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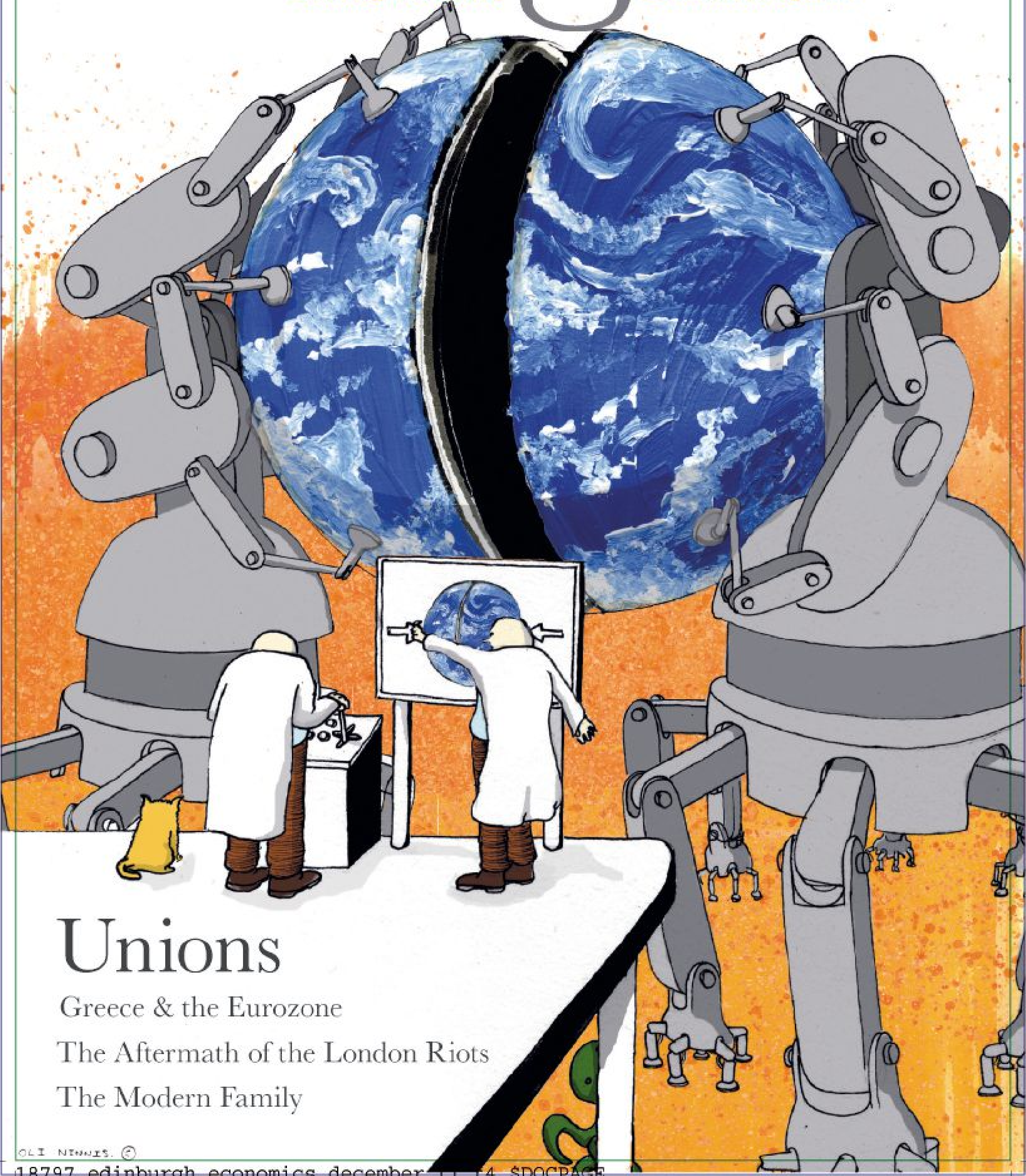

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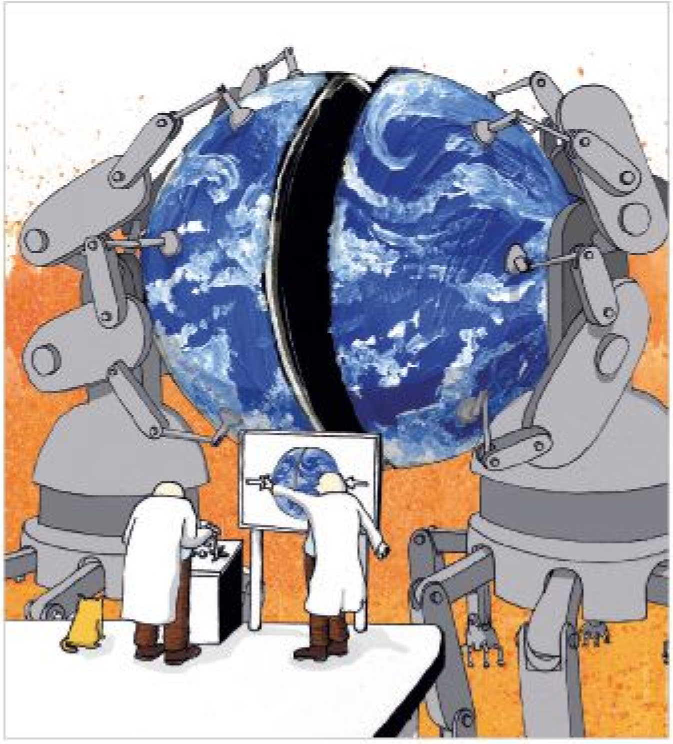

Oliver Ninnis

If you have any questions, comments or concerns, or if you would like to become involved, please email us at:

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Editor's Note

And so with a new academic year comes a new issue of *Insight*, complete with our brand new editorial team at the helm. This time, we're tackling the theme of 'unions', and our writers have come up with a wide variety of interpretations of the subject for you to enjoy. Especially topical at the time we go to press are of course the troubles within the European Union and the eurozone, and I think you'll agree we've covered all sides of this issue: from a look at the causes and consequences of Greece's difficulties, to a game theoretical approach to solving the problems, with an interview from a top EU official along the way. It looks like the test of the EU's goal of 'ever closer union' is now. And in the wake of the summer's riots, it seemed only natural to deal with the idea of union (or lack thereof) within our society, as well as the matter of the modern economic family.

Our comment section is also packed with insightful and stimulating articles to keep you thinking over the winter break. We have pieces on the privatisation of water, customer segmentation in retail and a report from a mock debt tribunal to name but a few. For those of you with a penchant for academia, we've also got an interview with a current PhD student at the University, so you can see what further study has in store.

All of this has only been possible due to the fantastic work of our new editorial team, devoted designers and illustrators from ECA, and of course contributions from a wide range of students at the University. I'd like to thank all of you for your hard work and dedication which allowed us to continue the legacy of Insight on from last year. Of course, thanks also go to our sponsors and financiers, the Economics Society and the School of Economics.

It's been great fun and a steep learning curve putting together this newest issue, and if you'd like to be involved in any part of the process next semester, or have any feedback on this issue, do get in touch – an email is provided on the opposite page. We're always on the hunt for eager new writers for future editions.

So on behalf of everyone at Insight HQ, let me invite you to sit back, relax and enjoy our latest offering. Thank you for reading.

Shira Lappin
Editor-in-Chief

Focus: Unions

A Greek Tragedy

David Barron takes an in-depth look at Greece's woes and the eurozone

As recent crisis talks between various European heads of state and financial institutions have drawn to a close, reports of a credible solution to the debt crisis plaguing Greece have flooded forth. In brief, this groundbreaking deal can be summarised as follows: a write off of 50% of Greek debt, and €100 billion of financial aid to be delivered in 2012. Because of this breakthrough, many have now begun to cautiously look forward to the future, but some still doubt an end can be so easily reached. Meanwhile, others are still asking the pertinent question: how exactly did this happen?

Whilst the crisis itself may have been a recent development, the roots of Greece's current financial woes can be traced back much further to the 1970s. After the ousting of the ruling military junta, and the re-introduction of democratic elections, the newly formed government decided to pursue more populist policies, spending far beyond its earnings. The deficit in public spending grew, being only encouraged by Greece joining the European Union (EU) in 1981, which allowed the government to spend more by taking advantage of the lower interest rates present within the eurozone.

However, due to the global recession sparked by the 2008 credit crisis, Greece's long-running fiscal problems soon surfaced, being brought to the attention of the European Central Bank (ECB) in 2009. An almost comical outcome resulted, when the ECB's prediction that its deficit was only 3.7% of GDP was revealed to have a "small" margin of error, when compared to the slightly larger 13.7% mentioned in the report filed by the Greek Finance Minister Giorgos Papakonstantinou. Because of this, a troika was formed to spearhead financial rescue efforts, led by the European Commission and with assistance from the European Central Bank (ECB) and the International Monetary Fund (IMF).

This troika has faced tougher challenges than anticipated however, as Greece's economic ailments form the core of the wider sovereign debt crisis gripping Europe. The other eurozone countries deemed at risk of financial turmoil have been colourfully acronymed "the PIIGS" (Portugal, Ireland, Italy, Greece and Spain), with each suffering from different symptoms of monetary malaise. Portugal is burdened with an inefficient public sector that has engaged in runaway spending, resulting in a high debt-to-GDP ratio of 80%, and is also coping with increasing allegations of corruption. Ireland, meanwhile, has already weathered some of the financial storm, being labelled the first eurozone country to officially enter the recession by its Central Statistics Office (CSO). It was more directly affected by the 2008 credit crisis as the proliferation of sub-prime mortgages, which led to many property bubbles bursting, severely damaged the Irish housing market, with home owners now having an incredibly high household debt to relative income ratio at a staggering 190%. Meanwhile in Italy, the credit rating has been recently downgraded by Standard and Poor (S&P) to an 'A' rating. Further downgradings are predicted by some economists because of the fear that Italy will be unable to undertake corrective measures, due to what is perceived as a weak coalition government. At the same time, Spain has recently been experiencing the highest unemployment rate in Europe, with some sources estimating the number of unemployed at around 4,000,000. Yet with each of these countries, many are expecting the situation to get worse, before it gets better.

To help prevent this crisis from spreading further and threatening safer economies, such as the economic powerhouse of Germany, politicians and economists have proposed various solutions to the default risk facing Greece, and the sovereign debt crisis plaguing Europe. To avoid future financial problems of this magnitude from shaking Europe, the EU member states ratified the creation of the European Financial Stability Facility (EFSF). This will essentially act as a financial lifeline to any EU member states should they face the same situation as Greece. At the same time, after much wrangling, the main plan of financial aid to Greece is the gradual releasing of funds from a loan package structured by the troika.

However, a downside to this package is the harsh austerity measures that have been forced upon Greece. Some examples are the cutting of

Amy Charlton

more than €5 billion of social security over the next 5 years, cutting education spending by closing or merging nearly 2,000 schools, and wages of those employed in state-owned enterprises being cut by 30%. As can be expected, the Greek public have not reacted positively to these harsh reductions in public spending, leading to many clashes between protestors and police. These have ended in tragedy in some cases, with 3 people being killed in the protests that took place on May 5th, 2010.

Unfortunately, the initial tranche of funding in May 2010 proved insufficient to cover the country's debts, and Greece was forced to ask once again for help. This prompted some to question whether simply bailing out Greece is a viable option, and if the country is actually headed for an "orderly default".

Yet this gradual loaning of funds has yielded some positive results, although not everyone believes we are out of the woods yet, with there being a number of possible outcomes that may still play out. Probably the worst is that Greece, despite all the financial aid provided, still succumbs to an orderly default. The consequences of this scenario occurring are almost unimaginable, but needless to say they would be far-reaching and devastating, primarily to other EU member states. The idea that most hope for, especially given recent developments, is that Greece manages to recover, albeit slowly, and with a significant amount of fiscal, political and economic help from both within and without the EU. However, another possible scenario mooted by a few observers is that Greece will decide to leave the EU of its own accord, and will reinstate its old currency, the drachma. This is arguably the most unlikely situation to transpire, as the political damages of leaving the EU would be extremely significant. Also, the economic consequences of changing currency given the country's poor financial standing in the global market will depreciate it significantly, down to a point where it is virtually useless.

Given the uncertainty of the current situation, it is almost impossible to predict what exactly will happen in the coming months and years. But from the recent developments we have witnessed, especially the additional financial stimulus planned for 2012 and the allowing of Greece to write off 50% of its debts, many remain cautiously optimistic about Greece's future. Yet there will still be a few who believe the current remedy will not save the day. One of them, professor of political economy Markus Kerber, after hearing of the next planned release of funds, stated, "The money we have spent on Greece is lost money. I have said this since spring 2010. We should have kept Greece out of the eurozone." This certainly begs the difficult, yet arguably just question that has been asked of so many other institutions prior: is Greece really too big to fail? For the sake of the EU's future, we can only hope the answer is yes.

