

World Economy and Finance Programme

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Executive Summary

The WEF Programme started on 1 March 2004 and ended on 31 January 2010 (after extension). The Programme's objectives were to promote and support "world-class theoretical, empirical and policy-oriented research focusing on the inter-relationship between finance and the world economy." Two main goals were identified. The first was to "examine ways financial markets and financial policies influence major global issues, such as poverty, development, growth and transition" and the second to "analyse policy issues in a variety of institutional and cultural settings, in an era of low inflation, increasingly integrated financial markets, changing demographics and trade patterns." 16 projects were funded under Phase I and 10 under Phase II. Actual expenses amounted to £4.418 million pounds for the various projects and £1.051 million pounds for the Programme's Directorship. Total spending of the Programme was thus £5.469 million pounds, compared with an initial endowment of £5 million.

A classification of the projects under 4 broad themes by the Evaluation team reveals that resources devoted to projects were allocated as follows: International Macroeconomics, 20.9 per cent; Domestic and International Finance, 31.1 per cent; International Financial Architecture, 11.5 per cent; Developing Countries in the World Economy, 31.6 per cent. In hindsight, the share of resources allocated to the third theme, especially relative to the fourth, was relatively low; a better balance would have been desirable. However, this did not prevent projects under the International Financial Architecture theme to perform very well and to address some of the key issues raised by the global financial crisis.

Evaluation methodology

The evaluation relied on several tools:

- interviews, both face-to-face and through various forms of communications (telephone and email) were conducted with the Programme Director, the Chair of the Advisory Panel, Members of the Advisory Panel, and several Principal Investigators
- examination of ESRC internal documents on Programme management, End of Award (EoA) reports provided by the Evaluation Division, the Programme Director's Final report and other background material, including minutes of the advisory board meetings
- review of research outputs produced by the various projects
- separate questionnaires for Principal Investigators and end users (with response rates of 77 per cent and 8 per cent, respectively), gathered electronically
- quality analysis, based on EoA Reports and a study of each project's publications in peer-reviewed journals, using two comprehensive databases.

Academic quality and impact (including strengths and weaknesses)

Overall, the Programme can be deemed highly successful. Most projects under the Programme produced a substantial quantity of research, with outputs ranging from working papers, journal articles, book chapters, and books. The Programme Director was involved in a number of contributions as well. Important new theoretical ideas were developed and tested. In particular, the project on Stability of the Global Financial System (RES-156-25-0026), led by Pr. Goodhart, produced many new insights which will inform research for years to come. New datasets, which will prove useful for future research, were also produced. Dissemination took place through conferences, workshops, and seminars; all of these events provided ample opportunities for feedback and networking. A transformation of the grades given in the EoA Report evaluations conducted by ESRC reveals that the overall quality of the Programme (on a scale of 1 to 4) was 3.4, with no project ranked below “Good” and 14 ranked “Outstanding.” By way of comparison, and using the same metric, the average grade for the ESRC Democracy and participation Programme (evaluated in February 2005) was 3.0, with three projects out of 21 ranked “Problematic” and only 3 “Outstanding,” whereas the average grade for the ESRC Cultures of Consumption Programme (evaluated in October 2009) was 3.1, with only 3 projects out of 26 ranked “Outstanding.” The classification by themes (as reported above) shows significant differences: Themes 1 and 2 had an average score of 3.7, Theme 2 a score of 3.3, and Theme 4 a score of 3.4. On that metric, projects under Themes 1 and 2 appear therefore to have performed relatively better than the others.

A quality analysis, which attempts to assess the quality of outputs of each individual project and perform a comparison across projects, was also conducted. Given the difficulty to assign values to publications of books or chapters in books, the analysis focused only on publications (actual or forthcoming) in peer-reviewed journals. Two databases were used to obtain journal rankings: IDEAS (ideas.repec.org) and JR (journalranking.com). The analysis shows that performance at both ends of the spectrum does not change much across databases. The results also suggest that quantity is not synonymous with quality, as measured by publications in leading peer-reviewed journals; some of the highest ranked projects are those with only a few outputs.

However, it should be kept in mind that this type of analysis, despite its attempt at objectivity, does not account for the quality of other outputs - such as books and book chapters published, and the fact that the influence of some concrete ideas, even though they may not make it to the top academic journals (given their general emphasis on formal modeling), may have a very significant impact on the behavior of policymakers - although this may take time to occur. Moreover, projects involving intensive field work, but do not lead to advanced formal modeling, may not rank very high by this metric. At the same time, it is worth pointing out that some of the projects at the bottom of this ranking did not perform well either when it comes to books and book chapters.

