Economics at UC Berkeley

The Econ Exchange

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Christina Romer's Gone to Washington

When Barack Obama selected Christina Romer to lead the Council of Economic Advisers, he tapped into her expertise on how the United States emerged from the Great Depression.

"Christina who?" wailed *Politico,* Washington's 24-7 insider blog. After digging in, *Politico* learned that Dr. Romer had burst onto the economic scene a generation earlier with her doctoral dissertation that fundamentally changed how economists view the Great Depression.

Obama knew that. "Christina has done ground-breaking research on many of the topics our administration will confront, from tax policy to fighting recessions. And her clear-eyed, independent analyses have received praise from both conservative and liberal thinkers alike."

That Christina Romer is a cipher to non-economists is a pity, Harvard economist Edward L. Glaeser opined in *The New York Times.* "She is among the most interesting and impressive of Mr. Obama's choices… one of the world's pre-eminent economic historians and her scholarship makes her particularly well-suited for advising a president during this tumultuous period."

He continued, "Her writings on economic history have been among the most influential written in the last 30 years. … Her scholarship is deep and important. Her intellectual tenacity and good judgment give her the right temperament to head the economic council."

Dr. Glaeser said she "displayed plenty of courage in challenging well-established orthodoxies" and, that it is better for both Lawrence Summers (President Obama's senior ecoomic advisor) "and the country that he has colleagues who are willing and able to argue with him."

University of Chicago economics Professor Chang-Tai Hsieh told the *Boston Globe:* "She also has an incredible ability to take complex ideas and make them simple."

Berkeley's Professor Bradford DeLong told the *Washington Post:* "She has the principal required characteristic of a CEA chair: the ability to clearly explain unpleasant and somewhat complex truths about the world to powerful people without making them mad."

A week after her nomination, Dr. Romer left for Washington where she worked with Jared Bernstein, Vice President Joe Biden's economic adviser, on a paper that prompted spirited discussion in newspapers, television, and the Internet. Their paper provided the backdrop for President Obama's $867 billion plan—the American Recovery and Reinvestment Act—passed by Congress and signed into law within weeks of his inauguration. Intended as a jump start, the plan is the largest infusion of cash into the economy in US history.

Dr. Romer urged President Obama to promote policy that will keep capital flowing through the financial system and to inject government spending into the economy even at the risk of ballooning the deficit.

Before the bill became law, Dr. Romer went on television and online to explain the President's plan. Saying the worst

recession in half a century would worsen without energetic intervention, she laid out a bleak forecast—with the US

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What's Inside?

Designed and edited by Bonnie Britt.

From the desk of Gérard Roland

Greetings!

I am thrilled to have been asked to be Chairman of this great department for the next three years. These are challenging times for economists. For the first time since 1929, the world risks getting engulfed in another Great Depression that could lead to millions and millions of job losses worldwide and to unprecedented spread of poverty. Never since the Great Depression has economic policy mattered so much for the livelihood of billions of people on our planet.

In this context, we are very proud and also reassured, that our colleague Christina Romer was chosen to be the chair of the Council of Economics Advisers in the Obama administration. Christina Romer is one of the most distinguished macroeconomists in the country and one of the world's best scholars of the Great Depression. Given her expertise, it is difficult to imagine someone better equipped to chair Obama's Council of Economic Advisers and face the challenging tasks ahead. The national and international press was full of praise for her nomination.

Our colleague Barry Eichengreen, together with Richard Baldwin from the University of Geneva, put together in record time two booklets with essays by prominent economists in preparation for the October G8 meeting and the November G20 meeting. Ideas from these two books have had a major influence on emergency measures taken (or implemented) by European countries, in particular the idea of government guarantees of new lending between banks.

Our colleague Brad Delong has played a prominent role in online debates among bloggers about the right economic policies to prevent a new Great Depression and other colleagues have also been very active in these very important policy debates. Berkeley economists are thus strongly present on the economic policy front in these exceptional times.

The current economic situation is also an important reality test for established theories, especially in macroeconomics but also in other fields. Undoubtedly many established theories will be challenged and replaced by better theories providing better policy prescriptions. Our department will strive to remain at the top and be a leader in these new upcoming research debates.

In order to do this, we need to be able to continue hiring the best scholars, junior and senior, who will rise to the challenges of the times and achieve the needed path-breaking research. This will not be easy given the current budgetary realities in California. However, never before has the expected benefit of frontier economic research in a top department like ours been so large and so useful for society.

Our network of alumni and friends is an invaluable source of support in helping us fulfill our role as a top economics department.

— Gérard Roland

Crisis panels online: Good Bank Bad Bank and Meltdown

Professor John M. Quigley moderated a panel Feb. 18 on "Good Bank Bad Bank: Increasing Credit Liquidity, Stemming Foreclosures and Supporting the Economy." The webcast: www.law.berkeley.edu/goodbankbadbank.htm.

