EQUALITY • SOCIAL ORGANIZATION • PERFORMANCE

ESOP

Annual report 2008

Universitas Osloensis MDCCCXI

Senter for fremragende forskning

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PREFACE

The year 2008 has been good for the centre. We have been successful in organizing the research activity around a stable turn-out on our weekly research seminar. The discussions are good and it seems that the seminar has established an atmosphere that provides an optimal friction and suitable challenges for presenters and participants. We follow the main lines of our research plan. The study of egalitarian lessons from the Nordic countries are our most important single research challenge. Yet we think we now have been more successful in communicating that ESOP is not only a centre for the study of the Nordic model. As emphasized in our application, ESOP also has wider and more general research perspectives on equality, social organization and performance, both in rich and poor countries. Our research in 2008 reflects these priorities.

Among our new research ideas, the study of how the financial crisis affect equality and welfare state arrangements belongs to the core of our research application both on the Nordic challenges and more generally. The financial crisis may be a double edged sword for equality and performance. It clearly raises the popularity of welfare state arrangements throughout the world as wider segments of the population are affected by serious economic stress. The crisis may also, however, weaken the social foundations for egalitarian policies and institutions. In Scandinavia, for instance, the crisis may reduce the social collaboration between employers and workers in implementing wage restraint as the perceived links from restraint to employment has been disturbed by financial constraints.

In addition to basic research we have written less technical overviews and contributed to public debate. We have accepted an invitation to write an overview paper based on ESOP research to the governmental commission on inequality and redistribution (Fordelingsutvalget). We have also finished a paper commissioned by the UN, on the social dimensions of the development of the Norwegian oil extraction. Our main projects still receive great attention from the media. We participate in radio, TV, and news papers. We often present our work in more popular settings. In fact, there are more invitations than we are capable to accept.

Finally, our excellent administrative leader left us for another job in Tønsberg. We are happy to report that the problem was solved by the employment first of a substitute administrator for half a year and now by a new administrative leader in place and in the process of being permanently employed.

Prof. Kalle Moene
Centre leader

Prof. Halvor Mehlum
Deputy leader

Research areas

We structure our research around five subareas:

- The Welfare State
- Social Organization
- Development and Globalization
- Income and Social Mobility
- Institutions and Society Models

With a flexible interpretation these areas cover most of the research at ESOP.

The Welfare State

It is ESOP's ambition to explore the sustainability of generous welfare states. What determine their performance and their economic and political feasibility?
Welfare states provide valuable safety nets, insurance, and redistribution, but these policies also affect people's incentive to work, save, and invest. The political support for the welfare state depends, among other things, on the distribution of income. Gender also plays an important role as women are strong supporters of the welfare state. The willingness to pay taxes may in turn depend on what the welfare state provides and whom it provides this for. These interdependencies must be accounted for.

Social Organization

It is ESOP's ambition to explore the interaction between markets, social equality and worker security. Do market forces erode social reforms? Do social reforms erode market efficiency?
There is a strong interdependence between how the economy is organized, how the workplace is organized, and what culture of trust and cooperation that prevails in a society. Egalitarian societies usually have less hierarchical firms. This work organization in return reinforces the mechanisms that sustain egalitarian features. Small social differences in the society and at the workplace may also produce less social conflict, more cohesion, and hence more smoothly functioning societies with more cooperation. The importance of feed-back mechanisms and consistency is often emphasized in Economics, but the framework is usually limited to the market mechanism. The interconnections between the economic, social, and political forces should be captured within similar frameworks.

Development and Globalization

It is ESOP's ambition to understand the viability of egalitarian market economies. What are the impacts of global competition for the distribution of income and prosperity?
Questions concerning the viability of egalitarian societies are relevant for all countries, rich or poor, egalitarian or inegalitarian. In all countries there are linkages between equality, social organization, and economic performance. These linkages are as important for the survival of the European welfare states as for the feasibility of an equitable society in general. Can Nordic-style welfare arrangements be introduced in all types of societies? Or are they only feasible in consensual, homogeneous and affluent societies with an extraordinary commitment to equality? Do the Nordic lessons have any relevance for countries that are conflict-ridden, heterogeneous, and poor? We study the feasibility of implementing welfare state arrangements in poor countries and to what extent the Scandinavian model can be understood as a development strategy. Can there be a welfare state for the poor? Welfare state

arrangements are most needed where they are least developed. Welfare state arrangements in extremely poor countries could perhaps play an essential role for economic growth, social fairness, and gender equality.

Income and Social Mobility

It is ESOP's ambition to understand the linkages between economic performance, distribution, and social disparities. What are the costs and benefits of more equality?

Over the last 30 years, social equality and worker security have persisted in the Nordic countries and economic growth has been at par with the US. In the US, rising inequality has gone hand in hand with social cleavages and lower welfare. In contrast, most of Europe has experienced only a modest rise in inequality, but a sharp rise in unemployment. The Nordic countries, however, have in the same period combined social equality with good macroeconomic performance and full employment. To study the role of inequality, we must first derive what economic theory predicts for these societies. We can then confront the theoretical hypotheses with the observed patterns and draw valid conclusions.

Institutions and Society Models

It is ESOP's ambition to understand the interaction between policies, institutions, and long term development. What set of policies and institutions may generate an egalitarian development path within a consistent arrangement?

Institutional complementarities and social spillovers are important to understand modern societies and the Nordic experience. Certain policies, institutions and behaviors fit together and strengthen each other. In the long run, the outcomes may look as if societal arrangements come in certain social and economic organization packages. What are the mechanisms behind this clustering around certain institutional equilibria? Is there a universal relationship between equality and economic performance, or do equality and prosperity go together only under some institutional arrangements?

A quick tour of some projects

Below we present some of ESOPs projects related to each category. The projects listed represent examples of the ongoing research. The list do not cover projects that were adequately covered in last years report. Some of the projects have just been started and have not yet resulted in published research while others are closer to completion and are found also in the list of Publications or Working Papers at the end.

Disclaimer: *We define an ESOP project as a research project where at least one author (name in parenthesis) is part of ESOPs research team. Some of the projects below have funding from other sources than the Department or The Research Councils ESOP research grant.*

The Welfare State

Child care and education The degree of social mobility is an important to how we interpret inequalities in the earnings distribution. Inequalities may be even less desirable in societies where they are inherited than in societies where new generations stand more on their own feet. Universal access to education is an important means to stimulate social mobility. The effect of universal child care is, however, not obvious, and difficult to disentangle, since children in child care might be inherently different from other children, as might their parents. In our paper «No Child Left Behind. Universal Child Care and Children's Long-run Outcomes» we study in detail how adult earnings and education are affected by access to universal child care. We study around half a million children, that are born around 1970, and we find that access to child care raises adult education, as well as the probabilities of college attendance, high school completion and labor market participation. The effects are particularly strong for girls and children of low educated mothers, indicating that universal child care promotes social mobility and narrows the gender wage gap. (Havnes, Mogstad)

Information as prerequisite for the welfare state: For a welfare state to survive in the long run it needs political support, i.e. a substantial fraction of the voters have to vote for politicians who want to keep the welfare state. As the poor are more in favor of an extensive welfare state than the rich, the requirement boils down to a sufficient number of the poor supporting the welfare state. However, in many countries, poor voters have little information about and little interest in politics. This may both make them more reluctant to vote, and increase the likelihood of voting against their own interests. This reduces the support for the welfare state. We show empirically that in countries where there is a strong link between poverty and lack of interest in politics, the welfare state is smaller than in countries where information is more evenly distributed. (Lind)

High health inequality in Nordic countries? International comparisons reveal that the Nordic countries all have a high degree of correlation between income and health. Low income goes hand in hand with high probability of death while high income goes hand in hand with low probability of death. It is surprising that this correlation is stronger in Nordic welfare states than in societies with less dominance of universal health provision. Is income such an important determinant of health in the Nordic countries? We are investigating the issue empirically and theoretically and our tentative conclusion is that the correlation between health and income is a result of other individual factors (e.g. determination/will power). Moreover we show that successful policy toward a more egalitarian income distribution causes higher measure of health inequality even when nothing happens to any individual's health. (Brekke)

Rational Ignorance Individuals with a preference for keeping moral obligations may dislike getting the information that voluntary contributions are socially valuable: Such information can trigger unpleasant feelings of cognitive dissonance. We show that if initial beliefs about the social value of contributions are sufficiently low, duty-oriented consumers are willing to pay to avoid information. Attitude campaigns can increase contributions from such consumers by providing them with unwanted information. Consequentialist warm glow types with low initial beliefs, however, will seek low-cost information on their own initiative; thus, campaigns will have less effects for such consumers. (Nyborg)

Social Organization

How do politicians priorities change close to election? Politicians are empowered for a limited amount of time. To what extent does this affect implemented policies? The political economy literature shows that how much a government chooses to save in financial capital is affected by its probability of remaining in office in the future. These outcomes are generally referred to as strategic debt accumulation and are theoretically well understood as potential determinants of actual policies. However, when confronted with data, these theories have not found much support. We pay attention to a related mechanism, the strategic use of public capital. The availability of this policy instrument may dampen and even remove the incentive for strategic debt accumulation, as physical capital is used to influence future policy instead. In an empirical analysis of Norwegian municipalities we find that incumbent policymakers' adjust their investment policies in response to altered re-elected probabilities. Incumbents who experience a positive re- election shock raise investment in the purposes they prefer relatively strongly, as compared to their competitors for office. Our interpretation is that politicians fear that their investment is inefficiently utilized if they loose the election. (Fiva)

Playing with the good guys: It is usually difficult to maintain high levels of cooperation in groups unless it is possible to punish those who defect. A typical example is teamwork, where it may be tempting to shirk if the others cannot punish you for it. Also, if one person already shirks, it is more tempting for others to shirk, hence creating a domino effect of shirking. Economists have found this effect in several experimental studies. We attempt to separate the more cooperative players, who are unlikely to shirk, from the less cooperative players by allowing players to join groups where either an amount of money is donated to the Red Cross or the person can keep the money himself. It turns out that players who decide to donate to the Red Cross behave more cooperatively, and it is easier to maintain low levels of shirking in these groups than in groups of players who prefer to keep the money for themselves. This effect can also explain why firms with a corporate social responsibility may attract better workers than other firms. (Brekke, Hauge, Lind, Nyborg)

Development and Globalization

Oil and political power This research focuses on the relationship between the presence of oil and the political regime of a country. Existing studies establish a negative cross-country correlation between oil and democracy. This insight has recently been challenged as it has been claimed that oil abundance and democracy both are the result of other underlying factors. We investigate the claims and counter claims and find that levels of oil indeed systematically predict both levels and changes in democracy in a sample of up to 156 countries between 1972 and 2002.

There are several theories in economics and political sciences that point to the fact that oil income might alter both the incentives and ability to stay in power. Higher oil income might both increase the value of being in power, and make it easier for a leader to buy off challengers or buy support from groups of the population. We study empirically the relationship between oil and the duration of power for dictatorships, semi-democratic regimes and democratic regimes. (Andersen and Aslaksen)

Informal savings groups In the developing world there is a widespread system of informal groups that provide savings and insurance for individuals. Such informal groups cannot rely on external enforcement to insure that members abide by their obligations. It is generally assumed that these problems are solved by ‘social sanctions’ and reputational effects. Our research focuses on roscas, one of the most commonly found informal financial institutions in the developing world. We first show that, in the absence of an external (social) sanctioning mechanism, roscas are never sustainable, even if the defecting member is excluded from all future roscas. We then argue that the organizational structure of the rosca itself can be designed as to address enforcement issues. The implications of our analysis are consistent with first-hand evidence from rosca groups in a Kenyan slum.

