Issue No. 20 University of Edinburgh Economics Magazine Spring 2020

insight.

CORPORATIONS

PRIVATE INDUSTRY in SPACE | GAME THEORY and KPOP | the DEMISE of FLYBE
GROWTH in the PORNOGRAPHY INDUSTRY | the RISING POWER of CORPORATE SOCIAL RESPONSIBILITY | TOXIC WELLNESS CULTURE

Letter from the Editor-in-Chief

Welcome to the 20th issue of Insight Magazine!

It is fair to say that this spring did not turn out the way any of us expected. In light of a global pandemic and the historical Black Lives Matters protests in the wake of police brutality in the US, the global landscape looks very different to when we set out to create this issue of Insight. Consequently, the finished articles we publish today reflect the time at which they were written, and we recognize the enormous changes that have occurred since.

In this issue of Insight Magazine we aim to explore the many ways that corporations shape our economy. From the way that we interact with them as consumers and workers, to the way they shape our culture, corporations play a large role in our lives. Individual corporations and case studies often go overlooked in a classical economics curriculum, and we are delighted to have given students at Edinburgh the opportunity to explore this fascinating topic.

I would like to take this opportunity to express my gratitude to the School of Economics for their continued support and excitement for the magazine, without which this publication would not be possible. It has been a pleasure to serve as Editor-in-Chief of Insight Magazine, and I would like to give a special thanks to the Insight team of editors and writers for making this issue come to life.

All the best,

Stian Sandberg

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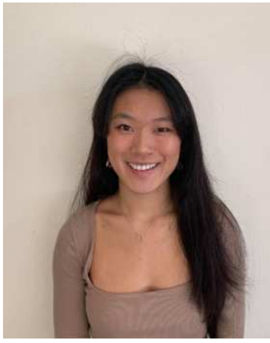

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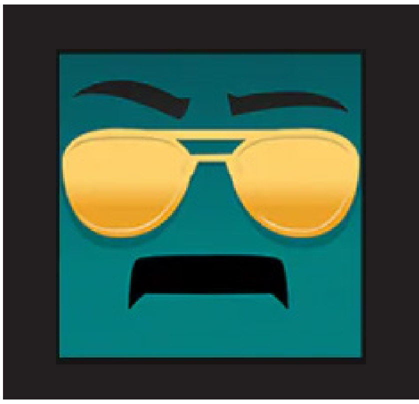

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Professor Nobuhiro Kiyotaki Receives Honorary Degree

Photo by the Stockholm School of Economics

Maraleis Sinton explores the life and career of long-time John Moore collaborator, Professor Nobuhiro Kiyotaki.

The 2008 financial crisis not only magnified the mistrust between individuals and firms, but challenged policy makers to reevaluate what role the government should play within the economy. Occupy Wall Street began the fight against big banks and firms, and the power they hold in society. Even today, nearly 12 years after the stock market crash and Lehman Brothers went bankrupt, the public remains wary towards big banks and corporations.

This resentment is not just aimed towards bankers, hedge fund managers, and traders, but also economists for failing to predict the crash. However, such criticism should not be aimed toward one individual: Nobuhiro Kiyota. For his research, Kiyota received an Honorary Degree of Doctor of Science in Social Science from the University of Edinburgh this past November for his work in macroeconomics and models for the micro foundations of money and the business cycle in times of friction.

The Research Speaks for Itself

Even when Kiyota was still a doctorate student at Harvard University, after receiving his B.A from the University of Tokyo, his early work proved to be hugely influential in the field of economics. Specifically, Kiyota's paper with Oliver Blanchard on 'Monopolistic Competition and the Effects of Aggregate Demand' made leaps in understanding the business cycle in times of friction and new developments in so-called Keynseian economics.

In 1997, Kiyota began his collaboration with University of Edinburgh professor John Moore, and together published "Credit Cycles". This paper presented a simple and elegant model of the business cycle that illustrated how such frictions can shape fluctuations and impart a substantial degree of persistence in the business cycle. Kiyota's work provided a new framework to better understand how disruptions to banking can adversely affect the economy, and how unconventional monetary policies can help mitigate its consequences. More specifically, his work offers a new lens to analyse the economy, and better equip firms and the government with the tools and skills to, at the very least, be more prepared for a financial crisis.

Will History Repeat Itself?

Just last year, Nobuhiro Kiyotaki and John Moore published 'Liquidity, Business Cycles, and Monetary Policy', which detailed their model of the monetary economy. Their research illustrates how activity and assets change in relation to shocks to productivity and liquidity.

In light of this semester's topic — corporations — Kiyota's previous work on the financial crisis coupled with his recent paper, can help outline the potential role government policy can play to manage both monetary and fiscal policy, as well as the private sector of the economy. The financial crisis in 2008 was caused by excessive borrowing, shadow banking, and reckless lending, a type of behaviour still present in the industry. According to a New York Times article, big banks have not shrunk, but only have gotten bigger. Huge bonuses continue to be handed out, encouraging reckless risk-taking to be the norm, and shadow-banking goes unsupervised and has expanded in value to $71 trillion, from $59 trillion in 2008.

In fact, we observe patterns of borrowing in present financial markets that draw parallels to the pre-crisis era. For example, due to an increasingly globalised world, China's investments are increasing the global economy's exposure to banking sector vulnerability. China's total domestic credit has more than doubled to $23 trillion, from $9 trillion in 2008, akin to adding the entire US commercial banking sector. This credit boom is taking place in many emerging economies across Asia and Latin America, leaving room for potentially damaging discrepancies and frictions within the financial market. However, this does not mean we should turn our backs on big banks and corporations just yet.

Corporations allow for investments, economic growth, and are integral to the business cycle. So rather than pointing fingers at big banks and scolding them for the crash, what we should take away from Kiyota's years of research isn't just an explanation of why the world experienced the worst market crash since the Great Depression. Instead, we should view Kiyota's work as a guide to understand where pressures on the financial markets are coming from and regulate these frictions through government policy. ■

GAE

It's All Greek to Me: Understanding the Impacts of the Financial Crisis 12 Years Later

Jesse Wise reflects on the SLATE trip to Athens and what she learned about the effect of the Greek debt crisis and its legacy on the resilient Greek people.

The SLATE Economics trip visited Athens, Greece in February 2020 to spend a week immersing themselves in fiscal councils, national banks and political institutions. Students spent five weeks preparing with a combination of reading groups, individual and group presentations. Students were responsible for organizing meetings and visits, aiming to leave with an intimate understanding of the Greek economy's past, present and future.

A Rich History – The Wonders Never Greece

We began our trip with an immersive historical tour of the city center. The Parthenon was visible at almost every point, reminding us of the rich history our guide was recounting. The impressive temple was dedicated to the patron goddess of Athens, Athena. References to her were inescapable for us and for the ancients; from Athenian owls on the Drachma to the symbolic olive trees which were prolific in the city. It quickly became clear that the Greeks would spare no cost when building their monuments to the gods. Hadrian's Library was adorned with green and pink marble from Asia Minor, and the Parthenon was obsessively constructed using optical illusions to ensure it appeared to stand tall for centuries to come. The results were breath-taking. Walking around the city center, it was difficult not to notice the broken pavements and closed shops, a gentle reminder of the impacts of one of the longest and deepest depressions ever recorded. The long day ended with a whiplash back to modern Greece and the implications of the refugee crisis, as some students volunteered their time cooking with Mano Aperta. This grass roots organization provides food, with donations often from local bakeries, and volunteers donate their time or equipment to cook it. Other charities set up shop alongside the vats of fried chicken and rice to provide essential services like nurses or even a few washing machines.

Understanding the Crisis

The National Bank of Greece, Eurobank, Bank of Greece and Hellenic Foundation For European and Foreign Policy (a leading think tank) were kind enough to lend us their time to explain the causes and consequences of the Greek Financial Crisis. A history of overspending by both consumers and the government resulted in unsustainable debts. These were hidden with 'creative accounting' to meet the 1992 Maastricht treaty targets for joining the European Monetary Union. Joining the eurozone only compounded problems as it gave Greece access to cheap credit, resulting in a boom which hid signals about which firms were performing well. This in turn hid the need for reforms. In 2009, the government revealed the severity of their macroeconomic imbalances, the twin deficit, and they were frozen out of the bond market as their credit rating dropped from A- to BBB+. The state defaulted on its bonds; the private sector soon followed as Non-Performing Exposures made up to an extraordinary 40% of loans. The Greeks withdrew their deposits due to fear of bank runs. At one point, Greece's banks had €500 million left, approximately €45 per person. Following these fears, investment, capital stock and foreign direct investment shrunk.

Greece accepted three bailout packages from Troika (EU, ECB and IMF), which, at €330 billion, were the largest loans in history, in exchange for major structural reforms and austerity. One such reform was the establishment of the Hellenic Fiscal Council to try to reduce government overspending. We met with this independent advisory council that issues legally binding advice on mechanisms to resolve deviations from their targets. The council closely monitors compliance and acts as an early warning system against the deficit bias that plagues many governments. Debt was still 173.3% of Greece's GDP in 2019 but is on a decreasing path. The hope is that credibility and stability will increase business and consumer confidence in the long run, stimulating investment and attracting foreign direct investment, which has always been unusually low.

From Macro to Micro and Exporters to Importers

Exports have driven growth in recent years in Greece. One export the British most heavily associate with Greece is olive oil. The average Greek consumes 17L of olive oil per year and this was certainly reflected in the delicious traditional dishes we were lucky enough to sample, from buttery traditional feta and spinach pastries to fresh Greek salads with a hearty serving of liquid gold. A visit to Athens would not have been complete without a tour of an olive grove where we saw firsthand the machinery used to extract the precious commodity. Our host explained how cheaper producers take an inferior 'lampante' oil, which fails acidity tests, and refines it before it is mixed with higher quality virgin oil to be sold on the shelves as 'olive oil'. It was fascinating to be taken from the macroeconomic perspectives of Greece to individual producers where we understood how global threats to businesses had unpredictable impacts. For example, climate change is now introducing never-seen-before fungi and pests to olive groves, threatening already volatile yields.

We were also treated to coffee tasting by John Voliotis, an Edinburgh Business alumnus, at his start up Kawa Coffee – one of the top 5 coffee importers of Greece. We were impressed by the extent of his vertical integration, as the company worked at almost all stages of the process from bean to cup. Mr Voliotis recounted his memory of the Greek debt crisis where he withdrew his deposits and hid them in the ceiling vents of his factory, offering a startling reminder of the impact of financial instability on daily life for many Greeks.