Professor George Akerlof led a panel in October on how the financial market meltdown occurred, the government's response, and the impact on American households and global markets. From the department, John Quigley, J. Bradford DeLong, and Barry Eichengreen joined Aaron Edlin, professor of law and economics, and Nancy Wallace, Professor at Haas and Co-Chair, Fisher Center for Real Estate and Urban Economics. The video: www.law.berkeley.edu/files/bclbe/20081002-gfmt-bclbe-ref.mov

Economics Roundtable

One of department chair Gérard Roland's goals is to develop stronger relationships with our alumni and friends. To that end, he conceived the idea of holding roundtable events for the purpose of bringing together a small group of thoughtful, knowledgeable alumni to participate in informal panel discussions with outstanding faculty members who are pursuing cutting-edge research in their fields.

Chair Roland and Dean Jon Gjerde co-hosted the first roundtable event in the autumn, inviting some fifty Berkeley alumni and Economics faculty to discuss the economic outlook for the next U.S. administration—a lunchtime event planned months ago, but which became particularly urgent and timely in the wake of the housing market meltdown and volatile stock markets.

Faculty speakers whose research focuses on US and international economic policy were featured: Christina Romer, Alan Auerbach, and Maurice Obstfeld. The moderator was Hal Varian, Chief Economist at Google and Professor in our Department of Economics.

At the roundtable that occurred in the weeks before her nomination to join the Obama administration, Professor Romer noted significant blind spots in the forecasting capacity of the Federal Reserve, particularly in areas of technological innovation in financial markets.

"We're discovering we did well on broad, macro-economics indicators, but other things were brewing in the background that we were slow to realize," she said.

"Some really smart people have thought of creative ways to come up with new financial instruments, and deregulation allowed them to put new instruments to work. The downside is that we were exposed to a lot of vulnerability."

Economists, Romer noted, have looked long and hard at how the crash in asset markets affected the economy. "It's not the crash or the amount of wealth that is destroyed," she said. "In fact, it's that the volatility in stock price (that) makes people uncertain, nervous. If you see this volatility, you spend less. You say, 'maybe now's not the time to buy a car at all.' All the measures of volatility are off the charts in this episode. And that can be devastating for consumer spending."

The new administration would be wise to avoid cutting taxes as a way to increase consumer spending. A better approach, she said, would be to invest in state infrastructure projects like Roosevelt's Works Progress Administration. "We need to do smart spending and public investments. It's cheap and people want jobs."

A lively interactive discussion followed the speaker presentations and all agreed the event was engaging and informative. Hal Varian said that today's market conditions present a "once in a lifetime opportunity for economists. At least we hope it's once in a lifetime."

A complete report of this event is at http://www.econ.berkeley.edu/econ/roundtable102408.shtml.

For up-to-date Economics Department news, drop by http://emlab.berkeley.edu/econ/.

If you would like to be invited to future events, contact Melissa Waver at 510-643-1113 or at mwaver@berkeley.edu.

How to Make a Gift

As you know, private philanthropy is essential to carrying out our educational vision. Indeed, thanks in large part to the generosity of our donors, Economics at Berkeley has long been one of the premier departments in the country.

Generous contributions from our friends have provided faculty support, graduate and undergraduate support, and funded research and travel grants.

Annual discretionary support helps us seize opportunities to meet our urgent, unplanned needs.

We hope you will consider supporting the department this year knowing that your gift will ensure that Economics at Berkeley will continue to thrive, now and in years to come.

If you wish to make a gift to the department:

Give to Economics@Cal

- You can do so by clicking on the Give to Economics@Cal button at: http://emlab.berkeley.edu/econ/.

Your gift will support the "Economics Annual Fund" unless you specify "Graduate Student Support" in the special instructions box at the end of the online form.

- Or, you can mail a check payable to the UC Berkeley Foundation with instructions to designate the gift for the "Economics Annual Fund" or for "Graduate Student Support."

The address is:

UC Berkeley Department of Economics
College of Letters & Science
2150 Shattuck Avenue, Suite 300
Berkeley, CA 94704

On behalf of all of us here at Cal, we are grateful for your continuing support of our efforts.

Chief investigator, Professor Ted Miguel...

Meet the economic gangster. He's the United Nations diplomat who double-parks his Mercedes on New York City streets at rush hour because the cops can't touch him—he has diplomatic immunity. He's the Chinese smuggler who dodges tariffs by magically transforming frozen chickens into frozen turkeys. The dictator, the warlord, the unscrupulous bureaucrat who bilks the developing world of billions in aid. The calculating crook who views stealing and murder as just another part of his business strategy. And, in the wrong set of circumstances, he might just be you.

The Economic Department's Ted Miguel and co-author Raymond Fisman are receiving enthusiastic reviews for their book, **Economic Gangsters: Corruption, Violence, and the Poverty of Nations.** *Professor Miguel was met with a standing room only crowd at the Cal bookstore when it went on sale. We stopped to question this economic detective, and here's what he was asked and answered.*

Q. You manage to integrate grim topics of widespread violence and murder in developing countries with the delightful story of the mayor of Bogotá, Colombia, who ingeniously used mimes to affect attitudinal change in the citizenry. He was able to tease out successful reform in a violence-weary city by using unusual methods such as making widespread use of mimes to control traffic crime and fatalities. That mayor, Antanas Mockus, was a mathematician. Is there a role for economists in changing destructive cultural attitudes (even if the economists do not to run for public office)?

