

Lecture

Government-Policy Consistency and the Growth of Nations

Prof. Dr. Finn Kydland

Nobel Prize in Economics in 2004, Professor of Economics at the University of California (Santa Barbara)

Thursday, 4 March 2010, 06:15 pm

Auditorium Aula, Kollegiengebäude, University of Basel, Petersplatz 1, Basel

The disparities across nations in terms of output (and income) per capita are huge. For the well-to-do countries they may be 30 times as large as those of the poorest countries. Much of the differences are attributable to good or bad economic policy. In his talk Prof. Kydland will explore the nature of such differences and how they may arise.

The starting point is that the long run is much more important than the short run. So policies aimed at the short run are not a good idea if they hurt long-run growth. This ties in with a characteristic of government policy in dynamic environments: Optimal (say, welfare-maximizing) government policy is time inconsistent – important incentives exist for changing policy in midcourse (often in response to short-run concerns), which may have adverse effects on outcomes for the nation's citizens in the long run. (This discovery was cited by the Nobel Committee.)

Professor Kydland will explain time inconsistency in layman's terms. An implication is that good policy needs a commitment mechanism. An example in practice is monetary policy carried out by an independent central bank, that is, by a policy maker more or less shielded from political pressure. It is not obvious, however, how such a commitment mechanism could be established in the context of fiscal policy (taxation and government spending).

These ideas Kydland will illustrate through comparisons between nations. Examples are Ireland vs Argentina in the 1990s, Chile vs Mexico in the 1980s, and possibly additional comparisons if time permits. Ultimately, the main purpose is to shed light on the global economic events and policies of the past couple of years and the implications for where we may go from here.

Finn Kydland was born 1943 in Bjerkreim, southwest Norway. In 1968 he earned a BSc at the Norwegian School of Economics (NHH), after which he became a research assistant to his professor, Sten Thore, and followed him to Carnegie Mellon University in 1969. There Kydland took a PhD course under his future Nobel-partner Edward Prescott. After his PhD in 1973, he returned to NHH as an assistant professor, where Prescott joined him in 1974–1975 as visiting professor. Kydland spent 1976–77 as visiting professor at the University of Minnesota and was subsequently offered an associate-professor position at Carnegie-Mellon. He remained there, rising to professor of economics, until 2004, when he joined the faculty at the University of California, Santa Barbara. He is also an adjunct professor at NHH, Norway, and a research consultant at the Federal Reserve Banks of Dallas and Cleveland.

Finn Kydland is honoured with several honoris causa. He is married, has four children and two step-children.

In the name of WWZ and VBÖ I would like to invite you cordially to this lecture. Our lectures are public and guests are welcome.

Vereinigung Basler Ökonomen



Stephan Mumenthaler, President

