
insight.
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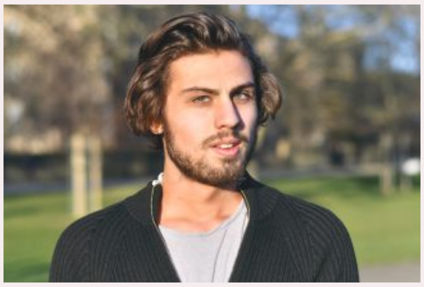

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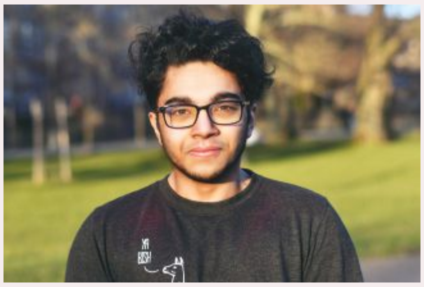

SAMEER KHAMAMKAR
Editor

Insight is the School of Economics' biannual magazine, entirely produced by students, and supported by the Economics Society. It is the perfect platform for you to express your opinions, and to demonstrate your writing within various economics-related topics. We welcome writers from all backgrounds.

Letter from the Editor-in-Chief

Welcome to the 16th biannual issue of Insight!

This Spring we continued our efforts to tackle more concrete topics by exploring 'Consumerism'. Our academic field has lately been on the receiving end of mounting criticism for promoting economic growth for the sake of quantified consumption. We find this assessment somewhat unfair and misplaced, but equally the subject itself is as relevant — albeit complicated — as ever. Therefore, we have broken down the subject into four sections: the rise of China, the luxury goods market, the happiness of consumption and the sustainability of technological change. We hope you will enjoy the variety of our articles, which covers everything from *developing countries' trade policies* to *eating donuts*.

I would like to take this opportunity to express my sincere gratitude to the School of Economics for making this publication possible. After four great years, it is also time for our long-running Head of Production Tom Schueneman and myself to hand over the baton. Many thanks to our writers for their fantastic pieces, and to our editorial team for their hard work. Special hat tip to our senior editors Flora Mao — who proposed the theme of this edition — and Paulina Szymczak.

All the best,

Oskar Birol
March 2018

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CHINA

The Go Abroad Economics scheme has been running since February 2015, when a group of staff and students embarked on the inaugural trip to Dubai. At the heart of the scheme is hands-on learning about economics, allowing students to apply their knowledge and curiosity to real-life issues. Students are largely responsible for organizing the trips, including visits to businesses, government offices, and political and financial institutions. These trips provide students with a global perspective on economics and give them opportunities to put their skills into practice. During the most recent winter break, students and staff travelled to Hong Kong to learn about the history, politics and economics of the region.

This section features the most recent GAE trip to Hong Kong, along with other articles discussing consumerism in China more broadly. There is a lot happening in this dynamic region, characterised by change and innovation. Feiyang Shi explores a change in Chinese government policy concerning capital outflows, James Baghurst details the rise of innovative mobile payment apps like Alibaba, and Stian Sandberg alerts us to the complex dynamics of China's proposed Social Credit system.

A Snapshot of the Hong Kong Economy

Robert Campbell shares details about the GAE trip to Hong Kong.

'Why does President Xi Jinping 's foot hurt?'
'I don't know—why?'
'Because he stepped on a Legco'

Over the winter holidays, the School of Economics conducted a trip to Hong Kong through their Go Abroad program, which brought twelve students to examine economics in China. During our ten days in Hong Kong, we visited political parties, opulent skyscrapers, vegetarian communes, bankers' clubs, and abandoned villages. In other words, our visit focused on contrast.

A Vibrant Economic History

Our first visit after recovering from the nineteen-hour journey across the globe was to the Lion Rock Institute, a think-tank based in the Hong Kong central district. There we learned about Hong Kong's growth during the Chinese Cultural Revolution, when hundreds of thousands of Chinese citizens braved sharks and the People's Republic Army to swim across Kowloon bay to Hong Kong Island. The survivors arrived penniless and driven, yet within 30 years they had built one of the wealthiest economies on earth. The colonial finance minister during that period, John Cowperthwaite, famously adopted a policy of 'positive non-interventionism', whereby he rejected almost all interference with Hong Kong's economy, believing that this would stifle growth. During this period, actual growth figures are unclear since he also refused to generate national accounts on the grounds that his superiors would use them to justify economic interventions. However, we do know that in 1998, when the United Kingdom rescinded control over Hong Kong, GDP per capita in the city had outstripped that that of the UK.

Political Tensions

While Hong Kong has become immensely wealthy, the income inequality between the highly productive financial sector and the remainder of the economy appears to have created some political tensions. During our visit to the Democratic Party, Hong Kong's largest pro-democracy party, we learned that there is greater public support for increased redistributive spending than is manifested by Hong Kong's Legislative council (Legco). Emily Lau, Democratic Party firebrand and retired seven-term Legco member, explained to us that Hong Kong's Legislated Council is constructed to systematically prevent democratic parties from ever gaining a majority vote, despite their popular support. This message was echoed during our meeting with a serving Democratic party Legco member, who explained that Legco is rigged to support Beijing through the enshrined 'functional constituencies'. Essentially, there are Legco seats designated for representatives of Hong Kong's various working sectors, many of which are wedded to Beijing for economic reasons.

As bad as this sounds, not everyone we spoke to during our visits thought of Hong Kong's limited democracy as a negative thing. Our host at the Lion Rock Institute argued that Hong Kong's impeccable public finances, fiscal surplus, and continued high growth figures are attributable largely to its technocracy and indirect feedback loop between public sentiment and public policy. The evidence remains unclear, but the sheer possibility that Hong Kong's prosperity is attributable to its lack of political freedom made us uncomfortable.

Transport Efficiency and Complications

Despite our limited time in Hong Kong, we were frequently able to pack three visits into a single day, often impossible on Go Abroad trips. Among other things, Hong Kong is famous for having one of the world's most efficient and least expensive public transit systems. Underground trains run with shockingly high frequency and low prices. Despite the flat 67p charge for a Metro ride, Hong Kong's train service remains one of the few on earth than runs at a profit.

Our group was similarly impressed by the other public transit options, which allowed us to flit about the city with almost alarming speed. In the space of a few hours, one can start at Lamma Island, a former vegetarian commune populated by bungalows and tin shacks atop floating rafts, take a ferry to the skyscrapers in Kowloon Harbour, and then take the metro to any number of places within the city.

After growing accustomed to lightning fast and effortless freedom of movement, our day trip into the city of Shenzhen in Mainland China gave us whiplash. On the day of our visit to Shenzhen, we left early in the morning with the intention of arriving at the Chinese Border Visa office when it opened at 9:00. After passing numerous security checks and waiting out an unannounced hour long delay in the visa office opening, several members of our group were turned away for having passports that were too old, too new, or in one person's case, one passport that was too old and another that was too new. Those of us not cut loose at the visa office were beckoned through several more layers of security, including additional x-rays and biometric scans, followed by a unidirectional underground train out of Hong Kong. When we finally resurfaced around 11:00, we realized the three-hour journey had taken us only 6 kilometers.

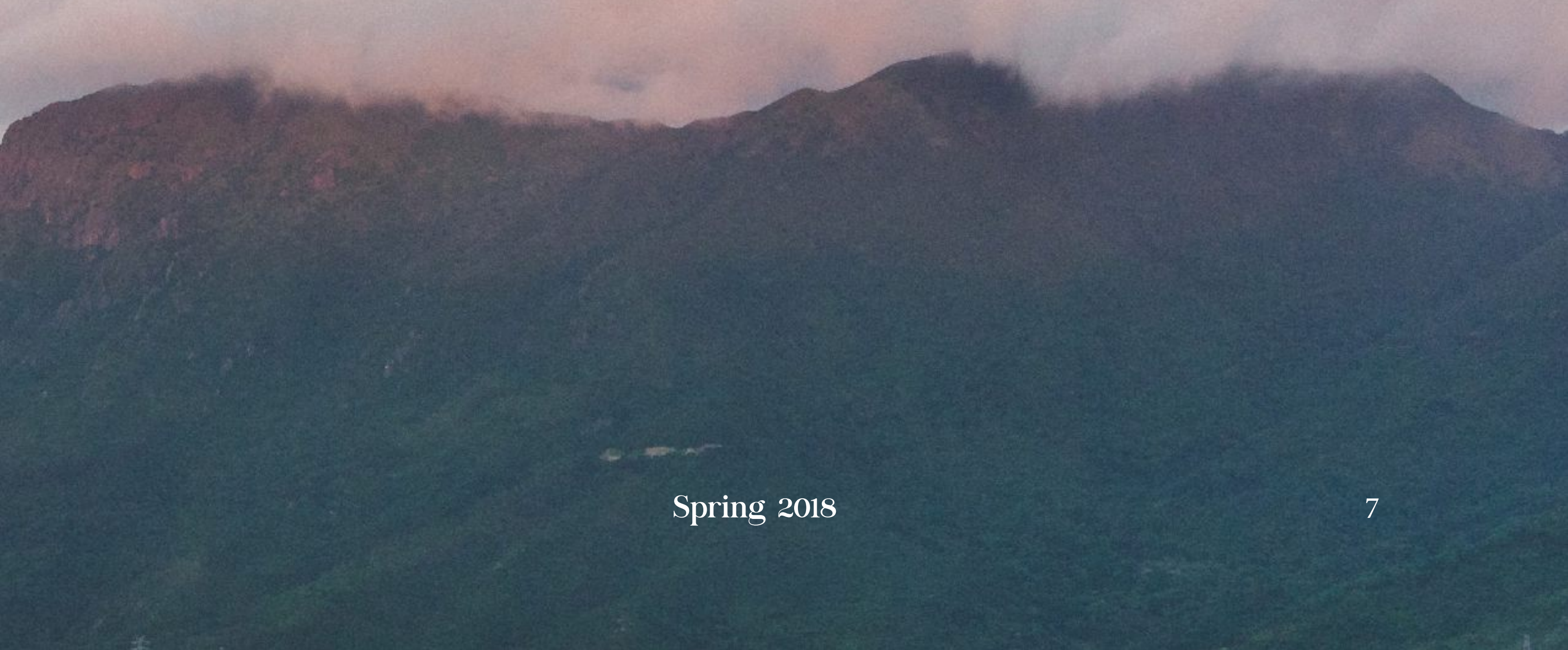
The security did not end when we resurfaced in Shenzhen. Within the city's internal transportation system, every subway entrance was stationed with paramilitary police and metal detectors; the walls bedecked with Communistic propaganda and security cameras. Beyond the initial security check, the train platforms were more often than not stationed with additional guards. As we watched our backpacks enjoy their third or fourth dose of radiation, the group wondered why one would want such overbearing security in a city low in crime and devoid of terrorism. Theories abounded, but an answer remained unclear.

Positioned against this authoritarian background was our visit to a highly westernized 'maker-space', which provides communal access to manufacturing and design tools to local entrepreneurs and artists. As we looked around at the kitsch iPod speakers designed to look like vintage radios and a 3D printed desk — both made by maker-space members — the attitude and environment seemed better suited to a Silicon Valley break room than an authoritarian state. We had the same disorienting feeling during an after-visit Starbucks run: the sensation of standing in estuary between two radically different, seemingly incompatible worlds.

