quantitative research to produce interesting findings on technology transfer from foreign multinationals in the UK. We found evidence of productivity convergence among UK-owned establishments to the technological frontier, and that foreign multinationals played an important role in technology transfer by pushing out the frontier. But UK-owned establishments were also often found to be the

industry technological leader. The case-study evidence supported these findings – foreign-owned firms also benchmarked their performance against the best UK-owned companies.

Griffith, R., Redding S. and Simpson, H. (2002), ‘Productivity convergence and foreign ownership at the establishment level’, IFS Working Paper 02/22.

### **R&D and technology transfer**

Work in this area has followed a number of strands. Anecdotal evidence suggests that firms are increasingly locating R&D overseas in order to source technology, as opposed to adapting products to local markets. Using data on the international patenting activity of UK firms, developed with funding from the Leverhulme Trust, Centre researchers have found evidence to suggest that this is an important factor in explaining the increasing propensity of UK firms to locate R&D in the USA. UK firms that conduct R&D in the USA appear to benefit more than other UK firms from spillovers from R&D located in the USA. Ongoing research is looking at the way R&D is structured in the UK and what the private and social returns to R&D are. This has involved the construction of a unique linked establishment-level data-set containing information on production activity (micro ARD data) and business expenditure on R&D (micro BERD data), which was co-funded by HM Treasury, the ONS and the Inland Revenue. This work aims to expand the evidence base on which policy towards innovation is formulated. Centre staff contributed actively towards the design of the UK R&D tax credit for large firms introduced in April 2002. Evidence on the design and effectiveness of R&D tax credits was also presented to an international audience of policy-makers at the OECD.

Bloom, N., Griffith, R. and Van Reenen, J. (2002), ‘Do R&D tax credits work? Evidence from an international panel of countries 1979–97’, *Journal of Public Economics*, 85, 1–31.

Griffith, R., Hawkins, M. and Simpson, H. (2002), ‘Response to consultative note “Designs for Innovation”’, IFS Briefing Note 23.

Griffith, R., Redding, S. and Van Reenen, J., ‘R&D and absorptive capacity: from theory to data’, *Scandinavian Journal of Economics*, forthcoming.

### **Product market competition, and innovation**

Research has investigated the effects of the intensity of product market competition on innovation using data on UK firms’ patenting activity. The findings imply that this relationship is non-monotonic and takes the form of an inverted U – that is, innovation is lower in monopolistic and very competitive markets. This research has involved the close interaction of applied theorists with empirical researchers. A policy conference was held to coincide with the launch of the Enterprise Bill.

Aghion, P., Bloom, N., Blundell, R., Griffith, R. and Howitt, P. (2002), ‘Competition and innovation: an inverted U relationship’, NBER Working Paper 9269.

### **Mapping the UK production sector**

Ongoing research is looking at the impact of Regional Selective Assistance grants on plant location and whether their effectiveness is reduced in the face of countervailing agglomeration externalities. We find evidence that the existing spatial distribution of activity matters for the location of new entrants and that grants are effective in inducing plants to locate in assisted areas of the UK.

New work in collaboration with US researchers is investigating regional wage inequality in the UK. We find strong evidence of differences in relative wages of skilled to unskilled workers across geographic areas of the UK. One explanation for such differences in relative

wages is that regions of the UK lie within different ‘cones of diversification’, with unskilled-labour-abundant regions specialising in different goods from skilled-labour-abundant regions.

Bernard, A.B., Redding, S., Schott, P.K. and Simpson, H. (2002), ‘Factor price equalization in the UK?’, NBER Working Paper 9052.

Devereux, M., Griffith, R. and Simpson, H. (2002), ‘The geographical distribution of production activity in the UK’, CEPR Discussion Paper DP3627.

**Contacts: Rachel Griffith, Helen Simpson**

## **8. Training, Education, Human Capital and Wages**

### **Returns to education**

We have continued to push forward with our work on measuring the returns to education, making progress both methodologically and in our empirical understanding of the returns to education in the UK. The work we have done in this area has been carried out in conjunction with the Centre for the Economics of Education (CEE), sponsored by the Department for Education and Skills (DfES).

Methodologically, we have made considerable progress on our review of alternative econometric methods and models for the estimation of the effect of education on earnings, and have applied these to a high-quality common data source. Our research considers four main estimation methods to recover the causal effect of education on earnings – least squares, instrumental variable methods, control function methods and propensity score matching methods. The properties of the estimators are analysed, distinguishing between common and heterogeneous effects models and between a single treatment model and a sequential multiple treatment model. We subsequently apply these methods to high-quality data – the British 1958 National Child Development Study (NCDS) birth cohort – to estimate private returns to schooling. For the single treatment, we consider the return from undertaking some form of higher education. We subsequently consider the sequence of multiple treatments (no qualifications, O levels or equivalent, A levels or equivalent, higher education).

We find that correcting for detailed background variables and ability differences is important and reduces the return to education at all levels; the basic pre-education information available in common data-sets would not have been enough to identify gains in an unbiased way. The overall returns to educational qualifications at each stage of the educational process remain, however, sizeable and significant, even after allowing for heterogeneity in the education response parameters. In particular, our estimates point to an average return of about 26% for those completing some form of higher education. More detailed analysis suggests an average wage return of 17% from obtaining O levels compared with leaving school at 16 with no qualifications, a further 8% return from completing A levels and a further 25% wage premium for then achieving higher education. As to the performance of the various estimators, our results suggest little in the way of misspecification for the matching estimator, which is found to perform very satisfactorily in our application to very rich data.

We have also continued to make progress on cross-cohort comparisons of living standards and the returns to education. Centre funding has allowed us to collaborate with colleagues at University College London Department of Epidemiology & Public Health and at the Centre for Longitudinal Studies to produce a unique analysis of changes across three cohorts, using data from three British cohort studies – the 1946 National Survey of Health and Development, the 1958 NCDS and the 1970 British Cohort Study. Our research concentrated mainly on differences in wages between each of the cohorts as they reached their early 30s. For men, the differences were particularly marked between the 1946 cohort and the 1958 cohort, and they were characterised by increasing returns to education at all levels. The differences in men’s

wages between the 1958 and 1970 cohorts were much less pronounced, though the return to holding certain qualifications compared with none appeared to have fallen somewhat between these cohorts (although, at this stage, no attempt was made to control for differences in timing of the wage information for different cohorts). For women, the changes across generations have been even more pronounced. For earlier cohorts of women, the gap between the wages of high- and low-educated workers was larger than that for men, and there was strong evidence that education played an important role in reducing gender wage differentials. But over time, lower-skilled women have become less disadvantaged in their wages, both in relation to higher-skilled women and compared with men with similar levels of education. This has been reflected in falling returns to education for women over time. Our cross-cohort research is continuing as we try to disentangle the effects of data and other measurement differences across the cohorts from the genuine trends.

We have revised and updated previous work offering an extensive summary and a critical discussion of the empirical literature on the impact of human capital on macroeconomic performance, with a particular focus on UK policy. The paper also highlights methodological issues and makes recommendations for future research priorities.

- Blundell, R., Dearden, L. and Sianesi, B. (2002), 'Evaluating the impact of education on earnings in the UK: models, methods and results from the NCDS', under revision for *Statistics in Society*.
- Dearden, L., Goodman, A. and Saunders, P. (2003), 'Income and living standards', in E. Ferri, J. Bynner and M. Wadsworth (eds), *Changing Britain, Changing Lives: Three Generations at the Turn of the Century*, London: Institute of Education, University of London.
- Sianesi, B. and Van Reenen, J. (2003), 'The returns to education: macroeconomics', *Journal of Economic Surveys*, 17(2).

### **Training and labour market mobility**

We have started a new programme of work looking at the impact of training on labour market mobility. Standard human-capital theory predicts that employees have to finance training in general skills because they, rather than firms, harvest the returns in a competitive labour market. If training is in part firm-specific, or labour markets are imperfectly competitive, firms may co-finance training. One problem that could arise is that workers are credit-constrained, in particular early on in their careers when they need training most. This may lead to underinvestment in human capital if the worker indeed has to bear most of the costs of training. For that reason, there is substantial theoretical and empirical interest in the accumulation of human capital in relation to labour market frictions and credit market constraints. This project contributes to this literature. We study on-the-job training in relation to labour market imperfections and mobility and credit constraints using data from the BHPS over 1991–2001. The BHPS matches individual information on all labour market transitions (with wages, etc.) over the survey period with information on training and individual wealth. Some information is also collected on the specificity and financing of training. We may also use data from the NCDS. A first paper will provide a descriptive analysis of labour market mobility and training incidence in relation to credit constraints using event history methods. Specific attention will be paid to sampling problems inherent to the BHPS (for example, training information is only collected for employment spells that are ongoing at annual interview dates). A parallel paper will take a more structural perspective.

### **Schooling attainment, financial incentives and parental background**

Following the successful evaluation of the Education Maintenance Allowance (EMA) funded by the DfES, Centre funding has allowed further analysis of the transitions from compulsory schooling to work or to further education. The dynamic model developed describes all the possible paths that an individual could take and can be used to assess the importance of family background as well as financial incentives for educational attainment. The model

exploits the rich data-set that we have collected (together with our EMA partners) and uses the fact that individuals are observed from the moment they had a choice between work and education. Finally, the model takes explicit account of attrition. From a policy perspective, the model will allow the analysis of financial incentives and the impact of long-term financial factors on educational choice.

**Contacts: Lorraine Dearden, Alissa Goodman, Barbara Sianesi**

## ***Theme D. WELFARE: ITS SOURCES, LEVEL AND DISTRIBUTION***

### **9. Inequality and Social Welfare**

#### **Monitoring trends in income inequality and poverty**

Centre funding has enabled us to stay at the forefront of assessing the trends in poverty in Great Britain. This work has been central to the public policy debate since the government put eradicating child and pensioner poverty high up on its policy agenda. Each year, we check the government's official low-income statistics for the Department for Work and Pensions – this involves extremely detailed and careful checking of the income variables in the Family Resources Survey (FRS). The Centre allows us to capitalise on this groundwork by producing authoritative and timely estimates of trends in child poverty, measured against various income poverty lines, since 1979. Our work to date has shown how the government's choice of a relative poverty line as its main policy target is making its goal of eradicating child poverty more difficult and more expensive. We have also contributed to the government's consultation on measuring child poverty, and have provided research and analysis to non-governmental organisations in this area, including Age Concern and the End Child Poverty Coalition.

Centre funding has allowed us to continue to monitor ongoing trends in income inequality in Great Britain using FRS data. So far, our work has shown that income inequality rose over the latter part of the 1990s, but that in contrast to the very large increases in inequality over the 1980s, there were some dips and fluctuations in this trend in the last 10 years. The IFS website now provides users access to a range of information about the distribution of income in Great Britain from 1961 to 2000–01, including a spreadsheet showing different income points over time (mean, median, various percentiles) and measures of income inequality (income shares, Gini coefficients, etc.).

We have also looked at how changes to the UK tax and benefit system since 1979 have impacted on income inequality. The UK experienced a significant rise in inequality between 1979 and 2001, with the Gini coefficient measure increasing by around 10 percentage points, and the reasons for this rise, which is the largest in the OECD, remain contentious. Drawing on our tax and benefit modelling expertise gained over many years of Centre research, this analysis (co-funded by the Nuffield Foundation) modelled unreformed systems, which were simply the 1979 system uprated by prices or nominal incomes to 2001 values, and compared their effect on inequality with that of the systems actually in place in each of the years between 1979 and 2001. We found that the specification of the counterfactual is crucial to the results. When the whole system is uprated by prices, tax and benefit reforms have contributed nothing to the growth in inequality. However, when benefits are uprated by nominal income, the reforms can explain up to 40% of the total rise.

We have also collaborated with colleagues outside the Centre to undertake a detailed comparison of the incomes and living standards of three British cohorts, born in 1946, 1958

and 1970, and their experiences of inequality and poverty. Most notable amongst our findings have been both rising living standards and the large jump in inequality amongst those born in the 1958 cohort compared with the 1946 cohort. The contribution of changing returns to education in explaining these developments is described in the previous section.

Goodman, A. and Shephard, A. (2002), 'Inequality and living standards in Great Britain: some facts', IFS Briefing Note 19, updated December 2002.

### **Consumption inequality and income uncertainty**

This research places itself within the discussion on the evolution of inequality over the last two decades. The literature in the field has evolved from a simple documentation of the increase in inequality in recent decades on the basis of various indicators to a more detailed evaluation of the evolution of household welfare inequality. With respect to this point, two issues are very important: first, the distinction between long-run income inequality and inequality associated with transitory movements in income; and second, the degree to which households are able to provide self-insurance through the formal capital market (or through formal and informal mechanisms) against movements in wages and income. The first issue has been recognised in a number of recent studies, all of which use time series of individual incomes to focus on this important distinction. They find a strong increase in the variance of the permanent component in income, and an increasing importance of the variance of the transitory component in driving income inequality. As regards the insurance issue, a lot of effort has been devoted to testing the hypothesis of perfect insurance across households – which is commonly rejected by the data – but there is still little work on the insurance mechanisms that might be at work within the household.

The aim of this research is to integrate these two streams of literature by examining how different insurance mechanisms (within and across households) may insure different types of shocks (permanent and temporary). Our work builds on previous research, which finds that the distribution of consumption tends to follow the low-frequency movements in real wages but that consumption is well insulated from transitory movements. While this provides strong evidence against complete insurance, it gives tacit support to consumption smoothing. Our previous research argued that the use of both income and consumption sources is key to understanding the evolution of inequality. They implicitly assume no across-household insurance but full consumption smoothing, and distinguish on this basis temporary/insured income shocks from permanent/uninsured income shocks.

