

Economics @ Lady Margaret Hall

Economics of OECD Countries

Gavin Cameron

Trinity 2007

Please find attached reading lists for this term's tutorials on the Economics of the OECD. Readings that are especially recommended are marked with an asterisk, all other references appear in alphabetical order. You may also like to look at the departmental reading list at: <http://www.economics.ox.ac.uk/Intra/Under/Options/OECD/OECD.htm>

In addition to the readings here, you are encouraged to read widely on the web for the latest data and commentary. Good sources are:

www.oecd.org

www.imf.org

delong.typepad.com/

We will alternate between tutorials and classes. For the tutorial I expect you to write an essay (to be handed in at the tutorial itself) and for the classes I expect you to prepare answers to the questions given and to be prepared to discuss at least one of the answers for about 5 minutes in class.

Tutorials will take place in my LMH office in 4 Fyfield Road. If you walk along Norham Gardens towards LMH, Fyfield Road is just on the corner about 40 yards before the LMH porters' lodge. 4 Fyfield Road is about 30 yards up Fyfield Road. It is a large house with a front door just up some steps.

Dr Gavin Cameron

Telephone: (2)74273

Email: gavin.cameron@economics.ox.ac.uk

Web: <http://www.nuff.ox.ac.uk/Users/Cameron/lmh/>

Week One: Tutorial

Bretton Woods, the ERM, and Global Imbalances

Reading:

There has been a number of different exchange rate regimes in the OECD since World War II, beginning with the Bretton Woods agreement. In fact, exchange rate and balance of payments issues have occupied a large proportion of policymakers' time and many attempts have been made to stabilize foreign exchange markets. Krugman and Obstfeld (2003) discuss the history of the various regimes. Skidelsky (2000) provides an excellent historical background. Krugman (1979 and 1989) gives a good theoretical overview of the case for stable exchange rates, while de Grauwe (2000) and El-Agraa (2001) detail the European experience. There has recently been speculation that the link between the Chinese renminbi and the US dollar is a form of Bretton Woods II (Eichengreen, 2003).

Essay:

'Why did the Bretton Woods system break down? Did the ERM of the EMS fail for the same reasons? Does the Bretton Woods system hold any lessons for current global imbalances'

References:

- * Eichengreen, B. (2003) "Global Imbalances and the Lessons of Bretton Woods", NBER Working Paper 10497.
- * Krugman, P. and Obstfeld, M. (2003) *International Economics: Theory and Policy* (Addison Wesley: New York) 6th edition, chapters 18-21.
- * Obstfeld, M. (1995) 'International Currency Experience: New Lessons and Lessons Relearned', *Brookings Papers on Economic Activity*.

Artis, M. and Lewis, M. (1993) 'Apres le deluge: monetary and exchange-rate policy in Britain and Europe', *Oxford Review of Economic Policy*, vol. 9, no. 3, reprinted in Jenkinson, T. (1996) *Readings in Macroeconomics* (OUP: Oxford) chapter 3.

Bordo, M. and Eichengreen, B. eds. (1993) *A Retrospective on the Bretton Woods System* (Chicago University Press: Chicago).

de Grauwe, P. (2000) *The Economics of Monetary Union* (OUP: Oxford) chapter 5.

El-Agraa, A. (2001) *The European Union: Economics and Policies* (Prentice-Hall: Harlow) 6th edition, chapter 17 (Mayes).

H. Genberg, R. McCauley, Y. Park, and A. Persaud (2005) *Official Reserves and Currency Management in Asia: Myth, Reality, and the Future*, Geneva Reports on the World Economy 7, Centre for Economic Policy Research 2005.

Krugman, Paul (1979) 'A model of balance of payments crises', *Journal of Money, Credit and Banking*, 11, 3, 311-325, reprinted in Krugman, Paul (1998) *Currencies and Crises* (MIT Press: Cambridge, MA).

Krugman, Paul (1989) 'The case for stabilizing exchange rates', *Oxford Review of Economic Policy*, reprinted in Jenkinson, T. (1996) *Readings in Macroeconomics* (OUP: Oxford) chapter 5.

