



Fachbereich VWL / Department of Economics

# EconNewsletter

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JUNE 7 – JUNE 10, 2022

NEWSLETTER 2022-13

## SEMINAR CALENDAR

### Quantitative Economics

[Michael McMahon, University of Oxford:](#)

Tuesday June 7

*The Central Bank Crystal Ball: Temporal information in monetary policy* 12:15–13:30

*Communication*

R. 0031 (VMP 5)

This seminar will also be live streamed. For participation via Zoom please register via the following link:

<https://uni-hamburg.zoom.us/meeting/register/tJYvc-itqzgpHNVhBUWXWPX6bv3WwEHioDq5>

### Hamburg Lectures in Law and Economics

[Eric Brousseau, University Paris Dauphine:](#)

Wednesday June 8

*Comparative analysis of regulatory governance regimes in the OECD* 18:15–19:45

R. 110, Johnsallee 35

This seminar will also be live streamed. To register for **Online participation** via Zoom please click the following link and fill in the necessary information: <https://forms.office.com/r/FmQWN5whh6>

You will then receive an Email with the access link prior to the lecture.

### PhD Seminar

[Betül Simsek, Hamburg University:](#)

Thursday June 9

*Protection of individual rights and migration. Inference based on gender* 12:15–13:00

*differences*

R. 0031 (VMP 5)

### Interdisciplinary Research Seminar

[Peter Dietsch, University of Victoria:](#)

Thursday June 9

*If It's Not Your Talent, How Come We Should Be Paying You an Incentive?* 17:15–18:45

R. S28 (VMP 9)

The seminar is also live-streamed on Zoom. Please see

<https://www.wiso.uni-hamburg.de/en/forschung/verbundprojekte/rtg-collective-decision-making/events/register-for-irs-talk.html>

if you want to register for the seminar.

## ABSTRACTS

### **Quantitative Economics**

Michael McMahon, University of Oxford:

*Optimal Dynamic Control of an Epidemic*

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*Abstract:*

Effective central bank communication provides information that the public does not have but wants to learn. Rather than arising from private information per se, we argue that the public's information deficit reflects three main channels: (i) an updated evaluation of the state of the economy based on past data, (ii) a different projection from the state to the likely future evolution of the economy, and (iii) differences in the reaction to the economic outlook. This paper provides a methodology to quantify the temporal information in the text of central bank communication. Both the backward-looking evaluation and forward-looking projection channels significantly improve the ability to explain the news in yields around ECB announcements compared with topic-based text analysis. We also show that speeches generate greater news in yields the larger the information deficit remaining after the previous ECB Governing Council press conference.

### **Hamburg Lectures in Law and Economics**

Eric Brousseau, University Paris Dauphine:

*Comparative analysis of regulatory governance regimes in the OECD*

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*Abstract:*

Drawing on surveys conducted by the OECD in its members states since the early 2010s, we apply textual analysis to the description of the status of regulatory agencies (RAs) in different European countries and sectors, together with a characterization of their relationships with various stakeholders, and of their duties and the means at their disposal. Four independent dimensions seem to characterize regulatory governance regimes: independence from the government; the level of discretion of the RA; the scope of its market monitoring capabilities; and its ability to ensure transparency of the supply side. Our regulatory governance indicators exhibit significant correlations with industry evolution and performances. However, there is divergence across industries. This might partly reflect differences in terms of "maturity." Younger RAs seem to be characterized by greater informality and access to a more limited set of regulatory tools. However, it is not certain that sectoral regulators are converging toward a common model, since they are operating in industries with contrasted economies which might result in different agendas for the RA. In the e-communications sector, regulatory governance seems critical to performance in terms of quality of service (broadband), while in the electricity industry, the main objective of the RAs seems to be the price of energy, even at the cost of the environmental quality of electricity. In the transportation industries (air and rail), the focus is on the volume / development of traffic and on safety improvements. Compared to previous studies, our results differ on two main grounds. First, we point out that the extent of the RA's discretionary powers matters (in addition to

independence). We also highlight that RAs have to promote transparency (in addition to designing markets and setting tariffs). Over the past years in Europe, the most significant developments have concerned these two overlooked dimensions of regulatory governance.

### **Interdisciplinary Research Seminar**

Peter Dietsch, University of Victoria:

*If It's Not Your Talent, How Come We Should Be Paying You an Incentive?*

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#### *Abstract:*

The idea that pushing for more equality comes at a cost in terms of economic efficiency is widely accepted. Underpinning this idea is the premise that some of the most productive members of society will work less if we lower their pay. If this is true, some argue, it justifies paying the most productive an incentive to work, provided doing so benefits everyone. This paper argues that the standard version of the incentives argument suffers from two important blind spots. First, it assumes that the comparative advantage of the most productive members of society is rooted in their natural talents, that is, in a factor exogenous to the production process. Second, it adopts a static framework to analyze the bargaining process in which incentive payments are negotiated, where static means taking all its informational inputs from the same moment in time. The paper uses the debate between John Rawls (1999) and GA Cohen (2008) to illustrate the normative repercussions of making these two assumptions. Taking their debate as a starting point allows us both to bring a new perspective to this intellectual exchange and to draw some important general lessons for public policy making on the issue of incentives. What happens when we relax the two assumptions? First, once we allow for comparative advantage to arise at least in part from endogenous rather than from exogenous factors, this puts into perspective the idea that the productive success of society depends to a significant degree on the contribution of a select group of talented individuals. Endogenous factors here refer to the way production is organized and how labour is divided between different individuals, rather than to the natural talents they bring to the cooperative venture. Incentive payments that track endogenous comparative advantage are unjust, arguably even from a Rawlsian perspective. However, *prima facie*, it may still seem expedient in many circumstances to pay them nonetheless. This changes once we relax the second assumption and shift to a dynamic framework to assess incentive payments. When the bargaining with individuals takes place before they even acquire the qualifications that underpin their endogenous comparative advantage and that give them bargaining power, they will not be able to extract incentive payments. Thus, adopting a dynamic perspective allows us to close the gap between the demands of justice and expediency. Finally, the paper discusses the objection that eliminating a certain type of incentive payments would be inefficient. In fact, once we correct for the two blind spots of the standard conceptualization of incentives, incentive payments that track endogenous comparative advantage emerge as a form of economic rent. As such, eliminating them is not only an imperative of justice, but also a requirement of efficiency. Pushing for more equality, it turns out, does not necessarily come at a cost in terms of economic efficiency after all.

*The next EconNewsletter will be published on Monday, June 13, 2022.*

*Editorial deadline: Friday, June 10, 2022.*

**EconNewsletter**

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