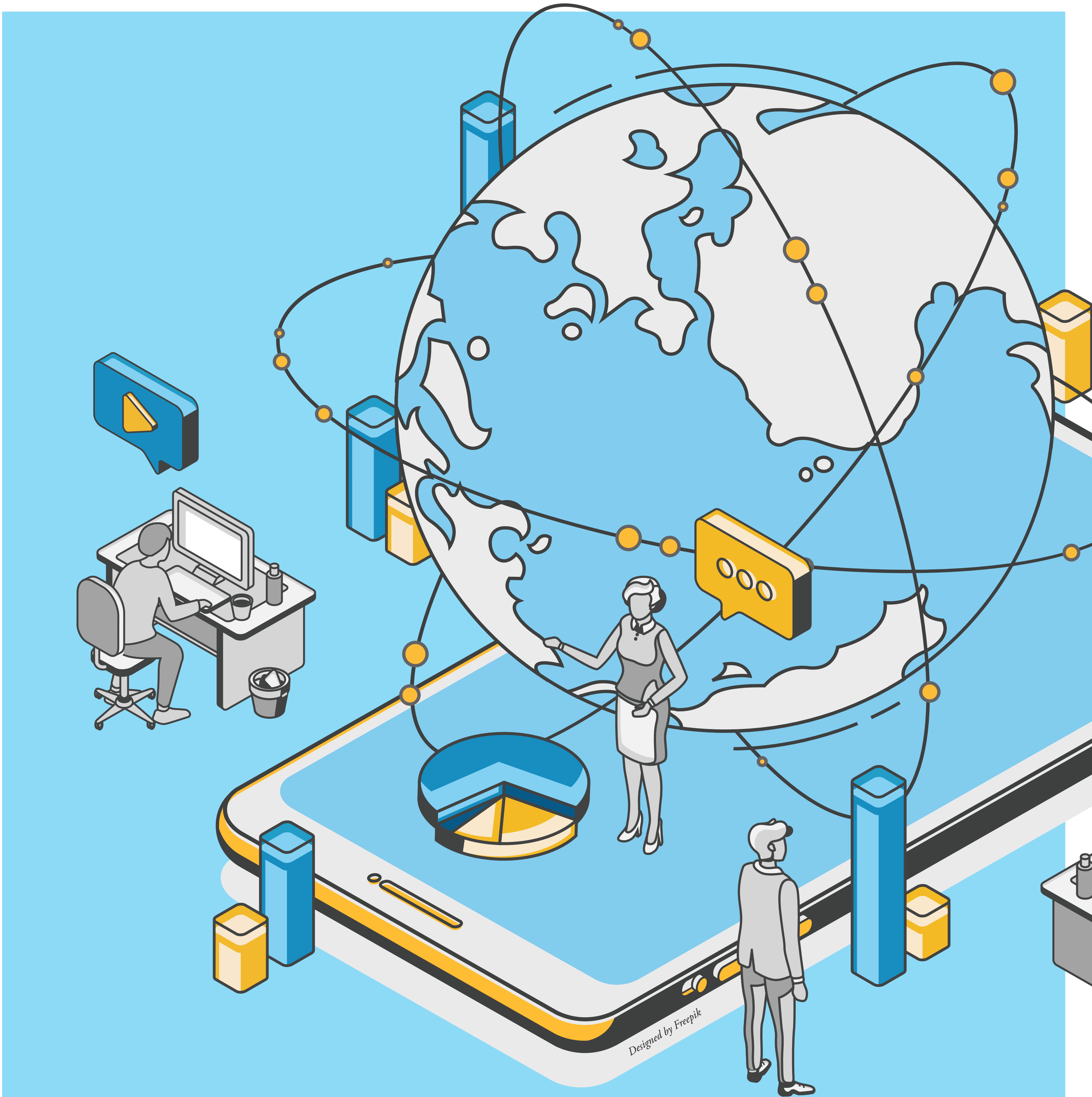
Olympian Efforts and Heroic Stoicism

The austerity demanded by Troika had devastating implications on the public's health. Hospital budgets were cut by 40%. There were 17% more suicides in 2009 than 2007, and in 2010, Kilmaka (the Greek national suicide helpline) reported 1 in 4 callers cited financial difficulties. Violence, homicide and theft doubled, HIV rates increased (by an estimated 52%), heroin use increased by 20%, and austerity measures saw 1 in 3 'street-programs' cut. Unemployment peaked at 27.5% in 2013 but remains high at 16.5% in 2019, and long-term unemployment poses a serious issue. It was certainly a sobering and much needed reminder of the consequences of mal-timed austerity and the lack of autonomous monetary policy.

(Above) The Hellenic Parliament – following a tour and meeting with MP Theodore Roussopoulos. (From left to right) The olive tree supposedly planted by Athena, the patron goddess of Athens. Taken just outside the Parthenon; Our tour of the Greek parliament; Meeting with Dimitris Liakos the Chief of Economic Office from 2015 to 2016 and the Deputy Minister to the Prime Minister from 2016 to 2019. He helped organize and implement the 3rd adjustment program for Greece. He is currently an Administrative Advisor for Greece.

Over the trip what quickly became clear to us was the sheer scale of the titanic effort by all sections of Greece to heal after the crisis. The Greek government should be commended for the unprecedented size of the structural reforms undertaken. For example, 464 reforms were implemented in one toolkit. Mexico, Latvia and Romania have been the only countries to have implemented one toolkit. Greece implemented three. The government reformed pensions, health care, the tax system, budgetary framework, public sector transparency and the business environment, and these were successful in many aspects. This is, perhaps, reflected in the fastest and largest improvement in the Current Account ever recorded, reduced from 15.8% deficit in 2008 to 0.3% surplus in 2015. Greece also rose from the 109th to the 60th place on the World Bank's ease of business index between 2009 and 2014.

Almost every meeting or presentation seemed to end with 'challenges for the future'. We left Athens thoroughly amazed at the persistence and strength of the people we met who remained warm, welcoming and cheerful despite 12 long years of recession, depression and finally growth. Recovery will be slow, but Greece is on the right path once again. ■



Around the World

As the world economy becomes ever more globalized, corporations now play a major role in shaping the landscape of almost every place on earth. We begin our deepdive into the role corporations play in our economy by investigating the different ways they operate around the world, and the impact they have on both workers and consumers.

In this section, Dila Yalman explores the activities of Chinese corporations in Africa, Enrique Herraro discusses how rural farming cooperatives in Africa can democratize the green revolution, Ewan Rawcliffe discusses the growing role of private corporations in space, and Anna McCourt provides insight into the role of corporations in the K-pop industry.

Around the World

China in Africa: Neo-Colonialism or Mutual benefit?

Dila Yalman explores the opportunities and potential dangers brought by Chinese corporations in Africa.

The colonial ties between Africa and European Empires may have been largely cut off in the 1960s, but the new scramble for Africa is overseeing a great surge of foreign interest. For the last 20 years, the Forum of China-Africa Cooperation has maintained a leading position in international cooperation. In 2018, the Chinese president Xi Jinping described the continent as "beautiful and richly endowed," and he has claimed that "China and Africa can forge an even stronger comprehensive strategic and cooperative partnership." Africa's share of the global population is projected to grow to 39% by 2100. For China to bolster their position on the world stage, influence over Africa is becoming strategically valuable.

Do Both Sides Benefit?

Media assumptions in the West often frame Chinese involvement as predatory through 'debt trap diplomacy'; but the emphasis on China as a facilitator for the debt treadmill perhaps constructs an overly negative image for a government which accounts for just 4% of FDI in Africa. Conversely, 84% of FDI is accounted by the Western nations.

One must be critical of media bias, but also question why China's role in Africa raises such controversy. On one hand, China is viewed as an exploiter of natural resources and consequently fail to help Africa's development; on the other hand, academics argue that the economic relationship between China and African countries brings simultaneous development. China's investment activities at home are not exactly new: they trace back as far as the Ming dynasty in the 13th century. So why are the external Western powers so alarmed at the growth of Chinese influence in Africa now, when the average African may not be as critical as they are?

China has acknowledged that Africa's wide range of political-economic conditions and natural endowments defy continent wide generalisations. For China, it is more than a market for Chinese goods, but also a home for vast natural resources which it wants to invest in.

A Different Type of Involvement

To help pull Africa out of its economic malaise, Western governments and donors have been providing aid to African nations; with Africa's growing population and consequent demands, extending the donor sphere to China has become crucial. With its ignorance towards human rights abuses and authoritarian rule, China's provision of aid is controversial. In Sudan, China is the biggest exporter of its oil and an illegal supplier of weapons, at the expense of over 200,000 deaths. The freedom and safety of Sudanese citizens is compromised for China to benefit from the exploitation of valuable resources to develop its own economy.

Chinese investment in Africa has not always been so damaging. Zambia, Africa's top copper producer, was the site of the first Chinese-run Special Economic Zone (SEZ). Chinese state investment into mines differ from global private capital investors; the state-owned enterprises (SOE) may be serving the national interests identified by Beijing. The two main mines are Swiss and Indian, both listed on the London Stock Exchange; MCM's parent company is Glencore, which is currently facing corruption investigations in the US and the UK. These investors, MCM and KCM have always had a 'trader mentality', the trading of copper for short-term profit, benefitting from price fluctuations, whereas NFCA, the Chinese copper company focuses on gaining political influence and access to raw materials.

The Chinese state company purchased what was considered a low grade mine with incentives for little or some profit. Their motivations were not solely profit-orientated, but to continue expanding their economy which mutually benefits communities and mining industries in Zambia. However, following the initial investment, NFCA was expected to become self-reliant. The absence of financial support from the government aligns the interests of the NFCA with the global private investors.

The rise in copper prices in 2007 motivated firms to prioritise production over development; the NFCA was reluctant on spending their profits on social activities such as AIDS programmes and environmental plans. Overlooking negative social impacts of investment by adopting cost cutting measures may undermine the long-term social stability of the community and asymmetrically benefit China. China has also been criticised by the 30% lower pay their miners receive. Arguably, it provides greater security for its workers during times of crises or price fluctuations. A Zambian mining expert stated that the "NFCA has never laid people off, which is very important for this country." Alongside hiring several dozen subcontractors to ensure maximum efficiency and to aggressively lower unit costs, the KCM and MCM, have downsized and pulled out of deals in times of crises. The casualisation of labour through subcontracting poses a great uncertainty for the workers, even if they are paid precariously high wages.

Despite the negative criticisms, Chinese investors learn through trial when dealing with policies not found in their country. Following wage criticism, the Chinese SOE not only increased salaries, but also abolished salary disparities.

Many Strings Attached

Evidently, the Chinese investment into Africa has been greeted with open arms, but these loans come with strings attached. Zambia alone has received $1.2bn in loans from China, more than the World Bank; but as well as higher interest rates, they also have shorter expiry dates on the loan payback. Development loans have also been politicised. When Chad recognised the state of Taiwan in 1997, China immediately cut aid. Clearly, African states are rewarded when following China's rules and regulations and neglected otherwise. But it would be deceptive to villainise China for this practice, since most Western nations have politicised loans too.

Unlike the operations of the World Bank, which tend to implement direct policies, the Chinese loans enable the African nations to have the freedom to spend the loan accordingly. The Chinese saw an opportunity to strengthen its soft power and extend the Sino-African relationship to mutually benefit both parties.

It is necessary to consider the other end of the spectrum; the private entrepreneurs from China who are investing into Africa. Due to the harsh business conditions in China over the last few decades, it is of little surprise that Chinese investment into Africa had spiked from 2% to 55% of US levels by 2014. Chinese manufacturing investment is not the only hope for the industrialisation of Africa; private enterprises may have a significant economic and social impact too.

Development Without the Cost

Drawing on the SEZ at Ogun State, the free trade zone is a private-public project in which the local government provides the land and Chinese enterprise the capital. The joint venture between Nigeria and China has opened doors to many Chinese entrepreneurs to supply their services whilst providing local people with a platform to increase their skill level. The provision of effective training for the local workers has enabled individuals to find higher paying jobs and therefore boost their standard of life. The implementation of infrastructure by the Chinese New South Group has facilitated the growth of efficient transport and utility services.

These connections have created the structural bases necessary for the transportation of goods and services to the other parts of the country as well as internationally. The introduction of SEZs has helped the Nigerian economy become more inward-looking, boosting the economy within the borders by developing human capital whilst mutually benefitting the Chinese entrepreneurs.

It is undeniable that Chinese imports, as well as Western imports, have been a significant hindrance to local production, which is why there is a consistently high rate of imported goods from China and the rest of the world. However, due to the oil exporter curse, Nigeria's high exchange rate means it is cheaper for Nigeria to import finished goods than producing them. Chinese entrepreneurs have also begun to tackle this; they buy Nigerian raw materials and export to buyers in China in exchange for the Chinese renminbi which ensures price stability and adds value to the locally produced goods.

Criticism of China's activities is somewhat reasonable due to its unbalanced economic leverage over African nations. But to some degree, China may just be unfairly demonised purely due to the shift in global balance of power. It is hard to deny that China is making tangible changes for the people in African nations; by bringing in affordable goods into the market at a fraction of the cost, as well as providing people with the means to work, travel and live. China is providing a way for Africa to develop a new perspective of growth, whilst strengthening its soft power on an international scale. ■

Does It Pay to Cooperate?

Enrique Herraro discusses the potential of democratizing the green revolution through the creation of agricultural cooperatives in Africa.

The term cooperative refers to a private business organization, owned and controlled by the people who use its products, supplies or services. It is usually formed when multiple individuals require the vertical integration of their economic activities yet lack the resources to achieve this objective.

