

# UBS Center Newsletter

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More than 400 people listened to and interacted with experts from all fields at our Forum on the globalization backlash.

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Dear reader,

With the holidays just around the corner, we would like to share recent and upcoming highlights of the UBS Center with you.

The UBS Center is pleased to announce that Nir Jaimovich, formerly of University of Southern California, joined the Department of Economics at the University of Zurich in July 2017. He is affiliated with the UBS Center. You can find out more about his work on the next page.

A special welcome goes to four promising UBS Center Scholarship holders who joined the Zurich Graduate School of Economics this September. For this issue, we sat down with the freshman doctoral students to talk about their reasons for coming to Zurich. Read more on page three.

Furthermore, we are proud to launch the sixth UBS Center Public Paper, which focuses on the distribution of income and wealth in Switzerland. The au-

thors, Reto Föllmi and Isabel Martínez, show that Switzerland is a center of stability – in a good as well as in a less good sense.

On the event side, we look back at a very successful Forum for Economic Dialogue. “How to Deal with the Globalization Backlash?” was the question for leading thinkers and academics who joined us for this thought-provoking event at the Kaufleuten Zurich in November. Earlier, in September, we had the pleasure to host a public event along with the Department of Economics and the Swiss Re Foundation featuring Esther Duflo (MIT) and Abhijit V. Banerjee (MIT), who shared the lessons they learned after publishing *Poor Economics*.

We wish you an interesting read and hope to welcome you at one of our future events. Season’s Greetings to all of you.

Ernst Fehr  
Director

Joachim Voth  
Scientific Director



# Research

New Researchers

## Interview with Prof. Nir Jaimovich

*Professor Jaimovich, one of your main research fields is dynamics of the labor market with a focus on employment fluctuations over the years. What is the main insight from your work in this field?*

**Nir Jaimovich:** Personally, my work has taught me that there is a tight connection between processes that we usually think about as “long run” changes in the economy and more “short run” effects. Specifically, it has been traditionally the case in economics that these two topics have been studied almost separately. My work, through different angles, has shown that employment fluctuations are tightly connected to phenomena that seem to be thought of as “slow paced” processes, such as demographic changes or the arrival of new technologies, leading to automation.

*You have investigated the consequences of demographic change. What is an aging and slow-growing population doing to the U.S. economy?*

There are naturally different effects of demographic transition. My research has mainly emphasized the important age differences in labor market outcomes, and how changes in an economy’s age composition impact the level of aggregate unemployment and the severity of business cycle fluctuations. Without getting too technical, my work has found that changes in the age composition of the labor force account for a significant fraction of the variation in business cycle volatility observed in industrialized countries. Similarly, my other work in this area addressed the question of why unemployment is so much higher for the young than for the old.

*You spent the past years living, studying, and working in the U.S. What drew you to Switzerland and the University of Zurich?*

It was a mix of personal and professional reasons. On the personal side, my wife and I were eager to try a new culture and lifestyle for our family (we have two young boys) that would enrich us. We felt Switzerland was such a place where we could have a unique experience and where we would love to raise our family.



**Nir Jaimovich** has been appointed Professor of Economics at the University of Zurich as of July 1, 2017. He is affiliated with the UBS Center.

Prior to moving to Zurich, he was on the faculty at the Marshall Business School at University of Southern California, Duke University, Stanford University, and University of California, San Diego.

His research focuses on business cycles and the dynamics of the labor market.

Professionally, I was excited about the economics department at the University of Zurich. There are some fantastic economists here and I was looking forward to expanding my professional horizons.

*The UBS Center helps academics get their message across to policy makers, business leaders, and the public at large. What is the main message you would like to convey?*

I think that cooperation between all of these segments is important, as each group has its comparative advantage and unique point of view. Most of my work is applied in nature, so being in touch with the “real world” is a key to it. In fact, every new project I have, I first present to my wife (who is not an economist) – if it doesn’t pass her reality test or she thinks it’s not an important enough question (as is usually the case) then that’s a warning sign for me.