An important part of this research is gaining a better understanding of measurement issues in consumption surveys. Our work in this regard has concentrated on the US Consumer Expenditure Survey (CEX). Work hitherto has focused mainly on consumption data from one element of this survey, the quarterly interview survey (IS). But by undertaking detailed work comparing consumption data from two components of the CEX – the IS and a weekly Diary Survey (DS) – Centre work this year has made important progress. Using IS and DS data, we have been able to model the measurement error on individual categories of spending (food, clothing, etc.) and to test the validity of some implications of the permanent income hypothesis over the life cycle. By jointly exploiting diary and recall data to account for measurement errors, we find a pattern of inequality over time which is consistent with the permanent income hypothesis and very different from the one we would get considering IS data only. We have also spent a considerable amount of time checking whether the expenditure information from the two CEX components is consistent over time when compared with aggregate information from National Accounts. Both of these strands of analysis are still ongoing.

Attanasio, O., Berloffa, G., Blundell, R. and Preston, I. (2002), 'From earnings inequality to consumption inequality', *Economic Journal*, 112(478), C52–C59.

- Blundell, R. and Preston, I. (2002), 'Consumption inequality and income uncertainty', in D. Cohen, T. Piketty and G. Saint-Paul (eds), *The Economics of Rising Inequalities*, Oxford: Oxford University Press.
- Blundell, R., Pistaferri, L. and Preston, I. (2002), 'Partial insurance, information and consumption dynamics', IFS Working Paper 02/16.

### **Bounding the distributional change in earnings**

There has been a vast literature on the way the distribution of observed wages has evolved over the past 20 or 30 years. Some economies, such as the USA and the UK, have seen large and unprecedented increases in inequality among the wages of workers. These increases in inequality have been associated with increased returns to education, cohort effects and increases in the returns to unobserved skill. A variety of interpretations have been given as to why these events have occurred; these include skill-biased technical change, globalisation-induced increased competition for low-skill workers and changes in the supply of graduates. Another aspect of the debate about changes in the distribution of wages concerns the relationship between male and female wages. Generally, both in the USA and the UK, the consensus is that female wages among workers have increased and have converged with male wages. However, in parallel with these momentous changes in the distribution of observed wages, the labour market participation rates for men and women have changed in dramatic ways. Female participation has tended to increase, particularly among women married to employed men and among women younger than 35. Male participation, on the other hand, has decreased at all ages to a very large degree, and does not only reflect the increase in early retirement. Female employment, on the other hand, has risen and this has been particularly true for. To the extent that changes in participation are related to wages, part of the changes in the distribution of observed wages may have been induced by changes in the composition of those employed in terms of their unobserved characteristics. Moreover, since the changes in participation are quite complex, it is not at all clear how the composition of those employed has changed in terms of unobservables. In this research, we develop new estimation methods that provide bounds on features of the wage distribution that take into account these composition effects. We use these methods to bound every quantile of the wage distribution for which bounds can be computed.

**Contacts: Alissa Goodman, Ian Preston**

### **10. Welfare Measurement and Cost of Living**

This year saw continued research into measurement of household cost of living. A cost-of-living index (COLI) measures the relative costs of attaining a certain level of economic welfare under two different price sets. It rests on the assumption that consumers have consistent preferences over commodities and that they act to maximise their welfare given their budget. The UK retail price index (RPI) is not a true COLI, but rather a cost-of-goods index which compares the relative costs of buying a fixed set of commodities under two different sets of prices. Although there is no claim that the RPI is a COLI – it is defined as 'an average measure of change in the prices of goods and services for the purpose of consumption by the vast majority of households in the UK' – it is often used in situations that require it to be interpreted as a COLI. In one piece of research, we used a non-parametric test based on the idea of revealed preference to see whether the published RPI price and weight data were consistent with the existence of a representative welfare-maximising consumer. We found that the assumptions behind the theory of the COLI are consistent with the data used to compile the RPI.

Previous work funded by the ESRC Centre for Fiscal Policy looked at how COLIs varied across different household types – for example, richer versus poorer households. This year,

we built on this work, using data from the UK Family Expenditure Survey, the construction of which has also been financed through the ESRC Centre. This research, funded principally by the Nuffield Foundation, found that inflation rates varied widely across different households. The headline rate of inflation is not necessarily a good guide to the actual rates of inflation experienced by individual households. Over the last 25 years, patterns in inflation rates for different subgroups of the population have varied a great deal. The research found that, overall, richer-than-average households, non-pensioners, households paying a mortgage, the employed and childless households have all faced higher-than-average inflation.

In another area of welfare-related research, we looked at the deadweight loss arising from the taxation of earned income. There is increasing recognition of the fact that deadweight loss from marginal taxation of labour income can arise through channels other than simple hours-of-work responses. Responses might occur through changes in, for example, effort, employment-related expenses, forms of remuneration and resources devoted to tax avoidance. This means that taxable income responses make a sounder basis for an inclusive assessment of deadweight losses. The UK offered a particularly interesting context in which to assess such effects, given the intensity of tax reform over the last two decades with the abolition of many higher-rate tax bands, a substantial shift from direct to indirect taxation and changes to the tax treatment of married couples. In this research, we used repeated cross-sectional data from the Survey of Personal Incomes to assess the empirical magnitude of taxable income responses in the UK amongst the self-employed. Our findings point to taxable income responding positively to cuts in tax rates within this group and to a modest degree of associated deadweight loss.

Blow, L. and Preston I. (2002), 'Deadweight loss and taxation of unearned income: evidence from tax records of the UK self employed', IFS Working Paper 02/15.

Crawford, I. and Image, I. (2002), 'Testing the RPI data for consistency with the theory of the cost-of-living index', IFS Working Paper 02/19.

Crawford, I. and Smith, Z. (2002), *Distributional Aspects of Inflation*, Commentary 90, London: IFS.

**Contacts: Laura Blow, Ian Crawford**

## **11. Health and Other Public Services**

Centre researchers formed part of a large interdisciplinary team from various institutions across the UK that was awarded a contract from the Department of Health to update their resource allocation formula. This research used the latest healthcare utilisation data together with updated and new information of area deprivation scores. The new formula has now been used for the allocation of resources to the newly established Primary Care Trusts. As new methodologies were developed and applied in the creation of the new formula, an academic paper has been written that is forthcoming in *Health Economics*.

Much of the research on healthcare and health outcomes that was initially planned for the Centre for Public Policy has attracted support from other sources. Work on the effects of family background and parental characteristics on health outcomes and health inequality is funded by the Treasury's Evidence-Based Policy Fund. Other research, on smoking choices and on the quality of treatments for heart disease and other surgical interventions, is funded by the ESRC as part of the Centre for Economic Evaluation. In view of these successes, we are winding down this part of the activities of the Centre for Public Policy, confident that our planned research on these important topics now has secure support from elsewhere.

Sutton, M., Gravelle, H., Morris, S., Leyland, A., Windmeijer, F., Dibben, C. and Muirhead, M. (2002), *Allocation of Resources to English Areas: Individual and Small Area Determinants of Morbidity and Use of Healthcare Resources*, Report to the Department of Health, Edinburgh: Information and Statistics Division.

Sutton, M., Gravelle, H., Morris, S., Leyland, A., Windmeijer, F., Dibben, C. and Muirhead, M., 'Modelling supply and demand influences on the use of health care: implications for deriving a needs-based capitation formula', *Health Economics*, forthcoming.

**Contact: Frank Windmeijer**

## 8. FINANCIAL STATEMENT

The table below summarises how the ESRC's financial contribution to the Centre was spent. The ESRC Centre contributes around 30% of IFS income. The remainder is derived from IFS membership subscriptions, publication sales, conference income and general project funding. In addition to other ESRC support, general project funding comes from research trusts (such as the Nuffield Foundation, the Leverhulme Trust, the Gatsby Foundation and the Joseph Rowntree Foundation), government departments (such as the Department for Work and Pensions, HM Treasury, the Department for Education and Skills, the Department for Trade and Industry, the Legal Services Commission and the Inland Revenue), the European Union, the World Bank and other bodies, including the Bank of England and BBC TV. In addition, the IFS Large Business Tax Programme is being supported by a consortium of private sector firms.

Salary costs make up the bulk of expenditure within the Centre. IFS determines its own salary structure through internal discussion with staff under delegated authority from its Trustees, with negotiations taking into account prevailing levels of remuneration in both the Civil Service (primarily the Government Economic Service) and universities. IFS operates a personal pension scheme under which it makes a contribution of up to the maximum allowed under Inland Revenue rules.

Other expenditure covers payments to Research Fellows and Associates (10 are financed, at least in part, by the Centre), the cost of the Research Scholars (including their fees paid to University College London), secretarial costs, overheads (at an average of some 50% of direct salaries), computing, travel and miscellaneous costs.

### RESEARCH CENTRE BREAKDOWN OF COSTS, 2001-02 (October 2001 to December 2002)

Research staff	533,198
Research Fellows and Associates	24,225
Research Scholars	39,425
Summer interns	1,581
Total research staff	598,429
Secretarial support	34,985
Computing costs	31,570
Conference costs	13,885
UK travel	8,352
Overseas travel	15,589
Overheads	323,041
Total costs	1,025,851
IFS contribution to cover accommodation, library, insurance and professional fees	103,711

## 9. PERFORMANCE INDICATORS

### A. Publications

Published outputs from the Centre for the period covered by this report reflect our objectives of providing high-quality microeconomic research on issues related to public policy, and using the findings from this research to inform and engage in public policy debates.

Centre researchers have published over 30 articles in refereed academic journals and over 15 chapters in edited books. These publications cover the full range of our research programme, including, for example, papers on:

- labour market interventions (e.g. Blundell, R. and Meghir, C. (2002), ‘Active labour market policy vs employment tax credits: lessons from recent UK reforms’, *Swedish Economic Policy Review*, 8, 13–37);
- welfare reform (e.g. Brewer, M., Clark, T. and Wakefield, M. (2002), ‘Social security in the UK under new Labour: what did the third way mean for welfare reform?’, *Fiscal Studies*, 23(4), 505–537);
- saving and consumption (e.g. Attanasio, O., Banks, J. and Tanner, S. (2002), ‘Asset holding and consumption volatility’, *Journal of Political Economy*, 110(4), 771–792);
- household wealth (e.g. Banks, J. and Tanner, S. (2001), ‘Household portfolios in the UK’, in L. Guiso, M. Halliassos and T. Jappelli (eds), *Household Portfolios*, Cambridge, MA: MIT Press);
- pension reforms (e.g. Emmerson, C. and Johnson, P. (2001), ‘Pension reform in the United Kingdom’, in R. Disney and P. Johnson (eds), *Pension Systems and Retirement Incomes across OECD Countries*, Aldershot: Edward Elgar);
- corporate taxes (e.g. Devereux, M., Griffith, R. and Klemm, A. (2002), ‘Have taxes on mobile capital declined?’, *Economic Policy*, 35, 451–496);
- R&D tax credits (e.g. Bloom, N., Griffith, R. and Van Reenen, J. (2002), ‘Do R&D tax credits work? Evidence from an international panel of countries 1979–97’, *Journal of Public Economics*, 85, 1–31);
- education and earnings (e.g. Dearden, L., Ferri, J. and Meghir, C. (2002), ‘The effects of school quality on educational attainment and wages’, *Review of Economics and Statistics*, 84(1), 1–20);
- inequality (e.g. Attanasio, O., Berloffa, G., Blundell, R. and Preston, I. (2002), ‘From earnings inequality to consumption inequality’, *Economic Journal*, 112(478), C52–C59);
- welfare and cost of living measurement (e.g. Crawford, I. and Smith, Z. (2002), *Distributional Aspects of Inflation*, Commentary 90, London: IFS).

As this brief selection indicates, Centre publications include scientific papers in top general journals such as the *Journal of Political Economy*, *Econometrica*, *Review of Economic Studies* and leading field journals such as the *Journal of Public Economics*, *Journal of Human Resources* and less technical papers in journals such as *Economic Policy* and *Fiscal Studies* that disseminate findings to a broader range of research users. The flow of new working papers and conference papers produced by Centre staff over this period suggests that this excellent publication record has every chance of continuing in coming years.

Centre researchers have also engaged actively in policy debates. Relevant publications include contributions to the IFS Green Budget, policy commentaries and reports published by the Institute, and online briefing notes. Our efforts to communicate these research findings and policy analyses to a wide range of interested parties are described in the next section.

## ***B. External Relations***

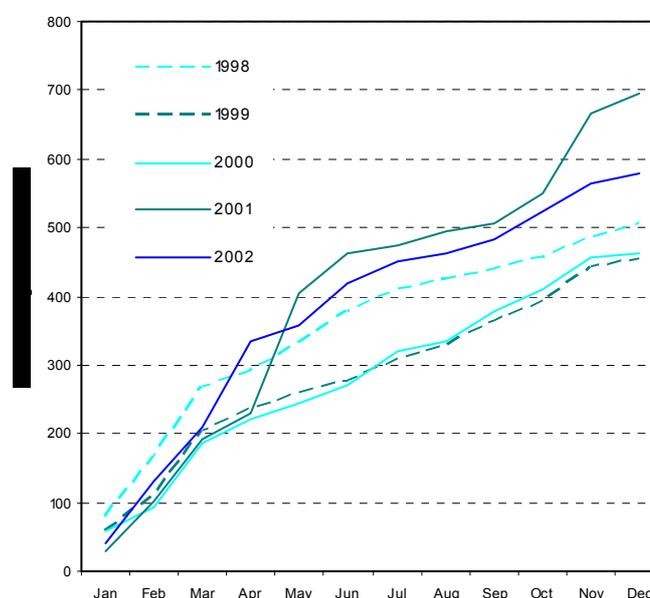
The research and support of the ESRC Centre for Public Policy plays a pivotal role in IFS's contribution to public policy debate and to its participation in cutting-edge academic discourse. Over the last 15 months, a series of events have been organised by Centre staff to disseminate the results of our research.