Lasting Connections

On our penultimate day in Hong Kong we had the pleasure of meeting the then outgoing president of Hong Kong University and current vice-chancellor of the University of Edinburgh. During our meeting, he spoke about his experiences at Hong Kong University during and after the umbrella revolution of 2014, and his decision to come to Edinburgh. Among other things, we learned about the time he was held hostage by the students of HKU when they barricaded a building he was occupying, in an attempt to gain audience with an unaffiliated faculty member. We had the chance to assure him that he would not receive such treatment at Edinburgh, and to express our hopes for his then upcoming tenure here.

As our trip came to an end, it became abundantly clear to the group that our visits, despite their depth and diversity, had only scratched the surface of Hong Kong. The Go Abroad trip to Hong Kong was both a substantive insight into a culture and economy far removed from our own, but also a springboard for further investigations into an on-going case study in economic freedom. As several of our trip members look to return for internships and exchange programmes in Hong Kong, it is clear that the value of our trip extends beyond the limited time we spent there.



Trust Me

WINNER OF THE INSIGHT WRITING PRIZE

Stian Sandberg explores the consequences of China's proposed Social Credit System; a plausible future where trust is quantified.

Imagine a normal day, except everything you do is recorded and judged by an algorithm whose parameters are entirely out of your control. The purchases you make at the supermarket, what news outlet you read, who you spend your free time with, all of which are used to calculate a number that represents just how trustworthy you are as a citizen.

This is an upcoming reality for many in China, where the government has proposed to implement a national social credit system. The system, if put in place, will grant every single citizen a number to represent how socially trustworthy and decent they are.

In an era characterized by rising totalitarianism, where government control and surveillance has become a real concern, this hits alarmingly close to home. The question then becomes, what are the implications to society when we quantify trust?

The System

In 2014, China published a document titled 'Planning Outline for the Construction of the Social Credit System'. The proposal suggests a system where each Chinese citizen is given a numerical rating representing how socially trustworthy they are. This number is based on several judgements made on (among others) behaviour, purchasing history, whom your friends are, and in typical Chinese fashion, how positive you are towards the government. With the system's current trajectory, widespread mandatory enrolment will be implemented in 2020.

Social Credit is not a new idea in China. For several years, Ant Financial — a subsidiary of Alibaba and the company behind Alipay — has implemented their own rating system entitled Sesame Credit. Sesame Credit gives users a score between 350 and 950 points based on five different categories: credit history, fulfilment capacity (i.e. the user's ability to fulfil their contract obligations), personal characteristics, behaviour and preference, and interpersonal relationships. Alipay has a user base of over 520m; combined with data from other similar companies that Ant Financial partners with, this results in a vast amount of data for the Sesame Credit algorithm to evaluate individual users and present them with a rating. The details of the algorithm remain a company secret.

China is a natural contender for a national social credit system, as alongside well-established technology companies like Alibaba and Tencent, the political sphere consists of a one-party system. Consequently, this lets China dictate the rules of the system. As a positive attitude toward the government will be rewarded on the platform, an incentive against free speech is created, causing political activists who speak regularly against the regime to be punished by the system. The Chinese government dictates the meaning of positive behaviour, which further oppresses those who dare speak their minds. This is also made possible by China's increase in national surveillance. For example, in the northwest region of Xinjiang, members of the Chinese Communist Party have invested heavily in securitization, introducing checkpoint grids, security cameras, a mandatory installation of a government 'spy app' intended to record every detail of your phone, and even the collection of DNA after medical check-ups. In this specific region, these measures are taken to keep a historically rebellious Turkic-speaking minority in check. One can see how these measures could be extrapolated to keep other minorities and groups considered a threat by the government under control — an oppressive mind-set lending itself to be exploited by the social credit system.

The dystopian nature of this system is obvious, as shown by how rewards and punishments will function on the system. A low score could have huge implications for consumers, as many restrictions will be imposed on those who are judged untrustworthy. The list is extensive and includes punishments such as reduced internet speeds, restricted access to certain types of travel and the inability to receive loans. Meanwhile, good behaviour is rewarded with privileges such as skipping airport security, deposit-free car rentals, and priority for a European Schengen visa application. Another striking example is shaming people for jaywalking. To tackle jaywalking, the act of illegally crossing the road, China has installed screens by the side of the road to immediately post pictures of the jaywalker, should he be caught by a surveillance camera, consequently leading to a reduction in social credit.

It should be mentioned that China isn't the only country with a rating system for its citizens. In the U.S. for instance, everyone has a FICO credit score that is used to judge whether you are eligible for a mortgage or a new credit card. Most western countries have a similar system, the difference being — of course — that none of these systems directly judge behaviour, only financial history.

The introduction of this system leads us to ask some interesting and fundamental questions about how we interact with society, and — perhaps most importantly — each other.

A New Variable

A social credit system poses an interesting problem for economists and how we model society, as now a new and previously unquantified variable is introduced: trust.

Many economists and researchers from other fields have found trust, a concept dubbed 'social capital' by Harvard professor Bob Putnam, to be an important indicator of economic growth. Social capital also correlates to non-economic factors such as life satisfaction and suicide rates. Therefore, one can argue that a Social Credit system could lead to an increase in social capital by incentivising trust, which, in turn, could lead to higher economic growth. Thus, there is an argument to be made for the benefits of social capital, although costs such as lack of personal freedom and free speech lead to question whether national social credit truly yields economic benefits.

Interestingly, a study done by World Values Survey shows that China exhibits a very high level of social trust on par with that of many Nordic countries like Norway and Finland. It is curious that a nation with already high levels of social trust feels inclined to implement a system quantifying trust. Perhaps it is simply a natural evolution of increased government control in China, combined with the newfound technological capabilities to implement them. In what might be the biggest all-encompassing system ever to be implemented, China clearly has motives other than increasing social capital. Whatever these motives are, the implications are vast. When something so fundamental and human as trust becomes yet another variable, life becomes an optimization problem, where the objective is set by a political agenda.

It is impossible to say with certainty how this system will affect China, and how it will play a role in the lives of the individuals it will touch. It is easy to imagine the Black Mirror-esque reality that a Social Credit system could impose on society, and even more worrying is the power the Chinese government could wield over its citizens to steer them towards certain behaviours in line with their political agenda. It will not be long before users realise how to maximise their score on the system, and in doing so they may start adapting behaviour that doesn't reflect their personal beliefs. It would seem an ironic side-effect of quantifying trust, is incentivising dishonesty.

THE CASHLESS SOCIETY

James Baghurst examines the rise of mobile payment apps in China

Recent Chinese innovation in the financial services industry is another chapter in the long history of Chinese contributions to the modern economy. Just as Chinese tea merchants in 806 AD were the first to conceive of a system of promissory notes known as 'flying cash' to circumvent the dangers and inconveniences of transporting large amounts of capital across the country, Alibaba and Tencent's mobile payment apps now offer the modern Chinese consumer secure and convenient mobile payments as well as a myriad of other features - from paying utility bills to investing in money market funds.

ONE BELT, ONE ROAD, ONE PAYMENT METHOD

Alibaba's foray into the mobile payments industry began in 2009 with the release of a mobile app connected to Alipay, Alibaba's online payment system. CEO Jack Ma sought to resolve the lack of trust in online transactions — in the mid 2000s the bank card penetration rate, the ratio of total bank cards to population, in China sat at around 0.01 per person compared to almost 4 per person in the US, and those with credit cards felt uncomfortable exchanging credit card information with strangers. Positioning itself as a trustworthy intermediary between payer and recipient, Alipay leveraged its first mover advantage to attract the growing Chinese internet population and ballooned from 100 million users in 2009 to 500 million users this year. More recently, Alipay has faced increasing competition from Tencent, which added mobile payment functionality to its social media messaging app, WeChat, in 2013. The mobile payment industry in China has since evolved into a duopoly where 90% of the mobile payment market is controlled by Alipay and WeChat Pay.

The convenience and security provided by these apps mirror the Chinese currency system's humble past, but while the elegant solution of 'flying cash' catered almost exclusively to the ancient Chinese mercantile classes, Alipay and Wechat have capitalised on their knowledge of the Chinese market to lead a society-wide mobile payment revolution.

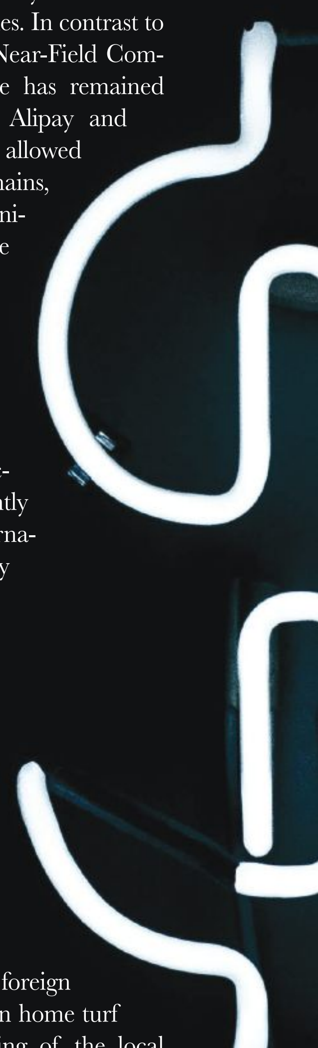
CONSUMPTION CULTURE

It is easy to imagine generic uses for mobile wallet apps, such as paying restaurant bills and paying for public transport, but the ubiquity of mobile payment systems in China has pushed Alipay and WeChat Pay to evolve into uniquely Chinese applications, giving the two mobile payment giants a huge competitive advantage over foreign mobile payment services like Apple Pay.

A clear example of this is WeChat's 2014 Chinese New Year marketing campaign. Tencent announced that users would be able to send digital versions of 'red packets', a twenty-first-century adaptation of the cash-containing red envelopes traditionally given to friends and family during the New Year festival. During the Chinese New Year Gala, a live TV event watched by 700m people every New Year, viewers were encouraged to shake their phones during the broadcast for a chance to win digital red packets. WeChat even added a novel twist by allowing users to send red packets to group chats, randomly distributing the money amongst the group members. The campaign was a massive success, attracting 200m new users to WeChat's wallet payment service and intensifying competition between Alipay and WeChat. Jack Ma described the campaign as a 'Pearl Harbour moment' and many media outlets reported the emergence of a 'red packet war' as Alipay rushed to entice users to send red packets through its own platform.

But the targeted Chinese business strategy of Alipay and WeChat isn't limited to the New Year festival; mobile payment apps have become increasingly embedded into daily life. For example, one of the most popular taxi companies in China, Didi, has an integrated 'Mini Program' within WeChat to cater to mobile payments, and people can scan QR codes on rental bikes in most major cities to unlock and pay for their ride.

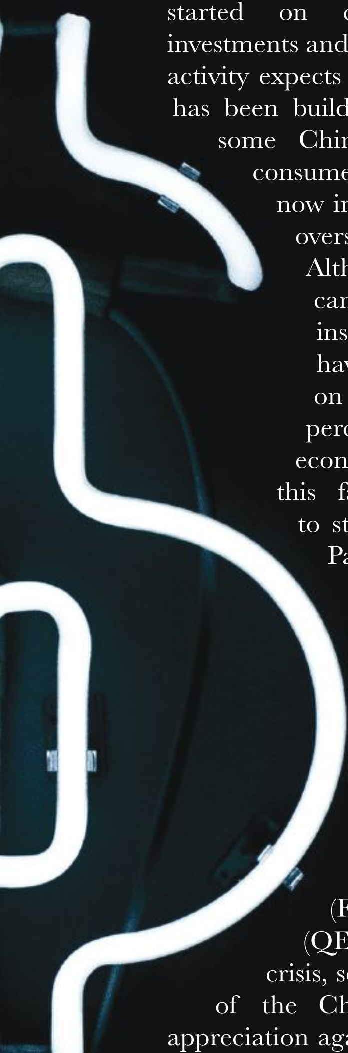
Indeed, one of the most important differences between China and the West with regard to mobile payment systems is the widespread use of QR codes. In contrast to Apple Pay which utilises Near-Field Communication, the QR code has remained the modus operandi for Alipay and Wechat. This has not only allowed multinational fast food chains, supermarkets and even universities to accept mobile payments, but also stalls at fresh food markets, local street vendors and small family-owned convenience stores which can display QR codes for customers to scan. Transaction costs are also significantly cheaper than foreign alternatives — it was only recently that WeChat raised the merchant transaction fee from nothing to 0.6% in comparison to the 3% charged by Paypal, further incentivising small business owners operating on narrow margins to adopt mobile payment systems.



