

IFS

**ESRC Centre for the
Microeconomic Analysis
of Public Policy**

Institute for Fiscal Studies

**Evaluation Report
1991-2006**

Report and Annexes



Overview Statement

1. What makes the Centre a place of international excellence?

The ESRC Centre for the Microeconomic Analysis of Public Policy at IFS delivers cutting-edge economic research that addresses key policy challenges. Our work combines theoretical advances with state-of-the-art empirical analysis. It is grounded in a detailed understanding of institutions and the practical problems of implementation. We generate rigorous and policy-relevant outputs, which we communicate effectively to specialist and non-specialist audiences. We interact productively with a wide range of user communities, providing timely, independent and well-informed contributions to the public debate in the UK and elsewhere, helping to improve public policy.

Intellectual leadership is provided by a core group of senior researchers who work with junior colleagues on a day-to-day basis and in a non-hierarchical team environment. The Centre is run by a team of five researchers, each with an outstanding academic record in their own right, supplemented by policy experience. They are supported by the larger team of senior researchers at IFS and by an Advisory Board, which provides intellectual oversight. The Centre attracts and retains talented researchers by providing high-quality training and a stimulating working environment and by maintaining an impressive global network of researchers.

2. How does the Centre's work contribute to ESRC key research challenges?

The Centre's work contributes to a number of the ESRC's current key research challenges. We list these here; further details are given in Sections 4 and 6.

Succeeding in the global economy: academic and policy work on productivity, innovation and growth, and human capital formation

Individual behaviour and its relationship to biological and social determinants: academic and policy work on consumption and labour supply decisions over the life cycle, and the relationships between health and wealth, including the design and analysis of the English Longitudinal Study of Ageing (ELSA)

Education for life: academic and policy work on the long-term effects of and returns to education, the effectiveness of education policy interventions, and analysis of higher education funding

Environmental change: policy work on environmental taxes

Population change: academic and policy work on the implications of an ageing population, pension choices, and individual and joint (family) labour supply

3. What added value has been derived from ESRC core funding?

The ESRC Centre funding is central to IFS's success. It provides us with stable arm's-length funding that underpins our treasured independence from political and other vested interests. This allows us to engage effectively with policymakers while maintaining credibility with users as a source of rigorous and unbiased analysis. It gives us the flexibility to respond quickly to new policy developments and proposals. Centre funding is also essential in allowing us to attract the brightest people in the UK and retain them in economic research.

The ESRC Centre currently covers around one-quarter of IFS's funding. In the absence of either an endowment or the more favourable financial support enjoyed by the university sector, this core funding is essential in helping us co-fund the remaining three-quarters.

Academic Impact

4. What have been the Centre's major contributions to academic work in the UK and overseas?

The ESRC Centre at IFS has made many major academic contributions since its inception in 1991. We are at the forefront of bringing rigorous and empirically grounded microeconomic analysis to bear on important academic and policy issues. The importance and wide range of our work are evidenced by the breadth and depth of our publications. These are detailed in the annexes, with Annex A highlighting the most important publications to come out of the Centre and Annexes D and E providing further details. Below we highlight some of the key contributions of this work.

Labour supply, tax and benefit reform, inequality and intra-household allocations

Estimating reliable measures of labour supply responses to tax and benefit changes by individuals and families has been a central aim of research at the Centre since its inception, as they are key components in understanding the impacts of tax and welfare reform. The increased use of means-tested benefits and tax credits to encourage paid work while maintaining redistributive objectives makes it increasingly important to understand the incentives individuals face to gain and retain employment. This is especially true for workers at lower incomes and for individuals in families with children. Our research has developed new estimates of individuals' and families' labour supply responses, which have been used extensively to study the impact of policy reforms [11, 18].

The UK has been a good place to study labour supply effects, due to the major tax reforms in the 1980s and the changing dispersion of wages. Nevertheless, the changing composition of the labour market, macroeconomic shocks, the changing composition of the tax-paying population, and discontinuities in the tax system have created serious estimation problems. Our research developed estimators that help address these issues [11, 13, 1, 10], and have produced precise and robust estimates of the sensitivity of hours worked to changes in wages, which have been used extensively in policy analysis. This research estimated the incentive effects of income taxation in a life-cycle model of consumption and labour supply. The changing dispersion of wages, income, and wealth, also provided an important object of study in itself, with new work characterising and explaining the unprecedented changes in inequality occurring in the UK in the 1980s and 1990s [19, 20].

