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Diverse people make us stronger

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(Un)insightful musings from the Editor-in-Chief

We've reached double digits! We proudly present the 10th issue of Insight Magazine, which for many of us will be the last one. As we prepare to graduate, we are bombarded with questions about our plans for the immediate and distant future. What's coming next? An adventure! Alpaca my bags.

Contact us:
insight.edinburgh@gmail.com

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Tony Iwane

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Alina Mika
Editor-in-Chief


Andrea Schmidtová
Editor and Photo Editor


Alex Adler
Editor


Michael Barr
Editor


Neha Basu
Editor


Vainius Glinskis
Editor


Riona MacLachlan
Editor


Nadia Napier
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Editor


Tom Schueneman and Oskar Birol
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WINNER OF THE INSIGHT WRITING PRIZE - SPRING 2015

Simon Cunningham

The economics of economists

Ryan Woodgate explains how government intervention in the market for economic research has undermined the principle of academic freedom

RECALL, IF YOU can, the lessons learnt from Econ1A. A positive externality is a beneficial "spillover" effect resulting from an economic transaction, enjoyed by a third party. Classic, but tiresome examples include vaccines and education. A less frequently cited example is that of the economist. The economist produces knowledge relating to the most efficient, welfare-maximising distribution of resources. Admittedly, this is a very romanticised view of the economist and it is a herculean assumption to say that economists fulfill this description in reality. That being said, it is as idealistic as perfectly competitive markets or perfect rationality and so for our purposes it will do.

The positive externality of economists

Given our definition of the function of the economist, it is no great logical leap to conclude that an economist can improve the welfare of people who have not paid for her research. Hence, there is a positive externality associated with the Economist. As with all positive externalities, a free market for economists fails in that it *under provides* society with the optimal level of economic research. If everyone who was positively affected by economic research chipped in an amount equal to their gain, we would maximise the utility that can be derived from such research. So without wanting to typify the sort of reasoning that led Galbraith to quip that "*economics is extremely useful as form of employment for economists*" - although I am so painfully aware of the irony—there seems to be a valid case for government intervention in subsidising economic research.

However, the issue does not stop with *whether* we should be subsidising economists and their research. As we have seen, a bit of hand-wavy economic theory answers that one with ease. Instead the question naturally evolves into the extent to which the government should subsidise economic research and *how* it should dish out the cash. The line of enquiry I wish to pursue in the rest of this article relates to the latter question. Given it is socially desirable to subsidise economists' research, how should these subsidies be distributed?

The Research Excellence Framework and why it is not so excellent

For the past 30 years or so in the UK, grants to economic research as well as research in other fields have been made primarily through the Research Excellence Framework (REF) or, as it was known before 2014, the Research Assessment Exercise (RAE). While the exact mechanism is complicated and is made up of an interrelated nebulous of public bodies and organisations, the essence of the REF is simple. Approximately every five years, researchers employed at UK universities submit examples of their finest work, which is then assessed by a select committee of experts. The appointed expert assessors grade the research on a scale of 4* ("world-leading" research) to unclassified (research that falls below the standard of nationally recognised work). The better a department scores overall, the more state funds are allocated to that department. In theory everything sounds fine. Funds are scarce so we ought to better reward those departments that produce the best research in order to incentivise all researchers to produce their greatest work. However, the devil is, as predictably as ever, very much in the detail.

What makes for "good" research? What is most insightful and most beneficial? There is obviously no easy answer. One proxy for good research is the perceived quality of the peer-reviewed journal in which it was published. Even undergraduate students know that if a researcher gets his work published in, say, the American Economic Review, then he is considered hot stuff. Yet this is obviously a poor proxy. The so-called "Diamond List" of top mainstream journals-journals widely perceived as some of the best in the world - naturally does not take submissions from heterodox economists. This criterion of assessment clearly favours those in the neoclassical mainstream if indeed the Diamond List is used as an indicator of quality.

Sure enough, there is good reason to believe that as economics schools attempted to clamber higher up the REF funding pecking order, heterodox economists were being increasingly marginalised, both directly and indirectly. According to surveys conducted by Frederic S. Lee et al., British economists strongly believe that lists like the Diamond List have come to dominate the way assessors grade researchers' submissions, despite denials by the Higher Education Funding Councils that they are officially being used. Similar studies show that out of twenty academic jobs advertised, only three did not specify an area within mainstream economics or make explicit reference to the RAE rankings. Furthermore, when economists from around the UK were surveyed on the effects of the RAE, nearly 26% said they felt more pressure to publish in "Diamond/Core/Mainstream" journals and roughly 19% agreed with the statement *"I've gone more mainstream"* when asked about the effects of the RAE on their work. So in short, a significant number of economists recognised and reported what they saw as a direct link between funding selectivity and the demise of heterodox economics.

Academic freedom matters

In light of this evidence it is clear that those who want to inquire into heterodox schools of thought are not free to do so since they risk their chances of funding. The heterodox economist's academic freedom has been, and continues to be, under attack by an institutionalised force.

In the UK, the 1988 Education Reform Act established the legal right of academics "*to question and test received wisdom and to put forward new ideas and controversial or unpopular opinions without placing themselves in jeopardy of losing their jobs or the privileges they may have*". Academic freedom has been enshrined in law for good reason. Socrates might not have been killed for "corrupting the youth" with his ideas had he been actually protected by a law of this kind. Perhaps if Galileo was protected by a law of academic freedom, he would not have been imprisoned for enlightening us about the true nature of our solar system. These examples, though extreme, do highlight the potential dangers of forcing just one way of thinking.

The polluted mainstream and the need for diversity of thought

We need to recognise the problem with mainstream economists dismissing criticisms by using rebuttals akin to *"neoclassical economics may have some crazy assumptions, but it's the best we've got"*. If we want to improve the state of economics, we ought to give the dissidents their voice back. If we do not allow economists their academic freedom, the narrowing mainstream will once again become polluted with the type of hubris and dangerous groupthink that was seen in the lead up to the last financial crisis. If we wish to validate the assumption made earlier that economists have a positive externality and so justify the use of taxpayers' money to sponsor them, we must demand a more open-minded approach to the notion of "good" economics. Otherwise we are left congratulating ourselves for models which could neither predict, nor account for the biggest global recession since the Great Depression.

John Liu

European Commission DG Echo

Why might freedom hinder economic development?

Max Leslie evaluates the role of freedom in the advancement of the poor

MUCH OF THE developed world takes economic freedom for granted. Born into a country with a certain view of freedom, it becomes difficult to understand the differing degrees of liberty exercised throughout the world. More specifically, it is the divide between the absolutely free and the economically free that many fail to see. Individuals who live in countries that are free from documentation, legal institutions, proper administration, and effective governance may call themselves "free" as they are not impeded upon and can make decisions daily about their actions. However, what we will find is that this form of absolute freedom actually hinders basic development and places a metaphorical bell jar on the potential for economic growth. The ability to take *whatever* action you desire does not foster economic growth as a collective. Economic freedom comes at a cost, but this cost translates to a net gain for the economy, and the individual in return. In short, is complete freedom the most beneficial scenario for you? It is almost undoubtedly not.

What is economic freedom? Economic freedom allows for the choice of how to produce, sell, and utilise one's resources whilst respecting the rights of others to do likewise. This contrasts with absolute freedom; the ability to take *any* action one desires – positive and/or negative. What many claim is that intruding governments harm economic freedom, although this may be true, a lack of government resulting in absolute freedom can lead to disorder and economic stagnation. When the poor remain unconnected and unaccounted for, they are shut-off from a wealth of potential economic growth because of an absence of regulation and formalisation of their activities.

How absolute freedom prevents accumulation and investment

The poor have assets. The all-too-common false assumption is that the poor have nothing and lack entrepreneurial zeal. The truth is that the poor have no ability to advance upon the little they have. The poor remain poor because they cannot accumulate capital, but huge potential exists for economic growth. Hernando de Soto, in his book *The Mystery of Capital,* postulated that the lack of a formal property system is the underlying cause of this current weakness. Put simply, as many of the poorest have no legal documentation defining and protecting ownership of their assets, much of the developing world owns property informally and so fails to access the benefits of capitalism.

The following scenario illustrates this point: a farmer owns land upon which crops are grown, and the boundaries of this property are maintained via informal agreements with neighbours. The farmer wishes to intensify production by acquiring capital and thus seeks a loan from the bank. What will happen? The bank will refuse the loan. The land held by the farmer is, as de Soto calls it, "*dead capital*" – an undocumented asset. The small-scale entrepreneur does not have the legal documentation of the asset to use as collateral for a potential loan. The farmer remains unprotected if the property is infringed upon and the bank would remain unprotected if the farmer defaulted on repayments. To fix this many of the poor have established extra-legal systems to compensate for this deficiency. It is not simply to evade tax, it is that legal systems either don't exist or the costs outweigh the benefits at this time. Small-scale systems of trust however cannot operate on a larger scale and so a seemingly *invisible* bell jar caps potential growth.

Seemingly inevitable challenges for today's poor

The economy of the undeveloped world is often plagued by non-economic complications. Adam Smith stated in *The Wealth of Nations* that *"Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice"*. This suggests that the same difficulties continue to plague basic economic development, as they did in the 18th century. To understand the great difficulties facing the world's poorest today, Paul Collier's *The Bottom Billion* provides some insight. Collier defines his four 'development traps' as being:

1. The Conflict Trap
2. The Natural Resource Trap
3. Landlocked with bad neighbours
4. Bad governance in a small country

The Conflict Trap explores the theory that freedom from a stable and effective rule of law has led to recurrent conflicts in many of the world's poorest countries. Absolute freedom to take any action desired has led many to steal the property of others without fearing or suffering legal consequences. Civil wars are a key example of this freedom to fight bitterly over the same resources; for Collier, "*Civil war is development in reverse*". Thus, although many complain about government intrusion in developed countries, absolute freedom or a lack of effective governance in many nations leads to chaos. A chaos where the economy remains in a perpetual state of weakness and fragility.

The Natural Resource Trap represents the contest for resources in a different way. Governments' access to their country's natural resources may mean it is unnecessary for them to levy taxes on the population. Thus citizens do not demand financial accountability and are free from government involvement. This disconnect between government and citizen represents a fissure in which intra-national integration and connectivity is limited. The international standing of the poorest countries may likewise stagnate owing to the "Dutch Disease." This is the valuation of a country's currency from one export (here, abundant natural resources) leading to a fall in competitiveness of other industries. A lack of effective checks and balances on government may provide the freedom for politicians to exploit natural resource reserves to the wider detriment of the overall economy.

Formalisation and accountability

Solution: the creation of secure, strong, integrated and non-corrupt legal and political institutions. Returning to the wisdom of Adam Smith, capital must be *"fixed and realised"* so that it can be *"stocked and stored up"* to access its potential. The formalisation of a transparent and tolerable system of property rights opens the pathway to capital accumulation. Once individuals are made accountable for their property they have a greater incentive to invest. On the surface, a strong and equitable legal system provides greater protection for assets simply because, instead of local agreements, actions are taken within the rule of law. This reduces the destruction, theft or damage of another individual's property due to the threat of legal repercussions. Underlying this, formal property rights lay the foundation for the birth of a banking sector. This gives entrepreneurs the ability to safely access funding for their endeavours and exchange property with greater certainty.

