

No. 172  
April 2000

niesr

National Institute Economic Review

2/2000

# National Institute of Economic and Social Research

## Discussion Papers

No. 160.

International monetary policy coordination:  
an evaluation of cooperative strategies using a large  
econometric model

by *Ray Barrell, Karen Dury and Ian Hurst*

Given the increase in world economic integration, there may be a case for coordinating monetary policy across some of the major economies. In late 1998 and early 1999, US monetary policy responded to global economic conditions and interest rates were cut in response to the crisis in Asia. Europe could have played an important role in helping to boost world demand given a serious economic downturn. In this paper, stochastic simulations on the National Institute's World econometric model, NiGEM, are undertaken in order to evaluate independently set monetary policy where domestic considerations remain the prime objective and a coordinated policy where domestic interest rates react to conditions outside the national border.

No. 161.

The mix of graduate and intermediate-level skills in  
Britain: what should the balance be?

by *Geoff Mason*

The recent rapid growth in graduate supply in Britain has contributed to a sharp increase in employment of graduates relative to people with intermediate (craft- and technician-level) skills. This substitution process is being driven by changes in demand as well as by supply factors. However, recent evidence of employer difficulties in recruiting graduates suggests that concerns about 'quality shortcomings' in some graduate job applicants – in particular, lack of practical work experience and commercial understanding – reflect a continuing demand by employers for the skills and knowledge that are most easily acquired through employment-based intermediate skills training. This paper considers various ways in which employment-based training could be more closely integrated with higher education courses in order to expand the supply of intermediate skills while still recognising the desire (and ability) of many intermediate-level people to eventually qualify as graduates.

Price £4 each or on subscription at £30 for 10  
discussion papers.

No. 162.

Capital income taxation and public choice

by *Jayasri Dutta, James Sefton and Martin Weale*

The supply-side argument that taxes on income from capital are distortionary and therefore reduce welfare is widely accepted by economists. An analysis of taxation of income from capital in a dynamic general equilibrium model is carried out showing that, when young people face liquidity constraints, they favour taxation of income from capital, because it allows them to defer part of their tax bills to a point at which they can afford to pay them. Old people, on the other hand, favour a shift from taxation of capital to taxation of labour and, with the population structure implied by the 1991 life table, this is sufficient to provide a majority against taxation of income from capital. The outcome of a plebiscite differs from the choice made by a benevolent social planner because the former does not take into account the votes of those not yet born. The paper shows that, if young people receive resources such as bequests at the start of their working lives, this alleviates their wealth constraint and changes the welfare implications of tax on income from capital. It also shows that the outcome of a vote on capital income taxation is sensitive to the life-expectancy of the population.

No. 163.

Real national income

by *J.A. Sefton and M.R. Weale*

The concept of real national income differs from that of real domestic product. The former has to reflect the terms of trade as well as receipts of net factor income from abroad. This paper shows how a welfare-based measure of income relies on the deflation of nominal national income by the consumption deflator, allowing a definition of income in terms of future consumption. Application of the measure to an open economy requires allowance to be made for the effects of expected changes to the terms of trade and to factor prices. The paper shows how the measure can be aggregated satisfactorily across different countries, or different types of consumer in the same country and demonstrates the link between capital gains and future changes to factor prices.

The National Institute Annual Report and a list of  
Diary Dates is available free on request from the Publi-  
cations Office and on our website at [www.niesr.ac.uk](http://www.niesr.ac.uk).

All publications are available from the NIESR  
Publications Office, 2 Dean Trench Street, Smith  
Square, London SW1P 3HE.

## National Institute of Economic and Social Research

The *Review* is the quarterly publication of the National Institute of Economic and Social Research – one of Britain's oldest and most prestigious independent research organisations.

The Institute has no political affiliation, and receives no core funding from government. Its research programme is organised under the headings of Economic Modelling and Analysis, Productivity, Education and Training and the International Economy.

Reflecting its aim to combine high quality academic research with the needs of business and policy, the Institute's Council of Management includes senior figures from each of these spheres. Membership is as follows:

Sir Brian Corby (President)  
JS Flemming (Chairman)  
Professor Charles Bean  
Ian Byatt  
Sir Dominic Cadbury  
Frances Cairncross  
Sir John Craven  
Professor Charles Goodhart  
Sir Stanley Kalms  
Ruth Kelly MP  
HH Liesner  
Sir Peter Middleton  
John Monks  
Professor Nicholas Stern  
Dr Sushil Wadhvani  
Professor Ken Wallis  
MR Weale (Director)

Comments on all areas of the Institute's work are welcome, and should be addressed to the Secretary:

Mr Francis Terry  
National Institute of Economic and Social Research  
2 Dean Trench Street, Smith Square  
London, SW1P 3HE  
Tel no. 020 7654 1920  
Fax no. 020 7654 1900  
E-mail [f.terry@niesr.ac.uk](mailto:f.terry@niesr.ac.uk)  
Web site <http://www.niesr.ac.uk>

## Information for contributors and subscribers

The *Review* welcomes the offer of high quality articles. Content should relate in some way to the explanation of economic performance (broadly defined) in the UK or internationally. There is some emphasis on quantitative research. Articles should normally be research based, and comprise 4–10,000 words, excluding tables. All articles are externally refereed, but the *Review* is able to organise quick publication in appropriate cases. Full notes for contributors are available from *Fran Robinson*.

Current annual subscription rates are £105 (UK and EU), or £198 for two years, and £115 (non-EU). Postage is included inside Europe, 1st class or Air Mail, and outside Europe at printed paper rate unless additional payment is made for Air Mail. Special rates are available for individuals and schools. Single copies are available at £27.50 each. Further information on subscriptions is available from *Annie Stewart*.

ISSN: 0027-9501

## EDITORIAL BOARD

The Editorial Board takes responsibility for ensuring that contributions to the *Review* are of a suitable standard, but the views expressed in articles are those of named authors, and do not necessarily represent those of the Institute.

The Editorial Board membership is as follows:

Ray Barrell, Geoff Mason, Hilary Metcalf, Nigel Pain, SJ Praiss, Francis Terry, Martin Weale, Garry Young.

Printed by DIRECT IMAGE, LONDON