Having outcompeted foreign mobile payment services on home turf through their understanding of the local consumer, Alipay and WeChat are set to increase competition further as both services seek to capture the rest of the Chinese market, particularly in rural areas. However, the long-term performance of the two Chinese giants will depend on whether they are able to replicate their success on the world stage. While this presents many challenges, Alipay and Wechat have created a massive opportunity to change the stereotypical view of the Chinese economic landscape from 'Made in China' to 'Innovated in China' by introducing the international community to the benefits of a cashless society.

ZIPPING THE POCKET

Feiyang Shi discusses the motivations behind Chinese capital control policies and their implications on investor relations



The last year has seen a series of Chinese governmental actions against capital outflows. Investigations have started on companies' overseas investments and entities; related M&A activity expects setbacks and pressure has been building on the stocks of some Chinese companies. For consumers, new sanctions are now in force to cap citizens' oversea withdrawals. Although these actions can help to keep assets inside the border, they have a negative effect on foreign investors' perception of the economy. What motivated this fast-forward economy to start zipping its purse? Part of the answer may lay on the other side of the globe.

WHERE'D THE MONEY GO?

It is often argued that China 'freerode' on the Federal Reserve's (Fed) quantitative easing (QE) after the financial crisis, seizing the opportunity of the Chinese Yuan's (CNY) appreciation against US dollar (USD) to expand its own monetary base. This allowed the Chinese government to undertake a $586 billion fiscal stimulus project, boosting growth and reducing the unemployment to 4% — all the while maintaining a stable currency. The shortcomings of this strategy, however, are now becoming apparent. The Fed is now tapering its QE programme. Unless China slows its monetary expansion, this winding down of the Fed's balance sheet will put serious downward pressure on the CNY against the USD.

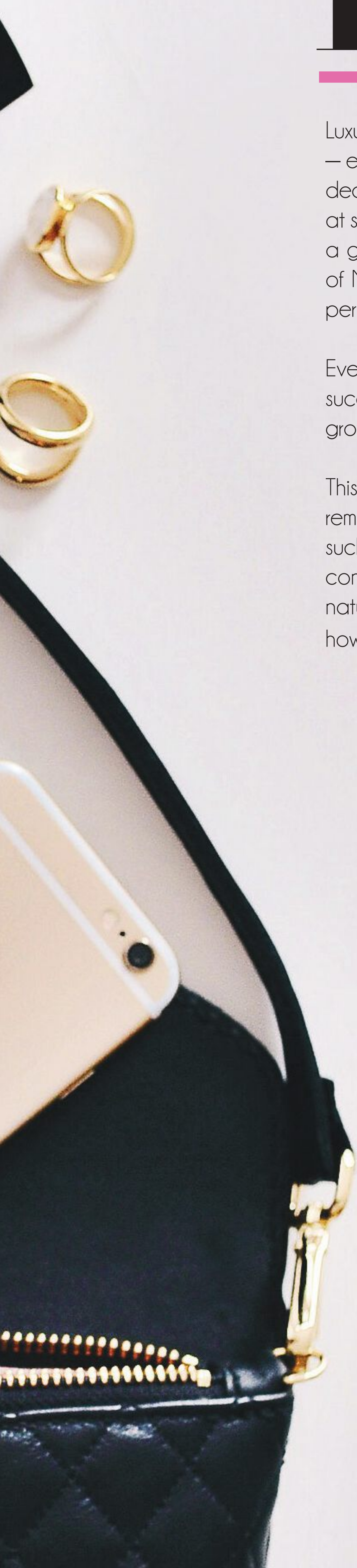
These problems are casting a shadow over the economy. To prevent depreciation, the People's Bank of China sold off about 25% of its foreign exchange reserves, about $1 trillion, during 2014-2016. However, selling foreign reserves is effectively burning money and may still be insufficient in practice. Furthermore, adjusting interest rates, despite being common practice, is not ideal — an increase in the interest rate could build credit pressure. Implementing capital controls to improve the inflow outflow balance, which Beijing has opted for, appears to exert relatively little pressure and direct impact on the value of the currency and the economy. Capital controls also mean that the economy needs to limit overseas investment and asset purchases, decreasing the capital outflow to defend the currency. The consequences of these capital control policies for investors, as well as the general economic outlook, may affect the long-term trajectory of the Chinese economy in terms of investment inflows and the import of foreign technologies. Moreover, China's institutions and infrastructure are still underdeveloped — and with a higher interest rate environment likely, important development projects and investments funded by borrowed money may become more expensive. This could strengthen the long-standing argument that China is heading towards a credit crisis.

STUCK IN THE MIDDLE

Capital outflow restrictions implemented by the Chinese government are causing concern among foreign investors. The EU Chamber of Commerce reported that China is preventing some European companies from moving cash offshore at times. These cases may deter inbound investments. Historically, Beijing has encouraged Chinese investment into foreign high-tech industries to foster innovation and cooperation. However, because the new quota forbids foreign exchange purchases of over $15,400 per individual per annum, any Chinese investors that took the government's advice found themselves unable to complete their cross-border investments. The implications of such unintended consequences may be a reduction in growth opportunity and a slower pace of structural developments in the economy. The difficulties associated with converting CNY has also affected borrowers, compelling some to borrow in USD debt — leading to an increase of 11% in USD denominated debt from mid 2015 to mid 2017 among Chinese businesses. The re-leveraging towards USD for domestic Chinese businesses arguably increases the economy's exposure to Fed policies.

There is no doubt that the end of the US's QE program has created a delicate situation for China. The poor performance of USD in 2017 gave CNY some relief, but this is not a sustainable solution for China. To resolve the problem, China not only needs to carefully balance the current inflow and outflow to safeguard CNY, it also needs to focus on the development of domestic industries. China needs to provide the world with better investment opportunities, attract more inbound investments and revitalise the investment flows.

Luxury



Luxury is back in fashion! According to a recent study by Bain & Co, the global luxury goods market — encompassing both luxury goods and experiences — has rebounded following a short period of decline. In 2017, the market grew by 5% to an estimated €1.2tr worldwide and is projected to grow at similar rates in coming years. Interestingly, the main engine behind the industry's success has been a generational shift with 85% of growth attributed to Generations Y and Z. 'The Millennial State of Mind' redefines the way luxury brands think about their clients by shifting attention to greater personalisation and enabling consumers' self-expression.

Even though the luxury industry has enjoyed growth across all world regions, the real stars of its success story are rising emerging markets. China, in particular, has been a clear top performer with growing demand from the country's new fashion-savvy middle class.

This section looks at the luxury goods market and consumption from different angles. The industry remains polarised between winners such as China, who are experiencing growth, and losers such as Poland who face declining sales and increasing numbers of bankruptcies. The notion of conspicuous consumption is as popular as ever, but the new millennial trends are transforming the nature of consumerism. It is an interesting time in the world of luxury and the coming years will show how well it has managed to adapt to these new challenges.

Poland's Fragile Luxury

Runner-up for the Insight Writing Prize / Robert Jacek Włodarski explores the unstable luxury goods market in Poland.

When KPMG published a highly optimistic report on the £3.1bn Polish luxury goods market in 2015, its British counterpart stood at £40.2bn and continuously grew. Still, the auditing company was confident about the Polish market's bright future.

Since then, Poland has been shocked by a wave of bankruptcies of domestic firms and the withdrawals of some popular foreign brands. Whereas the luxury goods market is developing, it remains unstable and surprisingly small for a high-income country such as Poland. Luxury clothes, foods, alcohol and cars are still being bought, but have all experienced instability caused by four main factors: excess supply resulting from overestimated demand, low levels of profitability, Poles' attachment to local brands, and an overcomplicated legal system.

Torn Fashion Market

The fashion market is a vivid example of this pattern. An estimated 80 percent of luxurious garments are bought in shopping malls, which in part explains why a record number of malls are being built. However, most of these constructions occur in large cities that already suffer from an excess supply of fashion items. This has resulted in growing vacancy rates, lower average rents and decreasing clothes prices.

'Poles tend to favour domestic brands over foreign ones'

Because of this oversaturation, many domestic fashion companies such as Atlantic and Zień declared bankruptcies in recent years even though Poles spend more on clothes than ever. Many others, like Royal Collection, are struggling to stay afloat. Domestic firms seem to handle the small and fragmented Polish luxury clothes market better than their international counterparts do. International chains Esprit, Top Shop, and Marks & Spencer recently closed most of their branches, while Tallinder, Burberry, American Eagle Outfitters, River Island, Centro and Jackpot & Cottonfield have fully withdrawn from the Polish market.

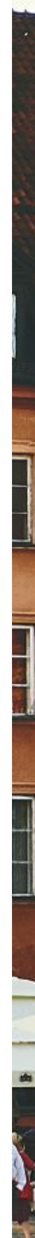
The other segments of the luxury goods market either develop in an unstable way or stagnate. Although some brands, such as Belvedere Vodka, are successful domestically and internationally, others face an unpredictable future. For example, even though 69 percent of people buy high-quality food in shopping malls, Alma — the leading luxurious foods company — went bankrupt in 2017. Luxury car sales have never recovered from the Great Recession. While Porsche sales in 2016 resemble those in 2004, sales of Ferrari, Lamborghini, and Rolls-Royce still have not returned to their pre-crisis figures. Finally, although domestic companies dominate the luxury hotels market, it remains small and unpredictable. In 2017, Hotel Ossa in Zakopane declared bankruptcy due to prolonged formal problems with loans from the state-controlled PKO Bank.

Wobbly Foundations

What are the reasons for this widespread phenomenon? First of all, estimates of demand for luxury goods were clearly too optimistic. In Poland, there are merely 42,000 people earning more than £4,250 per month — the main target group of the luxury goods market — which constitutes no more than 0.1 percent of the Polish population. Despite steady development, clearly Poland's market for luxury goods is still relatively weak.

Poland's domestic luxury goods market is thus small in comparison to other European countries. While luxury fashion in Poland constitutes only 6 percent of the fashion market and is worth merely £500 million, in France it is 23 percent and £9 billion, respectively. Due to the relatively small luxury market, transitioning from medium- to large-size as to benefit from economies of scale is impossible for most Polish luxury enterprises. For example, Apart — Poland's largest premium jewellery dealer — operates only 200 shops nationwide, which generates gross revenue of no more than £140 million annually.

According to Colliers International, foreign franchises suffer particularly from very low levels of profitability. Many shops experience losses in the



months when Poles spend less, which the periodic peaks in the number of bankruptcies reflect. When the good months cannot make up for the bad ones, any prospects of growing a luxury goods firm deteriorate.

At the same time, medium-sized local companies cope slightly better with fragmentation and the low profitability of the luxury goods market. In the premium foods market, independent standalone stores meet most of the demand. Similarly, most domestic fashion and jewellery designers are the so-called 'mom and pop' shops.

