

Remembering Peter Neary (1950-2021)¹

Patrick Honohan

Trinity College Dublin

Cormac Ó Gráda

University College Dublin

Ireland's greatest economist since Edgeworth died on 16 June 2021. A former President of both the European Economic Association and the Royal Economic Society, Peter Neary was truly one of the profession's European leaders, both in the depth and range of his research and in his role as a wizard of organisational development.

Peter was born in Drogheda on Ireland's east coast in 1950. Economics was his choice discipline from undergraduate days in University College Dublin, but he would have excelled in whatever field he chose. His flair for mathematics from an early age would later stand him in good stead as an economic theorist. He began his career as a budding econometrician writing, at the age of 22, the convenient regression programme that became the universally used workhorse among Dublin's econometricians for several years, and two of his first refereed publications, which appeared in *The Economic and Social Review*, were in econometrics.

Peter spent two years as a research assistant at the ESRI and two more lecturing in TCD before heading to Oxford, where he completed his PhD in 1978. Three early papers, elegant and famous products of his years as a doctoral student in Oxford, established Peter as a leading economic theorist and set the pattern for a lifetime of research. Although his preferred habitat was trade theory, these papers already illustrated the range of his interests from micro to macro, and the ease with which he was able to encapsulate – in a pragmatic manner – important and hitherto neglected real world features into widely used paradigmatic models.

The authors are solely responsible for the content and the views expressed.

¹ A shorter version of this tribute appeared in the CEPR's policy portal VoxEU.

The 1982 *Economic Journal* paper with Max Corden, a true classic which continues to be cited hundreds of times each year, presented a way of analysing the dramatic way in which a sectoral boom could divert labour from elsewhere in the economy and result in deindustrialisation, as was happening in the Netherlands and other countries in the aftermath of the discovery of North Sea oil and the oil price rises of the 1970s.

At a period when, thanks to the soaring unemployment of those years, there was growing policy concern about failures of market clearing, the 1980 *European Economic Review* paper with Kevin Roberts was timely. It extended the theory of household behaviour to the case of rationing, involving modified Slutsky equations that used the concept of virtual prices.

Disequilibrium was also the underlying phenomenon of interest in his 1978 *Economic Journal* paper, which built a bridge between the two predominant models of international trade: the Heckscher-Ohlin-Samuelson equilibrium model and that of Harrod and Marshall which assumed a fixed international distribution of sector-specific capital. The innovation here was to model the role of capital rental differentials in driving longer term inter-sectoral capital flows.

And this was only the start. There followed some 80 further refereed journal articles, including a score of them in top-five journals, together with dozens of other academic publications. As Nicholas Stern – who had, with Nobel laureate James Mirrlees, been one of Peter’s supervisors in Oxford – has put it: “Peter brought very serious tough theory to the problems that matter.”

Although thought of as primarily a theoretician, Peter was an active participant in a number of economic policy debates. A quarter of a century ago he vigorously and publicly questioned the decision of the Irish government to adopt the euro, not only pointing out the importance of Ireland’s trade with the UK, but also highlighting how euro area monetary policy might well turn out to be inappropriate for a single small Member State. More recently he brought his formidable knowledge of the political economy of international economic relations and his awareness of the continuing empirical relevance of the gravity approach to international trade to support the futile, as it would turn out, case against a hard Brexit.

And his contribution to economic policy went well beyond advocacy on specific issues. Indeed, running through most of his research endeavours is a concern with providing logically coherent and mathematically robust underpinnings for policy work.

His work on purchasing power parities provides a good example. Noting that the construction of PPP-adjusted international comparisons of prosperity was drawing on index number theory not fully consistent with utility theory, Peter worked over several years to construct a robust theoretical foundation (published in his 2004 paper in the *American Economic Review*) for the widely used method proposed in the mid-1950s by Irish statistician Roy Geary. Using this method, he

waded into the debate about China's GDP, concluding, in an *Economic Journal* paper with Rob Feenstra, Hong Ma, and D.S. Prasada Rao, that it was about a third larger than shown by the 2005 round of the International Comparison Program (ICP) – a finding with obvious important implications (and perhaps even more so in the current political climate than a decade ago).

Again, the elegant measures of trade restrictiveness that Peter developed with Jim Anderson are not only built on a coherent theoretical framework, but are also designed to provide a useful and practical way of combining tariffs and quotas on a commensurate basis. They have been employed by economic historians, and they also provide valuable tools for trade negotiations and in estimating the impact of diverse trade policies on economic wellbeing.

The appropriate government policy in the presence of oligopolistic firms in the globalised economy became another important theme for Peter's work. Should export subsidies be considered? As Peter showed in his 1994 paper in the *Journal of International Economics*, the answer depends on subtle issues, such as whether competition is Cournot or Bertrand, on how high is the distorted social cost of funds, and on how cost competitive are the domestic firms.

