The euro zone quartered

By Céline Antonin, Christophe Blot, Sabine Le Bayon and Danielle Schweisguth

This text summarizes the OFCE's 2013-2014 forecast for the euro zone economy.

After six quarters of decline, GDP in the euro zone has started to grow again in the second quarter of 2013. This upturn in activity is a positive signal that is also being corroborated by business surveys. It shows that the euro zone is no longer sinking into the depths of depression. It would nevertheless be premature to conclude that a recovery is underway, as the level of quarterly growth (0.3%) is insufficient to cause any significant reduction in unemployment. In October 2013, the unemployment rate stabilized at 12% of the workforce, a record high. Above all, the crisis is leaving scars and creating new imbalances (unemployment, job insecurity and wage deflation) that will act as obstacles to future growth, especially in certain euro zone countries.

Several factors point towards a pick-up in economic activity that can be expected to continue over the coming quarters. Long-term sovereign interest rates have fallen, particularly in Spain and Italy. This reflects that the threat of a breakup of the euro zone is fading, which is due in part to the conditional support announced by the ECB a little over a year ago (see Friends of acronyms: here comes the OMT). Above all, there should be an easing of fiscal austerity, given that the European Commission has granted additional time to several countries, including France, Spain and the Netherlands, to deal with their budget deficits (see here for a summary of the recommendations made by the European Commission). Driven by the same mechanisms that we have already described in our previous forecasts, a little higher growth should follow this easing of austerity (-0.4 GDP point of fiscal effort in 2013, down from -0.9 point in 2013 and -1.8 in 2012). After two years of recession in 2012 and 2013, growth is expected to come to 1.1% in 2014.

Nevertheless, this growth will not be sufficient to erase the traces left by the widespread austerity measures implemented since 2011, which pushed the euro zone into a new recession. In particular, employment prospects are improving only very slowly because growth is too weak. Since 2008, the euro zone has destroyed 5.5 million jobs, and we do not expect a strong recovery in net job creation. Unemployment could fall in some countries, but this would be due mainly to discouraged jobseekers withdrawing from the workforce. At the same time, less austerity does not mean that there will be no austerity. With the exception of Germany, fiscal consolidation efforts will continue in all the euro zone countries. And whether this is achieved through a reduction in public spending or an increase in the tax burden, households will bear the brunt of the adjustment. At the same time, the persistence of mass unemployment will continue to fuel the deflationary pressures already at work in Spain and Greece. The improved competitiveness that results in these countries will boost exports, but at the expense of increasingly undermining domestic demand. The impoverishment of the countries of southern Europe is going to be aggravated. Growth in these countries in 2014 will again be lower than in Germany, Austria, Finland and France (Table).

As a consequence, the euro zone will be marked by increasing heterogeneity, which could wind up solidifying public opinion in different countries against the European project and making the governance of the monetary union more difficult as national interests diverge.

Table. Growth in the euro zone

In %

	2013				2014				2012	2013	2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
DEU	0,0	0,7	0,2	0,3	0,3	0,4	0,4	0,4	0,9	0,9	1,5
FRA	-0,2	0,5	0,0	0,2	0,3	0,4	0,4	0,4	0,0	0,1	1,3
ITA	-0,6	-0,3	0,0	0,1	0,1	0,2	0,2	0,2	-2,4	-1,8	0,4
ESP	-0,4	-0,1	0,0	0,0	0,2	0,3	0,3	0,3	-1,6	-1,4	0,7
NLD	-0,4	-0,2	0,3	0,3	0,3	0,3	0,4	0,4	-1,3	-1,1	1,1
BEL	0,0	0,2	0,2	0,4	0,4	0,4	0,6	0,6	0,3	0,1	1,6
IRL	-0,6	0,4	0,2	0,3	0,4	0,4	0,4	0,4	0,1	-0,5	1,4
PRT	-0,4	1,1	0,0	0,2	0,2	0,3	0,3	0,3	-3,2	-1,7	1,0
GRC	1,1	9,6	0,5	-1,1	-3,9	1,2	1,3	1,5	-6,4	-4,1	-0,4
AUT	0,1	0,1	0,3	0,3	0,4	0,4	0,4	0,4	0,6	0,4	1,3
FIN	-0,2	0,2	0,3	0,4	0,4	0,5	0,5	0,5	-0,8	-0,9	1,7
EUZ	-0,2	0,3	0,1	0,2	0,3	0,4	0,4	0,4	-0,6	-0,3	1,1

Sources : Eurostat, OFCE calculations and forecasts, October 2013.

France: less austerity, more growth

By Eric Heyer

This text summarizes the OFCE's 2013-2014 forecast for the French economy.

In 2013, the French economy should experience annual average growth of 0.2%, which means that by the end of the year its level of production should return to the level of six years earlier, at the end of 2007. This mediocre performance is very far from the trajectory that an economy recovering from a crisis should be on.

The French economy did however have great potential for recovery: average spontaneous growth of about 2.6% per annum over the period 2010-2013 was possible and would have allowed France to make up the output gap accumulated in 2008-2009. But this “recovery” has been hampered mainly by the introduction of budget savings plans in France and across Europe. For the single year 2013, this fiscal strategy will cut economic activity in France by 2.4 GDP points.

The understanding that the fiscal multipliers were high came late, and occurred only after the austerity plans had already had a negative impact on growth. At the end of May 2013, this awareness pushed the European authorities to give additional time to six EU countries, including France, to correct their excessive deficits. The easing of the Commission’s requirements provided a breath of fresh air that enabled the government to relax the austerity measures set for 2014. According to the budget presented in autumn 2013, the domestic impact of the austerity measures will be reduced by 0.5 GDP points between 2013 and 2014; since our partners are also relaxing their policies, a boost to external demand is also anticipated. Overall, the easing of austerity will mean the addition of almost one point of growth in 2014 compared to 2013, despite the still high fiscal multipliers.

In these conditions, growth should come to 1.3% in 2014 on an annual average. By running at a rate still below its potential, the forecast growth will add to the output gap accumulated since 2008 and will continue to hurt the labour market. The unemployment rate in metropolitan France will rise slightly, reaching 10.9% by end 2014.

As a result of the easing of austerity, the public deficit will be higher than what was initially planned. It is expected to come to 3.5% of GDP in 2014, after reaching 4.1% in 2013, with gross government debt near 95% of GDP next year.

Is the euro area out of recession?

By Philippe Weil

At its meeting on October 9th, the Euro Area Business Cycle Dating Committee of the Centre for Economic Policy Research (CEPR) in London drew on the OFCE for this thorny issue (for the composition of this committee, which I chair, see here). The Committee's mission is to establish a chronology of recessions and expansions in the euro area, similar to what the National Bureau of Economic Research has done for the United States, dating back to 1854.

This chronology is valuable in two ways.

