

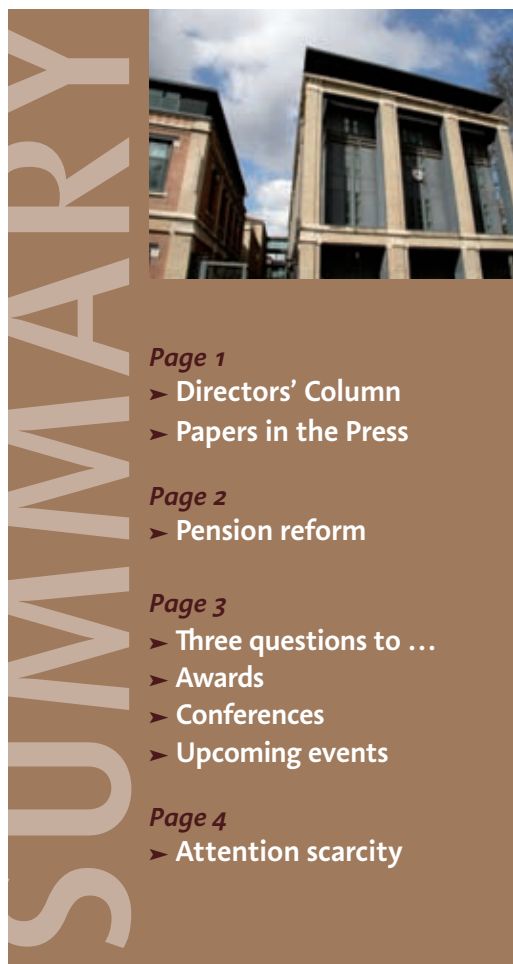
Dear IDEI and TSE friends,

We are living in an incredible era. After having for a long time ignored the bibliometric approaches to scientific evaluation, France and Europe are starting to evaluate quantitatively its laboratories and researchers! The economists in Toulouse are certainly not complaining. And let us not hide our pleasure by citing two particularly striking results. The first ranking comes from the French Ministry of Research* that published a new ranking of the French research institutes this winter - a ranking in which TSE was a clear number one. The second ranking, established by the REPEC** site, puts TSE on a twelfth place among the world's best research centers in economics. This good news is the fruit of daily effort by our hundred and forty researchers who share the same joint ambition to create new knowledge and to use it to improve the world. For instance, in this letter, Philippe De Donder gives us his opinion on the pension reform in France. According to him, one solution would be to increase the activity rate among seniors. Augustin Landier analyzes in his book "La société translucide" the return of the State on the economic scene in his book. The book is coauthored with David Thesmar (HEC). More than ever do we want to take advantage of all the opportunities that are given to all of us to move forward our joint ambition. The creation of a school of economics at UT1 Capitole is one of them: the potential from this project for creating values and federation in our community is considerable. And to conclude, the big loan opens up passionate perspectives to create, in Toulouse, what even Jean-Jacques Laffont would have considered impossible not long ago. To be continued!!

Christian GOLLIER and Patrick REY

* <http://www.vcharite.univ-mrs.fr/pp/combes/RapportRanking010310.pdf>

** <http://www.repec.org>



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Papers in the Press

- "Cette drôle de taxe agricole", Jacques Crémer and Bernard Salanié, *Les Echos*, April 14, 2010.
- "Petit traité de l'altruisme et de la perversité", Emmanuelle Auriol, *Le Monde*, April 20, 2010.
- "Donner à l'Etat un rôle dans la régulation, c'est très mauvais", Jean-Charles Rochet, *www.lexpansion.com*, April 24, 2010.
- "Les leçons des affaires Goldman", Augustin Landier and David Thesmar, *Les Echos*, April 28, 2010.
- "Régionales : la victoire du vote par calcul", Guillaume Cheikbossian, *L'Expansion*, n° 751, May 2010.
- "Ce sont les banques que l'on a sauvées, pas la Grèce", Paul Seabright, *Le Monde*, May 18, 2010.
- "Marché de l'électricité: quand la France donne l'exemple", Claude Crampes and Thomas-Olivier Léautier, *Les Echos*, May 18, 2010.
- "Les deux secrets de la productivité américaine : management et formation", Jacques Crémer and Bernard Salanié, *Les Echos*, May 19, 2010.
- "La Grèce doit remercier les marchés", Franck Portier, *L'Expansion*, n° 752, June 2010.
- "Retraites : rendre le système lisible pour vraiment le réformer", Augustin Landier and David Thesmar, *Les Echos*, June 2, 2010.
- "Faîtes vos jeux... rien ne va plus !", Emmanuelle Auriol, *Le Monde*, June 22, 2010.
- "Pour la réforme des retraites, soyons justes... mais aussi efficaces", Jacques Crémer and Bernard Salanié, *Les Echos*, June 23, 2010.