Non-academic impact and engagement (including strengths and weaknesses)

Dissemination to non-academic users was one of the strengths of the Programme. Through a variety of channels and events, the Programme (as suggested by the list of almost 400 participants to these events) was able to reach policymakers in government, civil servants, MPs, political parties, and the business and finance community at large. The Programme Director and members of the Advisory Panel also made a commendable effort to publicize the results of the Programme through various foras, including through the medias.

To assess formally the impact of research outputs on non-academic users, the evaluation relied mainly on a questionnaire to users. The response rate was relatively low (8 per cent), but this is a common problem with this type of analysis. Nevertheless, an analysis of the characteristics of the respondents revealed a good degree of heterogeneity, suggesting that the sample was fairly representative.

About 85 per cent of users either somewhat, or very much, agreed that they had made substantial use of the research produced by the associated projects, and 65 per cent also recommended the research produced to other potential users. 65 per cent of users indicated that they were aware of other projects in the WEF Programme, and out of these users, 94 per cent found the research by other WEF projects useful. These results reflect very favorably on the Programme's effort to disseminate its findings. A further 93 per cent of users said the Programme achieved a good balance between academic research and policy recommendations. This reflects well on the Programme's objectives, given the diversity of characteristics and sectors of activity represented in the sample.

Management of the investment

The leadership role and overall performance of the Programme Director received high marks by Principal Investigators and users in questionnaire responses. Similar views were expressed in direct interviews with Principal Investigators. The Director made a commendable effort to promote linkages across projects, monitor progress and timetables, and help investigators who needed time extensions to complete their projects. Discretionary funds allocated to the Director (about 19 per cent of the total budget) appear to have been used judiciously to promote the objectives of the Programme, encourage interactions between teams, and address through a series of initiatives some of the key issues raised by the global financial crisis—especially the need for a deep rethinking of the links between macroeconomics and finance. Users had no major complaints about the management of conferences and other events organized by the Programme.

Future research priorities and recommendations

The main recommendation of this Report is to build on the successes and strengths of the WEF Programme with a follow-up, leaner Programme (perhaps with half the resources of the previous one), with a more narrow focus on issues pertaining to the International Economy and Global Finance. There are now several funding opportunities for conducting research on trade matters and development issues; a new Programme should focus on three key areas where the WEF Programme has shown significant strengths, both in terms of the quality of outputs and cross-discipline collaboration:

International Macroeconomics. Topics in this area could cover the dynamics of current account imbalances; inflation targeting and financial stability in an open economy; macroprudential rules and procyclicality; fiscal rules and stabilisation funds in currency unions; and financial market microstructure, financial frictions, and macroeconomic outcomes.

Global Financial Regulation and the International Financial Architecture. Topics in this area could cover an assessment of Basel III; cross-country coordination of regulatory rules; financial contagion; prevention of sovereign debt crises; legal dimensions of orderly

restructurings; regulation of hedge funds and sovereign wealth funds; and international institutions and global surveillance. Particular importance should be attached to understanding why and how regulation failed in the context of the recent global financial crisis, and how to avoid such failure in the future. A multidisciplinary approach (perhaps drawing on methods used in economic history applied to recent events) may be especially useful in this context.

Law, Finance, and Development. Topics in this area could include the role of corporate structure and corporate social responsibility in the functioning of the economy; creditor protection and banking system development; insolvency law reforms and economic growth; and living wills for financial institutions.

The recommendation for more research in International Macroeconomics is consistent with the broader need to enhance research capacity in Macroeconomics in the UK—a key point made in the 2008 International Benchmarking Review on UK Economics commissioned by the ESRC and the Royal Economic Society. The need to support more research in macroeconomics is also mentioned in ESRC's Delivery Plan for 2011-2015.

Other recommendations

In terms of procedures, it may be useful for ESRC to rethink some of the criteria used to evaluate EoA Reports. While the emphasis on meeting initial objectives is obviously needed to make comparisons across projects, grades should focus more on the quality of outcomes. In addition, the final project evaluation process should be reformed to ensure all Rapporteurs assess each project not only individually but also as part of the Programme. Although coordination could be a serious problem, a two-step process (in which all Rapporteurs operate independently, but then eventually receive all other individual project evaluations and complement their initial report by a “Programme-based” assessment) could be envisaged.

Collection and updating of data on publications should be improved. There were inconsistencies between the EoA reports, the Programme’s website, and emails that were sent to PIs (to which only a few responded). A significant amount of time was spent checking across these sources, using general search engines and e-article databases on the internet.

Efforts should also be made to increase response rates from non-academic users. Low response rates to questionnaires sent several months after some specific events seem to be a common problem with evaluations of this type. One possibility would be to implement a “real time” system to get feedback from users, by collecting short questionnaires immediately after each major event.