Opium for the masses? We show that the recent dramatic rise in Afghan opium production is caused by escalating violent conflicts. Violence destroys roads and irrigation, crucial to alternative crops. It also weakens local incentives to rebuild the infrastructure and to enforce law and order, sustaining the new level of opium production. Exploiting a unique data set, we show that Western hostile casualties, our proxy for conflict, have a strong impact on subsequent local opium production. This proxy is shown to be exogenous to opium. We exploit the discontinuity at the end of the planting season: Conflicts have a strong effect before and no effect after planting, assuring causality. The strongest effects of conflicts are found where government law enforcement is weak. (Lind, Moene, Willumsen)

International index rankings International index rankings are popular, but dangerous. They stimulate rank-seeking behavior by emphasizing country differences where similarity is dominant. We concentrate the discussion around the popular Human Development Index, Freedom House, and the Doing Business Index. Most of the rankings in these three indexes appear to be misleading, not because of wrong indicators, but because the estimation of the scores ignores inherent uncertainty. When we re-estimate them with a method that captures this uncertainty, it is clear that the practice of comparing adjacent countries is a rather courageous activity. (Høyland, Moene, Willumsen)

Income and Social Mobility

Labor market discrimination Employment protection legislation is an important part of the Nordic labor market. When workers do not face the threat of being fired over night they do not need to be afraid of demanding their right and to get into conflicts with the employer. A potential problem is that Employment protection makes the employer more reluctant to hire workers in the first place. But if all workers are more or less equal and if employment protection benefits everyone this effect is limited. However, for groups that face discrimination, general employment protection may reduce their chance of being hired. In the work "Discrimination and Employment Protection" we explore this possibility. Consider an economy where workers, that are unsatisfied and unproductive in their job, move on provided they get a new job offer. Now, if a certain group of workers seldom get new offers they will stay in job relationships that are unproductive for long. This group will therefore be less attractive in the market. Thus a vicious circle is established where employers discriminate because other employers discriminate. This effect is stronger the stronger the employment protection legislation is. Thus legislation that benefits the majority of workers may hurt a minority. (Holden, Rosén)

Trade, wages, and productivity Why do a coordinated low wage dispersion go hand in hand with high productivity in highly open economies? These observations, of which the Nordic countries are prime examples, are at odds with strong views held by both globalization pessimists and welfare pessimists. Combining insights from new trade theory with old insights from wage bargaining, I show that the seemingly contradictory observations of low wage dispersion combined with high productivity in highly open economies in fact should be expected. Lowering of trade costs, for example induced by technological progress or through changes in tariffs, will drive the least efficient firms out the market, but the strength of this selection mechanism depends crucially on the wage bargaining system: under coordinated wage bargaining the least productive firms will be driven out quicker than under decentralized wage and more high productive firms will enter foreign markets. All this follows from the simple observation that firms have less discretion in wage-setting under coordinated wage bargaining: after a trade shock the high productive firms reap more of the benefits from entering foreign markets than under decentralized bargaining, and as resources are reallocated towards the more productive firms the least productive ones are driven out of the market, increasing aggregate productivity. (Willumsen)

Wages of men and women: The labor market is segregated by gender, and occupations dominated by women have in general lower wages than occupations dominated by men. Sometimes this is the foundation for statements like "when women enter male dominated occupations, and the share of women increase, the real mean wages in that occupation stagnates or declines". As far as we know there exist no empirical work that could confirm or disconfirm such a statement, and the aim of this empirical study is to investigate in detail how the different segments of the labor market are affected by an increase in the fraction of woman.
We also investigate the effect of becoming a parent on women's and men's wages and income. Previous studies have found that Norwegian mothers on average have about 3% lower wages than other women in Norway, while men on average seem to do somewhat better when becoming fathers. We elaborate these findings as a basis for further research into what effects parenthood has at the household level. By identifying mothers and fathers in the same household we look at how the wage effects of having children are distributed between the parents. We also analyze these effects - on mothers, fathers and households - for different subgroups of the Norwegian population: The analysis is done separately for different educational groups, the private and the public sector and for different types of intrahousehold income composition. (Clarhäll, Cools, Strøm)

Children and parents There exists a range of work on child gender and economic behavior in development economics. Child gender could be argued to be important in some underdeveloped countries where the gender of the child can impact whether the child is given access to different welfare goods, like attendance to school etc. Though it is not as recognizable in our society, we would like to explore if and how child gender has any impact on the labor market participation of parents. The project's aim is to study two questions: Does child gender have an impact on fathers and mothers labor supply? Does child gender have an impact on how fathers and mothers share their parental leave? (Clarhäll)

The relationship between distribution and development How the level of inequality changes as a society develops has been an important field of research at least since Kuznets' work on the topic in the 1950s. His hypothesis was that in poor countries, increased development should increase inequality until some turning point is reached where it should start to decline. Hence there should be arelationship between inequality and development shaped like an inverse U. So far there has not been any statistical method to properly investigate whether such a relationship is present. In a recent project, we have developed a new statistical test to do this, and applied it to the relationship between inequality and development. There appears indeed to be a relationship as hypothesized by Kuznets (Lind, Mehlum).

Institutions and Society Models

Wage rigidity In the current financial crisis the effect of macroeconomic crisis management depends critically on how prices respond to changes in the interest rate and to changes in aggregate demand. In normal times, when wages and prices are increasing year by year, changes in real wages may appear as wages increase more or less than the prices. If both price growth and wage growth is close to zero, as they might be in a depression, the flexibility of real wages might be limited if nominal wages cannot drop. Using historical data we study the relevance of downward nominal wage rigidity in OECD countries. In particular we study how labor market institutions affect the extent of wage rigidity. We find that wages are less flexible in low unemployment times. We also find that higher union density and more centralization are positively correlated with less flexible wages. (Holden)

Governance and Development Is ‘governance’ an important source of variation in development experiences? Governance is best thought of a sub-set of institutions, but it is a quite vague category which it is difficult to unbundle. With this starting point we emphasize two basic lessons which are discussed theoretically and illustrated by case studies covering a range of countries from Sierra Leone to Scandinavia.

The first lesson: Governance is the outcome of a political process and as such closely related to the political economy of development: No doubt, Sierra Leone has had terrible governance. Though the civil war which blighted the country between 1991 and 2002 caused economic hardship and distress, the main reason that Sierra Leone emerged from war as the world's poorest country, is that it entered the war with that status in 1991. The success of the Scandinavian model is a success story about good governance. The Scandinavian countries, however, are not rich today because they entered the Scandinavian model as rich countries. They became rich with the model.

The second lesson: Improving governance necessitates understanding the nature of the entire political equilibrium. Scandinavian countries experienced economic growth and rising living standards with rather untraditional labor market institutions and welfare policies promoting a radically egalitarian distribution of income. The reforms in the 1930s changed the political equilibrium and initiated the egalitarian path. Sierra Leone in contrast is not intrinsically poor. The country has diamonds and great agricultural potential and it is close to European markets. Had governance been better Sierra Leone may not have become South Korea or Taiwan, but at worst it would have become Botswana, but this development path has so far been blocked by a system of parsimonious relationships. (Baland, Moene, and Robinson)

PUBLICATIONS

Disclaimer: *For all these publications at least one author is part of ESOP's research team. Some of the papers below are based on projects with funding from other sources than the Department or ESOP's research grant from the Research Council of Norway*

Who Pays for Performance

Authors: Erling Barth, Bernt Bratsberg, and Oddbjørn Raaum, with T. Hægeland
Published in: International Journal of Manpower
Abstract: Using Norwegian establishment surveys from 1997 and 2003, we show that performance-related pay is more prevalent in firms where workers of the main occupation have a high degree of autonomy in how to organize their work. This observation supports an interpretation of incentive pay as motivated by agency problems. Performance-related pay is also more widespread in large firms. Traditionally, wage setting in the Norwegian labor market has been dominated by negotiations between trade unions and employer associations at the central and local levels, with a fixed hourly wage as a predominant element of the wage scheme. Our results show that performance-related pay is less common in highly unionized firms and in firms where wages are determined through centralized bargaining. Nevertheless, the evidence presented in this paper reveals that performance pay is on the rise in Norway, even after accounting for changes in industry structure, bargaining regime, and union density. Finally, we find that the incidence of performance-related pay relates positively to product-market competition and foreign ownership.

En adferdsøkonoms hyllest til Homo oeconomicus

Authors: Kjell Arne Brekke
Published in: Samfunnsøkonomen
Abstract: Jeg har flere ganger opplevd at noen synes å tro at adferdsøkonomer har et like lite hjertelig forhold til Homo Oeconomicus som ekstreme muslimer har til Muhammed-tegnere. Da er det på tide å skrive en hyllest til Homo Oeconomicus.

On Taxing Capital Income with Income Shifting

Authors: Vidar Christiansen, with Matti Tuomala
Published in: International Tax and Public Finance
Abstract: We examine a linear capital income tax and a nonlinear labor income tax in a two-type model where individuals live for two periods. We assume that taxes are paid only in the second period in which the agents receive both labor and capital income and may shift income from labor to capital. The two types of individuals may differ with respect to wage rate and initial resource endowments. In the absence of income shifting, endowment variation motivates a capital income tax which would not exist where there is pure wage rate variation. In the latter circumstance, income shifting would indeed establish a case for a capital income tax while adding variation in resource endowments would ambiguously affect the case. The asymmetric information case for a capital income tax must be traded off against distortionary effects not only on savings, but also on labor as an agent may earn labor income which is reported and taxed as capital income.

Optimal Comodity Taxation with Duty-Free Shopping

Authors: Vidar Christiansen, with Stephen Smith
Published in: International Tax and Public Finance
Abstract: International travellers are frequently offered the opportunity to purchase a certain quantity of goods duty-free. Individuals differ in their opportunities to benefit from duty-free shopping, and we

focus on the implications of these differences for optimal commodity taxation within a version of the optimal tax model of Mirrlees (Review of Economic Studies, 38, 175–208, *1971*). We show how duty-free alters the constraints on the use of commodity taxes to reduce the distortionary costs of income taxation or to reflect externalities. Beyond characterising optimal taxes in the duty-free regime, we discuss conditions under which allowing duty-free would increase or reduce social welfare.

Public Provision of Private Goods and Nondistortionary Marginal Tax Rates

Authors: Vidar Christiansen, with Sören Blomquist and Luca Micheletto

Published in: CESifo Working Paper

Abstract: The incidence and efficiency losses of taxes have usually been analysed in isolation from public expenditures. This negligence of the expenditure side may imply a serious misperception of the effects of marginal tax rates. The reason is that part of the marginal tax may in fact be payment for publicly provided goods and reflects a cost that the consumers should bear in order to face the proper incentives. Hence, part of the marginal tax serves the same role as a market price in the sense that it conveys information about a real social cost of working more hours. We develop this idea formally by studying an optimal income tax model in combination with a type of public provision scheme not analyzed before; the provision level is individualized and positively associated with the individual's labor supply. As examples we discuss child care, elderly care, primary education and health care. We show that there is a gain in efficiency where public provision of such a service replaces market purchases. We also show that it is necessary for efficiency that marginal income tax rates are higher than in economies where the services are purchased in the market. This is because the optimal tax should be designed so as to face the taxpayers with the real cost of providing the services. Hence, it might very well be that economies with higher marginal tax rates have less severe distortions than economies with lower marginal tax rates.

On taxing capital income with income shifting

Authors: Vidar Christiansen, with Matti Tuomala

Published in: International Tax and Public Finance

Abstract: We examine a linear capital income tax and a nonlinear labor income tax in a two-type model where individuals live for two periods. We assume that taxes are paid only in the second period in which the agents receive both labor and capital income and may shift income from labor to capital. The two types of individuals may differ with respect to wage rate and initial resource endowments. In the absence of income shifting, endowment variation motivates a capital income tax which would not exist where there is pure wage rate variation. In the latter circumstance, income shifting would indeed establish a case for a capital income tax while adding variation in resource endowments would ambiguously affect the case. The asymmetric information case for a capital income tax must be traded off against distortionary effects not only on savings, but also on labor as an agent may earn labor income which is reported and taxed as capital income.

Skatter og skattepolitikk gjennom 100 år

Authors: Vidar Christiansen, with Agnar Sandmo

Published in: Samfunnsøkonomen

Abstract: I løpet av 100 år har Norge gått fra et skattesystem der toll var hovedfinansieringskilden for et relativt beskjedent offentlig utgiftsnivå, til et høyt sakttenivå som er basert på en rekke direkte og indirekte skatter. I løpet av hundreårsperioden har det også vært en kraftig vekst i overføringene, noe som stiller skjerpende krav til skattesystemet. Målet for skattepolitikken har forskjøvet seg fra en rekke spesifikke hensyn til mer allmenne effektivitets- og fordelingsmål – parallelt med og trolig påvirket av utviklingen i skatteteori og empirisk skatteforskning.

The Incentive Effects of Property Taxation: Evidence from Norwegian School Districts

Authors: Jon H. Fiva and Marte Rønning

Published in: Regional Science and Urban Economics

Abstract: Recent theoretical contributions indicate favorable incentive effects of property taxation on public service providers. The object of this paper is to confront these theories with data from Norwegian school districts. The institutional setting in Norway is well suited for analyzing the effects of property taxation because one can compare school districts with and without property taxation. To take into account potential endogeneity of the choice of implementing property taxation, we rely on instrumental variable techniques. The empirical results indicate that, conditional on resource use, property taxation improves school quality measured as students' result on the national examination.

