

Introducing the Centre for Competitive Advantage in the Global Economy (CAGE)

Established in January 2010, CAGE is a new research centre in the Department of Economics at Warwick University. Funded by the Economic and Social Research Council (ESRC), CAGE will carry out a 5 year programme of innovative research.

The centre's research programme is focused on how countries succeed in achieving key economic objectives such as improving living standards, raising productivity, and maintaining international competitiveness, which are central to the economic wellbeing of their citizens. The centre will seek a deeper analysis of the reasons for economic outcomes both in developed economies like the UK and emerging economies such as China and India. It will aim to develop a better understanding of how to promote institutions and policies which are conducive to successful economic performance and endeavour to draw lessons for policy makers from economic history as well as the contemporary world.

Our approach will be more eclectic than would be implied by slavishly following the mainstream. This will probably entail taking some risks. It will certainly make our work exciting and innovative"

Professor Nicholas Crafts
Director of CAGE

Research at CAGE examines how and why different countries achieve economic success. CAGE defines 'success' in terms of well-being as well as productivity. The research uses economic analysis to address real-world policy issues. The centre

is distinctive in providing a perspective that draws on economic history as well as economic theory and is applied to countries at various different stages of economic development.

CAGE Research is organised under 3 themes, each of which is focussed on a big question:

- ① What explains catching up, forging ahead or falling behind in economic growth over the long run?
- ② What permits countries to adjust successfully to new opportunities and challenges presented by global economic development?
- ③ When does succeeding in the global economy translate into reduced deprivation and enhanced general wellbeing?

While a key priority for CAGE is to produce high-quality research that will be published in top academic outlets, its reach will extend far beyond traditional academic circles. A major objective of the centre is to ensure that this academic research also has practical impact in helping policy-makers as they confront profound economic turbulence.

An important part of CAGE's mandate is to develop the potential of young researchers through research programmes and also to identify key researchers worldwide and bring their research to the attention of UK policy makers.

The centre has established a partnership with the Royal Institute of International Affairs (Chatham House) which will facilitate the production of policy briefing papers and the holding of seminars, workshops and lunchtime meetings. Chatham House is renowned for its outreach and will make active use of its network of contacts to disseminate the research and engage the London policy community and a wider audience in the research findings.

"CAGE's research outcome should become part of the international economic debate and the partnership between CAGE and Chatham House will make this happen"

Paola Subacchi
Research Director, International
Economics, Chatham House

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Welcome from the Director, Professor Nicholas Crafts



Nick Crafts is Director of CAGE. He has extensive research experience in the fields of long-run economic growth and the performance of the British economy. His past research includes major contributions to the economic history of the British industrial revolution and to understanding the relative economic decline of the British economy in the 20th century. He has been head of academic departments both at Warwick and at LSE and ran a highly-successful European network of researchers investigating economic growth in the post World War II era.

He has also been an advisor to several government departments on productivity and a consultant to the IMF and the World Bank.

In 2009, Nick gave the Ellen McArthur Lectures at Cambridge University on the topic "From the 18th to the 21st Century: a Perspective on 250 Years of British Economic Growth". He is currently

preparing a book based on these lectures for Cambridge University Press. The main theme of the book is to understand how in successive periods the historical legacy influenced subsequent growth performance.

As Director, Nick is responsible for ensuring that CAGE not only delivers high-quality research but that this work is effectively disseminated to the academic and policymaking communities. His experience as a long-standing contributor to courses, journals and seminars whose purpose is to make technical economic findings

accessible to the non-specialist will help to achieve this knowledge transfer. His background as an economic historian adds an extra dimension in terms of being able to draw on lessons from the past relevant to today's policy issues.

Nick sees CAGE as distinctive in recognising that economic analysis and policy design needs to be sensitive to context. As he says:

We recognise the value and complementarity of both historical and theoretical perspectives. We believe that careful measurement of economic performance is central to understanding success and failure. We are firm believers in evidence-based policy. We are fully paid-up economists but understand the value of collaboration with other social sciences."

Introducing the 3 theme leaders

Professor Stephen Broadberry



Stephen Broadberry is leader of Theme 1.

Steve's research interests include sectoral aspects of the comparative growth and productivity performance of Britain, the United States and Germany

from the nineteenth century to the present; productivity in services; the development of the European economy since 1000; and the Great Divergence of productivity and living standards between Europe and Asia.

Steve is currently leading a project on Reconstructing the National Income of Britain and Holland, 1270-1870, funded by the Leverhulme Trust. He is also Co-ordinator of the EC Seventh Framework Collaborative Project, Historical Patterns of Development (HI-POD), which seeks to advance our understanding of the causes development and underdevelopment by quantifying the relative growth experiences of the European core and periphery, and the rest of the world, from the Middle Ages until today, and by analysing the intra-regional and inter-regional causes of these divergent trends.