Europe in Crisis? The View From Brussels

Mark Smith quizzes top EU official Karel Kovanda, who tells us: "Britons - don't worry!"

Karel Kovanda was the Deputy Director-General for EU External Relations from 2005-2010, supervising sections dealing with Canada, US, Switzerland, Liechtenstein, Korea and New Zealand. He was also responsible for overseeing officials in charge of democracy promotion, human rights and multilateral organisation, particularly the UN, and for conflict prevention and management in different parts of the world.

If you happen to have given the news so much as a cursory glance in the past year or so you will be well aware that the eurozone is in trouble. Current economic difficulties have provided yet another opportunity for sceptics to do what they love best – question the UK's place in the EU. *Insight* has interviewed Karel Kovanda, Deputy Director-General for EU External Relations to tell us about the other areas in which Europe is succeeding and why, perhaps, the UK need not worry.

Mr Kovanda told *Insight* that "scepticism about the eurozone and scepticism about the EU are two separate things. For better or for worse, British people don't have to worry – directly – about the euro". He reminds us that even Margaret Thatcher promoted the single market. After the 2004 EU enlargement, the UK was one of the few countries that immediately allowed citizens of new member states to freely come in and seek work. That turned out to be a boom to the British economy which as a consequence grew by about 1% faster than would have been the case otherwise. And of course, where would we all be without low-cost air travel, just one of many advantages of EU sponsored deregulation?

All major political parties understand the importance of remaining within the union, not least because of the fact that, in only 60 years, Europe has transformed itself from a situation in which endemic conflict devastated millions of lives into one where few could imagine war breaking out – predecessors of the so-called "Merkozy" would surely be aghast at the two leaders' apparent love affair!

The EU also allows the receding middle democracies of western Europe to contend with rising powers such as China, Brazil and India by clubbing together to form what is still the world's largest trading bloc with unrivalled influence in such fora as the WTO and G20. Enlargement has allowed European countries to greatly influence their neighbours through the promise of inclusion into the exclusive single market club gaining preferential trade agreements and political assistance on issues such as trafficking, cross border crime and anti-terrorism.

So it would seem that, like it or not, to the extent that we are involved in the EU, we are benefitting. Euro scepticism however remains rife in the UK. The problem most of us have seems to come not from particular actions of the EU, rather from a feeling – the feeling that we are not in control. It seems we are not alone as total turnout for European elections in member states for 2009 was 43% and many feel that European politi-

Security and Defence Agenda

cians and bureaucrats are distant with no connection to normal people and their lives. Demands for a membership referendum in this country have been made on the grounds that the UK public has never been officially asked whether they want to be a part of the EU or not.

Insight put this problem to Mr Kovanda – being, as he is, a European official with a position few of us will have heard of. Mr Kovanda's response was one of understanding – he freely admitted that he had "no idea how to sort that one out".

He did however offer some assurance to us, as someone who knows how the union works. He says, "people who represent Member States in Brussels are appointed as a consequence of member states' democratic policies: commissioners for example are appointed by democratically elected national governments. Indeed, members of the European Parliament are elected directly by the people - but who knows them? This distance is felt, and it amounts to a problem, no doubt about it... The EU has to be very careful to deal exactly and only with those issues where it can make a contribution as a collective body. But in any matter where a lower-level decision is possible and would be as good, it has to apply its own principle of subsidiarity - devolving decision making to the lowest possible level. To put it differently: A citizen of the EU should feel that Brussels is helping only where national authorities could per force not do as good a job, and that it leaves everything else to lower levels".

So Mr Kovanda assures us that, despite the understandable reservations people feel about handing over powers to the EU level and the distance they feel from the people those powers are going to, the union deals only with issues that are better dealt with collectively.

But what kind of issues are these? By way of an example, Mr Kovanda quotes new multilateral threats such as terrorism, energy security and climate change as examples of polymorphous issues which simply cannot be left to national governments to deal with by themselves. With the US failing to take a lead, the EU is now the undisputed leader in environmental issues on the world stage, able to draw expertise from a wide population and implement cross border initiatives such as fisheries policy and carbon trading. The EU has also racked up notable successes in the area of anti-narcotics and trafficking and is the world's largest donor of development assistance to developing countries – successes that simply would not be possible without the kind of large scale cooperation which union provides.

Nobody knows what will emerge from the current situation in the eurozone but as long as the EU retains the principle of subsidiarity, we can be assured that political power is handed over only insofar as it offers solid benefits and – as we have seen – such benefits could be crucial in the uncertain future we face.

Putin's New Economic Playground

Paul Dewar examines the winners and losers of the proposed Eurasian Economic Union

In July 2011, in a meeting of the Prime Ministers of Russia, Belarus and Kazakhstan, Vladimir Putin proposed the concept of a Eurasian Economic Union which will come into realisation by 2013. Is this a grandiose gesture in the interest of international prestige or does it have thoughtful economic repercussions?

The customs union between Belarus, Russia and Kazakhstan has been in existence since 1996; it presents a formal, legal mechanism whereby Russia can expand its influence into these countries. The union represents the closest form of integration between Russia and its members since the fall of the Soviet Union. Since its creation, the goal was to provide a 'Common Economic Space' to eliminate internal barriers between the three countries. Kyrgyzstan and Tajikistan have expressed interest in joining the economic group, while Ukraine is in the process of establishing formal trade relationships with the grouping which would be solidified through the introduction of a Eurasian Economic Union.


Hannah Foley

The union has been proposed in order to promote a single economic space while integrating its members into the global economy. This would include the coordination of economic and social reforms while attempting to improve the living standards of their prospective members' citizens. The goals of the Eurasian Economic Union include: the formalisation of a free trade regime; creating a cohesive internal customs tariff; unified procedure for foreign exchange controls and customs regulation; forming a common transportation and energy market; creating conditions for access to integrated foreign investment; and a common legal, medical and educational framework. If the prospective member countries of Belarus, Russia, Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan were to form a union, its total GDP would amount to approximately $1.7 Trillion, according to IMF data from 2010. This compares to a total GDP in the EU of around ten times that number.

Since the dissolution of the Soviet Union and the collapse of the 'Gosplan' (the committee responsible for economic planning in the Soviet Union), members of the former Soviet bloc have struggled to regain the economic growth they achieved within the Soviet Union. It seems feasible then that the Eurasian Economic Union would provide economic growth to otherwise stagnant economies. Economic growth is linked with macroeconomic stability, protection of property rights and trade liberalisation – an economic union would provide this. However, problems may arise when the integration of capital markets occurs - this can lead to greater economic volatility, arguably illustrated by the current eurozone crisis. In order to avoid short-term financial risk, prudent regulation and monetary framework is imperative.

In seeking the membership of former USSR states, Russia is attempting to increase its influence to the detriment of other world powers. Russia's status as a 'big player' in the global economy should not be underestimated given international reliance on its energy market. Bolstering this position of power would be the realisation of a Common Economic Space as it would see common border control and the possibility of a single currency. If Ukraine agrees to join in the free trade agreement, Russia has agreed to reciprocate by raising export duties, claiming that joining would result in an increase of approximately $8 billion to the GDP of Ukraine. However, more important to Russia is not the Eurasian Union as such but that the Ukraine does not further integrate into the European Union.

Kyrgyzstan is one of the poorest countries of the former Soviet bloc and holds little resources, yet Russia is still eager for it to join the union. Kyrgyzstan's location in Central Asia and bordering with China has made it a significant centre for exporting Chinese goods to the rest of Central Asia. China's growing power within Central Asia threatens Russian influence and therefore it is advantageous for Russia to hold Kyrgyzstan within the union. Kyrgyzstan in the customs union would also give Russia more leverage over the U.S as Kyrgyzstan serves as the location for the Manas U.S military base used for operations in Afghanistan.

In answering my initial question as to whether the proposals are based on style or substance - it is a bit of both for Russia. By achieving a reformation of past-Soviet states (a previously failed effort on several occasions) Putin has attained a sense of prestige characterised more by relief than outright authority. The deal would see greater global links with the expecttion of increased economic growth for the struggling economies of Kyrgyzstan or Belarus. The only losers in the deal, seemingly, are the superpowers of China and the European Union which are competing with Russia.

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Whither African Integration?

Will the African Union lead to greater trade and prosperity in Africa, asks Tom Dorrington Ward

The Organisation of African Unity (OAU) was formed in the 1960s to eradicate remaining colonialism from the continent and to promote the emergence of a stronger, more unified Africa. By the time South Africa joined in the mid-1990s, having done away with apartheid, membership had been extended to 54 African member states. But the original anti-colonial objectives encompassed by the OAU were, arguably, no longer relevant. In September 1999, at the fourth Extraordinary Session, held at Colonel Muammar Gaddafi's request and in his hometown of Sirte, Libya, the OAU declared the establishment of an African Union (AU), replacing the OAU in 2002. Gaddafi's possible sub-Saharan imperial ambitions aside, the Sirte Declaration paved the way for a hastening of African socio-economic integration targets.

The Abuja Treaty of 1991 announced the gradual establishment of an African Economic Community (AEC), to be fully integrated by the mid-2020s. The AEC would create an African Free Trade Zone (AFTZ), the African Common Market (ACM), and, eventually, the African Central Bank which would issue a common currency (the African Monetary Union). The African Union's founding objectives were, among other things, to accelerate the establishment of these institutions. But the question of whether greater socio-economic integration will lead to a more prosperous Africa still remains to be answered.

The planned structure of the AU resembles that of the EU. Indeed Africans have mooted that, with the AU, they 'should not re-invent the wheel'. Nevertheless, Africa and Europe are very different places and successful integration will depend on the completion of very different objectives. European economic integration began with common policy on resources such as steel, before spilling over into other primary products with its Common Agricultural Policy. African economic integration has begun, but in a rather different fashion. There have been regional developments; regional common currencies, such as the CFA franc, and currently eight Regional Economic Communities (RECs) have been established. The existence of these RECs in Africa is a step towards continental integration. But the nature of their overlap, with some countries members of multiple RECs, results in inconsistent trade relations and, as one commentator notes, "increased complexity, cost and uncertainty of trade." The emphasis should be on strengthening the institutions which govern trade and on greater market transparency.

Furthermore, studies have been carried out to assess the impact of monetary union in Africa, such as the by Debrun, Mason and Patillo this year. Many suggest that the prospective net welfare gains barely outweigh the costs associated with the coordination and stabilisation of national currencies, prone to idiosyncratic shocks and vulnerable to short-sighted governments who partake in inflationary spending. As Debrun, Mason and Patillo point out, "while the welfare impact may not be harmful, it may not be particularly beneficial either." This prognosis isn't helped by the on-going eurozone crisis, which highlights the need for fiscal and political integration, or at least coordination, in making a common African currency stable in the long term. This would be no mean feat given the diversity and volatility of countries and governments within Africa.

Intra- or extra-continental trade?

These aspects of the objectives of the African Union are important; both market and currency integration in Africa would be beneficial if they led to greater stability and increased cross-border trade flows. But the point of the African Union should be to pool together Africa's collective bargaining power on the world stage – that would lead to greater trade and prosperity in Africa.

According to the Commission for Africa, African countries have stagnated for decades, with their share of world trade collapsing from 6% in 1980 to about 2% in 2002. The African Union presents opportunities for greater intra-continental trade and efficient allocation of agricultural products, but emphasis should also be placed on attracting foreign investment and stimulating Africa's trade with other world economies.

This is achievable. Now that Gaddafi has been fatally ousted from power in Libya, his African Union empire project can re-examine its objectives. If the African Union concentrates on promoting consistent market governance, reducing corruption, strengthening property rights and the use of foreign investment to improve infrastructure throughout the continent, this will shrink transportation and other costs, boosting trade. Maybe then the African Union will lead to a more prosperous Africa.

Hannah Foley

For Whose Benefit?

Olga Krikun examines the unintended consequences of welfare policy for family formation

It may be very unromantic, but economic incentives play a huge role in the process of decision-making with relation to child and family matters. Assumptions that supply and demand do not factor into family formation plague welfare policy-making and have led to a welfare system which encourages bad decisions by individuals.

Started by the Conservatives in 1980s, the idea of targeting the 'truly needy' was adopted by subsequent governments. During the period between 1999 and 2003, government spending per child on child-contingent benefits, tax credits and tax allowances increased by 50% in real terms. During this period, there was also a clear shift in understanding about who is 'truly needy'. The recasting of the welfare state into lone parents assistance is clearly reflected in the tax-benefit system's systematic discrimination against couples at that time. The changes in benefit eligibility criteria meant that in many cases, especially among low earners, a couple was left with less compared to a lone parent even given the extra adult present in the household. Patricia Morgan in her book The War between the State and the Family discusses how the current system penalizes married couples with children by making them less eligible for state support compared to single parents: "In 2004/05, a couple with two children where the mother was earning £10,000 and the father £25,000 per year would be 22 per cent better off if the mother claimed as a lone parent rather than as a couple...Only when joint incomes reach £50,000 per year is there no loss from being a couple" (p. 73).