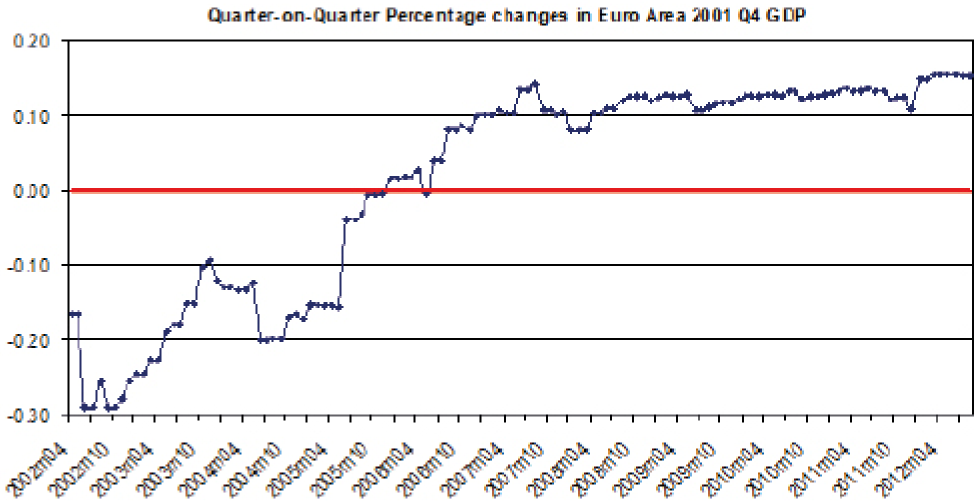
The first is that it allows economists to examine the characteristics of Europe's economic development. Do recessions tend to be short or long-lasting? Frequent or rare? Deep or mild? Is the euro area evolving in concert with the US economy? Is the slowdown in economic activity caused by the financial crisis unusual (more persistent than usual, sharper)? Without a clear definition of the timing of the ups and downs in Europe's economic activity and without a sketch of cyclical fluctuations, we cannot provide answers to these relatively basic questions.

The second advantage of this chronology is that establishing it requires an examination of all aspects of economic activity: GDP, of course, but also consumption, investment and especially employment (number of employed persons, number of hours worked). According to the CEPR's dating exercise, an expansion is a period in which every aspect of economic activity is growing significantly. It is not necessarily an episode of at least two consecutive quarters of GDP growth (much less one quarter!). For example, the CEPR Dating

Committee has determined that the countries composing the future euro area were in recession during the period from the 3rd quarter of 1980 to the 3rd quarter of 1982, whereas real GDP had risen for several quarters during this time and it was higher at the end of the recession than at the beginning! The culprits were investment and employment, which fell sharply during this period.

To add to the complexity of the dating effort, the harsh reality of the world of economic statistics should not be forgotten: the statistics reach us late and are subsequently revised, sometimes significantly, over time. Unlike meteorologists who know the temperature at the top of the Eiffel Tower in real time, economists have no idea, for example, of the level of GDP for the current month or quarter. The first estimates are released only several months later (*e.g.* the first flash estimate of euro area GDP for the third quarter of 2013 will be published by Eurostat only on 14 November 2013), and it might turn out that growth rates that seem positive based on preliminary estimates wind up after subsequent revisions to be negative – or vice versa. By examining all the determinants of economic activity (including employment), and not just GDP, the Committee is guarding against (so far successfully) the imperfections in this data so as to avoid, for instance, declaring the existence of a recession which turns out to be a statistical mirage that disappears after further review of the data. Thus, the Committee did not report in September 2003 the existence of a recession between 2001 and 2003 even though the data showed a decrease in GDP during that time (but never, it is true, for two consecutive quarters). It concluded that there had been a prolonged pause during a period of expansion. This was a good move, as subsequent revisions of GDP cancelled these quarters of declining economic activity (see Figure 1). Its diagnosis was thus well advised.

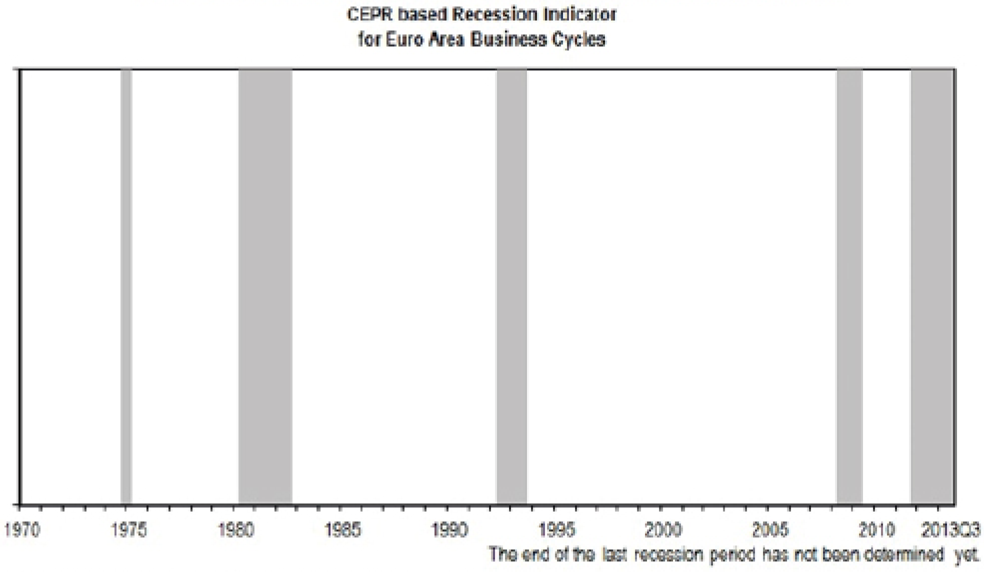
Figure 1. Quarter-on-quarter Percentage Changes in the Euro Area 2001 Q4 GDP (relative to the previous quarter)



Source : ECB Monthly Bulletin.

So let’s get back to the euro area in the state we see it in October 2013. The area hit a peak in economic activity in the 3rd quarter of 2011 and, since going into recession at that time, it experienced quarterly growth that was slightly positive in the second quarter of 2013. The first estimate for the third quarter of 2013 will not be known, as mentioned earlier, until 14 November. There are, it is true, several corresponding indexes indicating that the cycle is in an upwards phase and that the macroeconomic outlook for 2014 is more favourable. But on 9 October the Dating Committee noted, nevertheless, that it would be premature at that time to conclude that the euro area was out of recession. Indeed, neither the length nor the strength of the putative recovery in economic activity was sufficient to conclude that the recession was already over. This judgment was not based on the absence at that point of two consecutive quarters of GDP growth because this is not the criterion that (mechanically) guides the Committee’s thinking. Nor does it reflect any pessimism about the economic outlook for 2014, because the Committee is not in the business of making predictions. The Committee’s assessment is based simply on a review of all the data available at the time it meets. The Committee has not excluded that the euro area is simply going through a pause in the recession it entered a year ago.

Figure 2. CEPR-based Recession Indicator for Euro Area Business Cycles



Note : The grey bands correspond to periods of recession as evaluated by the CEPR. Whether the latest period of recession is over has not yet been determined.

Higher taxes – a solution to the crisis?

By Mario Amendola, [Jean-Luc Gaffard]() and Fabrizio Patriarca

This question, which may seem provocative, is worth asking provided that consideration is given both to the full dimensions of the crisis, and not just its financial aspects, as well as to the assumptions needed to make this a credible scenario. In the perspective discussed here, if tax hikes are to play a role, it would not be as part of a fiscal adjustment intended to restore public accounts worsened by the crisis, but rather with the aim of maintaining or restoring a level of productive spending that was altered by increasing inequality. Furthermore, everything would depend on the nature of both the taxation and the government spending.

Everyone agrees today that rising inequality, particularly in the United States, has had an influence on the course of events. The indebtedness of the least affluent households merely delayed a fall in aggregate demand. The realization that these households were insolvent is what triggered the crisis. Furthermore, there is no solution in the medium or long term without deleveraging both households and business. The role of the public authorities is to assist this. But they can do this only by taking decisions that wind up increasing the public debt. Public debt is thus substituted for private debt. The debt-financed public deficit also needs to be stretched out until consumers and business have been able to get back to a balanced financial position enabling them to raise their level of consumption and investment. This scenario is, however, running up against the potential insolvency of the states, a situation that is particularly aggravated in the euro zone. It does not actually explain what are the sources for a recovery in consumption and investment due to a failure to relate this to the implications of rising inequality in regards to the distribution of demand for productive and non-productive activities.