Despite such a globalised world with potential access to the latest technology and high-grade capital, many of the poorest fail to achieve even the beginnings of economic growth. Theories of convergence suggest that economies learn from each other in the long-run, replicating production processes to achieve similar economic standing. Absolute freedom may be the ultimate barrier preventing convergence. The poorest, unaware or unable to achieve the fundamentals of capitalism, lag below the rest in a state of perpetual subsistence. The upfront costs of legal formalisation can be daunting or preventative. Likewise, the transition process may be fiercely resisted or take an inexorably long time to complete. Similarly, the political dimension of many ongoing conflicts may bear no immediate solutions. Basic economic development is not simple, nor is it cheap. Nevertheless in order to set the wheels in motion towards a future of greater economic prosperity through accessing the dormant value of dead capital, individuals will have to sacrifice some of their freedoms to legal authorities and effective governmental organisations. Only when individuals are prevented from doing *anything* can an economy achieve *something*. Like a phoenix, the birth of economic freedom rises from the ashes of absolute freedom.

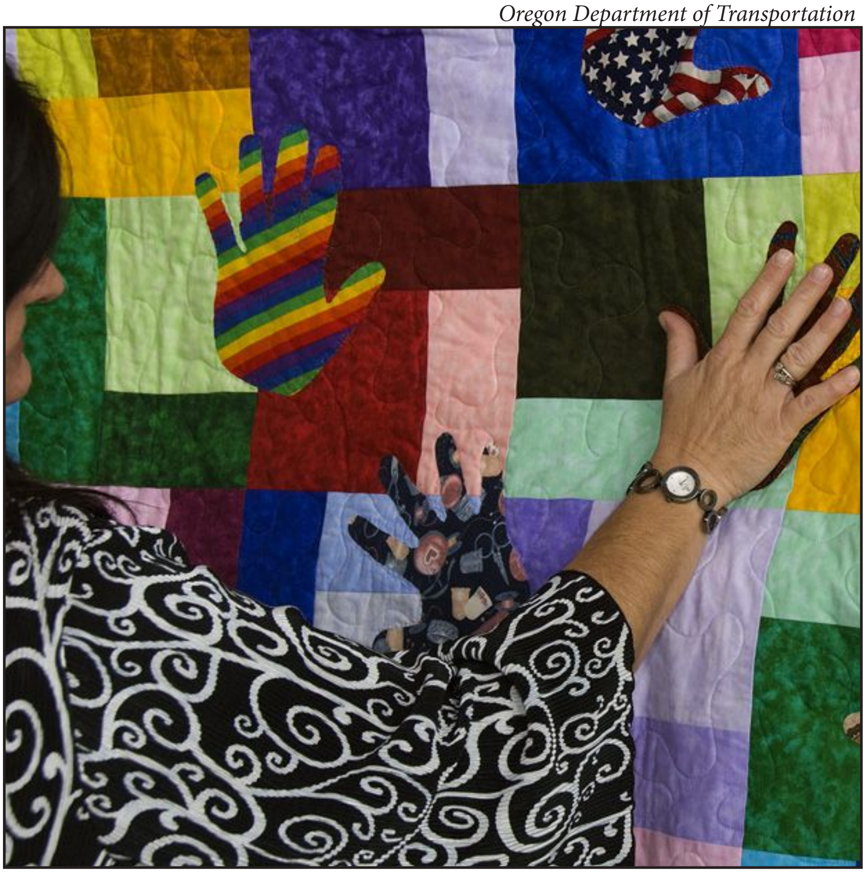
Pedro Moura Pinheiro

Does the invisible hand extend to all?

Sasha Abraham investigates the power of free markets in helping to eliminate racism and homophobia in our communities

INTOLERANCE IS A plague that continues to permeate every nation across the globe. Despite monumental achievements in the treatment of women, people of colour and other marginalised groups in the past century, events such as the Chapel Hill shootings in February show that it is still not certain that those labelled as 'different' by society will be treated with equal respect.

Oregon Department of Transportation



Freedom can be contagious

Defining the notions of tolerance and economic freedom is no simple task. The word 'tolerance' carries different meaning from person to person. Though it can be seen as an absence of the practice of 'othering', where artificial gulfs are carved between individuals in our communities due to shallow differences. A general understanding of the word is that no one person is any more entitled to their place in society than any other. Intolerance rears its ugly head at a plethora of minority groups, including women, people of faith and the disabled. For the sake of empirical analysis economists restrict tolerance to the absence of racism or homophobia, and define economic freedom in accordance with the Heritage Foundation's Index of Economic Freedom. Working within these strict limitations, economists have found significant evidence for a positive correlation between economic freedom and tolerance.

Intuitively, this relationship makes sense; open markets leading to open minds. Increasing interaction with others, brought about by global free trade, facilitates a more tolerant and welcoming worldview. Self-interest also plays a significant free market role in ensuring equality for different groups in society, as intolerance carries a cost that is likely to act as a deterrent in a competitive economy. For example, if a firm engages in racist or homophobic hiring practices, they put in place a self-imposed labour market restriction. Such restrictions could prevent firms from reaping the full benefits of competition. However, this market mechanism does not necessarily increase tolerance in a way that will lead to long term social equality. Employers will hire those they are prejudiced against only if they value the potential increase in marginal productivity more highly than the utility they could gain from discriminatory hiring. In this case the market mechanism, and therefore economic freedom, successfully challenges problematic behaviour. However, the mechanism fails to tackle the inherent belief that one employee can be rendered inferior on the basis of the colour of their skin or by whom they choose to love.

Temporary cures

Berggren and Nilsson identify solid legal structures and property rights alongside monetary stability as the aspects of economic freedom most correlated with greater social tolerance. Singling out these factors means assuming that a root cause of intolerance is fear. People experience some feeling of apprehension when engaging in economic transactions with those who seem unfamiliar, and a well developed legal system and the security of property rights encourage these individuals by making them feel more protected. However, increased interaction borne from this assurance will at best change perceptions and challenge prejudices at an individual level, and does very little to convince people of the irrationality of their fear. Similarly, monetary stability does not seem like a panacea for racial prejudice and homophobia.

Data suggests that lower levels of prejudice can be found in economies with low, stable rates of inflation, which ties in with what is known about extremism gaining political popularity in times of economic hardship. However, this could be interpreted as fair-weather acceptance in times of prosperity, and calls into question whether it is economic freedom or economic performance that truly fosters tolerance. It can be argued that while tolerance can be catalysed by some of the aforementioned aspects of economic freedom (quality of legal systems, property rights and monetary stability) it cannot be created by them. The only reasonable course of action for changing attitudes is ameliorating education and freedom of information, but social trust is required for individuals to be receptive to these changes.

It is interesting to examine whether the effect of economic freedom on intolerance varies across different economies in different stages of societal development. It could be argued that economic freedom exhibits diminishing marginal returns in relation to increasing social tolerance. This suggests that while liberalising the economy in a fairly closed society could substantially improve the social standing of ethnic minorities and those who do not identify as heterosexual, in nations such as the UK where levels of equality are broadly perceived as being already being fairly high, the power of economic freedom to increase tolerance may be somewhat diminished. In such cases, the pursuit of other approaches, such affirmative action and higher education, may be more effective. This is despite the potential to decrease an economy's economic freedom if it is being measured by the Heritage Foundation's Index.

It is also important to note that tolerance and equality are not necessarily synonymous, especially when considering them with respect to their relationships with economic freedom. Tolerance is a principal determinant of social equality, but so are numerous other factors, such as income equality. It would be difficult to argue that any society experiencing the levels of income inequality often observed today could be considered equal. As such, extending the studied relationship to include social equality means also examining economic freedom's effect on income distribution. Income equality in the UK, as measured by the Gini coefficient, has fallen significantly over the past 50 years. Meanwhile economic freedom, given Thatcherite rule in this time frame, is arguably higher. In what is labeled the 'equality paradox', Douglas Murray argues that since the 1970s, "*the right won the economic conflict and the left won the culture wars.*" While it is not useful to limit preferences for social equality to either end of the political spectrum, it is interesting to note that members of the labour force today are drastically less likely to experience bullying, harassment or unfair employment practices on the basis of their race or sexual orientation (although by no means have these behaviours been fully eliminated). However, they are also less likely to be protected by a union, more likely to be subject to American style 'hiring and firing' practices and more at risk of losing their job to someone overseas due to globalisation.

Between a rock and a hard place

It is readily apparent that certain determinants of economic freedom, such as sound legal systems and monetary stability, have the potential to foster tolerance through the creation of social trust. However, further economic liberalisation is not always the most efficient method of targeting intolerance in highly developed economies, and has the potential to aggravate income inequality and thereby create further difficulties for the minority groups in question. It seems clear that economic freedom has played a noteworthy part in creating a more tolerant and welcoming global society. However, the relationship between income distribution and tolerance over time poses the question; are economic and social equality fundamentally incompatible?

Rich Renomeron

Donkeys, mutual funds and restaurants

Angus Phimister takes a look at the paradox of choice. Can too much choice be bad for you?

IMAGINE A HUNGRY donkey, equally far away from two exactly identical heaps of grain. The donkey, in the face of two equally appealing options, cannot choose one as definitively better than the other. The donkey, first described by medieval philosopher Buridan, is overcome with such paralysis that according to the original tale, he starves to death.

Greater choice is almost always regarded as a good thing. From supermarkets to pension plans, greater freedom to choose is a tenant of advanced industrialized nations, and for good reason. Choice can accommodate individual needs and preferences, as well as foster competition between products. However in some cases it can seem as if offering more choice can leave us feeling increasingly like donkeys stuck between piles of grain. Anyone who has ever been to a restaurant with a particularly indecisive friend knows this too well. So the question remains; can more choice be bad for you?

Tough decisions

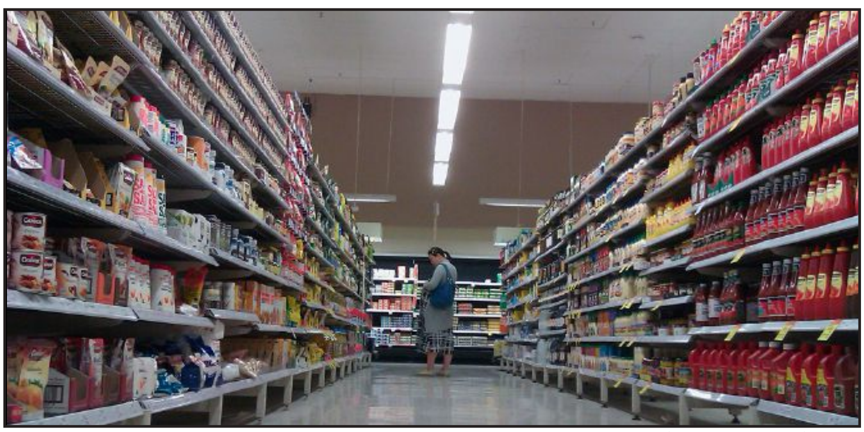
Making decisions can be difficult and time consuming. From a neoclassical economist's point of view, the issue arises when the cost of making a decision outweighs the benefits of extra choice. In the case of Buridan's donkey for example, the cost associated with making a decision was greater than any potential gain from choosing the 'better' heap of grain. The donkey would have been better off if it wasn't given any choice at all. A similar result follows from utility maximising decision making; if the cost of finding the best choice is greater than the difference between the best choice and the expected value of choosing randomly, then random choice is the optimum. When the consumer has no idea what are the relative values of each choice and thus cannot find an expected value, and information gathering is costly, then less choice can be better than more.

American psychologist, Barry Schwartz in his book *The Paradox of Choice*, presents evidence on how increasing choice can lead to negative outcomes. He describes a voluntary retirement scheme run by Vanguard, a large mutual fund company, where employees in over 2000 different companies get to choose a mutual fund for their savings from a given list. They found that for every extra 10 mutual funds on offer, participation in the scheme dropped by 2%. With more mutual funds on offer, it became harder for employees to make a decision and thus easier for that decision to be delayed. Employees in this case were increasingly struck by a paralysis which cost them up to $5000 a year in employer matching money due to the greater cost of decision making.

