



Sir Christopher Pissarides is Professor of Economics at the London School of Economics and Professor of European Studies at the University of Cyprus. He specialises in the economics of labour markets, economic growth and structural change, especially as they relate to market frictions. In the last decade he has worked extensively on the employment implications of automation and artificial intelligence and on the emergence of China as a global economic power. His book *Equilibrium Unemployment Theory* is an influential reference in the economics of unemployment. He is recipient of the 2010 Nobel Memorial Prize in Economic Sciences.



Eric Wiebes was appointed Minister of Economic Affairs and Climate Policy in the third Rutte government in 2017. Prior to this he was State Secretary for Finance in the Rutte-Asscher government. Eric Wiebes was deputy mayor in Amsterdam from 2010 to 2014 with responsibility for the North-South metro line project, for traffic, transport, infrastructure, air quality and for ICT. Mr Wiebes was trained as an engineer in Delft, has worked as an energy engineer at Shell, as a consultant at McKinsey & Company, and as Deputy Secretary-General of the Ministry of Economic Affairs.

Moderator Eric Bartelsman

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Building a bridge to the future

*A conversation between
Sir Christopher Pissarides and Eric Wiebes
in memory of Jan Tinbergen*

“**A** matching problem with extreme friction.” That is how Sir Christopher Pissarides describes the process of getting the participants for this conversation together at the same date and time. The quip refers to his research on labour market frictions for which he received the 2010 Nobel prize jointly with Peter Diamond and James Mortensen. In this research they explain why some markets fail to clear instantaneously. Their explanation underlines the importance of labour market institutions in determining unemployment and wage inequality.

His counterpart in this conversation is the Dutch minister of Economic Affairs and Climate, Eric Wiebes. Trained as an engineer, Wiebes is faced with the challenge to both stimulate economic growth and induce an energy transition. He sees strategic investment in climate adaptation as the way to combine the two and finds a willing ear in professor Pissarides, who has recently done research on the long run implications of innovation and technology.

Bartelsman: “I find myself in a conversation with practitioners of the two least trusted professions in the world, at least according to a survey that figures prominently in the new book of the most recent Nobel Laureate Esther Duflo.”

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Wiebes: “I realize that. I started my career at Shell when there was a lobby against Shell. Then I became a consultant at the time that consultants were really unpopular. And now I am a politician and again politicians are really unpopular.”

Bartelsman: “How do you go about gaining trust again?”

Wiebes: “The only way is to go step by step. Do things that make sense and that you can explain. If you just try to be popular as a person yourself or even be trusted as a person, then you will get nothing done.”

Pissarides: “I agree with that entirely, of course. Transparency is very important. Especially as a politician, you need to show what you are doing and why you are doing it and to explain it and then little by little you regain trust.”

Bartelsman: “Continuing with trust, Minister Wiebes, the cabinet you are in has a motto that could be translated as either ‘Trust the future’ or ‘Building a future we can trust’. Which one is it?”

Wiebes: “The interpretation of the former is that the government itself has confidence in the future. But there are only a few Cabinet members and for the rest of the Netherlands trust in the future is unstable. There are worries about purchasing power and wellbeing. The world is changing. It has always been changing. But nature and climate are increasingly worrisome to people. So, the only way we can build confidence is to make clear that ‘Yes, we can do something with nature and climate. But yes, there also will be some increases in purchasing power.’

Over the last 20 years the increase in purchasing power was not very impressive. If we do nothing, then over the next 20 years it will be neither purchasing power nor climate. Green growth is what is necessary. We have to start now. That was the idea - the economy is going well at the moment, so we better boost investment now. That is the way to build a future we can trust.”

Pissarides: “Interestingly, the minister is concerned about purchasing power over the next 20 years in the Netherlands. The indebted countries of the South

are when it comes to investment still below where they were in 2007. I wish my country, Cyprus, had the current purchasing power of the Netherlands. We would be happy if it then were to remain stationary over the next 20 years!”

Bartelsman: “Will the EU fiscal stance allow Southern countries to make the necessary investment?”

Pissarides: “During and after the European debt crisis of 2012, my main concern was that the one item of spending that was cut most - because it is easiest to cut politically - was public investment. Public investment is absolutely essential for growth and the improvement in living standards generally. I was critical that the austerity policies the Troika imposed on the indebted countries was doing long-term damage to their economies. They tried to correct the short-term fiscal imbalances by doing long-term damage. The ultimate resource, human capital, suffered. Which brings my second concern, which is that the European North is drawing apart from the European South.”

Wiebes: “When you say public investment is essential, we understand that. But then the immediate next questions are: What is the right level of public investment at the moment and what is the right type of investment? It may be true that over the last years we have not invested enough, but we should not invest too much either. The question is how to judge the proper level of investment and the type of investment.”

Pissarides: “We have to distinguish the prioritization of projects from how much investment to do. Prioritization is a political decision. A government may choose on the basis of promises made in their pre-election manifestos or on the basis of current political support. As an economist who is not connected with any political decision making, I would prioritize on rate of return, even if it is not easy to calculate for public investment.”