The Appeal

In the context of agriculture, a cooperative can act as a dealer of credit, a shared capital investment enterprise and a social safety net; it can also streamline the process through which farmers marketize their produce, cutting operational costs. By doing the latter it represents a viable way of facilitating the commercialization of small-scale production, something which is closely correlated to higher food security, specialization and increased productivity.

In terms of market inclusion, the cooperative has a distinct appeal for low-productivity farmers. There is a caveat however, staple crops like grains and yams play a major role in small-scale agriculture, since this level of production is usually concerned with the food security of the farmer and his or her household. Profitable agricultural cooperatives tend to focus on the production of cash crops like coffee and tobacco that can fetch a broader range of market prices depending on their quality. The market for staple foodstuffs tends to be dominated by large companies with economies of scale, so it may be worthwhile for hypothetical small shareholder cooperatives to diversify into agricultural markets with less barriers to entry.

Without a cooperative, a group of farmers that do not own enough terrain to produce a substantial surplus of grain or potatoes have limited avenues to increase their income beyond that needed to afford the most basic needs. They can either sell directly in the local market or they can barter. This puts them at the mercy of unscrupulous merchants. Beyond trading the excess production there aren't many options regarding what to do with it, more so if the produce is perishable such as is the case with yams. A cooperative could provide a structure through which these people can unite their productive surplus and increase their bargaining strength, giving them strong financial incentives to join the market.

What's the Hold Up?

At this point many of our readers will wonder why cooperatives are not more commonplace. Cooperatives have long been considered a powerful tool, both governments and NGOs are increasingly promoting this model in light of the many benefits to be accrued by its widespread implementation and its seamless fit within a global development narrative that's underlined by questions of empowerment.

Regrettably, an agricultural cooperative's demographics tend to underrepresent both big and small producers. Big producers face no financial incentive to join a cooperative venture, given that a large part of the appeal of these institutions is their ability to reach economies of scale through the aggregation of small and medium sized producers. Big producers already have the financial nous to compete in the market unaided.

The reason small producers don't join cooperatives at higher rates is that they produce very little, hence the benefit of marketing their surplus is outweighed by the price of the cooperative's shares. Higher levels of education as well as vaster landholdings (up to four hectares) are both predictors of higher cooperative participation. Neither of these are traits that pertain to our target population, the rural poor. Yet the creation of a widespread network of cooperatives could systematically optimize aid, an NGO need only buy cooperative stocks and distribute them amongst the interested, but credit constrained. This methodological shift would be significant, but its benefits could make it worthwhile. Should the commercialization rates of agricultural produce increase, and there be a high portion of the workforce engaging primarily in agricultural production – as is commonplace in sub Saharan Africa – then the scheme could help millions out of poverty, which is in the end the sole purpose of hundreds if not thousands of NGO's.

Who Wears the (Farmer's) Pants?

One might presume that the members of a cooperative would regularly partake in the decision-making process, in spite of this a study by Bernard & Spielman shows that there is a clear bi-modal distribution on the degree of democratization, where some are significantly more participatory than the average for all agricultural cooperatives in Ethiopia. Virtually all cooperatives in Ethiopia elect their chairman democratically on a one member one vote basis, the degree of consultation beyond that tends to vary dramatically.

Where cooperatives are considered to exhibit less participatory decision making, both board members and president tend to be systematically richer than the average member. It seems to be the case that bigger producers get elected to the board because they have a bigger stake in the cooperative and thus, they face more incentives to optimize performance. Many management theorists believe that more democratic systems of corporate governance prolong decision making and point to the intuitive fact that these limit the organization's ability to make time sensitive decisions. However, there seems to be no clear relationship between participation levels and performance. Results show that a heterogeneous board (which includes both big and small producers) is conducive to better performance, yet this only happens in

the less democratic organizations. The effect of heterogeneity in the performance of more inclusive cooperatives is, oddly enough, negative and significant. An intuitive interpretation for this is that dialogue in small groups, such as a board is often far more productive than in larger ones, where it is more prone to partisanship and less focused on substantive administrative action.

Across cooperatives in Ethiopia we see that an average of 38% of general decisions are submitted to referendum whilst technical decisions are five times less likely to be subject to a direct democratic vote. Anecdotal evidence suggests that members still feel that beyond the election of the board, the decision-making process largely excludes them. Democracy, however, is never fulfilling; it entails concessions when there is no consensus. Whilst giving people a stake and a voice are some of the more attractive feature that distinguish cooperatives, delegating technical decision-making to those most apt in that faculty is essential for the long-term survival of any enterprise.

Cooperation to New Knowledge

Cooperatives also facilitate the distribution of productive techniques throughout the agricultural sector, as its centralized structure facilitates the dissemination of information. This applies in the case of government led innovation, in the case of local low-tech solutions or market-based trends in production. There's no good alternative to the use of an institutional structure in the dissemination of productive techniques; the absence of such a structure would entail engaging directly with individual producers and would hence be more costly for the interested organization. In fact, the same paper on Ethiopia cites results in which a cooperative would help the transfer of useful information even amongst non-members. This occurs due to the low marginal costs of increasing capacity in cooperative funded training and information sessions, besides, information is non-excludable and non-rivalrous. One of the most interesting findings in Bernard & Spielman's study is that 90% of the population of a kebele in which a cooperative was established considered themselves to benefit from said cooperative's activities when only 24% percent of these organizations actually provide some form of public good for their communities.

Don't Forget the Little Guys

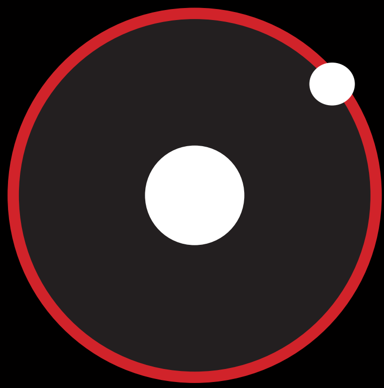
A cooperative of exclusively small producers would have to include many members in order to provide enough services so as to make it a worthwhile endeavor whilst staving off debt, even then it would still find it hard to compete with the larger producers that tend to dominate the markets for staple crops. Operational costs such as those associated with the logistics of moving materials to and from several dozens of small farms need to be justified by a production level that is large enough, this is part of the reason why in practice smaller producers are more likely to be left out

It could be the case that the system would naturally gravitate towards a symbiotic relationship between geographically proximate small and medium sized producers, in fact there is evidence that this is precisely the case. Yet the bulk of the benefit from this relationship goes to the smaller farmers, at least proportional to their input, if NGO's opted to encourage the inclusion of small producers in majority medium sized producer cooperatives through incentives of any sort then it really would pay to cooperate.

■

Around the World

Moon Shots



Ewan Rawcliffe discusses the growing role of private business in the space industry.

Everyone knows that the US led humankind to the moon in 1969. Specifically, NASA did. Who are the contenders to lead us back? China, India and the US are still reasonable bets. But this may not be as clear as it once was. By America, we could mean NASA. Yet a stronger case could be made for SpaceX, Virgin Galactic, or Blue Origin - the so-called New Space companies. This decade, the space race is back, and this time mighty corporations, alongside the global superpowers, are in the running.

Space 1.0

The historic reason for NASA's creation is simple: geopolitics. The economic logic of forming a public agency was also solid. NASA could work with the benefit of federal funding and exacting political oversight. While for business, space presented - and still presents - huge risks and uncertain returns. Most of the technology involved did not exist. Even within the patent system, the payoff on basic science research was not incentivizing. And once in space, there seemed little (short of a national morale exercise) to be achieved.

So, what has changed? Firstly, the technology is now proven. The key challenge becomes the commercial viability of spaceflight. In response, corporations are pioneering reusable rockets that will slash marginal costs. Secondly, compelling economic incentives have emerged. Space companies are exploring possibilities as varied as tourism, satellite launch and asteroid mining; once the science-fiction of space travel. Taken together, these developments have catalysed an explosion of the New Space industry.

"Similarly, no great leap in rocket technology will be exploited without somewhere for rockets to go. In an industry with many firms, information asymmetries and competition, it will be harder for the necessary coordination to emerge than under a single agency."

Faster, Better, Cheaper?

The end of NASA's space shuttle programme in 2011 was a critical moment in the New Space movement. Yet the industry leaders today all trace their origins back further. Elon Musk's SpaceX is the darling of private spaceflight; today it is almost two decades old and with over 5,000 employees. Its Falcon 9 rocket launch in 2017 was technologically compared to the first Wright Brothers flight. Even more consequential is the comparison by former NASA Chief Technologist Bobby Braun; the Falcon 9 "joins [the] Boeing 707 in aerospace history; opening the commercial frontier" for spaceflight.

Musk is not the only billionaire who ventured into New Space early in the new millennium. Jeff Bezos, Paul Allen and Richard Branson all founded space companies between 2000-2011, using their ultra-high net worths to overcome the considerable fixed-costs of entry.

Challenges Ahead

The Silicon Valley-fication of spaceflight is a promising step towards privatisation, yet significant economic challenges remain. For starters, consider complementarities. The decentralisation of New Space means many innovative firms are working on all elements of the technology. But, no break-through in lunar module design will be of economic relevance without the concurrent development of resource provision technologies to sustain humans on the moon. Similarly, no great leap in rocket technology will be exploited without somewhere for rockets to go. In an industry with many firms, information asymmetries and competition, it will be harder for the necessary coordination to emerge than under a single agency. Without coordination, few of these technologies alone can be commercially viable.

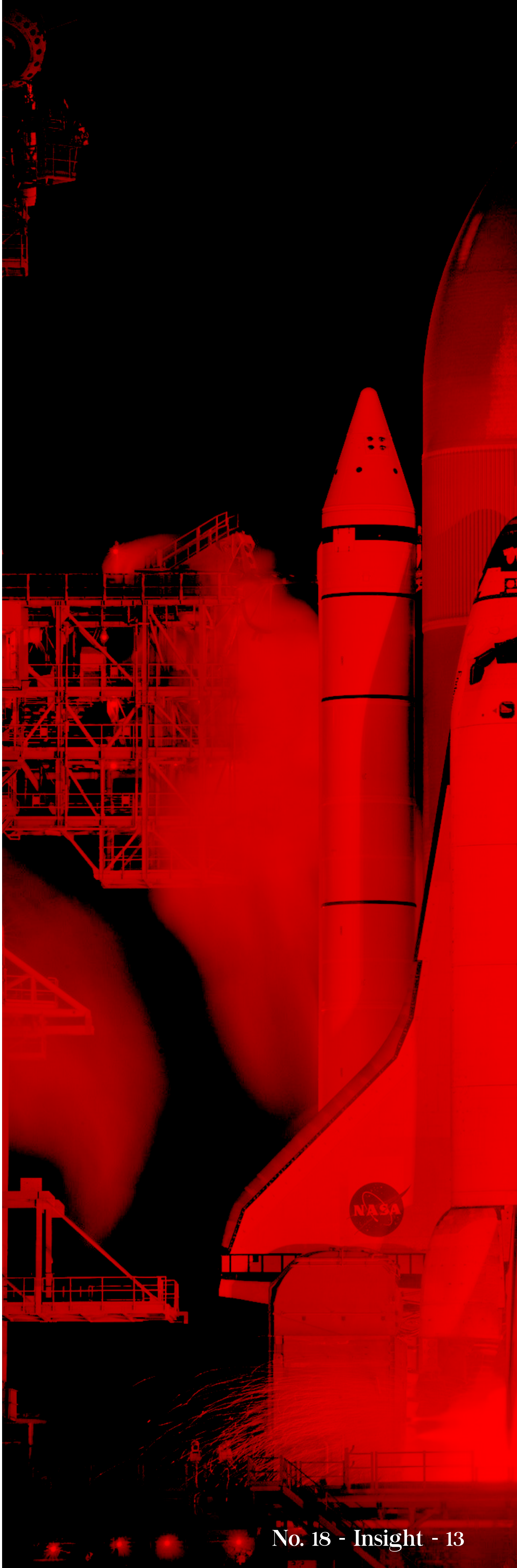
A deadlier challenge comes in the form of space debris. These particles of man-made junk float in increasing density around Earth's orbit. Millions capable of destroying spacecraft already litter the skies. Yet this classic negative externality seems impervious to earthly remedies. Pigouvian schemes fail by the lack of a credible tax authority governing space. Further, a Coasian solution relies upon clearly defined property rights. At present, these rights are far from transparent.