Skidelsky, R. (2000) *John Maynard Keynes: Fighting for Britain, 1937-1946* (Macmillan: London) especially chapters 6-10.

Week Two: Class

Growth

Reading:

The rapid growth in the OECD during the Golden Age of 1948 to 1973 was followed by a prolonged slowdown in the 1970s and 1980s. Crafts and Toniolo (1996) and Maddison (1987 or 1991) provide the classic growth-accounting based studies of the Golden Age and subsequent slowdown. Bruno and Sachs (1985) is a standard account of the impact of stagflation on the OECD. See also my OECD lectures on this topic: <http://www.nuff.ox.ac.uk/Users/Cameron/lmh/lectures/oecd.html>

Questions for discussion:

1. How important were the following factors in accounting for the rapid pre-1973 'Golden Age' growth?
 - i. The Marshall Plan;
 - ii. Labour supply and structural change;
 - iii. High investment;
 - iv. Technological transfer and catch-up;
 - v. The demand-side and export-led growth.
2. How would you account for the productivity slowdown in the OECD since the early seventies?

References:

- * Cameron, G. and Wallace, C. (2002) 'Macroeconomic Performance in the Bretton Woods Era, And After', *Oxford Review of Economic Policy*, Winter, 18, 4, 479-494.
- * Crafts, N. and Toniolo, G. (1996) *Economic Growth in Europe Since 1945* (CUP: Cambridge) especially chapters 1 (Crafts & Toniolo), 2 (Eichengreen), 5 (Boltho) and 6 (Bean and Crafts).
- * Maddison, A. (1991) *Dynamic Forces in Capitalist Development* (OUP: Oxford).
or
Maddison, A. (1987) 'Growth and slowdown in advanced capitalist economics: techniques of quantitative assessment', *Journal of Economic Literature*.
- Baumol, W., Nelson, R. and Wolff, E. (1994) *Convergence of Productivity* (OUP: Oxford) especially chapters 2 (Maddison) and 4 (Abramovitz).
- Cameron, G. (2003) 'Why did UK manufacturing productivity growth slow down in the 1970s and speed up in the 1980s?', *Economica*, 2003, 70, 277, 121-141:
<http://hicks.nuff.ox.ac.uk/users/cameron/papers/economica.pdf>
- Crafts, N. and Mills, T. (2000) 'After the Golden Age: A Perspective on Growth Rates that Speeded Up, Slowed Down, and Still Differ', *The Manchester School*, 2000, 68-91.
- Dowrick, S. and Nguyen, D. (1989) 'OECD comparative economic growth 1950-85: catch-up and convergence', *American Economic Review*.
- Eichengreen, B. ed (1995) *Europe's Postwar Recovery* (CUP: Cambridge).
- Flath, D. (2000) *The Japanese Economy* (OUP: Oxford) chapters 9 and 16.
- Temple, J. (2001) 'Structural change and Europe's Golden Age', Bristol University Economics Discussion Paper 01/519: <http://www.ecn.bris.ac.uk/www/ecjrw/abstracts/realloc21.pdf>

Week Three: Tutorial

Unemployment

Reading:

After the first oil shock, unemployment rose dramatically across the OECD and has stayed high subsequently. Europe has suffered particularly badly compared with the USA, but even in countries that have succeeded in reducing unemployment there remains a relatively high level of non-employment among working age men (Netherlands, UK). The standard interpretation of the rise in unemployment is that it is due to the accumulation of labour market rigidities (see Siebert, 1997, with Nickell, 1997, giving a more nuanced account). Oswald et al. (1998) discuss some interesting implications of oil shocks.

Essay:

'Why did unemployment rise after 1973 in the OECD as a whole, and to such differing degrees in different countries?'