Recognizing the weight of inequality means, of course, recognizing that there is a problem with demand, but it also requires recognizing the heterogeneity of consumers and the non-homothetic nature of individual preferences. The rise in inequality is most of all changing the structure of demand. Some would say this is at the expense of goods consumed primarily by the mass of workers, to the benefit of luxury goods, while others would say at the expense of productive assets and to the benefit of existing financial and real estate assets.

The following mechanism might be at work. The richest households have excess savings that they devote, on the one hand, to the purchase of luxury goods and assets on the financial and real estate markets, and, on the other hand, to loans to less affluent households channelled through financial intermediaries. The rise in inequality thus has two combined effects: pushing up the price of assets purchased by the more affluent, and raising the level of indebtedness of the less affluent. The first effect supports the second by allowing the loans granted to rely on the increasing value of the assets pledged (the “collateral”).

Based on the assumption that public spending is a productive expenditure – it fuels demand for goods and services from the productive sector – an increase in public debt would support aggregate demand and stem the recession. However, in the medium term, interest charges could make it difficult to sustain the public debt with – and this is key – a need to reduce public spending before there is a significant recovery in private spending. The substitution of public debt for private debt shifts the problem, without solving it.

One possible alternative might be to tax the income of the wealthiest households. Still on the assumption that public spending is directed at the productive sector, this kind of taxation would ensure a redistribution of income, with as a corollary a reconfiguration of the structure of demand in favour of productive activities. Another assumption would also be necessary: that the additional taxes are actually paid by households that use a significant portion of their savings for the purchase of non-productive assets. In this situation, the objective would not be to raise taxes to absorb the public deficit in the hope that an economic recovery would make it possible to reduce them later, but rather to make better use of taxation as a tool for redistribution. While the tax burden would indeed increase, the point is to tax incomes that, in large part, consist of rents that go to unproductive consumption.

The hypotheses used here are somewhat uncertain due to the nature of public expenditure and revenue. Some public expenditure is unproductive, and it is difficult to distinguish what is productive from what isn’t. The tax increases would affect different categories of taxpayers without actually discriminating between them according to the structure of their spending.

Furthermore, our purpose here is not to set out a credible solution that can be applied immediately. The point is to highlight the illusory nature of all-embracing solutions, whether this is a matter of generalized austerity, involving tax increases that wind up weighing down household and business spending, or the prolonged maintenance of public debt, which merely replaces private debt without affecting the structure of demand. So, following this analytical digression, this points to the conclusion that the effective implementation of a redistribution mechanism that could lead to an increase in potential output requires a reform of the state that affects both the orientation of public spending and the structure of taxation, all of which requires time and foresight, not to speak of political courage.

… See Amendola, M., J.-L. Gaffard and F. Patriarca (2013), "Inequality, debt and taxation: the perverse relation between the productive and the non-productive assets of the economy", *OFCE Working Paper No. 2013-21*.

France-Germany: is there a demographic dividend?

By Vincent Touzé

Thanks to a high birth rate, France is aging less quickly than Germany. According to Eurostat, the French population is expected to exceed the German population by 2045. France could well become a European champion. But to what extent should we be talking about a demographic dividend?

The renewal of generations is of course important. It makes it possible to maintain a workforce that is large enough to meet the social costs (pensions, health care) of senior citizens, who are living longer and longer. In this sense, France should do better than Germany. But population growth also has its share of disadvantages. Indeed, in a context of scarce resources, the size of the population is primarily a factor that splits the amounts available per capita. For example, on a rationed labour market that is struggling to keep up the positions on offer due to problems with outlets and with production costs that are not competitive enough at the global level, growth in the labour force can also be counted in the numbers of unemployed. To avoid this, a more efficient labour market that is rooted in a thriving economy is essential. The demographic dividend depends as much on the productive capacity of new generations of workers as on their size.

The latest *Note of the OFCE* (no. 5, October 11, 2013) compares the relative performance of France and Germany over the period 2001-2012. This study shows how recent economic developments have been distinctly favourable to the German economy. Despite a glorious demographic future, France is mired in weak growth and mass unemployment that is hitting young people very hard. The demographic dividend is slow in coming.

High-impact economists

By Zakaria Babutsidze and Mark J. McCabe

This coming Monday, October 14 2013, as many as three economists will join the elite group of winners of the Sveriges Riksbanks Prize in Economic Sciences in Memory of Alfred Nobel. The Royal Swedish Academy of Sciences is responsible for the selection of the Laureates in Economic Sciences from among the candidates recommended by the Economic Sciences Prize Committee. In early October, the Academy selects the laureates through a majority vote.

Presumably, the main criterion for awarding this prize is the impact that the winner(s) have had on society.[1] Clearly the assessment of such an impact is not an easy and straightforward matter. It involves approaching the problem from a variety of perspectives, some more objective than others. It is probably safe to assume that researchers, whose work has had a large impact on society, have also influenced the discipline of economics.

In this post we report some statistics in order to assess different economists' impact on the discipline. To do this, we use data from 48 peer-reviewed journals in Economics and Finance. Each of these journals has published at least five articles authored by one or more of the prize winners between 1969 and 2012 The data is collected from Thomson Reuters' ISI Web of Science and contains all articles published in these 48 journals starting in 1956 and ending in 2012, and all citations to each of these articles up to (and including) 2012.

The impact of a researcher is often measured by the number of citations his or her work has generated, e.g. the average annual number of citations to each article, weighted by the number of authors. This measure allows us to compare (albeit imperfectly) articles published at different points in time. However, for the case at hand, we are interested in the long run (or total) impact of the researcher. Therefore, our guiding indicator will be the total number of citations generated by the works of an economist weighted by the number of authors.

[Note: In identifying the pool of researchers eligible for the 2013 Prize, we excluded all past winners and, following the Academy's guidelines, any other scholars who are now deceased.]

To get a sense of the citation impact of individual papers, take a look at Table 1, which lists the top 10 most cited articles in economics not authored by any prior prize winners. Although this provides an incomplete picture of a researcher's total career impact, the Academy normally cites influential papers in the press releases (and explanatory materials) announcing the winners.

Table 1. Top 10 most cited articles in economics since 1956

Rank	Total Cites	Authors	Year	Journal
1	7157	Michael Jensen and William Meckling(†)	1976	Journal of Financial Economics
2	3246	Tim Bollerslev	1986	Journal of Econometrics
3	3210	Jerry Hausman	1978	Econometrica
4	3202	Soren Johansen	1988	Journal of Economic Dynamics & Control
5	3121	Whitney Newey and Kenneth West	1987	Econometrica
6	3065	Paul Romer	1986	Journal of Political Economy
7	2665	Michael Jensen	1986	American Economic Review
8	2664	Armen Alchian(†) and Harold Desmetz	1972	American Economic Review
9	2654	Manuel Arellano and Stephen Bond	1991	Review of Economic Studies
10	2645	Lars Peter Hansen	1982	Econometrica

(†) The author is deceased.

Table 1 features 11 economists that are eligible for the prize. Out of these 11 only one, Michael Jensen, has two papers in top 10. The table also demonstrates the large gap between the citation numbers of papers ranked first and second.

In what follows we present a researcher or career-level analysis. We assess the impact in two different ways. One approach utilizes all of the papers authors have written in their careers up to 2012 (this is a set comprising more than 170,000 papers). Our other approach is to utilize only the highest-impact papers (the top 100 most cited papers ever written).[2]

Before presenting the list of the most cited economists we first attempt to assess the power of the exercise. Namely, we ask what is the chance that people with high impact, as measured by number of citations, actually get awarded the prize? To answer this we take the top 25 most cited researchers according to each of the two criteria defined above (using all articles and the top 100 most cited articles) and see how many of those 25 have actually been awarded the prize. It turns out that in each case 13 out of 25 researchers have already won the prize.[3][4] These results suggest that number of citations received by researchers is a reasonable proxy for impact as defined by the Academy.