Professor Sharun Mukand



Sharun Mukand is the leader of Theme 2.

Sharun's research interests lie on the intersection of economics and political science. His current research is focused on analysing the political economy of globalisation and

institutional change especially in the context of developing countries. In particular, he is examining the conditions under which institutional change can be engineered when political constraints are taken into account. He is also studying the impact of globalisation on the political economy of governance in emerging market countries. The other main strand in his research is analysing the role of behavioural and economic factors in influencing attitudes towards redistribution, nation building and the nature of political competition.

Sharun is a Research Fellow at the London School of Economics as well as at CESifo. In collaboration with the Ministry of Rural Development, Government of India, Sharun is leading a team of policymakers and researchers investigating aspects of the world's largest employment guarantee programme.

Professor Sayantan Ghosal



Sayantan Ghosal is leader of Theme 3 and Deputy Director of CAGE.

He manages the Centre's research programme and chairs the Research Strategy Group which has responsibility for

co-ordinating research between the three themes. Sayantan is academic lead for the Centre's seminar series and oversees the Centre's connection with India.

Sayantan's research interests are primarily in economic theory with recent research focused on deprivation traps. In contrast to the traditional view that poverty traps are the result of external constraints and absolute deprivation, Sayantan is considering the role that inequality itself, of opportunity and distribution of opportunity, may play in keeping individuals locked in poverty traps. Innovatively, as well as considering the role of inequality this research will examine the role an individual's 'internal constraints', such as aspirations and self image and 'cognitive windows', in this case only being exposed to others living in extreme poverty, may play in perpetuating deprivation. The research



will examine the foundations of behavioural decisions, the implications for welfare and the policy implications of well-being research. This research involves advances both in theory and empirical investigation.

Sayantan is a member of the ESRC-ICSSR Committee and the co-academic lead of the Bihar programme of the International Growth Centre at LSE.

Welcome to our new Research Associates

David Hugh-Jones, a political economist, is researching how democracies take long-term decisions in areas like climate change policy, pensions and education. David has recent papers on how financial globalisation makes democracies - and dictatorships - more stable, and on the reform of democratic institutions. David received his PhD in 2009 and was a postdoctoral researcher at the Max Planck Institute for Economics in Jena before arriving at CAGE.

Sanchari Roy received her PhD in 2010 from the London School of Economics and joined CAGE at the end of September. Her research interests include development economics and applied microeconomics. Sanchari is currently involved in research on the poverty and aspirations project led by Sayantan Ghosal. She is also researching the role of female inheritance rights in the context of household resource allocation in India.

Visiting fellow

Pieter Woltjer is a visiting PhD student from the University of Groningen (the Netherlands). He is working alongside Professor Stephen Broadberry and Professor Nick Crafts on the development of economic growth over the long run. Pieter's research constitutes a part of a research project called "Modern Times: European Capitalism in the Second Industrial Revolution 1900 - 1950" and centres around the 1920s and 1930s, with particular focus on the effects of the Depression and both World Wars on the development of the industrial economies in Europe, and the nature of the welfare gap.

Lessons from the 1930s Great Depression

CAGE ran a highly-successful conference on this theme at Chatham House on November 29.

The event launched findings from a series of the studies of 'Lessons from the 1930s' that were recently published in the Oxford Review of Economic Policy.

The conference brought together experts on the Great Depression to discuss policy lessons from the 1930s for today and highlighted key points from these papers for the policymaking community. Among

the topics covered were the effectiveness of fiscal stimulus, the role of the international monetary system in constraining policy responses, the justification for the Glass-Steagall Act, the double-dip recessions of the 1930s and the design of exit strategy.

Speakers included Nicholas Crafts, Peter Fearon, Price Fishback and Roger Middleton. We were also joined by Sir Alan Budd, former head of the Office for Budget Responsibility and senior Treasury economist Dave Ramsden.

CAGE Seminar Series on the Emerging World Economy

CAGE will be running a series of seminars in 2011. The seminars will bring new academic ideas and insights to a wider audience. In the first of these we will focus on the rise of China and India and the implications for the UK, particularly for the design of policies for globalisation and development.

▪ Pranab Bardhan, Berkeley

Chatham House: 3 February 2011
University of Warwick: 4 February 2011

Professor Pranab Bardhan will give a lecture based on his new book *Awakening Giants, Feet of Clay: Assessing the rise of China and India*.

Bardhan scrutinizes the phenomenal rise of China and India and demolishes the myths that have accumulated around their economic achievements in the last quarter century.

Exploring the challenges that both countries must overcome to become true leaders in the international economy, Bardhan investigates the two countries' policy changes, political and economic structures, and current general performance. He considers how economic reforms and problems within their economic sectors affect the countries' poverty, inequality, and environment, how political factors shape each country's pattern of burgeoning capitalism, and how significant poverty reduction in both China and India is mainly due to domestic factors - not global integration, as most would believe. He shows how authoritarianism has distorted Chinese development while democratic governance in India has been marred by severe accountability failures.