# Scholarships

New Researchers

## Class of 2017

The UBS International Center welcomes four outstanding young talents as this year's UBS Center Scholarship holders. They were selected from several hundred applicants to the Zurich Graduate School of Economics (Zurich GSE).

We sat down with the freshman doctoral students to talk about their motivation to obtain their degree in Zurich.

*Why did you choose to study economics?*

**Chiara Aina:** I did my bachelor and master studies mainly in management disciplines. I later realized how economics is a unique and versatile toolbox to better understand human interactions, thanks to a rigorous scientific approach.

**Julian Teichgräber:** My greatest motivation for research in economics is to apply mathematical methods and creative economic thinking to assess which actions of agents lead best to our goals as a society.

*“The support of the UBS Center allows me to invest my time efficiently into studying and reading.”*

Ante Malenica

*How did you find your way to the University of Zurich?*

**Christian Decker:** I chose to come to Zurich because I believe it is one of the leading economics departments in continental Europe. In recent years, many renowned researchers joined the faculty and there have been great efforts to improve the PhD program.

**Ante Malenica:** One of my professors in Croatia told me about the UZH and the great opportunities it offers for studying. I remember him underlining how he admires the efforts put into further development made at the Econ department in Zurich.



**Chiara Aina** from Italy holds a Master's degree in Economics from Bocconi University in Milan.



**Christian Decker** from Germany holds a Master's degree in Economics from Bocconi University in Milan.



**Ante Malenica** from Croatia holds a Master's degree in mathematics from the University of Zagreb and a Master's degree in Economics from the University of Zurich.



**Julian Teichgräber** from Germany holds a Master's degree from the London School of Economics.

*What is your research interest?*

**Chiara Aina:** I wish to learn more about the underlying motives of human behavior using an interdisciplinary approach. In particular, I am fascinated by how deviations from traditional microeconomic assumptions can better explain individual decisions and strategic interactions.

**Christian Decker:** I like linking economic theory to real-world phenomena and data. In particular, I am interested in applications to industrial organization, information economics, and market design.

**Ante Malenica:** I am interested in understanding the relationship between educational choices and labor market conditions, as well as labor market policies. Specifically, I think that youth unemployment is an issue of high importance in many European countries and that better understanding the forces behind it (including those related to educational choices) could help ameliorate this issue.

**Julian Teichgräber:** I am interested in game theory and decision-making under uncertainty with applications to financial markets.

*What is the value to you of having received a UBS Center Scholarship?*

**Chiara Aina:** I am looking forward to the UBS Center events coming in the next months in which we have the opportunity to be exposed to an important network of scholars and professionals.

**Ante Malenica:** The support of the UBS Center allows me to invest my time efficiently into studying and reading.

*What do you think of being a doctoral student at the Zurich Graduate School of Economics?*

**Ante Malenica:** The city of Zurich is charming and full of life. I especially enjoy the nature within and surrounding the city, with a lot of hiking routes at hand.

**Julian Teichgräber:** What I like is that my fellow classmates have a great variety of skills and interests which enables us to learn from each other. Moreover, faculty are very open and always happy to discuss research ideas with us although the first year

is mainly about receiving rigorous training in the core subjects.

*Do you have any piece of advice for other young students, considering doing their PhD in Zurich?*

**Christian Decker:** Start preparing for the application process well ahead of time. That is, do the required examinations (TOEFL, GRE) as early as possible so that you have time for a retake in case you are not satisfied with your results. Moreover, make sure professors know you well so that they are willing to write good recommendations for you.

We wish our new students great success for their ongoing studies.