An Unfriendly Environment

How do we explain these trends? Poles tend to favour domestic brands over foreign ones according to KPMG. The report presents a strong case for consumer ethnocentrism among the wealthiest Polish consumers, 40 per cent of whom strongly favour domestic luxury goods.

Additionally, the legal system for launching franchise expansions into the Polish market remains exceptionally complicated. Donald Tusk, Poland's former Prime Minister, referred to the legal aspects of the Polish business environment as an 'inflation of law'. For example, Parliament passed 34,600 pages of regulations in 2017 alone. For instance, there are four types of VATs that can be applied to one product; whether a company pays the correct kind is contingent on the tax assessor's interpretation. If they apply the wrong VAT, the firm faces a ruinously high fine.

The Polish legal system has started to offer preferential treatment to multinational companies: possibly to level the playing field and attract further foreign direct investment. As a result, domestic firms pay a higher tax rate than international organisations. The Bisnode Report shows that on average the largest local companies pay a 22 percent tax on their profits, while the tax rate for foreign firms is a mere 17.5 percent.

The Polish case is undoubtedly interesting. It is the 6th largest EU economy and has a huge potential for development. However, the exceptional growth of the last two decades has failed to build a wealthy class large enough to absorb the luxury goods market products. The industry's situation is unlikely to improve if the destabilising factors persist.

The Necessary Evil

Michal Solcansky explores the economic logic behind conspicuous consumption and its societal benefits.

When Thorstein Veblen first suggested that some people tend to spend excessively in public to show off their wealth and power he probably did not imagine how popular the notion of conspicuous consumption would become. Squandering large sums is understandably very unpopular with the general public. The following joke illustrates how society may view conspicuous consumers: *'Late 1990s. Two New Russians meet in London. They start talking: "Look, I bought a new tie. Paid £200" "You idiot. Just around the corner you could get it for £500."'*

To get an idea of the extent of criticism of opulent displays of wealth, you could just look up the number of times this issue has made the headlines in the last 50 years. An online search for 'Fat Cats' yields approximately 650,000 articles by British newspapers alone. 'Keeping up with the Joneses' seems to be slightly less popular with roughly 465,000 writings.

Economists usually view conspicuous consumption in a bad light; a manifestation of large income inequality and a source of status concerns that decrease overall utility. Many promote increased taxation and other redistributive measures in an attempt to fix the resulting inefficiencies. While they certainly make some very good points, the question of whether such spending may also be helpful has largely been ignored. Does conspicuous consumption possess economic logic? Does it create additional benefits for the society as a whole? And if it does, what should policymakers do?

Who are Conspicuous Consumers?

When being asked to describe the average conspicuous consumer, a picture of the idle rich will likely spring to mind. Surprisingly, this seems to be wrong. Recent economic research suggests that the typical spendthrift is relatively poor and suffers self-worth issues.

In 1996, a book called The Millionaire Next Door noted that the most affluent people tend to drive older cars bought for cash, while those worse off take out loans and opt for brand new models. Studies in the United States found that African-Americans, especially in poorer states, tend to spend a significantly greater portion of their incomes on cars, jewellery, and clothes, as all of these outwardly visible goods serve as status symbols.

Conversely, the upper class is more content with spending on less visible products. Warren Buffett has been living in the same house since 1958 and driven the same used car for decades. Similarly, Bill Gates was very careful not to draw any attention to his wealth when he visited Easter Bush this January. Interestingly, what the upper class actually spend money on are high-quality services such as premium healthcare, education or house furnishing. According to various anecdotes, an easy way to determine whether a person is really rich is to look at the furnishings of their bathroom.

> 'Look, I bought a new tie. Paid £200' 'You idiot. Just around the corner you could get it for £500'

Such spending patterns among the rich and the poor may seem puzzling. One answer for this can be found in interactions between individuals coming from one social group. Poverty is seen as a highly undesirable characteristic in social interactions; visibly poor individuals are excluded from certain social activities and finding a partner is relatively difficult for them. In this sense, conspicuous consumption can be considered a means of rebuffing the perception of being poor rather than a 'proof' of wealth.

Competitive Pressures

Bankers, particularly the investment variety, are often seen as the ultimate indulgers of conspicuous consumption, which often makes them an object of derision. However, large spending may in fact be a necessary requirement for their jobs as it is an effective way of competing for clients.

Imagine you had to choose between two bankers to administer your retirement savings. One would come to meet with you in an old Fiat wearing a £30 Primark suit. The other would greet you in a perfectly tailored tuxedo having come out of the newest BMW. Which one would you trust with the task of securing your pension? The vast majority of people would choose the latter. Crucially, there is no real

evidence that one banker is better than the other. Still, a common heuristic suggests that great individual spending is mirrored by great income. In the banking market, great income implies great ability and competence (barring fraud).

Rational bankers are aware of this heuristic. An ambitious banker will invest heavily in outward appearance to attract clients. The problem with this strategy is that other bankers are aware of this as well and will act accordingly. The competition among bankers is thus translated into increased spending. If any one of them wanted to attract more clients, they would have to outspend the competition. Refusing to lose clients, others literally follow suit. As a result, a perpetuating circle of conspicuous competition is put into motion.

Outside of banking, this behaviour is observed in highly competitive markets where first impressions between clients and providers are critical. Another common example is lawyers — especially solicitors. Similarly, employers try to lure new recruits by promising a variety of benefits: free gym memberships, commuting allowances or even free childcare. Companies do not provide them out of goodwill but to attract employees in fierce competition from other firms.

Externalities

When thinking about conspicuous consumption, we rarely consider how useful it may be. Most of what conspicuous consumers buy are pointless luxury goods. Right? Nevertheless, conspicuous consumption may produce positive externalities to the rest of society — art being an obvious example.

Measuring the economic worth of art promotion is extremely difficult, but the idea that conspicuous consumption may be helpful for creators of art is worth considering. One of the first great patrons of art was Gaius Maecenas who worked as a 'talent finder' for Roman Emperor Augustus. Artists deemed good enough were given generous government commissions. While this alone may not automatically result in quality art and hence benefit society, it is not a coincidence that the three Greatest Roman poets — Virgil, Horace and Ovid — all created their works in this period.

Of course, increased spending on art comes at a cost. Although the generous support for artists provided some intangible benefits, it created very tangible economic strain and funding deficits in other areas. As such, when Augustus died he left one of the most beautiful and artistic cities of the time, but with it a massive deficit that threatened to tear the Roman Empire apart as there were not enough funds to cover military expenses.

Policy Considerations

Conspicuous consumption should not be taken as uniformly bad. Given that discussions on excessive spending focus on how to eliminate it through policy measures, it would do no harm if economists tried to consider more carefully its workings, logic and effects on the economy. Such a debate could show whether the story of 'rich people conspicuously consuming because they can' is actually true. While conspicuous consumption is in all likelihood inefficient, increasing redistributive policies aimed at limiting it may yield even larger inefficiencies. Greater redistribution will mainly harm wealthier people, who may not necessarily be the 'real perpetrators'. Financial, legal and other services could be disrupted by the implementation of luxury taxes that limit the ability of professionals to signal their quality. Considering this and possible benefits conspicuous consumption may bring, it would perhaps be optimal if policymakers simply frowned upon, but tolerated conspicuous consumption as 'the necessary evil.'

Ethical Consumption in the Millennial Age

Lisa Suerken explores how millennials are making ethical purchasing decisions.

Fairtrade, sustainability, corporate social responsibility, charity shops — the list goes on and on. In today's society, we have been seeing a shift in terms of the value placed on certain types of goods. Leading experts from all areas of trade such as food, fashion, and jewellery are currently debating how and why people are increasingly seeking out ethical choices.

A third of UK consumers claim to be very concerned about issues regarding the origin of products. A study by YouGov and the Global Poverty Project revealed that 74% of those surveyed would pay an extra 5% for their clothes if there was a guarantee that workers were being paid fairly and working in safe conditions. The average spending on ethical goods and services per household has risen from £291 in 2000 to £868 in 2010. A study by Ipsos Global Trends asked respondents to what extent they agreed to this statement: 'I try to buy products from brands who act responsibly, even if it means spending more'. 47% of those surveyed from the UK agreed with the statement.

So, are quality and price still the sole determinants of purchasing habits? Naturally, everyone still want high-quality, well-crafted products at reasonable prices. However, there is an increasing desire to make ethical purchases, even if they are slightly more expensive; even if it is to convey a certain societal status.

Why Millennials?

As millennials grow their purchasing power and begin to make up a larger proportion of the consumer market, the trend in ethical consumption — while it applies generally to the population as a whole — is largely tied to the increasing emphasis on ethical values amongst millennials.

As more and more studies on millennial traits continue to emerge, millennials have come to be known as a generation with interesting new characteristics. While they are said to have the most spending power of any generation to date — expected to reach $3.8tr by 2018 — they are actually more risk averse and less likely to spend money frivolously compared to previous generations. Thus, (much) more money is being spent thoughtfully, which explains the surge in ethical consumption.

> **'Millennials seem to be fed up with the disingenuous, captialistic, moneymaking schemes'**

Millennials like a brand they can trust — probably because they've grown up with Google at their fingertips and all the necessary information just a click away. Consequently, this allows all the ethical companies that flaunt their positive impact on the world to emerge on top. Authenticity is key. Millennials seem to be fed up with the disingenuous, capitalistic, money-making schemes used by firms in the past. In fact, 43% of millennials rank authenticity over content when consuming news, and 75% say it is important that a brand gives back to society rather than just making a profit.

One of their most interesting traits, though, is that they are unexpectedly not very influenced by advertising, which goes hand in hand with their value of authenticity. They have fallen out of the age of trusting brands and believe that their friends are actually the most credible source of information. 84% of millennials don't trust traditional advertising, meaning brands have had to find new ways of getting their message across to their target audiences. The usual, disruptive, in-your-face advertising strategy is getting old and millennials are now beginning to play the role of hard to get. Fact is, this is the first generation to be fed up with the overwhelming amount of purely self-interested marketing and are demanding a new, more civil approach to advertising that splits its interests between itself and the improvement of society.

Almost no article regarding millennials goes from start to finish without at least mentioning social media. And yes, while the stereotypical digitally-obsessed millennial definitely exist, social media has become much more than a simple platform for wasting time. As it has been established, millennials listen to their social circles. They are making decisions increasingly based on their perception of its social value. And recently, it has been proven that what is authentic, transparent, and ethical is what's trendy. Social media has become a platform for the circulation of trends and values that shape consumer behaviour, and with millennials being the most connected generation, their purchasing decisions are clearly the most influenced.