The price of bad choices

Increasing choice also has the effect of raising the perceived opportunity cost of the other options available. With more options available it is easier to imagine the positive qualities of other choices ex-post. That is, when there are dozens of options on the restaurant menu, and the Caesar salad you chose left a lot to be desired, then the fact that your dining companion is eating the best steak they've ever had makes your experience worse than if the Caesar Salad had been the only dish available. Closely linked to this is how increasing choice definitively shifts the responsibility for decisions onto the consumer. When there is only one main or a mutual fund, if things go badly then it is easy to blame the wider workings of the world. However, when choices are not made exogenously, consumers face full responsibility for their choices: there is no excuse for ill-suited items in a world where everything is tailor made. This makes us feel uncomfortable for the same reason that it is easier when amongst a group of friends to let others choose the restaurant - choosing means taking on the risk of the meal going disastrously.

Having greater choice can on the whole be seen as a good thing, despite the issues surrounding the costs of decision making. However, as choice becomes an increasingly pervasive part of modern life we must remain vigilant, lest increased choice ends up making an ass out of consumers.



Clemens v. Vogelsang

Quantitative Deceiving

William Lindsay discusses some of the negative impacts that this controversial monetary tool will have on our generation

AT THE BEGINNING of this year Mario Draghi, president of the European Central Bank announced an unprecedented financial stimulus package in the form of €1.1 trillion. Ever since the major central banks of the western world launched their own respective quantitative easing (QE) packages, academics have conducted in depth studies and empirical analyses of the costs and benefits of its implementation. Yet there has been relatively little written regarding our generation's concerns about this project. How could this come back to punish us after graduation?

QE only benefits the older generation

Quantitative Easing has led to an unequal distribution of wealth over the generations. The Bank of England admitted as much in its recent report, on top of the already evident shortcomings of the policy. It concedes that the top 5% wealth bracket have benefitted and that many of these were pensioners or those close to retirement. It is clear that the older generations have a higher proportion of financial assets. Yet there was no adaptation made by any central bank to amend this issue. Supporters of QE such as Bernanke point out that rising asset prices create a 'trickle-down' effect and so wealth disparities in the long term are subdued. The problem in reality is that huge household debt leveraging, particularly amongst students, is deflecting away any possible benefits down the economic ladder. As university graduates, top earners, and the future leaders of industry, it will be our responsibility to put right this skew in wealth. Tomorrow's higher taxes will effectively subsidise today's failure by government.

Cheap loans, a ticking time bomb

QE is a policy undertaken by central banks, which buy up bonds from financial institutions. This frees up liquidity; when money spreads through the economy causing asset prices to rise. The result is a sustained level of near zero interest rates. Many students have very high subjective discount rates and therefore feed off this cheap and available credit. Such record low interest rates are not healthy for the financially illiterate. Unfortunately, many inexperienced students fall into this bracket. QE is providing the perfect environment for graduates to over-leverage themselves. Many students when they graduate already have eye-watering debt to income ratios, yet all this bingeing on cheap credit is going to leave a substantial financial hangover for years to come. Adjusted rate loans are extremely attractive to new graduates who are looking for capital to perhaps further their studies, get on the housing ladder, or create a start-up. When the mechanism of QE is reversed at some point in the future, it will lead to bond yields soaring and thus an increase in long-term interest rates. This will lead to widespread defaults on loans amongst our generation. It happened within the subprime market, and we, as students, are most vulnerable when QE is reversed.

Should an independent central bank be allowed to act freely in the face of social and moral objectives to achieve an economic optimal equilibrium? From a political point of view, Quantitative Easing is an ideal policy. It targets the core group of traditional elderly voters, whilst the young are sidelined, with a negligible political trauma. Students have taken the brunt of 'austerity measures' by taking on more debt to pay for more expensive university tuition, and have seen our national debt increase year upon year. It appears that we are well on the road to serfdom for those in previous generations.

Nick Ares

RUNNER-UP OF THE INSIGHT WRITING PRIZE - SPRING 2015

Memoirs of Japan's female workforce

Vainius Glinskis explores Shinzo Abe's "Womenomics" policies in the context of multiple equilibria

Centre for Strategic and International Studies

Girl power

WHEN THINKING ABOUT Japan in an economic context many automatically think of Shinzo Abe's 3 arrowspolicy. Defined by the Financial Times, these arrows comprise of a massive fiscal stimulus, more aggressive monetary easing from the Bank of Japan, and structural reforms to boost Japan's competitiveness. The first two arrows to be implemented were monetary policy (quantitive easing now at the rate of 80 trillion yen a year) and fiscal stimulus followed by austerity measures to decrease Japan's massive debt level. The third arrow is the last one to be implemented since it is more abstract. It involves privatisation, boosting innovation, deregulation and attracting more women to the workforce. Policies attracting more women to the workforce do not get much attention, though there might be large economic gains to be realised from increasing female labour participation. It currently stands at 65% in Japan compared to the 84% average in OECD countries.

In fact the IMF has been strongly advocating for countries around the world to close the gap between labour participation rates of men and women. They argue that decreasing the gap would lead to higher GDP. For Japan, the IMF argues that if the country equalizes its female labour participation rate to that of the G7's average (minus the outlier of Italy), then GDP per capita in Japan could rise by 5%. Not only could a higher number of females in the workforce boot Japan's stagnating economy, it would also help tackle Japan's aging problem. In 1975, during Japan's boom years, there were three times as many people under 15 compared to people over 65. Now there are twice as many people in the older group. Increasing female labour participation rates would not only increase the number of workers in the labour force to balance out the enlarging number of retirees, but some studies show that working women with the right policy support can have higher fertilization rates as well.

Where are the women?

A paper by Alesina and Angeletos (2005) show the existence of multiple equilibria in a model of measure of fairness and redistribution. Societies that believe effort is important to achieve success will choose low level of taxes and redistribution. In equilibrium their effort will be high and the role of luck will be limited. This means that outcomes will be relatively fair and their prophecy will be self-fulfilling. The reverse happens in societies which are similar in all aspects, except that they believe luck is essential for success. They levy high taxes and increase the redistribution of wealth, distorting allocations and making the beliefs self-sustaining. Despite both economies being similar in every other respect, beliefs play a large role in determining equilibrium outcomes.

One might be able to adapt this model for women's participation in the workplace. We can assume the skill levels of women compared to men in both the UK and Japan are on par. In fact, Japanese women top the OECD charts for attaining higher education. But, perhaps due to the beliefs that women do not belong in the workforce, there are different equilibria for the rate of participation of females in the workforce. If a young woman in a British university reads about and observes successful women in her own personal life and in the media, then her positive beliefs of women in the workforce will encourage her to find work and stay employed. This would then be a self-fulfilling cycle as the young lady who joins and stays in the workforce would encourage future generations of women.

However, if in Japan the beliefs of women are that they cannot be successful in the workforce and raise a family, then they might not join the workforce, also completing a self-fulfilling cycle. There is some evidence of frictions in Japan's female labour force. For example, 11% of Japan's managerial positions are filled by women compared to 34% in the UK. There are fewer childcare services in Japan compared to the UK. The lack of childcare may contribute to the 60% of Japanese women leaving work after having their first child compared to 30% of American women. Other frictions include Japan's working culture of long hours and gender stigma that certain roles can only be filled by men. Long hours force women who join the workforce to choose either a career or family. When young women cannot observe other successful women with careers whilst simultaneously raising their own families, women might opt out of a career altogether. When less women try to enter the workforce and improve the image of working women, there are less women applying for top jobs. This reinforces the belief that women cannot be successful in the workforce, thus a self-fulfilling cycle is created. In the end, two different equilibria might arise despite the fact that women in both western developed countries and Japan are highly qualified due to the differences in beliefs of the viability of women in the workforce.

Abe to the rescue?

Can Shinzo Abe change the perception of women in the workplace when cultural perceptions are deeply rooted in society? He has set a goal of having females in 30% of all managerial positions by 2020, something many critics have called an impossible target. Hopefully, if women are employed in more roles that carry respect, the perception of working females will change. Abe has tried to set an example himself when he reshuffled his cabinet and appointed five women to the cabinet, this tied with a previous record. However, two of the women had to resign due to political scandals. Japanese society could see this effort in two different lights. On one hand, the remaining three female cabinet members could be viewed as doing a good job and improving the opinion of women in the workplace. One the other hand, the failure of the two women who resigned could be viewed as possibly reinforcing old notions that women do not belong in positions of power.

Abe has tried to promote women's representation in the workforce by other means. He has already expanded childcare facilities, with plans to open 200,000 more spots over next three years. He is also contemplating eliminating a tax deduction that incentivises families to have only one full-time working spouse. Last but not least, he has been encouraging companies to place at least one female on every board of directors. However, he seems to have failed in parliamentary representation as only 11 per cent of national politicians are women, and only 3 per cent of senior civil servants are women. His party, the Liberal Democratic Party, has the least female representation compared to any other party.

But perhaps there is little Abe can do to change a whole country's perception of women in the workplace and shift the women's labour participation rate equilibrium to a different steady-state.

Sahoko Kaji, an economis+t at Keio University, agrees,

"There is only so much that Mr Abe can do. For women to advance, there has to be a significant change in perception among the older generation."

CSIS

Economists on a quest

Andrea Schmidtová tells the story of the most demanded Innovative Learning Week activity, Go Abroad Economics Dubai

IT ALL STARTED on a rainy and foggy Saturday morning in front of the notorious 31 Buccleuch Place. A group of 20 undergraduate students accompanied by 2 lecturers were about to embark on the most epic Valentine's Day experience of their lifetime – 36,000 feet above sea level. After numerous headcounts and passport checks, the bus moved towards Glasgow International Airport where we were pampered by Emirates airlines. Bound for Dubai; the city that never ceases to surprise you.

Exceptional learning experience

But let's start at the very beginning. A group of students selected on the basis of submitting an essay on any aspect of the economy in Dubai and a motivational statement, was divided into four teams according to their research interests. The Dubai in international context, infrastructure, energy and migration teams presented their work to the rest of the study group during the first four weeks of semester 2. We also got the opportunity to take a 5-week crash course in Arabic. *Shukran*!

Dubai economy: up, close and personal

Once in Dubai, we had a couple of very interesting site visits lined up which we organised ourselves. We visited two Free-Trade Zones, a signature business model of the UAE, one of the largest ports in the world Jebel Ali, Masdar City – a free trade zone focused on renewable energies and sustainability just outside of Abu Dhabi, and one of the landmark hotels of Dubai – Atlantis, The Palm.

At the Dubai Media City, we learned about the advantages of free trade zones (FTZ) and their appeal to foreign investors. In the mainland UAE, any business must have at least a 51% ownership by an Emirati citizen whereas a FTZ offers the advantage of full foreign ownership; it is tax free, suffers from no customs duties or trade barriers and allows full currency convertibility and repatriation of capital.

A stroll around Masdar opened our eyes to cutting-edge sustainability projects in a city that aims to attract the best researchers from academia and the industry. We were able to feel on our own skin, the cooling effects of a wind tunnel and architecture that keeps away the hot direct sunlight out of the streets for most of the day.

Finally, a short ride on the monorail across The Palm brought us to a landmark of Dubai, a destination within a destination, the Atlantis hotel, which is a prime example of the efforts to diversify the economy and make Dubai a perfect place not only for business but also for family holidays. Launched in September 2008, currently standing at 1,539 rooms and an average occupancy rate of 88-92%, it is performing in line with the goals set for Expo 2020. We learned about the operations of such a large-scale hotel, as well as about the composition of its employees, which are trained to cater to guests of all nationalities and cultures.

