

Conrad Bertez, 2014

[Professor Shyam Sunder, "Rent Extraction in the Finance Sector - Rethinking the Firm as a Set of Contracts and the Productivity Gains From Increasing Capital to Labor Ratios"](#).

The research project focused on the evolution of the financial sector from the 1960s to present times using a variety of approaches such as the historical development of asset classes, the different types of activity that are nowadays a part of financial intermediation and an evaluation of the methods used to measure efficiency in the financial system. The prevailing finding is the paucity of indicators and methods that evaluate the financial sector. The few that were found were inadequate in regards to the scope of the activities now covered by the financial sector.

In a second movement, the research project tried a two pronged approach in order to resolve this issue. First, thinking in terms of flow of resources to the different actors involved in finance was attempted. Government, shareholder, creditors, debtors and employees were among those studied. Due to the magnitude of the endeavor, the employee side was the only one in which significant insights appear to have been gained. Being charged with mostly literature review, findings per se weren't really part of my task, the synthetic work was up to professor Sunder. However, the evolution of income in the financial sector proved very interesting. In particular, the relationship between the regulation of risk taking activity in finance, the skill requirement of finance workers and remuneration in the finance sector was fascinating. That wage levels in 2008 stood exactly where they were in the late 1920s was unexpected. Less extensive work was done on debtors and creditors but we considered the spread between interest rates applied to both actors to be a potential venue for an indicator of efficiency that has yet to be created. The second approach was more systemic and looked at the relationship between the size of the financial sector, labor share of income in finance, and economic growth in a number of countries. This part relied heavily on collecting information from various institutional databases and underlined how incomplete and contradictory these databases can sometimes be. Nevertheless, a very summary analysis reveals what appears to be an inverse correlation between finance share of GDP and GDP growth rates in OECD countries. This could of course be interpreted both ways, namely that finance could exert a drag on growth past a certain point (as advanced by prof. Philippon of NYU) through a brain drain like action, or that an increase in the size of the financial sector could be a result of lower economic growth as theoretically explained in Marxist literature.

This brief summary of the research project unfortunately doesn't do the project justice, as I have at least 50 pages of notes on findings, procedures and theories, which I would love to talk about but cannot as a result of the requirements of this document.

Activities student was responsible for

My work mostly revolved around reviewing literature on the topic of financial efficiency and history. This means that I spent most of my time browsing databases such as JSTOR, FRED, SSRN, BEA etc. I then summarized the contents of relevant articles to Professor Sunder.

Another aspect was of course, collecting raw data from databases and processing it in order to create the information I couldn't find in research papers.

What student learned

To describe what I've learned would be both very short and very long. I have become rather skeptical of empirical research as a result of my own experiences with data collection. There are

hundreds of databases which can many contradictory things. There are many authors who cite data that doesn't seem to appear anywhere. This isn't an attack on the subject, far from it, but research has underlined the methodological issues of an economic science that wills itself to be akin to physics yet seems to be lacking the tools to back this ambition. Professor Sunder and I spent much time talking to the employees of these three letter agencies to find people who had no idea of the meaning of their data or couldn't justify their methodology in any way. How economics is practiced in reality is very different from the streamlined approach classes present. But aside from this, I've gained a lot in the way of economics. Mostly in terms of data, in terms of history, but I suspect this summary doesn't want me to list a bunch of numbers that I've discovered. To be honest, I found out how much I would like to know but couldn't find. More interesting is theory, macro was preponderant in the latter part of the research, which dealt a lot with national accounts. It seems uncouth to say so when I am in a program like Yale's, but I've found data that could go in the direction of theories that are generally repudiated by mainstream economics. Maybe I was subconsciously looking for confirmation, but the picture of economic theory painted in textbooks like Mankiw's appears a lot more blurry than it once did. If economics is to be the science it wants to be, it must reject its at times sectarian tendencies. But that's the rambling of someone who spent two months in the field, I'll have to spend a lot more time working before I can say anything meaningful.

□ Opinion of SRO experience

The SRO experience is wonderful, if one makes it so. Sometimes, the professors are away, attending conferences and whatnot, that makes it easy to slack off and get a poor opinion of the program. But it is an exercise in dedication; a chance to get a real impression of what the work of an economist is, and how difficult it can sometimes be. Moreover, it's rewarding to stumble upon a database that finally appears to have the information you spent hours looking for. Professor Sunder was extremely helpful and patient; he made me feel like I was a part of the project. He graciously took time almost every day to see me and talk about the research with me.

In short, the SRO isn't something you can experience in class. The standards and the scope of the work go way beyond the expectations of a research paper for a random class. If I could do it again, I certainly would.