A. There is a real role for economists in tackling a lot of problems in international development, including corruption and culture. Our role as economists is to be providers of insight into what works and how in society. Think about the problem of corruption, the issue that Mayor Mockus tackled in Bogota. There are a lot of different types of policies that could reduce corruption. We could raise salaries for bureaucrats to see if that lowered the temptation to take bribes. We could boost the anti-corruption arms of police forces. Ultimately, different approaches could work better or worse in different places. There is no single silver bullet.

What we advocate for in the book is a more scientific and experimental approach to finding out what works in fighting economic gangsterism. We strongly believe that governments, NGOs, and foreign aid donors should all devote more resources to the rigorous impact evaluation of their development projects. Right now, there is more rhetoric than hard evidence about what works.

Here at UC Berkeley we have created the Center of Evaluation for Global Action (CEGA) around this central goal of promoting impact evaluations in developing countries. I hope people will visit CEGA's Web site (http://cega.berkeley.edu/template.php?page=home) to learn more about this tool for fighting global poverty.

Q. You and co-author Ray Fisman touched a popular nerve several years ago with your research on the mundane subject of cars illegally parked near the United Nations—a subject of immense concern to ordinary New Yorkers in a city with streets and avenues clogged with traffic. What triggered your interest in traffic tickets that had been routinely discarded based on diplomatic dispensation?

A. A couple of years ago, I was listening to an NPR story about the diplomatic parking problem in New York City while drinking my morning coffee, and I asked myself—are the Nigerians any worse than the Norwegians? It turns out that they are and the rest is history. Ray and I wrote up the paper and it got an insane amount of media attention, including write ups in *The New York Times, Economist,* and newspapers literally around the world. I sometimes tell graduate students to read the newspaper if they want innovative thesis ideas. This is a case in point.

Q. The material for the remarkable chapter on witch killings is based on your journal article connecting poverty with accusations of witchcraft and the murder of older women. When did you make the connection between the scarcity of rainfall (leading to extreme poverty) and "witch" killings in certain districts in Tanzania and other areas?

A. I originally started working in Tanzania to study issues of ethnic divisions and local politics, but while doing field work in Meatu district, a very poor area in the country, I came face to face with witch killings. Half of all murders in the region are murders of women accused of being witches; it's an incredibly widespread problem. We collected detailed survey information in the district and found a re-

…on the Trail of Economic Gangsters

markable correlation: attacks and murders of "witches" skyrocket in years when the rains fail. In this agrarian region, drought comes in years when crops fail and people often literally have nothing to eat. It is under these desperate circumstances that some households attack the elderly women in their midst, to ease the resource burden on their households and ensure that younger—and presumably more productive individuals—survive. When people are reduced to the rational calculus of survival, conscience is a foregone luxury.

Q. Do you foresee extending your interest in the study of curbing violence in developing countries to stemming violence in American cities?

A. The same sorts of tools, methods, and economic analysis we use to understand violence in poor countries in *Economic Gangsters* can definitely be applied to US cities. There are other economists, most famously Steve Levitt of University of Chicago but also including my colleague Enrico Moretti, who have made their names doing just this.

Q. The chapter on the connection between corruption in Indonesia and the health of Suharto underscores the valuable role of detective work in identifying the dollar value of corruption. Did you and Ray have special training as detectives, or is it in your genes?

A. Ha—that's a good one. I've always been interested in global poverty and injustice, since high school. But the detective work is a product of training as an economist. Development economics has been an extremely exciting field in recent years, as a new generation of researchers has started tackling new topics, like corruption and violence and the role they play in keeping countries poor. The research of our own and of other scholars that we bring together in *Economic Gangsters* is fruit of this revival in the field.

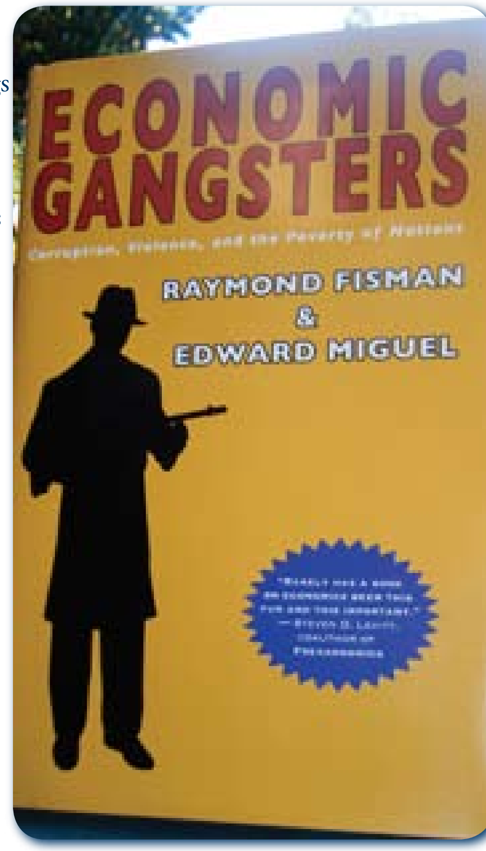
Q. Would you describe your suggestion for Rapid Conflict Prevention Support in violence prevention, and evaluate its promise?