Madara Rudzite

The wonders of Dubai

Luckily, we also had enough time to go out and explore the city on our own. We had a chance to stroll through the old town, bargain our way through many *souks* (local markets), take the water taxi across the creek, choose between dining in a tent using our hands only and going to a official North Korean restaurant, visit the world's (by far!) tallest building Burj Khalifa, drink Kim Kardashian's milkshake, nearly withdraw Dirhams from a 'Gold-to-Go' ATM, take a walk around the Marina (and see the Torch the day before it caught fire), ski among the penguins at the Mall of the Emirates in the morning, then ride a camel while at a desert safari (in a sand-storm) in the afternoon, and after an hour of dune bashing in a jeep, enjoy the sunset behind Dubai's skyline in a hotel's rooftop jacuzzi.

GAE Dubai was definitely the highest rated academic experience of my whole undergraduate studies. It was a completely unique learning opportunity, allowing us to explore real economic issues first hand, and to compare our theoretical research with reality. We are all immensely thankful to the School of Economics and especially to Nick and Sean for making it happen. For all of you, non-final year students, I have one piece of advice: watch out for the next GAE and definitely apply! And, if you want to read more about our research and the trip itself, don't forget to check out our blog at: *http://gaedubai.weebly.com.*

Insight scoop

Find out more about researchers and lecturers breaking economic grounds at 31 Buccleuch Place

Mike Elsby

Professor of Economics

Main interests: Macroeconomics of Labour Markets
Place of origin: Kent, England

Academic background: I studied economics at the London School of Economics, culminating in a Ph.D. in 2005. My first job was as an Assistant Professor at the University of Michigan, where I worked for five years. I joined the School of Economics at Edinburgh in 2010.
Current research: I have always been interested in the magnitude, volatility and persistence of unemployment. My work seeks to understand the microeconomic channels through which these macroeconomic outcomes emerge. A current project studies how the poaching of the employees of one firm by another can lead to epidemics of vacancies in economic expansions as firms seek to replace workers, and droughts of vacancies in recessions as this process stalls.
Hobbies: I enjoy playing and, much more successfully, listening to music—early Gang of Four is a current favourite. I also enjoy reading, mostly early twentieth century literature, and walking, mostly with my three-legged dog, George.

Kohei Kawamura

Senior Lecturer in Economics

Main interests: Applied Game Theory, Political Economy
Place of origin: Tokyo, Japan

Academic background: I read "commerce" as an undergrad in Japan, specialising in small business studies. I went to Oxford for an MPhil and a DPhil (PhD) in Economics, after which I joined Edinburgh in 2007.
Current research: I was trained as a micro theorist but for the last few years I have been working on lab experiments. I am particularly interested in how human subjects make collective decisions in various environments and whether their individual and collective behaviour is consistent with game theoretic predictions.
Hobbies: I am addicted to classical music and own 3000+ CDs. One of my favourite pieces is Diabelli Variations by Beethoven. In August every year I go to 30-40 Edinburgh Fringe and International Festival shows, about half of which are stand-up comedy. Recently I have developed an interest in antique prints from 18th to early 20th century, some of which can be seen in my office.

Maia Güell

Professor of Economics

Main interests: Labour Economics, Economics of Education
Place of origin: Barcelona, Spain

Academic background: After obtaining a Ph.D. from the London School of Economics, I did a Postdoc at Princeton University in the USA. I then moved to Universitat Pompeu Fabra in Spain, where I was first an Assistant Professor and later an Associate Professor. In 2007, I joined Edinburgh.
Current research: My research interests include the incentives around labour market institutions and the consequences for labour market outcomes; motivation schemes for workers; gender differences in the labour market; the measurement of intergenerational mobility using surnames; and school choice.
Hobbies: We have two small children and we love to take walks to the many amazing nature places both in Edinburgh and very near the city. My other passion is to go to Magic performances.

Mike Watts

Senior Teaching Fellow

Main interests: Socioeconomic Mobility, Discrimination and Crime
Place of origin: Bangor, N. Ireland

Academic background: I studied for my undergraduate degree in International Business at the University of Edinburgh before working in finance for a year. I then returned to Edinburgh University for my MSc and PhD in Economics.
Current resarch: I am finishing work on a paper with Sevi Mora which considers whether more meritocratic societies are more equal or foster greater intergeneration mobility (we conclude that they do not). I am also working on a survey paper on crime, punishment and policing. One day, I plan to write about segregation, social tensions and violence, and to return to some work on early childhood education.
Hobbies: I like to play and watch most sports and can be spotted running round the meadows (and other bits of Edinburgh) fairly frequently. I also enjoy hill walking and am slowly bagging Munros.

Freedom from Ebola?

Emily Rodgers explores the economic cost of the Ebola outbreak as West Africa begins to overcome to virus

UK Ministry of Defence

THE RECENT OUTBREAK of Ebola in West Africa has been the deadliest since its discovery in 1976, with just under 9,000 deaths and 22,000 reported cases. The global response has been of epic proportions, with around $250 million having already been given in aid. At last, the prevalence of the virus is decreasing, with Liberia already reopening schools as the number of cases a week has fallen from 300 to just 4! However, Liberia appears to be the exception rather than the rule, with Guinea and Sierra Leone still reporting 30 and 65 cases per week respectively.

The response

Considering the unprecedented scale of the Ebola outbreak, the action taken by the governments of the affected countries has been admirable. Despite the criticisms from both the international community and the affected countries' citizens, the prevalence of Ebola is on the decrease. Affirmative policy action limited the spread of the disease, and ensured those diagnosed with the virus received appropriate care.

At the start of August 2014, the borders to Liberia, Sierra Leone and Guinea were closed to both trade and visitors. The aim being to prevent the epidemic from spreading. However, with a high number of voluntary medical workers coming in and out of these countries and being exposed to the virus there were, of course, a few cases outside of the region which were handled with great care. Countries also implemented regional quarantines, however these were less successful as they were more difficult to police effectively.

In terms of treating those who were infected with the disease, numerous charities and international organisations have donated both money and medical professionals to help set up emergency hospitals and clinics. One example being Medicine Sans Frontiers, who have sent more than 1,400 tonnes of medicine and supplies, and have admitted and treated more than 8,100 patients.

The beginning of February saw the first major trial of an Ebola vaccine in Liberia. This vaccine aims to immunise 30,000 healthcare workers and volunteers and marks a clear movement into "phase 2" of the epidemic, defined by the WHO as meaning that the aim has shifted from controlling the outbreak to ending it.

The economic impact

The monetary cost of the Ebola outbreak is yet to be calculated with the epidemic still ongoing. However, the World Bank has published estimates of the costs based on two scenarios: low Ebola and high Ebola. In the low Ebola scenario, lost GDP for West Africa as a whole is estimated at $2.2 billion in 2014 and $1.6 billion in 2015. In the high Ebola case, estimates suggest $7.4 billion in lost GDP for 2014 and $25.2 billion in 2015. Both cases assume at least some spread to other countries.

Factors contributing towards the growing costs include the direct costs of illness, such as greater government healthcare spending, and the indirect costs, such as the loss of labour supply and labour productivity.

However, the majority of the costs are said to stem from higher costs of international trade. This largely comes from "aversion behaviour" – other countries are unwilling to engage in business with affected countries for fear of spreading the virus. This behaviour has also left many businesses without workers, disrupted transportation and led to restrictions on travel for citizens from the afflicted countries.

Sierra Leone's Agriculture Minister Joseph Sam Sesay stated that the country's economy has been deflated by 30% because of Ebola. The agriculture sector has been hit the hardest with farmers being been forced to abandon their land with the curfews not allowing citizens to leave their houses for weeks at a time. Considering that this is the major sector of the economy for the three hardest hit countries, there may be long lasting effects of the epidemic, well after a cure has been found.

Looking to the future

Recognising the detrimental impact of the virus on the countries' economies, the IMF announced at the beginning of February that they would be offering debt relief of $100 million to Ebola affected countries. This is in addition to the $130 million in emergency assistance that the IMF disbursed in September 2014. The monetary assistance will be crucial for the recovery of the affected countries as they attempt to fight back from this awful epidemic.

It will be a long time before any of the countries have true *freedom* from Ebola but they are not lacking in international support to help them achieve this.

Malaria: deterring economic freedom

Nadia Napier examines the macroeconomic relationship between malaria and poverty, and discusses the channels through which the disease holds back economic growth

MALARIA KILLS ROUGHLY half a million people every year, and the World Health Organisation estimates that about 90% of these deaths occur in Africa. Yet the media goes on a frenzy to cover epidemics of infectious diseases, such as Ebola, that has killed approximately 9000 people. I do not wish, in any way, to suggest that these sorts of diseases are not important. However, the *annual* magnitude of the death toll of malaria far surpasses these observed epidemics. Malaria is preventable and treatable, and this adds to the anguish I feel when I read about the devastating number of people affected by the disease. Simple insecticide-treated bednets that cost less than $10 can be used to save the lives of thousands upon thousands of people.

Malaria is a parasite that is transmitted to humans via the bite of an infected *Anopheles* mosquito. This disease is located in the tropical and subtropical areas of the world. For a country to be malarious, it requires infected mosquitoes, adequate rainfall, warm temperatures as well as an altitude below 2000 metres above sea-level.

Causality

The location of malaria has nothing to do with the income levels, GDP or institutions of countries. However, most malarious countries are also poor ones. Many economists in recent literature have been trying to establish just how exactly malaria and poverty are related. As malaria is primarily determined by geography, empirical work has been done with the assumption that poverty does not directly cause malaria. Although poverty can make it more difficult to eradicate the disease, and malaria has been found to hold back economic growth in a statistically significant way.

Gallup and Sachs (2001) wrote the paper that kick-started the recent surge of economic interest in the link between malaria and economic growth. Having controlled for many factors that can influence income levels, they established that countries with high levels of malaria in 1995 had income levels of roughly only 1/3 of non-malarious countries. They also established that if malaria were to be reduced in a country by 10%, subsequent economic growth would be 0.3% higher. This study showed a statistically significant economic relationship between malaria, poverty and income levels.

Multiple channels

So how exactly does malaria affect the economic growth of affected countries? Sachs and Malaney (2002) discussed many channels through which malaria can hinder economic progress, including human-capital accumulation, adult worker productivity, long-term demographic consequences, and the mobility of people.

Human-capital accumulation includes the education and nutritional well-being of individuals. Considering children bear the brunt of the disease burden, many affected children frequently miss school, resulting in decreased levels of educational investment. Malaria weakens the immune system of affected people, thus resulting in a higher susceptibility for further infection as well as malnutrition. Both of these factors contribute towards lower adult worker productivity, if the individual survives into adulthood.

Aside from the obvious direct consequence of malaria on the demographic structure of a society (the death of many people), malaria has an indirect, long-term impact too. It has often been found that high levels of infant mortality, especially in low-income countries, results in high fertility levels.

Adults living in malarious regions can acquire partial immunity, but this immunity can be lost if an individual moves away to a non-malarious region. These people would then be at risk of the disease if they were to return, and in this way malaria can affect the mobility of people. This is bad for the economic growth of a country because mobility of workers allows for skill-matching and increased worker productivity.

Countries with malaria do not have the *freedom* to grow and prosper in the way that non-malarious countries do. Research has shown that malaria eradication campaigns have resulted in rising living standards by increasing income levels as well as quality and quantity of education. Unfortunately, malaria is almost impossible to eradicate in the tropics, but hopefully one day we will live in a world where no child needlessly dies of malaria because they do not have access to a simple bednet.

Red Cross

Modern colonisation?

Melissa Parlour explores growing foreign investment in Sub-Saharan Africa and its impact on development

SUB-SAHARAN AFRICA has made a dramatic leap on the business survey rankings over the last several years, moving from the third worst place to conduct business in 2011 to offering the second-best opportunities after North America. As the region sustains modest, but stable growth, investment is growing. More and more companies are establishing centers in Africa with fund managers scouring the region for established businesses to expand and reap the profits of. As the region becomes a popular foreign investment location for a variety of business sectors, questions arise concerning modern-day colonization and how this will impact development in the region.