References:

- * Nickell, S. (1997). 'Unemployment and Labor market rigidities: Europe versus North America', *Journal of Economic Perspectives*, vol. 11, No. 3.
- * Siebert, H. (1997) 'Labour Market Rigidities: At the Root of Unemployment in Europe', *Journal of Economic Perspectives* vol. 11, No. 3.
- * Nunziata, L. (2002) 'Unemployment, Labour Market Institutions and Shocks', Nuffield Working Paper 2002-W16:
<http://www.nuff.ox.ac.uk/economics/papers/2002/w16/p4unemploymentWP.pdf>
- Artis, M. and Nixon, F. (2001) *The Economics of the European Union* (OUP: Oxford) 3rd ed, chapter 14 (Bertola).
- Bean, C. (1994) 'European unemployment: A Retrospective', *European Economic Review*.
- Bruno, M. and Sachs, J. (1985) *Economics of Worldwide Stagflation* (Basil Blackwell: Oxford), chapter 11.
- Carlin, W. and Soskice, D. *Macroeconomics: Rigidities, Institutions & Policies*
<http://www.ucl.ac.uk/~uctpa36/book.htm>
- OECD Employment Outlook 2004, chapter 2 on Employment Protection.
- Oswald, A., Carruth, A. and Hooker, M. (1998) 'Input Prices and Unemployment Equilibria: Theory and Evidence for the United States', *Review of Economics and Statistics* pp. 621-628:
<http://www.warwick.ac.uk/fac/soc/Economics/oswald/CHO.pdf>
- Soskice, D. (1990) 'Wage determination: the changing role of institutions in advanced industrialized countries', *Oxford Review of Economic Policy*, vol. 6, no. 4, reprinted in Jenkinson, T. (1996) *Readings in Macroeconomics* (OUP: Oxford) chapter 10.
- Turner, D., Boone, L., Giorno, C., Meacci, M., Rae, D., Richardson, P. (2001) 'Estimating the Structural Rate of Unemployment for the OECD Countries', *OECD Economic Studies*, 33, II.

Week Four: Class

Inflation

Reading:

Inflation, which had been fairly subdued in the 1950s and 1960s, also became a major preoccupation of OECD governments in the 1970s, with the breakdown of the Phillips Curve. Oswald et al. (1998) and Bruno and Sachs (1985) discuss the issues thoroughly and Bernanke et al. (1999) detail the emergence of independent central banking as a response to the inflation of the 1970s and 1980s.

Questions for discussion:

1. To what extent was the inflation of the 1970s and the disinflation of the 1980s explained by trends in oil prices?
2. What are the other possible explanations?
3. To what extent did the experience of inflation differ across the OECD in the 1970s and 1980s?
4. How was monetarism implemented? Was monetarism successful?
5. What is inflation targeting?
6. Should we be worried about renewed inflationary pressure?

References as for week 3, plus:

- * Bernanke, B., Laubach, T., Mishkin, F. and Posen, A. (1999) *Inflation Targeting* (Princeton University Press: Princeton), chapter 12.
 - * Bruno, M. and Sachs, J. (1985) *Economics of Worldwide Stagflation* (Basil Blackwell: Oxford), chapters 8-10.
 - * Nelson, E. (2005) "Monetary Policy Neglect and the Great Inflation in Canada, Australia, and New Zealand", *International Journal of Central Banking*, pp. 133-179.
- Bernanke, B. (2003) 'A perspective on inflation targeting', *Federal Reserve Board Speeches*: <http://www.federalreserve.gov/BoardDocs/speeches/2003/20030325/default.htm#f10>
- Blanchard, O. and P-A Muet (1993) 'Competitiveness through Disinflation: An Assessment of the French Macroeconomic Strategy', *Economic Policy* No. 16.
- Carlin, W. and Soskice, D. *Macroeconomics: Rigidities, Institutions & Policies* <http://www.ucl.ac.uk/~uctpa36/book.htm>
- Jenkinson, T. (1990) 'Inflation Policy', *Oxford Review of Economic Policy*, vol. 6, no. 4, reprinted in Jenkinson, T. (1996) *Readings in Macroeconomics* (OUP: Oxford) chapter 8.
- Krause, L. and Salant, W. (1977) *Worldwide Inflation* (Brookings Institution: Washington, DC) chapters 1-4.
- Oswald, A., Carruth, A. and Hooker, M. (1998) 'Input Prices and Unemployment Equilibria: Theory and Evidence for the United States', *Review of Economics and Statistics* pp. 621-628: <http://www.warwick.ac.uk/fac/soc/Economics/oswald/CHO.pdf>
- Yoshikawa, H. (1995) *Macroeconomics and the Japanese Economy* (OUP: Oxford) chapter 9.