Next, the list of top 10 economists that are eligible for the Nobel Prize this year is presented in table 2. Panel A utilizes all articles in our dataset. Panel B of the table presents results using only the top 100 most cited articles. The columns titled *Rank* report the rank of the economist in the given list. The *Total Rank* columns refer to the rank of the economist in the list of high-impact economists that includes authors who have won the prize and those who are deceased. The *Citations* columns reports the total number of citations associated with the relevant set of articles by the author, weighted by the number of authors (e.g. if an article, authored by *n* authors, received *z* citations, then each listed author is credited with *z/n* citations).

Table 2. Top 10 most cited economists since 1956

A				B			
Rank	Total Rank	Citations	Author	Rank	Total Rank	Citations	Author
1	1	17931.38	Eugene Fama	1	1	9179.5	Eugene Fama
2	6	11573.1	Michael Jensen	2	3	7331.5	Michael Jensen
3	7	11211.83	Robert Barro	3	5	6072.5	Soren Johansen
4	11	9745.25	Andrei Shleifer	4	10	4496	Paul Romer
5	14	7014	Soren Johansen	5	15	3277	Robert Barro
6	15	6875.5	Jerry Hausman	6	16	3246	Tim Bollerslev
7	22	6426.833	Tim Bollerslev	7	17	3210	Jerry Hausman
8	23	6079.667	Paul Romer	8	22	2645	Lars Peter Hansen
9	24	5947.25	Richard Thaler	9	26	2565.5	Stewart Myers
10	26	5901.833	Robert Vishny	10	29	2140.417	Andrei Shleifer

As one can see from the table 2, eight economists appear in both of the lists. Five out of this eight are also featured in Table 1. These eight people are outstanding researchers by our measures and will most likely be among the economists considered for the 2013 prize.

The exercise that we have reported here measures the researchers' impact on the discipline. However, the main guiding principle behind the Economic Science Prize is the impact on society. These two do not perfectly correlate. To see this, consider last year's prize winners – Alvin Roth and Lloyd Shapley. They were awarded the prize "for the theory of stable allocations and the practice of market design". Their work has generated significant social benefits. For example, Roth is a co-founder of the New England Program for Kidney Exchange, which enables organ transplantation where it otherwise could not be accomplished. However, if we apply our measures to Roth and Shapley, their performance is not outstanding. None of them have authored an article that enters the list of 100 most cited articles in economics; therefore they do not figure in our rankings using this particular methodology. When we consider all articles, Roth ranks 99th, while Shapley ranks 979th.

Postscript: In the discussion above, our primary intention is not to predict Monday's winners. Nevertheless, it seems that the Economic Sciences Prize Committee selects a sub-discipline, or a narrow research area to recognize and only after this selects candidates who have contributed to the advancement in that area the most. Recall that we provided an analysis of total citations. We have not performed any breakdown by research areas and have not modeled the Committee's area selection process. In contrast to our work, area selection is an important component of the well-known efforts by the Intellectual Property and Sciences business of Thomson Reuters to predict winners of the Economics Science Prize. This year they predict that one of the following three areas are likely to be honored by the Academy:

microeconometrics, time-series econometrics or regulation theory.[5] In each of these three areas they predict two or three winners. In the table below, without further comment, we provide the list of people they predict to win the Nobel Prize alongside with their ranks in our high-impact economists list.

Table 3. Thomson Reuters' prediction for the winners of the prize 2013

Total Rank	Author	Area
225	Joshua Angrist	Microeconometrics
127	David Card	Microeconometrics
36	Alan Krueger	Microeconometrics
211	David Hendry	Time-series econometrics
123	Hashem Pasaran	Time-series econometrics
39	Peter Phillips	Time-series econometrics
73	Sam Peltzman	Regulation theory
206	Richard Posner	Regulation theory

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[1] In selecting a winner for the Economic Science Prize, the Swedish Academy follows the same principle that is used in awarding the five original Nobel Prizes, namely choosing those individuals, "…who have conferred the greatest benefit to mankind."

[2] Book chapters and working papers are not included in our dataset.

[3] However, the identities of the 13 prize winners is somewhat different across the two procedures. When all articles are considered, the 13 winners among the top 25 most highly cited authors are (in decreasing order of importance): Becker, Lucas, Heckman, Stiglitz, Engle, Merton, Kahneman, Solow, Arrow, Granger, Akerlof, Krugman, Williamson. When the set of the top 100 articles is considered, the 13 winners are

Engle, Becker, Heckman, Kahneman, Solow, Coase, Akerlof, Lucas, Arrow, Granger, Sharpe, Black and Scholes.

[4] Note that the lists also include a number of influential economists who died without winning the prize. These include Zvi Griliches, William Meckling, Charles Tiebout, Amos Tversky and Halbert White.

[5] It is noteworthy that seven of the 10 papers listed in table 1 are in the general area of econometrics.

Why it's necessary to read Robert C. Allen: Global Economy History: A Very Short Introduction [1]

By Guillaume Daudin (Professor at the University of Paris-Dauphine, Researcher with the OFCE)

Robert C. Allen (born in 1947) has been Professor of Economic History at Oxford University since 2002. He defended his PhD thesis in 1975 at Harvard University. He has worked on a wide variety of topics and has received numerous awards for his publications. In 2009, his *The British Industrial Revolution in Global Perspective* was named Book of the Year by *The Economist* and the *Times Literary Supplement*. His research has focused on many aspects of the economic history of development: real wages, advances in agriculture, the sources of technical progress, the impact of imperialism, and sustainable development. He has been a key figure in the debate over the origin of divergences in development within

Europe: he defends a unique position that stresses the importance of the material base (in Marx's sense) and of political choices rather than of the rest of the superstructure (culture, institutions, laws, etc.).

In 2011, he produced a very short book that was part of an English collection which resembles the "Repères" collection. It has already been translated into Italian, and may soon be available in French as part of the "Grands Repères" collection of Editions La Découverte. This book provides an excellent introduction to some of the ongoing debate on the comparative history of development in modern times. It focuses on the mechanisms for the start-up of long-term economic growth in each country.

The book's thesis can be formulated as follows. The British Industrial Revolution can be explained by the exceptional conjuncture of relatively high wages compared to the cost of the island's capital and energy, which was due in part to the British Empire. This situation led entrepreneurs to develop technical innovations to save labour, even if this meant using production methods that were very capital and energy intensive. The modern economy was born.

The contrasting dissemination of the Industrial Revolution in the nineteenth century reflected the ability of each economy to implement the "standard model of development": the integration of the domestic market; the protection of industry from trade; the development of a banking system; and the promotion of mass education. Western Europe and North America were successful in doing this, other countries less so.

From the late nineteenth century, the technology gap between the rich and poor countries widened. Japan, the Soviet Union and Asia's newly developed countries succeeded only thanks to a determined policy on the part of the State. This involved simultaneously creating all the structures of the modern economy (steel mills, power plants, infrastructure, etc.).

None of these investments would have been profitable in isolation. It was therefore necessary that the State ensure their coordination by developing policy simultaneously on every front. This is illustrated by the important role that Japan’s Ministry of International Trade and Industry (MITI) played in the country’s post-war development, using the example of steel. The MITI ensured that Japanese steel production was taking place on sites large enough to take advantage of increasing economies of scale; that the steel-consuming industries (*e.g.* the automotive industry) expanded fast enough to absorb the steel output; that Japanese consumers saw their wages rise fast enough to consume the goods produced (thus providing *ex post* justification for the decision to use capital-intensive production technology); and that foreign markets did not close.