Market for success

According to the African Private Equity and Venture Capital Association, in 2014 there were 1,000 deals worth a total of $30 billion. Fifty percent of these mergers and acquisitions were within the main three investment sectors in the region: technology and media, retail and consumer products, and financial services. While natural resources still play a large role in foreign investment, there has been a significant shift towards the growing consumer market in the region.

The IMF forecasts growth in the region at approximately six percent per year, second only to emerging Asia. The Sub-Saharan economy is growing along with the wealth of its people providing foreign companies with a new market for financial resources. Demographically the region is shifting as people there become more urban, and the middle class expands. This makes foreign investments more appealing in these markets. In consumer markets, in particular, it has become less expensive to reach a larger semi-homogenous audience.

Modern colonization?

While the rush from abroad to exploit abundant and cheap resources for home markets has taken a smaller share of foreign investments, one wonders if the new investments are just modern day parallel to colonization. Are these foreign firms moving in, taking over all of the retail aspects of the markets then expropriating their profits back to their home countries? While it would be naïve to believe that the majority of gains made in this region by foreign firms will be kept in these countries, there are some serious development benefits that cannot be overlooked.

To begin with, in order to encourage investment, development needs to be supported by the local government; 77% of investors cite good infrastructure as a major factor in making investment location attractive, while 73% cite the value of a skilled workforce. The demands of foreign investors will drive the countries in the region to improve infrastructure and educate their workforces in order to compete. As these countries head down the path towards development, investors will begin buying into the idea that there is, or will be, a regulated and stable economy with a solid political system, rule of law, and banking system. Whether or not this belief in the state of development of Sub-Saharan Africa is premature is not yet clear, but in the mean time it is providing encouragement for the region to meet the expectations of foreign investors. Further, this has begun to spark an investment war between countries in the region as they try to provide the best atmosphere for investment to attract foreign firms to their country. Optimistically, this competitive market for development could help turn the page in economic progress in Sub-Saharan Africa, providing the encouragement for local governments to place their own people and infrastructure as a higher priority in order to attract foreign investments.

Development as a side effect

In order to create an atmosphere for investment, Sub-Saharan Africa will be forced to develop. The people of the region will benefit from the development that comes about as laws are created and upheld, governments stabilise, and economic growth becomes a focus. While foreign ownership requires that some of the profits will be expropriated by wealthier nations, the capital inflow will not only help develop the areas in which the companies are interested, but also encourage a greater focus on the part of the governments of Sub-Saharan Africa towards developing their people and economy to become a better market for foreign investment.

Alexandre Baron

Laboratory for economic reform

Olivia Nyikos explores features of the new Pilot Free Trade Zone established in Shanghai

CHINA'S SHANGHAI PILOT Free Trade Zone (PFTZ) opened to great expectations on September 29, 2013. The Shanghai PFTZ was set up by China's government, and should be seen as a testing ground for economic reforms such as extensive financial reforms, upgrading of customs supervision framework, creation of a competitive and regulatory tax environment, and the simplification of administrative systems. As part of a more active 'opening-up' strategy from China, the new Shanghai PFTZ seeks to boost productivity and growth that has slowed down in recent years. The question is whether these experiments conducted within the PFTZ are truly working, and whether in the long-run China, and companies, will benefit from them.

Hopes, disappointments and achievements

The main focus of the financial reforms is on opening the capital account and the internationalisation of the Chinese currency in order to attract multinational companies. The relaxation of foreign and financial exchange policies could improve the regional treasury management for those multinational corporations operating in the country that are not in the financial industry. However, many foreign banks experience mediocre accruement for the rapid move into the PFTZ as there are still a lot of uncertainties concerning infrastructure and tax incentives that are designed to support innovative business models.

The latest development in the PFTZ conducted by the central bank is one example: foreign corporates in the PFTZ can now boost the volume of funding they receive: they are allowed to borrow up to twice the value of their paid-in capital. At the same time, to take advantage of this, foreign players need to have a Free Trade Account. However, these Free Trade Accounts have only been given to a few financial institutions up until now (Citibank, HSBC Holdings) and it could take up a year to obtain one. Even though, under the new administrative system foreign corporates can bypass many approval process that were previously inevitable, the shift in the dynamics of offshore against onshore yuan borrowing rates has had a negative impact on doing so, thus taking advantage of the latest loosening of restrictions.

The most successful reforms that worked within the testing zone have been applied nationwide and the PFTZ has provided advantages to some companies, even though many of the reforms have flaws and need to be improved. The cancellation of the minimum capital requirement, elimination of government-determined interest rates on accounts under $3million, measures simplifying the efficiency of customs clearance procedures and boosting trade volumes are a few of the measures first tried in the PTFZ. Despite the fact that the pace of the reforms is slow, the number of businesses operating in the PFTZ has grown and allowed firms such as Amazon to open its global platform for domestic markets.

What about the future?

Many people see the first year of the Shanghai PFTZ as a disappointment. At the launch of the PFTZ the expectations were sky-high, but a year after only a few changes have been made and the much-heralded 'Negative List' provoked a negative reaction. The 'Negative List' set out 16 categories of sectors where foreign investment was prohibited but is now under review.

After the visit of Premier Li Keqiang in September 2014, the central government's commitment has been reaffirmed and changes can be noticed as the government is injecting new life into the PFTZ. While the Shanghai Pilot Free Trade Zone still has far to go to satisfy many critics, the PFTZ still has the potential to play as significant role in China's economic reform process and meet the expectations of the professors running the laboratory.

SBA73

Best, James Best

Alina Mika talks to Dr James Best about his Cape Tribulation revelations, research on intergenerational mobility, and reaching for other people's stars

What is your educational background?
I started university quite late, when I was 25. I went to the University of York to do Politics, Philosophy and Economics (PPE). Prior to that I was.. errr… enjoying myself, doing all kinds of different jobs, travelling around. During this time, I was reading philosophy books and I slowly became less interested in having fun. It may sound weird, but I got to a point where I was not feeling very satisfied. In fact I remember the moment when I realised that I needed to do something else. I was on a beach in Cape Tribulation, north of Cairns in Australia. It was a perfect white beach, and there was a coral reef in front of me. Everything was perfect but I felt depressed and thought: "Maybe just having lots and lots of fun is not going to make me satisfied with my life." I was reading Philosophy, I was interested in Politics, and thought I should throw in the Economics to better understand Politics.

I therefore studied PPE at York; towards the end of that course I wasn't sure what I was going to do. One of my professors there told me that I should do a Masters and then a PhD – either in the US, or if I could work with John Moore, go to Edinburgh. I did my MSc in Economics in Edinburgh, I stayed there for my PhD, and I did get to work with John Moore. I then spent around two years at the University of Chicago. Now I am back in Edinburgh doing a Career Development Fellowship. For the past year I have been developing my career and my research, and I will be leaving Edinburgh in September to go to Oxford.

What will you be doing at Oxford?
I have a three-year postdoctoral position. I will have no major responsibilities other than doing research on the topics of my interest.

Will you have an opportunity to teach?
I can and will opt to do some teaching, as I think it's very important to continue to be in a situation in which you're explaining economics to people who do not understand economics at the level that academic economists understand it. Otherwise you become detached in a number of ways. Because it is very easy to disappear into the cliché ivory tower and work on a series of theorems for your life, which ends up not having any impact on anybody. And this happens to a lot of very bright people, and it's a loss.

What does your research focus on?
It would be nice if my research focused on something (laughter). I'm just at the beginning of my career and I am still developing my research focus. On one hand, I have worked on economic theory – game theory of social norms and on a theory of asset price volatility, the second is a working paper with John Moore. On the other hand, when I went to Chicago to work with James Heckman, I focused on empirical work looking at the intergenerational transmission of inequality. You may have seen the Great Gatsby Curve in the media, where they plot intergenerational mobility and inequality against one another. What we see is that the more unequal the society, the lower the levels of intergenerational mobility.

And what have you found in your work so far?
Let's start with the basics. Intergenerational mobility, as discussed, usually refers to some kind of summary statistic, such as the intergenerational elasticity of income (correlation between the log income of the parents and the log income of the child). If it is high, people say that intergenerational mobility is low. However, there is something misleading about it. Suppose we have a society in which everyone was given a randomly chosen lottery ticket at birth which said "This is how much money you will earn for the rest of your life". The correlation between parental income and child income would be 0, and we would have a perfectly mobile society..? So looks like we're missing something when we refer to mobility. What I think people mean by mobility is equality of opportunity. Now, there is something which we definitely do not have equal access to - genes - and we do not know how important genes are.

I am trying to find ways to disentangle the effect of genes from environment - very coarsely. This is referred to as the nature vs nurture debate. Ideally, we would take children at birth, without their parents realising, and switch them around. But for some crazy reason I can't get a research grant to do that (laughter). Consequently, the conclusions we arrive at come with a whole series of caveats. My focus is to reduce the number of caveats and get better data.

Bearing these caveats in mind, what I have found is that it looks like none of the intergenerational income elasticity of income in Sweden is due to family environment. When looking at the American data, which is deeply flawed and should be considered with caution, it looks like about one third of intergenerational persistence of income is due to the advantages afforded to you by families. These estimates are far smaller than what I had imagined before starting this research, when I almost believed that one is born as a blank slate. I don't like it, I wish we were blank states. It would mean a far larger frontier for the possible societies that we may try to build.

What do you think characterises a good academic?
The brilliant academics are incredibly

smart, work extremely hard and are fascinated by what they're doing. But, you do not have to be a brilliant academic to have a nice life as an academic and still make worthwhile contributions to the world…

Do you think so? I sometimes think that some of the time spent on research could be used in ways which more tangibly impact our society.

Yes, you do have to consider the opportunity cost. All I'm saying is that the good economists make worthwhile contributions to the world. Other economists might not appear to be good economists ex-post because they fished in the wrong pond. You could be great at digging for gold, but if you look in the wrong place, it will look like you weren't very good at digging for gold. You should not be thinking of becoming an academic unless you're passionate about it. For it to be worthwhile for the person and society, you need to love it. That's the only sane reason to become an academic. In academia, if you're truly brilliant and you don't love it, then you have a shot. But otherwise, you have to love it. You have to be thinking about it all the time and you have to see it in everything. I end up thinking about almost every situation in terms of incentives, opportunity costs and so on.

A PhD in Economics, however, which can lead you to research in Politics, Health, etc., doesn't have to be about becoming an academic. Edinburgh PhD graduates are working in the World Bank, the IMF, Boston Consulting, Bank of England etc.

Nowadays, many of my friends are very confused about the path they want to take. They're finishing their degrees at Edinburgh University, or elsewhere, and they want to do something completely different, take time off, seek their passions. We seem to have security cushions all around us, which allow us to think about our dreams and passions. But ironically, this just makes us less happy because the choice is more difficult. Do you think people used to be as confused as we are?

I don't think so. What you're describing are rich people's problems. It used to be that when you were choosing what to do in life, you decided on something that

would stop you from falling. Now we have this great luxury whereby we can choose what we want to do, but that leaves us with the problem of "What do I really want to do?" In some way, I think that people in a situation similar to yours –in the fourth year of a degree at the University of Edinburgh, with citizenship to a country where in the worst case scenario you will live on benefits – should be incredibly risk-loving in their choice of careers. The number of people in the UK who live in poverty is close to 0, when we follow the United Nations' definition of poverty. This does not mean that we shouldn't care about the poor in this country, but my point is that one would have to fall really far to put their life in danger.

Now, what about the happiness of being able to afford nice things? I think that's all an illusion. All of the evidence suggests that people adapt to the changes in their circumstances very quickly. When people buy yachts, within a week or two, they report it having no positive impact on their level of happiness. The evidence suggests that a lot of your happiness is somehow hardwired – if you're a happy person, you'll be a happy person. There is some basic stuff that improves your chances of being happy – cultivating good relationships, friendships, staying healthy, making sure you're not in abject poverty, etc. Other than that I don't think you can do much more to achieve happiness. So what else is there to do? Try to save the world! Or try to make the Sistine Chapel, or something else incredible.