#### Registration for 2018 is now open

##### UBS Center Scholarships – Quick Facts

**Level of study:** PhD candidates

**Offered:** Annually

**Number of awards:** 3 (for entry in September 2018)

**Value:** Approx. CHF 42,500 p.a. plus tuition fees

**Duration:** 4 years

**Closing date:** January 31, 2018

For more information, please visit

[www.ubscenter.uzh.ch/en/scholarships.html](http://www.ubscenter.uzh.ch/en/scholarships.html)

# Dialogue and Events

Opinions

## Poor Economics

**Esther Duflo (MIT) and Abhijit V. Banerjee (MIT) visited the University of Zurich to share the lessons they learned after publishing *Poor Economics*.**

Their famous book *Poor Economics: A radical rethinking of the way to fight global poverty*, published in 2011, is radical in its rethinking of the economics of poverty, but also entirely practical in the suggestions it offers. On September 21, more than 400 people attended Banerjee's and Duflo's lecture where they shared new insights from numerous research projects conducted all around the world.

Perhaps the main message of *Poor Economics* is that the world constantly teaches us about how to do good economics, said Banerjee in his opening statement. But both the message and the messenger may not be the ones we expect. As economists, we often close our minds to the world, he continued. We do not listen to the messenger and we do not hear the messages that are out there.

*“If you try to listen, the world will surprise you.”*

To be surprised, you need to start with predictions. Therefore, Duflo and Banerjee went out on a limb on various issues based on their interpretation of the available evidence. Time showed that they got some right and some wrong. One example, where their assumption turned out to be wrong, was a project on food demand. They predicted that it would be difficult to improve nutrition through the traditional food subsidy because these programs end up as income subsidy programs for most households. Furthermore, the income elasticity of nutrition is quite low, even for very poor people facing significant undernutrition, Banerjee explained. However, through programs like asset and cash transfers in different countries, researchers have found income elasticities of demand for food that are higher than most previous non-experimental estimates. It appears that, as poor people get more money, they do eat more, sometimes even more than proportionally.

Professor Banerjee presented another example where they did a project on microcredits. In this case, most

of their assumptions turned out to be right. Contrary to the popular belief that microcredits are the “miracle of microfinance,” Banerjee and Duflo predicted that – with or without microfinance – most people would not voluntarily adopt the entrepreneurship route out of poverty. Many studies and meta-analyses confirmed their assumption that microfinance mostly pays for consumption and does not make the poor any richer. This finding was not well received by the advocates of microcredits, even though Banerjee and Duflo tried to make clear that the concept is not useless in general, but only of use to a small group of people with entrepreneurial disposition.

Esther Duflo continued by asking her fellow economists to be more like plumbers. By plumbing, she refers to the details of public policy – not necessarily guided by deep principle – that are often ignored both by academics and by policy makers and left to “technicians.” These details are exactly what policy makers need and lack in guidance for the implementation of policy measurements. Thus, it is exactly what researchers should focus on, she concluded.



They have dedicated themselves to reduce poverty around the globe. To this end, **Esther Duflo** and **Abhijit V. Banerjee** founded J-PAL – the Abdul Latif Jameel Poverty Action Lab at MIT – together with Sendhil Mullainathan in 2003. Their mission is to reduce poverty by ensuring that policy is informed by scientific evidence. They do this through research, policy outreach, and training across six regional offices worldwide.

Watch the lecture on YouTube:  
[www.youtube.com/ubscenter](http://www.youtube.com/ubscenter)

## Dialogue and Events

Forum

### Globalization in reverse?

**“How to Deal with the Globalization Backlash?”** was the question for leading thinkers and academics at the UBS Center Forum for Economic Dialogue.

Resurgent nationalism, rejection of free trade, opposition to immigration, growing global inequality, and a retreat from multilateralism: These are the defining issues of our time that fuel the globalization backlash, which reached seismic proportions in 2016. Does it herald the end of the economic and political consensus that has underpinned the international order since the end of the Cold War?

This year’s keynote speaker, Leszek Balcerowicz, experienced the rebirth of globalization in the early 1990s at the sharp end. As Poland’s deputy prime minister and finance minister following the collapse of communism, he pushed through a painful program of financial and economic reforms that helped transform Poland’s command economy into one of Eastern Europe’s most dynamic bright spots.