'Affordable housing' policy has followed a similar path. The 1985 Housing Act created an obligation for local authorities to provide for the homeless. However, people classified as having 'priority needs' such as single parents, could simply gain the status of 'unintentionally homeless' by providing a landlord's notice to vacate. No wonder then, that the proportion of lone mothers doubled between 1974 and 1989. Furthermore, by the 1990s, three quarters of lone parents lived in social housing.

> "It is common to think nowadays that even substantial changes in family formation and parental behaviour should not be interrupted because they are organic social processes. However, it is possible that the direction of family life is not a natural trend."

The main problem of such policy measures is not the creation of distorted economic incentives, but wrong signals, which by encouraging relational disconnection undermine the whole fabric of society. A dramatic consequence of these policies has been summarized by the Institute for Fiscal Studies 2006 survey, claiming that the "government is paying tax credits and benefits to 200,000 more lone parents than live in the UK".

Another important family formation area which was and still is strongly influenced by policy instruments is the decision to have children. As mentioned before, most government spending in 1999-2003 targeted low-income families with children. Social reforms introduced by the Labour government increased cash benefits transfers by an amount equivalent to approximately 10% of net household income for families with one child, and 12% for those with two or more children. Families respond to changes in the tax-benefit system, and these changes encouraged low-income households to procreate above the point which they would have chosen in the absence of external support. It requires little imagination to predict the consequences of a rapid and significant increase in monetary transfers to poor families, a good example of which is the UK in 1999-2005. Although fertility in Britain has remained more or less stable over the last 30 years, its composition has changed. Fertility has rapidly declined among the middle and upper classes, with a growing proportion of children being born to single and lower income women. In the 1970s most children were born to lower middle income families: third and fourth deciles. Nowadays most children come from the bottom two deciles of the income distribution. Recent studies' results indicate a fairly large increase in fertility equivalent to an increase of around 15% (nearly 45,000 additional births) during 1998-2002 among low income households, which is right after a generous child-contingent benefits package was introduced.

It is common to think nowadays that even substantial changes in family formation and parental behaviour should not be interrupted because they are organic social processes. However, it is possible that the direction of family life is not a natural trend. It becomes difficult to justify a state's behaviour which subsidises individuals' disconnection and encourages poor families to have more children. The neglect of basic economic principles and blind ideology lead to a situation which can be summarised under the title 'the good, the bad and the ugly'. The intensions were good. What can be better than a desire to help poor people? However, it is bad when social policy attempts to influence decision in such sensitive and private parts of people's lives as the decision to marry or to have children. When people are encouraged to make decisions which are potentially harmful in the long term, and when the most vulnerable groups of society make these decisions, such policy measures stop being simply bad, and become ugly.

Family Matters

Mihiri Seneviratne investigates the changing landscape of the modern family

We hear a lot these days about the decline of the family. Indeed the family as our grandparents, or even our parents thought of it, is no longer the norm. According to the 2007 Ipsos-Mori publication Families in Britain, families with two married parents living with their biological children make up only 56% of UK households with single-parent, co-habiting, 'recomposed' and same-sex families becoming increasingly common. The increasing prevalence of alternative family structures reflects a shift in our understanding of family relationships and the role of family as an institution.

But does it follow that this increasing heterogeneity in family configurations signals a decline or crisis of the family? And how, if at all, should government policy address this? Far from being merely an interesting philosophical question, this has become one of the more pressing issues facing our generation.

The legal and policy environment within which we conduct our family lives is in flux, with the Prime Minister propounding the view that "Strong families are the foundation of a bigger, stronger society". Meanwhile, the twin challenges of the recession and the austerity cuts continue to compromise the ability of families to perform the functions they are expected to. As the role played by government policy in shaping our family lives becomes increasingly significant, we must seriously consider what it means to be a modern family.

A Crisis of the Family?

Over the last three decades, the role of the family, from an economic perspective, has changed immeasurably. American Economist and Nobel laureate Gary Becker, in his influential 1981 work The Treatise on the Family, presented the family as a unit of domestic production, with the output being domestic wellbeing and well-raised children.

Amongst the predictions this model yielded was that each partner would specialise; the husband and breadwinner, specialising in market production and the wife and home-maker in domestic production. Becker argued that even if factors influencing the propensity of each gender to take on each role may be minor in magnitude (e.g. wage differentials, social convention) they produce dramatic results due to the efficiency maximising nature of the family. He also predicted that people would be more likely to marry people with opposite skill sets and educational backgrounds to their own and that college educated women, who stood the least to gain from marriage, would be the least likely to marry.

However since Becker made his observations about the family, our society has undergone a number of significant and interrelated changes. Social, technological and legal transformations have resulted in marriage, sex and childrearing becoming extensively dissociated. Moreover, the economic lives of men and women have converged, with 2010 seeing 70% of UK mothers engaging in paid employment. While Becker's work holds many valuable insights into the economics of the family, much of its relevance has declined.

"BEFORE MY CLIENT SAYS 'I DO,' WE WOULD LIKE TO ENTER SOME LATE ADDITIONS TO THE PRE-NUPTIAL AGREEMENT."

Ken Krinstein

Redefining the Concept

Bestsey Stevenson, in the 2007 paper The Evolution of the American Family: An Economic Interpretation, suggests that the family, as an institution, has transitioned from being a unit of production to one of consumption. The market and, to a lesser extent, the state has come to replace the family in fulfilling a number of functions from food production and preparation to care for the elderly and provision of social security. Children are of little instrumental value to parents, aside from providing care in illness and old age. Similarly marriage, though advantageous in enabling complementarities of consumption and risk pooling, has little economic value today relative to the past.

Unlike Becker's model, the shared consumption model, predicts individuals choosing partners with similar educational levels and backgrounds. It also predicts that these partnerships may be more fragile as the family's stability is not as imperative to the physical wellbeing of its members as in the past. Families tend to form and grow not out of necessity, but out of love and a desire for companionship.

Trends in divorce rates support the idea of a shift in the function of families, with divorce rates now falling after rising steadily throughout the latter part of the 20th century. This is thought to be in part due to the fact that the post-WW2 era saw the most dramatic changes in the role of the family. Couples that entered traditional marriages may have found that their model of marriage no longer fulfilled them or served their purposes. The fall in divorce rates over the last couple of decades may be reflective of a better match between peoples' expectations and experiences of married life.

Looking Forward

The Family and Parenting Institute predicts the next decade will see a greater role played by both fathers and the extended family in child-rearing, especially due to the improved longevity and health of grandparents. Same-sex families are also becoming more common and socially accepted and again might bring more family configurations with the involvement of sperm donors/surrogates or close-friends in parenting responsibilities.

Increased longevity also means care of the elderly will become increasingly important, again raising questions as to how much responsibility families can and should be expected to bear. While it is impossible to predict how future generations, and indeed governments, will respond to the challenges introduced by the aging population, it is likely that it will be one of the key influences shaping family dynamics over the coming decades.

While families are arguably less stable than they once were, they are by no means unhappier.

According to BBC polls in 2007 as part of the Modern British Family series, 75% of people claimed to be very or fairly happy with their family life- this is 24% higher than responses to the same question in 1964. Furthermore, 95% of respondents claimed their family was close, an increase of 4% since 1999. It should also be noted that while there is a strong correlation between stable marriages and better child outcomes, it is far from clear that there is a significant causal relationship. Despite all this, 7 out of 10 people still felt that families of their parents' generation were more successful.

Could it be that we are letting nostalgia for an ideal family that never really existed influence, or even drive, our policy decisions? There is no question that the government has an important role to play in supporting families and individuals, both legally and economically. But rather than fighting a losing battle to preserve the nuclear family, policy-makers must be responsive to the changing role of the family and find ways of supporting all types of families and the individuals that comprise them.

The Rise and Fall of the Trade Union

Evan Williams looks at the past, present and future of trade unions in the UK

Government plans to reform public sector pension schemes have sparked controversy over the past year and look set to embroil the nation in an acrimonious winter. Public sector unions are reacting against intentions to make their members work longer, pay more and receive less. And on November 30th, they are voting to strike. Unison, the country's largest public sector union of 1.3 million workers, is set to join up to 20 other unions on strike, in what would prove an immense strain on the country's essential services. The last time such coordinated action took place was during the so-called 'Winter of Discontent' of 1978-9 as Callaghan's Labour government sought to quell reaction to a pay freeze across the public-sector. Then, four big public sector unions went on strike in a period caricatured by images of rubbish bags piling up in London's parks and coffins accumulating in Liverpool. Potential victory against the government this winter invites comparison of the labour movement, past and present.

During the 1970s unionisation in the UK stood at over 13 million members, but today that figure has been reduced by half. The previous dominance of labour over both capital and the political class was evident during Heath's premiership of 1970-4, which saw nine million days lost to strike action and the eventual collapse of the government. The victory of Thatcher in 1979 and the Conservatives return to power initiated a shift in post war attitudes and a period of confrontation between government and organised labour.

The resulting decades would prove near fatal for the unions. Not only was their ability to organise and strike significantly limited by restrictive legislation, Thatcher's premiership also saw the promotion of financial markets in a radical move away from the industrial model of Britain's past. A key victory in this process came in 1985 at the end of the year long miner's strike, when the strain of life without pay forced the National Union of Miners to return to work. The defeat of one the strongest unions in the country, blamed by many for the fall of Heath's government in 1974, dealt a huge material and psychological blow to the labour movement whose subjugation is still eulogised across the arts to this day. Significantly, Thatcher's triumph facilitated the acceleration of her policy of privatisation of state utilities and other government owned companies; at the same time, it strengthened the Conservatives resolve in freeing up the flow of capital elsewhere in the economy.

The miners' defeat signified the beginning of the end for the industrial and manufacturing industries in the UK, a process to which the unions have struggled to respond. Pressures to increase flexibility across the economy have meant that net growth in employment in recent years has originated primarily from part-time and temporary work - a section of labour traditionally difficult to coordinate. Failures to reorganise in areas of new employment since the 1980s have seen a growing disparity in the demographics of unionisation. As the previous Trade Union Congress General Secretary John Monks observes: the average age of a trade unionist is 46 whilst that of a worker is 34. Failure to inspire new members of the

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workforce has been compounded by the opening up of the British economy to global capital since the 1980s. Globalisation places the dialectical advantage firmly in the hands of management whenever disputes arise, as the credible threat of relocation and layoffs in the face of strike action is one likely to put off many workers from unionising.

The result is a much tamed labour force whose organisational power could not hope to achieve the triumphs of its predecessors. First decriminalised in 1867, unions in the UK can lay claim to some significant achievements: the formation of the Labour party in 1900 and its eventual rise as an influential political force, as well as the championing of legislation such as the Equal Pay Act 1970 and the Health and Safety at Work Act 1974. Union action is most easily remembered for its disruptive and inward looking presence, but it is nonetheless important to note that the significant improvements in working place conditions, pay and hours over the course of the 20th century would not have occurred without the actions of organised labour.

The union's ability to repeat such progress is, however, now severely diminished. Its influence is limited primarily to the public sector where union membership is over three times that of the private sector. The unions can still hope to influence debate via their connection with the Labour party, which they now effectively bankroll. Indeed, without the union vote in the recent Labour leadership contest, Ed Miliband would not now be Labour leader. Despite this connection, distance between the unions and Labour's top brass has grown in recent years; Tony Blair notoriously failed to reverse the restrictive legislation of the Thatcher era, whilst Labour figures have been extremely reluctant in announcing support for the planned action against the Conservatives' pension reform plans.

To avoid oblivion, the unions must therefore re-stake their claim as a force for the progressive good in Britain's social and economic fabric. This daunting task is aided by evidence that, in the recent downturn, unions were instrumental in negotiating pay cuts for their workers in order to avoid job losses. Further support comes from a recent IMF report which suggests that a partial explanation of the ongoing financial crisis originates from the stagnation of low and middle incomes in recent decades. According to researchers Kumhof and Ranciere of the paper Inequality leverage and crises, growing income inequality leads to an increase in the probability of a major crisis due to the need for the wealthy to lend to poorer income households in an effort to maintain consumption and secure returns on their capital. A similar conclusion is made by a group of 40 leading economists, among them three Nobel laureates, who, in a recent public letter, argued that the lack of bargaining power of ordinary workers had made the recent economic crisis worse.

Whether the unions can translate support from the academic sphere into concrete results remains to be seen. Given the challenges of globalisation, the unions must inspire new generations that they can work in their best interests whilst avoiding the adversarial industrial relations of the past. Small steps have recently been made in this direction, with the work of the NUM on media reform, the PCS on tax justice and Unison on improvement of public services being notable examples. As our modern day 'Winter of Discontent' comes to the fore however, the unions again face calls for stricter union legislation by some influential public figures. The success or failure of the unions to learn the lessons of the past is of paramount importance to millions of individuals across the UK, and is a process which will have ramifications for the nature of work as the 21st century progress.