Traditionally, most empirical work on labour supply decisions has been based on the 'unitary' model – assuming that individuals in families act as a single decision-maker. However, the ways in which individuals within households make joint decisions is a crucial issue. For example, in-work tax credits change the non-earned income received by husband and wife, and thus their financial incentives to work. The collective approach to decision-making has been widespread in the theoretical literature, and research at the Centre has made two important contributions to its empirical implementation. The first was to establish the collective restrictions on labour supply functions and to contrast them with restrictions implied by the usual 'unitary' framework [9]. This helped us to model the facts that we often see non-participation and discrete labour supply in the collective setting. The second contribution was to extend the collective model of household behaviour to allow for the existence of public consumption goods (goods that many individuals in the household consume), which is necessary to understand the allocation of resources to children [8].

Consumption, savings and pensions over the life cycle

The ageing population is one of the key challenges facing the welfare system of developed economies and in particular their pension arrangements. To address this challenge and the dramatic implications that it would have for the welfare of future retirees, we need to understand how individuals and households make consumption, saving (particularly pension savings) and retirement decisions. Centre researchers have made important methodological and analytical breakthroughs in understanding household consumption dynamics and saving over the life cycle. The approaches that now dominate the field internationally are defined and heavily informed by these insights and techniques.

Our key contribution came in a series of papers that developed and implemented methods for modelling dynamic consumer behaviour using repeated cross-section household-level data, while simultaneously controlling for a large range of other factors. These papers, for example [26, 32, 43], revived interest in the life-cycle model, and showed that an extended version that modelled properly the changing needs over the life cycle implied by changes in family composition, allowed for interactions between labour supply and consumption and uncertainty could explain the main patterns we see in household-level data. This result was an important driver of a host of international academic and policy studies. The life cycle model is behind the idea that the provision of public pension can partially crowd out private savings. Work at the Centre used data on pension reforms in Italy and the UK, respectively, to test this idea and found a substantial amount of crowding out [27, 31]. Subsequent research provided further support for more sophisticated versions of the life-cycle model. We showed that limited participation of households to the stock market can explain the poor empirical performance of asset pricing models based on full participation. This result is explained by the fact that the consumption behaviour of stock market participants is very different from that of non participants [35].

Our work on the life cycle model, has led to two further important innovations. The first is a new interpretation of the link between income processes and consumption dynamics. We showed how evidence on the evolution of consumption and income inequality can be used both to identify the role of different types of formal and informal insurance mechanisms in smoothing out various types of shocks and how to separate permanent and transitory components of these shocks [28, 42]. This work now underpins the expanding empirical field that studies the link between consumption and income inequalities. The second innovation used dynamic programming techniques (as well as the preference parameters estimated in our early contributions) to find approximate numerical closed form solutions (where analytical solutions are not possible without making implausible assumptions) for the consumption function allowing for demographic change and income risk [36]. This was one of the first applications of such methods to this problem, which has now become the dominant methodological approach in the field.

Consumer demand, indirect taxes and the cost of living

The Centre has constructed empirical models of consumer demand that are consistent with the observed expenditure patterns of individual consumers over a long time horizon and that also enable us to provide a detailed welfare analysis of shifts in relative prices and indirect taxes. Our research first established that aggregate data alone are unlikely to produce reliable estimates of the structural price and income coefficients that are necessary for welfare analysis [59]. We went on to show that when considering how household expenditure on a set of goods varies with income, it is important to allow this to vary non-linearly [54]. Models that fail to account for this were shown to generate important distortions in the patterns of welfare losses associated with an indirect tax increase [53]. We derived a new and popular model, called ‘QUAIDS’, which generalised existing models and has since become the standard framework for modelling consumer demand.