On the policy side, the Green Budget 2002, supported by the ESRC, was a highlight, bringing together work on the public finances, public services, personal tax reforms, asset-based welfare, company taxation and government proposals to introduce a graduate tax. The main findings were presented to an audience of civil servants, journalists, academics and interested parties from the professions and commerce. Other policy-related presentations during the period included work about stamp duty on share transactions, analysis of the generosity of benefits to parents and an appraisal of the government's progress towards meeting its goals for reducing child poverty.

To ensure that Centre research is influential at the highest level, staff meet regularly with civil servants and MPs to discuss current policy questions. Over the period covered by this report, a number of staff have given evidence to Select Committees, and one has acted as a special adviser to the Work and Pensions Committee.

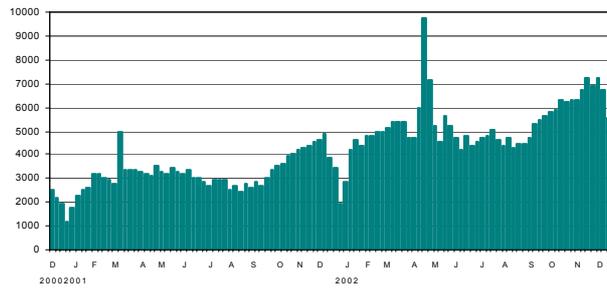
In the academic arena, Centre researchers attended a variety of conferences in the UK and abroad, presenting papers and networking with academics from a range of countries and disciplines. Key conferences hosted at IFS included the Transatlantic Public Economics Seminar and a symposium on welfare reform.

**Cumulative press coverage by month**



Much of the Institute's external relations are conducted through the media. All Centre work is publicised through press releases, which are now distributed mainly electronically, and we maintain close links with journalists working in the public policy field through frequent press briefings and informal contact. Since October 2002, we have released monthly public finance bulletins to analyse the government's figures soon after they are released. Press coverage has peaked around key political events such as the Budget and Pre-Budget Report, as well as at the time of the Green Budget and, to a lesser extent, around the release of other IFS work.

Weekly unique visitors to IFS website



The IFS website is constantly expanding, and the number of visitors continues to increase and currently stands at about 30,000 per month. Work is almost finished on a new design for a database-driven site, which should be in operation later in 2003. IFS briefing notes, press releases, working papers and most commentaries are now made available free of charge online.

## **10. A LOOK FORWARD**

### **Labour Market Responses to Tax and Benefit Policy**

Here we aim to develop more advanced dynamic models of labour market entry and exit using data sets with multiple panel waves in conjunction with the IFS tax and benefit model, TAXBEN, to construct more robust models of labour market transitions. This will involve the British Household Panel Survey and the Families and Children Survey. We are also planning to evaluate the impact of the new child tax credit (CTC) and working tax credit (WTC) using structural labour supply models. One of the issues that we hope to focus on is how the rules on who receives the CTC and WTC within families affect decisions on labour supply and the allocation of resources within the household. In doing this work, we will build on our earlier work on ‘collective’ labour supply models.

Housing benefit is probably the next major area of the benefit system earmarked for reform, and, with this in mind, the government announced pilots of new reforms to the system which introduce flat-rate local housing allowances for private sector tenants, based on rents in the local market. As housing benefit is a major component of financial assistance for working and non-working households on low incomes, it is crucial that the labour market impact of any reform is properly evaluated using microsimulation techniques such as those that Centre researchers have developed and used to analyse previous reforms. We aim to be at the forefront of any such evaluation. Work jointly funded by the Inland Revenue and the Centre is planned to investigate ways to overcome the problems of measurement error in estimating models of take-up of income-related benefits.

### **Microsimulation**

The next 12 months should see major revisions and enhancements to the functionality of the IFS tax and benefit model, TAXBEN. We hope to extend the range of data-sets on which the model can be run to cover the British Household Panel Survey and the Families and Children Survey for the first time. We are also planning to extend the range of distributional analyses and aggregate costings that can be done using the model’s front end, and to include explicit analysis of how reforms to tax and benefit policies might alter poverty rates amongst children, pensioners and other groups. We also plan to incorporate confidence intervals into the model outputs.

In the medium term, we are hoping to achieve a better integration of the model with our structural labour supply modelling so that we can use the budget-constraint-drawing routines as functions within STATA, GAUSS, MATLAB or other estimation software. This should increase the speed with which we are able to run estimation programs and should facilitate access to a range of more computationally intensive microsimulation techniques than has previously been the case.

### **Taxes and Investment**

We will examine the effects of changes to dividend tax credits for pension funds in July 1997, and the abolition of advance corporation tax in April 1999, on stock market valuations of UK companies and on their dividend distributions and investment spending. This will shed light on alternative theories of how dividend taxes affect company behaviour. Other work on company investment will consider the effects of changes to capital allowances, notably the

large changes that were part of the 1984 reform of UK corporation tax and affected firms differentially according to the composition of their capital stocks. This will inform the debate on the effects of replacing the current system of capital allowances by an accounting treatment of depreciation. Empirical work will also continue on the relationship between uncertainty and company investment. This will include estimation of a structural model of investment for firms facing partial irreversibility, demand uncertainty, and making multiple investment decisions in each period; and a comparison of the quantitative results from this approach with estimates of the effects of uncertainty on investment obtained from reduced form econometric models.

## **Productivity and Innovation**

Research on productivity and innovation over the next year will combine theoretical and empirical developments to gain a fuller understanding of a number of issues of academic and policy interest. We will utilise a large number of rich micro data-sets that have been developed at IFS over the past years with funding from the ESRC, Leverhulme, Gatsby and several government departments.

Using micro data for the UK and industry-level data across EU countries, we will investigate the determinants of new entry. We are interested in looking at how increased entry interacts with the degree of product market competition and industrial policy in affecting innovation and productivity. In our empirical work, we will use exogenous policy changes to identify causal effects resulting from new entry and changes to product market competition. We will also investigate alternative measures of competition that are proposed in the theoretical literature and how they are related to these policy changes. We expect the findings to be informative for the formulation of policy in both the UK and the EU.

A further strand of work will look at effects of competition from imports from low-wage economies on the performance of UK manufacturing plants, and whether there are differential impacts across regions and across plants with different characteristics. The empirical work aims to use new linked trade and plant-level production data-sets.

An important area of policy where there is little evidence is in the process of technology transfer. Our research will continue to focus on uncovering the process by which technology is transferred between firms, from the public sector (e.g. universities) to the private sector and across countries. We will exploit the matched R&D and production data-sets that we have developed. Descriptive work will explore the reasons for the UK's poor technological performance, and in particular what roles were played by the shift towards service sectors and the increasing internationalisation of R&D. We will also continue with preparatory work for conducting an evaluation of the UK R&D tax credit for SMEs.

Increasing attention is being paid to the role of institutions and organisational structure in growth. Work at the micro level will describe the structure of R&D and its relationship to the location and structure of productive activity. Do they go hand and hand, in which case policies aimed at keeping R&D located in the UK also need to consider firms' incentives to locate productive activity, or is more R&D conducted at central locations? What is the relationship between university-funded research and private sector R&D, and does location matter for technology transfer? In a separate strand of research, we are looking at patterns of vertical integration across firms and industries in the UK. While there is a large body of theoretical literature in this area, there is relatively little empirical evidence. Our research will look at the determinants of vertical integration and in particular the roles competition and technology play.

## **Education and Training**

Following new government proposals on the funding of higher education in England and Wales, we intend to extend our analysis in this important area. Our aim is to produce a report in June 2003 analysing in detail both the economic principles underlying the policy reforms and their likely impact on educational decisions of young people from different family backgrounds. We will be able to draw on our expertise in a wide range of areas, including the application of economic principles to policy questions, the modelling of educational decisions, measurement of the returns to education, the distributional analysis of reforms, and public expenditure issues. In so doing, we expect that we will make an important contribution to the ongoing policy debate.

Centre researchers will also be involved in contributing to a high-profile book, *The Economics of Education in the United Kingdom*, to be published by Princeton University Press. The book will provide clear evidence on the economic implications of education and reasons why individuals choose to invest more in education. The large body of work will be drawn together to inform policy discussion on a wide range of topics in the UK.

Over the next year, we also aim to continue to use the methodological insights we have gained in our recent work on measuring the returns to education to improve our understanding of the changes in the returns to education over time. Again, this work will be co-funded by the Centre for the Economics of Education at IFS. In particular, we hope to take forward our cross-cohort comparison work to give more robust estimates of changes in the returns to skill across cohorts, purged as much as possible of confounding measurement differences between the available cohort data-sets. One focus will be on the differences between male and female wages. Further work will also extend our modelling of the transitions between education, part-time work and full-time work, with a number of combinations allowed, and will measure the relative importance of incentives, family background and achievement in these choices. Our work on job-related training and employment transitions will also continue.

## **Inequality and Social Welfare**

We will continue our programme of work providing timely analysis of the government's official low-income statistics. This year, we aim to provide a detailed assessment of government progress in reducing pensioner poverty, described by government ministers as one of their 'first priorities' on entering government. We will also continue with other strands of our research on child poverty and income inequality.

While the pattern of income inequality in the USA during the last 20 years is well documented, the evidence on the evolution of consumption inequality is much less clear. Some researchers have noticed that using the Interview component of the Consumer Expenditure Survey, consumption inequality does not seem to have grown much over the last 20 years. However, previous research has shown that the picture emerging from the Diary survey is very different. The issue of what happened to consumption inequality in the USA (during a period characterised by marked increases in income inequality) has recently received much attention.

We will extend our previous work and try to reconcile the evidence from the Interview and Diary survey and characterise the most likely pattern of consumption inequality. In particular, we will focus on the relative data quality of these two surveys. The Interview survey is much larger and more effective at measuring infrequently purchased items. On the other hand, the Diary survey is better suited to measure frequently purchased items. We plan to combine these different pieces of information to obtain a more convincing picture of the evolution of consumption inequality.

Our work understanding the intergenerational transmission of incomes is continuing with a new programme of research to be funded by the Treasury's Evidence Based Policy Fund. This work will draw on years of Centre-financed data development and analysis. In this new line of research, we are aiming to understand whether the commonly observed positive correlation between parental income and child outcomes (both in childhood, as demonstrated in school achievement, child health, etc., and in later life, in terms of educational attainment, health, income, wages etc.) is a causal one. Whether this observed correlation is causal – due, for example, to parents' choices to make additional investments in their child's education – or whether the correlation is due to other characteristics of high-income parents (high motivation, ability, etc.) which lead their children to experience better outcomes is an extremely important policy question. Our first piece of empirical work for this project will build on much of the Centre-funded data work carried out over recent years using the British Cohort Study, and will examine the impact of teenage pregnancy on later life outcomes.

### **Welfare Measurement and Consumer Behaviour**

We aim to continue our research in the area of making welfare comparisons across different household types. Welfare comparisons over time and over households require us to make comparisons across different price regimes and across different household types. Cost-of-living inflation may vary across different households, as investigated in our earlier research. But to make a complete comparison, we also need to know what level of resources different households need to be as well off as each other. How do we compare households with and without children, for example? Existing methods of specifying the effects of demographics can lead to implausible restrictions on demands, and we aim to look at the implications of relaxing these restrictions in a tractable way.

We plan a full non-parametric characterisation of necessary and sufficient conditions for finite data-sets to be consistent with consumers optimising over preferences defined on product characteristics. This will provide the necessary methodological tools for the non-parametric investigation of markets for differentiated products with limited sample sizes.

## **11. REQUESTS TO THE BOARD**

Our main request to the board is that it clarifies the process by which we can compete for further funding for this Centre as soon as possible. As mentioned in Section 6, because of the severe financial taper after 2004, it is vital that we begin planning for this soon after the Summer 2003.

## **Appendix 1. HIGHLIGHTS FOR RESEARCH PRIORITIES**

### **BOARD: Scientific Advances and Communication**

#### *Scientific Advances*

Here we present three advances. A more detailed description of research findings from centre research over this period is presented in Section 7.

#### **The earnings distribution and the composition of the workforce**

In recent years, there has been an increasing interest in most aspects of the changing distribution of wages. These include the changing educational differentials and the changes in male/female wage ratios. These issues are important because they reflect underlying incentives to work and to obtain education as well as important social welfare issues, such as discrimination. However, many of these changes that we observe over time and that have received so much international attention can be the simple result of changes in the composition of the workforce. As labour market conditions change, different ‘types’ of workers are found in work. The types may be identified with observed characteristics or unobservable ones. The latter are the key to the problem of interpretation: if the quality of women who work is different now from 10 years ago (say), we will find a change in the male/female wage ratio which may have nothing to do with a fundamental change in the position of women. It is, however, very difficult conceptually to correct for these composition changes in terms of unobservable variables. The traditional approach has been to use assumptions on what factors affect the decision to work but do not affect wages. In practice, this often turns out not to be very credible. In response to this, we have developed a new methodology to examine the impact of changes in labour force composition (selection) on important aspects of the earnings distribution. We draw from the literature on bounds (see work by Manski and also by Heckman and co-authors). Our method is based on the simple idea that if we make ‘extreme’ assumptions about the level of wages the non-workers would earn, we can construct an area within which the true distribution of wages (productivities) lies that does not depend on any assumptions. Changes in this area from period to period may be inconsistent with composition changes, in which case we know that the underlying fundamentals have actually changed. There are indeed quite a lot of changes that are consistent with composition changes, leading to some degree of indeterminacy. We thus develop this method further and show how we can incorporate reasonable and transparent assumptions about the relationship between workers and non-workers. These assumptions can usually be justified on mild assumptions about individual choices and the process of finding work. When we do this, we are able to narrow down the degree of indeterminacy and show which of the observed changes can most plausibly be attributed to fundamental changes in the economy. Our findings are very interesting indeed. We show, for example, that educational differentials have increased for younger individuals (below 40) and so have female/male wage ratios, over and above what is induced by the fact that the composition of women working has shifted towards the more skilled. The approach we develop has a wide applicability in a number of problems and provides a systematic way of introducing assumptions in a transparent way, within a non-parametric framework.