Oliver Ninnis

Patient or Hostage?

Andrea Schmidtova reports on the precarious situation of the Slovakian health service

The power of trade unions and their benefit to society has been a source of major debate amongst economists, politicians and the general public for many years. Generally, there is a belief that it clashes with the idea of a free market ruled by forces of demand and supply only, but the existence of market failures and volatility of employees support the argument for increased competences and power of trade unions. The question is whether the unions can justify all their actions by saying "we are just trying to protect the employees' rights". Naturally, when one side benefits, another loses out and it doesn't always have to be the employer. The situation in the health care system in Slovakia provides a clear, yet sad, proof thereof, where it is the patients who are now being held hostage while the government and medical trade union battle it out.

In June 2010, a new right-wing government was elected and top of its manifesto was to reform the health care system. This reform focused on dealing with the unsustainable debt of the public hospitals, which at that time had accrued to over 200 million. Its main vision was to transform the state hospitals that had been generating more and more losses each year (in 2011 only, it created a 30 million loss in 3 months) to joint stock companies with 100% ownership of particular ministries. This process would involve pouring approximately 350 million into the system to eliminate the debts. The government, and especially the minister of health care Ivor Uhliarik, believed that this was the only way out of the vicious cycle of pouring money into the system endlessly, which then, in turn, 'disappeared'. Uhliarik used the example of an originally state-run hospital in Poprad, Slovakia, which became a joint stock company in 2006 and has been successfully balancing its budget ever since, even generating slight profit over the past few years. This case, he argued, demonstrated that a state managed company is less efficient than a privately owned equivalent, therefore showing the transformation to be absolutely essential.

The main opposition to the transformation of hospitals has been the medical trade union (LOZ), which believes that such action would severely endanger the health care system, its employees and patients. In 2011 they published a memorandum of 4 points which they demanded to be fulfilled, otherwise massive protests would be triggered. Their activities have been inspired by the successful 9-month long campaign "Thank you, we are leaving" of the medical trade union in the Czech Republic, which resulted in better wage rates for the Czech medical staff. LOZ demanded the government ensure a strict following of the labour code, change the system of financing so that the payments from the health insurance companies would directly reflect the costs, guarantee a gradual increase of wages for doctors to 1.5–3 times the national average wage depending on experience and specialisation by 2013 and, most importantly, put an immediate stop to the transformation of state hospitals.

LOZ argues that if the main goal of a hospital-joint stock company was to generate profits, at a constant level of payments from the health insurance companies, they would have two options: either cut costs by decreasing salaries in the sector and providing only profitable services or increase their prices. In either case, this would endanger the accessibility of basic health care as well as deteriorate doctors' living standards. If, however, the joint stock company fails to generate profit, it would go bankrupt and health services would then be in jeopardy. They also argue that transformation is just the first step towards full privatisation of healthcare. Marian Kollar, the leader of LOZ, admitted the option of compromise, however he insisted on halting the transforma-

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tion of hospitals and warned that if the government progressed, many doctors would resign immediately and a significant number would find work abroad under better conditions.

There were multiple attempts to settle this dispute, however as the government refused to stop the transformation of hospitals, 2411 of approximately 8000 doctors working in state hospitals handed in their notice of termination on October 1st 2011 and they are unwilling to withdraw them during the 2 month notice period unless all their demands are satisfied. As a result, if this situation isn't settled by December 1st 2011, it is quite realistic to expect that a health care system that is missing one third of its doctors will collapse, as was expected in the Czech Republic. Jozef Sabol, director of the University hospital in Bratislava, the largest hospital in Slovakia, argues that the current state of the health care system in Slovakia is unsustainable and requires systematic reforms aiming for higher efficiency to avoid the possibility of collapse by 2013.

On the one hand, the government admits that current working and salary conditions are not sufficient compared to neighbouring countries. However on the other hand, it is unreasonable to demand such high raises in this time of uncertainty on the financial markets, possible outflow of funds to the European Financial Stability Facility, and in general, during this period of difficult recovery after the economic crisis. It also argues that it is impossible for over 2400 doctors to find employment abroad not only because of limited posts, but also due to lacking language skills. This has been supported by a statement from the government agency that issues certification of compatibility of education that claims that the number of applications for certificates has not increased since October 1st, therefore undermining the effect of the industrial action.

In the current scenario, the government cannot simply rely on the good faith that the doctors will withdraw their notices of termination. Its plan B of re-employing retired or army doctors or attracting foreign doctors to Slovakia despite the low wages to fill in the gap seems unrealistic and unachievable. Therefore, for the sake of the patients that are being held hostage by this dangerous situation, both sides should do the impossible to resolve their issues otherwise the twenty-five century old promise the doctors made after completing their studies would be broken. Just as Hippocrates said: "If I keep this oath faithfully, may I enjoy my life and practice my art, respected by all men and in all times; but if I swerve from it or violate it, may the reverse be my lot".

The Return of Social Strife

Liam Atkinson takes a closer look at the summer's riots and social discord in the UK

On August 8th 2011 London entered its third consecutive night of riots, with mass outbreaks of criminal damage, theft, and arson popping up all over the city. Whilst politicians emphasised that everything was under control, and the Daily Mail screamed about the need for rubber bullets and tasers, journalists took great pains to lament this "latest sign" of national decline underpinned by the relentless deterioration of our social unity. A lack of employment prospects for under 25s, enmity against an aging population who "spent it all" and fury at the faceless corporations hoarding their profits whilst governments make cuts were all cited as contributors to a violent fragmentation of society. Yet many of these explanations mask a common root cause - that of a perceived lack of lifetime prospects - a root cause fuelled by inequality.

Unlike the 30-something rioter who announced "I'm here about the... err... Iraq war 'n that" a somewhat revealing quote was given by a young man from east London: "We ain't got no jobs, no money ... we heard that other people were getting things for free, so why not us?". Suppressed grievances become bitter resentments, and if one feels society is rigged against his or her favour, one becomes increasingly ostracised from it. Long-term inequality is disenfranchising large demographic groups within Britain, creating citizens who feel they have no means to further themselves and therefore no stake in society. Studies have consistently shown that it is not a country's wealth that governs its citizen's happiness, but it's inequality. Moreover, data from the WHO and the OECD shows that countries with the highest number of mental health problems are almost always those which have the most unequal societies.

Income inequality has been on the increase in the UK for over fifty years, and the inset graph demonstrates the sheer scale of this income polarisation. In the 1980s this was caused by the combination of changes to the tax and benefit systems, and chronic labour market demographic changes. A slow but steady shift since the 1970s has occurred as one-worker households become ever rarer, meaning households either earn multiple salaries or none at all. This has continued to the present day as little has been done to reverse regressive tax elements (e.g. VAT), welfare spending is rarely increased in line with wages, and the polarisation of household employment continues.

Additionally people have come to blame globalisation, citing it as a cause for the loss of low-skilled jobs Britain. Indeed much of the press has come to present this as a trade-off: do people prefer economic growth or equality? But as Joseph Stiglitz argued in Globalization and It's Discontents; social inequality is not the inevitable result of globalisation, it is all about proper management of it. If people feel like they have a fair income, taciturn feelings of social exclusion are removed and they feel able to accrue personal savings. Saving offers a stake in society, enhancing the economic prospects of households; it creates and maintains wealth. And whilst income inequality is more often cited as the cause, wealth inequality is the true crux of our social fragmentation.

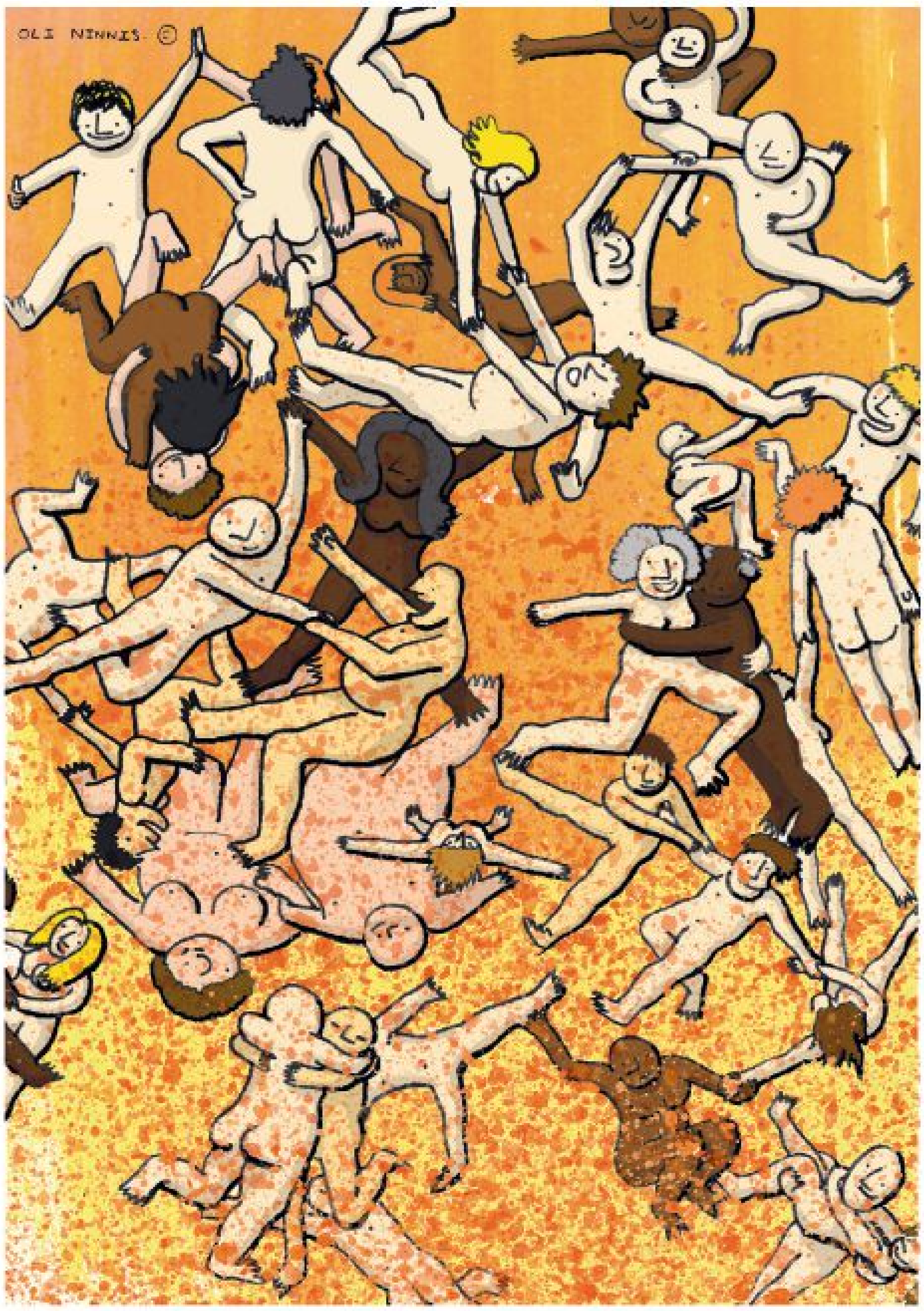
The income generating properties of wealth alongside the calibre of education it can facilitate, particularly during the important adolescent years, makes it crucial for maintenance of the status quo. Those with little wealth are almost universally on low incomes, preventing them from saving and increasing assets ownership: poverty is an infamously vicious and difficult to break cycle. A minimum level of ownership is important to everyone, and it is even more significant as this cycle is enhanced by the evolution of ever greater returns on more advanced forms of capital investment. A commonly quoted fact is that in 1999 the top 10% of the population owned over half the total personal wealth in the nation. More troubling is the fact that the number of people with no savings has averaged around 30% of the population since 1997. Sadly, this is an ever-growing trend: as of 2010 the UK household savings rate was at its lowest level in over 40 years. But there is a way to ease this situation, we must look to education.

Britain has suffered from significant educational inequality for some time. In the 2009 PISA rankings (the OECD's comparison of national education systems) the UK was ranked second to last when it came to variance in student achievement due to student and school socio-economic backgrounds. Beaten to the bottom only narrowly by Luxembourg, it was hardly a ringing endorsement of quality. The UK does have some of the best schools in the world, with children sent from thousands of miles away to attend. Indeed a common argument in support of private and grammar schools is that educational inequality is inevitable due to the extra support wealthy children can receive, however only 14% of the variance in student performance is due to their socio-economic background. It is the inequality between our state-run schools causing the rift, (non-state run schools take less than 6% of students and so have a minimal influence). This theory is supported by a look in greater detail at the PISA statistics which show a huge disparity in outcomes not due to variance of outcomes within schools, but a variance between different schools. The fact that the UK has a very low variance of student's socio-economic backgrounds within schools further supports this argument. This leads to a damning conclusion: currently our education system acts as a mechanism of systematic socio-economic segregation, with the wealthy able to do significantly better.