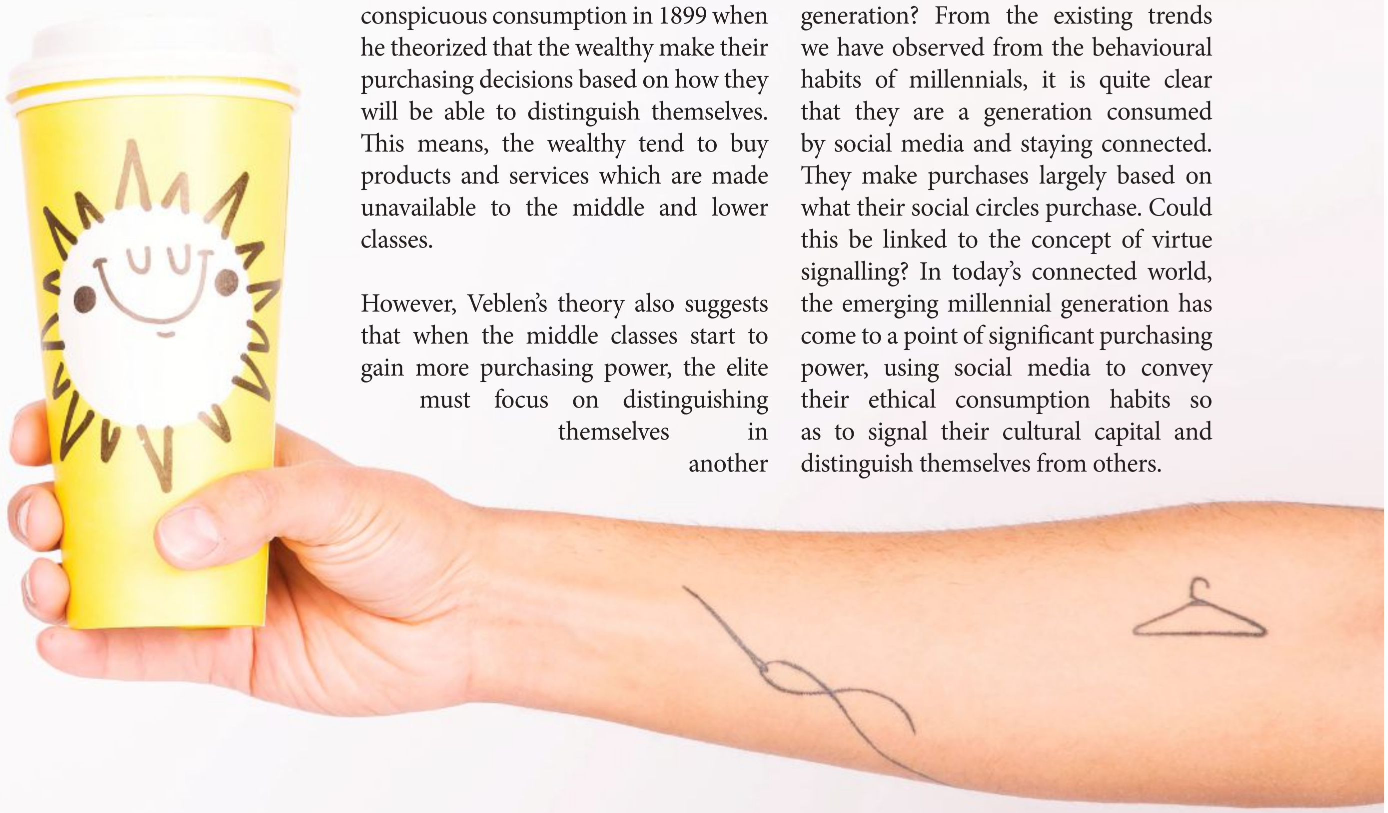
Conspicuous Consumption and its Role in Ethical Purchasing

There is no doubt that people like to show off and societal trends are now paving the way for ethical consumption to take the place of frivolous spending on luxury goods and services. Of course, the most overt reason for the rise in ethical consumption, it seems, is the fact that consumers can make a difference with their simple everyday purchases. However, if we take a deeper dive into the causes of human behaviour, we discover a slightly more inconspicuous, yet valid reason for this trend; namely, a new form of conspicuous consumption.

Because luxury goods and services have now become far more easily accessible to both the upper and middle class, the elite have taken to a new method of displaying their status — something known as cultural capital. Economist Thorstein Veblen introduced his theory of the leisure class in the context of conspicuous consumption in 1899 when he theorized that the wealthy make their purchasing decisions based on how they will be able to distinguish themselves. This means, the wealthy tend to buy products and services which are made unavailable to the middle and lower classes.

However, Veblen's theory also suggests that when the middle classes start to gain more purchasing power, the elite must focus on distinguishing themselves in another way. This is where cultural capital and ethical consumerism comes into the picture. Arguably, there is now a new form of postmodernist conspicuous consumption, which displays a more charitable lifestyle. This is done in the hopes of signalling one's cultural capital through displays of virtuous acts in order to maintain their personal image. By virtue signalling through ethical consumption, the elite are able to display their status in that they are more culturally and intellectually aware of social issues.

Is this new form of conspicuous consumption taking over the millennial generation? From the existing trends we have observed from the behavioural habits of millennials, it is quite clear that they are a generation consumed by social media and staying connected. They make purchases largely based on what their social circles purchase. Could this be linked to the concept of virtue signalling? In today's connected world, the emerging millennial generation has come to a point of significant purchasing power, using social media to convey their ethical consumption habits so as to signal their cultural capital and distinguish themselves from others.



happiness

'If you were a miserable poor person you're going to be an equally miserable rich man', is a cliché often cited by self-help advocates in order to promote the belief that happiness cannot be acquired, but only found within oneself. Consumerism attempts to disprove this notion of happiness 'not being for sale' by promoting products promising to satisfy our most innate desires. By commodifying emotions firms are able offer individuals the opportunity to exchange hours of tiring labour for treasured memories and a sense of contentment— however fleeting it may be. Regardless of our stance on the virtues of consumerism, it is undeniable that the ideology has left a multifaceted impact on global society; shaping individuals' perceptions of wellbeing and life satisfaction.

Consumerism as a culture advocates for the ever increasing acquisition of goods and services, and was propagated by the growing European middle class of the late 17th century. With the associated omnipresence of advertising, luxury consumption and household debt have since been powerful forces in determining both what is produced and what individuals wish to consume. The articles ahead explore the complex relationship between consumerism and happiness. Are we in truth more satisfied as a result of our materialistic culture, or has it merely forced us to live a life of superfluous indulgence?

Coffee & Donuts

Runner-up for the Insight Writing Prize / David Peat explores the rise and fall of Krispy Kreme

The Gamble

Within most Krispy Kreme stores sits both an impressive feat of engineering and a spectacular economic gamble: the Donut Theatre. 'Theatre' is probably far too unassuming a term for a room-sized conveyor belt system which carries donuts from their birth as small balls of dough through cooking, turning and glazing, until they finally roll off the assembly line as fully formed glazed donuts. The larger models could belch out a staggering 100,000 plus donuts each day. As Krispy Kreme (KKD) expanded across the US in the late 90's, it built hundreds of these machines in its stores nationwide. It was a startling wager on not just America's appetite for donuts, but an even greater bet *against* another American favourite: coffee, on which Starbucks was placing a bet of its own.

Krispy Kreme's bet would go spectacularly wrong over the next decade, while Starbucks would prove, against all odds, that Americans could view coffee as a luxury product. The story of donuts and coffee in America is one of stunning failures and triumphs of corporate strategy.

Frosted Unicorn

The year 2000. Britney Spears was still at the top of the charts and *Harry Potter and the Philosopher's Stone* was the only Harry Potter book in existence. Krispy Kreme had also just become a national phenomenon and IPOed to a storm of media attention (it listed on the NASDAQ, naturally, despite donut-making having dubious links to tech). Scott Livengood, the firm's CEO, rang the NASDAQ opening bell on April 5th and embarked on a barnstorming day of 25 television interviews — bringing boxes of glazed donuts for the staffers of each of the news networks he visited. By the end of the day, the stock price had surged 76% from its IPO price — and Livengood was riding a sugar high.

The company's superb unit economics made it easy to understand investors' excitement. It solved an age-old problem which had plagued the $40 billion Coffee & Snacks segment of the restaurant industry: low revenue per sale. If a barista takes 60 seconds to serve a $1 cup of coffee to a customer, high margins on the coffee won't save your store from high fixed costs on labour and rent. Starbucks was trying to get around this by persuading middle-class Americans that they should opt for more expensive espresso-based drinks over filter coffee. Krispy Kreme rejected this coffee-driven sales approach entirely: it was trying to prove that Americans could be lured into its stores *just* to buy donuts (it didn't carry its own brand of coffee, although still had external brands). The strategy was paying off spectacularly. By 2001, while Starbucks brought in $600,000 in sales per store, Krispy Kreme was pulling in an eye-watering $3.5m per company-run store. KKD's earnings per share began a steady march upwards.

The Golden Goose

Because of the extra floor space required to house the Donut Theatre within its stores, KKD had usually opted for locations that were more out of the way to save on rent, which meant it had a harder time capturing regular commuter traffic than its competitors. The company still had one secret weapon: the Donut Theatre itself. Because customers could watch the baking process unfold on the company's donut-laden conveyor belts, visiting a Krispy Kreme was a novelty. Since the average customer visited a Krispy Kreme only once or twice a month, the novelty factor was a critical selling point for the firm.

But Scott Livengood wasn't content to wait for consumers to wander into his stores. His strategy was to use the gargantuan donut-making capacity of his retail outlets to flood fresh product to third-party sellers like gas stations, convenience stores and supermarkets. The wholesaling strategy allowed the company to continue growing same-store sales, which hit $4m per company-run store in 2003.

In August 2003, Krispy Kreme's stock hit $50 — which was, and would forever remain, its all-time high.

Cooking More Than Just Donuts

In early 2004, Wall Street's analysts were blindsided by a surprise profit warning from Krispy Kreme. Scott Livengood initially cast blame on the concurrent health crisis sweeping America (the Atkins diet was in vogue). But the analysts were suspicious: why wasn't Krispy Kreme's plunging profitability to be found amongst its competitors?

The accounting scandal that would be uncovered in the following few months would go down as one of the most precipitous falls from grace in American corporate history.

Krispy Kreme's steadily rising earnings had indeed been too good to be true. The firm had been stuffing its affiliates with extra shipments of donuts before purchasing the unsold donuts back itself, which inflated apparent sales. As real sales slowed, reported earnings were further inflated by more and more 'accounting errors' — the euphemism used throughout the report into the scandal, which Krispy Kreme submitted to the SEC. The report heavily implicated Livengood, but stopped short of accusing him of cooking the books.

Krispy Kreme's all-in bet on donuts had placed it on the wrong side of a trend towards espresso-based coffee, and over-saturation from aggressive wholesaling killed off the novelty factor that drew customers in the first place — long before 'errors' tarnished its corporate brand.

Starbucks's success has made it ubiquitous in cities across the planet, including ours. There is only a single Krispy Kreme Donut Theatre in Edinburgh, near the airport, but it works away without the attention it used to receive. The novelty is gone.

One More Thing Money Can Buy

Amber Murray ponders whether happiness has become the currency of our times.

Happiness. Success. Fulfilment. Difficult concepts to pin down, and even more difficult to achieve. Right? Well, no — not if you work in advertising. A good life can be yours for the price of one overly stylized, well-lit IKEA showroom. Happiness appears to be the currency of the times, and the market is booming.

MONEY ON OUR MINDS

Americans spend more time and money in the search for everlasting happiness than any other nation in the world, but they consistently rank as some of the least happy. The form of happiness advertisers sell us is unaffordable and frankly unattainable — and yet we appear to obsess over it. For many, life and the pursuit of happiness revolve around the constant quest to acquire more money to buy more things (often in direct competition with our peers) at the sacrifice of both our personal relationships and free time. Of course, this is not to say that everyone should up sticks and move to a rural farm to grow beets, free from the shackles of free-market capitalism. As a response to this many have found a simpler solution: mindfulness.

Mindfulness has its roots in Buddhist teachings, yet it is a relatively recent phenomenon in the West. It aims to immediately declutter your life and focuses on being present in the 'here and now'. It is touted by everyone from business executives to celebrities who praise it as 'revolutionary' and 'ground-breaking', despite that scientific research on the topic being extremely limited. The paradox is, then, that this new anti-consumerist trend is — you guessed it — being capitalized on by consumerist forces.