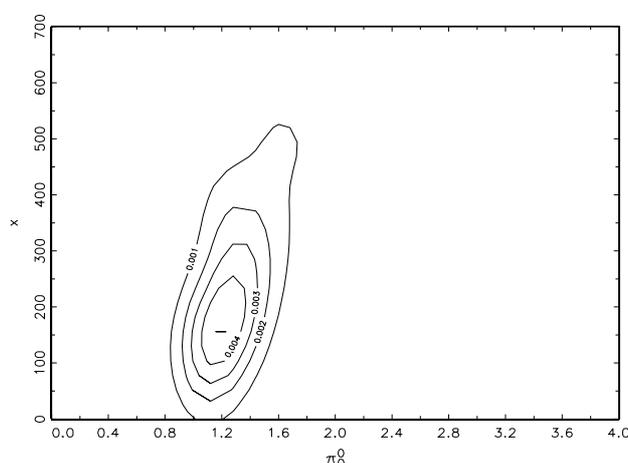
#### **New goods and the welfare effects of product market innovations**

This research considers what happens to economic welfare when firms develop new consumer goods. Generally, we would expect consumer welfare to rise (since a new product expands

the consumer's choice set), but more precise quantitative knowledge of this effect is important in a number of applications, from the correct measurement of inflation to understanding the strategic behaviour of firms.

Since at least the 1940s, it has been well known that the key to understanding this effect is knowledge about the consumer's reservation price for the product. This is the price that would just induce the consumer to buy the new product. The problem has been how to calculate this empirically. Typically, we use data from after the introduction of the new good to learn about consumers' preferences and to estimate a demand system. The demand curve is then extrapolated to the point where demand for the product of interest drops to zero and the corresponding price (the reservation price) is read off. The difficulty lies with the consequent reliance on the choice of functional form of consumers' preferences. This is often a matter of faith.

In our research, we have weakened the knowledge required about consumers' preferences as much as possible. We have shown how it is possible to recover a lower bound on the reservation price assuming only that consumers have stable, rational preferences over the period and goods studied. We applied these ideas to data on the UK National Lottery.



The figure shows the density of the distribution of reservation prices (horizontal axis) and household income (vertical axis) for a sample of UK households. The mean reservation price is 1.66 (66% higher than the price on introduction) and 5% of the sample have a reservation price of 2.167 or more. As the figure shows, there is a fair degree of heterogeneity in the sample, and there seems to be a positive relationship with income. This means that, on average, the welfare gains associated with this new good were larger for higher-income households than for poorer households. The effect of allowing for this in the annual rate of non-housing inflation (which was running at about 2% at the time the Lottery was launched) would have been to reduce measured inflation by at least 0.15 percentage points.

### Policy evaluation methods

Evaluation of public policy has now become a key issue in basic and applied research. Governments have come to realise that public spending on labour market or educational programmes needs to be justified by its effectiveness, and the academic community has understood that a lot can be learned about behaviour from policy experiments combined with economic models. At IFS, we have been involved in a number of evaluations of active labour market programmes and educational policies. In this context, we have developed new methods that can make the best of the data at hand. In particular, two of the most frequently used evaluation methods are matching and differences in differences. The first uses observed characteristics to match the distribution of such characteristics in the treatment and control

samples and ensures only comparisons of like with like are made. The second method uses information on changes in the outcome variables between treatment and control areas to eliminate unobserved characteristics. However, the treatment and control samples are often different and the straight comparison even for changes may be invalid. We have developed a new method which combines matching with differences in differences. The matching part deals with the fact that the control and treatment samples differ in the observable dimension and controls for this, while the differences-in-differences part eliminates additive unobservable characteristics of the areas (groups) being compared. In this way, we ensure that like with like is compared and we deal with unobserved characteristics. We have applied this approach to the evaluation of the 'Gateway' period of New Deal for Young People, which is a job-search assistance programme. Matching was done on labour market histories of the subjects (as well as other characteristics), while differences in differences was done by comparing areas where the programme was piloted and other similar areas in the UK. The approach we have used can have wide applicability in a number of set-ups where baseline data are collected before a policy is implemented and where the policy is implemented subsequently in a limited set of areas.

## ***Communication***

### **The Budget 2002 and IFS Green Budget, 30 January 2002**

Centre researchers made an important contribution to the Budget debate throughout 2002. The January 2002 IFS Green Budget was partly funded through the ESRC Centre (with co-funding from a specific ESRC grant). It was launched at Barber Surgeons' Hall, London on Wednesday 30 January. A press conference was held in the morning, attended by about 40 people. IFS researchers provided briefings on the strength of the public finances, on issues in public spending in the run-up to the 2002 Spending Review and on possible ways for the Chancellor to raise further revenue from the tax system. The main conference was held in the afternoon and contained further presentations on longer-term issues in welfare reform, issues in corporate taxation, the possible design of a graduate tax and developments in asset-based welfare policy. This conference attracted an audience of over a hundred people, including many civil servants, academics and members of the business community. The Green Budget document was made available at no charge from the IFS website, and has been downloaded over 10,000 times. Media coverage of the launch included analysis in all of the main broadsheet newspapers and broadcast coverage on the BBC, Channel 4, Bloomberg and Sky.

Come the 2002 Budget, Centre researchers were on hand to deal with the many media enquiries. Two briefings, discussing potential Budget issues, were provided to BBC journalists at BBC White City and BBC Millbank. Expert analysis of the Budget announcements was provided by Andrew Dilnot on the BBC 2 Budget programme and by Carl Emmerson on the Radio 4 PM Budget Special. Other researchers contributed to the BBC Budget programme, providing expert advice and facts and figures. An article written by Centre researchers, detailing the distributional impact of the Budget, was published in the *Financial Times*. The day after the Budget, a press conference was held at IFS, attended by around 70 people. Centre researchers gave presentations on the announced changes to business taxation, on changes to National Insurance and tax credits and on the public finances and public spending. The IFS analysis received coverage in all the main broadsheet newspapers.

Similar events were held the day after the July 2002 Spending Review and the day after the November 2002 Pre-Budget Report. Newspaper articles were written for the *Financial Times* after each of these events, in addition to pieces written for other publications and newspapers, such as the *Guardian* and the *Independent*, during the year.

## Transatlantic Public Economics Seminar, 15–17 May 2002

As part of our role in the international research community, we organised the Transatlantic Public Economics Seminar in May as part of the Centre's workshop activities. This seminar attracted a group of leading researchers on taxation and welfare reform. It was an enormous success establishing new contacts and research ideas. A selection of the papers, edited by Richard Blundell and Roger Gordon (the two seminar organisers), will be published in the *Journal of Public Economics*.

### SESSION 1: Taxes and Redistribution

'Social security and variable retirement schemes: an optimal income taxation approach'

'An optimal redistribution in transitional economies'

#### Chair: Richard Blundell, ESRC CPP, IFS

Helmuth Cremer, Centre Interuniversitaire de Calcul de Toulouse (CICT), J.-M. Lozachmeur and Pierre Pestieau, Liège University

*Discussants:* Antonio Rangel, Stanford University; Orazio Attanasio, University College London

Ravi Kanbur, Cornell University and Matti Tuomala, Tampere University

*Discussants:* Hans-Werner Sinn, University of Munich; Jim Ziliak, University of Oregon

### SESSION 2: Taxes and Business Activity

'The efficiency cost of the corporate income tax: evidence from organizational form choices across states'

'Deadweight loss and self-employment'

#### Chair: James Poterba, MIT and NBER

Austan Goolsbee, University of Chicago and NBER

*Discussants:* Bill Gentry, Columbia University and NBER; Roger Gordon, San Diego and NBER

Ian Preston, University College London and Laura Blow, Institute for Fiscal Studies

*Discussants:* Martin Feldstein, Harvard University and NBER; Austan Goolsbee, University of Chicago and NBER

### SESSION 3: Taxes and Portfolio Choice

'Taxes and the incentives for job search'

'Optimal income tax and unemployment insurance: a case for an earned income tax credit'

'Optimal taxation in search equilibrium with home production'

#### Chair: Martin Feldstein, Harvard University and NBER

Bill Gentry and Glenn Hubbard, Columbia University and NBER

*Discussants:* Bertil Holmlund, Uppsala University; Jim Poterba, MIT and NBER

Lans Bovenberg and Jan Boone, Tilburg University

*Discussants:* Bruce Meyer, Northwestern University and NBER; Li Gan, University of Texas, Austin

Bertil Holmlund and Ann-Sofie Kolm, Uppsala University and Per Engstrom, Kristianstad University

*Discussants:* Helmuth Cremer, CICT; Ian Walker, University of Warwick

## Social Security Policy under New Labour: A Critical Analysis, 22 May 2002

In May 2002, Centre funding allowed IFS to stage a one-day conference looking at the impact of five years of the Labour government on social security policy. The aim was to present a set of papers from both economists and researchers in other disciplines which could each take a different approach to analysing social security policy since 1997.

Papers by IFS researchers looked at the impact of policy changes on trends in government spending and benefit caseloads in a historical perspective, and on individuals' incentives to save and work. Papers presented by others included an analysis of the popular view of Labour's social security policy, a gender assessment of the main changes under Labour and a discussion of the philosophy of the welfare state that underpinned the government's approach.

Two papers analysed particular aspects of Labour's social security policy: one examined the trade-offs in designing pension systems and compared the trade-offs inherent in the various policies that seemed to be favoured by different Labour politicians at different times since 1997, and another discussed the implications of the continuing work/non-work divide inherent in social security benefits. With so many papers analysing what the government has been doing, we were also privileged to have Ed Miliband, special adviser to Gordon Brown, open the conference by setting out his view of the rationale behind the government's approach.

This was a well-attended event, and many of the papers are being published, subject to the usual peer-review process, in *Fiscal Studies*. Individual papers received coverage in *The Economist* (3 July 2002).

**SESSION 1: An Overview of Labour's Reforms**

'The government's approach to the welfare state'

'The social security system under New Labour: what did the Third Way mean for welfare reform?'

**Chair: Andrew Dilnot, IFS**

Ed Miliband, HM Treasury

Mike Brewer, Tom Clark and Matthew Wakefield, Institute for Fiscal Studies

**SESSION 2: What Social Security Implies for Citizenship, and What the Citizens Think of Social Security**

'Citizenship and social security'

'Following or leading public opinion? Policy, poverty, social security and public attitudes since 1997'

**Chair: Lisa Harker, IPPR**

Raymond Plant, King's College London

John Hills, Centre for the Analysis of Social Exclusion, London School of Economics

**SESSION 3: Means Testing and Incentives**

'Social security reforms and incentives'

'Optimal social security design'

**Chair: Patrick Minford, Cardiff Business School**

Mike Brewer, Institute for Fiscal Studies

James Sefton, Imperial College, London and National Institute of Economic and Social Research

**SESSION 4: Other Implications of Social Security Benefits in the UK**

'Gender implications of current reforms'

'How much work for those who can? Welfare reform and working hours'

**Chair: Tom Clark, IFS**

Fran Bennett, Department of Social Policy and Social Work, University of Oxford

Donald Hirsch, adviser on welfare reform to the Joseph Rowntree Foundation

## Appendix 2. STAFF

<b>Name</b>	<b>Grade</b>	<b>% time spent on Centre work</b>
Stuart Adam	RE2	14
Orazio Attanasio	Prof	32
James Banks	DD	35
Erich Battistin	RE4	62
Laura Blow	SRE7	32
Richard Blundell	RD	72
Stephen Bond	PD	38
Mike Brewer	SRE3	32
Robert Chote	D	35 (from October 2002)
Ian Crawford	PD	32
Lorraine Dearden	PD	32 (maternity leave from Nov 2002)
Andrew Dilnot	D	31 (until September 2002)
Carl Emmerson	SRE7a	32
Alissa Goodman	SRE7	32
Rachel Griffith	PD	32
Alexander Klemm	RE5	62
Andrew Leicester	RE2	62
Costas Meghir	DRD	54
Gillian Paull	SRE6	32
Howard Reed	SRE9	32
Andrew Shephard	RE1	14
Barbara Sianesi	SRE3	20
Helen Simpson	SRE3	32
Matthew Wakefield	RE5	62
Frank Windmeijer	PC	32

## **Appendix 3. TRAINING**

### **Off-the-job training in research skills**

PhD, Economics, University College London	Mike Brewer Rupert Harrison Alex Klemm Matthew Wakefield
MSc, Economics, University College London	Stuart Adam Andrew Leicester

### **Off-the-job training in transferable skills**

PowerPoint Course, Parity Training	Robert Chote Barbara Sianesi
ESRC Media Training	Alissa Goodman

### **Next employment destination of leavers**

Nick Bloom	McKinsey
Tom Clark	Department for Work and Pensions
Monica Costa Dias	Bank of Portugal
Julian McCrae	Department for Work and Pensions
Susann Rohwedder	RAND
Jayne Taylor	MORI

## Appendix 4. PERFORMANCE INDICATORS

### A. Publications

#### 1. Books

- Creedy, J., Duncan, A., Harris, M. and Scutella, R. (2002), *Microsimulation Modelling of Taxation and the Labour Market: The Melbourne Institute Tax and Transfer Simulator*, Cheltenham: Edward Elgar.
- Disney, R. and Johnson, P. (eds) (2001), *Pension Systems and Retirement Incomes across OECD Countries*, Cheltenham: Edward Elgar.
- Disney, R. and Whitehouse, E. (2001), *Cross-Country Comparisons of Pensioner Incomes*, Occasional Paper Series, Department of Social Security.
- Miles, D., Myles, G. and Preston, I. (eds), *The Theory and Practice of Public Expenditure*, Oxford: Oxford University Press, forthcoming March 2003.
- Paull, G. and Taylor, J. with Duncan, A. (2002), *Mothers' Employment and Childcare Use in Britain*, London: IFS.