The three outsiders and the monetary union

Authors: Steinar Holden, with Harry Flam, Antonio Fatas, Tullio Jappeli, Ilian Mihov, Marco Pagano and Charles Wyplosz

Published in: EMU at ten. Should Denmark, Sweden and the UK join? (book)

Downward nominal wage rigidity in the OECD

Authors: Steinar Holden,with Fredrik Wulfsberg

Published in: The B.E. Journal of Macroeconomics

Abstract: Recent microeconomic studies have documented extensive downward nominal wage rigidity (DNWR) for job stayers in many OECD countries, but critics argue that the effect might be undone by compositional changes and flexibility in wages of new entrants. Using data for hourly nominal wages at industry level, we explore the existence of DNWR on industry wages in 19 OECD countries, over the period 1973-1999. We propose a novel method to detect DNWR. We reject the hypothesis of no DNWR in the overall sample. The fraction of wage cuts prevented due to DNWR has fallen over time, from 61 percent in the 1970s to 16 percent in the late 1990s, but the number of industries affected by DNWR has increased. DNWR is more prevalent when unemployment is low and union density is high. Strict employment protection legislation also leads to fewer wage cuts.

How the left prospers from prosperity

Authors: Simen Markussen

Published in: Publius: The Journal of Federalism

Abstract: This paper investigates the relationship between fluctuations in economic growth, unemployment, and voting along a left-right axis. I estimate a model that explains how political fluctuations are caused by economic fluctuations in the OECD countries. I find that higher economic growth causes a shift to the left of policy sentiments. I hold the provision of social insurance by the welfare state to be the key to understanding this relationship. I also find that the relationship changes over the sample period. I hold the tax increase needed to finance the expansion of the welfare state to be the reason for this.

Darwin og økonomene

Authors: Kalle Moene,

Published in: Hessen og Stenseth (ed) 'Darwin. Verden ble aldri den samme,
Gyldendal, Oslo 2008.

Abstract: Ingen som ønsker å forstå naturen kommer utenom Darwin. Men hva med samfunnsøkonomien, kan Darwin lære oss til å forstå den? Artikkelen går gjennom de to Darwin-inspirerte tradisjonene i økonomi -- den evolusjonære spilltradisjonen og Schumpetertradisjonen. De to tradisjonene utfyller hverandre. De stiller forskjellige spørsmål og arbeider på forskjellig abstraksjonsnivå. De har mye å lære av hverandre og mye å lære bort til mer tradisjonelle økonomer både når det gjelder kriser, vekst, sosial organisering, altruisme og velferd. Men å integrere de ulike tradisjonene kan gjøre det enda vanskeligere å forkaste deler av dem. Problemet i teoretisk økonomi, som i andre samfunnsfag, er at det er for lite seleksjon --- for få teorier forkastes. Det er trolig derfor at økonomenes Mekka fortsatt ligger i økonomisk mekanikk og ikke i økonomisk biologi.

Tilbake til Democracy in America?

Authors: Kalle Moene
Published in: Samfunnsøkonomen
Abstract: Jeg markerer økonomiforeningens hundreårsjubileum med å trekke fram en bok som knapt nevner ordet økonomi. Boken er Alexis de Tocquevilles to-binds verk, *Democracy in America*, publisert i 1835 og i 1840. Det er egentlig en reisekildring. Tocqueville skrev boken etter ni måneders rundreise i USA i 1830. Formålet med Amerika-reisen var å finne ut "what a great republic is", og hvordan demokratiske samfunnsforhold med tilnærmet like muligheter virker i kontrast til de aristokratiske samfunnsforhold i Tocquevilles hjemland Frankrike. Jeg trekker frem boken fordi temaet fortsatt er viktig, fordi metoden er så forskjellig fra den som dominerer dagens politiske økonomi og fordi konklusjonene kanskje kan lære oss noe om den nordiske modellen.

Insurance and Opportunities: A Welfare Analysis of Labor Market Risk

Authors: Kjetil Storesletten, with Jonathan Heathcote and Giovanni L. Violante
Published in: Journal of Monetary Economics
Abstract: Using a model with constant relative risk-aversion preferences, endogenous labor supply and partial insurance against idiosyncratic wage risk, the paper provides an analytical characterization of three welfare effects: (a) the welfare effect of a rise in wage dispersion, (b) the welfare gain from completing markets, and (c) the welfare effect from eliminating risk. Our analysis reveals an important trade-off for these welfare calculations. On the one hand, higher wage uncertainty increases the cost associated with missing insurance markets. On the other hand, greater wage dispersion presents opportunities to raise aggregate productivity by concentrating market work among more productive workers. Our welfare effects can be expressed in terms of the underlying parameters defining preferences and wage risk or, alternatively, in terms of changes in observable second moments of the joint distribution over individual wages, consumption and hours.

Taxes and the Global Allocation of Capital

Authors: Kjetil Storesletten, with Espen Henriksen and David Backus
Published in: Journal of Monetary Economics
Abstract: Despite enormous growth in international capital flows, capital-output ratios continue to exhibit substantial heterogeneity across countries. We explore the possibility that taxes, particularly corporate taxes, are a significant source of this heterogeneity. The evidence is mixed. Tax rates computed from tax revenue are inversely correlated with capital-output ratios, as we might expect. However, effective tax rates constructed from official tax rates show little relation to capital - or to revenue-based tax measures. The stark difference between these two tax measures remains an open issue.

On the Timing of Optimal Capital Taxation

Authors: Kjetil Storesletten and Fabrizio Zilibotti, with John Hassler and Per Krussel
Published in: Journal of Monetary Economics
Abstract: For many kinds of capital, depreciation rates change systematically with the age of the capital. Consider an example that captures essential aspects of human capital, both regarding its accumulation and its depreciation: a worker obtains knowledge in period 0, then uses this knowledge in production in periods 1 and 2, and thereafter retires. Here, depreciation accelerates: it occurs at a

100% rate after period 2, and at a lower (perhaps zero) rate before that. The present paper analyzes the implications of non-constant depreciation rates for the optimal timing of taxes on capital income. The main finding is that under natural assumptions, the path of tax rates over time must be oscillatory. Oscillatory tax rates are optimal when depreciation rates accelerate with the age of the capital (as in the above example), and provided that the government can commit to the path of future tax rates but cannot apply different tax rates in a given year to different vintages of capital.

Globalisering og omstilling. Holder den norske modellen mål?

Authors: Karen H. Ulltveit-Moe, with Victor D. Norman
Published in: Samfunnsøkonomen
Abstract: Denne artikkelen gir en kritisk vurdering av hvor godt Norge har utnyttet de mulighetene globaliseringsbølgen har gitt oss. Det hevdes ofte at vi, takket være fordelingspolitikken og trygdesystemet , har bedre tilpasningsevne enn andre land. Vi finner at der er riktig i den forstand at de som er negativt berørt av globalisering og omstilling stort sett er holdt økonomisk skadeløse, og også i den forstand at globaliseringen ikke har ført til en vesentlig større inntektsulikhet. Vi synes imidlertid å ha sløst bort betydelig deler av globaliseringsgevinsten. Mye av omstillingene har bestått i å skyve berørte arbeidsgivere ut av arbeidslivet, og et gjennomgående trekk ved tilpasningen er en kraftig sentralisering av økonomisk aktivitet. Dette gir tap som kan være så stort at det representerer en betydelig del av den gevinsten vi har høstet. Vi føler oss ikke overbevist om at utstøting og sentralisering er uavvendelig konsekvenser av globalisering, og stiller derfor spørsmålet om det er nødvendig med en kritisk revurdering av den norske modellen for tilpassning og omstilling.

MASTER THESIS

Transition in the Baltic countries: the economic effects of institutions and uncertainty

Author(s): Erlend Eide Bø
Published in: Master thesis, Dept. of Economics, Aug 18, 2008
Abstract In my thesis I look at the experiences of the Baltic countries (Estonia, Latvia and Lithuania) after the collapse of the Soviet Union. The main weight is put on exploring the choices taken when the countries set up a new institutional system, to find if differences in these choices can explain differences in economic performance between the countries. My hypothesis is that qualitative differences in the countries' institutions and the uncertainty around their development have lead to different rates of growth. I look at different theories about how different institutions are important to achieve growth, and then see how they fit with empirics from the three countries. I find that Estonia's better economic performance in the transition years can be explained by its success in building better institutions than Latvia and Lithuania, and by lower uncertainty over its future, due to more consistent policies leading towards a market economy.

The Norwegian pension system: the economic effects of funded pension benefits

Author(s): Jens Christian Haatvedt
Published in: Master thesis, Dept. of Economics, Aug 18, 2008
Abstract This thesis focuses on the long run quantitative macroeconomic and welfare effects of pension funding. The model frameworks we use are general and partial equilibrium overlapping generations models calibrated to Norwegian data. We find large quantitative increases in welfare in the new steady state as a result of pension funding in the general equilibrium model. The partial equilibrium model strengthens the quantitative increase in welfare as a result of pension funding.

Crime and Poverty in the Kingdom of Bavaria during the Period 1835/36 - 60/61

Author(s): Ingrid Krüger

Published in: Master thesis, Dept. of Economics, May 2, 2008

Abstract My main objective in this paper is to evaluate how poverty was related to property crime and violent crime respectively in the Kingdom of Bavaria during the period 1835/36 – 60/61. My point of departure is the book Statistik der Gerichtlichen Polizei im Königreiche Bayern und in einigen anderen Ländern, written by the German statistician Georg Mayr and published in 1867. The two main reasons why I wanted to write this paper was (i) to have a closer look at the link between poverty and crime and (ii) to evaluate the techniques and the way of reasoning used by a statistician writing in the early days of statistics, both by looking at more data and by using modern software tools. There are tendencies in the data, showing that in poor years, there was on the one hand less violent crime and on the other hand more property crime and more beggary/vagrancy in the Kingdom of Bavaria during the period 1835/36 – 60/61.

The effect of openness on welfare state generosity

Author(s): Nina Lillelien

Published in: Master thesis, Dept. of Economics, Nov. 2008

Abstract: The Welfare State systems in Western countries are subject to continious debate and a substantial amount of research. This thesis investigates how economic globalization affects welfare state generosity, an area where previous research has found conflicting results. The thesis contributes to the debate by problematizing how welfare states should be conceptualized. I define three categories of dependent variables in welfare state research, related to social spending, social rights and redistribution, respectively, and discuss strengths and weaknesses. An empirical investigation of 18 OECD-countries is carried out, using all three categories of variables, and the results show that openness has a negative effect on welfare state generosity.

Risky business. Theoretical approaches to housing in the household portfolio.

Author(s): Marius B. Østli

Published in: Master thesis, Dept. of Economics, May 2, 2008

Abstract

The thesis tries to rationalise the average composition of households'asset portfolios by two simple models: a static portfolio choice model and a dynamic life-cycle model. Both are calibrated with, and measured against, aggregated Norwegian data on household wealth allocation over 1992-2006, with emphasis on the role of housing as a savings vehicle. While neither approach is able to fully explain the observed holdings with the corresponding data, the portfolio choice model curiously finds that older asset return estimates (1966-1991) prescribe allocations that nearly match those observed over 1992-2006.

Working Papers

Disclaimer: *For all these working papers at least one author is part of ESOP's research team. Some of the papers below are based on projects with funding from other sources than the Department or ESOP's research grant from the Research Council of Norway.*

Self-serving dictators

Authors: Geir B. Asheim, with Leif Helland, Jon Hovi and Bjørn Høyland

Abstract: We provide experimental evidence of self-serving fairness ideals in a dictator game design that includes treatments where funds can be transferred in two ways to the one player and in one way to the other. Two methods for transferring funds to the recipient produce the same results as the regular dictator game. However, two methods for transferring funds to the dictator reduce her generosity significantly. Hence, the fairness ideal adopted by dictators appears to be equal share per individual in the former case (as in the regular dictator game), and equal share per transfer method in the latter case.