The ambiguity over property rights arises from the legal framework of the market. Attempts to govern space began with the Outer Space Treaty (1967). Despite encouraging analogies to the law of the high seas as a basic premise, clarity over resource extraction and settlement is still not available. A further complication today is that these treaties are designed with nation-states in mind. The uncertainty deepens as private (and worse, multinational) corporations enter the market.

Private Lift Off

While obstacles remain, there is promising precedent to suggest the viability of private endeavours. Way back in 1962, US legislation created COMSAT, a publicly-traded but federally funded satellite company. Its founding was a recognition that corporations, eventually, would be the dominant players in space. COMSAT and its technologies have over time been bought and sold under dozens of deals, helping to catalyse the wider commercial satellite industry. Current federal objectives are by contrast far less visionary. SpaceX aims to have humans on Mars in just four years time, almost a decade ahead of the corresponding NASA timeframe. In a range of subsectors, it seems space companies are finally taking off.

Consistently in history, governments have pioneered where the private sector cannot; moonshots that would otherwise be unaffordable, unrewarding or unthinkable. With equal consistency, economic forces have meant that corporations swiftly follow. Despite novel market failures, high barriers to entry and legal challenges, there seems no reason why space should prove different. Next stop, Mars? ■



Around the World

Turning Tides in the Hallyu Wave

Anna McCourt discusses the game theory behind K-Pop's biggest companies.

After the 1998 Asian financial crisis, governments set about trying to rebuild their economies. In Malaysia, they poured money into the economy; in Singapore, they lowered business costs; in South Korea…they invested in the entertainment industry. Though seemingly peculiar at first, the government-funded 'ministry of culture' was a huge success: what was dubbed the hallyu wave ('South Korean Wave') not only flooded into Asian culture, but Western too, and drew back to South Korea a pool of wealth. K-Pop is now estimated to be a multi-billion-dollar industry, with some groups contributing as much to South Korea's GDP as firms like Hyundai and Samsung.

Undercurrents of the K-Pop Industry

From its infancy in the early nineties, the K-Pop industry has had a certain structure. The 'Big Three' are the largest South Korean music companies - YG, SM and JYP entertainment - that have been dominating the industry until recently. Companies such as the Big Three are involved in every stage of an artist's development, with idols commonly auditioning for companies at a young age. From there they are trained in singing, dancing and multiple languages until they debut at an older age (usually in their mid-late teens). Hence, it is in the Big Three's interests to compete for the best teachers, choreographers and young idols-to-be.

Likewise, it is within aspiring idols' interests to be recruited to one of the Big Three. Due to the sheer amount of debuting K-Pop bands, it's difficult for consumers to figure out who will be worth investing their time in and who won't. Since the Big Three have made stars such as TWICE, EXO and BigBang, there exists an expectation for these big firms to cultivate idols who will be talented and successful. Hence, the debut groups from the Big Three are given more attention from the media and often already have a strong fan base before they debut. In this way, the Big Three reduce competition from other minor music companies.

Unlike Western artists, who often collaborate on songs, K-Pop idol groups rarely do so. This is understandable since most groups are fairly large, some going up to twelve members. In most K-Pop groups there are singers, rappers and dancers, so there is less desire to collaborate with other artists. Hence, from a competition standpoint, the decline in popularity of groups from other companies poses little consequence. In this way, the K-Pop industry could be viewed as a zero-sum game: each company ('player') does best by minimising the other players' payoff. It is in this environment that the K-Pop industry seems to be finding itself, creating a Winner-Takes-All market where large firms reap in all the benefits.

The Hook, Line, and Sinker

In this highly competitive market, so-called 'slave contracts' for idols bloomed. Each company has its own contracts, often involving strict dating rules, diet restrictions and a requirement for trainees to pay back the cost of their training and stage outfits.

The so-called 'slave contracts' could be looked at through the lens of the Prisoner's Dilemma. If one company has strict contracts in which their idols are more likely to appeal to the market (they seem more 'available' to adoring fans due to restrictions on their dating; they seem more 'in shape' because their diet is regulated) and they are more likely to cover losses if an idol group doesn't succeed, the incentive is for other companies to follow suit, or they will lose out.

However, as consumer preferences change, so do the Nash Equilibria. K-Pop companies encourage their idols to have a close relationship with fans by hosting meet and greets, having clips of their everyday lives on the internet and constantly interacting with the fanbase. With the growing closeness of an idol group with fans and said fans' growing awareness to the harsh treatment of their beloved idols by companies, preferences may have changed over the years to incentivize firms to allow idols more freedom of behaviour and expression. Along with this change of consumer preference came the rising tide of legal restrictions: in 2009 and 2017, Korea's Fair-Trade Commission limited the number of years of a contract and the penalties of cancelling one.

> *Due to the sheer amount of debuting K-Pop bands, it's difficult for consumers to figure out who will be worth investing their time in and who won't.*

Time and Tide

These shifts in consumer awareness and preferences have allowed positive deviants to succeed in the K-Pop industry. Small companies that otherwise wouldn't have gotten their foot in the door due to the overwhelming popularity of the Big Three have been given a chance. It has shifted the previous equilibrium, leading the industry into uncharted waters.

High accessibility along with brutal competition is a good recipe for constant and sure development with change in the industry. Despite K-Pop's relatively young age, we can see this already: the so-called 'Biggest Boyband' in the world right now is idol group BTS, not from one of the 'Big Three', but from a small company that had almost gone bankrupt before their debut. BTS' company, BigHit Entertainment, is now estimated to be worth over $1 billion in 2019.

The Big Three, despite being the creators of the K-Pop market's stable, decade-long equilibrium, could also be seen as the cause of its turning tides. In the effort to 'get ahead' by integrating the lives of their artists with those of the fans, instead of reaffirming their dominance, they introduced conditions in which we can see the changing of incentives. Despite these currents in the industry, with the ever-rising popularity of K-Pop, we can safely expect the hallyu wave to continue drawing back wealth onto South Korea's shores now, and into the future. ■

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CONSUMERS

A corporation's relationship with their consumers often comes with a mixed bag of incentives, which can lead to both large profits and uncontrollable losses. As such, we now turn our attention to how such incentives impact the behavior of corporations, and whether the net result is a cost or a benefit to the end consumer.

In this section, Milan Marcus and Milad Sherzard explores the promise and perils of the low-cost airline industry, winner of the Insight Best Writer Runner-up Award Sukanya Subramaniyan investigates the tax practices of the world's largest subscription streaming service, and Elena Dall'Agnese examines the complicated world of modern pornography.

Consumers

THE AIRLINE EVERYONE LOVES TO HATE

Milan Marcus explains the hard economic principles that have seen Ryanair surge in revenue amidst the dregs of other airlines in the age of the coronavirus.

At a time where airlines globally are grappling with the challenges posed by the coronavirus, cancelling flights due to travel restrictions and a slump in demand, one particular airline CEO managed to dominate the headlines. In a recent interview with The Times, Michael O'Leary, CEO of the Ryanair Group, supported the profiling of passengers by airport security, suggesting that terrorists are normally 'males of Muslim persuasion'. This unsurprisingly caused outrage, with the Muslim Council of Britain condemning the remarks as 'the very definition of Islamophobia'.

Leading the Way

Such criticism is nothing new for O'Leary, who is known for his bold, controversial statements. He once told passengers asking for a refund to "**** off". Under his leadership, Ryanair proposed imposing a 'fat tax' on obese passengers, standing-only tickets, or charging for using the toilet. Ryanair's marketing strategy exemplifies the idea that all publicity is good publicity. O'Leary admitted as much when saying that charging for toilet usage was unlikely to happen, while calling the announcement "very cheap PR". These controversial statements, coupled with a perception of Ryanair as greedy, taking cost-cutting behaviour to the extreme, has led to passengers rating the airline as the worst in Europe for several years in a row. Yet over the same period, Ryanair grew to become the largest European airline by passenger numbers. How did this contradiction come about?

In reality, this is much less a contradiction than it is evidence of Ryanair optimising the budget airline model. This model comprises three components: low operating costs, low fares, and high ancillary revenues. Underlying this model are hard economic principles. For example, Ryanair operates a single type of aircraft, the Boeing 737-800. It reduces costs by benefiting from economies of scale: Ryanair crew only need to be trained for one aircraft type and can be employed across the entire network. The Irish carrier also ensures these aircraft are in the air as much as possible, with turn-around times (the time between landing and take-off) of under 30 minutes. On the consumer side, Ryanair attracts a large number of price-sensitive leisure travellers: they don't mind arriving at an airport more than an hour away from a city, as long as they get there cheaply. Finally, Ryanair's principle of charging extra for anything from luggage to coffee is nothing more than a textbook application of price discrimination. It distinguishes between passengers who simply want to get from A to B and those who desire additional services. And it is successful at doing so: Ryanair's ancillary revenues (which include 'off-flight' items such as car rental) account for over 30% of total revenues.

But perhaps most importantly, the three components interact with each other instead of being isolated pillars of the model. Since Ryanair knows that its customers are more sensitive to money than time it can fly to small airports, minimising airport fees. Lower costs, of course, mean the airline can offer lower fares. Likewise, the 'no-frills' insistence of charging for everything beyond a seat on the plane provides more than the ability for price discrimination. It also incentivises behavioural change among passengers: Charging for luggage isn't only a gimmick to increase revenue. Rather, passengers are incentivised to take less luggage with them, providing two crucial benefits to Ryanair. First, less luggage means less weight, which means the aircraft needs less fuel, one of the largest costs to any airline. Second, less luggage means the plane will be ready for departure quicker, which allows Ryanair to achieve its minimal turnaround times. This is crucial for an efficient operation: the more flights planes can make, the more revenue the airline can earn.

Ryanair's principle of charging extra for anything from luggage to coffee is nothing more than a textbook application of price discrimination.

Ryanair has been hugely successful at implementing its low-cost model, illustrated by profits close to or exceeding €1 billion for the last few years. But its influence has reached further than that. Ryanair has dramatically changed the way Europeans travel. Fares lower than a restaurant meal means flying is no longer a privilege for a select few. Whether it is a quick city-break or a beach holiday, a whole generation has grown up flying multiple times a year to destinations across Europe. Ryanair has also had a profound impact on the airline industry. Its competitors would loathe admitting as much, but they undoubtedly have modified their own operational structure in face of the passenger numbers and thus market share Ryanair has captured. Legacy carriers such as Lufthansa, IAG (an airline group including British Airways) and Air France-KLM have all established low-cost subsidiaries which offer a similar product to Ryanair. Eurowings, Lufthansa's low-cost subsidiary, has even taken over much of the network formerly operated under the Lufthansa brand.

Turbulences Ahead

Even for an airline as successful as Ryanair, the future contains some uncertainty. In its insistence of operating only Boeing 737 aircraft, it has been hit hard by the grounding of the 737 MAX last year. The aircraft has been hailed a "gamechanger" by O'Leary, having a higher passenger capacity with lower fuel burn (and cost). Ryanair has ordered up to 210 planes of the type, and getting them into the skies is vital for the airline's future growth plans. The continued grounding has inhibited such growth, exemplified by the cancellation of all flights between Edinburgh and London.

While the 737 Max should be flying again by the end of this year, the 'flygskam' (flight shame) movement poses a longer-term challenge to Ryanair, perhaps more so than to its competitors. Whereas Lufthansa and British Airways make much profit from their long-haul network, the European short-haul connections flown by Ryanair are among the easiest to substitute air with rail travel. Moreover, Ryanair has been accused of 'greenwashing' for claiming to be Europe's greenest airline. Unsurprisingly perhaps, seeing as O'Leary until recently called concerns surrounding global warming "complete and utter rubbish". Other European airlines now have an opportunity to build their green credentials, but Ryanair's train might have left the station. Fortunately for O'Leary, Ryanair flies from airports. ■

a hard landing.