I really do think people should just be shooting for the stars, because it is so hard to fall. And if you are in a situation where it is so difficult to fall, you don't want to waste this opportunity. You're probably not going to hit the stars. And even if you do, you'll only be happy about it for about a week! For example, I went to Chicago and I got to chat regularly with several different Nobel-prize winning economists, my kind of stars. Initially I was bowled over like "*Wow, I'm arguing about rationality with Gary Becker*" but after a few weeks it was more like "Oh another discussion with an economics superstar?". Things which you expect to make you very happy become normal, and you get used to them.

But this doesn't mean that we shouldn't shoot for the stars, just that we should shoot for the stars for other people. I don't believe there is a magical key which can unlock happiness and nirvana in somebody's life. But there are things which you can do to unlock the happiness of other people. Of the people whose happiness you can improve, your own is not the easiest one.

UK immigration - is the right right?

Oskar Birol discusses misconceptions about immigration in Britain

hjl

ANTI-IMMIGRATION PARTIES HAVE had unprecedented growth in the wake of the global financial crisis. UKIP successfully blames excessive immigration for the stagnant UK economy. This recent influx of workers has been due to the EU's legislation of free movement of labour. Consequently the party seek to discontinue the UK's EU membership. Critics shoot back that immigrants across the board - as found by the University College of London - have a positive net contribution to society. This fundamentally undermines UKIP's platform that immigration places an excessive cost on society.

Research shows that 73% of British people have no negative experience of immigration in their local area. However, the fierce public debate has coincidentally led to a series of misconceptions. The average voter overstates the ratio of immigrants by a factor of two, and asylum seekers by eight. An Oxford think-tank - the Migration Observatory - suggests that the media greatly skews the notion of immigration by often disproportionately reporting about immigrants in negative contexts such as illegality. These misconceptions have driven a prejudice to the extent that 77% of British people think immigration is too high on a national level (more so than any other polled country). It is this prejudice that explains how most people have no problem with local immigration yet they believe there is too much immigration nationally.

An influx of revenue

The elderly tend to be more resentful of immigrants. But they shouldn't be, because the UK's population is rapidly ageing and their pensions either have to be paid, or cut. Twenty years from now there will be 50% more retired people. The Office for Budget Responsibility suggests that a higher net immigration is needed to tackle this problem. A series of statistical findings show that the average immigrant is a healthy, well educated 26-year-old who is fit to contribute to society. Even the much criticised immigrants from Eastern Europe are more likely to hold university degrees than native British people. If anything, the UK should cherish these opportunities rather than lose them to global competitors who are more than willing to welcome them.

The ministerial department Home Office recently studied the impact of immigration on UK native British employment. They concluded that in the short-run immigration increases the supply of workers, which temporarily raises unemployment among British natives as sticky wages prevents supply and demand of labour to equilibrate. In the long-run, however, their models which uses standard economic theory predict that capital and technology will adjust to immigration, leaving British native employment and wages at previous levels. Better so, the models suggest that the dynamic benefits of immigration will benefit the economy and may actually improve long term labour market outcomes for British natives. Allowing for this rate of immigration can thus be seen as a favourable investment with some short term costs on British native labour in return for major gains both short term and long term.

Room for improvements

Even though London has just less than twice the population of Scotland, the city has eight times more immigrants compared to Scotland. The UK has failed to even out the distribution of immigration. There are great reasons to give immigrants an incentive to move where labour is in demand. Australia has already done so. Their work immigrants must pass the government's 'point test', much like how the UK handles its non-EU immigration. Points are given based on certain criteria concerning mainly education, language proficiency and age - out of a maximum score of 130 points - and only those who get at least 60 points are eligible for a visa. Without passing this test, immigrants can still apply for visas in non-urban areas. These policies ultimately aim to restrict immigration in a commercial manner, but it should be possible to incentivise an even immigration distribution without closing borders. This also has the advantage of making immigration seem more palatable - people from areas with higher non-native populations are far more likely to favour the current rate of immigration (even white London-born Britons).

People should be better informed about the state of immigration, and the actual impact it has on the economy. UKIP has been able to gain momentum by taking advantage of prejudice and casual racism in Britain. Immigration policies should try to achieve a more efficient distribution of workers. They should also encourage more private and public investment so that capital can adjust more quickly to the short term frictions created by an expanded workforce.

RUNNER-UP OF THE INSIGHT WRITING PRIZE - SPRING 2015

Singapore: at the crossroads

Abhimanyu Bhargava explores the complex and changing nature of immigration policies in Singapore

"IF YOU WERE smart in 1807, you moved to London, if you were smart in 1907, you moved to New York City, and it you are smart in 2007, you move to Asia" declares Jim Rogers, co-founder of the Quantum Fund. Singapore has topped numerous lists as one of the most desirable immigration destinations in Asia, evidenced by its rising population of foreign workers from 16.1% of the labour force in 1990 to 38% in 2013. Singapore boasts low crime rates, low taxes, an infamous reputation for cleanliness (the one fact everyone seems to know about Singapore – the no-spitting gum law), a stable government, as well as being a regional hub for a multitude of multinationals. Singapore also has a history of encouraging immigration as demand for labour grew with the country's rapid development. After all, Lee Kuan Yew, the founder and first Prime Minister, is himself is a second-generation immigrant. I have had the good fortune to have grown up in Singapore. However, I now find myself witness to a shifting viewpoint amid heated debate surrounding changes in immigration policies. For Singapore, the cost-benefit analysis of immigration cannot exclusively focus on the popular argument about the effect on wages for locals. The situation is far more complex and other pressing externalities must also be considered.

Unstable housing market

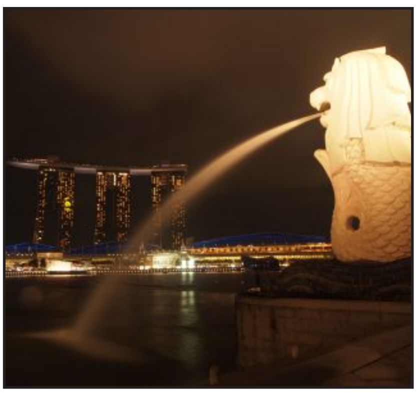
Every time I return to Singapore, I am exasperated at the increase of prices in all avenues, from meals to taxi fares. Yet it is the fluctuations in the housing market that are always the most shocking. Due the attractiveness of Singapore as not only a place to work but also to invest, foreigners have drastically influenced the Singaporean housing market. According to CNBC, from 2007 to 2011 alone property prices surged a massive 50%, largely driven by foreign buying. With the locals complaining, the Singaporean government was forced to introduce new cooling measures to ease up the market. They increased the additional buyer's stamp duty for foreigners from 10% to 15% in 2013, as the 10% levy that was implemented in 2012 did not have the speculated cooling effect on property prices. However, the reaction to the last cooling measure met expectations. After its peak in 2012 the housing market has started to decline experiencing sharp drops recently. The recent change has worked well, demand has subsided considerably. However, this now introduces the problem for property developers. The supply curve that had shifted to fit the sudden increase in demand in recent years cannot adapt so quickly to the drop. New properties and condominiums, especially at the high-end, are left empty. However, the drop in prices has not changed the growing anti-foreign investment sentiment. There are a variety of other reasons the locals believe that the influx of foreigners should be substantially reduced. Alongside rising prices and wage disputes, the densely populated Singapore suffers from overcrowding. Furthermore, Singapore's first riot since 1969 was sparked by foreign construction workers in 2013, leading to further scrutiny of immigration policies. This growing discontent has manifested itself with the increase in support for the opposing political party, the Worker's Party, who advocate a firmer stance against immigration.

Immigrants: a solution for an ageing population?

On the other hand, immigrants might be necessary for Singapore's survival. Singapore has one of the lowest fertility rates in the world at 1.24, with the ideal replacement rate being 2.1 per woman. As research at the Singapore Institute of Policy Studies shows, if the fertility rates remain at this level, the support ratio of working adults to an elderly person aged 65 and above would plummet from 7.7 in 2010 to 1.7 in 2050. Even if the fertility rates were pushed to 1.85 and foreigners remained at 25% of population, their current levels, the support ratio would only be pushed up to 1.9. The study goes on to point out that if the fertility rate remains at 1.24, but Singapore opens its doors to accept 30,000 foreigners per year, the support ratio would shoot up to 2.7 in 2050. An ageing population not only implies a declining workforce but also a budgeting problem for the government due to less income from a narrower tax base and greater expenditures for healthcare and pensions. Immigrants seem like a good solution.

The fact remains that, to maintain the current population and consequently economic growth, Singapore needs immigrants. The Singaporean government now has the difficult task of implementing measures to negate the problems that come with the inflow of foreign workers and to ease integration.

"I would really want to work in Singapore for a period of time", a fellow university student recently declared. Thinking about the changing mentality in Singapore, *"I hope you have the chance to do so"*, I replied.



Ken Mayer

Tugging the treads of a patchwork nation

Alvaro Conesa explores how the Catalonian government is using the independence campaign to cover poor management

THE REFERENDUM TO decide whether Catalonia should stay in Spain was orchestrated by the Catalan government to show the world that Catalans are being oppressed by a Spanish government that does not let them decide their future. The outcome of the referendum was praised as a huge success and used by Catalonia's president, Artur Mas, to stress that a majority of Catalans want to separate from Spain. In this article I will show the bigger picture.

An unauthorised and slapdash referendum

The Catalan referendum was held in defiance of the Spanish Constitutional Court. In order to hold such a referendum, a bill must be passed in the Spanish parliament. Moreover, the Constitution in its present form has no provision for territories pursuing independence, and would need to be changed for Catalonia to leave Spain. True democracies should grant regions their self-determination when necessary. As such, the constitution should accordingly be updated and, as experts suggest, it should be more flexible and adapt to 21st Century needs.

What the Catalan government ought to be criticised for is not its wish to become independent, but its intention to unilaterally break apart from the rest of the country, thus, brushing aside all laws and dishonouring its agreements as a *Comunidad Autónoma* (CCAA) within Spain. The Catalan government should not decide to ignore the law when it does not suit them. For one thing, this would undermine the rule of law in a hypothetical independent Catalonia - no one will trust a government that doesn't see it necessary to always abide by the law. Secondly, unilateral action could trigger a domino effect, causing other parts of Spain, such as the Basque Country, to follow the same path as Catalonia, unilaterally declaring themselves independent. This poses a challenge to the sovereignty of the Spanish state as a whole. The solution to Catalan defiance is straightforward: if Catalonia wishes to become independent it should do so through the mechanisms already available rather than risk descending into anarchy with unilateral changes.

The referendum itself cost Catalans €9 million, and there was no electoral roll - instead, voters had to download the referendum questions from the internet. Furthermore, the votes were counted by the main nationalist parties. Some outlets have reported less than 29% participation among the total citizens who were eligible to vote in the referendum. In light of such poor turnout, the 81% majority who agreed to an independent Catalonia seems less emphatic.

Poor management

The Catalan government has publicly complained that they always receive less money than they give to the central government, which is true but not the whole story. Richer CCAAs send transfers to CCAAs that are in the process of developing. These transfers are founded on the principles of equality and solidarity to achieve a measure of equality between regions. The rallying cry "*Espanya ens roba*" (in English: Spain robs us) has become popular with Catalan nationalists even though Catalonia isn't even the largest contributor among the CCAAs. It has been repeatedly proven that in recent years the Catalonian government has not put available funds to the best use - even President Mas himself has admitted as much. In particular, Mas has been squandering money on unsustainable projects such as creating a Catalan embassy network around the globe. Additionally he has been financing organisations in order to prepare the future Catalonian state, while at the same time cutting down on education and healthcare services. These austerity measures are later blamed on Spain for "robbing" Catalonia. But it does not end here. The corruption cases affecting Catalan nationalist politicians pile up, year after year. Perhaps tellingly, even the founder of modern Catalan nationalism, Jordi Pujol, is being prosecuted for avoiding taxes for more than 20 years.