Week Five: Tutorial

Inequality

Reading:

There are three major explanations of the rise in inequality across the OECD since the 1970s: trade, technology, and institutions. Atkinson (1999) provides a good account of the main trends, while Freeman (1995) and Wood (1995) provide contrasting explanations. DiNardo and Pischke (1997) provide a skeptical view of technology, while many of the other papers cited below are supportive.

Essay:

‘Are your wages set in Beijing?’

References:

- * Alesina, A. and Glaeser, E. (2004) *Fighting Poverty in the US and Europe: A World of Difference*, Oxford University Press.
- * *Economic Report of the President* (2001) ‘Living in the New Economy’, chapter 5, pp. 187-245
- * Freeman, R. (1995) ‘Are your wages set in Beijing?’, *Journal of Economic Perspectives*, Summer, pp. 15-32.
- Atkinson, A. (1999) ‘The Distribution of Income in the UK and OECD Countries in the Twentieth Century’, *Oxford Review of Economic Policy*, 15.
- Burtless, G. (1995) ‘International Trade and the Rise of Earnings Inequality’, *Journal of Economic Literature*, 33 (2), p 800-816.
- Cameron, G. (1998) ‘Economic Growth in the Information Age: From Physical Capital to Weightless Economy’, *Journal of International Affairs*, vol. 51, no. 2. pp. 447-471:
<http://hicks.nuff.ox.ac.uk/users/cameron/papers/jia.pdf>
- Card, D. (2005) ‘Is the New Immigration Really So Bad?’ NBER Working Paper 11547.
- Checchi, D. and Garcia-Penalosa, C. (2004) “Labour shares and the personal distribution of income in the OECD”:
<http://www.vcharite.univ-mrs.fr/PP/penalosa/workingpapers/Checchi-GarciaPenalosa.pdf>
- Di Nardo, J. and Pischke, J-S (1997) ‘The Returns to Computer Use Revisited: Have Pencils Changed the Wage Structure Too?’, *Quarterly Journal of Economics*, 112, 291-303:
<http://papers.nber.org/papers/w5606>.
- Freeman R. and Katz, L. (1995) ‘Rising Wage Inequality: The United States vs. Other Countries’, in R. Freeman (ed) *Working Under Different Rules* (Russell Sage Foundation: New York).
- Haskel, J., and Slaughter, M., (2002) "Does the Sector Bias of Skill-Biased Technological Change Explain Changing Skill Premia?", *European Economic Review*,. Volume 46, Issue 10, December, pp. 1733-1877.
- Machin, S. (2001) ‘The Changing Nature of Labour Demand in the New Economy and Skill-Biased Technology Change’, *Oxford Bulletin of Economics and Statistics*, 63, pp. 753-776.
- Wood, A. (1995) ‘How Trade Hurt Unskilled Workers’, *Journal of Economic Perspectives*, Summer, pp. 57-80.

Week Six: Class

The Japanese Recession

Reading:

Japan has been mired in recession (or at least, slow growth) for a long time. How could this happen to a rich country like Japan? Krugman (1998 and 1999) is the major proponent of the idea that it is all due to demand-side mismanagement. Other authors (such as Callon, 1995) have suggested that Japan has structural problems. Many people think that the Japanese banking system is a particular source of problems.