Milad Sherzard analyses the social and economic factors that contributed to the local airline Flybe's demise.

Flybe, the airline cherished by some yet unknown to others, has recently taken its last breath. Following in the footsteps of its close relatives, Monarch in 2017 and Thomas Cook in 2019, Flybe declared they were on the brink of bankruptcy at the beginning of 2020. Despite pledges of a £30 million cash injection by Flybe's recently anointed new owners, Connect Airways, its future was considered uncertain by many. Over the course of 4 decades, financial distress has become the norm for the company. With little to no growth in domestic demand and heavy volatility in the aviation market, Flybe encountered the threat of bankruptcy on several occasions.

Bumpy Ride

After being disproportionately affected by the introduction of the Air Passenger Duty (APD) in 1994 and its subsequent rises, Flybe's profit margins shrank to such miniscule levels that without any financial assistance, the airline would collapse imminently. As such, bargaining with the Government led to the airline securing a real lifeline with a delay to its outstanding APD payments, valued at upwards of £100 million. This optimism was however cut short when, on March 5 2020, Flybe went into administration after the APD extension was cast in doubt by the Government and its augmented budget, amidst the spread of the new strain of the Coronavirus. The virus really hammered the final nail into the coffin for the airline.

At the point of collapse, Flybe served over 50 airports across Europe and the UK, many of which were remote and saw little to no other transportation options. In addition to being essential transport for isolated passengers, it also acted as a physical lifeline for many patients. On the Isle of Man, for example, patients who required additional care were transported by Flybe to Liverpool as a result of a contract with the NHS.

Shutting down routes where Flybe were predominantly the only operators, could have catastrophic consequences for both the economy and human life itself. While critics argued that the airline was asthmatic at its core, evident in how the firm was run and its destination patterns, they may have failed to understand the true purpose of the airline. It is a counterintuitive argument as Flybe was designed to provide an essential service to these once isolated locations; as such, they were forced into providing flights that may not be full for most of the year. For example, Newquay, a popular tourist destination in Cornwall, sees no direct rail service to London for much of the year; yet Flybe provided multiple daily services that covered the route in just a fraction of the time that rail does.

An End in Sight

Many of Flybe's financial woes can be sourced in three key factors: rising costs, price undercutting by low-cost carriers, and the rise of flight shaming. In their final annual report, Flybe stated their profit margins had narrowed to almost unprofitable levels, with the difference between revenue and cost, in terms of individual seats, shrinking to just £4.52. With such slim margins, it came as no surprise that the Coronavirus outbreak plunged the airline into complete pandemonium. Furthermore, the natural volatility of the oil market, combined with the large burden of fuel costs as a component of total costs facing an airline, left Flybe susceptible to rapid falls in profit and subsequent investment. An intrinsic issue also facing the airline was that in order to serve remote airports with typically short runways, Flybe were forced to confine their fleet to mostly propeller aircraft. These ageing aircraft tended to be highly fuel inefficient and for many years fraught Flybe with inconsistent performances in its share price, inadvertently leading to the airline forcing itself into fresh loans for investment, building up further debt on top of concurrent debt.

> *It was this fall in demand that weakened the airline to the point at which a soft breeze could blow it over*

This debt continued to grow up until Flybe's last day of service, as they struggled to meet interest payments due to the rapid rise of low-cost carriers infringing on Flybe's profits. Providing countless more seats at even lower prices, Flybe had struggled to compete with the likes of easyJet and Ryanair. As a result, load figures remained stagnant at around 75% between 2015 and 2018, whilst post tax profit was in the negative for three of those four years. This undoubtedly contributed to Flybe's collapse as not only could the airline not pay off its constant cycle of debt, but it couldn't even expand to try and cover these costs as it was constantly hampered by low demand.

On top of financial distress, Flybe faced decreases in demand due to the climate crisis; the rise of flight shaming led many individuals who previously flew domestically in the UK to switch to greener methods of transportation. It was this fall in demand that weakened the airline to the point at which a soft breeze could blow it over; that breeze was the 2019 outbreak of Coronavirus. In order to prevent spread of the disease, demand for air travel in general declined rapidly and Flybe's crucial connecting passenger routes were left dry. This shock to demand compounded with Flybe's inherent financial flaws led to the airline's ultimate demise.

Flybe was unequivocally an essential airline to the UK economy, being the sole provider of countless essential services. The economic fallout of its collapse may be unknown at present, but its collapse will no doubt harm many local economies. For an airline like Flybe to survive, especially in the current climate, it must commit itself to being a clean mode of transport, and most of all must streamline its operations if it is to survive in the foreseeable future as a domestic UK airline. As the sun sets on its lengthy life, Flybe must be remembered for the connections it made and the lives it saved; from the ashes of themselves, a new airline must rise to better take its place. ■

EVASION IS THE NEW BLACK

RUNNER-UP FOR THE INSIGHT WRITING PRIZE

Sukanya Subramaniyan looks at the tax practices of the world's largest subscription streaming service.

Television is quickly replacing movies as elite entertainment and, despite emerging competitors, Netflix remains the leading global supplier of streaming video services, owed to its rich content portfolio. Today, a typical weekend-binge is rife with Netflix originals, right from crowd favourites such as 'Stranger Things' and 'Sex Education' to the Emmy-winning 'The Crown'. All three of these high-quality TV shows were produced in the UK, where Netflix has invested over £400m to make more than 50 original TV shows and films in the last year. Incidentally, ramping up the production of original content in the UK has attracted substantial subsidies from the government, allowing the company to claim £924,000 in tax reliefs last year, despite its sizeable customer base within the country. The widespread success of Netflix amongst its consumers, owed to the platform's personalized, continually updated content has, however, resulted in a lack of interest in the brand's tax structure. While there hasn't been much inquiry into Netflix's tax affairs, the Big Tech firms have faced a lot of scrutiny with respect to their illegal tax advantages in Europe. As a result, a new Digital Services Tax is being introduced in April 2020 by the UK government for major U.S. tech giants like Facebook, Google and Amazon to ensure they pay their 'fair share' of tax. So, why isn't Netflix subject to the same scrutiny?

Hide and Go Seek

Historically, Netflix has not been as profitable as other digital companies due to its heavy investment in content production and international expansion. Its focus on investment- led growth creates lower profit margins, which often aren't associated with tax avoidance. Recent figures, however, paint a different picture. The streaming giant's latest earnings report was released in late January - the company has clocked up $20bn in revenues, with pre-tax profits rising to $2bn in the last year alone. Revenue in Netflix's fourth quarter was up a staggering 333% compared to its previous quarter, and 31% compared to the previous year. Netflix has amassed over 167m subscribers with an average revenue of $10.33 per user per month, suggesting a revenue stream of roughly $1.4bn from subscribers. Surprisingly, Netflix Service U.K., the primary UK company, reported paltry revenues of £43.3m and profits under £2m in 2018. The revenues generated by subscription payments from U.K. customers differ greatly from accounts disclosed by Netflix's British subsidiary— where does the money go?

Since 2015, revenues from Netflix subscriptions purchased by U.K. customers have been billed to the company's Dutch subsidiary, Netflix International BV. This European subsidiary has booked a majority of the revenues earned outside of the U.S., accounting for $6.27bn out of a sum total of $7.8bn gained from all international streaming operations in 2018. Nevertheless, low profit margins are reported by Netflix International BV, along with an even lower tax bill; around $4bn of revenues was cited as paid to "other group companies". TaxWatch, a UK investigative think tank, recently exposed Netflix for having a corporate structure that mirrors other multinational companies in using complex internal structures to avoid tax. The think tank accuses Netflix of funnelling between £330m to £430m in profits made from operations outside the US into tax havens. Key evidence for this accusation was in Netflix's 2018 Annual Report; the company disclosed a tax charge of $43m due to the US Minimum Tax on Foreign Entities, in response to President Trump's 2017 tax law which introduced provisions to ensure overseas profits were subject to a minimum level of taxation, thereby discouraging the practice of routing income through tax havens. A tax charge of $43m suggests that over $400m of Netflix's foreign profits flowed through offshore havens. This cat-and-mouse game of artificial profit-shifting allows corporations to engage in creative bookkeeping and exploit loopholes in a completely legal manner that costs governments billions of dollars in potential tax revenue.

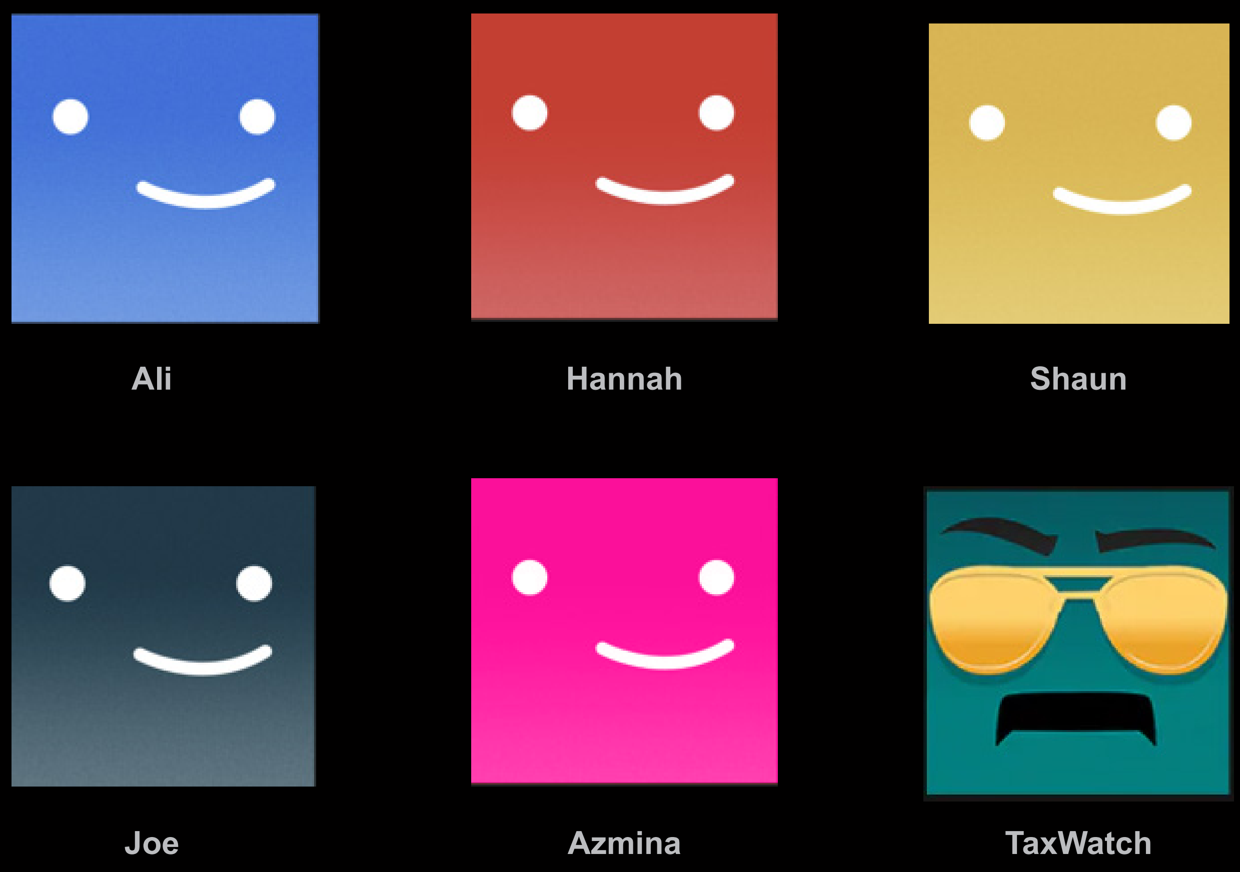
> **The think tank accuses Netflix of funnelling between £330m to £430m in profits made from operations outside the US into tax havens.**

A Netflix tax – Boon or Bane?