MODERN MINDFULNESS

Mindfulness has produced a consumer product with an ideal dual purpose. On the one hand, it promises to alleviate stress in employees — often in organisations where corporate culture is at the root of the problem. On the other, a commodity with infinite sales potential. This makes it almost the perfect product. According to the Global Wellness Institute, the global health market grew 10.6% to $3.72tr from 2013 to 2015, while the global economy shrank 3.6% over the same period. However, in refracting mindfulness through the lens of consumerism we are allowing the quick-fix neoliberal mind-set that dominates our politics and culture to exploit it. Equally, in many ways this phenomenon has opened a new market for happiness in the form of buyable lifestyles rather than just tangible goods. The market for happiness suddenly appears endless.

AN ALL CONSUMING HAPPINESS

This quick-fix happiness industry of self-help books and meditation courses can only be a short-term solution to the serious socio-economic problems in our society. Instead of asking ourselves, 'what we can do to make ourselves happy?' we should be asking ourselves why we are so focused on this question in the first place. Simply, 'happy' goods are in such high supply because of the phenomenal growth in demand for them. Not coincidentally, the industry boomed in the wake of the 2008 recession, during which countless lost homes and livelihoods practically overnight — many of whom continue to struggle a decade later. The number of food parcels handed out in the UK increased from 41,000 in 2010 to 1.2m in 2016. Thirty-seven percent of Britons identify as 'JAMs': Just About Managing. Buying a self-help 'mindful' book is not very different from buying a lottery ticket — both provide the very real albeit unlikely possibility of an immediate solution.

THE SPENDING BOWL

Lars Leimkühler looks into the ritual consumption that surrounds Americas favourite holiday.

Super Bowl LII has been record-breaking in many regards as both teams accounted for 1,151 total offensive yards in a wildly entertaining shootout where the Philadelphia Eagles clinched a 41-33 victory against the New England Patriots. However, off the field, even more records have been broken: 30 second commercials were sold with a price tag north of $5m which represents an 87% increase over the last decade. Additionally, the number of allocated advertisement spots has increased from 81 in 2008 to 98 this year. Combined, those two factors result in more revenue…, a lot more revenue! Overall, total spending on in-game spots amounts to a gargantuan $414m compared to the 2008 Super Bowl with $209m in ad revenue.

Whilst considering those statistics which just form the tip of the iceberg of the NFL's commercialisation in recent years, uninvolved spectators might think that this year's Super Bowl was a huge success. Nonetheless, NFL ratings have suffered throughout the whole year due to national anthem protests and a general decline in ratings on cable and broadcast. As a result, Super Bowl ratings hit a seven-year low and television viewership decreased to a mediocre 103m from last year's 111m. Many fans are annoyed by the extensive advertisements during games. In the case of Super Bowl 52, this meant 49 minutes and 35 seconds of draining commercials accounting for 22% of total broadcasting time – the third highest in Super Bowl history. In light of recent developments, many fans have criticised the NFL's commercialisation and wished for the 'glorious old days of plain football broadcasting' as stated by an elderly man near US Bank Stadium, Minneapolis.

NOT JUST A GAME

Unfortunately, it is too late for such anachronistic thoughts. In today's world, the Super Bowl has moved far beyond its origins as a sporting event. Instead, since the 1990s the Super Bowl has become a globally televised, all-encompassing entertainment program featuring funny adverts and a flashy halftime-show designed to please every potential audience. This trend is exemplified by a YouGov study in 2016 which asked people about their preferred part of the Super Bowl. Therein, only 47% of respondents indicated they would watch the event for the game itself, while the other half would watch because of commercials (35%), the halftime-show (12%) or other reasons (6%). Among millennials, Super Bowl commercials were actually the most popular reason for watching the game.

Those statistics serve the purpose of highlighting the Super Bowl's true being: an impressive, well-oiled commercial machine with extremely important implications – especially on an economic level. Thus, it is worth taking a closer look at some of the outcomes of the Super Bowl's commercialisation.

A SYMBOL OF CONSUMERISM?

The average American spent over $81 on match day for food, beverages, decorations and team apparel. Overall, national spending on the Super Bowl adds up to a whopping $15.3 billion in total. Of course, this number marks a significant contribution to the US economy and provides many companies with important revenue streams. Nevertheless, the event's contribution to social welfare is likely to be much lower than the numbers suggest due to some nasty habits which come along with the Super Bowl.

First of all, the average adult consumer spends an incredible $44 on alcohol which is considered to be a demerit good. Hence, economists regard its consumption as socially undesirable due to its negative health effect on consumers which will cause a higher burden for the health care system in the long run. Speaking of demerit goods, Americans place bets worth almost $5bn on the game. Additionally, the average consumer spends close to $30 on fizzy drinks and junk food like Pizza and Chicken Wings. Suddenly, those spending numbers don't sound so great anymore.

Considering the type of products advertised during the Super Bowl, these unhealthy habits are actually enhanced. Auto manufactures had the biggest presence of all categories, accounting for 9 minutes of ad time, but were closely followed by producers of alcoholic beverages. Moreover, soft drinks like Coke, Pepsi and Mountain Dew and snacks such as Pringles, Doritos and M&Ms were heavily advertised. Most of what those products have in common is that they are certainly not great for the consumer's health. Unfortunately, the goods that are most widely advertised tend to create the least social welfare. Certainly not a great combination!

ECONOMIC VALUE — ANYTHING BUT SUPER

Now, let's consider some more economic concepts and watch those impressive Super Bowl numbers deflate faster than a New England football. Although Americans spend approximately $15bn per year on their Super Bowl plans, the event displaces other activities and thus comes with an opportunity cost. Only 5.5% of Americans are expected to watch the big game in a restaurant or bar and the total number of guests during Super Bowl day is usually half the normal rate – representing a loss of approximately $367m for restaurant owners. But other industries are hit as well: In 2016, box office sales plummeted by 66%, causing a loss of $39m to theatre operators. If one considers that movies account for roughly a seventh of household entertainment spending, this implies a loss of further $273m. Overall, it's a bad day for every business which is not involved in watching football from your couch.

Then again, it is only one day, which is concept number three: intertemporal substitution. The Super Bowl undoubtedly alters consumption patterns, concentrating a lot of spending in a single event. But does it change the volume of our spending? Unfortunately, money is a finite good for most consumers, thus forcing most of us to save after a big feast like Christmas or the Super Bowl. What goes up must eventually come down.

The aftermath of the Super Bowl does not only have negative effects on the demand side, but also on the supply side of the economy: A study from Challenger, Gray & Christmas, Inc. estimated that the Super Bowl would cost US employers approximately $3bn in lost productivity. This number was mainly calculated from the lost productivity of 17m workers who planned to skip work the following Monday and a estimation from researches that claims that the average worker comes in an hour late or wastes an hour during work the next working day.

Do the negative effects of the Super Bowl outweigh its contribution to the economy? Probably not! Should there be government intervention? Again, probably not! After all, experts estimate that the Super Bowl makes a ten-figure contribution to US GDP. Thus, it would be vastly superfluous to pretend to be Colin Kaepernick 2.0 and call for a boycott of Super Bowl LIII, thereby giving in to those nasty rumours in your head about the sometimes extensive consumerism surrounding the Super Bowl. Instead, maybe think twice about buying that third pitcher at Teviot or getting that 2 for 1 Pizza deal at Domino's although you can actually just eat one. In the end, those marginal efforts add up.

Consumerism: More Good than Bad?

Henry Badger explores the multifaceted impact of consumerism on the wellbeing and evolution of our society.

The word 'consumerism' has often been used to describe our modern culture of spending. Many skeptics accuse our consumerist culture of suppressing creativity and culture whilst fostering the production of wasteful items that provide no real additional benefit; this lead many to believe that the benefits of our materialistic culture are outweighed by the drawbacks. However, is consumerism really that bad? Alternative to the classic anti-consumerism philosophy, it should be explored whether consumerism is an imperative driver for the creation of innovative industries, the motivation of entrepreneurs, and a necessary driver of economic growth and the success of an economy.

A Force for Innovation

At the most basic level of consumerism, the retail industry generated nearly seven-hundred billion dollars in revenue during the holiday season of 2017. This influx of demand generated more than seven-hundred thousand new jobs and the holiday season revenue has steadily increased in nominal growth every year. However, the concept of consumerism has arguably a much greater scope of influence beyond the retail industry. Consumerism can be defined as the promotion of the consumer's interests. Through the placation of these interests — breakthrough firms such as those in California's Silicon Valley are able to thrive.

Silicon Valley has contributed to our world's rapid progress in technology and industries that have innovated the world; allowing consumers to be more connected and productive. The constant expansion of consumer interests opens the door to hundreds of new industries. A prime example is the company Tesla, Inc which has allowed tens of thousands of consumers to purchase eco-friendly electric vehicles. The emerging electric automobile industry alone has generated billions of dollars in revenue to date, and the industry is continuing to rapidly expand. The electric vehicle industry is not alone. The most successful Fortune 500 companies have created a product or service that attempted to fix a consumer problem; with some of these companies even creating entire new industries through the founding entrepreneur's ambition.

To expand upon this claim, consider the company Uber. Before Uber, the taxi service operated a monopoly within major cities and suburbs with autonomy over the price and availability. Excluding public transportation and private cars, if a consumer wanted to get from point A to point B, the taxi cab was one of the dominant providers. Uber changed and disrupted the taxi service industry by allowing the consumer to order taxi rides more conveniently and cheaper than the traditional taxi system. Uber was able to dominate the market by promoting innovations that appeal to the consumers' desire to find superior methods of transportation against overpriced taxis and crowded public transportation. These startup companies ultimately displace the powerful firms through listening to and acting on the consumer needs within an existing industry and by offering a truly preferable product or service. In this way, consumerism acts as the force encouraging firms to continually innovate and add value in order to keep their market relevance.

An Inefficient Allocator of Resources

Does consumerism ensure that the market produces in the most efficient way and that the variety of goods offered truly benefit the common individual? In the United States alone, a total of 254m tons of trash was pure waste. Up to 60% of the waste in our bins could be recycled in the UK. On average, around eight million metric tons of waste pollutes our oceans annually; spoiling our planet over microbeads and carbonated drinks.

In many ways, consumerism furthers the disparity in global wealth, causing 'the rich to get richer and the poor to get poorer'. Statistically, the top 10% most affluent individuals consume 59% of resources whilst the bottom decile only consume a mere 0.5%. If the total revenue generated from cigarette sales in Europe alone ($50bn) was collected and redistributed, our world could be vastly improved and revitalized. For example, we could invest that money in things like education and infrastructure. Instead, consumerism encourages irresponsible spending habits and unsustainable extraction of resources when our world is in dire need of redistribution to focus on essential developments.

The Darwinian Nature of the Consumer Market

The Dot Com era in the 1990s is a perfect historical case illustrating that if businesses wish to survive they must offer the customer intrinsic value in their products. The adoption of the internet inevitably led to the birth of hundreds of startups; all attempting to capitalize on this unprecedented emerging industry. This grew into a large speculative bubble and when the bubble eventually burst during 2001, it forced hundreds of over-valued companies to go out of business. The companies that promoted consumer benefits and interests were the corporations to survive the crash (e.g: Amazon, eBay, Oracle, Adobe, IBM). Hence, a virtue of consumerism is that it only ensures the survivability of products that consumers find beneficial. At the same time, these products and their companies will cease to exist once another entrepreneur develops an innovation that disrupts the current industry. In other words, both consumers' fickle mindsets and desires, and disruptive competitors determine the future of entire markets. A great illustration of this is how Netflix replaced the store Blockbuster because the latter failed to adapt their business model to changing consumer demands and Netflix's innovations. Consumerism is unforgiving to any company that becomes stagnant. The powerful group of corporations FAANG (Facebook, Apple, Amazon, Netflix, Google) long-term security relies on their ability to keep moving the needle. Faced with these conglomerates, many consumers understandably feel a lack of power — but collectively consumers have more power than any corporations do. After all, it all boils down to consumers' spending habits.