Another significant development in our research was to apply the idea that preferences of consumers can be revealed by their purchasing habits (revealed preference theory) to the statistical analysis of consumer demand without imposing parametric assumptions. We showed that by using additional information (about the Engel curve), we could improve the power of non-parametric tests of revealed preference [58]. This can be useful in obtaining precise estimates of, for example, true cost-of-living indices, while making only very few assumptions about household and individual preferences.

A big problem in modelling consumer behaviour is the very large number of decisions faced by consumers. Our research has considered plausible approaches to reduce the dimensions of this problem, including new forms of separability [57] and models in which consumers value goods based on a limited set of characteristics (characteristics models). Characteristics models have been found to be useful in many areas of economics. However, their empirical implementation tends to rely heavily on functional form assumptions. Our research has developed methods that allows us to relax many of these assumptions [55].

Training, education and human capital

Human capital accumulation lies at the heart of many explanations of growth, inequality, poverty and crime. Governments spend significant resources on interventions to promote human capital acquisition. The Centre has pioneered research in estimating the returns to education and evaluating the effectiveness of policy interventions in achieving various outcomes. Our research has addressed the returns to education and training for the individual, the firm and the economy at large. It has attempted to estimate the true causal effect of education and training on individual earnings, controlling for potential biases in the estimated returns. It has also explored the question of how the quantification of the individual wage gain from education feeds into policy, and in particular the contribution it can make to the issue of underinvestment in education.

We have used British birth cohort panel data to examine the impact that degree-level qualifications, other higher education and basic educational qualifications have on the earnings of individuals in the medium to longer term [73, 74, 77, 78]. Our research has also examined work-related training and the effect it has on the subsequent employment prospects of men and women. We have examined the wage pay-offs to different types of work-related training, and whether such training improves the wage prospects of relatively low-skilled individuals [72, 79].

Research at the Centre has examined the design and implementation of national programmes in the UK – e.g. the New Deal for Young People (NDYP) [71], the Education Maintenance Allowance (EMA) [70, 76, 81] and the Excellence in Cities programme [85] – in other OECD countries – e.g. the Swedish Active Labour Market

programmes [86] – and more recently in developing countries. In our work on the NDYP, we found that the impact of the programme significantly raised transitions to employment by about 5 percentage points. The impact is robust to a wide variety of non-experimental estimators. However, we also presented evidence that this effect may not be as large in the longer run.

This work has opened up a whole new line of research where programme evaluation is considered in the broader context of understanding human capital accumulation and labour market behaviour. We have developed models of education choice, career progression and job mobility, which allow us to understand wage growth and the way that policy can affect the long- and short-run decisions to accumulate human capital through vocational and other education, as well as through on-the-job accumulation of experience [69].

Microeconometric and evaluation methods

Our work on policy evaluation has led to a number of technical innovations in evaluation and micro-econometric techniques. These have enabled us and other social science researchers to carry out robust and rigorous analysis in a number of areas. We have developed and extended a number of evaluation methods – in particular, a difference-in-differences estimator combined with matching that balances the sample in all comparison groups; this is especially important when each group (before and after, treatment and control) includes data from separate random sampling. In addition, we have developed results to identify effects in models where the response of individuals is heterogeneous and where treatments may themselves be determined by factors affecting the outcome (i.e. may be endogenous) [71].

Our work on dynamic panel data methods has developed earlier, now standard, estimators [87] to obtain better performance with panel data that are highly persistent, which is commonly found in economic applications. Estimators that impose mild restrictions on initial conditions can greatly improve precision and reduce finite sample bias [90]. Applications to firm-level production functions confirm these theoretical and experimental results [89]. These methods have been made widely available in software routines and are now incorporated into standard statistical packages like Stata. We have also developed panel data methods for analysing the process by which earnings are determined that separate income shocks into transitory and permanent components [22].

Wealth creation, firm investment and innovation behaviour

Centre research has made important contributions to our understanding of the impact of corporation tax, financial constraints and uncertainty on firms' incentives to invest, of the determinants and implications of firm location decisions [113], and of how competition affects firms' behaviour.