A. Definitely. One of the striking findings in the book is the link between economic downturns and civil war. The risk of civil war is much higher following a drought year relative to a good rainfall year. Crops fail, incomes fall, and a lot of people find themselves suddenly on the edge of survival. In those years, the risk of political violence shoots up. That has implications for how we should think about climate change, especially in Africa. If climate change makes drought years more common, it can increase risk of civil war in the coming decades. There is still debate about what climate change will look like in Africa, but some of the leading models are quite pessimistic. So we need to take this issue seriously.

RCPS is one of several specific policy proposals that we develop in *Economic Gangsters.* The idea behind RCPS is that we can use foreign aid as insurance, to stop conflicts before they start.

Now that we understand the link running from extreme economic downturns, due to drought, and political violence, aid agencies can monitor the weather and other factors—like sharp commodity price movements—that could lead to sudden economic recessions. Then they should increase foreign aid to these vulnerable countries, keeping their economies afloat and preventing civil wars from breaking out. It's like preventive medicine.

The blog is here: http://www.economic-gangsters.com/



Commencement at the Greek Theater

May 22, 2008

Professor Benjamin Hermalin introduced the commencement speaker, **Professor Emeritus** and **Nobel Laureate George A. Akerlof.**

Eliot J. Swan Prize

Professor David Card presented the Eliot J. Swan Prize to **Jian Li** for best performance in the first year of the Ph.D. program. The prize, including cash component, recognizes discipline and dedication. Eliot J. Swan was a graduate student, teaching assistant, and instructor in the Department of Economics at UC Berkeley from 1932-41. He served as President of the San Francisco Federal Reserve Bank before retiring from the bank in 1972 after 31 years of service.

Journal of Development Economics Award

Professor Ted Miguel conferred the Journal of Development Economics Prize to **Suresh Naidu** in recognition of his outstanding work in Development Economics completed during the academic year. With a cash component to recognize the student's accomplishment, the goal is to support students in their thesis writing. Faculty members who specialize in Development Economics decide each year's recipient.

Grace Katagiri Prize

Professor Jim Powell presented the Grace Katagiri Prize to **Maximilian Kasy** for the best empirical metrics paper submitted by a second-year graduate student. With a cash component to recognize the student's accomplishment, the Grace Katagiri Prize, awarded in 2008 for the first time, honors Grace Katagiri, longtime employee of the economics department.

Graduate Student Award for Public Policy Research in Economics

Professor Alan Auerbach presented to **Dayanand Manoli** the Department of Economics Graduate Student Award for Public Policy Research. With a cash component, this prize, which is decided by faculty specializing in Public Policy, recognizes a student performing Economics research relating directly to Public Policy.

George Break Prize in Public Finance

Professor Alan Auerbach presented the George Break Prize in Public Finance to **Anne Moore** for outstanding performance in Public Finance field courses. The prize honors George Break, a leader in public finance and professor in the Economics Department for 40 years.

Competition Policy Center Prize

Professor Richard J. Gilbert presented to **Jennifer Elizabeth Brown** the Competition Policy Center Prize recognizing her outstanding dissertation, written on the Berkeley campus, addressing an issue of competition policy. A committee of the faculty awarded Ms. Brown the prize and cash component for her dissertation on "Quitters Never Win: The (Adverse) Incentive Effects of Competing With Superstars."

Graduate Student Instructor Awards

Professor Martha Olney presented the Graduate Student Instructor Awards to **Richard Crump, Jane Herr, Ashley Langer, Matthew Levy, Vikram Maheshri, Paulina Oliva,** and **Mike Urbancic**, each of them deemed to be outstanding instructors selected for these honors by the Department based on teaching evaluations.

Awarding of doctoral degrees

Saurabh Bhargava. "Perception is Relative: Sequential Contrasts in the Field." Dissertation Advisor: **Professor Stefano DellaVigna.** Plans: Saurabh has accepted a position as an Adjunct Professor in the Department of Economics at the University of Chicago School of Business.

Matias Damian Cattaneo. "Essays in Semiparametric and Nonparametric Microeconometrics." Dissertation Advisor: **Professor James L. Powell.** Plans: Matias has accepted a position as an Assistant Professor in the Department of Economics at the University of Michigan.

Madhav Chandrasekher. "Discrete Models of Menu Choice." Dissertation Advisor: **Professor Chris Shannon.** Plans: Madhav has accepted a position as an Assistant Professor in the Department of Economics at the W.P Carey School of Business at Arizona State University.

Eric Justin Chaney. "The Economic Effects of Tolerance." Dissertation Advisor: **Professor Barry Eichengreen.** Plans: Eric has accepted a position as an Assistant Professor in the Department of Economics at Harvard University.