Procrastination, partial naivete, and behavioral welfare analysis

Authors: Geir B. Asheim

Abstract: This paper has a dual purpose. First, I present a new modeling of partial naivete and apply this to procrastination. The decision maker is partially naive by perceiving that his current preferences may persist in the future. The behavioral implications of such partial naivete differ from those of related literature. Second, I suggest a general principle for welfare analysis in multi-self settings through a new application of Pareto-dominance, which reduces to the usual criterion for intertemporal choice if preferences are time consistent. In the case of procrastination, it leads to a clear welfare conclusion: Being partially naive reduces welfare.

Coordinating under incomplete information

Authors: Geir B. Asheim, with Seung Han Yoo

Abstract: We show that, in a minimum effort game with incomplete information where player types are independently drawn, there is a largest and smallest Bayesian equilibrium, leading to the set of equilibrium payoffs (as evaluated at the interim stage) having a lattice structure. Furthermore, the range of equilibrium payoffs converges to those of the deterministic complete information version of the game, in the limit as the incomplete information vanishes. This entails that such incomplete information alone cannot explain the equilibrium selection suggested by experimental evidence.

Sustainable recursive social welfare functions

Authors: Geir B. Asheim, with T. Mitra and B Tungodden

Abstract: Koopmans' axiomatization of discounted utilitarianism is based on seemingly compelling conditions, yet this criterion leads to hard-to-justify outcomes. The present analysis considers a class of sustainable recursive social welfare functions within Koopmans' general framework. This class is axiomatized by means of a weak new equity condition ("Hammond Equity for the Future") and general existence is established. Any member of the class satisfies the key axioms of Chichilnisky's "sustainable preferences". The analysis singles out one of Koopmans' original conditions as particularly questionable from an ethical perspective.

Fixed-step anonymous overtaking and catching-up

Authors: Geir B. Asheim, with K. Banerjee

Abstract: We investigate criteria for evaluating infinite utility streams that satisfy Fixedstep anonymity and include some notion of overtaking or catching-up. We do so in a generalized setting which do not require us to specify the underlying finite dimensional criterion (e.g., utilitarianism or leximin). We present axiomatizations that rely on weaker axioms than those in the literature, and which in one case is new. We also provide a complete analysis of the relationships between the symmetric parts of these criteria and likewise for the asymmetric parts.

Sustainability and discounted utilitarianism in models of economic growth

Authors: Geir B. Asheim, with T. Mitra

Abstract: Discounted utilitarianism treats generations unequally and leads to seemingly unappealing consequences in some models of economic growth. Instead, this paper presents and applies sustainable discounted utilitarianism (SDU). SDU respects the interests of future generations and resolves intergenerational conflicts by imposing on discounted utilitarianism that the evaluation be insensitive to the interests of the present generation if the present is better off than the future. An SDU social welfare function always exists. We provide a convenient sufficient condition to identify SDU optima and apply SDU to two well-known models of economic growth. We also investigate the axiomatic basis for SDU.

Generalized time-invariant overtaking

Authors: Geir B. Asheim, with Claude d'Aspremont and Kuntal Banerjee

Abstract: We present a new version of the overtaking criterion, which we call generalized time-invariant overtaking. The generalized time-invariant overtaking criterion (on the space of infinite utility streams) is defined by extending proliferating sequences of complete and transitive binary relations defined on finite dimensional spaces. The paper presents a general approach that can be specialized to at least two, extensively researched examples, the utilitarian and the leximin orderings on a finite dimensional Euclidean space.

Infinite-horizon choice functions

Authors: Geir B. Asheim, with Walter Bossert, Yves Sprumont and Kotaro Suzumura

Abstract: We analyze infinite-horizon choice functions within the setting of a simple technology. Efficiency and time consistency are characterized by stationary consumption and inheritance functions, as well as a transversality condition. In addition, we consider the equity axioms Suppes-Sen, Pigou-Dalton, and resource monotonicity. We show that Suppes-Sen and Pigou-Dalton imply that the consumption and inheritance functions are monotone with respect to time—thus justifying sustainability— while resource monotonicity implies that the consumption and inheritance functions are monotone with respect to the resource. Examples illustrate the characterization results.

The relationship between welfare measures and indicators of sustainable development

Authors: Geir B. Asheim

Abstract: This chapter investigates whether measures of welfare improvement indicates sustainability. First it shows how the value of net investments and real NNP growth (appropriately extended if population growth is positive) can be used to measure welfare improvement, before turning to following two questions:

(1) Does non-negative value of net investments imply sustainable development?

(2) Does sustainable development imply non-negative value of net investments?

The main conclusion is that welfare improvement is not a sufficient condition for sustainability, but under special conditions it is a necessary condition for sustainability.

Global welfare comparisons

Authors: Geir B. Asheim

Abstract: To provide a normative foundation for transfers between different economies, one needs information on their "per capita welfare". This paper considers various methods for doing this. The main conclusion is that such global welfare comparisons are more informationally demanding than usually thought. Moreover, the ranking of methods is opposite as for local (e.g., over-time) comparisons, with real comprehensive per capita NNP being the least impractical method. The lesson is that global welfare comparison should be performed with great care. The comparisons must be made in local real prices calculated according to "purchasing-power-parity", where non-traded environmental amenities play an important role.

Health Insurance: Medical Treatment vs. Disability Payment

Authors: Geir B. Asheim and Tore Nilsen, with Anne Wenche Emblem,

Abstract: In this paper we integrate health insurance and disability insurance, which have been treated separately so far in the economics literature. We do this by viewing health insurance as a combined hedge against the two consequences of falling ill: treatment expenditures and loss in income due to permanent impairment. We discuss how an individual's (pre-illness) ability affects her decision on health insurance coverage if ill: whether to choose treatment to full recovery or partial treatment combined with cash compensation for the resulting loss in income. We find that a high-ability individual demands full recovery and equalizes utility across states, while a low-ability individual demands partial treatment and cash compensation and suffers a loss in utility if ill.

The Equality Multiplier

Authors: Erling Barth and Karl O. Moene

Abstract: Equality can multiply due to the complementarity between wage determination and welfare spending. A more equal wage distribution fuels welfare generosity via political competition. A more generous welfare state fuels wage equality further via its support to weak groups in the labor market. Together the two effects generate a cumulative process that adds up to an important social multiplier. We focus on a political economic equilibrium which incorporates this mutual dependence between wage setting and welfare spending. It explains how almost equally rich countries differ in economic and social equality among their citizens and why countries cluster around different worlds of welfare capitalism---the Scandinavian model, the Anglo-Saxon model and the Continental model. Using data on 18 OECD countries over the period 1976-2002 we test the main predictions of the model and identify a sizeable magnitude of the equality multiplier. We obtain additional support for the cumulative complementarity between social spending and wage equality by applying another data set for the US over the period 1945-2001.

Limits to tax evasion

Authors: Erling Barth and Tone Ognedal

Abstract: People appear to evade less tax than what is optimal for them. We explain this puzzle by an *efficiency-evasion trade-off* that leads to lower evasion per employee the more productive the firm. The trade-off creates a gap between the individually and the collectively optimal tax evasion within firms, and this gap increases with firm size. The results persist in a model where individuals with different entrepreeneurial talent choose between employment and ownership. We test the results on Norwegian survey data. The efficiency-evasion trade-off creates too high employment in low productive firms. Thus, even non-distortive taxes are socially costly because the induce tax evasion that creates inefficiency.

Fair Tax Evasion

Authors: Erling Barth and Tone Ognedal, with Alexander W. Cappelen

Abstract: In this paper we analyse how fairness considerations, in particular considerations of just income distribution, affect whether or not people believe tax evasion can be justified and their willingness to engage in tax evasion. Using data from the Norwegian "Hidden Labour Market Survey" we show that individuals with low wages or long working hours, individuals that are treated unfairly by most tax systems, have a higher probability of justifying tax evasion. The same individuals are also more likely to take home income without reporting it to the tax authorities. These results are consistent with a model in which individuals make a trade-off between economic gains and fairness considerations when they make decisions about tax evasion. Taken together our results suggest that considerations of fair income distribution are important for the analysis of tax evasion.

Does Raiding Explain the Negative Returns to Faculty Seniority?

Authors: Bernt Bratsberg, with James F. Ragan, Jr., and John T. Warren

Abstract: We track faculty for thirty years at five Ph.D.-granting departments of economics. Two-thirds of faculty who take alternative employment move downward; less than one-quarter moves upward. We find a substantial penalty for seniority, even after richly controlling for faculty productivity, and the penalty is little changed when we allow wages and returns to seniority to differ by mobility status. Faculty who end up moving to better or comparable positions are penalized as severely for seniority while they were in our sample as faculty who stay. These results are incompatible with the raiding hypothesis. Faculty from top-ten programs are also punished for seniority but to a lesser degree than other faculty, which could reflect reduced monopsony power against such faculty if they are more marketable. All results persist when we control for prospective publications and allow lower returns for older publications. Match-quality bias has dissipated in the post-internet period, which may be the consequence of greater availability of information.

Playing with the Good Guys: A Public Good Game with Endogenous Group Formation

Authors: Kjell Arne Brekke, Karine Nyborg and Jo Thori Lind, with Karen Evelyn Hauge,

Abstract: In social dilemmas, conditional cooperators may be able to sustain cooperation if they are matched with other conditional cooperators. We report results from a public good game experiment where subjects can choose between two group types: red and blue. In red groups, a fixed amount of each individual's payoff is donated to the Red Cross. About forty percent of the subjects chose red. While contributions in blue groups show the usual declining pattern, contributions in red groups stay high, leading to substantially higher average overall contributions in red groups.

Taxation and Heterogenous Preferences

Authors: Vidar Christiansen, with Sören Blomquist

Abstract: Non-linear income taxes and linear commodity taxes are analysed when people differ with respect to ability, high-skilled agents have heterogeneous preferences, and neither individual abilities nor preferences are observable. The paper highlights how informational constraints may motivate differential treatment of people with different preferences for leisure even if unequal treatment is not desirable per se. Which preference type will be better or worse off is shown to depend on the self-selection constraints associated with the information asymmetry. We characterize pure income tax optima, which may be bunching or separating optima. In particular, the income tax may not be able to distinguish between those low-income people who are low-skilled and those who have strong preference for leisure. As is shown, there may still be an impact on the optimum income tax schedule as it will depend on the composition of the population with respect to types of individuals. Finally, the paper addresses what can be achieved by commodity taxes when preferences are heterogeneous, in particular, in terms of targeting groups that the income tax is incapable of discriminating between.

Wage rigidity, institutions, and inflation

Authors: Steinar Holden, with Fredrik Wulfsberg

Abstract: A number of recent studies have documented extensive downward nominal wage rigidity (DNWR) for job stayers in many OECD countries. However, DNWR for individual workers may induce downward rigidity or "a floor" for the aggregate wage growth at positive or negative levels. Aggregate wage growth may be below zero because of compositional effects, for example that old, high-wage workers are replaced by young low-wage workers. DNWR may also lead to a positive growth in aggregate wages because of changes in relative wages. We explore industry data for 19 OECD countries, over the period 1971–2006. We find evidence for floors on nominal wage growth at 6 percent and lower in the 1970s and 1980s, at one percent in the 1990s, and at 0.5 percent in the 2000s. Furthermore, we find that DNWR is stronger in country-years with strict employment protection legislation, high union density, centralised wage setting and high inflation.

Testing for Cognitive Dissonance Evidence from Children

Authors: Steinar Holden

Abstract: In a recent paper, Egan, Santos and Bloom (2007) report from an experiment which they claim provides evidence for cognitive dissonance among preschoolers. The subjects are given a choice between two alternatives (two different stickers) that the subjects previously have given the same rating of liking. The subjects are then given the choice between the unchosen sticker and a third sticker that was originally also given the same rating. The children preferred the third sticker over the unchosen one, which Egan et al interpreted as a reduction in the liking of the unchosen sticker, i.e. as evidence for cognitive dissonance. In this article I argue that the two alternatives should not be viewed as equally attractive, in spite of the previous equal rating. This implies that the preference for the third sticker is not caused by cognitive dissonance. Furthermore, I report the results from a variation to their experiment that supports my argument.

The Island Problem Revisited

Authors: Halvor Mehlum

Abstract: I revisit the so called Island Problem of forensic statistics. The problem is how to properly update the probability of guilt when a suspect is found that has the same characteristics as a culprit. In particular, how should the search protocol be accounted for? I present the established results of the literature and extend them by considering the selection effect resulting from a protocol where only cases where there is a suspect reach the court. I find that the updated probability of guilt is shifted when properly accounting for the selection effect. Which way the shift goes depends on the exact distribution of all potential characteristics in the population. The shift is only marginal in numerical examples that have any resemblance to real world forensic cases. The Island Problem illustrates the general point that the exact protocol by which data are generated is an essential part of the information set that should be used when analyzing non-experimental data.

