

Cause for celebration

Richard Layard looks back on the achievements marked by the Queen's Anniversary Prize award.



This issue of *CentrePiece* celebrates the presentation to the CEP this month of a Queen's Anniversary Prize for its research over the years since it was set up in 1990.

The citation recognises us as "a centre of national and international excellence in the application of economic theory and rigorous empirical analysis to issues of unemployment, productivity, education and international trade". It is a particular source of satisfaction to us that we have been recognised as having "had a significant impact on government policy in the UK and more widely". For that has been our purpose from the start.

We set out to identify major issues in the real world and to organise a critical mass of senior and junior scholars to attack them. We have always regarded a tough attitude to theory as the vital framework for empirical work. But we also think that



research is not much help if it does not yield equations with parameters that can be estimated.

Research at the Centre has benefited from three central features in our approach. First, unlike other institutions, where supply-side microeconomics and demand-side

macroeconomics are treated separately, the CEP brought them together from the start. Second, those working at the Centre enjoy a quality of IT support, with specialist staff to organise the databases for all the key British and European surveys and data series, that is not bettered anywhere. We now also enjoy the excellent working conditions of the new LSE Research Lab, designed by Norman Foster. Third, as a research centre, the CEP has actively trained PhD students by an apprenticeship system, with younger scholars working with senior staff and often publishing their first papers as joint authors. An average of six PhDs have been awarded annually, with two thirds of the current 30 PhD students coming from continental Europe. We also run a successful two-year MSc programme for future economic decision makers.

By any standards, the quality and volume of the research generated since 1990 has been impressive. As the citation recognises, we have had a significant impact on a wide range of policy. Employment, unemployment and poverty have been (and remain) an important focus of our activity.

In Britain, governments (both Conservative and Labour) have accepted our evidence that long-term unemployment is a feeble weapon against inflation, compared with short-run unemployment. In all major industrial countries now, the main policy aim is to reduce long-term unemployment rather than to spend money trying to stem the flow into short-term unemployment. Since 1997 all EU countries have agreed to ensure that everyone becoming unemployed is offered economic activity within a year.

We demonstrated the benefits of replacing long-term social security payments by active and effective help in finding worthwhile jobs. The result was the introduction of New Deal type policies in Britain, Denmark and The Netherlands and the merging of benefit offices and job centres in the

UK into the new Jobcentre Plus organisation.

Our research drew attention for the first time to the high proportion of the UK population living in totally workless households and to the disincentive effects of low take-home pay for those entering the job market at the bottom of the wage ladder. This combination was highlighted as a major cause of poverty, especially child poverty. Policy makers responded by introducing the Working Family Tax Credit scheme, work-focused interviews at Jobcentres and the National Minimum Wage. Research at the Centre had correctly predicted that a minimum wage set at £3.60 an hour in 1998 would, contrary to widespread opinion, have little or no negative effect on employment.

As productivity and incomes became an important policy focus in the 1990s, we established a major programme on the economics of education, a key subject neglected in Britain for a quarter of a century. The group running this successful programme since 1995 was then selected by what is now the Department for Education and Skills to lead a new tripartite research centre – the Centre for the Economics of Education – which brings together the CEP with the Institute of Fiscal Studies and the Institute of Education. The work in this area, in particular on apprenticeship and on adult literacy and numeracy, has led directly to important government initiatives.

In the same way, the Centre has reacted effectively to other real issues as they have emerged. In 1995 we created a new programme, with a staff of about 20, to study the issues related to globalisation and economic geography. This is now the leading international trade group at any European university. We also became closely involved throughout the 1990s in the post-Communist transition processes in Russia, Poland and elsewhere. More recently we have channelled our research effort into

new directions, such as the impact of the Internet, the effect of international capital flows on economic stability and the relationship between income levels and economic well-being.

Looking back on what has been achieved since 1990, our direct and personal influence on policy matters has also been out of all proportion to our size. Of past and present members of the Centre, Charles Bean is now the Bank of England's Chief Economist; Stephen Nickell, Sushil Wadhvani and Willem Buiter are, or have been, members of the Bank's Monetary Policy Committee; David Metcalf has been a key member of the Low Pay Commission since it was established; Paul Gregg has been a member of the Chancellor of the Exchequer's Council of Economic Advisors focusing on poverty; and Stanislav Gomulka was the lead author of the Polish Solidarity government's economic reform plan, which became a model for post-Communist change in the other countries of east and central Europe.

From the start we disseminated our work as widely as possible. We run five field seminars a week, in order to subject research to criticism at an early stage. We organise an average of eight conferences a year and publish about 50 Discussion Papers, all of which can be seen on our web site. Since 1990 the CEP's staff has published 101 books, 540 chapters in books and 780 articles in refereed journals.

We are grateful to the ESRC and our other donors without whose help none of this would have been possible. We believe that we have made and are continuing to make a contribution to applied economic research that is without rival in Europe. It is, therefore, most satisfying to us all that our efforts have been recognised in the award of this Queen's Anniversary Prize.

Richard Layard has been Director of the CEP since it was established.