This book undoubtedly provides a somewhat limited perspective on global economic history, since it is focused on industrialization and its dissemination. It therefore leaves out a number of topics: inequality, finance, globalization, etc. It does not go very far back in history, and thus does not address the problems of development over the very long term. More fundamentally, perhaps, it is more a work on the comparative history of the economic development of nations than a work on global history *per se*. From a methodological viewpoint, it is Eurocentric in that it examines the dissemination of a European model, but this is not so much the case with regard to geographical coverage and documentation. Whole chapters are devoted to Africa and Latin America, continents that are rarely treated seriously in textbooks.

“Textbook” – so now the term is out. This book is indeed a textbook, an introduction to a broad and complex subject, and it must be judged accordingly. It is a short book that is better for not losing its focus. It defends a clear thesis, and the fact that it does not take into account the world in all its complexity has advantages. On the one hand, the thesis can be demonstrated more clearly, and it is easier to understand the dynamics. On the other hand, the reader (ultimately with guidance from the teacher) can more easily develop a perspective on the work and change their view by taking a critical approach.

The book differs from the economic history textbooks on the market in at least three ways:

- – As I have already mentioned, it has a truly global geographic coverage, whereas many textbooks focus on French or European history. This is, for instance, the book that introduced me to the adaptation of the techniques of the Japanese textile industry in an environment of low wages during the second half of the nineteenth century. This was also the book that introduced me to the role of Africans, the Krobo people in particular, in the development of cocoa farming in Ghana during this same period;
- – The book is well informed about recent advances in economic history. Currently, this field is partly dominated by Anglo-Saxon economists; their work is very rarely translated, and French historians are not very familiar with it;
- – Yet it is a very accessible book. It is illustrated by numerous tables and graphs. It is anchored in the concrete thanks to accurate descriptions of events that are unfamiliar even to specialists on the subject, as they concern national stories that to us seem distant. This can only encourage the reader to gain a better knowledge of the field.

I have taught economic history at HEC Paris, the University of Lille, Sciences Po, and now Paris-Dauphine. I wish this book had been available when I started my teaching: it would have helped me a lot. Reading in English is usually not a problem for graduate students, even if it is more difficult for undergraduates. I’m looking forward to a translation so that I can have all my students read it.

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[1] The book was published in 2011 by Oxford University Press.

Never on Sunday?*

By Xavier Timbeau

** Note from the editor: This text was initially published on 10 June 2008 on the OFCE site under the heading "Clair & net" [Clear & net] at a time when working on Sundays was a burning issue. As this is once again a hot topic, we are republishing this text by Xavier Timbeau, which has not lost its relevance.*

In Jules Dassin's cult film, Ilya, a prostitute working a port near Athens, never works on Sunday. Today, according to the *Enquête emploi* labour force survey, nearly one-third of French workers say they occasionally work on Sunday and nearly one out of six does so regularly. As in most countries, Sunday work is regulated by a complex and restrictive set of legislation (see here) and is limited to certain sectors (in France, the food trade, the hotel and catering industry, 24/7 non-stop manufacturing, health and safety, transport, certain tourist areas) or is subject to a municipal or prefectural authorization for a limited number of days per year. This legislation, which dates back more than a century, has already been widely adapted to the realities and needs of the times, but is regularly called into question.

The expectations of those who support Sunday work are for more business, more jobs and greater well-being. Practical experience indicates that revenue increases for retailers that are open Sundays. Conforama, Ikea, Leroy Merlin and traders in the Plan de Campagne area in the Bouches du Rhone *département* all agree. Up to 25% of their turnover is made on Sunday, a little less than Saturday. For these businesses, it seems clear that opening on Sunday leads to a substantial gain in activity. And more business means more jobs, and since there are also significant benefits for consumers, who meet less traffic as they travel to less congested stores, it would seem to be a “win-win” situation that only a few “dinosaurs” want to fight on mere principle.

Nevertheless, some cold water needs to be thrown on the illusions of these traders. Opening one more day brings more business only if the competition is closed at that same time. This is as true for furniture, books, CDs or clothes as it is for baguettes. If all the stores that sell furniture or appliances are open 7 days a week, they will sell the same amount as if they are open 6 days a week. If only one of them is open on Sundays and its competitors are closed, it can then capture a significant market share. It is easier to purchase washing machines, televisions and furniture on a Sunday than on a weekday. So anyone who opens on their own will benefit greatly. But ultimately consumers buy children’s rooms based on how many children they have, their age or the size of their home. They do not buy more just because they can do their shopping on Sunday. It is their income that will have the last word.

It is possible that a marginally larger number of books or furniture are sold through impulse buying on Sunday, if the retailers specializing in these items are open. But consumer budgets cannot really be stretched, so more spending here will be offset by less spending elsewhere. Year after year, new products, new reasons for spending, new commercial stimuli and new forms of distribution emerge, but these changes do not alter the constraints on consumers or their decisions.

In the case of business involving foreign tourists, who are passing through France, opening on Sunday could lead to an increase in sales. Tourists could spend less in another country or after they return home. But this positive impact is largely addressed by existing exemptions.

In 2003, the strict German legislation regulating retailer opening times was relaxed. This did not lead to any change in the population’s consumption or savings (Figure 1). Value added, employment and payroll in the retail sector stayed on the same trajectory (relative to the overall economy, see Figure 2). Opening longer does not mean consuming more.

The issue of Sunday opening is a matter of social time and its synchronization as well as consumer convenience and the freedom of the workforce to make real choices about their activities. Sunday work affects many employees, so expanding it is a societal choice, not a matter of economic efficiency.

Finally, the complexities of the legislation on Sunday work and its unstable character have led economic actors to adopt avoidance strategies. For example, in order to open on Sunday Louis Vuitton installed a bookstore (with travel books!) on the 5th floor of its Champs Elysées store (the other Louis Vuitton stores in Paris are closed on Sundays). Selling luxury bags thus became a cultural activity. Large food stores (which can open on Sunday morning) sell clothing and appliances, thus justifying other ways of working around restrictions by non-food retailers, who view this as unfair competition. These workarounds render the law unjust and distort competition with a legal bluff as cover.

Any change in the law should pursue the objective of clarification and not introduce new loopholes (as did the recent amendment of December 2007 to the Chatel law of 3 January 2008 extending earlier exemptions to include the retail furniture trade).

Homer, a cultured American on a visit to Athens, attempted to save Ilya from her sordid fate by introducing her to art and literature. But Homer was acting on behalf of a pimp from the Athens docks who wanted to put an end to the free-spirited Ilya's subversive influence on the other prostitutes. When Ilya learned of this, she went back to her work: trading herself for money. Her dignity came from never doing it on Sunday.