Paul Po-Yuan Chen. "The Dynamics of the Higher Education System." Dissertation Advisor: **Professor Emmanuel Saez.**

Emily Conover. "Essays in Development Economics." Dissertation Advisor: **Chang-Tai Hsieh.** Plans: Emily has accepted a position as an Assistant Professor in the Department of Economics at Hamilton College.

Elise Andrea Couper. "Poor Relief in Elizabethan Norwich." Dissertation Advisor: **Professor Brad DeLong.**

Peter Matthew Fishman. "Essays in Psychology & Economics." Dissertation Advisor: **Professor Matthew Rabin.**

Keith Jacks Gamble. "Essays on Investor Behavior." Dissertation Advisor: **Professor Matt Rabin.** Plans: Keith has accepted a position as a Lecturer in the Department of Economics at Yale University.

Andrew Teruo Hayashi. "Essays in Behavioral Law and Economics." Dissertation Advisor: **Professor Botond Koszegi.** Plans: Andrew has accepted a position as Associate in the Tax Department of the law firm Davis Polk & Wardwell in New York.

Jane Leber Herr. "Fertility Effects on Women's Career Paths." Dissertation Advisor: **Professor David Card.** Plans: Jane has accepted a position as Postdoctoral Researcher at the Harris School of Public Policy at the University of Chicago.

Pamela Jakiela. "Essays in Experimental Development Economics." Dissertation Advisors: **Professor Edward Miguel & Professor Shachar Kariv.** Plans: Pam has accepted a position as an Assistant Professor in the Department of Economics at Washington University.

Robert Christopher Johnson. "Essays on International Trade and Prices." Dissertation Advisor: **Professor Pierre-Olivier Gourinchas.** Plans: Robert has accepted a position as an Assistant Professor in the Department of Economics at Dartmouth College as he completes a postdoctoral year at Princeton University.

Melissa Knox. "Essays in Economic Development." Dissertation Advisor: **Professor Edward Miguel.** Plans: Melissa has accepted a position as PostDoctoral Research Associate at the Evans School of Public Affairs at the University of Washington.

Anne Nathalie Le Brun. "Essays on Immigration and Crime Dissertation." Advisor: **Professor David Card.**

Si-Yeon Lee. "Essays on Corporate Control." Dissertation Advisor: **Professor Barry Eichengreen.** Plans: Si-Yeon has accepted a position as Researcher at the Korea Institute of Finance.

Jessica Leigh Leino. "Community and Private Sector Approaches to Development in Kenya." Dissertation Advisor: **Professor Edward Miguel.** Plans: Jessica has accepted a position as an Economist in the Young Professionals Program at World Bank.

Kristóf Madarász. "Essays in Game Theory and Behavioral Economics." Dissertation Advisor: **Professor Matt Rabin.** Plans: Kristóf has accepted a position as Assistant Professor at the London School of Economics.

Dayanand Sadanand Manoli. "Essays in Public Economics." Dissertation Advisors: **Professor Alan Auerbach & Professor Emmanuel Saez.** Plans: Day has accepted a position as an Assistant

From left, Professors Enrico Moretti, Ben Hermalin, Alan Auerbach, and Gérard Roland. Professor Emeritus George Akerlof is in front.

Professor Richard Gilbert enjoys the moment with his student.

Professor in the Department of Economics at UCLA.

Nathan H. Miller. "Essays in Antitrust and Banking." Dissertation Advisor: **Professor Richard J. Gilbert.** Plans: Nathan has accepted a position as a Research Economist in the Economic Analysis Group of the Antitrust Division of the Department of Justice.

Suresh Naidu. "Essays in the Political Economy of Development." Dissertation Advisors: **Professor Pranab Bardhan & Professor Gérard Roland.** Plans: Suresh has accepted a position as Postdoctoral Fellow in the Harvard Academy for International and Area Studies at Harvard University.

Christine Pinto. "Semiparametric Estimation of Peer Effects." Dissertation Advisor: **Professor Bryan Graham.** Plans: Christine has accepted a position as an Assistant Professor in the Department of Economics at Universidade Federal de Minas Gerais, Brazil.

Raul Razo-Garcia. "Essays on Exchange Rate Regimes and Openness of the Capital Account." Dissertation Advisor: **Professor Barry Eichengreen.** Plans: Raul has accepted a position as Assistant Professor in the Department of Economics at Carleton University.

M. Marit Rehavi. "Essays on the Political Economy and Measurement of Public Finance." Dissertation Advisors: **Professor Alan Auerbach** & **Professor David Card.** Plans: Marit has accepted a position as Assistant Professor in the Department of Economics at University of British Columbia.

Dean Scrimgeour. "Essays on Monetary Policy." Dissertation Advisor: **Professor David Romer.** Plans: Dean has accepted a position as Assistant Professor in the Department of Economics at Colgate University.

Karen Selody. "Essays in Behavioral Finance." Dissertation Advisor: **Professor Ulrike Malmendier.**

Kevin Michael Stange. "Empirical Essays on the Determinants of Educational Attainment." Dissertation Advisor: **Professor David Card** Plans: Kevin has accepted a position as an Assistant Professor in the Ford School of Public Policy at the University of Michigan.

