

## About the Study Center Gerzensee

*The Study Center Gerzensee is a foundation of the Swiss National Bank with the following objectives: to offer a center for the training of specialists from central banks, banks and industry from both Switzerland and foreign countries; to provide facilities for academic conferences and to offer postgraduate programs in economics; to offer a meeting place to central banks and other institutions and persons who are responsible for government and economic policy; to preserve the historically valuable property as an integral part of the landscape of Gerzensee. The Study Center opened its doors in 1986 and gradually developed under the direction of Professor Walter Wasserfallen. Due to his recent untimely death, leadership was passed in 1998 to Professor Philippe Bacchetta. The President of the Foundation Council is Professor Bruno Gehrig, Member of the Board of the Swiss National Bank. The Foundation Council is also made of two other members of the Swiss National Bank, and of representatives of the Swiss government, Swiss universities, the private sector and of the mayor of Gerzensee. There is also an Academic Council that supervises teaching and research activities, as well as a committee of representatives of Swiss universities that coordinates doctoral courses.*

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## Editorial

The diversity of activities organized at the Study Center Gerzensee is remarkable, but is often little known. In this new millennium where information and transparency are key, we will make an effort to provide better information on our activities through this newsletter. The Study Center has been organizing a series of events that, over the years, has earned it a great international reputation in the world of economics and finance. With its central bankers' courses, the Study Center offers the opportunity to central bank economists, mainly from developing countries, to upgrade their knowledge on central banking issues and to meet participants from all continents. In its doctoral courses, students in economics from Swiss universities receive a graduate training from internationally renowned teachers. This training helps them to write stronger doctoral theses and gives them an advantage in the increasingly competitive economics profession. Through the organization of academic conferences the Study Center stimulates high-level academic research in economics and finance, contributing for example to establishing a European network in finance. Besides these activities, the Study Center rents its premises as a conference center that has been praised by a large number of firms, government agencies, and other groups and institutions in the past twelve years.

This first newsletter covers some of the main events that took place in the second part of 1999. It relates in some details the discussion of a panel on social security reform and describes other conferences. It reviews the main courses for central bankers and for doctoral students. It also lists our working paper series and the major events for the year to come. Further details on all these events, such as conference programs, course descriptions, and papers can be found on our site [www.szgerzensee.ch](http://www.szgerzensee.ch). We hope that you will find this newsletter of interest and we are looking forward to welcoming you soon in Gerzensee.

**Philippe Bacchetta, Director**





Philippe Bacchetta, Monika Bütler, and Peter Diamond

In the last few months, the Study Center has organized a panel on social security, a conference on intranational economics, the 9th European Summer Symposium in Financial Economics (ESSFM) and the 6th European Summer Symposium in Economic Theory (ESSET).

## Academic Conferences

### Panel on Pension Plans: Comparing Nations' Experiences

In most industrial lands pension plans are entering a crisis stage in which reforms are urgently needed. The Study Center Gerzensee, the venue of the 1999 European Summer Symposium in Economic Theory, invited participants who are internationally reknown pension reform experts to a panel discussing various countries' experiences and possible avenues for reform.

Higher life expectancies coupled with low birth rates are leading to an increasing average age of the population in many countries. This has led to many projections of a too great burden on the present pension systems. The pay-as-you-go system, in which the current old receive benefits paid by the contributions from the current young, are especially in danger since obviously the decreasing number of young may not be able to shoulder the burden of increasing numbers of older people.

The panel at Gerzensee summarized the latest scientific findings on the nations' various perspectives in reform of the pension systems. The

panel members (see below) were unanimous that the pen t and not the perhaps associat-ed labor market or competi-tion problems.

#### PANEL PARTICIPANTS

*Prof. Anthony Atkinson*, Nuffield College, Oxford University

*Prof. Monika Bütler*, Tilburg University und Université de Lausanne

*Prof. Peter Diamond*, Massachusetts Institute of Technology (MIT)

*Prof. James A. Mirrlees*, University of Cambridge (1996 Nobel Laureate in Economics)

*Prof. Pierre Pestieau*, Université de Liège (Chairperson)

*Prof. Eytan Sheshinski*, Hebrew University, Jerusalem

#### The State: Efficient provider of Basic Pensions

Nobel Prize winner James A. Mirrlees is convinced "that the basic pension belongs to the few activities that the State can provide in a more efficient and convincing manner than the private sector". He is supported by both Peter Diamond and Monika Bütler. Both showed the significantly lower costs of the state-run systems. Monika Bütler noted that the administrative costs of the Swiss system of 0.3% of the contributions compare

very favorably to the average 8% of private pension systems. Peter Diamond confirmed this with USA figures, where public systems' 0.7% administrative costs are dramatically lower than private life insurance companies' 12%. Professor Diamond also mentioned a current problem of the public systems: to earn returns corresponding to those of private plans, they must be able to place capital investment independently of political influence.