So how is this fragmentation reversed? As you would expect with an issue as complex and ingrained as this, there is no silver bullet. But the first stop for policy makers must be education. PISA data suggests that Nordic countries have some of the most equal education systems in the world; meanwhile the UN's data shows Finland, Sweden, and Norway having amongst the lowest levels of income inequality (as given by the Gini coefficient). This is not a coincidence. Greater equality within our education system won't resolve our wealth distribution overnight. But it will broaden perceived prospects, it will help level income inequality, and it will act to heal much of the current fragmentation. Meaningful education reform is notoriously difficult to enact, and this kind of long-term change is not well-suited to the incentives of politicians' 5 year terms. At the same time, it must be done.

The press and the government will respond as always: with every sign of social unrest there will be an outcry of scorn and indignation, and a flurry of rushed policies. Yet in 6, 10 or 12 months time, when the debate has died down and the political clamouring has disappeared, we will return to this same spot. Eventually the nettle must be grasped, and comprehensive, meaningful and long-term change must take place.

As with so many things, the key is Education.



Oliver Ninnis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Comment

The Rising Tide of Water Privatisation

Georgina Allen looks at the good, the bad and the alternatives of private provision of water

Globally, 884 million people do not have access to safe drinking water and, using current trends, the UN predicts that by 2025 an estimated 1.8 billion people will live in areas plagued by water scarcity. The situation is one of supply and demand mismatch exacerbated by climate change, economic growth and a lack of public investment in developing countries. Access to clean water has a huge impact, enabling economic development and helping achieve Millennium Development Goals such as reducing extreme poverty and hunger, increasing education and attaining environmental sustainability. In 2010, the UN Human Rights Council recognised the right to access safe drinking water, meaning that states have to take legal responsibility for access. However, inadequate public delivery persists and so privatisation of water provision continues.

In most cases, privatisation of water means private companies operating and managing the service of providing clean water - they do not actually own the raw water. This distinction must be made to understand the justification for private involvement as the means to fund the provision of clean water, which is very costly due to the high levels of infrastructure necessary. Somewhat controversially, infrastructure investment and subsequent management of water by private companies has been encouraged by the World Bank and other aid agencies, partly due to the historical lack of capacity in the public domain. The water sector is also attracting more private involvement due to increasing local shortages, and factors such as higher levels of urbanisation mean that there is more potential for economies of scale in infrastructure. Private companies invested $62.5 billion in water and sewerage in low- and middle- income countries from 1991-2010 and this is set to rise to $1 trillion by 2021.

The obvious economic argument for privatisation is the neo-liberal idea that it will bring increased efficiency. As Sudeep Maitra, an engagement manager and water specialist from McKinsey, states: 'private companies bring capital and management resources, often otherwise lacking, and a commercial sense which brings improved water quality and service delivery.' Some have an ethical problem with putting a price on a human right. However, providing safe water is costly and companies investing need to be able to recoup their investment - one might argue it is no different from private provision of food or energy. Additionally, in regions of fresh water scarcity incentives are needed for agricultural, industrial and domestic users to value and thus preserve water. The classic way to do this is by attaching a monetary value, thus making consumers, including the poor, pay. This isn't necessarily bad, as Sudeep and Economics Professor Gordon Hughes explain: poor people are often willing to pay for private provision as long as it is reliable and of better quality. Lack of public infrastructure and effective management means that, for many of the poor, water quality is extremely bad and the price they pay per unit, either in the opportunity cost of walking for miles to collect water or in paying for non-piped water, is often more expensive than the rich pay for piped access.

There have been numerous cases of successful private involvement, for

Hannah Foley

example in 1997 in East Manila, the Philippines. Although it hasn't been a smooth ride to success, access has doubled since privatisation from 3 to 6.1 million people by 2009, and the share of customers with continuous water supply has increased from 26% to more than 98%. Tariff prices did increase, but so did quality and access, and the tariffs are still 10 times cheaper than water sold by vendors, which for many may have been the only option before.

Despite this success story, the water sector has many aspects of a natural monopoly and so there are dangers of monopolistic abuse resulting in increased prices and little improvement in service. An additional worry is that private companies may be inclined to operate in the most profitable areas, neglecting less affluent communities. With something as socially and politically sensitive as water it is also important to ensure companies aren't making abnormal profits. Strong regulatory capacity is needed to protect the interests of the public, however from speaking to those working on the ground it is clear that this capacity is frequently lacking. Governments in developing countries can often be corrupt and/or lack the resources to regulate, leading to regulatory capture or just a general failure to regulate. Just as governments cannot be trusted to ensure that public bodies supply water, nor can they be trusted to regulate private companies. Thus without a strong government, privatisation can fail.

The most famous case of this is Cochabamba in Bolivia. Following appalling results from public utility provision despite funds from the World Bank, the government decided to privatise, giving the contract to the company Aguas del Tunari. As well as guaranteeing a minimum 15% annual return, a law was passed that appeared to give the company a monopoly over all water resources, including water used for irrigation, communal water systems and even rainwater collected on roofs. Following privatisation, tariffs were increased by 35% in 2000 leading to a general strike and protests which spread across the country and within 3 months a state of emergency was called. Several people were killed, employees of Aguas del Tunari fled and the contract was ended. However the situation has not improved, as since then inadequate public provision has continued. Even the leader of the protests, Oscar Olivera, admitted that they 'were not ready to build new alternatives'. In this case, the lack of government capacity meant that water needs were not effectively met by private or public means.

In the face of insufficient public capacity there are alternatives: either ensuring rights are given in a privatisation setting or providing water through socially responsible business models. This is being achieved through the work of social enterprises, water cooperatives, NGOs and civil society groups. Social enterprise is increasing, with large companies such as Procter and Gamble scaling up their social enterprise investment to deliver clean water in impoverished rural India. Ironically, a successful water cooperative system is operating in Santa Cruz, Bolivia. Creative non-profit organisations are also part of the solution. WaterCredit, an innovation of water.org, gives microcredit to enable the poor to gain access to clean water, and although it is in its early stages, the results are promising. WaterAid, an international NGO set up by the UK water industry has provided clean water to almost 16 million people over the past 30 years, their impact and that of other NGOs should not be overlooked. Such organisations, as well as civil society groups, can and do work alongside private companies to ensure that the rights of the poor are protected, yet they must also work on building the capacity of the governments who are ultimately responsible.

The reality is that privatisation is increasing with varying success. Some feel it is fundamentally wrong while others believe that it makes economic sense and is providing necessary investment. In many developing countries governments have failed to provide water access and they may fail to regulate private companies, however, privatisation is set to continue. Thus, what is of most importance is not whether privatisation is right or wrong, but what is being done to ensure access for the poor in the face of seemingly incapable governments and increasing privatisation.

When Creditors and Debtors Meet

Olga Bloemen reports from the first mock debt tribunal organised by Jubilee Scotland

"We have a very fruitful partnership with the Philippines", says the Worldbank. "The Worldbank owes us for its damaging loans", counters Filipino campaigner Lidy Nacpil. Jubilee Scotland is campaigning for the Scottish government to set up an international debt arbitration tribunal where creditors and debtors can meet. Thorough debt audits could help solve the debt crisis that is currently keeping developing countries in a poverty trap.

Third world debt seems to have disappeared from the public mind along with Jubilee 2000, Bono and Geldof. In 1998 and 2005, two initiatives pledged the one-off cancellation of the debts of 40 of the poorest countries. But, according to Jubilee Scotland, this remedy is 'in many ways merely a sticking plaster', offering too little too slowly. Many countries, like the Philippines, are excluded and debt is only cancelled to what is considered a 'sustainable' level, based on the country's export earnings, while ignoring its domestic spending needs. Besides, the International Monetary Fund (IMF) and the World Bank demanded austerity measures in turn for debt cancellation. This includes cuts in public spending and the privatisation of basic services, which many of the 40 countries have as yet not been able to meet.

This means that in 2008, the world's poorest 48 countries still had debts totalling US$168 billion, and the 128 poorest together owed a dazzling total of US $3.7 trillion to multilateral bodies, individual countries, private companies, banks and individuals. Over the course of 2008 alone, developing countries paid $602 billion towards servicing these debts. This year's figures will be even higher, as the economic crisis has led developing countries to take on more loans. As a result, despite aid rhetoric and the Millennium Development Goals, money keeps flowing from the Global South to the North instead of vice versa.

Many of the debts still stem from the 1960s and 1970s, when banks and governments in the North were eager to lend the huge amounts of money made from rising oil prices to developing countries. Looking for Cold War allies, lending parties turned a blind eye to corruption or oppressive regimes and most of the money did not make its way into responsible hands and into development. In the 1970s and 1980s, the oil crisis led interest rates on the loans to soar. Additionally, falling commodity prices left countries with less hard currency to service the debts. The knock-on impact on exchange rates means that debts, which are most often counted in foreign currency, have skyrocketed in real terms for the affected countries. Today's debt total of US$3.7 trillion is the result.

Since the early 1990s, campaigning organisations have called for an arbitration forum of some sort where historical cases of illegitimate or unfair debt can be lodged and solved, and unpayable debt relieved. With the 2010 Arbitration (Scotland) Act and the newly set up Scottish Arbitration Centre, Scotland would be a suitable host for such a tribunal. To demonstrate this, Jubilee Scotland organised a mock debt tribunal in Holyrood on the 5th of October. Here, the Philippines and the World Bank met. Or, better said, Lidy Nacpil met "John Smith", an actor who played, scarily realistically, a World Bank representative quoting solely from the Bank's official documents. In the debt tribunal, the legal principle of ex aequo et bono ("from equity and conscience") was applied, according to which an arbitrator or tribunal has the power to move away from the law as laid down and to consider the case in the light of arguments of natural justice such as fairness and equity.

Lidy presented her country's case: The New Economics Foundation has calculated that the Philippines need at least 63% debt cancellation in order for the government to meet the basic needs of its citizens, such as health, education and infrastructure, without taxing those living below the 'ethical poverty line' of $3 a day. According to a recent study, 107 countries are burdened with an 'unpayable debt' like the Philippines.

Former president Marcos, who governed the country from 1965 to 1985, left the Philippines with more than half of its current foreign debt. Although democratically elected, Marcos turned the Philippines into a dictatorship with martial law in 1972.

Olga Bloemen

When he fled the country in 1985, the country's debt had gone from US$1 billion to of US$28 billion, most of it either stolen by Marcos or invested in failed or useless projects. The Bataan nuclear power plant is notorious in this regard. It was built by the US company Westinghouse on an earthquake fault-line at the foot of a volcano and has therefore remained unused. Westinghouse got paid generously nevertheless, as the US government credit agency took over the standing debt. In 2007, the Filipino government finally completed paying off the $1.5 billion for the plant's construction, more than 30 years after it began. As Marcos' regime devastated the country's economy, subsequent governments had to continue taking on loans to pay off the old ones.

During the fourteen-year dictatorship, the World Bank granted five loans to Marcos. Now, the Philippines still owe the World Bank around US $3 billion out of a total foreign debt of US $47,5 billion. The original loans from the World Bank have long since been repaid, but because the interest has compounded, 80% of the debt is still owed. If nothing changes, Filipino taxpayers will continue to pay for the illegitimate debts of Marcos until 2025, 39 years after he was overthrown. While 'Smith' glorified the loans as an investment in pro-poor development, Lidy Nacpil said there is little evidence that the World Bank has had any positive impact at all. 'Debt cancellation is a call not for charity but for justice', Nacpil concluded.

Of course, one could argue that debt cancellation would create poor incentives by making future borrowers hope that they will have their debts waivered too. Also, developing countries are dependent on loans and if creditors stopped this flow of money due to lack of trust in return, the result could be disastrous, especially now in times of economic downturn. This sort of argument, however, relieves developed countries of responsibility too easily. As we have seen, a major part of third world debt is the result of self-interested and reckless lending of first world creditors during the Cold War. The Filipino people are currently forced to pay off a loan that was not taken up in their name and went to support an undemocratic dictator. The World Bank could have reasonably foreseen this and should thus assume responsibility. Besides, one could argue that the Filipino people themselves never had a contractual arrangement with the World Bank.

The envisioned debt tribunal is just one step in creating a fairer lending system. Future loans should be given responsibly, on fair terms, and in a transparent way that is open to scrutiny by parliaments, media and citizens. Any loans given on unjust terms should be considered the responsibility of the creditor and thus eligible for cancellation in future. Jubilee's mock tribunal demonstrated that debt arbitration can be done fairly and effectively. Or would it take Bono to convince the Scottish government?