Theoretical models of firm behaviour have emphasised the importance of financial market imperfections as a constraint on corporate investment. A series of papers [104, 110, 112, 114] applied new econometric methods to firm-level data to estimate the impact of financial constraints on firm behaviour. More recently, research at the Centre has highlighted the impact of uncertainty in the economic environment as an important influence on firms' investment behaviour [101, 102], and studied the impact of corporate taxes in the presence of uncertainty. [108, 109]

Research at the Centre has been at the forefront of developing both theory and empirical evidence on the relationship between competition, innovation and growth. [98] Previously, theoretical work gave ambiguous predictions about the impact of competition on innovation and growth, and had been at odds with empirical work. Research at the Centre has brought both new theory and new empirics to bear on the issues of what impact market liberalisation and other pro-competitive reforms have had on innovative activity and economic performance. [99, 107, 117] Specific contributions of work at the Centre have been: first, to use firm-level panel data to allow us to control for other (often unobservable) factors, and thus empirically distinguish between the different theoretical models; second, a methodological contribution on how to control for heterogeneity at the individual level that is unobserved in models where the observed outcome is a count (for example, of innovations or patents) [93, 106]; third, to develop new theoretical models that reconcile the previous theoretical work with the empirical regularities we observe.

The transfer of technology is also a major driver of growth. Work at the Centre has made important contributions to our understanding of how firms decide where to locate [103, 113], and how information flows across countries and between firms [115, 116]. The Centre has also built up new data sources – matching

firm-level accounting data to administrative data from patents offices in the US and Europe – which have allowed us and other researchers to investigate these issues in more depth.

5. What have been the Centre's five most important research publications?

These five publications represent some of our most important work across a range of areas. Annex A provides a complete list of our most important publications, while Annex E provides a complete list of all publications.

Blundell, R., Duncan, A. and Meghir, C. (1998), 'Estimating labour supply responses using tax reforms', *Econometrica*, vol. 66, pp. 827–61

Attanasio, O., Banks, J. and Tanner, S. (2002), 'Asset holding and consumption volatility', *Journal of Political Economy*, vol. 110, no. 4, pp. 771–92

Blundell, R., Browning, M. and Crawford, I. (2003), 'Nonparametric Engel curves and revealed preference', *Econometrica*, vol. 71, no. 1, pp. 205–240

Meghir, C. and Pistaferri, L. (2004), 'Income variance dynamics and heterogeneity', *Econometrica*, vol. 72, no. 1, pp. 1–32

Aghion, P., Bloom, N., Blundell, R., Griffith, R. and Howitt, P. (2005), 'Competition and innovation: an inverted U relationship', *Quarterly Journal of Economics*, vol. 120, no. 2, pp. 701–728

Impact on Policy and Practice

6. What have been the Centre's five most important impacts on policy and practice?

Thanks to ESRC Centre funding, IFS is renowned for providing timely, independent and rigorous contributions to the public policy debate. Here, we highlight five of the many important contributions the Centre has made to policy and practice.

1. Informing public debate about fiscal policy

Most of the Chancellor's annual Budget and biennial spending review are shrouded in secrecy until they are unveiled to Parliament. Centre funding allows us to publish a 'Green Budget' each year to inform debate around the key policy issues to be addressed in the Budget and spending reviews. This is one of the most influential and widely reported events in the fiscal policy calendar. We also contribute to the fiscal policy process throughout the year by holding conferences to present timely analysis of key policy announcements and publications. These cover the public finance and distributional implications of any changes to taxes, tax credits and benefits, in addition to any other specific issues. For example, in recent Green Budgets we have argued that a significant budgetary tightening would be necessary to bring about the improvement in the public finances that the Treasury had been predicting – a tightening that the Treasury eventually signalled only after the 2005 General Election.

Fiscal Facts (on our website) contains downloadable information on how the tax and benefit system has changed over time; these documents were accessed, for example, over 5,500 times in April 2006, the month following the Budget. We frequently update and expand these sections. The Centre also produces analysis of the current government's record to date and an assessment of the impact of the proposals put forward by the main parties in the run-up to General Elections. These analyses improve the quality of debate on fiscal matters.