Wiebes: “Getting a good estimate of the rate of return is problematic.”

Pissarides: “But the calculated rate of return should not be the only criterion. Another criterion is preparing a country for future technologies.

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Priorities now should be given to digital technologies. Are we ready to take on self-driving cars, are all the enablers in place for companies to adopt digital technologies and can the public sector move forward to a digital provision of services? Those are the public investments that I would be making now.

Let me give you a concrete example for your country. You have one of the biggest ports in Europe. You could have platooning, digital trucks carrying cargo. Providing the infrastructure for that would be something that will contribute to growth.”

Bartelsman: “You both agree investments are needed to enable digital innovations and to enable the green transition. If you have public capital in place, then hopefully the private investment will come. Now, how do you avoid rent-seeking? How do you guide and monitor public investment?”

Wiebes: “That is a big question. Right from the moment we announced the initiative to have public investment for growth and the green transition we were swamped by lobbyists with whole lists of concrete projects.

On this point, I am critical towards Professor Pissarides. You said it is obviously a political decision, but if you have politicians, they do politics and you do not necessarily get good investments. You get short-term things for a part of an electorate. The trick is to have objective standards. That requires some distance from politicians. If you let politicians play with money, it immediately gets spent, but does not necessarily lead to more welfare.

We are struggling with this. How to actually get the right governance and decision process to objectively judge different investment opportunities without too much political interference.”

Pissarides: “That is where you look to the business sector and to the household sector, to see what needs they have. For example, if you get parents complaining that there is no good infrastructure to take children to schools, then obviously you might want to prioritize that as a policy decision. When you have public investment projects that are reasonable on economic grounds, but you cannot calculate precisely what their rates of return are because part of the return is social, then you assess social value through interaction with the business sector and the household sector.

But it is good to hear a politician saying we should not leave these things to politicians.”

Wiebes: “Self-criticism is the most valuable criticism.”

Pissarides: “There is probably more influence of politics on these decisions than we think. Further, public investment decisions can have long-lasting effects. Look at the impact that Thatcher had on the East End of London for example. Her public investment priority was to revive the old port, and now it is *the* place for young professionals and the financial sector to go. It was entirely a political decision.”

Wiebes: “Obviously, the immense welfare in the Netherlands must have come here either despite politicians or owing to politicians. Funds are distributed by politicians after being allocated by parliaments. But we think currently that the process improves if experts look at these extra funds and see what the best allocation is for future economic growth.”

Pissarides: “I consider that entirely accurate. When Thatcher decided to bring East London back to life, experts recommended to invest most public funds into building a light railway that runs from central London to Canary Wharf and to build an airport in the middle of East London which is the London City Airport. Politicians do not necessarily know how to achieve the political goal, so that is where the experts come in.”

Bartelsman: “‘*an economist tells you to ‘just do carbon pricing’ and you raise fuel prices, the people get their yellow vests out. How do you formalize the expert process and then explain the advice to the population?’*”

Wiebes: “Well, up until now, it was the politician who did the explaining, but I am happy to have the expert join me.”

Pissarides: “Politicians have the skill to judge the mood of the public and see what they can sell. For example, the economists’ preferred option tax instrument – a fixed or poll tax, for everyone with no disincentives – would

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also bring riots in the street. It would not be acceptable. So, politicians start considering other options, such as progressive taxation or proportional taxation, and explain what each one implies. Then the politician decides on the basis of political representation or what would be acceptable to the public.”

Bartelsman: “I want to turn to threats of the new technology. People are worried that the robots will take away our jobs, that the social networks will invade our privacy, and that the tech giants will monopolize the rewards of our work.”

Wiebes: “Progress is a scary concept, because you are well aware of what you may lose, but you can only be curious about what you may gain. It is my job to communicate that doing nothing is even more scary. You might find robots scary because they could take your job. But if other countries install robots and take your job, it is even worse. Lots of technologies and data applications come with privacy concerns, but outsourcing privacy to the Chinese is not a better option.”

Bartelsman: “What can you do to get the innovation, yet make the innovation be welfare enhancing for all?”

Wiebes: “It takes two steps. First, the challenge is to excel in building welfare in the next twenty years. Next, redistribution will not be very difficult; the Netherlands has always been a champion in redistribution.”

Pissarides: “I am curious, how did you manage to persuade your public that redistribution and social welfare are good things?”

Wiebes: “There is a famous quote of Tinbergen ‘by sharing we profit’. It really is a balance, but the Netherlands is not just physically a flat country, it also is so in terms of income distribution. There are other countries in the world where inequality has risen but that is not so much the case here, with the exception of the top managers of the largest listed companies. The rest remains relatively flat.”

Bartelsman: “Professor Pissarides, you have written that the worry about jobs being displaced by technology may be overblown. Yet, labour market frictions may be quite large, with mismatches in location and skill. What can be done?”