Exact Small Sample Properties of the Instrumental Variable Estimator: A view from a Different Angle

Authors: Halvor Mehlum

Abstract: I derive the exact small sample properties of the instrumental variables estimator using a trigonometric approach. The distribution for the estimation error is decomposed into a product of three components - each with an intuitive interpretation. This approach helps the discussion on what underlies the exact shape of the estimator's distribution and in particular the possibility of a bimodal distribution.

The Equality Multiplier

Authors: Erling Barth and Karl O. Moene

Abstract: Equality can multiply due to the complementarity between wage determination and welfare spending. A more equal wage distribution fuels welfare generosity via political competition. A more generous welfare state fuels wage equality further via its support to weak groups in the labor market. Together the two effects generate a cumulative process that adds up to an important social multiplier. We focus on a political economic equilibrium which incorporates this mutual dependence between wage setting and welfare spending. It explains how almost equally rich countries differ in economic and social equality among their citizens and why countries cluster around different worlds of welfare capitalism---the Scandinavian model, the Anglo-Saxon model and the Continental model. Using data on 18 OECD countries over the period 1976-2002 we test the main predictions of the model and identify a sizeable magnitude of the equality multiplier. We obtain additional support for the cumulative complementarity between social spending and wage equality by applying another data set for the US over the period 1945-2001.

Opium for the Masses? Conflict-induced Narcotics Production in Afghanistan

Authors: Kalle Moene and Jo Thori Lind, with Fredrik Willumsen

Abstract: We show that the recent rise in Afghan opium production is caused by violent conflicts. Violence destroys roads and irrigation, crucial to alternative crops, and weakens local incentives to rebuild infrastructure and enforce law and order. Exploiting a unique data set, we show that Western hostile casualties, our proxy for conflict, have strong impact on subsequent local opium production. This proxy is shown to be exogenous to opium. We exploit the discontinuity at the end of the planting season: Conflicts have strong effects before and no effect after planting, assuring causality. Effects are strongest where government law enforcement is weak.

Enforcement in Informal Saving Groups

Authors: Kalle Moene, with Siwan Anderson and Jean-Marie Baland

Abstract: Informal groups cannot rely on external enforcement to insure that members abide by their obligations. It is generally assumed that these problems are solved by 'social sanctions' and reputational effects. The present paper focuses on roscas, one of the most commonly found informal financial institutions in the developing world. We first show that, in the absence of an external (social) sanctioning mechanism, roscas are never sustainable, even if the defecting member is excluded from all future roscas. We then argue that the organizational structure of the rosca itself can be designed so as to address enforcement issues. The implications of our analysis are consistent with first-hand evidence from rosca groups in a Kenyan slum.

Business models for media firms: Does competition matter for how they raise revenue?

Authors: Tore Nilssen, with Hans Jarle Kind and Lars Sørgard

Abstract: The purpose of this article is to analyze how competitive forces may influence how media firms like TV channels raise revenue. A media firm can either be financed by advertising revenue, by direct payment from the viewers (or the readers, if we consider newspapers), or by both. It is shown that the less differentiated the media firms content, the larger is the fraction of their revenue that comes from advertising. If the number of media firms increases, on the other hand, direct payment from the media consumers becomes more important. We also show that advertising prices are strategic substitutes, which implies that competition in advertising prices is distinctly different from price competition in other markets.

Waiting to Merge

Authors: Tore Nilssen, with Eileen Fumagali

Abstract: We set up a sequential merger game to study a firm's incentives to pass up on an opportunity to merge with another firm. We find that such incentives may exist when there are efficiency gains from a merger, firms are of different sizes, there is an antitrust authority present to approve mergers, and there is a sufficient alignment of interests between the antitrust authority and the firms. We point out three distinct motives for not merging: the external-effect motive, the bargaining-power motive, and the pill-sweetening motive.

Keeping Both Eyes Wide Open: The Life of a Competition Authority Among Sectoral Regulators

Authors: Tore Nilssen, with Steffen Hoernig and Pedro Luis Pita Barros

Abstract: Competition authorities must pay attention to many industries simultaneously. Sectoral regulators concentrate on their own industry. Often both types of authority may intervene in specific industries and there is an overlap of jurisdictions. We show how a competition authority's resource allocation is affected by its relationships with sectoral regulators and their biases. If agencies collaborate (compete), the competition authority spends more effort on the industry with the more (less) consumer-biased sectoral regulator. The competition authority spends budget increases on the industry whose regulator reacts less to more effort. The socially optimal budget corrects for distortions due to regulatory bias, but only downwards.

I Don't Want to Hear About it: Rational Ignorance among Duty-Oriented Consumers

Authors: Karine Nyborg

Abstract: Individuals with a preference for keeping moral obligations may dislike learning that voluntary contributions are socially valuable: Such information can trigger unpleasant feelings of cognitive dissonance. I show that if initial beliefs about the social value of contributions are sufficiently low, duty-oriented consumers are willing to pay to avoid information. Attitude campaigns can increase contributions from such consumers by providing them with unwanted information. Consequentialist warm glow types with low initial beliefs, however, will seek low-cost information on their own initiative; thus, campaigns will have less effects for such consumers.

Will Green Taxes Undermine Moral Motivation?

Authors: Karine Nyborg

Abstract: Both phychologists and economists have shown that under certain circumstances, economic incentives seem to undermine intrinsic or moral motivation. If such crowding-out effects are sufficiently strong, the effect of green taxes might even be counterproductive and increase, rather than decrease, environmental problems. However, moral motivation can also be reinforced by economic incentives, a fact which has received surprisingly little attention in the literature. I argue that in particular, reciprocal preferences and conditional cooperation provide strong reasons to expect green taxes to support, rather than undermine, individuals' moral motivation to contribute to a better environment.

The effects of a shadow labour market

Authors: Tone Ognedal

Abstract: I explore how a shadow labour market affects the regular labour market, and the effects of taxes and minimum wages. Since workers in the shadow market need some reported income to avoid detection, they are willing to accept lower wages in a regular job that can be combined with shadow work. Firms in the regular market may benefit from offering such jobs as long as their marginal product of work hours per employee is not too high. As a result, low productive firms offer more

opportunities for shadow work than high productive firms. I demonstrate that the shadow labour market leads to an inefficient allocation in the regular labour market, where too much labour is employed in low productive firm, and too many low productive firms enter the market. Higher taxes increase the labour market distortions, while minimum wages reduces them. All workers gain from the shadow labour market, even those who only work in the regular labour market. High productive firms loose and low productive firms gain. The model offers an explanation for the well-known tax evasion puzzle that people seem to evade less than what is optimal for them

Growing like China

Authors: Kjetil Storesletten and Fabrizio Zilibotti, with Zheng Song,

Abstract: China has been growing at a high rate and has at the same time accumulated a staggering foreign surplus. We constructs a theory that explain these seemingly puzzling observations, while being consistent with salient features of the Chinese growth experience since 1992: high output growth, sustained returns on capital investments, extensive reallocation within the manufacturing sector, falling labor share and accumulation of a large foreign surplus. The theory makes only minimal deviations from a neoclassical growth model. Its building blocks are financial imperfections and reallocation among firms with heterogeneous productivity. Some firms use more productive technologies than others, but low-productivity firms survive because of better access to credit markets. Due to the financial imperfections, high-productivity firms - which are run by entrepreneurs - must be financed out of internal savings. If these savings are sufficiently large, the high-productivity sector outgrows the low-productivity sector, and attracts an increasing employment share. During the transition, low wage growth sustains the return to capital. The downsizing of The financially integrated sector forces a growing share of domestic savings to be invested in foreign assets, generating a foreign surplus. We test some auxiliary implications of the theory and find robust empirical support.

Quantitative Macroeconomics with Heterogenous Households

Authors: Kjetil Storesletten, with Jonathan Heathcote and Giovanni L. Violante

Abstract: Macroeconomics is evolving from the study of aggregate dynamics to the study of the dynamics of the entire equilibrium distribution of allocations across individual economic actors. This article reviews the quantitative macroeconomic literature that focuses on household heterogeneity, with a special emphasis on the "standard" incomplete markets model. We organize the vast literature according to three themes that are central to understanding how inequality matters for macroeconomics. First, what are the most important sources of individual risk and cross-sectional heterogeneity? Second, what are individuals' key channels of insurance? Third, how does idiosyncratic risk interact with aggregate risk?

The Macroeconomic Implication of Rising Wage Inequality in the United States

Authors: Kjetil Storesletten, with Jonathan Heathcote and Giovanni L. Violante

Abstract: In recent decades, the US wage structure has been transformed by a rising college premium, a narrowing gender gap, and increasing persistent and transitory residual wage dispersion. This paper explores the implications of these changes for cross-sectional inequality in hours worked, earnings and consumption, and for welfare. The framework for the analysis is an incomplete-markets overlapping-generations model in which individuals choose education and form households, and households choose consumption and intra-family time allocation. An explicit production technology underlies equilibrium prices for labor inputs differentiated by gender and education. The model is parameterized using micro data from the PSID, the CPS and the CEX. With the changing wage structure as the only primitive force, the model can account for the key trends in cross-sectional US data. We also assess the role played by education, labor supply, and saving in providing insurance against shocks, and in exploiting opportunities presented by changes in the relative prices of different types of labor.

Young and Out: An Application of a Prospect-Based Concept of Social Exclusion

Authors: Oddbjørn Raaum and Knut Røed, with Jon Rogstad and Lars Westlie

Abstract: We develop a forward-looking empirical concept of social exclusion based on the estimated transition probabilities from a random effects multinominal Logit-model. Youths are considered socially excluded if they are currently outside school/work and have a low predicted probability of re-entering in the near future. Implemented on extraordinary rich event history data of compulsory school graduates, we estimate social exclusion among Norwegian youths and find that social exclusion propensity is (i) non-cyclical; (ii) much more prevalent among young adults in their early twenties than among teenagers; (iii) strongly dependent on family background; and (iv) independent of gender.

Economic Incentives, Business Cycles, and Long-Term Sickness Absence

Authors: Knut Røed, with Morten Nordberg

Abstract: We investigate long-term absenteeism in Norway, on the basis of register data covering 8 years and more than 2 million absence spells. Key findings are that: i) a tighter labor market yields lower work resumption rates for persons who are absent, and higher relapse rates for persons who have already resumed work; and ii) the work resumption rates increase when sickness benefits are exhausted, but work resumptions at this stage tend to be short-lived.

Manufacturing Restructuring and the Role of Real Exchange Rate Shocks: A Firm Level Analysis

Authors: Karen H. Ulltveit-Moe, with Andreas Moxnes and Karolina Ekholm

Abstract: Empirical analyses of the impact of real exchange rate (RER) fluctuations on employment and economic performance do not take heterogeneity with respect to trade exposure into account. In this paper we use detailed Norwegian firm-level data on exports and imports to calculate firm-specific measures of trade exposure. This allows us to provide a more accurate assessment of the adjustment to real exchange rate shocks. We treat the sharp real appreciation of the Norwegian Krone in the early 2000s as a natural experiment to identify firms' response to an RER shock with respect to employment, productivity, and offshoring. We find that the relative cost shock that hit the Norwegian economy led to a significant decline in the more exposed firms' employment. But the RER shock also appears to have contributed to a process of manufacturing restructuring that boosted productivity of firms exposed to foreign markets. A sizable increase in offshoring can also be attributed to the RER shock.

Lectures, Presentations, etc.

(The list does not include internal presentations and seminars.)

