PRESS RELEASE

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NEW RESEARCH FINDINGS FROM THE CENTRE FOR ECONOMIC PERFORMANCE

New research reports from the Centre for Economic Performance (CEP) at the London School of Economics are highlighted in the Winter 2014/15 issue of CentrePiece magazine.

Among the findings:

AFTER COMMUNISM: A combination of economic stagnation and political repression
CHILDREN OF THE WALL: The damage from being born at a time of great uncertainty
NAPOLEONIC PROTECTIONISM: Blockade of British exports benefited French cotton
CENTRAL BANK TRANSPARENCY: Pros and cons of publishing debate transcripts
TRANSATLANTIC TRADE AGREEMENT: Potential benefits for millions of consumers
BUSINESS CYCLE BLUES: Recessions psychologically hurt far more than booms help
EDUCATIONAL EFFICIENCY: Getting value for money in public spending on schools

After communism: 25 years of revolution
The broad failures of the Soviet system, which led to its collapse a quarter of a century ago, have largely been resolved. But as long-time CEP research associate Peter Boone explains, the problem today is entrenched regimes suppressing democracy and hindering economic catch-up with the West. Less democratic nations tend to have weak rule of law and poor regulatory and investment climates.

As the Soviet empire dissolved in the early 1990s, several CEP researchers gave policy advice to leaders of the formerly communist societies seeking to chart a new economic course. Peter Boone was particularly involved, working as an adviser to Russia’s finance ministry and later as managing director of research at a Moscow-based investment bank.

In this CentrePiece, he looks back at the process of transition and explains how many of the successor states of the Soviet Union arrived at today’s unhealthy combination of economic stagnation and political repression. With Russia’s economy once again in crisis, it is a timely reminder of the barriers to sustainable growth.

Long shadow of the Berlin Wall
Continuing the post-communist theme, Arnaud Chevalier and Olivier Marie examine the life outcomes of children born in East Germany after the fall of the Berlin Wall. Their research finds that the ‘Children of the Wall’ had worse educational outcomes and were more likely to have been arrested than those born just before communism ended. What’s more, East German mothers in the early 1990s were younger, less educated, less likely to be in a relationship and less economically active.

The end of communism provides what economists call a ‘natural experiment’ for comparing what happens to otherwise similar people – in this case, those conceived just before and just after the Berlin Wall came down, as well as those born in East and West Germany around that time. The results of this study indicate the potential long-term damage of growing up in a period of high economic uncertainty.

Napoleonic protectionism: how France’s cotton industry gained
Can temporary protection from trade with advanced economies foster the development of ‘infant industries’ in developing countries? Reka Juhasz considers a natural experiment: Napoleon’s wartime blockade of British exports, which allowed protected regions to build capacity in the new technology of mechanised cotton spinning and later to compete successfully in international markets.

Her research finds that the cotton industry in France remained competitive even after peace was restored to the continent. France’s industrialisation is representative of the development path that many countries follow.

The dilemma of central bank transparency
Research by Michael McMahon and colleagues compares how monetary policy-makers at the US Federal Reserve (‘the Fed’) behaved before and after they knew their statements would be placed in the public domain. They find that on balance, publishing verbatim Fed transcripts seems to have been beneficial, increasing information despite creating more sterile debate.

The study shows that less experienced monetary policy-makers refer more to data and staff briefings when their remarks will be made public – the ‘discipline effect’. But at the same time, greater transparency led

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inexperienced Fed members to make fewer statements and speak more like the then Fed Chairman, Alan Greenspan – the ‘conformity effect’. The researchers conclude that central banks considering greater transparency need to structure deliberations to maximise the discipline effect while minimising the conformity effect.

The study of whether central bank transparency enhances or inhibits constructive internal policy debate is innovative in the data it uses, drawing on computational linguistics to explore large textual databases. And its key finding has already had a considerable impact on policy: the recent report by former Fed governor Kevin Warsh on transparency practices at the Bank of England describes it as the ‘important idea that motivates some of the Review’s ultimate recommendations’.

**TTIP: is free trade coming to the North Atlantic?**
If successfully concluded, the Transatlantic Trade and Investment Partnership (TTIP) would be the most ambitious free trade agreement in history – and it has the potential to benefit millions of consumers, according to Dennis Novy. But while the potential benefits from liberalised transatlantic trade are large, getting there will be an arduous process and many difficulties will have to be overcome. TTIP might falter if there is not enough political support from the top echelons of government.

Novy notes that TTIP is not only an economic project but also a political project to promote transatlantic ties. What’s more, it might be the last opportunity for individual European countries to set high-standard global trade rules.

**Business cycle blues**
People do not psychologically benefit from economic expansions nearly as much as they suffer from recessions, according to research by Jan-Emmanuel De Neve and colleagues.

Their study reveals that recessions like that experienced in the UK and the Eurozone in recent years can rapidly undo the wellbeing gains from longer expansionary periods. The researchers conclude that policy-makers seeking to maximise wellbeing should focus more on preventing busts than promoting booms.

**Educational efficiency: value for money in public spending on schools**
The national education systems of Finland, South Korea and the Czech Republic deliver the best value for money, according to a ranking of 30 of the world’s richest countries based on their expenditure on teacher costs (which account for 80% of education budgets) and the pupil outcomes they achieve.

The study by Peter Dolton and colleagues finds that only two inputs have a consistent impact on educational outcomes: teachers’ pay and pupil-to-teacher ratios. On average, across all countries, the more money there is available to spend on teachers, the better results will be.

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Further information:

1. **CentrePiece** is the magazine of the Centre for Economic Performance. It is published three times a year. The Winter 2014/15 issue is Volume 19, Issue 3. Cover price £5; subscription rates on application to +44 (0)20 7955 6648.

2. **The Centre for Economic Performance** is an independent ESRC funded research centre based at the London School of Economics and Political Science. Its members are from the LSE and a wide range of universities within the UK and around the world.

3. For more information contact Romesh Vaitilingam on Email: romesh@vaitilingam.com or Helen Durrant on Email: h.durrant@lse.ac.uk