In addition to tax evasion, Netflix receives generous rebates from the British government for 'culturally-approved' shows like 'The Crown', while simultaneously using complex internal structures in a bid to avoid tax. The U.K. government has caught wind of this; earlier in February, an adjournment debate was held in the House of Commons regarding Netflix's tax structure. After TaxWatch published estimates of Netflix profits in the U.K. to be over £68m (giving rise to a tax liability of £13m), calls are being made for stricter eligibility criteria for creative industry tax relief. The company, however, claims that its investment of £400m on local productions in 2019 has allowed for the creation of over 25,000 jobs and training placements in the UK economy – creative industry tax relief was designed for exactly this type of job-creation. Yet, critics have a point; Labour MP for Barking, Dame Margaret Hodge, insists that availability of tax relief should be contingent on revenues earned in the U.K. being declared by U.K. companies, with other MPs holding the view that Netflix should pay more tax in the countries where its operations help generate value. Currently, Netflix is also safe from the UK Digital Services Tax, which targets the Big Six companies for tax avoidance. Should the new digital levy broaden its scope to include video streaming services?

Tax avoidance through artificial profit-shifting by multinational corporations costs the EU over €60bn each year, and the United Kingdom is among the countries that incur the highest losses from tax evasion. The U.K.'s new Digital Services Tax (DST) is a 2% tax on the revenue of tech giants providing internet search engines, social

Who's watching?



media platforms and online marketplaces to U.K. users, aimed at correcting the mismatch between where value is created and where profits are taxed. The policy recognizes that U.K. users create value for digital businesses through participation and engagement, and primarily aims to ensure that these multinational companies contribute fairly towards essential public services. This legislation only targets cases wherein the business' platform acts as an intermediary to match users. As streaming services are paid for by the customer, the tax doesn't focus on providers of streaming video services or on-demand music services. There may be reason to believe that the DST isn't the ideal solution for services for which costs are borne by the consumers – it is likely that streaming services like Netflix may choose to not absorb the tax and increase the price of existing plans. Nevertheless, the current international tax framework requires sweeping reforms to address the digitization of the economy at large.

Futile Global Efforts

The rules of international taxation are still grounded on the outdated premise of "taxation by physical presence" – these rules are no longer valid for a world where businesses sell their goods or services with limited or no presence in a country. To keep up with evolving business models, the Organization of Economic Co-operation and Development (OECD) is championing reforms to address tax challenges arising from digitalisation of the economy. The new OECD proposal seeks to re-allocate both profits and taxing rights to countries where profitable multinational enterprises (MNEs) have markets, ensuring that these MNEs are taxed in jurisdictions where they have no physical presence. Over 130 countries have worked alongside the OECD to publish the proposal for a 'unified approach', with new nexus rules based on sales rather than revenues. The OECD seeks to persuade countries not to pursue a unilateral strategy with domestic digital sales taxes as proposed by the UK, in order to prevent transatlantic trade war. These multilateral efforts, however, are proceeding at a quite sluggish pace, prompting countries to actively consider implementing unilateral measures in the meantime.

While tech giants are at the forefront of profit-shifting, corporations from varied industries leave little corporate tax revenue for economies to collect. By structuring their business offshore, multinationals like Netflix skip the corporation tax liability and take advantage of the government's generosity via tax relief schemes. Until now, streaming services have flown under the tax radar in the U.K, despite the revenue generated by customers within the country. A digital tax on these corporations may temporarily address inequalities amongst taxpayers and corporations, but there remains a pressing need to update current tax legislation for a digital world, a world for which legislation was never designed.

Freaks & Geeks

Elena Dall'Agnese explores the modern, and complicated, world of pornography .

Under the lights of taboo and the sheets of social stigma, one firm has gone incognito and is making their way to become a monopoly: MindGeek. The name might not sound familiar, but the business has played a critical role in mass production and distribution of adult pornography content. It owns and operates 80% of pornography websites and production studios, like PornHub, YouPorn, Brazzers and Babes.com. In total, MindGeek's almost 100 websites consume more bandwidth than Twitter, Amazon or Facebook. Due to its range in material and wide audiences, MindGeek manages to collect data from over 23 billion users and uses them to place targeted advertisements. These advertisements may also directly traffic users to MindGeek's other websites which may require a payment, such as by low-cost monthly subscription and pay-as-you-go webcam services. Through these two revenue streams, this internet colossus can extrapolate as much consumer surplus as possible.

Trouble in Paradise

However, MindGeek is not immune from controversies, specifically a BBC conducted interview with Mia Khalifa, a highly ranked PornHub actress. Khalifa discussed how the industry gave her post traumatic stress disorder, failed to protect her from cyberbullying and forced her to perform acts she did not give prior consent to. This interview hardly impacted MindGeek's revenue of $113 million (2018), but it certainly increased awareness among users. In its wake, various campaigns began advocating for conscious, 'fair trade' pornography through companies such as Bright Desire that are well-known within the community to fairly treat their actors.

Despite this, MindGeek faces few growth opportunities given that its product is already ubiquitously available for low or no cost. The industry as a whole, however, is constantly witnessing content bloom as potential competitors are forced to create innovative goods with a range of product differentiation. For example, in 2014 BDSM specific competitor Kink.com started auctioning cam sessions with masters and dominatrixes. One webcam session with a dominatrix was auctioned for USD$42,000, exposing the lucrative side of targeting niche markets where consumers are more likely to pay a higher price due to the limited supply of the service they require.

At the same time, it is very unlikely that a media giant such as MindGeek will face a similar fate to other forms of pornography consumption like print, VHS or DVD. This is because there does not exist immediate or affordable substitutes that will render internet porn obsolete. The competitors that can strike a chance to disrupt the industry are more likely to be firms developing innovative technology like Virtual Reality porn. While VR porn already exists, it is inaccessible to the average consumer due to its high price point.

From the Screen to the Bedroom

In December 2019, PornHub, the YouTube of pornography, unveiled its annual statistics to reveal shocking information. During 2019 alone, PornHub had 115 million visits per day, equating to 42 billion visits during the year overall. In addition, over 6.83 million new videos were uploaded giving consumers almost 169 years of new content. MindGeek's statisticians also studied consumers' behaviours and found that every minute, PornHub experienced 80,032 visits, 77,861 searches, 11,082 hours watched, and 2.8 hours uploaded which equates to approximately 14 new videos.

During 2019 alone, PornHub had 115 million visits per day, equating to 42 billion visits during the year overall.

At this point, we might wonder what the effects of consumption are. A study conducted by P.J. Wright, N.J. Steffen and C. Sun reveals how viewing sexually explicit content affects sexual satisfaction. The study is based on two surveys conducted in England and Germany, with 195 and 699 heterosexual participants respectively, all of whom are in a relationship. The survey measured the consumption of pornography and the degree of satisfaction of the participant's sexual life. Results show that pornography consumption was shown to increase sexual satisfaction only up to a point, after which it drastically decreased sexual satisfaction. There are a few hypotheses regarding why higher consumption of sexually explicit material reduces satisfaction with the partner. One rationale is that the individual will compare the person that appears in pornography with their partner and consequently feel dissatisfied about their skills, availability, passion or appearance. Another reason could be the difference in responses to sexual behaviours given by the partner compared with the actor/actress, or if participants model sexual behaviour as in pornography, but do not experience the same level of pleasure.

Pornography has become part of mainstream entertainment, breaking social rules and going viral across sites like Tumblr, Facebook and Twitter. While new technology like VR poses a threat to pornography behemoths like MindGeek, it is unlikely the demand for internet pornography will be eclipsed any time soon. ■

CONFLICT

Corporations have found themselves at the heart of conflict in a variety of arenas. Prone to mistrust from the public, they are often accused of abusing market power, merging into questionable conglomerates, and exercising power over life-essential resources. As such, we now turn to examining some of these conflicts.

In this section, winner of the Insight Best Writer Award Lee Suddaby discusses the developing antitrust cases against big tech companies, Harrison Shum explores how corporations can benefit from creating joint ventures, and Max Leslie investigates the challenges for maintaining access to clean water in a modern economy.

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Conflict

In Antitrust We Trust

WINNER OF THE INSIGHT WRITING PRIZE

Lee Suddaby discusses the developing antitrust cases against the giants of big tech.

In 1890, the United States Congress' passing of the Sherman Act saw a paradigm shift in the landscape of big business. Along with its successors, the Federal Trade Commission Act and the Clayton Act, this outlawed anticompetitive behaviour such as predatory pricing, bid-rigging and anticompetitive mergers and acquisitions. Instigated in large numbers by trust-busting Presidents Roosevelt and Taft, new antitrust cases saw corporate behemoths such as Standard Oil broken up, levelling the playing field for other firms and protecting consumers from abuse of egregious market power. For some time, the word 'monopoly' was relegated to board game afternoons and family fallings out.

The Gang of Four

Fast-forward to today, and we can see that the technology industry is dominated by a few companies just as Standard Oil monopolised the oil market at the end of the nineteenth century. If you grew up this side of the new millennium, it may be easy to forget how young Google, Apple, Facebook and Amazon (the 'Gang of Four') are. Indeed, Facebook, Google and Amazon were all founded after 1994, making them younger than Friends and The Lion King. In just two decades, these firms have amassed huge shares of their respective markets, drawing the attention of U.S. Government litigators.

While perhaps not clear in the public eye, these companies are not unfamiliar with antitrust prosecution. In 2013, Apple was forced to pay $450 million in damages for fixing the prices of its eBooks; the Federal Trade Commission (FTC) has already fined Facebook $5 billion over its privacy practices, and the EU has fined Google the same amount for breaking antitrust.

Turning up the Heat

Over the past few months, the Department of Justice, FTC and 50 Attorneys General have armed themselves for war against the big tech companies. One of the crucial differences between these new investigations and those of the past comes from the most valuable currency for these firms: our data. There are serious accusations that Facebook and others are abusing their substantial share of the social media market to capture users' information.

Facebook's acquisitions of Instagram, WhatsApp and dozens of start-ups are considered by experts as attempts to destroy threats to Zuckerberg's social media monopoly. These acquisitions could also be harming consumers' experiences: these companies no longer need to innovate as much to compete against one another.

Google's dominance in several markets could leave it facing multiple lawsuits, but the focus is likely to be on its search engine, which handles more than 90% of queries worldwide. Such queries predominantly direct you to other Google services such as Google Maps, Google Flights and Google reviews, starving other sites of users. Further investigation will likely focus on dominance in digital advertising and Google's Android mobile operating system.

Meanwhile, Amazon and Apple are under fire for allegedly using their market power to increase sales of their goods through their own marketplaces. Both Amazon Marketplace and the App Store have the power necessary to set out exactly what is sold on their platforms and persuade users to opt for their products over those of third parties. Moreover, Apple takes a 30% commission on all sales made through the App Store, inflating the prices consumers pay.

A Futile Effort?

But what's to say that the outcomes of these lawsuits will be any different than any others: these companies are given a fine and light slap on the wrist while all is forgotten within a few years, thanks to an army of litigators and lobbyists? While many experts see this as the most likely option, the movement for these companies to be broken up is gaining momentum and space on the political agenda. Ex-presidential candidate Elizabeth Warren vowed to break up Google, Facebook and Amazon in her campaign platform, and force companies with revenues over $25 billion from selling their products via a marketplace they also run, transforming their business into 'platform utilities'.

The problem with this break-up idea is that modern tech companies are structured very differently compared to a traditional monopoly like Standard Oil. To break up Google, which covers everything from internet search to advertising to self-driving cars, would involve unravelling an interconnected web of companies spanning practically the entire technology sector. FTC Chairman Joe Simons has said 'It's not ideal because it's very messy' but importantly, 'If you have to you have to'.

Despite the short-term complications of such a split, the result should be positive for consumers, reinvigorating competition in the technology market. These smaller companies would have to spend more on R&D to improve the user experience to keep and attract users. Whether politicians will be as ambitious as they were a century ago or succumb to the money and vested interests of lobbyists, will determine if it is the corporation or the customer that is king. ■

Conflict

The Benefit of Joint Ventures

Harrison Shum investigates how corporations benefit from establishing joint ventures which could have a huge impact on the economy.