#### Are Mandatory Public Pensions Needed?

Should old age pensions be not only public but also a required insurance? Peter Diamond supports an obligatory plan since at the time they retire, almost half of the households in the USA own no assets. It shows clearly that, abstracting from forced mortgage repayment, a large part of the US population insufficiently prepares for retirement. Anthony Atkinson and Eytan Sheshinski indicate that this phenomenon is independent of the presence of a pension system. James Mirrlees opined that reducing the welfare differences between pensioners was opportune. Specifically, eliminating differences within the retired group would have far fewer

negative economic implications since incentive problems are aroused when corresponding measures are taken with the presently employed.

A related point also brought the panel to unanimity: pension systems have very considerable redistribution effects. According to Anthony Atkinson this redistribution aspect has been central in reform discussions of any social insurance system. Most systems are financed through direct (and mostly progressive) taxes and thus high-income workers' higher contributions benefit lower income workers. Conversely, a finance scheme through indirect (sales) taxes would tend to make the low-income workers relatively more burdened. Pension systems would in any event distribute welfare between generations and favor thereby overwhelmingly present contributors to the cost of future contributors. For Monika Bütler these redistributive issues typically cause political pressures that explain why many reforms cannot be implemented.



Panel participants

## Intranational Economics: The Lessons for International Economics

When we cross a national border, the economic environment often changes. For example, prices of similar goods and services may be quite different; or the economy may be at a different point of the business cycle. What is special about national borders? How do they affect trade, business cycle correlations, capital flows and other economic variables? This is an important question in international economics. While there is clear evidence that the border matters for a large set of variables, many questions are still unanswered. First, how large is the border effect? Second, does the impact of the border effect come from exchange rate volatility, imperfect information, differences in regulation or in language, or from other factors?

The natural way to investigate these issues is to compare regions within the same country with regions from different countries.

On June 18-19, the best specialists in the field, coming mainly from Europe and

the United States, met at Gerzensee at a conference organized jointly with the Clausen Center for International Business and Policy of the Haas Business School at the University of California at Berkeley. The organizing committee was made of Eric van Wincoop (Federal Reserve Bank of New York), Andrew Rose (UC Berkeley) and Philippe Bacchetta. Nine papers were presented at the conference. Three of the papers compared prices across regions; two of them examined the degree of regional risk sharing. The other papers dealt with fiscal policies, output correlations, trade, and production structure. The program and the conference papers are available on

<http://haas.berkeley.edu/~arose/INC.htm>

A selection of the papers will appear in the Journal of International Economics.

## European Summer Symposium in Financial Markets (ESSFM)

For two weeks some leading academic specialists in the field of finance and junior European researchers met at Gerzensee in a meeting organized jointly with the Centre for Economic Policy Research (CEPR) in London. In addition to regular paper presentations with discussants on various topics in finance, three mornings dealt with focus sessions organized on the following topics: **'Bank Risk Management'** (organized by Joseph Zechner, Universität Wien), **'Law and Finance'** (Lucian Bebchuck, Harvard Law School), and **'Liquidity'** (Bengt Holmström, MIT).

## European Summer Symposium in Economic Theory (ESSET)

In a format similar to ESSFM, ESSET is organized jointly with CEPR, with the financial support from the Review of Economic Studies. The focus sessions dealt with **'Information Processing in Organizations'** (organized by Tim van Zandt, Northwestern University, and Mathias Dewatripont, Université Libre de Bruxelles), **'Information Aggregation and Processing in Markets'** (Glenn Ellison, MIT, and Xavier Vives, Institut d'Anàlisi Econòmica, Barcelona), **'Redistribution Policies and Social Security'** (Anthony Atkinson, Nuffield College Oxford, and Peter Diamond, MIT), and **'Evolution of Income Inequality and Social Mobility'** (Abhijit Banerjee, MIT, and Philippe Aghion, University College London).