Catalan nationalists are within their rights to support independence, however they should take account of the larger picture for Spain in general.


Is Spain's patchwork nation set to disintegrate?

Max Leslie evaluates why the Spanish quilt is tearing at the seams

In response to "Is Spain's patchwork nation set to disintegrate?" by Max Leslie (issue 9)

Schools of economic thought, *selected and greatly simplified*

by Alina Mika

MERCANTILISM, *economic theory (16th-18th century)*

- increasing the power of a nation through maintaining a favourable trade balance and accumulating bullion
- government regulation for the augmentation of state power

CLASSICAL THEORY

associated with Adam Smith's 'Wealth of Nations' (1776)

- a reaction against mercantilism in favour of a system of **self-regulating** economies,
- promotion of **free trade**
- **the invisible hand of the market** causes the following self interest to promote the public good

MARXIST THEORY

associated with Karl Marx's 'Das Capital' (1867-94)

- the application of Marx's theories of **value and exploitation** to price theory and competition
- focus on **surplus value:** the value created by workers in excess to their own labour costs

AUSTRIAN THEORY

associated with Ludvig von Mises and Friedrich Hayek (initiated in late 19th century)

- based on **methodological individualism**; spontaneous order among individuals creates the best conditions for economic growth. Opposed to economic planning because of problems with calculation
- **interest rates** are market-determined and shouldn't be tampered with, **savings and production** drive growth
- **the Austrian business cycle**: artificially low interest rates will lead to overinvestment (unsustainable boom). This leads to overproduction, which leads to bubbles and crises (inevitable bust).

KEYNESIAN THEORY

associated with J.M. Keynes' 'The General Theory of Employment, Interest and Money' (1936)

- **aggregate demand** is key and should be stimulated by the government. The effects of fiscal policy are strengthened by the **fiscal multiplier**
- **the Keynesian business cycle**: animal spirits drive consumer demand causing a decrease in spending. **Sticky wages** and layoffs drive the economy into a recession. The government should step in with **fiscal and monetary expansions** to stimulate aggregate demand leading to a boom

GERMAN SCHOOL

associated with the work of Gustav von Schmoller and Max Weber

- holistic approach to economics; examinining all phenomena using social and economic history
- emphasis on **historical sources and data** as opposed to mathematical modelling

POST-KEYNESIAN THEORY

associated with Michal Kalecki and Joan Robinson

- builds up on Keynes' 'General Theory'; its adherents believe that other schools have misrepresented his ideas
- demand determines supply in goods and labour markets

NEOCLASSICAL THEORY

people have rational expectations, they strive to maximise utility and they make decisions based on perfect information

NEW KEYNESIAN THEORY • SALTWATER SCHOOL

associated with Paul Samuelson, Paul Krugman, Gregory Mankiw, Alan Greenspan

- focuses on market failures, particularly when it comes to the labour market and inflexible wages
- stresses the importance of demand management
- extensive use of the IS-LM framework and the Philips Curve

CHICAGO SCHOOL

associated with Frank Knight and Milton Friedman

- focused on **libertarianism**
- a belief in following rules, not discretion in monetary policy. Since the 1970s associated with:

NEW CLASSICAL THEORY • FRESHWATER SCHOOL

associated with Robert Lucas, Thomas J. Sargent and Robert Barro

- markets are perfectly competitive and they always clear
- market forces are able to solve most economic problems

BEHAVIOURAL ECONOMICS

associated with Daniel Kahneman and Amos Tversky (late 20th century)

- the best way to study the economy is to study the **behaviour** of companies, organisations and individuals, whose decisions **are not always rational**

FEMINIST ECONOMICS

associated with Ester Boserup and Ailsa McKay

- corrects traditional models, which it claims are **biased towards masculine preferences**
- focuses on topics relevant to women, such as exclusion of women from certain fields

This infographic greatly simplifies a few major theories in the recent and western history of economic thought. It maintains a degree of chronological accuracy. Schools in red are usually associated with the right wing of the political spectrum. Schools in blue, with the left wing. Schools in black do not have a clear-cut vision of the government's role in the economy. Sources include: Mr Donald Rutherford and his Routledge Dictionary of Economics, theaustrianinsider.com, ft.com, nytimes.com.

A circle of housing woe

Ross Devlin examines the cyclical nature of the British housing market

THE CURRENT STATE of the British housing market is one of feverish insomnia: a source of anxiety for those who struggle to find approval for a mortgage, and a nightmare for policy makers, who are targeting the wrong factors in an attempt to rectify the UK's housing stagnation. The UK needs houses that are easier to build, easier to find, and more affordable to live in. The "crisis" in current form is effectively the result of a slow, hulking deceleration set in place by cost-shirking policies made by the 1980s neoliberal UK government. The result is a coal-less locomotive slowing to a stop as a constant stream of people – immigrants and expatriates, babies by the baker's thousand and necessary restructuring of an aging population – all hop aboard.

As simple as supply and demand?

Two key factors, independent of the business cycle and economic shocks, have allowed for present-day conditions that mirror those of the 1980's housing crisis. The first is the privatization of council housing and gradual deregulation of the housing market, which shifted resources towards profits, and away from social equity. The second driver is planning restrictions, which complicates the production of housing for all players, and discourages growth. The visible effect in the UK today is fewer houses being available, and only to an increasingly marginal, wealthy few. Furthermore, policy propagated higher prices and planning restrictions hampered growth in the housing stock. We are not building enough houses, and what we do build/redevelop is available at a restrictive rate. Financial and social inequality are symptoms of this broken system, which flounders in the forefront of public consciousness, but is handled clumsily by Westminster.

The long view

Modern housing in the UK has gone through three distinct periods, where sweeping policy reforms affected the entire structure of the market. After World War One, Britain still rented the majority of its houses, and subsidies were given to regional councils to improve housing conditions and affordability. In 1931, there were 40 million people in Britain, and house building was at a rate 350,000 per year. Populations were expanding, and city-dwellers converted to suburbanism.

After World War Two, there was, due to Britain's Emmentaler topography, a shortage in housing, and the government felt empowered to embark on massive social housing developments, which carried on well through the 50s and 60s. In 1979, another shift was made, away from consciously expanding the social housing stock, and towards privatizing it. Social housing made up 25% of the UK's houses at the time, which Thatcher saw as a budgeting weak-point.

Believing the country's woes had been solved by 30 years of social housing projects, Thatcher's neoliberal government began to deregulate council houses. The Right To Buy act was introduced, and the 1989 Act, which required the private sector be involved in all regional "redevelopment schemes". Local housing development dropped to near zero, and only wealthier tenants in nicer areas could afford to take advantage of the Right to Buy scheme.

The money was not saved; investment was shifted away from subsidizing government regulated council houses, and towards subsidizing private developments. It was now the role of local councils to attract private investment to build houses, using subsidy incentive. Not surprisingly, they chose to work with wealthier clients, gentrifying inner-city areas and building larger homes on suburban plots.

Ghettoization

Social paradigm inevitably waltzed with political rhetoric at the same time as negative stigmatization of council housing increased. The owner-occupant

Scorpions and Centaurs

Bille Ward

received praise and attention, and lower-income workers who relied on subsidized housing were marginalized to increasingly dismal areas. This ghettoization of the working classes to the darkness on the edge of town is now being encouraged by gentrification – which, by definition, is the physical rotation of the rich from the suburbs back into the heart of the city.

The population of Britain is now 64 million, but new house building rates declined to under 150,000 in 2014. The price of a house over average income is now substantially higher here than in Europe. In London a house costs 15 times annual income, up from 11 times in 2004. These houses would be better suited to Hobbits, as well – the average home size in Britain is 76 m2, coming in 19 m2 behind the country that invented "capsule hotels," Japan. The English department of Communities and Local Government has projected a housing stock of 24 million by 2021. This would require a trajectory of 221,000 houses per year, starting in 2011. As mentioned earlier, a rather poor effort has been made to meet this goal. The last time yearly housing production was about 200,000 was in 2007. Before that, 1988, and 1980 before that.

Neoliberals are not solely to blame for the current housing crisis. It has survived bubbles burst and born, and credit both easily accessed and out of reach. If new houses are not being built, though, it is not for genuine lack of effort. The planning permission landscape in England is notoriously impossible to navigate – homebuilding.co.uk even has a helpful page about "*playing the game,*" offering tips about how to wrestle with planning regulations that are "*unpredictable, open to interpretation, and capable of being bent quite dramatically*".

Playing the game

At odds to developers are those determined to maintain Britain's idealization as a country of quaint, verdant countryside. They are the Campaign to Protect Rural England. Supply of land is a significant factor in prices and available housing stock, and the current environment places debilitating restrictions on most welfare-minded development efforts. The feeble rationalization for regulations to protect the British countryside is that these areas are "endangered", and therefore need to be protected. Since the 20th century, the evils of urbanization and concrete have fought the valiant councils for British land. At least, this is the highly politicized rhetoric that keeps the housing market from expanding.

The few parcels of land that already include planning permission are available at eye-watering prices. The Economist points to Oxford, where agricultural land may fetch £8,000 per hectare, but a similar sized plot cleared for building is worth £4 million. Labour introduced the Regional Spatial Strategies (RSS) in 2004, in an attempt to institutionalize a flexible public sector planning framework, but the government moved to abolish RSS in 2010, after it was clear that this "top down" approach did not represent community aspirations. Reform in planning restrictions could alleviate much of the pressure on housing prices, which are currently caught in the airlock between the barriers to buyers and barriers to builders. When both supply and demand take a hit, we get stagnation, also known as The Worst-Case Scenario.

Something needs to yield to pressure, and procrastinating until Britain consists of nothing but London and Outlying Townships is arguably worse than a push towards developing on arbitrarily protected land. "Greenfields" and "brownfields" are excluded from planning permissions with little thought given to the fact they often consist of nothing more than expiring buildings and tall grass. Currently, players of the insufferable "game" interact indirectly through a highly politicized, bureaucratic planning process that is out of touch with the severity of Britain's housing troubles. What is needed is a compromise between the pre-neoliberal conception of social housing as a fair, affordable solution for working class Brits, and a more liberal approach to planning that gives developers and communities the flexibility to find low-cost solutions.

"An ace caff with quite a nice museum attached"

Michael Devlin discusses the rise of neoliberalism within cultural policy discourse

THE INCORPORATION OF a more strategic approach has become ubiquitous across contemporary organisations. However, I believe that this is a fairly recent phenomenon which appears to have coincided with the rise of neoliberalism during the late 20th century. During this period, the practice of strategy began to move beyond the confines of the corporate sphere. I'm intrigued to discover the motivation behind the adoption of strategic planning in the arts sector, given the relatively autonomous nature of a sector which has historically prided itself in its distance from external market pressures. To illustrate this point, I asked senior representatives of internationally-acclaimed British orchestras whether, approximately 25 years ago, they would have been able to present to me their strategy, vision and key performance indicators for the organisation. A chief executive responded, "*without doubt, by asking such a question, you'd receive a look as if you were daft. They wouldn't even understand that language!*" In stark contrast to this, the same respondent was not only able to produce up-to-date strategic documents for me with a few taps on a smartphone, but he was also capable of holding a comprehensive discussion in terms of strategic jargon. We can begin to explain this phenomenon by exploring the political-economic context in which the introduction of strategy in cultural organisations occurred.