As we continue down the path of globalization, many multinational corporations are seeking ways to develop new markets in another country. However, breaking into a new foreign market can sometimes be challenging; Multinational corporations may have to establish joint ventures- a business or project in which two or more companies or individuals have invested, with the intention of working together. But how would both sides benefit from it, and what are the hidden costs of joint venture?

The Win-Win Situation

So how can establishing a joint venture benefit both the multinational corporations and the local firm? One example of this benefit can be seen by looking at New United Motor Manufacturing, Inc (NUMMI). NUMMI was an automobile company jointly owned by the American General Motor and the Japanese Toyota from 1984 to 2010. Toyota was desperate to break into the North American market but wasn't familiar with the working culture and consumer preferences of the people in North America; at the same time General Motor was looking for new production methods to increase their productivity.

The establishment of NUMMI benefited both sides as it helped Toyota to break into the North American market and allowed General Motor to adopt the revolutionary, coat-reducing manufacturing processes of Toyota, improving efficiency. Furthermore, both corporations benefited from having less competition, as Toyota did not enter the market directly and became a new competitor and stakeholder of the North American market. Toyota and NUMMI saw the opportunity of collaborating as the optimal strategy in which both sides can benefit the most. Such collaborations can also be seen in many other parts of the world.

Impacts on the Economy

Joint ventures have a direct impact on the GDP of the economy. If there are more and more joint ventures established in an economy, there would also be more foreign investment. There would be higher financial inflows through increased foreign investment, which serves to increase the GDP. Joint ventures could also increase the number of jobs available in the economy, as increasing the amount of investment would increase the demand for labor in the market. This creates huge benefits to the economy; however, it could also hurt the government in some circumstances. If the government has been imposing additional taxations on foreign companies that try to enter the market directly, then the government may experience decreasing tax revenue, as foreign companies could invest under the name of the local form by using joint venture.

Joint ventures would also have a more significant impact on a closed economy, which has no trading activity with the outside, than an open economy. The government in a closed economy controls most of the assets; having joint ventures in the economy would indirectly allow private foreign corporations to control some of the assets, causing the government to lose influence over them.

Hidden Cost of Joint Ventures

Superficially, establishing joint ventures may seem to only create benefit and does no harm to both the multinational corporations and local firms. However, there are hidden costs in joint ventures that corporations need to be aware of. Since most of the joint ventures are temporary and are bounded by contracts, a firm would not usually be allowed to exit until the end of the contract, even if they have reached their goals already. This may force the firm to have additional investment in the joint venture without having any marginal revenue. Joint ventures could also face closures if both corporations cannot reach an agreement on future goals. One example would be NUMMI, which faced closure in 2010, as Toyota and General Motor could not reach an agreement on the future product plan.

In general, joint ventures could benefit corporations more than harming them, as it gives firms a chance to expand their businesses without sufficient resources, market knowledge and labor. As we are living in a world where people from all over the world are increasingly connected to each other, joint ventures could become the foundation of global economic activities, making it vital we understand their benefits and, hidden, costs. ■

Conflict

All that Glitters is Not Gold

Max Leslie explores the challenges for maintaining access to clean water in a modern economy.

If you were tasked to acquire clean, drinkable water in the next 10 minutes, then there is a high likelihood that you are already in possession of or have almost immediate access to this vital natural resource. 71% of the world's population had access to clean drinking water in 2017, according to the World Health Organisation. Beyond the obvious scientific importance of water in the natural world and for providing sustenance for our bodies, water also forms a vital and irreplaceable input into innumerable production processes in the modern economy. As reported by the World Water Assessment Programme at the United Nations Educational, Scientific and Cultural Organisation, clean water is not only used in the agricultural sector for the irrigation of over 275 million hectares of land globally, but it is also necessary in the municipal plumbing of drinkable tap water and effective sewage extraction, and by corporations in the industrial sector in chemical factories and food processing plants, for example. Here in Scotland, the potential benefits of hydropower are growing in significance as the Scottish government pushes towards the renewable energy commitment for complete carbon-neutrality in energy production by 2045.

What is 'Clean' Water?

Perhaps for you, clean water may mean clear, portable, and suitable for you to drink without fear of causing illness or death. The truth is that 'clean' water carries a different definition for alternative sectors of the economy and depends entirely on its intended use. A policy of complete water purity in all sectors of water use would be a costly and unfeasible restriction, as it ignores the reality that naturally sourced rainwater and groundwater in ecological systems is of varying degrees of cleanliness and typically already suitable for its desired purpose. Often, we discover that 'clean' is defined as below a certain acceptable limit of pollutants that minimises the risk to primarily humans and occasionally wildlife for the planned usage. This is very similar to minimum standards in food safety policy, such as a maximum number of insects or undesirables per tonne of chocolate or another confectionary. This acceptable limit is often externally tested and frequently revised. The result is that the water from your kitchen tap will most likely be cleaner than in your toilet's basin, and cleaner still than water emitted from irrigation pumps.

Although naturally occurring hydrological cycles have been manipulated by human technologies in different settings for thousands of years, we must continually acknowledge that our actions frequently pollute this finite natural resource. Before the 1970s, the primary focus of water management was the intensification and extension of the supply of water to a growing global population. In developing economies today, particularly those with rapidly growing urban populations, governments explicitly prioritise the supply of sufficiently safe water to their citizens above the requirement to ensure that the wastewater will be effectively treated. Although wastewater and effluent discharged into lakes, rivers, seas, and oceans can be 'cleaned' via alternative, naturally occurring organisms and ecological processes, excess loading of organic or chemical pollutants into waterbodies or the diversion of waterways can critically damage and disrupt hydrological cycles. A perfect illustration of the importance of regulating corporations' impact on waterbodies is the Noyyal River Basin in Tiruppur, Tamil Nadu, where the emergence of textile manufacturing led to the unrestricted discharge of harmful chemical pollutants from 866 factories directly into the river in 1997. The government's response was to shut down over 500 factories and prohibit the use of the toxic water from the Noyyal River for local irrigation and human consumption, causing an estimated $36 million of damage to local agriculture. Adept regulation can prevent excessive damage to waterbodies before they become unusable.

Since the 1970s, numerous discrepancies in clean water regulation between countries have emerged, reflecting how different political systems facilitate the reduction of water pollution from corporations. In the United States, support for free market economics motivated the establishment of water pollution markets with tradable discharge permits, such as in the Fox River, Wisconsin. The incentive-scheme envisaged the trading of allowances that would stimulate the investment in abatement technology by corporations with low marginal costs of abatement, who could then sell excess pollution allowance to corporations with higher costs of abatement for mutual benefit. Additionally, this method ensured that the regulator could enforce an explicit maximum water pollution within the area first, then divide quotas accordingly. In Europe, economic regulation of water use has been closely tied to the scientific capability to detect and monitor the contents of water discharged by corporations on a molecular level for the purpose of taxation. European effluent discharge legislation ensures that corporations monitor their pollution levels and invest in the abatement of specific pollutants. Environmental scientists have worked to assess the direct impact of each pollutant on the environment and our bodies. This research has facilitated the estimation of a monetary value of the marginal social cost of specific pollutants. More harmful pollutants face higher per unit rates of taxation to incentivise corporations to invest in better abatement technologies.

Whose Water is it Anyway?

In 2010, access to safe, clean water was recognised as a basic human right by the United Nations. The governments of Europe and North America have increasingly acknowledged the role of water as a private

good or commodity traded in expanding water markets. Water conforms to the definitions of a private good in certain settings, owing to its rivalrous and excludable qualities. Clean water as an input is rivalrous when it is used by a chemical corporation in one of their factories and, if left untreated, cannot subsequently be pumped through the power station of a nearby energy corporation. Likewise, large corporate farms can exercise property rights over the rainfall over their crops or partial ownership of waterbodies that flow through their land. As hydrological systems are heavily interconnected, one corporation's water usage can impact a third party. If left unregulated, the marginal external cost of water usage will not be calculated within a corporation's profit maximising output, resulting in water pollution above the socially optimum level.

This issue is expounded by the previous lack of distinct, enforceable property rights and collective responsibility over international or disputed waterbodies and the potential for water to have very low marginal private costs of direct use; resulting in a pertinent issue for shared-resource systems known as, 'The Tragedy of the Commons'. Individual overconsumption, resulting from a failure of water markets to effectively incorporate the total marginal social cost of water usage, can lead to the depletion and/or degradation of the water stock if left unregulated. Increasingly, American citizens angered by the lack of regulatory enforcement and impacted by the pollution of local waterbodies by corporations have pursued private lawsuits against corporations that violate the standards set by the Environmental Protection Agency, such as the dumping of 370 million gallons of chromium-tainted wastewater by the Pacific Gas and Electric Company (PG&E). This has demonstrated that class-action lawsuits from those impacted by the negative externality of excessive water pollution can form an effective complement to government regulation. The PG&E settled for $330 million in 1996; the largest settlement of direct-action lawsuit in American history. Clearly, collective action is necessary to effectively regulate profit-maximising corporations. Yet publicly funded regulatory bodies are not the only source of enforcement of environmental protection. Citizens share the responsibility of defending the cleanliness of waterbodies.

Who will Defend our Access to Usable Water in the Future?

Water is beautiful. There are immeasurable current and potential uses for water on this planet that will continue to enhance our existence for generations. Yet humankind simply shall not persist, even on a basic level, if the challenges facing the continued supply of sufficiently clean water are not properly addressed. It is not just scientists, regulators and those that depend on water for a living who should understand the significance of effective water systems. With improved education of hydrological processes to inspire an increasingly environmentally conscious populace, all citizens should pressurise elected governments to regulate water use by corporations within a more transparent, modern economy. We all owe our lives to the existence of clean, accessible water. To respect ourselves, humankind must first respect the environment. ■

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People in the Workplace

For most of us, corporations represent the place where we spend a large fraction of our lives. As a result, the way that corporations treat their workers and attract new employees have gone through dramatic changes over the past few decades. We aim to shed some light on these changes in this section, and explore the many facets of the modern worker.

In this section, Leo Čunderlík explores how millennials desire for corporate social responsibility is bringing change to corporations, and Sebastian G C Fielden explores whether the culture of wellness in modern corporations is turning toxic.

People in the Workplace

Fight for the Modern Worker

Leo Čunderlík explores how the evolving desires of millennials are transforming corporations and social responsibility.

The global unemployment rate has reached its lowest level in the past 25 years, with the youth labour force also rising. Approximately 60 million millennials are predicted to enter the U.S. labour market alone in the coming years, overall accounting for three-quarters of the global workforce by 2025, according to the International Labour Organisation. Demand for talented labour is fierce and skilled candidates are diversifying their requirements when considering potential employers. Viewed as consumers of the workplace, they shop for jobs to fulfil their views and personal commitments. Companies need to start paying attention to the demands of the millennial human capital. To engage and retain ambitious youngsters is thus a puzzle that corporations are seeking to solve.

Sense of Ownership

For decades, the fundamental factors of labour supply have changed with the composition of economic structures. Now, workers care about more than the highest paycheck. Nonmonetary incentives have become a crucial tool in the war for young professionals. Within organisations, employees' motivation relies on a set of far more complex factors that are rooted in workplace culture as well as human relations. Millennials are simply looking for some meaning in their job: to own what they create.

Organisational and behavioural economists such as Dan Ariely shed a light on factors which could attract new hires. Firstly, modern workers search for autonomy in their jobs when making decisions; they desire to influence the corporation's operation. Secondly, they look for a feeling of competence, to apply their talents and skills in order to make a living by doing work they enjoy. Thirdly, identity is required for workers to align with the members of the organization and overcome employee disposition. Revising the neoclassical model and including 'work meaning' as a variable of the individual utility function of work motivation, the sense of ownership can trickle throughout the corporation. Positive outcomes such as higher employee productivity and financial performance can be achieved.

CSR at the Front

To create the meaning and purpose beyond profit maximization is the concept of corporate social responsibility (CSR). A report by Nielsen Global Connect states that for 67% of workers, CSR is an essential factor when choosing the right employer. Inherently, employee identification is enhanced by creating a stronger relationship with the corporation as young individuals seek to achieve a wider impact. Establishing such a vibrant culture within the company would only increase employee morale and reduce turnover rate. IO Sustainability consultancy has analysed the pro-social incentives which have increased productivity by 13%.