Fiva, Jon H.
Do re-election probabilities influence public investment? Nordic Workshop on Tax Policy and Public Economics, Uppsala; 2008-10-23 - 2008-10-24

Fiva, Jon H.
Does the housing market react to new information on school quality? National Economist Meeting, Oslo; 2008-01-07 - 2008-01-08

Fiva, Jon H.
Does the housing market react to new information on school quality? European Public Choice Society Meeting, Jena; 2008-03-27 - 2008-03-30

Fiva, Jon H.
Does the housing market react to new information on school quality? Congress of the European Economic Association, Milano; 2008-08-27 - 2008-08-31

Havnes, Tarjei.
The formation of overambitions in conflict. Eastern Economics Association Annual Meeting, Boston; 2008-03-06 - 2008-03-08

Havnes, Tarjei.
The formation of overambitions in conflict. Workshop on Conflicts and Inequality, Oslo; 2008-03-05 - 2008-03-06

Havnes, Tarjei.
The irrelevance of subsidized child care for maternal employment: The Norwegian experience. Research seminar, Oslo; 2008-12-18 - 2008-12-18

Havnes, Tarjei.
The irrelevance of subsidized child care for maternal employment: The Norwegian experience. Research seminar, Oslo; 2008-10-20 - 2008-10-20

Holden, Steinar.
Downward wage rigidity and optimal monetary policy - comments on papers by S Fahr & F Smets, and G. Fagan and J. Messina. Wage Dynamics in Europe: Findings from the Wage Dynamics Network, Frankfurt am Main; 2008-06-24 - 2008-06-25

Holden, Steinar.
Financial crisis - a comment. Foredrag av Avinash Persaud, Oslo; 2008-12-03 - 2008-12-03

Holden, Steinar.
Finanskrisen. Presentasjon for universitetsledelsen ved UiO, Oslo; 2008-12-18 - 2008-12-18

Holden, Steinar.
Finanskrisen. Foredrag for student- og lærergruppe, Høyskolen i Vestfold; 2008-11-14 - 2008-11-14

Holden, Steinar.
Handlingsregelen – hvor lenge vil vi ha bruk for den?. Medlemsmøte, Det nordiske administrative forbundet, Den norske avdeling, Oslo; 2008-11-13 - 2008-11-13

Holden, Steinar.
Kommentarer til Kva gjer vi med alle pengane? Avmakt eller allmakt? (av Øystein Noreng, BI). Frokostmøte, BI, Oslo; 2008-02-12 - 2008-02-12

Holden, Steinar; Rosen, Åsa Maria.
Discrimination and employment protection. Labour and Education, Refsnes Gods, Jeløya (Moss); 2008-08-18 - 2008-08-19

Kundu, Tapas.
Political institution and economic transition. Third Congress of the Game Theory Society, ; 2008-07-13 - 2008-08-17

Lind, Jo Thori.
Income, information, and redistribution. Annual Congress of the European Economic Association (EEA), Milano; 2008-08-27 - 2008-08-31

Lind, Jo Thori.
Miserly Developments. Workshop on Development and Inequality, Oslo; 2008-06-19 - 2008-06-20

Lind, Jo Thori.
The political Economy of Beliefs. Silvaplana Workshop on political Economy, Silvaplana; 2008-07-23 - 2008-07-27

Mehlum, Halvor.
Ulikhet og omstillingsevne. Partnerforum, the Research Council of Norway, Oslo; 2008-01-23

Mehlum, Halvor.
Talk about the ESOP centre. Partnerforum, Norwegian School of Management (BI), Oslo; 2008-03-06

Mehlum, Halvor.
Inequality, Social Conflict, and Development. Development Paths in the South Conference (Utviklingsveier i Sør, UTISOR) of the Norwegian Resource Council of Norway, Oslo; 2008-03-10

Mehlum, Halvor.
Samfunnsøkonomen Schweigaard. Academic conference, Oslo 2008-04-10

Mehlum, Halvor.
Mineral Rents and Social Dimensions of Petroleum in Norway. United Nations Research Institute for Social Development (UNRISD), Geneve; 2008-04-24.

Mehlum, Halvor.
The Resource Curse. The Norwegian Experience Workshop of the African Development Bank, Tunis; 2008-06-04

Mehlum, Halvor.
China's Foreign Reserves. Open lecture, University of Oslo; 2008-08-15

Mehlum, Halvor.
Development Economics. Guest lecturer, University of Oslo; 2008-08-26

Mehlum, Halvor.
Samfunnsøkonomen Schweigaard. Friday seminar, University of Oslo; 2008-09-26

Mehlum, Halvor.
The financial crisis. Open lunch seminar, University of Oslo; 2008-10-13

Mehlum, Halvor.
Consequences of the Financial Crisis on Development and the Environment. Meeting with the Norwegian Minister Erik Solheim, Oslo; 2008-10-22

Mehlum, Halvor.
Contribution to Opening Conference of the 'Gulf Research Unit'; 2008-11-17

Mehlum, Halvor.
The financial crisis. Interview session, NRK; Oslo; 2008-11-27

Mehlum, Halvor.
The Financial Crisis and the Poor. The International Peace Research Institute, Oslo; 2008-12-03.

Mehlum, Halvor.
The Financial Crisis. Statistics Norway, Oslo; 2008-12-11

Mehlum, Halvor.
The Financial Crisis. Lecture for Upper Secondary School Students, Oslo; 2008-12-11

Moene, Karl Ove.
The Nordic Model. A presentation for an OECD delegation, Oslo; 2008-01-18

Moene, Karl Ove.
Social and Economic Development: The case of Afghanistan. The Norwegian school of economic and business administration (Norges Handelshøyskole, NHH) Seminar, Geilo. 2008-02-06

Moene, Karl Ove.
Nordiske utfordringer. Presentation at the Norwegian Ministry of Finance; 2008-02-11

Moene, Karl Ove.
The Resource Curse. Ministry of Foreign Affairs Seminar, Oslo; 2008-02-14

Moene, Karl Ove.
Inequality and Development. Course for foreign students visiting the University of Oslo, 2008-02-19

Moene, Karl Ove.
Miserly Developments. Centre for Development and the Environment (Senter for Utvikling og Miljø, SUM) Seminar, University of Oslo; 2008-03-26

Moene, Karl Ove.
Rich meets Poor. Ethics Seminar, University of Oslo; 2008-03-27

Moene, Karl Ove.
Miserly Deveopment. Save the Children (Redd Barna), Oslo; 2008-04-07

Moene, Karl Ove.
Ulikhet og økonomisk teori. The Norwegian Academy of Science and Letters (Det Norske Videnskaps-Akademi, DNVA), Oslo, 2008-05-05

Moene, Karl Ove.
Den nordiske modellen, Arbeidsmarkedsinstituttene, Oslo; 2008-05-15

Moene, Karl Ove.
Nordic Equality. European Network, Institute for Research in Economics and Business Administration (Samfunns- og Næringslivsforsikring AS, SNF), Oslo; 2008-06-13

Moene, Karl Ove.
Gender, equality, and performance, Ph.D Course at the Norwegian school of economic and business administration (Norges Handelshøyskole, NHH), Bergen, 2008-08-09

Moene, Karl Ove.
Hva er vitsen med samfunnsfag?, Faculty of Social Science, University of Oslo, 2008-08-26

Moene, Karl Ove.
Cross Disciplinary Research. Norwegian University of Science and Technology's (Norges teknisk-naturvitenskapelige universitet, NTNU) Ostrom Conference, Trondheim; 2008-09-12

Moene, Karl Ove.
ESOPs visjoner. The Research Council of Norway's gala night, Oslo; 2008-09-23

Moene, Karl Ove
Markets and Incentives and John Roemer. Conference on Motivation, Center for the Study of Mind in Nature (CSMN), University of Oslo; 2008-10-11

Moene, Karl Ove.
Finanskrisen. Ministry of Foreign Affairs Seminar, Oslo; 2008-10-22

Moene, Karl Ove.
Miserly Developments. Norwegian Church Aid (Kirkens Nødhjelp), Oslo; Norway 2008-10-23

Moene, Karl Ove.
Økonomisk likhet og økonomisk teori. Breakfast Seminar, Oslo University College; 2008-10-24

Moene, Karl Ove.
ESOPs forskning. LO Norway's Research Conferance, Oslo; 2008-10-31

Moene, Karl Ove.
Ledelseutfordringer i den nordiske modellen. HR Conferance, Oslo; 2008-11-12

Moene, Karl Ove.
Finanskrisens konsekvenser for Norge - debatt på Litteraturhuset. Debate, The House of Literature (Litteraturhuset), Oslo; 2008-11-17

Moene, Karl Ove.
Ulikhet og utvikling i globalt perspektiv. Guest lecturer, University of Bergen; 2008-11-19

Moene, Karl Ove.
Equality Multiplier. Guest Seminar, University of Bergen; 2008-11-21

Moene, Karl Ove.
The Financial Crisis and the market (Finanskrisen og markedet, innlegg på norsk). Syse Seminar, Conservative Party, Oslo. 2008-11-25

Moene, Karl Ove.
Politisk økonomi. Partnerforum, Norwegian School of Management (BI), Oslo; 2008-11-28

Moene, Karl Ove.
The fables of ESOP. University of Columbia's Stiglitz Conference: Protection without Protectionism. New York, 2008-11-30

Moene, Karl Ove.
ESOP og økonomisk teori. Government Agency for Financial Management (Senter for statlig styring, SFSO), Oslo; 2008-12-12

Nyborg, Karine.
Law, Morality and Norms: A New Approach to Law and Economics: Comments to Kaushik Basu's paper.. Conference on The Nature and Development of Moral Norms: Second Workshop on Social and Moral Norms in Intentional, Oslo; 2008-11-08 - 2008-11-09

Nyborg, Karine.
Playing with the Good Guys, A Public Good Game with Endogenous Group Formation.. European ESA Meeting, Lyon; 2008-09-11 - 2008-09-14

Nyborg, Karine.
The Gate is Open: General Practice Physicians as Social Security Gatekeepers. 3rd Nordic Conference in Behavioral and Experimental Economics, København; 2008-11-14 - 2008-11-15

Willumsen, Fredrik.
Opium for the masses? Conflict-induced narcotics production in Afghanistan. 4th Annual Conference on Economic Growth and Development/Indian. Statistical Institute, New Delhi; 2008-12-17.

Willumsen, Fredrik.
Opium for the masses? How conflict stimulate poppy cultivation in Afghanistan. Conference on Inequality and Development/University of Oslo, Oslo; 2008-06-19.

Willumsen, Fredrik.
Opium for the masses? How conflict stimulate poppy cultivation in Afghanistan. Nordic Conference in Development Economics/Stockholm University, Stockholm; 2008-06-16.

Willumsen, Fredrik.
Opium for the masses? Afghanistan as a drug state. Forskermøtet/University of Oslo, Oslo; 2008-01-07.

SELECTED MEDIA CONTRIBUTIONS

Christiansen, Vidar
Utsikt til mer skatt – eksperter peker på luksusboliger som nytt skatteobjekt. *Aftenposten*
Skatten må opp for å sikre velferdstilbudet. *NTBtekst*

Holden, Steinar:
Kapitalisme – og lite annet. *Aftenposten*
Nordmenn jobber mindre enn andre. *Aftenposten*
Skal ”vare evig”. *Aftenposten*
120 000 kan bli arbeidsledige. *Dagbladet*
Få renten ned - nå!. *Dagens Næringsliv*
Ikke sikker på skattemedisin. *Dagens Næringsliv*
Her er ekspertenes pakkeråd. *Dagens Næringsliv*
Vil gjenreise solidariteten. *Dagens Næringsliv*
Jeg tror det kan snu seg fort. *Dagens Næringsliv*
Burde stilt krav til bankene *Dagsavisen*
Krever rentekutt som monner. *Dagsavisen*
Hva bør sentralbankene bry seg om?. *Finansavisen*
Er rentetoppen nådd?. *Finansavisen*
Bruker for mange oljepenger. *Klassekampen*
Finanskrisen: Bekymret for husholdningene med lavest inntekt. *Stavanger Aftenblad*
Ekspertene mener. *VG*

Mehlum, Halvor
Ekspansiv finanspolitikk. *Aftenposten*
Full forvirring om hva som vil være riktig medisin. *Bergens Tidende*
Lysere økonomiske utsikter. *Dagsavisen*
Begynte med boliglån. *Klassekampen*
Kjempedebatt blant økonomer. *Klassekampen*
Zimbawe skal reddes. *Vårt Land*

Moene, Kalle:
La oljen ligge i ro - Knapphet kan gi bedre oljepris senere. *Aftenposten*
Ta mer utdannelse!. *Aftenposten*
Skam med 4-5 prosent ledige. *Aftenposten*
Økonomer blir flokkdyr. *Adresseavisen*
Reel arbeidsløshet er 25 prosent. *Bergens Tidende*
Provoserende AFP-forskjeller. *Bergens Tidende*
Trur meir på nasjonal regulering. *Dag og Tid*
Viktigst å unngå proteksjonisme *Dagens Næringsliv*
A Change is Gonna Come. *Dagens Næringsliv*
Aksjer til ansatte. *Dagens Næringsliv*
Dengang som nå. *Dagens Næringsliv*
Fagforeningenes makt. *Dagens Næringsliv*
Finans - en gjøkunge. *Dagens Næringsliv*
Ulikhetens politiske økonomi. *Dagens Næringsliv*