These efforts to explore the underpinnings of applied policy analysis often involved digging far more deeply into the mathematical structures conventionally used by empirical researchers, leading to results of remarkable generality. Take for example, his paper with Monika Mrázová and Mathieu Parenti, which was published posthumously in *Econometrica*. Here the question explored is about the relationship between frequency distributions – for example, in a model which explores how the distribution of productivity levels across firms relates to the distribution of their sales. Can an applied econometrician exploring monopolistically competitive markets safely assume (as many do) that these two distributions are of the same mathematical form? It turns out that this will only be the case if the demand function facing the firms is of a specific functional form uncovered in the paper.

An equally important dimension to Peter's contribution to economic policy was in the realm of organisational development. An early enthusiast for the effort, spearheaded by Richard Portes, to create a network of policy economists in Europe to match that of the US, Peter became in the mid-1980s the first Director of the Research Programme in International Trade of the London-based Centre for Economic Policy Research (CEPR). In the same spirit, he was also a founding Council Member of the European Economic Association, a body of which he later became President, and he was instrumental in establishing the *Journal of the European Economic Association* and putting it on a secure foundation.

And if Peter could become animated about important economic policy issues, it was the same when it came to judging the appropriateness of trends in economic research. His vigorous, albeit balanced, critique in the 2001 *Journal of Economic Literature* of what he saw as the over-hyped emerging field of economic geography

is one of his most cited articles, and may have been read as much for its vivid and lucid argumentation as for its sensible conclusions.

Ireland has good reason to be grateful to Peter. In parallel with his high profile contributions to the international theoretical literature, Peter also engaged with Irish economic policy, choosing a number of highly salient topics. Many of his Irish papers appeared in *The Economic and Social Review*.

Cross-border trade on the island of Ireland was one focus. In papers in *The Economic and Social Review* with Emla Fitzsimons and Vincent Hogan (1999) and with Martina Lawless and Zuzanna Studnicka (2019), Peter exploded the previously conventional view that the Irish border had limited trade flows relative to what might be expected using a standard gravity model of trade. Indeed, “Ireland exports more to Northern Ireland at both intensive and extensive margins, relative to the average of all other export destinations.”

In the run-up to euro membership, Peter was concerned that Ireland was joining something that, without UK membership, was not an Optimal Currency Area. He was particularly concerned about the danger that a depreciation of sterling against the euro would be damaging when Ireland could not match the depreciation and, drawing on modern trade theory, he argued that “standard measures of competitiveness greatly underestimate the vulnerability of national output and employment to a change in the bilateral nominal exchange rate with sterling” (Neary, 2006a). With the late Rodney Thom (1997) he pointed out that “Ireland is not typical of the European core and that the costs to participation in EMU may not be trivial” and wondered somewhat prophetically: “Can we be sure that the Irish government would be seen as a premium borrower if its fiscal position were to deteriorate rapidly in the wake of a significant sterling depreciation?”

Applying knowledge of trade theory to a key event in the history of Independent Ireland, in a paper with Cormac Ó Gráda in *Irish Historical Studies* (1991) Peter assessed the impact of the Anglo-Irish “Economic War” of the 1930s. Carefully considering the likely welfare effects of the distortions related to the tariff war and the government’s encouragement of labour intensive tillage, he concluded that the debt write-off in the eventual financial settlement of the dispute over Land Annuities may have more than compensated for the distortions. Still, that paper concludes with the “surmise that economic policy erred less in following the world trend towards protectionism in the 1930s than in failing to follow the trend towards trade liberalisation after the second world war.”

From the early days Peter was a key animator of the Irish economics profession. Indeed, back in the early 1970s it was his very usable albeit simple regression package *RegrEcon*, written in Fortran, which was the package of choice of most Irish applied econometricians. MIT econometrician Franklin Fisher was bemused to find that Dublin was the only European city with active researchers that had not bought his regression programme – they were all using *RegrEcon*!

But Peter's impact on Irish economics was much larger and more lasting than that. He was appointed to the full professorship in Political Economy at University College Dublin before he was 30, something almost unprecedented in Irish academia. Not long out of Oxford with his doctorate, he was already a star; he also proved to be a superb and inspirational teacher and a conscientious and supportive research supervisor. Together with his colleague and friend, the late Brendan Walsh, Peter transformed teaching and research at UCD, thereby setting a standard which other Irish universities sought to emulate. He was of course elected a member of the Royal Irish Academy and was awarded its first Gold Medal in Social Sciences. No wonder Dublin was sorry to lose him to Oxford in 2006 after an innings of 26 years at UCD's Belfield campus.

Between 2006 and 2020 he was Professor of Economics in Oxford and Professorial Fellow at Merton College. He was elected a member of the British Academy in 2007 and was also a Fellow of the Econometric Society and a member of Academia Europaea.

No account of Peter Neary's life would be complete without mention of the warmth of his personality and the wit and wisdom with which he sparkled. For such a productive academic to be so well-read in fields remote from economics was remarkable, and doubtless this also fed back into ensuring the relevance and effectiveness of his professional activities.

Ní fheicimid a leithéid arís.

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² Listed in JPN's Oxford CV

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