2. Measurement and analysis of the distribution of income and asset wealth

The Centre has made a lasting impact on the measurement and analysis of the distribution of income, expenditure and asset wealth. An important achievement in the mid-1990s was to develop a consistent series of income distribution data for Great Britain for every year since 1961, which allowed us to place the inequality rises of the 1980s and early 1990s into the context of previous decades for the first time. The series has been updated every year and now spans 43 years. This has provided the basis for a broad range of influential research on both income inequality and poverty, and allows us to publish timely, independent analysis of the government's household income statistics each year and to comment authoritatively on policy issues such as pensioner poverty and the government's child poverty targets.

Research at the Centre comparing the differences between income and consumption inequality has also proved influential in changing both the academic and the policy debate surrounding the substantial rise in

income inequality witnessed in Britain. We have also made a substantial contribution to the measurement of asset wealth in the UK. This has been particularly crucial in considering pension saving and retirement. Contributions by Centre researchers to the NBER International Comparisons of Social Security project have been influential. Centre researchers have played a major role in the design, running and analysis of a new and important data-set, the English Longitudinal Study of Ageing (ELSA).

3. Tax credits and welfare to work

Researchers at the Centre have developed TAXBEN, a program that simulates the impact of the UK tax and benefit system on a large number of households using data from a range of household surveys. This model is widely used by Centre researchers, political parties, the media and others to evaluate actual and potential policy reforms. For example, it was the foundation of recent work analysing what policies will be needed to meet the government's future child poverty targets, and was used extensively in analysing who might win and who might lose from a move from council tax to local income tax.

The development and use of TAXBEN has been influential in moving debate away from using example families towards considering the impact of reforms across the entire distribution, and in showing how low-income workers may face very high effective marginal withdrawal rates when they face multiple and interacting benefit tapers.

With information on tax and benefit systems since 1975 and household survey data from 1978, Centre researchers have also used micro-simulation to address the contribution of tax and benefit changes to trends in income inequality, the level and distribution of effective marginal deduction rates, and the generosity of cash transfers to children.

4. Taxation of business

The Centre has made important and influential contributions to debates around corporate taxation. In the 1990s these included development of the Allowance for Corporate Equity proposal, a version of which has recently been implemented in Belgium. Centre research highlighted problems with the UK imputation system, particularly those due to surplus ACT. We developed Effective Average Tax Rate measures that are now widely used to study the impact of taxation on location decisions, for example by the European Commission. More recently, Centre researchers have provided important analysis and commentary on the design, implementation and effectiveness of R&D tax credits, and issues in European and international tax competition.

5. The practice of policy evaluation

Centre researchers, often with joint funding from other sources, have carried out evaluations of numerous policies. For example, our work on the returns to higher education provided an influential contribution to the 1997 Dearing Report, which recommended the introduction of university tuition fees. More recently, we have used new methods for simulating the full distribution of future graduate incomes to spell out the distributional effects of the latest university tuition fee reforms. Another example is the design and implementation of national programmes in the UK – e.g. the New Deal for Young People (NDYP), the Education Maintenance Allowance (EMA) and the Excellence in Cities programme – in other OECD countries – e.g. the Swedish Active Labour Market programmes – and more recently in developing countries. The EMA evaluation in particular has influenced policy, and the results led to the national implementation of the programme. In all cases, engagement with both policymakers and academics has been key to the research process.

7. In what ways has the Centre's work been used by policymakers and practitioners?

The ESRC Centre at IFS has a very broad user community including policymakers, the media, civil society, business, academia and the general public. We regard engagement not merely as dissemination of research findings, but as an ongoing dialogue that helps maintain the quality and relevance of our research. All Centre researchers engage with current and potential users.