Knowing When to Fold

Sticking to what you know isn't always the best course of action, argues Witold Gawlikowicz

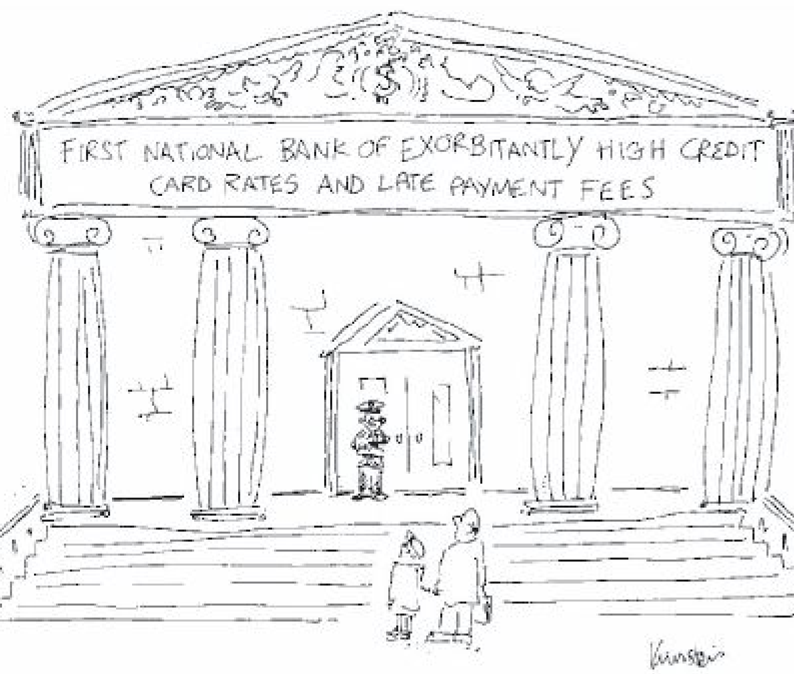
"I say never be complete, I say stop being perfect, I say let...let's evolve, let the chips fall where they may". - Tyler Durden, Fight Club. Tyler's disappointment with the reality he lives in convinces him that the best solution to all of society's problems is to blow everything up (both metaphorically and literally) and start from scratch. Whereas the total destruction and radical reconstruction of rules, laws, and systems is by no means a universal solution to all problems, it is definitely an option, and that ought to be remembered.

The immediate response to the 2008 credit crunch was to inject more money into the financial system in order to keep it going. Governments in the US and the EU launched a coordinated attempt to recapitalise their banking industries. Banks' shares were bought on a large scale and guarantees were provided in order to mitigate the negative impact of so-called 'toxic assets'. According to some estimates, the global costs of this action were around $14 trillion. Despite the vast amount of money injected into the system there was no noticeable easing of credit conditions. The liquidity crisis soon turned into a solvency crisis. Central banks lowered interest rates and more stimulus packages were injected into the economy. By mid-2009 we could observe the first signs of a recovery. The private sector debt was shifted towards governments which resulted in a sharp increase in deficits around Europe and in the US. Even though it's difficult to say if there was some feasible alternative to that course of action it definitely shows a huge commitment of government to maintaining the status quo. What does economic theory have to say about that?

Let's start with a look at the views of Joseph Schumpeter, an Austrian economist who moved to the United States in 1932. He is probably most known for popularising the concept of 'creative destruction'. Although it originates in Marxist economic theory, Schumpeter adapted the idea to explain how the capitalist system progresses and evolves. He believed that capitalism is "by nature a form or method of economic change that not only never is, but never can be stationary". Schumpeter claimed that since economic life is set in a constantly changing social and natural environment, the system that governs it also needs to evolve continuously. In Schumpeter's theory, the primary force behind progression is novelty. New and more efficient solutions should be popularised and followed at the cost of forgoing old ones. He emphasised the importance of a competitive setting in the process of creative destruction, which is in line with the main assumptions of classical economics.

Karl Popper, a 20th century philosopher, formulated a somewhat similar view. He claimed that all theories ought to be subject to harsh tests and there should be general preparation to reject them if they fail those tests. He also highlighted the importance of thinking about the unintended consequences of social policies. Hopefully, Popper's ideas will be followed in the coming years, and social scientists will find new ways to explain the current crisis, although in Popper's view the strength of a theory lies in its predictive, not explanatory, power. More importantly, the willingness of governments to truly reflect on social policy and get involved in a constructive dialogue with academic circles could lead to a much more effective role of policy in the economy.

One of Popper's students and a keen follower of his ideas is a well-known financier, philosopher and philanthropist, George Soros. He is a great counterexample to the prevailing dichotomy between economic theory and the world of finance. His investment strategy relies heavily on philosophical concepts he has followed and devised, and has been working rather spectacularly for the past 50 years. The cornerstone of his conceptual framework is the idea of reflexivity. He defines it to be a dynamic, two-way interaction between reality and thinking. This interaction gives rise to boom/bust cycles when financial expectations of market participants reinforce each other and move the market far away from its true value. Soros divides a typical boom and bust sequence into 8 stages. At first the market is stable, next there is a period of acceleration caused by the recognition of the trend



Ken Krimstein

which is reinforced by the prevailing bias. What follows is a testing period during which prices may suffer a setback, but if the bias and trend are maintained they both emerge stronger than ever. At some point the reality can no longer sustain the exaggerated expectations and what follows is a gradually accelerating downward slide. Should it turn out that the 2008 financial meltdown was merely a "testing period" it is hard to imagine the scale of crisis we may fall into if the global economy follows the Soros trajectory.

Another businessman/economist who believes that maintaining the status quo will only cause more trouble is Peter Shieff. He got much attention after it turned out that he had foreseen the recent financial meltdown well before markets recognised the first signs. Shieff claims that bailing out troubled banks and other financial sector companies like AIG will bring a myriad of negative consequences in the future. His argument is that bail-outs prevent the efficient allocation of capital; tying scarce capital to inherently flawed companies. This increases barriers to entry for small and mid-sized financial companies and reduces competition in the market. Bailouts also introduce moral hazard because when a company is told once that it is 'too big to fail', there's a substantial risk that it will continue to follow a risky strategy. Similar views were expressed by Daniel Mitchell of the Cato Institute (a libertarian think-tank), when he said that "capitalism without bankruptcy is like Christianity without hell."

Looking at the current situation in Europe, with intensified efforts to save Greece and beef up the European rescue fund, it's clear that preserving the status quo is still the name of the game when tackling financial crisis. Nevertheless, over the past couple of weeks the idea of Greek bankruptcy has changed from being an unimaginable scenario to be prevented at all costs to a somewhat more possible occurrence. Fighting for the preservation of old ways is not necessarily a bad thing, but it may well be that the cost of rescuing the capitalist system as we know it is much greater than the cost of a global 'reset' would have been three years ago. There are certainly a growing number of people disappointed with capitalism in its present form, as movements such as 'Occupy Wall Street' demonstrate clearly. Some sort of a 'third way' in which the annihilation of the global financial system is prevented, but a series of radical reforms aimed at stabilisation are implemented could be best. It only depends if getting the system out of trouble is still possible. If it is, then there will hopefully be support for dramatic change once we find ourselves in another period of prosperity.

Segmentation: The Secret Weapon

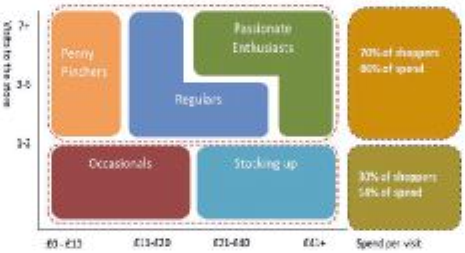
Customer data is changing the face of retail, says Nikita Panov

The products of The Coca-Cola Company are bought all over the world and served 1.6 billion times every single day. Among its 500 soft drink brands, it owns Sprite, Powerade, Schweppes and Fanta, each with its own extensive and complicated customer base. But how do marketing departments decide who they should target with their various means of advertising?

With globalisation and expanding productivity, companies often forget who their customers are and what attracts them to their brand. Many are simply taking an educated guess, others conduct market research and even more opt for a blanket advertising approach. However, finding out who the customers are is as much of an art as it is a science, and it certainly is not guesswork. Let's imagine being a retailer with heaps of marketing data, say Sainsbury's or Tesco. Apart from their own devoted departments, both employ data analysis companies to crunch their numbers, LMG and dunnhumby respectively. The analysts start with the hard data, free from bias, and search for customer patterns. One of the most important techniques for these data analysis firms is customer segmentation.

Segmentation Case Study

This article demonstrates an anonymous customer segmentation. We begin by plotting groups of customers based on their yearly visits to the store against their spending per visit, and observe the emergence of distinct groups. With no other information, we would assign them some basic names like the ones below.



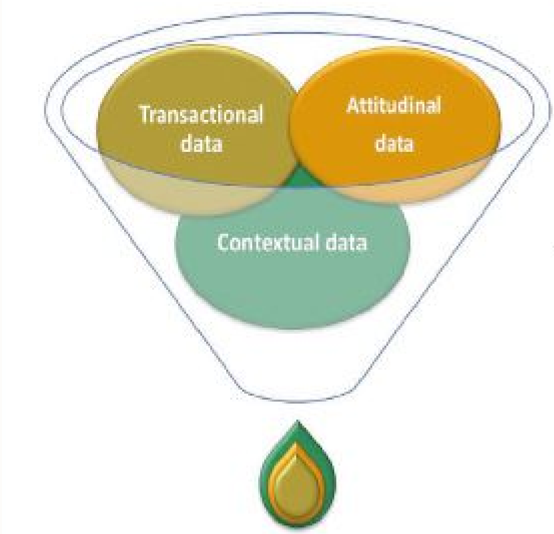
Now let us imagine this segmentation as if it came from a toy store with a loyalty card that asks each customer to fill out some basic details.

• Attitudinal information can be collected through primary market research
The areas may include: satisfaction, pricing, advertising, brand

• Transactional data is collected when there is contact with the customer
This is dynamic data which is updated each time a customer makes a transaction and is a record of what customers actually do – rather than what they say they do. Additionally, it is collected from all customers, not a sample.

• Contextual data helps us understand the demographic of the customer
May incorporate: education, sex, marital status, age and wealth (often modelled at postcode level)

Isolating patterns paints a detailed picture of each group. Every time a customer uses his card the information regarding his purchases is recorded. To give a real identity to these segments a little more input data is required, age for example. This reveals customers labelled as "Occasionals" to generally consist of people over 60, "Penny Pinchers" are mostly under 25, and the rest of the segments have a variety of ages. Introducing location of store as a variable reveals that the "Stocking Up" segment, who frequent the larger branches outside of the city centres, possibly live very far from the store because of their rarer visits, alternatively they may have fewer children than average. Additionally, "Penny Pinchers" and "Occasionals" shop almost exclusively in urban areas. An even more effective level of analysis might be to check what purchases customers have in common within groups. This reveals that the "Passionate Enthusiasts" share a love for model trains and airplanes, while "Occasionals" shop for jigsaw puzzles. Lastly, we will add to each segment the percentage total customers they represent and the percentage of the total spend that they are responsible for.



Segments now have an identity that will become common knowledge to the toy store managers, who should base their business decisions on an understanding of their customers:

- Older Occasionals – not grandparents shopping for grandkids, but for their own ends. They represent 25% customers and only 2% of total spend.
- Stocking Up Gifts – families travelling far to a retail park store only several times a year. They represent 5% customers and 12% of spend.
- Penny Pinchers – young families living in urban areas, shopping for deals, representing 15% of customers and 6% of spend.
- Regulars – some segments will contain a good variety of customers, and may need another layer of segmentation. Over all, the Regulars make up for 40% customers and 30% chunk of the total spend.
- Passionate 'Model' Enthusiasts – with just 15% of all customers but with close to 50% of the total spend, this is the most valuable segment in the store. This realisation may change the store layout, stock and even the staff the chain employs.

This information is very powerful and must be treated with respect to benefit all involved. The ideal by which dunnhumby operates is "good for brands, good for retailers and good for customers". By benefitting all three, rather than trying to expose a trend in favour of the retailer, the relationship is maintained and the data remains dependable.

Good for brands, good for customers

Brands should obviously be interested in who purchases their products. This is valuable not only for advertising purposes, but for ranging. For instance, a company that produces water guns might find that their larger models are being purchased by the "Stocking Up Gifts" segment, who shop in retail parks and their cheaper models are bought in the city centre. Therefore, they would alter their supply to fit demand, benefitting the customers.

Good for retailer, good for customers

For the retailer, it is vital to reward their loyal customers, the "Passionate 'Model' Enthusiasts". Alternatively it may be important to develop segments, such as the "Older Occasionals", and find out why they are spending so little or why they are barely visiting the store. The retailer may benefit only once by increasing prices in their larger stores, to expose the travelling patterns of the "Stocking Up Gifts" segment, however the retailer would lose them as customers in the long run, forgoing a mutually beneficial relationship.