Forretningsklima og utviklingsmoter. *Dagens Næringsliv*
Globaliseringsprisen. *Dagens Næringsliv*
Matvareprisene. *Dagens Næringsliv*
Nato og narko. *Dagens Næringsliv*
Ulikhetens politiske økonomi. *Dagens Næringsliv*
Sats på miljøet. *Klassekampen*
Krig gir mer opium. *Klassekampen*
Veiskille i klimakampen. *Nationen*
Finanskrisen: Ny resept til syk verdensøkonomi. *Stavanger Aftenblad*

Nyborg, Karine
Spår to rentekutt til våren. *Aftenposten*
Ansvar som trekkplaster. *Dagens Næringsliv*
Den store klimakatastrofen. *Dagens Næringsliv*
Ikke så rasjonlet som vi tror. *Dagens Næringsliv*
Å tiltrekke seg de beste. *Dagens Næringsliv*

Storesletten, Kjetil:
Bedriftenes mareritt. *Aftenposten*
Nedbemanningens pris. *Aftenposten*
Derfor gikk de konkurs. *Aftenposten*
Hvor hardt rammet blir vi egentlig. *Aftenposten*
Dyr og dårlig AFP. *Aftenposten*
Hatten av for Kina. *Aftenposten*
Kvestet egne opsjoner - Bomkjøp på grunn av for lave bonuser?. *Aftenposten*
Norske forskere nøler med blogging. *Aftenposten*
Omfordeling er nøkkelen. *Aftenposten*
Staten bør redde bankene. *Aftenposten*
Industrien sier også nei - høyre får ikke støtte for sine krisetiltak. *Aftenposten*
Urettferdig AFP. *Aftenposten*
Økte forskjeller kan redde det offentlige. *Aftenposten*
-Kutt legelønnen 30 prosent. *Dagens medisin*
Gjedrems ilddåp. *Dagens Næringsliv*
Vil kutte to-tre prosentpoeng. *Dagens Næringsliv*
Økonomsplid om skattehopp. *Dagens Næringsliv*
To økonomar, brei usemje. *Dag og Tid*
Mener staten burde kjøpt bankaksjer. *Nationen*

Ulltveit-Moe, Karen Helene.
Hva er galt i norsk skole? Hvilke tiltak må til for å skape en bedre - ...skole?. *Aftenposten*
Vil rydde opp etter lønnsfest - Heller lav prisvekst enn lav ledighet. *Aftenposten*
Advares mot økt på aksjonærer – samstemt råd til finansministeren. *Aftenposten*
Krisestemning i England. *Aftenposten*
Ta Gjedrem på forskudd. *Adresseavisen*
Krever store rentekutt *Adresseavisen*
Renten opp – men ikke før i juni. *Bergens Tidende*
En varslet krise. *Dagens Næringsliv*
Farlige patrioter. *Dagens Næringsliv*

Gi oss innsyn. *Dagens Næringsliv*
Gjeldsslaven USA. *Dagens Næringsliv*
Hellige kyr?. *Dagens Næringsliv*
I samme båt?. *Dagens Næringsliv*
Kronesjokk. *Dagens Næringsliv*
Mange syndebukker. *Dagens Næringsliv*
Mye bra -mye gjenstår. *Dagens Næringsliv*
Nasjonale kjemper. *Dagens Næringsliv*
Nei til sugerør. *Dagens Næringsliv*
Norsk dobbeltmoral. *Dagens Næringsliv*
Nådestøt for Volvo og Saab. *Dagens Næringsliv*
Tid til læring. *Dagens Næringsliv*
USAs styrke. *Dagens Næringsliv*
Økonomsplid om skattehopp. *Dagens Næringsliv*
Å dele uten å skade. *Dagens Næringsliv*
Advarer mot utvidelse av fødselspermisjonen *NTBtekst*
Krever større makt over verdensøkonomien. *NTBtekst*
G20 skal både slukke brann og bygge nytt. *NTBtekst*
Uenighet om rentekutt. *VG*
Verden i helspenn- Oslo Børs kjører berg-og-dal-bane. *VG*
Ha is i magen - Bør nordmenn selge eller beholde sine aksjefondsandeler?. *VG*
Dette spurte VG om: - Hva bør de beste lærerne tjene?. *VG*
Rekordmange boliger til salgs. *VG*

WORKSHOPS

Workshop on Conflicts and Inequality

Time and place: Mar 5, 2008 10:00 AM - Mar 6, 2008 02:00 PM, PRIO, Oslo
Organizer: ESOP and Centre for the Study of Civil War (CSCW) at PRIO

Wednesday March 5
10.15 -11.15 Kalle Moene (Alexander Cappelen, Bertil Tungodden and Erik Sørensen): *Fairness and Poverty – An International Experiment*
11.30 -12.30 Fredrik Willumsen (Jo Thori Lind and Kalle Moene): *Opium for the Masses. Afghanistan as a Drug State*
12.30-14.00 Lunch
14.00-15.00 Debraj Ray: *Missing Women*
15.15-16.15 Dominic Rohner: *From Rags to Rifles: The Economics of Deprivation, Conflict and Welfare State*
16.30-17.30 Tarjei Havnes: *The Formation of Overambitions in Conflict*
17.30-18.30 Joan Esteban: *Collective Action and Group Platforms*

Thursday March 6
09.30-10.30 Todd Sandler (and Patrick Brandt): *Hostage Taking: Understanding Terrorism Events Dynamics*
10.45 -11.45. Quac-Anh Do (and F.R. Campante): *Keeping Dictators Honest - the Role of Population Concentration*
12.00-13.00 Jo Thori Lind (and Kalle Moene): *Miserly Developments*
13.00-14.00 Lunch (and departure for participants who go to the London PAC meeting).

Workshop on Development and Inequality

Time and place: Jun 19, 2008 01:00 PM - Jun 20, 2008 06:45 PM, Oslo
Organizer: ESOP

Inequality and development - Preliminary program
Venue: Economics Department, room 1047 in the Social Science Building, University of Oslo, Blindern.

Thursday, June 19
14.15 - 15.15 "Rich Meets Poor"
Kalle Moene (Alexander Cappelen, Erik Sørensen and Bertil Tungodden)
15.30 - 16.30 "A Dynamic Incentive Based Argument for Conditional Transfers"
Dilip Mookherjee (and Debraj Ray)
16.45 - 17.45 "Social Sanctions and Enforcement in Microcredit"
Jean-Marie Baland and Rohini Somanathan

18.00 - 19.00 "Opium for the masses? How conflicts stimulate poppy cultivation in Afghanistan"
Fredrik Willumsen (Jo Thori Lind and Kalle Moene)

Friday, June 20
09.00 - 10.00 "Aspects of Local Governance in Rural West Bengal"
Pranab Bardhan (and Dilip Mookherjee)
10.15 - 11.15 "A Theory of Social Enterprise"
Maitreesh Ghatak (and Tim Besley)
11.30 - 12.30 "Parochial Politics: Ethnic Preferences and Politician Corruption"
Rohini Pande (and Abhijit Banerjee)
14.00 – 15.00 "Links and architecture in village networks"
Pramila Krishnan (and Emanuela Sciubba)
15.15 - 16.15 "Self-Discovery, Lending and Microentrepreneurship"
Rocco Macchiavello (and Mikhail Drugov)
16.30 – 17.30 "Miserly Development"
Jo Thori Lind (and Kalle Moene)
17.45 - 18.45 "On the Feasibility of Power and Status in Traditional Set-ups"
Jean-Philippe Platteau (and Petros G. Sekeris)

ESOP-Workshop on Wage Inequality

Time and place: Oct 9, 2008 10:00 AM - Oct 10, 2008 02:00 PM, Aud 6, Eilert Sundts building, Blindern, Oslo
Organizer: ESOP

Thursday October 9
10.15-11.15 David Autor: "The Minimum Wage's Role in the Evolution of U.S. Wage Inequality over Three Decades: A Modest Re-Assessment" (with Alan Manning and Christopher L. Smith)
11.30-12.30 Thomas Lemieux: "Performance Pay, Wage Flexibility, and Hours Worked" (with Bentley MacLeod and Daniel Parent)
13.30–14.30 Salvador Ortigueira: "Technical Change and the Wage-Setting Process"
14.30–15.30 David Domeij: "The Missing Swedish Skill Premium: Sweden versus the United States 1970-2002" (with Lars Ljungqvist)
16.00–17.00 Kjell Gunnar Salvanes: "The Evolution of Inequality in Productivity and Wages: Panel Data Evidence" (with Giulia Faggio and John Van Reenen)

Friday October 10
09.00-10.00 Costas Meghir: "Wage Risk and Employment Risk over the Life Cycle" (with Hamish Low and Luigi Pistaferri)
10.00–11.00 Magnus Gustavsson: "Earnings dynamics and inequality: A comparison across educational attainment groups"
11.15-12.15 Kjetil Storesletten: "The Macroeconomic Implications of Rising Wage Inequality in the United States" (with J. Heathcote and G. Violante)
12.15–13.15 Torbjørn Hægeland: "Wage Inequality and Selective Labor Force Participation" (with Erling Barth, Bernt Bratsberg and Oddbjørn Raaum)
14.15- Companion workshop: "The Nature and Development of Moral Norms" at CSMN.

DELEGATIONS RECEIVED

We have had at least three delegations from China and OECD countries in cooperation with the Ministry of Foreign Affairs.

PEOPLE

Academic Staff by March 2009

Ingvild Almås, researcher	ingvild.almas@nhh.no
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Fredrik Willumsen, research fellow	f.h.willumsen@econ.uio.no

Guests

Carolina Ekholm	Michael Song
Cédric Duprez	Narayana Kocherlakota
Genaro Sucarra	Nina Drange
Jean-Francois Godbout	Torbjørn Hægeland
Jean-Marie Baland	Vera Boronenko
Jørgen Andersen	Wang Lu
Luca Opromolla	Zheng Song
Magne Mogstad	

Administration

Ingrid Krüger, head of administration (from august 15, 2008)	ingrid.krueger@econ.uio.no
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Research Assistants

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ESOP Network

Daron Acemoglu	Massachusetts Institute of Technology (MIT)
Jean-Marie Baland	University of Namur (FUNDP)
Sam Bowles	Santa Fe Institute (SFI) and University of Sienna (UNISI)
Rob Davies	Zimbabwe
Miriam Golden	University of California, Los Angeles (UCLA)
Emily Haisley	Carnegie Mellon University (CMU)
Jonathan Heathcote	The Federal Reserve Bank of Minneapolis
Ethan Kaplan	Stockholm University (SU)
Eliana La Ferrara	Bocconi University
George Loewenstein	Carnegie Mellon
Ellen McGrattan	Research Dept., Federal Reserve Bank of Minneapolis
Ted Miguel	UC Berkeley
Eva Nagypal	Northwestern
Trond Petersen	UC Berkeley
James A. Robinson	Harvard University
Dominic Rohner	Universitty of York
Maria Saez-Marti	Zurich University
Virginia Sanchez Marcos	Universidad de Cantabria
Andres Solimano	CEPAL, Chile
Giovanni Violante	New York University
Elisabeth Wood	Yale University
Amir Yaron	Wharton

ACCOUNTS AND REVISED BUDGET

Funding NOK 1000	**Accounts 2007**	**Accounts 2008**	**Budget 2009**	**Budget 2010**	**Budget 2011**	**Budget 2012-16**	**Total budget**
CoE funding							
Host institution (UiO)	1 000	2 110	2 000	2 000	2 000	11 000	**20 110**
Norw. Research Council - CoE	9 000	6 000	12 400	9 865	9 595	45 000	**91 860**
Active partner							**0**
International funding							**0**
Other public			410	997	1 015	420	**2 842**
Other private							**0**
Total income	**10 000**	**8 110**	**14 810**	**12 862**	**12 610**	**56 420**	**114 812**
Other funding, excl. CoE grants							
Active partner A							**0**
Active partner B							**0**
Host institution (UiO)	**4 792**	**5 899**	**5 711**	**5 282**	**5 859**	**29 494**	**57 037**
Others							**0**
Total funding excl. CoE grants	**4 792**	**5 899**	**5 711**	**5 282**	**5 859**	**29 494**	**57 037**
Total funding	**14 792**	**14 009**	**20 521**	**18 144**	**18 469**	**85 914**	**171 849**
Funding estimated in contract	9913	15802	18742	16 747	17 454	85494	**164 152**
Deviation	4 879	-1 793	1 779	1 397	1 015	420	**7 697**
Transferred (+/-)	0	5 689	5 258	7 757	6 880	5 309	
Total funding and transfers	**14 792**	**19 698**	**25 779**	**25 901**	**25 349**	**91 223**	**202 742**