Questions for discussion:

1. How did Japan grow so fast? Assess the contributions of the following:
 - i. High domestic saving rates.
 - ii. Technological transfer and catch-up.
 - iii. Industrial policy and the labour market.
2. Is the Japanese recession a necessary correction to the bubble years of 1985-1990?
3. What is a liquidity trap? Is Japan still trapped?
4. What has happened to Japanese monetary and fiscal policy since 1990: provide data!
5. Why are Japanese consumers still saving so much? Is it because of the demographic crisis or the state of the banking system, or something else?
6. What advice would you give to the Japanese government and the Bank of Japan?

References:

- * Blomstrom, M., Gangnes, B. and La Croix, S. (2001) *Japan's New Economy: Continuity and Change in the Twenty-First Century*, especially chapters 1, 4, 5, 8.
- * Krugman, P. (1998) 'It's Baaack: Japan's Slump and the Return of the Liquidity Trap', *Brookings Papers on Economic Activity*, 1998:2
- * *Oxford Review of Economic Policy*, 2000, vol 16, no 2.
- Beeson, D and Weinstein, D. (1996) 'Growth, Economies of Scale and Targeting in Japan', *Review of Economics and Statistics*, Vol 78 (2), p 286 -95.
- Callon, S. (1995) *Divided sun: MITI and the breakdown of Japanese high-tech industrial policy, 1975-1993* (Stanford University Press: Stanford).
- Cameron, G. (2005) 'The Sun Also Rises: Productivity Convergence Between the USA and Japan', forthcoming *Journal of Economic Growth*:
<http://hicks.nuff.ox.ac.uk/users/cameron/papers/sunrise.pdf>
- Flath, D. (2000) *The Japanese Economy* (OUP: Oxford) chapters 5, 6, 9, 16.
- Foreign Affairs*, Summer 2000, articles on outlook for the Japanese economy.
- Krugman, P. (1999) *The Return of Depression Economics* (New York: W.W. Norton).
- Noguchi, Y. (1994) 'The 'Bubble' and Economic Policies in the 1980s', *Journal of Japanese Studies*, pp. 291-330
- Porter, M and Takeuchi, H. (1999) 'Fixing What Really Ails Japan,' *Foreign Affairs*, Vol 78, No. 3, 66-82 or Porter, Sakakibara and Takeuchi (2000) *Can Japan Compete?* (Macmillan: London).

Week Seven: Tutorial

The New Economy

Reading:

Since the mid 1995, the US economy enjoyed a period of startling productivity growth. Many commentators suggested that this was a 'New Economy'. We can now look over at the period and assess it. There has been some excellent empirical work (see Gordon, 2000, Baily, 2002, and Ohliner and Sichel, 2000). There are also some great articles in the Autumn 2002 issue of the *Oxford Review of Economic Policy*. Recent attention has focused on why Europe did not enjoy such a dynamic period (Basu et al, 2003, O'Mahony and Van Ark, 2003)

Essay:

'Is there anything new in the New Economy?'

References:

- * Baily, M. (2002) 'The New Economy: Post-Mortem or Second Wind?', *Journal of Economic Perspectives*, 16, 2, pp. 3-22.
 - * O'Mahony, M. and van Ark, B. eds. (2003) *EU Productivity and Competitiveness: An Industry Perspective Can Europe Resume the Catching-up Process?* Office for Official Publications of the European Communities, Luxembourg:
http://www.ggdc.net/pub/EU_Productivity_and_Competitiveness.shtml
 - * Katz, L. and Krueger, A. (1999) 'The High pressure US Labour Market', *Brookings Papers on Economic Activity*, no 1.
- Alesina, A., Ardagna, S., Nicoletti, G., and Schiantarelli, F. (2002) 'Regulation and Investment', <http://post.economics.harvard.edu/faculty/alesina/papers/regulation-dec2002.pdf>
- Basu, S., Fernald, J., Oulton, N., Srinivasan, S. (2003) 'The Case of the Missing Productivity Growth: Or, Does Information Technology Explain why Productivity Accelerated in the US but not the UK?' *NBER Working Paper* 10010.
- Cameron, G. (1998) 'Economic Growth in the Information Age: From Physical Capital to Weightless Economy', *Journal of International Affairs*, vol. 51, no. 2. pp. 447-471:
<http://hicks.nuff.ox.ac.uk/users/cameron/papers/jia.pdf>
- Gordon, R. (1998) 'Foundations of the Goldilocks Economy: Supply Shocks and the Time-Varying NAIRU', *Brookings Papers on Economic Activity*, pp. 297-346.
- Gordon, R. (2000) 'Does the 'New Economy' Measure up to the Great Inventions of the Past?', *Journal of Economic Perspectives*, vol.4, no.14, pp. 49-74:
<http://faculty-web.at.northwestern.edu/economics/gordon/GreatInvention.pdf>
- Jorgenson, D. (2001) 'Information Technology and the US Economy', *American Economic Review*, March 2001, pp. 1-32.
- Nelson, R. and Wright, G. (1992). 'The rise and fall of American technological leadership', *Journal of Economic Literature* 30, 1931-64
- Ohliner, S. and Sichel, D. (2000) 'The Resurgence of Growth in the Late 1990s: Is Information Technology the Story?', *Journal of Economic Perspectives*, vol.4, no.14, pp. 3-22:
<http://www.sf.frb.org/economics/conferences/000303/papers/resurgence.pdf>