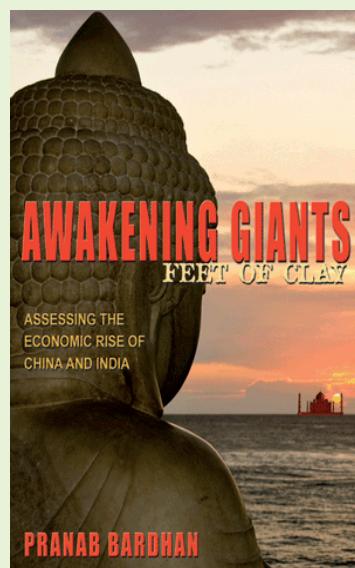
▪ Dani Rodrik, Harvard

Chatham House: 15 March 2011
University of Warwick: Tbc

Professor Dani Rodrik will give a lecture based on his new book, *The Globalisation Paradox: Democracy and the Future of the World Economy* (publication date March 2011).

For a century, economists have driven forward the cause of globalisation in financial institutions, labour markets, and trade. Yet there have been consistent warning signs that this might not always be advantageous. Although economic globalisation has enabled unprecedented levels of prosperity in advanced countries and has been a boon to millions of poor workers in Asia, it is a concept that rests on shaky pillars, he contends.

The heart of Rodrik's argument is that we cannot simultaneously pursue democracy, national self-determination, and economic globalisation. Give too much power to governments, and you have protectionism. Give markets too much freedom, and you have an unstable world economy with little social and political support from those it is supposed to help. Rodrik argues for smart globalisation, not maximum globalisation.



Climate Change Workshop

On January 25 2011 CAGE will be a joint sponsor of a workshop on global climate change policy together with the Granthan Institute for Climate Change policy at LSE and the Climate Change Initiative in the Centre for the Study of International Economic Relations at Western Ontario Canada.

The focus will be the ongoing global climate change negotiations under the UN Framework Convention on Climate Change which follow on from the December 2009 meeting in Copenhagen. Policy initiatives towards a low carbon economy, both globally and nationally, will also be discussed. On the programme will be Andrew Sentance and John Whalley from CAGE. Nicolas Stern will be among the LSE presenters.

Presentations are anticipated from two high level Chinese policy analysts on China's position on these issues.

The impacts of the December 2010 Cancun UNFCCC meeting will be discussed as will prospects for the 2 high level panels on climate change: one on mitigation and the other on finance, with Nicholas Stern serving on the latter.



Working Papers

CAGE publishes a series of working papers which are available online.
Recent papers include:

English Economic Growth, 1270 – 1700

Authors: Stephen Broadberry, Bruce Campbell, Alexander Klein, Mark Overton and Bas van Leeuwen
No. 21/2010

Provides annual estimates of GDP for England over the period 1270–1700, constructed from the output side. The GDP data are combined with population estimates to calculate GDP per capita. Sectoral price data and estimates of nominal GDP are also provided. Finds per capita income growth of 0.20 per cent per annum, although growth was episodic, with the strongest growth after the Black Death and in the second half of the seventeenth century. Living standards in the late medieval period were well above "bare bones subsistence".

Poverty and Aspirations Failure

Authors: Patricio Dalton, Sayantan Ghosal and Anandi Mani
No. 22/2010

This paper models the role of internal constraints in causing aspirations failure at the individual level. It shows how initial disadvantage increases the likelihood of binding internal constraints and hence aspirations failure, thus suggesting a new behavioral explanation for poverty traps. In examining common approaches to relaxing such internal constraints, it describes how an individual's choice of a "cognitive window" (i.e. a set of relevant "similar" individuals) can limit the effectiveness of role models. Our work provides a normative justification for programmes that aim to empower participants through a direct positive shock to their aspirations.

Workers Without Borders: Culture, Migration and the Political Limits to Globalization

Authors: Sanjay Jain, Sumon Majumdar and Sharun W. Mukand
No. 10/2010

This paper examines the role of cultural factors in driving the politics, size and nature of migration policy. We show that there exists a broad political failure that results in inefficiently high barriers restricting the import of temporary foreign workers and also admitting an inefficiently large number of permanent migrants. Strikingly, we show that countries that are poor at cultural assimilation are better positioned to take advantage of temporary foreign worker programs than more culturally diverse and tolerant countries. Furthermore, relaxing restrictions in the mobility of migrant workers across employers has the potential to raise host country welfare even though it increases migrant wages and lowers the profits of individual firms.

Hard copies are also available free of charge – simply contact cage.centre@warwick.ac.uk (quoting the paper number).

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