#### 2. Book chapters

- Albæk, K., Browning, M. and Van Audenrode, M. (2002), 'Employment protection and the consequences for displaced workers: a comparison of Belgium and Denmark', in P. Kuhn (ed.), *Losing Work, Moving On*, Kalamazoo, MI: Upjohn Institute.
- Banks, J., 'Comment on: Mortality, income, and income inequality over time in Britain and the United States by Angus Deaton and Christina Paxson', in D. Wise (ed.), *Perspectives on the Economics of Ageing*, Chicago: Chicago University Press, forthcoming.
- Banks, J., Blundell, R. and Smith, J.P., 'Wealth portfolios in the US and the UK', in D. Wise (ed.), *Perspectives on the Economics of Ageing*, Chicago: Chicago University Press, forthcoming.
- Banks, J. and Brewer, M. (2002), 'Understanding the generosity of financial support to families with children', in J. Bradshaw (ed.), *Children and Social Security*, International Studies on Social Security, volume 8, Aldershot: Ashgate.
- Banks, J. and Rohwedder, S. (2003), 'Pensions and life-cycle savings profiles in the UK', in A. Boersch-Supan (ed.), *Life-Cycle Savings and Public Policy: A Cross-National Study of Six Countries*, San Diego: Academic Press.
- Banks, J. and Tanner, S. (2001), 'Household portfolios in the UK', in L. Guiso, M. Halliassos and T. Jappelli (eds), *Household Portfolios*, Cambridge, MA: MIT Press.
- Blundell, R., 'Work, retirement and pensions', in *Preparing for an Aging World*, National Research Council Panel on a Research Agenda and New Data for an Aging World, Washington DC: National Academy Press.
- Blundell, R., (2002), 'Identifying demand for health resources using waiting times information', in A. Jones and O. O'Donnell (eds), *Econometric Analysis of Health Data*, London: Wiley.
- Blundell, R., (2002), 'Welfare to work: which policies work and why?', Keynes Lecture in Economics, British Academy Proceedings, 117.
- Blundell, R. and Powell, J., 'Endogeneity in nonparametric and semiparametric regression models', in L. Hansen (ed.), *Advances in Econometrics*, Amsterdam: North Holland, forthcoming.

- Blundell, R. and Preston, I., (2002), 'Consumption inequality and income uncertainty', in D. Cohen, T. Piketty and G. Saint-Paul (eds), *The Economics of Rising Inequalities*, Oxford: Oxford University Press.
- Creedy, J. and Duncan, A. (2001), 'Behavioural microsimulation with labour supply responses', in J. Creedy (ed.), *Taxation and Economic Behaviour: Introductory Surveys in Economics, Volume 1*, Cheltenham: Edward Elgar.
- Dearden, L., Goodman, A. and Saunders, P. (2003), 'Income and living standards', in E. Ferri, J. Bynner and M. Wadsworth (eds), *Changing Britain, Changing Lives: Three Generations at the Turn of the Century*, London: Institute of Education, University of London.
- Devereux, M. and Klemm, A., 'Measuring taxes from income on capital: evidence from the UK', in P. Sorensen (ed.), *Measuring the Tax Burden on Capital and Labour*, Cambridge, MA: MIT Press, forthcoming.
- Disney, R. (2001), 'How should we measure pension liabilities in EU countries?', in T. Boeri et al. (eds), *Pensions: More Information, Less Ideology*, Dordrecht: Kluwer Academic Press.
- Duncan, A. (2002), 'Simulating the effect of an employment-conditional tax credit for Australia', in P. Dawkins and P. Kelly (eds), *Hard Heads, Soft Hearts: A New Reform Agenda for Australia*, Melbourne: Allen and Unwin.
- Duncan, A. (2002), 'The use of microsimulation methods in welfare policy formation', in O. Bontout (ed.), *Microsimulation Methods*, Paris: Conseil de l'Emploi, des Revenues et de la Cohesion Sociale (CERC).
- Emmerson, C. (2003), 'Pension reform in the United Kingdom: increasing the role of private provision?' in G.L. Clark and N. Whiteside (eds), *Pension Security in the 21<sup>st</sup> Century*, Oxford: Oxford University Press.
- Emmerson, C. and Frayne, C. (2002), 'The UK government's approach to setting fiscal policy', in T. Callan, D. Madden and D. McCoy (eds), *Budget Perspectives 2003*, Dublin: ESRI.
- Emmerson, C. and Johnson, P. (2001), 'Pension reform in the United Kingdom', in R. Disney and P. Johnson (eds), *Pension Systems and Retirement Incomes across OECD Countries*, Aldershot: Edward Elgar.
- Geroski, P. and Griffith, R. (2003), 'Identifying anti-trust markets', in M. Neumann and J. Weigand (eds), *International Handbook of Competition*, Cheltenham: Edward Elgar.
- Wakefield, M. (2002), 'The Saving Gateway and the Child Trust Fund: a critique', in C. Kober and W. Paxton (eds), *Asset-Based Welfare and Poverty: Exploring the Case for and against Asset-Based Welfare Policies*, London: National Children's Bureau.

### 3. Refereed journal articles

- Attanasio, O., Banks, J. and Tanner, S. (2002), 'Asset holding and consumption volatility', *Journal of Political Economy*, 110(4), 771–792.
- Attanasio, O., Berloff, G., Blundell, R. and Preston, I. (2002), 'From earnings inequality to consumption inequality', *Economic Journal*, 112(478), C52–C59.
- Banks, J., Blundell, R. and Brugiavini, A. (2001), 'Risk pooling, precautionary saving and consumption growth', *Review of Economic Studies*, 68(4), 757–779.
- Banks, J., Blundell, R. and Smith, J.P., 'Understanding differences in household financial wealth between the United States and Great Britain', *Journal of Human Resources*, 38(2), forthcoming.
- Battistin, E., Miniaci, R. and Weber, G. (2002), 'What do we learn from recall consumption data?', *Journal of Human Resources*, forthcoming.
- Battistin, E. and Rettore, E. (2002), 'Testing for programme effects in a regression discontinuity design with imperfect compliance', *Journal of the Royal Statistical Society A*, 165, 1–19.

- Bloom, N., Griffith, R. and Van Reenen, J. (2002), 'Do R&D tax credits work? Evidence from an international panel of countries 1979–97', *Journal of Public Economics*, 85, 1–31.
- Bloom, N. and Van Reenen, J. (2002), 'Patents, real options and firm performance', *Economic Journal*, 112, C97–C116.
- Blundell, R. (2002), 'Dynamic panel data methods and practice', *Allgemeines Statistisches Archiv*, 86, 145–162.
- Blundell, R., Browning, M. and Crawford, I. (2003), 'Nonparametric Engel curves and revealed preference', *Econometrica*, 71(1), 205–240.
- Blundell, R. and Costa Dias, M. (2002), 'Alternative approaches to evaluation in empirical microeconomics', *Portuguese Economic Journal*, 1, 91–115.
- Blundell, R. and Meghir, C. (2002), 'Active labour market policy vs employment tax credits: lessons from recent UK reforms', *Swedish Economic Policy Review*, 8, 13–37.
- Blundell, R., Meghir, C. and Smith, S. (2002), 'Pension incentives and the pattern of early retirement', *Economic Journal*, 112(478), C153–C170.
- Bond, S. (2002), 'Dynamic panel data models: a guide to microdata methods and practice', *Portuguese Economic Journal*, 1, 141–162.
- Bond, S. and Windmeijer, F. (2002), 'Projection estimators for autoregressive panel data models', *The Econometrics Journal*, 5, 457–479.
- Brewer, M., Clark, T. and Wakefield, M. (2002), 'Social security in the UK under new Labour: what did the third way mean for welfare reform?', *Fiscal Studies*, 23(4), 505–537.
- Browning, M. and Crossley, T. (2001), 'The life cycle model of consumption and saving', *Journal of Economic Perspectives*, 15(3), 3–22.
- Bulkley, I.G. and Myles, G. (2001), 'Individually rational union membership', *European Journal of Political Economy*, 17, 117–137.
- Bulkley, I.G., Myles, G. and Pearson, B.R. (2001), 'On the membership of decision-making committees', *Public Choice*, 106, 1–22.
- Clark, T., Dilnot, A., Goodman, A. and Myck, M. (2002), 'Taxes and transfers', *Oxford Review of Economic Policy*, 18(2), 187–201.
- Clark, T., Elsby, M. and Love, S. (2002), 'Trends in British public investment', *Fiscal Studies*, 23(3), 305–342.
- Clark, T. and Emmerson, C. (2003), 'Privatising provision and attacking poverty? The direction of UK pension policy under new Labour', *Journal of Pension Economics and Finance*, 2(1), forthcoming.
- Creedy, J. and Duncan, A. (2002), 'Welfare, non-linear budget constraints and behavioural microsimulation', *Journal of Economic Surveys*, 16, 1–39.
- Creedy, J., Duncan, A., Harris, M. and Scutella, R. (2001), 'Wage functions for demographic groups in Australia', *Australian Journal of Labor Economics*, 4, 296–316.
- Dearden, L., Ferri, J. and Meghir, C. (2002), 'The effects of school quality on educational attainment and wages', *Review of Economics and Statistics*, 84(1), 1–20.
- Dearden, L., McIntosh, S., Myck, M. and Vignoles, A. (2002), 'The returns to academic and vocational qualifications in Britain', *Bulletin of Economic Research*, 54(3), 249–273.
- Devereux, M. and Griffith, R. (2002), 'The impact of corporate taxation on the location of capital: a review', *Swedish Economic Policy Review*, 9(1), 79–102.
- Devereux, M. and Griffith, R., 'Evaluating tax policy for location decisions', *International Tax and Public Finance*, forthcoming.
- Devereux, M., Griffith, R. and Klemm, A. (2002), 'Have taxes on mobile capital declined?', *Economic Policy*, 35, 451–496.
- Disney, R., Henley, A. and Stears, G. (2002), 'Housing costs, house price shocks and savings behaviour among older people', *Regional Science and Urban Economics*, 32, 607–625.
- Disney, R. and Smith, S. (2002), 'The labour supply effect of the abolition of the earnings rule for older workers in the United Kingdom', *Economic Journal*, 112, C136–C152.

- Duncan, A. and Harris, M. (2002), 'Simulating the behavioural effects of welfare reforms among sole parents in Australia', *Economic Record*, 78, 264–276.
- Griffith, R., Redding, S. and Van Reenen, J., 'R&D and absorptive capacity: from theory to data', *Scandinavian Journal of Economics*, forthcoming.
- Harmon, C., Hogan, V. and Walker, I. (2003), 'Dispersion in the economic return to schooling', *Labour Economics*, 10(2), 205–214.
- Itaya, J.-I., de Meza, D. and Myles, G. (2002), 'Income distribution, taxation and the private provision of public goods', *Journal of Public Economic Theory*, 4, 273–297.
- Myles, G. (2001), 'Economic mismeasurement and the bias in policy choice', *Journal of Public Economic Theory*, 3, 139–166.
- Myles, G. (2001), 'Taxation and international oligopoly', *Economics Bulletin*, 8, 1–9.
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- Preston, I. and Thomas, J. (2002), 'Rain rules for limited overs cricket and probabilities of victory', *The Statistician (Journal of the Royal Statistical Society, Series D)*, 51, 189–202.
- Sianesi, B. (2001), 'Swedish active labour market programmes in the 1990s: overall effectiveness and differential performance', *Swedish Economic Policy Review*, 8, 133–169.
- Sianesi, B. and Van Reenen, J. (2003), 'The returns to education: macroeconomics', *Journal of Economic Surveys*, 17(2).
- Sutton, M., Gravelle, H., Morris, S., Leyland, A., Windmeijer, F., Dibben, C. and Muirhead, M., 'Modelling supply and demand influences on the use of health care: implications for deriving a needs-based capitation formula', *Health Economics*, forthcoming.
- Trostel, P. and Walker, I. (2002), 'Estimates of the economic return to schooling for 28 countries', *Labour Economics*, 9, 1–16.
- Walker, I. and Young, J. (2001), 'An economist's guide to lottery design', *Economic Journal* (features section), 111, 700–722.

#### **4. Non-refereed journal articles**

- Adam, S. and Brewer, M. (2003), 'Children, well-being, taxes and benefits, Parts I & II', *Economic Review*, 20(3), 31–33 and 20(4), 27–30.

#### **5. Other publications**

- Adam, S., Brewer, M. and Reed, H. (2002), *The Benefits of Parenting: Government Financial Support for Families with Children Since 1975*, Commentary 91, London: IFS.
- Adam, S. and Kaplan, G. (2002), 'A survey of the UK tax system', IFS Briefing Note 9, updated November 2002.
- Aghion, P., Bloom, N., Blundell, R., Griffith, R. and Howitt, P. (2002), 'Competition and innovation: an inverted U relationship', NBER Working Paper 9269; IFS Working Paper 02/04.
- Attanasio, O., Berloff, G., Blundell, R. and Preston, I. (2002), 'From wages to consumption inequality: tracking shocks', IFS Working Paper 02/20.
- Attanasio, O. and Low, H. (2002), 'Estimating Euler equations', IFS Working Paper 02/06.
- Banks, J., Blundell, R., Disney, R. and Emmerson, C. (2002), 'Retirement, pensions and the adequacy of saving: a guide to the debate', IFS Briefing Note 29.