Sharad Alan Tandon. "Essays in the Political Economy of India." Dissertation Advisor: **Professor Pranab Bardhan.** Plans: Sharad has accepted a position as an Agricultural Economist in the Economic Research Service of the US Department of Agriculture.

Bing-ru Teh. "Essays on Crime and Urban Economics." Dissertation Advisor: **Professor David Card.** Plans: Bing-ru has accepted a position as an Economist with Mathematica Policy Research.

Undergraduate Honors

University Certificate of Distinction

Professor Clair Brown presented the Certificate of Distinction and cash prize to **Anitha Sivasankaran,** who was among five finalists for the 2008 University Medal denoting the most distinguished graduating senior on the Berkeley campus.

Departmental Citation & Rolph Memorial Prize

Professor Clair Brown presented the Departmental Citation and Earl Rolph Prize and cash component for outstanding academic achievement to **Zhenyu Lai,** author of the best undergraduate honors thesis in Economics. Earl Rolph was a Professor of Economics, 1937–77 at UC Berkeley. Recalling his belief that incentives should guide one's behavior, Earl Rolph's family established the prize in his memory. **Zhenyu Lai** gave the Undergraduate Speech.

A.B. Honors Graduates

Ariana Tiffany Afshar, Nicholas Edward Bruce, I-Hsiang Robert Chang, Michael Louis Clark, Andrew Fleck Farris, Vu Nguyen Ho, Paul Anthony Janczyk, Eric Walter Jeske, Ajay Krishnamurthy, Yen-Ju Judy Lai, Zhenyu Lai, Cesar Lee, Hoan Soo Lee, Joshua Brock Mendel, Christopher Lien Nelson, Elaine Mei-Ling Ng, Eric Anders Petersen, Tzveta Petrov, Tom Shi Qiu, Priyanka Rajagopalan, Kate Maree Reimer, Maya Rossin, Alison Paige Sanders, Na'ama Shenhav, Anitha Sivasankaran

Obituaries

Professor Emeritus **James L. Pierce**, an authority on macroeconomics, monetary economics, and banking, died Feb. 17. He wrote *The Future of Banking* (1991) and *Origins and Causes of the S&L Debacle: A Blueprint for Reform* (1993). He was executive director of the National Commission on Financial Institution Reform, Recovery and Enforcement. Before joining the faculty in 1976, Dr. Pierce was associate director of the Federal Reserve System's division of research and statistics where he was credited with hiring professional economists who helped shape agency policies and regulations. Dr. Pierce retired in 2001 due to illness. Details of his life and scholarship are online at http://emlab.berkeley.edu/econ/

Professor Emeritus **George F. Break,** scholar of public finance, has died at age 88.

He wrote 11 books, among them *Public Finance* (1961) with Earl Rolph, and, with Joseph Pechman, *Federal Tax Reform: The Impossible Dream?* (1975). The latter influenced the writing of the U.S. Tax Reform Act of 1986. He joined the Economics Department in 1951, chaired it 1969–73, and retired in 1990.

Break was president of the National Tax Association 1982–84, assisted the U.S. Treasury Department's Office of Tax Analysis, consulted for government tax agencies in the United States and Canada, and evaluated the tax systems of Greece and Jamaica. After serving in the Royal Canadian Air Force in WWII, he married Helen Dean Schnacke. A fund benefiting the Economics Department has been established in his honor. Memorial contributions can be made to the "George and Helen Break Memorial Fund" at UC Berkeley, College of Letters & Science, 2150 Shattuck Ave., Suite 300, Berkeley, CA 94704. For questions, or to donate by credit card, please contact Melissa Waver at mwaver@berkeley.edu or at 510.643.1113.

Christy Romer

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expected to lose 3 to 4 million more jobs over the next year. She told the nation that doing nothing to reverse the decline is not an option.

In 2006, Christina Romer and Chang-Tai Hsieh wrote in the *Journal of Economic History* that the US government's inadequate response during the Great Depression was a "policy mistake of monumental proportions."

In an address to an audience at the Brookings Institution in early March, Christy Romer spoke of parallels and important differences between the Depression era and today.

Excerpts from her talk follow.

"The key fact is that while Roosevelt's fiscal actions were a bold break from the past, they were nevertheless small relative to the size of the problem. When Roosevelt took office in 1933, real GDP (gross domestic product) was more than 30 percent below its normal trend line. For comparison, the U.S. economy (today) is somewhere between 5 percent and 10 percent below trend."

"Despite the devastating loss of wealth, chaos in our financial markets, and a loss of confidence so great that it nearly destroyed Americans' fundamental faith in capitalism, the economy came back. Indeed, the growth between 1933 and 1937 was the highest we have ever experienced outside of wartime. This fact should give Americans hope. We are starting from a position far stronger than our parents and grandparents were in 1933. And the policy response has been fast, bold, and well conceived."

However, the complexity of today's financial system adds to uncertainty, she said. "This is the kind of situation and the kind of instruments… (that) are just infinitely more complicated, and that's part of why this is hard. It's part of why coming up with a Financial Stabilization Plan is not a one week thing and it's a monumental task… . All of the modern innovations, we know they are a complicating factor… and one I think we will just power through."