Considering the employer's perspective, creating job meaning through CSR could lead to lower employees' demands on wages. Non-pecuniary aspects of the job can act as substitution to performance-based monetary incentives and flatten the optimal wage schedule of the company. The equation is simple – stronger CSR means higher profits, more employee satisfaction and higher retention of top talent when compared to competition. Publicly declared social purpose is on the trajectory to become the dominant selling point when recruiting talented workers, creating net benefits across a plethora of stakeholders.

Sustainability Power of Millennials

The threat of climate change adds another dimension to the hiring processes. Confronted with pressing issues that have far-reaching repercussions into the future, young generations yearn for opportunities to make an impact and steer the change. According to Deloitte Global Millennial Survey in 2019, protecting the environment topped the list of perceived challenges facing the society. Henceforth, before making a conscious choice, consumers also take the sustainability of companies into account. However, there is a hidden side to this that is largely undervalued. 'Greening' a business is also crucial when attracting highly skilled young professionals. Fortune Global 500 companies spend almost $15 billion on sustainability initiatives annually, where corporate giants like Microsoft or General Motors explicitly utilize these activities to attract potential employees. They can exploit this important leverage in gaining competitive advantage in the market, where an engaged workforce is a cornerstone of sustaining it.

Since millennials generally show higher loyalty to employers who tackle the issues of environmental protection, it outlines how implementing sustainability stewardship can help attract purpose-driven individuals. A study by Fast Company showed that 70% of millennials claimed they were likely to choose a job based on the company's environmental agenda. With the private sector sitting on unforeseen amounts of resources, the labour market can efficiently funnel highly skilled human capital towards companies that advocate environmental responsibility, potentially driving those that do not out of the business.

The Bigger Picture

Arguably, corporations can use aspects of CSR as a form of semblance of social responsibility when truly caring about the profits. But not everything is black and white. With younger generations marching through the streets to raise awareness about major world issues, they are exerting internal pressures on corporations to become responsible beyond the guise. These activists will soon succeed in management positions, integrating their pro-social views deeply into business strategies. A few decades ago, it may have been wishful thinking but now, the dominance of CSR can only strengthen.

People in the Workplace

Wellness, Inc.

Sebastian G C Fielden explores whether the culture of wellness in modern corporations is turning toxic.

Along with inflated avocado prices, vegans and electric scooters, wellness programs have become a 21st century norm. Evolving from a cultural custom to a structural factor in every worker's life, wellness has become the modern dogma in (nearly) every corporation. Originally designed to support healthy physical and mental behaviour in the workplace, some fear wellness has morphed into a tool for employers to control the behaviour of their employees.

According to the Harvard Business Review, more than 90% of organisations worldwide offer employees at least one kind of wellness benefit with at least 60% having well-defined 'wellness budgets.' Some are demonstrably punitive – workers can be fined thousands of dollars if they refuse to participate or fail to meet health targets – whilst others use 'incentives' to achieve their goals, such as discounts for those who regularly attend the gym. However, the effects of these programmes are disputed. There is little clear evidence that wellness programmes help either employers or employees, and a growing body of evidence that they actually harm workers' health. The chasm between the theory and execution of these programs requires intense scrutiny in this all-encompassing and rapidly expanding industry.

Dawn of the Planet of Wellness

Health education, medical screenings, weight management programs or on-site fitness programs are all common wellness initiatives. The expected outcomes are lower rates of absenteeism, lower healthcare costs, increased employee morale and most importantly, an increase in productivity. Wellness programmes often achieve this goal. In a study of American employers offering wellness programs, 66% reported increased productivity, 63% reported increased financial sustainability and growth, and 50% reported decreased absenteeism. However, another look into corporate wellness suggests that the purpose of these programmes is to improve efficiency and cut costs – not to improve employees' daily lives or reduce stress.

In fact, many employers have turned to wellness explicitly to help alleviate the impact of enormous increases in health insurance premiums experienced over the last decade. Some employers have also begun varying the amount paid by their employees for health insurance based on participation in these programs. Common conditions such as hypertension, heart disease and depression are estimated to cost $392, $368 and $348, respectively per employee, per year, owing to productivity loss. Reducing these costs will naturally maximise the firm's profits. However, research suggests that a decrease of employers' health care costs has simply been passed onto the employees. In the US, under the Affordable Care Act, employers are able to charge unhealthy employees up to 30 to 50% more of total premium costs. This results in discrimination or unfair advantages to employees who have not met company mandated health goals, such as quitting smoking.

Not only are these programmes a great financial commitment for corporations, but they're also a considerable time commitment for employees. Through office amenities, corporate perks and wellness programs, corporations are unbalancing the work-life ratio, impinging on workers' free time. Firms such as Facebook, Alphabet and LinkedIn, offer their staff something akin to the services used by the extremely wealthy, helping employees to find places to live, adopt pets and the like. Some large tech groups offer on-site health care to keep workers at the office. This new management approach has turned office culture from a work ethic to a work out ethic. People are now adding their exercise successes to résumés, noting the marathons or triathlons they have participated in; the wellness obsession implies that means they will make better, more effective employees.

Well. Well. Well?

Yet, despite the rise of 'wellness', workers are more stressed and anxious than ever before. 61% of employees report exhaustion, or 'burn out', either from or on the job. 75% of employees believe that workers have more on-the-job stress than a generation ago. How have we managed to get here?

In order to track employees' development, many wellness programs use intrusive technology at the expense of the workers. Only recently, Amazon was accused of using a vicious management technique to boost efficiency through a highly individualised 'rank and yank' performance review where employees are regularly reviewed and ranked with the worst performers ultimately being fired. The company's automated tracking and firing systems can monitor and discipline employees without the intercession of a human being. Employees are asked to wear 'ultrasonic bracelets' which track their movements, monitoring how efficiently they fill orders as well as giving them positive 'haptic feedback' (a small vibration), as they reach for the correct bins. This obsession with productivity is an alarming step towards corporations sacrificing their employees' privacy for productivity increases. The transparent and reliable results this monitoring produces also creates a culture of overreliance on biometrics; aggregated data can oversimplify medical complexities and human relationships. An alarming case study is Ovia, a successful app in the 'femtech' market used by women worldwide to track their menstruation, nutrition and sexual wellness. Ovia sells this aggregated data to bosses who can see how soon the new mums planned to return to work among other metrics. Experts worry that companies could use the data to increase the cost or scale back the coverage of health-care benefits, or that women's intimate information could be exposed in data breaches or security risks. Any critique of ubiquitous surveillance must now include a critique of the maximization of wellbeing.

The major barrier to any further implementation of these corporate wellness programs is the realisation that they may create more harm than good. In 2018, the National Bureau of Economic Research (NBER) found no positive impact on wellness programmes at work, and concluded that the previous estimates of savings were largely invalid due to a pervasive error in study design. In 2018, Medicare found no savings, either. If there are gains to be accrued, the likelihood that they go towards the workers is minimal; employees are almost guaranteed to lose. The 2015 paper titled 'Employers Should Disband Employee Weight Control Programs,' said such programs could bring down company morale and deteriorate employee health. The authors raised concerns that wellness campaigns could encourage crash dieting, humiliating of bigger employees, and overdiagnosis from over-screening. It is remarkable that corporate wellness continues to be such a pervasive idea in both corporations and the media alike.

The Future of Wellness

It is fair to say that the idea of wellness isn't going anywhere. It has become a well-entrenched cultural idea, guaranteed to impact our lives.
Whilst wellness itself is not necessarily damaging, there is no reason the onus for wellness should be on the employer. This 'Nanny State' approach by corporations is indicative of their invasiveness into employees' lives; such a pressing issue requires government action. Furthermore, corporations aren't seeing the big picture of employee wellness — instead, they focus on a few aspects of an employee's overall health and well-being. Cynically, these are often the aspects of health which cost the employer money. Worker happiness and stress is all too easily overlooked in favour of productivity targets and profitable data collection. A fairer, more productive workforce is a prize worth having, but not if it shackles and dehumanises employees. Striking a balance will require thought, a willingness for both employers and employees to adapt, and a strong dose of humanity.
The modern work ethos of self-reliance and self-reflection leads to a pursuit of self-optimization that counts for 'happiness'. At the same time, suggestions that wellness should be concentrated at work underline the idea that work is the most important aspect of our lives. ■

THE UNIVERSITY *of* EDINBURGH
School of Economics

Professor Nobuhiro Kiyotaki Receives Honorary Degree

Maraleis Sinton explores the life and career of long-time John Moore collaborator, Professor Nobuhiro Kiyotaki.

Photo by the Stockholm School of Economics

The 2008 financial crisis not only magnified the mistrust between individuals and firms, but challenged policy makers to reevaluate what role the government should play within the economy. Occupy Wall Street began the fight against big banks and firms, and the power they hold in society. Even today, nearly 12 years after the stock market crash and Lehman Brothers went bankrupt, the public remains wary towards big banks and corporations.

This resentment is not just aimed towards bankers, hedge fund managers, and traders, but also economists for failing to predict the crash. However, such criticism should not be aimed toward one individual: Nobuhiro Kiyota. For his research, Kiyota received an Honorary Degree of Doctor of Science in Social Science from the University of Edinburgh this past November for his work in macroeconomics and models for the micro foundations of money and the business cycle in times of friction.

The Research Speaks for Itself

Even when Kiyota was still a doctorate student at Harvard University, after receiving his B.A from the University of Tokyo, his early work proved to be hugely influential in the field of economics. Specifically, Kiyota's paper with Oliver Blanchard on 'Monopolistic Competition and the Effects of Aggregate Demand' that made leaps in understanding the business cycle in times of friction and new developments in so-called Keynseian economics.

In 1997, Kiyota began his collaboration with University of Edinburgh professor John Moore, and together published "Credit Cycles". This paper presented a simple and elegant model of the business cycle that illustrated how such frictions can shape fluctuations and impart a substantial degree of persistence in the business cycle. Kiyota's work provided a new framework to better understand how disruptions to banking can adversely affect the economy, and how unconventional monetary policies can help mitigate its consequences. More specifically, his work offers a new lense to analyse the economy, and better equip firms and the government with the tools and skills to, at the very least, be more prepared for a financial crisis.

Will History Repeat Itself?

Just last year, Nobuhiro Kiyotaki and John Moore published 'Liquidity, Business Cycles, and Monetary Policy', which detailed their model of the monetary economy. Their research illustrates how activity and assets change in relation to shocks to productivity and liquidity.

In light of this semester's topic — corporations — Kiyota's previous work on the financial crisis coupled with his recent paper, can help outline the potential role government policy can play to manage both monetary and fiscal policy, as well as the private sector of the economy. The financial crisis in 2008 was caused by excessive borrowing, shadow banking, and reckless lending, a type of behaviour still present in the industry. According to a New York Times article, big banks have not shrunk, but only have gotten bigger. Huge bonuses continue to be handed out, encouraging reckless risk-taking to be the norm, and shadow-banking goes unsupervised and has expanded in value to $71 trillion, from $59 trillion in 2008.

In fact, we observe patterns of borrowing in present financial markets that draw parallels to the pre-crisis era. For example, due to an increasingly globalised world, China's investments are increasing the global economy's exposure to banking sector vulnerability. China's total domestic credit has more than doubled to $23 trillion, from $9 trillion in 2008, akin to adding the entire US commercial banking sector. This credit boom is taking place in many emerging economies across Asia and Latin America, leaving room for potentially damaging discrepancies and frictions within the financial market. However, this does not mean we should turn our backs on big banks and corporations just yet.

Corporations allow for investments, economic growth, and are integral to the business cycle. So rather than pointing fingers at big banks and scolding them for the crash, what we should take away from Kiyota's years of research isn't just an explanation of why the world experienced the worst market crash since the Great Depression. Instead, we should view Kiyota's work as a guide to understand where pressures on the financial markets are coming from and regulate these frictions through government policy.

Econ School

Retrospective

Author provides an retrospective.

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Subtitle 3

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