- Banks, J. and Brewer, M. (2002), 'Understanding the relative generosity of government financial support for families with children', IFS Working Paper 02/02.
- Banks, J., Smith, Z. and Wakefield, M. (2002), 'The distribution of financial wealth in the UK: evidence from 2000 BHPS data', IFS Working Paper 02/21.
- Bernard, A.B., Redding, S., Schott, P.K. and Simpson, H. (2002), 'Factor price equalization in the UK?', NBER Working Paper 9052; IFS Working Paper 02/11.
- Blow, L., Hawkins, M., Klemm, A., McCrae, J. and Simpson, H. (2002), 'Budget 2002: business taxation measures', IFS Briefing Note 24.
- Blow, L. and Preston I. (2002), 'Deadweight loss and taxation of unearned income: evidence from tax records of the UK self employed', IFS Working Paper 02/15.
- Blundell, R., Costa Dias, M. Meghir, M. and Van Reenen, J. (2001), 'Evaluating the employment impact of a mandatory job search assistance program', IFS Working Paper. W01/20, December.
- Blundell, R., Pistaferri, L. and Preston, I. (2002), 'Partial insurance, information and consumption dynamics', IFS Working Paper 02/16.
- Bond, S. (2002), 'Dynamic panel data models: a guide to microdata methods and practice', cemmap Working Paper CWP09/02.
- Bond, S. and Devereux, M. (2002), 'Cash flow taxes in an open economy', CEPR Discussion Paper DP3401.
- Bond, S. and Windmeijer, F. (2001), 'Projection estimators for autoregressive panel data models', cemmap Working Paper CWP06/01.
- Bond, S. and Windmeijer, F. (2002), 'Finite sample inference for GMM estimators in linear panel data models', cemmap Working Paper CWP04/02.
- Brewer, M. and Clark, T. (2002), 'The impact on incentives of five years of social security reforms in the UK', IFS Working Paper 02/14.
- Brewer, M., Clark, T. and Goodman, A. (2002), *The Government's Child Poverty Target: How Much Progress Has Been Made?*, Commentary 88, London: IFS.
- Brewer, M., Clark, T. and Myck, M. (2001), *Credit Where It's Due? An Assessment of the New Tax Credits*, Commentary 86, London: IFS.
- Brewer, M., Clark, T. and Wakefield, M. (2002), 'Five years of social security reforms in the UK', IFS Working Paper 02/12.
- Bridges, S. and Disney, R. (2002), 'Modelling consumer credit and default: the research agenda', in *How People on Low Incomes Manage Their Finances*, ESRC.
- Clark, T. (2002), 'Rewarding saving and alleviating poverty? The final pension credit proposals', IFS Briefing Note 22.
- Clark, T. and Dilnot, A. (2002), 'Long-term trends in British taxation and spending', IFS Briefing Note 25.
- Clark, T. and Dilnot, A. (2002), 'Measuring the UK fiscal stance since the Second World War', IFS Briefing Note 26.
- Clark, T., Elsby, M. and Love, S. (2001), 'Twenty-five years of falling investment? Trends in capital spending on public services', IFS Briefing Note 20.
- Clark, T. and Emmerson, C. (2002), 'The tax and benefit system and the decision to invest in a stakeholder pension', IFS Briefing Note 28.
- Crawford, I. and Image, I. (2002), 'Testing the RPI data for consistency with the theory of the cost-of-living index', IFS Working Paper 02/19.
- Crawford, I. and Smith, Z. (2002), *The Distributional Aspects of Inflation*, Commentary 90, London: IFS.
- Creedy, J. and Duncan, A. (2001), 'Aggregating labour supply and feedback effects in microsimulation', IFS Working Paper 01/24.
- Devereux, M. and Griffith, R. (2002), 'Evaluating tax policy for location decisions', CEPR Working Paper 3247; forthcoming in *International Tax and Public Finance*.
- Devereux, M., Griffith, R. and Simpson, H. (2002), 'The geographical distribution of production activity in the UK', CEPR Discussion Paper DP3627.

- Dilnot, A., Emmerson, C. and Simpson, H (eds) (2002), *The IFS Green Budget: January 2002*, Commentary 87, London: IFS.
- Disney, R. and Emmerson, C. (2002), 'Choice of pension scheme and job mobility in Britain', IFS Working Paper 02/09.
- Duncan, A., Paull, G. and Taylor, J. (2001), 'Mothers' employment and the use of childcare in the UK', IFS Working Paper 01/23.
- Duncan, A. and Valenti, P. (2001), 'Poverty and income in Mauritius', Government of Mauritius and World Bank.
- Duncan, A. and Valenti, P. (2001), 'The relative poverty of the elderly in Mauritius', Government of Mauritius and World Bank.
- Emmerson, C. and Frayne, C. (2002), 'Challenges for the July 2002 Spending Review', IFS Briefing Note 27.
- Emmerson, C. and Frayne, C. (2002), 'The government's fiscal rules', IFS Briefing Note 16, updated July 2002.
- Emmerson, C., Frayne, C. and Goodman, A. (2002), 'How much would it cost to increase UK health spending to the European Union average?', IFS Briefing Note 21.
- Emmerson, C. and Wakefield, M. (2002), 'Should we encourage saving among those with low(er) incomes?', in *How People on Low Incomes Manage their Finances*, ESRC.
- Fitzsimons, E. (2002), 'The effects of risk on education and child labour', IFS Working Paper 02/07.
- Florens, J-P., Heckman, J., Meghir, C. and Vytlacil, E. (2002), 'Instrumental variables, local instrumental variables and control functions', *cemmap Working Paper CWP15/02*.
- Goodman, A. and Shephard, A. (2002), 'Inequality and living standards in Great Britain: some facts', IFS Briefing Note 19, updated December 2002.
- Griffith, R., Hawkins, M. and Simpson, H. (2002), 'Response to consultative note "Designs for Innovation"', IFS Briefing Note 23.
- Griffith, R., Redding, S. and Simpson, H. (2002), 'Productivity convergence and foreign ownership at the establishment level', IFS Working Paper 02/22.
- Harmon, C. and Walker, I. (2001), *The Returns to Education: A Review of the Literature*, Department for Education and Skills Research Report 254.
- Hawkins, M. and McCrae, J. (2002), *Stamp Duty on Share Transactions: Is There a Case for Change?*, Commentary 89, London: IFS.
- Kaplan, G and Leicester, A. (2002), 'A survey of the UK benefit system', IFS Briefing Note 13, updated November 2002.
- Klemm, A. and McCrae, J. (2002), 'Reform of corporation tax: a response to the government's consultation document', IFS Briefing Note 30.
- Low, H., Meghir, C. and Pistaferri, L., 'Wage risk, employment risk and precautionary saving', mimeo.
- Paull, G. (2002), 'Biases in the reporting of labour market dynamics', IFS Working Paper 02/10.
- Sianesi, B. (2001), 'Differential effects of Swedish active labour market programmes for unemployed adults during the 1990s', IFS Working Paper 01/25.
- Sianesi, B. (2002), 'An evaluation of the Swedish system of active labour market programmes in the 1990s', IFS Working Paper 02/01.
- Sianesi, B. (2002), 'Swedish active labour market programmes in the 1990s: overall effectiveness and differential performance', IFS Working Paper 02/03.
- Sianesi, B. and Van Reenen, J. (2002), 'The returns to education: a review of the empirical macroeconomic literature', IFS Working Paper 02/05.
- Sutton, M., Gravelle, H., Morris, S., Leyland, A., Windmeijer, F., Dibben, C. and Muirhead, M. (2002), *Allocation of Resources to English Areas: Individual and Small Area Determinants of Morbidity and Use of Healthcare Resources*, Report to the Department of Health, Edinburgh: Information and Statistics Division.
- Walker, I. and Zhu, Y. (2001), *The Returns to Education: Evidence from the Labour Force Survey*, Department for Education and Skills Research Report 313.

## ***B. External Relations***

### **1. Membership of committees, editorships and honours**

#### **Committees**

Banks, J., Member, Programme Committee, EEA Annual Conference  
Banks, J., Member, Programme Committee, RES Annual Conference  
Banks, J., Member, Research Committee, International Network of Pension Supervisors and Regulators, 2002–  
Blundell, R., Executive Committee, European Economics Association  
Blundell, R., Scientific Advisory Council, CEPR  
Blundell, R., Scientific Advisory Council, Centre for Applied Microeconometrics, University of Copenhagen  
Blundell, R., ESRC National Longitudinal Strategy Committee  
Blundell, R., Executive Committee and Council Member, Econometric Society  
Blundell, R., Governor, NIESR  
Blundell, R., Research Committee, British Academy  
Blundell, R., Programme Committee, ESEM, 2002  
Blundell, R., Organising Committee, Econometric Society Winter Meetings  
Blundell, R., Executive Council, *Journal of Econometrics*  
Bond, S., ESRC Politics, Economics and Geography Research College  
Bond, S., Programme Committee, ESEM, 2002  
Browning, M., Director, Centre for Applied Microeconometrics, University of Copenhagen  
Browning, M., Programme Chair, Econometrics, ESEM, 2002  
Dilnot, A., Member, Steering Committee, ‘Adding It Up’ initiative, HM Treasury  
Disney, R., Governor, Pensions Policy Institute  
Disney, R., Member, Council, Royal Economic Society  
Disney, R., Member, Scientific Committee, Centre for Research on Welfare and Pensions Policy, University of Turin  
Disney, R., Member, Steering Committee, ‘Adding It Up’ initiative, HM Treasury  
Griffith, R., Member, EEA Programme Committee  
Griffith, R., Member, Royal Economic Society Committee for Women in Economics  
Griffith, R., Member, Royal Economic Society Programme Committee  
Myles, G., Member, Programme Committee, Royal Economics Society Conference, 2003  
Preston, I., Organiser of conference on Explanations for Rising Economic Inequality, Royal Statistical Society, 13 November 2001  
Preston, I., questionnaire design team, module on attitudes to immigration, European Social Survey 2002  
Reed, H., Member, Steering Group for Joseph Rowntree Foundation project on housing benefit reform, November 2001 – June 2002  
Walker, I., Member, HM Treasury’s selection panel for applications to the Evidence Based Policy fund

#### **Editorships**

Attanasio, O., Co-Editor, *Review of Economic Studies*  
Banks, J., Associate Editor, *Research in Economics*  
Blundell, R., Co-Editor, *Journal of European Economics Association*, Inaugural Volume  
Blundell, R., Co-Editor, *Journal of Public Economics*, TAPES Issue  
Blundell, R., Editorial Board, *Fiscal Studies*  
Bond, S., Editorial Board, *Economica*  
Bond, S., Editorial Board, *Fiscal Studies*  
Browning, M., Board of Editors, *Journal of Economic Literature*

Brugiavini, A., Editorial Board, *Fiscal Studies*  
Disney, R., Editorial Board, *Fiscal Studies*  
Goodman, A., Managing Editor, *Fiscal Studies*  
Griffith, R., Board Member, *Review of Economic Studies*  
Meghir, C., Co-Editor, *Econometrica*  
Miles, D., Managing Editor, *Fiscal Studies*  
Myles, G., Managing Editor, *Fiscal Studies*  
Myles, G., Production Editor, *Review of Economic Studies*  
Myles, G., Editorial Board, *Review of Economic Studies*  
Myles, G., Associate Editor, *Journal of Public Economic Theory*  
Preston, I., Editor, *Economic Journal Conference Volume, 2002–*  
Scharf, K., Editorial Board, *Fiscal Studies*  
Walker, I., Editorial Board, *Fiscal Studies*  
Weber, G., Editorial Board, *Fiscal Studies*

### **Honours**

Blundell, R., American Economic Association, elected 2001  
Blundell, R., Vice President, European Economics Association, 2002  
Blundell, R., American Academy of Arts and Science, elected 2002  
Blundell, R., Keynes Lecturer, British Academy  
Bond, S., Visiting Associate Professor, Columbia University Graduate School of Business,  
January–June 2002  
Bond, S., Visiting Scholar, Federal Reserve Board, Washington, 8–10 May 2002  
Bond, S., Lecturer, Econometrics of Panel Data, Finnish Postgraduate Programme in  
Economics, University of Helsinki, 16–20 September 2002  
Duncan, A., 2002 R. I. Downing Fellow, University of Melbourne  
Duncan, A., Professorial Fellow, Melbourne Institute, University of Melbourne  
Duncan, A., Professorial Associate, Centre for Pension and Superannuation, University of  
New South Wales  
Low, H., Visiting Assistant Professor, Stanford University, September 2001 – January 2002  
Walker, I., Research Fellow, Institute for the Study of Social Change, UC Dublin

### **2. Membership of networks**

Banks, J., Member, Scientific Committee, Research Training Network, ‘Economics of Ageing  
in Europe’  
Blundell, R., National Academy of Science Panel, Preparing for an Ageing World  
Blundell, R., International Social Security Project, NBER  
Blundell, R., Chair, European Network of Excellence in Microeconometrics  
Browning, M., Member, Scientific Committee, Research Training Network, ‘Economics of  
Ageing in Europe’  
Disney, R., Member, Scientific Committee, Research Training Network, ‘Economics of  
Ageing in Europe’  
Griffith, R., Research Affiliate, Centre for Economic Policy Research (CEPR)  
Low, H., Joint Organiser, Public Economics Working Group (bi-annual two-day meetings)  
Walker, I., Member, ESRC Evidence Based Policy Network  
Walker, I., Member, PURE network on private returns to education, RTD project under FP5

### **3. Overseas visitors (more than two days)**

Professor Daron Acemoglu, MIT, USA  
Andrew B. Bernard, Tuck School of Business, Dartmouth College, USA