Despite this, Poland like many countries, is experiencing a sharp reaction against globalization’s foundations: open borders, global trade and finance, cultural exchange, and economic integration. Following a robust defense of globalization, Balcerowicz lamented the tendency to focus on the losers rather than the far greater numbers of winners from globalization. The critics of globalization can be divided into two main camps: the utopian, anti-capitalists on the Left and the nationalist, anti-immigration, economic isolationists



Leszek Balcerowicz (Warsaw School of Economics) presented his assessment of the globalization process since the 1990s.



State Secretary Marie-Gabrielle Ineichen-Fleisch (SECO) and Prof. Kevin O'Rourke (University of Oxford).

on the Right. Both resort to crude simplification backed by emotionally charged rhetoric. Instead of pandering to these crude and simplistic remedies, governments, institutions, and political parties should look at constructive ways to help their citizens adapt to globalization and technological change, while challenging the emotive propaganda of the anti-globalization movement.

#### Through a glass, darkly

In the first panel session on free trade, Professor of Economic History Kevin O'Rourke looked back at some of the past economic crises and backlashes as a guide for understanding today's malaise.

*“It’s much too early to talk of deglobalization as we experienced between 1918–39,”*

he argued. O'Rourke sees globalization as a series of waves followed by phases of retrenchment. We are probably going through such a phase now. But he claims, this has less to do with reversing globalization than gearing up for the next wave, says O'Rourke. In the afternoon session “How to do business amidst the globalization backlash,” Karl Gernandt, executive chairman of global logistics giant Kühne + Nagel (K+N), questioned whether there was actual evidence of a reduction in global trade. Trade volumes remain buoyant. Most of the declines detected by K+N since the crisis reflect shifts in trade patterns rather than an overall drop in trade, he argued.

#### The Full Monty

Laura Alfaro, Professor of Business Administration at Harvard Business School, reminded the audience how

# Dialogue and Events

## Forum

she served as Minister of National Planning in her home country Costa Rica, often called the Switzerland of Latin America. The country is one of the major beneficiaries of globalization and has given its citizens unparalleled opportunities for professional and economic progress, of which she is a good example. Using the 1990s hit movie *The Full Monty* as an example, she acknowledged that many people feel left behind and like the steelworkers in the film they are often reluctant to embrace change. She listed a number of measures that governments can use to redeploy the benefits of prosperity more evenly, while reemphasizing the close interrelationship between social and economic development.

### Fix the problem, not the blame

The final session was a disputation on „How much globalization do we want?“ – focusing on the political, social, and cultural aspects of globalization. It noted the tendency to blame globalization for all kind of things that are wrong in the world while ignoring the underlying mechanisms. In line with this presumption, populist political groupings are gaining more and more ground by exploiting anti-globalization issues and fueling many people’s fear. There is no doubt that society is facing major challenges due to globalization-related changes, such as digitalization and global trade. These challenges need to be addressed with sound policies and agreements, both on a national and on an international level. More important, as the former Prime Minister and former Foreign Minister of Sweden Carl Bildt concluded, we should not forget that the last quarter of a century – which has really been globalization coming back with force – has probably been the best quarter of a century for mankind ever.

### The economics of populism

Dani Rodrik closed off the forum by addressing what he calls the political trilemma of the world economy. When it comes to free trade, democracy, and national sovereignty, you have to pick two and abandon one, so he emphasized. Herein lies the trilemma, which is related to a particular kind of globalization that we have been striving for since the 1980s, and which Rodrik calls hyperglobalization. It is an attempt to get rid of all the transactional costs associated with the national borders. This conception of globalization – which has been taken to its most extreme form in the Eurozone – runs into severe problems in practice, he argued. The trilemma manifests itself in all globalized sectors, such as trade, finance, and migration.



Laura Alfaro (Harvard Business School) addressed the issue of globalization losers and the government’s responsibility.

Furthermore, the trilemma implies tension between democracy and globalization. Indeed, historical data show that there is a clear link between populist movements and the rise and fall of globalization. In this context, Rodrik outlined the concept of populism based on the demand and supply sides of politics. Thus, populist parties mobilize voters by addressing fears and concerns, such as economic anxiety, discontent, or fairness concerns. Consequently, there is a need for a fair globalization in order to counteract populist movements.