Week Eight: Class

EMU

Reading:

European political leaders have been obsessed by exchange rate stability since the breakup of the Bretton Woods system. With the EMU project having finally led to a single currency, there is now great pressure for further political development although the French and Dutch referenda have thrown this into question. De Grauwe (2000) is a great introduction to the issues, while HMT (1997) gives a clear account of the five tests. Forder and Huhne (2001) is a chatty introduction. See also my OECD lecture on this topic:

<http://www.nuff.ox.ac.uk/Users/Cameron/lmh/lectures/oecd.html>

Questions for discussion:

1. What are the costs and benefits of a single-currency?
2. How does a single currency lead to increased trade? Is more trade always a good thing? What has happened to euroland trade since 1999?
3. What is an optimum currency area?
4. How does the ECB work? Is an asymmetric target a problem?
5. How does the Growth and Stability Pact work? Should creditor nations also adjust?
6. Should the UK join the Euro or should Euroland join sterling?
7. Is it possible or likely that the Euro will break-up?

References:

- * de Grauwe, P. (2000) *Economics of Monetary Union* (OUP: Oxford), 4th ed.
- * H.M. Treasury (1997) *UK Membership of the Single Currency: An Assessment of the Five Economic Tests* (H.M. Treasury: London): <http://www.hm-treasury.gov.uk/mediastore/otherfiles/single.pdf>
- * *Oxford Review of Economic Policy*, 1998, Vol 14, No 3, issue on EMU (particularly Assessment by Allsopp & Vines, papers by Eichengreen, Artis and Maclellann, Muellbauer & Stephens).

Artis, M. and Nixon, F. (2001) *The Economics of the European Union* (OUP: Oxford) 3rd ed, chapters 12 (Artis and Bladen-Hovell) and 13 (Ongena and Winkler).

Bernanke, B., Laubach, T., Mishkin, F. and Posen, A. (1999) *Inflation Targeting* (Princeton University Press: Princeton), chapter 12.

Blanchard, O. and Giavazzi, F. (2002) 'Current Account Deficits in the Euro Area: The End of the Feldstein-Horioka Puzzle?', *NBER Macroeconomics Annual*: <http://econ-www.mit.edu/faculty/blanchar/files/draft1f3.pdf>

Feldstein, M. (2005) "The Euro and the Stability Pact", NBER Working Paper 11249: <http://www.nber.org/papers/w11249>

Forder, J. and Huhne, C. (2001) *Both Sides of the Coin* (London: Profile Books), 2nd edition.

Krugman, P. and Obstfeld, M. (2003) *International Economics: Theory and Policy* (Addison Wesley: New York) 6th edition, chapter 20.

Nitsch, V. (2002) 'Honey, I Shrunk the Currency Union Effect on Trade', *World Economy*, 25, 4, 457-474.