Figure 1. Germany – Savings rate

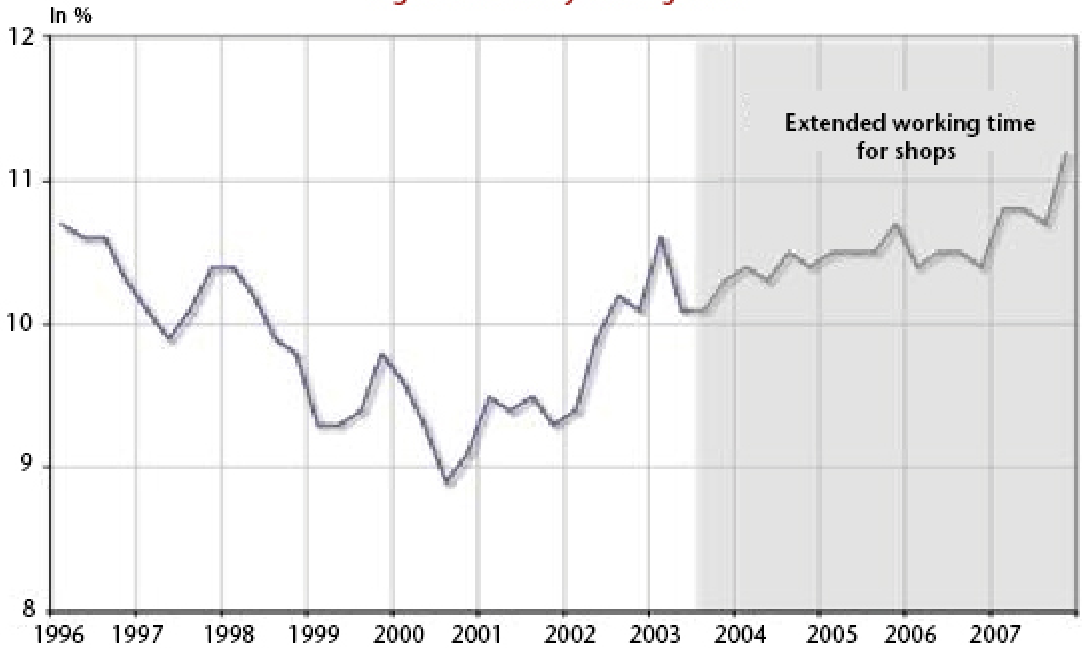
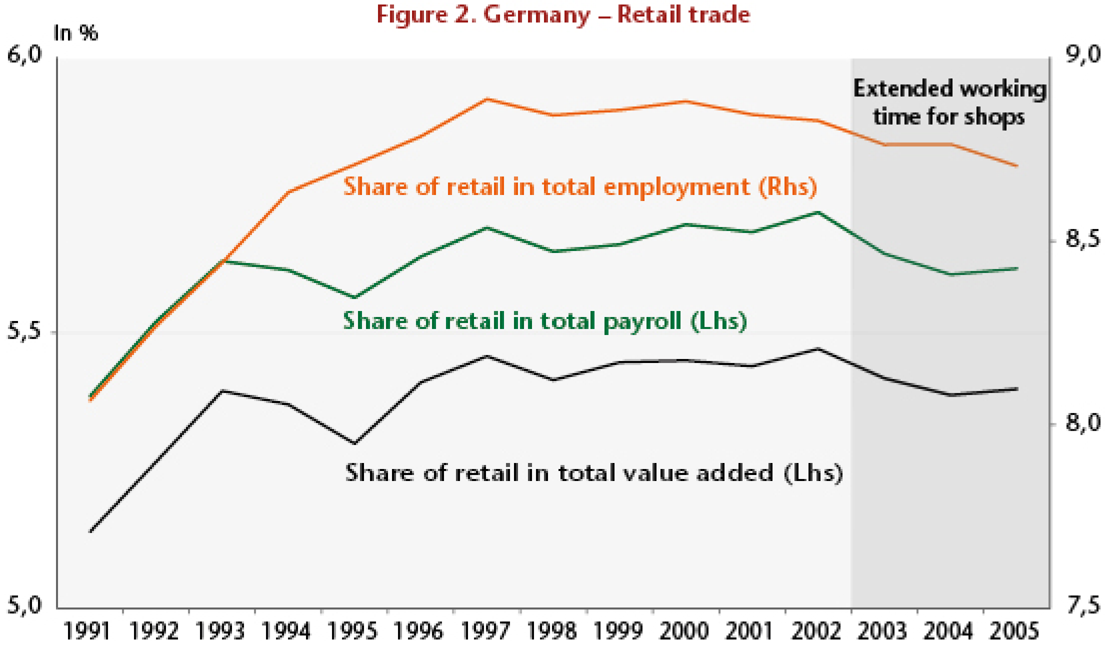


Figure 2. Germany – Retail trade



Sources : Annual accounts, Statistisches Bundesamt Deutschland. The savings rate is gross savings relative to gross disposable income. In the German classification, retailing is sector WZ-52. Author's calculations.

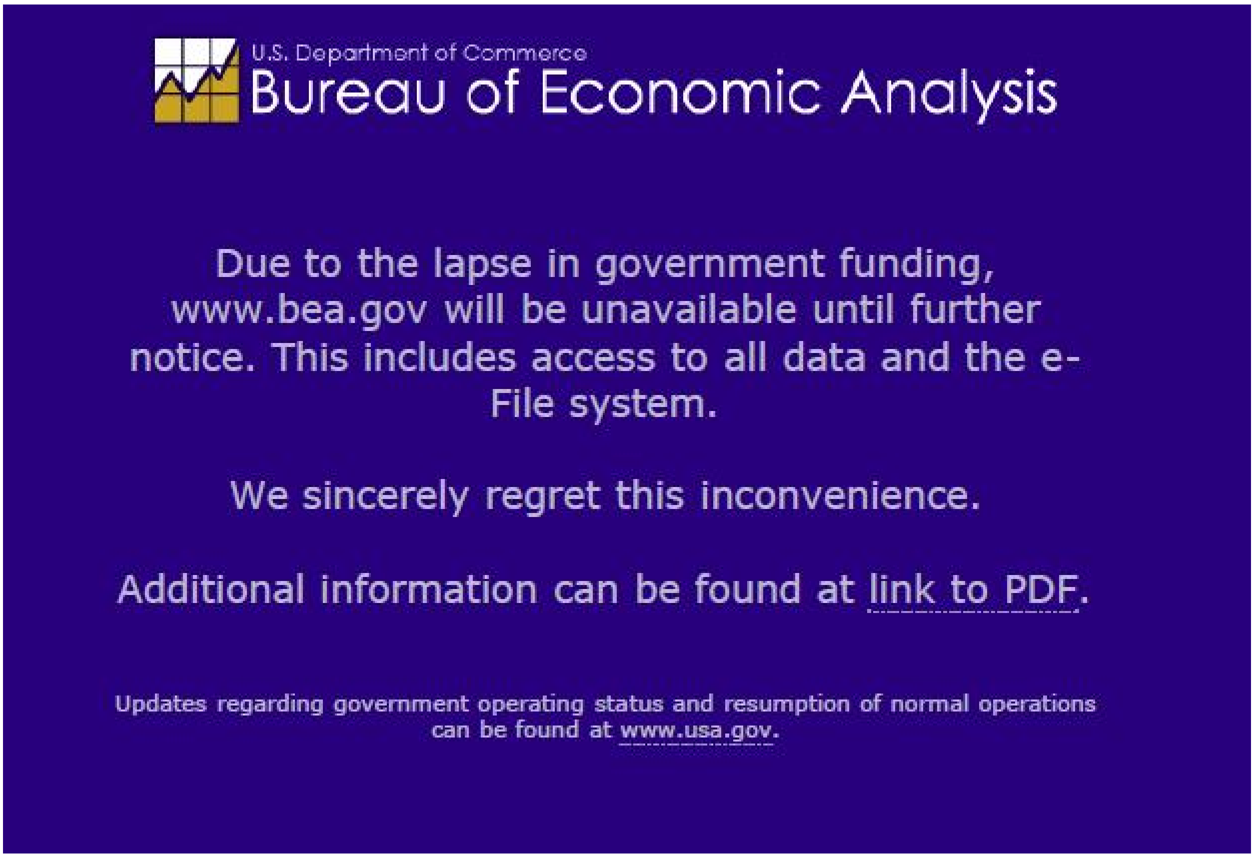
Shut down: America in the spotlight

By Christine Rifflart

A State that asks a third of its civil servants to stay home because it can't pay them is in a critical situation. When it's the United States, it's the whole world that worries.