*“Globalization is something that we design ourselves.”*

This means that there can be many different types of globalization, including a fairer and more sustainable one than we have now. Aiming for a fair globalization would mean to revert to an earlier conception of globalization, explained Rodrik. Paradoxically, this would mean a safer, more sound, and more sustainable globalization, he concluded.



Dani Rodrik (Harvard University) advocated for a fairer, more sustainable globalization.

# Publications

Public Paper Series

## The distribution of income and wealth in Switzerland

**The new UBS Center Public Paper shows that Switzerland is a center of stability – in a good as well as in a less good sense.**

Although Switzerland regularly takes on the best positions in the world with respect to average income and wealth, the question of distribution consistently defines public discourse in the country. Political processes, which constantly fight perceived, continually increasing inequality, are not lacking. In the past years, Swiss citizens voted on a national inheritance tax, the 1:12 plebiscite, or the “Abzocker” plebiscite against high executive compensation, and the Swiss young socialists launched the so-called “99% plebiscite” in October 2017.

Although an actual increase in inequality can actually be observed in many countries, the new UBS Center

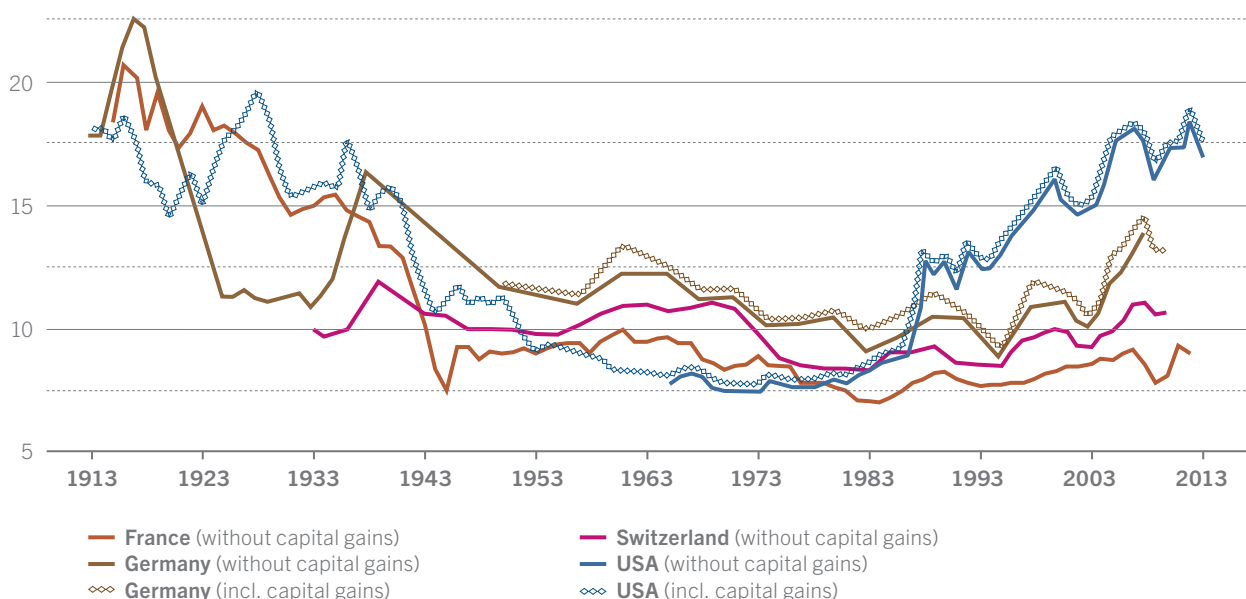
paper shows that the income distribution in Switzerland is surprisingly stable, and the opening of the “income scissors” is thus more perceived than real. The Gini coefficient, as a measure for total unequal income distribution, has only changed negligibly, and the share of the wealthiest 1% (and thus of the famed remaining 99%) on aggregate income has remained relatively stable over the last decades (see graph). The super rich remain the only exception, as their share has increased strongly in recent years.