American vs. European cultural policy

A clear divide exists between European and American cultural policy and arts-funding models, largely reflecting the history of economic policy. At one extreme there is America which is characterised by laissez-faire economic liberalism in which government's role is minimised. In addition to this, state-owned enterprises are increasingly privatised in the name of enhanced efficiency and de-regulated global capitalism triumphs. These policies, which characterise 'Neoliberalism' and were championed in the 1970s by Milton Friedman, became the cornerstone of America's economic policy. The rise of Neoliberalism is a key contributing factor to America's commercialisation of culture and significantly reduced public expenditure on cultural programs and the arts. A corollary of this American ideology is that no funding will exist for art that fails to find its place in the market! William Osborne, a composer and music scholar, states that the arts in America occupy a "*relatively marginalised existence supported by gifts from corporations, foundations and the wealthy. A system similar to an elitist cultural plutocracy evolves.*" In contrast to America there is Europe, which is characterised by mixed economies in which governments play a much larger role, including the extensive provision of social and cultural programmes. Europeans are proud of their long-standing cultural heritage and social structures, and are cautious of America's hegemonistic culture which threatens to replace the autonomy and communal identity of artistic expression in Europe with, what Osborne terms, a rather "*isomorphic corporatism.*"

Thatcher, Blair and the transition from state to market

Somewhere in the middle of this spectrum lies the United Kingdom, where economic policy combines America's ruthless capitalism with Europe's more benign social policies, and cultural funding enjoys a healthy diet of both private and public contributions. It was under Margaret Thatcher's Conservative government that cultural policy was given a radical shake-up. Thatcher applied progressive cuts to public funding of the arts while initiating a transition away from public subsidy to corporate sponsorship. By no means a passionate advocate of the arts, Thatcher's cultural tastes were fairly conservative with little appreciation for the high arts and contemporary culture. The Victoria and Albert Museum's infamous campaign from the 1980s, "*An Ace Caff with Quite a Nice Museum Attached*", is a rather amusing embodiment of Thatcher's attitude to high culture. Likewise, when asked by the Director of the National Theatre about arts underfunding, Thatcher smugly referred to the success of commercialised British theatre in America and replied: "*Look at Andrew Lloyd Webber!*"

When Tony Blair and 'New Labour' came into office in 1997, the Thatcher-initiated transition from state to market, across a variety of public provision, continued at an increasing pace. I believe that Blair's 'Creative Industries' discourse is a subversive means of reinforcing economic rationalisation and neo-liberal ideology into cultural policy. Whatever its ultimate aim, it has certainly assisted in undermining the legitimacy and existence of non-profit and public service cultural provision. The fight for no-strings subsidy of the arts was lost when New Labour came to power.

To fee or not to fee?

Baron Hasslinger examines why some universities make us pay, while others don't

SINCE LATE 2014, Germany has been a tuition fee-free country. This includes fees for local, as well as for international students. What seems to be a bold move, however, is not really the result of a federal decision, nor is it an irrevocable step. Rather, Germany had toyed with tuition fees since 2007 after the federal ban on fees had been lifted. Of the federal *Länder* that introduced fees, all had re-abolished them over the course of the following years. In Germany, tuition fees have been continuously introduced only to be abandoned again throughout the past four decades. This suggests that the standing of tuition fees, at least in Germany, is to a large extent determined by ideology. While the step has been heralded by the media, the question remains whether the abolition of fees was an economically sound decision.

The case for conservatism

In theory, an increase in tuition fees means an increase in university funds (holding government expenditures on education constant). At the same time, demand for education is affected as fewer people will be able to afford education or be willing to pay for what is offered. Thus, there is an incentive for universities to improve in order to continue to attract more students.

Recent tuition fee practices in England, increasing fees by up to £8,000 per year in some places, have had a mixed effect. Contrary to popular belief, student demand has not reduced in the face of surges in the price of education. At least not in the UK. As the Telegraph pointed out, the tuition fee policy "*has been misrepresented from the offset*". The increase in fees was backed up by a future income condition: anyone earning below £21,000 would have their fees paid by the government. As such, tuition fees in England served the function of a graduate tax. This conversely allowed for more members of lower social classes to gain access to higher education. In this fashion, the effects of raising tuition fees in the real world should not be considered in isolation.

In fact, a study conducted by the European Commission comparing different tuition fee regimes showed that the effect of tuition fees depends on more than just economic mechanisms. In general, universities seek to maximise prestige as opposed to profits. However, in countries such as the UK and South Korea, prestige can materialise in monetary terms. Consequently, raising fees and taking steps to increase the university funds can help to raise prestige. In Germany and Austria on the other hand, the same measures would be perceived as "*largely outside of their mission and not prestige-enhancing.*" Raising fees as well as accumulating extra funds can have profoundly different effects for educational institutions in different countries.

Education beyond borders

But how do different tuition fee regimes impact international students? UK institutions of higher education have become by and large more privatised. This is well put buy Enslin and Hedge *"a serious ethical tension between … universities' declared commitment to social justice and … education as a traded high premium commodity*." UK-students are backed by their government because education is seen as the right of every UK citizen. International students pay fees much higher than usual, as education is effectively sold to international students as a commodity.

The worry is that free education for everybody would cause an influx of international students. In addition, the human capital that international students would acquire would leave the country without benefits while the government pays the bill. But government expenditure on education has been roughly the same in Germany and the UK – accounting for funding that goes to institutions as well as bursaries and financial aid for students – despite the different stances on national and international tuition fees.

It seems we need to look at the bigger picture and understand the effects of various tuition fee regimes on a global scale, not just how they affect us within our borders. After all, education is an important pre-requisite for democracy and developing values. These factors, in turn, are essential in establishing institutions of good governance which are indispensable for economic development. Perhaps we need to stop kicking away the ladder.

Visha Angelova

Competing for the Internet

Michal Shimonovich explores the effects net neutrality and higher downloading and uploading speeds might have on the market for internet service providers

INTERNET USERS AND website creators breathed a sigh of relief when the United States Federal Communications Commission (FCC) ruled in late February that net neutrality would be enforced. FCC Chairman Tom Wheeler recommended that the internet should be reclassified as a common carrier, making it a public utility. The FCC can now regulate Internet Service Providers (ISPs) and enforce net neutrality so that all lawful traffic from internet content providers (websites) will travel through ISPs' networks at equal speeds and quality. What might have been missed was that in late January the FCC announced that the new minimum download and upload speeds for broadband internet would rise from 4 Mbps to 25 Mbps and 1 Mbps to 3 Mbps, respectively. Many have applauded both moves for signalling to ISPs that the internet is a necessary vehicle for free speech and a forum open to innovation whose quality should be raised.

Raising minimum speeds for broadband internet and reclassifying the internet as a public utility are steps the FCC has taken to mitigate the significant power ISPs have exerted in negotiations with content providers and internet customers. Prior to the rulings, ISPs could violate net neutrality. This means that these ISPs could charge websites additional fees to send their content through fast lanes so site's information arrives more quickly to users. Customers have also complained that internet services are too expensive for their poor quality.

Free-range for ISPs

In early 2014, the cable broadband ISP Comcast ransomed the video quality on the streaming site Netflix in exchange for payments for direct access to its networks. After lengthy negotiations, Netflix caved in to Comcast's demands and the streaming quality resumed to HD levels. Consequently, customers saw the cost of their Netflix service go up $1/month. At the time when this occurred, the FCC couldn't enforce regulations because the Open Internet Order for net neutrality was struck down shortly before the Netflix affair. A sympathetic judge who deplored the power of ISPs over internet quality and costs ruled that the internet had to be classified as a public utility like water and electricity for it to be subject to strict regulations.

Before the new regulations about download and upload speeds were set, the US had the 26th fastest download and the 40th fastest upload speeds. Coupled with high costs, broadband internet in the US is ranked 17th in value. By contrast, the UK is ranked 10th in terms of value. Since 82% of Americans have only one option of ISP, there is very little customers can do if they are not satisfied with the speed and quality of their broadband internet. It is also clear that most customers aren't happy with the services from this competition-limited market: Time Warner Cable and Comcast were the two lowest ranked companies on the American Consumer Satisfaction Index in 2014. Comcast's bid to buy time Warner Cable is still being reviewed by the Department of Justice and the FCC, something customers have been adamantly against. This might have something to do with Time Warner Cable trying to limit data on home broadband service, much like internet data is capped on phones.

Tim Dorr

The lucky duopoly

Small and medium sized websites rejoiced at the FCC's ruling on net neutrality as they had rightfully argued that they would not have been able to afford the ISPs' fast lane fees. While this keeps the market for content providers competitive, the market for providing internet might become less so after these rulings. Small and medium sized ISPs claim that given their size, they pose no threat to net neutrality as they have no leverage to coerce content providers to pay for prioritization in the way that Comcast or Time Warner Cable can. Reclassifying the internet as a public utility would burden them with the regulatory and compliance costs that larger ISPs can handle, but that would threaten their profit margin. These businesses wrote an open letter to the FCC asking to be exempt from being regulated as a public utility, but as of now remain subject to the new regulation.

Higher minimum downloading and uploading speeds will also force many ISPs out of the market. At speeds of 10 Mbps to download, 9.8% of homes in America have a choice between more than two providers. When that number goes to 25 Mbps, only 2.4% have more than two choices. Americans can get internet service from cable providers or from telephone providers such as AT&T, called DSL. But as DSL internet is slower and harder to upgrade than cable, cable providers Comcast and Time Warner Cable have a bigger wedge of the market. So it is not only small and medium cable ISPs that can't afford to upgrade their speeds and will get pushed out of the market, but large DSL companies as well such as AT&T and Verizon.

Alternative routes

There are other alternatives to these unintended consequences that arise from regulating the internet, such as the policy which has been adopted in the UK. Firstly, the UK has a department in place, the Office of Communications, whose task includes determining if any internet provider has significant market power. This was done in 2005; after determining that British Telecom (BT) had significant market power as the owner of the largest network in the UK, BT was forced to lease the last-mile of network connectivity to other ISPs. Most countries rely on this "unbundled access" rather than net neutrality as it keeps the market for ISPs competitive and regulated. As a result, the UK has far less incidence of ISPs violating net neutrality.

FCC Chairman Wheeler, a former cable company lobbyist, has promised that under no circumstances will the FCC impose unbundled access to large ISP networks. FCC will regulate net neutrality and minimum speeds, but not the significant market power of two largest broadband companies that will have a larger stake on the market in light of these rulings. The FCC has admitted that an effective duopoly of Comcast and Time Warner Cable exists in the broadband market, but he won't concede that ISPs' significant market power aggravates the threat to a free and open internet.

The FCC made a weak attempt to increase competition in the broadband ISP market. Cities in 21 states are restricted from expanding their municipal broadband services because law-makers who have seen cities fail spectacularly in building networks that require high investments do not want taxpayers to bear the brunt of the cost. They have a point. The state of Utah's failed network has left it $355M in debt and far from finished. The only way out: a buyout from a private company that would cost taxpayers another $1.35B over the next three decades. However, the FCC is taking the steps to break those barriers and increase competition first by striking down restrictions in Tennessee and North Carolina. The FCC's jurisdiction to intervene in this case is expected to be contested in the coming months.

The well intentioned rulings by the FCC may result in a less free and competitive market for the supply of broadband internet providers by driving a bigger wedge between the cable broadband duopoly and small and medium sized ISPs, as well as DSL broadband providers. Neither will be able to keep pace with the added costs that regulation and improvement to their networks will entail. This is not the case for Comcast and Time Warner Cable. As the FCC isn't taking steps to increase competition, the result of a duopoly with no incentive to innovate or improve quality and reduce costs. This makes net neutrality and minimum speeds seem like futile attempts to improve the freedom and equality of the entire market. As a former chief technologist at the FCC told the New York Times, *"I wouldn't sell my stock in Comcast."*

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