**Eytan Sheshinski  
and Peter Diamond**



**Nobel Prize winner  
James A. Mirrlees,  
surrounded by  
Pierre Pestieau and  
Anthony Atkinson**



## Central Bankers' Courses

Central banks from more than 90 countries sent managers and researchers to participate in the 1999 program, made of five two- or three-week courses. Two of these courses already took place in the spring. In August, Professor Sebastian Edwards of the University of California at Los Angeles led an intensive course in the **Monetary Policy in Developing Countries**.

Central bankers from countries as diverse as Albania and the United States, Cambodia and Canada, Egypt and Indonesia, or Iceland and Venezuela attended for intensive study punctuated by short weekend respites to the high points of Switzerland. Professor Edwards covered topics that central bank economists interested in economic development obviously found intensely interesting, including the choice of an exchange rate regime, inflation stabilization, capital controls, and currency crises. Professor Edwards, formerly chief economist for Latin America at the World Bank, has published a great amount of important research on development economics. Yet the participants also highly appreciated his talents on the soccer field.

The second course was one studying the interaction of **Financial Markets and Monetary Policy**. Professor Jeffrey Nilsen reviewed the basics of monetary policy and asset prices in the first week. Professor Blaise Allaz, newly named Faculty Dean of HEC Paris, reviewed finance theory to the participants in the second week. Finally, Professor Ludger Hentschel of the University of Rochester introduced derivatives and regulatory topics during the third and final week.

The final course for central bankers of 1999 was the **Advanced Course for Research Economists**. Professor Juan Dolado of the University Carlos III in Madrid reviewed the latest procedures in time series econometrics. Professor Bennett McCallum, Carnegie Mellon University, focused on the theory behind monetary policy, including the latest on the hot topic of monetary rules. Both Professors Dolado and McCallum are authors of highly respected textbooks and leading-edge researches about their respective areas.

Included as an integral part of the courses are short talks by Swiss National Bank experts on practical issues of interest to central bankers. Dr. Theo Scherer discusses the structure of financial markets in Switzerland, Dr. Thomas Stucki explains nuances in managing Swiss foreign exchange reserves, Mr. Erich Gmür discusses practical issues in implementing monetary policy. Our own Vice-director, Martin Wyss, introduces the important points about the Swiss economy. Cooperation from other government agencies are appreciated, as for example with Mr. Christopher McHale, who leads a discussion on banking regulation, Mr. Kurt Buff talks about the Treasury's role in the economy. For many participants, one of the most interesting talks is given by Professor Bruno Gehrig, who leads a discussion of future Swiss policy. In sum, frank and friendly knowledge sharing is always greatly appreciated and helps to build a feeling that all central bankers, no matter where in the world they practice, face the same types of problems and are closely related.

A **computer game on speculative attacks** has been designed by Professor Philippe Bacchetta in cooperation with Professor Harris Dellas, University of Bern; it has become a standard course feature. Participants take the role of investors or members of the central bank policy board. They quickly find out that the motives of investing are easier to implement than trying to prevent a run on the currency. The code was programmed by Claude Glauser and other students taking a software design course at the University of Bern under Professor Oscar Nierstrasz.

Each class praises Program Administrator Mrs. Corinne Conti Ambühl for her perfect planning with a personal touch of the hundreds of details involved in their visit. It is fair to say that while participants appreciate the beauty of the Gerzensee area, they are at first concerned at the lack of cultural attractions in the area. Only after the three weeks are completed and it is time to bid farewell to their colleagues do they realize the strength of this design in creating ties between individuals who have shared the study experience at Gerzensee.



**Professor Sebastian Edwards of the University of California at Los Angeles**



Coffee break

## Doctoral Courses

### Swiss Program for Beginning Doctoral Students in Economics

Our doctoral courses are offered mainly to students from Swiss universities, who are in the first stage of writing a doctoral thesis. The main element of our doctoral courses is the 'Swiss Program for Beginning Doctoral Students in Economics', which is a one-year program covering material similar to a first-year Ph.D. program at leading universities. Students come to Gerzensee approximately one week per month, where they attend lectures in the morning and work intensively for the rest of the day. In between the lecture weeks, they study at their own universities to work on problem sets and prepare for midterm and final examinations. Students regularly complain that the program is very demanding, but once they have passed the exam they are extremely satisfied to be on a much sounder ground to write a good thesis.

The teachers for the 1999 program were the following.