Her remarks are online in full.
http://www.brookings.edu/~/media/Files/events/2009/0309_lessons/0309_lessons_romer.pdf

Charting troubled waters

While non-economists may have known little about Dr. Romer before she arrived on the national stage, colleagues know that she and her husband, David Romer, are the go-to team for charting troubled waters. Both were members of the National Bureau of Economic Research business cycle dating committee, the arbiter of when recessions in the US begin and end.

Seven months before Barack Obama won the presidential election, Professors Christina and David Romer were interviewed for

David & Christy Romer are a team

the September 2008 issue of *Banking and Policy Issues Magazine,* published by the Federal Reserve Bank of Minneapolis. Editor Douglas Clement prefaced his Q&A with this précis.

"In times of financial turmoil, it is comforting—or at a minimum, illuminating—to receive counsel from those with long-term perspective. Tempered with the lessons of history, their views extract true trend from distracting noise. Guided by precedent, shaped by narrative, checked against data, the conclusions of economic historians are formed slowly and carefully.

"In the realm of US monetary history, few economists are as qualified to provide such counsel as Christina Romer and David Romer of the University of California, Berkeley. Since 1985, when both received their doctorates from the Massachusetts Institute of Technology, the two have co-authored some of the field's central analyses of Federal Reserve policymaking, based on thorough scrutiny of Fed documents and painstaking empirical investigation. They've made fundamental contributions to the literature on fiscal policy as well. Individually, Christina is well known for her research on the Great Depression and David for his work on microeconomic foundations of Keynesian economics. While their topics and methods are orthodox, their conclusions are often unsettling."

How so, for example?

In a 1999 article, the Romers examined the influence of monetary policy on poverty and inequality, arguing that although expansionary policy induces a decline in the poverty rate, the decline is eventually reversed; and that monetary policy that aims to restrain inflation and minimize output fluctuations is likely to be associated with improved conditions for the poor over time.

During the presidential campaign, the *National Journal* evaluated Barack Obama's economic advisors. "The Romers, a married couple, often do research and take on academic responsibilities as a team. …Experts on the workings of the US economy… they are both steeped in the history of the country's economy and have recently produced a series of papers looking at the causes and effects of most of the major changes in tax policy in the last 100 years."

"At the same time that Obama is calling for higher income taxes on people making $250,000 or more, the Romers have found that tax increases are generally bad for economic growth and that they primarily discourage investment—the supply-side argument that conservatives use to justify tax cuts for the rich. On the other hand, the Romers have shredded the conservative premise that tax cuts eventually force spending reductions ("starving the beast.") Instead, they concluded that tax reductions lead only to one thing—offsetting tax increases to recover lost revenue."

Is this good for Cal?

Berkeley could be "losing our professors to the administration at an astonishing rate," Professor DeLong told the *Sacramento Bee*, adding that Christina Romer's appointment is a validation of a Berkeley school of thought that government shouldn't shrink from fixing the economy. This is a change from the Chicago school of free-market ideas of the late Milton Friedman that have long dominated Washington.

Christy Romer is the 25th Economist to chair the White House Council of Economic Advisers

Little about his colleague's nomination and ascent to public office escaped Brad DeLong's scrutiny. For example, when the Dec. 5 issue of *Time* printed a photograph on p. 30 of Christina Romer with three hands, Prof. DeLong solemnly observed, "The fourth hand, of course, is invisible… ."

At the *Boston Globe,* Scott Helman wrote: "N. Gregory Mankiw, chairman of the Council of Economic Advisers under G.W. Bush, observed that two of the nation's leading Great Depression scholars—Federal Reserve Chairman Ben Bernanke is also expert on that era—are working together to prevent history from repeating itself.

"It's kind of fascinating that they're both down there dealing with what's the most serious financial situation since the Great Depression," said Mankiw, who was the best man at Romer's wedding. "Let's hope all those years of study have done them some good."

The department's Laura Tyson chaired the White House Council of Economic Advisers 1993–95; Professor Emeritus Janet Yellen chaired the Council 1997–99.

Faculty News

Shachar Kariv was awarded the 2006-7 UCB Social Sciences Distinguished Teaching Award and a Sloan Research Fellowship.

Alex Mas was awarded a Sloan Research Fellowship.

Stefano DellaVigna received the 2008 UCB Distinguished Teaching Award and a Sloan Research Fellowship for Economics.

Raj Chetty won *The American* magazine's 2008 Young Economist Award and a Sloan Research Fellowship.

Pranab K. Bardhan has been awarded the Fulbright Distinguished Siena Chair at University of Siena, Italy for 2008-09. He gave four major lectures last summer, one on institutional economics of development at the annual meeting of the Canadian Economic Association in Vancouver, the second in New Delhi at a conference organized by IDEA, Sweden, on Democracy and Development, the third at the Brooks World Poverty Institute, University of Manchester, UK, and the fourth to the American Committee on Asian Economic Studies at Rimini, Italy.