Pension reform: One solution is to increase the activity rate among seniors

In France today, the pension system by redistribution, in which pensions are financed by compulsory contributions from workers, is suffering. What are the solutions that allow us to go on? It is possible to play with three different levers: the level of the retirement pension, the rate of contribution for workers and the ratio between contributors and retired.

It seems difficult to lower the level of the pension paid to retired people, except by focusing all the effort on the people who receive the highest pensions. This would make our pension system more redistributive between incomes within the same generation. However, this measure is an implicit form of income taxation for high incomes since retirement pensions would not increase at the same rate as the contributions.

In the same way, in France, increasing the rate of contribution for the active population would increase the compulsory contributions - contributions are already among the highest in the world. At the most, one could consider decreasing the fiscal base of capital and labor or to increase the progressiveness of the tax. It is an illusion and demagogic to believe that one can return to the equilibrium of retirement while playing with only one single lever.

The only remaining thing is the ratio between contributors and retired. The French have reacted to the increased life expectancy - which between 1960 and 1995 went from 67 to 74 for males and from 74 to 82 for females - by decreasing the average age for exiting the labor market - from 64 to 59 for males and from 66 to 58 for females! Such an evolution is not sustainable. The average age for exiting the labor market is well below the legal retirement age. This is caused by the proliferation of early-retirement mechanisms, which are often justified by the fact that the quantity of available labor is fixed, and, as a consequence, an old worker leaving the labor market automatically creates a vacancy for a younger worker. However, this argument is for many reasons incorrect.

It is necessary to increase the proportion of active people above 50, first of all in order to come out on top of the pension crises, but also in order to finance other public expenditures linked with the increased life expectancy such as dependency and health expenditures. The government has chosen to increase, as a function of life expectancy, both the legal age for retirement and the duration for contribution to the retirement system. Accompanying measures have been developed to avoid punishing people who started work early and whose work is physically very demanding.

This reform is undeniably going in the right direction. It would however be even better if accompanied by measures that aim at making work more attractive for people in their 60s (like the 2003 Fillon reform) and making it more attractive to employ such people. Concerning the increase in contributions decided by the government, their logic seems based more on politics than economics.

Philippe De Donder

Researcher at the Toulouse School of Economics

Three questions to Augustin Landier, researcher at the Toulouse School of Economics

1. Does the recent financial crisis imply a failure of market economies?

The State has been shown to be the ultimate bastion when confronted with the collapse of the financial system. But to believe in the market economy is not to believe that markets work alone. Economists spend a large part of their research on analyzing “market failures” that justify correcting mechanisms such as the carbon tax and public funding of research. The State plays the role of an architect who defines the rules of the game that are optimal from a collective point of view and make sure that they are obeyed. Concerning finance, one realizes that today the rules of the game and the system of surveillance that comes with them are not adequate.

2. The State returns with all its strength on the economic scene. Is it worrying?

One observes that the State plays an increasingly important role in the economy. The State helps defaulting firms, defines new rules, invests in sectors that are considered strategic and does not hesitate to give its opinion concerning the appointment of certain big managers. When the State intervenes in the economy, it is crucial to explain in detail the problem that needs resolving: externalities, consumer protection etc. By the way, it is important to notice that it

is not enough to put forward public interests for such interference. There is no longer an omnipresent pilot, especially not impartial, in control of the State wheels, but men and women who, like the rest of us, are endowed with private interests, career goals, reelection issues... It is necessary to integrate this reality into the design of our institutions.

3. What model do you propose to modernize public intervention?

As citizens, we cannot rely on the myth of an efficient State. To escape the tyranny of short-termism and the multiplication of aborted reforms, we, David Thesmar and I, propose in our book “La société translucide” some ways of improving public intervention. More specifically, we propose to improve its openness towards the participation of citizens, a bit like “open-source” software. The State has to better take on its role as a producer of public information: It has become an important “royal” duty. To deliver reliable, detailed information that is easily accessible to demanding citizens that we have become and to eliminate the opacity in which certain industries and decisions are enveloped is a key-mission for today’s State. For researchers in economics, data is the window that allows us to identify real problems. Too much information remains inaccessible and in the shadows of the institutions that collect it.