Luxurious Debt

It is important to consider the negative impact of consumerism

on the well-being of society. The consumerist mindset changes frequently, which the constant evolution of new fashion trends and technological devices shows. This may very possibly cause more of a burden on consumers as they try to stay current. Zara, a fashion brand, features over 10,000 new designs every year. Endless adverts telling consumers to buy more clothes can hardly be good for both their mental well-being and wallets. The word 'affluenza' describes this feeling of un-fulfillment. Affluenza is when individuals are in pursuit of money, wealth, and material possession at the expense of other sources of self-esteem and contentment. Some aspects of consumerism may thus inherently be unhealthy and redundant. Instead, we need to focus on the intangible relationships and experiences that grant us true satisfaction. Shockingly, Americans save on average only 4% of their income with 33% of the population in debt. It is possible that by simply slowing the detrimental pursuit of burdensome consumption we may be able to afford investing our hard-earned money into better alternatives — if not, our world may need to restart from the ground up; forcing us to redefine the concept of 'true happiness' to encourage less materialistic possessions and grant more self-fulfilling experiences.

Whether consumerism is a benefit or a burden to our society as well as our economy raises some great points for discussion. On the one hand, consumerism is largely inefficient and wasteful for the environment, in addition to increasing the wealth gap even when we could spend the money on more pressing issues. On the other hand, consumerism is one of the core reasons for the extensive technological progress that shapes our world today. Does the consumerist mindset encourage over-valuing materialistic possessions, or innovation? Is consumerism good or bad? Whatever opinion you have developed, it is clear that consumerism will be a topic of debate for many years to come. As with many anthropological questions a true judgment may never be agreed upon.

TECHNOLOGY

Technological advances now occur at a blistering and (crucially) increasing rate. As consumers try to keep up with the latest gadgets, we will likely continue to see a rise in per capita consumption. Some companies exacerbate this phenomenon by leveraging 'planned obsolescence', which is discussed on page 33. Another related beneficiary of technological innovations is trade. In the following couple of pages, Sam Bacevich explores how developing countries can strike a balance between effective protectionism and embracing global competition.

The expected rise in consumerism will be environmentally unsustainable if emissions continue to be proportional to consumption. Consequently, the question remains whether imminent technological leaps can sever that linear relationship, or continue to hurt the world just as it has since the industrialization. One of our articles considers a more recent illustration of the latter: the 43 million tons of e-waste which was discarded in 2016. Finally, this year's issue of Insight wraps by addressing how we can use policies to achieve sustainable consumption.

Seeking a New Path

Sam Bacevich explores economic growth policy in developing nations.

David Ricardo's theory of competitive advantage demonstrates that trade increases consumption for participating countries — subsequently his theory has dovetailed into current neoliberal trade policy. In the 21st century, Ricardo has largely been proven correct. International trade's success has dragged millions of people across the globe out of poverty and into the middle class. However, it has also left many countries that represent an essential link in the global supply chain with a cyclical dependency on commodities and low domestic consumption. Increasing human capital and technological spillover, once touted as a byproduct of free trade and foreign direct investment (FDI), have created very little sustainable domestic growth and a stagnant middle class for many nations who pinned their developmental goals on an export oriented economic model. The current philosophy, which is widely purported by developed countries and the multilateral institutions they fund, overemphasizes immediate market access and FDI as the solution to a country's woes. To grow the global middle class, each individual country must test their own economic model to create sustainable domestic growth and a sizeable middle-class consumer.

FDI May Not Be the Answer

In the 1970's, developed nations began pivoting away from foreign aid, favoring investment by large multinational corporations (MNCs) and freeing up trade. While lump sums of money seemed to create negative externalities within countries, economists and politicians hoped that interactions between developed and underdeveloped nations would have spillover effects that would create long-term economic growth. In this model, MNCs would enter a country to take advantage of low labor costs or access a commodity, and the host country would benefit from state of the art technology and efficient management practices. In theory, the technological advancement is a principle driver of economic growth, so the entry of the MNCs into emerging markets should begin to facilitate a convergence of developing and developed countries. Effectively, economic growth, through the FDI from MNCs, would drag the majority of a developing nation's population into the global middle class.

However, this model fails to incorporate the truly expansive supply chains that are now typical of large corporations. MNCs often source materials from multiple countries, and choose another country for final assembly. They invest only enough to satisfy the requirements of their supply chain. FDI, and the technological expertise that follows, flows towards a singular sector, rather than the broader economy. This creates an environment in which one sector represents a significant portion of FDI stock, economic productivity, and educated human capital. Subsequently, a country that specializes in one sector is now largely dependent on that sector's success, which exposes their domestic economy to potential market volatility. For example, numerous African and South American nations are specialized suppliers of raw materials for MNCs, but they have not seen an increase in domestic wealth. By 2030, only 8% of the global middle class will come from both continents combined. Currently, the notion that FDI will still be an enormous advantage even when it is focused within a single industry is widely accepted and celebrated. However, numerous studies show that there are barriers to long-term economic growth from FDI. FDI's benefit is closely tied with the education level of the working population of the country. If a country lacks the human capital to adopt and adapt to technology, then technological adoption will eventually hit a ceiling where no more advancement is possible. The lack of technological spillover may even have a negative effect as domestic firms cannot compete with their international rivals, and are forced out of business.

The Two-Tracked Growth Model

A successful domestic middle class attracts FDI into a larger variety of domestic sectors, creating a more diversified economy, which can withstand volatility in any single market. According to the OECD, the global middle class consumer is defined as anyone who has a spending power between \$10 and \$100 dollars a day. Additionally, nearly 85% of the middle-class growth is predicted to come from Asia, which currently has a significant portion of its population living just below the \$10 a day threshold. The emergent global middle class will push consumption up from \$21 trillion to about \$56 trillion by 2030, with only about a fifth of this growth coming from North America and Europe. The middle-class threshold is also when many families begin seeking more advanced education, which directly benefits the amount of technological absorption within the host country.

This begs the question: what have Asian countries done differently than the rest of the emerging world? Predominantly, almost all economically successful Asian nations have followed a two-tracked economic growth model. This model starts by protecting important domestic businesses with high tariff restrictions while simultaneously establishing special economic zones (SEZs) across the country to attract foreign investment. As domestic businesses become strong enough to compete with MNC's within their domestic markets, these tariff restrictions are slowly removed. SEZs also allow for the slow diffusion of technology because MNCs still hire from the local population. As of 2012, India had 143 SEZs in operation and another 634 that are either approved or under construction. In 2016, India began repealing tariffs protecting their airline, defense and pharmaceutical industries. Until Prime Minister Modi deregulated, even Apple — which is ubiquitous in other countries around the world — could not open a branded store. Subsequently, India's middle class has reached a population of 267 million, and has become the darling of global consumer goods companies.

A Tale of Two Countries

To illustrate the point, let us take two countries: Country A and Country B. Country A maintained import monopolies, kept tariffs on agricultural and industrial products as high as 50%, and refused to register as a member of the WTO until 2007. Country B has long been a member of the WTO, slashed tariffs to a maximum of 15% and received a commendation from the US State Department for reducing barriers to trade. Country A had GDP growth rates exceeding 8%, sharply reduced poverty and attracted significant FDI. Country B still has a declining middle class, poor social indicators and does not see significant trade flows despite its open market access.

Country A is Vietnam, which has followed a two-track model since the 1980's. Country B is Haiti, which sharply reduced trade barriers in the early 1990's, yet remains one of the poorest nations in the Western hemisphere.

Since Vietnam joined the WTO in 2007, FDI into the country has totaled more than $8.5bn. By 2020, Vietnam's middle class is projected to represent about a third of the total population. Vietnam, through heavy tariff protection in the agricultural sector, is also one of the only developing Asian countries to have a significant rural middle class. While there are obviously many differences between the two economies, the disparity in economic development between Haiti and Vietnam goes some distance to exemplify that market integration is a result of successful domestic policy, and not a prerequisite for economic success.

Conclusion

The IMF, WTO, and World Bank often require developing countries to diminish trade restrictions before receiving financial aid or support. This umbrella response to developmental issues fails to incorporate a varied selection of domestic economic problems. Domestic protectionism can provide short term synchronized growth for a majority of the population, ensuring that a larger portion of the population will achieve middle class status. By establishing a two-track economic model, a country can address their domestic economic issues while simultaneously attracting FDI. This combination allows countries to leverage the diversity of their domestic business to weather market volatility, while also enjoying the growth associated with being incorporated into the global supply chain. As developing countries continue to drive consumption and growth in the upcoming decades, many should consider altering their trade policy to position themselves for long term, sustained growth, with a strong domestic market.

Hard Work

Marco Malusà explores the hidden perils of a district of Accra suffering from electronic waste.

What happens to discarded smartphones? Where do computers, fridges and washing machines go to die? In a world where demographic and technological forces conspire to let ever-growing amounts of unserviceable electric and electronic devices accumulate, addressing questions like these has become of paramount importance. What challenges and opportunities await us in this often-neglected, yet fundamental sector of the global economy?

Where there's Muck, there's Brass

In theory, e-waste processing can be a profitable enterprise. Circuits and wires contain valuable metals — copper among them — that can be sold off as scrap parts or used to produce new devices. Similarly, traces of precious elements, including gold, can be found inside hardware components. Their extraction, however, comes with a hefty price tag: unless performed in a safe and controlled environment, it can have disastrous human and environmental consequences.

Sodom and Gomorrah

Few places on Earth embody the costs of unregulated e-waste processing so acutely as Agbogbloshie, a district of the city of Accra, Ghana and one of the largest e-waste dumping sites in the whole of West Africa. Little remains today of the lush wetland ecosystem that once thrived here: the water of the Korle lagoon is now covered by a thick, viscous layer of nauseating slime; the skeletons of partly burned electronic devices dot the landscape as far as the eye can see, and the air is choked with the intoxicating fumes of burning plastic.

Estimates point to approximately 40,000 inhabitants living on site, but it is hard to find reliable sources due to the informal nature of the settlement and the precariousness of the occupation. Effectively a city within a city, Agbogbloshie lacks much of the infrastructure other Accrans enjoy. Instead, a complex web of social and professional relations has been woven in place to accommodate for the informality of labour, thereby making up for the unreliability of external institutions and catering to the idiosyncratic needs of the residents.