Professor David Card, Berkeley, USA  
Jason G. Cummins, Federal Reserve Board, USA  
Professor Martin Feldstein, Harvard, USA  
Professor Jean-Pierre Florens, Toulouse, France  
Professor William Gentry, Columbia, USA  
Professor Austan Goolsbee, Chicago, USA  
Professor Roger Gordon, San Diego, USA  
Professor James Heckman, Chicago, USA  
Professor Bertil Holmlund, Uppsala, Sweden  
Professor Bo Honore, Princeton University, USA  
Professor Peter Howitt, Brown University, USA  
Professor François Laisney, Strasbourg University, France  
Professor Arthur Lewbel, Boston College, USA  
Professor Jacques Mairesse, CREST, France  
Thierry Magnac, INRA-LEA, France  
Professor Daniel McFadden, Berkeley, USA  
Professor Pierre Mohnen, Maastricht, Netherlands  
Professor James Poterba, MIT, USA  
Professor James Powell, Berkeley, USA  
Jean-Marc Robin, CREST, France  
Peter K. Schott, Yale School of Management, USA  
Professor Hans-Werner Sinn, Munich, Germany  
Professor Thomas Stoker, MIT, USA  
Professor Coen Tuelins, Tinbergen Institute (Director), Netherlands  
Professor Edward Vytlačil, Stanford, USA  
Professor James Ziliak, Oregon, USA

#### **4. Overseas visitors (more than three months)**

Paul Menchik, Michigan State, USA  
Robert Moffitt, Johns Hopkins, USA

#### **5. Substantial advice and consultancy**

Blundell, R., Advisory Committee, Employment Retention and Advancement, Cabinet Office.  
Brewer, M., Clark, T. and Reed, H., Cabinet Office (options for the Employment Retention and Advancement Demonstration project), March–June 2002.  
Chote, R., evidence to HM Treasury Select Committee on the November 2002 Pre-Budget Report, November 2002.  
Chote, R., presentation to BBC journalists before the November 2002 Pre-Budget Report, White City, 26 November 2002.  
Chote, R. and Emmerson, C., meeting with the IMF Article IV team after the November 2002 Pre-Budget Report.  
Clark, T., Dilnot, A. and Emmerson, C., presentation on issues in public spending arising from 2002 Spending Review to the Number 10 Policy Unit, 18 July 2002.  
Dilnot, A., evidence to HM Treasury Select Committee on microeconomic measures in Budget 2002, 22 April 2002.  
Disney, R., Expert Witness, EC Social Protection Committee, Brussels Working Group on Economic Indicators, 16 March 2002.  
Duncan, A., Academic Consultant to the Government of Mauritius (Central Statistics Office).  
Duncan, A. and Reed, H., Performance and Innovation Unit (options for childcare reform), November–December 2001.

- Emmerson, C., 'Do taxes need to rise?', presentation on issues for Budget 2002 to BBC journalists at White City, 10 April 2002 and at Millbank, 11 April 2002.
- Emmerson, C., evidence to HM Treasury Select Committee on public finances forecasts from Budget 2002, 22 April 2002.
- Emmerson, C., Member, Project Board, National Statistics Quality Review of Government Accounts and Indicators, Autumn 2001 – Summer 2002.
- Emmerson, C., Special Adviser, Department for Work and Pensions Select Committee enquiry into the future of UK pensions, Autumn 2002 onwards.
- Reed, H., Low Pay Commission (effects of reforms to the national minimum wage), November–December 2001.
- Walker, I. written and oral evidence on lottery design, House of Commons Culture Committee.
- Walker, I., advice to Lottery Commissioners on evaluating competing game designs.
- Walker, I., advice to NERC Centre for Ecology and Hydrology on implementing methods to evaluate location of water supplies in the Third World.

## **6. Conference papers and seminar presentations**

- Aghion, P. and Griffith, R., 'Competition and innovation: an inverted U relationship', Zeuthen Lecture, Copenhagen, 23 November 2001; Madrid, 13 April 2002.
- Banks, J., Blundell, R., Marmot, M. and Nazroo, J., 'Economic measures in health surveys', invited paper for NHIS workshop on Economic Measures in Health Surveys, Maryland, January 2002.
- Battistin, E., 'Errors in survey reports of consumption expenditures', European Society for Population Economics Conference, Bilbao, 13–15 June 2002; 10<sup>th</sup> International Conference on Panel Data, 4–6 July 2002, Berlin; Metrics Lunch Series, 19 July 2002, cemmap, London; NBER Summer Institute 2002, NBER–CRIW Consumer Expenditure Survey Research Conference, 22–23 July 2002; Conference on Research in Income and Wealth, 29–31 July 2002, Cambridge, Massachusetts; International Association for Research in Income and Wealth 27<sup>th</sup> General Conference, Djurhamn, Sweden, 18–24 August 2002.
- Battistin, E., 'Measuring participation at work when the labour force state is imprecisely observed', 23<sup>rd</sup> Biennial Conference of the Society for Multivariate Analysis in the Behavioral Sciences, Tilburg, Holland, 1–3 July 2002.
- Battistin, E. and Rettore, E., 'Another look at the regression discontinuity design', 57<sup>th</sup> Econometric Society European Meeting, 25–28 August 2002, Venice; CEPR/IZA Workshop, Improving Labor Market Performance: The Need for Evaluation, 4–5 October 2002, Bonn; 19<sup>th</sup> International Methodology Symposium, Modelling Survey Data for Social and Economic Research, 6–8 November 2002, Ottawa; Evaluation of Labor Market Policies, 11–12 November 2002, LABORatorio R. R., Moncalieri, Turin.
- Bloom, N., Bond, S. and Van Reenen, J., 'Uncertainty and company investment dynamics', Malinvaud Seminar, CREST, Paris, 12 December 2002.
- Blundell, R., Invited Lecture, IFAU Conference on Labour Market Policy Evaluation, Stockholm, 7 October 2001.
- Blundell, R., Keynes Lecture, British Academy, 1 November 2001.
- Blundell, R., Invited Lecture, RSS Conference on Inequality, 13 November 2001.
- Blundell, R., Invited Lecture to Honour Nobel Prize Winners, AEA Meetings, Atlanta, 5 January 2002.
- Blundell, R., Whitehall Seminar on Pension Reform and Retirement, 8 February 2002.
- Blundell, R., Invited Lecture, Conference for Young Economists, Sorbonne, Paris, 18–20 April 2002.
- Blundell, R., Walras-Bowley Lecture, North American Summer Meeting of the Econometric Society, UCLA, 22 June 2002.

- Blundell, R., Invited Lecture on Pension Reform and Early Retirement, GES Annual Conference, Warwick University, 15 July 2002.
- Blundell, R., Invited Lecture, Conference to Honour Henri Thiel, Amsterdam, 16–18 August 2002.
- Blundell, R., Invited Lecture, Welsh Assembly Conference on Economic Inactivity and Unemployment, Cardiff, 13 September 2002.
- Blundell, R., Keynote Lecture, European Commission Meeting on Access to Microdata, Lisbon, 26 September 2002.
- Blundell, R., Invited Lecture, International Conference on Labour Market Programme Evaluation, University of Turin, 11–12 November 2002.
- Blundell, R., Gosling, A., Ichimura, I. and Meghir, C., ‘Changes in the distribution of male and female wages accounting for employment composition’, Stanford Institute for Theoretical Economics (SITE), July 2002.
- Bond, S., invited participant, ECB Conference on Monetary Policy Transmission in the Euro Area, European Central Bank, Frankfurt, 18–19 December 2001.
- Bond, S., ‘Dynamic panel data models: a guide to micro data methods’, cemmap Microeconometrics Workshop, UCL, 22 February 2002; invited lecture, Boston College, 22 March 2002; invited lecture, Federal Reserve Board, Washington, 8 May 2002.
- Bond, S., seminar on developments in econometric modelling of company investment, Government Institute for Economic Research, Helsinki, 19 September 2002.
- Bond, S., invited speaker, IPPR conference on manufacturing investment, 18 November 2002.
- Bond, S. and Cummins, J., ‘Uncertainty and company investment: an empirical investigation using data on analysts’ profits forecasts’, Workshop on Firms’ Dynamic Adjustment with Nonconvexities and Irreversibility, University of Bergamo, 9–10 November 2001; seminar, Hunter College, City University of New York, 18 April 2002; seminar, Northwestern University, 1 May 2002; seminar, Federal Reserve Board, Washington, 9 May 2002.
- Bond, S. and Cummins, J., ‘Noisy share prices and the Q model of investment’, seminar, Arizona State University, 1 March 2002; seminar, University of Central Florida, 8 March 2002; seminar, University of Maryland, 12 March 2002; seminar, Boston College, 22 March 2002.
- Bond, S. and Devereux, M., ‘Cash flow taxes in an open economy’, International Seminar in Public Economics, University of California, Berkeley, 7–8 December 2001; seminar, IMF, Washington, 15 February 2002.
- Bond, S., Klemm, A., Newton-Smith, R., Syed, M. and Vlieghe, G., ‘The role of cash flow, expected profits and Tobin’s  $q$  in empirical investment equations’, seminar, Bank of England, 23 November 2001.
- Bond, S. and Van Reenen, J., ‘Microeconomic models of investment and employment’, Handbook of Econometrics conference, University of Chicago, 17 November 2001.
- Bond, S. and Windmeijer, F., ‘Finite sample inference for GMM estimators in linear panel data models’, seminar, UCLA, 28 February 2002; seminar, Princeton, 14 May 2002.
- Bottazzi, R. (2002), ‘Labour market participation and mortgage-related borrowing constraints’, seminar, UCL, July 2002.
- Brewer, M., Duncan, A. and Suarez, M.-J., ‘Did the WFTC work? Analysing programme participation for in-work tax credits’, NBER–IFS Transatlantic Public Economic (TAPES) conference, May 2002; Departmental Seminar, University of Monash, 20 September 2002; Labour Workshop, Tinbergen Institute, Amsterdam, 3 December 2002.
- Clark, T. and Reed, H., ‘Is an increase in taxation inevitable?’ Fabian Society, London, December 2001.
- Dearden, L., Emmerson, C., Frayne, C. and Meghir, C., ‘The impact of financial incentives on education choice’, Education Policy, Centre for Economics of Education, LSE, March 2002; Evaluation of Public Policy, Amsterdam, September 2002.

- Devereux, M. and Griffith, R., 'The impact of corporate taxation on the location of capital: a review', *International Mobility of Tax Bases*, Stockholm, 1 November 2001.
- Disney, R., seminar presentation on 'work and pensions', HM Treasury, 8 April 2002.
- Disney, R., Invitee, World Economic Forum Pension Reform Project Meeting, Geneva, 23 July 2002.
- Disney, R., 'Demographic changes and welfare reforms', 3<sup>rd</sup> Recontres Sauvy meeting, University 'Tor Vergata', Rome, 18–20 September 2002.
- Disney, R., Emmerson, C. and Wakefield, M., 'Ill health and retirement', University of Newcastle, 29 October 2002; University of St Andrews, 12 December 2002; University of Strathclyde, 13 December 2002.
- Duncan, A., 'The use of microsimulation methods in welfare policy formation', invited presentation, Conseil de l'Emploi, des Revenues et de la Cohesion Sociale (CERC), Paris, 26 October 2001.
- Duncan, A., 'Tax credits and welfare for working families: a case study of UK–USA policy convergence', Political Economy of Policy Reform conference, Tulane University, USA, 9–10 November 2001; invited presentation, Political Economy of Welfare Reform, Jonköping, Sweden, 31 May 2002.
- Duncan, A., 'Quantity constraints, childcare use and household labour supply', seminar, Institute for Social and Economic Research, University of Essex, 4 February 2002.
- Duncan, A., 'The economics of childcare', invited presentation, Laing and Buisson conference, Children's Nurseries: Continuing the Growth, Lord's Conference Centre, London, 6 February 2002.
- Duncan, A., 'Work incentives and labour supply of lone parents: earnings credits in Australia', invited presentation, Towards Opportunity and Prosperity conference, University of Melbourne, 5–6 April 2002.
- Duncan, A., 'The economics of childcare and household labour supply', workshop presentation, National University of Singapore, 12 April 2002.
- Duncan, A., 'Simulating employment responses to tax policy reform', invited presentation, Instituto de Estudios Fiscales conference, Microeconomic Models and Simulation Tools for Fiscal Policy, Madrid, 22–25 May 2002.
- Duncan, A., 'Promoting employment through welfare reform: lessons from the past, prospects for the future', 2002 Downing Lecture, University of Melbourne, 10 September 2002.
- Duncan, A., 'Employment tax credits in Australia', Invited Seminar, Australian Treasury, 16 September 2002.
- Emmerson, C., 'Taxation and incentives to save for retirement', City Forum Round Table Discussion, 18 February 2002.
- Emmerson, C. presentation on the content of Budget 2002 to the Foreign Press Association, 30 April 2002.
- Emmerson, C., 'The direction of UK pension reform under new Labour', conference on Retirement Pensions Schemes, Bordeaux, 19 September 2002.
- Emmerson, C., 'Retirement saving decisions', ABI Saver Summit, 31 October 2002.
- Griffith, R., 'Do countries compete for capital?', part of the project 'Nation States Versus Global Markets: Policy Issues and Institutional Changes', funded by the Ministry of Foreign Affairs in Norway, Bergen, 30 October 2001.
- Griffith, R., 'Does international tax competition explain recent policy reforms?', *Economic Policy*, 13 April 2002.
- Griffith, R., 'Product market competition and productivity', HM Treasury, 10 January 2002; Tilburg, 28 May 2002.
- Griffith, R., 'Product market competition, efficiency and agency costs', Glasgow, 7 March 2002; Tilberg, 29 May 2002; Copenhagen, 6 June 2002.
- Griffith, R., 'Regional Selective Assistance and plant location', Greece, CEPR, 19 September 2002.
- Griffith, R., Redding, S. and Simpson, H., 'Productivity catchup at plant level', Royal Economic Society, 25 March 2002.