Conferences

- **Conference on the Political Economy of the Financial Crisis**, organized by Luc Laeven (IMF) and Augustin Landier (TSE), *Toulouse, April 9, 2010.*
- **9th CSIO-IDEI Joint Workshop on Industrial Organization**, Northwestern University, *Evanston, USA, May 7-8, 2010.*
- **Review of Economic Studies Tour**, organized by Nour Meddahi, *Toulouse, May 17-18, 2010*
- **Financial Econometrics Conference**, organized by Nour Meddahi, *Toulouse, May 21-22, 2010.*
- **Eleventh CEPR Conference on Applied Industrial Organization**, organized by Pierre Dubois and Marc Ivaldi, *Toulouse, May 27-29, 2010.*
- **Conference on Solvency 2**, organized by IDEI, Louis Bachelier Institute and SCOR, *Palais Brongniart, Paris, June 1, 2010.*
- **Conference in tribute to Antoine Faure-Grimaud**, organized by Nour Meddahi, *Toulouse, June 4, 2010.*
- **8th Conference on Industrial Organization and the Food Processing Industry**, organized by Pierre Dubois and Catarina Goulao, *Toulouse, June 10-11, 2010.*
- **Conference on Firms, Environment, and Natural Resources**, organized by Philippe Mahenc, *Toulouse, June 14-16, 2010.*

Awards

- **Biais B.**, *Syntec Conseil en Management Award, 2010.*
- **Gollier C.**, *One of the lead authors of the 5th IPCC Assessment Report, 2010.*
- **Rochet J.-C.**, *Award of the journal Risques, 2010.*
- **Van Der Straeten K.**, *Associated editor of the journal Mathematical Social Sciences, 2010.*

Upcoming Events

- **Optimal Transport and Kinetics Applied to Socio-Economics Conference**, organized by Adrien Blanchet, *Toulouse, September 1-3, 2010.*
- **EC2 Conference: Identification in Econometrics**, organized by Christian Bontemps, *Toulouse, December 17-18, 2010.*
- **Sixth Bi-annual Conference on the Economics of Intellectual Property, Software and the Internet**, organized by Jacques Crémer and Paul Seabright, *Toulouse, January 13-14, 2011.*

Attention scarcity

This occasional column will direct your attention to one or more recent publications by TSE researchers that I have found particularly illuminating, which you might otherwise miss in the torrent of information that arrives in your Inbox. Of course, you may miss this too, in which case it will have done you no harm.

Of the many papers published in the last three months, three particularly caught my eye. The first is by Catherine Casamatta and Alex Guembel, is called *“Managerial Legacies, Entrenchment and Strategy Inertia”*, and has come out in the Journal of Finance. This elegant paper explains the puzzling feature that some corporate managers last much longer in the job than their performance would seem to warrant. Why did Daimler-Chrysler replace CEO Jürgen Schrempp only after years of dismal performance after the merger? The authors show that bringing in a new CEO to run an old policy is a bad idea because the incoming CEO would be able to blame a lot on their predecessor, thereby weakening their incentives to perform well. So until you decide to ditch the policy it is very costly to ditch the CEO. This creates powerful forces in favor of aligning changes in strategy with changes in management. Their paper is rich in practical as well as theoretical insights: although it suggests that managerial entrenchment isn't necessarily due to board timidity or collusion, no-one should think this is an apology for the efficiency of real-world compensation practices. Indeed, firms may become too resistant to changing strategy precisely because of the link with changes in management. The paper makes me realize that the Obama administration's assurances that there is no change in the strategy in Afghanistan after the McChrystal firing need to be taken with a larger grain of salt than I had previously thought.

Even greater skepticism about the future of Afghanistan is provoked by the fascinating paper by Jean-Paul Azam and Véronique Thelen, called *“Foreign Aid vs. Military Intervention in the War on Terror”*, which has just appeared in the Journal of Conflict Resolution. The best weapon against terrorist attacks is foreign aid, the authors show; military interventions tend to increase the frequency of such attacks. Foreign aid is of course endogenous, and the authors use a range of instruments to tease out the causality. Furthermore, they show that spending on education is an effective counter-terrorism measure, even though some have argued that the relatively high education levels of terrorists who can fly aircraft into buildings suggest the

opposite. As Jean-Paul and Véronique point out, the important effect of education spending is not on the terrorists themselves (who may become more competent as a result) but on the government and on civil society more generally, which may more than counter-act the former effect. Their paper deserves to become widely known outside the community of professional economists.

Finally, I was intrigued and illuminated by the paper *“Increasing Fruit and Vegetable Consumption: A Cost-Benefit Analysis of Public Policies”*, by Jean Dallongeville, Luc Dauchet, Olivier de Mouzon, Vincent Réquillart and Louis-Georges Soler, which has appeared in the European Journal of Public Health. The most interesting finding to me is that consumption of fruit and vegetables has a beneficial effect on health that is far more responsive to a lowering of VAT than it is to either subsidies to low-income households or to educational consciousness-raising by governments. The latter costs rather little but has also rather little effect. Government budgets everywhere are coming under serious pressure because of the economic crisis, and VAT (which has just risen in the UK by 2.5 percentage points) is likely to rise in the medium term all over Europe. So prepare to see a lot more leaflets about healthy eating when you go to visit the doctor: they won't make much difference to health outcomes, but they may salve a few consciences in health ministries at a comparatively low cost.

Paul Seabright

Researcher at the Toulouse School of Economics