**Econometrics:**

Mark Watson (Princeton)  
Bo Honoré (Princeton)

**Microeconomics:**

Patricia Reagan (Ohio State)  
Jean-Charles Rochet (Toulouse)  
Jean-Jacques Laffont (Toulouse)  
Mathias Dewatripont (UL Bruxelles)

**Macroeconomics:**

Sergio Rebelo (Northwestern)  
Robert King (Virginia)  
Marianne Baxter (Virginia).

In 1999, we received a record number of applications to the program and were unable to accommodate all applicants.

On May 28, the Study Center organized a reunion day for students who attended the program in previous years. There were some paper presentations in the morning, an excellent course on presentation techniques in the afternoon, and a short graduation ceremony in the evening. The Study Center will organize these reunions regularly since they help foster interactions among students from the Swiss universities.

### Advanced Courses for Doctoral Students and Faculty Members

Since 1988, the Center has been organizing one-week doctoral courses on specialized topics during the month of August. During the Summer 1999, we were honored to host four distinguished professors teaching on the following topics:

Kenneth Rogoff (Princeton and Harvard) on **Open Economy Macroeconomics**

Ariel Pakes (Yale and Harvard) on **Empirical Industrial Organization**

Christian Gollier (Toulouse) on **The Economics of Risk**

David Cutler (Harvard) on **Health Economics.**

### Courses in Law and Economics

Every year the Study Center offers two courses to law or economics doctoral students who study the interaction between Law and Economics. In 1999, the two courses were taught by Robert Kraakman (Harvard Law School), on **Corporate Law Issues**, and Robert Cooter (UC Berkeley), on **Social Norms and Law.**



Professor Mark Watson  
of Princeton University

## Working Papers

### 99.06

Iwan Meier:

"Estimating the Term Structure of Interest Rates: The Swiss Case"

### 99.05

Philippe Aghion,  
Philippe Bacchetta, and  
Abhijit Banerjee:

"A Simple Model of Monetary Policy and Currency Crises"

### 99.04

Jeffrey H. Nilsen:

"Trade Credit and the Bank Lending Channel"

### 99.03

Jeffrey H. Nilsen and  
Riccardo Rovelli:

"Modeling Financial Fragility in Transition Economies"

### 99.02

Nicolas A. Cuche and  
Martin K. Hess:

"Estimating Monthly GDP in a General Kalman Filter Framework: Evidence from Switzerland"

### 99.01

Philippe Aghion,  
Philippe Bacchetta, and  
Abhijit Banerjee:

"Capital Markets and the Instability of Open Economies"

## Agenda 2000

**CONFERENCES:** In July 2000, the Study Center will again organize both traditional European Summer Symposia, in Economic Theory and in Financial Markets. Additionally, on May 22-24, the Study Center will host the Transatlantic Public Economics Seminar (TAPES) organized jointly with the National Bureau of Economic Research, on 'The Taxation of Financial Assets'. And on October 13-14, there will be a conference on 'Monetary Policy under Incomplete Information' organized jointly with the Journal of Monetary Economics.

For **CENTRAL BANKERS' COURSES**, we will hold the traditional Financial Markets and Monetary Theory course for central bank managers. For more senior managers we also offer this year a course in Central Bank Strategy and Credibility with Professor Alex Cukierman and one in Banking Regulation and Supervision with Professors Anthony Saunders and Christopher James. In addition, we are offering two courses for central bank research economists: one with Professors Frederick Mishkin and Juan Dolado on honing research skills and a more focussed course on financial crises with Professors Philippe Bacchetta and Andrew Rose.

**THE CULTURAL CALENDAR FOR 2000** begins early. Make a note to join us for the following attractions. Only **Sfr.10.-** admittance, all performances begin at **8 pm**. For reservations, call **031-780 3131**.

### Olli Hauenstein

(mime and clown)

January 25

**Dmitri and Ariane Ashkenazy** (classical music)

April 26

**Ms. Alice Day** (jazz)

May 17

**Michaela M. Drux** (cabarettist)

June 21

**Septeto Nacional Ignacio Pineiro** (cuban music)

August

**Musique Simili** (folk music)

September 19

## Staff News

A few changes occurred in our staff over the summer. Iwan Meier, an assistant at the Study Center since 1993, is completing his doctoral thesis on "Estimating the Term Structure and the Pricing of Interest Rate Derivatives". He is visiting next year the Universities of St-Gallen and Northwestern (US). Pierre-Alain Bruchez and Ladislav Labah joined the Study Center as assistants in September with the objective of starting a doctoral thesis. We also welcome a new administrative apprentice, Nadja Enderlin.

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