In a market based on convenience, personal data is the key to future growth. "Good for brands, good for retailers and good for customers" is great business practice, particularly when it also means "good for the environment"; since dividing customers into segments means relevant coupons reach relevant customers. So why is this not a widespread approach? In a way it used to be. In the past, neighbourhood fishmongers, butchers and green grocers knew everything about their customers and their shopping patterns, but now that the value of convenience has risen old practices have become expensive. For instance, the advice of data analysis companies costs much more than it does from even the most prominent consultancy firms. However, the value added is astounding.

The dunnhumby-Tesco relationship has fostered massive growth. In 2009 the industry average for opened direct mail was a measly 1%, and yet as much as 98.4% of Tesco vouchers were redeemed by customers. In fact, Tesco has seen so much value from its data analysis firm that it made dunnhumby a subsidiary.

Today, around 60% of Tesco's profits comes from 20% of its customers. There are six broad segments, just as above, and they are considered in every management decision – upmarket shoppers, health-focused shoppers, traditional cooks, mainstream families, convenience shoppers, and price sensitive shoppers. There are also 17 distinct customers groups which include brand loyals, ethical buyers, promotion junkies and adventurous eaters.

For my part, I am happy to observe a massive swing in favour of personalisation. Not only in the world of retail, but in general. Relevance and convenience go hand in hand whether one is ordering on Amazon or being suggested friends on facebook. Of course neither is as precise as bespoke segmentations coming from years of data and millions of customers, although it is a step in the right direction. We won't go back to friendly butchers and chatty green grocers, but at least we'll see faces begin to appear on even the largest of companies

Passing the Buck

Max Crema scrutinises the government's proposals to sell off student debt to private firms

David Willetts, Minister of State for Universities and Science, when announcing the details of the new Higher Education White Paper, made it clear that government projections on how much changes to the HE sector's funding system would cost the taxpayer hinged on the assumption that the Resource Accounting and Budgeting (RAB) charge would be 30% on student loans. To put that into English, 30% of money lent out by the government for student loans would not be repaid.

While 30% would appear to be a large amount for the government to lose on unrepaid student debt, the reality is that as long as they are losing less than 47%, they are actually saving money compared to the current system of university funding. The issue is that the figure of 30% may be very optimistic. The Higher Education Policy Institute, using the government's own models, found that by changing a single key assumption, reducing annual change in average real income from a hopeful 4.7% to a slightly more realistic 3.5% (core salary growth was 2.1% in March 2011) was enough to bring the RAB for student debt up to the crucial break-even point of 47%.

The stark fact that the new system might actually cost the government more than our current funding system must be weighing heavily at the back of Mr Willett's mind. It was not much of a shock, therefore, to see this little paragraph that he slipped into a very long article written for Times Higher Education in which he briefly outlined one way to tackle this dilemma.

"We estimate that about 30 per cent of these loans will not be repaid... This Exchequer subsidy for loans is known as the Resource Accounting and Budgeting (RAB) charge - a forecast of the amount of money that will not be repaid - and it is going to be at the core of university financing for many years. I expect that, in the future, as the data accrue, the policy debate will be about the RAB charge for individual institutions. One reason why we were not able to accept Browne's ingenious idea of a levy on higher fees is that it was indiscriminate and did not reflect the actual Exchequer risk from lending to students at specific universities."

Essentially Mr Willetts is saying that in the future he would like to find out the RAB charge for any given university and then use measures specific to that university to seek to reduce it. So what measures is he likely to use? Well, given the large fall in grants to the courses most likely to have a large RAB charge and their subsequent replacement with student loans (in effect a voucher system), and the fact that the government is committed to allowing students to spend their loan (or voucher) where ever they wish, they will find it politically very difficult to regulate to which institutions their money goes. This ties their hands with regards to encouraging institutions to improve their graduate employment prospects and subsequently to lower their RAB charge. In fact, one of the few avenues they have to accomplish this would be through manipulation of the debt itself.

If institutions with high RAB charges were given a block grant yearly but were then required to give back a portion proportionate to how much over their RAB target their actual non-repayment rates were, then there is an obvious incentive for them to prioritise graduate employment prospects. This would also act as a very simple way for the government to hedge the risk they assume by underwriting income contingent student loans.

Alternatively, a services tender put out in 2009 by the government at the time and won by Deloitte to look into how student debt could be combined to create 'financial instruments' may point to the direction the government is heading. This, combined with the passage of the Sale of Student Debt Act 2008, suggests that there is serious consideration in Westminster of 'monetising' student debt, that is to say packaging student debt and selling it off to private firms. The current government has not ruled this plan out either, explicitly saying in the HE White paper that Rothschild has been tasked to look into the feasibility of this.

The actual wording in the White Paper setting out the aims of this possible monetisation is "...in particular any sale would need to reduce significantly government's risk exposure to the loan book and represent value for money for the tax payer". Interestingly, this does not suggest that the aim of this project would be to raise revenue for the government, but rather to reduce their risk exposure, possibly at the cost of receiving slightly less than face value for the loan book when selling it on. From this, it can also be inferred that the government would not guarantee these student loans to private investors, or at least not fully, making them what we've shown to be quite high risk assets. Given the high risk nature of these loans, the government will need to create a highly regulated system or make the loan packages offered very attractive to get private investors interested.

Ultimately, in attempting to bring a market system into the Higher Education sector the government have opened themselves to significant financial risk. The danger is that future policy on student debt, but also the Higher Education sector as a whole, will be dictated by the necessity to grapple with the funding issues caused by the increased marketisation of the sector rather than taking a hyperopic and comprehensive approach to its funding.

Hannah Carr

Academic

Into the Deep End: Doing a PhD at Edinburgh

Stephen Devlin talks to Heather Stewart, who has recently started her PhD in Economic History at Edinburgh

Can you describe your thesis in a sentence?

Basically, I'm investigating the ways in which the British government has been involved in the renegotiation of property rights in fisheries since 1945. And how are you going to do it? What methods are you using?

I spend a lot of time looking at archives – I'm lucky to have the National Archives of Scotland nearby but every couple of weeks I go down to Kew in London to access main cabinet papers and such like. I also get to make excursions to other fun places – the censor for the British Trawler Federation is in Hull and I'm going to the Shetlands soon to get a look at the North Sea Oil archives. I also spend a lot of time sat at a computer googling things!

I see you have a massive binder full of photocopies! Are those from the archives?

Yeah, it's a nightmare making all these copies! I take pictures of the pages and print them out. In Hull they charged me 10p per photo I took – so it's not a cheap habit! But using primary sources is really important for my research – I only use secondary sources when I want to put information in an international context.

What got you interested in this field in the first place?

I actually just kind of stumbled upon it. When I was doing my undergraduate degree here at Edinburgh I started out writing my dissertation on something bizarre like aluminium smelting but three months before it was due my laptop died and I lost everything. So I met with Martin Chick, who was my supervisor, and he basically told me to go the National Archives, look at their records on fisheries, and come back with a hypothesis – I wrote the whole thing in three months! From then on I guess I just fell in love with fish and the issues they have created in the UK.

So what are the problems in the UK?

The basic problems have all been a result of conflicts of interest and particularly the divide between Scottish and English fishing. In Scotland the fishing industry has always been characterised by more traditional and local fishing whereas in England the industry was always of a much larger scale and would fish in far waters, particularly Iceland. So the two have quite different interests and it's hard to design a system which suits them both.

I guess you've seen Hugh Fearnley Whittingstall's incessant campaigning for reform of fishing regulation. Do you agree with what he says?

Actually, I don't think Hugh really gets why discarding of excess fish occurs – it's about monitoring and enforcement more than anything. You need to change the attitudes of fishermen. But people just want to see chefs cook stuff outside parliament!

And what about the ongoing reform of the EU Common Fisheries Policy?

There's so much to consider there. First of all, I do believe that agreements and taxes should be set at a high administrative level but the allocation of fishing rights should be as decentralised as possible to make it work – in other words, you need to balance the pursuit of efficiency with the concerns of fishing communities, otherwise the system is bound to fail. You also have to remember that lobbying and business interests are the ones with all the money. There's so much disheartening political rubbish – I'd love to go in and sort it all out!

What does your typical day involve?

I have to be massively motivated because there's no one telling me what to do, it's come as a bit of a shock to be honest. I try to be getting down to work by nine every morning, but I rotate what I do, for example, I might do half a day at the archives and then half a day in the library. To be honest, most of the time I'm just sat swinging on a chair thinking about fish.

What's your favourite thing about being a doctoral student?

I'm the master of my own universe – I don't have to report to anyone. I also think I'm really lucky to be able to get up in the morning and do something that I love.

And what will be your next step?

I'm really eager to get out into the real world and hopefully go into fisheries policy formation. I'd love to work for the FAO (Food and Agriculture Organisation of the United Nations) – they have a junior professional fast track scheme which I want to apply for. And they're based in Rome!

Finally, what's your favourite kind of fish?

I don't eat fish! I'm a vegetarian and I haven't eaten fish for 6 years. It could actually be handy in the future in case someone tries to discredit me by asking how much fish I eat.

Ken Krimstein

Games in the Eurozone

Nicolas Gomotka shows us a different way to view the eurozone crisis

The future of the Euro is at stake and the economic stability of the eurozone is being put to the test.

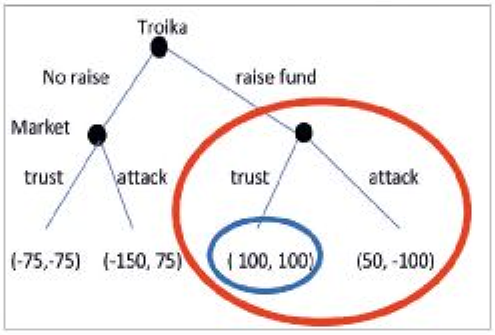
The troika needs help from the market; banks and insurance companies need to add to the rescue fund. Ironically, the troika is also playing against a different part of the market; the rating agencies, speculators, anybody that can raise money or sentiment against Greece.

A game theoretic approach this situation is a sequential move game where the troika moves first and the markets react. The troika can choose to increase the rescue fund or let funds dry out. Subsequently the market can move against Greece or in its favor; investing in Greek assets or raising risk premiums on Greek debt. The former keeps Greece and the Euro afloat, the latter sinks Greece for sure and possibly the Euro.

The game tree (see image) depicts this game. Should there be no raise of the rescue fund, then the troika stands to lose money in Greece and the Euro. Confidence would not be restored and the market would turn against Greece. However, since the rescuers move first they will not let it come this far and raise enough funds to enable Greece to recover and keep the Euro safe. In this situation the part of the market trusting Greece gains and the one 'attacking' it loses.

The circled subgame (in red) determines the ultimate outcome. The game tree tells the story that the troika can raise enough funds to save Greece, no matter whether the market turns against Greece or not. In this case, (raise fund, trust) is the game's subgame perfect Nash equilibrium.

There are alternative scenarios to the happy ending described here. There is, by no means, a guarantee that an expansion of the rescue fund will be sufficiently big to induce the market to play along.



The Beleaguered League

Jay Patani looks back at the predecessor of the UN to see how and why it failed as an organisation.

The quest for 'world peace' in today's global society seems almost unthinkable among the countless wars (both international and intra-national) that are ravaging the world. Yet this concept of peaceful cooperation was not deemed so implausible in the aftermath of the First World War, which, at the time, was regarded as the 'war to end all wars'. Perhaps it was this very disillusionment, arising from the war's pervasive devastation, which led President Woodrow Wilson and his advisor Colonel Edward M. House, to pave the way for the League of Nations, an assembly designed to prevent future conflict.

A draft for the Covenant of the League of Nations was speedily drawn up and the league was officially established at the Paris peace conference in 1919. The tides of world power were shifting, and by the end of the First World War, the USA had emerged as the political and economic hegemon in the world. Woodrow Wilson, charged with his idealistic internationalism and protestant moralism, sought to create an international institution to end all wars and their ensuing economic and social maladies.

The view that the roots of war were primarily economic was not a new one, and was discussed extensively in English journalist Norman Angell's book The Great Illusion, first published in 1909. Angell declared the futility of militarism in a modern interconnected world, where the economic repercussions of war far outweighed any rational motives. This was in contrast to the contemporary conventional wisdom, which asserted that the roots of war were embedded in the combative instincts of the human condition.

The League of Nations slowly assumed the technocratic role of mitigating these international economic asymmetries. The League necessitated extensive research, under its Economic Intelligence Service, on economic stabilisation. The underlying aim was to be able to iron out the fluctuations of the business cycle and its concomitant economic insecurities. In doing so, the League sought to eliminate a major source of suffering and avert the need for war. Despite the forward-thinking ambition behind the League, its ideas were rooted in the 18th century liberal tradition, where 'enlightened self-interest' could overshadow the ignorance, which supposedly led to wars.