Swiss stability is even more evident in the distribution of wealth, where the absence of wars and crises and the existence of predictable economic policies has given Switzerland a highly stable distribution of wealth, which is internationally a special case. A result of this unusual stability is that the concentration of wealth in Switzerland is among the highest worldwide. The authors show, however, with new research results that this measure becomes more relative when pension fund assets, which are very important in Switzerland, are included.

The stability here definitely becomes a problem in the area of mobility. Economists consider this to be

### Share of the 1% with the highest income in an international comparison, 1913–2013

Share of aggregate income in %



Source: WID (World Wealth and Income Database).



# Publications

## Public Paper Series

central in justifying large inequalities in income, as differences in income are an incentive to expend effort to get to the top. The numbers show, however, that this mechanism in Switzerland only works in a limited manner. Increases or decreases in salary over the course of a career remain in tight limits, and in reality, low-income earners usually remain low-income earners, and high-income earners generally remain high-income earners. The same applies over generations, where children of high-income earners usually become high-income earners, and many children of low-income earners also later become low-income earners. The authors consider educational mobility – where Switzerland has low values – to be the main explanation for the low intergenerational mobility, which is also internationally very low. For example, the share of university students whose parents have low education levels is extremely low with 6%. Since

education determines a person's productivity, it is also the determining factor for his or her salary level. The praised dual educational system in Switzerland in its present form results, in addition to low unemployment, in low educational mobility.

The new UBS Center Public Paper also emphasizes that the public debates and political activities on the theme of inequality address perceived rather than real problems, and that, from both an economic and an ethical point of view, it would make more sense to discuss the improvement of educational mobility rather than income inequality. Research results show that, in particular, preschool care and early entry into school, public schools of high quality, and a stipend system for students from low-income families can increase educational mobility – and as a direct consequence of this – also income mobility.

### About the authors

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# Outlook

Public Lecture & Podium 2018

## Public Lecture by Dan Ariely

Jan  
24

**DOLLARS AND SENSE – How we miscalculate money and how to spend smarter**  
6:30 PM | University of Zurich | Aula



Despite our intentions, why do we so often fail to act in our own best interest? Why does paying for things often feel like it causes physical pain? Why do we overvalue things that we've worked to put together? What are the forces that influence our behavior? Dan Ariely, James B. Duke Professor of Psychology and Behavioral Economics at Duke University, is dedicated to answering these questions and others in order to help people live more sensible – if not rational – lives. His interests span a wide range of behaviors, and his sometimes unusual experiments are consistently interesting, amusing, and informative, demonstrating profound ideas that fly in the face of common wisdom.

Dan Ariely is a renowned behavioral economist who provides us with the practical tools we need to understand and improve our financial choices, save and spend smarter, and ultimately live better. We thus look forward to hearing his advice on these smart choices.

The detailed program together with further information on the speaker is available on our website.

[www.ubscenter.uzh.ch/en/events.html](http://www.ubscenter.uzh.ch/en/events.html)

## Wirtschaftspodium

Apr  
12

**Does “Swiss finance” have a future?**  
3:30 –7:00 PM | Metropol Zurich

In the 2018 edition of our Wirtschaftspodium, we want to identify and address the challenges and opportunities within the field of finance. Experts from academia, politics, and practice will discuss how new technologies and regulatory frameworks have affected the finance sector and what the future holds for the financial center in Switzerland.



We are delighted to announce that William N. Goetzmann will open the event with a keynote lecture. Goetzmann is the Edwin J. Beinecke Professor of Finance and Management Studies and Director of the International Center for Finance at the Yale School of Management. He is an expert on a diverse range of investments. His past work includes studies of stock market predictability, hedge funds, and survival biases in performance measurement. His current research focuses on alternative investing, factor investing, behavioral finance, and the art market.

Professor Goetzmann has written and co-authored a number of books, including most recently *Money Changes Everything: How Finance Made Civilization Possible* (2016).

The detailed program together with further information on the speakers and how to register will be available in due course.

[www.ubscenter.uzh.ch/en/events.html](http://www.ubscenter.uzh.ch/en/events.html)



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