Suzanne Scotchmer has received a three-year NSF award to study "Funding R&D when Ideas are Scarce." She gave the Jahnsson Lectures in Finland, and earlier, a keynote address at the European Association for Research in Industrial Economics. Prof. Scotchmer serves on the advisory board of the Toulouse School of Economics.

Jan de Vries has returned to full-time teaching after serving seven years as Vice Provost for Academic Affairs. His book, *The Industrious Revolution: Consumer Behavior and the Household Economy 1650 to the Present,* was published in July by Cambridge University Press.

Botond Koszegi received the European Economic Association's Hicks-Tinbergen Medal for the best paper published in the Journal of the European Economic Association in 2006-7. The paper, "Ego Utility, Overconfidence, and Task Choice" is online: http://elsa.berkeley.edu/~botond/overconf.pdf

Maurice Obstfeld gave a keynote at the 15th World Congress of the International Economic Association in Istanbul, and he serves as Vice President of the American Economic Association.

Gérard Roland has won the Richard F. Fenno Prize for co-authoring *Democratic Politics in the European Parliament* (Cambridge University Press). It was judged the best book published in 2007 in the field of legislative studies. Professor Roland gave the keynote address, "Transposable and non Transposable Lessons from the Transition Experience" at the conference Experience of Transition Economies and Implications for North Korea January 18, 2008 in Seoul. He gave the keynote, "Economic Theory and Transition: What Lessons for North Korea?" at the conference of the North East Asian Intellectual Society Towards the North East Asian Community February 21, 2008 in Seoul. At the Festival of Economics in Trento, Italy, Prof. Roland's talk was on "The Transition to a Market Economy With and Without Democracy." In September, he gave the keynote, "Understanding the Chinese Growth Puzzle" at the conference Thirty years of Reform and the Chinese Model at Renmin University, Beijing.

Professor **Clair Brown** and Dr. **Greg Linden,** of the Institute for Research on Labor and Employment's Center for Work, Technology, and Society, have written about the global semiconductor industry. The working title is *Change Is The Only Constant.* Their book, due out at MIT Press in the Fall, analyzes the survival methods of the engineers and firms in the chip industry as it faced a series of crises over twenty years.

James Powell was elected Fellow of the American Academy of Arts & Sciences.

Daniel L. Rubinfeld received an honorary doctorate from the University of Basel, Switzerland.

Enrico Moretti received the Carlo Alberto Medal—awarded to an Italian economist under the age of 40 for outstanding research.

David Card was awarded the 2008 Frisch Medal of the Econometric Society.

Eichengreen Effort Led to 'Instant Book' on Worldwide Crisis

Barry Eichengreen co-edited an instant book with Richard Baldwin on how to resolve the October 2008 crisis. His e-mail to Baldwin in the early morning Oct. 8 resulted in a book with contributions from 18 economists Oct. 9. It was downloaded by 10,000 readers and delivered to G7 finance ministers assembled for an emergency meeting in Washington, D.C. Oct. 10.

The recommendations—to move urgently to recapitalize national banking systems and apply temporary guarantees on new bank lending to restart interbank market— were adopted by EU governments Oct. 12 and by the US Oct. 14. You can read the e-book at a link from VoxEU.org, a policy portal established by the Centre for Economic Policy Research (www.CEPR.org) in conjunction with a consortium of national sites. Vox promotes research-based policy analysis and commentary by leading scholars.

Discussion is here:
http://voxeu.org/index.php?q=node/2340
The book maybe freely downloaded here:
http://www.voxeu.org/reports/crisis/crisis_141008.pdf

George Akerlof's new books, one in print, one on way

With a modern look at a phrase made famous by John Maynard Keynes, Princeton University Press has published *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism* by Cal's George A. Akerlof and Yale's Robert J. Shiller.

In their book, they discuss how fairness, corruption, money illusion and stories affect the macro economy. They ask and answer questions such as the following. Why do economies fall into depression? Why do central bankers have power over the economy? Why is there a trade-off between inflation and unemployment in the long run? Why is saving for the future so arbitrary? Why are financial prices and corporate investments so volatile? Why do real estate markets go through cycles? Why is there special poverty among minorities?

They affirm that animal spirits "is now an economic term, referring to a restless and inconsistent element in the economy. It refers to our peculiar relationship with ambiguity or uncertainty. Sometimes we are paralyzed by it. Yet at other times it refreshes and energizes us, overcoming our fears and indecisions."

In a second book, also to be published by Princeton University Press, Akerlof revisits themes explored in his 2001 Nobel speech and in articles he has written with co-author Rachel Kranton. Tentatively titled *More than Money: Economics and Identity,* Akerlof and Kranton (Class of '93) explore how personal ideals and self-image influence the behavior of both organizations and individuals. He said, "If people (and organizations) live up to their ideals, they tend to be happy, and if they fail to live up to their ideals, they tend to be unhappy. What causes organizations to work? What causes schools to work? What determines how much education people get and whether that education tends to be good or bad? We look at the economics of education and why minorities tend to be impoverished, and we look at the economics of gender."

News from the Department of Economics

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