This traditional idea of the homo economicus was translated onto a world stage of national actors assessing the costs and benefits of every economic policy. According to this worldview, which bears an uncanny resemblance to that espoused by Adam Smith, the world was specialised according to countries' comparative advantage, ensuring that output was maximised. This static view negated the dynamic nature of historical change. In a world of future uncertainty, it no longer seems so illogical to value sub-optimal spending such as military expenditure as a precautionary measure.

Another more practical failure of the league was that it failed to acknowledge the potency of national interests, both economic and political, which posed an obstacle to international decision-making. The 1933 London Monetary and Economic Conference, set up by the League of Nations, failed partially because there was no economic consensus about how to tackle widespread unemployment and maintain commitment to the gold standard. Countries had already reverted to competitive devaluations to stimulate floundering economies. In addition, despite some political successes, the League's political leverage was vastly overridden by more potent national motives. An example is the League's ineffective sanctions, which failed to hold back the 400,000 Italian troops ordered by Mussolini to invade Ethiopia in 1935.

This disunity of the League is best exemplified by the US Senate's refusal to ratify the League's covenant. Without participation of the world's most powerful economy, the demise of the League had almost been prescribed in birth. Game theory holds some vital explanations for the incentive for non-participation. When there is no binding commitment in an international agreement, such as the League of Nations, a non-cooperative game emerges. Despite the higher pay-offs that mutual cooperation provides, the risk-minimising strategy is for a party to 'defect'. A lack of strong enforcement and credibility, such as that found within the League's voluntary assembly, incited non-cooperation. This was born out of the universal distrust that other nations would similarly 'defect' and pursue national goals.

British Prime Minister, Lloyd George stated, 'it [the League of Nations] had weak links spreading everywhere and no grip anywhere'. Many academics now believes that the efficacy of international agreements lie within the potential for a dominant country to impose this 'grip'. After the Second World War, America was able to fill this void, and was the main architect of the Bretton Woods Monetary System, the World Bank, and the IMF. The sad fact remains that the League stood powerless in Hitler's fascistic consolidation of power in Germany and the Second World War. As Keynes famously predicted, the harmful reparations imposed on Germany after World War 1 were only another precursor for further European conflict. The League of Nations ultimately had insufficient political clout to mitigate the rise of these economic and political inequalities within Europe.

Woodrow Wilson (Pach Brothers, 1912)

Reviews

The Economics of Prosperity

Briana Pegado reviews Tim Jackson's *Prosperity Without Growth*

Called "One of the best books of the year" by *The Financial Times* and "bold and provocative" by *The New York Times*, HRH The Prince of Wales opens *Prosperity Without Growth* with a foreword stressing the need for lasting and sustainable growth on our planet. This book flourishes upon a plethora of support from the right sources, such as household names in academia, the media, and even the British monarchy. Each chapter starts with an inspirational or perfectly relevant quote relating to the chapter title, for example, a quote from Barack Obama: "I think all of us here today would acknowledge that we've lost our shared sense of prosperity". The quote's direct, pressing, and personal style sets the tone for the rest of the chapter titled "Prosperity Lost". In short, the book is a fluid and engaging read.

The first six chapters of Tim Jackson's manifesto seek to define prosperity by discounting our current definition of the term in relation to growth. He claims our current economic indicators of growth with relation to prosperity are incorrect and failing. Jackson delves deep into how we define prosperity and why it should not be associated with economic growth. How should we define prosperity then? According to Jackson, prosperity once simply meant "the opposite of adversity or affliction" and that we should strive to have a different "vision for prosperity: one which [allows]... for human beings to flourish, to achieve greater social cohesion, to find higher levels of well-being and yet still... reduce [our] material impact on the environment". Jackson attempts to define prosperity by analyzing ancient religious, philosophical, and "wisdom traditions." He ascertains that prosperity has four dimensions: a material, social or psychological, a transcendental, and a moral or ethical.

'Consumption' and 'consumerism' are terms that seem to be branded into every odd page in this book. The mid-section of the book deals with our psychological attachment to opulence as a result of societal pressure and unchecked consumerism; seemingly, as humans we have the "tendency to imbue material things with social and psychological meanings" and we associate material goods with our relationships to one another, social status, community, a sense of belonging, identity and "meaning and purpose in life". In short, we give physical things too much meaning and therefore, have chosen to measure meaning in our lives through material objects.

If our current models of economic growth have succeeded since the time of our economic forefathers, then does Jackson really have an argument? Chapter 4, *The Dilemma of Growth*, outlines three defences of economic growth. First that opulence is "a necessary condition for flourishing," second, that "economic growth is closely correlated with certain basic entitlements... that are essential to prosperity," and third, that "growth is functional in maintaining economic and social stability". All of these defences are contributions to the "impossibility theorem" which acknowledges that continued growth seems to be ecologically unsustainable but "appears essential for lasting prosperity". Jackson continues to argue that any kind of economic growth is unsustainable. He brings in the Keynesian proposal of a 'Green New Deal' that could have been included in many stimulus packages after the 2008 economic downturn, but counters that, although this could help drive our world towards sustainability, it promotes the growth that caused the market to "undo itself." It may be too little too late. More importantly, a 'Green New Deal' would only continue to stimulate the very economic growth we should be rethinking and redefining to better support our current ecological situation.

Jackson's final proposal for change is outlined on three levels. First, the establishment of boundaries on human activity for ecological reasons; second, a plea to fix our broken economic system and third, to transform "the social logic of consumerism." How Jackson proposes to accomplish these things can only be deciphered through the pages of his book. If they were listed here there would be no reason to read it. It all boils down to a number of questions. Do the economics of our planet truly promote happiness and prosperity? Does either matter? Does our planet need proactive change? The details of Jackson's plan are irrelevant. We each have the power to make an impact if we believe it is necessary.

Dannie Calder

Globalization and Its Discontents: Still Relevant a Decade On?

Akanksha Middya reviews Stiglitz's classic

Decades ago, with growing advancements in transportation and communication channels combined with the recognition of benefits that come from having an open economy, the waves of a new globalisation started spreading around the world. After the end of the Second World War, global institutions such as the IMF, the World Bank and GATT (General Agreement on Tariffs and Trade) were set up under the Bretton Woods umbrella to facilitate the smooth sailing of all activities in this emerging global market. Now at first thought, an open global economy is a win-win situation. However, when the power of the new economic and financial order is given to policy makers in so-called 'global' institutions, but which are predominantly run by G-7 countries, the outcome is far from ideal.

"When the power of the new economic and financial order is given to policy makers in so-called 'global' institutions, but which are predominantly run by G-7 countries, the outcome is far from ideal."

Nobel Laureate Joseph E. Stiglitz gives an eye-opening analysis of the sometimes devastating consequences of decisions made by global institutions (with particular focus on the IMF) in his book *Globalization and its Discontents*. Having served at the World Bank as chief economist after working in the Board of Economic Advisors for Bill Clinton, he is able to give the reader an insider's view on all the happenings within these organizations. He shows how ironically, rather than helping the developing economies in need, they often end up digging them an even deeper grave. Basic macroeconomic theory of John Maynard Keynes tells us that in order to boost a sluggish economy, one has to increase consumption and government spending. However, in line with the Washington Consensus (a term used to describe the standard reform package promoted for developing countries in crisis), the mantra of the IMF became more about promoting the free market unconditionally, with key elements being privatisation, reducing government debt, and a focus on inflation as the sole indicator of the state of an economy. As Stiglitz bluntly puts it: "Keynes would be rolling over in his grave were he to see what has happened to his child."

Throughout the book, Stiglitz explains the gaping holes in the policies of the IMF in simple words, making the book an easy read even for someone lacking any knowledge of economic theories. To put all his criticisms in a nutshell, he claims that the IMF has very imperfect knowledge and does not tailor policies to the country at hand, taking more of a one-size-fits-all approach. The Washington Consensus was based on the model of Latin American countries which exercised very loose monetary policies. As a result, when the IMF gives a loan it comes with terms and agreements to raise taxes and reduce spending. He makes various arguments to show that Adam Smith's invisible hand does not always have the magic touch in developing economies. Stiglitz's book is full of examples which show the implications of common policy mistakes and the role they played in furthering the East Asian Crisis of 1997 and in failures of transitional economies such as Russia.

This book was published nine years ago, so a good measure of its analysis is its applicability today. Have his intuitions held true in the past decade? For starters, all the criticisms of the IMF by Stiglitz were recognised over time not only by him but by the governments of developing economies who bore the brunt of bad decision making. There has been much evidence of a loss of confidence in the institution. Although some countries like India and China are fortunate enough to have reached a point where they can afford to make decisions independently, poor African nations still depend on the IMF for aid. However, the main focus of the IMF has become bailing out debt stricken European economies like Greece. The austerity measures which followed the first Greece bailout and the subsequent need for a second bailout is proof of the unchanged and flawed methodology of the IMF that Stiglitz criticised in his book. The current economic situation also indicated that he was right about the institution's biases towards the advanced nations that run it. It makes one question the opportunity cost of bailouts in Europe by considering the alternative of using the same money to subsidize food in famine stricken countries of Africa. Futhermore, the 'hypocrisy' element of the actions of IMF pointed out in the book is also evident through the budget deficit figures of the U.S. and several European countries. This is exacerbated by constant approval of loans for these countries in contrast with the disapproval of loans for poverty stricken countries under the pretense of them not satisfying a set criteria based on bad economics (and budget figures). The aggressive and hostile tone of Stiglitz throughout the book in relation to the IMF's actions makes it seem like an imbalanced argument, but he makes up for it with his brilliant analysis of macroeconomic theories and how detrimental to successful globalisation the one-size-fits-all approach really is.

Volume 2 Issue 1

Development Economics: A Review

Mihiri Seneviatne looks at *More Than Good Intentions* by Dean Karlan and Jacob Appel and *Poor Economics* by Abhjit V. Bannerjee and Esther Duflo

For a field that generates so much public interest, development economics suffers from a paucity of accessible, high-quality literature. *More Than Good Intentions* and *Poor Economics* represent a significant contribution to the landscape of development writing. Avoiding the stagnant debates that have mired Western thinking on development economics for decades, the authors of both books favour a measured and evidence-based way of addressing a range of challenges. The approaches adopted by the authors of both of books are strikingly similar, reflecting the fact that they emerge from the same intellectual milieu; Esther Duflo and Abhjit V Bannerjee are professors at MIT, while Dean Karlan is a professor at Yale (and co-author Jacob Appel, his student).

The approach has two defining characteristics. First is their advocacy of using randomized controlled trials in evaluating and maximizing effectiveness of aid and government policies. Secondly, they consistently seek to examine and understand human behaviour and decision-making, again with the aim of using these insights to assist policy formulation.

Poor Economics seeks to provide us with an insight into the economic behaviour of the world's poor. Creating something between a literature review, a research paper and a memoir, Bannerjee and Duflo offer anecdotes, evidence and insights from their own research with the Abdul Latif Jameel Poverty Action Lab and draw upon the existing corpus of literature. The first half of the book concentrates on various household investment and consumption decisions, such as healthcare and nutrition while the latter half examines how markets and institutions help (or hinder) the poor in managing their economic lives. The book is rich in surprising findings and stimulating questions. In the chapter on education, they outline an experiment conducted by Duflo in collaboration with Michael Kremer and Pascaline Dupas in Kenya, where teachers were randomly assigned to one of two classes, sorted according to academic achievement. Teachers assigned to the 'bottom' classes were dismayed, and were reported as being both more likely to be absent and less likely to be teaching when in school. This provides clear evidence of elite bias, one of many challenges to improving education inputs and outcomes.

More Than Good Intentions covers almost exactly the same topics, but is written with prospective donors in mind. Thus the emphasis is on aid, and ways of evaluating and improving its effectiveness. Sensitive to behavioural economics throughout, Appel and Karlan draw a distinction between Econs, or economically 'rational' beings, and humans, who exhibit time-inconsistent preferences, bounded rationality and other inconvenient truths about the way we really make choices. A typical example of Karlan's innovative use of randomized control trials is described in Chapter 4, where he and Jacob Zimmerman conduct a marketing experiment in South Africa. They randomly sent out a range of differently designed flyers to clients varying, for example, inclusion of a photo of a pretty woman and tables illustrating example loans. The results were surprising; more example loans significantly reduced response rate, suggesting that more information may hinder decision-making. Furthermore, adding a picture of an attractive woman had the same effect on male clients' response rates as reducing the interest rate by 40%!

Both books strike a balance between being readable and intellectually convincing. The authors recount their experiences, successes and mistakes in a matter-of-fact and accessible manner. They are also almost depressingly realistic about the prospects for eradicating poverty in our lifetimes, which makes their fierce enthusiasm and tireless commitment to their work all the more impressive. In a field where academic vanity and the countless failures of Big Ideas have all but fatigued public interest, these books offer a refreshing and inspiring alternative.

Brett Matthews

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