Pissarides: “It is a challenge to manage the transition. There will be more jobs that involve human contact and fewer that involve moving goods. In terms of numbers, it will probably not be bigger than previous big transitions, say from rural agriculture to urban work - in China, forty percent of the population made that transition in the past 30 years. The current transition may be larger in terms of job characteristics, in skill space. So, you need re-skilling, learning how to work in a different environment doing different tasks. That is a challenge that needs to be managed by government as well as companies in collaboration with each other.”

Bartelsman: “What kind of government interventions can you think of to aid that transition?”

Pissarides: “The first one is social support to prevent people from sinking into poverty and becoming disenfranchised. In the Netherlands you are good at doing that, but not many countries are. Next, the government needs to collaborate with companies to do the upskilling and training. Companies cannot be expected to bear the whole cost of the training due to poaching by other companies. The government should subsidize training, even for older people, similar to the support that they give to university education.”

Wiebes: “You cannot escape the economic rationale for subsidizing lifelong learning. All our investigations about growth in the Netherlands show that human capital – keeping people up to date with the latest technologies and insights at a later age – is important. We have been discussing this topic in the Netherlands for at least ten years. And yes, we have done things, but not enough, that is well understood. Still, this is not something that you would finance from an investment fund because it is a recurring effort.”

Pissarides: “Obviously, finding a good way to fund it is not easy. That is why individual accounts might be something to look into. Some countries, for instance Singapore, have clever programmes for worker training.

Another issue is that the new types of jobs that replace the ones being lost are more female friendly than male friendly. One of the challenges that need to be faced is how to persuade men who lose their jobs in industry, in manufacturing, or in transport to join the sectors that traditionally have attracted more women. This needs to be done because, according to academic research, that is the direction in which the non-automated jobs are moving. In my view, we need to fight those gender distinctions. All jobs should be equally viewed by all ages and genders. But of course, it takes time to change these customs and habits of people, it takes time to change society. Ultimately it is – once again – the job of the politician to persuade people that this is the way the world is going and that we need to instil greater equality rather than just talk about it.”

Wiebes: “The Netherlands has increasingly become a service-based economy. But maybe for the first time in decades, we see new demand coming up for technical jobs that are now typically done by men. This has to do with the green transition. We have to install solar panels and heat pumps in seven million houses and we have to completely replace the feedstock of one of the largest petrochemical complexes in the world. Lots of processes need to be redone, based on hydrogen perhaps, and we need onshore and offshore wind. There is just so much to do for people that had been in manufacturing jobs. There is probably a shortage now of technical people to do these tasks rather than a surplus.”

Pissarides: “That is a very good point that Eric Wiebes is making, because he combines the new technology with the environment.”

Bartelsman: “Another worry induced by new technology is tax competition. Do governments cooperate or compete with each other to attract these companies that can produce anywhere?”

Wiebes: “Fiscal competition may be an issue for the headquarters of Facebook that can move every year. But there are many other companies who

have good reasons to be here. For example, we have the largest petrochemical complex in Europe. One of the reasons they are here is because of the available infrastructure: the largest port in Europe, waterways to the rest of Europe. That is more important for them than the tax rate.”

Pissarides: “We do need international collaboration with these new technologies. Besides taxes, it is important to be concerned about international standards on things like intellectual property rights, privacy and the use of data.

Companies will move to the place where it is least restrictive and that is not likely to be Europe. I am not criticizing Europe for that; I am very pro-European in that sense. I paraphrase the President of China who always says about their very market-oriented economy that it is a market economy with Chinese characteristics. So, I say we need growth with European characteristics. We are much more concerned about our privacy, welfare states, and equality than other countries are.

Lots of work remains for policy makers. For example, the issue of safety of autonomous vehicles in Europe has not been sorted out. Someone has to be responsible. If you run over someone in the street driving your car, then you cannot sue the car manufacturer. With traditional vehicles that makes sense, for self-driving vehicles it does not.

The Americans have their new law that says that the manufacturer is responsible for safety considerations of autonomous vehicles. Recently, I had one very senior director of an American motor company recently telling me they are very happy with that because their vehicles are so safe. If they have one accident every one million kilometres, then they would be happy to bear the cost. The law is a game changer for America in terms of producing these autonomous vehicles.”

Wiebes: “I have a question that is unrelated to this topic. It must be very special to be a Nobel Prize winner. What is it like? It has now almost been ten years. I am just curious.”

Pissarides: “It is still continuing the way it was the day after the award actually. I am astonished. I could never believe it before, but I am astonished how your life changes completely just by one award.

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I doubt whether anything else exists in professional life that is so life changing in one day. The way people look at you, the kind of invitations you get to speak, the way they look back at what you have written in the past, and they take it more seriously. There is more responsibility in what you say, too. You cannot throw remarks like some academic so, you have to be very careful. But I have to say, it has been very good because suddenly all these new opportunities open up, to influence policy and to influence the way people think about the economy – because that has always been my objective. So, no complaints.”

Wiebes: “Thank you. I am happy to hear that.”