Policymakers, the media and the public more generally make use of Centre research to scrutinise, evaluate and influence government policy. We have longstanding links with UK policymakers across Whitehall. Policymakers, in the UK and from abroad, use the expertise of Centre staff through face-to-face meetings, by attending our briefings and training courses, and by reading our publications. Non-governmental organisations, particularly in social policy, make use of Centre research for analysis and campaigning. We are

frequently called on to help with media coverage of policy developments and proposals. Users also include the business and tax practitioner community. Senior business and tax professionals are represented on the IFS Council and Executive Committee. Centre research is also of direct value to the general public in helping them reach informed judgements on the performance of government economic and social policy. This is especially important at times of political controversy and during General Election campaigns. Some examples include:

- Centre staff regularly serve as expert witnesses and inquiry advisers in Parliament and provide written evidence to Select Committees. We provide informal assistance to leading figures of all political parties in assessing the cost, effectiveness and distributional impact of possible policy proposals. Staff have advised government departments or Select Committees on 65 occasions since 1991 and advised international bodies 27 times. Centre staff are regularly called upon for help by the House of Commons and House of Lords libraries.
- The IFS Director briefs the Conservative, Labour and Liberal Democrat parliamentary parties individually before each Budget, typically attended by around 100 MPs.
- IFS is cited by members of all parties during parliamentary debate and has been mentioned in *Hansard* 934 times since 1991.
- For the last three General Election campaigns, we have prepared a series of briefings on specific policy areas as well as commentaries on the main party manifestos. These have been widely used by the media and are an area where the political independence of IFS is paramount. There were 544 items of press coverage during the 2005 election and over 22,000 downloads of the election material from the website.
- Pension policy is an area where Centre researchers have contributed directly to the formation of policy. IFS analysis has been used in the 2002 Pensions Green Paper, the 2006 Pensions White Paper and the 2004 and 2005 Reports of the Pensions Commission. Centre researchers are involved in designing the Wealth & Assets Survey in the UK.
- Centre researchers regularly meet with senior policy makers from other countries and discuss issues to do with the design and implementation of fiscal policy; we meet twice a year with the IMF, whose UK Article IV mission team also attend our annual Pre-Budget Report briefing, and with officials from the OECD and EU.
- During 2005, IFS was cited 560 times in the printed media and researchers made 130 broadcast appearances.
- Centre researchers interact closely with tax practitioners and lawyers, particularly through the IFS Tax Law Review Committee, which is supported by a range of private firms.
- We maintain close contacts with City economists and their clients, recently holding meetings at Goldman Sachs and Merrill Lynch to discuss developments in the public finances. We collaborate with Morgan Stanley on our annual Green Budget. The Institute has around 100 corporate members, who receive publications and attend presentations. They include the Confederation of British Industry and the Trades Union Congress, as well as several individual trade associations and unions.
- We engage with the general public, mainly via the media and our website. The number of hits on the website has grown from a weekly average of 3,200 during 2001 to an average of around 8,400 per week in 2005. We also engage with the public through individual membership of IFS, which currently stands at around 700. Members are invited to conferences and briefings and receive our research findings in email and hard-copy form.

Capacity Building and Development

8. In what ways has the Centre enhanced UK research capacity?

The ESRC Centre and IFS have contributed to the UK's research capacity through: training researchers who go on to carry out research at IFS or at other institutions in the public, private and voluntary sectors; creating research resources that can be used by other researchers or in education and training across the country; offering teaching and training in our areas of expertise. Policies for training staff and developing their careers are discussed in Section 9.

IFS has produced many alumni who now work as trained social scientists in a wide range of positions and institutions. Examples include the Economics Editor of the BBC (Evan Davis), Economics Editor of the Financial Times (Chris Giles), Chief Micro Economist at HM Treasury (Paul Johnson), Professor at the Institute of Education (Lorraine Dearden), Professor at Bristol (Frank Windmeijer) and Assistant Professor at Stanford University (Nick Bloom). Details of all IFS alumni are in Annex B.

The Centre has been instrumental in developing a large number of micro-data resources and software, detailed in Annex E. These are used by social science researchers internationally. Examples include software to estimate dynamic panel data models and matching estimators in Stata, data documenting households below average income (HBAI), lifetime employment histories in BHPS, pension wealth estimates in ELSA, and matching administrative data on patents to firm accounts data.

The Centre provides funding for a number of PhD scholars who work alongside research teams and are supervised by senior Centre staff. These include UK and international scholars, who help develop our international networks and bring new perspectives to our work.