The absence of an agreement on the 2014 budget, which was to take lawful effect as of Tuesday, 1 October 2013, shows the standoff in Congress between Democrats and Republicans. This kind of contention over the budget is not new: no budget has been passed since 2011, and the federal government has worked up to now through "continuing resolutions" that are used to release the funds needed for the government to function and operate, on a provisional basis. Today's blockage is on a different scale, and parts of the administration have had to close their doors due to lack of funds. This exceptional situation is not unprecedented: 17 shutdowns have occurred since 1976, the last two under the Clinton administration, lasting, respectively, one week (from 13 to 18 November 1995) and three weeks (from 15 December 1995 to 6 January 1996).

According to the Office of Management and Budget, of a total of 2.1 million federal government employees, more than 800,000 have been prohibited from working, while others have come to work with no guarantee that they will be paid. For example, those being told not to work include 97% of NASA employees, 93% of the Environmental Protection Agency, 87% of the Department of Commerce, 90% of the IRS, etc. Each of these received a letter from the President expressing his bitterness. In practice, this also means that some social services are no longer assured, some government call centres are closed, and the national monuments and 368 national parks are no longer open to the public. Applications for subsidized loans, housing grants, and loan guarantees are no longer being taken, and some government services are closed:



Vital services and programs for which funding is not linked to the vote on the annual budget (so-called mandatory spending), which account for over 60% of pre-interest expenditure and represent 12.7% of GDP, have nevertheless been spared. Some social security programs (Medicare, Medicaid), the postal service, national security, and military operations have thus been protected from shutdown, at least in so far as they are not affected by restrictions on staff whose salaries are covered in the 2014 budget.

Another political and fiscal crisis is looming: the US government could go into default from October 17 if the authorized debt ceiling is not raised. The uncertainty surrounding this situation is fraying nerves on the financial markets, and the frozen political climate in Congress does not seem to herald an honourable end to what the media are calling a "game of chicken" [1]. In 1995, however, Clinton emerged victorious from this crisis with the Republicans, and was reelected in 1996, despite the Republican majority in Congress.

The economy could be seriously affected while awaiting an end to this crisis. If the salaries and benefits of federal civil servants are not paid, the loss in earnings would come to an average of 1500 dollars per week for each family affected. Given the total of 2.1 million federal employees, this would represent 0.08% of quarterly GDP. In three weeks, this would amount to a loss of 0.25% of GDP for the economy in the 4th quarter. Congress could, however, approve retroactive payment of the salaries, which is what generally took place during previous shutdowns.

But this still does not take account of the more important issue of the disorganization of the economy. Considering that on an annual basis half of the federal government's discretionary spending (*i.e.* 37% of federal spending, or 7.6% of GDP) [2] is affected by the shutdown, since it is financed out of the 2014 budget, this loss in expenditure represents 0.15 GDP point per week. Given the disorganization represented by the government closures (and using a fiscal multiplier of 1.5), the impact on growth could then come to at least 0.22 GDP point per week. If the crisis lasts 3 weeks, then the impact on 4th quarter GDP would be at least 0.7 GDP point – which would mean a recession for the US economy by the end of the year!

Other estimates do exist. The Office of Management and Budget evaluated the cost of the 1995 shutdowns (from 13 to 18 November 1995 and then from 15 December to 6 January 1996) at 1.4 billion in 1995 dollars (*i.e.* 0.5 % of quarterly GDP). Based on the 1995 shutdowns, Goldman Sachs evaluates the current weekly cost to the US economy at 8 billion dollars, equivalent to an impact of 0.2% of 4th quarter GDP. Moody's Analytic Inc. estimates that the shutdown will have an impact of 0.35% of quarterly GDP per week.

If the budget crisis lasts only a few days, its repercussions on the French economy will be minimal, *i.e.* a reduction in US growth of 1 percentage point would cut French growth by 0.17%. But if the crisis lasts several weeks and overlaps with a crisis over the ceiling on the government debt, which is quickly approaching, then the consequences could be very different. The two crises the (blocked budget and the failure to pay the public debt) would combine and fuel one another, as is emphasized by this New York Times post. It is difficult to imagine the panic this could cause on the financial markets, as interest rates soar and the dollar collapses. This would be a very different story indeed….

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[1] In game theory, a game of chicken is a game of influence between two players in which neither must yield. When for example two cars are racing towards a head-on collision, the "chicken" is the driver who veers off course in order to avoid dying.

[2] A major part of spending by the Department of Defence is approved on a multiyear basis and is not subject to being blocked due to the shutdown. Over half of DoD spending is composed of this discretionary expenditure. Furthermore, mandatory outlays are not financed out of credits subject to the vote on the Budget.

Social inequality in the face

of death*

By Gilles Le Garrec

The problem of inequality in the face of death has become an important topic in French public discourse in recent times, in particular in autumn 2010 during debate about raising the minimum legal retirement age by two years, by gradually shifting it from age 60 to 62. The debate became focused around a politically divisive issue: should the retirement age remain unchanged for low-skilled workers on the grounds that they enter the labour market earlier and / or have more strenuous jobs and live shorter lives? Since the socialist government came to power in 2012, two exemptions have been introduced to allow less-skilled workers to continue to retire at 60. First was the introduction in summer 2012 of an exception for a "long career", that is to say, for those who have contributed for a sufficiently long time. This September 2013 it has also been decided to set up a "hardship" account, starting in 2015, which will allow all employees who are exposed to working conditions that reduce their life expectancy to retire earlier. Nevertheless, the issue of inequality in the face of death – a taboo subject? – involves much more than simply the retirement age; before that, there are also the issues of inequality in income, housing, access to employment, education, etc. What follows is a small panorama (statistical) on inequality in the face of death in France, its causes and the difficulty of developing a political solution due to the multidimensional factors involved.

Very old – but not very reliable – statistics

From the late 18th century [1], the development of censuses, which was associated with the rise of statistics, has made it possible to build up data that show the existence of a close link between inequality in the face of death and social inequality more generally. These early studies show that inequality in the face of death is explained primarily by income (Cambois, 1999). However, the import of these studies is limited due to the low reliability of their data and methodology. It is no easy matter to develop reliable indicators on this issue. Once we have the socio-professional categories (SPC) for death statistics and censuses, we can easily calculate mortality rates by comparing the number of deaths for the year (or years) classified by SPC with the size of the population classified in the same way. For example, in France for the period 1907-1908 Huber catalogued on an annual basis the death of 129 business executives aged 25 to 64 out of a total of 10,000, compared with 218 workers. This simple and intuitive method nevertheless gives a distorted view of social inequality in the face of death, due to incompatibilities between population data and mortality data (Desplanques, 1993). The difficulty of obtaining an accurate representation of inequalities in the face of death becomes especially difficult with this method, as there is a growing trend for career paths to fragment, with alternating periods of activity and unemployment.