Expenditures NOK 1000	**Accounts 2007**	**Accounts 2008**	**Revised Budget 2009**	**Budget 2010**	**Budget 2011**	**Budget 2013-17**	**Totalt budget**
CoE costs							
Personnel, housing	**2 560**	**5 739**	**8 506**	**9 466**	**9 417**	**45 524**	**81 212**
(Salaries and personnel costs)							
(Premises, overhead)							
Purchase of R&D services	414	371	636	773	927	5 181	**8 302**
Scientific equipment	207	182	181	200	287		**1 057**
Workshops/conferences							
Individual running costs							
Other running costs	858	2 249	2 988	3 300	3 550	6 522	**19 467**
Total CoE costs	**4 039**	**8 541**	**12 311**	**13 739**	**14 181**	**57 227**	**110 038**
Other costs excl. CoE costs							
Personnel, housing	**5 064**	**5 899**	**5 711**	**5 282**	**5 859**	**29 494**	**57 309**
(Salaries and personnel costs)							0
(Premises, overhead)							0
Purchase of R&D services							**0**
Scientific equipment							**0**
Other running costs							**0**
Total costs excl. CoE costs	**5 064**	**5 899**	**5 711**	**5 282**	**5 859**	**29 494**	**57 309**
Total costs	**9 103**	**14 440**	**18 022**	**19 021**	**20 040**	**86 721**	**167 347**
Transferred (+/-)	**5 689**	**5 258**	**7 757**	**6 880**	**5 309**	**4 502**	**35 395**

SPECIFIED BUDGET 2009

(Numbers in NOK 1000)			
Income	Accounts 2008	**Budget 2009**	**Kommentarer**
Norwegian Research Council -CoE	6 000	12 400	From NRC NOK 2 805 more than usual regarding stop in payment in 2008
Sales income		-	
Course income		-	
Contribution margin		-	
Project income		410	From IKOS regarding ”The Gulf Research Unit” and “Fordelingsutvalget”
Distribution of copayment in active projects		-	
Rent income		-	
Other operating income	2 110	2 000	Annual contribution from University of Oslo
Returned results from projects		-	
Annual income	**8 110**	**14 810**	
Transmited from previous year	5 689	5 258	Due to delays in recruiting personnel when establishing the centre
Total income (including transmitions)	**13 799**	**20 068**	

Costs	Accounts 2008	**Budget 2009**	
Major preservations	-	-	
Investments in machinery (purchase)	182	181	
Investments in real estate (purchase)	-	-	
Total investments	**182**	**181**	
Salaries and personnel costs	3 105	4 523	
Variabel lønn	1	-	
Salaries in holiday	373	543	
Employer’s contribution and pension	794	1 400	
Scholarships and public funding	90	110	NOK 20 increase regarding funding from ”Gulf Research Unit” (IKOS)
Public reimbursement regarding labour	-	-	
Reimbursement regarding redemption	-	-	
Redemption costs	1 466	1 865	
Other personell costs	1	-	
Total salary costs	**5 830**	**8 441**	
Cargo/transportation/freight	3	3	
Costs regarding offices	90	90	
Machinery, furniture, equipment, materials	144	143	
Foreign service	371	906	R&D services, with Frisch, SSB, NHH, ISF

Office costs, printed matter, phone, etc.	131	206	Including courses, seminars, and workshops
Travelling costs, daily allowance, etc	523	523	
Overhead costs	1 117	1 324	
Representation, marketing	135	135	
Membership dues, gifts, grants	2	2	
Insurance, patent and licence costs	-	-	
Other costs	13	33	NOK 20 increase due to ”the Gulf Research Unit”
Financial loss, periodic running costs	-	-	
Total running costs	**2 529**	**3 365**	
Annual costs	**8 541**	**11 987**	
Annual results	Accounts 2008	**Budget 2009**	
Financial result	**5 258**	**8 081**	
Net financial income / costs	-	-	
Ended projects	-	-	
Accumulated result	**5 258**	**8 081**	
Isolated annual result	**(431)**	**2 823**	NOK 2068 tied to future costs

Comments
Income from the Norwegian Research Council (the Research Council) (numbers in NOK 1000): Ordinary income: 9 000, Means of gender equality: 595, Extraordinary income: 2 805

The NRC held back 3 205 in 2008. The agreement with the Research Council was that ESOP should get these funding later, so we have budgeted 2 805 (of the 3 205) in the 2009 budget, and 400 in the 2010 budget. We have already used 2 068 of the 2 805 extraordinary income in the 2009 budget, because we had to take means from the earlier transmitted money that is tied to future costs. From 2007 to 2008 we transmitted 5 689. We still need to tie most of this means to future costs, so we have funding for research fellows and postdoctoral fellows who started later than budgeted. The funding must be available for the candidates to complete their full research period.

Two new postdoctoral fellows started in September last year. In addition to this we have an ongoing process of expanding our research staff. So far we have employed four associates this year. The plan for 2009 is to strengthen our cooperation with Frisch Centre, SSB, NHH, and ISF. The costs of this extended cooperation are visible under the post “foreign service” in the budget. The three main reasons for the increase in salary costs, and costs in general are this: two postdoctors, additional associates, and extended cooperation.

ESOP and the Department of Culture Studies and Oriental Languages (IKOS) at the Faculty of Humanities have agreed to cooperate in connection with a doctoral fellowship in economics. The fellowship is funded by the Research Council via the project “The Gulf Research Unit”, which is based at IKOS, but ESOP will host the actual fellow. The same post in the budget, “project income”, includes an extraordinary income from the governmental commission on inequality and redistribution (Fordelingsutvalget).

RESOURCES – PERSONNEL 2008

Professors, Ass. professors, researchers			**People:**	28		**Man-year:** 6,328
Name	Sex	Country of employment	Academic degree	Employment	Place of work/ employer	Parts of man-year
Moene, Karl-Ove	M	Norway	Professor	01.01.07-	ESOP	1
Mehlum, Halvor	M	Norway	Professor	01.01.07-	ESOP/ØI	0,75
Asheim, Geir	M	Norway	Professor	01.01.07-	ESOP/ØI	0,22
Storesletten, Kjetil	M	Norway	Professor	01.01.07-	ESOP/ØI	0,75
Brekke, Kjell Arne	M	Norway	Ass. Prof.	01.01.07-	ESOP/ØI	0,1
Christiansen, Vidar	M	Norway	Professor	01.01.07-	ESOP/ØI	0,1
Hoel, Michael	M	Norway	Professor	01.01.07-	ESOP/ØI	0,1
Holden, Steinar	M	Norway	Professor	01.01.07-	ESOP/ØI	0,1
Nilssen, Tore	M	Norway	Professor	01.01.07-	ESOP/ØI	0,2
Nyborg, Karine	F	Norway	Ass. Prof.	01.01.07-	ESOP/ØI	0,2
Ognedal, Tone	F	Norway	Ass. Prof.	01.01.07-	ESOP/ØI	0,1
Rødseth, Asbjørn	M	Norway	Professor	01.01.07-	ESOP/ØI	0,1
Ulltveit-Moe, Karen H.	F	Norway	Professor	01.01.07-	ESOP/ØI	0,2
Fernandez, Raquel	F	USA	Professor	01.09.07-31.12.11	NYU/ESOP	0,2
Bratsberg, Bernt	M	Norway	Prof. II	01.09.07-31.12.11	Frisch/ESOP	0,1
Raaum, Oddbjørn	M	Norway	Prof. II	01.09.07-31.12.11	Frisch/ESOP	0,1
Røed, Knut	M	Norway	Prof. II	01.09.07-31.12.11	Frisch/ESOP	0,1
Moen, Espen	M	Norway		01.09.07-31.12.11	BI/ESOP	0,1
Barth, Erling	M	Norway	Prof. II	01.08.08-31.12.11	ISF/ESOP	0,083
Rosén, Åsa	F	Sweden	Researcher	01.08.08-31.12.11	SOFI/ESOP	0,2
Zilibotti, Fabrizio	M	Italy	Prof. II		IIES/ESOP	0,1
Halse, Askill	M	Norway	Resear.ass.	01.10.07-30.09.09	ESOP	0,2
Sandsør, Astrid	F	Norway	Resear.ass.		ESOP	0,2
Korneliussen, Kristine	F	Norway	Resear.ass.	01.10.07-30.09.09	ESOP	0,2
Johnsen, Åshild	K	Norway	Resear.ass.	01.10.07-01.03.09	ESOP	0,2
Anundsen, André	M	Norway	Resear.ass.	01.10.07-30.09.09	ESOP	0,2
Almås, Ingvild	F	Norway	Researcher	01.01.08-31.03.08		0,3
Krüger, Ingrid	F	Norway	Resear.ass.	01.07.08-07.08.08	ESOP	0,125

Research fellows			**People:**	11		**Man-year:** 7,83
Name	Sex	Country of employment	Academic degree	Employment	Place of work/ employer	Parts of man-year
Beyene, Berhe Mekonen	M	Norway	Ma. in econ.		ESOP/ØI	0,75
Borchgrevink, Henrik	M	Norway	Ma. in econ.	01.10.05-30.09.09	ESOP/ØI	0,75
Clarhãll, Jenny	F	Norway	Ma. in econ.	01.10.05-30.09.09	ESOP/ØI	0,75
Havnes, Tarjei	M	Norway	Ma. in econ.	01.10.05-30.09.09	ESOP/ØI	0,75
Jørgensen, Øystein	M	Norway	Ma. in econ.	01.08.04-31.07.08	ESOP/ØI	0,33
Merkina, Natalia	F	Norway	Ma. in econ.	01.01.05-31.12.08	ESOP/ØI	0,75
Strøm, Marte	F	Norway	Ma. in econ.	01.07.06-30.06.10	ESOP/ØI	0,75
Cools, Sara	F	Norway	Ma. in econ.	13.08.07-12.08.11	ESOP	0,75
Kløve, Eva	F	Norway	Ma. in econ.	01.12.07-30.11.11	ESOP	0,75
Willumsen, Fredrik	M	Norway	Ma. in econ.	19.02.07-28.02.11	ESOP	0,75

Post doctoral fellows				**People:** 5	**Man-year:**	2,91
Name	Sex	Country of employment	Academic degree	Employment	Place of work/ employer	Parts of man-year
Lind, Jo Thori	M	Norway	Ph.D.	01.04.05-31.03.09	ESOP/ØI	0,75
Aslaksen, Silje	F	Norway	Ph.D.	01.09.08-01.09.12	ESOP	0,33
Fiva, Jon Hernes	M	Norway	Ph.D.	05.08.07-05.08.11	ESOP	0,75
Kundu, Tapas	M	Norway	Ph.D.	16.08.07-15.08.11	ESOP	0,75
Rendall, Michelle	M	Norway	Ph.D.	01.09.08-01.09.12	ESOP	0,33

Administration				**People:** 3	**Man-year:**	2
Name	Sex	Position	Academic degree	Employment	Place of work/ employer	Parts of man-year
Høgvold, Dag Olav	M	Head.adm.	Cand. Polit.	11.06.07-15.08.07	ESOP	0,625
Krüger, Ingrid	F	Head.adm.	Ma. in econ.	15.08.08-31.12.08	ESOP	0,375
Eidhamar, Snezana	F	Exec.officer			ESOP/ØI	1

Personnel/positions	**Man-year 2 007**	**Man-year 2 008**	**Man-year 2 009**	**Man-year 2 010**	**Man-year 2 011**	**Man-year 2013-17**
Professors, researchers, etc.	3,6	6,3	6,8	6,5	6,9	35,9
Research fellows/Ph.D. students	5,5	7,8	6,5	5,8	5,4	21,9
Postdocs	1,3	2,9	3,7	3,5	3,5	12,5
Technical/adm. Positions	1,1	2,0	0,8	0,8	0,8	4,0
Total personnel, man-year	11,5	19,1	17,7	16,6	16,6	74,3

Oslo, 31 March 2009