IFS encourages staff to take on teaching commitments, both to enhance their own skills and to stimulate interest in economics and its applications amongst the student population. IFS operates an annual summer student scheme. Students work on a discrete project, which could include data work, writing up results and working as part of a team; this is designed to give them a flavour of the work they would do as a research economist.

With help from Centre funding, we have developed resources on the IFS website that are used by academics, teachers and students in universities and schools for research and learning, including *Fiscal Facts* and *Virtual Economy*.

9. What evidence is there for staff development within the Centre?

IFS has a strong record in training excellent social scientists. New researchers often join IFS straight from university. Those without a Masters or PhD are encouraged to study part-time with financial support from the Centre. Since 1991, 12 members of staff have received an MSc and 19 a PhD. Staff are also encouraged to enhance their skills and experience by attending workshops and courses.

We maintain a non-hierarchical structure, promote the most talented people rapidly and place emphasis on teamwork. From the start, junior researchers are involved in planning projects and writing up research findings, as well as taking responsibility for detailed data work. They are encouraged to take an active part in dissemination to academic and policy audiences, through informal meetings, presentations, briefings and contact with journalists.

A key aspect of IFS's staff development strategy is that junior researchers are treated as equals and become co-authors in research projects. This promotes independent and innovative thinking and encourages researchers to articulate their ideas and findings to a diverse audience with confidence and clarity. The open-plan layout of our offices facilitates a cooperative style of working. Research Fellows and Associates, academic visitors and seconded practitioners work at desks alongside full-time staff. This enables junior researchers to develop a network of contacts in academia and amongst practitioners, which will enhance the quality and relevance of their work as they develop their research interests.

It is important to address the strengths and weaknesses of every researcher individually, encouraging them to develop their skills to the best of their ability at all stages of their career. IFS has therefore developed an annual review process. All staff receive detailed feedback from senior and junior colleagues (a 360-degree review), which helps individuals to take stock of their progress and discuss with their programme director their goals and any problems they are experiencing.

Commitment to equal opportunities is important in our recruitment and in sustaining an atmosphere in which staff are happy to work and develop their careers. Compared with many university economics departments, the proportion of women recruited and promoted to senior posts at IFS is very high. Among senior staff, the gender split is 50:50 at Deputy Director and Programme Director level. Amongst the Institute's staff as a whole, the current proportion of men to women is 55:45. We intend to help ensure a balance at all levels by continuing to promote a flexible family-friendly policy, allowing men and women to adjust their working hours according to the needs of their families.

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ANNEX A: REFERENCES FOR SECTION 4 AND CENTRE'S MOST IMPORTANT PUBLICATIONS

Labour supply, tax and benefit reform, inequality and intra-household allocations

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| [3] | Banks, J., Breeze, E., Lessof, C. and Nazroo, J. | 2006 | Retirement, health and relationships of the older population in England: THE 2004 ENGLISH LONGITUDINAL STUDY OF AGEING (Wave 2) | <i>London: IFS</i> | |
| [4] | Banks, J., Emmerson, C., Oldfield, Z. and G. Tetlow | 2005 | Prepared for retirement: the adequacy and distribution of retirement resources in England | <i>London: IFS</i> | 106 pp |
| [5] | Banks, J., Marmot, M. Smith, J. and Oldfield, Z. | 2006 | Disease and disadvantage in the United States and in England | <i>Journal of the American Medical Association</i> | Vol. 295, No. 17, pp. 2037-2045 |
| [6] | Bingley, P. and Walker, I. | 2001 | Housing subsidies and work incentives in Great Britain | <i>Economic Journal</i> | vol.111, no.471, pp.86–113, May 2001 |
| [7] | Blundell, R. and MaCurdy, T. | 1999 | Labour supply | <i>Handbook of Labor Economics</i> | O. Ashenfelter and D. Card (eds), North-Holland |
| [8] | Blundell, R., Chiappori, P. and C. Meghir | 2006 | Collective labour supply with children | <i>Journal of Political Economy</i> | forthcoming December 2006 |
| [9] | Blundell, R., Chiappori, P., Magnac, T. and Meghir, C. | 2006 | Collective labor supply: heterogeneity and nonparticipation | <i>Review of Economic Studies</i> | forthcoming |
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