The longitudinal method and its lessons

To overcome this problem, France's INSEE has developed a longitudinal method that consists of regularly monitoring a group of individuals who have particular characteristics at a given point in time, and ultimately the date of their death. The permanent population sample thus obtained, which was initialized during the census of 1968, currently includes approximately 900,000 individual histories, ensuring a good representation of the French population (Couet, 2006, for a description of this sample and how it was constructed). This large-scale socio-demographic panel makes it possible to draw a relatively accurate picture of social inequality in the face of death in France. This shows that individual lifetime varies greatly from one socio-professional category to another, especially among men (Table 1). Male executives have a life expectancy (at age 35) that is four to five years above the average for men. Excluding inactive people [2], the most disadvantaged groups are manual workers, followed by white-collar employees, with life expectancies that are, respectively, two years and one year less than the average. Another interesting point is that the overall gain of four years in life expectancy over the period did not reduce inequalities in the face of death. The relatively stable result is that at age 35 the life expectancy of manual workers is six to seven years less (and white-collar employees five to six years less) than that of corporate executives and managers. In addition, at age 35 on average the latter experience 34 years in good health [3], 73% of their life expectancy, against 24 years for manual workers, or 60% of their life expectancy (Cambois *et al.*, 2008). While among women, the difference in life expectancy between managerial personnel and manual workers was “only” three years at the time of the last census, the differences are comparable with those for men in terms of life expectancy in good health. The conclusion is clear: numerous social inequalities persist in the face of death, including in terms of health. This conclusion holds for every country in Western Europe that has conducted this kind of study, although it should be noted that the level of inequality in France appears to be the greatest by far (Kunst *et al.*, 2000). The ratio of “manual to non-manual mortality” in France was 1.71 for men age 45-59, whereas it is on the order of 1.35 in most other countries (Finland, second behind France in terms of inequality, is 1.53). Leaving aside issues of data comparability, alcohol consumption is, according to Kunst *et al.* (2000), the most important factor behind the specific situation of France. Indeed, the greatest inequalities in mortality in France are due to major differences in mortality due to liver cirrhosis and to cancer of the aerodigestive tract, both of which are associated with excessive alcohol consumption.

Table. Life expectancy of men and women at age 35, By period and socio-professional category

In years

Socio-professional category	Life expectancy at age 35			Difference with the average			Life expectancy at age 35			Difference with the average		
	1983-1991	1991-1999	2000-2008	1983-1991	1991-1999	2000-2008	1983-1991	1991-1999	2000-2008	1983-1991	1991-1999	2000-2008
	Men						Women					
Executives/managers	43,7	45,8	47,2	+4,5	+5	+4,4	49,7	49,8	51,7	+3,3	+1,8	+2,3
Intermediary profession	41,6	43,0	45,1	+2,4	+2,2	+2,3	48,1	49,5	51,2	+1,7	+1,5	+1,8
White collar employee	38,6	40,1	42,3	-0,6	-0,7	-0,5	47,4	48,7	49,9	+1	+0,7	+0,5
Manual worker	37,3	38,8	40,9	-1,9	-2	-1,9	46,3	47,2	48,7	-0,1	-0,8	-0,7
Inactive, not retired	27,5	28,4	30,4	-12,7	-12,4	-12,4	45,4	47,1	47,0	-1,0	-0,9	-2,4
Total	39,2	40,8	42,8	-	-	-	46,4	48,0	49,4	-	-	-

Source : Blanpain (2011), based on data from the permanent demographic sample, INSEE.

The causes

Several factors have been identified to explain the difference in mortality between socio-professional categories.

First, one can easily imagine that the working conditions of manual workers are usually physically demanding and debilitating. Moreover, during the 1980s we have seen a transformation in the structure of unskilled jobs. Over this period, the increasing need for businesses to be highly responsive has led to a more widespread use of flexible and precarious forms of employment (short-term contracts; atypical schedules; development of part-time, temporary work, etc.). But the increasingly precarious nature of work, which affects low-skilled jobs above all, is contributing to a serious deterioration in working conditions. Global economic conditions may therefore play a part in explaining disparities in mortality. In any event, working conditions are not improving as quickly for manual workers as for managers. This is certainly the view that was advocated in establishing the "hardship" account that is to be implemented from 2015. So any private sector employee who is exposed to working conditions that reduce life expectancy will accumulate points that will, among other things, enable them to retire early, and potentially before the statutory threshold of 62.

It should also be noted that the most disadvantaged groups cumulate a number of risky behaviours, such as smoking, excessive alcohol consumption, poor diet and a sedentary lifestyle. In contrast, managers and the intermediate professions smoke and drink in moderation. As was already pointed out as a factor in France’s poor results in Western Europe (Kunst *et al.*, 2000), these differences in behaviour show up clearly in the mortality rates associated with certain diseases. The risk of death due to a tumour in the aero-digestive tract (larynx, pharynx, lungs, oesophagus, liver) is especially high among manual workers, and is at the heart of a significant portion of the observed differences in mortality. For example, during the 1980s, among men aged 45 to 54, the mortality rate associated with a tumour of the pharynx was 11 times higher for skilled workers and labourers than for teachers and the intellectual professions (Desplanques, 1993).

A lack of access to healthcare for the most disadvantaged groups is another explanation offered for the disparities in mortality, first of all because of costs. Mormiche (1995) thus shows that the consumption of medical products (their quantity but also their nature) is highly dependent on income. Disparities in access to healthcare are particularly marked for care that is expensive or poorly covered (especially dental). Herpin (1992) points out that a reduction in income due to a loss of employment leads to an almost proportional reduction in consumer spending, including on health. The risk of death rises by 60% for unemployed men in the years following a job loss (Mesrine, 1999). A man in poor health is of course more likely to be unemployed, but unemployment, due to the development of financial stress and disorientation and to personal factors, may affect health by creating a physical and emotional distance with respect to obtaining care.

Finally, the social environment and the local context play an important role in the persistence of social inequalities in the face of death, as can be seen in Table 1. The idea that the behaviour of individuals is influenced by their place of residence has been developed in an extensive literature in the fields of both sociology and psychology (Roberts and DelVecchio, 2000). Mechanisms through which children identify with the behaviour of the adults surrounding them highlight a collective type of socialization. However, socio-spatial polarization, which is characterized by the creation of urban areas that cumulate all sorts of social disability, has been steadily increasing since the 1980s in France (Fitoussi *et al.*, 2004). In these neighbourhoods, the high level of concentration of groups characterized by risky behaviours may, through this process of identification, root these behaviours in the core of people's lifestyle. This phenomenon may explain why prevention policies among high-risk populations are ineffective. The financial difficulties that are giving rise to the under-utilization of medical facilities can also wind up leading to social distancing from health issues. The weak participation of women from disadvantaged strata in public programmes to screen for breast cancer is illustrative of this. Moreover, even in countries where there is effective universal health coverage, the differences in the consumption of healthcare persist.

What should we conclude?

Social inequality in the face of death is a sensitive issue. At the heart of this problem lie a multitude of more or less overlapping causes. To be effective, policies to combat this type of inequality must grasp them as components of an ensemble, with interactions throughout their economic, social and spatial dimensions. While awaiting the reduction of these larger inequalities, it would seem worthwhile to establish just social policies that take account of this inequality in the face of death. In this regard, setting up a "hardship" account that enables any employee who is exposed to working conditions that reduce their life expectancy to retire earlier is definitely a step in the right direction. Nevertheless, the establishment of criteria is not as easy as it seems. Indeed, it is clear that a good share of social inequality in the face of death can be explained by risky behaviour. Some might reason that such behaviours are an expression of individual freedom and that it is not up to society to compensate for the consequences. Or, it could be argued, to the contrary, that these behaviours are a response to psychosocial stress caused by, among other things, difficult working conditions. From this perspective, the compensation represented by an earlier retirement would seem more equitable. But it is not certain that we can really distinguish these two cases. You can bet that the future definition of the criteria for accumulating points to meet the “hardship” criteria giving entitlement to early retirement will be the subject of lengthy negotiations….

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* I would like to thank Sandrine Levasseur, Hélène Périvier and Evens Salies for their insightful comments.

[1] Pioneering works that could be cited include those by Moheau (1778) and Villermé (1840).

[2] A category that groups individuals who have never worked. For women, this means mainly “housewives”.

[3] Good health is defined by the absence of limitations on everyday activities and the absence of incapacity.