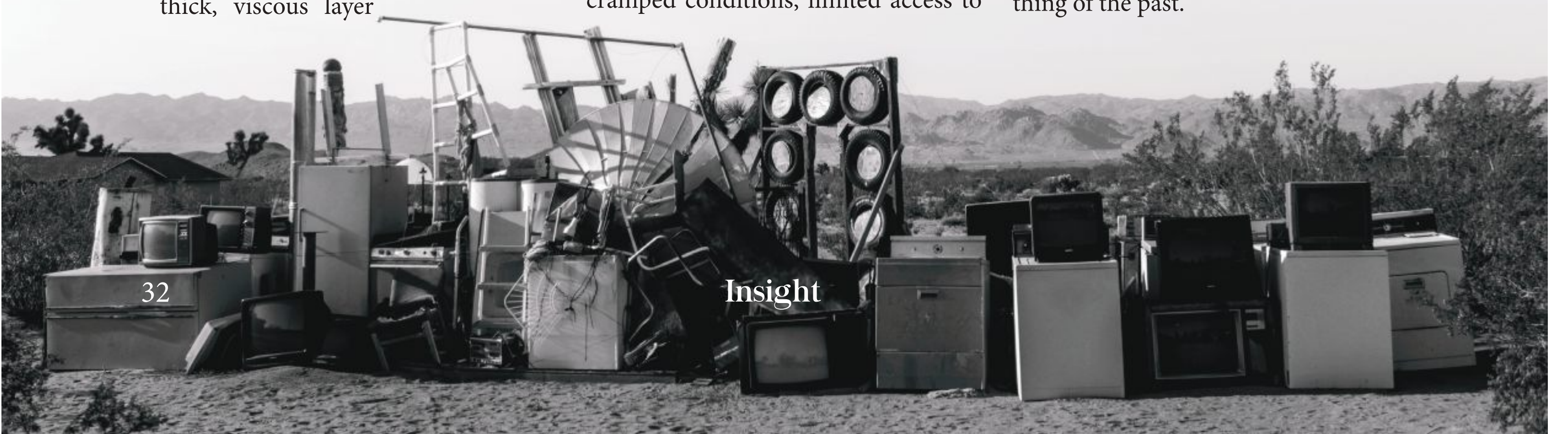
Labour in Agbogbloshie is rigidly-divided along age and gender lines. Teenage boys and young men contribute by stripping open sheathed cables — often with their bare hands, or by burning the foam packaging — to expose the metal core. Women are tasked with domestic work, food supply and other duties like the 'cooking' of circuit boards to obtain the precious metals mounted within. Children, when not in school or playing in the nearby field, are called on to collect pieces of metal buried in the ground with the help of makeshift metal detectors.

Life expectancy in Agbogbloshie is abysmally low due a combination of physical injuries, fire hazards and the unusually high risk of contracting lethal diseases. The latter results from cramped conditions, limited access to infrastructure and the inhalation of toxic fumes, all of which contribute to respiratory diseases and cancer.

The Way We Live Now

One might be tempted to ask: why would anyone choose to live in — let alone migrate to — such a toxic place? The answer, however, is simple: the need for money and employment. Many workers come from impoverished regions in the north and only plan to stay in Agbogbloshie for a short while. To them, the dump-site represents a profitable opportunity to accumulate wealth and finance their future endeavours.

It is perhaps easy to abstract away from the hardships of life in Agbogbloshie and, however empathetically, label its workers as the unknowing victims of a heinous system. Nevertheless, if one truly is to acknowledge their agency, it is imperative that one see them for who they are: workers supplying labour to a profitable market, albeit an unregulated and life-threatening one. It is through committed recognition of the existence of such a market that Agbogbloshie's inhumane conditions can be improved in a concrete way. More consistent enforcement of the already-existing labour and environmental laws, together with the drafting of more stringent ones, would be steps in this direction. After all, if handled properly, e-waste management in a world of ever-increasing demand for technology can clearly play a major role in the development of a fairer and more circular economy. One where the horrors of Agbogbloshie are finally a thing of the past.



Planned Obsolescence

An Evil Plot by Manufacturers or the Lynchpin of the Economy? - Blanca Sans.

Would you believe that planned obsolescence is not as manipulative and immoral as often said? The truth lies below. Planned obsolescence describes the intentional act of producing goods and/or services with short economic lives. Though various reasons lead manufacturers to pursue such strategy, their primary motivation is to stimulate consumption of new and more up-to-date items. This does not imply that newer product are inherently significantly better, just that they coerce consumers into further consumption. This practice is commonly referred to as 'shortening the replacement cycle'. The question remains whether this a malicious ploy by manufacturers, or rather a source of stimulation for ever-improving goods and services.

One Step Too Far

Seventy years ago, planned obsolescence was not a common term. Since then it has grown and reached a point where it is deeply rooted into our daily lives. Everything we consume has its days numbered, but we often turn a blind eye and keep accumulating. Consumers have always been willing to offer far more for products they believe to be of the highest quality. This is the case, in part, because they believe that expensive is almost synonymous with quality and durability. Interestingly, luxury brands are often the biggest culprits of planned obsolescence. Take Apple, the biggest multinational IT firm, renowned for producing technology of the highest quality. In December 2017, Apple admitted to deliberately slowing down older iPhones through software updates 'in order to address issues caused by aging batteries'. Whether they had malicious intent or not, it is an obvious example of planned obsolescence: slowing down the 'older' products to incite the purchase of 'newer' and 'faster' versions.

Environmental Disaster

Each year firms produce newer and 'better' electronic devices; however, consumers often discard them after a couple of years. Smartphones' screens crack, batteries (run out quicker?), components are irreplaceable and operating systems non-updatable. As we perpetuate this cycle there is an accumulation of discarded products that is being disposed of in an inappropriate and environmental-hazardous manner. Air, water, and soil pollution are just a few of the many issues obsolescence has aggravated. In 2014, we produced around 42m tons of e-waste worldwide, which is expected to raise to 50m in 2018. Why, then, are we allowing it to continue?

Different View

The simple idea of manufacturing and selling governs today's world; this has and will always be the main reason behind obsolescence. Hence, let us consider how it may actually benefit us. Planned obsolesce creates a large amount of jobs producing rapid turnover of goods, which leads to economic growth. Additionally, during economic slumps and times of cyclical unemployment, planned obsolescence can help support aggregate demand; mitigating the economic downturn.

What is the Matter with Sustainable Consumption?

Runner-up for the Insight Writing Prize / Leo Čunderlík explores how climate change changes everything.

We are on the precipice of climate change tipping points beyond which there is no redemption' were the words of James Hansen, father of climate change awareness. According to the IPAT equation, environmental degradation is the product of three factors: production, affluence and technology. All of these aspects are linked to individuals' consumption preferences. What people choose to eat, where they decide to travel, even how their homes are arranged affects their impact on the environment. Therefore, it is perhaps the case that consumption needs to be made more sustainable if we want to avoid falling over the cliff.

With rapid population and economic growth, consumption of natural resources is growing exponentially. This, unfortunately, has had environmental repercussions. The core sectors driving consumption-based emissions are transportation, housing and food. Take transportation: increases in per capita ownership of vehicles and total miles driven by citizens — expected to rise fourfold by 2050 — will cause massive increases in emissions. Regarding housing, the growth rate of emissions slowed due to better energy efficiency standards and technologies, but this has been more than offset by a growing number of homes and an increase in electrical appliances per household. Finally, increased consumption of meat and dairy products, highly processed food, and an increase in 'food miles' due to globalization of food chains pose sustainability issues. According to a recent analysis by Sustainable Europe Research Institute, it is estimated that for every 7 kilograms of consumed products, the 'ecological rucksack' may be as much as 60 kilograms. It has hence been shown that the world is consuming 50% more than is environmentally sustainable. As a matter of mathematics, this suggest consumption needs to fall by a third. The image of people consuming only two thirds of what they consume today might be disturbing, yet, perhaps, inevitable.

Behind Consumption Habits

The ecological footprint is unevenly spread across the globe, and this spread indicates that global environmental issues can be linked to consumption habits of high-income countries. Research by Christian Aid indicates that the average American consumes over 90 kilograms of resources per day; the figure for the average Asian citizen is only 14 kilograms. Yet the poorest are those far more vulnerable to environmental hazards, suffering from rising sea levels and issues with food security.

The reasons for overconsumption in developed nations could be linked to growing affluence, but also to the satisfaction of individual's personal needs. One argument is that in today's neo-liberal, globalised world, societies have been introduced to a wider array of goods and thus adopted excessive and wasteful habits. Buying goods online with just one click and ordering a flight ticket in less than a minute consume more of the surrounding world than we may realise. Additionally, economic globalization has resulted in off-shoring consumer goods from developed to developing countries, and thereby off-shoring CO2 emissions. For example, the US shift on average 11 percent of national CO2 emissions to exporting countries, which distorts the appearance of domestic consumption habits and so undermines the argument that the government should address the issue of over-consumption. Another perspective suggests human nature is the driver of excessive consumption. Economically, individuals can be viewed as having utility functions of tastes that markets respond to; that is, demand creates its own supply. And so, perhaps the resource depletion and environmental degradation can be assigned to individual shortcomings, and consumerism should be resolved by altered and enlightened preferences.

In this sense, education is essential and a sustainable consumption can be achieved via informed, decentralized consumer choice. However, neither education nor awareness about ecological impact of consumer actions guarantees environmentally responsible behaviour. Due to barriers such as availability or affordability of sustainable products, individuals may find themselves unable to respond to their ecological citizenship preferences and incapable of expressing their attitudes at market level. Alternatively, sustainable consumption may be restrained by feelings of powerlessness that individual action will not make any difference. Furthermore, if people take actions in the context of sustainable consumption, they tend to overlook the big issues that often outweigh smaller actions such as recycling. The sustainable consumption strategy that relies on small acts of sovereign consumers has an inherent problem in that it addresses, paradoxically, global problems. Moreover, it may also be argued that transferring the

responsibility on individuals is unjust, and disadvantages the world's poorest people for whom increased consumption is necessary. Rather than exerting global demand for people to resort to sustainable consumption, it is probably necessary for governments to play a corrective role.

Government as Potential Saviour

Such a corrective role, it is argued, is necessary since market participants do not consider the external costs of their consumption. One of the major projects that aimed to reduce carbon emissions and achieve a more sustainable path of consumption practices was the EU Emissions Trading Scheme, implemented in 2008. Essentially, the scheme acts as a tool to commit the market to environmental goals by imposing caps on the amount of emissions that can be produced. If companies produce more CO2 than they have allowances, they are required to buy new emission permits, and if they produce less CO2, they can sell those remaining. However, the free allocation of allowances means that firms are able to emit a certain amount of carbon without any charges. And so, they have not reduced carbon emissions significantly. Although Laurence Tubiana, CEO of Europe Climate Foundation, claimed that this permit scheme helps achieve emission goals ratified in the Paris Agreement, it is evident that conventional industries reliant on fossil fuels are undermining efforts to reduce emissions. Originally, the European Union proposed a carbon tax that failed to be implemented since voting on tax requires unanimity. The leverage and lobbying power of certain industries allowed them to block the proposal by convincing governments of the severe economic repercussions such a move would have. The threat of industries leaving countries resulted in support for carbon market and abandonment of the carbon tax.

While such cap & trade policies aim to regulate quantities, taxation brings about the regulation of prices. As long as the relationship between the cost of emitting and the amount emitted is known with certainty, then these two regulatory systems can be made identical. However, since this relationship is not known with certainty, theoretical analyses into environmental economics — for example, by Martin Weitzman, Professor of Economics at Harvard — usually find that a carbon tax is more effective as a tool to protect the environment and achieve sustainable consumption. In the light of this evidence, governments should intervene and provide policies of full-cost pricing to make 'green' products price-competitive. That is, setting a tax rate that fully internalises the cost of negative externalities. Additionally, it would raise government revenue that can be further used to tackle sustainable consumption. For example, more eco-efficient alternatives such as public transport could be invested in. In all, it has been estimated that taxation could reduce emissions in the U.S. alone by almost 123m tons.

However, some argue against the carbon tax. Due to its regressive nature, the tax is disproportionally a burden on the poor and would only deepen the equality disparities in the world. It is also inherently unfair to involve developing countries in this process, as they have historically not polluted at anywhere near the per capita levels of the developed world. On top of this, many researchers such as Andrew Sayer emphasise how dependent affluent countries are on energy from fossil fuels, and conclude that it may be hard to implement major cutbacks in emissions without a corresponding reduction in growth. And so, the question that needs to be answered is whether we are prepared to sacrifice economic development to achieve environmental sustainability. In the end, we might have no choice.

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