- Griffith, R., Simpson, S. and Windmeijer, F., 'Understanding productivity differences between foreign and domestic firms', CEPR/ESRC Labour Economics Workshop, 11 October 2002.
- Low, H., 'Wage risk, employment risk and precautionary saving', Centre for Microeconometrics Workshop on Unemployment Insurance, Copenhagen, May 2002; NBER Summer Institute, Cambridge, MA, July 2002; University of Salerno, October 2002.
- Low, H., 'Estimating Euler equations', Stanford University, November 2002.
- Low, H., 'Returns to experience and female labour supply', University of Cambridge, November 2002.
- Meghir, C., 'The permanent income hypothesis: a retrospective', Conference in Honour of Milton Friedman, Chicago, November 2002.
- Meghir, C. and Pistaferri, L., 'Income variance dynamics and heterogeneity', invited paper, The Econometrics of Panel Data, Berlin, June 2002.
- Myck, M., 'The UK approach and tools to monitor tax-benefit reform', as part of seminar on Monitoring EU Tax/Benefit Systems, European Commission, Brussels, June 2002.
- Myles, G., 'Clubs and voting', Journées d'Economie Publique Louis-André Gérard-Varet, Marseilles, May 2002.
- Myles, G., 'The news systems competition', Volkswirtschaftliche Tagung, Vienna, June 2002.
- Myles, G. and Uyduranoglu, A., 'Taxation and switching', Association of Public Economic Theory Conference, Paris, July 2002.
- Paull, G., 'The role of employment experience in explaining the gender wage gap', AEA Conference, Econometrics of Wages, Brussels, May 2002.
- Paull, G., 'Newborns and new schools: critical times in women's employment', Gender Research Forum, London, November 2002.
- Paull, G., 'Mothers' employment and childcare use in Britain', Nuffield Foundation, November 2002.
- Paull, G., 'Biases in the reporting of labour market dynamics', Essex University, December 2002.
- Preston, I., 'Deadweight loss and taxation of unearned income: evidence from tax records of the UK self employed', Transatlantic Public Economics Seminar, London, 15-17 May 2002.
- Preston, I., 'Demand, childbirth and the cost of babies: evidence from Spanish panel data', Microeconomic Models and Simulation Tools for Fiscal Policy, Instituto de Estudios Fiscales, Madrid, 24 May 2002.
- Preston, I., 'The effects of migration on European labour markets', Mercado de Trabajo: Situación Actual y Perspectives, Universidad Internacional Menéndez Pelayo, Comunidad Valenciana, Valencia, 20 November 2002.
- Sianesi, B., 'Measuring policy impact: using propensity score matching', Cabinet Office, CMPS, 25 February 2002.
- Sianesi, B., 'Differential effects of Swedish active labour market programmes for unemployed adults during the 1990s', 2<sup>nd</sup> Villa Mondragone Workshop in Economic Theory and Econometrics, Frascati (Rome), 8-10 July 2002; Network of Excellence, 'The Evaluation of Labour Market Policies', Amsterdam, 17-18 October 2002; selected for the Econometric Society Winter European Meeting, CEU Budapest, 7-9 November 2002; UCL Applied Micro Seminar, 28 November 2002.
- Sianesi, B., 'Evaluating the impact of education on earnings in the UK: models, methods and results from the NCDS', conference on Returns to Education, CEE, 15 November 2002.
- Simpson, H., 'Understanding productivity differences between foreign and domestic firms', Network of Industrial Economists, Multinationals and FDI conference, Birmingham University, December 2001.

- Simpson, H., 'Foreign ownership and technological convergence at the micro-level', meeting of network 'Employment and Innovation in EU Firms', Universidad Carlos III, Madrid, December 2001; ARD conference, Nottingham University, January 2002.
- Simpson, H., 'Tax incentives for research and development', OECD, Paris, June 2002.
- Simpson, H., Devereux, M. and Griffith, R., 'Regional Selective Assistance, agglomeration and firm location', GEP Seminar Series, Nottingham University, November 2002.
- Wakefield, M., 'Pension provision and household saving', Age Concern (England) seminar on Future Pension Provision, 4 September 2002.
- Wakefield, M., 'The Saving Gateway and the Child Trust Fund: a critique', End Child Poverty/Institute for Public Policy Research conference, Asset-Based Welfare and Child Poverty, 18 September 2002.
- Walker, I., 'Who really wants to be a millionaire? Evidence of risk aversion from gameshow data', CAM, University of Copenhagen; University of Coventry; University of East Anglia; University of Essex.
- Walker, I., 'Education under uncertainty' concentrating on the implications for HE funding, Department for Education and Skills.
- Walker, I., 'Who benefits from child benefit?', Department for Work and Pensions.
- Walker, I., 'Estimating altruism from household spending responses to in-kind transfers to children', ESRC EBP Network, QMC.
- Walker, I. 'Estimating risk aversion from gameshow data' focusing on the importance of risk aversion for PFI, HM Treasury.
- Walker, I., 'Are poor parents poor at parenting or do they need more money?', IGPM, WBS, University of Keele.
- Walker, I., 'Early school leaving and parental background', ISSC, UC Dublin; IZA, Bonn.
- Walker, I., general talk on EBP, Lord Chancellor's Department.
- Walker, I., 'Conceptualising water poverty', NERC Centre for Ecology and Hydrology, Wallingford.
- Walker, I., 'The impact of disability on work and wages', University of Aarhus.
- Walker, I., talk on risk and public policy, 'Speakeasy' to local business people, University of Warwick.
- Walker, I., talk on lottery economics, University of Warwick (Tufton St. conference centre) Policy Briefing.

## **IFS conferences**

19 October 2001	Pension Reform in OECD Countries
20 March 2002	Competition Policy in the UK: The Enterprise Bill
25 March 2002	Mothers' Employment and Childcare Use in Britain
11 April 2002	Briefing on the Government's Child Poverty Target: How Much Progress Has Been Made?
15–17 May 2002	Transatlantic Public Economics Seminar
22 May 2002	Social Security Policy under New Labour
17 June 2002	Stamp Duty on Share Transactions
19 June 2002	The Distributional Aspects of Inflation
25 September 2002	IFS Annual Lecture: Lifetime Differences in Educational Attainment and Economic Success (James Heckman)
15 November 2002	The Benefits of Parenting: Government Financial Support for Families with Children Since 1975

## **7. Media coverage: newspapers**

- Brewer, M. and Goodman, A., 'A simple solution to the problem of poor children: more money from the public purse', *Independent*, 12 April 2002.

Chote, R., 'Why the Chancellor should exercise caution', *Financial Times*, 24 October 2002.

Chote, R. and Emmerson, C., 'Financial sector crucial to fiscal wellbeing', *Financial Times*, 28 November 2002.

Clark, T., 'Gordon's little earner: the Chancellor has several options for raising National Insurance in next week's Budget – some more politically palatable than others', *Guardian*, 10 April 2002.

Clark, T. and Emmerson, C., 'The tax system and incentives to save in a personal pension or an Individual Savings Account', *Pensions Management Institute News*, August 2002.

Clark, T. and Frayne, C., 'Change of tack in measuring agencies' results', *Financial Times*, 16 July 2002.

Clark, T. and Frayne, C., 'PSA targets crucial to Brown's reform', *Public Finance*, July 2002.

Dilnot, A. and Emmerson, C., 'The crunch may not be soon, but it may still be painful', *Independent*, 1 October 2001.

Dilnot, A. and Emmerson, C., 'Bold commitments offer very little for companies', *Financial Times*, 28 November 2001.

Dilnot, A. and Emmerson, C., 'Higher taxes needed to deliver on promises', *Independent*, 22 February 2002.

Dilnot, A. and Emmerson, C., 'There are losers as well as winners in these plans', *Independent*, 16 July 2002.

Emmerson, C., 'A tax that doesn't ring true', *Public Finance*, March 2002.

Emmerson, C., 'Beyond the pensions crisis', *Financial Times*, 12 July 2002.

Emmerson, C. and Frayne, C., 'Budget parameters control Brown?', *Financial Advisor*, March 2002.

Emmerson, C. and Frayne, C., 'Giving us a steer', *Public Finance*, July 2002.

Frayne, C., 'Brown's Budget bonanza', *Public Finance*, April 2002.

Frayne, C., 'The future of public services under Labour', *Stakeholder Magazine*, April 2002.

Frayne, C., 'Thinking the unthinkable', *Public Finance*, November 2002.

Goodman, A. and Reed, H., 'Families first as better-off foot the bill for more equitable society', *Financial Times*, 18 April 2002.

## 8. Media coverage: radio and TV

### National television

BBC1, 1 O'clock News	Dilnot, A.	27.11.01, 17.4.02
	Emmerson, C.	21.2.02
BBC1, 6 O'clock News	Chote, R.	26.11.02
	Dilnot, A.	25.11.01, 21.2.02, 15.7.02
	Emmerson, C.	16.10.01, 21.2.02
BBC1, 10 O'clock News	Chote, R.	26.11.02
	Dilnot, A.	1.10.01, 18.10.01, 4.11.01, 21.2.02, 15.7.02
	Emmerson, C.	21.11.02, 25.11.02
BBC1, Breakfast News	Chote, R.	27.11.02
	Dilnot, A.	27.11.01, 17.4.02
	Emmerson, C.	16.10.01
	Walker, I.	
BBC1, Budget Live	Dilnot, A.	17.4.02
BBC2, CSR Live	Dilnot, A.	15.7.02
BBC2, Newsnight	Chote, R.	26.11.02, 17.12.02
	Clark, T.	27.11.01
	Dilnot, A.	11.4.02, 17.4.02
	Emmerson, C.	17.1.02
BBC2, On the Record	Dilnot, A.	17.3.02

BBC2, Pre-Budget Special	Emmerson, C.	2.12.01
BBC2, Westminster Live	Dilnot, A.	27.11.01
BBC2, Westminster South	Emmerson, C.	11.4.02
BBC2, Working Lunch	Dilnot, A.	16.7.02
	Dilnot, A.	22.2.02
	Emmerson, C.	28.2.02
BBC News 24	Brewer, M.	11.4.02
	Clark, T.	2.5.02
	Dilnot, A.	1.10.01, 16.4.02
	Emmerson, C.	17.5.02, 21.11.02
	Frayne, C.	17.4.02, 24.11.02
	Walker, I.	
Bloomberg Television	Dilnot, A.	30.1.02, 10.4.02, 18.4.02
Channel 4 News	Dilnot, A.	30.1.02, 20.2.02, 18.4.02, 8.7.02
	Emmerson, C.	20.2.02
	Frayne, C.	28.11.01
Channel 4, Powerhouse	Clark, T.	26.6.02
ITN, 6 O'clock News	Dilnot, A.	16.4.02
ITN, Lunchtime News	Emmerson, C.	21.2.02
ITN, News at 10	Clark, T.	26.11.01
	Dilnot, A.	16.4.02
Sky News	Clark, T.	27.11.01
	Dilnot, A.	30.1.02
	Walker, I.	

### **Regional television**

ITV1, London Today	Paull, G.	25.3.02
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### **National radio**

BBC Radio 4, Financial World Tonight	Emmerson, C.	18.10.02, 21.10.02
	Smith, Z.	19.11.02
BBC Radio 4, More or Less	Dilnot, A.	13.11.01, 20.11.01, 27.11.01, 4.12.01, 11.12.01, 18.12.01
BBC Radio 4, Today	Dilnot, A.	27.11.01, 28.11.01, 20.2.02, 7.3.02, 17.4.02
BBC Radio 4, PM	Dilnot, A.	28.11.01, 9.7.02
	Emmerson, C.	27.11.01, 17.4.02
	Frayne, C.	24.11.02
	Wakefield, M.	19.11.02
BBC Radio 4, Westminster Hour	Brewer, M.	15.9.02
	Dilnot, A.	14.4.02
BBC Radio 4, Woman's Hour	Paull, G.	25.3.02
BBC Radio 4, World at One	Clark, T.	20.11.01
	Dilnot, A.	28.11.01, 17.1.02, 30.1.02, 8.3.02
	Emmerson, C.	19.4.02
BBC Radio 4, World This Weekend	Dilnot, A.	24.2.02
BBC Radio 4, World Tonight	Brewer, M.	10.4.02
	Emmerson, C.	16.10.01, 4.7.02
BBC Radio 4, You and Yours	Dilnot, A.	21.6.02

	Goodman, A.	23.1.02
	Smith, Z.	28.8.02
BBC Radio 5 Live	Clark, T.	27.11.01, 13.4.02, 15.4.02
	Dilnot, A.	16.10.01, 27.11.01, 21.2.02, 18.4.02, 12.9.02
	Emmerson, C.	1.10.01, 22.2.02, 20.3.02, 25.11.02
	Frayne, C.	14.7.02
	Paull, G.	25.3.02
BBC World Service	Walker, I.	
	Walker, I.	

### Local radio

BBC Radio Leeds	Paull, G.	25.3.02
BBC Radio Scotland	Clark, T.	26.11.01, 27.11.01, 17.6.02
	Dilnot, A.	1.10.01
	Emmerson, C.	20.3.02
BBC Radio Wales	Brewer, M.	21.2.02, 11.4.02
	Emmerson, C.	22.2.02
	Walker, I.	
LBC Radio	Emmerson, C.	11.4.02
	Frayne, C.	27.11.01
	Paull, G.	25.3.02
Radio Cambridgeshire	Frayne, C.	25.6.02
Radio Wiltshire Sound	Wakefield, M.	1.6.02
Saga FM	Emmerson, C.	8.2.02
Talksport Radio	Emmerson, C.	1.10.01

### Webcasting

Cantos.com	Frayne, C.	16.12.02
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## 9. International collaborative research projects

*Welfare Analysis of Fiscal and Social Reforms in Europe.* Project co-financed by the European Commission; Principal Investigator: François Laisney (ZEW, Mannheim); UK part of the project report: R. Blundell, V. Lechene and M. Myck, 'Does the representation of family decision process matter? Collective decisions and fiscal reforms in the UK'.

*Regional Wage Inequality in the UK: Evidence and Explanations.* Andrew B. Bernard (Tuck School of Business, Dartmouth College, USA), S. Redding, Peter K. Schott (Yale School of Management, USA) and H. Simpson.